Journal of Economic Perspectives—Volume 22, Number 1—Winter 2008—Pages 235–242

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, c/o Journal of Economic Perspectives, Macalester College, 1600 Grand Ave., Saint Paul, Minnesota, 55105.

Report Round-up

A team of authors including Akhter U. Ahmed, Ruth Vargas Hill, Lisa C. Smith, Doris M. Wiesmann, and Tim Frankenberger discusses "The World's Most Deprived Characteristics and Causes of Extreme Poverty and Hunger" in a report for the International Food Policy Research Institute. From the Executive Summary: "We found that *162 million people live in ultra poverty on less than 50 cents a day*. This is a significant number of people: if all of the ultra poor were concentrated in a single nation, it would be the world's seventh most populous country after China, India, the United States, Indonesia, Brazil, and Pakistan. As it is, the ultra poor are overwhelmingly concentrated in one region—Sub-Saharan Africa is home to more than three-quarters of the world's ultra poor." "Those consuming less than 1,600 calories per day are at risk of dying from extreme hunger or starvation. . . . [I]n the African countries surveyed (Burundi, Ethiopia, Kenya, Malawi, Rwanda, Senegal, and Zambia), most of the hungry consume less

■ *Timothy Taylor is Managing Editor, Journal of Economic Perspectives, based at Macalester College, Saint Paul, Minnesota. His e-mail address is ⟨taylort@macalester.edu⟩.*

than 1,600 calories per day." 2020 Discussion Paper 43, October 2007. At ⟨http://www.ifpri.org/2020/dp/vp43/vp43.pdf⟩.

The *World Development Report 2008* from the World Bank is subtitled "Agriculture for Development." "Three of every four poor people in developing countries live in rural areas—2.1 billion living on less than $2 a day and 880 million on less than $1 a day—and most depend on agriculture for their livelihoods. . . . Cross-country estimates show that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture. For China, aggregate growth originating in agriculture is estimated to have been 3.5 times more effective in reducing poverty than growth outside agriculture—and for Latin America 2.7 times more." At ⟨http://siteresources.worldbank.org/INTWDR2008/Resources/WDR_00_book.pdf⟩.

The October 2007 *World Economic Outlook* from the International Monetary Fund is subtitled "Globalization and Inequality." Along with its always-useful overview of prospects for the world economy in 2008, the report offers specific chapters on global financial movements and on rising economic inequality. "The analysis finds that technological progress has had a greater impact than globalization on inequality within countries. The limited overall impact of globalization reflects two offsetting tendencies: whereas trade globalization is associated with a reduction in inequality, financial globalization—and foreign direct investment in particular—is associated with an increase in inequality. It should be emphasized that these findings are subject to a number of caveats related to data limitations, and it is particularly difficult to disentangle the effects of technology and financial globalization since they both work through processes that raise the demand for skilled workers. The chapter concludes that policies aimed at reducing barriers to trade and broadening access to education and credit can allow the benefits of globalization to be shared more equally." At ⟨http://www.imf.org/external/pubs/ft/weo/2007/02/pdf/text.pdf⟩.

The *Human Development Report 2007/2008* from the United Nations Development Programme is subtitled "Fighting climate change: Human solidarity in a divided world." "We identify five key transmission mechanisms through which climate change could stall and then reverse human development:" "Agricultural production and food security," "Water stress and water insecurity," "Rising sea levels and exposure to climate disasters," "Ecosystems and biodiversity," and "Human health." "The world lacks neither the financial resources nor the technological capabilities to act. If we fail to prevent climate change it will be because we were unable to foster the political will to cooperate. Such an outcome would represent not just a failure of political imagination and leadership, but a moral failure on a scale unparalleled in history." At ⟨http://hdr.undp.org/en/media/hdr_20072008_en_complete.pdf⟩.

Smorgasbord

The Summer 2007 issue of *Daedalus* is dedicated to the theme "On capitalism & democracy," and contains several contributions by prominent economists. For example, in "Capitalism, economic growth & democracy" (pp. 46–55) Benjamin M. Friedman writes: "But the important fact remains that, ever since the Industrial Revolution, decentralized market economies have had a proven record of delivering rising living standards over sustained periods of time. Asking whether a market economy and democracy go together is therefore tantamount to asking whether economic growth and democracy go together. And thinking of the matter in that way suggests a mechanism by which the connection between the two might indeed be causal. The experience of many countries suggests that when a society experiences rising standards of living, broadly distributed across the population at large, it is also likely to make progress along a variety of dimensions that are either part of the very definition of democracy or closely associated with democracy." In "Capitalism & democracy in 2040" (pp. 87–95) Robert W. Fogel writes: "To my mind, the most striking feature of Table 2 [which offers forecasts for 2040] is the relative decline in economic power of the EU15, implied by its stagnant population and its modest growth in GDP. . . . To many, the most provocative aspect of Table 2 is the forecast that, in 2040, the Chinese economy will reach $123 trillion, or nearly three times the output of the entire globe in the year 2000. Moreover, the per-capita income of China will reach $85,000, more than twice the forecasted per-capita income of the EU15, and also much higher than India's or Japan's. In other words, China is predicted to go from a poor country in 2000 to a superrich country in 2040, although it will not have overtaken the United States."

The Congressional Budget Office continues to produce a steady stream of balanced background papers. In "The Potential for Carbon Sequestration in the United States": "In all, the United States accounts for roughly one-quarter of global CO_2 emissions from fossil-fuel combustion, or about 6 billion metric tons per year. . . . Studies estimate that biological sequestration has the technological potential to sequester about 40 billion to 60 billion metric tons of CO_2 in the United States over the course of 50 years and another few tens of billions of tons over the following half-century. The total capacity for storing captured CO_2 emissions in geologic formations is estimated at roughly 1.2 trillion to 3.6 trillion metric tons. Thus, the United States has the technological potential to offset roughly a decade's worth of its current CO_2 emissions through biological sequestration and a few hundred years' worth of emissions through carbon dioxide capture and storage. . . . The extent to which the United States exploits its technological potential for biological sequestration and CCS [carbon dioxide capture and storage] will depend on the costs and value of those practices." September 2007. At ⟨http://www.cbo.gov/ftpdocs/86xx/doc8624/09-12-CarbonSequestration.pdf⟩.

The U.S. Department of the Treasury has released a study on "Income Mobility in the U.S. from 1996 to 2005." From the Summary: "Economic historian Joseph Schumpeter compared the income distribution to a hotel where some rooms are luxurious, but others are small and shabby. Important aspects of fairness are that those in the small rooms have an opportunity to move to a better one, and that the luxurious rooms are not always occupied by the same people." "There was considerable income mobility of individuals in the U.S. economy during the 1996 through

2005 period with roughly half of taxpayers who began in the bottom quintile moving up to a higher income group within 10 years. About 55 percent of taxpayers moved to a different income quintile within 10 years. Among those with the very highest incomes in 1996—the top 1/100 of 1 percent—only 25 percent remained in this group in 2005. Moreover, the median real income of these taxpayers declined over this period. The degree of mobility among income groups is unchanged from the prior decade (1987 through 1996).” November 13, 2007. At ⟨http://www.treasury.gov/press/releases/reports/incomemobilitystudyfinal.pdf⟩.

On the same day as the Treasury report, the Economic Mobility Project at the Pew Foundation released three studies written by Julia Isaacs: “The Economic Mobility of Families Across Generations,” “The Economic Mobility of Men and Women,” and “The Economic Mobility of Black and White Families.” Some “Key Findings” include: “Children born to parents with income on the bottom rung of the ladder are highly likely (42 percent) to also be in the bottom rung in adulthood, while those born to parents on the top rung are very likely to stay at the top (39 percent). This is known as ‘stickiness at the ends.’” “In every income group, blacks are less likely than whites to surpass their parents’ family income and more likely to fall down the economic ladder.” “Sons and daughters have fairly similar rates of mobility across generations, that is, family incomes of both sons and daughters resemble their parents’ to a similar degree.” November 13, 2007. Available at ⟨http://www.economicmobility.org⟩.

In the Summer 2007 issue of this journal, Dennis W. Carlton argued that antitrust agencies should make their decisions on the basis of total welfare, not consumer surplus. Russell Pittman takes the opposite view in “Consumer Surplus as the Appropriate Standard for Antitrust Enforcement.” “Several recent papers call for antitrust agencies to move in the direction of this version of a total welfare standard for enforcement. However, as Oliver Williamson noted in his 1968 paper, horizontal mergers typically result in transfers that may greatly exceed in magnitude any deadweight loss or efficiency gain, so that a decision to ignore transfers may be quite important. In this paper, I argue that such transfers are likely overall to be quite regressive, and thus that a consumer surplus standard rather than a total welfare standard may be appropriate for antitrust.” *Competition Policy International,* Autumn 2007, vol. 3, no. 2, pp. 205–224. Available at ⟨http://www.globalcompetitionpolicy.org/⟩.

About Economists

Perhaps the most useful introductions for generalist economists to the work of joint Nobel Prize winners Leonid Hurwicz, Eric S. Maskin, and Roger B. Myerson is provided by the Nobel organization itself in a paper entitled: “Scientific background on the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2007: Mechanism Design Theory.” “The development of mechanism design theory began with the work of Leonid Hurwicz. He defined a mechanism as a communication system in which participants send messages to each other and/or to a 'message center,' and where a pre-specified rule assigns an outcome (such as an allocation of goods and services) for every collection of received messages. Within this framework, markets and market-like institutions could be compared with a vast array of alternative institutions. . . . In the 1970s, the formulation of the so-called *revelation principle* and the development of *implementation theory* led to great advances in the theory of mechanism design. The revelation principle is an insight that greatly simplifies the analysis of mechanism design problems. In force of this principle, the researcher, when searching for the best possible mechanism to solve a given allocation problem, can restrict attention to a small subclass of mechanisms, so-called direct mechanisms. . . . Roger Myerson developed the principle in its greatest generality and pioneered its application to important areas such as regulation. . . . The revelation principle . . . does not address the issue of multiple equilibria. . . . Can a mechanism be designed so that all its equilibria are optimal? The first general solution to this problem was given by Eric Maskin. The resulting theory, known as implementation theory, is a key part of modern mechanism design." October 15, 2007. At ⟨http://nobelprize.org/nobel_prizes/economics/laureates/2007/ecoadv07.pdf⟩.

Daniel Kahneman delivered "A Short Course in Thinking about Thinking" to a small group of business innovators, which is full of interesting insights. "Just to give you a sense of how little people know, my first experiment with predictive utility asked whether people knew how their taste for ice cream would change. We ran an experiment at Berkeley when we arrived, and advertised that you would get paid to eat ice cream. We were not short of volunteers. People at the first session were asked to list their favorite ice cream and were asked to come back. In the first experimental session they were given a regular helping of their favorite ice cream, while listening to a piece of music—Canadian rock music—that I had actually chosen. That took about ten–fifteen minutes, and then they were asked to rate their experience. Afterward, they were also told, because they had undertaken to do so, that they would be coming to the lab every day at the same hour for I think eight working days, and every day they would have the same ice cream, the same music, and rate it. And they were asked to predict their rating tomorrow and their rating on the last day. It turns out that people can't do this. Most people get tired of the ice cream, but some of them get kind of addicted to the ice cream, and people do not know in advance which category they will belong to. The correlation between what the change that actually happened in their tastes and the change that they predicted was absolutely zero." *Edge: The Third Culture*, July 20–22, 2007. Edited video and transcripts of the talks are available at ⟨http://www.edge.org/3rd_culture/kahneman07/kahneman07_index.html⟩.

Lawrence H. Summers has a lively interview with *International Economy* magazine. "[T]he G7 doesn't have the legitimacy or primacy as a steering group for the world economy that it once did. Everybody remarks that of the G7 countries, three already use the same currency and most will not be among the world's five largest economies a generation from now." "If the income distribution in the United States were the same today as it was in 1979, the bottom 80 percent of the population would have about $670 billion more, or about $8,000 per family. And the top one percent would have about $670 billion less, or about $500,000 per family. Relative to numbers like that, a $3 billion trade adjustment assistance program looks very small. We need to think in a much more comprehensive way about income distribution, the progressivity of taxation, the enforcement of tax laws, and the benefits of public spending if we're going to maintain broad support for the legitimacy of the system including the ability to maintain open markets." *International Economy,* Fall 2007, pp. 12–17. At 〈http://www.international-economy.com/TIE_F07_Summers.pdf〉.

Prakash Loungani offers an introduction to the work of Robert Barro in "Topping the Charts." "The idea behind Barro's first hit paper on economic growth—a 1991 article in the *Quarterly Journal of Economics*—was breathtakingly simple. He assembled a data set of incomes for nearly one hundred countries since 1960. He also collated data on a long list of variables that, according to theorists, influence growth in incomes. The list included school enrollment rates (a proxy for what economists call 'human capital'), private investment, and the size and nature of government activities. It also included measures of the economic system in place, government-induced distortions of markets, and political instability. Barro examined the statistical associations between income growth and this list of variables. He found that 'poor countries tend to catch up with rich countries if the poor countries have high human capital . . . but not otherwise.' He also found that investments by governments did little to trigger growth and that other government spending actually detracted from growth. Political instability and market distortions tended to lower growth. There is a simple fact about a data set and scholars: build it and they will come. That is what happened with the data set that Barro built—it attracted macroeconomists to the study of economic growth." *Finance and Development,* September 2007. At 〈http://www.imf.org/external/pubs/ft/fandd/2007/09/people.htm〉.

Caren Chesler offers an introduction to the work of Raj Chetty in "The Experimenter." "Chetty believes that if he can bring models and theories into better alignment with real-world evidence, he will help shape economic policy. It's an ambition that runs in the family: his father, V. K. Chetty, was an economic adviser to Indian Prime Minister Indira Gandhi in the 1980s, helping her privatize the government-run cement industry as India's economy began to make the transition from socialism to free-market capitalism. Chetty is drawn to the psychological underpinnings of economic theory. Before deciding on a change to the tax code, he argues, politicians should study how consumers think about taxes. With that in mind, he created an experiment to determine whether separately labeling the sales tax on an item would affect a shopper's behavior. He persuaded a large grocery chain to allow him to post tags next to 750 of their products for three weeks, showing how much the item would cost after sales tax was added. Fearing the experiment would result in lower sales, the chain did not allow Chetty to post signs on its most popular items. The store management's fears were well founded. When consumers knew just how much more taxes would cost them, they reduced their purchases of the items by about 7 percent." *The American*, September/October 2007. At ⟨http://american.com/archive/2007/september-october-magazine-contents/the-experimenter⟩.

Discussion Starters

Bryan Caplan offers a lively discussion of "The 4 Boneheaded Biases of Stupid Voters (And we're all stupid voters)." "Out of all the complaints that economists lodge against laymen, four families of beliefs stand out: the anti-market bias, the anti-foreign bias, the make-work bias, and the pessimistic bias. . . . Joseph Schumpeter, arguably the greatest historian of economic thought, matter-of-factly spoke of 'the ineradicable prejudice that every action intended to serve the profit interest must be anti-social by this fact alone.' . . . [T]he public's implicit model of price determination is that businesses are monopolists of variable altruism. If a CEO feels greedy when he wakes up, he raises his price—or puts low-quality merchandise on the shelves. Nice guys charge fair prices for good products; greedy scoundrels gouge with impunity for junk. . . . A shrewd businessman I know has long thought that everything wrong in the American economy could be solved with two expedients: 1) a naval blockade of Japan, and 2) a Berlin Wall at the Mexican border. . . . As a general rule, the public believes economic conditions are not as good as they really are. It sees a world going from bad to worse; the economy faces a long list of grim challenges, leaving little room for hope. . . . How can high levels of pessimism coexist with constantly rising standards of living?" *Reason,* October 2007, At ⟨http://www.reason.com/news/show/122019.html⟩.

Eric W. K. Tsang and Bruno S. Frey suggest a reform of journal refereeing in "The As-Is Journal Review Process: Let Authors Own Their Ideas." "[W]e suggest making a radical change to the existing review process: A manuscript should be reviewed on an 'as is' basis. Similar to developmental review, the process is double-blind, and referees are encouraged to provide constructive comments on a manuscript. In contrast to developmental review, referees are given only two options when advising the editor regarding whether the manuscript should be published: accept or reject. The option of (minor or major) revision and resubmission is ruled out. Based on the referees' recommendations and his or her own reading of the manuscript, the editor makes the decision to accept or reject the manuscript. If the editor accepts the manuscript (subject to normal copy editing), he or she will inform the authors accordingly, enclosing the editorial comments and comments made by the referees. It is up to the authors to decide whether, and to what extent, they would like to incorporate these comments when they work on their revision for eventual publication. As a condition of acceptance, the authors are required to write a point-by-point response to the comments. If they refuse to accept a comment, they have to clearly state the reasons. The editor will pass on the response to the referees. In sum, the fate of a submitted manuscript is determined by one round of review, and authors of an accepted manuscript are required to make one round of revision." *Academy of Management Learning & Education*, March 2007, vol. 6, no. 1, pp. 128–136.

Betty Joyce Nash describes how the "Academic Labor Market's Tenure Track Recedes" in an article subtitled "Even professors can no longer count on job security. But to many academics, tenure may have outlived its appeal anyway." "To save money, colleges now offer fewer tenure-track and more part-time jobs. Today, 63 percent of faculty jobs are off the tenure track. Part-time faculty jobs now approach half of all faculty positions." *Region Focus*: Federal Reserve Bank of Richmond, Summer 2007, pp. 20–23. At ⟨http://www.richmondfed.org/publications/economic_research/region_focus/summer_2007/pdf/feature2.pdf⟩.

Alan Krueger discusses "What Makes a Terrorist." "[T]he available evidence is nearly unanimous in rejecting either material deprivation or inadequate education as important causes of support for terrorism or participation in terrorist activities. Such explanations have been embraced almost entirely on faith, not scientific evidence. Why is an economist studying terrorism? I have two answers. First, participation in terrorism is just a special application of the economics of occupational choice. Some people choose to become doctors or lawyers, and others pursue careers in terrorism. Economics can help us understand why. The second answer is that, together with Jörn-Steffen Pischke, now at the London School of Economics, I studied the outbreak of hate crimes against foreigners in Germany in the early 1990s. Through this work, I concluded that poor economic conditions do not seem to motivate people to participate in hate crimes." *The American*, November/December 2007. At ⟨http://www.american.com/archive/2007/november-december-magazine-contents/what-makes-a-terrorist⟩. The article offers some useful follow-up to the article by Krueger and Jitka Malečková in the Fall 2003 issue of this journal.

John Buchanan looks at "Meetings: The Biggest Money Pit of Them All." "Throughout corporate America, signs point to expenditures for off-site meetings spinning out of control. Recently, for example, Pfizer learned it was spending as much as $1 billion annually, twice management's estimate—not including airfare. The same ratio of actual to assumed spending—a lapse that often runs into tens of millions of dollars a year—has been found at Honeywell, Cisco Systems, and many other companies. Even top-gun Fortune 500 auditor PricewaterhouseCoopers missed its original meeting-cost estimate by a country mile." *Conference Board Review*, September/October 2007. At ⟨http://www.conference-board.org/articles/atb_article.cfm?id=399⟩

■ *Thanks to Larry Willmore for suggestions and to Katherine Lim for research assistance.*