

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, 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 email at taylor@macalester.edu, or c/o *Journal of Economic Perspectives*, Macalester College, 1600 Grand Ave., Saint Paul, Minnesota, 55105.

Potpourri

The theme for the *2013 World Development Report* from the World Bank is one word: “Jobs.” “To many, a ‘job’ brings to mind a worker with an employer and a regular paycheck. Yet, the majority of workers in the poorest countries are outside the scope of an employer–employee relationship. Worldwide, more than 3 billion people are working, but their jobs vary greatly. Some 1.65 billion are employed and receive regular wages or salaries. Another 1.5 billion work in farming and small household enterprises, or in casual or seasonal day labor. Meanwhile, 200 million people, a disproportionate share of them youth, are unemployed and actively looking for work. Almost 2 billion working-age adults, the majority of them women, are neither working nor looking for work, but an unknown number of them are eager to have a job. . . . The problem for most poor people in these

■ *Timothy Taylor is Managing Editor, Journal of Economic Perspectives, based at Macalester College, Saint Paul, Minnesota. He blogs at <http://conversableeconomist.blogspot.com>.*

countries is not the lack of a job or too few hours of work; many hold more than one job and work long hours. Yet, too often, they are not earning enough to secure a better future for themselves and their children, and at times they are working in unsafe conditions and without the protection of their basic rights. Jobs are instrumental to achieving economic and social development. Beyond their critical importance for individual well-being, they lie at the heart of many broader societal objectives, such as poverty reduction, economy-wide productivity growth, and social cohesion. The development payoffs from jobs include acquiring skills, empowering women, and stabilizing post-conflict societies.” October 2012. At <http://econ.worldbank.org/wdr>.

The Congressional Budget Office has calculated “Effective Marginal Tax Rates for Low- and Moderate-Income Workers.” “The effective marginal tax rate is the percentage of an additional dollar of earnings that is unavailable to a worker because it is paid in taxes or offset by reductions in benefits from government programs. . . . When lawmakers target assistance to people of limited means, that assistance declines as income rises. . . . The Congressional Budget Office (CBO) finds that working taxpayers with income below 450 percent of federal poverty guidelines (commonly known as the federal poverty level, so abbreviated as FPL) face a marginal tax rate of 30 percent, on average, under the provisions of law in effect in 2012. . . . Over the next two years, CBO estimates, various provisions of current law will cause marginal tax rates among this population to rise, on average, to 32 percent in 2013 and to 35 percent in 2014. CBO also finds that under provisions of law in effect between 2012 and 2014, marginal tax rates vary greatly across earnings ranges and among individuals within the same earnings range.” November 2012. At <http://www.cbo.gov/sites/default/files/cbofiles/attachments/11-15-2012-MarginalTaxRates.pdf>.

The World Economic Forum has published *The Global Enabling Trade Report 2012*, a group of essays with the overall theme of “Reducing Supply Chain Barriers.” In chapter 1.1, Robert Z. Lawrence, Sean Doherty, and Margareta Drzeniek Hanouz (who are also the editors of the report) sum up the growing importance of global supply chains in this way: “Traded commodities are increasingly composed of intermediate products. Reductions in transportation and communication costs and innovations in policies and management have allowed firms to operate global supply chains that benefit from differences in comparative advantage among nations, both through international intra-firm trade and through networks that link teams of producers located in different countries. Trade and foreign investment have become increasingly complementary activities. . . . Increasingly, countries specialize in tasks rather than products. Value is now added in many countries before particular goods and services reach their final destination, and the traditional notion of trade as production in one country and consumption in another is increasingly inaccurate.” May 2012. At http://www3.weforum.org/docs/GETR/2012/GlobalEnablingTrade_Report.pdf.

Most economists occasionally face the existential question: Is more GDP good? In response, Nicholas Oulton has written “Hooray for GDP!” Oulton addresses, and critiques, four arguments against focusing on GDP: “1) GDP is hopelessly flawed

as a measure of welfare. It ignores leisure and women's work in the home. It takes no account of pollution and carbon emissions. 2) GDP ignores distribution. In the richest country in the world, the United States, the typical person or family has seen little or no benefit from economic growth since the 1970s. But over the same period inequality has risen sharply. 3) Happiness should be the grand aim of policy. But the evidence is that, above a certain level, a higher material standard of living does not make people any happier. . . . 4) Even if higher GDP were a good idea on other grounds, it's not feasible because the environmental damage would be too great." Oulton does not attempt an exhaustive review, but provides a selective sampling of the arguments and evidence. Occasional paper 30, Centre for Economic Performance, London School of Economics and Political Science, August 2012. At <http://cep.lse.ac.uk/pubs/download/occasional/op030.pdf>.

The October 2012 issue of *Nature Biotechnology* offers several articles that "Focus on Commercializing Biomedical Innovations." From the opening "Editorial": "Investment in biomedical innovation is not what it once was. Millions of dollars have fled the life sciences risk capital pool. . . . Never has there been a more pressing need to look beyond the existing pools of funding and talent to galvanize biomedical innovation." In one of the papers, Jose-Maria Fernandez, Roger M. Stein, and Andrew W. Lo offer a proposal for "Commercializing Biomedical Research through Securitization Techniques." "Industry professionals cite the existence of a 'valley of death'—a funding gap between basic biomedical research and clinical development. For example, in 2010, only \$6–7 billion was spent on translational efforts, whereas \$48 billion was spent on basic research and \$127 billion was spent on clinical development that same year. . . . We propose an alternative for funding biomedical innovation that addresses these issues through the use of 'financial engineering'. . . . Our approach involves two components: (i) creating large diversified portfolios—'megafunds' on the order of \$5–30 billion—of biomedical projects at all stages of development; and (ii) structuring the financing for these portfolios as combinations of equity and securitized debt so as to access much larger sources of investment capital. These two components are inextricably intertwined: diversification within a single entity reduces risk to such an extent that the entity can raise assets by issuing both debt and equity, and the much larger capacity of debt markets makes this diversification possible for multi-billion-dollar portfolios of many expensive and highly risky projects." The issue is available at <http://www.nature.com/nbt/journal/v30/n10/full/nbt.2400.html>. The Fernandez, Stein, and Lo paper is at <http://www.nature.com/nbt/journal/v30/n10/full/nbt.2374.html>.

Sri Wening Handayani and Babken Babajanian have edited a collection of essays for the Asian Development Bank on the topic *Social Protection for Older Persons: Social Pensions in Asia*. As one example, Sharifa Begum and Dharmapriya Wesumperuma provide an "Overview of the Old Age Allowance Programme in Bangladesh." "[E]ven a low pension level can have a meaningful impact on the lives of older people and their families. The pension level in Bangladesh is very low (at \$4.50 per month) and there is a strong argument for increasing it. Nevertheless, the impacts of the pension so far have been far from negligible. . . . [T]he

social pension appears to benefit women more than men. This particularly relates to impacts on health and psychosocial well-being. . . . In theory, the relatively high coverage of the social pension means that it should be able to cover the most-poor elderly. However, a large portion of the beneficiaries (20%–40%) do not actually meet the eligibility criteria. Meanwhile, some of the most vulnerable older people miss out. . . . [W]orking with the private sector for pension payments appears to have some benefits, though . . . a number of issues have arisen through this delivery mechanism. These include . . . issues of long queues on payday and some cases of malpractice of banking staff. Other countries in Asia considering the use of banks in delivering social pensions and other cash transfers would do well to assess how these issues can be overcome.” July 2012. <http://www.adb.org/publications/social-protection-older-persons-social-pensions-asia>.

As world population climbs toward a projected nine billion or so by mid-century, can agricultural productivity keep up? Keith Fuglie and Sun Ling Wang offer some thoughts in “New Evidence Points to Robust But Uneven Productivity Growth in Global Agriculture.” “Improving agricultural productivity has been the world’s primary safeguard against a recurring Malthusian crisis—where the needs of a growing population outstrip the ability of man and resources to supply food. Over the past 50 years, global gross agricultural output has more than tripled in volume, and productivity growth in agriculture has enabled food to become more abundant and cheaper. In inflation-adjusted dollars, agricultural prices fell by an average of 1 percent per year between 1900 and 2010, despite an increase in the world’s population from 1.7 billion to nearly 7.0 billion over the same period. Nonetheless, food prices have been rising since around 2001. This has renewed concerns about the pace of agricultural productivity growth. . . . Perhaps the single, most important factor separating countries that have successfully sustained long-term productivity growth in agriculture from those that have not is their capacity for agricultural R&D. . . . Recent research has identified a number of other factors that account for cross-country differences in agricultural TFP [total factor productivity]. Improvements in what can broadly be characterized as the ‘enabling environment’ have encouraged the adoption of new technologies and practices by some countries; these include policies that improve economic incentives for producers, strengthen rural education and agricultural extension services, and improve rural infrastructure and access to markets.” *Amber Waves*, September 2012, published by the US Department of Agriculture, Economic Research Service, <http://www.ers.usda.gov/amber-waves/2012-september/global-agriculture.aspx>.

As low-income countries become better off, they typically raise their poverty lines, as Martin Ravallion points out in “A Relative Question.” “For example, China recently doubled its national poverty line from 90 cents a day to \$1.80 (adjusted to reflect constant 2005 purchasing power). Other countries—including Colombia, India, Mexico, Peru, and Vietnam—have also recently revised their poverty lines upward. . . . It would not be fair to the more than 1 billion people who still live on less than \$1.25 a day to abandon the emphasis on fighting absolute poverty. Eliminating such extreme poverty must remain the global development community’s number one priority. But the world is changing rapidly. The convergence in living

standards across the globe is accompanied by emerging convergence in our ideas about what poverty means . . . New poverty targets will undoubtedly emerge that reflect these new perceptions.” *Finance & Development*, December 2012, pp. 40–42. <http://www.imf.org/external/pubs/ft/fandd/2012/12/ravallion.htm>.

International Reserves

Edwin Truman offers “Reflections on Reserve Management and International Monetary Cooperation.” “At the end of 2011, international reserve assets alone amounted to 17 percent of world GDP and an average of 29 percent of the national GDP of emerging market and developing countries. . . . Including the international assets of SWFs [sovereign wealth funds] and similar entities would boost those percentages substantially above 20 percent and close to 40 percent respectively. . . . [E]nhancement of cooperative arrangements in this area is falling behind the need for them in the face of the explosion of the size and number of significant public investors, bringing in many non-traditional investors. This is a global issue. The notion that a country’s public investments are the exclusive concern of the country itself is analytically wrong and fundamentally dangerous. Two countries (at least) share an exchange rate. Similarly, two countries (at least) share the effects of cross-border public investments. . . . The alternative to increased cooperation on public sector investment policies is a currency war. . . . The greater risk is that restrictions and barriers will increase affecting not only cross-border official investments, but all cross-border financial transactions. Once we start down that path, a trade war would not be difficult to envisage, and the consequences for global growth and stability could be severe.” Remarks delivered at the World Bank/Bank for International Settlements Joint Fourth Public Investors’ Conference, December 3, 2012. <http://www.iie.com/publications/papers/truman20121203.pdf>.

The Independent Evaluation Office of the International Monetary Fund offers a contrasting view in “International Reserves: IMF Concerns and Country Perspectives.” “There was a common view among country authorities that the IMF tended to underestimate the benefits of reserves. Thinking about the tradeoff between costs and benefits of reserves, country officials often mentioned a range of benefits that they considered important but were not easily incorporated into either single indicators or formal models. In addition to precautionary self-insurance (also emphasized by the Fund), they mentioned other important advantages: reserves provide a country with reliability of access and the policy autonomy to act quickly, flexibly, and counter cyclically, and, as was evident during the global crisis, they inspire confidence. Reserves have also allowed authorities to avoid the stigma associated with approaching the Fund for resources—an issue that is very much alive in a number of countries. . . . Moreover, factors other than reserve accumulation—notably the leverage-induced fluctuations in global liquidity, inadequate financial sector regulation, and capital flow volatility—are more pertinent sources of concern for systemic resiliency.” August 13, 2012. At http://www.ieso-imf.org/ieso/files/completedevaluations/IR_Main_Report.pdf.

Issues in Manufacturing

The McKinsey Global Institute has published, *Manufacturing the Future: The Next Era of Global Growth and Innovation*. “The role of manufacturing in the economy changes over time. Empirical evidence shows that as economies become wealthier and reach middle-income status, manufacturing’s share of GDP peaks (at about 20 to 35 percent of GDP). Beyond that point, consumption shifts toward services, hiring in services outpaces job creation in manufacturing, and manufacturing’s share of GDP begins to fall along an inverted U curve. Employment follows a similar pattern: manufacturing’s share of US employment declined from 25 percent in 1950 to 9 percent in 2008. In Germany, manufacturing jobs fell from 35 percent of employment in 1970 to 18 percent in 2008, and South Korean manufacturing went from 28 percent of employment in 1989 to 17 percent in 2008. As economies mature, manufacturing becomes more important for other attributes, such as its ability to drive productivity growth, innovation, and trade. Manufacturing also plays a critical role in tackling societal challenges, such as reducing energy and resource consumption and limiting greenhouse gas emissions. . . . Manufacturing continues to make outsize contributions to research and development, accounting for up to 90 percent of private R&D spending in major manufacturing nations. The sector contributes twice as much to productivity growth as its employment share, and it typically accounts for the largest share of an economy’s foreign trade; across major advanced and developing economies, manufacturing generates 70 percent of exports.” November 2012. At http://www.mckinsey.com/insights/mgi/research/productivity_competitiveness_and_growth/the_future_of_manufacturing.

Joe Mahon presents an “Interview: Susan Houseman on Measuring Manufacturing Productivity.” “I still see a lot of analysts who say, ‘Look at how fast manufacturing is growing; manufacturing output is growing faster than GDP. There’s nothing wrong; manufacturing is doing great.’ But we find that without the computer industry, growth in manufacturing real value added falls by two-thirds and productivity growth falls by almost half. It doesn’t look like a strong sector without computers. That’s the first point. The second point . . . is that there’s been a lot of growth in manufacturers’ use of foreign intermediate inputs since the 1990s, and most of those inputs come from developing and low-wage countries where costs are lower. We point out that those lower costs aren’t being captured by statistical agencies, and so, as a result, the growth of those imported inputs is being undercounted.” *fedgazette*, Federal Reserve Bank of Minneapolis, October 2012. At http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=4982. Houseman presented a more detailed version of these arguments in a paper with Christopher Kurz, Paul Lengermann, and Benjamin Mandel, “Offshoring Bias in U.S. Manufacturing,” which appeared in the Spring 2011 issue of this journal.

Antonio Regalado interviews Ricardo Hausman in “You Must Make the New Machines.” “The step that makes the most sense for the U.S. is to become the producer of the machinery that will power the next global manufacturing revolution. That is where the most complex and sophisticated products are, and that is the work that can pay higher wages. . . . My guess is that developments around

information technology, 3-D printing, and networks will allow for a redesign of manufacturing. The world will be massively investing in it. The U.S. is well positioned to be the source of those machines. It can only be rivaled by Germany and Japan.” *MIT Technology Review*, January 4, 2013. At <http://www.technologyreview.com/news/509281/you-must-make-the-new-machines/>.

Some Nobel Laureates

Each year when the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel is awarded, the Prize Committee posts useful background information. This year’s “Information for the Public” is titled “Stable Matching: Theory, Evidence, and Practical Design.” It begins: “This year’s Prize to Lloyd Shapley and Alvin Roth extends from abstract theory developed in the 1960s, over empirical work in the 1980s, to ongoing efforts to find practical solutions to real-world problems. Examples include the assignment of new doctors to hospitals, students to schools, and human organs for transplant to recipients. Lloyd Shapley made the early theoretical contributions, which were unexpectedly adopted two decades later when Alvin Roth investigated the market for U.S. doctors. His findings generated further analytical developments, as well as practical design of market institutions.” Available at http://www.nobelprize.org/nobel_prizes/economics/laureates/2012/popular-economicsciences2012.pdf. A more detailed “Scientific Background” paper titled “Stable Allocations and the Practice of Market Design” is available at http://www.nobelprize.org/nobel_prizes/economics/laureates/2012/advanced-economicsciences2012.pdf, October 15, 2012.

Elinor Ostrom gave the Hayek Memorial Lecture at the Institute for Economic Affairs on the topic: “The Future of the Commons: Beyond Market Failure and Government Regulation.” Here’s Ostrom: “Challenge one, as I mentioned, is the panacea problem. A very large number of policymakers and policy articles talk about ‘the best’ way of doing something. For many purposes, if the market was not the best way people used to think that it meant that the government was the best way. We need to get away from thinking about very broad terms that do not give us the specific detail that is needed to really know what we are talking about. We need to recognise that the governance systems that *actually have worked in practice* fit the diversity of ecological conditions that exist in a fishery, irrigation system or pasture, as well as the social systems. There is a huge diversity out there, and the range of governance systems that work reflects that diversity. We have found that government, private and community-based mechanisms all work in some settings. People want to make me argue that community systems of governance are always the best: I will not walk into that trap. There are certainly very important situations where people can self-organise to manage environmental resources, but we cannot simply say that the community is, or is not, the best; that the government is, or is not, the best; or that the market is, or is not, the best. It all depends on the nature of the problem that we are trying to solve.” The Institute of Economic Affairs has published her lecture as part of a short e-book, together with several useful supporting essays. Chapter 3

in *The Future of the Commons: Beyond Market Failure and Government Regulation*, by Elinor Ostrom, with contributions from Christina Chang, Mark Pennington, and Vlad Tarko. 2012. At <http://www.iea.org.uk/sites/default/files/publications/files/IEA%20Future%20of%20the%20Commons%20web%2029-1.10.12.pdf>.

The Society for Economic Dynamics has a short, delightful interview with Robert Lucas in its newsletter, *Economic Dynamics*. Lucas says: “My paper, ‘Econometric Policy Evaluation: A Critique’ was written in the early 70s. Its main content was a criticism of specific econometric models—models that I had grown up with and had used in my own work. These models implied an operational way of extrapolating into the future to see what the ‘long run’ would look like. . . . Of course every economist, then as now, knows that expectations matter but in those days it wasn’t clear how to embody this knowledge in operational models. . . . But the term ‘Lucas critique’ has survived, long after that original context has disappeared. It has a life of its own and means different things to different people. Sometimes it is used like a cross you are supposed to use to hold off vampires: Just waving it at an opponent defeats him. Too much of this, no matter what side you are on, becomes just name calling.” November 2012. At <http://www.economicdynamics.org/News271.htm#interview>.

Discussion Starters

Like many economists, I’m always on the lookout for analysis of the benefits, costs, and tradeoffs of life’s difficult questions. Thus, I was delighted to run across “The Hygienic Efficacy of Different Hand-Drying Methods: A Review of the Evidence,” by Cunrui Huang, Wenjun Ma, and Susan Stack. Based on a review of 12 studies, paper towels clearly win out over regular air dryers, jet air dryers, and cloth rollers for preventing the spread of germs, for consumer preference, and for noise prevention, while other issues like environmental impact are essentially a wash between the alternatives. August 2012 issue of the *Mayo Clinic Proceedings*, 87(8): 791–98. At <http://www.mayoclinicproceedings.org/article/S0025-6196%2812%2900393-X/fulltext>.

Bartow J. Elmore traces “The American Beverage Industry and the Development of Curbside Recycling Programs, 1950–2000.” From the abstract: “Many people today consider curbside recycling the quintessential model of eco-stewardship, yet this waste-management system in the United States was in many ways a polluter-sponsored initiative that allowed corporations to expand their productive capacity without fixing fundamental flaws in their packaging technology. For the soft-drink, brewing, and canning industries, the promise of recycling became a powerful weapon for combating mandatory deposit bills and other source-reduction measures in the 1970s and 1980s.” *Business History Review*, Autumn 2012, 86(3): 477–501.

■ *Thanks to Larry Willmore for his suggestions.*