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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, with occasional exceptions, 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.

Smorgasbord

"Child Obesity: The Way Forward," is the subject of a symposium of more than 20 articles in *Health Affairs* magazine. Editor-in-chief Susan Dentzer summarizes some key themes in her overview: "The Child Abuse We Inflict through Child Obesity." "The causes start . . . with an agricultural policy that has spurred production of cheap sugars and refined grains while doing little to encourage production of fruit and vegetables. Overall, inflation-adjusted food prices have been falling—except for fruit and vegetables, whose real prices rose 17 percent from 1997 to 2003 . . . [C]hildren ages 2–6 are now consuming 182 more calories per day than three decades ago . . . Throw in a TV in a kid's bedroom and he or she is more than 1.5 times more likely to be overweight or obese . . . The solution . . . is a broadbased set of interventions comparable in scope to the four-decade assault on smoking."

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March 2010. Available at ⟨http://content.healthaffairs.org/content/vol29/issue3/index.dtl⟩.

The Berkman Center for Internet & Society at Harvard University, in an effort led by Yochai Benkler, has published *Next Generation Connectivity: A Review of Broadband Internet Transitions and Policy from around the World.* "[N]ext generation connectivity will be typified not only by very high speeds, but also by the experience that connectivity is 'just there': connecting anyone, anywhere, with everyone and everything, without having to think about it. . . . The United States is a middle-of-the-pack performer on most first generation broadband measures, but a weak performer on prices for high and next-generation speeds. . . . [I]t appears that the United States opened the first decade of the 21st centuries in the top quintile in [broadband] penetration and prices, and has been surpassed by other countries over the course of the decade. . . . Our most surprising and significant finding is that 'open access' policies—unbundling, bitstream access, collocation requirements, wholesaling, and/or functional separation—are almost universally understood as having played a core role in the first generation transition to broadband in most of the high performing countries; that they now play a core role in planning for the next generation transition . . ." (February 2010). More at ⟨http://cyber.law.harvard.edu/pubrelease/broadband⟩.

Robert E. Litan writes "In Defense of Much, But Not All, Financial Innovation." He discusses automatic teller machines, credit and debit cards, money market funds, mutual funds, exchange-traded funds, private equity, hedge funds, venture scoring, credit scores, adjustable rate mortgages, options and futures exchanges, interest and currency swaps, credit default swaps, and others. He writes: "I find that there is a mix between good and bad financial innovations, although on balance I find more good ones than bad ones. Individually and collectively, these innovations have improved access to credit, made life more convenient, and in some cases probably allowed the economy to grow faster. But some innovations (notably, CDOs and Structured Investment Vehicles, or SIVs) were poorly designed, while others were misused (CDS, adjustable rate mortgages or ARMs, and home equity lines of credit or HELOCs) and contributed to the financial crisis and/or amplified the downturn in the economy when it started." February 17, 2010. At ⟨http://www.brookings.edu/papers/2010/0217_financial_innovation_litan.aspx⟩.

Maxim Pinkovskiy and Xavier Sala-i-Martin present evidence that "African Poverty is Falling . . . Much Faster than You Think!" From the Abstract: "We show that: (1) African poverty is falling and is falling rapidly. (2) If present trends continue, the poverty Millennium Development Goal of halving the proportion of people with incomes less than one dollar a day will be achieved on time. (3) The growth spurt that began in 1995 decreased African income inequality instead of increasing it. (4) African poverty reduction is remarkably general: it cannot be explained by a large country, or even by a single set of countries possessing some beneficial geographical or historical characteristic." Available on Sala-i-Martin's website at ⟨http://www.columbia.edu/~xs23/papers/pdfs/Africa_Paper_VX3.2.pdf⟩. Also available as NBER Working Paper 15775, February 2010.

Scott Roger provides an update as "Inflation Targeting Turns 20." "Today 26 countries use inflation targeting, about half of them emerging market or low-income economies . . . Moreover, a number of central banks in more advanced economies—including the European Central Bank, the U.S. Federal Reserve, the Bank of Japan, and the Swiss National Bank—have adopted many of the main elements of inflation targeting, and several others are in the process of moving toward it." "Two issues stand out in particular. For many open economies that have adopted or are considering adopting inflation targeting, there is debate over the appropriate role of the exchange rate in an inflation-targeting framework. For all central banks, including inflation targeters, there is the question of how to reconcile their monetary policy responsibilities and objectives with their responsibility to promote and maintain the stability of the financial system." *Finance and Development,* March 2010, pp. 46–49. Available at ⟨http://www.imf.org/external/pubs/ft/fandd/2010/03/index.htm⟩.

Ian W. H. Parry and Felicia Day have edited *Issues of the Day: 100 Commentaries on Climate, Energy, the Environment, Transportation, and Public Health Policy.* The 2–3 page nontechnical commentaries are written by well-informed and prominent researchers. From the website: "Among topics covered are air pollution, hazardous waste, voluntary environmental programs, domestic and global climate policy design, fishery management, water quality, endangered species, forest fires, oil security, solar power, road and airport congestion, fuel taxes and fuel economy standards, alternative fuel vehicles, health and longevity, smoking, malaria, tuberculosis, and developing country issues." 2010. The book can be read and downloaded at ⟨http://www.rff.org/Publications/WPC/Pages/Issues_of_the_Day.aspx⟩.

Unemployment and Labor Market Comparisons

Daniel Aaronson, Bhashkar Mazumder, and Shani Schechter ask: "What is behind the rise in long-term unemployment?" "As we entered 2010, the average length of an ongoing spell of unemployment in the United States was more than 30 weeks—the longest recorded in the post-World War II era. Remarkably, more than 4 percent of the labor force (that is, over 40 percent of those unemployed) were out of work for more than 26 weeks . . . In particular, we attribute the sharp increase in unemployment duration in 2009 to especially weak labor demand, as reflected in a low rate of transition out of unemployment into employment, and a smaller portion of this increase (perhaps 10 percent to 25 percent) to extensions in unemployment insurance benefits." *Economic Perspectives,* Federal Reserve Bank of Chicago, 2Q/2010, pp. 28–51. At ⟨http://www.chicagofed.org/digital_assets/publications/economic_perspectives/2010/2qtr2010_part1_aaronson_mazumder_schechter.pdf⟩.

The National Employment Law Project provides the briefing paper "Understanding the Unemployment Trust Fund Crisis of 2010." "As of April 2010, 33 states and the Virgin Islands had drained their state UI [Unemployment Insurance] trust funds and been forced to borrow from the federal government in order to continue paying state UI benefits. . . . Actuaries at the U.S. Department of Labor are projecting that as many as 40 of the 53 UI jurisdictions could borrow over $90 billion in federal loans for state trust funds by FY 2013." April 2010. At ⟨http://nelp.bluestatedigital.com/page/-/UI/solvencyupdate2010.pdf?nocdn=1⟩.

Mary Daly and Bart Hobijn describe "Okun's Law and the Unemployment Surprise of 2009." "Okun's law tells us that, for every 2% that real GDP falls below its trend, we will see a 1% increase in the unemployment rate. Since real GDP was almost flat in 2009 while its trend level increased by 3%, the unemployment rate under Okun's law should have increased by 1½ percentage points. Instead it rose by 3 percentage points, more than twice the predicted increase. . . . Our results indicate that the main factor driving the unusual rise in unemployment relative to output was very rapid productivity growth, which allowed businesses to cut back sharply on labor while maintaining output levels." *Federal Reserve Bank of San Francisco Economic Letter,* March 8, 2010. At ⟨http://www.frbsf.org/publications/economics/letter/2010/el2010-07.html⟩.

Don Peck describes "How a New Jobless Era Will Transform America." "The broadest measure of unemployment and underemployment (which includes people who want to work but have stopped actively searching for a job, along with those who want full-time jobs but can find only part-time work) reached 17.4 percent in October [2009], which appears to be the highest figure since the 1930s. . . . One recent survey showed that 44 percent of families had experienced a job loss, a reduction in hours, or a pay cut in the past year. There is unemployment, a brief and relatively routine transitional state that results from the rise and fall of companies in any economy, and there is *unemployment*—chronic, all-consuming. The former is a necessary lubricant in any engine of economic growth. The latter is a pestilence that slowly eats away at people, families, and, if it spreads widely enough, the fabric of society. Indeed, history suggests that it is perhaps society's most noxious ill. . . . If it persists much longer, this era of high joblessness will likely change the life course and character of a generation of young adults—and quite possibly those of the children behind them as well. It will leave an indelible imprint on many blue-collar white men—and on white culture. It could change the nature of modern marriage, and also cripple marriage as an institution in many communities. It may already be plunging many inner cities into a kind of despair and dysfunction not seen for decades. Ultimately, it is likely to warp our politics, our culture, and the character of our society for years." *The Atlantic Monthly,* March 2010. At ⟨http://www.theatlantic.com/magazine/archive/2010/03/how-a-new-jobless-era-will-transform-america/7919/⟩.

The Bureau of Labor Statistics has published the 2010 edition of "Charting International Labor Market Comparisons." It contains 36 useful charts with comparisons of U.S. labor markets and those of other high-income countries that can easily be copied and pasted for lectures and presentations. As one example, 38.6 percent of the EU unemployed had been without a job for more than a year in 2008—including roughly half in Italy, Portugal, and Germany. The comparable figure for the United States in 2008 was 10.6 percent. At ⟨http://www.bls.gov/fls/chartbook/chartbook2010.pdf⟩.

Danielle Venn has authored "Legislation, Collective Bargaining and Enforcement: Updating the OECD Employment Protection Indicators." The report offers a wealth of cross-country information on labor market institutions. She calculates an overall index of strictness of employment protection, based on measures of the protection of permanent workers against individual dismissal, specific requirements for collective dismissal, and regulations on temporary unemployment. On a scale of 0–6, the average for the OECD countries as a whole is 2.2. The United States has by far the least strict employment protection with a score of 0.8: next are Canada and the United Kingdom with scores around 1. OECD Social, Employment and Migration Working Paper 89, 2009. At ⟨http://www.oecd.org/dataoecd/36/9/43116624.pdf⟩.

Budget Deficits

The website of the Congressional Budget Office is my irreplaceable starting point for projections and analysis of the federal budget, starting with the regular *Budget and Economic Outlook* reports, but with a variety of other analyses as well. From "The Effects of Automatic Stabilizers on the Federal Budget" (May 2010): "In 2009, CBO estimates, automatic stabilizers added the equivalent of 1.9 percent of potential GDP to the deficit, an amount substantially greater than the 0.3 percent added in 2008. According to CBO's baseline projections, the contribution of automatic stabilizers to the budget deficit will be roughly 2.3 percent of potential GDP in 2010 and 2.5 percent of potential GDP in 2011. The contribution will then decrease to 2.0 percent in 2012, 1.0 percent in 2013, and 0.2 percent in 2014." A series of CBO reports have also looked at the effect of the stimulus package and offered a range of short-run multipliers for different kinds of stimulus, including "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from January 2010 through March 2010" (May 2010). All available at ⟨http://www.cbo.gov⟩.

Donald B. Marron, who was acting director of the Congressional Budget Office in 2006, offers a readable and student-friendly overview of deficit and debt projections, the related economic concerns, and potential policy responses in "America in the Red." "The financial crisis has added several trillion dollars to America's indebtedness, but our structural deficits—which will continue even after the economy recovers—are on track to add tens of trillions of dollars more in the coming decades. Budget-watchers once spoke of these looming challenges as a distant, long-term threat—something quite separate from the more pressing budget challenges that we might face over, say, the next ten years. That is no longer true. Today, those big 'long-term' troubles *are* our urgent problems; they start to materialize within the usual ten-year budget window. . . . Over the past two years, the United States has become increasingly reliant on short-term debt. That reliance has made sense during a period of exceptionally low interest rates . . . In

2010, for example, the federal government will need to sell more than $1 trillion in bonds to finance the annual deficit; it will need to sell another $3 trillion in bonds to refinance maturing issues. The Treasury appears capable of placing this enormous amount of debt—for now. But the constant pressure to refinance only adds to our fiscal risks. . . . Some observers look at the numbers and conclude that the solution is obvious: raise taxes to pay for the additional spending. Others look at the same figures and conclude just the opposite: cut spending so we do not need to move beyond historical levels of taxation. And most observers cling to the hope that growth might set us free, boosting revenues so much that we will not have to face any hard choices. Unfortunately, none of these single solutions will work." *National Affairs*, Spring 2010. At ⟨http://nationalaffairs.com/publications/detail/america-in-the-red⟩.

The Staff of the Fiscal Affairs Department at the International Monetary Fund has published a useful *Fiscal Monitor: Navigating the Fiscal Challenges Ahead*. "[B]ased on current projections, if public debt is not lowered to precrisis levels, potential growth in advanced economies could decline by over ½ percent annually, a very sizable effect when cumulated over several years." One section of the report "explores the spending, revenue, and institutional measures that could support fiscal adjustment. Among countries where demographic trends are unfavorable, health and pension reforms—for example, improved cost containment in health care and increases in retirement ages—are more urgent. . . . Freezes on nonentitlement spending could generate savings of about 3 percent of GDP over the next decade on average. For countries facing very large adjustment needs, increasing revenues may also prove necessary. The section discusses a package of tax increases that are relatively less distortionary—including elimination of below-standard VAT rates and increases in tobacco and alcohol excises, carbon taxation, and property taxes—that could yield almost 2½ to 3 percentage points of GDP in advanced economies. Introducing a VAT or raising standard VAT rates in some countries could also yield sizable revenues. Finally, tax evasion remains significant in many countries, and fighting it should be a priority. Institutional arrangements, such as fiscal rules or enhanced medium-term frameworks, could also play a useful role in ensuring that fiscal consolidation is implemented." May 14, 2010. At ⟨http://www.imf.org/external/pubs/ft/fm/2010/fm1001.pdf⟩.

James K. Jackson discusses "Limiting Central Government Budget Deficits: International Experiences." "[T]he International Monetary Fund (IMF) indicated that fiscal balances, or the annual budget balance, of the economically advanced G-20 countries weakened by 6 percentage points of GDP between 2007 and 2009, rising from 1.9% to 7.9% of GDP. . . . Also, the forecast indicates that government debt, or the accumulated amount of government deficits, among the advanced G-20 countries will rise on average by 14.5% of GDP by the end of 2009, compared with 2007." "In general, the OECD concluded after observing fiscal consolidation efforts among OECD countries since 1990 that the more successful of these efforts combined rules to balance the budget with requirements to reduce expenditures . . . By focusing on expenditures, the rules were more successful because:

1) they were not reliant on cyclically volatile revenues; 2) they were designed to let economic stabilizers work during a downturn; and 3) they saved windfall gains during an upturn." Congressional Research Service R41122. March 11, 2010. At ⟨http://opencrs.com/document/R41122⟩.

Prominent Economists

You can watch a 99 year-old Ronald Coase speaking in December 2009 for 25 minutes on the subjects of "Markets, Firms and Property Rights." "One of the things that people don't understand is that markets are creations. . . . In fact, it's very difficult to imagine that firms act in the way that is described in the textbooks, where you maximize profits by equating marginal costs and marginal revenues. One of the reasons one can feel doubtful about this particular way of looking at things is that firms never calculate marginal costs . . . I think we ought to study directly how firms operate and develop our theory accordingly." From the conference "Markets, Firms and Property Rights: A Celebration of the Research of Ronald Coase," held at the University of Chicago Law School by the Information Economy Project at George Mason University School of Law. The webpage also includes video of seven panels of prominent speakers, along with PDF files of a dozen or so papers given at the conference. Available at ⟨http://iep.gmu.edu/CoaseConference.php⟩.

You can also watch Daniel Kahneman give a 20-minute lecture: "The Riddle of Experience vs. Memory." "Everybody would like to make people happier. But in spite of all this flood of work, there are several cognitive traps that make it almost impossible to think straight about happiness. . . . The first of these traps is a reluctance to admit complexity. It turns out that the word happiness is just not a useful word any more because we apply it to too many different things. . . . The second trap is a confusion between experience and memory: basically it's between being happy in your life and being happy about your life or happy with your life. . . . And the third is the focusing illusion, and it's the unfortunate fact that we can't think about any circumstance that affects well-being without distorting its importance." TED Conferences, February 2010, At ⟨http://www.ted.com/talks/daniel_kahneman_the_riddle_of_experience_vs_memory.html⟩.

Eugene Fama has posted his essay written for the *Annual Review of Financial Economics*, "My Life in Finance," a brisk and engaging overview of his work. From the opening section: "At Tufts [University] I started in romance languages but after two years became bored with rehashing Voltaire and took an economics course. I was enthralled by the subject matter and by the prospect of escaping lifetime starvation on the wages of a high school teacher. . . . During my last year at Tufts, I worked for Harry Ernst, an economics professor who also ran a stock market forecasting service. Part of my job was to invent schemes to forecast the market. The schemes always worked on the data used to design them. But Harry was a good statistician, and he insisted on out-of-sample tests. My schemes invariably failed those tests. I didn't fully appreciate the lesson in this at the time, but it came to me later." May 4, 2010. At ⟨http://www.dimensional.com/famafrench/2010/03/my-life-in-finance.html⟩.

Murray Weidenbaum has written a lively "Vignettes from a Peripatetic Professor" For a sample of the tone: "In June 1948, I graduated from the City College of New York with a Bachelor's in Business Administration and a major in Economics. In truth, I majored in extracurricular activities. After a successful campaign for 'Wine, Women, and Weidenbaum,' I served as student body president in my senior year. (I only delivered on one of my three campaign issues.)" During Weidenbaum's career, his jobs, and affiliations have included: the New York State Department of Labor; the U.S. Bureau of the Budget; Ph.D. study at Princeton; jobs at General Dynamics and Boeing; the University of Washington; the Stanford Research Institute, director of a Presidential Committee on the Economics of Defense and Disarmament (we're now up to the 1960s); a NASA Economic Research Program based at Washington University in St. Louis, which eventually turned into a University Professorship; Assistant Secretary of the U.S. Treasury for Economic Policy; Chairman of President Reagan's Council of Economic Advisers; positions on corporate boards (Centerre Bank, Hill and Knowlton, May Department Stores, Tesoro Petroleum, Beatrice Foods, the Harbour Group); affiliations with the American Enterprise Institute and the Center for Strategic and International Studies; and blue-ribbon commissions on everything from trade deficits to terrorism. 2010. At ⟨http://wc.wustl.edu/weidenbaum/index.html⟩.

The Spring 2010 issue of *Public Choice* is devoted to "Essays in Honor of Robert B. Tollison," including papers on empirical public choice, sports economics, the economic theory of regulation, antitrust policy, the economics of religion, and the history of economics. From an introductory essay by William F. Shugart II: "Keeping up a nearly continuous stream of journal articles and books would seem to have made Bob a dull boy. But he also has had an impish streak. During his days at the Federal Trade Commission, Bob took great pleasure in parking his battered long-bed Dodge pickup truck in the underground garage at the commission's headquarters building at Sixth and Pennsylvania Avenue. He drove his fellow bureaucrats there crazy by displaying a bumper sticker supporting Ed Clark, then the Libertarian Party's candidate for President."

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