

**Most research** in economics shows up first in the form of “working papers,” typically downloadable from the Web at no cost. The sheer volume makes it a trial to separate the wheat from the chaff. But, happily, my mom taught me to share. Here are a handful of new working papers, all related to public policy, that intrigued me.

— Peter Passell

### NIXING THE NEEDLE

**E**conomists (including me) have long messed around with the numbers on capital punishment to see if it was, indeed, a deterrent to murder. Crime, we offspring of Adam Smith are inclined to believe, is an activity that (like saving or investing or editing economic policy journals) ought to respond to incentives. But does this rational-man framework really apply to the ultimate penalty?

The first flurry of statistical analysis of capital punishment in the 1970s – a reaction to a single paper by an assistant professor at the University of Chicago purporting to find evidence of a strong deterrent effect – largely debunked the claim of deterrence. But the two-handed profession (on the one hand...) reverted to form shortly thereafter.

An honest reading of the bulk of recent efforts would suggest that we just don't have enough evidence to answer the question. But that was before a young economist from the state that leads the country in executions weighed in. Jongmook Choe of the University of Texas' Johnson School of Public Affairs used a neat technical twist to milk more ro-

bust results from state data spanning 1995-2006. His conclusion: no deterrence to be found. [*Another Look at the Deterrent Effect of Death Penalty*] (March 2009). Download free from [papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1353165](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1353165).]

### THE BLAME GAME, CONT'D

**B**asel II, you may not recall, was a much-heralded framework agreement among bank regulators from around the globe. The goal of the 2004 accord was to modernize the way minimum bank reserves would be calculated. All bank assets, the thinking went, are not equal; the risk of a bank becoming insolvent depends critically on the risk the bank assumes in making loans, buying securities, etc. So minimum reserve requirements should vary according to the risk profile of the bank's portfolio.

In theory, Basel II should have inclined banks to take fewer risks – after all, they hate to hold reserves, which pay little or no interest. In practice, though, it seems to have done no good in the current crisis. When the housing bubble burst, banks everywhere were

caught holding vast amounts of high-risk mortgage-backed securities.

So what went wrong? Here, Francesco Cannata and Mario Quagliariello of the Bank of Italy offer an interesting assessment from a European perspective. [*“The Role of Basel II in the Subprime Financial Crisis: Guilty or Not Guilty?”* (January 2009). Download free at [papers.ssrn.com/abstract=1330417](http://papers.ssrn.com/abstract=1330417).]

## TECHNOLOGY TO THE RESCUE?

Now that the Obama administration has ended 16 years of American foot-dragging on climate change policy, it's not a bad time to ask what rich countries as a group can do to stabilize greenhouse gas emissions. And the answer is not as clear as one might have hoped. Even a crash effort to reduce the carbon footprints of Europe, Japan and North America wouldn't be enough to do the job. China and India (and preferably, Brazil and Indonesia) need to be brought on board.

So the big question, concludes Paul Klemperer of Oxford, is how to beg, bully or otherwise persuade poor but rapidly growing economies to do the right thing. And Klemperer is surprisingly pessimistic, arguing that the West's arsenal of incentives is not up to the task. The first priority, he suggests, should be R&D aimed at changing the economics of energy, making it cheaper to use renewable fuels than fossil fuels. And ironically, he notes, such R&D has been treated as an afterthought in the debate about what to do now. [*“What is the Top Priority on Climate Change?”* (January 2009). Download free at [papers.ssrn.com/abstract=1328802](http://papers.ssrn.com/abstract=1328802).]

## DEADBEATS WELCOME

Lenient personal bankruptcy laws can be defended on a variety of grounds. For one

thing, a high percentage of debtors get in trouble through no fault of their own, by losing their jobs or suffering a major illness. For another, the clean-slate approach to coping with hopeless levels of debt reduces incentives to work less or to hide assets.

Interestingly, the credit industry seems willing to forgive and forget, too. According to Ethan Cohen-Cole, Burcu Duygan-Bump and Judit Montoriol-Garriga of the Federal Reserve Bank of Boston, 90 percent of individuals declaring bankruptcy regained some access to credit within 18 months. And, a remarkable two-thirds managed to get unsecured credit. More surprising yet, the individuals who made the least effort to avoid bankruptcy have an easier time getting back into the game than more dutiful types.

There's a plausible explanation for this last fact. Lenders, it seems, seek out high-risk borrowers because the extra fees and interest they can collect more than offset the greater likelihood of bad debts. Of course, the data here predated both the financial crisis and the new law limiting “gotcha” late fees and sky-high penalty rates on credit card debts. Maybe lenders will now think twice. [*“Access to Credit After Bankruptcy: Does It Pay To Be a Deadbeat?”* (March 2009). Download free from [papers.ssrn.com/abstract=1364350](http://papers.ssrn.com/abstract=1364350).]



## **REJECTING THE THUNDERING HERD**

**E**conomists are killjoys: If there's a cheap lunch to be had, it's their self-appointed mission to explain why the bargain is fleeting or simply didn't exist in the first place. And nowhere is this tradition more entrenched than in modern finance.

Ordinary mortals know somebody has the key to making big money in investments. Why else would they pay all those smart guys on Wall Street to manage their mutual funds? By contrast, economists (most of them, anyway) are pretty sure that securities markets are "efficient" in the sense that the opportunities for using publicly available information to earn a higher-than-competitive return are hardly ever available.

Eugene Fama of Chicago is the greatest killjoy of them all. Over the decades he has produced paper after paper showing that exceptional performance in the securities markets is a matter of luck. And his latest (written with Kenneth French of Dartmouth) only confirms his view that the "search for alpha" is a fool's errand. Using data from a huge pool

of equity mutual funds for the years 1984-2006, Fama and French show that the average fund underperforms the market by almost exactly the fund's fees.

That's the average: could some funds outperform the market at the expense of funds that underperform it? Sure, but there is no (nada, zip) evidence that the differences are a matter of skill. Read it, weep – and then move your money to index funds. [*"Luck Versus Skill in the Cross Section of Mutual Fund Alpha Estimates"* (March 2009). Download free from [papers.ssrn.com/abstract=1356021](http://papers.ssrn.com/abstract=1356021).]

## **ONE'S BORN EVERY MINUTE**

**H**ow did Bernie Madoff get away with it for so long? The question has spawned a cottage industry in the media, and will doubtless continue to make headlines as creditors fight over the scraps remaining from the Madoff pyramid scheme. Few analysts have done a better job, though, at explaining what he did in jargon-free terms than Greg Gregoriou (SUNY Plattsburgh) and Francois-Serge Lhabitant (HEC University of Lausanne and the EDHEC Business School). Hint: seems the folks who advise rich investors are just as sloppy and compromised by conflicts of interest as the ones who advise the rest of us. [*"Madoff: A Riot of Red Flags"* (March 2009). Download free from [papers.ssrn.com/abstract=1335639](http://papers.ssrn.com/abstract=1335639).]

## **COMING HOME TO ROOST**

**T**here are a dozen reasons GM and Chrysler collapsed – everything from inflexible labor to volatile oil markets. But the most important reason, the one that encompasses many of the others, was the failure of these iconic corporations to learn rapidly from the way cars were designed, manufactured and marketed in other countries. And this failure was





## DEATH TAX

Should businesses be allowed to pollute? As long as they are willing to “internalize” the costs, say economists, that would otherwise be borne by society. And the least obtrusive way to manage that is to levy a tax equal to the damage done by the pollutant.

Should consumers be allowed to eat foods likely to make them sick, and then expect the taxpayers or buyers of health care insurance to foot the bill? Economists are inclined to say yes, provided they pay to clean up the mess left for others. Hence the logic of taxes on heavily sweetened drinks that are increasingly implicated in the explosive growth in obesity.

Ryan Vinelli of Yeshiva University’s Cardozo School of Law is skeptical for a variety of reasons – among them the reality that the poor would bear a disproportionate share of the burden. You may not be persuaded. (I wasn’t.) But with states and localities in desperate need of revenue, these sorts of taxes are high on the agenda. And the arguments (pro and con) are worth the trouble to understand. [*“Sugar Taxes Aren’t Sweet: The Case Against Pigouvian Taxes on Sugar-Based Drinks”* (June 2009). Download free from [papers.ssrn.com/abstract=1410068](http://papers.ssrn.com/abstract=1410068).]

in large part due to the companies’ insulation from the full brunt of foreign competition until the 1980s.

When economists talk about the gains from free trade, they are generally referring to the gains from allowing production to move to where it is cheapest. However, the biggest gains almost certainly come from exposing producers to competition that forces them to adapt or die. And here – as in the case of GM and Chrysler in the consequences of protectionism are often revealed in the quality of products rather than the cost of production.

Oddly, though, there is little evidence be-

yond anecdotes to support this view. That’s where the latest research from World Bank economists Ana M. Fernandes and Caroline Paunov fits in. They examined the impact of rapidly growing foreign competition on the quality of goods manufactured for domestic consumption in Chile. And the results are striking: Chilean manufactures got better only when they were forced to get better by the availability of alternatives from Asia. [*“Does Tougher Import Competition Foster Product Quality Upgrading?”* (May 2009). Download free from [papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1410479](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1410479).] **M**