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New Frontiers in Economics

This book brings together essays from leading economists analyzing the new directions that subdisciplines of economics have taken in the face of modern economic challenges. The essays represent invention and discovery in the areas of information, macroeconomics and public policies, international trade and development, finance, business, contracts, law, gaming, and government, as these areas of study evolve through the different phases of the scientific process. It offers not only a wealth of factual information on the current state of the economy, but also theoretical and empirical innovations that conceptualize reality and values in different ways from their predecessors. The new concepts presented here can guide practitioners in their search for ways to resolve problems in the various areas. Together, the essays offer the reader a balanced look at the various fields, approaches, and dimensions that comprise future directions in economic theory, research, and practice. The extensive introduction by the editors not only summarizes and reviews the implications of the contributions presented in the volume, but also examines how scientific progress takes place, with special reference to economics and finance.

Michael Szenberg is Distinguished Professor of Economics at the Lubin School of Business, Pace University. He is the author or editor of many books, including *Economics of the Israeli Diamond Industry* (1973) with an Introduction by Milton Friedman, which won the Irving Fisher Monograph Award, and *Eminent Economists, Their Life Philosophies* (1992). Professor Szenberg has received the Kenan Award for excellence in teaching. He serves as the editor-in-chief of *The American Economist* and as a consultant to private and government agencies.

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NEW FRONTIERS IN ECONOMICS

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Foreword by
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B'H

To my Mother, Sara, my Father, Henoch, and my Sister,
Esther, in Memoriam

who exemplified the Proverbs' words:

Happy are those who find wisdom
She is more precious than jewels
And nothing you desire can compare with her . . .
Her ways are ways of pleasantness and all her paths are peace

To Naomi – the oldest of my children
and to Jacob – the youngest of my grandchildren

To my wife, Noreena Ramrattan,
To my children – Devi and her husband Arjun, Shanti, Hari, and
Rani and to my grandchildren – Soham and Lakshmi.

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It is not what we think, rather, it is what we have not thought of.

Jerome Wiesner

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Foreword: Eavesdropping on the Future?

Paul A. Samuelson

An evolving discipline – whether it be history or economics or astrophysics or immunology – is ever dynamically changing. Two steps forward and X steps back, so to speak. Periodically, the scholarly group registers more or less self-confidence, self-esteem, and complacency. We careerists are happiest when recent past achievements have seemed to be successful, but when still there are completable tasks dimly visible ahead.

Human nature is much the same in every generation. We each want to leave our distinctive initials on the subject – fulfill our fond teachers' hopes for us but (if possible) do it by bettering their obsolescent achievements. Paradoxically then, it can be just when a science is at a high point in its Kondratieff wave that discontent begins to ferment. It has been said, "Newton did everything, and that set back English mathematics for almost a century while the action moved toward continental writers such as Euler, the Bernoullis, Lagrange, and Laplace." The bright shine of Keynes in the first half of the last century subsequently shadowed economics at Oxbridge. And because Nature abhors a vacuum, that gave my generation of American economists – American-cum-Hitlerian refugees – the opportunity to peddle at the vanguard of the bicycle race. Today's textbooks at every stage – beginning, intermediate, and advanced – are notably similar. Once upon a time, you could have learned a different economics at Madison and Austin and Berkeley than at Cambridge or Chicago. Now there is no hole to hide in.

Such conditions generate discontented minorities who seek to bypass peer-reviewed journals and huddle together in volumes of proposed alternative economics. The basement of Harvard's Widener Library is a cemetery for past similar efforts. Thus during the 1920s Rexford Tugwell

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edited such a collection that tempted some of that era's brightest and best. When I am gone, maybe nobody will be left to remember that particular effort.

Here is my advice. When in doubt, give my new efforts a hearing. Many feel a calling to break new ground; in the end, few will end up finding their efforts chosen. But the yea-sayer does do less harm than the naysayer, in that the Darwinian process of adverse testing will in time (most likely?) separate the useful from the useless, the trivial from the profound.

I have reported more than once what the late New School scholar Hans Neisser told me toward the end of his life. In paraphrase he said, "My friend, fellow immigrant Jacob Marschak, was right and I was wrong. When each new innovation came along – game theory, Keynes' notions of effective demand, econometric identifications – he embraced them all with enthusiasm, even overenthusiasm. I held back, worrying about the holes in those doughnuts. In the end things did more or less get sorted out. Those open-minded individuals experienced more fun and maybe did accelerate that sorting out process."

Perhaps I should warn against a common trap. Often you may hear yourself saying, "But this is not new, and neither is that." Alfred North Whitehead once opined, "Nothing new was ever said for the first time by the person who was saying it." Each generation has a need to put into its own goatskins the wine it drinks. Few of my MIT students will call themselves "Keynesians" as Solow, Modigliani, and I might. They are "neo-Keynesians," "neo-neo-Keynesians," and even "anti-Keynes Keynesians." But make no mistake about it. Their writings and views are light-years away from the macro I learned at the University of Chicago. And the common core of their beliefs is scarcely country miles away from the vulgar IS-LM diagrammatics that Harrod, Hicks, and Hansen distilled out of Maynard's intuitive explorations.

I echo what my mother would have said: to potential readers of this book: "Try the new stuff. It might even turn out to be good for you."

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Preface

The underlying notion in this volume is the importance of the new directions that subdisciplines of economics have taken. The contents of this volume – ten essays – give us a broad perspective on the changes that the economics discipline is undergoing. Clearly, there are omissions, and our selection will not satisfy every reader. Putting on our entrepreneurial robe, we canvassed the younger leading scholars and asked them to contribute essays about the direction in which they perceive their area to be moving. The contributors were free to determine their own approach, although we did ask them to minimize the mathematical content to a descriptive level, certainly avoiding proofs in order to make the target audience as broad as possible. We did not find it necessary to use length as an essential criterion for reaching a balanced presentation of the subject areas.

Acknowledgments

The subject of this volume – seeing beyond what is apparent and thinking otherwise – is the brainchild of Scott Parris, the senior economics editor of Cambridge University Press. During a conversation over a cup of coffee at the ASSA meetings, I responded to the idea, and on a napkin we immediately jotted down the names of possible candidates. The authors extend special thanks to Scott Parris for shepherding this book through the four referees and two editorial boards, one in the United States and the other in the UK. No author could wish for a more supportive editor or for a better publisher with which to work. Cambridge University Press is known for the quality and the care it takes with every book it produces. It has taken several years for this volume to be completed. I asked my collaborator, Lall Ramrattan, to join me as the coeditor of this work. Many papers in this volume initially appeared in the *American Economist*, of which I am the editor; they are reprinted here with changes.

In bringing this volume to fruition, we have benefited greatly from the support and assistance of many individuals. The most important debt goes to Paul A. Samuelson – who continues to extend to me many kindnesses, and unhesitatingly agreed to pen the foreword to this volume – and to the contributors to this collection. Their cooperation made the editing a pleasant task. We thank them for their congenial partnership.

I wish to thank as well the four anonymous referees and the members of the two editorial boards for their enthusiastic support of this work and their thoughtful comments. Progress from draft manuscript to final version was aided by Abraham Goldstein, Diana Ward, and Gary Yohe. They are all hereby thanked.

Along the way, I have benefited at Lubin from the collegiality and deep friendship of the members of the Finance and Economics Department: Lew Altfest; William C. Freund; Surendra Kaushik; Matt Morey; Jouahn Nam; Joseph Salerno; P. V. Viswanath; Berry Wilson, the Director of the Center for Global Finance; Jorge Pinto; and the two academic Associate Deans, Peter Hoefer and James Russell. I would like to single out Aron Gottesman for special thanks. His many insightful comments and editorial emendations immeasurably improved the final product. My deep gratitude is extended to Lynette Wailoo, Associate Dean of Lubin School of Business, for her warmth and intellectual support.

I value the camaraderie that has prevailed at the Center for Applied Research at Lubin which was helpful to our research efforts over the last four years. I also owe much gratitude to Iulie Ismailescu, my dedicated and talented past assistant and now adjunct assistant professor at Pace University who is studying for her Ph.D. in Finance at the University of Massachusetts. My graduate assistants over the years – Ester Budek, Priya Hariani, Scott Hinman, Richard Nilsen, and Justyna Tuniewicz – have contributed to the fraternal atmosphere that pervades the Center and have assisted me enthusiastically with this project as well as with numerous other projects. My gratitude for their generosity is extended to all these individuals.

In addition, no list of debts would be complete without acknowledging the trust, generosity of spirit, and assistance of Carmen Urma, the Coordinator of the Finance Department; Nicola Simpson, the Secretary of the Center for Applied Research; and Andrea Pascarelli, the Center's Editorial Assistant.

Special appreciation and thanks are owed to the members of the Executive Board of the Honor Society in Economics for being a source of support: Professors Mary Ellen Benedict, James Bradley, Jr., Stanley L. Brue, Kristine L. Chase, Robert R. Ebert, William D. Gunther, Shirley Johnson-Lans, Charles F. Phillips, Jr., and Robert S. Rycroft.

Putting a book together is a stressful endeavor. My coeditor, Lall Ramrattan, shared the work with me while I was assuming the new and challenging responsibilities of Chair of the Finance and Economics Department at Lubin, which necessitated transforming the department. To do so successfully for an academic department of close to fifty faculty members, many of whom hold tenure positions, is as challenging as restructuring an organization employing thousands of individuals. It was quite an experience! Lall was really terrific, and I want him to know how much his support meant to me.

Acknowledgments

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Most of all, I renew my indebtedness to Arthur L. Centonze, Dean of the Lubin School of Business, Pace University, for his wise counsel, unfailing support, and encouragement in ways too numerous to list. My heart warms with gratitude to all of those mentioned.

While the book was being compiled, my mother, Sara Szenberg of blessed memory, passed away. She possessed great wisdom and personified the marriage of steadfastness and flexibility, of steel and velvet. She knew not only what to say, but also how to say it. She exhorted us that a smart person knows what to say, but a wise person knows whether to say it. I very often think of her.

It is to my children, Naomi and Avi, their spouses Marc and Tova, and to my grandchildren, Elki, Batya, Chanoch, Devora, Ephraim, Ayala, and Jacob, that I affectionately dedicate this book. They provide emotional sustenance and are a joyous gift and blessing to my wife and me.

The eighteenth-century printer cried out, “Thank God I am done with Johnson!” after completing the laborious task of preparing for publication the dictionary by Samuel Johnson, the dominant figure of eighteenth-century literary London. I would hope that those mentioned in this section have not had the same urge with this volume.

M. S.

My family has been very patient with me, and without such cooperation my participation in this project would not have been possible. I sincerely appreciate the patience they showed for the time I spent away from the family for this endeavor.

I am indebted to the person who really made economics attractive to me, even when I was in elementary school – my untimely deceased brother, Suruj Rattan. His death has robbed us of a person who would have made meaningful contributions to economics. My participation in this volume as an economist can certainly be traced to the influence he had on me. With the same breath, I also thank my Mother, in memoriam, for her encouragement, both spiritually and academically. She taught me my first lesson in economics: “Poverty is a crime.” My three other brothers and my three sisters receive special thanks for seeing me through school.

I feel very privileged to collaborate with Mike on this book. Mike’s heart is as big as his brains, his generosity knows no bounds, and he has sheltered me like an elder brother from the conflicts and confrontations of the review process. I hope he will understand when I say that this book is really dedicated to him.

L. R.