EDITOR'S NOTE

I'm proud the *Milken Institute Review* offers original, insightful – even accessible – articles on economic and demographic policy. But I'm equally proud that the *Review* is part of the Milken Institute, providing a forum for home-grown research, and supplementing the dialog in subjects nearest and dearest to the Institute.

Which brings us to the cover article by **Ricardo Bayon**, a fellow at the New America Foundation in Washington and a specialist in environmental finance. Trading in rights to emit pollutants (like the sulfur that causes acid rain) is now widely accepted as a means of getting the most bang from an anti-pollution buck. Here, Bayon describes the latest in environmental market-making – tradable mitigation credits in wildlife habitat.

"By setting a price on the destruction of wetlands, mitigation banking is helping to incorporate these ecosystems into the tangible economic system," he says. "When wetlands destruction costs in the ballpark of $44,000 an acre, developers are likely to think twice before causing the damage."

To read about the Institute's own work in environmental finance – notably, research related to a day-long conference at the Institute last year, check our website at http://www.milkeninstitute.org/finance/index.html.

Alice Amsden, a development economist at MIT, is probably best known for her iconoclasm. And in this piece on North-South relations, she doesn't disappoint. "If enthusiasm for globalism nose dived immediately after September 11, the bargaining power of developing countries rose in ways that are just beginning to be understood," she writes. And for Amsden, that's just as well: "From the anti-sweatshop movement to the World Bank, a cult of poverty colors advanced-country thinking," one that undermines out-of-the-box development initiatives.

In the last issue of MIR, Peter Navarro and Aron Spencer offered a first cut at estimating the economic impact of September 11 on the economy as a whole. In this issue, **Ross DeVol** and **Perry Wong** of the Milken Institute use a regional economic model to estimate the consequences of Sept. 11 for America's cities. "The impact of the attacks on the World Trade Center and the Pentagon are still pulsing through the American economy," they write. "And because these effects are concentrated in a handful of sectors, the consequences for individuals and localities can be quite dramatic – think of restaurant workers in Honolulu and Miami, or baggage handlers at O'Hare and LAX."

Their model, incidentally, is derived from a detailed study of Sept. 11's impact on Los Angeles, commissioned by the mayor's Economic Impact Task Force. Check out http://www.milkeninstitute.org/lamayor/taskrpt.pdf.

Not so long ago, economists obsessed about inflation. Now, attention has shifted to a phenomenon last seen during the Great Depression: deflation. **Barry Bosworth** of The Brookings Institution offers some perspective. “The concern ought to be with recession, not with deflation, per se,” he explains. “If people really want to fret about deflation, they should focus on falling asset prices – real estate, stocks and the like – not falling prices for goods and services.”

JORGE SILVA/REUTERS/TIMEPIX

Who could offer a better defense of big government than **Charles Zwick**, Lyndon Johnson’s budget director? Try Zwick, writing with **Peter Lewis**, his assistant director, and **Robert Levine**, the deputy director of the Congressional Budget Office in the late 1970s.

The trio are upset by the demonization of activist government in general and, in particular, with Bill Clinton’s efforts to make the Democratic Party indistinguishable from the Republicans on many economic issues. “‘Government should not’ is traditional Republican ideology,” they write. “But with help from Bill Clinton and the New Democrats, the Republicans have managed to morph ‘should not’ into ‘cannot.’”

The bust in the telecommunications industry has stalled the broadband revolution – that just-around-the-corner era when Americans will gain routine access to enhanced services ranging from videophones to movies-on-demand. But **Daniel Gross**, (yet another) fellow at the New America Foundation, suggests that such infrastructure cycles are more common – and probably not as damaging – as is generally understood.

“The cycle we have just seen in fiber optics – overbuilding, excess capacity, ruinous competition, falling prices, bankruptcy and consolidation – is nothing new,” he reminds. “For nearly two centuries, entrepreneurs and established players have set out to build networks that link portions of the country. And while the networks have survived and prospered, their creators have rarely fared well.”

Are you happy to pay that extra buck your friendly neighborhood coffeehouse charges for a beverage made by well-compensated yeoman farmers rather downtrodden peasants? You may not be getting your money’s worth – or so says **Greg Rushford**, publisher of a newsletter for trade and development professionals. “When you buy ‘fair-trade’ coffee, there is slim reason to believe that you are empowering exploited farmers,” he writes. “Fair-trade coffee, in short, is a far darker blend than advertised.”

And, as usual, there is much much more. **Ross DeVol** unveils the Milken Institute’s New Economy index, showing which states are primed for development and which aren’t. **Hernando de Soto**, the great development economist from Peru, lays out his singular vision of why it is so difficult to mobilize capital and entrepreneurship in the Third World. The Institute’s **Bill Frey** explores the growth of Spanish-only households in the United States. **Steve Postrel** is back to stump you with a puzzle. And, of course, cartoonist **Mark Alan Stamaty** is readier than ever to deflate Washington’s gasbags.

— *Peter Passell*