This edition of the *Milken Institute Review,* you may notice, is being delivered a few weeks early – just in time for the 5th annual Milken Institute Global Conference in Los Angeles, held in conjunction with *Forbes Magazine* this year. If you aren't there now, you've missed the boat. But coverage of conference events can be found on the Institute's Web site (www.milkeninstitute.org). And watch for news of next year's boffo shindig on the same site.

Meanwhile, in spite of the accelerated production cycle, we've got a honey of an issue for you.

Tom Willett of the Claremont Institute of Economic Policy Studies puts the spotlight on the collapse of Argentina's decade-long experiment with set-in-stone currency exchange rates – what economist's call a currency board. "Liberal economic policies spread with little resistance throughout much of Latin America during the 1990s," he notes. "But few of the political leaders and parties who initiated this change in direction are still in power. Thus, the thinking goes, a reversion to statism could occur just as rapidly."

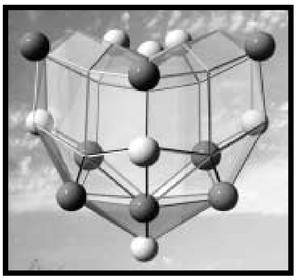
Willett finds plenty of blame to go around. But he singles out one group, whom he calls the Fixed Rate Fundamentalists. "Argentina's problems may not be evidence that the free market model is bankrupt, as leftist intellectuals would have us believe," he says. "But there is a certain degree of truth to their condemnations. Argentina's tragedy does suggest the bankruptcy of a particular type of economic ideology that has been promulgated by a small group of economists."

Syl Schieber, vice president of Watson Wyatt Worldwide, the pension consultants, takes a close look at the formula for compensating victims of Sept. 11. "While the distribution formula is full of major and minor inequities, the special master has limited ability to cope with them because he doesn't have sufficient funds to give more money to those with justifiable complaints," Schieber writes. "Indeed, one has to wonder if we will not soon regret the haste in setting up the September 11 Victim Compensation Fund. A program meant to take people out of the tort system, but attempting to do so on the cheap, may push people to turn to the courts instead."

Paul Joskow, the director of MIT's Center for Energy and Environmental Policy Research, points a few fingers at the California electricity crisis that subjected residents to rolling blackouts and left the Golden State with a legacy in the form of a 40 percent increase in power rates. "Even if California's wholesale market had been perfectly competitive, wholesale spot prices would have risen considerably in the spring and summer of

2000," he acknowledges. "But there is abundant evidence that during high demand periods, California's spot electricity markets were far from perfectly competitive. Several studies have demonstrated that what economists euphemistically call 'strategic behavior' by suppliers led to significant additional increases in wholesale prices."

Doug Kalish and Geoffrey Thompson of the University of California's Haas School of Business prognosticate the likely impact of biotechnology on America's health care system. "Rapid advances in science and technology promise spectacular changes in medicine – not to mention spectacular fortunes for investors," they write. "At the end of the bull market in 2000, 377 publicly held biotechnology companies reported $32 billion in revenue and had a stock market capitalization of $441 billion."



But their crystal ball is not all rosy. "The coming of age of biotechnology – notably, gene-based diagnostics and therapies – will raise new and difficult payment and privacy issues," they predict, "undermining the viability of existing business models, as well as creating opportunities for flexible enterprises."

Marsha Vande Berg, the editor of *The World Report* newsletter, explains how one of the giant German multinationals is coping with the challenges of globalism. "In Germany," she writes, "Siemens views itself as a relatively conservative blue chip; in America, as an aggressive alternative to General Electric; in China, as part of the national economic miracle."

Larry White of New York University's Stern School of Business re-examines the hoary issue of corporate concentration in America using a fresh set of data. "The numbers show clearly that, despite the recent wave of mergers, aggregate concentration actually declined during the 1980s and early 1990s," he writes. "It did rise during the mid-1990s," he adds, "but has only recently approached the levels of the late 1980s."

Some of White's new data, incidentally, comes from *Forbes*' annual listing of the 500 largest corporations. Readers should note that the Milken Institute produces other intriguing rankings for the magazine, including the regional studies group's "best places" index and the capital studies group's global capital access index. Check the Milken Institute Web site for more info.

Speaking of the Institute's cap studies group: just what do they do? So glad you asked. In this issue, Institute researchers **Jim Barth**, **Susanne Trimbath** and **Glenn Yago** summarize their ongoing work. "As of 2001," they write, "the United States recognized 191 independent states, and their political and economic diversity are mirrored by their diversity in means of channeling savings to investment. A main focus of our research in the capital studies group at the Milken Institute is measuring that diversity and assessing its impact – especially for emerging market economies trying to structure their financial systems in ways that promote economic growth and stability."

While you've got the magazine in hand, don't forget to read this month's book excerpt from **Doug Irwin**, who explains everything Ralph Nader doesn't want you to know about the World Trade Organization. And be sure to check out Milken Institute demographer **Bill Frey**'s charticle on the growing contrast between cities with and without child-centered families. — *Peter Passell*

JEAN-FRANÇOIS PODEVIN