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

Smorgasbord

The Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel 2020—commonly known as the Nobel Prize in economics—was awarded to Paul R. Milgrom and Robert B. Wilson "for improvements to auction theory and inventions of new auction formats." The Nobel prize committee also published "Popular science background: The quest for the perfect auction" (October 2020, https://www.nobelprize.org/prizes/economic-sciences/2020/popular-information/) and "Scientific Background: Improvements to auction theory and inventions of new auction formats" (October 2020, https://www.nobelprize.org/prizes/economic-sciences/2020/advanced-information/). "Every day, auctions distribute astronomical values between buyers and sellers. This year's Laureates, Paul Milgrom

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and Robert Wilson, have improved auction theory and invented new auction formats, benefitting sellers, buyers and taxpayers around the world. . . . Robert Wilson was the first to create a framework for the analysis of auctions with common values, and to describe how bidders behave in such circumstances. In three classic papers from the 1960s and 1970s, he described the optimal bidding strategy for a first-price auction when the true value is uncertain. Participants will bid lower than their best estimate of the value, to avoid making a bad deal and thus be afflicted by the winner's curse. His analysis also shows that with greater uncertainty, bidders will be more cautious and the final price will be lower. Finally, Wilson shows that the problems caused by the winner's curse are even greater when some bidders have better information than others. . . . In most auctions, the bidders have both private and common values. . . . An energy company that bids on the right to extract natural gas is concerned with both the size of the gas reservoir (a common value) and the cost of extracting the gas (a private value, as the cost depends on the technology available to the company). . . . Analysing bids in auctions with private and common values turned out to be an even trickier problem . . . The person who finally cracked this nut was Paul Milgrom, in a handful of papers published around 1980."

Claudia Goldin delivered the 2020 Martin Feldstein Lecture on the topic "Journey across a Century of Women" (NBER Reporter, October 2020, https://www.nber.org/reporter/2020number3/journey-across-century-women). "Five distinct groups of women can be discerned across the past 120 years, according to their changing aspirations and achievements. Group One graduated from college between 1900 and 1919 and achieved 'Career or Family.' Group Two was a transition generation between Group One, which had few children, and Group Three, which had many. It achieved 'Job then Family.' Group Three, the subject of Betty Friedan's *The Feminine Mystique*, graduated from college between 1946 and 1965 and achieved 'Family then Job.' Group Four, my generation, graduated between 1966 and 1979 and attempted 'Career then Family.' Group Five continues to today and desires 'Career and Family.' College-graduate women in Group One aspired to 'Family or Career.' Few managed both. In fact, they split into two groups: 50 percent never bore a child, 32 percent never married. . . . More Group Two college women aspired to careers, but the Great Depression intervened, and this transitional generation got a job then family instead. As America was swept away in a tide of early marriages and a subsequent baby boom, Group Three college women shifted to planning for a family then a job. Just 9 percent of the group never married, and 18 percent never bore a child. Even though their labor force participation rates were low when they were young, they rose greatly—to 73 percent—when they and their children were older. But by the time these women entered the workplace, it was too late for them to develop their jobs into full-fledged careers. . . . Group Four . . . aided by the Pill, delayed marriage and children to obtain more education and a promising professional trajectory. Consequently, the group had high employment rates when young. But the delay in having children led 27 percent to never have children. Now, for Group Five the goal is career and family, and although they are delaying marriage and childbirth even more than Group Four, just 21 percent don't have children."

The Credit Suisse Research Institute has published “Collectibles: An integral part of wealth” (October 2020, https://www.credit-suisse.com/media/assets/corporate/docs/about-us/research/publications/csri-collectibles-2020.pdf). From the opening chapter by Nannette Hechler-Fayd’herbe and Adriano Picinati di Torcello: “[W]e estimate that people with net worth exceeding USD 30 million accounted for USD 26.3 trillion of global wealth prior to the outbreak of the COVID-19 pandemic. . . . Conservatively estimated, an approximate share of 3–6 percent in collectibles would bring the value of collectibles owned by private individuals to around USD 1.2 trillion. . . . [F]or illustrative purposes, we compare the historical evolution of the Sotheby’s Mei Moses index for fine arts with the Liv-ex Fine Wine 100 Index, the HAGI Top 100 Index for classic cars, the AMR indices for watches and jewelry, and a luxury handbag index . . . Over the last ten years, most collectible categories have gained in value, but with substantial differences from one to the other. On aggregate, wines and fine art have returned the least. Watches and jewelry have been effective stores of value, with cumulative 10-year returns between 27 and 61 percent. Classic cars were by far the best-performing collectibles category. . . . Naturally, this trend is time- and index-dependent, and other periods will show different developments.”

Andrea Ciani, Marie Caitriona Hyland, Nona Karalashvili, Jennifer L. Keller, Alexandros Ragoussis, and Trang Thu Tran have written *Making It Big: Why Developing Countries Need More Large Firms* (September 2020, World Bank, https://openknowledge.worldbank.org/handle/10986/34430). “This report shows that large firms are different than other firms in low- and middle-income countries. They are significantly more likely to innovate, export, and offer training and are more likely to adopt international standards of quality. Their particularities are closely associated with productivity advantages—that is, their ability to lower the costs of production through economies of scale and scope but also to invest in quality and reach demand. Across low- and middle-income countries with available business census data, nearly 6 out of 10 large enterprises are also the most productive in their country and sector. These distinct features of large firms translate into improved outcomes not only for their owners but also for their workers and for smaller enterprises in their value chains. Workers in large firms report, on average, 22 percent higher hourly wages in household and labor surveys from 32 low- and middle-income countries—a premium that rises considerably in lower-income contexts. . . . Besides higher wages—which are strongly associated with higher productivity—large firms more frequently offer formal jobs, secure jobs, and nonpecuniary benefits such as health insurance that are fundamental for welfare in low- and middle-income countries. . . . Smaller and lower-income markets tend to host smaller firms. But even in relative terms, there are too few larger firms in these countries relative to the size of the economy and the number of smaller firms—there is a ‘missing top.’”

Florian Scheuer investigates “Taxing the superrich: Challenges of a fair tax system” (UBS Center Public Paper #9, November 2020, https://www.ubscenter.uzh.ch/en/publications/public_papers/taxing-the-superrich.html#challenges-of-a-fair-tax-system). “Most countries’ tax systems treat capital gains favorably relative to

ordinary labor income (Switzerland being an extreme case where most capital gains are untaxed). Realized capital gains represent a very high fraction of the reported income of the superrich. For example, realized capital gains represented 60% of total gross income for the 400 highest-income Americans in tax year 2014. . . . [F]or tax year 2016, those earning more than $10 million report net capital gains corresponding to 46% of their total income, whereas capital gains are a negligible fraction of income for those earning less than $200k. . . . Five OECD countries levy no tax on shareholders based on capital gains (Switzerland being a prominent example). Of those that do, all tax is on realization rather than on accrual. Five more countries apply no tax after the end of a holding period test, while four others apply a more favorable rate afterwards. The tax rate varies widely, with the highest as of 2016 being Finland, at 34%. With a few exceptions, the accrued gains on assets in a decedent's estate escape income taxation entirely, because the heir can treat the basis for tax purposes as the value upon inheritance." The paper offers a complement to the essay on wealth taxation by Scheuer with Joel Slemrod in this issue.

Siro Aramonte suggests "Mind the buybacks, beware of the leverage" (*BIS Quarterly Review,* September 2020, pp. 49–59, https://www.bis.org/publ/qtrpdf/r_qt2009d.htm). "Corporate stock buybacks have roughly tripled in the last decade, often to attain desired leverage, or debt as a share of assets. . . . In 2019, US firms repurchased own shares worth $800 billion . . . Net of equity issuance, the 2019 tally reached $600 billion. . . . In a number of cases, repurchases improve a firm's market value. For instance, if managers perceive equity as undervalued, they can credibly signal their assessment to investors through buybacks. In addition, using repurchases to disburse funds when capital gains are taxed less than dividends increases net distributions, all else equal. Furthermore, by substituting equity with debt, firms can lower funding costs when debt risk premia are relatively low, especially in the presence of search for yield. And, by reducing funds that managers can invest at their discretion, repurchases lessen the risk of wasteful expenditures. . . . [B]uybacks were not the main cause of the post-GFC [global financial crisis] rise in corporate debt. After 2000, internally generated funds became more important in financing buybacks. . . . There is, however, clear evidence that companies make extensive use of share repurchases to meet leverage targets. The initial phase of the pandemic fallout in March 2020 put the spotlight on leverage: irrespective of past buyback activity, firms with high leverage saw considerably lower returns than their low-leverage peers. Thus, investors and policymakers should be mindful of buybacks as a leverage management tool, but they should particularly beware of leverage, as it ultimately matters for economic activity and financial stability."

The IMF *World Economic Outlook* report includes a chapter on "Dissecting the Economic Effects" (October 2020, https://www.imf.org/en/Publications/WEO/Issues/2020/09/30/world-economic-outlook-october-2020). "This chapter's first goal is to shed light on the extent to which the economic contraction was driven by the adoption of government lockdowns instead of by people voluntarily reducing social interactions for fear of contracting or spreading the virus. . . . If lockdowns were largely responsible for the economic contraction, it would be reasonable

to expect a quick economic rebound when they are lifted. But if voluntary social distancing played a predominant role, then economic activity would likely remain subdued until health risks recede. . . . In fact, the analysis suggests that lockdowns and voluntary social distancing played a near comparable role in driving the economic recession. The contribution of voluntary distancing in reducing mobility was stronger in advanced economies, where people can work from home more easily and sustain periods of temporary unemployment because of personal savings and government benefits."

Symposia

Leslie Willcocks has written "Robo-Apocalypse cancelled? Reframing the automation and future of work debate" (*Journal of Information Technology*, 35:4, pp. 286–302, https://journals.sagepub.com/doi/full/10.1177/0268396220925830), which is followed by four comments. From the abstract: "Robotics and the automation of knowledge work, often referred to as AI (artificial intelligence), are presented in the media as likely to have massive impacts, for better or worse, on jobs skills, organizations and society. The article deconstructs the dominant hype-and-fear narrative. . . . The term AI has been hijacked, in order to suggest much more going on technologically than can be the case. The article reviews critically the research evidence so far, including the author's own, pointing to eight major qualifiers to the dominant discourse of major net job loss from a seamless, overwhelming AI wave sweeping fast through the major economies. The article questions many assumptions: that automation creates few jobs short or long term; that whole jobs can be automated; that the technology is perfectible; that organizations can seamlessly and quickly deploy AI; that humans are machines that can be replicated; and that it is politically, socially and economically feasible to apply these technologies. A major omission in all studies is factoring in dramatic increases in the amount of work to be done. Adding in ageing populations, productivity gaps and skills shortages predicted across many G20 countries, the danger might be too little, rather than too much labour. The article concludes that, if there is going to be a Robo-Apocalypse, this will be from a collective failure to adjust to skills change over the next 12 years."

The *Brookings Papers on Economic Activity* devotes its Fall 2020 issue to papers about "COVID-19 and the Economy." Papers, short readable overviews, presentation slides, and video are all available at https://www.brookings.edu/events/bpea-fall-2020-covid-19-and-the-economy/. Here's the agenda: "Business Credit Programs in the Pandemic Era," by Samuel G. Hanson, Jeremy C. Stein, Adi Sunderam, and Eric Zwick; "Fiscal Effects of COVID-19," by Alan J. Auerbach, William Gale, Byron Lutz, and Louise Sheiner; "Has the Paycheck Protection Program Succeeded?" by Glenn Hubbard and Michael R. Strain; "Epidemiological and Economic Effects of Lockdown," by Alexander D. Arnon, John A. Ricco, and Kent A. Smetters; "Macroeconomic Outcomes and COVID-19: A Progress Report," by Jesús Fernández-Villaverde and Charles I. Jones; "Will the Secular Decline in Exchange Rate and

Inflation Volatility Survive COVID-19?" by Ethan Ilzetzki, Carmen Reinhart, and Kenneth Rogoff; "Temporary Unemployment and Labor Market Dynamics during the COVID-19 Recession," by Jessica Gallant, Kory Kroft, Fabian Lange, and Matthew J. Notowidigdo; and "Sizing Up Corporate Restructuring in the COVID Crisis," by Robin Greenwood, Benjamin Iverson, and David Thesmar.

Interviews with Economists

Gordon Rausser and David Zilberman have "A Conversation with Angus Deaton" in the *Annual Review of Resource Economics* (2020, 12: pp. 1–22, https://www.annualreviews.org/doi/pdf/10.1146/annurev-resource-111219-042601). Here's Deaton on economic development: "In the back of Arthur's book on economic growth (Lewis 1955), he raises this question, which doesn't get asked enough: 'Why? Why do we care about this at all?' Because a lot of people don't. The Pope doesn't really seem to care about economic growth very much. I don't know whether Arthur actually talks about Mozart, but he talks about kids growing up in absolute poverty and how they never have the opportunity to develop what may be extraordinary innate skills. There are these buried talents—lost Mozarts, or lost Einsteins—a great term someone's been talking about recently. What development does is give people what Amartya Sen would call capabilities, which you just don't have if you're living in grinding poverty. The expressions of human genius and human creativity are going to be stifled and stamped out if you don't have economic development. That's why you should have development."

David A. Price interviews Joshua Gans "On managing pandemics, allocating vaccines, and low-cost prediction with AI" (*Econ Focus*: Federal Reserve Bank of Richmond, Second/Third Quarter 2020, pp. 18–22, https://www.richmondfed.org/publications/research/econ_focus/2020/q2-3/interview). "I now see these pandemics as manageable things. Policymakers have to react right away and stay the course, but pandemics can be managed. If I had to guess how history is going to judge this period, the judgment is going to be that this shouldn't have been a two- to three-year calamity, it should have been a three-month calamity. The need for testing aggressively at the beginning had to be appreciated. You aggressively isolate people you find who are infected, you trace who they had contact with, and you aim for quick, complete suppression. The countries that had experience with pandemics—Hong Kong, South Korea, Taiwan, most of Africa—got it right away. They knew what the problems would be if they didn't do anything about it. So experience with viruses was definitely a factor. . . . But once the virus breaks out, then you've got a problem. Then you've got to do the complete lockdown. And we're seeing places that did a complete lockdown—like they did in Italy, France, and Spain—squash it all the way down. Locking down is terribly painful; that's why you don't want to go through it in the first place. But you may have to. . . . Early in the crisis, people in the United States and Canada were not talking about the virus as something we needed to suppress completely. The discussion was mainly, 'We're

going to push down the curve, and then we'll wait for a vaccine.' But the evidence both historically and now with this virus is that, as I said, you can achieve suppression in months if you act quickly. You have to keep working at it because if you don't have a vaccine, the disease can crop up again, but it's manageable."

Douglas Clement offers "Seeing the margins: An interview with Columbia University economist Sandra Black," which addresses, as the subtitle says, "education, family wealth, her time at the White House, COVID-19, and the cost of bad policy" (*For All*, Opportunity & Inclusive Growth Institute at the Minneapolis Federal Reserve, Fall 2020, https://www.minneapolisfed.org/article/2020/seeing-the-margins-an-interview-with-columbia-university-economist-sandra-black). "We decided to look at what's driving the correlations we see across generations in wealth using the Swedish data. . . . What's unique to the Swedish data is that we can observe adopted children and, importantly, we can observe both their biological and their adopted parents. So when you observe a child's wealth as an adult, you can see how correlated it is to their adopted parents' wealth and to their biological parents' wealth. . . . [W]e find that environment, or the adoptive parent, matters a lot, and more than the biological parent, unlike outcomes such as education or even income, which had more of a biological component. This is really important because it says people aren't wealthy because there's something inherently different about them that makes them better able to accumulate wealth; they're wealthy because they have these opportunities."

Discussion Starters

Matthew Higgins considers "China's Growth Outlook: Is High-Income Status in Reach?" (*Economic Policy Review*, Federal Reserve Bank of New York, October 2020, 26:4, pp. 69–98, https://www.newyorkfed.org/research/epr/2020/epr_2020_china-growth-outlook_higgins.html). From the abstract: "Our key finding is that China would need to sustain total factor productivity growth at the top end of the range achieved by its high-income Pacific Rim neighbors in order to match their success in raising living standards. While fast-growing working-age populations boosted per capita income growth elsewhere in the Pacific Rim, a rapidly aging population will act as a powerful drag on income growth in China's case. Moreover, China's already capital-intensive production structure will make it difficult to match those countries' gains from capital deepening. These restraints mean that a sustained and exceptionally high pace of productivity growth will be needed for Chinese per capita incomes to reach even 50 percent of the US level by 2040. We argue that lagging institutional development represents the chief obstacle to the needed productivity gains."

J. Mark Iwry, Claire Haldeman, William G. Gale, and David C. John discuss "Retirement Tontines: Using a Classical Finance Mechanism as an Alternative Source of Retirement Income" (Brookings Institution, October 2020, https://www.brookings.edu/research/retirement-tontines-using-a-classical-finance-mechanism-as-an-

alternative-source-of-retirement-income/). "Tontines are investment pools where members commit funds irrevocably and where the resources and income claims of members who die are given to members who survive. Tontines can be adapted to a wide variety of financial structures. They have financed everything from European wars to colonial-era capital projects to Americans' retirement. They were quite popular in the United States in the late 1800s and early 1900s until they were effectively (though not literally) outlawed in response to corrupt insurance company management. The 'tontine principle'—that surviving group members benefit financially from the death of other members—can evoke strong reactions, and has inspired murder plots in novels, movies, and even a *Simpsons* episode. But the mechanisms involved are not very different from how group annuities operate, and members of modern tontines would be mutually anonymous in any case. In recent years, analysts have revisited tontines as a theoretical tool, and several countries have created pension plans that incorporate tontine principles."

Alexander Monge-Naranjo and Qiuhan Sun ask "Will Tech Improvements for Trading Services Switch the U.S. into a Net Exporter?" (*Regional Economist*, Federal Reserve Bank of St. Louis, Fourth Quarter 2020, https://www.stlouisfed.org/publications/regional-economist/fourth-quarter-2020/tech). "The U.S. is a world leader in most high-skilled professional service sectors, such as health, finance and many sectors of research and development. Moreover, leading American producers have been ahead of others in the adoption of ICT in their production networks. The global diffusion of ICT—including possibly the expansion of 5G networks—is prone to make many of these services tradeable for servicing households and businesses. . . . Similarly, the day-to-day activities of many businesses all involve tasks that can be automated and/or performed remotely and, of course, across national boundaries. Thus, a natural prediction would be that the U.S. should become a net exporter of high-skilled, knowledge-intensive professional services because of its comparative advantage."