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Recommendations for Further Reading

Timothy Taylor

This section will list readings that may be especially useful to teachers of undergraduate economics, as well as other articles that are of broader cultural interest. In general, the articles chosen will be expository or integrative and not focus on original research. If you write or read an appropriate article, please send a copy of the article (and possibly a few sentences describing it) to Timothy Taylor, preferably by e-mail at ⟨taylort@macalester.edu⟩, or c/o Journal of Economic Perspectives, Macalester College, 1600 Grand Ave., Saint Paul, Minnesota, 55105.

Potpourri

Kirsten J. Colello, Erin D. Williams, Janemarie Mulvey, Kenneth R. Thomas, and Amanda K. Sarata discuss "End-of-Life Care: Services, Costs, Ethics, and Quality of Care." "Estimates using data from the most recent national survey that looks at demographic trends in mortality found that in 1993 the majority of deaths among all age groups in the United States occurred in hospitals (58%), while 22% occurred in the home, and 20% occurred in a nursing home." "[A]bout one-fourth of total Medicare spending is for the last year of life. This share has remained generally constant for the past 20 years. The majority of Medicare end-of-life costs are from inpatient hospital expenditures. Researchers have also found that there is wide geographic variation in end-of-life Medicare costs. This geographic variation may reflect differences in practice patterns of physicians and is not necessarily due to differences in prevalence of disease among chronically ill patients." Congres-

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sional Research Service, February 23, 2009. At ⟨http://opencrs.com/document/R40235⟩.

Andrea Bassanini and Danielle Venn consider the evidence on "The Impact of Labour Market Policies on Productivity in OECD Countries." From the conclusion: "Stringent EPL [Employment Protection Legislation] has a small negative impact on long-run productivity growth, most likely by restricting the movement of labour into emerging, high-productivity activities, firms or industries. Increases in the ratio of the minimum wage to the median wage appear to have a positive impact on the aggregate level of measured productivity. The effect may be due to improved incentives for investing in training or come as the result of substitution of skilled labour for unskilled labour. . . . Additional parental leave appears to increase the level of productivity, in part by allowing workers with family responsibilities to maintain their links to the workforce, although the magnitude of the effect is small and not always statistically significant. Finally, reforms that reduce the generosity of unemployment benefits are likely to reduce the aggregate level of measured productivity by limiting the time and resources available to the unemployed to find a well-matched job vacancy, discouraging workers from taking up—and firms from creating—high-risk, high-productivity jobs and affecting the skill composition of the workforce. However, the overall long-run impact of lowering unemployment benefits on the level of GDP per capita appears to be negligible." *International Productivity Monitor,* Fall 2008, pp. 3–16. At ⟨http://www.csls.ca/ipm/17/IPM-17-bassanini.pdf⟩.

Thomas H. Klier guides us through recent decades for the auto industry in "From Tail Fins to Hybrids: How Detroit Lost its Dominance of the U.S. Auto Market." Klier discusses three periods: "From mid-1950s to 1980: Imports and oil prices challenge Detroit," "From 1980 to 1996: Detroit stages a comeback," and "From 1996 to 2008: Detroit on the defensive—again." "Today, even the terminology has adjusted to the new reality: Chrysler, Ford, and GM are now referred to as the Detroit Three (no longer as the Big Three), since the market structure in the U.S. automobile industry has changed from a Big Three model to a 'Big Six' model. [The Big Six consist of Chrysler, Ford, GM, Honda, Nissan, and Toyota.] Today's s U.S. auto industry is also much more international, with ten foreign headquartered automakers producing light vehicles in the United States." *Economic Perspectives,* Federal Reserve Bank of Chicago, Second Quarter 2009, pp. 2–17. At ⟨http://www.chicagofed.org/publications/economicperspectives/ep_2qtr2009_part1_klier.pdf⟩.

Financial Crisis and Recession

The IMF takes "Crisis and Recovery" as the theme of its April 2009 *World Economic Outlook.* Chapter 3 asks: "From Recession to Recovery: How Soon and How Strong?" "[R]ecessions associated with financial crises tend to be unusually severe and their recoveries typically slow. Similarly, globally synchronized recessions are often long and deep, and recoveries from these recessions are generally weak. Countercyclical monetary policy can help shorten recessions, but its effectiveness is limited in financial crises. By contrast, expansionary fiscal policy seems particularly effective in shortening recessions associated with financial crises and boosting recoveries. However, its effectiveness is a decreasing function of the level of public debt. These findings suggest the current recession is likely to be unusually long and severe and the recovery sluggish." At ⟨http://www.imf.org/external/pubs/ft/weo/2009/01/index.htm⟩.

Christina D. Romer offers six "Lessons from the Great Depression for Economic Recovery in 2009." "One crucial lesson from the 1930s is that a small fiscal expansion has only small effects." "A second key lesson from the 1930s is that monetary expansion can help to heal an economy even when interest rates are near zero." "This discussion of fiscal and monetary policy in the 1930s leads me to a third lesson from the Great Depression: beware of cutting back on stimulus too soon." "The fourth lesson we can draw from the recovery of the 1930s is that financial recovery and real recovery go together." "The fifth lesson from the Great Depression is that worldwide expansionary policy shares the burdens and the benefits of recovery." "The final lesson that I want to draw from the 1930s is perhaps the most crucial. A key feature of the Great Depression is that it did eventually end." March 9, 2009. At ⟨http://www.whitehouse.gov/administration/eop/cea/speeches_testimony/03092009⟩.

In "Lessons of the Financial Crisis," Benn Steil begins, "The story of the financial crisis will be retold endlessly as one of widespread greed, corruption, and incompetence, enabled by a policy agenda dominated by an ideology of deregulation. Yet even if the marketplace had been populated by more ethical and intelligent individuals, and even if their activities had been more carefully scrutinized by more diligent regulators, there would almost surely still have been a major financial boom and bust—such is the power, as history attests, of cheap money. The crisis offers a sobering lesson about the dangers of policies that fuel the rapid buildup of debt across the economy. In recent years, individuals and financial institutions borrowed at unprecedented levels, funneling such funds into housing and real estate assets, in particular. As with all levered investments (investments made with borrowed money), this practice generated great profits as the assets rose in value. And as with all levered investments, it produced great losses when the assets fell in value." Council on Foreign Relations, Council Special Report No. 45, March 2009. At ⟨http://www.cfr.org/content/publications/attachments/Financial_Regulation_CSR45.pdf⟩.

Simon Johnson, formerly a chief economist at the IMF, writes of "The Quiet Coup." "In its depth and suddenness, the U.S. economic and financial crisis is shockingly reminiscent of moments we have recently seen in emerging markets (and only in emerging markets): South Korea (1997), Malaysia (1998), Russia and Argentina (time and again). In each of those cases, global investors, afraid that the country or its financial sector wouldn't be able to pay off mountainous debt, suddenly stopped lending. And in each case, that fear became self-fulfilling, as banks that couldn't roll over their debt did, in fact, become unable to pay. . . . Just as in emerging-market crises, the weakness in the banking system has quickly rippled out into the rest of the economy, causing a severe economic contraction and hardship for millions of people. But there's a deeper and more disturbing similarity: elite business interests—financiers, in the case of the U.S.—played a central role in creating the crisis, making ever-larger gambles, with the implicit backing of the government, until the inevitable collapse. More alarming, they are now using their influence to prevent precisely the sorts of reforms that are needed, and fast, to pull the economy out of its nosedive. The government seems helpless, or unwilling, to act against them." *The Atlantic,* May 2009. At ⟨http://www.theatlantic.com/doc/200905/imf-advice⟩.

Lombard Street is a new e-journal that has been offering interesting short commentaries on the future of financial services regulation. For example, Arnold Kling contributed: "The Chess Game of Financial Regulation" to the March 23, 2009 issue: "The financial crisis that began in the sub-prime mortgage market is at least the third major financial crisis to include a breakdown in the United States housing finance sector. During the Great Depression, banks and balloon mortgages were involved in a collapse. In the 1980's, we experienced the Savings and Loan Crisis. Currently, we are dealing with the aftermath of a boom–bust cycle in house prices that was exacerbated by risky lending practices. A sobering fact is that the response to each of the first two crises helped to lay the groundwork for the next—and current—crisis. It turns out that financial regulation is not like a math problem, which can be solved once and stays solved. Instead, financial regulation is like a chess game, in which moves and counter-moves proceed continually, eventually changing the board in ways that players have not anticipated. . . . Once again, it seems that policymakers are focused on what would have been useful in the last crisis. The implicit assumption is that by doing so they can create stability. In fact, these reforms probably will produce another system that is subject to severe breakdowns." Available at ⟨http://www.finreg21.com/current-journal⟩.

The *Cato Journal* devotes its Winter 2009 issue to the theme "Lessons from the Financial Crisis," with lively contributions from Anna J. Schwartz, Donald L. Kohn, Otmar Issing, Lawrence H. White, William Poole, and others. As one example, Allan H. Meltzer writes in his "Reflections on the Financial Crisis" (pp. 25–30): "A major problem that the economy faces in the housing and mortgage market is that the price decline in houses stimulates defaults. And the expected decline for 2009, which the market puts at 11 percent, means there are going to be many, many more defaults as the price of houses falls even further below the mortgage value. You want to solve that problem. The difficulty is that if policymakers seek to benefit people by reducing the value of their mortgage, or the interest rate on their mortgage, then other people will be encouraged to come and ask for help. To solve the problem caused by declining house prices, and the future problem of the mortgage market, there needs to be an increase in the demand for houses. If 2008 were a normal year, roughly 1.5 million houses would have been sold rather than 500,000. So there's a lot of room to increase demand, and we have to find a way to stimulate demand. My proposal is simple and transparent. Instead of depending upon government bureaucrats to decide who's in and who's out, it allows individuals to make their own choice about what they want to do. If a buyer makes a down payment on a house between now and the end of 2009, he or she gets a tax credit for the amount of the down payment, or enough of it to make it attractive. If the buyer doesn't pay taxes, they get the credit anyway. I don't care whether they're buying their first, second, third, or in the case of John McCain, their eighth house. The important thing is to remove the excess supply." At ⟨http://www.cato.org/pubs/journal⟩.

Intellectual Property Rights in History

F. M. Scherer describes "The Emergence of Musical Copyright in Europe from 1709 to 1850." From the abstract: "The first modern copyright law did not cover musical works. The role of Johan Christian Bach, Ludwig van Beethoven, and Johann Neopmuk Hummel in securing legal changes is traced. How Giuseppe Verdi exploited the new copyright law in Northern Italy is analyzed. The paper argues that Verdi, enriched by copyright protection, reduced his compositional effort along a backward-bending supply curve. However, his good fortune may have had a demonstration effect inducing other talented individuals to become composers." *Review of Economic Research on Copyright Issues,* December 2008, 5(2), pp. 3–18. At ⟨http://www.serci.org/index.html⟩.

Adam Mossoff writes about "A Stitch in Time: The Rise and Fall of the Sewing Machine Patent Thicket." Mossoff discusses "the rise and fall of the first patent thicket in American history: the Sewing Machine War of the 1850s. The invention of the sewing machine in the antebellum era represents many firsts in the American legal system—the first patent thicket, the first 'patent troll,' and the first patent pool. . . . The denouement of the sewing machine patent thicket in the Sewing Machine Combination of 1856, the first privately formed patent pool, further challenges the widely held belief that patent thickets are best solved through new statutes, regulations or court decisions that limit property rights in patents. . . . Thus, the story of the invention of the sewing machine is a striking account of early American technological, commercial and legal ingenuity, which heralds important empirical lessons for how patent thicket theory is understood and applied today." George Mason Law & Economics Research Paper No. 09-19, March 6, 2009. At ⟨http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1354849⟩.

For Blackboards and Overhead Projectors

Morton Paglin and Mark Paglin offer a graphical approach to "The Number of Goods as a Welfare Variable: A Simplified Graphic Approach." "The growth in trade, the Internet, and product innovation have greatly expanded the number of goods in the consumer's choice set. Yet, our theoretical tools for evaluating the welfare effects of this change have been confined to the specialized literature. Our new indifference maps, although less elegant than the mathematical models, allow us to introduce at the principles or intermediate theory level some easily comprehended concepts for evaluating the unprecedented growth in variety. Our new indifference curves, using a restricted definition of new goods, show the marginal rates of substitution between income and variety. When matched up with new *pp* curves showing marginal transformation rates between output and variety, they enable us to measure the welfare effects of changes in *N*." *Journal of Economic Education,* Fall 2008, 39(4), pp. 374–390. Also available at ⟨http://www.mortonpaglin.com/Morton_Paglin/Economics_Articles.html⟩.

John V. Duca, Danielle DiMartino, and Jessica J. Renier have written: "Fed Confronts Financial Crisis by Expanding Its Role as Lender of Last Resort." "The U.S. financial system is complex, but three channels dominate the flow of money from savers and investors to borrowers. First, the traditional banking system raises funds from depositors, then lends to borrowers. Second is securities-funded lending, which can take two forms. Lenders can make loans and sell them as securities. Or they can hold the loans in portfolio and fund them by issuing debt in the securities market. Third, well-known and highly regarded companies are able to directly finance their needs by issuing debt in the securities markets. Normally, these channels efficiently move funds from savers and investors to borrowers at interest rates that reflect underlying risks and reasonable profit expectations. In the current crisis, each channel has been blocked due to many financial institutions' weak condition and investors' and lenders' extreme aversion to risk. The result has been a significant choking off of economic activity. Clearing the blockages has become critical to restoring the economy's health." The authors offer a helpful diagrammatic analysis of the flows, the blockages, and how Fed actions have sought to circumvent the blockages. *Economic Letter—Insights from the Federal Reserve Bank of Dallas,* February/March 2009, 4(2). At ⟨http://www.dallasfed.org/research/eclett/2009/el0902.html⟩.

The U.S. Department of Labor has published "A Chartbook of International Labor Comparisons," which is chock-full of useful bar charts, all of which can be freely reproduced. Want GDP per capita in 2007 at PPP rates, showing Norway leading the way at $55,200, the United States second at $45,800, and Ireland third at $43,000? Want employment as a share of the working-age population in 2007, showing the United States at 63 percent and the EU-15 at 52.9 percent? Want public expenditures on labor market programs as a share of GDP, with Denmark (4.5 percent) and Germany (3.0 percent) at the top, and the United States (0.4 percent) and Japan (0.6 percent) near the bottom? March 2009. At ⟨http://www.bls.gov/fls/chartbook.htm⟩.

Discussion Starters

Archeologist Charles Stanish discusses "Forging Ahead: Or, How I Learned to Stop Worrying and Love eBay." "A little over a decade ago, archaeologists experienced a collective nightmare—the emergence of eBay, the Internet auction site that, among other things, lets people sell looted artifacts. . . . Our greatest fear was that the Internet would democratize antiquities trafficking and lead to widespread looting. This seemed a logical outcome of a system in which anyone could open up an eBay site and sell artifacts dug up by locals anywhere in the world. We feared that an unorganized but massive looting campaign was about to begin, with everything from potsherds to pieces of the Great Wall on the auction block for a few dollars. But a very curious thing has happened. It appears that electronic buying and selling has actually hurt the antiquities trade. How is it possible? The short answer is that many of the primary 'producers' of the objects have shifted from looting sites to faking antiquities. I've been tracking eBay antiquities for years now, and from what I can tell, this shift began around 2000, about five years after eBay was established." *Archaeology,* May/June 2009, 62(3). At ⟨http://www.archaeology.org/0905/etc/insider.html⟩.

Steven Levy reveals the "Secret of Googlenomics: Data-Fueled Recipe Brews Profitability." "[Hal] Varian is an expert on what may be the most successful business idea in history: AdWords, Google's unique method for selling online advertising. AdWords analyzes every Google search to determine which advertisers get each of up to 11 'sponsored links' on every results page. It's the world's biggest, fastest auction, a never-ending, automated, self-service version of Tokyo's boisterous Tsukiji fish market, and it takes place, Varian says, 'every time you search.' He never mentions how much revenue advertising brings in. But Google is a public company, so anyone can find the number: It was $21 billion last year. . . . The ad auction, marinated in that special sauce, is a seething laboratory of fiduciary forensics, with customers ranging from giant multinationals to dorm-room entrepreneurs, all billed by the world's largest micropayment system." *Wired,* May 22, 2009. At ⟨http://www.wired.com/culture/culturereviews/magazine/17-06/nep_googlenomics?currentPage=all⟩.

Kelly D. Brownell and Thomas R. Friedan argue for "Ounces of Prevention—The Public Policy Case for Taxes on Sugared Beverages." They begin by quoting Adam Smith: "Sugar, rum, and tobacco are commodities which are nowhere necessaries of life, which are become objects of almost universal consumption, and which are therefore extremely proper subjects of taxation." They conclude: "A penny-per-ounce excise tax could reduce consumption of sugared beverages by more than 10%. It is difficult to imagine producing behavior change of this magnitude through education alone, even if government devoted massive resources to the task. In contrast, a sales tax on sugared drinks would generate considerable revenue, and as with the tax on tobacco, it could become a key tool in efforts to improve health." In May 2009, President Obama named one of the authors, Thomas Frieden, to be Director of the Centers for Disease Control and Prevention. *New England Journal of Medicine,* April

30, 2009. Available at ⟨http://www.yaleruddcenter.org/resources/upload/docs/what/industry/SodaTaxNEJMApr09.pdf⟩.

The Pew Research Center has published "Luxury or Necessity? The Public Makes a U-Turn," written by Rich Morin and Paul Taylor. "[M]any Americans are changing their minds about which everyday goods and services they consider essential and which ones they could live without. . . . All of the 'old-tech' household appliances on the list dropped in their necessity ratings. For example, the proportion of people who rate a clothes dryer as a necessity fell by 17 percentage points in the past three years. There are similar declines for the home air conditioner (16 points), the dishwasher (14 points) and the television set (12 points). A few of the 'middle-aged' household appliances and services also declined. The microwave, a kitchen staple since the late 1980s, is currently viewed as a necessity by less than half the public, a 21-point drop in the past three years. The proportion who rate cable and satellite television service as a necessity fell 10 percentage points since 2006, nearly matching the declining value of a television set. In contrast, none of the newer information-era gadgets and services has fallen in Americans' assessment of what they absolutely need to have. Cell phones and home computers continue to be seen as a necessity by half of the public, unchanged from three years ago. High-speed Internet access is seen as a necessity by about three-in-ten adults, also unchanged from 2006. . . . Finally, there's the automobile—the ultimate survivor. It's been around for nearly a century, but in good times or bad, it retains its pride of place at the top of America's list of everyday necessities." April 23, 2009. At ⟨http://pewsocialtrends.org/assets/pdf/luxury-or-necessity-2009.pdf⟩.

Thomas Bartlett offers an inside look at a production process in "Cheating Goes Global as Essay Mills Multiply," subtitled: "From Virginia to Manila: On the Trail of Papers for Cash." "This is what an essay mill looks like from the inside. Over the past six months, with the help of current and former essay-mill writers, The Chronicle looked closely at one company, tracking its orders, examining its records, contacting its customers. The company, known as Essay Writers, sells so-called custom essays, meaning that its employees will write a paper to a student's specifications for a per-page fee. These papers, unlike those plucked from online databases, are invisible to plagiarism-detection software. . . . In a previous era, you might have found an essay mill near a college bookstore, staffed by former students. Now you'll find them online, and the actual writing is likely to be done by someone in Manila or Mumbai." *Chronicle of Higher Education,* March 20, 2009. At ⟨http://chronicle.com/free/v55/i28/28a00102.htm⟩.

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