THE WALL STREET JOURNAL.
WSJ.com

MARCH 24, 2010, 11:59 AM ET

Secondary Sources: Paid to Fail, Libertarians, Inflation Targeting

A roundup of economic news from around the Web.

Paid to Fail: Writing for Project Syndicate **Lucian Bebchuk**, **Alma Cohen** and **Holger Spamann** say that Bear Stearns and Lehman executives made out pretty well. "After Bear Stearns and Lehman Brothers melted down, ushering in a worldwide crisis, media reports largely assumed that the wealth of these firms' executives was wiped out, together with that of the firms they navigated into disaster. This "standard narrative" led commentators to downplay the role of flawed compensation arrangements and the importance of reforming the structures of executive pay. In our study, "The Wages of Failure: Executive Compensation at Bear Stearns and Lehman Brothers 2000-2008," we examine this standard narrative and find it to be incorrect. We piece together the cash flows derived by the firms' top five executives using data from Securities and Exchange Commission filings. We find that, notwithstanding the 2008 collapse of the firms, the bottom lines of those executives for the period 2000-2008 were positive and substantial.

Libertarians: **Bryan Caplan** wonders why libertarians who disagree on fundamental issues are still lumped together. "1. People generally misperceive their political opponents as more homogeneous than they really are. On this theory, most libertarians would consider Krugman and Lenin's political beliefs to be similar. 2. People misperceive non-mainstream political opponents as more homogeneous than they really are. On this theory, the typical Democrat would also see Marx and Lenin's political beliefs as similar. 3. People mistakenly equate amicable disagreement with fundamental agreement. On this theory, non-libertarians would not lump Cato and Mises Institute people together. 4. There's no misperception; lumping your opponents together is just a rhetorical tactic to lower their status. On this theory, people wouldn't equate dissimilar dead belief systems. For example, since the Catholic-Protestant dispute is irrelevant to modern politics, we would readily acknowledge the differences between Luther and Loyola."

Inflation Targeting: **David Beckworth** writes about the effectiveness of inflation targeting. "First, inflation targeting is only effective when [aggregate demand] shocks are the main source of macroeconomic volatility. If [aggregate supply] shocks are also important,then inflation targeting can be destabilizing. Second, a far more effective approach to minimizing macroeconomic volatility is to stabilize [aggregate demand]. In the above scenarios, stabilizing [aggregate demand] growth around a 5% target was all that was needed."

Compiled by Phil Izzo