Book Reviews

Edited by Robert Herren

Endangering Prosperity: A Global View of the American School. ERIC A. HANUSHEK, PAUL E. PETERSON, AND LUDGER WOESSMANN. Washington, D.C.: Brookings Institution Press, 2013. Pp. xi, 147. $26.95.

If American education were to improve so that students would achieve the same skills as those currently achieved by Canadian students, by the end of the century, GDP per capita in the United States would be 20% higher than otherwise, the present value of such an increase is estimated to be around $77 trillion, which represents over five times the current United States GDP. The heart of the message in this well written, short book can be thus summarized: the opportunity costs of not improving United States K-12 education are staggering.

Eric A. Hanushek, Paul E. Peterson, and Ludger Woessmann (HPW), arrive at this conclusion by first arguing that education has a significant impact on the long-run economic growth of a nation, Chapter 2, and finding some estimates of the relationship between education and growth. In Chapters 3 and 4, they compare the math and reading skills achieved by American students to the skills achieved by students in other nations and find that American students do not compare well; this is true even when using the best performing American students as the basis for comparison. In Chapter 4, HPW run simulations of the impact of changes in skill achievement on United States GDP arriving at results stated above. In the last chapter HPW discuss several recent improvements in United States student achievement compared to what has been achieved elsewhere. They find such improvements unimpressive as well.

The topic under investigation is fraught with many thorny problems with which they deal parsimoniously. Overall, I am convinced by the logic of the arguments and their results. My problem with this book is in the policy recommendations and the obstacles HPW identify to improvements in American K-12 education. First, let me deal with their policy recommendations: there are not many clearly defined policy recommendations in this book because their main goal is to add urgency to the call for structural reform in education (p. 15). HPW make it clear however, that it is imperative to establish policies that would enhance the overall quality of the teaching workforce (p. 14) and point out that decreases in class size and pay increases for teachers have not resulted in improvements in educational outcomes. Some of this should be intuitive for economists, even those not familiar with the literature on education: there is likely to be an optimal class size and class smaller than that optimal size will not add to the educational experience.

Second, according to HPW's account much of the blame for the current state of American education and the main obstacle for improvement are teachers and their unions, after all the school workforce "favors only those changes to the status quo that enhance their income or lighten the workload. They oppose changes in the organization and structure of the school system that would be likely to enhance learning opportunities of those for whom they are educationally responsible" (p.3).

Let me be clear, yes incentives matter, and there could be changes in teachers' contracts that would at the margin affect teachers' behavior and yes there could be changes in the organizational structure of schools that may improve teaching quality. However, there may be many factors which also affect student performance beyond the control of teachers. For example, as college teachers we know that a handful of disruptive students can affect the whole class performance, I wonder if different countries have different policies regarding such behavior and how to deal with it. Along the same lines, I wonder if there are significant differences in other school policies and curriculum that may affect student performance. Are there differences in the curriculum at education schools that may later impact teachers performance? In addition, early childhood has a significant impact on individuals' intellectual curiosity and readiness to learn; hence the nature of policies, if any, regarding daycare may impact later learning; for example, one of the countries that outperforms the United States in math is Finland, (page 40, Figure 3-1) which has a heavily subsidized day care system that some credit in part for their success in education (see http://www.npr.org/2014/03/08/287255411/what-the-u-s-can-learn-from-finland-where-school-starts-at-age-7). What happened to Head-Start? In short, I am not sure that teachers and their unions are the main obstacle to improvement.

Despite these concerns, I recommend this book highly. HPW identify a significant problem and contribute immensely by providing an estimate of the benefits from improving the skills of our young people. In addition, an economist looking for a new research agenda could find much inspiration in almost every page in this book.

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The Great Recession: Lessons for Central Bankers. JACOB BRAUDE AND OTHERS (EDITORS). Cambridge, MA: The MIT Press, 2013. Pp. xii, 380. $22.00.

This book is a collection of papers presented at an international conference on *Lessons from the World Financial Crisis.* The topic was the Great Recession (2008-2009). Sponsored by the Bank of Israel, the participants were mainly central bankers but included representatives of international financial institutions (such as the International Monetary Fund).

Papers are organized into four different sections: Part I) Monetary Policy in View of the Crisis; Part II) Macroprudential and Financial Policies; Part III) Capital Flows, Capital Controls, and Exchange Rate Policies; and Part IV) The Crisis and its Lessons: Some Case Studies. Each Part does not present a consensus position of conference participants but rather the views of individual central bankers concerning issues addressed in their particular papers.

Part I outlines monetary policy responses by central bankers from three different geographic locations affected by the financial crisis: the Euro Area, Turkey, and Chile. Hugh Pill and Frank Smets (from the European Central Bank) focus their attention on the Euro Area. One challenge that raised concerns about the effectiveness of monetary policy was the (zero) lower bound on nominal interest rates, something that Pill and Smets argue was less of an issue in the Euro area.

More attention was given to the introduction of unconventional monetary policy measures (or nonstandard measures – NSMs). These included massive asset purchase programs (many in unconventional markets) and liquidity intermediation (swapping illiquid assets for cash). The authors viewed these policy innovations favorably because they