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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, with occasional exceptions, 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

C. Randall Henning and Martin Kessler discuss "Fiscal Federalism: US History for Architects of Europe's Fiscal Union." They discuss how Alexander Hamilton pushed for a plan under which the federal government took over state debts in 1790—a pattern that would then be maintained for a half-century. "[T]he debt assumption of 1790 set a precedent that endured for several decades. The federal government assumed the debt of states again after the War of 1812 and then for the District of Columbia in 1836. . . . This pattern was broken in the 1840s, when eight states plus Florida, then a territory, defaulted. . . . The indebted states petitioned Congress to assume their debts, citing the multiple precedents. British and Dutch creditors, who held 70 percent of the debt on which states later defaulted, pressed the federal government to cover the obligations of the states. They argued that the federal government's guarantee, while not explicit, had been implied. Prices of

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the bonds of even financially sound states fell and the federal government was cut off from European financiers in 1842. . . . John Quincy Adams evidently believed that another war with Britain was likely if state debts were not assumed by the federal government. . . . However, on this occasion Congress rejected the assumption petition . . . Eventually, most states repaid all or most of their debt as a condition for returning to the markets. . . . The rejection of debt assumption established a "no bailout" norm on the part of the federal government. The norm is neither a 'clause' in the US Constitution nor a provision of federal law. Nevertheless, whereas no bailout request had been denied by the federal government prior to 1840, no such request has been granted since, with one special exception [the District of Columbia in the 1970s] . . . During the 1840s and 1850s, states adopted balanced budget amendments to their constitutions or other provisions in state law requiring balanced budgets. This was true even of financially sound states that had not defaulted and their adoption continued over the course of subsequent decades, so that eventually three-fourths of the states had adopted such restrictions." Available here as Working Paper 12-1 from the Peterson Institute for International Economics, January 2012, at ⟨http://www.iie.com/publications/wp/wp12-1.pdf⟩ and the Breugel Essay and Lecture Series, January 2012, ⟨http://www.bruegel.org/download/parent/669-fiscal-federalism-us-history-for-architects-of-europes-fiscal-union/file/1537-fiscal-federalism-us-history-for-architects-of-europes-fiscal-union/⟩.

Edward Glaeser and Jacob Vigdor document and discuss "The End of the Segregated Century: Racial Separation in America's Neighborhoods, 1890–2010." "Segregation has declined steadily from its mid-century peak, with significant drops in every decade since 1970. As of 2010, the separation of African-Americans from individuals of other races stood at its lowest level in nearly a century. Fifty years ago, nearly half the black population lived in what might be termed a "ghetto" neighborhood, with an African-American share above 80 percent. Today, that proportion has fallen to 20 percent." "There is every reason to relish the fact that there is more freedom in housing today than 50 years ago and to applaud those who fought to create that change. Yet we now know that eliminating segregation was not a magic bullet. Residential segregation has declined pervasively, as ghettos depopulate and the nation's population center shifts toward the less segregated Sun Belt. At the same time, there has been only limited progress in closing achievement and employment gaps between blacks and whites." Manhattan Institute for Policy Research, Civic Report No. 66, January 2012. At ⟨http://www.manhattan-institute.org/pdf/cr_66.pdf⟩.

Cass B. Sunstein, now serving as Administrator of the Office of Information and Regulatory Affairs within the Office of Management and Budget, provides an overview of "Empirically Informed Regulation." "In recent years, a number of social scientists have been incorporating empirical findings about human behavior into economic models. These findings offer useful insights for thinking about regulation and its likely consequences. . . . Relevant research suggests that four such approaches have particular promise: (1) using disclosure as a regulatory tool, especially if disclosure policies are designed with an appreciation of how people process information; (2) simplifying and easing choices through appropriate default rules, reduction of complexity and paperwork requirements, and related strategies; (3) increasing the salience of certain factors or variables; and (4) promoting social norms through private–public partnerships and other approaches that operate in the service of agreed-upon public goals. . . . But even if the standard accounts of potential market failures are supplemented, it does not necessarily follow that more regulation is justified. . . . Indeed, some of the findings might argue in favor of less rather than more regulation. . . . It should not be necessary to acknowledge that public officials are subject to error as well. Indeed, errors may result from one or more of the findings traced above; officials are human and may also err. The dynamics of the political process may or may not lead in the right direction. It would be absurd to say that empirically informed regulation is more aggressive than regulation that is not so informed, or that an understanding of recent empirical findings calls for more regulation rather than less. The argument is instead that such an understanding can help to inform the design of regulatory programs." *University of Chicago Law Review*, Fall 2011, vol. 78, no. 4, pp. 1349–1429. At ⟨http://lawreview.uchicago.edu/sites/lawreview.uchicago.edu/files/uploads/78_4/Sunstein_Essay.pdf⟩.

Alan B. Krueger, now serving as Chairman of the Council of Economic Advisers, has given a speech on "The Rise and Consequences of Inequality in the United States." "Not since the Roaring Twenties has the share of income going to the very top reached such high levels. The magnitude of these shifts is mindboggling. The share of all income accruing to the top 1% increased by 13.5 percentage points from 1979 to 2007. This is the equivalent of shifting $1.1 trillion of *annual* income to the top 1 percent of families. Put another way, the increase in the share of income going to the top 1% over this period exceeds the total amount of income that the entire bottom 40 percent of households receives." "Countries that have a high degree of inequality also tend to have less economic mobility across generations. . . . While we will not know for sure whether, and how much, income mobility across generations has been exacerbated by the rise in inequality in the U.S. until today's children have grown up and completed their careers . . . the persistence in the advantages and disadvantages of income passed from parents to the children is predicted to rise by about a quarter for the next generation as a result of the rise in inequality that the U.S. has seen in the last 25 years." January 12, 2012. At ⟨http://www.whitehouse.gov/sites/default/files/krueger_cap_speech_final_remarks.pdf⟩.

Ruth Towse provides an overview of "What We Know, What We Don't Know, and What Policy-makers Would Like Us to Know about the Economics of Copyright." "Almost all economists are agreed that the copyright term is now inefficiently long with the result that costs of compliance most likely exceed any financial benefits from extensions (and it is worth remembering that the term of protection for a work in the 1709 Statute of Anne was 14 years with the possibility of renewal as compared to 70 years plus life for authors in most developed countries in the present, which means a work could be protected for well over 150 years)." "Copyright could become more similar to a patent by having an initial term of protection of a work, say of 20 years, renewable for further terms. . . . The advantage of this is twofold: it enables a 'use it or lose it' regime to function and, more relevant to the economics of copyright, it enables the market to function better in valuing a work (the vast majority of works, as we know, are anyway out of print because they are deemed to have no commercial value while the copyright is still valid); knowing that renewal would be necessary would also alter contractual terms between creators and intermediaries, thereby improving the efficiency of contracting and the prospect of fairer contracts." *Review of Economic Research on Copyright Issues*, December 2011, vol. 8, no. 2, pp. 101–120. At ⟨http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2024588⟩.

Philip Turner asks "Is the Long-term Interest Rate a Policy Victim, a Policy Variable or a Policy Lodestar?" "From the mid-1950s to the early 1980s, this aggregate [debt of domestic US non-financial borrowers—governments, corporations, and households] was remarkably stable—at about 130% of GDP. It was even described as the great constant of the US financial system. The subcomponents moved about quite a bit—for instance, with lower public sector debt being compensated by higher private debt. But the aggregate itself seemed very stable. During the 1980s, however, this stability ended. Aggregate debt rose to a new plateau of about 180% of GDP in the United States. At the time, this led to some consternation in policy circles about the burden of too much debt. It is now about 240% of GDP. Leverage thus measured—that is, as a ratio of debt to income—has increased. Very many observers worry about this. Whatever the worries, lower rates do make leveraged positions easier to finance. Once account has been taken of lower real interest rates, debt servicing costs currently are actually rather modest . . . "The concluding note of caution is this: beware of the consequences of sudden movements in yields when long-term rates are very low. . . . A change of 48 basis points in one month . . . would have a larger impact when yields are 2% than when they are 6%. With government debt/GDP ratios set to be very high for years, there is a significant risk of instability in bond markets." Bank of International Settlements, BIS Working Papers No. 367, December 2011. At ⟨http://www.bis.org/publ/work367.pdf⟩.

Complements to JEP Articles

Adeel Malik and Bassem Awadallah discuss "The Economics of the Arab Spring." "During the period 1996–2006, labour force in Middle East and North Africa has grown three times as much annually as in the rest of the developing world, resulting in one of the largest rates of youth unemployment in the world." "The state in most Arab economies is the most important economic actor, eclipsing all independent productive sectors. . . . The state-centred development paradigm rests on an uninterrupted flow of external windfalls. In fact, many of the region's pathologies—whether it is a weak private sector, segmented labor markets, or limited regional trade—are ultimately rooted in an economic structure that relies overwhelmingly on rents derived from fuel exports, foreign aid or remittances. Reliance on such unearned income streams is the 'original sin' for Arab economies." Center for the Study of

African Economies, University of Oxford, CSAE WPS/2011-23, December 2011. 〈http://www.csae.ox.ac.uk/workingpapers/pdfs/csae-wps-2011-23.pdf〉. This article makes a useful complement to the article by Filipe R. Campante and Davin Chor in this issue.

The Congressional Budget Office has published "Comparing the Compensation of Federal and Private-Sector Employees." "Overall, the federal government paid 2 percent more in total wages than it would have if average wages had been comparable with those in the private sector, after accounting for certain observable characteristics of workers. . . . On average for workers at all levels of education, the cost of hourly benefits was 48 percent higher for federal civilian employees than for private-sector employees with certain similar observable characteristics . . . The most important factor contributing to differences between the two sectors in the costs of benefits is the defined-benefit pension plan that is available to most federal employees. . . . Overall, the federal government paid 16 percent more in total compensation than it would have if average compensation had been comparable with that in the private sector, after accounting for certain observable characteristics of workers." January 2012. At 〈http://www.cbo.gov/sites/default/files/cbofiles/attachments/01-30-FedPay.pdf〉. The CBO results and discussion with regard to federal workers are qualitatively similar, and complementary, to the article by Maury Gittleman and Brooks Pierce in the Winter 2012 issue of this journal, "Compensation for State and Local Government Workers."

The Federation of American Scientists have published a collection of essays under the title *The Future of Nuclear Power*, edited by Charles D. Ferguson and Frank A. Settle. In Chapter 2, Stephen Maloney offers "A Critical Examination of Nuclear Power's Costs." "Since the nuclear industry's inception more than 50 years ago, its forecasts for costs have been consistently unreliable. The 'first generation' plants, comprising both prototype reactors and the standard designs of the 1950s–1960s, failed to live up to promised economics. This trend continued with the construction of Generation II plants completed in the 1970s, which make up the present nuclear fleet. . . . Nuclear plant construction costs escalated approximately 24 percent per calendar year compared to 6 percent annual escalation for coal plants. . . . The scale-up of nuclear plants brought less than half the economic efficiencies projected." More recently, "In June 2006, a consortium of companies announced plans to build two more reactors at the South Texas Project site for an estimated cost of $5.2 billion. NRG, the lead company, made history by becoming the first company to file an application with the NRC. CPS Energy, a municipal utility, was one of its partners. In October 2007, CPS Energy's board approved $206 million for preliminary design and engineering. In June 2009, NRG revised the estimate to $10 billion for the two reactors, including finance charges. A few weeks later, this estimate rose to $13 billion, including finance charges. Later that year, the estimate reached $18.2 billion . . ." February 2012. At 〈http://www.fas.org/pubs/_docs/Nuclear_Energy_Report-lowres.pdf〉. The report offers a useful supplement to the paper by Lucas W. Davis, "Prospects for Nuclear Power," in the Winter 2012 issue of this journal.

Inflation and Hyperinflation

Janet Koech gives chapter and verse on "Hyperinflation in Zimbabwe." "From 2007 to 2008, the local legal tender lost more than 99.9 percent of its value." "Hyperinflation and economic troubles were so profound that by 2008, they wiped out the wealth of citizens and set the country back more than a half century. In 1954, the average GDP per capita for Southern Rhodesia was US$151 per year (based on constant 2005 U.S.-dollar purchasing power-parity rates). In 2008, that average declined to US$136, eliminating gains over the preceding 53 years . . ." "The *Economic Times* newspaper noted on June 13, 2008, that "a loaf of bread now costs what 12 new cars did a decade ago," and "a small pack of locally produced coffee beans costs just short of 1 billion Zimbabwe dollars. A decade ago, that sum would have bought 60 new cars." In early 2009, the economy dollarized: "While the South African rand, Botswana pula and the U.S. dollar were granted official status, the U.S. dollar became the principal currency. Budget revenue estimates and planned expenditures for 2009 were denominated in U.S. dollars, and the subsequent budget for 2010 was also set in U.S. dollars. An estimated four-fifths of all transactions in 2010 took place in U.S. dollars, including most wage payments . . ." *Annual Report of the Globalization and Monetary Policy Institute*, Federal Reserve Bank of Dallas. At ⟨http://www.dallasfed.org/assets/documents/institute/annual/2011/annual11b.pdf⟩.

Phil Davies writes about "Taking the Measure of Prices and Inflation," subtitled "A century of evolution—and near-constant criticism—has greatly improved price indexes. But work continues to perfect these closely-watched economic indicators." "In 1904, the federal Bureau of Labor (forerunner of the BLS) published a monthly index of retail food prices gleaned from 800 merchants in large industrial centers. The index, covering the past 13 years, priced 30 principal food items and weighted them according to average consumption. Within a few years, the food price index reflected data gathered from over 1,000 retail establishments in 40 states. . . . Intent on setting equitable wages for factory workers vital to the war effort, the National War Labor Board in 1918 called upon the BLS to produce nationwide data on the 'cost of living'; changes over time in this index would indicate how much household income would have to change to maintain roughly the same standard of living. The stated goal of this exercise: '[I]nsure the subsistence of the worker and his family in health and reasonable comfort.'. . . Over the next two years, BLS agents fanned out across the country to collect prices for about 145 consumer products and services. Price takers carefully specified items to make pricing of identical or similar items easier in future surveys and surveyed about 12,000 working-class families in 42 states to gather information about income and consumption patterns. In 1919, the bureau released the first comprehensive set of cost-of-living indexes for 31 major industrial and shipbuilding centers. Thereafter, updated indexes were issued semiannually for individual cities (Washington, D.C., was added in 1921) and the nation as a whole." The essay also discusses how price indexes have sought to address "quality change, consumer substitution and technological innovation," and the differences between the Consumer Price Index and the Personal Consumption Expenditure as measures of inflation. *The Region*, Federal Reserve Bank of Minneapolis, December 2011, pp. 28–38. At ⟨http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4792⟩.

Collections on a Theme

The Fall 2011 issue of *The Future of Children* features nine article on the theme "Work and Family." From a description of the paper by Suzanne M. Bianchi, "Changing Families, Changing Workplaces": "The share of married mothers in the labor force has risen from a little over a quarter in 1960 to more than 70 percent today. During the 1960s, only 10 percent of mothers were at work within three months of giving birth; by the early years of the twenty-first century that figure had risen to over 40 percent, with 64 percent of women back at work within twelve months after a birth. Labor force participation rates are now nearly as high among women with preschool-aged children as they are among those with school-aged children. Over the same period, the share of children living with a single parent has grown sharply. Today about one-quarter of families with children are headed by single parents . . ." Alison Earle, Zitha Mokomane, and Jody Heymann discuss "International Perspectives on Work-Family Policies: Lessons from the World's Most Competitive Economies." From the "Summary": "Using indicators of competitiveness gathered by the World Economic Forum, the authors identify fifteen countries, including the United States, that have been among the top twenty countries in competitiveness rankings for at least eight of ten years. . . . They find that every one of these countries, except the United States, guarantees some form of paid leave for new mothers as well as annual leave. And all but Switzerland and the United States guarantee paid leave for new fathers. . . . The majority of these countries provide paid leave for new mothers, paid leave for new fathers, paid leave to care for children's health care needs, breast-feeding breaks, paid vacation leave, and a weekly day of rest. Of these, the United States guarantees only breast-feeding breaks (part of the recently passed health care legislation)." The journal is at ⟨http://futureofchildren.org/⟩.

The Winter 2012 issue of the *Cato Journal* has a dozen articles on the subject "Is Immigration Good for America?" For example, Giovianni Peri presents the case for why immigration of low-wage labor has little effect on wages of natives. "In summary, an economy will respond to immigration along several margins—through increased investment by firms, specialization of natives, complementarities between natives and immigrants, technological response by firms, and job creation. . . . This explains why a long tradition of empirical economic studies has found very small to no effect of U.S. immigration on native wages and employment at the national and at the local level." The issue is available at ⟨http://www.cato.org/pubs/journal/cj32n1/cj32n1.html⟩.

Discussion Starters

Juha Siikamäki inquires into "State Parks: Assessing Their Benefits." "Valuing recreation time monetarily requires determining the opportunity cost of time. To illustrate the potential magnitude of recreation's time value, I used a conventional and commonly adopted approach where recreation time is valued at one-third the wage rate. . . . Extrapolating from the above results, I estimate about 33 percent of current time use for nature recreation can be attributed to the U.S. state park system. This equals annually about 9.7 hours of nature recreation per capita, or about 2.2 billion hours of nature recreation in total in the United States. The estimated time value of nature recreation generated by the entire U.S. state park system is about $14 billion annually (about $62 per person annually, on average). . . . That value is considerably larger than the annual operation and management costs of state parks." *Resources*, from Resources for the Future, 2012, no. 179, pp. 28–33. At ⟨http://www.rff.org/Publications/Resources/Pages/179-Parks.aspx⟩.

Charles Morris asks "What Should Banks Be Allowed To Do?" "Under the criterion for permissible activities stated above, banking organizations would be able to conduct the following activities: commercial banking, investment banking . . . and asset and wealth management. Investment banking and asset and wealth management are mostly fee-based services that do not put much of a firm's capital at risk. In addition, asset and wealth management are similar to the trust services that always have been allowed for banks. In contrast, the other three categories—dealing and market making, brokerage services, and proprietary trading—have little in common with core banking services and create risks that are difficult to assess, monitor, and control. Banking organizations would be restricted from activities that involve trading, including customer trading. While allowing customer trading might seem reasonable, it would make restrictions on proprietary trading difficult to enforce because the securities inventory used to facilitate customer trading cannot be easily distinguished from proprietary assets." *Economic Review*, Federal Reserve Bank of Kansas City, Fourth Quarter 2011, pp. 55–80. At ⟨http://www.kc.frb.org/publicat/econrev/pdf/11q4Morris.pdf⟩.