

D the Digest

Summaries of important new research from the nation's universities, think tanks, and investigative publications



ECONOMICS AND BUSINESS

Not Stocks Alone

John Makin, "After Irrational Exuberance," in *Economic Outlook*, American Enterprise Institute, September 2002 (aei.org)

During the go-go stock market of the 1990s, financial advisors, media figures, and academics urged Americans to put more money into stocks. Since the stock market began a precipitous decline in early 2000, however, some have questioned the wisdom of investing an increasingly large percentage of the national wealth in equities. AEI resident scholar John Makin argues that investors have become too caught up in buying stocks and ought to purchase more bonds instead.

"The problem with the incessant push for the public to buy equities," he writes, "is that it ultimately leads to lower returns"—because bonds will outperform stocks in specific circumstances. Yet most brokerage firms have a vested financial interest in pushing stocks over other types of assets, Makin points out.

While Makin doesn't dispute the notion that stocks have typically outperformed bonds in the long run, he points out that bonds can offer higher returns in many specific cases. Since 2000, for example, the S&P 500 index has declined 32 percent, while long-term U.S. government bonds have risen 29 percent. He

observes that bonds rarely have the brokerage or management fees associated with stocks and equity-heavy mutual funds.

In addition, Makin points out, "stock prices may fall at inconvenient times—such as the years close to or in one's retirement, or just before college tuition bills come due." Makin urges investors to protect themselves from market downturns by also holding asset classes other than stock. "Markets tend to go down faster than they go up," he warns, "and there is no reason to suppose that investing most of one's funds in the stock market will speed up the process of recouping losses suffered over the past few years."

Make Money With the Poor

C. K. Prahalad and Allan Hammond, "Serving the World's Poor, Profitably," in *Harvard Business Review*, September 2002 (hbr.com)

Shantytowns and ghettos across our planet house nearly 4 billion people subsisting on less than \$2,000 per year. Despite their lack of income, however, the world's poor represent a vast untapped market for profit-making business. C. K. Prahalad, a University of Michigan business professor, and Allan Hammond, who works for the World Resources Institute, argue that companies could realize significant profits by working harder to serve people with very low incomes.

Barriers to sales to the poor are not insurmountable, Prahalad and Hammond claim. Among their points:

The poor have untapped purchasing power: Although family incomes are low, poor people must still buy everything from food to transport services. High population densities produce lots of spending money even in shantytowns.

Prices are too high in poor areas: The authors compare one area of India with a Miami suburb and find that loans are 53 times more expensive in India, and water 37 times more costly. Even rice costs a few pennies more per pound. Competition from efficient multinational corporations could drive down prices while still providing handsome profits.

Costs can be lower in poor regions: Though building supply networks can be quite costly in the developing world, labor costs much less.

Opportunities for innovation abound: Low household incomes force companies to introduce ever-cheaper products. Unusual languages, geographies, and cultures can lead to innovations that can later be sold to wealthy customers as well.

Prahalad and Hammond emphasize that doing business in the developing world does not require a desire to help the disadvantaged; only the will to make money. "It is simply good business strategy," the authors write, "to be involved in large, untapped markets that offer new consumers, cost-saving opportunities, and access to radical innovation."

SOCIETY

Costly Medicine

Joseph Antos and Grace-Marie Turner, "What Congress Should do About Prescription Drugs for Seniors," *AEI on the Issues*, September 2002 (aei.org)

The U.S. Senate and House are struggling to agree on a workable proposal for helping senior citizens pay for medications through Medicare—the national health insurance program for the elderly. Joseph Antos, an AEI fellow, and Grace-Marie Turner, who heads the Galen Institute, put forward their own proposal—Prescription Drug Security (PDS)—as an alternative to the wide range of bills circulating on the House and Senate floors.

Under PDS, low-income beneficiaries would receive a debit card—in effect a voucher—allowing them to purchase up to \$600 worth of prescription drugs per year. Wealthier Medicare beneficiaries would buy their own debit cards, an expense they could deduct from their taxes. Catastrophic insurance would cover individuals with high drug costs above the uniform annual level, and private companies would compete to manage the benefit. The system would supplement policies that some individuals already purchase piecemeal.

The overwhelming majority of low- and middle-income individuals would save money with this plan. Wealthy beneficiaries would pay more, but regulatory reforms might be used to expand their choices.

At a cost of \$302 billion over ten years, PDS would not be cheap. But it would cost less than many other prescription drug plans currently floating around Congress. The plan would also lay the groundwork for future market-based reforms of Medicare, argue Antos and Turner, while providing immediate "meaningful help for low-income seniors who do not have access to drug coverage."

Baby-Step Toward School Choice?

Lowell Weicker et al., *Divided We Fail: Coming Together Through Public School Choice*, The Century Foundation, September 2002 (tcf.org)

A report from a task force assembled by a liberal think tank suggests that letting students choose among public schools represents the best path to improved education, economic integration, and academic achievement among low-income children.

The task force, led by former Connecticut governor Lowell Weicker, places most of its emphasis on what its members term "controlled choice." Under their proposal, every school in a defined geographic area—usually about a third or a half of a big-city school district—would have to compete for students. To provide socio-economic balance, the composition of each school is required to reflect the demographics of the area it draws from. Siblings of students already enrolled in a school and people who live within walking distance would receive preference to attend that institution.

In areas where limited choice of this sort has been introduced—like Cambridge, Massachusetts and Wake County, North Carolina—test scores and parent satisfaction have improved.

The task force identifies several benefits to this approach:

Schools become more accountable: Forced to compete for students, public school principals and teachers will have to innovate and impose high standards.

Parents have more options: Nobody would be compelled to attend a given school, yet families who want to send their children to a neighborhood institution would usually still be able to.

Achievement improves for low-income students: Low-income students do better when they attend schools where middle-class students make up a majority. That would be more common under wider public school choice.

SCIENCE AND ENVIRONMENT

Progress Against Drugs

Center on Addiction and Substance Abuse (CASA), *National Survey of American Attitudes on Substance Abuse VII: Teens, Parents, and Siblings*, Columbia University, August 2002 (www.casacolumbia.org)

A Columbia University research center has found that drug use is declining in schools, and that parents and siblings can make a big difference when it comes to keeping kids away from controlled substances. The research center, CASA, surveyed 1,000 teens and 541 parents about their attitudes and experience relating to substance abuse.

Much of the news is good. Indeed, 62 percent of students surveyed said that drugs were not present in their schools. That is double the percentage saying so just four years ago. Drinking is also down: 57 percent of the teenagers surveyed said they never drink, while only 7 percent get drunk twice a month or more often. A few gloomy statistics do surface: CASA found that teens find marijuana easier to obtain than alcohol.

The survey found that siblings play an important role in drug use patterns. Teens who say their older brothers or sisters would be "very angry" to discover they were using marijuana were substantially less likely to abuse the drug than teens whose elder siblings took a more relaxed view of the issue. Twelve percent of teens with an older brother or sister report that the sibling encouraged them to use drugs. Someone who lives with such a person is almost twice as likely to smoke, drink, or use drugs as the average teen.

Parents, CASA finds, view the drug problem more pessimistically than they should. More than a third of parents think they have no power over their children when it comes to substance abuse. Fully 43 percent of parents predict their teen is likely to use drugs in the future, even though only 16 percent of teens said so.

And it turns out that teens whose parents think future drug use is “very likely” are three times likelier to smoke, drink, or use illegal drugs than those whose parents say future drug use is “not likely at all.”

The survey points to a brightening climate for teens when it comes to substance abuse, but one that their parents often do not know about. —Iain Murray

OTHER COUNTRIES

Ready for War

Dany Shoham, “Poisoned Missiles: Syria’s Doomsday Deterrent,” in the *Middle East Quarterly*, Fall 2002 (meforum.org/meq/)

Syria has gathered a large arsenal of chemical weapons and is preparing to use them, and has also made some progress on developing biological weapons. Writing in the *Middle East Quarterly*, Israeli academic Dany Shoham finds that Syria has, among other things:

Purchased ballistic missiles: Syria owns a sizeable arsenal of Scud missiles and has constructed an underground network of tunnels in which to store its weapons.

Acquired VX nerve gas: Syria has learned to produce VX nerve gas, a lethal poison. President Bashar Assad’s government is experimenting with mass dispersion mechanisms.

Performed threatening tests: In July of 2001, Syria drove a Scud-B missile to Israel’s border in order to show that it could strike Jerusalem, Tel Aviv, and other Israeli population centers.

Made progress on developing biological weapons: Syria still couldn’t launch a biological attack, but it has many of the tools needed to begin development.

Shoham concludes that Syria is a major threat to Israel. The sole feasible target of its large-scale testing of weapons of mass destruction is the Jewish state.

—Kristen Dennis

BOOKTALK continued from page 54

Fradkin also tells how *New York Tribune* editor Horace Greeley rode the stage west in 1859, enduring the dust, lack of sleep, bone-aching jolts, and bad food at way stations. Writing with his typically jaundiced eye, Greeley commented on one landscape that “if Uncle Sam should ever sell that tract for one cent per acre, he will swindle the purchaser outrageously.” The man who famously editorialized “Go west, young man” detested the “desolation” of what he saw from his stage window, and made his return trip from San Francisco via steamship.

By the 1860s, Wells Fargo was the main carrier of bullion mined in the West. One record-breaking day in 1864 saw the company haul three tons of silver bullion from the mines of Virginia City, Nevada alone. As stage robbery became popular Wells Fargo devoted considerable resources to security precautions. But even armed guards didn’t stop desperadoes from hitting remote coaches. From 1870 to 1884 Wells Fargo suffered 378 robberies and burglaries, resulting in 33 deaths, 240 court convictions, and losses of \$928,000—\$16 million in current value.

The company’s dogged security policy was that “Wells Fargo never forgets” offenses against its prosperity. James Hume, for 30 years the company’s tough and efficient chief of security, relentlessly tracked down Wells Fargo robbers. His wildest fugitive, “Black Bart,” an intelligent elderly gentleman, robbed 28 stages in eight years, disguising himself and always escaping afoot, making it difficult to track him. Hume finally nabbed him living a genteel life in San Francisco, and sent him to prison. At a time when there was no FBI, Wells Fargo provided the best crime statistics on the American West.

Wells Fargo is lucky to have its story told by Philip Fradkin in great form.

Bill Croke is a writer in Cody, Wyoming.

IN REAL LIFE continued from page 50

and life moved at a slower speed. We’ll take care of the house, grow gardens that are the envy of the neighbors, and finally have a place to entertain our rapidly growing extended family.

I once helped my grandfather remove a fence made of wire so old and rusty that it broke at the touch. Guess what: Grandpa set out to reuse that wire. When I asked him how old the wire was, he didn’t know, because it was already used when he’d first strung it up in 1931.

We’ll work hard to rid ourselves of debt, of course. In the meantime, I’m banking on the hope that Grandpa would be somewhat mollified by the fact that we’re spending all this money to preserve a house that was built a hundred years ago. In the family tradition, that’s got to count for something.

TAE contributing writer Blake Hurst hunted for lots of furniture in antique shops this fall.



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Think Tank's series of cultural programs have included profiles of George Gershwin, John Philip Sousa, Duke Ellington, Norman Rockwell, and Frederick Hart. Our latest, a 2-part show on The Ragtime King, Irving Berlin, was warmly received by our viewers:



"Once again you have scored a mighty success with your programs about Irving Berlin. His body of work is a national treasure and a monument to his life. His music has brought me and millions (maybe billions) like me immeasurable pleasure."

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insecurities about his work, his admiration for his contemporaries, and his enjoyment of Elvis Presley and the Beatles. Irving Berlin is to American Music as Abraham Lincoln is to the American Presidency!"

"Your two shows on Irving Berlin were indeed among the very best."

"I was disappointed that Think Tank was not longer. You could do a ten-part series on Mr. Berlin and still not do him justice."

"Your program of today about Irving Berlin's music was delightful. Thank you for your varied and always interesting topics and interviewees."

"Irving Berlin was, and will always be, a special hero of mine. So many memories you have touched. Thank you for reliving some emotional moments."



THINK TANK: THE PBS PROGRAM ON IDEAS



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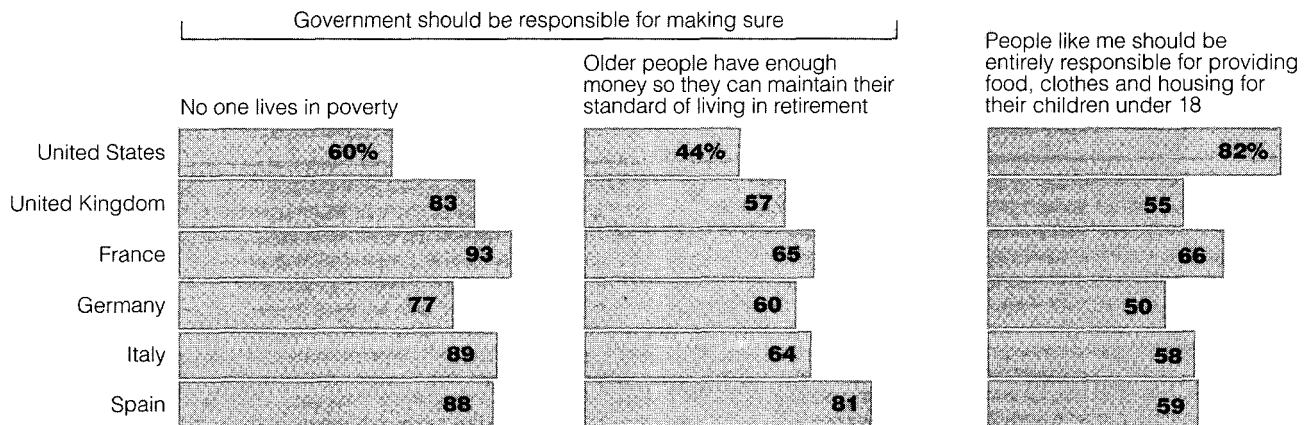
Opinion Pulse

Edited by Karlyn Bowman

European Views

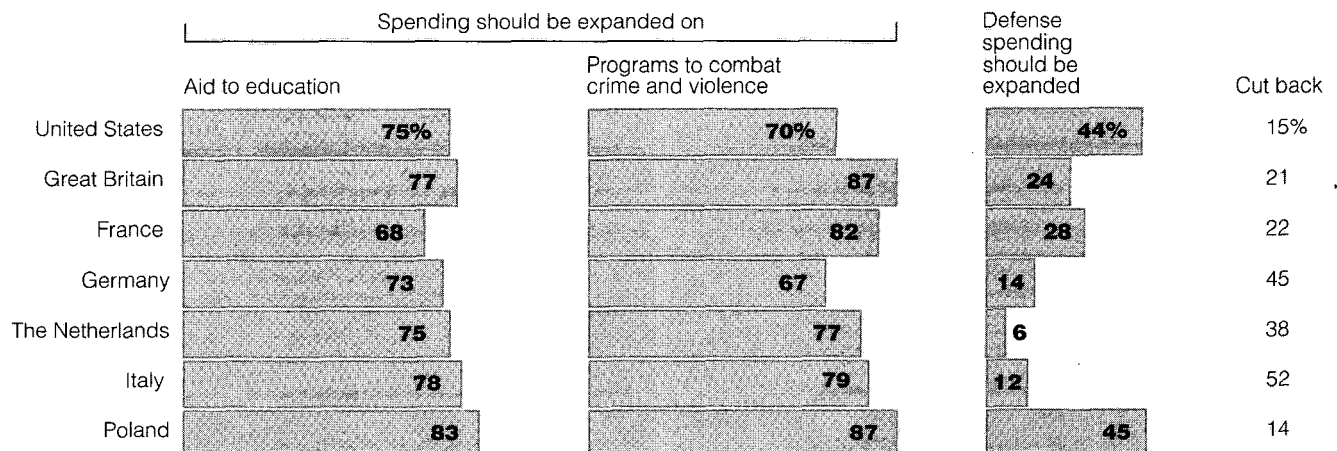
Europeans favor a stronger role for government on social welfare issues than do Americans. In some areas such as education and crime, both populations want an active government. Questions about the proper level of defense spending produce stark differences between the continents.

Question: Now I'll read a list of things that have been mentioned as things the government has responsibility to do for citizens. For each, please tell me whether you think...? Please tell me if...



Source: Princeton Survey Research Associates (U.S.), Market & Opinion Research International (U.K.), IFOP (France), EMNID (Germany), Pragma (Italy), Demoscopia (Spain) for Americans Discuss Social Security, 1997.

Question: Now I am going to read a list of government programs. For each, I'd like you to tell me whether you feel it should be...



Source: Market & Opinion Research International in Europe, Harris Interactive in the United States for the German Marshall Fund and the Chicago Council on Foreign Relations, summer 2002.