

# READINGS

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*Reviews, except where noted, by Peter VanDoren*

## **DO DEFICITS MATTER?**

*by Daniel Shaviro*

(University of Chicago Press, 1997) 335 pages

This book describes the disparity between political and economic views of federal government budget deficits. The author, a professor of law at NYU Law School and a former staff attorney with the Joint Committee on Taxation, introduces the reader to the work of economists to show how journalists and politicians mishandle the discussion of deficits. Shaviro's distillations include these arguments by eminent economists: if taxpayers understand that current deficits imply future tax increases, then deficits do not have current macroeconomic effects (Barro); current public sector accounting practices reveal little about the important question of whether current policy is sustainable across time at current tax rates (Kotlikoff); and current public sector accounting practices do not differentiate investment from consumption expenditures (Eisner). Shaviro discusses these and other ideas in a very accessible way.

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## **FISCAL POLICY: LESSONS FROM ECONOMIC RESEARCH**

*Edited by Alan Auerbach*

(M.I.T. Press, 1997) 475 pages

Leading public finance scholars met at Berkeley in 1996 to discuss the implications of public finance research for public policy. James Poterba argues that state-level budget rules do restrict the growth of spending. Doug Bernheim believes that the effect of IRAs on savings rates is negligible, but that the effect of 401(k) plans is positive. Kevin Hassett and Glenn Hubbard argue that new evidence suggests that taxation significantly affects the rate of new investments. Laurence Kotlikoff, an economist familiar to readers of this magazine, argues that social security should be privatized. David Cutler, Henry Aaron, and Joseph Newhouse discuss the vastly complex economics of healthcare.

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## **PUBLIC POLICY TOWARD PENSIONS**

*Edited by Sylvester Schieber and John Shoven*

(M.I.T. Press, 1997) 338 pages

Professors Schieber and Shoven have assembled a series of papers that discuss the economics of saving for retirement. A

recurrent theme is that American savings rates are too low to sustain the country's current standard of living into retirement and that public policy should encourage long-term retirement savings. Our savings rates are too low in part because the cost of compliance with pension regulations has discouraged private and national savings (319).

Regulations designed to ensure equity between high and low-wage workers have discouraged companies from offering 401(k) plans. Such other programs as the Pension Benefit Guarantee Corporation, which is supposed to protect workers in traditional defined-benefit pension plans, have led to a drastic decline in defined-benefit plans because strong plans cross-subsidize weak plans. The authors discourage policymakers from relying on tax increases to solve the problems of Social Security because such increases will cause further declines in national saving.

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## **THE ECONOMICS OF CONSERVATION PROGRAMS**

*by Franz Wirl*

(Kluwer Academic publishers, 1997) 215 pages

Demand-side management (DSM) by electric utilities was first encouraged by the Public Utilities Regulatory Policy Act of 1978. Since then utilities have spent about \$10 billion to reduce demand for electricity. Professor Wirl concludes that we have very little to show for the investment. U.S. electricity consumption in 1992 was not very different than electricity consumption in other OECD countries that did not invest in demand-side management. What went wrong with DSM? In a nutshell, economics has a better theory of human behavior than does engineering.

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## **TELECOMMUNICATIONS POLICY HAVE REGULATORS DIALED THE WRONG NUMBER?**

*Edited by Donald L. Alexander*

(Praeger Publishers, 1997) 169 pages

This volume is a collection of papers by prominent regulatory economists. Robert Crandall argues for complete deregulation of the telecommunications industry because the monopoly position of traditional copper-wire service has been ended by competition from local wireless systems. Thomas Hazlett argues that the regulation of radio communication in the 1920s

was a way by which Congress could regulate radio without violating the First Amendment. The system created by Congress, however, restricted entry by possible competitors, which hurt rather than helped the public interest.

Peter Cramton describes the design of the recent auctions held by the FCC for the new Personal Communications Services (digital wireless services). Cramton argues that economists and game theorists played an important and welfare-enhancing role in the design and conduct of these auctions. Kasserman and Mayo argue that the term universal service is really a euphemism for a set of politically optimal cross subsidies. These cross subsidies, in turn are incompatible with true competition.

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## DERAILED

by Joseph Vranich

(St. Martin's Press, 1997) 258 pages

The author was involved in the design of AMTRAK and worked in its public affairs department during the 1970s. The book gives the most complete analysis and critique of AMTRAK since George Hilton's 1980 book for the American Enterprise Institute. Despite his love of railroads, the author believes that the national government should get out of the business of subsidizing and operating passenger railroads. Once the federal role is eliminated, he argues, private companies will provide train service in niche markets.

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## RAILROAD MERGERS HISTORY ANALYSIS INSIGHT

by Frank N. Wilner

(Simmons Boardman Books Omaha Nebraska, 1997) 475 pages

Frank Wilner, former chief of staff of the Surface Transportation Board, the successor to the ICC, has written the definitive encyclopedic source of facts and data about railroad mergers. If you want to know when the first merger occurred, turn to page 7. If you want to know the route of the Boston and Maine railroad in 1939, turn to page 357.

The book is instructive because the industrial-organization issues first raised by railroads are still with us today. For example, the current struggle over standards (interlace versus progressive screens) in High Definition Television is very much like the struggle in railroads over track width. The first railroads had tracks that varied in width from two to six feet. Long-distance passengers and freight faced frustrating connection delays because of these variations in width. The first merger wave occurred when railroads voluntarily agreed on standard-gauge track in the 1860s. HDTV executives would do well to learn from railroad history.

## INTERNATIONAL COMPARISONS OF ELECTRICITY REGULATION

edited by Richard J. Gilbert and Edward P. Kahn  
(Cambridge University Press, 1996) 500 pages

This book, edited by two Berkeley professors, presents papers from a 1993 conference of prominent economists, including David Newbery, Pablo Spiller, and Jean-Jacques Laffont. The papers examine Britain, Argentina, Brazil, Uruguay, Chile, Scandinavia, Japan, Germany, New Zealand, Canada, France, Yugoslavia, and the United States. Each chapter presents an economic history of electricity in each country and how reliance on regulation, public ownership, and market forces has varied over time. Of particular interest are the chapters on New Zealand, Britain, and South America because these regions already have "deregulated" their electricity industries. This book is a convenient source of information about how other countries have managed the issues that face the United States as it restructures its regulation of the industry.

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## THE POST-COLD WAR TRADING SYSTEM: WHO'S ON FIRST?

by Sylvia Ostry

(University of Chicago Press, 1997) 296 pages

Canadian diplomat and scholar Sylvia Ostry offers a useful survey of the post-war trading system shaped in the image of the General Agreement on Tariffs and Trade. A professor at the University of Toronto and former ambassador to the Uruguay round of GATT, Ostry traces the economic transformation of Western Europe and Japan, the rise of East Asia in the global economy, the trade frictions of the 1980s, and the changing U.S. role in world trade. After skillfully setting the context, Ostry presents policy options to strengthen and sustain the newly invigorated multilateral system created by the Uruguay round. She concludes that success of a rule-based system of trade depends on continued American leadership—*Reviewed by Daniel Griswold, associate director of the Center for Trade Policy Studies, the Cato Institute.*