

Annual Editions

ECONOMICS



93/94

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Twenty-Second Edition

Editor

Don Cole
Drew University

Don Cole, professor of economics at Drew University, received his Ph.D. from Ohio State University. He has served as consultant to a variety of public and private organizations, and is cofounder of the Drew University Semester on the European Community in Brussels, Belgium.

An innovator in the use of computer-assisted instruction in the teaching of economics, Dr. Cole is the author of articles on various subjects, including monetary economics, economic education, and the economics of self-management. He is also the editor of other Dushkin publications, including *The Encyclopedic Dictionary of Economics*, and two other *Annual Editions* anthologies, *Microeconomics* and *Macroeconomics*.

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To the Reader

In publishing ANNUAL EDITIONS we recognize the enormous role played by the magazines, newspapers, and journals of the *public press* in providing current, first-rate educational information in a broad spectrum of interest areas. Within the articles, the best scientists, practitioners, researchers, and commentators draw issues into new perspective as accepted theories and viewpoints are called into account by new events, recent discoveries change old facts, and fresh debate breaks out over important controversies. Many of the articles resulting from this enormous editorial effort are appropriate for students, researchers, and professionals seeking accurate, current material to help bridge the gap between principles and theories and the real world. These articles, however, become more useful for study when those of lasting value are carefully collected, organized, indexed, and reproduced in a low-cost format, which provides easy and permanent access when the material is needed. That is the role played by *Annual Editions*. Under the direction of each volume's Editor, who is an expert in the subject area, and with the guidance of an Advisory Board, we seek each year to provide in each ANNUAL EDITION a current, well-balanced, carefully selected collection of the best of the public press for your study and enjoyment. We think you'll find this volume useful, and we hope you'll take a moment to let us know what you think.

This twenty-second edition of *Annual Editions: Economics* has been largely revised since previous editions and continues the tradition of providing the most up-to-date readings on contemporary economic issues. In view of the recent explosion of interest in the subject of economics, it is important that students are given opportunities to observe how economic science can help them to understand events in the real world. This anthology is designed to meet such a need.

The volume is divided into five major units. Unit 1 introduces several general concepts involving economic analysis. At the heart of economics is the notion of "opportunity cost," the idea that, in choosing one economic alternative, we must forgo other choices. This unit demonstrates the usefulness of this principle.

Unit 2 considers how one of the major branches of economic science, known as microeconomics, might be applied to a series of interesting problems: Why, for example, do small businesses have less control over their economic fate than large, monopolized ones? How do prices allocate resources in different industries? What role might government play when markets alone are incapable of resolving a pressing economic problem—as in the case of funding for AIDS research, or the growing problem of solid waste control, or the development of public transportation systems, for example?

Issues of income distribution and economic justice are examined in unit 3. You will find that this is an area of intense controversy, particularly as it relates to government programs that attempt to alter the distribution of income and wealth. Questions raised include: What are the causes of growing income disparities in the United States? Should the federal government attempt to eradicate poverty, and, if so, how is this to be done? What are possible solutions to such specific problems of social inequality as disparate educational opportunities, homelessness, and inadequate health care?

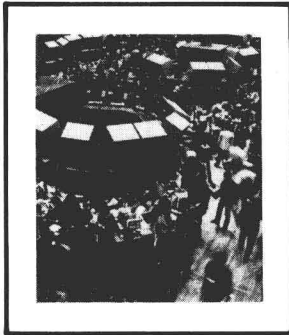
Broader economic issues are the focus of the next two sections, which involve macroeconomics (unit 4) and the global economy (unit 5). The economy-wide perspective of macroeconomics leads us to consider ways in which government policies can be used to promote various national goals, including high levels of employment, price stability, and adequate economic growth over time. Articles selected for this section raise questions of great consequence to the United States. Should we be concerned over the ever-increasing national debt, and, if so, what might be done about it? Are political institutions really capable of acting as providers of economic stability? What is the long-term outlook for the U.S. economy?

Finally, unit 5 examines recent changes in the world economy. In recent years we have witnessed a series of unforeseen events: the end of the cold war; revolutionary changes in the U.S.S.R. and Eastern Europe as they rush to embrace the market system; increased use of protectionist measures by America's major trading partners; and the impoverishment of many less developed countries burdened by staggering international obligations. How did such developments come about, and what do they portend as the global economy prepares to enter a new century?

Whether you are someone who is currently pursuing studies in economics, or just a casual reader eager to learn more about some of the major economic issues of the day, you will find *Annual Editions: Economics 93/94* to be one of the most useful and up-to-date anthologies available. Your input can be valuable for the next edition. Please offer your opinions by filling out and returning to us the article rating form on the last page of this book.



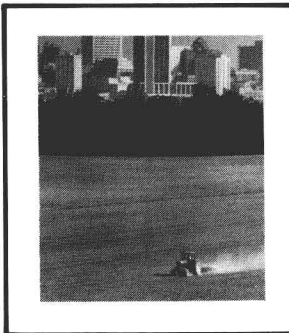
Don Cole
Editor



Unit 1

Introduction

Four articles discuss some of the basic theories that make up the foundations of the study.



Unit 2

Microeconomics

Ten articles examine various concepts of microeconomics such as competition, government regulation, and antitrust policy.

To the Reader Topic Guide Overview

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1. **Kind Hearts and Opportunity Costs**, Steven E. Rhoads, *Across the Board*, December 1985.

Much economic reasoning is based on the **opportunity cost principle**, the idea that any decision involving scarce resources must involve costs in terms of forgone alternatives elsewhere. As Steven Rhoads points out, adherence to this principle often puts economists at odds with others—including government officials, social workers, and scientists—who seek more money to do more good.

2. **How Much Is Enough?** Alan Durning, *Technology Review*, May/June 1991.

13

Global consumption levels are presently strained—one billion consumers live in unprecedented luxury, while another one billion live in destitution. Alan Durning of the Worldwatch Institute asks, What level of consumption can the Earth support, and when does having more cease to add to human satisfaction?

3. **Reviving the American Dream**, Alice M. Rivlin, *The Brookings Review*, Summer 1992.

20

Americans, long noted for their self-assurance and “can do” spirit, appear to have become mired in pessimism. **Foreboding about the economy** has fed popular anger with the political system. Alice Rivlin reflects on ways in which confidence in U.S. economic and political institutions might be restored.

4. **The Sky Is Always Falling**, Gregg Easterbrook, *The New Republic*, August 21, 1989.

21

A central truth in economics is that almost every economic development has both a good and a bad side. Gregg Easterbrook shows how disagreements over what is really happening in the economy complicate the lives of **economic policymakers**.

Overview

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A. **APPLIED MICROECONOMICS**

5. **What Is Competition For?** Benjamin Ross, *Challenge*, March/April 1988.

26

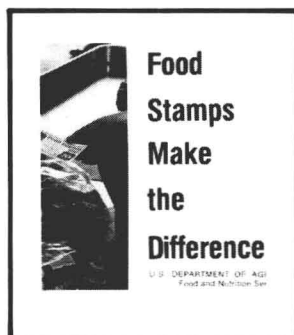
Competition exists in all markets, but only rarely does it appear in the “**perfectly competitive**” form described in economics textbooks. Benjamin Ross reminds us that the normal environment in which a typical large American business operates is generally **monopolistically competitive or oligopolistic**.

6. **The World Is Their Ashtray**, Chris Tilly, *Dollars & Sense*, October 1990.

33

The U.S. tobacco industry is a highly concentrated **oligopoly**, in which only six firms control total sales. Reports linking smoking and lung cancer have led the “Big Six” to adopt new competitive strategies, aimed primarily at narrower market niches—particularly women, teenagers, blacks, and Hispanics.

7. **Apple and IBM: Love at First Byte?** Suzanne Tregarthen 37
with Sheryl Calvert, *The Margin*, Spring 1992.
Former archrivals Apple Computer Inc. and the IBM Corporation recently agreed to pursue joint efforts in the complex **personal computer market**. The authors consider possible implications of this development for industry competition and antitrust policy.
 8. **Are Drug Companies Addicted to Higher Prices?** David 39
Pryor, *Business and Society Review*, Winter 1992.
For years, consumers have expressed great frustration with unremitting increases in the prices of prescription drugs. David Pryor traces this trend to the marketing and promotional strategies of the **drug manufacturing industry**.
 9. **1980s Gigantomania Follies**, Walter Adams and James 42
W. Brock, *Challenge*, March/April 1992.
Walter Adams and James Brock examine lessons that can be learned from the **merger-takeover-buyout explosion of the 1980s**. They conclude that during this time America lost sight of the critical distinction between productive capitalism and speculative capitalism.
- B. MARKET FAILURES AND PUBLIC MICROECONOMICS**
10. **Confessions of an Airline Deregulator**, Mark S. Kahan, 47
The American Prospect, Winter 1992.
The **deregulation of the airline industry** in 1978 was supposed to benefit air travelers as new entrepreneurs thrived in a competitive marketplace. Mark Kahan explains what went wrong.
 11. **Regulation/Deregulation: Looking Backward, Looking 54
Forward**, Robert W. Hahn and Thomas D. Hopkins, *The American Enterprise*, July/August 1992.
The past two decades have witnessed an unparalleled rise in **new regulations related to the environment, health, and safety**. The authors consider ways in which such regulations might be made more effective.
 12. **An Economic Case for Funding AIDS Research**, Diane 60
Cunningham, *The Margin*, Fall 1991.
Should taxpayers be required to fund AIDS research? Diane Cunningham argues that leaving the solution of AIDS to the marketplace amounts to a death sentence for those afflicted with the disease. The case for public funding is based on the presence of substantial **spillover benefits**.
 13. **You Ride, I'll Pay: Social Benefits and Transit Sub- 61
sidies**, Janet Rothenberg Pack, *The Brookings Review*, Summer 1992.
Public subsidies for U.S. mass transit bus and rail systems are enormous; for every dollar transit riders pay in fares, taxpayers pay two dollars in subsidy. Janet Rothenberg Pack uses **cost-benefit analysis** to determine whether transit subsidies are worth the gains society derives from them.
 14. **Pricing Garbage to Reduce Waste**, John Holusha, *The 65
New York Times*, May 29, 1991.
How much does it actually cost to haul away the trash? Many Americans do not know, with the result that they have little incentive to reduce solid waste. John Holusha shows **how market forces might be used to solve problems of the environment**, including the disposal of solid waste.



Unit 3

Income Distribution and Economic Justice

Nine articles discuss income distribution and economic growth by looking at income equality, welfare reform, and tax reform.

Overview

15. **A Wealth of Difference**, *U.S. News & World Report*, June 1, 1992. 66
68

A growing body of research suggests that during the 1980s the **gap between America's well-to-do and the rest of the population** increased sharply. This trend in inequality is addressed in this article.

16. **Earning Disabilities: Job Market Undermines Education Payoff for Many**, Randy Albelda, *Dollars & Sense*, July/August 1991. 71

Human capital theory maintains that individual investments in education or on-the-job training directly improve one's productivity. According to this view, the wage gap should dissolve as women, blacks, and Hispanics invest more in a college education. Randy Albelda challenges this position—she says it is the characteristics of jobs, not simply the skills of people who fill them, that help determine wages.

17. **Why the U.S. Antipoverty System Doesn't Work Very Well**, Timothy M. Smeeding, *Challenge*, January/February 1992. 74

The United States is the only modern nation in recent years with **double-digit poverty rates**. In this survey of poverty across nations and over time, Timothy Smeeding concludes that the reason other countries do better than the United States is that they put more effort into it.

18. **Vanishing Dreams of America's Young Families**, Marian Wright Edelman, *Challenge*, May/June 1992. 81

Young families with children—those headed by persons under the age of thirty—have been devastated since 1973 by a cycle of falling incomes, increasing family disintegration, and rising poverty. Marian Wright Edelman urges that immediate steps be taken to ensure that every child has a fair start, a healthy start, and a head start.

19. **Can We Put a Time Limit on Welfare?** Christopher Jencks, *The American Prospect*, Fall 1992. 88

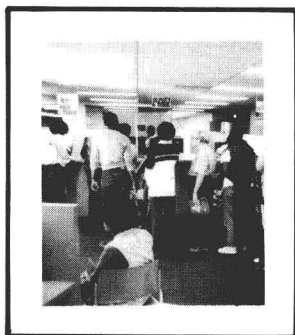
Among the many recent proposals for substituting **workfare** for **welfare programs** is the suggestion that a time limit be imposed on parents who receive Aid to Families With Dependent Children (AFDC). Christopher Jencks argues that this would impose huge costs on many poor children and their mothers.

20. **Enterprise Zones Are No Solution for Our Blighted Areas**, Sar A. Levitan and Elizabeth I. Miller, *Challenge*, May/June 1992. 96

Sar Levitan and Elizabeth Miller maintain that it is difficult, if not impossible, to use **enterprise zones** to target assistance to blighted areas. In their view, an effective program requires direct investments in human and physical infrastructures.

21. **There But for Fortune**, John J. Dilulio, Jr., *The New Republic*, June 24, 1991. 101

Available evidence indicates that, on any given night, between 1.5 and 3 million Americans are literally homeless, while another 4 to 7 million are so poor as to be precariously housed. In this survey of recent findings on **homelessness in America**, John Dilulio shows how both public and private efforts might be directed to resolving the crisis.



Unit 4

Macroeconomics

Ten articles examine various concepts of macroeconomics such as unemployment, deficits, fiscal policy, taxes, and poverty.

22. **Oregon's Plan for Health Care Rationing: Bold Initiative or Terrible Mistake?** Joshua M. Wiener, *The Brookings Review*, Winter 1992. 108

The state of Oregon seeks to provide **health care** to virtually all state residents, including those living in poverty, but at a price: care is explicitly rationed. Joshua Wiener examines the major features of the Oregon approach and asks, Is rationing the only way to control health care costs?

23. **Choosing Sides on School Choice**, Anthony A. Parker, *Dollars & Sense*, January/February 1992. 113

Can **school choice programs** jump start America's beleaguered public school system? Anthony Parker maintains that such programs can offer hope to parents who can get their children into them—either by good fortune or economic status—but will be of no benefit to the children who are left behind in poorer schools.

- Overview 116

24. **Fixing the U.S. Economy**, *Challenge*, March/April 1992. 118

In this open letter to the U.S. president, the Congress, and the Federal Reserve, 58 well-known economists urge prompt measures to stimulate **vigorous economic recovery** and promote **productivity growth**. They show why proposals offered by most politicians these days might do more harm than good.

25. **Voodoo Curse: Exorcising the Legacy of Reaganomics**, James Tobin, *Harvard International Review*, Summer 1992. 120

In this survey of recent economic developments, Nobel laureate James Tobin identifies the major causes of the cyclical recovery of the 1980s and the recession that followed it. He argues that the time has come to exorcise the **legacy of "supply-side" economics**.

26. **Economists and White House Decisions**, Stuart E. Eizenstat, *Journal of Economic Perspectives*, Summer 1992. 124

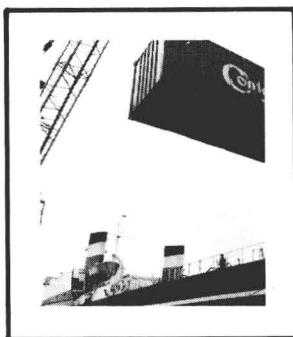
U.S. presidents and their staffs expect economists to provide blueprints for high growth, low inflation, and a guaranteed reelection—but without offending any important constituencies. In this article, a former White House economic advisor discusses the **appropriate role for economists in the White House**.

27. **The Tattered Safety Net: Jobless Pay in the United States**, Gary Burtless, *The Brookings Review*, Spring 1991. 128

Changes in the **unemployment insurance program** over the past decade have eroded the value of this system, both as income protection for the unemployed and as an automatic stabilizer. Gary Burtless explores the inadequacies of the program and considers proposals for reform.

28. **Activist Monetary Policy for Good or Evil? The New Keynesians vs. the New Classicals**, Tom Stark and Herb Taylor, *Business Review* (Federal Reserve Bank of Philadelphia), March/April 1991. 132

How does monetary policy affect the real economy? The major schools of thought—known as New Keynesian and New Classical—offer two different lines of reasoning, each with its own implications for **the way monetary policy ought to be conducted**. Tom Stark and Herb Taylor sort out the issues in this debate.



Unit 5

The Changing Global Economy

Fifteen articles examine the impact current events have on the overall stability and alignment of the world economy.

29. Economists Oppose Balanced Budget Amendment to the U.S. Constitution, *Challenge*, May/June 1992. 138

An amendment to the U.S. Constitution that would mandate an **annually balanced budget** appears to have strong political support. Yet, as shown in this open letter from a large number of well-known economists, there is good reason to believe that this is a dangerous idea.

30. How to Balance the Budget? Just Do It, Howard Gleckman, *Business Week*, May 25, 1992. 140

Really balancing the federal budget will require more than \$800 billion worth of **agonizing political decisions**. Howard Gleckman provides details on the hard choices needed—including huge cuts in entitlement programs and increases in taxes.

31. Deficit Delirium: The Bogus Debate Over Balancing the Budget, Max Sawicki, *Dollars & Sense*, September 1992. 142

Do deficits really matter? Some economists argue that their importance is generally overstated. Max Sawicki contends that if the government had borrowed in order to fund public capital, rather than for military spending and tax breaks for the wealthy, the debt burden would have been greatly reduced.

32. What the Government Should Do, Felix Rohatyn, *The New York Review of Books*, June 25, 1992. 145

Available evidence suggests that the United States faces an **"infrastructure deficit,"** originating from a 25-year decline in spending on vitally needed public works. Felix Rohatyn argues that the physical reconstruction of America would provide a base from which the country could begin to deal with deep social and economic problems.

33. Americans' Hostility to Taxes, Louis Ferleger and Jay R. Mandle, *Challenge*, July/August 1991. 149

Many Americans believe that they are overtaxed, but are they? In this study of **relative tax burdens** in 14 countries at levels of development comparable to the United States, Louis Ferleger and Jay Mandle find that U.S. citizens are, in fact, undertaxed.

Overview 152

34. The Primacy of Economics, C. Fred Bergsten, *Foreign Policy*, Summer 1992. 154

C. Fred Bergsten argues that, in a post-cold war world, economic issues have taken preeminence over security concerns. He outlines a new approach to U.S. foreign policy that simultaneously promotes U.S. economic interests and forges new, **more cooperative economic arrangements**.

35. Life After GATT: More Trade Is Better Than Free Trade, Clyde Prestowitz, *Technology Review*, April 1991. 165

Since 1948, international trade has been governed under the auspices of the **General Agreement on Tariffs and Trade (GATT)**. Clyde Prestowitz surveys the GATT's recent performance, and concludes that a trade policy that tries to force free trade on the world is doomed to failure.

36. A New Picture of the American Economy, James K. Galbraith, *The American Prospect*, Fall 1991. 171

What really ails the U.S. economy? Economists often argue that America's problems stem from **lagging productivity growth**. A new analysis by James Galbraith maintains that U.S. prosperity depends on success in key industries that are significant in international trade.

37. **America's Edge**, Marc Levinson, *Newsweek*, June 8, 1992. 183
 Marc Levinson refutes the often-heard notion that *America lags behind other nations* in the world economy. In his view, U.S. productivity is up, exports are strong, and there's no letup in sight.
38. **Why International Statistical Comparisons Don't Work**, Sylvia Nasar, *The New York Times*, March 8, 1992. 187
 Sylvia Nasar suggests that what is unnecessarily causing Americans' economic anxieties is a handful of *false statistical comparisons* based on faulty ways of calculating the international scorecard. The problem lies in the way we convert data expressed in foreign currencies into data expressed in dollars.
39. **Dismantling the Cold War Economy**, Ann Markusen, *World Policy Journal*, Summer 1992. 189
 With the end of the cold war, the United States confronts problems of *converting military enterprises* to civilian production. Ann Markusen shows how investing in U.S. infrastructure and other civilian needs could boost *U.S. productivity*.
40. **Foreign Direct Investment: Gift Horse or Trojan Horse?** Sun Bae Kim, *Weekly Letter* (Federal Reserve Bank of San Francisco), March 20, 1992. 195
 Should Americans worry about the long-term surge in *foreign direct investment (FDI) in the United States*? Sun Bae Kim surveys the evidence and concludes that, at least on economic grounds, FDI is not the Trojan horse that some fear.
41. **The New World Standard**, Charles A. Cerami, *Across the Board*, December 1991. 198
 Charles Cerami maintains that the effect of the *North American Free Trade Agreement (NAFTA)* (which will ultimately dismantle existing trade and investment barriers among the United States, Mexico, and Canada) will revolutionize the political and social life of the continent. He considers the possible implications of the agreement for both the signatories and the rest of the world.
42. **The 21st Century Belongs to Europe**, Lester C. Thurow, *The Washington Post National Weekly Edition*, April 27–May 3, 1992. 204
 Who, in economic terms, will "own" the twenty-first century—Japan, Europe, or America? In this study of how the major contenders shape up in *head-to-head competition for economic dominance*, Lester Thurow names Europe the winner.
43. **Unrest in Eastern Europe**, Lyle Goldstein and Blake Loveless, *Harvard International Review*, Spring 1992. 207
 To make the transition from command to free-market economies as rapid as possible, the *newly democratic countries of Eastern Europe* have turned to economic shock therapy in the form of privatization and tight control over inflation. Lyle Goldstein and Blake Loveless demonstrate how shock therapy inevitably leads to falling living standards.
44. **Capitalism and Change in the Commonwealth of Independent States**, Philip Israelevich, *Chicago Fed Letter* (Federal Reserve Bank of Chicago), June 1992. 211
 The formation of the *Commonwealth of Independent States (CIS)* raises many questions concerning appropriate forms of Western aid as well as opportunities available to Western entrepreneurs and investors. Philip Israelevich considers problems and prospects for Western assistance to the CIS.

Documents

45. Asia: The Next Era of Growth , <i>Business Week</i> , November 11, 1991.	214
The <i>newly industrializing countries (NICs)</i> of the Pacific Rim are increasingly making their presence felt in world markets. This article considers implications of the NICs' "economic miracle" for the global economy.	
46. The Insoluble Problems of Absolute Poverty , Tawhid Ali, <i>Harvard International Review</i> , Spring 1991.	217
More than 400 million people live in the 42 nations officially categorized as <i>least developed countries (LDCs)</i> . International conditions were particularly unfavorable for LDCs in the past decade, owing to a combination of factors, including natural calamities, inadequate resources, and adverse trends in the world economy.	
47. With Cold War Over, Poorer Nations Face Neglect by the Rich , Robert S. Greenberger, <i>The Wall Street Journal</i> , May 14, 1992.	220
For four decades the United States and U.S.S.R. showered poorer nations with military hardware, boatloads of subsidized food, and projects such as dams and steel mills. Now, with the cold war over, the world is dividing into the <i>industrialized North and the underdeveloped South</i> —and poor nations are being left to fend for themselves.	
48. Market Magic: But Just Who Is That Fairy Godmother? Louis Uchitelle, <i>The New York Times</i> , September 29, 1991.	223
A central tenet of economics is that there is "no such thing as a free lunch." Many countries are learning that " <i>the free market</i> " is not free after all; pursuing it may entail cultural dislocation, unemployment, production problems, and political confusion. Louis Uchitelle raises some troubling questions about the nature of economic systems.	
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Twenty-Second Edition

Editor

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Drew University

Don Cole, professor of economics at Drew University, received his Ph.D. from Ohio State University. He has served as consultant to a variety of public and private organizations, and is cofounder of the Drew University Semester on the European Community in Brussels, Belgium.

An innovator in the use of computer-assisted instruction in the teaching of economics, Dr. Cole is the author of articles on various subjects, including monetary economics, economic education, and the economics of self-management. He is also the editor of other Dushkin publications, including *The Encyclopedic Dictionary of Economics*, and two other *Annual Editions* anthologies, *Microeconomics* and *Macroeconomics*.

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Topic Guide

This topic guide suggests how the selections in this book relate to topics of traditional concern to economics students and professionals. It is useful for locating articles that relate to each other for reading and research. The guide is arranged alphabetically according to topic. Articles may, of course, treat topics that do not appear in the topic guide. In turn, entries in the topic guide do not necessarily constitute a comprehensive listing of all the contents of each selection.

TOPIC AREA	TREATED IN:	TOPIC AREA	TREATED IN:
Airline Industry	10. Confessions of an Airline Deregulator 11. Regulation-Deregulation	European Community (Common Market)	9. 1980s Gigantomania Follies 17. Why the U.S. Antipoverty System Doesn't Work Very Well 33. Americans' Hostility to Taxes 34. Primacy of Economics 35. Life After GATT 37. America's Edge 38. Why International Statistical Comparisons Don't Work 41. New World Standard 42. 21st Century Belongs to Europe
Automobile Industry	9. 1980s Gigantomania Follies 41. New World Standard		
Balanced Budget Amendment	29. Economists Oppose Balanced Budget Amendment 30. How to Balance the Budget? 31. Deficit Delirium	Fiscal Policy	3. Reviving the American Dream 24. Fixing the U.S. Economy 25. Voodoo Curse 26. Economists and White House Decisions 29. Economists Oppose Balanced Budget Amendment 30. How to Balance the Budget? 31. Deficit Delirium 32. What the Government Should Do 33. Americans' Hostility to Taxes 39. Dismantling the Cold War Economy
Banking Industry	9. 1980s Gigantomania Follies 11. Regulation/Deregulation		
Commonwealth of Independent States (CIS)	32. What the Government Should Do 34. Primacy of Economics 39. Dismantling the Cold War Economy 44. Capitalism and Change in the Commonwealth of Independent States	General Agreement on Tariffs and Trade (GATT)	34. Primacy of Economics 35. Life After GATT 41. New World Standard 42. 21st Century Belongs to Europe
Competition	5. What Is Competition For? 6. World Is Their Ashtray 7. Apple and IBM: Love at First Byte? 8. Are Drug Companies Addicted to Higher Prices? 9. 1980s Gigantomania Follies 10. Confessions of an Airline Deregulator	Health Care Industry	8. Are Drug Companies Addicted to Higher Prices? 12. Economic Case for Funding AIDS Research 18. Vanishing Dreams of America's Young Families 22. Oregon's Plan for Health Care Rationing
Defense Industry	30. How to Balance the Budget? 32. What the Government Should Do 34. Primacy of Economics 39. Dismantling the Cold War Economy 47. With Cold War Over, Poorer Nations Face Neglect by the Rich	Income Distribution	15. Wealth of Difference 17. Why the U.S. Antipoverty System Doesn't Work Very Well 18. Vanishing Dreams of America's Young Families 19. Can We Put a Time Limit on Welfare? 22. Oregon's Plan for Health Care Rationing 23. Choosing Sides on School Choice 31. Deficit Delirium 38. Why International Statistical Comparisons Don't Work 46. Insoluble Problems of Absolute Poverty 47. With Cold War Over, Poorer Nations Face Neglect by the Rich
Deregulation	9. 1980s Gigantomania Follies 10. Confessions of an Airline Deregulator 11. Regulation/Deregulation 26. Economists and White House Decisions 36. New Picture of the American Economy		
Domestic Deficit	3. Reviving the American Dream 15. Wealth of Difference 24. Fixing the U.S. Economy 25. Voodoo Curse 29. Economists Oppose Balanced Budget Amendment 30. How to Balance the Budget? 31. Deficit Delirium 32. What the Government Should Do 33. Americans' Hostility to Taxes	Inflation	4. Sky Is Always Falling 8. Are Drug Companies Addicted to Higher Prices? 25. Voodoo Curse 26. Economists and White House Decisions 28. Activist Monetary Policy for Good or Evil?
Eastern Europe	34. Primacy of Economics 43. Unrest in Eastern Europe		
Education	16. Earning Disabilities 18. Vanishing Dreams of America's Young Families 23. Choosing Sides on School Choice 32. What the Government Should Do 36. New Picture of the American Economy 42. 21st Century Belongs to Europe		

TOPIC AREA	TREATED IN:	TOPIC AREA	TREATED IN:
Infrastructure	<ul style="list-style-type: none"> 3. Reviving the American Dream 24. Fixing the U.S. Economy 32. What the Government Should Do 36. New Picture of the American Economy 39. Dismantling the Cold War Economy 	Poverty (con't)	<ul style="list-style-type: none"> 19. Can We Put a Time Limit on Welfare? 20. Enterprise Zones Are No Solution for Our Blighted Areas 21. There But for Fortune 46. Insoluble Problems of Absolute Poverty 47. With Cold War Over, Poorer Nations Face Neglect by the Rich
International Trade	<ul style="list-style-type: none"> 34. Primacy of Economics 35. Life After GATT 36. New Picture of the American Economy 37. America's Edge 38. Why International Statistical Comparisons Don't Work 40. Foreign Direct Investment: Gift Horse or Trojan Horse? 41. New World Standard 42. 21st Century Belongs to Europe 43. Unrest in Eastern Europe 44. Capitalism and Change in the CIS 45. Asia: The Next Era of Growth 47. With Cold War Over, Poorer Nations Face Neglect by the Rich 	Productivity	<ul style="list-style-type: none"> 3. Reviving the American Dream 24. Fixing the U.S. Economy 32. What the Government Should Do 36. New Picture of the American Economy 37. America's Edge 38. Why International Statistical Comparisons Don't Work 39. Dismantling the Cold War Economy 42. 21st Century Belongs to Europe
Jobs Programs	<ul style="list-style-type: none"> 16. Earning Disabilities 18. Vanishing Dreams of America's Young Families 19. Can We Put a Time Limit on Welfare? 27. Tattered Safety Net 	Protectionism	<ul style="list-style-type: none"> 34. Primacy of Economics 35. Life After GATT 37. America's Edge 41. New World Standard 42. 21st Century Belongs to Europe 46. Insoluble Problems of Absolute Poverty
Keynesian Economics	<ul style="list-style-type: none"> 28. Activist Monetary Policy for Good or Evil? 	Recession	<ul style="list-style-type: none"> 18. Vanishing Dreams of America's Young Families 24. Fixing the U.S. Economy 25. Voodoo Curse 27. Tattered Safety Net 28. Activist Monetary Policy for Good or Evil?
Less Developed Countries (LDCs)	<ul style="list-style-type: none"> 6. World Is Their Ashtray 36. New Picture of the American Economy 41. New World Standard 46. Insoluble Problems of Absolute Poverty 47. With Cold War Over, Poorer Nations Face Neglect by the Rich 	Social Costs	<ul style="list-style-type: none"> 32. What the Government Should Do 11. Regulation/Deregulation 12. Economic Case for Funding AIDS Research 13. You Ride, I'll Pay: Social Benefits and Transit Subsidies 14. Pricing Garbage to Reduce Waste 16. Earning Disabilities 17. Why the U.S. Antipoverty System Doesn't Work Very Well 20. Enterprise Zones Are No Solution for Our Blighted Areas 21. There But for Fortune 23. Choosing Sides on School Choice 32. What the Government Should Do
Market Failures	<ul style="list-style-type: none"> 10. Confessions of an Airline Deregulator 11. Regulation/Deregulation 12. Economic Case for Funding AIDS Research 13. You Ride, I'll Pay: Social Benefits and Transit Subsidies 14. Pricing Garbage to Reduce Waste 20. Enterprise Zones Are No Solution for Our Blighted Areas 22. Oregon's Plan for Health Care Rationing 	Supply-Side Economics	<ul style="list-style-type: none"> 25. Voodoo Curse
Monopoly	<ul style="list-style-type: none"> 5. What Is Competition For? 6. World Is Their Ashtray 7. Apple and IBM: Love at First Byte? 8. Are Drug Companies Addicted to Higher Prices? 44. Capitalism and Change in the Commonwealth of Independent States 	Unemployment	<ul style="list-style-type: none"> 3. Reviving the American Dream 4. Sky Is Always Falling 16. Earning Disabilities 19. Can We Put a Time Limit on Welfare? 24. Fixing the U.S. Economy 25. Voodoo Curse 27. Tattered Safety Net 28. Activist Monetary Policy for Good or Evil?
North American Free Trade Agreement (NAFTA)	<ul style="list-style-type: none"> 34. Primacy of Economics 41. New World Standard 42. 21st Century Belongs to Europe 	Welfare Reform	<ul style="list-style-type: none"> 17. Why the U.S. Antipoverty System Doesn't Work Very Well 18. Vanishing Dreams of America's Young Families 19. Can We Put a Time Limit on Welfare? 21. There But for Fortune
Poverty	<ul style="list-style-type: none"> 15. Wealth of Difference 16. Earning Disabilities 17. Why the U.S. Antipoverty System Doesn't Work Very Well 18. Vanishing Dreams of America's Young Families 		

Introduction

Economics is about the decisions we face in meeting our material needs. Examples of such decisions can be found everywhere: college students confront rising tuition costs; a local business firm announces that it will lay off workers; a newspaper editorial comments on the merits of minimum wage legislation; the U.S. Congress debates a proposal to reform the American health care system. Like a view on a very clear day, a list of all possible economic problems appears to have no end.

Beginning students of economics often wonder why this is so. Why can't the more than five billion citizens of the planet find a way to meet their needs for material existence? More than a half-century ago, the British economist Lionel Robbins provided an interesting answer to this question. He suggested that we are unable to do all the things we might wish to do for the simple reason that our economic resources—human talents, the natural endowment, and the stock of capital—are finite. Robbins defined “the economic problem” as one of scarcity: our resources are scarce because the number of possible uses to which they might be put in meeting our material needs is unlimited. Economics, therefore, ultimately concerns the hard choices, both private and public, we must make about ways to employ these resources. Because such choices always carry a price (known as “opportunity cost”) in terms of alternatives forgone, economics leads us to consider the costs and benefits of things we choose to do.

This unit begins with an article by Steven Rhoads on the usefulness of the opportunity cost principle. People sometimes chide economists for “knowing the cost of everything and the value of nothing.” Rhoads disagrees with this assessment: The economist's concern with costs is ultimately a concern with values. If an economist broods over building, say, a public recreation center, it might be because she or he is concerned that fewer resources will then be available for hospitals, schools, and other essential projects.

The next article, “How Much Is Enough?” by Alan Durning, raises important questions about ways in which countries use scarce resources for the purpose of satisfying people's material needs and desires. In recent years many non-Western nations have begun emulating the high-consumption life-style of advanced countries. Durning asserts that long before all the world can achieve the American dream, the planet will be laid to waste. He asks: What level of consumption can the Earth support?

This is followed by an article in which Alice Rivlin reflects on the current state of U.S. society. Americans, long noted for their “can do” spirit and self-assurance, presently appear to have become mired in pessimism. She reminds us that the United States still has the world's highest productivity and standard of living. Even as the American dream has faltered, a consensus has grown up on how to revive that dream. Rivlin offers a framework for thinking about what America must do to meet the challenges it currently faces.

The unit concludes with an article in which Gregg Easterbrook examines a curious paradox: in a world of scarcity, favorable economic developments may not be what they seem. He asks, Why is it that such events are always likely to involve bad news?

Looking Ahead: Challenge Questions

Why are opportunity costs ultimately a question of values?

If resources are scarce, why isn't better care taken in using them? When does having more cease to add to human satisfaction?

What does Alice Rivlin mean by the “productivity agenda”? What is the proper role of government in improving the performance of the American economy?

In what sense is any economic news likely to be unfavorable?



Unit 1

