

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., St. Paul, MN 55105.

Potpourri

The IMF, World Bank, and World Trade Organization have combined to write “Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment.” “According to simulation exercises, adjustment frictions in AEs [advanced economies] can lead to transition periods of up to 10 years and reduce the gains from trade by up to 30 percent ... An unusual period of sharply increased import competition that began around 2000, along with other factors, appears to have negatively impacted regional labor markets in some AEs. Evidence on most episodes of trade increases suggests that the impact on aggregate labor market outcomes has been mild. When EMDEs [emerging market and developing

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economies] began to play a greater role in global manufacturing trade, in part reflecting the impact of pro-market reforms in China, a series of studies examined the impact on local labor markets during that period ... These studies show that areas more exposed to competition from Chinese manufactures due to their industrial structure saw significant and persistent losses in jobs and earnings, falling most heavily on low-skilled workers.” “When switching industries within manufacturing, workers in developed countries have been estimated to forego in terms of lifetime income the equivalent of 2.76 times their annual wage. Switching occupations may have similar costs, although these costs vary substantially across occupations and skill levels, with college-educated workers experiencing on average lower costs.” “While employment protection legislation can reduce displacements, it can also impede the needed reallocation. There is broad consensus that employment protection should be limited, and that low hiring/firing costs coupled with protection through unemployment benefits is preferable, as in the case of Nordic countries ... Well-designed and targeted trade-specific support programs can complement existing labor-market programs. ... The effectiveness of these trade-specific programs has been mixed, however, and their coverage and size tends to be very small.” March 22–23, 2017, <http://www.imf.org/en/Publications/Policy-Papers/Issues/2017/04/08/making-trade-an-engine-of-growth-for-all>.

Jason Furman delivered the Arnold C. Harberger Distinguished Lecture on Economic Development at the UCLA Burkle Center for International Relations, on “The Role of Economists in Economic Policymaking.” He offers a wide range of concrete and useful examples. “I want to give you an example of a mistake I was involved in because I did not think hard about causation. At the end of 2008, I was working with Congress on legislation to raise the tax on tobacco products in order to pay for an expansion of the Children’s Health Insurance Program (CHIP). The main proposal was to raise the tax on a pack of cigarettes from \$0.39 per pack to \$1.01 per pack. But we also needed to set tax rates on a wide range of other tobacco products including roll-your-own tobacco, pipe tobacco, small cigars, large cigars, and more. Amidst everything that was going on at the end of 2008 with the Great Recession I did not pay enough attention to this issue, even though I once sat through what felt like an endless meeting on the topic. What came out of that meeting was a proposal to raise the tax rate on roll-your-own tobacco by more than \$20 a pound while leaving the tax rate on pipe tobacco largely unchanged. What followed was a huge decline in the sale of roll-your-own tobacco and a huge increase in the sale of pipe tobacco ... It turns out that roll-your-own tobacco and pipe tobacco are highly substitutable—not because people have shifted to smoking pipes, but because you can still put pipe tobacco in a piece of paper, roll it up, and smoke it. This is not just a minor, technical observation. It turns out to be highly consequential for public health. I have estimated that the 2009 tobacco tax increase will reduce the number of premature deaths due to smoking by between 15,000 and 70,000 for each cohort. But it would have reduced them even more if we had harmonized the tax rate on different tobacco products, as we did in a subsequent proposal. In fact, economists in the Treasury Department estimated that the reduction in

tobacco consumption under a harmonization proposal would be nearly two and a half times the size it would be under an increase in the cigarette tax alone that raises comparable revenue.” April 27, 2017. <https://piie.com/system/files/documents/furman20170427.pdf>.

Timothy J. Bartik has compiled “A New Panel Database on Business Incentives for Economic Development Offered by State and Local Governments in the United States.” A short overview, “Better Incentives Data Can Inform both Research and Policy,” appears in the Upjohn Institute *Employment Research* newsletter, and reports: “Using data from 1990 to 2015, the ‘Panel Database on Incentives and Taxes’ estimates marginal business taxes and business incentives for 45 industries in 33 states; the industries compose 91 percent of U.S. labor compensation, and the states produce over 92 percent of U.S. economic output. ... Average incentives increased from 9 percent of business taxes in 1990 to 30 percent in 2015. ... Because business executives tend to think in the short term, an incentive today is more effective at inducing location decisions than an incentive that is only paid out 10 years from now. The average state has incentives that are still 1.1 percent of business value-added when a facility is in its tenth year of operation. Reducing such long-term incentives would lower long-term government costs of incentives without having much effect on job creation. ... Incentives designed as customized services may be more effective than tax incentives.” Upjohn Institute. Full report from February 2017 is at <http://research.upjohn.org/cgi/viewcontent.cgi?article=1228&context=reports>. Newsletter (vol. 24, no. 2) is at http://research.upjohn.org/empl_research/vol24/iss2/1/.

Puzzling over Productivity

Edmund Phelps discusses “The Dynamism of Nations: Toward a Theory of Indigenous Innovation.” “Some of the most serious faults of the once-dynamic economies lie in the private sector. A degree of corruption has seeped into some private institutions. The institution known as corporate governance is suspect. Most attempts at innovation are long-term projects shrouded in mystery, yet CEOs lean toward short-termism, aiming to maximize their bonuses and golden parachute by extracting every last gain in efficiency. ... A characteristic of established and even accomplished corporations is that they are unable to go beyond a careful concern for efficiency, which demonstrates to the corporate board and shareowners their zeal. ... [T]he rise of corporatism has transformed the functioning of the once-modern economies.” “By now, corporatism is pervasive in all the nations of the West. Corporatism is behind the metastasis of vested interests, clientelism and cronyism that has brought a welter of regulations, grants, loans, guarantees, deductions, carve-outs, and evergreen patents mainly to serve vested interests, political clients, and cronies. In recent decades, large banks, large companies, and large government agencies formed a nexus to pump up home mortgage debt in America and to create unchecked sovereign debt and unfunded entitlements in several nations

in Europe. America has joined Europe in having a parallel economy that draws its nourishment from the ideas of political elites, whatever their motives, rather than from new commercial ideas. All this has combined to choke off much innovation.” *Capitalism and Society*, 2017, vol. 2, no. 1, Article 3, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2963105.

Andrew G. Haldane delivered a lecture on “Productivity Puzzles” at the London School of Economics. “Growth theory would predict that, over time, technological diffusion should lead to catch-up between frontier and non-frontier countries. And the greater the distance to the frontier, the faster these rates of catch-up are likely to be. So what explains the 1¼ percentage point slowdown in global productivity growth since the 1970s—slower innovation at the frontier or slower diffusion to the periphery? If the frontier country is taken to be the United States, then slowing innovation can only account for a small fraction of the global slowing, not least because the US only has about a 20% weight in world GDP. In other words, the lion’s share of the slowing in global productivity is the result of slower diffusion of innovation from frontier to non-frontier countries. ... Taken at face value, these patterns are both striking and puzzling. Not only do they sit oddly with Classical growth theory. They are also at odds with the evidence of history, which has been that rates of technological diffusion have been rising rather than falling over time, and with secular trends in international flows of factors of production. At the very time we would have expected it to be firing on all cylinders, the technological diffusion engine globally has been misfiring. This adds to the productivity puzzle.” March 20, 2017, <http://www.bankofengland.co.uk/publications/Documents/speeches/2017/speech968.pdf>.

Gustavo Adler, Romain Duval, Davide Furceri, Sinem Kiliç Çelik, Ksenia Koloskova, and Marcos Poplawski-Ribeiro have written “Gone with the Headwinds: Global Productivity.” From the abstract: “[T]his note finds that the productivity slowdown reflects both crisis legacies and structural headwinds. In advanced economies, the global financial crisis has led to ‘productivity hysteresis’—persistent productivity losses from a seemingly temporary shock. Behind this are balance sheet vulnerabilities, protracted weak demand and elevated uncertainty, which jointly triggered an adverse feedback loop of weak investment, weak productivity and bleak income prospects. Structural headwinds—already blowing before the crisis—include a waning ICT boom and slowing technology diffusion, partly reflecting an aging workforce, slowing global trade and weaker human capital accumulation.” IMF Discussion Note, April 2017, SDN/17/04, <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2017/04/03/Gone-with-the-Headwinds-Global-Productivity-44758>.

James Manyika, Jaana Remes, Jan Mischke, and Mekala Krishnan discuss “The Productivity Puzzle: A Closer Look at the United States.” “We identify six characteristics that provide further insight into the productivity growth slowdown: declining value-added growth, a shift in employment toward lower productivity sectors, a relatively small number of sectors experiencing jumps in productivity, weak capital intensity growth across all types of capital, uneven rates of digitization across sectors (especially the large and often relatively

low-productivity ones), and slowing business dynamism.” McKinsey Global Institute, March 2017, <http://www.mckinsey.com/global-themes/employment-and-growth/new-insights-into-the-slowdown-in-us-productivity-growth>.

Essays on Early Childhood Learning

Future of Children has devoted an issue to nine articles about “Social and Emotional Learning.” From the introductory essay, “Social and Emotional Learning: Introducing the Issue,” by Stephanie M. Jones and Emily J. Doolittle: “Research increasingly suggests that social and emotional learning (SEL) matters a great deal for important life outcomes like success in school, college entry and completion, and later earnings. This research also tells us that SEL can be taught and nurtured in schools so that students increase their ability to integrate thinking, emotions, and behavior in ways that lead to positive school and life outcomes. ... All 50 states have SEL standards in place at the preschool level, and four (Illinois, Kansas, West Virginia, and Pennsylvania) have SEL standards for kindergarten through 12th grade. ... At its core, SEL involves children’s ability to learn about and manage their own emotions and interactions in ways that benefit themselves and others, and that help children and youth succeed in schooling, the workplace, relationships, and citizenship. ... Decades’ worth of research suggests that something other than academic skills and content knowledge strongly influences success in school and beyond. Indeed, SEL skills may be just as important as academic or purely cognitive skills for understanding how people succeed in school, college, and careers. In addition, preliminary evidence suggests that SEL skills could be central to understanding and remediating stubbornly persistent gaps in achievement defined by income and racial/ethnic differences. ...” Spring 2017, http://www.futureofchildren.org/sites/futureofchildren/files/media/foc_spring_vol27_no1_for_web.pdf.

The Brookings Institution and the Duke University Center for Child and Family Policy convened a “Pre-Kindergarten Task Force of interdisciplinary scientists” to survey “The Current State of Scientific Knowledge on Pre-Kindergarten Effects,” including Deborah A. Phillips, Mark W. Lipsey, Kenneth A. Dodge, Ron Haskins, Daphna Bassok, Margaret R. Burchinal, Greg J. Duncan, Mark Dynarski, Katherine A. Magnuson, and Christina Weiland. The report includes 10 short essays by specific authors, plus a “Consensus Statement,” which says (in part): “Convincing evidence shows that children attending a diverse array of state and school district pre-k programs are more ready for school at the end of their pre-k year than children who do not attend pre-k. Improvements in academic areas such as literacy and numeracy are most common; the smaller number of studies of social-emotional and self-regulatory development generally show more modest improvements in those areas. Convincing evidence on the longer-term impacts of scaled-up pre-k programs on academic outcomes and school progress is sparse, precluding broad conclusions. The evidence that does exist often shows that pre-k-induced improvements in

learning are detectable during elementary school, but studies also reveal null or negative longer-term impacts for some programs.” April 2017, https://www.brookings.edu/wp-content/uploads/2017/04/duke_prekstudy_final_4-4-17_hires.pdf.

Interviews with Economists

The Knowledge@Wharton website at the University of Pennsylvania has posted a 36-minute podcast interview with Angus Deaton, titled “Is Despair Killing the White Working Class? Ask Angus Deaton.” “[I]f you look at white, non-Hispanics in midlife, in their early 50s for example, their mortality rate after 100 years of declining had turned the wrong way or at least flattened out. This is not happening to other groups in the U.S. It’s not happening to Hispanics. It’s not happening to African-Americans. And it’s not happening in any other rich country in the world. This is happening to both men and women. Perhaps the most shocking thing is that a lot of the deaths come from what you might think of as behavioral factors, which are alcohol—alcoholic beverages—from suicides and from drug overdoses. Many of those drug overdoses are accidental overdoses from prescription drugs. People often think the health system is responsible for our health. In this case, the health system is responsible for killing people, not actually helping them. ... There’s a lot of really bad stuff going on, especially for this group without a B.A.” April 6, 2017, <http://knowledge.wharton.upenn.edu/article/despair-and-the-white-working-class>.

Douglas Clement presents an “Interview with Gita Gopinath.” As the subheading says, the main topics include the “dollar’s unique status, crises & productivity, and policy spillover to emerging markets.” “So what we analyzed in our paper is a set of fiscal instruments that would deliver the same outcomes as a currency devaluation. This idea goes back to Keynes, as you said, who proposed import tariffs and export subsidies as a substitute for currency devaluation. Given the illegality of using tariffs of this nature, we instead explored the role of value-added taxes and payroll subsidies or, more specifically, raising value-added taxes and cutting payroll taxes. What we found, surprisingly, is that this form of intervention did extremely well in mimicking the outcomes of a currency devaluation, not approximately but exactly. ... Despite the virtues, there are political challenges to implementing a large fiscal devaluation. Countries live through a 10 percent exchange rate depreciation without immense anxiety, but if you raise value-added taxes by 10 percent, that would be very salient and likely politically infeasible. But the broader point we made was that there are instruments other than exchange rate devaluations that a country can use to gain trade competitiveness.” *The Region*, Federal Reserve Bank of Minneapolis, December 20, 2016, <https://www.minneapolisfed.org/publications/the-region/interview-with-gita-gopinath>.

Aaron Steelman offers an “Interview” with Jonathan A. Parker. “[H]igh-income households used to live a relatively quiet life in the sense that the top 1 percent would earn a relatively stable income, more stable than the average

income. When the average income dropped by 1 percent, the incomes of the top 1 percent would drop by about only six-tenths of a percent. In the early 1980s that switched, so that in a recession if aggregate income dropped by 1 percent, the incomes of the top 1 percent dropped more like 2.5 percent—quadrupling the previous cyclical. So now they're much more exposed to aggregate fluctuations than the typical income." "I use Nielsen Consumer Panel data to design and run my own survey on households to measure the effect of what was then the second of these large randomized experiments run by the U.S. government, the economic stimulus program of 2008. The key feature of that program was that the timing of the distribution of payments was determined by the last two digits of the Social Security number of the taxpayer, numbers that are essentially randomly assigned. So the government effectively ran a \$100 billion natural experiment in 2008, distributing money randomly across time to people, and this policy provides a way to measure quite cleanly how people respond to infusions of liquidity. ... The first thing I found out is that illiquidity is still a tremendous predictor of who spends more when a predictable payment arrives. ... Low liquidity, or low financial wealth, is a very persistent state across households, suggesting the propensity to spend is not purely situational. A lot of it is closer to an individual-specific permanent effect than something transient due to temporary income shocks." *Econ Focus*, Federal Reserve Bank of Richmond, Third/Fourth Quarter 2016, pp. 22–26, https://www.richmondfed.org/publications/research/econ_focus/2016/q3-4/interview.

Cloud Yip offers a two-part interview with Ricardo Reis: "The Performance of Macroeconomics is Not that Bad!" and "Ricardo Reis Explains How to Use Interest on Reserve for Inflation Targeting." From the second part: "In the last six years, the world of central banking, the way central banks operate, the way they set monetary policy, has changed radically. ... Reserves in the central banks used to be an asset that was essentially zero on the balance sheet. ... Now it is one of the largest financial assets in the US. So, we have this new asset which is fundamental to the financial market, to the monetary policy, and it has fundamentally changed what the central bank balance sheet does. ... A lot of my research in last year has been focused on understanding what does it mean and what does it imply for the control of inflation, for the risk of central bank insolvency and among others. That's what I called Reservism, trying to understand what is the role of this new asset called reserve has on the economy and the central bank policy. ... Reserves right now are overnight deposit in central bank by banks, they are paid a given interest rate but once you started thinking about what they are, you realized that those could be different. They could, instead of promising an interest rate, promising a different payment. They could be, instead of overnight, a 30-day deposit. They could be lots of different things." EconReporter (an independent Hong Kong journalism project). Part 1 of the interview, posted February 9, 2017, is at <http://en.econreporter.com/en/2017/02/ricardo-reis-performance-macroeconomics-not-bad>. Part 2, posted February 11, 2017, is at <http://en.econreporter.com/en/2017/02/ricardo-reis-explains-central-banks-can-use-interest-reserve-target-inflation>.

Discussion Starters

Nicholas Bloom discusses “Corporations in the Age of Inequality.” “The real engine fueling rising income inequality is ‘firm inequality’: In an increasingly winner-take-all or at least winner-take-most economy, the best-educated and most-skilled employees cluster inside the most successful companies, their incomes rising dramatically compared with those of outsiders. This corporate segregation is accelerated by the relentless outsourcing and automation of noncore activities and by growing investment in technology.” *Harvard Business Review*, March 2017, <https://hbr.org/cover-story/2017/03/corporations-in-the-age-of-inequality>.

Daniel Griswold takes on the task of “Plumbing America’s Balance of Trade.” “America’s commerce with the rest of the world must be and always is balanced when taking into account investment flows as well as the exchange of goods and services. ... [O]ne key insight for public policy is that the total outflow of dollars each year from the United States to the rest of the world is matched by an equal inflow of dollars from the rest of the world to the United States. There is no need to worry about a ‘leakage’ of dollars siphoning off demand from the domestic economy. Dollars spent on imported goods and services return to the United States, if not to buy US goods and services, then to buy US assets in the form of an inward flow of investment.” Mercatus Center at George Mason University, March 2017, <https://www.mercatus.org/system/files/mercatus-griswold-balance-of-trade-v1.pdf/>.

Jacob Udell and Glenn Yago discuss “Still Digging Out: The Economics of a Palestinian Future.” “Though the labor force participation rate [in the West Bank and Gaza] is currently at its highest since 2000 (at an unimpressive 46 percent), it has been accompanied by an overall spike in unemployment—implying that the net entry of job seekers into the market exceeds the ability of the economy to create employment. Meanwhile, the Palestinian Authority has also become the employer of last resort, with 23 percent of the workforce on its rolls. The wave of youth entering the labor market in the past decade, coupled with the frictional and structural unemployment of the adult population and almost nonexistent job growth, has left youth unemployment at alarming levels. Since 2001, for instance, unemployment among males aged 15–24, which seems to function as a leading indicator of civil unrest, has averaged 35 to 40 percent and reached 43 percent in 2014. Since 2005, real average wages have decreased by some 10 percent, while unemployment remains at around one-quarter of the labor force, and average GDP growth lags behind population growth by 2.6 percent per year. And while considerable sums flow into the territories from overseas Palestinians, there are no ‘diaspora bonds’ or other vehicles to facilitate investment by Palestinian ex-pats (whose wealth estimates by the World Bank have varied from \$40 billion to \$80 billion). One mark of a lack of confidence in the economy: Palestinian investment abroad in 2015 was \$5.9 billion—\$1.3 billion more than foreign investment in Palestine.” *Milken Institute Review*, Second Quarter 2017, pp. 78–85. <http://www.milkenreview.org/articles/still-digging-out>.