

## Don't know what to do with the budget surplus?

Worried that the Russian economy is down for the count? Afraid that global warming will fry the tropics? Pull up a cozy chair, pour another dollop of single malt and read on. The sixth issue of *The Milken Institute Review* doesn't have the answers to all that ails the world economy, but we're working on it.

**Rudy Penner**, a former director of the Congressional Budget Office who now keeps an eye on matters fiscal from the more contemplative clime of the Urban Institute, offers some straight talk on the budget surplus. "Although the disposal of the surplus has become as politically contentious as reducing the earlier deficit, it is important to remember how lucky we are," writes Penner. "We can carp all we want about the relative benefits of paying off the debt versus cutting taxes versus increasing spending, but it is like arguing over the choice between chocolate cake and a hot fudge sundae."

**Julia Sweig**, deputy director of the Council on Foreign Relations' Latin American studies program, offers some much needed perspective on Cuba's economic end-game. "Over Chinese food in Old Havana a couple of years ago, a retired Cuban intelligence officer told me that the heart of Cuba's policy toward the United States is to keep us 'not too close and not too far,'" she says. "Indeed," Sweig adds, "there is an unspoken and unintentional complicity at work between the two governments, each of which must contend with domestic constituencies that resist more accelerated transformations."

By the way, check out the never-before-published photos by **Vern Evans** that complement the Cuba piece; they're knockouts.

**Robert Mendelsohn**, an economist who coexists with the tree huggers at Yale's School of Forestry and Environmental Studies, has some inflammatory things to say about global warming. "There is little collective incentive to spend heavily to slow warming," he writes. "The economies that signed the Kyoto agreement no longer have compelling national interests at stake. Indeed, once reality sets in, the developed countries may be quite content to argue about treaty details indefinitely before implementing a binding agreement."

**Larry White**, an economist at New York University's Stern School of Business who has earned his regulator's stripes in three presidential administrations, tells you what you need to know about the faddish new subject of network economics. "It is easy to exaggerate the difficulties that networks pose, and policy wonks with an interventionist bent are prone to do so," he explains. "Remember that gasoline-powered cars did supplant carriages in spite of the problem of finding fuel," and that "CDs have replaced vinyl records, even though very few CD play-

ers were around at the creation.”

This year’s Milken Institute Global Conference featured not one, not two, but eight Nobel Prize winners in economics. Yes, **Ken Arrow** (Stanford), **Gary Becker** (Chicago), **James Buchanan** (George Mason), **Larry Klein** (Penn), **John Nash** (Princeton), **Doug North** (Washington-St. Louis), **Myron Scholes** and **Reinhard Selten** (Bonn) offered their views on everything from the promise of the Internet to the relevance of game theory to the life expectancy of women. **Michael Milken**, chairman of the Institute, was on hand to moderate.

We boiled down the two hour-long roundtable sessions to 11 pages of prose. Those who thirst for more wisdom from the Nobelists can find an unexpurgated version on the Institute’s Web site ([www.milkeninstitute.org](http://www.milkeninstitute.org)).

This issue’s book excerpt is by **Serguey Braguinsky** and **Grigory Yavlinsky**.

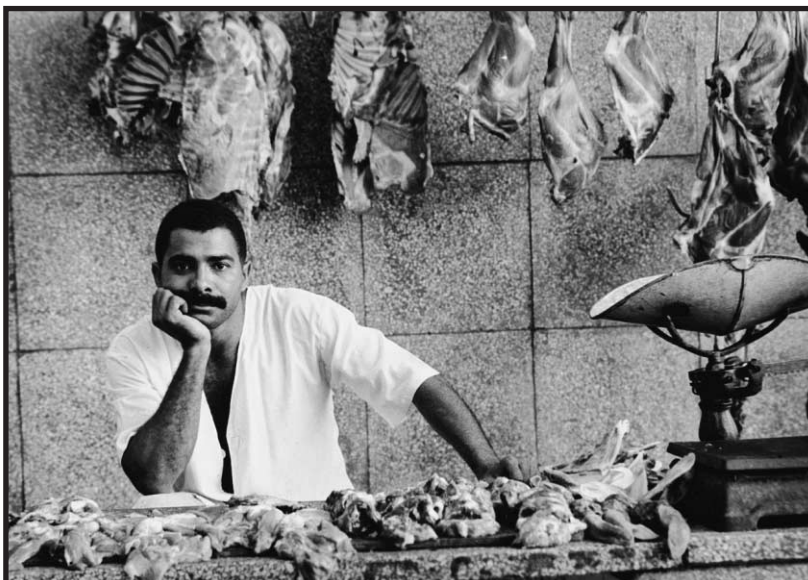
Braguinsky teaches economics in Japan. Yavlinsky is the former economic whiz kid who now runs Yabloko Party, the last significant block of western-oriented reformers left in the Russian Duma.

Braguinsky and Yavlinsky tell it like it is: “Far from creating an open market,” they write, “Russia has consolidated the role of a semi-criminal oligarchy that was already largely in place under the old Soviet system.”

That may come as no surprise, but the pair’s prescription for getting out of the corporatist trap surely will. They envision a new social contract in which those who want to do business in the New Russia openly pay the

state for protection against organized crime. “The Russian government, by and large, is a captive of the oligarchic pressure groups that oppose change,” they acknowledge. “Rather than simply deplore this situation, we are inclined to create incentives for the government to change itself.”

Still have some time on your hands? Get a life. Or better yet, read the dandy features that fill out this issue:



- A charticle on dollarization, by Institute researcher **Tom Hall**.
- A review of Paul Ormerod’s *Butterfly Economics*, by **Sylvia Nasar**, the prizewinning author of *A Beautiful Life*.
- An essay on the aging of the baby boomers and the schisms it will create between central cities and suburbs by Institute fellow **Bill Frey**.
- A subjective survey of the latest research in economic policy by yours truly.
- *Ekinomix*, in which cartoonist **Mark Alan Stamaty**’s take on George Dubya’s plan to cut taxes.

— Peter Passell