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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.

Smorgasbord

Richard Baldwin has edited *The Great Trade Collapse: Causes, Consequences and Prospects*, which includes 25 short essays offering overviews of issues in the world trading system, discussions of causes behind the great trade collapse, and regional and country perspectives. From Baldwin's introductory essay: "The 'great trade collapse' occurred between the third quarter of 2008 and the second quarter of 2009. Signs are that it has ended and recovery has begun, but it was huge—the steepest fall of world trade in recorded history and the deepest fall since the Great Depression. The drop was sudden, severe, and synchronized. . . . It took 24 months in the Great Depression for world trade to fall as far as it fell in the 9 months from November 2008. . . . All 104 nations on which the WTO reports data experienced a drop in both imports and exports during the second half of 2008 and the first half

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of 2009. . . . Given the global recession, a drop in global trade is unsurprising. The question is: Why was it so big? . . . [D]uring the four large, postwar recessions (1975, 1982, 1991, and 2001) world trade dropped 4.8 times more than GDP. This time the drop was far, far larger. . . . As we shall see, the presence of these highly integrated and tightly synchronised production networks plays an important role in the nature of the great trade collapse." November 27, 2009. Available at ⟨http://www.voxeu.org/index.php?q=node/4297⟩.

The *Human Development Report* for 2009 tackles the subject: "Overcoming Barriers: Human Mobility and Development." "The overwhelming majority of people who move do so inside their own country. Using a conservative definition, we estimate that approximately 740 million people are internal migrants—almost four times as many as those who have moved internationally. Among people who have moved across national borders, just over a third moved from a developing to a developed country—fewer than 70 million people. Most of the world's 200 million international migrants moved from one developing country to another or between developed countries. . . . The share of international migrants in the world's population has remained remarkably stable at around 3 percent over the past 50 years . . . This report argues that migrants boost economic output, at little or no cost to locals. . . . In migrants' countries of origin, the impacts of movement are felt in higher incomes and consumption, better education and improved health, as well as at a broader cultural and social level. Moving generally brings benefits, most directly in the form of remittances sent to immediate family members." United Nations Development Programme, October 2009. At ⟨http://hdr.undp.org/en/reports/global/hdr2009/⟩.

The IMF's *World Economic Outlook* report for October 2009 has the theme: "Sustaining the Recovery." After the opening chapters review the state of the world economy, Chapter 3 addresses "Lessons for Monetary Policy from Asset Price Fluctuations." "Monetary policymakers in advanced economies with flexible exchange rate regimes have been guided in recent years by the principle that stabilizing inflation forms the best policy for promoting economic growth and welfare. . . . A number of central banks now have explicit mandates to target CPI inflation, and they have been strikingly successful in keeping inflation in check. But this approach has not been sufficient to prevent asset price busts; the current crisis is no exception. . . . The evidence suggests that policymakers should react more strongly to signs of increasing macrofinancial risk. The findings in this chapter do not support the idea that central banks should react automatically to changes in asset prices, still less that they should try to determine some appropriate level for asset prices. But they should examine what is driving asset price movements and be prepared to act in response. This applies particularly to housing, which represents a larger share of wealth than equities for most households and typically involves significant levels of debt. . . . However, expectations must be realistic. Even the best leading indicators of asset price busts are imperfect—in the process of trying to reduce the probability of a dangerous bust, central banks may raise costly false alarms." At ⟨http://www.imf.org/external/pubs/ft/weo/2009/02/index.htm⟩.

The Commission on the Measurement of Economic Performance and Social Progress, created by the French government and chaired by Joseph E. Stiglitz and Amartya Sen, was established by the French government. From the Executive Summary of the commission's report: "The Commission's aim has been to identify the limits of GDP as an indicator of economic performance and social progress . . . [and] to consider what additional information might be required for the production of more relevant indicators of social progress . . ." "The report distinguishes between an assessment of *current well-being* and an assessment of sustainability, whether this can last over time. Current well-being has to do with both economic resources, such as income, and with non-economic aspects of peoples' life (what they do and what they can do, how they feel, and the natural environment they live in). Whether these levels of well-being can be sustained over time depends on whether stocks of capital that matter for our lives (natural, physical, human, social) are passed on to future generations." September 2009. At ⟨http://www.stiglitz-sen-fitoussi.fr/documents/rapport_anglais.pdf⟩.

The Kaiser Family Foundation offers "The Uninsured: A Primer: Key Facts about Americans without Health Insurance." "The number of nonelderly uninsured Americans rose to 45.7 million in 2008 amidst rising unemployment rates and an economic recession. . . . Because the majority of the nonelderly still receive their health insurance as a job benefit, the steady decline in employer-sponsored health coverage since 2000 largely explains the growing numbers of uninsured. . . . The barriers the uninsured face in getting the care that they need means they are less likely to receive preventive care, are more likely to be hospitalized for conditions that could have been prevented, and are more likely to die in the hospital than those with insurance. The financial impact can also be severe. . . . More than eight in ten of the uninsured are in working families—about two thirds are from families with one or more full-time workers and 14% are from families with part-time workers. . . . Young adults, ages 19 to 29, comprise a disproportionately large share of the uninsured, largely due to their low incomes. Young adults have the highest uninsured rate (30%) of any age group. . . . More than half (62%) of nonelderly uninsured adults have no education beyond high school, making them less able to get higher-skilled jobs that are more likely to provide health coverage. . . . About three-quarters of the uninsured (75%) have gone without coverage for more than one year." October 2009. At ⟨http://www.kff.org/uninsured/upload/7451-05.pdf⟩.

Richard Swedberg discusses "The Structure of Confidence and the Collapse of Lehman Brothers." "On September 15, 2008 at 1:45 A.M. Lehman Brothers filed for bankruptcy, something that nearly caused a meltdown of the world's financial system. A few days later Bernanke made his famous statement that 'we may not have an economy on Monday.' President Bush expressed the same idea, but in his own language, when he said, 'this sucker could go down.' . . . I discuss the nature of confidence in the financial system. . . . One can even argue that the current financial crisis cannot be understood without taking confidence into account. This is also the case, as I will try to show, if one wants to understand the collapse of Lehman and how it turned a credit crunch into a full-scale financial panic. . . . Confidence can therefore be defined in the following way. *Confidence is an actor's readiness to base his or her decision to act, not on the best available information about some state of affairs (because this is not available to the actor), but on proxy signs that signal what this state of affairs is*." Cornell University, Center for the Study of Economy and Society Working Paper #51. November 2009. At ⟨http://www.economyandsociety.org/publications/wp51_Swedberg_LehmanBrothers.pdf⟩.

Robert E. Litan delivered the Second Annual Rocco Martino Lecture on Innovation at the Foreign Policy Research Institute. "Entrepreneurs are vital to the economy not only because of the innovations they bring to the market, but also for the jobs they create. The Kauffman Foundation sponsored a study recently to look at the source of job growth in the United States since 1980. The conclusion is remarkable, or at least I believe it to be. Since 1980 until the recession, all net new jobs—net meaning gross jobs minus layoffs—have been created by firms under five years old. . . . Using these data, we have made a rough estimate that at least 1/3 percent of our employment and a somewhat smaller fraction of our GDP since 1980 is due to young new firms that have since grown. These are amazing facts. In the wake of the current financial crisis, one of the questions we hear is: Have we now turned from a good capitalist society to a bad one? Unfortunately, the United States now finds itself uncomfortably straddled among the entrepreneurial, the big-firm and the state-guided categories. We weren't state-guided until about a year ago or 18 months ago, when our banks were forced to take government funds. And now, regrettably, our banking system bears an uncanny resemblance to the Chinese system of five years ago, before the Chinese privatized their banks at our behest to get into the World Trade Organization." December 2009. At ⟨http://www.fpri.org/enotes/200912.litan.innovationworldeconomy.html⟩.

Brian Cheffins and Steven Bank ask "Is Berle and Means Really a Myth?" From the Summary: "Adolf Berle and Gardiner Means famously declared in 1932 that a separation of ownership and control was a hallmark of large U.S. corporations, and their characterization of matters quickly became received wisdom. A series of recent papers has called the Berle–Means orthodoxy into question. This survey of the relevant historical literature acknowledges that the pattern of ownership and control in U.S. public companies is not monolithic. Nevertheless, a separation between ownership and control remains an appropriate reference point for analysis of U.S. corporate governance." *Business History Review*, Autumn, 2009, pp. 443–74. At ⟨http://www.hbs.edu/bhr/83/3/is-berle-and.html⟩.

Climate Change

The *World Development Report 2010* from the World Bank focuses on the theme of "Development and Climate Change," offering as usual a wealth of facts, analysis, and telling anecdotes. From the Overview: "Climate change policy is not a simple choice between a high-growth, high-carbon world and a low-growth, low-carbon world—a simple question of whether to grow or to preserve the planet. Plenty of inefficiencies drive today's high-carbon intensity. For example, existing technologies and best practices could reduce energy consumption in industry and the power sector by 20–30 percent, shrinking carbon footprints without sacrificing growth. Many mitigation actions—meaning changes to reduce emissions of greenhouse gases—have significant co-benefits in public health, energy security, environmental sustainability, and financial savings. In Africa, for example, mitigation opportunities are linked to more sustainable land and forest management, to cleaner energy (such as geothermal or hydro power), and to the creation of sustainable urban transport systems. So the mitigation agenda in Africa is likely to be compatible with furthering development. This is also the case for Latin America. Nor do greater wealth and prosperity inherently produce more greenhouse gases, even if they have gone hand in hand in the past. Particular patterns of consumption and production do. Even excluding oil producers, per capita emissions in high-income countries vary by a factor of four, from 7 tons of carbon dioxide equivalent (CO_2e) per capita in Switzerland to 27 in Australia and Luxembourg." September 2009. Available at ⟨http://www.worldbank.org⟩.

The Congressional Budget Office discusses "The Costs of Reducing Greenhouse-Gas Emissions," including both methodological questions and actual estimates from a range of sources: "The larger cap-and-trade program, on which most analyses focus, would restrict greenhouse-gas emissions from covered entities by requiring them to hold allowances or offset credits for their emissions. The annual allocation of allowances would fall to 83 percent of 2005 emission levels by 2020 and to 17 percent of 2005 levels by 2050. . . . On the basis of those estimates and its own analysis, CBO concluded that [such legislation] would slightly reduce real GDP—by roughly 0.25 percent to 0.75 percent in 2020 and by between 1.0 percent and 3.5 percent in 2050. . . . By way of comparison, CBO projects that real GDP will be roughly two-and-a-half times as large in 2050 as it is today." November 23, 2009. At ⟨http://www.cbo.gov/doc.cfm?index=10458⟩.

Emma Duncan writes "Getting Warmer: A Special Report on Climate Change and the Carbon Economy," one of the reliably excellent survey articles that occasionally appear in the middle of the *Economist* magazine. "Some scientists think that the planet is already on an irreversible journey to dangerous warming. A few climate-change sceptics think the problem will right itself. Either may be correct. Predictions about a mechanism as complex as the climate cannot be made with any certainty. But the broad scientific consensus is that serious climate change is a danger, and this newspaper believes that, as an insurance policy against a catastrophe that may never happen, the world needs to adjust its behaviour to try to avert that threat. The problem is not a technological one. The human race has almost all the tools it needs to continue leading much the sort of life it has been enjoying without causing a net increase in greenhouse-gas concentrations in the atmosphere. Industrial and agricultural processes can be changed. Electricity can be produced by wind, sunlight, biomass or nuclear reactors, and cars can be powered by biofuels and electricity. Biofuel engines for aircraft still need some work before they are suitable for long-haul flights, but should be available soon. Nor is it a question of economics. Economists argue over the sums, but broadly agree that greenhouse-gas emissions can be curbed without flattening the world economy. It is all about politics. Climate change is the hardest political problem the world has ever had to deal with. It is a prisoner's dilemma, a free-rider problem and the tragedy of the commons all rolled into one." December 5, 2009.

Prominent Economists

The Economic Sciences Prize Committee of the Royal Academy of Sciences has published "Economic Governance," a highly useful and readable essay summarizing the work for which Elinor Ostrom and Oliver Williamson won the 2009 Sveriges Riksbank Prize in Economic Science in Memory of Albert Nobel. "In a series of papers and books from 1971 onwards, Oliver Williamson has argued that markets and firms should be seen as alternative governance structures, which differ in how they resolve conflicts of interest. The drawback of markets is that negotiations invite haggling and disagreement; in firms, these problems are smaller because conflicts can be resolved through the use of authority. The drawback of firms is that authority can be abused." "Elinor Ostrom has challenged the conventional wisdom that common property is poorly managed and should be completely privatized or regulated by central authorities. Based on numerous studies of user-managed fish stocks, pastures, woods, lakes, and groundwater basins, Ostrom concluded that the outcomes are often better than predicted by standard theories. The perspective of these theories was too static to capture the sophisticated institutions for decision-making and rule enforcement that have emerged to handle conflicts of interest in user-managed common pools around the world." "The two contributions are complementary. Williamson focuses on the problem of regulating transactions that are not covered by detailed contracts or legal rules; Ostrom focuses on the separate problem of rule enforcement." October 12, 2009. At ⟨http://nobelprize.org/nobel_prizes/economics/laureates/2009/ecoadv09.pdf⟩.

"Paul A. Volcker in Conversation with Gary H. Stern" offers lucid and provocative commentary. Volcker on "too big to fail": "I ask people, I do a little private quiz. I say, 'Outside of banks, real banks, how many really systemically significant institutions are there in the world?' . . . You'd think there would be a lot, but the answer I typically get is maybe 20, 30." On the risk of deflation: "I didn't know how seriously the Federal Reserve really took it, whenever it was—2001, 2002, 2003, whenever—this great danger of deflation. I thought deflation at that time was about as likely as the polar ice cap melting. But it really seemed to bug people." On economics and central banking: "I recently commented to some of my economist friends that I'm not aware of any large contribution that economic science has made to central banking in the last 50 years or so." On overdoing central bank independence: "Somebody ought to write about this, how central banks became so important in the public mind and in their own mind in the past 10 years or so. Independence of central banking became part of the approach in almost every country. And I think you can make a case that it's been a little overdone, that central banks suffer from hubris, like everybody else." *The Region*, Federal Reserve Bank of Minneapolis. September 2009, pp. 18–29. At ⟨http://www.minneapolisfed.org/pubs/region/09-09/conversation.pdf⟩.

In an interview at *The Browser* website, Eric Maskin discusses the intuition behind some prominent economic papers that shed light on "Economic Theory and the Financial Crisis." Among other research, Maskin discusses the 1983 Diamond and Dybvig paper on banks and bank runs, the warnings about high leverage in the 1994 book by Dewatripont and Tirole *The Prudential Regulation of Banks*; and the 2008 Fostel and Geanakoplos article on leverage cycles. Maskin argues: "I don't accept the criticism that economic theory failed to provide a framework for understanding this crisis. Indeed, the papers we're discussing today show pretty clearly why the crisis occurred and what we can do about it. The sort of economics that deserves attack is Alan Greenspan's idealized world, in which financial markets work perfectly well on their own and don't require government action. There are, of course, still economists—probably fewer than before—who believe in that world. But it is an extreme position and not one likely to be held by those who understand the papers we're talking about." Posted October 2009, ⟨http://thebrowser.com/books/interviews/economic-theory-and-financial-crisis-eric-maskin⟩.

Discussion Starters

Josh Lerner looks at "Jamaica vs. Singapore." "[W]e can contrast Jamaica and Singapore. Both are relatively tiny states, with under 5 million residents apiece. Upon Singapore's independence in 1965—three years after Jamaica's own establishment as a nation—the two nations were about equal in wealth: the gross domestic product (in 2006 U.S. dollars) was $2,850 per person in Jamaica, slightly higher than Singapore's $2,650. Both nations had a centrally located port, a tradition of British colonial rule, and governments with a strong capitalist orientation. (Jamaica, in addition, had plentiful natural resources and a robust tourist industry.) But four decades later, their standing was dramatically different: Singapore had climbed to a per capita GDP of $31,400 (2006 data, in current dollars), while Jamaica's figure was only $4,800." November 19, 2009, at ⟨http://www.american.com/archive/2009/november/jamaica-vs-singapore⟩.

Daron Acemoglu offers: What Makes a Nation Rich? One Economist's Big Answer." The subtitle reads: "Say you're a world leader and you want your country's economy to prosper. According to this Clark Medal winner from MIT, there's a simple solution: start with free elections." Or as Acemoglu writes: "Nations are not like children—they are not born rich or poor. Their governments make them that way." *Esquire*, November 19, 2009. At ⟨http://www.esquire.com/features/best-and-brightest-2009/world-poverty-map-1209⟩.

Thomas Palley describes "The Fiscal Austerity Trap." "Fiscal conservatives are opportunistically looking to use the recession induced spike in the budget deficit to revive their crusade for fiscal austerity. . . . Though there is understanding of the need for budget deficits to provide short-term Keynesian fiscal stimulus, there is little understanding of the medium-term need for budget deficits to facilitate the process of private sector deleveraging and to restore growth. The U.S. economy needs a new engine of growth and deficit-financed public investment has an important role to play. Deficit financed investment can create a 'virtuous' circle whereby public investment spurs growth, in turn improving the budget outlook. The fiscal austerity agenda risks creating a 'vicious' circle in which austerity slows growth, necessitating further austerity." September 15, 2009, ⟨http://www.newamerica.net/publications/policy/the_fiscal_austerity_trap⟩.

Jared Diamond (author of *Guns, Germs and Steel* and *Collapse*) asks: "Will Big Business Save the Earth?" "There is a widespread view, particularly among environmentalists and liberals, that big businesses are environmentally destructive, greedy, evil and driven by short-term profits. I know—because I used to share that view. But today I have more nuanced feelings. . . . I've discovered that while some businesses are indeed as destructive as many suspect, others are among the world's strongest positive forces for environmental sustainability." Examples follow from Wal-Mart, Coca-Cola, and Chevron. *New York Times*, December 6, 2009. At ⟨http://www.nytimes.com/2009/12/06/opinion/06diamond.html⟩.

Julia B. Isaacs investigates "Spending on Children and the Elderly." From the Summary: "The United States spends 2.4 times as much on the elderly as on children, measured on a per capita basis, with the ratio rising to 7 to 1 if looking just at the federal budget. The tilt toward the elderly is stronger in the United States than in many other countries, although all OECD countries spend more, per capita, on the elderly than on children. Viewed from a life-cycle perspective, it is not unfair to spend more on the elderly than on children because all individuals progress from being children to working-age adults to elderly adults. However, our current system of public expenditures is unfair to younger generations. . ." Brookings Center on Children and Families Issue Brief, November 2009. At ⟨http://www.brookings.edu/reports/2009/1105_spending_children_isaacs.aspx⟩.

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