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

Smorgasbord

An IMF staff team with Bernardin Akitoby as lead author considers how conventional wisdom about fiscal policy has changed in "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. Fiscal contraction was sometimes recommended during periods of economic overheating as a means of supporting monetary policy, for example to take pressure

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off the exchange rate in the face of persistent capital inflows. However, during downturns, it was deemed that there was little reason to use another instrument beyond monetary policy. . . . The crisis has provided evidence that fiscal policy is an appropriate countercyclical policy tool when monetary policy is constrained by the zero lower bound, the financial sector is weak, or the output gap is particularly large. Nevertheless, a number of reservations regarding the use of discretionary fiscal policy tools remain valid, particularly when facing 'normal' cyclical fluctuations." IMF Policy Paper, September 2013, http://www.imf.org/external/np/pp/eng/2013/072113.pdf.

Deborah K. Elms and Patrick Low have edited an e-book, *Global Value Chains in a Changing World*. The 16 chapters look at topics like how to measure the value-added within each country, how to manage these production processes, and how low- and medium-income countries can find a niche in these production chains. Richard Baldwin contributed the overview essay. "Global supply chains have transformed the world. They revolutionized development options facing poor nations; now they can join supply chains rather than having to invest decades in building their own. The offshoring of labour-intensive manufacturing stages and the attendant international mobility of technology launched era-defining growth in emerging markets, a change that fosters and is fostered by domestic policy reform. This reversal of fortunes constitutes perhaps the most momentous global economic change in the last 100 years. Global supply chains, however, are themselves rapidly evolving. The change is in part due to their own impact (income and wage convergence) and in part due to rapid technological innovations in communication technology, computer integrated manufacturing and 3D printing." Baldwin argues that the "first great unbundling" of international trade tended to cluster economic production in certain regions of the global North. In contrast, he argues that the "second great unbundling" of global supply chains will spread economic growth more broadly. As one measure of these shifting patterns, Baldwin points out that the G-7 economies—the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom—represented 20 percent of global output in 1820, 40 percent of global output in 1870, and peaked at two-thirds of global output in 1988, but have now fallen back to 50 percent of global output. Published by the World Trade Organization, together with the Fung Global Institute and Nanyang Technological University, 2013. http://www.wto.org/english/res_e/booksp_e/aid4tradeglobalvalue13_e.pdf.

Robert Z. Lawrence and Lawrence Edwards discuss "US Employment Deindustrialization: Insights from History and the International Experience." "We argue that while trade has contributed to the decline in US manufacturing employment, many exaggerate the role of international competition. The US manufacturing employment decline results less from international factors and is instead driven by powerful historical forces that have affected all advanced economies. These are a combination of rapid productivity growth and demand that is relatively unresponsive to income growth and lower prices. We do not claim that international factors do not affect manufacturing. Our estimates suggest that the labor content of the US manufacturing trade deficit remains significant and that despite improvements in US competitiveness, a vigorous US and global economic recovery could boost

US manufacturing employment. Over the long run, however, absent new product innovations, or a shift in consumer preferences, the basic forces leading to the declining share of manufacturing in overall employment are unlikely to abate. Just as rapid farm productivity growth combined with a limited demand for food has led to ever smaller shares of employment in agriculture, the combination of relatively rapid productivity growth and limited demand growth for goods will mean that more of the jobs in the future will be in services." Peterson Institute for International Economics, Policy Brief PB13-27, October 2013, http://www.iie.com/publications/pb/pb13-27.pdf. This paper can be read as a useful accompaniment to the three-paper symposium on manufacturing in this issue.

The Global CCS Institute discusses issues facing carbon capture and storage (CCS) technology in its annual report, *The Global Status of CCS: 2013*. "CCS has strong potential to be cost competitive in a low–carbon future. The International Energy Agency (IEA) has estimated that the exclusion of CCS as a technology option in the electricity sector alone would increase mitigation costs by around US$2 trillion by 2050." However, the report also details many of the challenges. "More than 90 per cent of the overall cost of CCS can be driven by expenses related to the capture process. . . . There is a variety of R&D programs focused on developing new and more cost-effective capture technologies." "For CCS to meet the longer term climate challenge of restricting global warming to less than 2°C, the estimated magnitude of the CO_2 transportation infrastructure that will need to be built in the coming 30–40 years is 100 times larger than currently operating CO_2 pipeline networks." "[T]here is an urgent need for policies and funded programs that encourage the exploration and appraisal of significant CO_2 storage capacity." At http://cdn.globalccsinstitute.com/sites/default/files/publications/116211/global-status-ccs-2013.pdf.

Anthony P. Carnevale, Andrew R. Hanson, and Artem Gulish discuss *Failure to Launch: Structural Shift and the New Lost Generation*. "Young adults do not reach levels of employment and earnings levels similar to those of young adults in 1980 until later ages, while older workers are employed at higher rates and have consistently higher relative earnings than older workers from a generation ago. The age at which young adults reach the median wage shifted from 26 to 30 between 1980 and 2012. . . . In other words, the model of the labor market that presumed entry at age 18 and exit at age 65 is obsolete, and instead, young people often start their careers later, after developing more human capital from postsecondary education and training, and work experience from internships, work-study, mentorships, fellowships, job shadowing, and part-time work. Young people today change jobs more frequently between the ages of 18 and 25 and only one out of 10 describes his or her current job as a career. . . . Evolving social norms entangled with economic hardships have led young people to delay household and family formation. Two-thirds of young adults in their 20s cohabitate; the average age of marriage increased from 21 to 26 for women and 23 to 28 for men between 1970 and 2006. Over the same period, the average age of a mother at the birth of her first child increased from 21 to 25. In 1960, three out of four women and two out of three men completed school, left home, achieved financial independence, were married and had children by age 30. In 2000, less than half of women and only one-third of men reached the same milestones by age 30." Georgetown Public Policy Institute, September 2013, http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/FTL_FullReport.pdf.

Richard Dobbs, Susan Lund, Tim Koller, and Ari Shwayder analyze "QE and Ultra-Low Interest Rates: Distributional Effects and Risks." They acknowledge and accept the conventional wisdom that the ultra-low interest rate policies were useful and appropriate as part of the effort to stave off the Great Recession, though controversy remains over continuing the policies. They tackle instead the distributional questions about ultra-low interest rates. "From 2007 to 2012, governments in the eurozone, the United Kingdom, and the United States collectively benefited by $1.6 trillion both through reduced debt-service costs and increased profits remitted from central banks (exhibit). Nonfinancial corporations—large borrowers such as governments—benefited by $710 billion as the interest rates on debt fell. Although ultra-low interest rates boosted corporate profits in the United Kingdom and the United States by 5 percent in 2012, this has not translated into higher investment, possibly as a result of uncertainty about the strength of the economic recovery, as well as tighter lending standards. Meanwhile, households in these countries together lost $630 billion in net interest income, although the impact varies across groups. Younger households that are net borrowers have benefited, while older households with significant interest-bearing assets have lost income." McKinsey Global Institute Discussion Paper, November 2013. http://www.mckinsey.com/insights/economic_studies/qe_and_ultra_low_interest_rates_distributional_effects_and_risks?cid=other-eml-alt-mgi-mck-oth-1311.

The Credit Suisse Research Institute ponders "Sugar Consumption at a Crossroads." "The global sweetener market is estimated to be around 190 million tons of 'white sugar equivalent,' and is unsurprisingly dominated by sugar. Each of the major groups (high-intensity/artificial sweeteners, sugar, and high-fructose corn syrup) has been growing at a similar rate of circa 2% per annum, though the most recent numbers have natural high-intensity sweeteners growing rather faster." "Sweetened beverages are now delivering an increasingly greater percentage of the sugars that are ingested in an average diet. Between 1955 and 2000, the consumption of soft drinks in the USA increased from about ten gallons/person to 54 gallons/person and then declined by around 20% until 2012, but with an equivalent increase in the consumption of fruit juices and bottled water. According to the USDA, the beverage industry now accounts for 31% of total sweetener deliveries and we estimate that 43% of added sugars in a normal US diet come from sweetened beverages. A similar stabilizing trend can be seen in most other developed markets, while consumption is still on the rise in emerging markets." The report also looks at evidence linking sugar consumption in various forms to obesity, the health consequences of obesity, and possible policy options. September 2013, https://publications.credit-suisse.com/tasks/render/file/index.cfm?fileid=780BF4A8-B3D1-13A0-D2514E21EFFB0479.

The US Department of Education has published "Literacy, Numeracy, and Problem Solving in Technology-Rich Environments Among U.S. Adults: Results from the Program for the International Assessment of Adult Competencies 2012: First Look," written by Madeline Goodman, Robert Finnegan, Leyla Mohadjer, Tom

Krenzke, and Jacquie Hogansee. The PIAAC is a test given to nationally representative samples of adults in 23 high-income countries in 2011–2012. On the literacy scale: "Compared with the U.S. average score, average scores in 12 countries were higher, in 5 countries they were lower, and in 5 countries they were not significantly different." On the numeracy scale: "Compared with the U.S. average score, average scores in 18 countries were higher, in 2 countries they were lower, and in 2 countries they were not significantly different." On scores for "problem solving in technology-rich environments": "Compared with the U.S. average score, average scores in 14 countries were higher and in 4 countries they were not significantly different." At https://nces.ed.gov/pubs2014/2014008.pdf. See also the related OECD reports: *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*, available at http://skills.oecd.org/documents/OECD_Skills_Outlook_2013.pdf, and "Time for the U.S. to Reskill? What the Survey of Adult Skills Says," at http://skills.oecd.org/Survey_of_Adult_Skills_US.pdf.

Homelessness in America has declined in recent years, even in the aftermath of the Great Recession. The US Department of Housing and Urban Development has published "The 2013 Annual Homeless Assessment Report (AHAR) to Congress." "In January 2013, 610,042 people were homeless on a given night. Most (65 percent) were living in emergency shelters or transitional housing programs and 35 percent were living in unsheltered locations. . . . Homelessness declined by nearly 4 percent (or 23,740 people) between 2012 and 2013, and by 9 percent (or 61,846) since 2007." At https://www.onecpd.info/resources/documents/AHAR-2013-Part1.pdf. For additional discussion of trend in US homelessness with some policy analysis, see the April 2013 report of the National Alliance to End Homelessness, "The State of Homelessness in America 2013," at http://b.3cdn.net/naeh/bb34a7e4cd84ee985c_3vm6r7cjh.pdf.

From the Federal Reserve Banks

Douglas Clement has an interview with Richard Thaler. Here's Thaler remembering the roots of his interest in what has come to be called "behavioral economics": "[L]ater I would call them anomalies, but for a while I just called them 'the list.' And I started writing a list of funny behaviors on my blackboard, such as paying attention to sunk costs. I mean, at first they were just stories. Like, a buddy of mine and I were given tickets to a basketball game. Then there's a blizzard and we don't go. But he says, 'If we had paid for the tickets, we would have gone.' Another thing on the list was a story about having a group of fellow grad students over for dinner and putting out a large bowl of cashew nuts. We started devouring them. After a while, I hid the bowl in the kitchen and everyone thanked me. But as econ grad students, of course, we immediately started asking why we were happy about having a choice removed. For years, some of my friends referred to my new research interests as 'cashew theory.'" "The biggest surprise about behavioral economics, I think, looking back on it all, is that the subfield where behavioral has had the biggest impact is finance. If you had asked me in 1980 to say which field do you think you have your best shot at affecting, finance would have been the least likely, essentially because of the arguments that [Gary] Becker's making: The stakes are really high, and you don't survive very long if you're a trader who loses money. But for me, of course, that was exactly the attraction of studying finance . . ." *The Region*: Federal Reserve Bank of Minneapolis, September 2013, pp. 14–28. http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=5184.

In an "Interview" conducted by Jessie Romero, John Haltiwanger discusses changing patterns of job creation and destruction: "But now we're seeing a decline in the entry rate and a pretty stark decline in the share of young businesses. . . . But it's also important to recognize that the decline in the share of young firms has occurred because the impact of entry is not just at the point of entry, it's also over the next five or 10 years. A wave of entrants come in, and some of them grow very rapidly, and some of them fail. That dynamic has slowed down. . . . If you look at young small businesses, or just young businesses period, the 90th percentile growth rate is incredibly high. Young businesses not only are volatile, but their growth rates also are tremendously skewed. It's rare to have a young business take off, but those that do add lots of jobs and contribute a lot to productivity growth. We have found that startups together with high-growth firms, which are disproportionately young, account for roughly 70 percent of overall job creation in the United States. . . . "I think the evidence is overwhelming that countries have tried to stifle the [job] destruction process and this has caused problems. I'm hardly a fan of job destruction per se, but making it difficult for firms to contract, through restricting shutdowns, bankruptcies, layoffs, etc., can have adverse consequences. The reason is that there's so much heterogeneity in productivity across businesses. So if you stifle that destruction margin, you're going to keep lots of low-productivity businesses in existence, and that could lead to a sluggish economy. I just don't think we have any choice in a modern market economy but to allow for that reallocation to go on. Of course, what you want is an environment where not only is there a lot of job destruction, but also a lot of job creation, so that when workers lose their jobs they either immediately transit to another job or their unemployment duration is low." *Econ Focus*, Federal Reserve Bank of Richmond, Second Quarter 2013, pp. 30–34. http://www.richmondfed.org/publications/research/econ_focus/2013/q2/pdf/interview.pdf.

Michael T. Owyang, E. Katarina Vermann, and Tatevik Sekhposyan, re-examine Okun's law in "Output and Unemployment: How Do They Relate Today?" "In his 1962 paper, Okun used data on the quarter-to-quarter growth rate of the real gross national product (GNP) and the quarter-to-quarter difference in the unemployment rate from 1947 to 1960. He estimated that if real GNP growth were held at zero, the unemployment rate would grow 0.3 percentage points, on average, from one quarter to the next. In addition, for each 1-percentage-point increase in real GNP growth, the unemployment rate would decrease 0.3 percentage points. Economists call this latter number Okun's coefficient. This empirical relationship—dubbed Okun's law—has remained largely intact for 50 years." *Regional Economist*, Federal Reserve Bank of St. Louis, October 2013, pp. 4–9. http://www.stlouisfed.org/publications/re/articles/?id=2421.

Charles Davidson describes "The Big Busy: A Radical Reset after the Katrina Catastrophe is Transforming the Economy of New Orleans." "For various reasons, the economy in New Orleans since Katrina has reversed decades of decline and outperformed the nation and other southeastern metropolitan areas. The NOLA—locals' preferred nickname—metropolitan statistical area's real gross domestic product (GDP) grew an average 3.9 percent a year from 2008 through 2011 . . . During the same period, U.S. GDP expanded less than 1 percent a year, and no other southeastern metro area topped 2 percent. Undoubtedly, the more than $100 billion in federal aid for post-Katrina rebuilding helped cushion New Orleans and south Louisiana from the Great Recession. Beyond that, though, tourism hit record levels last year, knowledge-based industries such as higher education and engineering are expanding, locals have started companies at a per capita rate 56 percent above the national average, wages have risen faster than elsewhere in the United States, and the demographic mix has shifted toward more higher-income households and fewer poor households. Finally, the New Orleans metro population as of mid-2012 had climbed back to 1.23 million, about 94 percent of its pre-Katrina level, according to the U.S. Census Bureau. In many respects, economic data describe New Orleans as a city catching up to the nation and other metro areas. . . . The arrival of more college graduates may have plugged a 'brain drain' that long plagued New Orleans . . ." *Econ Focus*, Federal Reserve Bank of Richmond, Second Quarter 2013, pp. 30–34. http://www.frbatlanta.org/documents/pubs/econsouth/13q3_big_busy.pdf. This article can be read as a follow-up to the article by Jacob Vigdor, "The Economic Aftermath of Hurricane Katrina," in the Fall 2008 issue of this journal (pp. 135–54).

Conversation Starters

Chris Edwards makes the case for "Privatizing the Transportation Security Administration." "More than 80 percent of Europe's commercial airports use private screening companies, including those in Britain, France, Germany, and Spain. The other airports in Europe use their own in-house security, but no major country in Europe uses the national government's aviation bureaucracy for screening. Europe's airports moved to private contracting during the 1980s and 1990s after numerous hijackings and terrorist threats, and it has worked very well. Canada also uses private screening companies at its commercial airports, and some airports also use private firms for general airport security. . . . The 2001 legislation that created TSA established the SPP [Screening Partnership Program], which has allowed some airports to opt out of TSA screening and use private firms. The firms contract with TSA and are under federal regulatory control. Originally, there were five airports in the program, with San Francisco being the largest. All five have had good results with private screening and have stuck with it. The number of SPP airports has grown to 16 today." Cato Institute Policy Analysis No. 742, November 19, 2013, http://www.cato.org/publications/policy-analysis/privatizing-transportation-security-administration.

Andrzej Rapaczynski discusses "The Moral Significance of Economic Life" in the most recent issue of *Capitalism and Society*. His abstract summarizes the argument compactly: "Much of the modern perception of the role of economic production in human life—whether on the Left or on the Right of the political spectrum—views it as an inferior, instrumental activity oriented toward self-preservation, self-interest, or profit, and thus as essentially distinct from the truly human action concerned with moral values, justice, and various forms of self-fulfillment. This widely shared worldview is rooted, on the one hand, in the Aristotelian tradition that sees labor as a badge of slavery, and freedom as lying in the domain of politics and pure (not technical) knowledge, and, on the other hand, in the aristocratic mediaeval Christian outlook, which—partly under Aristotle's influence—sees nature as always already adapted (by divine design) to serving human bodily needs, and the purpose of life as directed toward higher, spiritual reality. . . . As against this, liberal thinkers, above all Locke, have developed an elaborate alternative to the Aristotelian worldview, reinterpreting the production process as a moral activity par excellence consisting in a gradual transformation of the alien nature into a genuinely human environment reflecting human design and providing the basis of human autonomy. Adam Smith completed Locke's thought by explaining how production is essentially a form of cooperation among free individuals whose self-interested labor serves the best interest of all. The greatest "culture war" in history is to re-establish the moral significance of economic activity in the consciousness of modern political and cultural elites." *Capitalism and Society*, December 2013, vol. 8, no. 2, http://capitalism.columbia.edu/volume-8-issue-2.

Ted Gayer and Emily Parker discuss "Cash for Clunkers: An Evaluation of the Car Allowance Rebate System." "The Car Allowance Rebate System (CARS), more commonly known as 'Cash for Clunkers' . . . allowed consumers to trade in an older, less fuel-efficient vehicle for a voucher to be applied toward the purchase of a newer, more fuel-efficient vehicle. Depending on the difference in fuel economy between the trade-in vehicle and the new vehicle, program participants received a voucher for either \$3,500 or \$4,500. After the "clunker" was traded in at the dealership, its engine was destroyed, ensuring its permanent removal from the U.S. vehicle fleet. Nearly 700,000 clunkers were traded in between July 1, 2009 and August 24, 2009 under the program. . . . Our evaluation of the evidence suggests that the \$2.85 billion in vouchers provided by the program had a small and short-lived impact on gross domestic product, essentially shifting roughly a few billion dollars forward from the subsequent two quarters following the program. The implied cost per job created due to the program was much higher than what was estimated for alternative fiscal stimulus programs. . . . On the environmental side, the cost per ton of carbon dioxide reduced due to the program was higher than what would be achieved through a more cost-effective policy such as a carbon tax or cap-and-trade, but was comparable (or indeed lower) than what is achieved through some of the less cost-effective environmental policies, such as the tax subsidy for electric vehicles." Brookings Institution Policy Brief, October 31, 2013. http://www.brookings.edu/research/papers/2013/10/cash-for-clunkers-evaluation-gayer.