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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, MN, 55105.

Smorgasbord

The Bank of International Settlements discusses "The Costs of Deflation: What Does the Historical Record Say?" within a chapter of its *84th Annual Report.* "First, the record is replete with examples of 'good', or at least 'benign', deflations in the sense that they coincided with output either rising along trend or undergoing only a modest and temporary setback. . . . The second important feature of deflation dynamics revealed by the historical record is the general absence of an inherent deflation spiral risk—only the Great Depression episode featured a deflation spiral in the form of a strong and persistent decline in the price level; the other episodes did not. . . . The evidence, especially in recent decades, argues against the notion that deflations lead to vicious deflation spirals. . . . Third, it is asset price deflations rather

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than general deflations that have consistently and significantly harmed macroeconomic performance. Indeed, both the Great Depression in the United States and the Japanese deflation of the 1990s were preceded by a major collapse in equity prices and, especially, property prices. These observations suggest that the chain of causality runs primarily from asset price deflation to real economic downturn, and then to deflation, rather than from general deflation to economic activity. . . . Fourth, recent deflation episodes have often gone hand in hand with rising asset prices, credit expansion and strong output performance. Examples include episodes in the 1990s and 2000s in countries as distinct as China and Norway." June 29, 2014. http://www.bis.org/publ/arpdf/ar2014e.pdf.

Donald J. Marples and Jane G. Gravelle offer an overview of "Corporate Expatriation, Inversions, and Mergers: Tax Issues." "News reports in the late 1990s and early 2000s drew attention to a phenomenon sometimes called corporate 'inversions' or 'expatriations': instances where U.S. firms reorganize their structure so that the 'parent' element of the group is a foreign corporation rather than a corporation chartered in the United States. The main objective of these transactions was tax savings and they involved little to no shift in actual economic activity. Bermuda and the Cayman Islands (countries with no corporate income tax) were the location of many of the newly created parent corporations. These types of inversions largely ended with the enactment of the American Jobs Creation Act of 2004 . . . [which] effectively ended shifts to tax havens where no real business activity took place. However, two avenues for inverting remained. The act allowed a firm to invert if it has substantial business operations in the country where the new parent was to be located . . . Firms could also invert by merging with a foreign company if the original U.S. stockholders owned less than 80% of the new firm. Two features made a country an attractive destination: a low corporate tax rate and a territorial tax system that did not tax foreign source income. Recently, the UK joined countries such as Ireland, Switzerland, and Canada as targets for inverting when it adopted a territorial tax." Congressional Research Service, September 25, 2014. http://fas.org/sgp/crs/misc/R43568.pdf.

Luigi Guiso, Paola Sapienza, and Luigi Zingales inquire into "Monnet's Error?" "Europe seems trapped in catch-22: there is no desire to go backward, no interest in going forward, but it is economically unsustainable to stay still. . . . On the one hand, Monnet's chain reaction theory seems to have worked. In spite of limited support in some countries, European integration has moved forward and has become almost irreversible. On the other hand, the strategy has worked so far at the cost of jeopardizing the future sustainability. The key word is 'almost.' Europe and the euro are not irreversible, they are simply very costly to revert. As long as the political dissension is not large enough, Monnet's chain reaction theory delivered the desired outcome, albeit in a very non-democratic way. The risk of a dramatic reversal, however, is real. The European project could probably survive a United Kingdom's exit, but it would not survive the exit of a country from the euro, especially if that exit is not so costly as everybody anticipates. The risk is that a collapse of the euro might bring also the collapse of many European institutions, like the free movement of capital, people and goods. In other words, as all chain reactions, also Monnet's one has an hidden cost: the risk of a meltdown." *Brookings Papers on Economic Activity*, Fall 2014. http://www.brookings.edu/~/media/Projects/BPEA/Fall%202014/Fall2014BPEA_Guiso_Sapienza_Zingales.pdf.

Robleh Ali, John Barrdear, Roger Clews, and James Southgate discuss "Innovations in Payment Technologies and the Emergence of Digital Currencies." "This article considers recent innovations in payments technology, focusing on the emergence of privately developed, internet-based digital currencies such as Bitcoin. Digital currency schemes combine both new payment systems and new currencies. Users can trade digital currencies with each other in exchange for traditional currency or goods and services without the need for any third party (like a bank). And their creation is not controlled by any central bank. Bitcoin—currently the largest digital currency—was set up in 2009 and several thousand businesses worldwide currently accept bitcoins in payment for anything from pizza to webhosting. . . . This article argues, however, that the key innovation of digital currencies is the 'distributed ledger' which allows a payment system to operate in an entirely decentralised way, without intermediaries such as banks. This innovation draws on advances from a range of disciplines including cryptography (secure communication), game theory (strategic decision-making) and peer-to-peer networking (networks of connections formed without central co-ordination)." The article has perhaps the best nontechnical step-by-step description of how Bitcoin transactions actually work that I've seen. A companion article, "The Economics of Digital Currencies," by the same authors goes on to say: "Digital currencies do not, at present, play a substantial role as money in society. But they may have the potential to come to exhibit at least some of the functions of money over time. There is little incentive for the pricing of goods and services to change from traditional currencies, however, unless these currencies were to suffer from a wholesale collapse in confidence. . . . A variety of potential risks to financial stability could emerge if a digital currency attained systemic status as a payment system, most of which could be addressed through regulatory supervision of relevant parties." *Quarterly Bulletin of the Bank of England* (2014, Q3), pp. 262–75 and 276–86. At http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q301.pdf and http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/2014/qb14q302.pdf.

The IMF devotes a chapter in its *Global Financial Stability Report* to "Shadow Banking Around the Globe: How Large, and How Risky?" "Many indications there point to the migration of some activities—such as lending to firms—from traditional banks to the nonbank sector. Shadow banking can play a beneficial role as a complement to traditional banking by expanding access to credit or by supporting market liquidity, maturity transformation, and risk sharing. It often, however, comes with banklike risks, as seen during the 2007–08 global financial crisis. . . . So far, the (imperfectly) measurable contribution of shadow banking to systemic risk in the financial system is substantial in the United States but remains modest in the United Kingdom and the euro area. In the United States, the risk contributions of shadow banking activities have been rising, but remain slightly below precrisis levels." October 2014, https://www.imf.org/external/pubs/ft/gfsr/2014/02/pdf/c2.pdf.

Steven Garber, Susan M. Gates, Emmett B. Keeler, Mary E. Vaiana, Andrew W. Mulcahy, Christopher Lau, and Arthur L. Kellermann discuss *Redirecting Innovation in U.S. Health Care: Options to Decrease Spending and Increase Value*. "A leading cause of high and growing spending is new medical technologies. Previous studies aimed at reining in spending considered changing the ways in which existing technologies are used. Our work for this project focused on identifying promising policy options to change which medical technologies are created in the first place . . . We argue that the best way to further our twin policy goals is by altering the financial incentives of inventors, private investors, payers, providers, and patients. . . . We also conducted case studies of eight medical products: three drugs (including one biologic), three devices (a diagnostic, an implantable, and a costly machine), and two types of HIT [Health Information Technology] (electronic health records [EHRs] and telemedicine)." RAND Corporation. 2014, http://www.rand.org/content/dam/rand/pubs/research_reports/RR300/RR308/RAND_RR308.pdf.

Craig Gundersen and James P. Ziliak document "Childhood Food Insecurity in the U.S.: Trends, Causes, and Policy Options." "In 2012, nearly 16 million U.S. children, or over one in five, lived in households that were food-insecure, which the U.S. Department of Agriculture defines as 'a household-level economic and social condition of limited access to food.' Even when we control for the effects of other factors correlated with poverty, these children are more likely than others to face a host of health problems, including but not limited to anemia, lower nutrient intake, cognitive problems, higher levels of aggression and anxiety, poorer general health, poorer oral health, and a higher risk of being hospitalized, having asthma, having some birth defects, or experiencing behavioral problems." *The Future of Children* Research Report, Fall 2014. http://futureofchildren.org/futureofchildren/publications/docs/ResearchReport-Fall2014.pdf.

Edited E-books

Coen Teulings and Richard Baldwin have edited a useful e-book of 13 short essays with a variety of perspectives on *Secular Stagnation: Facts, Causes and Cures*. In the overview, they write: "This eBook gathers the views of leading economists including Larry Summers, Paul Krugman, Bob Gordon, Olivier Blanchard, Richard Koo, Barry Eichengreen, Ricardo Caballero, Ed Glaeser and a dozen others. It is too early to tell whether secular stagnation is really secular, but if it is, current policy tools will be obsolete. Policymakers should start thinking about potential solutions. . . . As Barry Eichengreen observes: 'But while the term "secular stagnation" was widely repeated, it was not widely understood. Secular stagnation, we have learned, is an economist's Rorschach Test. It means different things to different people.' Fortunately, Macroeconomics 101 provides a straightforward way of structuring the various views. . . . Basic macroeconomics provides a three-pillar framework for thinking about an economy's future growth. First is the economy's long-run potential growth rate. Second is the deviation of actual growth from its potential. Third is one-off changes in the level of GDP without a change in the long-run growth rate. All the various contributions stress one or more of these." 2014. http://www.voxeu.org/sites/default/files/Vox_secular_stagnation.pdf.

Melissa S. Kearney and Benjamin H. Harris have edited the e-book *Policies to Address Poverty in America*, which includes 14 short essays on subjects like expanding preschool access and early childhood development programs, mentoring and summer employment programs, building education and skills for low-income workers, the Earned Income Tax Credit, child care tax credits, the minimum wage, and more. As one example, Robert I. Lerman lays out the issues and possibilities in "Expanding Apprenticeship Opportunities in the United States." "Today apprentices make up only 0.2 percent of the U.S. labor force, far less than in Canada (2.2 percent), Britain (2.7 percent), and Australia and Germany (3.7 percent). . . . Two studies of the earnings gains of apprentices and government costs in the United States find that the social benefits outweigh the social and government costs by ratios of 20:1 to 30:1 . . . Stimulating a sufficient increase in apprenticeship slots is the most important challenge. Although it is easy to cite examples of employer reluctance to train, the evidence from South Carolina and Britain suggests that a sustained, business-oriented marketing effort can persuade a large number of employers to participate in apprenticeship training. Both programs were able to more than quadruple apprenticeship offers over about five to six years." Brookings Institution, Hamilton Project, June 2014. http://www.hamiltonproject.org/files/downloads_and_links/policies_address_poverty_in_america_full_book.pdf.

Interviews with Economists

Michael Woodford is interviewed by Douglas Clement: "I had specifically suggested that announcing a target path for nominal GDP would be a desirable way to make an advance statement about the criteria that you would be looking at later. Now, I wasn't saying that to suggest that that's the only formula that would be valuable, but I thought it was useful to give a concrete example showing how the thing that I was talking about could be undertaken in practice. . . . A nominal GDP target path would have the advantage of being a single criterion, yet one that conveyed concern both about the real economy and about the price level and nominal variables at the same time. It would have given an explanation for which substantial stimulus would have continued to be appropriate for some time to come. But it was also a criterion that was intended to reassure people that what looked like very aggressive monetary policy was not going to allow inflation to get out of hand. . . . We have yet to reach the point where they [the Federal Reserve] do want to raise interest rates, but assuming that things evolve as everyone is currently anticipating, we are likely to reach it within the coming year. . . . It will be an interesting experiment in monetary economics because the Fed will be attempting to control short-term interest rates in a situation where almost certainly its balance sheet is going to be unusually large. That means that there are going to be extraordinary quantities of excess reserves in existence, and this means that Fed control of short-term interest rates will not be achievable in the way that it always was in the past: through rationing the supply of reserves. . . . I think the fact that interest rates can be and are currently being paid on excess reserves is very important . . . probably the most important tool that they are going to have when the moment arises." *The Region,* Federal Reserve Bank of Minneapolis, September 2014, pp. 12–27, http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=5379&&.

Richard Timberlake is interviewed by Renee Haltom: "Until maybe 10 or 20 years ago, economists who studied money felt that they could prescribe some logical policy for the Federal Reserve, and ultimately the Fed would see the light and follow it. That proved illusory. A central bank is essentially a government agency, no matter who 'owns' it. The Fed's titular owners are the member banks, but the national government has all the controls over the Fed's policies and profits. And as with all government agencies, the Fed is subject to public choice pressures and motives." Timberlake also tells a nice story about his graduate school experience: "I recall the time when I presented a potential Ph.D. thesis proposal at Chicago to the economics department. The audience included professors and many able graduate students. I could feel that my presentation was not going over very well. After the ordeal was over, Friedman said to me, 'Come back up to my office.' When we were there, he said, 'The committee and the department think that your thesis proposal has less than a 0.5 probability of acceptance.' I knew that was coming, and I despondently replied that I had had a very frustrating time 'finding a thesis.' My words suggested that a thesis was a bauble that one found in a desert of intellect that no one else had discovered. It was then that Milton Friedman turned me around and started me on the road to being an economist. 'Dick,' he said, 'theses are formed, not found.' It was the single most important event in my professional life. I finally could grasp what economic research was supposed to be." *Econ Focus*, Federal Reserve Bank of Richmond, First Quarter 2014, pp. 24–29, http://www.richmondfed.org/publications/research/econ_focus/2014/q1/pdf/interview.pdf.

Discussion Starters

Ed Dolan explores "The Pragmatic Case for a Universal Basic Income." "The concept goes by many names: unconditional basic income, basic income guarantee, demo-grant. I prefer 'universal basic income,' or UBI for short. Whatever you call it, though, the feature that distinguishes a UBI from other sorts of social safety nets is its universality. Unlike other income-support programs, it is not means-tested. Instead, a UBI would provide subsistence-level grants to everyone, regardless of need, earned income, age or job status. . . . Hardly anyone sees a UBI as a perfect safety net. It offends conservatives by offering something for nothing. And it raises serious questions for progressives who worry there is more to poverty than a lack of income—that a UBI would not do enough to transform the culture of poverty that weighs down the underclass. But it has pragmatic advocates (including me) who believe that a UBI offers a better compromise than do other income-support programs among the mutually incompatible criteria of effectiveness in reducing poverty, maintenance of work incentives, administrative efficiency and accurate targeting. A big worry, of course, is that a UBI would end up as budget-buster or require a raid on private wealth to finance it. However, as shown, it need be nothing of the sort—provided it were part of a bargain in which other antipoverty efforts (save medical care) were abandoned, and middle-income earners traded in a hodgepodge of tax breaks for the universal basic income grant." *Milken Institute Review*, Third Quarter 2014, pp. 14-23, http://assets1b.milkeninstitute.org/assets/Publication/MIReview/PDF/14-23-MR63.pdf.

Stephen M. Bainbridge and M. Todd Henderson present a vision of "Boards-R-Us: Reconceptualizing Corporate Boards." "Despite the long and zealous efforts of corporate law reformers to understand and improve the board of directors, there is a gaping hole in the corporate governance literature. No one has yet questioned a fundamental assumption of the current corporate governance model—that is, only individuals, acting as sole proprietors, should provide professional board services. . . . In other words, just as companies outsource their external audit function to an accounting firm rather than multiple individuals, the board of directors function would be outsourced to a professional services company. To see our idea, imagine a firm, Boards-R-Us, Inc., serving as the board of Acme Co. Instead of Acme shareholders hiring a dozen or so individual sole proprietors to provide board functions, they instead hire one firm—a BSP—to provide those functions, whatever they may be. Boards-R-Us would still act through individual agents, but the responsibility for managing a particular firm, within the meaning of state corporate law, would be that of Boards-R-Us the entity." *Stanford Law Review*, May 2014, vol. 66, pp. 1051–1120, http://www.stanfordlawreview.org/sites/default/files/66_Stan_L_Rev_1051_BainbridgeHenderson.pdf.

Markus Krajewski tells the story of "The Great Lightbulb Conspiracy: The Phoebus Cartel Engineered a Shorter-Lived Lightbulb and Gave Birth to Planned Obsolescence." The Convention for the Development and Progress of the International Incandescent Electric Lamp was signed in 1924 by the world's major light bulb manufacturers. "[T]he group founded the Phoebus cartel, a supervisory body that would carve up the worldwide incandescent lightbulb market, with each national and regional zone assigned its own manufacturers and production quotas. It was the first cartel in history to enjoy a truly global reach." The cartel did not only seek to set prices and quantities, but also collaborated to make light bulbs that would reliably burn out after about 1,000 hours. "The household lightbulb in 1924 was already technologically sophisticated: The light yield was considerable; the burning time was easily 2,500 hours or more. By striving for something less, the cartel would systematically reverse decades of progress. . . . [W]e found meticulous correspondence between the cartel's factories and laboratories, which were researching how to modify the filament and other measures to shorten the life span of their bulbs. The cartel took its business of shortening the lifetime of bulbs every bit as seriously as earlier researchers had approached their job of lengthening it. Each factory bound by the cartel agreement—and there were hundreds, including GE's numerous licensees throughout the world—had to regularly send samples of its bulbs to a central testing laboratory in Switzerland. There, the bulbs were thoroughly vetted against cartel standards. If any factory submitted bulbs lasting longer or shorter than the regulated life span for its type, the factory was obliged to pay a fine." *IEEE Spectrum*, October 2014, http://spectrum.ieee.org/geek-life/history/the-great-lightbulb-conspiracy.