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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., St. Paul, MN 55105.

Smorgasbord

In the Presidential Address for the Eastern Economic Association, Edward L. Glaeser considers "Urbanization and Its Discontents" (*Eastern Economic Journal*, April 2020, 46:191–218, https://link.springer.com/article/10.1057/s41302-020-00167-3). "The industrial jobs that had once been the backbone of urban economies did not return. Instead, human capital-intensive business services became the new export industries for urban areas. Financial services expanded enormously in urban America from 1980 to 2007. At its height in 2007, finance and insurance generated over forty percent of the total payroll on the island of Manhattan. The urban edge in transferring knowledge is particularly valuable in finance because, a bit of extra information can make millions for a trader in minutes. . . . Why didn't

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improvements in electronic communication make face-to-face contact obsolete? While e-mail is possible almost everywhere, face-to-face interactions generate a richer information flow that includes body language, intonation and facial expression. As the world became more complex, the value of intense communication also increases. Physical immersion in an informationally intense environment, such as trading floor or an academic seminar, generates a rush of information that is hard to duplicate online. Moreover, dense environments facilitate random personal interactions that can create serendipitous flows of knowledge and collaborative creativity. The knowledge-intensive nature of the urban resurgence helps to explain why educated cities have done much better than uneducated cities. . . . Why has urban success been accompanied by so much discontent? The most natural explanation is that the success of private enterprise in cities has not been accompanied by sufficient development of public capacity. The public sector has often focused on limiting urban change, rather than working to improve the urban experience. In many cases, this focus reflects the political priorities of empowered insiders." Glaeser's address complements the papers on urban economics in this issue.

Andrea M. Headley and James E. Wright, II, look at "National Police Reform Commissions: Evidence-Based Practices or Unfulfilled Promises?" (*Review of Black Political Economy*, December 2019, 46:4, pp. 277–305, https://journals.sagepub.com/doi/full/10.1177/0034644619873074). "COP [community-oriented policing] is a promising practice to build police–community relations, particularly for communities of color. . . . The research has generally shown COP positively affects community perceptions and attitudes and thus builds relations, whereas such strategies have very limited, if any, effects on reducing crime. That being said, there is no clear guidance as to which specific features of COP make the most difference and/or how best to implement COP strategies." "[M]ost of the national commissions have recommended a commitment to improving the quality of the workforce by hiring more people of color and women, implementing educational requirements for officers, increasing hiring standards, and providing more effective training. . . . By and large, the use of enhanced or more stringent hiring standards and prescreening assessments to improve professionalism and the quality of the police force cannot be supported by the evidence herein. Police departments across the country are realizing the need to expand their hiring pool while also acknowledging some of the harms that have been done to keep people of color and women out of policing (whether intentionally or not) . . . Training has been one of the most commonly used ways to respond to crises in the policing profession in hopes to affect police behavior. Unfortunately, with the lack of consistency in training across police departments, scholarship has not rigorously or systematically been able to examine the impacts of various types of trainings." "Police culture may influence and reinforce certain types of behavior and/or beliefs in officers that are counter to the police reforms existing at the structural or administrative level."

Kass Forman, Sean Dougherty, and Hansjörg Blöchliger provide an overview in "Synthesising Good Practices in Fiscal Federalism: Key recommendations from 15 years of country surveys" (OECD Economic Policy Paper #28, April 2020, https://www.oecd.org/china/synthesising-good-practices-in-fiscal-federalism-89cd0319-en.htm). "Fiscal federalism refers to the distribution of taxation and spending powers across levels of government. Through decentralisation, governments can bring public services closer to households and firms, allowing better adaptation to local preferences. However, decentralisation can also make intergovernmental fiscal frameworks more complex and risk reinforcing interregional inequality unless properly designed. Accordingly, several important trade-offs emerge from the devolution of tax and spending powers. . . . OECD research has found a broadly positive relationship between revenue decentralisation and growth, with spending decentralisation demonstrating a weaker effect . . . [D]ecentralisation appears to reduce the gap between high and middle-income households but may leave low incomes behind, especially where jurisdictions have large tax autonomy . . . In healthcare, research suggests costs fall and life expectancy rises with moderate decentralisation, but the opposite effects hold once decentralisation becomes excessive . . . With respect to educational attainment, . . . a 10 percentage point increase in the sub-national revenue share improves PISA scores by 6 percentage points . . . "

Stephen Broadberry and Mark Harrison have edited an ebook with 16 short chapters: *The Economics of the Second World War: Seventy-Five Years On* (May 2020, CEPR Press, https://voxeu.org/content/new-ebook-economics-second-world-war-seventy-five-years, free registration required). As one example, Phillips Payson O'Brien contributes "How the War Was Won." "Looking at the war this way allows us to reframe our understanding of what a battle was in the Second World War. Instead of battles being fixed on well-known pieces of earth, air-sea weaponry was constantly in action in battlefields thousands of miles long and many miles in depth—what should be called the Air-Sea Super Battlefield. Victory in this super-battlefield led to victory in the war. . . . Instead of waiting to destroy Axis equipment on the traditional battlefield, Allied air-sea weaponry destroyed it en masse before it could ever be used in action, determining the result of every 'battle' long before it was fought. . . . First, there is pre-production destruction, which prevented weapons from being built. This was done most efficiently to both Germany and Japan by depriving them of the ability to move raw materials. . . . The second phase is direct production destruction—destroying the facilities to make weapons in Germany and Japan. . . . The truth was that these attacks were not as effective as hoped for, as strategic bombing was not accurate enough to completely wipe out facilities (until 1944). That being said, the losses from bombing were greater than those arising in land battles. . . . Finally, there were deployment losses. Getting weapons from the factory to the front was no easy feat. It normally required movement over hundreds or thousands of miles using shipping or rail lines that were vulnerable to attack. Aircraft had to be flown, often by inexperienced pilots, over the open ocean in or through difficult weather conditions. By 1943, . . . the Axis were losing as many aircraft deploying to the front as in direct combat. At times, Japan's losses outside combat were up to twice those lost fighting . . . This was the true battlefield of the

Second World War, a massive air-sea super battlefield that stretched for thousands of miles not only of traditional front but of depth and height."

Jonathan Vespa, Lauren Medina, and David M. Armstrong have written "Demographic Turning Points for the United States: Population Projections for 2020 to 2060" (US Census Bureau, Report P25-1144, revised February 2020, https://www.census.gov/library/publications/2020/demo/p25-1144.html). "The year 2030 marks a demographic turning point for the United States. Beginning that year, all baby boomers will be older than 65. This will expand the size of the older population so that one in every five Americans is projected to be retirement age. Later that decade, by 2034, we project that older adults will outnumber children for the first time in U.S. history. The year 2030 marks another demographic first for the United States. That year, because of population aging, immigration is projected to overtake natural increase (the excess of births over deaths) as the primary driver of population growth for the country. As the population ages, the number of deaths is projected to rise substantially, which will slow the country's natural growth. As a result, net international migration is projected to overtake natural increase, even as levels of migration are projected to remain relatively flat. These three demographic milestones are expected to make the 2030s a transformative decade for the U.S. population." For a global perspective on aging and demographic change, the March 2020 issue of *Finance and Development* has a symposium of eight short articles at https://www.imf.org/external/pubs/ft/fandd/2020/03/index.htm.

Lucian Bebchuk and Scott Hirst address "Index Funds and the Future of Corporate Governance: Theory, Evidence, and Policy" (*Columbia Law Review*, December 2019, pp. 2029–2145, https://columbialawreview.org/content/index-funds-and-the-future-of-corporate-governance-theory-evidence-and-policy/). "We put forward a set of reforms that policymakers should consider in order to address the incentives of index fund managers to underinvest in stewardship, their incentives to be excessively deferential to corporate managers, and the continuing rise of index investing. . . . These problems are expected to remain a significant aspect of the corporate governance landscape and should be the subject of close attention by policymakers, market participants, and scholars." The essay can be read as a follow-up to their essay "The Specter of the Giant Three" (*Boston University Law Review*, May 2019, 99:3, pp. 721–42, https://www.bu.edu/bulawreview/files/2019/06/BEBCHUK-HIRST-1.pdf), or as a follow-up to the article by Bebchuk and Hirsi (with Alma Cohen) in the Summer 2017 issue of this journal.

There are waves of new economic research in response to the COVID-19 pandemic. Rather than try to mention a couple of working papers here, which may be superceded by the time this issue is published, I'll just point out that the National Bureau of Economic Research has made its working papers related to pandemic freely available at https://www.nber.org. Also, the Centre for Economic Policy Research launched an online *COVID Economics* journal in late March, which has already published more than 30 issues that typically include 6–8 papers each at https://cepr.org/content/covid-economics/.

Interviews with Economists

Douglas Clement at the Minneapolis Federal Reserve offers one of his characteristically excellent interviews, this one with Emi Nakamura, titled "On price dynamics, monetary policy, and this 'scary moment in history'" (Federal Reserve Bank of Minneapolis. May 6, 2020, https://www.minneapolisfed.org/article/2020/emi-nakamura-interview-on-price-dynamics-monetary-policy-and-this-scary-moment-in-history). "You might think that it's very easy to go out there and figure out how much rigidity there is in prices. But the reality was that at least until 20 years ago, it was pretty hard to get broad-based price data. In principle, you could go into any store and see what the prices were, but the data just weren't available to researchers tabulated in a systematic way. . . . Once macroeconomists started looking at data for this broad cross section of goods, it was obvious that pricing behavior was a lot more complicated in the real world than had been assumed. If you look at, say, soft drink prices, they change all the time. But the question macroeconomists want to answer is more nuanced. We know that Coke and Pepsi go on sale a lot. But is that really a response to macroeconomic phenomena, or is that something that is, in some sense, on autopilot or preprogrammed? Another question is: When you see a price change, is it a response, in some sense, to macroeconomic conditions? We found that, often, the price is simply going back to exactly the same price as before the sale. That suggests that the responsiveness to macroeconomic conditions associated with these sales was fairly limited. . . . One of the things that's been very striking to me in the recent period of the COVID-19 crisis is that even with incredible runs on grocery products, when I order my online groceries, there are still things on sale. Even with a shock as big as the COVID shock, my guess is that these things take time to adjust. . . . The COVID-19 crisis can be viewed as a prime example of the kind of negative productivity shock that neoclassical economists have traditionally focused on. But an economy with price rigidity responds much less efficiently to that kind of an adverse shock than if prices and wages were continuously adjusting in an optimal way."

Isaac Chotiner has a short interview with Paul Romer ("Paul Romer's Case for Nationwide Coronavirus Testing," *New Yorker*, May 3, 2020, https://www.newyorker.com/news/q-and-a/paul-romer-on-how-to-survive-the-chaos-of-the-coronavirus). "The gains from specialization go all the way back to Adam Smith. He talked about the advantage of a bigger market being that we could have a finer division of labor and be more specialized. There's this great story about the pin factory where people do various different pieces of the job of making pins. So, we've been very attuned to the efficiency gains that come from finer and finer division of labor and specialization. What we've underestimated is the systemic risk that that very finely tuned system of specialization exposes us to. And so I think we will start to ask whether there are ways that we could build some more robustness into our whole system. If I can use an analogy, Netflix used this thing they called the Chaos Monkey, which would go in and just break servers, break routers, just take them offline and then make sure that the Netflix infrastructure system could still keep working. I think, from a public-policy perspective, it'd be good if we started having some drills where we just break things, like, 'O.K., you can't import that input into your pharmaceutical process for six months,' or, 'You can't rely on this mechanism.' We may need a little bit of a Chaos Monkey to help make sure that we're all building a little bit more resiliency into the things that we do."

Irwin Stelzer and Jeffrey Gedmin interview Lawrence Summers ("How to Fix Globalization—for Detroit, Not Davos" *The American Interest*, May 22, 2020, https://www.the-american-interest.com/2020/05/22/how-to-fix-globalization-for-detroit-not-davos/). On globalization: "Someone put it to me this way: First, we said that you are going to lose your job, but it was okay because when you got your new one, you were going to have higher wages thanks to lower prices because of international trade. Then we said that your company was going to move your job overseas, but it was really necessary because if we didn't do that, then your company was going to be less competitive. Now we're saying that we have to cut the taxes on those companies and cut the calculus class from your kid's high school, because otherwise we won't be able to attract companies to the United States, and you have to pay higher taxes and live with fewer services. At a certain point, people say, 'This whole global thing doesn't work for me,' and they have a point." On government debt: "The deepest truth about debt is that you can't evaluate borrowing without knowing what it's going to be used for. Borrowing to invest in ways that earn a higher return than the cost of borrowing, and provide the wherewithal for debt service with an excess leftover, is generally a good and sustainable thing. Borrowing to finance consumption, leaving no return to cover debt service, is generally an unsustainable and problematic thing. . . . I think we need to be very careful, with respect to the expectation that we now seem to be setting of having government cover all the losses associated with the COVID period. . . . Looking towards an economy that is going to be very different than the one we had before COVID, we cannot aspire to maintain every job or every enterprise with a compensation program indefinitely. So as I look at the 30 percent of GDP deficit that we are running in Quarters Three and Four of Fiscal 2020, I don't think that can be sustained over a multi-year period."

Merle van den Akker has an "Interview with Colin Camerer" ("Money on the Mind," April 6, 2020, https://www.moneyonthemind.org/post/interview-with-colin-camerer). Here is some advice from Camerer for an aspiring behavioral economist: "First, you need to know the 'rules' of economics—the basic canon and methods—very well. . . . To break the rules you need to know the rules. Second, in my opinion, if you want to succeed in behavioral economics it is a big help to be very fluent in an adjacent social science. A lot of behavioral economics is in the business of importing ideas and translating them, redesigning and "selling" them inside economics. So you need to become bilingual and know what psychology, or neuroscience, media studies, or whatever, is solid, and has a long good empirical pedigree. Figuring that out can be difficult. Third, nowadays you really should be able to do lab (and online) experiments, know about quasi-experimental designs (IV, diff-in-diff, regression discontinuity) and know some machine learning. It is often said that most of the methods you will use in your long research career are those you learned in graduate school. It is like packing for a long, long trip to a place where there are no stores in case you forgot to pack anything. Fill that backpack with methods."

David A. Price acts as the interlocutor in "Interview: Joshua Angrist" (*Econ Focus*: Federal Reserve Bank of Richmond, First Quarter 2020, pp. 18–22, https://www.richmondfed.org/publications/research/econ_focus/2020/q1/interview). "[O]ne of my favorite examples for teaching regression is a paper by Alan Krueger and Stacy Dale that looks at the effects of going to a more selective college. It turns out that if you got into MIT or Harvard, it actually doesn't matter where you go. Alan and Stacy showed that in two very clever, well-controlled studies. And Jack Mountjoy, in a paper with Brent Hickman, just replicated that for a much larger sample. There isn't any earnings advantage from going to a more selective school once you control for the selection bias. So there's also an elite illusion at the college level, which I think is more important to upper-income families, because they're desperate for their kids to go to the top schools. So desperate, in fact, that a few commit criminal fraud to get their kids into more selective schools."

Discussion Starters

Noel-Ann Bradshaw discusses some work by the first female member of Britain's Royal Statistical Society in "Florence Nightingale (1820–1910): An Unexpected Master of Data" (*Patterns*, May 2020, https://www.cell.com/patterns/fulltext/S2666-3899(20)30041-6). "[Nightingale] became fascinated that the mortality rate among soldiers stationed at home was higher than the mortality rate of ordinary British men, despite soldiers being healthier at the start of their careers. She used data to examine the cause, concluding that the problem was poor sanitation and over-crowding of military barracks, encampments, and hospitals that exacerbated the spread of disease. She drew many graphs depicting this, including Figure 1, which shows five circles filled with hexagons representing the space between people. The first three circles show how closely packed the army would be in the Quartermaster General's camp plans, while the last two circles show how densely packed the inner city of London currently was and the population of London in general. This comparison made it obvious to anyone that the Quartermaster General's proposition for encampment was going to be problematic given how unhealthy densely populated areas of London were. . . . She went on to forecast the efficiency of the army if the soldiers were as healthy as the rest of the men in the UK. This graph was way ahead of its time (Figure 2). On the left she displayed the current situation, showing the effectiveness of the British Army in terms of the numbers who were ill, invalided, etc. On the right she graphed the potential effectiveness of the army if the soldiers were as healthy as the general male population. By forecasting this potential effectiveness, she emphasized how the army at rest were experiencing higher degrees of mortality that the general male population."

Randal O'Toole makes his case for "Transit: The Urban Parasite" (Cato Institute, Policy Analysis #889, April 20, 2020, https://www.cato.org/publications/policy-analysis/transit-urban-parasite). "Data released by the Federal Transit Administration in December 2019 indicate that 2018 transit ridership fell in 40 of the nation's top 50 urban areas, and, over the past five years ridership has fallen in 44 of those 50 urban areas. . . . These declines have taken place in spite of huge increases in spending on public transit. In 2018 alone, subsidies to transit grew by 7.4 percent, increasing from $50.5 billion to $54.3 billion. . . . [T]he justifications for spending this much money subsidizing a declining industry are disappearing. Most low-income workers have given up on transit as a method of commuting and have purchased cars. . . . In all but a handful of urban areas, transit uses more energy and emits more greenhouse gases per passenger mile than the average automobile. Far from relieving congestion, transit agencies are seeking to increase congestion in order to promote their businesses. . . . Transit advocates have reached the point where they act as though the purpose of cities and their residents is to benefit transit. In fact, transit should benefit residents by enhancing their mobility and well-being. If transit is not doing that, and people no longer value it, then it should not be subsidized."

Dan Lovallo, Tim Koller, Robert Uhlaner, and Daniel Kahneman argue "Your Company Is Too Risk-Averse" (*Harvard Business Review*, March-April 2020, https://hbr.org/2020/03/your-company-is-too-risk-averse). "In current practice, however, executives in large corporations are reluctant to propose and advocate for risky projects. They quash new ideas in favor of marginal improvements, cost-cutting, and "safe" investments. Research studies long ago established this pattern. In a classic HBR article, for example, Syracuse University professor Ralph O. Swalm presented the results of a remarkable study of risk attitudes among 100 executives. He concluded that the findings "do not portray the risk-takers we hear so much of in industrial folklore. They portray decision-makers quite unwilling to take what, for the company, would seem to be rather attractive risks." Our research confirms that this pattern persists. . . . CEOs are evaluated on their long-term performance, but managers at lower levels essentially bet their careers on every decision they make—even if outcomes are negligible to the corporation as a whole."