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

International Trade

The *World Investment Report 2013* from UNCTAD (the UN Conference on Trade and Development) has the theme "Global Value Chains: Investment and Trade for Development." "About 60 per cent of global trade, which today amounts to more than $20 trillion, consists of trade in intermediate goods and services that are incorporated at various stages in the production process of goods and services for final consumption." "For instance, even the relatively simple GVC [global value chain] of Starbuck's (United States), based on one service (the sale of coffee), requires the management of a value chain that spans all continents; directly employs 150,000 people; sources coffee from thousands of traders, agents and contract farmers across the developing world; manufactures coffee in over 30 plants, mostly in alliance with partner firms,

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usually close to final market; distributes the coffee to retail outlets through over 50 major central and regional warehouses and distribution centres; and operates some 17,000 retail stores in over 50 countries across the globe. This GVC has to be efficient and profitable, while following strict product/service standards for quality. It is supported by a large array of services, including those connected to supply chain management and human resources management/development, both within the firm itself and in relation to suppliers and other partners. The trade flows involved are immense, including the movement of agricultural goods, manufactured produce, and technical and managerial services." At http://unctad.org/en/PublicationsLibrary/wir2013_en.pdf.

The *World Trade Report 2013* from the World Trade Organization has the theme "Factors Shaping the Future of World Trade." "Measured in gross terms, the dollar value of world merchandise trade increased by more than 7 per cent per year on average between 1980 and 2011, reaching a peak of US$ 18 trillion at the end of that period. Trade in commercial services grew even faster, at roughly 8 per cent per year on average, amounting to some US$ 4 trillion in 2011. . . . Developing economies only accounted for 34 per cent of world exports in 1980 but by 2011 their share had risen to 47 per cent, or nearly half of the total. . . . Improvements in transport, telecommunications and information technology, together with increased economic integration and greater trade openness, have resulted in higher levels of technological diffusion and increased mobility and accumulation of productive factors over time. As a result, countries have become less specialized in the export of particular products, and therefore more similar in terms of their export composition. Comparative advantage, or international differences in relative efficiencies among products, has become weaker over time in many countries." At http://www.wto.org/english/res_e/publications_e/wtr13_e.htm.

Arvind Subramanian and Martin Kessler discuss "The Hyperglobalization of Trade and Its Future." "This paper describes seven salient features of trade integration in the 21st century: Trade integration has been more rapid than ever (hyperglobalization); it is dematerialized, with the growing importance of services trade; it is democratic, because openness has been embraced widely; it is criss-crossing because similar goods and investment flows now go from South to North as well as the reverse; it has witnessed the emergence of a mega-trader (China), the first since Imperial Britain; it has involved the proliferation of regional and preferential trade agreements and is on the cusp of mega-regionalism as the world's largest traders pursue such agreements with each other; and it is impeded by the continued existence of high barriers to trade in services." Peterson Institute for International Economics, July 2013, Working Paper 13-6, http://www.iie.com/publications/wp/wp13-6.pdf.

The Bank of International Settlements has published the "Triennial Central Bank Survey," subtitled "Foreign Exchange Turnover in April 2013: Preliminary Global Results." "Trading in foreign exchange markets averaged $5.3 trillion per day in April 2013. This is up from $4.0 trillion in April 2010 and $3.3 trillion in April 2007. . . . The US dollar remained the dominant vehicle currency; it was on one side of 87% of all trades in April 2013. The euro was the second most traded currency, but its share fell to 33% in April 2013 from 39% in April 2010. The turnover of the Japanese yen increased significantly between the 2010 and 2013 surveys. So too did that of several emerging market currencies, and the Mexican peso and Chinese renminbi entered the list of the top 10 most traded currencies." September 2013, http://www.bis.org/publ/rpfx13fx.pdf.

Lecture Notes

Alan Krueger spoke at the Rock and Roll Hall of Fame on "Rock and Roll, Economics, and Rebuilding the Middle Class." He used the music industry as a microcosm for technological trends that have led to greater income inequality in recent decades. "I want to highlight four factors that are important in generating a superstar economy. These are technology, scale, luck and an erosion of social norms that compress prices and incomes. All of these factors are affecting the music industry. . . . Technological changes through the centuries have long made the music industry a super star industry. Advances over time including amplification, radio, records, 8-tracks, music videos, CDs, iPods, etc., have made it possible for the best performers to reach an ever wider audience with high fidelity. And the increasing globalization of the world economy has vastly increased the reach and notoriety of the most popular performers. They literally can be heard on a worldwide stage. But advances in technology have also had an unexpected effect. Recorded music has become cheap to replicate and distribute, and it is difficult to police unauthorized reproductions. This has cut into the revenue stream of the best performers, and caused them to raise their prices for live performances. My research suggests that this is the primary reason why concert prices have risen so much since the late 1990s. In this spirit, David Bowie once predicted that 'music itself is going to become like running water or electricity,' and, that as a result, artists should 'be prepared for doing a lot of touring because that's really the only unique situation that's going to be left.' While concerts used to be a loss leader to sell albums, today concerts are a profit center.' June 12, 2013, at http://www.whitehouse.gov/blog/2013/06/12/rock-and-roll-economics-and-rebuilding-middle-class/.

Raghuram Rajan delivered the Andrew Crockett Memorial Lecture at the Bank of International Settlements, titled "A Step in the Dark: Unconventional Monetary Policy after the Crisis." "Two competing narratives of the sources of the crisis, and attendant remedies, are emerging. The first, and the better known diagnosis, is that demand has collapsed because of the high debt build up prior to the crisis. . . . But there is another narrative. And that is that the fundamental growth capacity in industrial countries has been shifting down for decades now, masked for a while by debt-fuelled demand. More such demand, or asking for reckless spending from emerging markets, will not put us back on a sustainable path to growth. Instead, industrial democracies need to improve the environment for growth. The first narrative is the standard Keynesian one, modified for a debt crisis. It is the one most government officials and central bankers, as well as Wall Street economists, subscribe to, and needs little elaboration. The second narrative, in my view, offers a deeper and more persuasive view of the blight that afflicts our times." Rajan argues that central banks took the right actions during the financial crisis, but that the wisdom of the ultra-low interest rate policies in the aftermath of the crisis are not yet clear. "Churchill could well have said on the subject of unconventional monetary policy, 'Never in the field of economic policy has so much been spent, with so little evidence, by so few'. Unconventional monetary policy has truly been a step in the dark." June 23, 2013, at http://www.bis.org/events/agm2013/sp130623.htm.

Potpourri

An IMF staff team led by Bernardin Akitoby offers some thoughts on "Reassessing the Role and Modalities of Fiscal Policy in Advanced Economies." "The prevailing consensus before the crisis was that discretionary fiscal policy had a limited role to play in fighting recessions. The focus of fiscal policy in advanced economies was often on the achievement of medium- to long-run goals such as raising national saving, external rebalancing, and maintaining long-run fiscal and debt sustainability given looming demographic spending pressures. For the management of business cycle fluctuations, monetary policy was seen as the central macroeconomic policy tool. . . . While debate continues, the evidence seems stronger than before the crisis that fiscal policy can, under today's special circumstances, have powerful effects on the economy in the short run. In particular, there is even stronger evidence than before that fiscal multipliers are larger when monetary policy is constrained by the zero lower bound (ZLB) on nominal interest rates, the financial sector is weak, or the economy is in a slump. Earlier research often assumed that the impact of fiscal policy was similar across different states of the economy, but a number of recent empirical studies suggest that fiscal multipliers may be larger during periods of slack." September 2013, IMF Policy Paper at http://www.imf.org/external/np/pp/eng/2013/072113.pdf.

The Congressional Budget Office discusses "Rising Demand for Long-Term Services and Supports for Elderly People." "By 2050, one-fifth of the total U.S. population will be elderly (that is, 65 or older), up from 12 percent in 2000 and 8 percent in 1950. The number of people age 85 or older will grow the fastest over the next few decades, constituting 4 percent of the population by 2050, or 10 times its share in 1950. That growth in the elderly population will bring a corresponding surge in the number of elderly people with functional and cognitive limitations. . . . On average, about one-third of people age 65 or older report functional limitations of one kind or another; among people age 85 or older, about two-thirds report functional limitations. . . . The total value of long-term services and supports for elderly people, including the estimated economic value of informal (or donated) care, exceeded $400 billion in 2011 . . ." June 26, 2013, at http://www.cbo.gov/publication/44363.

Frank Levy and Richard J. Murnane consider the interaction between workers and machinery in "Dancing with Robots: Human Skills for Computerized Work." "On March 22, 1964, President Lyndon Johnson received a short, alarming memorandum from the Ad Hoc Committee on the Triple Revolution. The memo warned the president of threats to the nation beginning with the likelihood that computers would soon create mass unemployment: 'A new era of production has begun. Its principles of organization are as different from those of the industrial era as those of the industrial era were different from the agricultural. The cybernation revolution has been brought about by the combination of the computer and the automated self-regulating machine. This results in a system of almost unlimited productive capacity which requires progressively less human labor. Cybernation is already reorganizing the economic and social system to meet its own needs.' The memo was signed by luminaries including Nobel Prize winning chemist Linus Pauling, *Scientific American* publisher Gerard Piel, and economist Gunnar Myrdal (a future Nobel Prize winner). Nonetheless, its warning was only half right. There was no mass unemployment—since 1964 the economy has added 74 million jobs. But computers have changed the jobs that are available, the skills those jobs require, and the wages the jobs pay. For the foreseeable future, the challenge of "cybernation" is not mass unemployment but the need to educate many more young people for the jobs computers cannot do." Third Way, 2013, http://content.thirdway.org/publications/714/Dancing-With-Robots.pdf.

C. Robert Taylor and Diana L. Moss have written "The Fertilizer Oligopoly: The Case for Antitrust Enforcement," as a monograph for the American Antitrust Institute. "Collusive agreements between fertilizer producers on prices and market shares pepper the history of the global commercial fertilizer industry dating back to the 1880s. The underlying structure of the current global industry remains conducive to anticompetitive coordination—a landscape that undoubtedly prompted Wall Street Journal commentators to observe that fertilizer markets are so manipulated, 'they might make a Saudi prince blush,' and 'the global price sets a benchmark so American farmers pay essentially what the cartels dictate.' Indeed, the global industry is dominated by two government-sanctioned export associations in the U.S. (*PhosChem*) and Canada (*Canpotex*); a privately traded monopoly sanctioned and likely controlled by the Moroccan government (Office Chérifien des Phosphates (OCP)); and a cabal of three potash companies in the former Soviet Union (Belaruskali, Silvinit, and Uralkali, operating through their marketing cartel, Belarusian Potash Company (BPC)). . . . Damages from supra-competitive pricing of fertilizer likely amount to tens of billions of dollars annually, the direct effects of which are felt by farmers and ranchers. But consumers all over the world suffer indirectly from cartelization of the fertilizer industry through higher food prices, particularly low-income and subsistence demographics." American Antitrust Institute, 2013, at http://www.antitrustinstitute.org/~antitrust/sites/default/files/FertilizerMonograph.pdf.

C*ato Unbound* offers four essays on "The Political Economy of Recycling." In the lead essay, Michael Munger asks: "Recycling: Can It Be Wrong, When It

Feels So Right?" "There are two general kinds of arguments in favor of recycling. The first is that 'this stuff is too valuable to throw away!' In almost all cases, this argument is false, and when it is correct recycling will be voluntary; very little state action is necessary. The second is that recycling is cheaper than landfilling the waste. This argument may well be correct, but it is difficult to judge because officials need keep landfill prices artificially low to discourage illegal dumping and burning. Empirically, recycling is almost always substantially more expensive than disposing in the landfill. Since we can't use the price system, authorities resort to moralistic claims, trying to persuade people that recycling is just something that good citizens do. But if recycling is a moral imperative, and the goal is zero waste, not optimal waste, the result can be a net waste of the very resources that recycling was implemented to conserve." There are sharp and lively comments from Edward Humes, Melissa Walsh Innes, and Stephen Landsberg. June 2013, at http://www.cato-unbound.org/issues/june-2013/political-economy-recycling.

Laurie Simon Hodrick asks, "Are U.S. Firms Really Holding Too Much Cash?" "Five companies, General Electric, Microsoft, Google, Cisco, and Apple, account for 25 percent of the $1.27 trillion [in cash that US companies are holding], while 22 companies account for half of it. . . . [C]ash holdings are concentrated among highly profitable firms, many in the technology and health care sectors." "It is also important to recognize that the 'overseas' money owned by foreign subsidiaries need not be invested abroad, but instead can be held at U.S. banks, in U.S. dollars, or invested in U.S. securities. For example, according to SEC filings, $58 billion of Microsoft's total cash holding of $66.6 billion is held by foreign subsidiaries. Surprisingly, about 93 percent of Microsoft's cash held by foreign subsidiaries in 2012 was invested in U.S. government bonds, corporate bonds, and mortgage-based securities. The assets of Apple Operations International, Apple's Irish subsidiary, are managed in Reno, Nevada, by employees at one of its wholly owned subsidiaries, Braeburn Capital, according to a Senate report, with the funds held in bank accounts in New York." Stanford Institute for Economic Policy Research Policy Brief, July 2013. http://siepr.stanford.edu/?q=/system/files/shared/pubs/papers/briefs/PolicyBrief07_2013_1_v32.pdf.

Robert S. Goldfarb helps to stock the toolkit of teachers with "Shortage, Shortage, Who's Got the Shortage?" Goldfarb provides six categories of shortages, with multiple examples: 1) A Demand Deadline Enables a Short-Run Shortage (for example, popular Christmas toys); 2) Dynamic Shortages due to Lags in Supply or Demand (lag in number of trained nurses); 3) Market Prices Set by Suppliers Below Market-Clearing Levels (tickets to popular performances or athletic events); 4) Prices Set or Regulated by Government (and/or Quantity Regulation) (price of parking or toll roads); 5) Capacity Choice in the Face of "Regular" Variance in Demand (airlines and hospitals); and 6) Sudden Unexpected Supply Shocks (weather and agriculture). *Journal of Economic Education*, 2013, vol. 44, no. 3, pp. 277–97, at http://www.tandfonline.com/doi/full/10.108‰220485.2013.795461#.Ula8HH8lXSJ.

Discussion Starters

Richard V. Reeves, Isabel Sawhill, and Kimberley Howard discuss "The Parenting Gap." "Gaps in cognitive ability by income background open up early in life, according to research by Tamara Halle and her colleagues at Child Trends, a non-profit research center focused on children and youth. Children in families with incomes lower than 200 percent of the federal poverty line score, on average, one-fifth of a standard deviation below higher-income children on the standard Bayley Cognitive Assessment at nine months—but more than half a standard deviation below higher-income peers at two years. This is the social science equivalent of the difference between a gully and a valley. These early months are critical for developing skills in language and reasoning—and, of course, months in which parents play the most important role. Closing ability gaps in the first two years of life—pre-pre-K, if you like—means, by definition, closing the parenting gap. . . . Parents influence their child's fortunes right from their first breath, while pre-K is aimed at 4-year-olds. In child-development terms, four years is an eon. By the time pre-K kicks in, big differentials in test scores are already apparent. . . . In the last five years, the federal government has allocated $37.5 billion to Head Start—25 times as much as promised to home-visiting programs over the next five. This may not be the optimum ratio in terms of promoting greater mobility and opportunity. . . ." *Democracy*, Fall 2013, pp. 40–50. http://www.democracyjournal.org/30/the-parenting-gap.php.

Jacqueline Deslauriers tells of the great maple syrup heist in "Liquid Gold." "The Federation of Quebec Maple Syrup Producers was set up in 1966 to represent and advocate for producers—most of them dairy farmers who supplemented their income by tapping maple trees. By the 1990s, maple syrup output had grown rapidly, and by 2000 the industry was producing a surplus of between 1.3 and 2 million gallons a year. . . . Any output that cannot be sold must be transferred to the federation's reserve. Producers do not receive payment for this excess production until the federation sells it. . . . Maple syrup is sold from the reserve when current production does not meet the demand from authorized buyers. In 2009, after four dismal years of production, the global maple syrup reserve ran dry. Since then production has bounced back and the reserve is overflowing. . . . The $18 million theft was from one of three warehouses the federation uses to stash excess production and was discovered in mid–2012 during an audit of the warehouse contents. The warehouse, about 60 miles southwest of provincial capital Quebec City, was lightly guarded—in retrospect, perhaps, too lightly guarded. The thieves set up shop nearby, and over the course of a year, according to police, made off with roughly 10,000 barrels of maple syrup—about 323,000 gallons, or about 10 percent of the reserve." *Finance & Development*, June 2013, pp. 48–51. http://www.imf.org/external/pubs/ft/fandd/2013/06/deslauriers.htm.

John C. Williams explains that "Cash Is Dead! Long Live Cash!" "[S]ince the start of the recession in December 2007 and throughout the recovery, the value of U.S. currency in circulation has risen dramatically. It is now fully 42% higher than it was five years ago. . . . Over the past five years, cash holdings increased on average about 7¼% annually, more than three times faster than the economy's growth rate over this period. At the end of 2012, currency in circulation stood at over $1.1 trillion, representing a staggering $3,500 for every man, woman, and child in the nation. . . . "As fears about the safety of the banking system spread in late 2008, many people became terrified of losing their savings. Instead, they put their trust in cold, hard cash. Not surprisingly, as depositors socked away money to protect themselves against a financial collapse, they often sought $100 bills. Such a large denomination is easier to conceal or store in bulk than smaller bills. Indeed, in the six months following the fall of the investment bank Lehman Brothers in 2008, holdings of $100 bills soared by $58 billion, a 10% jump." *2012 Annual Report*, Federal Reserve Bank of San Francisco, http://www.frbsf.org/files/2012_Annual_Report.pdf.

Michael Manville and Jonathan Williams advocate ending free parking placards for the disabled in "Parking without Paying." "The government isn't going to hand out free gasoline anytime soon, but at least 24 states and many local governments do distribute free parking passes, in the form of disabled placards. These placards not only grant access to spaces reserved for people with disabilities, but also let their holders park free, often for unlimited time, at any metered space. Nor are placards difficult to get. In California, for example, doctors, nurses, nurse practitioners, optometrists and chiropractors can all certify people for placards, for everything from serious permanent impairments to temporary conditions like a sprained ankle. We recommend that cities and states limit or eliminate free parking for disabled placards. We believe the payment exemption has high costs and few benefits. It harms both the transportation system and the environment, and offers little help to most people with disabilities." *Access*, Spring 2013, pp. 10–13, http://www.uctc.net/access/42/access42_parkingwoutpaying.shtml.

Ben A. Minteer and Leah R. Gerber propose "Buying Whales to Save Them." "Under this plan, quotas for hunting of whales would be traded in global markets. But again, and unlike most 'catch share' programs in fisheries, the whale conservation market would not restrict participation in the market; both pro- and antiwhaling interests could own and trade quotas. . . . Conservation groups, for example, could choose to buy whale shares in order to protect populations that are currently threatened; they could also buy shares to protect populations that are not presently at risk but that conservationists fear might become threatened in the future." "Despite the widely acknowledged failure of the IWC [International Whaling Commission] moratorium to curtail unsustainable whaling, the whale conservation market idea has proved to be wildly controversial within conservation and antiwhaling circles. . . . Many critics of the idea are also plainly not comfortable with the ethics of putting a price on such iconic species—that is, with using contingent market methods for what they believe should be a categorical ethical obligation to preserve whales. On the other hand . . . the vulnerable status of many whale populations and the failure of the traditional regulatory response to halt unsustainable harvests call for a more innovative and experimental approach to whale policy, including considering unconventional proposals, such as the whale conservation market." *Issues in Science and Technology*, Spring 2013, http://www.issues.org/29.3/minteer.html.

This article has been cited by:

1. Arthur M. Diamond. 2020. Robots and Computers Enhance Us More Than They Replace Us. *The American Economist* **65**:1, 4-10. [Crossref]