Returning by popular demand,* we once again offer capsule reviews of selected published articles and unpublished working papers relevant to economic policy. By the way, suggestions for research to include in future columns are always welcome.

CAR WARS

Back in 1973, General Motors was king and the occasional Honda subcompact seen puttering down the highway was driven by a hippie or a college professor. A quarter century later, Japanese cars have become the common-sense vehicles of choice, praised or damned as instruments of Detroit's fall from grace.

But what really explains the dramatic shift in market share? Conventional wisdom says the Japanese offered the right models at the right time – small, fuel-efficient vehicles for an oil-scarce world – and then won brand loyalty with exceptional reliability. Brad Barber and Masako Darrough of the University of California-Davis, along with Reid Click of George Washington University, offer a more textured analysis.

Oil price changes did make a difference, they confirm, but explain only 6 percent of the month-to-month changes in market share. Likewise, exchange rates and the business cycle mattered. But such macroeconomic effects explain less than 20 percent of variations in sales. It seems that the Japanese sold product the old-fashioned way, making the cars people wanted at prices they were willing to pay.

By the same token, Detroit's comeback can largely be explained by producing sport utility vehicles early and often. All told, this is a reassuring lesson in market economics. [*"The Impact of Shocks to Exchange Rates and Oil Prices on U.S. Sales of American and Japanese Automakers." Japan and the World Economy. Volume 11, 1999. For access, e-mail the authors: rclick@gwis2.circ.gwu. edu.*]

WHAT IS TO BE DONE?

Six times in the 1990's, reminds Martin Mayer of The Brookings Institution, crises have shaken the world's financial structure. And each time the response of policy makers has been to go looking for "a new financial architecture."

Mayer, an expert in banking who has always come at the issues from the perspective of a practical man, is deeply skeptical that the ritual is useful. "Our discussions of financial matters have moved too far from the realities of getting and spending in real economies," he writes in a working paper for the Jerome Levy Economics Institute. "Once perceived as parasitical but inescapable in a world where only partial information exists,

**Thank you, Rodney Popular of Managua, Nicaragua*

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trading in financial instruments has become the one and only yellow brick road to price discovery."

Big changes designed to buttress the weakened walls of global finance are not particularly likely to work, he suggests. And besides, they barely have a prayer of being implemented. Mayer points to the rise of financial derivatives as a prime source of the instability problem. But he's hardly optimistic that this genie can be put back in the bottle. The bottom line to this insightful, elegantly crafted essay: A variety of modest but practical measures could minimize the damage from crises. [*"Risk Reduction in the New Financial Architecture: Realities, Fallacies and Proposals," Jerome Levy Economics Institute Working Paper 268. Download free from www.levy.org.*]

MAKE MINE A DOUBLE

It is common knowledge that post-Soviet Russia has evolved into a hollowed-out Sparta, a warrior state with a great nuclear arsenal that is nonetheless unable to feed its pensioners. But there is still plenty of shock value in reports of how low the Evil Empire has fallen since Boris Yeltsin rallied democrats from the top of a tank.

Nicholas Eberstadt of the American Enterprise Institute offers the latest bad news on the state of Russians' health. In 1998, he reports, death rates were a whopping 30 percent higher than they were a decade earlier. Indeed, deaths in Russia are now exceeding births by an astounding 700,000 a year. And life expectancy is lower than in such earthly paradises as Mauritius, Ecuador and Azerbaijan.

But why? Eberstadt dismisses two fashionable explanations, ecological degradation and infectious disease. Both are serious problems, but neither can account for more than a tiny fraction of the rise in mortality. The big death categories for men are cardiovascular disease and accidental injury, which may be indirectly linked to Russia's astounding rate of alcohol abuse. Some 80 percent of Russian men drink, consuming an average of four bottles of vodka a week!

Eberstadt suggests that

Pssst.... Wanna Buy Stocks Cheap?

In recent years, market analysts have been scrambling to explain the run-up in stock prices in the 1990's. The result has been the very public abandonment of old-fashioned Fundamentalist principles of valuation, along with a lot of hand-waving – pompous pronouncements about the New Economy and self-congratulation about the virtues of American economic institutions.

Charles Lee (Cornell), James Myers (University of Washington) and Bhaskarian Swaminathian (Cornell) come at the question somewhat differently. They assume that intrinsic value is a predictor of stock prices, but operates in a "noisy" environment. The goal, then, is to create a better measure of intrinsic value that will tend to converge with market price. Cutting to the chase, their empirical measure of value depends more on short-term interest rates and less on other factors than has been traditionally assumed. [*"What is the Intrinsic Value of the Dow?" Journal of Finance, forthcoming October. 1999. Download from www.cob.ohio-state.edu/~fin/journal/abstract.htm.*]

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the health crisis has literally undermined the ability of Russia to play geopolitics on the old model. I'm not so sure. But convincing or not, this piece from the conservative Heritage Foundation's journal is provocative reading. [*"Russia: Too Sick to Matter?" Policy Review, June/July 1999. Download free from www.policyreview.com.*]

WITH A LITTLE HELP FROM THEIR FRIENDS

It's easier to play catch-up in the global economy than to be the leader. Growth rates in the early stages of modernization in Russia, China, Korea, Indonesia and other nations with similar economies have often exceeded 6 percent – probably twice the sustainable rate in mature industrial economies.

One reason for the difference is that followers can borrow the technology of the leaders. As America discovered in the early 19th century, it is far cheaper to buy (or steal) innovations than to develop them in the first place.

That said, it is still difficult to pin down the role of technology transfer on growth. Tamim Bayoumi and David Coe of the International Monetary Fund, along with Elhanan Helpman of Tel Aviv University, give it the old college try, using a simulation model built by the I.M.F. If, for example, the United States were to raise R&D expenditures by one half of 1 percent of GDP and maintain that higher level, they predict that output in the United States would be 9 percent greater after 80 years, while output in the rest of the world would be 3 percent greater. If all the developed countries increased research and development outlays by the same half of 1 percent, emerging-market economies would rise by 10 percent.

There are a couple of important caveats. First, a lot of the spillover effect from innovator to copier depends on higher levels of investment induced by new technology – investment that is only possible if savings rates are high in emerging economies. Second, international trade still greases the

Measuring the Intangible

Dogs love trucks and economists love markets. Well, most of the time. Environmental economists are perpetually plagued by the problem of valuing intangible goods that lack markets – really important stuff such as human health or the survival of animal species. In most cases, common sense seems to dictate all-or-nothing answers, as in "No amount of money can compensate for the death of a child," or "Who needs the snail darter, anyway?"

This working paper by Dallas Burtraw and Alan Krupnick of Resources for the Future is nominally a study of the benefits associated with cleaning up America's Great Lakes. But it will also interest those who aren't sure whether Cleveland is on Lake Erie or Lake Michigan. For it includes a terrific non-technical discussion of measuring environmental costs and benefits in the context of a very practical issue. And it offers hope that there really is a happy middle between breathless environmentalism and bloodless economics. [*"Measuring the Value of Health Improvements from Great Lakes Cleanup," Resources for the Future Discussion Paper 99-34. Download free from www.rff.org/air.htm.*]

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If China Makes It, Will They Buy It?

As the west tries to coax China into the club of civil societies, it has precious few carrots to offer. The vegetable du jour, of course, is membership in the World Trade Organization, which would give China automatic access to foreign markets.

But what, really, would be the economic impact of membership on China? Zhi Wang, an economist with the U.S. Department of Agriculture's Economic Research Services, simulates changes in China's trade patterns as well as those of its competitors and trade partners if it were a member of the W.T.O.

The monster in the box is textiles and apparel. China offers vast amounts of low-cost labor, as well as the organizational skills to transform that labor into exportable goods. If China joins the W.T.O., Zhi Wang estimates that it will benefit from the gradual elimination of quotas negotiated in the Uruguay Round trade deal, increasing its share of total world textile exports from 18 percent to about 25 percent. And this gain, he reckons, would largely be at the expense of other low-wage Asian countries.

This raises a couple of interesting issues. Will the fight for the global market for labor-intensive goods generate serious political conflict between China and rivals such as Pakistan, India and Mexico? And will the rich countries be willing to absorb the vast tide of labor-intensive exports needed for these populous nations to pull themselves up by their bootstraps? Stay tuned. [*"The Impact of China's W.T.O. Entry," The World Economy, May 1999.*]

wheels of progress; without trade, the spillover effects from technology are modest. [*"R&D Spillovers and Global Growth," Journal of International Economics, April 1999. For access, download from www.elsevier.com/locate/econbase or e-mail the authors: dcoe@imf.org.*]

TRADE TRIUMPHANT

In the wake of the collapse of planned economies and the triumph of American-style capitalism, the Left has been regrouping. And one of the more interesting propositions of western-educated economists of the Left – notably Dani Rodrik at Harvard – is that the celebrated relationship between trade and growth is a statistical misunderstanding. There's more at stake here than a few academic reputations. If open trade is not critical to growth, there is no compelling need to press developing countries to open their borders or to take their chances in an unstable global trading system.

Jeffrey Frankel at Harvard's Kennedy School, along with David Romer of the University of California (Berkeley), aren't buying this newest revisionism. They use a neat – and entirely valid – statistical trick to distinguish cause and effect in the trade-growth nexus. And happily for those of us who have never had much use for sunspots, the causal relationship works in the "right" direction: with other factors being equal, a 2 percent increase in the ratio of trade to GDP increases income per person by 1 percent. [*"Does Trade Cause Growth?" American Economic Review, June 1999.*]

— *Peter Passell*

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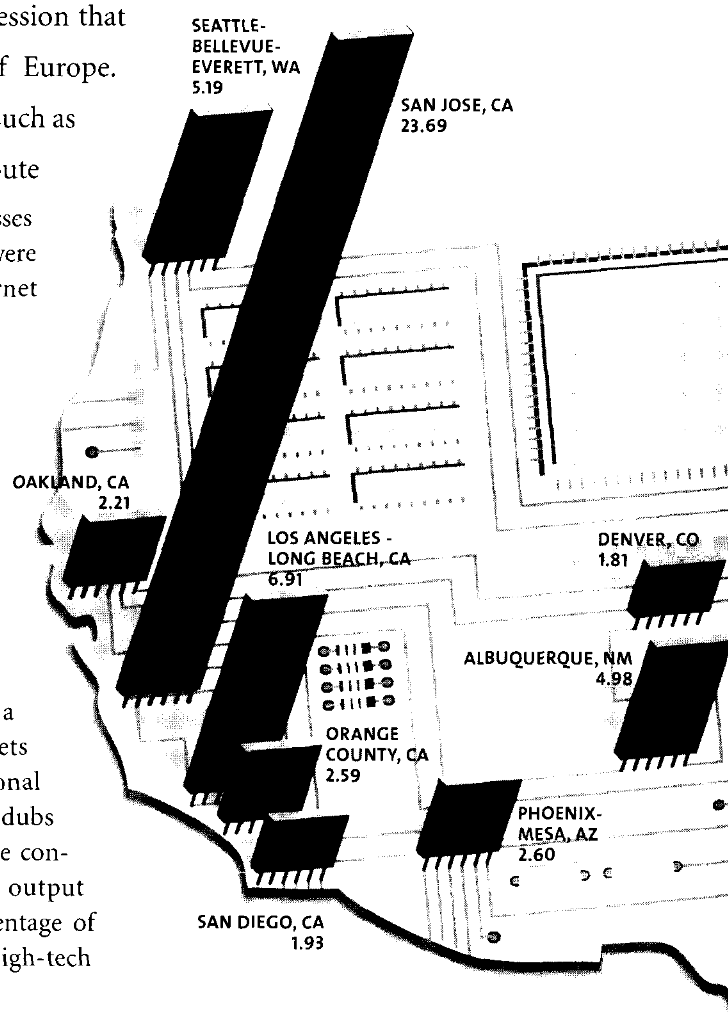
There's a good case to be made these days that high technology is bringing home America's bacon, powering the productivity boom and sparing the nation from the recession that has dogged Asia and much of Europe. This makes high-tech clusters – such as Silicon Valley and Boston's Route 128 – that attract high-tech businesses even more important than they were thought to be before the Internet became The Next Big Thing.

Which clusters really matter to the economy's future? The concentration of high-tech output in a metropolitan region (i.e., the percentage of a metro region's output that is attributed to high-tech goods and services) can be a misleading measure. America is full of towns in which half the population works for just one or two high-tech companies. To build a better index of high-tech magnets (Ross DeVol, director of Regional Studies at the Milken Institute, dubs them "tech poles"), we weighted the concentration of high-technology output figures by the metro region's percentage of the overall national output of high-tech goods and services.

Silicon Valley (San Jose, Calif.), no surprise, is the index leader with a whopping score of 23.7. Here, though, are a bunch of surprises: Dallas (7.1), Los Angeles (6.9), Washington, D.C. (5.1) and Chicago (3.8).



For more on the subject of high-tech clusters, check DeVol's article on page 90, or his Policy Brief, just published by The Milken Institute (www.milken-inst.org).

MAX HARLESS

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