ECONOMICS, LABOR & BUSINESS

On the Frontiers of Economics

A Survey of Recent Articles

In the *Journal of Economic Perspectives* (Winter 2000), a host of noted economists examine the state of the economy (global and American) and of their own discipline. Among their findings:

• In 1848, John Stuart Mill thought that England was nearing the upper limit of economic output, and that it was "only in the backward countries of the world that increased production is still an important object." Happily, Mill was wrong, notes Richard A. Easterlin, of the University of Southern California.

Living standards improved in ways that Mill could not have imagined, and Easterlin sees few limits on further growth. "Today . . . living levels in many parts of the less developed world are above those of England in Mill's time," and economic growth rates in those countries during the last 50 years "have substantially exceeded those in the historical experience of western Europe." But historical scholarship now shows that economic growth does not automatically bring progress on a variety of fronts, from health to governance. Wider schooling typically *precedes* rapid growth, for example, while lengthened lifespans *follow* it. "In today's less developed world," moreover, "a half century of vigorous economic growth has occurred with little advance in political democracy."

• Globalization is much less advanced than the conventional wisdom supposes, contends Dani Rodrik, a professor of international political economy at Harvard University's Kennedy School of Government. "National borders, such as the U.S.-Canadian one, seem to have a significantly depressing effect on commerce, even in the absence of serious formal tariff or non-tariff barriers, linguistic or cultural differences, exchange rate uncertainty, and other economic obstacles." Why? Different laws and informal "social networks" for contract enforcement are among the reasons. National differences are reflected even on the Internet, so that Amazon.com, for example, maintains a distinct British site (Amazon.co.uk). If full-fledged international economic integration is to take place, Rodrik avers, nation-states either must harmonize their laws and take other aggressive steps or cede powers to some form of world government. Rodrik himself favors a form of global federalism.

The latter prospect does not seem likely anytime soon. Indeed, according to many crystal balls today, a *second* "American century" is in the offing, notes Paul Krugman, an economist at the Massachusetts Institute of Technology and also a columnist for the *New York Times*. With the strong U.S. economy of recent years in mind, American prognosticators have abandoned the "declinism" of the late 1980s and early '90s to become "triumphalists." But the truth is, Krugman says, that "the advanced nations . . . have broadly converged to similar levels of technology and productivity. The United States is likely neither to fall far behind nor pull dramatically ahead of that pack, although its sheer size guarantees its place as first among equals for many years to come."

• In the United States, returning authority to the states is "all the rage today," notes economist John Joseph Wallis, of the University of Maryland, College Park. In the past, he says, the "most active" level of government was the one that could collect the dominant type of revenue most cheaply. There have been three "fiscal regimes": one (1790 to about 1842) dominated by the states, which collected "asset income" from land sales and investments in banks, canals, and other transportation improvements; a second (1842 to 1933) dominated by local governments, which relied on property taxes; and a third (1933 to the present) dominated by the federal government, collecting revenue through income and payroll taxes. If the states are now to take the lead again, Wallis says, they will have to find "a prominent new revenue source." He ventures no suggestions. But he also says that "tinkering with revenue structure" is unlikely to reduce the size of the public sector, so long as governmental commitments remain unchanged.

• Whatever happened to monetarism? asks J. Bradford De Long, an economist at the University of California, Berkeley. During the 1960s and '70s, monetarist theorist Milton Friedman assailed the Keynesian notions that dominated economics. But the "simplified" version of monetarism that triumphed and guided Federal Reserve policy during the 1980s "crashed and burned," De Long says. Controlling total spending by adjusting growth in the money supply "turned out to be very difficult indeed." Yet other key monetarist ideas—e.g., the principle that in normal circumstances, monetary policy is a better stabilizing tool than fiscal policy, and the notion that the chief cause of economic ups and downs is the failure of prices to adjust rapidly to "nominal shocks"—quietly achieved "intellectual hegemony." But they did so, ironically, under a strange banner: neo-Keynesianism. "The influence of monetarism on how we all think about macroeconomics today has been deep, pervasive, and subtle," says De Long.

• Economic theory may be in for much more radical change, if economist Richard H. Thaler, of the University of Chicago, is correct. He predicts that "*Homo economicus*" (Economic Man), that avatar of rationality so beloved by generations of dismal scientists, will finally evolve into "quasi-rational, emotional" *Homo sapiens*, as economists incorporate the findings of psychology and other disciplines. The new breed will be markedly dumber, slower to learn, and narrower in its perceptions than its forebears.

• Even economists' basic theoretical approach to policy analysis may change, according to David Colander, of Middlebury College in Vermont. In an imaginary look back from the *next* half-century, he tells how, thanks to growing computer power, the discipline came to be regarded as a branch of complexity science. Instead of devising models they hope are in accord with basic economic principles and then testing them empirically, computer-aided "New Millennium" economists learned to search data for patterns, find temporary models that fit those patterns, and then study how the patterns change. "Rather than bounding after the unknowable, and trying to deduce analytically models that hold for all times," Colander reports from 2050, "economics has reduced its search to what it believes is knowable."

The New 'Jungle'

"*The Jungle* Revisited" by Keith Nunes, in *Meat&Poultry* (Dec. 1999), 4800 Main St., Ste. 100, Kansas City, Mo. 64112.

In his muckraking 1906 novel *The Jungle*, Upton Sinclair exposed the terrible working conditions in the Chicago Stockyards and accidentally stirred public alarm about contaminated meat, prompting Congress to quickly enact the Pure Food and Drug Act.

Today, the Chicago Stockyards are gone, the meatpacking plants in what is an $8.5-billion-a-year industry are mainly in smaller cities and towns in the western Corn Belt, and the modern operation is in many ways a far cry from what it used to be. But the industry still depends heavily on "the individuals who stand next to the conveyer belts and rend meat from bone with honed steel"—and for them, reports Nunes, associate publisher and senior editor of the trade journal *Meat&Poultry*, working conditions are still far from ideal.

"Sinclair paints a grim picture of how line workers were hired, injured, and essentially discarded. . . . Today," Nunes writes, "despite the progress that has been made by industry members, meatpacking still ranks as one of the most dangerous jobs in the nation." For every 100 full-time workers in meatpacking plants in 1997, there were 32.1 incidents of injury (or illness). Nor, despite advances in sanitation and food safety, Nunes points out, has the public threat of contaminated meat entirely