Journal of Economic Perspectives—Volume 13, Number 3—Summer 1999—Pages 227–234

Recommendations for Further Reading

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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. They may include survey articles, discussion of related subjects in which economists might have an interest, or analyses of economics from other perspectives. The intention is to publish a selective list of 15 to 20 articles per issue. 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 March 1999 issue of *Finance and Development*, published by the International Monetary Fund, begins with four articles concerning the economic prospects for Africa, which can be read as a useful complement to the symposium in this issue of *JEP*. In the first article, Alassane D. Ouattara vividly writes that Africa is at a crossroads: "On the one hand, it [Africa] could allow the forces of implosion and ethnic warfare to become the masters of its fate, to the advantage of a few potentates lacking in vision or warlords with transient alliances. Thus, history would repeat itself, with all the suffering that this entails, and this old continent would be at the mercy of all types of corruption. Africa would be stripped of the wealth of its soil and the promise of its youth and left marginalized, adrift in the wake of history.

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On the other hand, it could say no to marginalization and fully integrate itself into the great global village that the world has become in this Internet era. This would mean that its youth could build a future brimming with hope and every man and woman could participate in developing their nations, thereby ensuring both transparency in the management of public affairs and a sense of common destiny." Available at ⟨http://www.imf.org/fandd⟩.

"The Pendulum Swings—An Apt Analogy?" was the 1997 Northeastern Universities Development Consortium Conference Keynote Talk given by my colleague Larry E. Westphal. He makes a number of provocative statements including, "Let me be blunt: Do I think the world would be a better place if less-developed countries which were efficaciously able to do so could rely on infant industry protection? I most certainly do!" *World Development*, 1998, 26:12, pp. 2223–2230.

As a teacher of public finance, I often find it difficult to motivate much interest in the arcane details of the tax law. A useful example of widespread interest is "Tax Incentives for Higher Education," by Caroline M. Hoxby, in the 1998 volume of *Tax Policy and the Economy*, 12, pp. 49–81.

In "A Multifractal Walk Down Wall Street," Benoit B. Mandelbrot claims "that variations in financial prices can be accounted for by a model derived from my work in fractal geometry. Fractals—or their later elaboration, called multifractals—do not purport to predict the future with certainty. But they do create a more realistic picture of market risks. Given the recent troubles confronting the large investment pools called hedge funds, it would be foolhardy not to investigate models providing more accurate estimates of risk." *Scientific American*, February 1999, pp. 70–73.

Many undergraduate honors theses end up hidden in file drawers or library stacks, so it is heartwarming to see one published. "Pirated for profit" by Joshua Slive (on whose honors thesis this paper is based) and Dan Bernhardt sets out to explain "the seemingly low expenditures of manufacturers on anti-piracy measures." They discuss "how network externalities and price discrimination can be combined to explain the optimizing behavior of software manufacturers." *Canadian Journal of Economics*, October 1998, pp. 886–99.

Economics and Education

N. Gregory Mankiw describes his approach in "Teaching the Principles of Economics." "I emphasize three themes. First, in teaching microeconomics, the tools of welfare economics should play a larger role than they have in the past. Second, in teaching macroeconomics, classical ideas should play a larger role than they have in the past. Third, in teaching all parts of the course, we instructors should be sure to stress the important principles and be careful not to overwhelm students with an excess of detail." *Eastern Economic Journal*, Fall 1998, pp. 519–24.

In an article you do not want to share with your Board of Regents, T. Aldrich Finegan and John J. Siegfried explore the question, "Do Introductory Economics

Students Learn More If Their Instructor Has a Ph.D.?" They conclude, "[W]e find no significant difference in objective measures of learning between classes in macroeconomic principles taught by Ph.D.-holding instructors and similar classes taught by instructors with only an M.A. degree, while classes in micro principles taught by doctorate faculty learn substantially and significantly *less.*" *American Economist,* Fall 1998, pp. 34–46.

We have all told the story of how "[Jacob] Viner instructed his draftsman, Wong, to draw the long-run curve through the minimum points of the short-run average cost curves." In "The Viner-Wong Envelope Theorem," Eugene Silberberg uses some simple diagrams to illuminate the issues. *Journal of Economic Education,* Winter 1999, pp. 75–79.

From the Federal Reserve Banks

In "Slouching Toward Utopia," subtitled "What is the history of the twentieth century?" J. Bradford De Long gives us a foretaste of the book he is writing with the same name. De Long writes, "[T]he history of the twentieth century has been overwhelmingly economic history. The economy was the dominant arena of events, and economic changes were the driving force behind other changes, in a way rarely, if ever, seen before." He concludes, "One of the glories of the history of the twentieth century is that, although it has an extremely depressing middle, it seems to be moving more toward a (relatively) happy ending than a tragic one. We live in a (relatively) free and prosperous country and, compared to the past, a relatively free and prosperous world. We *are* slouching toward Utopia." *Regional Review: Federal Reserve Bank of Boston,* Q3, 1998, pp. 6–13.

Satyajit Chatterjee's short article "Real Business Cycles: A Legacy of Countercyclical Policies?" would be a useful addition to a macro reading list. From the abstract: "Satyajit Chatterjee discusses the possibility that countercyclical monetary and fiscal policies have played an important role in reducing the severity of business cycles since World War II but that additional countercyclical policies that try to offset movements in productivity aren't likely to be beneficial." *Business Review: Federal Reserve Bank of Philadelphia,* January/February 1999, pp. 17–27.

In "Monetary Policy and the Well-Being of the Poor," Christina D. Romer and David H. Romer argue, "[T]here are indeed important links between monetary policy and the well-being of the poor in both the short run and the long run, but that the short-run and long-run relationships go in opposite directions. Expansionary monetary policy aimed at rapid output growth is associated with improved conditions for the poor in the short run, but prudent monetary policy aimed at low inflation and steady output growth is associated with enhanced well-being of the poor in the long run." *Economic Review: Federal Reserve Bank of Kansas City,* First Quarter 1999, pp. 21–49.

David E. Runkle discusses "Revisionist History: How Data Revisions Distort Economic Policy Research." He concludes, "Initial views of economic activity at any particular time can differ substantially from what will become the historical views of that period. Consequently, anyone trying to understand recent economic history and the reaction of policymakers must be careful about which data they use. To have a good chance of understanding, they must use not the final data, but the data available initially, when the policy decisions were actually made." *Quarterly Review: Federal Reserve Bank of Minneapolis*, Fall 1998, pp. 3–11.

Many of us are members of credit unions or have the opportunity to join them. In recent years questions have arisen about their membership and taxation. For an interesting overview of the debate, see "Credit Union Issues," by Aruna Srinivasan and B. Frank King. *Economic Review: Federal Reserve Bank of Atlanta*, Third Quarter, 1998, pp. 32–41.

Stimulating Classroom Debates

Edmund S. Phelps argues that there are "two main surviving economic systems: capitalism, in which every would-be entrepreneur is free to enter the market and compete without favoritism, and corporatism, in which private corporate interests are reconciled and coordinated by the central government. The first is pluralistic, open; the other is cooperative, run by insiders. . . . [T]he corporatist economy is disequilibrium-prone because it steers capital to industries and firms viewed as prospective winners—while capitalists bet on diverse and even incompatible visions." Phelps concludes, "What the emerging-market nations need now is more capitalism, not less. The West will be right to demand that the so-called emerging market nations adopt the capitalist model for their own benefit and that of all members of the global economy." "The Global Crisis of Corporatism," *Wall Street Journal*, March 25, 1999, op-ed page.

In "Is the U.S. Income Gap Really a Big Problem?" Sylvia Nasar explores the views of Martin Feldstein and Finis Welch. For Feldstein, the causes of the income gap include increased returns to education and opportunities for entrepreneurship, longer hours for those who work the most and the stock market. "All these changes, Mr. Feldstein says, are in themselves positive, and tend to benefit some individuals without making others any worse off. By the Pareto criterion, that's a change for the better." Welch "points out that, while the market's uneven rewards for skills have caused the wage gap between high-paid and low-paid individuals in general to widen dramatically, they have also sharply narrowed the far more disturbing wage gaps between blacks and whites and between women and men." *New York Times*, April 4, 1999.

Robert H. Frank has written an (implicit) reply to Feldstein in "The Victimless Income Gap?" where he illustrates his conclusion: "[T]he plain truth is that expansion of the income gap causes trouble after all—even for middle class people who earn a little more than they used to." *New York Times*, April 12, 1999, op-ed page.

L. Randall Wray confronts some conventional wisdom about the budget in "Surplus Mania: A Reality Check." One of his conclusions is that "our economy cannot continue to grow robustly as the government sucks disposable income and wealth from the private sector by running surpluses. When the economy slows, the surpluses will disappear automatically—and because the private sector will eventually demand that the government stop draining income from the economy. Tax cuts will be rushed through Congress and the president will put forward spending initiatives." Levy Institute Policy Notes, 1999/3, on the web at ⟨http://www.levy.org⟩.

In "The Age-Adjusted Unemployment Rate: An Alternative Measure," Robert Horn and Philip Heap find "that, had the age and sex distribution of the labor force *not* changed since the last time the economy operated at less than 5 percent unemployment, the unemployment rate would have been between 0.4 and 0.5 percentage points higher than it currently is. . . . The objective [of this paper] is simply to maintain that the widely held view that the U.S. economy is operating at an unemployment rate below full employment is flawed. The unemployment rate is low in part because groups that have historically had below-average unemployment rates are today a larger share of the workforce than they were before. An aging population has contributed to the lowering of the unemployment rate." *Challenge*, January–February 1999, pp. 110–15.

"Sharing the Wealth" subtitled, "If We Shift the Tax Burden From Work to Waste, Everyone Benefits," aims at involving environmentalists in tax issues. "Few environmentalists give tax policy much attention, yet the tax code and budget policy in general may be the largest influences on conservation efforts. One tax break to the oil industry can create the opportunity and financial incentive to launch drilling expeditions in several sensitive habitats." By Brian Dunkiel, M. Jeff Hamond and Jim Motavalli, *E—The Environmental Magazine*, March/April 1999, pp. 28–35.

"Marketing Water Rights," by Lawrence J. MacDonnell, is subtitled, "A new trading system is developing in the American West to accommodate increasing demands for this scarce resource." *Forum for Applied Research and Public Policy*, Fall 1998, pp. 52–55.

About Famous Economists

The October 1998 *Review of Political Economy* is a "Special Issue to Commemorate the Centenary of the Birth of Piero Sraffa." From Gary Mongiovi's introduction: "The destructive impact of Sraffa's critical writings has tended to overshadow his equally important constructive agenda. The papers contained in this issue are offered as evidence of the vitality and scientific fecundity of the theoretical tradition Sraffa sought to revive."

Craufurd D. Goodwin has written a memoir, "Martin Bronfenbrenner, 1914–1997." I remember Bronfenbrenner as a kindly teacher. Goodwin writes: "Shortly before his death Martin explained succinctly with a series of points what he had believed over his lifetime in economics and what he had attempted to achieve." Among the points: "1. He resisted the rise of mathematical and statistical methods and relegation of the profession's 'humanists' to second class citizenship. . . . 3. He was a 'dissident monetarist' paying more attention than the true faithful to fluctuations in the demand for money. . . . 10. He was convinced that Karl Marx was 'probably the greatest secular social scientist of modern times'. He 'took Marx seriously without being himself a Marxist'." *Economic Journal,* November 1998, pp. 1775–1780.

In "Neglected Prophets Paul Davidson: The Truest Keynesian?" Richard P. F. Holt, J. Barkley Rosser Jr. and L. Randall Wray conclude, "And finally, there has been his 'holding their feet to the fire' by criticism of many of those who would be his allies, but whom he finds, rightly or wrongly, to be insufficiently Keynesian. Here is Paul Davidson's greatest weakness and also his greatest strength. As the truest Keynesian he becomes isolated and neglected in the purity of his viewpoint. At the same time, by clearly defining and holding a strongly-held position he may have a longer and more significant influence. In the future when people seek an interpreter of Keynes who gives them the real thing, aside from the writings of the master himself, it will be to the writings of Paul Davidson they will turn. In this sense, Paul Davidson, by losing in the short run, will win in the long run." *Eastern Economic Journal,* Fall 1998, pp. 495–506.

In "Economics and Institutions: The Socioeconomic Approach of K. William Kapp," Regine Heidenreich points out, "Kapp's understanding of social choice integrates the preliminaries of economic decision-making—for example, the genesis of preferences and the formulation of social optima. Thus, the idea of internalizing social costs by reflecting them in taxes or prices has to face the fact that social costs are socially constructed and depend on critical public debate and processes of (social) value formation. They may initiate institutions and enter the political process. Furthermore, they may even react on individual behavior just as they may change policy agendas." *Journal of Economic Issues,* December 1998, pp. 965–84.

In "Two Cheers For Formalism," Paul Krugman reminds us of Marshall's method. "(1) Use of mathematics as a shorthand language, rather than as an engine of inquiry. (2) Keep to them till you have done. (3) Translate into English. (4) Then illustrate by examples that are important in real life. (5) Burn the mathematics. (6) If you can't succeed in 4, burn 3." In its place Krugman suggests these rules: (1) Figure out what you think about an issue, working back and forth among verbal intuition, evidence, and as much as you need. (2) Stay with it till you are done. (3) Publish the intuition, the math, and the evidence—all three—in an economics journal. (4) But also try to find a way of expressing the idea without the formal apparatus. (5) If you can, publish that where it can do the world some good. "In short, two cheers for formalism—but reserve the third for sophisticated informality." *Economic Journal,* November 1998, pp. 1829–1836.

Keynesianism and the Keynesian Revolution in America: A Memorial Volume in Honour of Lorie Tarshis, edited by O. F. Hamouda and B. B. Price, makes fascinating reading for those interested in the development of economics in the 1950s. From the beginning of Paul Samuelson's essay, "Requiem for the classic Tarshis textbook that first brought Keynes to introductory economics:" "Many believe that *Economics* by Samuelson (1948) first brought Keynesian macroeconomics into the elementary textbook. They are wrong. That honour goes to Lorie Tarshis . . . It is a sad tragedy that this pioneering *tour de force* was killed in its first years largely by pre-Joseph McCarthy vicious pressures from the extreme and uninformed Right . . . My own 1948 textbook, no less and no more subversive than Tarshis', inadvertently received an unfair initial boost from the anti-Tarshis censorship pressures." ISBN 1-85898-559-5.

Economics in the Popular Press

The theologian Harvey Cox examines what he sees as a tendency to impute the attributes of God to the market. "I saw that in fact there lies embedded in the business pages an entire theology, which is comparable in scope if not in profundity to that of Thomas Aquinas or Karl Barth." "The Market as God: Living in the New Dispensation," *Atlantic Monthly*, March 1999, pp. 18–23.

Science has a "News Focus" by David Kestenbaum, "Death by the Numbers," subtitled: "Wall Street's math wizards got crushed last summer when a global panic broke out. Are they playing a zero-sum game, or will they rise to power again?" February 26, 1999, pp. 1244–1247.

In *Fortune*, Justin Fox asks, "What in the world happened to economics?" The subtitle answers: "Economists are all finally speaking the same language, but they still can't answer the big questions." After presenting an overview of economics since Keynes, the author turns to a discussion of "the response to the recent emerging-markets economic crises . . . Says Krugman: 'I've got a guess, Jeff Sachs has a guess, and Larry Summers is ruling the world.' Summers has a slightly more reassuring take: 'Ultimately there's no alternative to judgement—you can never get the answers out of some model. But the reason there are many, many more good economists in positions of influence in the world is that one can understand the issues more sharply and clearly, and can pose the tradeoffs and can make more accurate judgements within a clear analytic framework.'" March 15, 1999, pp. 91–102.

In "What Are the Rules, Anyway?" Becky Waring interviews Carl Shapiro and Hal Varian on the economics of selling information. *Technology Review*, March/April 1999, pp. 81–84.

David Barboza has a discussion of the views of Merton H. Miller (not to be confused with Nobel laureate and Long-Term Capital Management partner Robert C. Merton). "In [Miller's] view, Long-Term Capital demonstrated nothing more than that there are winners and losers—and that the losers can even own a Nobel medal. 'Knowledge of economics is no guarantee of financial success,' he said. 'They are two separate skills.'" He noted "that other great economists, including John Maynard Keynes, had to be bailed out of personal financial debacles." "A Wrestler for Market Freedom," *New York Times*, February 21, 1999, "Money and Business" section.

The Economist has published: "Our guide, with a table of the top five, to the best economic websites." They end with a joke from Pasi Kuoppamäki's site at ⟨http://netec.wustl.edu/JokEc.html⟩: "[A]n economist is someone who doesn't know what he's talking about—and makes you feel it's your fault." "Economics on the Net," March 13, 1999.

■ *I would like to thank Michael Anderson, John Caskey, William A. Darity Jr., Alan Krueger, Ellen Magenheim, Jonas Prager, and Timothy Taylor for their helpful suggestions.*