Journal of Economic Perspectives—Volume 21, Number 2—Spring 2007—Pages 239–246

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.

Smorgasbord

The United Nations Human Development Report 2006 focuses on the subject "Power, poverty, and the global water crisis." From the Foreword: "[M]ore than 1 billion people are denied the right to clean water and 2.6 billion people lack access to adequate sanitation. These headline numbers capture only one dimension of the problem. Every year some 1.8 million children die as a result of diarrhoea and other diseases caused by unclean water and poor sanitation. At the start of the 21st century unclean water is the world's second biggest killer of children. Every day millions of women and young girls collect water for their families—a ritual that reinforces gender inequalities in employment and education. Meanwhile, the ill health associated with deficits in water and sanitation undermines productivity and economic growth . . ." At ⟨http://hdr.undp.org/hdr2006/report.cfm⟩.

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

Richard E. Baldwin presented the 2006 World Economy Annual Lecture: "Multilateralising Regionalism: Spaghetti Bowls as Building Blocs on the Path to Global Free Trade." "World trade is regulated by a motley assortment of unilateral, bilateral, and multilateral trade agreements—a 'spaghetti bowl' of trade deals to use Jagdish Bhagwati's memorable turn of phrase. If anything, the future is likely to see the assortment getting motlier. . . . No one argues that this tangle of trade deals is the best way to organise world trade. The implication . . . is that taking the world to global duty-free trade will require a multilateralisation of the world's existing and emerging regionalism." In addressing how this might occur, Baldwin also provides a detailed discussion of the political economy of free trade around the world in the last half-century. *World Economy,* 2006, 29(11): 1451–1518.

Anthony J. Venables discusses "Shifts in Economic Geography and Their Causes." "We are currently in an area of globalization in which some economic activity is dispersing from existing centers, but what determines what sectors move and where the sectors go? . . . Answering these questions requires that we have a general theory of the location of economic activity, but this is an area that is not well served by mainstream economic theory. This theory is generally aspatial . . . Yet it is clear that spatial relationships remain important. There is a spatial clustering of rich countries and of poor countries. . . . [T]rade costs nearly 30 percent of the value of goods shipped. Gravity models of trade tell us that the elasticity of trade with respect to distance is in the range minus 0.9 to minus 1.5; this means that an 8000 km distance chokes off over 90 percent of the trade that would be observed over a 1000 km distance. Similar distance elasticities hold for other economic interactions such as equity holdings, foreign direct investment, and technology transfer." *Economic Review* (Federal Reserve Bank of Kansas City), Fourth Quarter 2006, pp. 61-95 Available at ⟨http://www.kc.frb.org/publicat/econrev/ermain.htm⟩.

The Committee on Capital Markets Regulation, an independent committee co-chaired by Glenn Hubbard and John Thornton, presented its "Interim Report" on November 30, 2006. From the "Highlights": "While some erosion of the historically immense U.S. market-share of global equity listings, trading and total equity financing is natural, it cannot fully explain why:

- 5% of the value of global initial public offerings was raised in the U.S. last year, compared to 50% in 2000.
- The U.S. share of total equity capital raised in the world's 10 top countries has declined to 27.9% so far this year from 41% in 1995. . . .
- Private equity firms, almost non-existent in 1980, sponsored more than $200 billion of capital commitments last year alone.
- Since 2003, private equity fundraising in the U.S. has even exceeded net cash flows into mutual funds and going private transactions have accounted for more than a quarter of publicly announced takeovers. The increased use of private markets disadvantages the average investor, who typically cannot participate in such markets.

• The dramatic increase in the use of private U.S. markets is important evidence that regulation and litigation are contributing to the flight of many companies from the public market."

The report offers a number of recommendations for reforms of regulation, law, and corporate governance. Available at ⟨http://capmktsreg.org⟩.

Jeromin Zettelmeyer presents "Growth and Reforms in Latin America: A Survey of Facts and Arguments." "If output evolves in line with projections for 2006, the recent recovery will have been Latin America's fastest three-year period of growth since the mid-1970s. In spite of these successes, however, there is dissatisfaction with the outcome of market reforms in many countries in the region. Some of this is because economic growth has not always reached those who need it most: although social indicators have significantly improved, income poverty has come down more slowly, and income inequality has increased in some countries. However, there is also dissatisfaction with the pace of growth itself . . . The purpose of this paper is to provide background to those who are grappling with the question of why Latin America has not enjoyed higher growth, in spite of its reform efforts." IMF Working Paper WP/06/120. September 2006. At ⟨http://www.imf.org/external/pubs/ft/wp/2006/wp06210.pdf⟩.

Arthur Woolf writes: "The September 2006 issue of *Finance and Development* is a special issue on the economics of demographics. . . . I found most of the short articles very illuminating and useful for an undergrad class." David E. Bloom and David Canning provide an overview of global demographic shifts in "Booms, Busts, and Echoes." "For much (and perhaps most) of human history, demographic patterns were fairly stable: the human population grew slowly, and age structures, birth rates, and death rates changed very little. . . . Over the past 140 years, however, this picture has given way to the biggest demographic upheaval in history, an upheaval that is still running its course. Since 1870 death rates and birth rates have been declining in developed countries. This long-term trend toward lower fertility was interrupted by a sharp, post–World War II rise in fertility, which was followed by an equally sharp fall. . . . In the developing world, reductions in mortality resulting from improved nutrition, public health infrastructure, and medical care were followed by reductions in birth rates. Once they began, these declines proceeded much more rapidly than they did in the developed countries. The fact that death rates decline before birth rates has led to a population explosion in developing countries over the past 50 years. . . . Even if the underlying causes of rapid population growth were to suddenly disappear, humanity would continue to experience demographic change for some time to come. . . . These changes have huge implications for the pace of economic development."

Another example from this issue is Jeffrey G. Williamson's "Global Migration": "Still, migrant demand for entrance into high-wage economies will not grow unabated. Indeed, it is unlikely to grow as fast over the next quarter century as it did in the previous quarter century. As the underlying *transitional* forces that have driven the surge in third-world emigration—their demographic and industrial revolutions—die out, so will the pressure to emigrate. That stage has already been reached in most of East Asia and much of Southeast Asia, regions that have completed their growth miracles. . . . My guess is that the next major shift in global migration will be a pronounced relative rise in migration *within* the third world (south–south migration) and a pronounced relative fall in migration *between* the third world and the west (south–north migration)." Available at ⟨http://www.imf.org/external/pubs/ft/fandd/fda.htm⟩.

Ross B. Emmett discusses "Malthus Reconsidered: Population, Natural Resources, and Markets." "The name Malthus is frequently invoked in modern environmental debates. Those who believe we are running out of resources and need to act swiftly to prevent an eventual population and environmental apocalypse are often called neo-Malthusians. . . . Countering this view is a group I call neo-institutionalists. . . . [T]hey believe that human ingenuity and the expansion of free markets have made the world a better place and reduced overpopulation to a minor problem, if it is a problem at all. They often criticize the neo-Malthusians . . . The reputation he [Malthus] carries today is a distortion of his population theory, a slant created by his nineteenth-century opponents. The re-examination of his ideas in this essay will show that his population principle was the starting point for a policy that promoted economic freedom. His outlook toward human progress was one of cautious optimism . . . Taken together, his ideas are closer to the neo-institutionalist position in the current debate than they are to the neo-Malthusian view." PERC Policy Series Number PS-38, December 2006. Available at ⟨http://www.perc.org⟩.

Daniel B. Klein and Stewart Dompe compile "Reasons for Supporting the Minimum Wage" in an article subtitled: "Asking Signatories of the 'Raise the Minimum Wage' Statement." From the website description: "Using an open-ended, non-anonymous questionnaire, Daniel Klein and Stewart Dompe asked 644 'raise the minimum wage' signatories about the specific mechanisms at work, possible downsides, and whether the minimum wage violates liberty. Ninety-five participated, including Barbara Bergmann, Margaret Blair, Alan Blinder, Barry Bosworth, Marianne Ferber, James K. Galbraith, Richard J. Gilbert, Robert Haveman, Kevin Lang, Frank Levy, Catherine Mann, Lawrence Mishel, James B. Rebitzer, Christopher Udry, Thomas Weisskopf, and Edward Wolff. Also featured is correspondence from Henry Aaron, Ronald Ehrenberg, and Robert Solow." *Econ Journal Watch,* January 2007, 4(1): 125–67. At ⟨http://www.econjournalwatch.org/⟩.

Economic Inequality

Alan Reynolds asks, "Has U.S. Income Inequality Really Increased?" He answers, "In sum, studies based on tax return data provide highly misleading comparisons of changes to the U.S. income distribution because of dramatic changes in tax rules and tax reporting in recent decades. Aside from stock option windfalls during the late-1990s stock-market boom, there is little evidence of a significant or sustained increase in the inequality of U.S. incomes, wages, consumption, or wealth over the past 20 years." Cato Institute Policy Analysis No. 586. January 8, 2007. At ⟨http://www.cato.org/pub_display.php?pub_id=6880⟩.

The February 2007 issue of *Cato Unbound*, "Interrogating Inequality," then offers a follow-up essay by Reynolds with responses from discussants. Gary Burtless argues: "I take seriously some of Reynolds's criticisms of the data on income disparities. . . . Reynolds points to some serious problems, and in many cases fair-minded experts will agree with him. The problem is, he is strongly critical of data series that do not support his views, while he is usually silent about equal or more serious problems with data sets that show little change in inequality. Rather than do the hard work needed to measure the effect of particular data problems, he cherry-picks evidence to attack researchers whose results he finds displeasing." Mark A. Thoma offers other arguments that income inequality is still rising. Richard Burkhauser explains his position that inequality is rising only modestly. Dirk Krueger and Fabrizio Perri argue that rather than looking at income inequality, one might examine the more central question of lifetime economic resources. At ⟨http://www.cato-unbound.org/archives/february-2007⟩.

Janet L. Yellen gave the 2006–2007 Economics of Governance Lecture at the Center for the Study of Democracy at the University of California at Irvine on the topic, "Economic Inequality in the United States." "[A]n interesting twist on the story has occurred during the last decade, when rapid productivity growth raised the real wages of workers throughout the distribution for the first time since the 1960s. During this period . . . real wages of the lowest earners—the 10th percentile—actually rose somewhat faster than those in the middle of the distribution. The consequence was that wage inequality among those in the bottom half of the distribution, which had been widening throughout the 1980s, diminished during the 1990s. At the same time, real wages at the upper end continued to soar. . . . Among the 30 OECD countries, the U.S. ranks above only Mexico, Korea, and Ireland in gross public social expenditures as a share of GDP spending, and it does the least to target government taxes and transfers towards moving families out of poverty." *FRBSF Economic Letter*, No. 2006-33-34, December 1, 2006. At ⟨http://www.frbsf.org/news/speeches/2006/1106.html⟩.

The Congressional Budget Office reports on "Changes in Low-Wage Labor Markets Between 1979 and 2005." "Workers' hourly wage rates near the bottom of the wage distribution fell by 10 percent during the 1980s but rose by more than the typical wage rate between 1990 and 2005. . . . What, then, explains the changes in the bottom half of the wage distribution? They are accounted for by changes in the distribution of wages among workers who appear similar, on the basis of their level of education, age, and sex. That 'within-group' dispersion accounted for more than two-thirds of the increased wage dispersion in the 1980s. In the 1990s, by contrast, the within-group dispersion in wages decreased enough to offset the tendency toward greater dispersion that resulted from the continued increases both in workers' education levels and in the premiums paid to educated and experienced workers." December 2006. Available at ⟨http://www.cbo.gov⟩.

"The World Distribution of Household Wealth" is estimated by James B. Davies, Susanna Sandstrom, Anthony Shorrocks, and Edward N. Wolff. From the website: "The most comprehensive study of personal wealth ever undertaken also reports that the richest 1% of adults alone owned 40% of global assets in the year 2000, and that the richest 10% of adults accounted for 85% of the world total. In contrast, the bottom half of the world adult population owned barely 1% of global wealth. The research finds that assets of $2,200 per adult placed a household in the top half of the world wealth distribution in the year 2000. To be among the richest 10% of adults in the world required $61,000 in assets, and more than $500,000 was needed to belong to the richest 1%, a group which—with 37 million members worldwide—is far from an exclusive club." World Institute for Development Economics Research of the United Nations University. December 5, 2006. Available at ⟨http://www.wider.unu.edu/research/2006-2007/2006-2007-1/wider-wdhw-launch-5-12-2006/wider-wdhw-press-release-5-12-2006.htm⟩.

About Economists

In "Milton Friedman, 1912–2006," Brian Snowdon and Howard R. Vane provide an overview of Friedman's career and his contributions to economic analysis. They start by quoting Friedman from a 1997 interview: "Life as an economist has been a source of much pleasure and satisfaction. It is a fascinating discipline. What makes it most fascinating is that its fundamental principles are so simple that they can be written on one page, that anybody can understand them, and yet that very few do." They conclude: "Friedman's extensive critique of the cruder elements of Keynesian macroeconomics and interventionist microeconomics played a crucial role in swinging the tide of opinion away from an endless march toward excessively *dirigiste* economic policies. Furthermore, this shift led to a worldwide movement towards greater faith in markets and greater suspicion of the power of governments to replace markets or to easily correct market failures." *World Economics*, October/December 2006, 7(4): 1–48.

Douglas Clement offers "An Interview with David Card," which is full of intriguing comments on skill-biased technical change, unions, immigration, returns to education, and the minimum wage. "During the early 1990s, when Alan [Krueger] and I were working on minimum wages, it was our perception that many low-wage employers had had vacancies for months on end. Actually many fast-food restaurants had policies that said, 'Bring in a friend, get him to work for us for a week or two and we'll pay you a $100 bonus.' These policies raised the question to us: Why not just increase the wage? From the perspective of a search paradigm, these policies make sense, but they also mean that each employer has a tiny bit of monopoly power over his or her workforce. As a result, if you raise the minimum wage a little—not a huge amount, but a little—you won't necessarily cause a big employment reduction. . . . I believe that that model of the labor market is correct. There are frictions in the market and some imperfect information. It doesn't mean that if we raised the minimum wage to $20 an hour we wouldn't have massive problems, if we enforced it. . . . I think economists who objected to our work were upset by the thought that we were giving free rein to people who wanted to set wages everywhere at any possible level. And that wasn't at all the spirit of what we actually said. In fact, nowhere in the book or in other writing did I ever propose raising the minimum wage. I try to stay out of political arguments." *The Region* (Federal Reserve Bank of Minneapolis), December 2006, pp. 10–21. At ⟨http://www.minneapolisfed.org/pubs/region/06-12/card.cfm⟩.

Aaron Steelman conducted an "Interview" with Martin Baily. "One of the things that has happened is that wages used to be determined institutionally but that is much less true today. Unions were much more important than they are now. Corporations had fairly standard compensation schedules for their mid-level employees. And even at the upper levels, the salaries of a CEO or CFO were largely determined by historical patterns. Over the last 20 years, we have had a much more competitive economy, in all regards. This has led companies to change the way they determine compensation for their employees. Instead of setting wages by institutional means, companies are really fighting for talented people, and this has driven up their salaries quite dramatically." . . . "I would give the Clinton administration credit for embracing change and being willing to stand up to interest groups that wanted to restrict trade and pursue other counterproductive interventions. You can certainly criticize particular measures, but on balance, it was a very good record. One of my colleagues said, 'Bill Clinton baby-sat the U.S. economy into the 21st century.'" *Region Focus* (Federal Reserve Bank of Richmond), Fall 2006, pp. 46–51. Available at ⟨http://www.richmondfed.org/publications/economic_research/region_focus/index.cfm⟩.

Discussion Starters

Emily Oster writes "Three Things You Don't Know about Aids in Africa." "1. It's the wrong disease to attack." (That is, attacking other sexually transmitted diseases would reduce the spread of AIDS in a cost-effective manner.) "2. It won't disappear until poverty does." "3. There is less of it than we thought, but it's spreading as fast as ever." *Esquire*, December 2006, 146(6). At ⟨http://www.esquire.com/features/ESQ1206BOWEN_206_2⟩.

"Executives have enjoyed an astonishing pay bonanza. Edward Carr explains why most of them deserved it" in another fine middle-of-the-issue survey in the *Economist* magazine. "Most—but not all—of the money that companies have spent on executive pay has represented the price of attracting and motivating the best managers. This has often been obscured by the politics of pay, and by some sensational abuses. Pay has risen largely because of shifts in the market for executive talent, which are part of a more general transfer of rewards to high achievers in many professions. The strategic decision in America to motivate managers as capitalists, using equity-based long-term incentives, was right in principle and has been widely copied across the world. Too many options were granted during the bull market, mainly thanks to an excess of euphoria and, in America, a misconceived accounting policy that has since been put right." January 20, 2007, pp. 1–20.

Teachers looking for another illustration of overvalued and undervalued exchange rates might check the Commsec iPod index, which compares the cost of buying a two-gigabite Apple iPod nano in 26 countries around the world. With prices converted at market exchange rates, the price in January 2007 ranged from about $150 in the United States, Canada, and Mexico to over $200 in France, Sweden, and India, and a whopping $327 in Brazil. "The CommSec iPod index," January 19, 2007. At ⟨http://www.comsec.com.au/public/news.aspx?id=809⟩.

Michael Munger puzzles over the situation of people forbidden to sell ice at higher prices after Hurricane Fran in 1996 in "They Clapped: Can Price-Gouging Laws Prohibit Scarcity?" "Someone must have made a call, because two Raleigh police cars and an unmarked car pulled up to the Five Points truck after about an hour. The officers talked to the sellers, talked to some buyers, still holding their ice, and confirmed that the price was much higher than the "correct" price of $1.75 (the cost of a bag of ice before the storm). The officers did their duty, and arrested the yahoos. Apparently the truck was then driven to the police impoundment lot in downtown Raleigh, as evidence. The ice may or may not have melted (accounts vary), but it certainly was not given out to citizens. And now we are back to where I started: the citizens, the prospective buyers being denied a chance to buy ice . . . *they clapped.* Clapped, cheered, and hooted, as the vicious ice sellers were handcuffed and arrested. Some of those buyers had been standing in line for five minutes or more, and had been ready to pay 4 times as much as the maximum price the state would allow. And they clapped as the police, at gunpoint, took that opportunity away from them. . . . I am completely stumped by the clapping." January 8, 2007. Available at the Library of Economics and Liberty, ⟨http://www.econlib.org/LIBRARY/Columns/y2007/Mungergouging.html⟩.

■ *Thanks to Larry Willmore and others for suggestions, and also to Jesse Dylan Keith for checking quotations and citations.*