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

A Selection of Symposia

Earl Pomeroy and Jim McCrery are former Congressmen who in the past headed the Social Security Subcommittee of the House Ways and Means Committee. They have collaborated on producing a volume of 16 essays by a range of authors called *SSDI Solutions: Ideas to Strengthen the Social Security Disability Insurance Program.* Patricia Owens offers "An Overview of Social Security Disability Insurance (SSDI)" focused on the dim financial prospects for the program as currently constituted. The chapters cover proposals about early intervention, program administration, interactions with other programs, structural reform, and international comparisons. In that last category, Robert Haveman discusses "Approaches to Assisting Working-Aged People with Disabilities: Insights from Around the World." Steps taken in other countries to reform disability insurance include: "The introduction of more

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stringent vocational criteria into the eligibility determination process…;" "Instead of relying on an applicant's own doctors, responsibility for assessing capability has been assigned to government agencies;" "Changing the emphasis in the disability pension program toward a 'rehabilitation before benefits' model involving the requirement that benefit applicants have undertaken rehabilitation efforts, as well as requiring employers to pursue workplace accommodation;" "Limiting the duration of disability pension payments to a fixed period (say, three years), with the need to reapply and reestablish eligibility after that period in order to continue benefit receipt;" "Increasing work incentives for benefit recipients through wage or employment subsidies or disregarding earnings in calculating benefits for recipients who combine work and disability benefit receipt." 2016. Published by Committee for a Responsible Federal Budget. At http://ssdisolutions.org/book. This volume is a useful complement to the three-paper "Symposium on Disability Insurance" in the Spring 2015 issue of this journal.

The proceedings of the 14th Bank of International Settlements Annual Conference, held in June 2015 in Lucerne, Switzerland, have now been published. John Kay delivered the keynote address on the subject: "Finance Is Just Another Industry" (BIS Papers no. 84). "We need a finance sector to manage our payments, finance our housing stock, restore our infrastructure, fund our retirement and support new business. But very little of the expertise that exists in the finance industry today relates to the facilitation of payments, the provision of housing, the management of large construction projects, the needs of the elderly or the nurturing of small businesses. The process of financial intermediation has become an end in itself. … High salaries and bonuses are awarded not for fine appreciation of the needs of users of financial services, but for outwitting competing market participants. In the most extreme manifestation of a sector which has lost sight of its purposes, some of the finest mathematical and scientific minds on the planet are employed to devise algorithms for computerised trading in securities which exploit the weaknesses of other algorithms for computerised trading in securities." The fourth of the four papers that follow is by Andrew W. Lo, "Moore's Law vs. Murphy's Law in the Financial System: Who's Winning?" (BIS Working Papers no. 564). "Breakthroughs in computing hardware, software, telecommunications and data analytics have transformed the financial industry, enabling a host of new products and services such as automated trading algorithms, crypto-currencies, mobile banking, crowdfunding and robo-advisors . However, the unintended consequences of technology-leveraged finance include firesales, flash crashes, botched initial public offerings, cybersecurity breaches, catastrophic algorithmic trading errors and a technological arms race that has created new winners, losers and systemic risk in the financial ecosystem. These challenges are an unavoidable aspect of the growing importance of finance in an increasingly digital society. Rather than fighting this trend or forswearing technology, the ultimate solution is to develop more robust technology capable of adapting to the foibles in human behaviour so users can employ these tools safely, effectively and effortlessly." May 2016. Kay's keynote speech and the four other papers are available at http://www.bis.org/publ/bppdf/bispap84.htm.

The *Review of Environmental Economics and Policy* has published a three-paper symposium on the subject of "The EU Emissions Trading System: Research Findings and Needs." The lead paper, by A. Denny Ellerman, Claudio Marcantonini, and Aleksandar Zaklan, discusses "The European Union Emissions Trading System: Ten Years and Counting." "The EU ETS is a classic cap-and-trade system. As of 2014, the EU ETS covered approximately 13,500 stationary installations in the electric utility and major industrial sectors and all domestic airline emissions in the EU's twenty-eight member states, plus three members of the closely associated European Economic Area … The great surprise of the second phase of the EU ETS was that, as phase III started in 2013, the price paid to emit carbon was less than €5, not the €30 or more that had been indicated by 2013 futures prices in 2008 and that was generally expected at that time. This development has created a lively debate about the future of the EU ETS and its role in climate policy. This debate can be summarized as being between those who view the current, much-lower-than-expected price as indicating serious flaws in the EU ETS and those who argue that the low price shows that the system is working exactly as it should given all that has happened since 2008 (i.e., reduced expectations for economic growth in the Eurozone, increased electricity generation from renewable sources, the significant use of offsets), including the possibility that abatement may be cheaper than initially expected. Fundamentally, this debate reflects differing views of the objectives of climate policy itself: whether the objective is solely to reduce GHG [greenhouse gas] emissions or also (and perhaps principally) to transform the European energy system. Although no one is suggesting that emissions have exceeded the cap, or that they will do so, current prices do not seem likely to lead to the kind of technological transformation that would greatly reduce Europe's reliance on fossil fuels." Winter 2016. The three-paper symposium runs from pp. 89–148.

John H. Cochrane and John B. Taylor have edited a collection of six essays on *Central Bank Governance and Oversight Reform.* In Chapter 4, Kevin M. Warsh distills insights from his time as a member of the Federal Reserve Board of Governors and from an insider's perch at the Bank of England to look at the functioning of monetary policy-making committees in "Institutional Design: Deliberations, Decisions, and Committee Dynamics." He points out that successful committees typically don't have too many participants, and those who do participate bring independent information and a willingness to dissent. But in the Fed Open Market Committee, Warsh notes: "By statute, the FOMC includes twelve voting members. … Policy deliberations, however, occur in a much larger institutional setting. Nineteen people convene in the discussion (voters and non-voters alike) and a total of about sixty people are in attendance, including a range of subject-matter experts on key aspects of the economic and financial landscape. While the Reserve Bank presidents are supported by large, independent staffs of economists to help inform their forecasts and policy judgments, I would note that the economic models and forecasting tools are substantially similar across the Federal Reserve System. … By both FOMC tradition and practice, the bar for lodging a dissenting vote is high. Neither Chairman Greenspan nor Chairman Bernanke ever cast a vote in the minority. In contrast, the governor of the Bank of England was outvoted on nine occasions since 1997. … Meade and Stasavage (2008) find evidence that the Fed's post-1993 transcript policy led to deterioration in the quality of FOMC deliberations. … The existence of public transcripts, even with a lag, caused FOMC participants to voice less dissent in the meetings themselves and to be less willing to change policy positions over time. For example, the number of dissenting opinions expressed by voting members fell from forty-eight (between 1989 and 1992) to twenty-seven (between 1994 and 1997)." Hoover Institution. 2016. At http://www.hoover.org/research/central-bank-governance-and-oversight-reform.

Smorgasbord

Indivar Dutta-Gupta, Kali Grant, Matthew Eckel, and Peter Edelman provide an overview of *Lessons Learned from 40 Years of Subsidized Employment Programs*. "Subsidized employment programs have successfully raised earnings and employment. This effect is not universal across programs or target populations, but numerous rigorously evaluated interventions offer clear evidence that subsidized employment programs can achieve positive labor market outcomes. Some of these effects derive from the compensation and employment provided by the subsidized job itself, but there also is evidence that well-designed programs can improve outcomes in the competitive labor market after a subsidized job has ended. … Fundamentally, subsidized jobs and paid work experience programs provide a source of both income and work experience. A number of experimentally-evaluated subsidized employment programs have in turn reduced family public benefit receipt, raised school outcomes among the children of workers, boosted workers' school completion, lowered criminal justice system involvement among both workers and their children, improved psychological well-being, and reduced longer-term poverty; there may be additional effects for some populations, such as increases in child support payment and improved health, which are being explored through ongoing experiments." The report also notes that two major federal government studies involving subsidized employment are now underway: the "Subsidized and Transitional Employment Demonstration (STED), 2010–2017" run by the US Department of Health and Human Services and the Enhanced Transitional Jobs Demonstration study run by the US Department of Labor. Georgetown Center on Poverty and Inequality. Spring 2016. At https://www.law.georgetown.edu/news/press-releases/report-by-georgetown-center-on-poverty-and-inequality-lessons-learned-from-40-years-of-subsidized-employment-programs.cfm.

The UK government set up a Review on Antimicrobial Resistance, funded by the Wellcome Trust and the UK Department of Health, and chaired by Jim O'Neill, which produced the report, *Tackling Drug-Resistant Infections Globally: Final Report and Recommendations*. "An externality is the cost or benefit to a third party for a decision over which they have no control. … Antibiotic consumption fits in this category: individuals take and may benefit from the antibiotics but the resistance to which they contribute impacts all of society. … We estimate that by 2050, 10 million lives a year and a cumulative 100 trillion USD of economic output are at risk due to the rise of drug-resistant infections if we do not find proactive solutions now to slow down the rise of drug resistance. Even today, 700,000 people die of resistant infections every year. Antibiotics are a special category of antimicrobial drugs that underpin modern medicine as we know it: if they lose their effectiveness, key medical procedures (such as gut surgery, caesarean sections, joint replacements, and treatments that depress the immune system, such as chemotherapy for cancer) could become too dangerous to perform. Most of the direct and much of the indirect impact of AMR [anti-microbial resistance] will fall on low and middle-income countries. It does not have to be this way. … The economic impact is also already material. In the US alone, more than two million infections a year are caused by bacteria that are resistant to at least first-line antibiotic treatments, costing the US health system 20 billion USD in excess costs each year." May 2016. At http://amr-review.org.

The Office of Economic Policy at the US Department of the Treasury has published "Non-compete Contracts: Economic Effects and Policy Implications." "Non-compete agreements are contracts between workers and firms that delay employees' ability to work for competing firms. Employers use these agreements for a variety of reasons: they can protect trade secrets, reduce labor turnover, impose costs on competing firms, and improve employer leverage in future negotiations with workers. However, many of these benefits come at the expense of workers and the broader economy. Recent research suggests that a considerable number of American workers (18 percent of all workers, or nearly 30 million people) are covered by non-compete agreements. The prevalence of such agreements raises important questions about how they affect worker welfare, job mobility, business dynamics, and economic growth more generally. This report presents insights from economic theory and evidence on the economic effects of non-compete agreements. It goes on to discuss policy implications, starting a discussion about how such agreements could be used in a way that balances the interests of firms with those of workers and society as a whole." March 2016. Ryan Nunn was principal drafter of the report. https://www.treasury.gov/resource-center/economic-policy/Documents/UST%20Non-competes%20Report.pdf.

A Council of Economic Advisers report discusses *Economic Perspectives on Incarceration and the Criminal Justice System.* "Researchers who study crime and incarceration believe that the true impact of incarceration on crime reduction is small, with a 10 percent increase in incarceration decreasing crime by just 2 percent or less … Additional incarceration may be particularly ineffective in reducing crime when incarceration rates are already high. When incarceration rates are high, further incarceration entails incapacitating offenders who are on average lower risk, which means that their incarceration will yield fewer public safety benefits." "Cost-benefit analyses of incarceration weigh the direct costs of incarcerating an individual against the social value of crimes that may have been averted due to incarceration. Lofstrom and Raphael (2013) examine a 2011 policy change in California that resulted in the realignment of 27,000 State prisoners to county jails or parole. They find that realignment had no impact on violent crime, but that an additional year of incarceration is associated with a decrease of 1 to 2 property crimes, with effects strongest for motor vehicle theft. Applying estimates of the societal cost of crime, the authors calculate that while the cost of a year of incarceration is $51,889 per prisoner in California, the societal value of the corresponding reduction in motor vehicle thefts is only $11,783, yielding a loss of $40,106 per prisoner. Notably, this net loss per prisoner would be larger if the study considered the additional costs of collateral consequences, such as lost earnings or potential increases in re-offending due to incarceration. These estimates highlight the fact that there are more cost-effective ways of reducing crime than incarceration, such as investing in law enforcement, education, and policies that expand economic opportunity." April 2016. https://www.whitehouse.gov/sites/default/files/page/files/20160423_cea_incarceration_criminal_justice.pdf. The report is a useful companion to "Crime, the Criminal Justice System, and Socioeconomic Inequality," by Magnus Lofstrom and Steven Raphael in the Spring 2016 issue of this journal.

Lana Conforti describes "The first 50 years of the Producer Price Index: Setting Inflation Expectations for Today." "March 3, 2016, marked the 125th anniversary of the PPI—one of the oldest economic time series compiled by the federal government. The index, known as the Wholesale Price Index (WPI) until 1978, was established as part of a U.S. Senate resolution on March 3, 1891, the last day of the last session of the 51st U.S. Congress. This Congress was famously known as the 'Billion-Dollar Congress,' because of its expensive initiatives, such as expanding the Navy and creating pensions for families of military members who served in the Civil War. It operated in an era of industrialization, immigration, and economic growth. Two of its most well-known bills were the Sherman Antitrust Act, which sought to protect consumers from certain anticompetitive business practices that tended to raise prices (e.g., monopolies and cartels), and the McKinley Tariff Act of 1890, which raised duties on imports with the goal of protecting domestic industries from foreign competition. Born out of the necessity to measure the impact of such economic policies, the resolution marking the origin of the PPI read thus: 'Resolved, The Committee on Finance be, and they are hereby, authorized and directed, by subcommittee or otherwise, to ascertain in every practicable way, and to report from time to time to the Senate, the effect of the tariff laws upon the imports and exports, the growth, development, production, and prices of agricultural and manufactured articles, at home and abroad….' In response to this resolution, Senator Nelson W. Aldrich, who later played a role in the establishment of the Federal Reserve System, authored a report on *Retail Prices and Wages* in July 1892." *Monthly Labor Review*, published by the US Bureau of Labor Statistics. June 2016. http://www.bls.gov/opub/mlr/2016/article/the-first-50-years-of-the-producer-price-index.htm.

Abhijit Banerjee and Esther Duflo are editing a *Handbook of Field Experiments*, forthcoming from Elsevier. Working paper versions of most of the 17 chapters are posted online at https://www.povertyactionlab.org/handbook-field-experiments. Banerjee and Duflo write: "Taken together, these papers offer an incredibly rich overview of the state of literature. This page collects together all the working paper versions of the chapters, and will also link to the final versions as they become available."

Economies in Africa

African Economic Outlook 2016 is the latest version of an annual report produced by the African Development Bank, the OECD Development Centre and the United Nations Development Programme. The report provides overview of the economic situation in the nations of Africa as well as chapters on the theme of "Sustainable Cities and Structural Transformation." "The African continent is urbanising fast. The share of urban residents has increased from 14% in 1950 to 40% today. By the mid-2030s, 50% of Africans are expected to become urban dwellers … However, urbanisation is a necessary but insufficient condition for structural transformation. Many countries that are more than 50% urbanised still have low-income levels. Urbanisation per se does not bring economic growth, though concentrating economic resources in one place can bring benefits. Further, rapid urbanisation does not necessarily correlate with fast economic growth: Gabon has a high annual urbanisation rate at 1 percentage point despite a negative annual economic growth rate of –0.6% between 1980 and 2011. In addition, the benefits of agglomeration greatly depend on the local context, including the provision of public goods. … Congestion, overcrowding, overloaded infrastructure, pressure on ecosystems, higher costs of living, and higher labour and property costs can offset the benefits of concentrating economic resources in one place. These negative externalities tend to increase as cities grow. This is especially true if urban development is haphazard and public investment does not maintain and expand essential infrastructure. Dysfunctional systems, gridlocks, power cuts and insecure water supplies increase business costs, reduce productivity and deter private investment. In OECD countries, cities beyond an estimated 7 million inhabitants tend to generate such diseconomies of agglomeration." May 2016. Available at http://www.africaneconomicoutlook.org.

Finance & Development has published nine readable articles on the theme of "Africa: Growth's Ups and Downs." The lead article by Stephen Radelet, "Africa's Rise—Interrupted?" provides an overall perspective: "At a deeper level, although high commodity prices helped many [African] countries, the development gains of the past two decades—where they occurred—had their roots in more fundamental factors, including improved governance, better policy management, and a new generation of skilled leaders in government and business, which are likely to persist into the future. … Overall growth is likely to slow in the next few years. But in the long run, the outlook for continued broad development progress is still solid for many countries in the region, especially those that diversify their economies, increase competitiveness, and further strengthen institutions of governance. … The view that Africa's surge happened only because of the commodity price boom is too simplistic. It overlooks the acceleration in growth that started in 1995, seven years before commodity prices rose; the impact of commodity prices, which varied widely across countries (and hurt oil importers); and changes in governance, leadership, and policy that were critical catalysts for change." June 2016. Available at http://www.imf.org/external/pubs/ft/fandd/2016/06/index.htm.

Discussion Starters

Peter Sands argues for "Making it Harder for the Bad Guys: The Case for Eliminating High Denomination Notes." "Our proposal is to eliminate high denomination, high value currency notes, such as the €500 note, the $100 bill, the CHF1,000 [Swiss franc] note and the £50 note. Such notes are the preferred payment mechanism of those pursuing illicit activities, given the anonymity and lack of transaction record they offer, and the relative ease with which they can be transported and moved. By eliminating high denomination, high value notes we would make life harder for those pursuing tax evasion, financial crime, terrorist finance and corruption. … To get a sense of why this might matter to criminals, tax evaders or terrorists, consider what it would take to transport US$1m in cash. In US$20 bills, US$1m in cash weighs roughly 110lbs and would fill 4 normal briefcases. One courier could not do this. In US$100 bills, the same amount would weigh roughly 22lbs and take only one briefcase. A single person could certainly do this, but it would not be that discrete. In €500 notes, US$1m equivalent weighs about 5lbs and would fit in a small bag. … It should be no surprise that in the underworld the €500 note is known as a 'Bin Laden.'" Mossavar-Rahmani Center for Business & Government at the Harvard Kennedy School, Working Paper #52, February 2016, https://www.hks.harvard.edu/centers/mrcbg/publications/awp/awp52.

The Johns Hopkins-Lance Commission on Drug Policy and Health, composed of 22 experts from a wide range of disciplines and professions in low-income, middle-income, and high-income countries, has published "Public Health and International Drug Policy." "The war on drugs and zero-tolerance policies that grew out of the prohibitionist consensus are now being challenged on multiple fronts, including their health, human rights, and development impact. … The disconnect between drug-control policy and health outcomes is no longer tenable or credible. … This challenge is significant, because policy responses to drugs negatively affect human lives and human rights and contradict evidence-based public health approaches. As noted by former UN Secretary-General Kofi Annan, 'Drugs have destroyed many people, but wrong policies have destroyed many more.'" Published at the website of the *Lancet*, March 24, 2016. Available (with free registration) at http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(16)00619-X/fulltext.