Good research on economic policy doesn't grow on trees. (For that matter, rolling stones gather no moss, and stitches in time save nine.) Anyway, if you have a tip on where I can find good research to abstract here – from trees, moss… I don't care – let me know by e-mail (ppassell@milken-inst.org).

HUNGRY? SHUDDUP AND PLAY YOUR VIDEO GAMES.

Increases in an inflation index (like the Consumer Price Index) represent an upper bound on actual increases in the cost of living. That's because consumers adjust to changes in prices by purchasing more of the cheap stuff and less of the expensive stuff. Hence inflation-adjusted measures of income invariably underestimate increases in living standards. And over long periods, these errors mushroom from picayune to bizarre. So what's a body to do?

Dora Costa, an economic historian at MIT, offers a clever way of teasing out the real trend in living standards from conventional data. She assumes that the proportion of income spent on recreation rises along with living standards. This assumption allows her to look back as far as the late 19th century for relevant data. And the results are provocative.

Costa estimates that the share of national income going to having fun has gone up about 2 percent faster per year than per capita income. Indeed, she says that living standards actually rose during the Great Depression for those who managed to keep their jobs. And in the 1970's and 1980's – a period of stagnant wages and rapidly widening income inequality – "living standards were rising twice as fast as conventionally measured." Best yet, the primary beneficiaries were on the low end of the pecking order. [*"American Living Standards: Evidence from Recreational Expenditures," National Bureau of Economic Research Working Paper 7148. Download (free to educators) from www.nber.org/wwp.html.*]

TALK IS CHEAP

So, you're tooling down the Interstate, chewing on a veggie wrap and hoping the truck driver in the right lane knows you're in his blind spot – all while you're dialing the office. Is there something wrong with this picture? In Europe, the safety mavens frown on drinking coffee while driving, let alone calling a restaurant for reservations. And lots of Americans apparently agree: a number of localities are legislating against cell phone use in moving vehicles.

But Robert Hahn of The American Enterprise Institute and Robert Tetlock of Harvard would prefer you not jump on the legislative bandwagon. They compare the costs – the value of roughly 200 lives lost annually in accidents related to cell phone use – with the benefits of cell phones in cars. And they come to a startling conclusion: even with very conservative estimates about the value of car phones, cell phones win hands down.

You don't think a life, worth about $5 million according to the technical literature, should be weighed against the convenience of calling home from the road? Hahn and Tetlock are hardly the first to insist that people never put an infinite value on their own lives, because they make trade-offs between income and safety every day. See if they can convince you. [*"The Economics of Regulating Cellular Phones in Vehicles," AEI-Brookings Joint Center on Regulatory Policy, Working Paper 99-9, October 1999. Download free from www.aei.brookings.org.*]

Bootstraps Equality

Does education make people smart and successful? Or do smart, successful people choose to get more education? The answer matters a lot. For one thing, individuals and Government are investing huge amounts in human capital on the assumption that the payoff is high. Perhaps more important, the fairness of our national commitment to equality of opportunity turns on the idea that hard work and initiative are all that is really needed to succeed.

Well, according to Orley Ashenfelter and Cecilia Rouse of Princeton, the meritocrats can relax: the incredibly high return to education found in most studies is not a statistical mirage. Equally important, the payoff to education is just as high at the low end of the income distribution as at the high end. That is, the children of the poor benefit as much or more from schooling as their affluent classmates do.

How do the researchers know? Ashenfelter is an exceptionally clever empiricist whose methodology included gathering data from identical twins living apart – that is, people with identical natural endowments but different socioeconomic environments. Check out this definitive survey article. [*"Schooling, Intelligence and Income in America," Meritocracy and Economic Inequality (Harvard University Press, forthcoming February 2000), edited by Kenneth Arrow and others.*]

SO, IS POKÉMON WORTH THE CARDBOARD IT'S PRINTED ON?

You may be obsessed with IPOs or WEBs, or whatever is tickling the fancy of the rich and wannabe-rich these days. But for the vast majority of speculators – at least the ones who have tired of slot machines and roulette wheels – the games of choice are beer cans, baseball cards, tin toys, French wines, Beanie Babies, stamps from obscure African kleptocracies and the assorted flotsam and jetsam that shows up on eBay.

O.K., so maybe you knew that already. But do you know whether these collectors actually make money – and on what? Economists Benjamin Burton of Lehman Brothers and Joyce Jacobson of Wesleyan University offer some preliminary answers, including some insights on whether collectibles can serve as a hedge against ups and downs in the markets for more conventional (and liquid) investments.

Not to mention some investing arcana. Did you know, for example, that British Rail's big pension fund invested in antiques in the 1970's and 1980's –

First Sulfur Dioxide, Now Budget Deficits

A common currency makes the most disciplined economy in the European Monetary Union no stronger than the weakest link in the money chain. That's why there is a single central bank to call the shots on monetary policy, and why, under the grandly named "Pact for Stability and Growth," each member-nation must keep its budget deficit under 3 percent of GDP.

But, you say, the member-states differ in their ability – and need – to run deficits, and without independent fiscal policies, individual countries may have no way to fight recession. You're right. Indeed, this drawback explains why many economists were (and still are) skeptical about the practicality of tying, say, the Spanish economy to the fortunes of Germany and the Netherlands.

Alessandra Casella, an economist at Columbia University, offers a novel way around the problem: apply a microeconomic solution to a macroeconomic problem. Specifically, she would ration deficits with "tradable permits," much the way the emission of some air pollutants is now rationed in the United States. Today, individual electric utilities are free to trade the right to emit sulfur from their coal-fired power plants. This virtually guarantees that power plants located where cleaning sulfur from the stacks is cheapest will reduce their emissions the most. And the savings have been incredible.

By the same token, Casella suggests that each member country should be given permits to run up to a 3 percent deficit. If they wanted to run a higher deficit, they would have to buy the right from another member. This way, the aggregate target of a 3 percent deficit for the Monetary Union is sure to be met – and met in ways that do the least damage.

See any holes in the argument? Of course you do. But read Casella's proposal before you dismiss it out of hand. [*"Tradable Deficit Permits: Efficient Implementation of the Stability Pact in the European Monetary Union," Economic Policy, October 1999.*]

and ended up with an average annual return of 14 percent when the fund was liquidated in 1994? Or that long-term investments in Stradivarius violins have provided paltry rewards? Who ever said economics has to be dull? [*"Measuring Returns on Investments in Collectibles," Journal of Economic Perspectives, Fall 1999.*]

PENNY CAPITALISM

Do the development bureaucrats know best?

Even a decade ago, the World Bank never thought twice about investing a billion here, a billion there, without asking what their impoverished clients really wanted. Now the wheel of fashion has turned 180 degrees. "Microfinance" – small, grassroots loans to finance an irrigation pump here, a sewing machine there – is all the rage. The political left likes it for all the obvious reasons. And the right welcomes it as the saboteur of big government and central planning.

But does it work? Jonathan Murdoch of Princeton University is of two minds.

There are plenty of tantalizing success stories, but relatively little hard evidence, he writes. Murdoch worries that microfinance programs depend on strong local leadership, and are thus hard to scale up to the level that makes a major difference. [*"The Microfinance Promise," Journal of Economic Literature, December 1999.*]

WITH A LITTLE HELP FROM THEIR FRIENDS

Ready to think big? Jakob Svennson of the World Bank takes a fresh look at a grand, if hoary, question: does foreign aid stimulate economic growth? Back in the 1960's, the skeptics were branded as unfeeling reactionaries ready to let the wretched of the earth starve. By the early 1980's, though, the worm had turned full circle. It had become conventional wisdom that aid worked like welfare checks, undermining initiative and trapping societies in a culture of poverty.

Svennson finds a middle ground. He hypothesizes that aid works only when governments can't steal it outright or slurp up the surplus in patronage jobs – that is, when there are significant institutional checks on government power. And in his statistical test, using aid data from some 100 recipient countries, the results are quite robust.

There's an irony here, though. Donors, almost all of which are democracies with strong restrictions on government power, show no particular inclination to channel their cash to like-minded countries, because the goals of aid are typically geopolitical rather than humanitarian. After all, America doesn't pay the bills in Egypt and Pakistan because those countries are so well equipped to spend the aid wisely. [*"Aid, Growth and Democracy," Economics and Politics, November 1999.*]

— Peter Passell

Europe, the Agricultural Museum

Economists have been railing against Europe's common agricultural policy for as long as there's been a common agricultural policy. No wonder. It costs European consumers a bundle in subsidies and artificially high prices, and it depresses the prices that more efficient farmers from other continents get in world export markets. Oh yes: did we mention that it immensely complicates the problem of integrating big food producers like Poland and Hungary into the European Union? And that it reduces Europe's bargaining power in fighting for open markets in Asia and North America?

The policy, backed by furious French farmers and nostalgic European urbanites, isn't going to disappear soon. Indeed, European intransigence on the issue, added to America's intransigence on other issues, virtually guaranteed that the Seattle meetings of the World Trade Organization would crash and burn even if the demonstrators stayed home. But Stefan Tangermann of the Institute of Agricultural Economics at the University of Gottingen offers modest hope that reforms are still possible in our lifetime. Read his piece for the latest on both how the policy works in practice and how Europe may yet beat its way out of this wretched dead end. [*"Europe's Agricultural Policies and the Millennium Round," The World Economy, December 1999.*]