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Explaining the Science of Everyday Life

April 23, 2010, 12:48 pm

[Esther Duflo Wins John Bates Clark Medal](#)

By [CATHERINE RAMPELL](#)



Esther Duflo

[Esther Duflo](#), a development economist at M.I.T., has been awarded the [John Bates Clark Medal](#). The award is given to “that American economist under the age of 40 who is judged to have made the most significant contribution to economic thought and knowledge.”

Professor Duflo, 37, helped found the [Abdul Latif Jameel Poverty Action Lab](#), whose affiliates do randomized experiments to help determine what types of aid and anti-poverty programs actually work. One of her [recent studies](#) looked at how quota systems for woman politicians affected Indian attitudes toward female leadership. She has also conducted field experiments on American pension policies, to see what kinds of incentives help encourage people to save more for retirement.

Last year Professor Duflo was also named a [MacArthur Foundation fellow](#), also known as a “genius grant.”

The award is considered one of the most prestigious honors within economics, and until 2010 had been awarded only every other year. Many consider the Clark Medal to be a preview of future Nobel prizes, as 12 of the 31 Clark Medalists have gone on to receive the Nobel Memorial Prize in Economic Science (including Paul Krugman and Milton Friedman).

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April 23, 2010, 11:15 am

[A Value-Added Tax and the Poor](#)

By [DAVID LEONHARDT](#)

[Bruce Bartlett](#) is more worried about middle-class and poor families not paying taxes [than I am](#). But [his latest Forbes column](#) — about a value-added tax, or VAT — makes an important point:

[O]ne important benefit of a VAT insofar as those with low incomes is concerned is that they would be contributing something to the general cost of government. Everyone benefits from things like national defense, and everyone ought to pay something for it. But as it is, 47% of those filing federal income tax returns have either a zero or negative tax liability; that is, they pay nothing but still get a tax “refund.”

... The odd thing is that conservatives are the ones most likely to complain that the poor aren't pulling their weight, yet they fail to see that a VAT is probably the only way of getting them to help finance the general cost of government. It's extremely unrealistic to think we are ever going to impose income taxes on very many of those now paying nothing.

Given the [rise](#) in income inequality over the last three decades and [the decline in tax rates for the affluent](#), these upper-income families probably need to bear a big share of the burden of deficit reduction. But they can't come close to paying off the deficit by themselves. One way or the other, taxes [need to rise](#) on middle- and lower-income families, too (unless you favor making [huge cuts](#) to Medicare and Social Security).

A consumption tax, or [VAT](#), seems a promising way to make this happen. Not only would it raise revenue. It would also encourage people to save more money — a bit of encouragement Americans could use.

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April 23, 2010, 9:02 am

[What About Home Prices and Incomes?](#)

By [DAVID LEONHARDT](#)

Before we get to some more good housing statistics, I want to emphasize that I am not trying to persuade people who now rent their home to become owners. If you rent now and you're happy, you probably should not move just for the sake of buying. Prices in most places are not that low yet. As I said in [my column](#) this week, renting still does not get enough respect in this country.

Now let's consider a second group of people: those who are planning to move anyway and need to decide between renting their next home and owning it. What should they do?

[In some markets](#) — Seattle, San Diego, much of the San Francisco Bay Area, parts of Manhattan and the New York suburbs — renting still appears to be more attractive. But I think there are also a good number of metropolitan areas where buying is now a reasonable option for people who think they may not move again in the near future — say, five years, at the least.

Not everyone agrees with this idea. [They point out](#) that prices may still fall further. As Felix Salmon [notes](#), that's the most likely outcome if you think in inflation-adjusted terms. The skeptics can also claim some support from [a recent article](#) by Robert Shiller — a.k.a. [Mr. Bubble](#) — and it's always good to have him on your side.

But I want to look at a new set of numbers today to explain why I think the blogosphere's conventional wisdom may be a bit too dark. [Read more...](#)

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April 23, 2010, 6:00 am

[Get Ready for More Taxes](#)

By [UWE E. REINHARDT](#)



[Uwe E. Reinhardt](#) is an economics professor at Princeton.

There are plenty of reasons to shudder at the idea of higher taxes. There are also plenty of reasons to expect them nonetheless.

It is understandable that everyone dislikes paying taxes, because they are a forced personal outlay for things one does not necessarily appreciate.

Economists, for their part, teach their students that in addition to this understandable opposition to taxes, taxes also tend to change economic behavior, mainly in undesirable directions.

A tax on wages and salaries, for example, lowers the net reward to supplying hours of work to the economy. Sometimes, to be cute, economics professors style that tax as a “subsidy for consuming leisure,” just to drive home the point. [Read more...](#)

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April 22, 2010, 12:49 pm

[What We're Reading: Selling Earth Day](#)

By [CATHERINE RAMPELL](#)

1. Arizona's senate passed the “[I Didn't Pay Enough Taxes](#)” bill, which allows residents to donate more of their income to the state. We previously wrote about this proposal, as well as the other states that have created similar tin-cup funds, [here](#).
2. The consumerization of [Earth Day](#).
3. As tolerance for gays goes up, [H.I.V. rates](#) go down, a new study finds.
4. Quiz: Which country has [made the most trade complaints](#) at the World Trade Organization? Hint: This country also has had the most trade-related complaints filed *against* it.
5. Insurers might [re-label administrative costs as “medical care”](#) to meet the health overhaul law's requirements.

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April 22, 2010, 8:01 am

[The President and Club Wagner](#)

By [DAVID LEONHARDT](#)

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BUSINESS

John Harwood Interviews President Obama

John Harwood of The New York Times and CNBC interviewed President Obama on economic policy, Wall Street, and new tax legislation.

Our colleague John Harwood did a good interview with President Obama on Wednesday. A full transcript is available [here](#). I wanted to highlight one section on the deficit.

Mr. Obama reiterated that he favored allowing the Bush tax cuts on households making more than \$250,000 to expire. At the same time, he did not seem to rule out the idea of extending them temporarily. He also talked — without getting specific — about the need “to cut programs that aren’t working and show restraint.” But I thought the most interesting part of the exchange was the part about taxes on families making less than \$250,000 a year. [Read more...](#)

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April 22, 2010, 6:00 am

[Breaking Up the Banks](#)

By [SIMON JOHNSON](#)



[Simon Johnson](#), the former chief economist at the International Monetary Fund, is the co-author of [13 Bankers](#).

On Wednesday, Senators Sherrod Brown and Ted Kaufman [unveiled a “SAFE banking Act”](#) with a clear and powerful purpose: Break up the big banks.

The proposal places hard caps on leverage and size of financial institutions. It is well crafted, based on a great deal of hard thinking, and — as reported on the [front page of The New York Times](#) this week — the issue has the potential to draw a considerable amount of support.

The idea is simple, in the sense that the largest six banks in the American economy are currently “too big to fail” in the eyes of the credit market (and presumably in the leading minds the Obama administration, which [saved all the big banks, without conditions, in March-April 2009](#)). The bill put forward by Senator Christopher J. Dodd, the chairman of the Banking Committee, has some sensible proposals — and is [definitely not an approach that supports “bailouts”](#) — but it does not really confront the problem of the half-dozen megabanks.

In the American political system — where the power of major banks is now so manifest — there is no way to significantly reduce the risks posed by these banks unless they are broken up. [Read more...](#)

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April 21, 2010, 5:24 pm

[But Aren't Home Prices Still Falling?](#)

By [DAVID LEONHARDT](#)



Amy Sancetta/Associated Press

[Ryan Avent](#), [Ezra Klein](#) and [Annie Lowrey](#) all question the idea that [now may be a good time to buy](#) a home in Phoenix, Las Vegas or some other place where prices have plummeted. They point out that these areas tend to have weak economies right now. “As of February, Las Vegas’s unemployment rate was 13.9%,” Mr. Avent writes on The Economist’s Web site. “Should we be encouraging people to chain themselves to labor markets like this for at least five to seven years?” Brett Barry, a real estate agent in Phoenix, makes a similar point [here](#).

They may well be right. Markets often overshoot, on both the upside and downside. Given how overbuilt many of these areas became, prices could well keep falling — despite the fact that, relative to rents or incomes, prices are already low. If they do fall significantly more, now would obviously not be a great time to buy.

But I would inject one note of skepticism about this skepticism. [Read more...](#)

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April 21, 2010, 4:02 pm

[What We’re Reading: New \\$100 Bill](#)

By [CATHERINE RAMPELL](#)

1. The government unveiled a [new \\$100 note today](#).

Behold, a surprisingly sumptuous display of the new bill:



2. The [economics of online dating](#): A free dating site makes a provocative argument for why you should never bother with one of its paid-subscription competitors.
3. The International Monetary Fund’s [report](#) on levying a financial transactions tax, as published by the BBC.
4. “[N]ations with [fewer flag colors](#), infrequent constitutional changes, and small constitutions tend to have higher well-being than others.”
5. Taxpayers got a [big windfall](#) from the Federal Reserve this year.

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April 21, 2010, 2:19 pm

[Germany's Secrets for a Steadier Job Market](#)

By [JACK EWING](#)



The German labor market has been surprisingly bulletproof during the economic downturn, outperforming the United States and already beginning to tick downward, falling to 8.5 percent in March from 8.7 percent a year earlier.

Two recent reports help explain why. The reports offer some lessons that could be applicable in the United States and other countries.

One big reason Germany has kept a lid on unemployment, already well known, is the widespread use of so-called short work — “Kurzarbeit” in German. The scheme allows companies to cut workers’ hours, with the government making up some of the lost wages.

During the first quarter of 2010, 22 percent of firms surveyed by the [Ifo Institute](#), a Munich research organization, said they were using Kurzarbeit. Among manufacturers, 39 percent were taking advantage of it.

One reason Kurzarbeit is so popular with companies is that it allows them to hang on to skilled workers. [Read more...](#)

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An economist argues that a new bill that would limit the size of banks may be the most promising way to overhaul the financial system.

• **[But Aren't Home Prices Still Falling? \(13\)](#)**

Bloggers argue against buying in Las Vegas or Phoenix today.

• **[Don't Fear the Invisible Tax \(27\)](#)**

Despite the criticism of the value-added taxes, government spending is no lower in countries with more visible taxes.

• **[A Tale of Many Cities \(20\)](#)**

An economist looks at why an unlikely mathematical formula seems to predict population patterns — and affirms the value of proximity.

• **[Value-Added Taxes: A Primer \(13\)](#)**

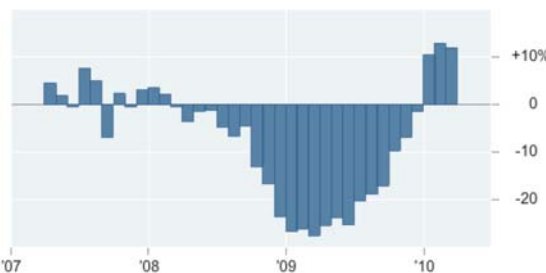
In recent weeks there has been lots of buzz about value-added taxes. This post offers a short primer to explain this policy tool.

Economic Indicators

Updated Fri., April 23

Durable Goods Orders

Change from previous year

[◀ Prev.](#)[Next ▶](#)

March '10 +11.9% Considered useful in estimating future jobs and G.D.P.
 Feb. '10 +12.8%

Source: Bloomberg

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- [Posts](#)



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- [Posts](#)



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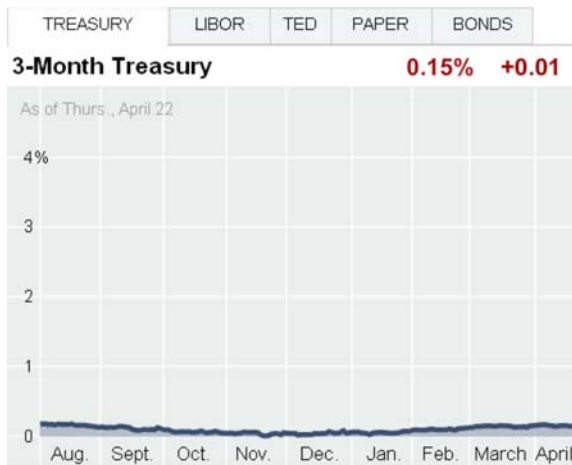
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Credit Crisis Indicators



Investors have taken money out of stocks, bonds and money market funds to buy safe assets, forcing the yield on short-term Treasury bills down. A lower yield indicates greater concern about the financial system.

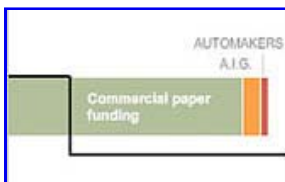
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Economics doesn't have to be complicated. It is the study of our lives — our jobs, our homes, our families and the little decisions we face every day. Here at Economix, [David Leonhardt](#), [Catherine Rampell](#) and other contributors will analyze the news and use economics as a framework for thinking about the world. We welcome feedback, at economix@nytimes.com.

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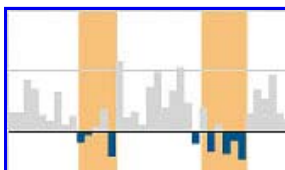
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At 40, Earth Day is now a big business

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
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