



Recommendations for Further Reading

Bernard Saffran

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 Bernard Saffran, c/o *Journal of Economic Perspectives*, Department of Economics, Swarthmore College, Swarthmore, PA 19081.

Smorgasbord

The World Development Report 2004 is titled “Making Services Work For Poor People.” “Too often, services fail poor people—in access, in quantity, in quality. But the fact that there are strong examples where services do work means governments and citizens can do better. How? By putting poor people at the center of service provision: by enabling them to monitor and discipline service providers, by amplifying their voice in policymaking, and by strengthening the incentives for providers to serve the poor.” A particularly alarming section is entitled, “Services are often dysfunctional.” “Ensuring that positions are filled, that staff report for work, and that they are responsive to all their clients is a major challenge. . . . A recent study in Bangladesh found 40 percent vacancy rates for doctor postings in poor areas. . . . Recent random samples of schools and health clinics in several developing countries found absence rates over 40 percent, with higher rates in remote areas and for some kinds of staff. . . .”

■ *Bernard Saffran is the Franklin and Betty Barr Professor of Economics, Swarthmore College, Swarthmore, Pennsylvania. His e-mail address is <bsaffra1@swarthmore.edu>.*

Kenneth Rogoff has written a provocative article, “Globalization and Global Disinflation.” Rogoff begins, “Over the past 10 years, global inflation has dropped from 30 percent to 4 percent. Without question, a large part of this breathtaking drop in inflation has to be attributed to improved central bank institutions and practice. . . . Yes, central banks rightly deserve a lot of credit for today’s low inflation rates, but do they deserve it all? . . . I focus, instead, on the increased level of competition—in both product and labor markets—that has resulted from the interplay of increased globalization, deregulation, and a decreased role for governments in many economies.” *Federal Reserve Bank of Kansas City Economic Review*, Fourth Quarter 2003, pp. 45–78.

The Congressional Budget Office has published a “Revenue and Tax Policy Brief” with a short, clear discussion of “The Alternative Minimum Tax,” prepared by Robertson Williams with the assistance of Kurt Seibert and David Weiner. It concludes, “Over the coming decade, a growing number of taxpayers will become liable for the AMT. In 2010, if nothing is changed, one in five taxpayers will have AMT liability and nearly every married taxpayer with income between \$100,000 and \$500,000 will owe the alternative tax.” No. 4, April 15, 2004.

Is Geography Destiny? is the question posed in a book by John Luke Gallup, Alejandro Gaviria and Eduardo Lora. The book focuses on “Lessons from Latin America.” The authors write: “Geography influences development, but not always in the same way. The international patterns identified in chapter 1 are useful starting points for analysis but are not hard-and-fast rules. The case studies presented here are chock-full of exceptions to the rules. And that is good news. It means the future of countries is not etched in the stone of their mountains or bound by the equator or seared into their people by the heat of the tropics. The diversity of these cases does not refute the basic premise that geography matters. It does, however, prove that geography is not destiny.” ISBN 0-8047-4927-2.

Kenneth J. Arrow authored “New Antimalarial Drugs: Biology and Economics Meet.” “In this article, I focus on the use of drugs to combat malaria and the need for those currently in use in Africa to be replaced by new and much more expensive ones—the subject of a study by a committee which I chair, of the Institute of Medicine of the U.S. National Academy of Sciences.” After making the case for a subsidy, Arrow then answers the canonical question, “What is the justification for subsidizing a particular good (antimalarial drugs or ACTS, in particular) rather than making general income transfers to poor countries?” *Finance and Development*, March 2004. Available at (<http://www.imf.org/fandd>).

The Cato Journal presents a symposium on “A Monetary History of the United States After 40 Years,” with short articles by Milton Friedman, Anna J. Schwartz, Alan H. Meltzer and William Poole. Friedman writes, “On the final text page of our book, we referred to the contrast between the downward secular trend of velocity before World War II, and the upward trend in the postwar period. And went on to say that ‘we expect the secular decline to be resumed. But . . . we shall have to wait for experience to unfold before discriminating finally among the alternative explanations.’ Forty years of additional experience has now unfolded and, instead of

declining, velocity has continued to rise at about the same secular rate as in the immediate postwar period. I believe we do not yet have an adequate explanation of why prewar and postwar trends have been in opposite directions.” Winter 2004.

Gavin Wright and Jesse Czelusta present some controversial views in “The Myth of the Resource Curse.” They begin, “Many observers believe that reliance on natural resources has adverse consequences for economic growth. . . . In this paper we subject the notion of a ‘resource curse’ to critical scrutiny. We concentrate on minerals, in part for reasons of our own expertise but also because oil and other minerals have been fingered as the primary culprits in this melodrama.” They argue: “The resource-curse hypothesis seems anomalous as development economics, since on the surface it has no clear policy implication but stands as a wistful prophecy: Countries afflicted with the ‘original sin’ of resource endowments have poor growth prospects. . . . Minerals themselves are not to blame for problems of rent-seeking and corruption Minerals are not a curse at all in the sense of inevitability; the curse, where it exists, is self-fulfilling.” *Challenge*, March/April 2004, 6–38.

The Economist has another of those wonderful surveys by Frances Cairncross. This one is “A Survey of Retirement,” titled “Forever Young” and subheaded “More people will grow old this century than ever before. That will change the nature of retirement.” As usual, it is a combination of surprising facts and clear analysis. “Something unprecedented and irreversible is happening to humanity. This year or next, the proportion of people aged 60 or over will surpass the proportion of under-fives. For the rest of history, there are unlikely ever again to be more toddlers than grey heads. Already those aged 65 or over, who throughout recorded time have rarely accounted for more than 2–3% of most countries’ people, make up 15% of the rich world’s inhabitants.” March 27, 2004.

Eminent Lectures

Richard B. McKenzie’s 2003 Presidential Address at the Southern Economics Association is “Monopoly: A Game Economists Love to Play—Badly!” He concludes: “My effort here has been directed mainly at undermining the facile conclusion readily drawn from standard treatments of the perfectly competitive models—namely, that perfect fluidity in the movement of resources across market[s] is necessarily some economic ideal and that any market structure that is dependent on rigidities in the flow of resources always detracts in some way and to some extent (as identified by the familiar Harberger triangle) from human welfare. . . . Joseph Schumpeter had a point that is as ironic as it is worth remembering and teaching: that a system filled with static inefficiencies at every point in time can be superior, in the long run (up to a point) to a system perfectly efficient at every point in time.” *Southern Economic Journal*, 2004, 70:4, 715–730.

Barry Eichengreen delivered the 2002 Macintosh Lecture at Queen’s University, “Viewpoint: Understanding the Great Depression.” He argues: “One way of

characterizing recent research on the Great Depression is as ‘normal science.’ There is now a steady stream of publications adding incrementally to existing knowledge. The onset of the Depression remains the stage about which there is probably least agreement, perhaps unavoidably given the limited ability of macroeconomists to explain turning points. The debate continues to revolve around the relative importance of inappropriate national policies versus an unstable international system. If there is anything resembling a consensus, it is a synthetic view, which admits a role both for monetary policy blunders in the United States, Germany, and France but also for the unstable international monetary and financial system in amplifying these negative impulses and transmitting them to the rest of the world.” *Canadian Journal of Economics*, February 2004, 1–27.

For Classroom Discussion

A wonderful article illustrating entry and competition is “In Chinatown, a \$10 Trip Means War; Weary Owners Struggle to Stay Afloat in Cutthroat Competition.” By Michael Luo, *New York Times*, February 21, 2004.

Kevin A. Hassett and Peter J. Wallison explore “A Troubling Requirement: Why should the FASB require the expensing of options if it has no idea how it should be done?” They write, “Given the uncertainty associated with estimating the fair value of employee stock options, it seems appropriate that disclosure occur in the footnotes to the financial statements rather than in the computation of net income.” *Regulation*, Spring 2004, 52–58.

Who can resist the opening lines of Steven E. Landsburg’s article: “The Economics of Faking Orgasm. No, really.” “Hugo Mialon is a graduate student who spends a lot of time thinking about orgasms. This by itself is perhaps not terribly atypical. But Mialon, at least part of the time, thinks about orgasms in connection with his dissertation research.” *Slate Magazine*, posted Friday, March 19, 2004. (<http://slate.msn.com//id/2097396>).

To get the feel of a real Dutch auction, in which the auctioneer starts with a high price and then reduces it until a bidder accepts, students might enjoy an article by Elizabeth Pope, “Let a Billion Flowers Bloom,” in the “Travel” section of *The New York Times* on March 28, 2004.

Gary S. Becker describes “The Wise Way to Stem Illegal Immigration”: “Expanding legal immigration is a more efficient and fairer policy than the present half-hearted enforcement of laws against the large number of illegal entrants. By also giving priority to immigrants from nations with whom the U.S. has free-trade agreements, the legal movement of human capital across borders would begin to resemble more the movements of goods, services and physical and financial capital.” *Business Week*, April 26, 2004.

Paul R. Portney labels his “Market-based Approaches to Environmental Policy” as “A ‘Refresher’ Course.” It belongs on the reading list of undergraduate courses. He points out: “In fact, market-based approaches to environmental protection are

a clever form of government regulation. . . . One thing is for sure. Market-based approaches to environmental protection have become the default option in much of modern environmental policy, both in the United States and abroad.” *Resources*, Summer 2003.

In “How Rankings Rate,” Austan Goolsbee points out, “Critics argue that rankings like these try to quantify the unquantifiable—that variables used to measure quality are often flawed and incomplete. But the often overlooked, and perhaps more troubling, problem is that the average person who uses these rankings may not understand basic statistics. If he did, he would know that even if all the right variables were included, once he got past the top spots, the distinctions between schools (or restaurants or places to retire) are often meaningless.” *New York Times*, April 12, 2004, Op-ed page.

A number of economists are taking advantage of the Internet to post reflections and connections to economic news and events. Bill Goffe’s “Resources for Economists on the Internet” even has a section for “Blogs and Commentaries.” (<http://www.aeaweb.org/RFE/EconFAQ.html>).

About Economists

In “The Legacy of John Kenneth Galbraith,” Richard Parker argues that “Galbraith is one of the very *wisest* economists—not the *smartest* or *most technically gifted*—but simply the *wisest* of the past century.” He also discusses the “three fundamental objections that Galbraith raised almost a half century ago. The first was that power will always and everywhere be present in both economics and politics, and that economists who thought the ‘natural laws’ of the market would felicitously trump the use of power by the powerful to gain unnatural market rents were wrong. . . . [T]hat politics was and is universally important to economics—not just in government’s conservatively imagined role as a night watchman, but also in its active manipulation of markets and their behavior for more liberal ends. . . . [T]hat to a great degree, the important decisions about the overarching shape and direction of economies . . . had become the issue of our times.” *Challenge*, March/April 2004, 81–89.

Martin Feldstein, the current President of the American Economics Association, is the subject of a profile by Prakash Loungani, entitled, “Getting There First: An economist’s lifelong study of the effects of taxes and social insurance.” It begins, “Martin Feldstein graduated in 1961 with a bachelor’s degree from Harvard College and secured admission to Harvard Medical School.” Loungani concludes, “Is he working on anything new? Befitting one whose research has always tackled the public policy issues of the day, Feldstein says: ‘I’ve been thinking about the economics of national security.’ He adds that while getting his bachelor’s degree at Harvard, he had worked with noted economist Thomas Schelling, one of the few who have written extensively on the economics of peace and defense. ‘Now I get to go to back to all that with new ideas, new data, new techniques . . . ,’ he says,

gesturing for perhaps the first time in the interview, his face beaming with anticipation.” *Finance and Development*, March 2004, (<http://www.imf.org/fand>).

In “The legacy of Herbert Simon in game theory,” Esther-Mirjam Sent provides “a historical background for the recent resurgence of interest in bounded rationality, focusing almost exclusively on game theory. It considers these developments in relation to Simon’s seminal contributions, for Simon was at a very early stage in the development of his ideas when game theory was also being established. In particular, it shows how early game theorists failed to draw both on Simon’s insistence on the evidence of cognitive limitations in the playing of games and on his early analysis of the implications of these restrictions. Moreover, recent developments that do include such limitations appear to do so in a way that does not reflect Simon’s point of view.” *Journal of Economic Behavior and Organization*, 53, 2004, 303–317.

The Summer 2003 issue of *Resources* includes: “In Appreciation: John V. Krutilla, 1922–2003. “The impact of Krutilla’s theories on environmental preservation and economics can hardly be overstated. With the publication of his landmark research paper, ‘Conservation Reconsidered’, (*American Economic Review*, Vol. 67, 1967) Krutilla laid the intellectual cornerstone of what today is an international discipline that is central to the assessment and protection of the environment. Over the course of his career, he fundamentally altered the global debate regarding comparisons and choices—both private and public—about the varied uses for undisturbed wild rivers, species, and other natural resources.” 2–3.

In “Institutional Economics at Columbia University,” Malcolm Rutherford writes: “In the period between the wars Columbia University was one of the leading American universities in the area of economics and the other social sciences Despite this, the economics associated with Columbia is much less well known or recognized today than, for example, the interwar Chicago economics of Frank Knight and Jacob Viner. This relative neglect is undoubtedly due to the fact that the Columbia faculty contained a large concentration of people of institutionalist persuasion, and institutionalism declined in its professional position after World War II. However, what this means is not that the study of Columbia economics is uninteresting, but that it can tell us a great deal—both about institutionalism and the changing character of American economics during the interwar period.” *History of Political Economy*, Spring 2004, 36:1, 31–78.

Our profession’s folklore sometimes asserts that Arthur Burns manipulated monetary policy to help with Nixon’s reelection in 1972. In a letter to the editor of the *Wall Street Journal*, his son Joseph M. Burns concludes, “Whatever one might think today of monetary policy in 1972, the evidence strongly supports the conclusion that Burns pursued that policy in good faith.” “Monetary Policy Wasn’t Manipulated for Nixon,” April 26, 2004.

Tax Notes offers a “Tax Analysts Exclusive Conversations: Daniel J. Mitchell,” interviewed by Joseph J. Thorndike. Mitchell is asked: “Was there a golden age of American tax policy?” Mitchell replies. “How about the early 1900s, before the Sixteenth Amendment was approved? I’m not a big fan of tariffs and punitive excise

taxes (which were the federal government's main revenue sources prior to 1913), but I would gladly return to those policies in exchange for ridding America of the income tax. Simply stated, the income tax was a necessary condition for the creation of the welfare state and the resulting social pathologies. The income tax is also the most economically destructive way politicians have ever developed for financing government." April 26, 2004.

From Other Professions

A fascinating introduction to anthropometric history is to be found in an article by Burkhard Bilger, "The Height Gap: Why Europeans are getting taller and taller—and Americans aren't." It focuses on the work of John Komlos and his colleagues and teacher Nobel Laureate Robert Fogel. "I first heard of the field of anthropometric history from John Komlos—the pope of the field, as one of his colleagues described him. Komlos, who is a professor at the University of Munich, has the look of an Old World tailor—sharp eyes, receding hairline, bottlebrush mustache—and the scholarly instincts of a born scavenger. For twenty years, he has rummaged through archives on both sides of the Atlantic, gathering hundreds of thousands of height records in search of trends that others may have missed." There is lots of interesting information. For example, "The Netherlands, as any European can tell you, has become a land of giants. In a century's time, the Dutch have gone from being among the smallest people in Europe to the largest in the world. The men now average six feet one—seven inches taller than in van Gogh's day—and the women five feet eight." *New Yorker*, April 5, 2004.

Siberia Bound is the entertaining story by Alexander Blakely, who learned about the glories of capitalism as a 1992 graduate of Swarthmore College and wishes to bring them to Siberia. It does not end well, as he discovers that the transition to capitalism involves gangsters as well as more conventional entrepreneurs. The book is subtitled, "Chasing the American Dream on Russia's Wild Frontier." ISBN 1-57071-944-6.

The February 24, 2004, issue of *Science* has a section on "Behavioral Evolution" that includes an article on "The Evolution of the Golden Rule" and is subheaded, "Humans and other primates have a keen sense of fairness and a tendency to cooperate, even when it does them no discernable good." The author Gretchen Vogel examines the work on reciprocity done by neuroscientists, economists and anthropologists. Herbert Gintis was a study coordinator of the playing of "the ultimatum game in 15 societies from around the world, from Peru to Papua New Guinea." He concludes, "What is considered to be fair varies from society to society, but the fact that people punish those who violate norms does not vary."

Mathias Risse and Richard Zeckhauser have written a provocative article on "Racial Profiling." They conclude, "Someday, when police abuse is ended and disproportionate screening of minorities has ceased, profiling will be moot as a moral issue. But for today, we must recognize that profiling disrupts the lives of

African Americans. Our argument that profiling might be justified, in both utilitarian and nonconsequentialist approaches, requires that other people would have a complaint if we did not strive strongly to reduce crime, including its lure to children. These harms are perceived on an uneven scale. Those hurt by profiling are readily identified; those protected by measures that fight crime are statistical figures. But to the extent that such people are protected, and numerous, arguments in support of profiling gain strength." *Philosophy and Public Affairs*, Spring 2004, 131–170.

Tina Rosenberg has written "What the World Needs Now is DDT." The subtitle asks: "Malaria kills millions of people every year. The careful use of DDT in developing countries could drastically reduce that number. So why are we standing in the way?" Her key point, "DDT killed bald eagles because of its persistence in the environment. 'Silent Spring' is now killing African children because of its persistence in the public mind." *New York Times Magazine*, April 11, 2004.

I received the following note from David Calvin Gogerty: "Since widgets are commonly referred to in many economics texts and articles as abstract examples of goods, some of your readers may be unaware that there are actual widgets. Enclosed is a widget—specifically a 'rocket widget' from a bottle of Guinness Draught. After the bottle has been emptied, the widget can be extracted without much difficulty, by moving the widget to the neck of the bottle and gripping one of the widget's fins with a pair of needle nose pliers." The Guinness promotional website explains this way: "Once the bottle is opened, the 'rocket widget' creates the famous surge and forms the signature creamy head right inside. Every time you take a drink from the bottle the 'rocket widget' refreshes the surge so that you get the perfect pint taste with every sip."

Henny Youngman's inexpensive solution to the health care crisis. "When I told my doctor I couldn't afford an operation, he offered to touch up my X-rays." "Thoughts on the Business Life," *Forbes*, March 1, 2004.

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