

The last time I checked, the Social Science Research Network (ssrn.com) had catalogued some 217,000 technical papers by 106,000 authors. Tens of thousands more are available through other institutional Web sites. Here, I share my thoughts about a dozen-plus of the most provocative I've come across recently. All of them, incidentally, can be downloaded gratis. — Peter Passell

**UNCERTAINTY RE:
DEATH AND TAXES**

Lobbyists convinced Congress (and perhaps the public) to phase out the estate tax by re-packaging it as the “death” tax. But they were too clever by half: unless it is renewed, the federal estate tax rate ratchets back from nothing in 2010 to a top marginal bracket of 55 percent (with a \$1 million exemption).

Candidate Obama signaled his support for a compromise that would exempt \$7 million from estate taxation and tax the rest at 45 percent. And he'll have a fair amount of political leverage to get his way, since the practical alternative (no action) would mean higher taxes on the rich. But Lily Batchelder (NYU Law School) thinks Washington ought to act more boldly, substituting an inheritance tax for the estate tax. Under her plan, any individual heir could receive \$2 million tax-free, but then pay taxes on any excess at their own income tax rate, plus 15 percentage points. That way, she argues, parents would be able to give their children plenty of money to lead comfortable lives while tailoring the tax rate to the circumstances of the recipient rather

than that of the deceased. [*What Should Society Expect from Heirs? A Proposal for a Comprehensive Inheritance Tax,* NYU Law and Economics Research Paper No. 08-42 (October 2008). Download free from papers.ssrn.com/sol3/papers.cfm?abstract_id=1274466.]

GLOBAL WEALTH SLOSH

Sovereign wealth funds – government-controlled institutional investors – have been around for quite a while. What's new is that SWFs are being given the task of investing the vast sums collected by central banks in countries running foreign exchange surpluses. (Think China, Norway, Saudi Arabia, the United Arab Emirates). Can these funds, charged with earning the highest possible returns, be counted on to behave as responsibly as central banks?

That depends in part on what we mean by “responsibly.” One big worry is that SWFs will be used for political purposes, buying or selling specific foreign assets to advance national interests. And, while there is no evidence of such behavior on the part of the funds thus far, it's hard to predict what a mildly hostile

country with a sovereign wealth fund (Russia?) might do under the proverbial (or literal) gun.

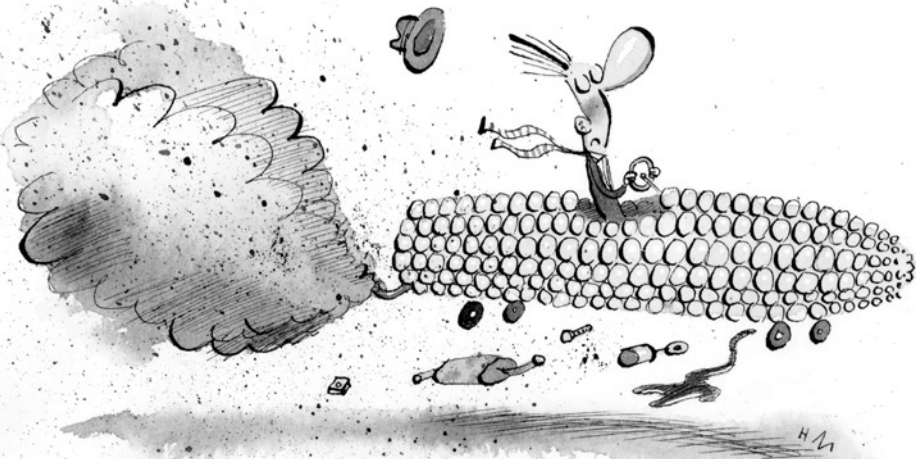
The bigger question, though, is how SWFs seeking profits will diverge in behavior from central banks. One likely prospect, suggest Roland Beck and Michael Fidora of the European Central Bank, is diversification of assets away from dollars and toward Asian currencies – a movement that could put pressure on the overvalued dollar. But SWFs need not be destabilizing. After all, unlike central banks, they may well have an appetite for high-risk assets, and thus tend to reduce the volatility of high-risk asset prices (think securitized mortgages) in times of uncertainty. [*The Impact of Sovereign Wealth Funds on Global Financial Markets*, European Central Bank Occasional Paper Series, Paper 91 (July 2008). Download free from www.ecb.europa.eu/pub/pdf/scpops/ecbocp91.pdf.]

ETHANOL: EVEN WORSE THAN YOU THOUGHT

By now, it's common knowledge that transforming corn into ethanol fuel is problematic. Processing the corn uses almost as much fos-

sil fuel as it displaces and raises the cost of food for the folks who can least afford it. What you (and just about everybody else) probably didn't know is that the way the government encourages ethanol use actually increases the use of gasoline, thereby increasing both emissions of carbon into the atmosphere and dependence on Middle East producers of oil. What's more it doesn't even increase the profits of the corn producers who lobbied so tirelessly for ethanol subsidies.

How could this possibly be true? Harry de Gorter and David Just of Cornell University explain why the structure of the ethanol incentives – a combination of a tax credit to producers of ethanol and a mandate that a minimum amount of ethanol be blended with gasoline fuel – inevitably increases gasoline consumption. Oh, the tangled webs that lobbyists weave... [*The Law of Unintended Consequences: How the U.S. Biofuel Tax Credit With a Mandate Subsidizes Oil Consumption and Has No Impact on Ethanol Consumption*, Department of Applied Economics and Management Cornell University Working Paper (revised version February 2008). Download free at papers.ssrn.com/sol3/papers.cfm?abstract_id=1024525.]



MAKE MINE GUINNESS

Economists are imperialists at heart, inclined to use economic modeling to analyze all sorts of social behavior. And in that grand tradition, Liam Delaney (University College Dublin), Arie Kapteyn (Rand Corporation) and James P. Smith (Rand) used survey data from University College Dublin to investigate the causes of excessive drinking among the Irish.

First, a few odd findings. A far greater proportion of Irish are abstainers (23 percent) than Europeans as a whole (10 percent). Yet among those who partake, consumption is twice as high as the European average, and Irish imbibers are five times as likely to engage in binge drinking as their German and French counterparts.

What's going on here? Using statistical regression techniques, they concluded that parents' income and education had almost no explanatory power for drinking behavior. What did matter was whether parents drink a lot and where the students went to secondary school (the heaviest drinkers went to boarding schools). Perhaps the least intuitive causal factor was geographical. Drinking is less prevalent in counties where the Catholic Church remains strong, and more prevalent where the English colonial influence is strongest. Yes, that's right: the Irish seemed to have picked up bad drinking habits from the British. [*“Why Do Some Irish Drink So Much?” University College Dublin Centre for Economic Research Working Paper Series (April 2008). Download free from www.ucd.ie/economics/research/papers/2008/WP08.09.pdf.]*

THE CURSE OF OIL

Back in 1977, the *Economist* magazine coined the phrase “Dutch Disease” to describe a dilemma faced by major oil-exporting countries. At first glance, all that income hardly seems like a disease. Yet, the accompanying increase in export revenues tends to increase the exchange value of the country's currency, undermining the competitiveness of other industries that play a key role in economic development. Hence the slow-growth problem experienced by the Netherlands in the 1960s after the discovery of vast offshore energy resources.

But does Dutch Disease explain the miserable economic performance of Africa's oil exporters – notably Libya, Algeria, Nigeria, Equatorial Guinea and Angola? Hardly, argues Olomola Philip Akanni of Obafemi Awolowo University in Nigeria. The real problem with oil is its impact on the development of a pro-growth culture. Oil, it seems, greases





DEEP POCKETS

Can a central bank go broke? The question has increased relevance now that the Federal Reserve and the European government banks have extended trillions of dollars in credit to the private financial system, and taken huge ownership stakes in a host of banks and investment firms.

The short answer, concludes Willem Buiter of the London School of Economics, depends on whether the liabilities are in foreign currency. If they are, the problem of insolvency is very real. The clearest case: the central bank of Iceland, which held very little foreign exchange in comparison to the foreign currency liabilities of the little country's high-flying banks. But even if liabilities are denominated in domestic currency, Buiter argues, there are limits to what central banks can cover.

Yes, central banks can issue as much money as they wish to pay their bills. But if they use the printing-press option excessively, they create inflation that reduces the purchasing power of the cash they create. Should we be worried about the Fed? You decide. [*Can Central Banks Go Broke?*] Centre for Economic Policy Research Policy Insight 24 (May 2008). Download free from www.cepr.org/pubs/PolicyInsights/PolicyInsight24.pdf.]

the wheels of corruption and autocracy, making it that much harder for countries lacking robust market economies to encourage savings, investment and entrepreneurial activity. [*Oil Wealth and Economic Growth in Oil Exporting African Countries*,] African Economic Research Consortium Research Paper 170 (September 2007). Download free from www.aercafrica.org/documents/RP_170.pdf.]

SUPERSIZE ME

Economists have been messing around the periphery of the debate about why Americans have gotten so much fatter in recent decades, with much of the focus on the alleged role of fast food. Now three European researchers (Giorgio Brunello, Pierre-Carl Michaud and Anna Sanz-de-Galdeano) have joined the fray, offering a new perspective from the old world.

For one thing, they note, European countries have very different obesity profiles. Brits age 18 to 50 are almost as obese as their American counterparts (16 percent versus 22 percent), while Italians (6 percent) and Austrians (8 percent) are downright svelte.

More striking yet, every age cohort in the United States is fatter than its predecessor. Europeans, by contrast, get fatter as they age, but there is no general trend toward tubby. So all the factors seemingly at work to make people fatter in wealthy countries (rising incomes, more sedentary jobs, greater access to sedentary entertainment) have somehow been cancelled out by countervailing forces in these countries.

Like all good policy economists, the trio wonders whether public intervention can be justified in purely economic terms. Their conclusion: not really. [*The Rise in Obesity*

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Across the Atlantic,” RAND Labor and Population Working Paper WR-586 (June 2008). Download free from www.rand.org/pubs/working_papers/2008/RAND_WR586.pdf]

RICE BOWL

It’s hard enough defining the poverty line in one country (see, for example, the piece by Nick Eberstadt in the 4th quarter 2008 issue of the *Review*). Measuring the prevalence of poverty across the developing world is even more challenging. Nonetheless, the World Bank has made several runs at the problem. The latest, compiled last summer by World Bank researchers Shaohua Chen and Martin Ravallion, uses updated calculations of both the purchasing power parity indices used to equate GDP value across countries and the minimum living standard that countries use to define poverty. The consequences of what seem like purely technical fixes are pretty dramatic, significantly increasing the estimated number of people living below the poverty line.

Using the old numbers, poverty in 25 developing countries fell from 40.6 percent of the population in 1981 to 17.2 percent in 2005. With the new numbers, poverty fell from 52.2 percent to 25.7 percent. Note there is considerably more poverty under the new definitions. What’s more, the rate of decline of poverty has been somewhat slower than previously estimated. Even under the new numbers, however, the impact of China’s economic renaissance on world poverty is nothing short of astonishing: the number of poor in China has fallen by roughly half a billion in just a quarter-century! [*“The Developing World is Poorer than We Thought...” World Bank Policy Research Working Paper 4703 (August 2008). Download free from [*\[worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/08/26/000158349_20080826113239/Rendered/PDF/WPS4703.pdf\]\(http://worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/08/26/000158349_20080826113239/Rendered/PDF/WPS4703.pdf\)\]*](http://www-wds.</i></p></div><div data-bbox=)*

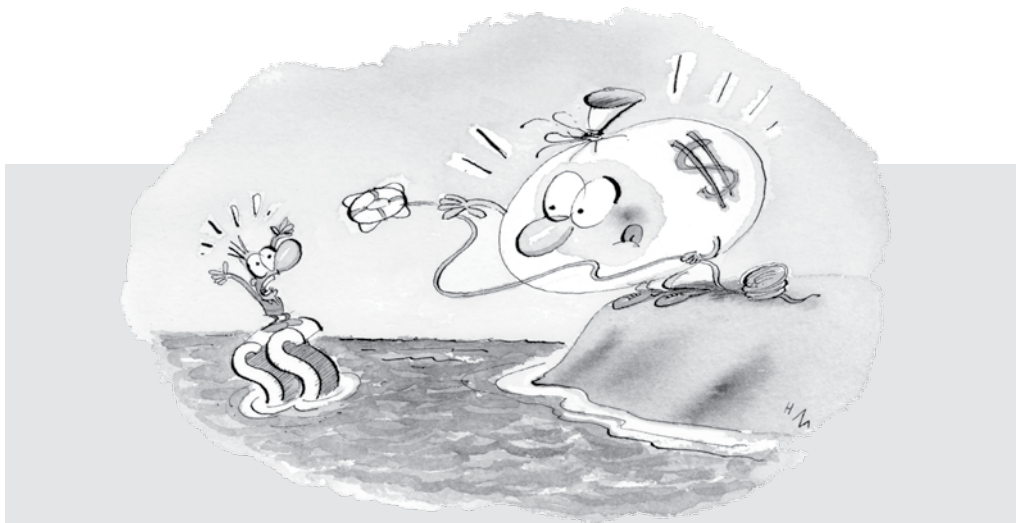
TOUGHER THAN YOU THOUGHT

According to conventional wisdom, India became the world leader in outsourcing – especially outsourcing in information technology – in large part because the country churned out far greater numbers of highly trained scientists and engineers than the domestic economy could absorb. In fact, while elite technological education in India is very impressive, there is little depth to the education system. Accordingly, many analysts predicted that China would soon prove to be a far more formidable source of R&D than India because it was producing far greater numbers of well-qualified second-tier technology professionals.

The weakness of Indian education is no illusion. But, according to Vivek Wadhwa (Duke), Una Kim de Vitton (Harvard) and Gary Gereffi (Duke), Indian businesses have managed to sustain a growing presence in global R&D by training their own professionals. The analysis, based on “best-practice” case studies of two dozen leading Indian firms, suggests that flexibility and entrepreneurship are proving to be formidable resources in the country’s economic development. [*“How the Disciple Became the Guru,” Kauffman Foundation working paper (July 2008). Download free from papers.ssrn.com/sol3/papers.cfm?abstract_id=1170049]*

HIDING THE BUNNY

Strict patent and copyright protection, most analysts believe, is critical to the viability of a knowledge-based economy. Jacob Loshin (now a clerk in the Fifth Circuit U.S. Court of



A TRILLION HERE...PART DEUX

Practically everybody knows Social Security is drowning in red ink – that future benefits prescribed by current law far exceed expected future revenues from the Social Security payroll tax. (See page 96 of this issue.) Indeed, the system’s trustees acknowledge this fact, and even put a number on the “present value” of the deficit: \$8.5 trillion. Thus, if Social Security were a private pension plan, the trustees would have to add \$8.5 trillion to the kitty today in order to balance the books.

Well, not quite, argue Alexander Blocker (Boston University), Larry Kotlikoff (BU) and Steven Ross (MIT). The \$8.5 trillion figure hasn’t been adjusted for uncertainties that affect future system revenue and liabilities – in particular, the growth of average wages. And because uncertainty itself is a cost, the risk-adjusted number must be higher than \$8.5 trillion. The three economists use modern financial techniques to calculate what (hypothetically) the private market would demand to undertake Social Security’s pension obligations. And that number is a whopping \$10.4 trillion. [*“The True Cost of Social Security”* (September 2008). Download free at people.bu.edu/kotlikoff/The%20True%20Cost%20of%20Social%20Security,%20September%202008.pdf.]

Appeals) agrees, but with a caveat. Some intellectual property can be exceptionally productive in the “negative spaces” in which the law offers little protection. Thus, the fashion industry thrives in spite of routine knockoffs, and high-profile chefs manage to get rich in spite of the ease of copying their recipes. What’s more, explains Loshin in a 2007 paper, magicians have been around for millennia without the help of formal IP protection. How they manage to prevent the use of their tricks by others casts interesting light on how

extra-legal institutions can protect property.

Professional magicians, it seems, demand secrecy from others, enforcing that demand with a combination of social sanctions (we won’t associate with you) and economic sanctions (we won’t hire you or buy your magic props). And it generally works very well. The big issue, Loshin suggests, is whether group sanctions can continue to function well in a world of cheap, anonymous information diffusion. [*“Secrets Revealed: How Magicians Protect Intellectual Property Without Law,”*

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Yale Law School (July 2007). Download free from papers.ssrn.com/sol3/papers.cfm?abstract_id=1005564.]

P.S. You may think you're ripping off Loshin by not paying him for access to the paper. But don't fret; he, too, benefits from free distribution.

CHEER UP

Economists have been measuring output, income, growth, unemployment, wages – you name it – for a long time. But only in the past few decades have they attempted to use survey data to measure trends in what amounts to the bottom line: personal happiness. Perhaps the most striking conclusion has been that growth in income (above a relatively modest base) doesn't have much impact on subjective measures of happiness. Betsey Stevenson and Justin Wolfers of the Wharton School take the analysis a big step further by measuring inequality in the distribution of happiness, then slicing and dicing the results to make sense of the income-happiness disconnect.

One major conclusion is that happiness is more equally distributed than it was in the 1980s, and that the declining inequality in

happiness is mirrored by declining inequality within groups defined by race, gender and education. The authors suggest that “non-pecuniary” factors – perhaps the growing perception of equality of opportunity – is at work. [*“Happiness Inequality in the United States,” NBER Working Paper 14220 (August 2008). Download free from bpp.wharton.upenn.edu/jwolfers/Papers/HappinessInequality.pdf.]*

IT AIN'T NECESSARILY SO

Inflation, moribund for so long, was about to rear its ugly head before the financial market meltdown. The cause was clear: exceptionally tight markets for oil, grain and other commodities, largely driven by break-out growth in China and India. Once the global economy recovers from the current recession, we'll presumably see inflationary pressures at work again. But the standard prescription – tight credit – can be a pretty blunt instrument, more often than not reducing worldwide output by hundreds of billions of dollars.

So what's a body to do? Graeme Donald Snooks of Australia's National University has an unusual response: tolerate rising prices. He argues that the pain of containing inflation to the very low levels deemed acceptable in affluent countries isn't worth the gain in terms of GDP growth. And he insists the standard argument that inflation ultimately leads to slower growth doesn't bear up to close analysis. Much of the working paper is focused on Australia's problems, but Snooks is happy to generalize. You probably won't agree with him, but it is interesting to test conventional wisdom. [*“The Irrational ‘War on Inflation’: Why Inflation Targeting is Both Socially Unacceptable and Economically Untenable,” Global Dynamic Systems Centre Working Paper No. 1 (March 2008). Download free at econrss.anu.edu.au/pdf/GDSC/WP001.pdf.]* **M**

