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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., St. Paul, MN 55105.

Smorgasbord

The committee that awards the Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel has published, as is its custom, two essays describing the work of the 2018 winners: William D. Nordhaus and Paul M. Romer. Here's a brief comment on their work from "Popular Science Background: Integrating Nature and Knowledge into Economics." On Nordhaus: "William Nordhaus began his work in the 1970s, after scientists had become increasingly concerned about how the combustion of fossil fuels causes serious global warming, and the detrimental effects of such climate change. Nordhaus took on the daunting task of

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examining bidirectional feedback loops between human activity and the climate, combining basic theories and empirical results from physics, chemistry, and economics. … Nordhaus became the first person to design simple, but dynamic and quantitative models of the global economic-climate system, now called *integrated assessment models* (IAMs). His tools allow us to simulate how the economy and climate would co-evolve in the future under alternative assumptions about the workings of nature and the market economy, including relevant policies." On Romer: "In the early 1980s, when he was a PhD student at the University of Chicago, Paul Romer started developing the theory of *endogenous* growth, where technological advances do not just flow in from external—exogenous—sources, as assumed in earlier economic models. Instead, they are created by purposeful activities in the marketplace. … He also demonstrated how such endogenous technological change can shape growth, and which policies are necessary for this process to work well. … Romer believed that a market model for idea creation must allow for the fact that the production of new goods, which are based on ideas, usually has rapidly declining costs: the first blueprint has a large fixed cost, but replication/reproduction has small marginal costs. Such a cost structure requires that firms charge a markup, i.e. setting the price above the marginal cost, so they recoup the initial fixed cost. … Romer also showed that growth driven by the accumulation of ideas, unlike growth driven by the accumulation of physical capital, does not have to experience decreasing returns. In other words, ideas-driven growth can be sustained over time." October 8, 2018. The "Popular Science" essay is at https://www.nobelprize.org/uploads/2018/10/popular-economicsciencesprize2018.pdf. The more detailed essay, "Scientific Background: Economic growth, technological change, and climate change," is at https://www.nobelprize.org/uploads/2018/10/advanced-economicsciencesprize2018.pdf.

On average, women around the world are paid 15.6 percent per hour less than men according to the *Global Wage Report 2018–2019*, published by the International Labour Organization, which devotes two main chapters to the theme "What lies behind gender pay gaps." "A gender pay gap measured simply—the so-called 'raw' or unadjusted gender pay gap—can arise for a multitude of different reasons, including, among others: differences between female and male educational attainments; lower wages in the sectors and occupations in which women are concentrated; differences between female and male participation rates in part-time and full-time work, which are in turn influenced by women's role as mothers and their care responsibilities; and discrimination in pay between women and men performing equal work or work of equal value. … [T]he low labour market participation of women vis-à-vis men is a global phenomenon. Irrespective of income level, in all countries and at any age group, women's participation rates are always below those of men. … [F]or most countries, the trend in participation rates for women starts to separate further from that of men at about the age of 25–35 years old, coinciding with the beginning of the period of motherhood. Finally, in only a few of the countries shown here (Armenia, Australia, Mongolia, Philippines, Russian Federation, Ukraine) is there any 'bounce back' into the labour market for women. In most other countries, it

seems that motherhood has a long-term effect: once the participation of women declines at around the age of 25–30 years, the proportion of women who stay in (or out) of the labour market across all other age groups thereafter remains constant until approximately retirement age. … Globally, women are still substantially less likely than men to participate in the labour market. The global gap in labour force participation has been estimated at 27 percentage points, and participation gaps remain particularly wide in the Arab States, northern Africa and southern Asia, in each case exceeding 50 percentage points." November 26, 2018, https://www.ilo.org/global/publications/books/WCMS_650553/lang–en/index.htm.

Kym Anderson, Giulia Meloni, and Johan Swinnen provide an overview of "Global Alcohol Markets: Evolving Consumption Patterns, Regulations, and Industrial Organizations." "The global mix of recorded alcohol consumption has changed dramatically over the past half century: Wine's share of the volume of global alcohol consumption has fallen from 34% to 13% since the early 1960s, while beer's share has risen from 28% to 36%, and spirits' share has gone from 38% to 51%. In liters of alcohol per capita, global consumption of wine has halved, while that of beer and spirits has increased by 50%." "As of 2010–2014, alcohol composed nearly two-thirds of the world's recorded expenditure on beverages, with the rest being bottled water (8%), carbonated soft drinks (15%), and other soft drinks such as fruit juices (13%)." "In early history, wine and beer consumption was mostly positively perceived from health and food security perspectives. Both wine and beer were safe to drink in moderation because fermentation kills harmful bacteria. … Beer was also a source of calories. For both reasons, beer was used to pay workers for their labor from Egyptian times to the Middle Ages. Wine too was part of some workers' remuneration and was included in army rations of some countries right up to World War II." *Annual Review of Resource Economics*, vol. 10, pp. 105–132 (not freely available online).

Brent R. Moulton discusses "The Measurement of Output, Prices, and Productivity: What's Changed Since the Boskin Commission?" "I use as my starting point the Final Report of the Advisory Commission to Study the Consumer Price Index, commonly known as the Boskin Commission, which kicked off [in 1996] major efforts to improve core economic statistics … I conclude that the overall bias of the Consumer Price Index has fallen from about 1.1 percent in 1996 to about 0.85 percent today. Because the CPI and other price indexes are used as deflators in the estimation of productivity, these improvements in the CPI and similar improvements in the Producer Price Index (PPI) have fed directly into reducing bias in the productivity statistics. … I catalog changes in methodology that have affected real output or prices since January 1997. I also offer three recommendations on ways to renew progress on reducing or eliminating bias in multifactor productivity, GDP growth, and related price indexes. Hutchins Center on Fiscal and Monetary Policy at Brookings, July 2018, at https://www.brookings.edu/wp-content/uploads/2018/07/Moulton-report-v2.pdf. For a contemporary discussion of the Boskin Commission, see the six-paper symposium on "Measuring the CPI" in the Winter 1998 issue of this journal.

Collections of Essays

The Becker Friedman Institute at the University of Chicago has published *The Monetary and Fiscal History of Latin America*, with one paper on each of the 11 largest Latin American countries from 1960 to 2016. For example, Diego Restuccia writes on "The Case of Venezuela": "In the post-war era, Venezuela represents one of the most dramatic growth experiences in the world. Measured as real gross domestic product (GDP) per capita in international dollars, Venezuela attained levels of more than 80% of that of the US by the end of 1960. It has also experienced one of the most dramatic declines, with levels of relative real GDP per capita reaching less than 30% of that of the US nowadays. … The last period, from 2006 to 2016 deserves special discussion. … First, there is extreme intervention of the public sector in economic activity through expropriation of private enterprises and government intervention of goods distribution systems. … Second, this is a period of rising debt, both internal and external, with the internal debt becoming the majority of new debt as external sources of financing have become more limited toward the end of the period. Third, there is a decline in the transparency of debt statistics … Fourth, there was a partial reform of the Central Bank allowing for the discretionary use of foreign reserves. … As a consequence of these characteristics, and despite one of the largest oil-price booms in recent history, the government has found it harder to obtain new loans with mounting fiscal deficits, resorting to much more substantial seigniorage. This is a period also in which real GDP per capita and labor productivity are contracting, for example, real GDP per capita … declined between 2013 to 2016 by 30%." August 2018, at https://mafhola.uchicago.edu.

Jay Shambaugh and Ryan Nunn have edited a six-paper report, *Place-Based Policies for Shared Economic Growth*. As one example, Bradley L. Hardy, Trevon D. Logan, and John Parman discuss "The Historical Role of Race and Policy for Regional Inequality." "[W]e outline the ways that the spatial distribution of the black population has evolved over time and the ways that spatial distribution has interacted with policy to, at times, reduce and exacerbate levels of inequality. Recognizing the ways that past policies explicitly stymied black economic mobility and how current policies have explicitly or inadvertently done the same provides a basis for understanding how to craft future policies to reduce racial inequalities. Furthermore, recognizing the interconnection of discrimination and the spatial distribution of the black population is important for understanding certain components of regional and spatial inequality. … Neighborhoods with a significant share of blacks in America's major cities have lagged white neighborhoods on key socioeconomic indicators since at least the 1970s, including earnings, poverty, educational attainment, and employment. These gaps in neighborhood amenities and neighborhood quality persist into the 2000s." Hamilton Project at the Brookings Institution, September 2018, https://www.brookings.edu/multi-chapter-report/place-based-policies-for-shared-economic-growth.

The *Yale Law Journal* has published a five-paper "Forum: Reflections on the 2017 Tax Act." Michael J. Graetz contributes the "Foreword—The 2017 Tax Cuts: How Polarized Politics Produced Precarious Policy." "The Democrats' complaints about the law's reduction in the corporate tax rate from 35% to 21% ring hollow. Democrats themselves had long realized that the U.S.'s exceptionally high corporate tax rate in today's global economy—with highly mobile capital and intellectual property income—invited both U.S. and foreign multinational companies to locate their deductions, especially for interest and royalties, in the United States, and to locate their income in low- or zero-tax countries. This is obviously not a recipe for economic success. Both before and after the legislation, Democrats urged a corporate tax rate of 25% to 28%; meanwhile, Donald Trump asked for a 15% rate. So, even if Democrats had been involved in the legislative process, the 21% rate that we ended up with would be in the realm of a reasonable compromise. … Congress's greatest challenge in crafting this tax legislation was figuring out what to do about the international tax rules. … There were essentially two options: (1) strengthen the source-base taxation of U.S. business activities and allow foreign business earnings of U.S. multinationals to go untaxed; or (2) tax the worldwide business income of U.S. multinationals on a current basis when earned with a credit for all or part of the foreign income taxes imposed on that income. Faced with the choice between these two very different regimes for taxing the foreign income of the U.S. multinationals, Congress chose both. … No doubt analysts can find provisions to praise and others to lament in this expansive legislation, but we should not overlook its most important shortcoming: its effect on federal deficits and debt." Vol. 128, October 25, 2018, https://www.yalelawjournal.org/collection/reflections-2017-tax-act. These papers complement the two papers by Joel Slemrod and Alan Auerbach in the symposium on "The Tax Cuts and Jobs Act" in the Fall 2018 issue of this journal.

The Review of Keynesian Economics has published a nine-paper symposium on "Milton Friedman's Presidential Address at 50." In Robert Solow's opening essay, "A Theory is a Sometime Thing," he writes, "My mind kept returning to a famous line of dramatic verse: was this the face that launched a thousand ships? Helen of Troy probably never existed, as Marlowe may not have known. But Milton Friedman's presidential address did exist, and it launched at least a thousand articles. It may not have burnt the topless towers of Ilium, but it certainly helped lead macroeconomics to its current state of refined irrelevance. The financial crisis and the recession that followed it may have planted some second thoughts, but even that is not certain. A few major failures like those I have registered in this note may not be enough for a considered rejection of Friedman's doctrine and its various successors. But they are certainly enough to justify intense skepticism, especially among economists, for whom skepticism should be the default mental setting, anyway." The first two essays, by Solow and by Robert J. Gordon, are freely available online. October 2018, https://www.elgaronline.com/view/journals/roke/6-4/roke.2018.6.issue-4.xml. These papers complement the three-paper symposium on "Friedman's Natural Rate Hypothesis After 50 Years" in the Winter 2018 issue of this journal.

Conversations with Economists

Aaron Steelman interviews Chad Syverson on a variety of issues related to productivity and competition. "[I]f I could invent a machine that made everything we consume now and we didn't have to work an hour, I would take that. That's not a bad thing. It does create a distributional issue. … But inherently, we shouldn't think of it as a problem." "An important fact is that the skewness of everything is increasing within industries. Size skewness, or concentration, is going up. Productivity skewness is going up. And earnings skewness is going up. … Is that technological? Is it policy? Is it a little bit of both? I don't think we really know the answer. That said, I think it's less of a mystery now than it was when I started working on this many years ago back in graduate school. … [T]here's no doubt productivity is correlated with certain kinds of management practices. … Is that all of the story? No, I don't think so. If I had to guess, it's probably 15 to 25 percent of the story. There's a lot more going on. I think part of it has to do with firm structure. … An example I talk about in class a lot is when many mainline carriers in the United States tried to copy Southwest and created little carriers offering low-cost service. For instance, United had Ted and Delta had Song. They failed because they copied a few superficial elements of Southwest's operations, but there was a lot of underlying stuff that Southwest did differently that they didn't replicate. I think that presents a more general lesson: You need a lot of pieces working together to get the benefits, and a lot of companies can't manage to do that. It also typically requires you to continue doing what you have been doing while you are changing your capital and people to do things differently. That's hard." *Econ Focus*, Federal Reserve Bank of Richmond, Second Quarter 2018, pp. 22–27, at https://www.richmondfed.org/publications/research/econ_focus/2018/q2/interview.

Robert H. Gertner moderates a discussion on the topic "Should public companies do more than maximize profits? BlackRock cofounder Sue Wagner joins Chicago Booth's Marianne Bertrand, Robert H. Gertner, and Luigi Zingales to discuss the business of business." Zingales argues: "If you want to donate a lot of money to your alma mater, you can do it directly through the corporation, or you can distribute the money to shareholders and let the shareholders decide if and how they want to donate it. There is no value destroyed by the donation being made at the shareholder level, and because there is more flexibility in that route—and because I have a different alma mater than many of my fellow shareholders, and we all have different ideas about where our money should go—it is better to push that decision down to the shareholder level rather than doing it at the corporate level. … However, for most social activities, there are some synergies to decision-making at the corporate level. For example, let's say I really care about the environment, and I am willing to sacrifice some of my profits to have better management of oil spills. … It costs much more to manage oil spills at the shareholder level than at the corporate level. So maximizing shareholder value and maximizing shareholder welfare are not the same thing. … If everyone who cares about the environment doesn't invest in a particular company, it will be controlled entirely by people who don't care

about the environment, and they'll run the company in the most environmentally unfriendly way. If you care about the environment, why not create an environmentally friendly index fund that includes oil companies, and then go to shareholder's meetings and vote for board members who care about the environment too?" Marianne Bertrand notes: "[W]e would not want to be in an environment where the CEOs of companies, just because they happen to be the CEOs, are deciding for us as a society, as an electorate, which social objectives we care about and which we don't. We hope that we have a political process in place where the preferences of the electorate about spending on schools or spending on alleviating homelessness would be expressed through the political system, but I think there is a concern that without some guidance as to what social goals companies should be pursuing, especially when those social goals are no longer fully aligned with long-term valuation, we might give corporations too much power." *Chicago Booth Review*, August 28, 2018, http://review.chicagobooth.edu/finance/2018/article/should-public-companies-do-more-maximize-profits.

Discussion Starters

Andy Polacek describes "Catastrophe Bonds: A Primer and Retrospective." "In 1992 Hurricane Andrew struck Florida and the Gulf Coast, inflicting $27 billion in damages, of which $15.5 billion was covered by insurance. … It led to the failure of eight insurance companies and pushed others to the brink of insolvency. As a result of the losses suffered during Andrew, insurers reevaluated their risk exposure to coastal areas across the country. Homeowners' insurance prices in coastal communities rose markedly to account for the possibility of significant losses, and many large insurers and reinsurers initially reduced their exposure to catastrophic events in coastal regions. … [T]he demand for natural-disaster-related insurance by households and businesses meant that new capital had to flow into reinsurance. To increase the available capital, the insurance industry created a new financial instrument called a catastrophe bond. A CAT bond is a security that pays the issuer when a predefined disaster risk is realized, such as a hurricane causing $500 million in insured losses or an earthquake reaching a magnitude of 7.0 (on the Richter scale). The first CAT bonds were issued in 1997, giving insurers access to broader financial markets and offering institutional investors, such as hedge funds, pension funds, and mutual funds, the opportunity to earn an attractive return on investment uncorrelated with the returns of other financial market instruments in exchange for assuming catastrophe insurance risks." *Chicago Fed Letter*, Federal Reserve Bank of Chicago, 2018, No. 405, https://www.chicagofed.org/publications/chicago-fed-letter/2018/405.

Scott Lincicome surveys "The 'Protectionist Moment' That Wasn't: American Views on Trade and Globalization." "In fact, recent public opinion polling uniformly reveals that, first, foreign trade and globalization are generally popular, and in fact more popular today than at any point in recent history; second, a substantial portion

of the American electorate has no strong views on U.S. trade policy or trade agreements; third, and likely due to the previous point, polls on trade fluctuate based on partisanship or the state of the U.S. economy; and, fourth, Americans' views on specific trade policies often shift depending on question wording, especially when the actual costs of protectionism are mentioned. These polling realities puncture the current conventional wisdom on trade and public opinion—in particular, that Americans have turned en masse against trade and globalization …" *Free Trade Bulletin*, Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute, November 2, 2018, https://object.cato.org/sites/cato.org/files/pubs/pdf/ftb-72.pdf.

Science magazine marked the 50th anniversary of Garrett Hardin's essay on "The Tragedy of the Commons" with a suite of seven short comments in "Tragedy Revisited." Brad Wible writes in a brief overview: "'Freedom in a commons brings ruin to all.' So argued ecologist Garrett Hardin … Hardin questioned society's ability to manage shared resources and avoid an environmentally and socially calamitous free-for-all. In the 50 years since, the essay has influenced discussions ranging from climate change … to evolution, from infectious disease to the internet, and has reached far beyond academic literature—but not without criticism. Considerable work, notably by Nobelist Elinor Ostrom, has challenged Hardin, particularly his emphasis on property rights and government regulatory leviathans as solutions. Instead, research has documented contexts, cases, and principles that reflect the ability of groups to collectively govern common resources." Hardin's original December 13, 1968, essay is available at http://science.sciencemag.org/content/162/3859/1243. The seven short comments from December 14, 2018 are at http://science.sciencemag.org/content/362/6420/1236.