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

Smorgasbord

The OECD focuses on Tackling Wasteful Health Care Spending. From the “Foreword”: “Across OECD countries, a significant share of health care system spending and activities are wasteful at best, and harm our health at worst. One in ten patients in OECD countries is unnecessarily harmed at the point of care. More than 10% of hospital expenditure is spent on correcting preventable medical mistakes or infections that people catch in hospitals. One in three babies is delivered by caesarean section, whereas medical indications suggest that C-section rates should be 15% at most. Meanwhile, the market penetration of generic pharmaceuticals—drugs with effects equivalent to those of branded products but typically sold at lower prices—ranges between 10–80% across OECD countries. And a third of OECD citizens consider the health sector to be corrupt or even extremely corrupt. At a


1 For supplementary materials such as appendices, datasets, and author disclosure statements, see the article page at
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time when public budgets are under pressure worldwide, it is alarming that around one-fifth of health expenditure makes no or minimal contribution to good health outcomes. ... Actions to tackle waste are needed in the delivery of care, in the management of health services, and in the governance of health care systems.” January 2017, at http://www.oecd-ilibrary.org/social-issues-migration-health/tackling-wasteful-spending-on-health_9789264266414-en.

Arthur Turrell presents an overview of “Agent-Based Models: Understanding the Economy from the Bottom Up.” “Agent-based models explain the behaviour of a system by simulating the behaviour of each individual ‘agent’ within it. These agents and the systems they inhabit could be the consumers in an economy, fish within a shoal, particles in a gas, or even galaxies in the Universe. ... The agent-based approach to problem-solving began in the physical sciences but has now spread to many other disciplines including biology, ecology, computer science and epidemiology. ... Despite being less widely used, agent-based models have produced many important insights in economics, including how the statistics observed in financial markets arise, and how business cycles occur. ... With respect to central banks, there are three particularly promising areas of development for agent-based modelling. The first is the ongoing application of macroeconomic agent-based models to monetary policy. Several models which explicitly include central banks have now been established and are on hand to examine policy questions. The second is in modelling the banking and financial sector, to determine how financial stress is transmitted through the system as a whole. Third, researching the potential impact of the introduction of a central bank digital currency could be explored using an agent-based model.” Quarterly Bulletin, Bank of England, 2016 Q4, pp. 173–188, at http://www.bankofengland.co.uk/publications/Pages/quarterlybulletin/2016/q4/a2.aspx.

Karl Alexander and Stephen L. Morgan have written “The Coleman Report at Fifty: Its Legacy and Implications for Future Research on Equality of Opportunity,” which is an introductory essay for a 13-paper special issue on this topic in the Russell Sage Foundation Journal of the Social Sciences. “In thumbnail, EEO [Equality of Educational Opportunity] concluded that 1) differences across schools in average achievement levels were small compared to differences in achievement levels within schools; 2) the differences in achievement levels detected did not align appreciably with differences in school resources other than the socioeconomic makeup of the student body; and 3) family background factors afforded a much more powerful accounting of achievement differences than did any and all characteristics of the schools that children attended.” The other papers discuss how evidence on these findings has evolved over time. September 2016, vol. 2, no. 5, pp. 1–16, http://www.rsfjournal.org/toc/rsf/2/5.

The World Development Report 2017 from the World Bank has the theme “Governance and the Law.” “Contrary to what many growth theories predict, there is no tendency for low- and middle-income countries to converge toward high-income countries. ... As ideas and resources spread at an increasingly rapid rate across countries, policy solutions to promote further progress abound. However, policies that should be effective in generating positive development outcomes are often not
adopted, are poorly implemented, or end up backfiring over time. Although the development community has focused a great deal of attention on learning what policies and interventions are needed to generate better outcomes, it has paid much less attention to learning why those approaches succeed so well in some contexts but fail to generate positive results in others. ... Ultimately, confronting the challenges faced by today’s developing countries—poor service delivery, violence, slowing growth, corruption, and the ‘natural resource curse,’ to name a few—requires rethinking the process by which state and nonstate actors interact to design and implement policies, or what this Report calls governance ...” January 2017, https://openknowledge.worldbank.org/handle/10986/25880.

Michael D. Giandrea and Shawn A. Sprague discuss “Estimating the U.S. Labor Share.” “Keynes and other economists had accepted as fact that the share of national output accruing to workers as compensation was relatively constant. In fact, this idea had become so well accepted that some economists even began using the supposed constancy as an issue to be addressed in theories of production and economic growth. The term ‘Bowley’s Law,’ referring to a 19th-century economist who had compiled statistics on the issue, was even coined to describe this stability. ... However, in the late 20th century—after many decades of relative stability—the labor share began to decline in the United States and many other economically advanced nations, and in the early 21st century it fell to unprecedented lows. ... The material that follows reviews the BLS methodology for estimating the labor share, discusses the uses and limitations of this measure, and suggests potential improvements in that methodology.” Monthly Labor Review, February 2017, https://www.bls.gov/opub/mlr/2017/article/estimating-the-us-labor-share.htm.

Josh Lerner and Antoinette Schoar discuss “Rise of the Angel Investor: A Challenge to Public Policy.” “Angel investors are high-net-worth individuals, often (but not exclusively) former entrepreneurs and corporate executives, who make private investments in start-up companies with their own money. ... Angels typically invest at the seed funding stage, making them among the first equity investors in a company beyond its founders. ... Angels invested a total of $24.6 billion in 2015 with an average deal size of $345,390, according to the Center for Venture Research. ... The Angel Capital Association (ACA) lists more than 300 U.S. groups in its database. The average ACA angel group in 2015 had 68 member angels and invested a total of nearly $2.5 million in 10.3 deals in 2007. At least between 10,000 and 15,000 angels are believed to belong to angel groups in the U.S. ... Estimates suggest that the total size of angel investment has long surpassed venture capital investment in the U.S. and increasingly in some other countries as well. For instance, survey estimates suggest the projected size of the total angel market in the U.S. grew from $17.6 billion in 2009 to $24.1 billion in 2014. The estimated capital deployed by angel groups in Europe has almost doubled over the past five years, and in Canada, it almost tripled. ... But despite their rapid growth, we know very little about the role that angels play internationally and the type of firms in which they invest.” Third Way, September 23, 2016, http://www.thirdway.org/report/rise-of-the-angel-investor-a-challenge-to-public-policy.
Angles on Productivity and Growth

Gary Clyde Hufbauer and Zhiyao (Lucy) Lu make a case for “Increased Trade: A Key to Improving Productivity.” “[A] $1 billion increase in two-way trade increases potential GDP, through supply-side efficiencies, by $240 million. … Between 1990 and 2008, real US two-way trade in nonoil goods and services increased at an average rate of 5.86 percent a year. If two-way trade had increased at this pace after 2011, the real value of US two-way nonoil trade in 2014 would have been $308 billion greater than the observed value ($4.50 trillion versus $4.19 trillion). Based on the average dollar ratio of 0.24, the hypothetical increase in US two-way trade would have delivered a $74 billion increase in US GDP through supply-side efficiencies in 2014.” Peterson Institute for International Economics Policy Brief 16-15, October 2016, https://piie.com/system/files/documents/pb16-15.pdf.

Vincent Aussilloux, Agnès Bénassy-Quéré, Clemens Fuest, and Guntram Wolff discuss “Making the Best of the European Single Market.” “Applying the synthetic counterfactuals method to various EU enlargements, Campos et al (2014) find that ‘per capita European incomes in the absence of the economic and political integration process would have been on average 12 per cent lower today, with substantial variations across countries, enlargements as well as over time’. This average figure is within the range found in the limited and fragile literature on this issue (5 to 20 percent, depending on the study). … Still, trade between European countries is estimated to be about four times less than between US states once the influence of language and other factors like distance and population have been corrected for. For goods, non-tariff obstacles to trade are estimated to be around 45 percent of the value of trade on average, and for services, the order of magnitude is even higher. If the intensity of trade between member states could be doubled from a factor of 1/4 to a factor of 1/2 in order to narrow the gap with US states, it could translate into an average 14 percent higher income for Europeans …” Policy Contribution, Bruegel, Issue No. 3, 2017, http://bruegel.org/wp-content/uploads/2017/02/PC-03-2017-single-market-010217-.pdf.

Bart van Ark discusses “The Productivity Paradox of the New Digital Economy.” “This article has argued that there are good reasons to believe that the New Digital Economy is still in the installation phase producing only random and localized gains in productivity in certain industries and geographies. … [W]e do not expect large aggregate growth effects from the New Digital Economy any time soon …” “What’s more, we find that when looking at the top half of industries which represent the most intensive users of digital technology (measured by their purchases of ICT [information and communications technology] assets and services relative to GDP) have collectively accounted for the largest part of the slowdown in productivity growth in all three economies since 2007, namely for 60 per cent of the productivity slowdown in the United States, 66 per cent of the slowdown in Germany, and 54 per cent of the slowdown in the United Kingdom. In the United States the contribution of the most intensive ICT-using industries declined from 46 per cent to 26 per cent of aggregate productivity growth between both periods. … The fact that ICT intensive users account for a larger part of the slowdown than less-intensive ICT users is
another indication that the difficulty of absorbing the technology effectively is part of the explanation for the productivity slowdown.” *International Productivity Monitor*, Fall 2016, pp. 3–18, http://www.csls.ca/ipm/31/vanark.pdf.

Claudio Borio compares “Secular Stagnation or Financial Cycle Drag?” and opts for the latter. “The [secular stagnation] hypothesis is quite compelling in some respects, but even a cursory look at the facts raises some questions. The hypothesis was originally developed for the United States, a country that posted a large current account deficit even pre-crisis—hardly a symptom of domestic demand deficiency. True, US growth pre-crisis was not spectacular, but it was not weak either—recall how people hailed the Great Moderation, an era of outstanding performance. Likewise, the world as a whole saw record growth rates and low unemployment rates—again, hardly a symptom of global demand deficiency. Finally, recent declines in unemployment rates to historical averages—and, in some cases, such as the United States, close to estimates of full employment—point to supply, rather than demand, constraints on growth. At the same time, a number of specific pieces of evidence support the financial cycle drag hypothesis. First, there is plenty of evidence that banking crises, which occur during financial busts, cause very long-lasting damage to the economy. They result in permanent output losses, so that output may regain its pre-crisis long-term growth trend but evolves along a lower path. There is also evidence that recoveries are slower and more protracted. … Second, BIS research has found evidence that financial (credit) booms tend to undermine productivity growth, further helping to explain the post-crisis weakness … Third, measures of output gaps used in policymaking now show that output was indeed above potential pre-crisis. … The reason is simple: the symptom of unsustainable expansion was not rising inflation, which stayed low and stable, but the buildup of financial imbalances, in the form of unusually strong and persistent credit growth and property price increases.” Keynote speech at the Economic Policy Conference of the National Association for Business Economics, March 5–7, 2017. http://www.bis.org/speeches/sp170307.pdf.

**Reports about India**

The *Economic Survey 2016–2017* from India’s Ministry of Finance, where Arvind Subramanian is the Chief Economic Adviser, offers perspective on a wide range issues involving the economy of India. From the opening chapter, “Eight Interesting Facts About India”: “New estimates based on railway passenger traffic data reveal annual work-related migration of about 9 million people, almost double what the 2011 Census suggests.” “From 2009 to 2015, China’s credit-to-GDP soared from about 142 percent to 205 percent and its growth decelerated. The contrast with India’s indicators is striking.” “Welfare spending in India suffers from misallocation … The districts accounting for the poorest 40% receive 29% of the total funding.” “India has 7 taxpayers for every 100 voters ranking us 13th amongst 18 of our democratic G-20 peers.” “India’s share of working age to non-working age
population will peak later and at a lower level than that for other countries but last longer.” “As of 2011, India’s openness—measured as the ratio of trade in goods and services to GDP has far overtaken China’s … India’s internal trade to GDP is also comparable to that of other large countries and very different from the caricature of a barrier-riddled economy.” “Spatial dispersion in income is still rising in India in the last decade (2004–14), unlike the rest of the world and even China.” “Evidence from satellite data indicates that Bengaluru and Jaipur collect only between 5% to 20% of their potential property taxes.” January 2017, http://finmin.nic.in/indiabudget2017-2018/e_survey.asp.

V. Anantha Nageswaran and Gulzar Natarajan ask Can India Grow? Challenges, Opportunities, and the Way Forward. From the “Summary”: “Despite India’s impressive economic growth rates in the mid-2000s, the long-term magnitude and sustainability of this progress remains uncertain. … • India’s high-growth phase of 2003–2008 had much to do with growth-friendly global economic conditions that have since run their course. • The country’s domestic structural deficiencies—namely poor human resource capabilities; a narrow and predominantly informal industrial base; and a fragmented, low-productivity primary sector—keep a lid on growth and a floor on inflation. • India also faces formidable long-term headwinds due to premature deindustrialization, the limitations of a services-led growth model, the plateauing of global trade, stagnation in developed economies, and the costs associated with climate change. • The country’s state capacity deficiencies amplify the effects of these constraints.” Carnegie India, November 2016, http://carnegieendowment.org/files/CEIP_CanIndiaGrow_Final_.pdf.

Reports about Sub-Saharan Africa

A team of World Bank researchers led by Somik Vinay Lall, J. Vernon Henderson, and Anthony J. Venables have published Africa’s Cities: Opening Doors to the World. “In principle, cities should benefit businesses and people through increased economic density. … In sum, the ideal city can be viewed economically as an efficient labor market that matches employers and job seekers through connections. The typical African city fails in this matchmaker role. A central reason for this failure—one that has not yet been sufficiently recognized—is that the city’s land use is fragmented. Its transport infrastructure is insufficient, and too much of its development occurs through expansion rather than infill. … And without the economic density that gives rise to efficiency, Africa’s cities do not seem to increase worker productivity. … Cities in Africa are costly for households, workers, and businesses. Because food and building costs are high, families can hardly remain healthy or afford decent housing. Because commuting by vehicle is not only slow but expensive, workers find it hard to take and keep jobs that match their skills. And the need for higher wages to pay higher living costs makes firms less productive and competitive, keeping them out of tradable sectors. As a result, African cities are avoided by potential regional and global investors and trading partners. … When urban costs drive
nominal wages too high, firms will not be able to compete in the tradable sector and will produce only nontradables. ... The reason why a firm in the nontradable sector can afford to pay higher wages—while a firm in the tradable sector cannot—is that the nontradable producer can raise its prices citywide. By doing so, it passes its own cost increases on to consumers in the urban market. But such price hikes make the cost of living in a city even higher, contributing to the workers’ urban costs. This sequence can become a vicious cycle that keeps African cities out of the tradable sector and limits their economic growth.” February 2017, https://www.worldbank.org/en/news/video/2017/02/09/africas-cities-opening-doors-to-the-world.

The OECD–FAO Agricultural Outlook 2016–2025 devotes a chapter to “Agriculture in Sub-Saharan Africa: Prospects and Challenges for the Next Decade.” “The high contribution of the agricultural sector to GDP also underlines the limited diversification of most African economies. On average, agriculture contributes 15% of total GDP, however it ranges from below 3% in Botswana and South Africa to more than 50% in Chad ... Agriculture employs more than half of the total labour force and within the rural population, provides a livelihood for multitudes of small-scale producers. Smallholder farms constitute approximately 80% of all farms in SSA [sub-Saharan Africa] and employ about 175 million people directly. ... [R]ecent surveys suggest that agriculture is also the primary source of livelihood for 10% to 25% of urban households. ... The African model of agricultural growth differed significantly from that of Asia or South America. In Asia, growth was driven largely by intensification, whereas in South America, it was the result of significant improvement in labour productivity arising from mechanisation. By contrast, strong growth in SSA agricultural output has accrued predominantly from area expansion and intensification of cropping systems, as opposed to large-scale improvement in productivity. ... [P]roductivity per agricultural worker has improved by a factor of only 1.6 in Africa over the past 30 years, compared to 2.5 in Asia. ... Arguably the greatest challenge facing the agricultural sector in SSA is weak infrastructure including transportation networks, access to energy, irrigation systems and stockholding facilities.” July 2016, http://www.oecd-ilibrary.org/agriculture-and-food/oecd-fao-agricultural-outlook-2016_agr_outlook-2016-en.

Discussion Starters

Anja Shortland explores “Governing Kidnap for Ransom: Lloyd’s as a ‘Private Regime.’” “Kidnapping is a major (if largely hidden) criminal market, with an estimated total turnover of up to US$1.5 billion a year. ... Commercially, kidnap insurance is only viable under three (related) conditions. First, kidnaps should be nonviolent and detentions short—otherwise, individuals and firms withdraw from high-risk areas. Second, insurance premia must be affordable. Although insurance is only demanded if people are concerned about kidnapping, actual kidnaps must be rare, and ransoms affordable. Insurers struggle in kidnapping hotspots: High premia deter potential customers. ... Third, ransoms and kidnap volumes
must be predictable and premium income must cover (expected) losses. If kidnapping generates supernormal profits, more criminals enter the kidnap business. Premium ransoms quickly generate kidnapping booms. Insurers, therefore, have a common interest in ordering transactions and preventing ransom inflation. … [K] idnap insurance is indeed controlled by a single enterprise: Lloyd’s of London. Yet within Lloyd’s there are around 20 international syndicates underwriting kidnap for ransom insurance. The syndicates compete for business according to clear protocols regarding how insurance contracts are structured, how information is (discreetly) exchanged, and how ransom negotiations are conducted.” Governance, April 2017, vol. 30, no. 2, pp. 283–299, http://onlinelibrary.wiley.com/doi/10.1111/gove.12255/full.

A group of 16 co-authors led by Michael A. Rees and including Alvin E. Roth offer a proposal for “Kidney Exchange to Overcome Financial Barriers to Kidney Transplantation.” “Recent worldwide estimates suggest that 2–7 million people died prematurely in 2010 because they did not have access to renal replacement therapy (RRT). … Organ shortage is the major limitation to kidney transplantation in the developed world. Conversely, millions of patients in the developing world with end-stage renal disease die because they cannot afford renal replacement therapy—even when willing living kidney donors exist. This juxtaposition between countries with funds but no available kidneys and those with available kidneys but no funds prompts us to propose an exchange program using each nation’s unique assets. Our proposal leverages the cost savings achieved through earlier transplantation over dialysis to fund the cost of kidney exchange between developed-world patient–donor pairs with immunological barriers and developing-world patient–donor pairs with financial barriers. By making developed-world health care available to impoverished patients in the developing world, we replace unethical transplant tourism with global kidney exchange—a modality equally benefitting rich and poor. We report the 1-year experience of an initial Filipino pair, whose recipient was transplanted in the United States with an American donor’s kidney at no cost to him. The Filipino donor donated to an American in the United States through a kidney exchange chain. Follow-up care and medications in the Philippines were supported by funds from the United States.” American Journal of Transplantation, March 2017, pp. 782–90.