

Recommendations for Further Reading

Bernard Saffran

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, the articles chosen will be expository or integrative and not focus on original research. As a rule of thumb, articles listed in this section appear in journals that are not indexed by the *Journal of Economic Literature* (which focuses on the research journals) and are similar to many of the articles published in this journal. They may include survey articles, discussion of related subjects in which economists might have an interest or analyses of economics from other perspectives. The intention is to publish a selective list of fifteen to twenty articles per issue, with the selections depending heavily on input from readers. If you write or read an appropriate article, please send a copy of the article (and possibly a few sentences describing it) to Bernard Saffran, c/o *Journal of Economic Perspectives*, Department of Economics, Swarthmore College, Swarthmore, PA 19081.

Debating the Deficit

The federal government's deficit remains with us. One useful teaching tool is the yearly report of the Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options—A Report to the Senate and House Committees on the Budget—Part II*, February 1990. This 450-page volume contains dollar esti-

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mates of most of the proposed expenditure cuts and revenue enhancements as well as a short pro and con discussion of each. Students can then put together and defend their own deficit reduction packages.

A comprehensive discussion of the appropriate way to measure the deficit for its effect on national savings is to be found in *The Federal Deficit: Does It Measure the Government's Effect on National Saving?* published by the Congressional Budget Office in March 1990. The report considers adjusting the reported deficit for inflation, for changes in the market value of public debt, for surpluses of state and local governments and for government net investment. "The main conclusion reached in this paper is that the adjusted deficit measures . . . tell the same story about federal government saving that the unadjusted measures tell. In particular, they tell the same story about the federal government's contribution to the national saving decline during the 1980s."

Another deficit-related issue is its effect on savings. Charles L. Schultze's article, "Of Wolves, Termites, and Pussycats: Or, Why We Should Worry About the Budget Deficit," in *The Brookings Review*, Summer 1989, pp. 26–33, and the comments by Robert Eisner and David F. Bradford on pp. 43–44 of the Fall 1989 issue should appear on many reading lists.

Potpourri

The *Business Review* of the Federal Reserve Bank of Philadelphia continues to serve as an excellent source of articles for undergraduates. The March/April 1990 issue has two useful articles. In "Why Are So Many New Stock Issues Underpriced?" Anthony Saunders explores the explanations for the finding that "the prices of new stock issues are, on average, set below the prices investors appear willing to pay when the stocks start trading in the secondary market." He writes, "[T]he evidence is largely consistent with the existence of competitive markets in which investors have incomplete or imperfect information about new firms." His article appears on pp. 3–12. On pp. 13–22, William W. Lang asks: "Is There A Natural Rate of Unemployment?" He focuses on the high and persistent unemployment rates in Europe and explores theories of hysteresis as an alternative to natural rate theories.

"A Hitchhiker's Guide to International Macroeconomic Policy Coordination," by Owen F. Humpage, presents "a fairly nontechnical survey for those who want to follow along, but are not inclined to take the wheel." He concludes, "The literature suggests that nations can secure most of the gains associated with international coordination—small though these gains might be—through the sharing of information about world conditions, shocks, and policies." *Economic Review*, Federal Reserve Bank of Cleveland, 1990 Quarter 1, 2–14.

Ronald B. Mincy, Isabel V. Sawhill and Douglas A. Wolf examine "The Underclass: Definition and Measurement." In this article, "The term 'under-

class' has been widely used by journalists and by some social scientists but, until recently, has not been clearly defined or quantified. . . . Conclusions about the size and growth of the underclass are sensitive to the definition chosen, but most available evidence suggests that it is small but growing." *Science*, April 27, 1990, 450–453.

In "Positive Feedbacks in the Economy," W. Brian Arthur finds that "initially identical economies with significant increasing-returns sectors do not necessarily select the same paths. Instead they eventually diverge. To the extent that small events determining the overall path always remain beneath the resolution of the economist's lens, accurate forecasting of an economy's future may be theoretically, not just practically, impossible." *Scientific American*, February 1990, 92–99.

A Sampling of Symposia

"Alternatives to Government Fiat Money" is the topic of the Fall 1989 issue of *The Cato Journal*. James A. Dorn writes in the introduction, "It is important, therefore, to consider institutional changes that can improve upon the current governmentally managed fiat money regime. With this task in mind, the articles herein examine the performance of the current monetary regime, question the role of government in the monetary order, and consider alternatives to government fiat money."

Monetary Policy Issues in the 1990s is a symposium published by the Federal Reserve Bank of Kansas City. In his introduction, Donald P. Morgan points out, "One issue, however, forced itself center stage: price stability. Virtually all participants agreed that price stability should be the foremost goal of monetary policy in the 1990s." Free copies are available from the Public Affairs Department, Federal Reserve Bank of Kansas City, 925 Grand Avenue, Kansas City, Missouri 64198-0001.

"Symposium on Post-Chicago Law and Economics" discusses how the theory has been augmented to include psychology, sociology and public choice. The symposium is edited by Randy E. Barnett and Jules L. Coleman. *Chicago-Kent Law Review*, 1989, vol. 65, no. 1.

The April 1990 issue of *Ethics* has a "Symposium on the Welfare State" that includes articles by Julian Le Grand and A. B. Atkinson.

"Approaching Pay Equity Through Comparable Worth," is the topic of the *Journal of Social Issues*, 1989, no. 4. From the editor's introduction: "The authors in this journal issue all favor the goal of pay equity for women workers. . . . but they give realistic attention to the arguments on the other side and the empirical data about the effects of comparable worth plans where they have been tried. They also discuss the public policy implications of comparable-worth legislation or voluntary employer implementation of pay equity schemes."

David W. Galenson has edited *Markets in History: Economic Studies of the Past*, which presents a readable and fascinating collection of articles that includes subjects that have recently been studied by economic historians. It ranges from the economics of English open fields and American slavery through the effects of the frontier on income distribution and the demise of racial discrimination in southern labor markets in the 1960s. It is now available in paper from Cambridge University Press.

Perspectives on the Profession

In "Nobility," James M. Buchanan discusses, "How did the Nobel award change my life?" Some selections: "I know that I should have never been selected for such an award had the selection committee been drawn from senior American economists!" "In a sense I do embody something of the American myth of social mobility. For how many farm boys from Middle Tennessee, educated in tiny, poor, and rural public schools, and at a struggling state-financed teachers college, have received Nobel prizes? How many scholars who have worked almost exclusively at southern universities have done so, in any scientific discipline? How many of my economist peers who are laureates have eschewed the use of both formal mathematical techniques and the extended resort to empirical testing? . . . And the simple fact that my selection offered hope and encouragement to so many among the 'great unwashed' scattered throughout the academic boondocks has been, when all is said and done, the most gratifying aspect of the whole experience of 'Nobility.'" *Eastern Economic Journal*, October-December 1989, 339-348.

Timothy J. Brennan wrote to me that his paper, "Academic Disciplines and Representative Advocacy," "grew out of my reactions to seeing many of my colleagues engage in what some of us cynically refer to as 'selling out.' Gut-level feelings were hardly a basis for this criticism, so I decided to analyze the situation more carefully, using the techniques of philosophical analysis to isolate and specify the more serious concerns." *Business and Professional Ethics Journal*, Spring 1987, 32-55.

Dale J. Poirier has organized "A Conversation on Econometric Methodology," with David F. Hendry and Edward E. Leamer. "Instead of interviewing 'senior statesmen,' as is customary in interviews in econometrics and statistics, I thought it would be more interesting to talk to mid-career people who had an active research interest in methodology." Poirier assures me that "No cream puff questions were asked!" Here's a sample of one disagreement. Leamer: "I have a sense that most economists feel that conclusions from data sets are fragile. Somebody will add another variable . . . which will yield a substantially different conclusion . . . Somebody claims to have found something, and then six months later a new equation is estimated, and the same finding seems to be reversed." Hendry responds: "But a major part of the reason that we get

apparent fragility in published work is poor methodology. If researchers had used almost any coherent methodology, rather than just random searching through the data, we would not have so many sets of results which are easily overturned. Many of them are easily overturned because they are refutable within their own data set!" The exchange is soon to be published in *Econometric Theory*. Also available as DP-90-B01 from the Institute of Statistics and Decision Sciences, Duke University, Durham, North Carolina 27706.

Ranging through Neighboring Fields

In "Rational Choice Theory: Necessary but Not Sufficient," R. J. Herrnstein, a professor of psychology at Harvard, surveys the field and argues that rational choice theory needs to be supplemented with the matching law "which equalizes the average reinforcement [utility] rates earned by all active response alternatives in the subject's choice set . . . The theory of rational choice fails as a description of actual behavior, but it remains unequalled as a normative theory." Herrnstein will explore these issues further in a forthcoming issue in this journal. *American Psychologist*, March 1990, 356–367.

In the 1987 R. A. Fisher Memorial Lecture, "Methods for Studying Coincidences," Persi Diaconis and Frederick Mosteller develop "The Law of Truly Large Numbers": "With a large enough sample, any outrageous thing is likely to happen. The point is that truly rare events, say events that occur only once in a million . . . are bound to be plentiful in a population of 250 million people. If a coincidence occurs to one person in a million each day, then we expect 250 occurrences a day and close to 100,000 such occurrences a year. Going from a year to a lifetime and from the population of the United States to that of the world . . . we can be absolutely sure that we will see incredibly remarkable events. When such events occur, they are often noted and recorded. If they happen to us or someone we know, it is hard to escape that spooky feeling." *Journal of the American Statistical Association*, December 1989, 853–861.

In "Tobacco Battered and the Pipes Shattered: a note on the fate of the first British campaign against tobacco smoking," Larry Harrison concludes, "The 17th century belief that tobacco smoking was the abuse of a powerful therapeutic agent both provided a rationale for restricting its consumption and limited the way in which this could be accomplished. The adoption of a strategy which depended on the co-operation of powerful commercial interests meant that gradually the regulatory policy was subverted, and harnessed to the pursuit of monetary gain." The implications for current policy are also discussed. *British Journal of Addiction*, 1986, 81, 553–558.

Donald W. Fiske and Louis Fogg provide an article for the many authors who need solace after receiving referees' comments. "But the Reviewers are Making Different Criticisms of My Paper! Diversity and Uniqueness in Reviewer Comments" examines the critical points made by reviewers. "In the typical

case, two reviews of the same paper had no critical points in common. It seemed that reviewers did not overtly disagree on particular points; instead, they wrote about different topics, each making points that were appropriate and accurate." As an alternative way of getting good criticism they quote von Békésy, a Nobel Prize winner for studies of hearing. "Another way of dealing with [potential research] errors is to have friends who are willing to spend the time necessary to carry out a critical examination . . . An even better way is to have an enemy. An enemy is willing to devote a vast amount of time and brain power to ferreting out errors both large and small, and this without any compensation. The trouble is that really capable enemies are scarce; most of them are only ordinary. Another trouble with enemies is that they sometimes develop into friends and lose a good deal of their zeal. It was in this way that the writer lost his three best enemies." *American Psychologist*, May 1990, 591–598.

Glen G. Cain and Douglas A. Wissoker remind us, "An article by Hannan, Tuma and Groeneveld . . . was the first published report that the Seattle-Denver Income–Maintenance Experiment increased marital instability among couples who were participants in the experiment. The results startled and dismayed advocates of the welfare reforms being tested in the experiment because they had expected that the reforms, which extended income transfer payments to poor husband-wife families, would stabilize marriages relative to the existing program." In "A Reanalysis of Marital Stability in the Seattle-Denver Income-Maintenance Experiment," their "principal conclusion is that the data . . . do not demonstrate that an NIT program would increase marital breakups among married couples with children." There is a reply by Hannan and Tuma and a response by Cain and Wissoker. While many of the differences are clarified, no one's mind has been changed. *American Journal of Sociology*, March 1990, 1235–1314.

Correction

In the Spring 1990 issue, an article summarized in this column was erroneously attributed to the wrong publication. "Compensating Wages for Job-Related Death: The Opposing Arguments," by J. Paul Leigh, actually appeared in the *Journal of Economic Issues*, September 1989, 823–842.

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