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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, the articles chosen will be expository or integrative and will not focus on original research. 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 15 to 20 articles per issue. 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.

Distinguished Lectures

"Men Without Children" is the title of the 1997 Harry Johnson Lecture delivered by George A. Akerlof. He begins, "Indeed, I shall take a view so old that it is new—that welfare mothers are poor and unfortunate, and therefore deserving of decent support; furthermore, the growth of social pathology of crime and drugs have social, but, for the most part, not any clear economic cause such as a lack of jobs or a substitution of welfare for work." *Economic Journal*, March 1998, 287–309.

In William A. Darity Jr.'s 1997 Presidential Address to the Southern Economics Association, entitled "Intergroup Disparity: Economic Theory and Social Science Evidence," Darity argues: "Orthodoxy denies the persistence of discrimination as a market-based phenomenon. Indeed, I submit that neoclassical economics cannot

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be manipulated to produce a convincing story of why groups or individuals who differ ascriptively but who share similar productivity-linked attributes experience differential treatment in markets over time. Even the best neoclassical story, the statistical discrimination hypothesis, is not satisfactory. . . . This has led Barbara Bergmann to observe trenchantly that the statistical theory of discrimination really is 'human capital in drag.' " In a section on "Skin Shade and Social Disadvantage," Darity discusses the work of Scarr who "found no correlation between degree of African ancestry and performance on IQ tests, but they did find a correlation between skin shade and IQ scores. This suggests that it is the social perception and treatment of darker-skinned persons that dictates their weaker social outcomes, not their biological inheritance. Astonishingly, the most recent doyens of biological determination, Herrnstein and Murray, acknowledge that the Scarr study would provide 'strong evidence of no genetic influence on black-white differences . . . [i]f the whites who contributed to this ancestry were a random sample of whites. . . .' Rather than surrender their case, they revert to the claim that alleged innate black cognitive inferiority is due to adverse admixture effects of interbreeding with cognitively inferior whites! This last resort of Herrnstein and Murray's merely confirms my long-held suspicion that the endeavor to link race with cognitive ability really is an attack on the intelligence of Southern whites." The lecture extends and broadens some of the themes found in the Symposium on Discrimination in Product, Credit and Labor Markets, which includes a paper co-authored by Darity and Patrick Mason, in the Spring 1998 issue of this journal. *Southern Economic Journal*, 1998, *64*:4, 805–26.

Smorgasbord

The Spring 1998 issue of *Foreign Policy* has several interpretive surveys of interest. In "International Economics: Unlocking the Mysteries of Globalization," Jeffrey Sachs points out, "In recent years, international economics has been increasingly taken up with one central question: How will national economies perform now that nearly all of the world is joined in a single global marketplace? . . . This veritable economic revolution over the last 15 years has come upon us so suddenly that its fundamental ramifications for economic growth, the distribution of income and wealth, and patterns of trade and finance in the world economy are only dimly understood." 97–111. In another survey, Joseph E. Stiglitz and Lyn Squire ask "International Development: Is It Possible?" Their answer: "Yes. . . . Thus, even with conservative assumptions about future growth, someone born in 1995 can expect to enjoy four times the lifetime income of someone born in 1970. . . . The fact of the matter is that the record of the last quarter century demonstrates two points: Aggregate economic growth benefits most of the people most of the time; and it is usually associated with progress in other, social dimensions of development." 138–51.

Jagdish Bhagwati concludes "The Capital Myth," subtitled "The Difference between Trade in Widgets and Dollars:" "And despite the evidence of the inherent risks of free capital flows, the Wall Street-Treasury complex is currently proceeding on the self-serving assumption that the ideal world is indeed one of free capital flows, with the IMF and its bailouts at the apex in a role that guarantees its survival and enhances its status. But the weight of evidence and the force of logic point in the opposite direction, toward restraints on capital flows. It is time to shift the burden of proof from those who oppose to those who favor liberated capital." *Foreign Affairs*, May/June 1998, 7–12.

In "Tenure and Other Unusual Personnel Practices in Academia," Aloysius Siow "shows how distinctive features of academia, including the roles of peer review, tenure, up or out rules, outside offers, the negative seniority wage premium, and the proliferation of academic journals, alleviate . . . [t]he problems of specialization, obsolescence, and asymmetric information [that] arise jointly from the need of academia to keep up with an expanding and changing knowledge frontier." *Journal of Law, Economics and Organization, 14*:1, 52–173.

David A. Freedman, a Professor of Statistics at the University of California at Berkeley, has been one of the leading critics of the methodology used in the social sciences. In *Causation, Prediction and Search*, P. Spirtes, C. Glymour and R. Scheines present algorithms for finding causal structures. In "From Association to Causation Via Regression," in *Advances in Applied Mathematics* (1997, pp. 59–110), Freedman delivers a stinging critique and concludes, "The larger problem remains. Can quantitative social scientists infer causality by applying statistical technology to correlation matrices? That is not a mathematical question, because the answer turns on the way the world is put together. As I read the record, correlational methods have not delivered the goods. We need to work on measurement, design, theory. Fancier statistics are not likely to help much." There is a reply by Spirtes and Scheines, and a rejoinder by Freedman in *Causality in Crisis? Statistical Methods And The Search For Causal Knowledge In The Social Sciences*, edited by Vaughn R. McKim and Stephen P. Turner.

The November 1997 Congressional Budget Office study, "Federalism and Environmental Protection: Case Studies for Drinking Water and Ground-Level Ozone" will be quite useful in public finance and environmental economics classes.

Incomes and Productivity in North America is a collection of papers from the 1997 seminar sponsored by the Commission For Labor Cooperation of the North American Agreement on Labor Cooperation. ISBN 0-89059-087-7.

From the Federal Reserve

Robert L. Hetzel begins his article "Arthur Burns and Inflation" by asking, "Arthur Burns, Chairman of the Federal Open Market Committee . . . of the Federal Reserve System . . . from February 1970 until December 1977, was fiercely opposed to inflation. . . . Nevertheless, during his tenure as head of the Fed, high rates of inflation became a pervasive fact of American life. How could that have happened?" Hetzel concludes, "Burns did not consider monetary policy to be the driving force behind inflation. He believed that inflation emanated primarily from an inflationary psychology produced by a lack of discipline in government fiscal policy and from private monopoly power, especially of labor unions . . . Burns conducted monetary policy on the assumption that the price level is a nonmonetary phenomenon. The Congress and the administration, public opinion, and most of the economics profession supported that policy. The result was inflation." *Economic Quarterly*, Federal Reserve Bank of Richmond, Winter 1998, 21–44.

"The Rise of Risk Management" tries to answer the question, "Why are managers doing for shareholders what shareholders apparently can do for themselves? In other words, why do managers of corporations find it worthwhile to engage in high risk-management activities . . .?" The authors, J. David Cummins, Richard D. Phillips, and Stephen D. Smith, answer: "One school of thought is that managers attempt to reduce the volatility of cash flows because managers are personally averse to risk and their compensation is often tied to the firm's performance. Others have argued that managers attempt to overtly alter the risk profiles of their firms in an effort to increase the value of the firm's shares. However, basic finance theory says that, absent frictions in capital markets, shareholders can manage their own risk exposure. . . . Among the explanations that have been advanced to justify risk management as a value-maximizing decision is the need to mitigate the costs of financial distress, minimize taxes, and avoid costly external finance." *Economic Review*, Federal Reserve Bank of Atlanta, First Quarter 1998, 30–40.

The *Quarterly Review* of the Federal Reserve Bank of Minneapolis has an article entitled "Money" by James Madison. From Arthur J. Rolnick's introduction, "But Madison rejects this explanation [the quantity theory of money] and argues for a more fundamental theory of the value of money. Such a theory, Madison says, should recognize that an individual nation is just a small part of the world economy. And the theory should recognize that what matters to the value of paper money is not the number of the pieces of paper, but rather the date the government promises to redeem them for specie and the credibility of that promise." Fall 1997, 1–7.

For Classroom Debates

Peter Passell's "Economic Scene" in the June 11, 1998, issue of the *New York Times* is subtitled "Economic theory won't provide easy answers in the drug war." Passell begins, "If the war on drugs is indeed a battle of good versus evil, then Satan is gaining some impressive allies. An open letter to the United Nations Secretary General, on the occasion of the General Assembly's special session on drugs, asserts that 'the global war on drugs is now causing more harm than the drug abuse itself.' " Signers include Milton Friedman, Jagdish Bhagwati and Gavin Wright. "[P]erhaps it is not so surprising. Most economists these days are alert to the unintended consequences of regulation. And in the case of drug policy, they do not have to look far. 'The harmful side effects—everything from the spread of AIDS to violent crime to abuse of civil liberties—simply overwhelm the benefits,' said Jeffrey Miron of Boston University."

Passell also has written the lead article, "Benefits Dwindle Along With Wages

For the Unskilled," subtitled, "Even Less For Have Nots, What Was Seen as an Equalizer Has Instead Contributed to a Growing Disparity" in the June 14, 1998, issue of the *New York Times.* The article is largely based on the work of "Brooks Pierce, an economist at the United States Department of Labor, [who] used confidential data regularly collected by the Bureau of Labor Statistics from businesses to measure trends in total compensation." James Heckman comments, "Unskilled workers get the short end of the stick—and it's getting shorter."

The June 20, 1998, issue of the *Economist* includes "A Survey of Manufacturing," by Iain Carson. He begins with a reminder: "Change always frightens people. And today the world's economy is going through two great changes, both bigger than an Asian financial crisis here or a European monetary union there. The first change is that a lot of industrial production is moving from the United States, Western Europe and Japan to the developing countries . . . The second great change is that, in the rich countries of the OECD, the balance of economic activity is swinging from manufacturing to services. . . . [T]he survey will argue that today manufacturing is becoming a genuinely international affair. The fancy work gets done in rich countries by skilled workers, the simpler parts elsewhere in the global supply chain. More and more of the process is handled by multinational companies, quick to see what is best done where. There is nothing to fear in this. Any country that is willing to use the skills it possesses will gain from joining in. . . . Manufacturers of the world unite. You have nothing to lose but your supply chains."

In "Beware of Economists Bearing Advice," Daniel M. Hausman and Michael S. McPherson conclude, "The sensible policymaker needs to understand the limitations of welfare economics and to regard its policy recommendations with skepticism. Welfare economics vulgarizes the problems of policy-making by its limited concern with only one moral objective—the enhancement of well-being—and by its distorted identification of well-being with the satisfaction of preferences. The pronouncements of welfare economics must therefore be treated with caution. The recommendations—like providing cash in favour of in-kind benefits—seems so straightforward, and the arguments . . . so watertight. But what makes welfare economics so clear cut is that so much has been left out and that what has been left in has been distorted." *Policy Options,* September 1997, 16–19.

Glenn C. Loury begins his article "Uneconomical," subtitled, "The Hard Questions," "Economists have tremendous influence over policy these days, and, as an economist, that generally makes me proud. But, precisely because of my discipline's considerable clout, it is important to understand its limitations. When it comes to the particulars of governing in a democracy, the economist's view of the world can be narrow and reductive. As University of Virginia political scientist Steven Rhoads has pointed out . . . the single-minded attention to incentives and the pursuit of self-interest that characterizes economic analysis can be a great strength—but it can also be a fatal flaw." *New Republic,* June 29, 1998, 14–15.

"Working Longer: Avoiding Tax Rate Increases and Cuts in Benefits," is the title of Gene Steuerle's "Economic Perspective" in *Tax Notes.* He writes, "To hear most of the debate on social security, you'd think the only thing that had to be done would be to put the right people in charge of the nation's portfolio. . . .

Soon we will have a dramatic fall in the number of workers in the economy relative to the number of beneficiaries. The simple statistic usually cited is that social security beneficiaries per worker will fall from a ratio of more than 3-to-1 to less than 2-to-1 . . . [T]he dramatic fall in available human capital . . . is not going to be solved merely by giving the ones that remain more equipment and plants. . . . With later retirement, for every one fewer beneficiary we get one extra worker. . . . Do we really believe that we should rely primarily on our children to support us for close to one-third of our adult lives?" May 4, 1998, 621–622.

In "Good-Bye Tollbooths and Traffic Jams?" Gary S. Becker reminds us, "An iron law of economics states that demand always expands beyond the supply of free goods to cause congestion and queues. Drivers caught in traffic jams on the freeways in and around major cities of the world regularly run afoul of this law. . . . A vastly better solution than building additional highways through dense urban areas would be to charge for the right to use congested roads with electronic toll collectors. . . ." *Business Week,* May 18, 1998, 26.

In "The East Asian Tigers Have Plenty to Roar About," Robert J. Barro reminds us: "Until last year, many East Asian countries were widely regarded as economic miracles . . . Yet, even before the recent setbacks the four Tigers' economic record was challenged in two well-known studies by Alwyn Young. . . . Young argued that the high rates of economic growth reflected very little technological progress. . . . A recent study by Chang Tai Hsieh . . . , challenges key parts of Young's conclusions on productivity growth. . . . Thus, overall, we continue to have ample grounds to view the East Asian growth and technological performances as miraculous." *Business Week,* April 27, 1998, 24.

One difficulty in writing this column is in rationing the number of citations to Paul Krugman's work. My criterion this time is the most far-out source. Krugman has an article in *Red Herring Magazine* entitled, "Economics: Why most economists predictions are wrong," where he examined the predictions made by Herman Kahn in 1967 for the year 2000. "I can't think of a single important technological development since 1967 that was not on his list. All of his errors were in the opposite direction. Many of the technological developments he predicted . . . did not materialize. . . . In short, looking back at the future makes it pretty clear that technology has made less, not more, progress than expected. How can this be, when information technology is making such strides? One answer is that input isn't the same as output. . . . So never mind the hype. The truth is that we live in an age not of extraordinary progress but of technological disappointment. And that's why the future is not what it used to be." The article then includes some of Krugman's prognostications. Best found by going to Krugman's webpage at ⟨http://www.mit.edu/people/krugman/index.html⟩, one of my students' favorites.

Nathan Gardels, the editor of the Spring 1998 *New Perspectives Quarterly* begins his "Comment" on "The New Consensus:" "Almost a decade after the end of the Cold War, the frayed old paradigms that hung like a worn suit on the global body politic are finally being discarded. A new 'center-left' consensus is emerging to clothe the new order. The consensus, the core of which recognizes the limits of the market and the folly of idolizing it as the sole arbiter of human affairs, has a number of dimensions" . . . Most of the participants in the discussion are senior policymakers.

We all use the old chestnut of New York City taxi medallions in the introductory economics course. "Where Immigrant Dreams Prosper, at a Profit," by David Cay Johnston provides a new twist. "[M]edallions—now selling for $237,000 each—have made taxis one of the hottest long-term investment vehicles around. In the 60 years since the medallions have been sold in the open market, their price has increased an average of more than 18 percent a year, versus the long-term historical average of 10.9 percent for large stocks." The ability of a driver to recently purchase a medallion "was created by a curious mix of a small-business loan program dating back to the Nixon years, an obscure Federal tax break and the city's Depression-era decision to make taxi medallions a form of currency." *New York Times,* front of "Money and Business" section.

Steven E. Landsburg's "Everyday Economics" column in *Slate* posted May 7, 1998, is titled "Booked Up" and subtitled, "The difference between buying at Barnes and Noble and Amazon.com." Landsberg argues that in the book selling business, instead of competition some form of retail price maintenance would best serve the consumer interest.

Famous Economists

I was deeply moved by the article based on Sylvia Nasar's biography of John Nash, "A Beautiful Mind," that appears in the June 1998 issue of *Vanity Fair,* pp. 198+. I then read the book, and while it was less moving, it was chock-full of interesting anecdotes including a description of the election of Fellows to the Econometric Society and a detailed inside description of the workings of the Nobel selection committee, which gave the 1994 Nobel Prize in economics to Nash, together with John Harsanyi and Reinhard Selten.

"The Economic Contributions of Hyman Minsky: varieties of capitalism and institutional reform" are analyzed by Dimitri B. Papadimitriou and L. Randall Wray. They end by arguing that Minsky's "proposals go far beyond the 'invisible hand-waves' of free market ideologues, but also well beyond the macroeconomic tinkering normally associated with Keynesian Economics. Minsky also took into consideration the institutional change necessary to promote the sort of society he desired. In this sense, we think it is accurate to claim that Minsky successfully integrated 'Post' (or, better, 'financial') Keynesian theory with an institutionalist appreciation for the varieties of past, current, and feasible future economic arrangements." *Review of Political Economy,* April 1998, 199–225.

Joseph Stiglitz is the subject of a *New York Times* profile entitled, "The Economics of Intervention: A Prominent but Impolitic Theorist Questions the Worship of Free Markets." Most of the article is devoted to Stiglitz's theoretical work and his attempt to apply it in the policy arena. "Invoking theories that bear his stamp and are taught today in most college economics courses, Mr. Stiglitz is publicly criticizing the austerity measures—high interest rates, bank closings and sharp cuts in public spending—favored by the Clinton Administration and the International Monetary Fund as solutions to Asia's economic woes." The article includes some interest biographical details. "Ask Mr. Stiglitz how his thinking evolved, and he mentions his parents and his upbringing in Gary, Ind., where his public-school classmates, the children of steelworkers, made him familiar with layoffs and mill closings and—though he would not have so labeled it at the time—imperfect markets." His experience also hints at changes in the academic job market since the 1960s: "At 23, he became an assistant professor at Yale, where his contract included the proviso that he wear shoes, in and out of class, and show proof that he had leased an apartment. (There were doubts; he had slept too many nights on an office sofa after hours of research.)" By Louis Uchitelle, May 31, 1998, front of the "Money and Business" section.

Forbes has published a far-ranging interview with Thomas Sowell by Peter Brimelow titled "Human Capital," with the subheading, "Why do nations fail—and succeed? Thomas Sowell answers a taboo question." "What started me off with geography were two facts. One is that Africa is more than twice the size of Europe but has a shorter coastline. That blew me away. And the second was that before the transcontinental railroad you could reach San Francisco faster and cheaper from China than from St. Louis. There's a huge difference in water and land transport costs. . . . Which means not only immediate economic advantage, but that the people themselves have a larger cultural universe when transportation is easier." July 6, 1998, 52–62.

Italian Economists of the 20th Century, edited by Ferdinando Meacci, is a collection of 12 essays that begins with Pareto and ends with Pasinetti. It includes emigres like Sraffa and Modigliani as well as some economists less well-known to English speakers like Antonio De Vitti de Marco and Marco Fanno. ISBN #1 85278 886 0.

The May/June 1998 issue of *American Heritage* has an article on "Overrated and Underrated." For economists, John Kenneth Galbraith writes, "By far the most overrated economist in the American tradition was not of this country but of France. It was Jean Baptiste Say . . . The most underrated economist was a native-born American of solid Norwegian stock, Thorstein Veblen." 44–68.

"The Berlin Batman" is a comic book story of Batman's saving the Von Mises archives from the Nazis. *The Batman Chronicles,* Winter '98. The Writer/Artist is Paul Pope. This issue is devoted to "Elseworlds" where "heroes are taken from their usual settings and put into strange times and places." In "Holy Praxeology, Batman!" Paul Cantor, a teacher of English, considers other possibilities: "David Ricardo was similarly influenced by London Superman, whose secret identity back in the early nineteenth century was a clerk from Kent. Living early in the Industrial Revolution, London Superman was not yet the Man of Steel but only the Man of Iron. But this means that when the clerk from Kent presented his bill to Ricardo for work as auditor, the economist had his first inkling of the Iron Law of Wages." *The Free Market,* published by the Ludwig Von Mises Institute, March 1998.

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