Journal of Economic Perspectives—Volume 28, Number 2—Spring 2014—Pages 213–220

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.

Smorgasbord

The IMF Fiscal Affairs Department provides an international overview of "Fiscal Policy and Income Inequality." "Between the late-1990s and the late-2000s, public support for redistribution increased in almost 70 percent of the advanced and developing economies surveyed. For instance, support increased substantially in Finland, Germany, and Sweden, and also in China and India. In the late-1990s, results for only 15 economies out of the 57 in the sample (26 percent) indicate majority support for more redistribution. By the late-2000s, the percentage of countries where a majority supported more redistribution grew to 56 percent. . . . Over recent decades, direct income taxes and transfers have decreased inequality in advanced economies by an average of one-third. For instance, in 2005, the average Gini for disposable income

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

http://dx.doi.org/10.1257/jep.28.2.213. doi=10.1257/jep.28.2.213

was 14 percentage points below that of the average market income Gini. The redistributive impact of transfers accounts for about two-thirds of the decrease in the Gini. Within transfers, non-means-tested transfers (including public pensions and family benefits) account for the bulk of the redistribution. On the tax side, personal income taxes make an important contribution to reducing inequality in a number of economies—in fact, in most economies, the redistribution achieved through income taxes is even higher than for means-tested transfers." IMF Policy Paper, January 23, 2014. http://www.imf.org/external/np/pp/eng/2014/012314.pdf.

Lawrence H. Summers delivered the 2013 Martin Feldstein lecture on the topic, "Economic Possibilities for our Children." "When I was an MIT undergraduate in the early 1970s, a young economics student was exposed to the debate about automation. There were two factions in those debates. There were the stupid Luddite people, who mostly were outside of economics departments, and there were the smart progressive people, who at that time were personified by Bob Solow. The stupid people thought that automation was going to make all the jobs go away and there wasn't going to be any work to do. And the smart people understood that when more was produced, there would be more income and therefore there would be more demand. It wasn't possible that all the jobs would go away, so automation was a blessing. I was taught that the smart people were right. Until a few years ago, I didn't think this was a very complicated subject; the Luddites were wrong and the believers in technology and technological progress were right. I'm not so completely certain now. . . . In the United States today a higher fraction of the workforce receives disability insurance than does *production work* in manufacturing. (Many workers in the manufacturing sector are not production workers.) . . . I think it is also fair to say that the evolution and growth of disability insurance is substantially driven also by the technological and social changes that are leading to a smaller fraction of the workforce working. At the same time, as has famously and repeatedly been noted, the share of income going to the top one percent of our population has steadily increased." *NBER Reporter,* 2013, Number 4, http://www.nber.org/reporter/2013number4/2013no4.pdf.

David Roodman discusses "Armageddon or Adolescence? Making Sense of Microfinance's Recent Travails." "Microfinance has been growing for 35 years and now reaches upwards of 100 million people, who cannot all be wrong in their judgments about the utility of microfinance. Moreover, most of them are served by institutions that are nearly or completely self-sufficient in financial terms . . . Because of the vicissitudes of poverty, poor people need financial services more than the rich. Their financial options will always be inferior—that's part of being poor—and microfinance offers additional options with distinctive strengths and weaknesses." "Nevertheless, the recent travails are signs that something is wrong in the industry. What is wrong is, ironically, what was once so right about the industry: it largely bypassed governments in favor of an experimental, bottom-up approach to institution building. The industry got so good at building institutions and injecting funds into them that it often forgot that a durable financial system consists of more than retail institutions and their investors. . . . To mature, the industry and its supporters should recognize the imbalance it has created. Where possible, they should work to strengthen institutions of moderation such as credit bureaus and regulators. Accepting that such institutions will often be weak, they should err on the side of investing less. In microfinance funding, less is sometimes more." Center for Global Development Policy Paper 35, January 2014. At http://www.cgdev.org/sites/default/files/armaggedon-adolescence-microfinance-recent-travails_final_1.pdf.

In "Whither the Euro?" Kevin Hjortshøj O'Rourke contends: "For years economists have argued that Europe must make up its mind: move in a more federal direction, as seems required by the logic of a single currency, or move backward? It is now 2014: at what stage do we conclude that Europe has indeed made up its mind, and that a deeper union is off the table? The longer this crisis continues, the greater the anti-European political backlash will be, and understandably so: waiting will not help the federalists. We should give the new German government a few months to surprise us all, and when it doesn't, draw the logical conclusion. With forward movement excluded, retreat from the EMU may become both inevitable and desirable. . . . The demise of the euro would be a major crisis, no doubt about it. We shouldn't wish for it. But if a crisis is inevitable then it is best to get on with it, while centrists and Europhiles are still in charge. Whichever way we jump, we have to do so democratically, and there is no sense in waiting forever. If the euro is eventually abandoned, my prediction is that historians 50 years from now will wonder how it ever came to be introduced in the first place." *Finance and Development*, March 2014, pp. 14–16. This issue also includes several other articles on the euro and the European economy. Reza Moghadam writes on "Europe's Road to Integration"; Nicolas Véron discusses prospects for a banking union in "Tectonic Shifts"; and Helge Berger and Martin Schindler consider policies for reducing unemployment and spurring growth in "A Long Shadow over Growth." At http://www.imf.org/external/pubs/ft/fandd/2014/03/index.htm.

The World Bank has published "Social Gains in the Balance: A Fiscal Policy Challenge for Latin America and the Caribbean." "In 2012, the Latin America and the Caribbean (LAC) region continued its successful drive to reduce poverty and build the middle class. The proportion of the region's 600 million people living in extreme poverty, defined in the region as life on less than $2.50 a day, was cut in half between 2003 and 2012 to 12.3 percent. . . . The middle class, currently 34.3 percent of the population, is growing rapidly and is projected to replace the vulnerable as the largest economic group in LAC by 2016. . . . About 68 percent of poverty reduction between 2003 and 2012 was driven by economic growth, with the remaining 32 percent arising from decline in inequality. Poverty reduction was accompanied by strong income growth of the bottom 40 percent of the population, the World Bank's indicator of shared prosperity. Between 2003 and 2012, the real per capita income of the bottom 40 percent grew by more than five percent annually, while overall income in LAC rose by about 3.3 percent. However . . . [t]he region suffered an economic slowdown from an annual GDP per capita growth rate of about 4.3 percent in 2010 to an estimated 1.3 percent in 2013 and is projected to grow at only 1.7 percent in 2014. Also, after falling steadily between 2001 and 2010, progress in reducing inequality in LAC has stagnated with the Gini coefficient remaining fairly constant at 0.52." February 2014. Available at: http://documents.worldbank.org/curated/en/2014/02/19120905/social-gains-balance-fiscal-policy-challenge-latin-america-caribbean.

The *Journal of Medical Ethics* has a symposium on the issue of whether people should be allowed to sell a kidney. The lead article is by Simon Rippon: "Imposing options on people in poverty: the harm of a live donor organ market." Because selling a kidney is not a legal option, Rippon argues, "This means that even if you have no possessions to sell and cannot find a job, nobody can reasonably criticise you for, say, failing to sell a kidney to pay your rent. If a free market in organs was permitted and became widespread, then it is reasonable to assume that your organs would soon enough become economic resources like any other, in the context of the market. Selling your organs would become something that is simply expected of you as and when financial need arises. . . . We should ask questions such as the following: Would those in poverty be eligible for bankruptcy protection, or for public assistance, if they have an organ that they choose not to sell? Could they be legally forced to sell an organ to pay taxes, paternity bills, or rent? How would society view someone who asks for charitable assistance to meet her basic needs, if she could easily sell a healthy 'excess' organ to meet them? . . . Wherever there is great value in not being put under social or legal pressure to sell something as a result of economic forces, we should think carefully about whether it is right to permit a market and to thereby impose the option on everyone to sell it." Comments follow from Gerald Dworkin, Janet Radcliffe-Richards, and Adrian Walsh, along with a response from Rippon (although the comments are not freely accessible online). March 2014, pp. 145–50. Available at: http://jme.bmj.com/content/40/3.toc#Featurearticle. A Symposium on Organ Transplants appeared in the Summer 2007 issue of this journal.

Jonathan Huntley summarizes estimates of "The Long-Run Effects of Federal Budget Deficits on National Saving and Private Domestic Investment." His central estimate about the long-run effects of more government borrowing: for each additional dollar of government budget deficit, private saving rises by 43 cents, and the inflow of foreign capital rises by 24 cents and domestic investment declines by 33 cents. Congressional Budget Office Working Paper 2014-2, February 2014. http://www.cbo.gov/sites/default/files/cbofiles/attachments/45140-NSPDI_workingPaper.pdf.

Tony Atkinson and Salvatore Morelli have produced an intriguing "Chartbook of Economic Inequality." The chartbook features a set of figures showing long-run trends in inequality as measured by a variety of statistics for 25 different countries, with all the statistics appearing on a single chart for each country. The charts appear in two forms: there's a colorful online version and then a black-and-white version that can be printed out from a PDF file. March 2014, http://www.chartbookofeconomicinequality.com.

Smoking

In 1964, the US Surgeon General issued its first report finding that smoking was hazardous to your health. Now in 2014, the current Surgeon General has published

The Health Consequences of Smoking—50 Years of Progress. Most of the nearly 1,000-page report focuses on health effects of tobacco use, but several chapters near the end focus on policies for reducing tobacco use: "Despite declines in the prevalence of current smoking, the annual burden of smoking-attributable mortality in the United States has remained above 400,000 for more than a decade and currently is estimated to be about 480,000, with millions more living with smoking-related diseases. . . . Annual smoking-attributable economic costs in the United States estimated for the years 2009–2012 were between $289–332.5 billion, including $132.5–175.9 billion for direct medical care of adults, $151 billion for lost productivity due to premature death estimated from 2005–2009, and $5.6 billion (in 2006) for lost productivity due to exposure to secondhand smoke." http://www.surgeongeneral.gov/library/reports/50-years-of-progress/full-report.pdf.

The January 8, 2014, issue of the *Journal of the American Medical Association* (JAMA) has a useful set of articles reviewing the evidence and arguments. In "Tobacco Control and the Reduction in Smoking-Related Premature Deaths in the United States, 1964–2012," Theodore R. Holford, Rafael Meza, Kenneth E. Warner, Clare Meernik, Jihyoun Jeon, Suresh H. Moolgavkar, and David T. Levy take on the task of estimating how much smoking in the United States has been reduced as a result of the antismoking efforts. They write (bracketed information about the statistical confidence intervals deleted): "In 1964–2012, an estimated 17.7 million deaths were related to smoking, an estimated 8.0 million fewer premature smoking-related deaths than what would have occurred under the alternatives and thus associated with tobacco control (5.3 million men and 2.7 million women). This resulted in an estimated 157 million years of life saved, a mean of 19.6 years for each beneficiary (111 million for men, 46 million for women). During this time, estimated life expectancy at age 40 years increased 7.8 years for men and 5.4 years for women, of which tobacco control is associated with 2.3 years (30%) of the increase for men and 1.6 years (29%) for women." Table of contents for the issue available at: http://jama.jamanetwork.com/Issue.aspx?journalid=67&issueID=929635&direction=P.

About Economists

The newsletter of the Committee on the Status of Women in the Economics Profession (CSWEP) has published "A Celebration of the Life of Anna Jacobson Schwartz," with remembrances from eight contributors. Michael Bordo, who co-authored 30 articles and two books with her, said: "What I remember most about Anna is how much she loved her work. Her whole life was organized around going to the office. She officially retired from the Bureau when she was 65, but she didn't stop working until she was 94. She went into the Bureau every day when she was in her eighties and nineties, and she still put in a full eight-hour day. . . . Yet she was a balanced person. She had a great family—Isaac, a caring husband with a great sense of humor, who died in 1999, four children, and many grandchildren and great grandchildren, and they used to come into New York to see her often.

She had season tickets to the Metropolitan Opera, which she loved, and she rarely missed a performance. She was a very active person in other dimensions as well. She always had a few novels going, and especially liked Anthony Trollope. She was on top of what was going on in politics and economic policy everywhere in the world. She read the *Wall Street Journal* and the *New York Times* each day, picking up every little detail. She never missed a beat." Eloise Pasachoff, one of Schwartz's grandchildren, wrote: "I think I have a bigger lesson, and it's about what they call 'work-life balance.' Except when I think about my grandmother's example, I want to call it 'work-life joy.'" Fall 2013. http://www.aeaweb.org/committees/cswep/newsletters/CSWEP_nsltr_Fall_2013.pdf.

Aaron Steelman has an "Interview" with John Cochrane. On Dodd–Frank: "I think Dodd–Frank repeats the same things we've been trying over and over again that have failed, in bigger and bigger ways. . . . The deeper problem is the idea that we just need more regulation—as if regulation is something you pour into a glass like water—not smarter and better designed regulation. Dodd-Frank is pretty bad in that department. It is a long and vague law that spawns a mountain of vague rules, which give regulators huge discretion to tell banks what to do. It's a recipe for cronyism and for banks to game the system to limit competition." On how to stop bailing out large financial institutions: "You have to set up the system ahead of time so that you either can't or won't need to conduct bailouts. Ideally, both. . . . The worst possible system is one in which everyone thinks bailouts are coming, but the government in fact does not have the legal authority to bail out." On time-varying risk premiums: "One big unresolved issue in finance is why risk premiums are so big and why they vary so much over time. You can look at the spread between what you have to pay to borrow and what the U.S. government pays in order to see that risk premiums are big and varying. . . . For macroeconomics, the fact of time-varying risk premiums has to change how we think about the fundamental nature of recessions. Time-varying risk premiums say business cycles are about changes in people's ability and willingness to bear risk." *Econ Focus*, Federal Reserve Bank of Richmond, Third Quarter 2013, pp. 34–38. https://www.richmondfed.org/publications/research/econ_focus/2013/q3/pdf/interview.pdf.

Douglas Clement interviews Neil Wallace, with much of the discussion focused on the underpinnings and functions of money. Here's Wallace on the idea of "money is memory": "'Money is memory' is a better idea. It leads you to think about various kinds of payment instruments in terms of the kind of informational structure that supports them. The money that is the best current counterpart to the 'money is memory' idea is currency. You don't need much of an informational network for currency; in fact, you probably don't need any, except for worrying about counterfeiting. When you use a credit card, you're issued a loan. Why are you able to receive one? Because there's an informational network behind your card. Your bank is actually guaranteeing your credit payment up to probably some large amount, as large as you mostly use. And they're doing that because they know something about you." On how money and banking doesn't fit easily into a standard economics framework: "This goes back to economists' feelings that the general competitive model, often labeled the Arrow–Debreu model, is the main model in economics. It's very general. We don't need to have a special theory of production for bookcases and a special theory for bottled water. But when people try to shove banking into this model, it's hugely unsuccessful. Why? Because anything that banks might be viewed as doing is redundant in that model. According to the Arrow–Debreu model, you face prices at which you can costlessly trade anything for anything. More generally, no activity that we see in the economy that has to do with transacting fits comfortably within that model. In particular, nothing in the GDP accounts that falls under the FIRE heading—finance, insurance, real estate—fits into that model." *The Region,* Federal Reserve Bank of Minneapolis, December 2013, pp. 12–24. https://www.minneapolisfed.org/pubs/region/13-12/region_december_2013_interview_with_neil_wallace.pdf.

Discussion Starters

Melissa S. Kearney and Phillip B. Levine ask "Teen Births Are Falling: What's Going On?" "We speculate that there are two likely candidate explanations: (1) access to improved contraceptive technologies, most notably long-acting reversible contraception (LARCs) such as implants and intrauterine devices (IUDs) and (2) increased educational attainment along with better labor market prospects for young women. . . . The policy challenge that we believe offers the greatest potential is to address the needs of those young women who are not committed to avoiding a pregnancy. These are teens whose views are characterized by ambivalence. For them, the issue is more about finding ways to make them want to avoid a teen birth. . . . Simply put, increased aspirations and expanded opportunities for young women have the potential to extend the downward trend in teen childbearing." Brookings Institution, Economic Studies Group Policy Brief, March 2014 Policy Brief for the Economics Studies group, http://www.brookings.edu/~/media/research/files/reports/2014/03/teen-births-falling-whats-going-on-kearney-levine/teen_births_falling_whats_going_on_kearney_levine.pdf. This essay complements the article by these two authors "Why Is the Teen Birth Rate in the United States So High and Why Does It Matter?" in the Spring 2012 issue of this journal.

Harald Bauer, Jan Veira, and Florian Weig consider "Moore's Law: Repeal or Renewal?" "Moore's law states that the number of transistors on integrated circuits doubles every two years, and for the past four decades it has set the pace for progress in the semiconductor industry. . . . Adherence to Moore's law has led to continuously falling semiconductor prices. Per-bit prices of dynamic random-access memory chips, for example, have fallen by as much as 30 to 35 percent a year for several decades. . . . Some estimates ascribe up to 40 percent of the global productivity growth achieved during the last two decades to the expansion of information and communication technologies made possible by semiconductor performance and cost improvements." But this continued technological progress comes at an ever-higher price. "A McKinsey analysis shows that moving from 32nm to 22nm nodes on 300-millimeter (mm) wafers causes typical fabrication costs to grow by roughly 40 percent. It also boosts the costs associated with process development by about 45 percent and with chip design by up to 50 percent. These dramatic increases will lead to process-development costs that exceed $1 billion for nodes below 20nm. In addition, the state-of-the art fabs needed to produce them will likely cost $10 billion or more. As a result, the number of companies capable of financing next-generation nodes and fabs will likely dwindle." McKinsey Global Institute, December 2013, http://www.mckinsey.com/insights/high_tech_telecoms_internet/moores_law_repeal_or_renewal.

The Office of Inspector General of the US Postal Service has published a report considering if the Post Office might be a useful mechanism for "Providing Non-Bank Financial Services for the Underserved." "The Postal Service has played a longstanding role in providing domestic and international money orders. The Postal Service is actually the leader in the U.S. domestic paper money order market, with an approximately 70 percent market share. This is a lucrative business line and demonstrates that the Postal Service already has a direct connection to the underserved, who purchased 109 million money orders in fiscal year (FY) 2012. . . . While its domestic and international money orders are currently paper-based, the Postal Service does offer electronic money transfers to nine Latin American countries through the Dinero Seguro® (Spanish for 'sure money') service. For several years now, the Post Office has been selling debit cards, both for American Express and for specific retailers like Amazon, Barnes & Noble, Subway, and Macy's." January 27, 2014. http://www.uspsoig.gov/sites/default/files/document-library-files/2014/rarc-wp-14-007.pdf. The Universal Postal Union published a report in March 2013 by Alexandre Berthaud and Gisela Davico, *Global Panorama on Postal Financial Inclusion: Key Issues and Business Models*, which notes that 1 billion people around the world in 50 countries do at least some of their banking through postal banking systems. http://www.upu.int/fileadmin/documentsFiles/activities/financialInclusion/publicationGlobalPanoramaFinancialInclusionEn.pdf.