



RESEARCH F.Y.I.

The world largely ignores the flood of economic research pouring from universities, think tanks and government agencies. And with some reason: most of it is irrelevant to public policy or is compromised by inadequate data, arbitrary assumptions or flawed statistical methods.

By the same token, relevant research often takes too long to surface or is lost forever in the clutter of competing analyses. In the first of what will probably be a regular feature in *The Milken Institute Review*, I offer a sampling of significant work that has not risen out of the economist's ghetto of scholarly journals and institutional working papers. Tips from readers on published or unpublished research that deserves to break free from the clutter are welcome.

THE BANK STRIKES BACK

East Asia's failure to bounce back from the currency crisis has stirred a backlash against the International Monetary Fund's traditional prescription of fiscal and monetary austerity as the cure for financial panic. Joseph E. Stiglitz, the World Bank's chief economist, led the chorus of complaints, arguing that remedies developed for Latin America in the 1980's were inappropriate for Asia in the 1990's, before his more diplomatic superiors muzzled him.

But the bank hasn't been entirely silenced. In a recent unpublished (but easily obtainable) working paper, three bank economists – Wei Ding, Ilker Domac and Giovanni Ferri – join the battle with an analysis of how tight money has undermined prospects for recovery in Indonesia, Korea, Malaysia, the Philippines and Thailand. While their conclusion is couched in the neutral jargon of economics, it still adds up to a big, fat raspberry directed at the I.M.F. [*"Is there a Credit Crunch in East Asia," World Bank Working Paper 1959, August 1998. Downloadable from www.worldbank.org*]

THE PRICE OF GOOD INTENTIONS

The Americans With Disabilities Act of 1991 banned discrimination against the disabled and required all but the smallest employers to accommodate disabled workers. As with other government mandates that affect the cost of labor, though, there is a risk that this one will price marginally qualified workers out of the market. And, alas, Daron Acemoglu and Joshua Angrist of M.I.T. have confirmed that risk.

For 1993, the first year in which the act was fully implemented, they found substantial, otherwise unaccountable drops in employment for both disabled men and women. The increased legal protection against discrimination in the new law apparently didn't offset the added financial disincentives to hiring the disabled in the first place. [*National Bureau of Economic Research Working Paper 6670, July 1998. Call 617-868-3900 for copies.*]

DUNNING DELINQUENT DADS



The explosion of single-parent, female-led households in the 1970's and 1980's is widely seen as a primary cause of child poverty in America. Both the states and the feds responded with a flurry of legislation and administrative fixes intended to force fathers to share the cost of raising their progeny. And according to Richard Freeman of Harvard and Jane Waldfogel of Columbia, the effort is paying off. The percentage of never-married mothers receiving child support has risen sharply. What's more, the authors estimate that increased outlays on enforcement programs between 1990 and 1995 account for one-fifth of the gain. [*National Bureau of Economic Research Working Paper 6664, July 1998*]

THE NOT-SO-NEW ECONOMY

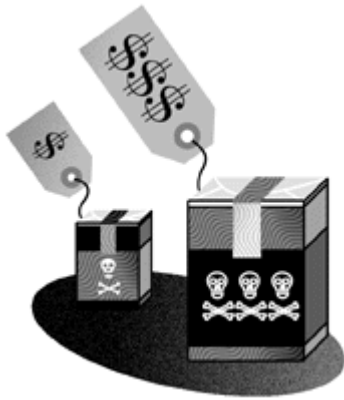
Just a few years ago, anyone who claimed that America could sustain 2 percent inflation in the midst of a labor shortage would have been drummed from the ranks of the Dismal Scientists. Ever since the impossible happened, though, economists have been grinding out explanations, most of which revolve around globalization.

Geoffrey Tootell of the Federal Reserve Bank of Boston takes on one of the most popular explanations – namely, that excess capacity in the economies of our trade partners curbs corporate pricing power at home. He finds little evidence that foreign industrial capacity utilization has had an impact on United States import prices and little reason to believe that falling import prices have been passed through to consumers. Tootell is thus firmly in the pessimists camp: "Anyone who believes in a world where we need no longer worry about domestic capacity constraints," he predicts, "will eventually be rudely awakened by data that suggest otherwise." [*"Globalization and U.S. Inflation," New England Economic Review, July-August 1998. Downloadable from www.std.com/frbbos/economic/neer/neer.htm*]

THE CURSE OF DISEASE

With few exceptions, most of the world's nations now seem destined to grow their way to prosperity. Jeffrey Sachs, the director of Harvard's Institute of International Development, has become increasingly preoccupied with those exceptions – the few dozen losers that have apparently been left without a reserved seat on the global gravy train.

One common factor in their failure, he argues, has been the heavy burden of disease – in particular, of malaria. In a paper written with John Gallup of Harvard, Sachs estimates that widespread incidence of malaria cut economic growth rates between 1965 and 1990 by a stunning 1.3 percentage points. The good news: A 10 percent reduction in malaria incidence in these countries is statistically associated with a (substantial) increase in the rate of growth of



Burden of Malaria," HIID Working Paper, October 1998. Downloadable from www.hiid.org.]

SMOKE ENDERS

Strip away the indignation about corporate greed and the best argument for slapping a heavier tax on tobacco is the deterrent effect on teen smoking. Higher prices do seem to reduce the number of cigarettes bought by the young. There's a catch, though, report William Evans of the University of Maryland and Matthew Farrelly of the Research Triangle Institute. It seems that smokers aged 18 through 24 fully compensate for higher prices, sustaining addiction by switching to higher tar and nicotine brands. If we're really serious about using taxes as a way of reducing the health hazard (as opposed to raising revenue), the authors argue, tax rates ought to be tied directly to the noxious content of cigarettes. [*"The Compensating Behavior of Smokers," RAND Journal of Economics, Autumn 1998. Downloadable from www.rje.org]*

THE CURSE OF DRINK

Mothers Against Drunk Driving has provided a rationale for the New Prohibitionism in America. In case everyone hasn't absorbed the message that immoderate consumption of alcohol is bad, Sara Markowitz of the New Jersey Institute of Technology and Michael Grossman of the City University of New York offer some more bad news: Alcohol is closely linked to child abuse.

Wait, there's a silver lining. Since the price of beer has a substantial impact on total alcohol consumption by potential abusers, beer taxes could make a big difference in the body count. Indeed, the authors estimate that a 10 percent increase in the beer excise tax would reduce the number of severely abused children by about 130,000 annually. [*"Alcohol Regulation and Domestic Violence Towards Children," Contemporary Economic Policy, July 1998. Call 562-985-5069]*

THE AGE OF ANXIETY, PART I

If you believe anecdotal news accounts, job security declined sharply in the 1990's. If you believe President Clinton's Council of Economic Advisers, there has been little change in job tenure. Using the latest census data, David Neumark of Michigan State, Daniel Polsky of Penn and Daniel Hansen of Laurits Christensen Associates find that involuntary separations did rise a bit in the 1990's. More damning, they unearth evidence suggesting that job security for workers in mid-career has fallen substantially since the 1980's.

THE AGE OF ANXIETY, PART II

What people think about job security counts almost as much as the reality in determining how hard they fight for higher wages and benefits. And here, Stefanie Schmidt of the Urban Institute and Christopher Thompson of Countrywide Home Loans offer the latest intelligence. Combining data from a

variety of polls, they found that workers were indeed more worried about losing their jobs in the period 1990-1996 than in other periods of comparable unemployment. But since 1996 these fears have subsided, leaving workers no more anxious today than they were in the 1980's. [*Both research papers will be printed in a book, to be published by the Russell Sage Foundation in 1999. To obtain unpublished drafts, apply to the authors.*]

POVERTY PROVOCATIONS

Back in 1989, Dale Jorgenson of Harvard shocked liberals (and probably undermined his prospects for a Nobel Prize) by asserting that poverty was a far less serious problem in America than conventional measures would suggest. A pair of essays by Jorgenson and Robert Triest of the Federal Reserve Bank of Boston rejoins the issue and brings the numbers up to date. While those who followed the debate from the beginning won't be surprised, the point-counterpoint essays do a fine job of illuminating the difficulties in both defining poverty and measuring it. [*"Measuring Poverty," Journal of Economic Perspectives, Winter 1998*]

PRICING HIGHWAYS

Soviet bureaucrats found out that when bread was free, farmers fed it to the livestock. Likewise, urban planners in America have discovered that when road use is free, traffic becomes unmanageable. The Russians have since turned to markets to set the price of bread, but American planners face bitter opposition to a parallel reform – "congestion pricing" for highways.

To get around this entrenched opposition, California decided to charge tolls on new lanes added to an existing highway. Trouble is, say Louie Nan Liu of Berger Consultants in New Jersey and John McDonald of the University of Illinois at Chicago, the efficiency gains from this experimental half-measure are puny compared with the potential gains from imposing tolls at rush hour on all lanes. Some day, some way – but apparently not yet – American commuters are going to have to face up to the reality that it is less painful to pay cash for highway use than to spend their lives stuck in traffic. [*"Efficient Congestion Tolls in the Presence of Unpriced Congestion," Journal of Urban Economics, November 1998*]

CHEAP MEDICAL CARE

A horse is a horse, of course of course. But what about a computer, a car – or the treatment for a killer disease? Economic statisticians have long been aware of the difficulties in adjusting price indexes for changes in quality, especially in cases like medical care, where technology is progressing rapidly. Indeed, the effort to build a better consumer price index may well become a political football in the coming battle over reform of government entitlement programs, notably Social Security.

Now David Cutler (Harvard), Mark McClellan (Stanford), Joseph Newhouse (Harvard) and Dahlia Remler (Tulane) have entered the fray with an analysis of the changing cost of treating heart attacks. A proper accounting, they say, lowers the rate of inflation by three percentage points annually. [*"Are Medical Prices Declining?" Quarterly Journal of Economics, November 1998*]

-Peter Passell
Illustrations by Brian Leister