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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., Saint Paul, Minnesota, 55105.

Smorgasbord

Gary Clyde Hufbauer, Cathleen Cimino, and Tyler Moran evaluate "NAFTA at 20: Misleading Charges and Positive Achievements." "In truth the claims on both sides of the NAFTA issue 20 years ago were overblown. Since the Mexican economy is less than one-tenth the size of the US economy, it is not plausible that trade integration could dramatically shape the giant US economy, even though integration could exert a substantial impact on the relatively small Mexican economy. But exaggeration and sound bites are the weapons of political battle, and trade agreements have been on the front line for two decades." "Ample econometric evidence documents the substantial payoff from expanded two-way trade in goods and services. Through multiple channels, benefits flow both from larger exports and larger imports. . . . The

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channels include more efficient use of resources through the workings of comparative advantage, higher average productivity of surviving firms through 'sifting and sorting,' and greater variety of industrial inputs and household goods. . . . As a rough rule of thumb, for advanced nations, like Canada and the United States, an agreement that promotes an additional $1 billion of two-way trade increases GDP by $200 million. For an emerging country, like Mexico, the payoff ratio is higher: An additional $1 billion of two-way trade probably increases GDP by $500 million. Based on these rules of thumb, the United States is $127 billion richer each year thanks to 'extra' trade growth, Canada is $50 billion richer, and Mexico is $170 billion richer. For the United States, with a population of 320 million, the pure economic payoff is almost $400 per person." Peterson Institute for International Economics, May 2014, Number PB14-13. http://www.piie.com/publications/pb/pb14-13.pdf.

In Chapter 3 of its *World Economic Outlook*, the IMF considers "Perspectives on Global Real Interest Rates." "Real interest rates worldwide have declined substantially since the 1980s and are now in slightly negative territory. Common factors account for much of these movements, highlighting the relevance of global patterns in saving and investment. Since the late 1990s, three factors appear to account for most of the decline. First, a steady increase in income growth in emerging market economies during 2000–07 led to substantially higher saving rates in these economies. Second, the demand for safe assets increased, largely reflecting the rapid reserve accumulation in some emerging market economies and increases in the riskiness of equity relative to bonds. Third, there has been a sharp and persistent decline in investment rates in advanced economies since the global financial crisis. This chapter argues that global real interest rates can be expected to rise in the medium term, but only moderately, since these three factors are unlikely to reverse substantially. . . . In summary, real [interest] rates are expected to rise. However, there are no compelling reasons to believe in a quick return to the average level observed during the mid-2000s (that is, about 2 percent)." April 2014. http://www.imf.org/external/Pubs/ft/weo/2014/01/pdf/c3.pdf.

Melissa S. Kearney and Benjamin H. Harris have edited an e-book, *Policies to Address Poverty in America,* with 14 short essays on specific policies. As one example, Robert I. Lerman advocates "Expanding Apprenticeship Opportunities in the United States." "Today apprentices make up only 0.2 percent of the U.S. labor force, far less than in Canada (2.2 percent), Britain (2.7 percent), and Australia and Germany (3.7 percent). . . . While total annual government funding for apprenticeship in the United States is only about $100 to $400 per apprentice, federal, state, and local annual government spending per participant for two-year public colleges is approximately $11,400. Not only are government outlays sharply higher, but the cost differentials are even greater after accounting for the higher earnings (and associated taxes) of apprentices compared to college students." "Stimulating a sufficient increase in apprenticeship slots is the most important challenge. Although it is easy to cite examples of employer reluctance to train, the evidence from South Carolina and Britain suggests that a sustained, business-oriented marketing effort can persuade a large number of employers to participate in apprenticeship training. Both programs

were able to more than quadruple apprenticeship offers over about five to six years." Hamilton Project, Brookings Institution. 2014, http://www.brookings.edu/~/media/research/files/papers/2014/06/19_hamilton_policies_addressing_poverty/policies_address_poverty_in_america_full_book.

Aaron Edlin and Rebecca Haw discuss "Cartels by Another Name: Should Licensed Occupations Face Antitrust Scrutiny?" "Once limited to a few learned professions, licensing is now required for over 800 occupations. And once limited to minimum educational requirements and entry exams, licensing board restrictions are now a vast, complex web of anticompetitive rules and regulations. . . . State-level occupational licensing is on the rise. In fact, it has eclipsed unionization as the dominant organizing force of the U.S. labor market. While unions once claimed 30% of the country's working population, that figure has since shrunk to below 15%. Over the same period of time, the number of workers subject to state-level licensing requirements has doubled; today, 29% of the U.S. workforce is licensed and 6% is certified by the government. The trend has important ramifications. Conservative estimates suggest that licensing raises consumer prices by 15%. There is also evidence that professional licensing increases the wealth gap; it tends to raise the wages of those already in high-income occupations while harming low-income consumers who cannot afford the inflated prices." "We contend that the state action doctrine should not prevent antitrust suits against state licensing boards that are comprised of private competitors deputized to regulate and to outright exclude their own competition, often with the threat of criminal sanction." *University of Pennsylvania Law Review,* April 2014, pp. 1093–1164. http://www.pennlawreview.com/print/162-U-Pa-L-Rev-1093.pdf.

The US Bureau of Labor Statistics has published "The First Hundred Years of the Consumer Price Index: A Methodological and Political History." "Of all the economic statistics produced by the U.S. federal government, none has a direct impact on the lives of everyday Americans quite like the Consumer Price Index (CPI). Numerous government programs, such as Social Security benefits, are adjusted each year on the basis of changes to the CPI. Countless contracts—whether business agreements, government obligations, leases, or court orders—also utilize the CPI, to adjust the dollar amounts associated with these settlements. For some, the CPI seems to be a rather difficult and abstract thing to understand. Others view the index with suspicion, a statistic produced by the recondite, esoteric labors of government economists and statisticians. . . . This article presents a history of the creation and evolution of the CPI: a history of both how the Bureau of Labor Statistics (BLS, the Bureau) has gone about measuring the change in the cost of purchasing some mix of consumer goods and services and how the CPI has been used over approximately the previous 100 years. . . . The article tells the history of the CPI in seven short, self-contained minihistories. The story begins in the late 19th century, proceeds through World War I, the New Deal, World War II, the postwar era, and the 1960s and 1970s, and closes with events that took place from the 1980s through 2004." *Monthly Labor Review,* April 2014. http://www.bls.gov/opub/mlr/2014/article/the-first-hundred-years-of-the-consumer-price-index.htm. The same issue includes "One Hundred Years of

Price Change: The Consumer Price Index and the American Inflation Experience" at http://www.bls.gov/opub/mlr/2014/article/one-hundred-years-of-price-change-the-consumer-price-index-and-the-american-inflation-experience.htm.

Complements of JEP

Chiara Criscuolo, Peter N. Gal, and Carlo Menon compile empirical evidence concerning "The Dynamics of Employment Growth: New Evidence from 18 Countries." "[N]ot all small businesses are net job creators, showing that only young businesses—predominantly small—create a disproportionate number of jobs, confirming recent evidence for the United States. When disentangling the role of entry from the role of expansion of incumbent young firms, the data clearly shows that entry explains most of the contribution to job creation, followed by start-ups (i.e., firms that are less than three year old). While this remains true even during the recent great recession, the data shows a sharp decline in the contribution of entry and young firms to aggregate employment growth during the recession. More generally, the findings point to a decline in start-up rates over the past decade across all countries considered, which gives cause for concern, given their strong contribution to job creation." OECD Science, Technology and Industry Policy Papers No. 14, May 21, 2014. http://www.oecd-ilibrary.org/science-and-technology/the-dynamics-of-employment-growth_5jz417hj6hg6-en. This evidence and discussion is a useful complement to the paper in this issue "The Role of Entrepreneurship in US Job Creation and Economic Dynamism," by Ryan Decker, John Haltiwanger, Ron Jarmin, and Javier Miranda.

The *African Economic Outlook 2014*, published by the African Development Bank Group, OECD, and the UN Development Programme, devotes a special section and several chapters to how global supply chains could boost economic growth in Africa. "In the past, for a country to industrialise it had to develop the domestic capacity to perform all major steps in the value chains of complex manufactured products. Today, through linking into an international production network, countries can establish a specific section of a product's value chain without having all the upstream capabilities in place. These remain elsewhere and are linked through shipments of intermediate products and communication of the know-how necessary for the specific step in the value chain present in the country. . . . Through participation in a value chain, countries and firms can acquire new capabilities that make it possible to upgrade, i.e. to capture a higher share of the value added in a global value chain. . . . Despite their name, global value chains exhibit high regional concentration, which is shrinking slowly. Africa does not play a significant role yet. When measuring the linkages between major supply-chain traders, the strongest relationships can be found within the regional blocks of East Asia, Europe and North America. About 85% of global value chain (GVC) trade in value added takes place in and around these three hubs. While other regions remain marginal, their share has increased from only 10% in 1995 to 15% in 2011. Africa's share in GVC participation increased from 1.4% to 2.2%

during the same time. . . . The global business processing outsourcing market was forecast to grow 5.1% in 2013 and reach USD 304 billion. The race is on among countries such as Egypt, Kenya, Ghana, Mauritius, South Africa, Tunisia and Uganda to become the new 'India' in Africa using incentives and special economic zones to develop their outsourcing sectors." http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/E-Book_African_Economic_Outlook_2014.pdf. This study complements the two-paper symposium on "Global Supply Chains" in the Spring 2014 issue of this journal.

I contributed "Economics and Morality" to *Finance & Development.* "Economists prefer to sidestep moral issues. They like to say they study trade-offs and incentives and interactions, leaving value judgments to the political process and society. But moral judgments aren't willing to sidestep economics. Critiques of the relationship between economics and moral virtue can be grouped under three main headings: To what extent does ordinary economic life hold a capacity for virtue? Is economic analysis overstepping its bounds into zones of behavior that should be preserved from economics? Does the study of economics itself discourage moral behavior? . . ." "I have become wary over the years of questions framed in a way that seeks to pit economics against moral virtue in a winner-takes-all brawl. No economist would recommend consulting an economics textbook as a practical source of transcendent moral wisdom. As the recent global economic crisis reminded anyone who needed reminding, economics doesn't have answers for all of the world's economic problems. But to be fair, moral philosophers don't have answers for all the world's spiritual and ethical problems. . . . Economists cannot banish the importance of moral issues in their field of study and should not seek to do so. But when moral philosophers consider topics that touch on the ordinary business of life, they cannot wish away or banish the importance of economics either." June 2014, vol. 51, no. 2, pp. 34–88. http://www.imf.org/external/pubs/ft/fandd/2014/06/pdf/taylor.pdf.

Some of the themes in this essay follow-up on past JEP articles, including the two-paper symposium on "Economics and Moral Virtues" in the Fall 2013 issue.

Interviews and Speeches

Douglas Clement interviews Glenn Loury, with some emphasis on the economics of discrimination. Here's Loury: "[S]uppose I have a regression equation with wages on the left-hand side and a number of explanatory variables—like schooling, work experience, mental ability, family structure, region, occupation and so forth—on the right-hand side. These variables might account for variation among individuals in wages, and thus one should control for them if the earnings of different racial or ethnic groups are to be compared. One could put many different variables on the right-hand side of such a wage regression. Well, many of those right-hand-side variables are determined within the very system of social interactions that one wants to understand if one is to effectively explain large and persistent earnings differences between groups. That is, on the average, schooling, work experience, family

structure or ability (as measured by paper and pencil tests) may differ between racial groups, and those differences may help to explain a group disparity in earnings. But those differences may to some extent be a consequence of the same structure of social relations that led to employers having the discriminatory attitudes they may have in the work place toward the members of different groups. So, the question arises: Should an analyst who is trying to measure the extent of 'economic discrimination' hold the group accountable for the fact that they have bad family structure? Is a failure to complete high school, or a history of involvement in a drug-selling gang that led to a criminal record, part of what the analyst should control for when explaining the racial wage gap—so that the uncontrolled gap is no longer taken as an indication of the extent of unfair treatment of the group?" *The Region,* The Federal Reserve Bank of Minneapolis, June 2014, pp. 12–25. http://www.minneapolisfed.org/pubs/region/14-06/region_june_2014_interview_glenn_loury.pdf.

David A. Price interviews Mark Gertler, with some focus on the dynamics of financial crisis and the Great Recession. On the concept of "financial accelerators": "That's what we wanted to capture with the financial accelerator, that is, the mutual feedback between the real sector and the financial sector. We also wanted to capture the primary importance of balance sheets—when balance sheets weaken, that causes credit to tighten, leading to downward pressure on the real economy, which further weakens balance sheets. I think that's what helped to develop the concept of financial accelerators one saw in the financial crisis. . . . I didn't speak to Bernanke a lot during the height of the crisis. But one moment I caught him, asked him how things were going, and he said, 'Well, on the bright side, we may have some evidence for the financial accelerator.'" On the high level of excess reserves at the Fed: "The Fed now is acting as an investment bank, and it's taking over those activities. Instead of Lehman Brothers holding these mortgage-backed securities, the Fed is. And the Fed is issuing deposits, if you will, against these securities, the same way these private financial institutions did. It's easier for the Fed, because it can issue essentially risk-free government debt, and these other institutions couldn't. . . . It's possible, as interest rates go up, that the Fed could take some capital losses, as private financial institutions do. But the beauty of the Fed is it doesn't have to mark to market; it can hold these assets until maturity, and let them run off. So I'm in a camp that thinks there's been probably a little too much preoccupation with the size of the balance sheet." *Econ Focus*, Federal Reserve Bank of Richmond, Fourth Quarter 2013, pp. 32–36. Available at: https://www.richmondfed.org/publications/research/econ_focus/2013/q4/q4.cfm.

Jason Furman asks "Whatever Happened to the Great Moderation?" "Disaggregating the GDP data, the reduced volatility of consumption is one of the major sources of the Great Moderation—and this reduced volatility has continued to hold up during and after the Great Recession, especially in consumer durables. The continued stability in consumption stands in contrast to other components of GDP like business fixed investment, which became less volatile during the initial Great Moderation but has since at least partially reverted to its earlier volatility. . . . From 1960 to 1984, inventories were quite volatile, and were also procyclical,

meaning that when sales increased, inventories also increased, further contributing to the volatility of production. During the post-1984 Great Moderation period, inventory investment itself became much less volatile, and the previous relationship between inventories and sales reversed, so that the two became negatively correlated. Focusing specifically on durable goods, the change in the covariance between inventories and sales accounts for nearly half of the decline in the variance in durable goods output. However, including the Great Recession, it appears that the relationship between output, sales and inventories partially reverted to the pre-Great Moderation pattern. The covariance of inventories and sales turned positive again, suggesting that improved inventory management was not enough to cushion the massive blow of the Great Recession, and in fact exacerbated it." Address to the 23rd Annual Hyman P. Minsky Conference on the State of the US and World Economies. April 10, 2014. http://www.whitehouse.gov/sites/default/files/docs/2014-04-10-minsky-conference_speech.pdf.

Lawrence Summers delivered the keynote address at the National Association of Business Economists Policy Conference on the subject of "U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound." "I think it is fair to say that six years ago, macroeconomics was primarily about the use of monetary policy to reduce the already small amplitude of fluctuations about a given trend, while maintaining price stability. That was the preoccupation. It was supported by historical analysis emphasizing that we were in a great moderation, by policy and theoretical analysis suggesting the importance of feedback rules, and by a vast empirical program directed at optimizing those feedback rules. Today, we wish for the problem of minimizing fluctuations around a satisfactory trend. . . . I shall argue three propositions. First, as the United States and other industrial economies are currently configured, simultaneous achievement of adequate growth, capacity utilization, and financial stability appears increasingly difficult. Second, this is likely to be related to a substantial decline in the equilibrium or natural real rate of interest. Third, addressing these challenges requires different policy approaches than are represented by the current conventional wisdom." *Business Economics*, 2014, vol. 49, no. 2, pp. 65–73, http://larrysummers.com/wp-content/uploads/2014/06/NABE-speech-Lawrence-H.-Summers1.pdf.

Discussion Starters

The Global Environmental Alert Service of the United Nations Environment Programme reports on "Sand, Rarer than One Thinks." "Globally, between 47 and 59 billion tonnes of material is mined every year, of which sand and gravel, hereafter known as aggregates, account for both the largest share (from 68% to 85%) and the fastest extraction increase . . ." "A conservative estimate for the world consumption of aggregates exceeds 40 billion tonnes a year. This is twice the yearly amount of sediment carried by all of the rivers of the world, making humankind the largest of the planet's transforming agent with respect to aggregates . . ." "Thus, the world's

use of aggregates for concrete can be estimated at 25.9 billion to 29.6 billion tonnes a year for 2012 alone. This represents enough concrete to build a wall 27 metres high by 27 metres wide around the equator." March 2014. http://www.unep.org/pdf/UNEP_GEAS_March_2014.pdf.

Kenneth Button makes the case for "Really Opening Up the American Skies." "The deregulation of the 1970s, by removing entry quantitative controls, led to a considerable increase in services. It also increased the capability of individuals to access a wider range of destinations from their homes via the hub-and-spoke system of routings that emerged. This pattern has been reversed since 2007. The largest 29 airports in the United States lost 8.8 percent of their scheduled flights between 2007 and 2012, but medium-sized airports lost 26 percent and small airports lost 21.3 percent. . . . In sum, the 1978 Airline Deregulation Act only partially liberalized the U.S. domestic airline market. One important restriction that remains is the lack of domestic competition from foreign carriers. The U.S. air traveler benefited from the country being the first mover in deregulation, and this provided lower fares and consumer-driven service attributes some 15–20 years before they were enjoyed in other markets; the analogous reforms in Europe only fully materialized after 1997. But the world has changed, and so have the demands of consumers and the business models adopted by the airlines. . . . But remaining regulations still limit the amount of competition in the market and, with this, the ability of travelers to enjoy even lower fares and a wider range of services." *Regulation*, Spring 2014, pp. 40–45 http://object.cato.org/sites/cato.org/files/serials/files/regulation/2014/4/regulation-v37n1-8.pdf.

What's the most efficient order for passengers to board an airplane? R. John Milne and Alexander R. Kelly explain how the theory has developed and offer their own proposal in "A New Method for Boarding Passengers onto an Airplane." "Steffen (2008) presents an optimum boarding method that assigns passengers to a specific numerical position in line that depends upon their ticketed seat location. . . . For ease of explanation, this paper assumes a 20 row airplane with six seats per row. To get to their seats, passengers walk down an aisle which separates the right side of the plane from the left. . . . Steffen's model places the first passenger to board the plane in a window seat in the last (20th) row in the last (6th) column in the window seat . . . The next passenger is also seated along the window, two rows in front of the first passenger . . . This process continues for one side of the plane and then repeats on the other side. . . . The key aspect of our proposed method is that it assigns airplane passengers to seats so that their carry-on luggage is spread roughly evenly throughout the plane. This reduces the time passengers take to find available storage in the overhead bins when storing their luggage. . . . Given that airlines incur a cost of about $30 per ground minute and Delta Airlines conducts 5800 flights per day, a reduction in boarding time of 0.16 min per flight would translate to a cost savings of about $10 million annually for a large airline such as Delta." *Journal of Air Transport Management*, January 2014, vol. 34, pp. 93–100, http://www.sciencedirect.com/science/article/pii/S0969699713001166. The Steffen (2008) article, "Optimal Boarding Method for Airline Passengers," also appeared in the *Journal of Air Transport Management* (14, pp. 146–50), and is available at http://arxiv.org/pdf/0802.0733.pdf.