

**I don't plan to** make a habit of it, but couldn't resist kicking off the issue with a wretched financial crisis joke:

*Q: What's the capital of Iceland? A: About \$10.*

Too inside-baseball for you? How about this one:

*Q: What's the difference between an investment banker and a large pizza?*

*A: A large pizza can still feed a family of four.*

A bad start. But I promise to make it up to you with some dandy pieces.



**Harold Cole** of Penn and **Lee Ohanian** of UCLA argue that, on the whole, FDR made a bad economy worse. “The current economic crisis has made some people nostalgic for Franklin Roosevelt’s New Deal, an era that we are now inclined to remember as a grand – and successful – struggle to bring the economy back from the brink of chaos,” they write. But “the central component of the New Deal – the programs aimed at restoring private sector jobs – was highly problematic, and largely accounts for why the Depression ground on through the 1930s.”

**Uwe Reinhardt** of Princeton makes the case for containing health care spending by setting treatment priorities according to how much bang they deliver for a buck. “It’s not hard to understand why cost-effectiveness analysis is controversial,” Reinhardt says. But “to ignore the approach guarantees that tens of billions of dollars will be wasted on over-priced treatment and that very expensive life-

extending intervention will be rationed by personal income or by the often-arbitrary forces of the market for insurance.”

**Scott Nyquist** (McKinsey & Company) and **Jason Rosenfeld** (McKinsey Global Institute) predict that tight oil markets will soon return. “Unless there are significant changes in the way oil and natural gas are used, the expected growth of China, India and a handful of other economies means high and volatile energy prices ahead,” they say. The name of the game now is to figure out “what policymakers could and should do to balance the demand-supply equation.”

**Claudia Goldin** and **Lawrence Katz** of Harvard explain that the culprit behind rising income inequality isn’t globalization, or the collapse of the union movement, or even the relentless march of technology. It’s education. “Labor-market-based efforts to reduce inequality depend on increasing the supply of educated workers,” they conclude. “The big

## EDITOR'S NOTE



questions, then, are why the rise in educational attainment has slowed and what policies could reverse the trend.”

Dennis Aigner, an emeritus professor at UC Irvine’s Paul Merage School of Business, examines the long-contested issue of whether corporations do well by doing good. “Fortunately, at least among the largest nonfinancial firms, there seems to be considerable mo-

mentum behind the notion that improved social performance is good for business,” he writes. “What’s more, there’s significant evidence showing that going beyond government mandates in the areas of environment, worker health and safety, and community investment is, indeed, in the interest of stockholders.”

Ross DeVol, director of the Milken Institute’s Regional Economics Group, reports on the Institute’s latest rankings of cities’ performance in attracting high-tech employers. “This time around, we have extended the study to include Canada and Mexico,” he writes. “By including all of North America, we can now answer questions such as, ‘Does Ottawa rank ahead of San Jose in communications equipment?’ (Yes! Although Canada’s capital ranks only 37th in North America overall), and ‘Does Baja California lead all North American metros in semiconductor and other electronic components manufacturing?’ (Close, but not quite.)”

And that’s not all. Nobel Prize winners Gary Becker (Chicago), Myron Scholes (Stanford) and Roger Myerson (Chicago) join Institute Chair Michael Milken in a discussion of topics ranging from the case for charter schools to the reasons 2008 was not a replay of 1929. Bill Frey of Brookings and the Milken Institute delivers demographic insights in a charticle. And don’t miss the two excerpts from books hot off the presses. In *A Failure of Capitalism*, Richard Posner, a federal judge and arguably America’s most distinguished conservative intellectual, concludes that more regulation will be needed to fix the weaknesses exposed by the financial crisis. In *The Invisible Hook*, Peter Leeson of George Mason University explains that 18th-century pirates – Blackbeard and company – were more driven by economic incentives than by psychopathology. Read on. — Peter Passell