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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. They may include survey articles, discussion of related subjects in which economists might have an interest, or analyses of economics from other perspectives. 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

Alan S. Blinder concludes "How the Economy Came to Resemble the Model": "Decades ago, Paul Samuelson wrote of a 'neoclassical synthesis' in which proper application of macroeconomic stabilization policy would create the full-employment conditions necessary to validate neoclassical microeconomics. Well, to a first approximation, we have now achieved that neoclassical synthesis in the United States. Thus did the intellectual descendants of John Maynard Keynes pave the way for the worldwide comeback of Adam Smith." *Business Economics*, January 2000, 16–25.

I am always on the lookout for good accessible discussions of cost-benefit analyses like "Medical Research: What's It Worth?" by Kevin M. Murphy and Robert Topel. They conclude, "Our analysis suggests that, even after taking account of distorted incentives, the potential gains to medical advancement are enormous.

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

Even the prospect of very limited progress against killer diseases would easily justify current expenditures and most likely expenditures far above current levels." *Milken Institute Review*, First Quarter 2000, 23–30.

In "The Health and Wealth of Nations," David E. Bloom and David Canning point out, "The positive correlation between health and income per capita is one of the best-known relations in international development. This correlation is commonly thought to reflect a causal link running from income to health. . . . Recently, however, another intriguing possibility has emerged: that the health-income correlation is partly explained by a causal link running the other way—from health to income." *Science*, February 18, 2000, 1207–1209. The causalities running between health and income in a U.S. context were explored by James P. Smith in the Spring 1999 issue of this journal.

In "The Economics of Viagra," Alison Keith points out, "Viagra and its experience in the health care market raise questions as to where a line might be drawn between serious medical conditions and health-related quality of life, and whether such a borderline is even meaningful." She concludes, "An arbitrary distinction between health and lifestyle will be increasingly out of place as chronic conditions come to the fore with increasing prevalence, as populations age, and as new technologies emerge to treat or manage these conditions. If these new technologies are to be allowed to provide the benefits they promise, insurers must do a better job of aligning coverage decisions with their members' true valuation of the benefits—that is, their willingness to pay." *Health Affairs*, March/April 2000, 147–157.

In "The Centenarian Boom: Providing for Retirement in a Long-lived America," Henry J. Aaron begins, "More than one million centenarians will be living in the United States by the middle of this century. Not until 1960 were there more than one million Americans over age 85." Aaron concludes, "The emergence of a geriatric society will doubtless produce myriad social and personal problems. But it need not pose economic problems for the nation or for individuals provided that we make plans now to deal with it." *Brookings Review*, Spring 2000, 22–25.

Additional perspectives on the challenges posed by aging can be found in "Parental Care at Midlife: Balancing Work and Family Responsibilities near Retirement," by Richard W. Johnson and Anthony T. Lo Sasso. They report "findings from a recent Urban Institute study of the characteristics of persons in their fifties and early sixties who provide care to their elderly parents and the trade-offs that families face when they divide their time between the provision of informal care and paid work." Urban Institute, The Retirement Project, Brief No. 9, March 2000, at ⟨http://www.urban.org/retirement/index.htm⟩.

Richard H. Thaler concludes "The End of Behavioral Finance," "Behavioral finance is no longer as controversial a subject as it once was. As financial economists become accustomed to thinking about the role of human behavior in driving stock prices, people will look back at the articles published in the past 15 years and wonder what the fuss was about. I predict that in the not-too-distant future, the term 'behavioral finance' will be correctly viewed as a redundant phrase. What other kind of finance is there? In their enlightenment, economists will routinely incorporate as much 'behavior' into their models as they observe in the real world. After all, to do otherwise would be irrational." *Financial Analysts Journal*, November/ December 1999, 12–17.

"The Rise and Fall of Albania's Pyramid Schemes," by Christopher Jarvis, begins: "The pyramid scheme phenomenon in Albania is important because its scale relative to the size of the economy was unprecedented, and because the political and social consequences of the collapse of the pyramid schemes were profound." *Finance and Development*, March 2000, 46–49.

In his 1999 Presidential Address to the Western Economic Association, "Market Stability: Backward-Bending Supply In a Laboratory Experimental Market," Charles R. Plott points out, "[T]he central results of the study reflect a discovery about the nature of stability and the equilibration process in relation to classical models. The nature of market stability is not captured by market level aggregates such as market demand and market supply. The results . . . demonstrate that, in order to detect whether a market is stable, it is necessary to inquire about the reasons why the aggregates have particular shapes." *Economic Inquiry*, January 2000, 1–18.

I have recently come across an interesting quarterly, *Economic Intuition*. It focuses on one-page summaries of scholarly articles of wide interest. From the Winter 2000 issue, there are summaries of articles on "Stagflation in Reverse?" "What Drives Stock Splits?" and "The Economics of Obesity." It's at ⟨http://www.economicintuition.com⟩.

From the Federal Reserve

The Federal Reserve Bank of New York's *Economic Policy Review* for April 2000 is devoted to "Fiscal Policy in an Era of Surpluses: Economic and Financial Implications," which can be read as a useful complement to the "Symposium on Fiscal Policy" in this issue. I was especially interested in Darrell Cohen and Glenn Follette's article "The Automatic Fiscal Stabilizers: Quietly Doing Their Thing." They conclude, "perhaps the title and conclusion of our paper should be 'The Automatic Fiscal Stabilizers: Quietly *and Modestly* Doing Their Thing'." There is also an interesting "Commentary" by Olivier Blanchard.

Arthur Rolnick of the Federal Reserve Bank of Minneapolis has done a wide-ranging interview with Stanley Fischer of the IMF. As to moral hazard: "I should also add that I do not believe that the Asian crisis was a result of moral hazard . . . I believe moral hazard was a factor in the case of Russia, where investors could have believed that the country was too important to be allowed to fail." On applying economic theory: "To apply the knowledge gained from study and research later to policy is wonderful. . . . The base has to be simple macroeconomics, like the open economy IS-LM models for which Robert Mundell received the Nobel Prize." "An Interview with Stanley Fischer," *The Region*, December 1999.

Satyajit Chatterjee has written "From Cycles to Shocks: Progress in Business-

Cycle Theory." Students will enjoy this historical account that includes Slutsky, the Adelmans, and real business cycle theory. *Business Review*, Federal Reserve Bank of Philadelphia, March-April 2000, 27–37.

Ralph C. Kimball has written an excellent introduction to "Failures in Risk Management." He concludes, "A well-managed and well-capitalized banking system is thus requisite for avoiding systemic economic and financial crises." *New England Economic Review*, Federal Reserve Bank of Boston, January/February 2000, 3–12.

The goal of "An Introduction to Capital Controls," by Christopher J. Neely, "is to introduce *Review* readers to the debate on capital controls, to explain the purposes and costs of controls and why some advocate their reintroduction." The article concludes: "Although controls on capital flows may change the composition of flows, they impose substantial costs on the economy and cannot be used to indefinitely sustain inconsistent policies. Under most circumstances, it is better to attack the source of the distortion or inconsistent policy at the source rather than treating symptoms through capital controls." *Review*, Federal Reserve Bank of St. Louis, November/December 1999, 13–30.

Discussion Starters

Joseph Stiglitz lambasts recent policy decisions of the IMF and the U.S. Treasury in "What I Learned at the World Economic Crisis." He argues that policies of austerity imposed by the IMF and the U.S. Treasury worsened the east Asian economic crisis in 1997–98, and that policies of economic "shock therapy" imposed by the IMF and the U.S. Treasury have made Russia's transition away from communism more painful. Along the way, Stiglitz takes a number of shots at Washington decisionmakers, especially the IMF. On analytical methods: "The mathematical models the IMF uses are frequently flawed or out-of-date." On the quality of IMF staff: "[T]he IMF staff . . . frequently consists of third-rank students from first-rate universities. (Trust me: I've taught at Oxford University, MIT, Stanford University, Yale University, and Princeton University, and the IMF almost never succeeded in recruiting any of the best students.)" On the lack of openness in decision-making: "Smart people are more likely to do stupid things when they close themselves off from outside criticism and advice. . . . If the IMF and Treasury had invited greater scrutiny, their folly might have become much clearer, much earlier." *The New Republic*, April 17, 2000. Available on the web at ⟨http://www.tnr.com⟩. For spirited replies by Rudi Dornbusch, Alice Amsden and others, see the May 29, 2000, issue of *The New Republic*.

Stiglitz further discusses the problems in the economics of transition in "Quis Custodiet Ipsos Custodes?" which translates as "Who is to guard the guards themselves?" From the precis: Stiglitz "presents a detailed critique of Western reform proposals for transition economies, notably shock therapy. He believes institutional realities were ignored in light of substantial economic theory that suggests they are important." *Challenge*, November/December 1999, 26–67.

Edmund Phelps is the author of "Low Inflation. Low Unemployment. What Gives?" He writes: "As an inventor of the [NAIRU] model and developer of some of its recent advances, I believe that the model, far from flunking the test, provides an answer as to how employment soared without any rise in inflation." He concludes, "The new economy has been a test of the modern model. It confirms that the real forces of enterprise and finance—not money and banking—are the ultimate drivers of unemployment. It has contracted the natural rate through venerable market mechanisms, not any new rules. As this new economy goes from prospect to realization, these same mechanisms will work in reverse to send the natural rate back to some nonboom level. That is, until the good old economy creates the next wave of promising innovation." *Wall Street Journal*, Op-ed page, April 7, 2000.

The Nation has a symposium on "Globalization: Free Trade and the 'Starving Child' Defense: A Forum." Ajit Singh begins, "Globalization hurts both rich and poor countries." He concludes, "A global Keynesian regime of managed world trade and controlled capital movements, together with genuine international cooperation as well as more harmonious relations between employers, employees, and governments nationally, is more likely to deliver both fast and high-quality growth than the current globalization regime." April 24, 2000, 25–26.

"Capitalist Econstruction" by Chip Bayers is summarized, "Think beyond ecommerce: A new school of researchers envisions an economic revolution that will usher in a 24/7 global marketplace of true fluid markets, real dynamic pricing, and kick-ass shopbots." Much of the discussion is based on the work of Hal Varian and Charles Plott. *Wired*, March 2000, 210–218.

David W. Breneman begins his "Point of View" column, "The recent decision by Williams College to freeze tuition and fees for the 2000–1 academic year prompts reflections on the cockeyed economics of higher education—and just how hard it is to do the right thing in our enterprise." "A Tuition Freeze Accents the Cockeyed Economics of Higher Education." *Chronicle of Higher Education*, February 11, 2000, A64.

The Discipline of Economics and Famous Economists

"Three Nobel Laureates on the State of Economics: Interviews with Robert Solow, Kenneth Arrow, and Amartya Sen," appeared in *Challenge*. In response to a question about what economists have learned, Robert Solow replies, "The first thing you have to say about the last generation or so is that the availability of decent data, including large micro data sets, has improved dramatically." In response to a question on growth theory: "To tell you the truth, we have not learned a lot in the last twenty or twenty-five years other than the empirical facts." In response to a question on Keynesianism: "I started as a Keynesian, and I am still one—which is not to say that I have not learned." For questions on theoretical disappointments: "Formal game theory, although it has done quite a lot, has not quite lived up to what one might have hoped . . . [and] large econometric models have not lived up to expectations. They turned out to be much too complex." Arrow was asked, "Are there some conceptions that you held, say, in the 1950s, that you had to give up over time?" His reply, "Yes, indeed. One I was convinced of was the value of economic planning. . . . Experience has shown that we were too optimistic." When asked about the "most impressive achievements of economics in the last generation or two," Arrow replies, "To me, the biggest new concept in economics in the last thirty years is the development of the importance of information, along with the dispersion of information." Amartya Sen suggests: "It is quite important to integrate the lessons that emerge from economics, from politics, from sociology, anthropology, and even literature and cultural studies, not to mention philosophy." January/February 2000, 6–31.

The Fall 1999 issue of "the *Cato Journal* commemorates the 50th anniversary of Ludwig von Mises classic *Human Action* . . . and the 100th anniversary of F.A. Hayek's birth." The first essay, "Reflections on *Human Action* after 50 Years," by Vernon L. Smith (195–209), concludes: "Experimental economics, created in the 50 years since *Human Action*, is kind to the Austrians in enabling us to demonstrate that the spontaneous order, operating through property rights institutions, exhibits the desirable characteristics that the Austrians claimed for it. This power of demonstration is for me far more compelling than the appeal to reason, especially by Mises. Reason, after all, is also claimed to be on the side of state intervention, and that form of reason has a way of commanding people's minds because of its superficial correspondence with their experience, even as the systems created by it crumble about them, and they despair that all would be well if humans were not so greedy."

The January 2000 issue of the *American Journal of Economics and Sociology* has an essay by Frederic L. Pryor, "The Millennium Survey: How Economists View the U.S. Economy in the 21st Century," as well as comments by non-economist scholars. "Of the ten factors under consideration, the respondents to this survey believe that in the years between 2000 and 2025 the greatest deviation from current trends or values will occur for growth of per capita GDP, volatility of the financial system, and globalization."

Marc Nerlove has written "Transforming Economics: Theodore W. Schultz, 1902–1998, In Memoriam," in the November 1999 issue of the *Economic Journal* (F726–F748). In these days when tenure is under attack, it might do the younger generation of scholars some good to be reminded of Schultz's defense of academic freedom. Here is Nerlove's account:

> As chairman [of the Iowa State economics department] Ted not only attracted a group of distinguished young economists . . . but he encouraged and supported innovative research and extension activities. . . . Dairy producers battled the manufacturers of oleomargarine at that time and in the Midwest had succeeded in persuading the state legislatures to enact very restrictive legislation. In 1943, Brownlee, then a graduate student, had prepared an

> Experimental Station Report presenting evidence that margarine was comparable to butter nutritionally and much less wasteful of precious resources, scarce in time of war. The National Dairymen's Association mounted a massive campaign to have the report withdrawn or at least modified. The President of the College, Charles E. Friley, bent to the pressure and ordered that it be done. To Schultz this was a flagrant violation of the principles of academic freedom and of the obligation of land-grant colleges and universities to serve the common weal rather than special interests. He warned Friley that he and others would resign if Friley persisted. Friley did and, in 1943–44, Schultz and 15 others in the department decamped, Ted and Gale Johnson for Chicago, permanently, others for temporary refugee status there or elsewhere. Jacob Viner, who had himself suffered the slings and arrows of anti-Semitism and who knew well the value of academic freedom, is said to have made this possible.

Susan Houson begins her essay on James Meade by arguing that if, as Meade claimed, "'Maynard Keynes is without question to be numbered among the really great economists of all time', then James Meade is one of the really great economists of the twentieth century. International economics, in particular, has never been the same since his contributions, for which he was awarded the Nobel Memorial Prize in Economics . . ." Meade wrote in 1965, "'When I set to work on my "Theory of International Economic Policy" . . . I was already middle-aged, but still innocent. I thought that with a copious supply of paper and ink, great patience and perseverance, a clear head, goodwill, and a training in the methods of economic analysis one could derive from a very few simple realistic assumptions about men's behaviour a precise theory about the universally correct policy to adopt.' Now that he was older and wiser his 'present work . . . makes no claim to universality. It claims only to present a series of "models"—i.e. of economic systems, each built on greatly simplified assumptions about human motives, technology and social institutions—and to undertake in case a series of "exercises"—i.e. to examine the links of causal relationship in each case.'" *Economic Journal*, February 2000, F122–F145.

In "Charles Kennedy 1923–1997: An Appreciation," A. P. Thirwall writes, "Kennedy was one of the finest economic theorists of his generation. He made powerful contributions to several branches of economics, but he will be best remembered, perhaps, for his pioneering work in growth and distribution theory, with his invention of the innovation possibility frontier and the inspiration he gave to Sir John Hicks to write *Capital and Time*." *Economic Journal*, November 1999, F715–F725.

The *Chronicle of Higher Education* has a laudatory discussion of Michael Kremer's work entitled, "Of Elephants and O-Rings: an Economist's Unusual Views on Ivory, Taxes, and Population" and subtitled, "Michael Kremer's unconventional ideas attract a following and win him a full professorship at Harvard—at age 35." March 3, 2000, pp. A20+. Available on the Brookings Institution website at ⟨http://www.brook.edu/Views/Interviews/Kremer/chronicle.htm⟩.

The obituary "Life and Work of John Richard Nicholas Stone 1913–1991," by M. Hashem Pesaran and G. C. Harcourt, appears in the February 2000 issue of the *Economic Journal*. From the summary: "Sir Richard Stone, knighted 1978 and 1984 Nobel Laureate in Economics, was one of the pioneers of national income and social accounts, and one of the few economists of his generation to have faced the challenge of economics as a science by combining theory and measurement within a cohesive framework." They relate a wonderful anecdote. During World War II, Stone "was given the task of tracking the imports of neutral countries. This led him to making one of the most accurate predictions in the history of economic forecasting—only to have it ridiculed and himself reprimanded by 'the Italophile section of the Foreign Office'. In May 1940 he noticed that all Italian oil-tankers were making for neutral ports around the Atlantic. Dick calculated that they would have reached their intended destinations by June 10th and predicted—correctly—that Italy would declare war on that day. The Foreign Office response: 'Unfounded suspicions . . . Italy is a delightful country . . . firm friend . . . a Catholic country [which] needed a lot of paraffin for altar candles.'" F146–F165.

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