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*From the Editor*

As another season of apple-picking and pumpkin pie comes to a close, I am proud to present the arrival of the Fall 2003 Visible Hand. Serving our first semester as editorial board, we have had high standards to live up to in the footsteps of the great and knowledgeable Abishek Mistry, but I must say that the outcome of this issue has surpassed all of our expectations.

I cannot express enough gratitude for the enthusiasm and zeal with which CES members of both old and new tackled the quest of writing the perfect article. With solely the concept of The Global Village as their main focus, they have as a team researched the most significant economic and political developments in a diverse array of countries ranging from Sweden to Iraq to China to Russia while analyzing our global community's interdependence in a variety of political, demographic, social, judicial and economic sectors.

Fall 2003 CES members have also shown that they are not complacent about

the policies that we see the governments enact. They have questioned the validity of both foreign and domestic fiscal policies and urged us to re-examine for ourselves the real implications of tax-cuts as well as the true allocation of foreign investments in national GDP.

As a result, I would like to dedicate this issue to the largest, most diverse staff that the Visible Hand has seen in the eleven years of its publication. Whether through writing, editing, creativity or even inspiration you have put in a tremendous effort that deserves a thunderous applause.

On a personal note, a special thanks to Michael Rogers and Natasa Lekic for the several sleepless nights in the final days of the publication. To our President, Diksha Basu, your innovative ideas for this semester's speakers and board member unity sessions have been a real asset to CES as well as to our sanities. To our faculty liaison Prof. Wissink thank you for your continued support.

As I leave you, readers, to be intellectually stimulated by these tantalizing global articles, I ask you to feel free to voice your comments and suggestions



for our next issue's main focus by sending a note to our editorial board. With your input we will continue to improve.

Sincerely Yours,

Anna Nesterova  
Editor-in-Chief

We encourage letters and comments. The Visible Hand seeks submissions from all interested readers. Please contact the editor-in-chief or send mail to:

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# Copyrights and Copywrongs

by Justin Hall

*A Global View on the Economics of Digital Intellectual Property and a Critical Perspective on Self-Help Systems*

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The issue of intellectual property and its protection through copyright law and other means is grounded heavily in economics. Economics teaches us that the costs of creating a work – including research, development, production, and a certain intangible value for the risk of failure – are relatively high, especially when compared to the costs associated with simply duplicating that work. If the creator charges more for the good than the marginal cost of production, the market is ripe for third-party duplication. As William Landes and Richard Posner state, “copyright protection ... trades off the costs of limiting access to a work against the benefits of providing incentives to create the work in the first place” (Landes, p. 205). These commercial incentives must be sufficiently high in order to encourage future creativity and new product development, which, in turn, stimulate the economy.

This paper will examine copyright problems endemic to the nature

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of digital content, analyze the extent of international copyright violation, briefly consider the stringency and efficacy of current criminal copyright legislation, and, finally, investigate a “self-help” system of managing intellectual property.

## The Nature of Digital Content

For our purposes, digital content refers to any product or good stored in an electronic medium. The most common examples of digital content include software programs, audio (on compact disks or other storage media), video (on digital video disks or another digital medium), and electronic copies of literature and photographs or pictures. The nature of digital content counters most of the major non-legislative obstacles limiting copying that Landes and Posner list.

1. “The copy may be of inferior quality, and hence not a perfect substitute for the original” (Landes, p. 207). This is

not true because perfect, bit-for-bit copies may be made of almost any digital work. One factor that protected earlier audio and video formats from copying, at least some degree, was that analog media goods such as records, cassette

tapes, and videos usually exhibit an increase in noise and a drop in clarity with each generation of copying. This effect serves as a built-in deterrent (Cameron, p. 16). Digital content, to the contrary, can be duplicated with a moderately low-cost

setup and exhibits very little or no loss between successive generations if done at high quality.

2. “Copying takes time, so there will be an interval during which the original publisher will not face competition” (Landes, p. 208). Even when Landes and Posner pub-



lished the preceding statement in 1989, they noted that technology continues to reduce the time needed to create copies. Duplicating digital content today is faster than ever before; often, illegally released or copied versions of software, music, or movies are available in certain pirate markets before they even reach the mainstream.

3. “There are contractual alternatives to copyright protection for limiting copying” (Landes, p. 208). This argument is interesting in light of self-help, a concept which will be elaborated upon later, but the high costs of enforcing such contractual agreements in the digital marketplace, as well as the high transaction costs of the mass distribution needed to attain an adequate profit from sales, make this third issue a rather weak basis upon which to defend the lack of necessity for effective copyright legislation.

Due to the ease of copying and the high market value of computer software, some estimates attribute a \$2.4 billion revenue loss to software piracy in the United States in 1990 alone (“Notes,” 112 Harv. L. Rev., p. 1712). Estimation of such losses usually does not accurately show the true damage to a market since a high percentage of users illegally acquiring a program would not have legally purchased it in the first place because of high costs, but it is still an indication of the size of the pirated software market.

The only type of copying that has been mentioned to this point has been that of an individual reproducing either the operational content (e.g. software application, music tracks) or the entire product, package and all, for

sale of exchange. Other forms of copying also exist. A second major form of copying is reverse engineering; as the goal of reverse engineering is to extract functional segments from a completed program, this method of copyright violation is more likely to be carried out by a competing business than an individual customer.

In addition to flat-out duplication and reverse engineering, circumvention – the process by which copyright management systems such as protective systems encoded onto an audio CD or the copy protection codes on a piece of software are bypassed – is a third type of copyright-infringement (Cameron, p. 16). The legality and impact of circumvention will be further discussed later. Scholars and scientists have often developed methods of circumvention in the past, purely as academic pursuits. Most academics view such circumvention as acceptable from a scholarly standpoint because it represents the development of an algorithm to prove the weakness of the encryption system rather than an attempt to gain unauthorized access to the digital media.

### The International Realm of Copyright Violation

The problem of copying intellectual property and violating copyrights is certainly not one specific to the United States. The specter of international piracy has increased alongside globalization and the sheer volume of digital content (Cameron, p.16). In 1989 the United States International Trade Commission reported that Taiwan, South Korea, India, Indonesia, Singapore, the Philippines, Thailand, and Malaysia were the world’s “worst pirate nations” (Guiant, p. 348). Today, some Eastern European and even some Central American countries might give those Eastern Asia nations a run for their money. Developing nations are hotbeds of illegal black market software. In Paraguay, piracy is estimated to be a greater source of economic activity

than all legitimate activities combined. In Mexico, drug cartel-like organizations run massive, fortified copying facilities. In a recent bust of one such piracy ring, investigators found evidence that the ring alone produced over 14 million illegal copies of computer software (Cameron, p. 17). As such, losses to copyright holders continue to climb abroad.

One estimate cites a twenty-five-fold increase in losses to U.S. copyright holders in the global market between 1999 and 2001, with values of those losses mounting from \$873 million to up to \$22 billion (Cameron, p. 18). This estimate is likely to be extreme, as many U.S.-produced software products are not even offered for legal sale in some international markets, and the buyers of these goods would never have been able to afford them under the current market prices (Cameron, p. 16). Nevertheless, these pirated copies represent at least a significant fraction of sales lost in the international market. Cameron highlights the lack of significant benefits to developing nations that support international copyright restrictions. He mentions three possible long-term benefits, but he acknowledges the lack of their persuasive power.

1. *Legitimate sales may decrease with increased piracy* (Cameron, p. 18). As stated above, however, the legitimate software offered for sale in most developing nations exhibits a poor level of selection and a discouragingly high price. As a result, not many users would purchase titles. The usual economic effects of decreasing income and employment levels in a developed nation are not typically evident.

2. *Manufacturers may refuse to run production plants in countries where piracy is rampant.* Though this fact might discourage piracy through a loss of national revenues, the actual impact in developing countries is small because the substantially lower wages still

attract companies who might otherwise refuse to set up shop due to large-scale copyright violations (Cameron, p. 18). 3. *Decreased encouragement to innovate and create original works both in the nations and for the affected companies maybe be an issue* (Cameron, p. 18). The overall low level of creative design and production to begin with in these developing nations makes it unlikely that they would be afraid of the consequences, as they cannot stand to lose what they do not have. Developing nations are much more likely to rely on other countries for innovation and new products.

Guiant further supports Cameron's economic prognosis of copyright enforcement in developing nations, bringing up the point that the governments of some such countries will often go as far as to actually support piracy because they view copyrights as a means used by market-dominant nations to further guarantee their economic superiority. By encouraging piracy and discouraging the payment of royalties for copied foreign digital content, developing countries' administrations may feel as if they are protecting their nations from slipping further into a negative balance of trade (Guiant, p. 332). Also, because little original development is present in such nations, legislation created to protect inventors and authors would prove to be a bigger short-term drain and benefit for such governments; this attitude is contrary to that of a developed nation's government which would have to worry about the implications of not providing enough incentives for creative innovation through the protection of intellectual property rights.

How, then, can the United States best deal with copyright issues in third-world and developing nations? The solution may lie in bilateral agreements backed by a combination of prophylactic measures and policies to encourage local investing. Such arrangements "will enable indigenous

industries to experience the benefits of innovation and legitimacy. Further, developing countries will begin to recognize the benefits of fostering reliable, long-term relationships which bring with them state-of-the-art technology from the developed world" (Guiant, p. 346). The prophylactic measure of nondisclosure provides a first line of defense in the case of lack of support for effective legislation.

### **Non-legislatory Intellectual Property Systems: Self-Help**

The current legal situation for digital copyrights seems to give undue preference to the content providers. One possible solution is a contractual system of digital intellectual property rights. Although digital works are, indeed, more easily copied, they also offer copyright holders unprecedented levels of control over their works to deter wide-spread copying through the implementation of protection methods to prevent, locate, and follow up on alleged violations. The transaction costs of finding violations, via means such as internet search engines, are lower than those of traditional searches. However, because producers now seem able to restrict many property rights of consumers directly, the increased legislation in the realm of copyright law is stifling and should better consider the public's needs ("Notes," 112 *Harv. L. Rev.*, pp. 1722). In "Self-Help in the Digital Jungle," Kenneth Dam introduces and attempts to defend a contractual use system to supplement or replace copyrights.

A self-help system, by definition, is designed to prevent the copying or unlicensed use of digital



content, sometimes facilitating the payment for said content. Basically, Dam's self-help systems are software locks placed on digital content, allowing it only to be used as agreed through a contract. That contract may specify that one hardcopy is permitted or it may provide for the transferring of property rights from one individual to another through the transfer (but not the simple copying) of an electronic file (Dam, p. 393). Dam further suggests that self-help systems will not interfere with user rights. Hence it will, "not only reduce the incidence of copyright violations [but also] be one of the crucial success factors in electronic commerce" (Dam, p. 394).

One reason why such a system should be considered is the relaxation of legislation dealing with digital copyright. Under his proposed system, however, Dam still asks for DMCA-like laws against the circumvention of protective measures, as well as legal support for a system of free and open contracting (Dam, pp. 402, 395). In a footnote Dam summarily deals with the issue of invasion of privacy by self-help systems, but his treatment of it consists merely of saying that the DMCA does allow for the circumvention of copyright protection systems to the degree of obscuring personally identifiable data from being transmitted (Dam, p. 395). In this author's opinion, Dam has already made a fatal mistake. If he proposes the use of self-help systems as a deterrent

to copyright crime, the criminal act must be traceable back to the culprit. The sheer logistics of tracking “loans” and “sales” of digital works by the original purchaser to another party incurs substantial transaction costs in terms of network resources.

Perhaps most importantly, Dam wavers on the matter of fair use. He begins by talking about a “citation button” or “review button” that allows one who clicks it to access the content (presumably text here, though perhaps audio or video), yet his means of tracing the proper use of the content, once acquired, is ineffective. He falls back upon the fact that “to fail to make a citation will weigh on most academics’ minds, and failure to cite under such circumstances may indeed affect the copier’s academic reputation” (Dam, p. 404). If he places so much weight on guilt forcing people to do what is right, why introduce a self-help system at all? Will guilt not cause everyone who copies one’s works illegally such mental anguish that they cannot bear to continue in their ways?

Just as the reader begins to worry about transaction costs associated with such “fair use buttons,” Dam jumps to his next point: such buttons should not be required. They should arise into use spontaneously if it is in the interest of the content provider to supply them (Dam, p. 404). This option brings up a problem of censorship of reviews and comments under the fair use doctrine. If a content provider does not want his work to be criticized, he simply will not provide the means for a reviewer to access it under fair use terms. Dam goes on to note that: “indeed, if a work has already been published, there are presumably copies of the copyrighted work ‘out there’ available to the fair user so that there is no absolute need for the fair user to access new copies being made available only under self-help systems. Nothing in copyright law requires a copyright owner to make special arrangements to facilitate copying by

a fair user” (Dam, p. 407). This point seems inconsistent with one of the main points of his argument – if self-help is indeed an effective method of suppressing unlicensed copying, an interested party trying to review the content under fair use laws would be unable to access the copies of the work that are simply “out there,” as one would expect them to be properly protected to a degree that would inhibit such acquisition.

Dam’s final word on fair use is that, even if content providers do not make accommodations for “fair use buttons,” older methods of reproducing content (limited here to textual content) will be available to users. For instance, he lists manual copying by hand and manual copy-and-pasting from the one hardcopy allowed (Dam, p. 412). Both of the mentioned methods result in higher costs to the fair user class, providing a disincentive to use works in such a manner, and again discouraging users from using the original content for “criticism, comment, news reporting, teaching, scholarship, and research,” the six categories of fair use mentioned in the preamble to the Copyright Act’s fair use section.

### Conclusions

Digital content does indeed require special attention in the legislative arena because it fails to exhibit any of the major practical obstacles that sometimes serve as natural limits to prevent illegal copying. In fact, the content allows for more perfect and rapid duplication than probably any other copyrightable source in the world. The ease and low marginal cost of reproduction leads to substantial problems in developing nations, where most of the deterrents that are effective in the U.S. and other developed countries fail. The solution to massive copyright violations in developing nations seems to consist of bilateral agreements followed by an effort to create a local vested interest in the success of the copyrighted product, thus provid-

ing for the nation’s economic success alongside the economic success of the multinational producer. At the same time, however, current copyright laws are focused too heavily on the content industry rather than the economic or social good of the consuming public. Finally, as ideal as a non-regulatory system might be for reducing the deadlocks imposed by legislation and for managing intellectual property, self-help systems such as Dam’s need substantial theoretical improvements, especially in the economic areas of fair use and its associated transaction costs, before they become viable options.

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# Corruption: The Way of Life in Russia

by David Lubin

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Corruption has penetrated every aspect of Russian society and has become an integral part of Russian political, legal, business, and social intuitions. The payment of some form of bribes is a commonplace aspect of most transactions occurring in Russia. According to research done by INDEM Center for Applied Political Studies, one of Moscow's leading think tanks, Russians spend an estimated \$37 billion on bribes and other forms of kickbacks annually. That is \$247 for every Russian citizen and is nearly twice the average monthly Russian salary. Looking at it another way, the amount of bribes paid each year in Russia almost equals the \$40 billion that Russian government takes in as legal revenue. According to INDEM President Georgii Satarov, corruption continues to permeate life in Russia: "The fact is that corruption is built into the system of social relations. You could call it a habit. The paradox is that on one hand people condemn this, but

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they nevertheless resort to corruption in their personal dealings" (Bransten).

Sixty percent of business owners and half of ordinary citizens surveyed by INDEM said paying bribes was a "necessary" part of their lives. According to statistics, nearly 80% of entrepreneurs in Russia paid bribes for government benefits in 1995. Also, it is estimated that as much as 98% of Russian businesses have paid some form of bribes. In the 9th International Anti-Corruption Conference, "Transparency International" by Lev Timofeyev, it states that over 50% of the Russian economy operates in the "sphere of shadow relationships, outside the reach of tax authorities, outside governmental and public control." These statistics lead one question to ask: *How deeply is corruption rooted in the Russian system and why?*

## **Corruption and its Roots in Soviet Russia**

Corruption is not a new occurrence in Russia; it can be traced back to the days of communist Soviet government. The communist government interfered with every part of Soviet life. There were no standing rules and regulations for Soviets to live

by; they law varied from one official to the next. This system, therefore, gave bureaucrats an unconstrained amount of power.



In communistic society, people were supposed to be equal and paid equally, yet some people had more power than others. Those people who had power and exercised their power to do "favors" for others expected some form of gift or "blat" favor in return. Furthermore, even though everything was supposed to be equal

in Soviet Russia, there were still better hospitals, better colleges, and better cars. To obtain such better items people had to rely on outside channels. There was a socially accepted mentality of “I help you and you help me.” For example, since many products were scarce in Russia, instead of waiting in line to buy shoes, a “comrade” might let you through the back and allow you to be the first to pick out the preferred style and shoe size. This created an underground, back alley mentality that became prevalent in current Russia. Successful people in communist Russia were not the ones that made the most money, since everyone made about the same amount, but those that had the power and connections.

Communist Russia had also set up channels for organized crime. The scarcity of goods allowed for the formation of the “black markets.” Goods were smuggled in from Asia, Europe, and America and sold by organized criminals. Furthermore, the money and connections that the criminal organizations were establishing allowed them to secure relationships with government officials. This formation of relationships later helped spur the corruption in Russia during and after Russia’s transition into democracy. When communism collapsed, the Russian way of thinking had not, the economic and political elites remained, as did the clans and networks (Carr).

Soviet Russia also blurred the relationship between private and state property. In communist Russia, everything was owned and operated by the state. There was no recognition of private property or even privacy. Resources and goods did not belong to anybody and at the same time they belonged to everyone. This mentality had serious implications on Russia’s transition into a liberal democracy.

#### **Transition and Corruption in Russia**

In 1992, Russia set out to become a capitalist, liberal democracy with the assistance of IMF, G7, and the

World Bank. Shock Therapy was used to flood Russia with billions of dollars to “put the nation on its feet.” At the same time it seemed that the money was flowing into a bottomless pit with no results. There were a few reasons why the shock therapy did not work, but all of them related to the lack of understanding of how deeply corruption has been rooted in the Russian system. As the Soviet Union fell it left behind a legacy, a solid structure, and a mentality for corruption to flourish in transitional Russia. There still existed clans and networks that intertwined business and politics. While the networks and clans still existed, the collapse of socialism and the beginning of “perestroika” led to the complete restructuring of the Soviet system. The lack of clear cut rules and regulations along with an “anything goes” mentality created instability and uncertainty within the country. Because no solid structure had been established for political, legal, economic and social institutions during Russia’s transition, individual parties used such instability for personal interests and gain (Carr).

Billions of dollars flowed into the country to privatize assets formally owned by the state. At the same time, the political, legal and economic environment in Russia created a thin line between who gets the once state owned property. The lack of regulation and fierce competition for resources created a favorable environment for bribes and corruption. Lax political, legal, and economic structure allowed for the unequal redistribution of wealth for private gain and interest. The monitoring of assets was lenient and it was up to the *nomenklatura* to redistribute those assets efficiently and equally. *Nomenklatura* was established during the late 1980s during Gorbachev’s partial privatization of state corporations. The members of *nomenklatura* had the power, connections and resources to redistribute the wealth. Those members became the new Russian oligarchy,

individuals who used their power and connections to transfer State property to their own personal possessions. An example of that is Boris Yeltsin, who transferred a lucrative state owned airline industry – Aeroflot – to the private possession of his daughter.

#### **The current state of corruption in Russia**

Today corruption is part of the Russian system. Bribes are seen as simply a form of tax for doing business. Corruption has infiltrated every aspect of Russian society. The infrastructure of today’s Russian system has evolved to spawn, preserve, and maintain the corrupt state. Currently, the Russian government is starved for cash due to its high debt burden. Because it is in dire need of cash, the lower level bureaucrats are severely underpaid. At the same time, the lower level bureaucrats are the ones who are responsible for keeping the system running. For example, there is almost an unwritten understanding that you have to pay a bribe if a traffic officer stops you. Many Russian officers would prefer to work honestly but with a paycheck of as little as \$150 per month, they simply have to eat. Furthermore the same problem exists with tax collectors who become very susceptible to bribes because of their low salaries. It is estimated that 40% of Russia’s taxes are not properly collected (INDEM). This creates a vicious circle of not paying tax officials enough money, forcing them to help in tax evasion, and Russian government not collecting enough taxes to pay those tax officials decent salaries.

Currently the Russian bureaucracy is still cumbersome with miles of red tape and a lack of accountability. Bureaucrats do not feel responsible for their actions and do not take accountability for what they do. For example, in 1998 the Khabarovski Pensioners Fund spent about 39 million Rbls on their personal needs while the local pensioners only received 1 million Rbls. There is a saying in

Russia : "If you steal big and share it ... you are sure to feel safe; if you steal little beware of prosecution." The result of this case was that the Chief of the Fund was quickly promoted to a higher position in Moscow. In other words, he was bailed out. The criminal case went there and successfully died. At the same time, old Babushkas—who struggle to survive on their measly 300 Rbls pension, get arrested, charged and prosecuted for illegally selling goods on the streets (Samoiloff).

The unstable legal system and lack of infrastructure is a major factor in allowing corruption to flourish in Russia. The undefined laws give great jurisdiction to individuals within the legal system. Interpretations of the law can be bought with a proper bribe. The lack of transparency in Russia's infrastructure also allows individuals to swindle, manipulate and buy legislature, licenses, government contracts, and seats in office. It is customary for companies to pay bribes to state officials in order to create and enact new laws that are favorable to them. Sergei Mayrodi, who personifies corruption in Russia, has scammed thousands of people out of millions of dollars through the creation of an investment fund pyramid scheme. To avoid eventual prosecution, he "bought" his asylum in the Russian Duma, whose members are immune from criminal investigations. In 1994, over 80 candidates in Duma elections were under criminal investigation (Burton).

Today Russia has no middle class. There is a large gap between the lower class and the upper class. Such an uneven social scale makes the society very susceptible to bribes. Also, corruption is found on all levels of bureaucracy. In most cases it has an upside-down trickling effect. It starts from the lower levels and work its way up to the highest levels of bureaucracy. With the lack of regulations, money in Russia has become king, and oligarchs can buy officials, thereby making themselves richer while everyone else

becomes poorer.

## Conclusion and implications of corruption for Russia

Corruption has become part of the Russian system. It penetrated Russian political, economic, legal, business and social infrastructure. Corruption has simply become the cost of doing business and performing transactions. It is built into the Russian system and has become a social habit. The roots of corruption can be traced all the way back to the Communist era. The networks, connections, and mentalities that were established in that era helped promote corruption during Russia's transition. The lack of solid and well established political, economic, legal and social institutions helped corruption flourish and establish itself during the transition period in Russia. Today corruption has simply become the way of life in Russia.

Corruption has serious political, economic, and social impact as well as implications on Russia. Corruption in the Russian political system deviates from the task of establishing, developing and securing; stable political power and presence. As a consequence of corruption in Russia there is a lack of trust in authority. Good intentions of authority are neither credible nor rewarded and citizens become increasingly disillusioned. Corruption in Russian weakens the Russian economy. The shadow economy reduces tax collection and deteriorates government budget. Market competition and efficiency is also hindered since winners are usually not the most competitive but rather the most connected. The lack of transparency and high uncertainty in the system reduces international investments in Russian businesses and institutions. Also, corruption in Russia has a detrimental social influence. It detracts resources from the goals of public development and the authority's ability to solve social problems. It creates unfair and unlawful distribution of resources and generates a large gap

between the rich and the poor. Furthermore, law does not have the ability to justly regulate the life of state and society, thus creating a very thin line between what can and cannot be done.

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# Unipolarity at the Dawn of a New Iraqi Day

by Leili Fatehi

*Unilateral leadership is losing its followers as the US tries to reconstruct Iraq alone.*

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With the dusk of the War on Iraq and the dawn of Iraqi reconstruction, questions of the legitimacy of the war are setting behind rising questions of the emerging new world political and economic order. As the United States strives to maintain unilateral control of the reconstruction process, the world wonders whether unipolarity is the way of the future or if worldwide resistance to the US will lead a new spread of multilateralism. With the United States facing an ever growing tab for occupation and reconstruction, the international community questions just how much power the United States is willing to yield in exchange for financial help.

*“Intelligence gathered by this and other governments leaves no doubt that the Iraq regime continues to possess and conceal some of the most lethal weapons ever devised.”*

–George Bush, Address to the Nation, March 17, 2003

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The international realization that the United States misled the public as to the existence of weapons of mass destruction in Iraq is spurring questions as to whether the US can, in good faith, lead the reconstruction of the now highly volatile nation. Worldwide approval, however reluctant, for the US led war was based on President George W. Bush’s allegations that Iraq, under the leadership of Saddam Hussein, possessed weapons of mass destruction and that this posed a severe and imminent threat to international security. Much to the detriment of US integrity, Chief Weapons Inspector Daniel Kay revealed in October that after a three month, 1200-person team search, no weapons of mass destruction, or evidence of a program for weapons development, were discovered. As a consequence, the United States now carries the burden of funding reconstruction almost entirely on its own.

Iraq was occupied under the false assumption that the US was powerful enough to instate liberalization quickly and efficiently. In fact, the US had anticipated that reconstruction would be financed almost entirely through Iraq’s national oil revenues, but, as a result of security

issues and attacks on oil pipelines, these funds are no longer available. The cost of the US of putting all its eggs in one barrel is an estimated \$1 billion a day to maintain troops and another estimated \$100 billion dollars over four years to complete reconstruction. The United States is now at a crossroads between accepting international offers to help with the cost of reconstruction while potentially ceding some power over the process or continuing to fund the endeavor out of taxpayers’ dollars.

*“If those are what the costs are, I’m glad Congress is asking questions,”* –Brian Reidl, Heritage Foundation

It is impossible to measure the cost of unilateral reconstruction without measuring the opportunity cost of having gained the support of the international community in the first place. With staunch war opponents such as France offering troops and funding as recently as last Christmas, it is quite probable that the multilateral cost of maintaining peace, rather than the unilateral cost of waging war, would have been much smaller if the US had considered it. Similar operations, such as the Gulf War in

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1991 and the occupation of Kosovo in 1999, left the US with very little to pay for because of multilateral burden-sharing agreements. In fact, according to Lael Brainard, Senior Fellow of Economics and Foreign Policy at the Brookings Institute, unilateralism is costing each American household about \$1000. With Bush's new \$87 billion war spending request, Rep. David Obey (D-Wisconsin) issued a report showing that the budget allocated \$157 per Iraqi for sewage improvement versus only \$14 that is spent per American and \$38 per Iraqi for hospitals versus \$3.30 per American. In addition, much of taxpayer money is going towards the premiums to private contractors providing services such as police training and prison construction in the massive seller's market that is Iraq. With one in ten Americans in Iraq being private contractors, Congress is concerned that the administration will lose foresight on cost controls. On the whole, many Americans are now realizing that \$100 billion spent maintaining forces in Iraq is \$100 billion dollars not spent at home improving security, paying for schools, and curing diseases. Key conservatives are also concerned with the peculiar requests in American budget for reconstruction. The administration has requested \$400 million to fund importation of cement. Jim Dreyer, the Republican staff director of the House of Representatives said, "We're not talking sanity here. The world's second largest oil country is importing oil, and a country full of concrete is importing concrete."

With waning support from both Democrats and Republicans, it seems that the Bush administration should be jumping at any opportunity for international bankroll. But in the race to maintain global supremacy, oil is gold.

*"Amidst all the talk of information technology and new economy, it is oil, as*

*every child today knows, that has been at the centre of the war on Iraq."* - Dipankar Bhattacharya, Raman Research Institute

With two-third of world trade and virtually all oil trade being dollar-denominated, the United States has been able to maintain a permanent and massive trade deficit. As "petrodollars"

administration cannot have this. In order for the US to maintain its unilateral ability to gain capital through debt, the hegemony of the petrodollar must be maintained. But, as is often the case, this hegemony comes at a price. As the US continues to seek control of all oil and gas resources in Asia, opposition from Europe will also continue to grow. As hypothesized by Siddharth Varadarajan, editor of Times



recycle back into the US, proceeds from high oil prices allow the US to continue printing money at zero risk and fund military spending, tax cuts, etc. on imports. As Dipankar Bhattacharya of the Raman Research Institute says, "It is on borrowed money that the US continues to flex its awesome military muscle and keep the oil-rich "rogue states" in check."

Last year, however, Iraq converted over to the petroeuro, making oil payable only in euros. Much to the fear of Americans, Jordan followed suit, and rumors continue that Russia, Saudi Arabia, Venezuela, and Iran are all considering converting over to the petroeuro as well. But the Bush

of India, "it was not a coincidence that the strongest opposition to the US was against Iraq within the UN Security Council came from Germany and France, two countries at the heart of the common European political and economic enterprise." Add to this the strengthening of economic clout the EU and NATO will experience with the eventual membership of Eastern European states, and the case for multilateralism is clear.

*"No one here needs to be reminded that we live in perilous times, confronting dangers that multilateral ... are uniquely adapted to*

*address,*"- Stephen G. Rademaker, U.S. Assistant Secretary of State

The United States should use Iraqi reconstruction as an opportunity to demonstrate its ability as a leader for the international community, not against it. Accepting international funds and, especially, allowing a multination organization like NATO to assist with reconstruction could be the best solution for the sake of the US taxpayers, the people of Iraq, the security of the globe, and the relations between the US and Europe.

First, allowing other nations to contribute to reconstruction would lower the cost of the US and alleviate the concerns of Democrats and Republicans as well as the burden of US taxpayers. Second, the United Nations, as the leading consensus choice for national post war rebuilding, will bring to Iraq vast experience and knowledge of reconstruction, experience that the US, as a unilateral agent, does not have. Third, allowing the UN to assist with reconstruction will open up funding and troops from other nations such as France, Russia, Germany, and India, which have said that they will not assist without a UN mandate. Fourth, cooperating with the UN will prevent potential conflict over oil by mending some of the tensions between the EU and the US. "We are prepared to help," said Chris Patten, the European Union External Affairs Commissioner, "provided there is an adequate multilateral umbrella for our contribution." Finally, a cooperative relationship between the EU and the US will have significant strategic implications in the future. With risks emerging from potential power blocs forming between nations like India, China, and North Korea, a strong multination counterbalance, such as one between the US and Europe can go a long way towards maintaining global peace and security.

When looking ahead to the dawn of a new day, the Bush

administration may want to start asking itself, can it be a leader in future if it has no following?

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# A Social Analysis at the Economic Developments of China

by Rosy Ko

*Is economic development a good enough panacea for China?*

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After years of political unrest, China has finally found a balance between socialism and capitalism economy in its “socialism with Chinese characteristics.” As China emerges as the seventh largest economic power in the world, changes in cultural and social stratification are simultaneously taking place within the country, which may pose as obstacles in its future development. The flood of foreign investment into communist China has allowed the entrance of Western influences, which were considered “evil” during Cold War. As foreign participation becomes a key aspect in the economic growth of China, the inevitability of western presence has prompted the Chinese to evaluate their treatment of a diverse workforce, especially in more industrialized locations like Shanghai, Guangzhou and Shenzhen. Along with the infiltration of western influence in Chinese culture, the mounting material affluence is begetting a growing

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disparity between the values of the generations.

## **Ambivalence in the Rise of a Middle Class for the Communist Regime**

Similar to any other modern economic development, the one in China is characterized by massive urbanization and emergence of a middle class. Unlike those who lived in blue-collar pre-reform China, where salaries were entirely dependent on jobs assigned by state labor bureaus, people in modern China are finding alternative ways to acquire wealth through the proliferation of private enterprises.

The formation of a middle class signals that these economic changes have contributed to a new social stratification that has a strong capitalist flair. Even though the Central government refuses to use *class* to

categorize this middle stratum, this group represents a distinct 15% of the total working population and mostly resides in prosperous industrialized cities. One cannot deny the fact that the rise of a middle class is evidence of a gradual improvement in living



standards, yet history tells us that along with the appearance of this class comes rising demands for a more democratic government and legal system. Despite the growing power of this class and its importance to China's economic

development, it has not been given full political recognition. In fact, the only groups that possess a “collective political consciousness” are groups traditionally recognized by the government, which includes workers, peasants and “intellectuals.” The reason for such categorization can be traced back to the Chinese Cultural revolution, when property-owners and “intellectuals,” such as professors, were targeted as enemies of the people; whereas, the hardworking workers and peasants represented virtuous ideals and were considered important backbones in the communist hierarchy. The formation of a middle class certainly is a contradiction to the socialist ideal of classless society, but more importantly, the growing economic power of this class has fueled its desire to attain higher political status. Not only does this class demand more political involvement, it also pushes for a reformed bureaucracy and legal system to better protect its members’ properties. However, at current time, the private entrepreneurs do not care to seek political changes, only political security. But as the political significance and size of the middle class continue to rise with the prospering economy, the party leadership will eventually need to reconcile the independence of this class with a centrally planned political economy.

### **Ready for the Influx of a Diverse Workforce?**

Diversity refers not only to demographic differences, but also differences in cultural backgrounds, traditions and values. Bringing their distinct values into China, the western work forces introduce new business attitudes and interpersonal dynamics. However, the Chinese are not yet prepared for the structural changes that have taken place to make it easier for Westerners to live and work in China. The question is whether the Chinese people are ready to compete and cooperate with their western

counterparts. Such competition and cooperation can be partially achieved if state enterprises and individuals are active and willing to learn the more advanced business administration techniques. But the full achievement of this competitive cooperation requires the psychological maturity of the Chinese people in dealing with foreigners. For example, Shanghai in the pre-1949 period had a history of racial tension resulting from wage inequalities, and resulted to the treatment of Chinese as second-class citizens. Such social division contributed to the sense of foreign superiority. The ironic reminiscence from that time is an idea that “foreign is better.” Although the disparities between foreign and local residents are less apparent today, it would be naïve to say that such insecurity no longer exists in the Chinese society. In addition, years of political turbulence have encouraged the Chinese’s compliancy in relation to the Central government. Therefore, challenging authority or being too innovative is not an encouraged act. It is important to note that economic changes in China must also go hand-in-hand with equivalent development among the Chinese in their motivation and confidence to go beyond boundaries. The Chinese should not let the passive effects of the above-mentioned historical reminiscences affect their ability to become creative and ambitious player in the world market.

### **Conflicts of Generations**

Increasingly more studies have been conducted to study the impact of material satisfaction on the younger generation in China. It is important to first note that the current party leadership as well as the majority of adult population have grown up in a tumultuous time, and have been victims of the Chinese Cultural Revolution. Their resilience and their ability to handle hardship (chi ku) are far beyond the capabilities of the younger generation. Differences in life

experiences, improvement of living standards and the introduction of single-child policy have contributed to the birth of a generation whose values pose such contrasts to their elders. As Yatsko indicates in her New Shanghai that when communism emphasizes “equality and the group, the religion for the young and upwardly mobile is material well-being and self-fulfillment.” One may question the importance of this phenomenon; after all, isn’t every subsequent generation expected to be different from the previous one? But for the first time in China’s history, there is a generation with a waning interest in tradition. Most of the young people in China grow up without siblings and with parents who are known for indulging their children. The combined impact of material affluence, complete attention of their parents, and an education system that emphasizes individual performance has inevitably resulted in an arrogant generation insensitive to teamwork and prone to material enticements.

When one gives a close look at the Chinese education system, one would notice a lack of education on equality and respect. For instance, it is not uncommon for 4-year-old students in a kindergarten to cordially say good morning to their teachers, while casually ignore the janitor on the side. This example might discredit many other Chinese youths who are still virtuous. But one must remember that these 4-year-olds will become leaders of the business and political world of China; their values and sense of world will one day determine the culture of China and whether it can still maintain a “socialism with Chinese characteristics.”

### **Conclusion**

Understanding the sociological aspect of economics is crucial in the building of a nation simply because changes in social attitudes directly affect the flourishing or decline of political ideologies. For a



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country like China that has spent years struggling under ideological conflicts, it is of utmost importance that it fully evaluates developments in public opinion. Nobody can doubt the great potential of China's market economy and the hardworking mentality of the Chinese. But identification and awareness of these social changes in China is necessary to prevent them from becoming impediments in the country's future development.

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# China: Uncovering False Perceptions

*The popular view of China's economic future is that it will gradually liberalize and transform itself into an economic giant. But what is missing from this picture?*

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If one were to do a search online or just read popular publications about China's economy, one would find that it's easy to get the impression that China has the most promising developing economy in the world and that the future can't be any brighter. The unemployment is officially at 4.2% even after the SARS epidemic and the economy has been growing at around 7% annually for the past 20 years. There are 1.2 billion people in China, making it potentially the world's biggest market. All that's needed is some reform to catalyze the transformation to an economic superpower, right? Unfortunately, the truth isn't so rosy. In fact, the present state of the Chinese economy leaves much to be desired.

## The Real Numbers

The official statistics for unemployment in China remained around 4.2%, even after SARS hit.(3) However, this figure is highly suspicious. There are persistent

discrepancies between national and provincial level statistics. In addition, an investigation by the China National Bureau of Statistics revealed endemic intentional falsification of economic data.(4) Unofficial estimates place the real unemployment figures at 8-15%, which is 100-350% higher than the government statistics, not a small margin by any means.

If economic data is to be useful, they have to first be accurate. And in here lies China's first reform challenge: being honest. Despite over 20 years of reform, China's national bureaus still have not reformed this habit of data falsification. Producing good numbers still has higher priority than producing accurate ones. Markets can only operate efficiently with accurate information. Resource

allocation decisions built on falsified data will not be efficient regardless of the economic system.

## Social Security

Another grossly underplayed part of the picture is social welfare. Two entire generations have spent their working lives assigned to work in grossly inefficient state run enterprises (SOEs). As China aims to reform and liberalize the economy, it's inevitable that many of these SOEs will become insolvent and their workers will be laid off. The economic inefficiencies of the past creates this problem of the future-how to fund the pension and benefit obligations owed the workers. There are not enough savings from the past to draw upon, at both the national and the individual levels. For decades workers' pay was held at very low levels because the workers could rely upon their work units for everything from child care to medical care to pension benefits.(5) Now that many of these work units and SOEs are becoming insolvent, social welfare is becoming a national problem. How much will it cost to honor these pension obligations? The truth is that no one knows. Estimates range from the official figure of US\$244 billion to conservative estimates of US\$850



billion by the Bank of China International to the more aggressive estimates of US\$1.25 trillion by private observers.(1) Regardless of the estimate, one thing is certain, the problem will get worse as more SOEs become insolvent with economic liberalization.

## Capital and GDP

Every year China attracts billions of dollars in foreign direct investments, most of which goes into investments in export oriented sectors that directly boost GDP growth. This has allowed China to maintain an impressive 7% GDP growth“for the past decade.(6) But is this necessarily a good thing? Conventional economic wisdom would suggest that it's a no-brainer that rising GDP and foreign investment is a good thing. Upon a closer look however, a different picture emerges. Despite the annual influx of billions of dollars of foreign direct investment, this amount is dwarfed by the close to US\$1 trillion in savings of ordinary Chinese citizens, mostly stashed away in the four main state banks.(7) If there is so much capital, then why is economic growth so dependant on foreign investment and exports? The answer is that almost none of that capital is available to ordinary investments. Much of the banking system and the equity markets are heavily politicized, and political interference in capital allocation decisions inevitably leads to gross capital misallocation. Using foreign capital to boost the export sector is the quickest and easiest way to make good GDP growth numbers, and this detracts attention away from the real problems. GDP statistics have become such a holy grail in common parlance that one can always use good GDP numbers to cover up failures. Unfortunately, good GDP numbers are not edible; They do nothing for the vast majority of Chinese people whose lives will only be significantly improved by true reforms. This emphasis on making good numbers not only covers up the more serious problems in the economy, but it

also leads to grossly disproportional economic development. Since economic growth is so heavily concentrated in a few sectors, this leads to massive structural unemployment, which further taxes the social welfare system. In addition, this skewed economic development also exposes the economy to greater risk. Export markets are notoriously fickle, and a downturn could be disastrous to an over concentrated economy. Looking at the GDP alone does not tell us any of this. In China's case, GDP growth is not an indicator of economic progress, but a cover for inaction.

## The Hard Reforms

Over the past 20 years of reform, all the easy reforms have already been implemented. In order to turn economic potential into economic reality, China's government has to start implementing the harder reforms: the reform of the banking system, the social welfare system, and government bureaus. These reforms will be hard because they will involve relinquishing state control of core sectors of the economy, admitting past mistakes and taking responsibility for them. Good GDP growth numbers have dulled the urgency of these hard but critical reforms, because it's tempting to extrapolate a bright future from the successes of the past. However this would be a mistake, the future of China's economy is not conditioned upon the GDP numbers of the past or the present, but upon the willingness of China's government to make the

necessary reforms. On this note, the future of China's economy looks for more uncertain than rosy GDP numbers would suggest.



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# China: The New Demon?

## The Deregulation of the Chinese Currency Market

by Samson Cheng

*With intense pressure from western nations to remove controls on the currency market, how will China react to the world?*

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In the 1980s, U.S. manufacturers demonized Japan; the Americans blamed the Japanese for holding the Yen weak to give their exporters a competitive edge in the market. Twenty years later, China has emerged as another demon who takes away jobs and profits from the Americans. Recent debates over whether China should deregulate its currency market and allow a free floating system of its currency Yuan have become a hot topic in the business world. Both Europe and the United States have expressed their concerns over China's strictly



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controlled currency market at the G7 meeting in September. The G7 – the United States, Japan, Germany, Britain, France, Italy, and Canada – have called on China to allow the Yuan to appreciate. Of the seven industrialized nations, the United States has been the greatest supporter of a free floating Yuan. Exporters in the U.S. blame China for their losses in both jobs and businesses and complain about having to compete in markets filled with cheap Chinese products. Under the intense pressure from U.S. manufacturers and Congress, who represent critical support for the 2004 presidential election, the Bush administration has been publicly berating Beijing over the Yuan exchange rate and has pushed for a lift on its currency controls as a way of

lowering trade barriers.

### **Is Yuan Undervalued?**

The Yuan, also known as the Renminbi (RMB), is under restrictive control of the Chinese central government. By consistently printing tens of billions of Yuan to purchase the large amount of dollars coming across the Chinese border each year, the People's Bank of China, the country's central bank, has kept the Yuan pegged at around 8.28 to the U.S. dollar, an exchange rate which the United States and Europe have criticized as being too weak. The country is determined to maintain control over the large flow of money coming in, and such a policy clearly would have the effect of keeping Yuan soft against the dollar and protecting the relative competitiveness of Chinese exports. Under the policy, the world's most populous nation has accumulated \$384 billion in foreign currency reserves and has become the world's second largest stockpile.

The United States has lost 2.7 million industrial jobs in the past three years. Both Congress and domestic producers in the U.S. have mandated that the Bush administration take action to stop the outflow of manufacturing jobs to the Asian manufacturing giant.

American manufacturers have argued that keeping the Yuan weak gives the Chinese an unfair trade advantage in the markets. Since Chinese producers can offer their products in the United States at much lower prices, the current Yuan policy of China makes it difficult for U.S.



producers to compete. American manufacturers have suggested pushing China to let the Yuan rise against the dollar. This would help domestic producers by making U.S. exports cheaper and the Chinese imports more expensive.

The price competitiveness of goods produced by the two nations can be illustrated by the United States' trade deficit, which reached a monthly record of \$11.7 billion in August, 2003, with imports from China surging to a highest level ever at \$13.7 billion.

Before his departure for the Asia Pacific Economic Cooperation Forum (APEC) in Bangkok, Thailand, President Bush promised to exert pressure on China to introduce more flexibility to the Yuan. He also said that the way all currencies ought to be valued is based upon economic activity, fiscal policy, and monetary policy of their respective governments, as well as their economies' potential for growth and long-term viability.

### Why China Insists on its Currency Policy

The Chinese government has shown little willingness to bend in response to the criticisms western economists and the Bush administration have raised about its currency policy. Policymakers in China insist that domestic stability is the top priority while considering revaluating the Yuan and loosening up the currency market. They said they would first tackle the most fundamental

and structural problems within the nation, such as bad loans at the banks and unemployment. Zhou Xiaochuan, governor of the People's Bank of China, brushed off criticisms that China is unfairly keeping Yuan low against the dollar, arguing that deregulation of the Yuan could throw millions of Chinese peasants out of work.

Standing their ground in the currency dispute with the United States, Chinese policymakers have consistently argued that the country is still not ready to deregulate its currency. In a conference with President Bush in Bangkok on October 19, Chinese President Hu Jintao spelled out reasons why China is reluctant to let its Yuan appreciate against the dollar. As China's strong economy rapidly transforms into a powerhouse, it increasingly contributes to the financial and economic stability in Asia and the world at large. Therefore, China is responsible for reviewing all economic policies very carefully before taking any action. Hu said his nation would follow the same approach of responsibility to the Yuan exchange rate issue. Given the current situation of the economy and its premature level of financial regulation, Chinese officials believe that keeping the Yuan at its current level will best serve the economic stability of both China and the world.

China's banking system, having a fairly basic infrastructure, is unprepared to handle exchange rate volatility. Bad loans is one huge

problem at banks in China, and letting the market determine the value of the Yuan at this point would be very challenging for the currently insolvent banking system. Experts also warn that pushing China too hard on its currency policy could be dangerous as a sudden appreciation in Yuan and the dismantlement of the nation's capital controls

could trigger a banking crisis in the world's sixth-largest economy. Therefore, policymakers in China are cautious about moving to a free floating system too quickly.

Although the Bush administration's public criticism of China's currency policy has won support from American manufacturers, economists have also expressed their concerns over the consequences of loosening up the currency market. Some have pointed out that the deregulation would create more problems than it would solve. China is one of the Asian nations that have helped finance the rapidly expanding U.S. budget deficit by purchasing huge amounts of Treasury securities. If the Yuan were to be unshackled and to rise against the dollar, China might then sell the Treasury securities, which in turn would drive up the interest rates and would not do any good to the United States.

### A Dilemma for China

The United States remains undeterred in urging the Yuan's deregulation, claiming that China's policies are hurting the American manufacturing base. On the other side, China defends its currency policy by arguing that letting the market forces determine the Yuan's value will disrupt the stability of the nation's banking system. So should Yuan be revalued? If revaluation takes place, what is the appropriate exchange rate for the Chinese currency? On October 19,

Chinese President Hu Jintao agreed to have a joint panel of experts from China and the U.S. study the deregulation of the currency and determine the steps necessary to have the Yuan's value rise and fall with international markets.

Although Chinese policymakers have insisted that they would not take any action to change the current exchange rate of the Yuan at this point, they have promised to ultimately loosen up the market according to the nation's economic development level. Analysts have pointed out that China, being one of the largest buyers of Asian exports, should turn to its neighbors and ask for opinions regarding its Yuan policy. China cannot simply deregulate its currency market and revalue the Yuan itself; a consensus among Asian countries is needed, as a move of China to a more flexible system would have a great impact in the region and cause greater moves for other pegs such as the Malaysian ringgit and the Hong Kong dollar. With many reasons hindering the Chinese government from taking any action, economists report that they do not expect to see a free floating Yuan any time soon.

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# Sweden's Rejection of the Euro: How the Referendum Affects the Country's Future

by Linda Pedersen

*On September 14, 2003, the Swedish people faced a crucial decision- whether to give up the Swedish krona in favor of the euro. The result of the referendum was unmistakable. With 56% opposing the euro and 42% in favor, the common currency does not have enough popular support in Sweden, and Sweden will stay out of the euro zone [5].*

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This euro referendum was expected to have a significant impact on the European Monetary Union, with a Swedish "yes" being representative of a gradually more closely integrated Europe. Although the "no" side appeared to be in the lead throughout the pre-referendum campaign, a shocking event created uncertainty just days prior to the referendum. On September 10th, the Swedish Foreign Minister and popular pro-euro campaigner, Anna Lindh, was brutally stabbed to death in a department store in Stockholm. This unexpected event led to speculations about a possible sympathy vote sending the "yes" side to victory [5]. Despite this situation, the result of the referendum revealed a lack of popular support for the euro.

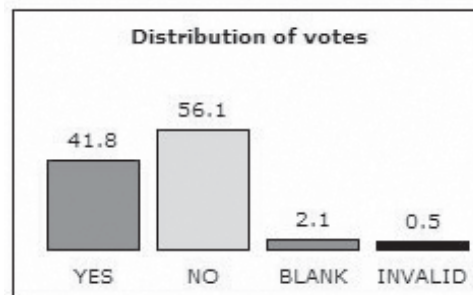
## History of the Euro

Although the euro was first introduced as a common European

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currency in 1999, it was not put into circulation until 2002. There were several advantages of doing so. The introduction of the euro has facilitated travel within Europe since travelers no longer have to exchange currencies when moving from one country to another. Also, the euro has greatly



facilitated business throughout Europe, eliminating the need for currency exchange and other trade barriers. However, the euro was introduced not only with economic interests in mind, but also political ones. By making the economies of Europe more reliant upon one another, it was hoped that future wars would be deterred [2].

Although Sweden joined the European Union in 1994, it has not yet accepted the euro. Göran Persson, the

Swedish Prime Minister, stated prior to the referendum that Sweden would only implement the euro if there was broad popular support [1]. The result of the referendum is quite telling, as despite the larger sums invested in the pro-euro campaign and despite the support of many influential pro-euro politicians, the Swedish people do not feel that it would be beneficial to join the 12 other EU countries with the common currency. Of the EU countries, only Sweden and Denmark have held referendums regarding the euro, and neither result has been in favor of the common currency. After the referendum, Göran Persson commented that had the Germans been asked, even they may have voted no to the euro [3].

Nevertheless, while the outcome of the referendum indicates the position of the majority of the Swedish people, it is not indicative of the different interest groups in Sweden and their stance on the common currency.

## Interest Groups

A notable aspect of the euro referendum is the contradiction between what the general public wants and what the country's political and business leaders claim is best for the

country. Prior to the referendum, Carl-Henric Svanberg, President and CEO of the Swedish mobile giant Ericsson, suggested the necessity to bring Ericsson out of the country if Sweden did not implement the euro [5]. Yet, Svanberg insisted, after the result of the referendum was known, that Ericsson would not be leaving the country anytime soon. However, he also stated in a press release that in the long term, business interests in Sweden may be hurt due to a decrease in foreign investment. "I see a clear risk that economic growth in Sweden may over time be affected negatively by the fact that Sweden loses its power to attract new investments," Svanberg explained [7]. The dissatisfied reaction of a large company to the referendum result is not an isolated case, but rather indicative of the conflicting interests between Swedish business and the general public. In Stockholm's wealthiest suburb, the "yes" side won with 75% voting in favor of the euro. This result indicates that the groups with the most at stake in the referendum were the wealthy, leaders of the largest political parties, and leaders of large Swedish companies [5].

#### Advantages and Disadvantages

So why did Sweden reject the euro? Both the advantages and the disadvantages of Sweden adopting the euro have political as well as economic aspects. Euro supporters argue that if Sweden stays out of the euro zone, it will become marginalized and lose influence in the European Union. Other reasons include a threat of less inward investment in Sweden if it does not adopt the euro. In fact, prior to the referendum, the proponents stated that if Sweden adopted the euro, the economy would boom, creating 100,000 new jobs, lowering interest rates, and creating price-cutting competition. Politically, the pro-euro side argues that a more closely intertwined European Union would promote peace in the future and protect the region from possible future wars,

with closely dependent economies preventing countries from going to war [2].

On the other hand, the euro opponents also cite political and economic reasons to support their stance. The main reason for their opposition to the euro is the fear of a loss of sovereignty, since this would threaten Swedish democracy, and possibly the Swedish welfare state [4]. Adopting the euro means giving up control over interest rates as well. Furthermore, since Sweden has lower unemployment (5.4% as opposed to the euro region's 8.9%) and a higher growth rate prediction for this year (approximately 1.5% as opposed to the euro region's 0.5%), the euro opponents argue that Sweden is better off economically without the euro [5].

#### Effects and Reactions

The Swedish rejection of the euro has resulted in mixed reactions throughout Europe. These reactions can be divided into three categories: the most common responses being those who claim that the European Union has encountered difficulties before, and that the euro will eventually be accepted by all the member nations, and those who claim that the Swedish referendum is representative of the future of the European Union as a multi-tiered organization with different member nations having varying degrees of influence and involvement. Supporting this view, the Dutch European commissioner, Frits Bolkestein, claimed that "Some countries in the euro zone seem more equal than others." The most pessimistic response to the referendum includes those who claim that the Swedish "no" signals an eventual disaster for the European Union, claiming that the referendum result signifies the euro as an elite project without broad popular support [3].

#### Conclusion

Only time will tell what the effects of Sweden's rejection of the

euro will be, but as the European Union members discuss the upcoming EU constitution, the role and power of the different member nations will be brought into the spotlight. Furthermore, there have been speculations about the Danish government considering a possible "super-referendum" set to occur in Denmark next year, encompassing both the adoption of the euro and the ratification of the EU constitution. The results of this referendum may prove to be indicative of the future of closer integration in the European Union [6].

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# An Evaluation of the International Institutions Responsible for Regulating Our Global Village

By Anna Nesterova

*“...and there is no new thing under the sun” Ecclesiastes, Ch.1*

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The past century has united the world with breakthrough achievements in space aviation, nuclear weapons and information technologies. It takes an hour and a half for a satellite to orbit Earth. It takes just a few minutes to complete financial transactions between the banks of all countries within the SWIFT system through a global computer network. Foreign exchange transactions, in which individuals and firms convert their funds from one currency to another, are estimated to exceed \$500 billion every day, with no borders or custom barriers. The accumulated nuclear arsenal in a range of countries is quite sufficient to destroy life on our planet by the virtual push of the button.

How can we provide security for all of our planet's people? How do we deal with world hunger and diseases? What is in our power to restrain aggression and terrorism? How can we conserve nonrenewable

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resources and offer global sustainable development for future generations? The answers to these and other important questions are given by the theory and applications of global economics; a science that studies, analyzes, and provides recommendations to the governments on national development strategies in the face of limited resources and unlimited desires. The availability of basic economic assets including natural, human, and capital resources varies from country to country. However, the basic needs such as food, energy, housing, health, and reproduction remain the same. The satisfaction of these needs differs greatly: one family is in need of a private plane to get to the opera, while another is in need of a donkey to bring a woman in labor on time to the hospital. This is how it always has been. “The thing that has been, it is that shall be; and that which is done, is that which shall be done: and there is no new thing under the sun”.

#### **The ECOSOC and World Planning**

What is in store for our future? The two world wars of the twentieth century have taken the lives of more than 50 million people and have destroyed the economics of

Europe and the USSR. The leaders of the countries of the anti-Hitler coalition have come to the conclusion that world economics requires regulation. In 1945, the United Nations Economic and Social Council (ECOSOC) was founded with the task of helping to raise the standards of living for all of our world's people and of promoting conditions of economic and social progress and development. (1)

Agreement for the creation of IMF along with the Bank for International Settlements and the World Bank came at the UN Monetary and Financial Conference in Bretton Woods, USA, as a part of a post-WWII reconstruction plan.(1) Together, these institutions define the monetary policy shared by almost all countries with market economies. In order to gain access to IMF loans, a country must agree to the terms set forth by all three institutions. In 1971, President Nixon had broken the dollar/gold link allowing a floating exchange rate, which was officially decreed to be permanent three years later by Treasury Secretary George Shultz. As a result, a new global currency system was created which is not backed by any gold or reserve



currencies, and where money can be sold or bought as a trade commodity.

Since 1985 financial ministers of seven major industrial countries have been meeting to coordinate the principles of their financial policies. The countries of G-7 include USA, UK, France, Germany, Japan, Italy and Canada. The President of Russia or the Russian minister of Finance is often invited as observers. Along with the IMF and World Bank this group of financial experts serves as the financial brain of the world and determines the priorities and volume of financial aid to developing countries.

**Leontiev’s System of Global Economy**

The first detailed model of the world economy was developed by a group of American economists headed by the 1973 Nobel Laureate in Economics, Dr. Wassily Leontief.(2) This study was based on the analysis of international statistical data on the quantity and quality of food and agriculture, natural resources (water, land, fossils, etc.), expense of the regional ecological problems, and investments and industrialization levels. Leontief’s system of global economy subdivided the world into 15 regions:

- 4 regions with a developed free market economy (North America, Western Europe, Japan, Oceania)
- 6 developing regions with a free market economy (Latin American countries, oil rich countries of Middle East and Africa, low-income Asian countries, dry and tropical

- African countries
- 1 region with a planned economy (Asia)
- 2 regions with moderate income (Western Europe and South Africa)

The system contained another two developed regions: USSR and Eastern Europe, planned economies with extremely high GDP’s. However, after the coup of 1991 in the USSR, those two regions have fallen to the ranks of developing ones. Many of their countries are now completely impoverished.

The UN Human Development Program has recently published a report exploring major issues of global concern. According to this expert estimate the world is facing an acute development crisis.(3) The Report’s annual Human Development Index (HDI), measuring life expectancy, education and income per person, shows the following:

1. Twelve countries experienced declines in 1990’s, while in the 1980’s only four countries tracked by UNDP showed similar decade-long declines.
2. Almost all of the “low development” countries at the bottom of the index are in sub-Saharan Africa: 30 out of the total 34
3. Roughly half of the countries in Latin America and the Caribbean recorded either a decline or stagnation in income during 1990’s
4. Eastern Europe and Central Asia saw an overall decline in the 2003 Human Development Index resulting from falling per capita income. The decline was particularly steep in Moldova, Tajikistan, Russian Federation and the Ukraine.(3))

**Future Global Economic Stability: a Possibility or Only a Dream**

The world financial

institutions today face a challenging problem: whom and how to help? Taking into consideration frequent successions of local governments and the weak development of democratic institutions, it is difficult to provide legal assurance of the democratic reforms. International financial aid may end up being deposited into private accounts or being wasted because of the outdated technologies. It seems that the most reasonable is the classical ideology of help: instead of giving someone food, teach them how to fish. Yet the developed countries have their own problems to face: by the year of 2011 the baby-boomers generation is approaching retirement.(2) If other nations are depending on U.S financial support today who in turn will be capable of coming to our aid a decade from now? Balancing the federal budget of the year 2011 will be a challenge for our future President as well as a test of global economic stability. Will the safety net of our independent global village be sufficient to keep the world from going into a major financial crisis? Will we finally realize that as the world’s people, there are no borders in our basic needs for sustenance and well-being?

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# The Clear Captain of the Entertainment Industry

by Michael Rogers

*In an industry built upon free artistic expression and the rags to riches stories of self-made performers, one corporation has consolidated the means for promotion, performance, and airplay, and controls the entertainment brought to your eyes and ears.*

It seems that a few short years ago the music industry was still fresh and fun, the radio brought the hottest new acts to the driver's seat of your Ford Taurus, a front-row seat at the Garden for Van Halen put a \$50 hole in your pocket.

In those days, radio stations raced to the streets to find new tracks to add to their playlist before their competitors; concert promoters battled their rivals for contracts with the next big thing; arenas and theaters fought for the opportunity to host the next breakout show or legendary performance.

Over the past 15 years, however, this fan-friendly structure has been forgotten like the 8-track and the AM radio. The roles of the radio stations, the promoters, and the venues have been merged into the sphere of a single media behemoth, a firm with the power to hand-pick the radio's next darling, schedule and promote her concert tour, and assign precisely in

which venues to stage her performances.

Leaving musical taste and artistry behind, consumers are forced these acts on the radio, on billboards, and at the local theaters. With this power to coordinate every aspect of the live music industry, Clear Channel Communications (CCC) is able to dictate ticket prices and the artists who receive them.

## **Blueprint for Establishing Market Power**

Today Clear Channel is the nation's largest owner of radio stations, the largest producer and promoter of live entertainment, and one of the largest outdoor advertising companies in the world. While its dominations in these areas allows it supreme bargaining power with the world's most popular performers, this accumulation of clout occurred only in the past ten years via the ambition of a few businessmen and the timely relaxation of government policy.

In 1994 Clear Channel was still a modest player in the national broadcast industry. Although its portfolio included 35 radio and 9 television stations with enough power to dictate regional trends in media and

streamline operations in certain markets, CCC still relied upon promoters, venues, and the record companies to establish talent and push sales.

The passage of the 1996 Telecommunications Act allowed Clear Channel to expand its operations nationwide through the acquisition of more than 100 radio stations by the end of 1997. After purchasing Jacor Communications in 1999 for \$4 billion and rival AMFM in 2000 for \$23.8 billion, CCC had positioned itself as the single largest radio station owner in the country.

While this sort of vertical accumulation had been the trend for years in the broadcast industry, Clear Channel continued its brilliantly conceived expansion across the industry with its acquisition of several outdoor advertising companies, culminating with its \$500 million purchase of advertising giant The Ackerley Group in 2002.

The most significant move in this conglomeration was the establishment of subsidiary Clear Channel Entertainment through a \$4 billion acquisition of promotion giant SFX in 2000. This company, which had recently acquired rivals Delsener-

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Slater and The Cellar Door Companies, gave CCC control of promotion and venues in all of the nation's largest markets.

## Clear Channel's Empire in the Marketplace

This continuing string of acquisitions has established Clear Channel Communications as the top player in an industry with a shrinking core of competition. CCC now owns or programs more than 1200 radio stations, manages more than 775,000 advertising displays, operates more than 135 performance venues, and controls an estimated \$27 billion in assets.

Access to this enormous wealth of resources has allowed the firm to dominate the live music industry—Clear Channel Entertainment was involved in 66% of concerts for 2001 and 2002, a period when its gross revenue jumped nearly 50%.

While the last few years have been arduous for most companies in the music industry as rising ticket and album prices have caused attendance and sales to slip, CCC has been able to capitalize on these trends and outperform the rest of the industry. Whereas independent venues rely primarily upon concessions, parking, and other revenues to make a profit, Clear Channel controls both promoter and venue revenues and therefore can suffer the decreased attendance and enormous artist-guarantee performance payments that it uses to dominate its competition.

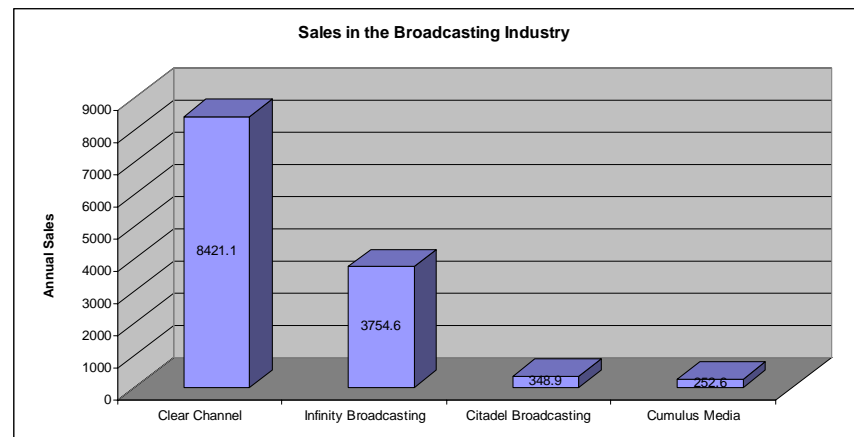
Similarly, while individual venues and promoters must work with each radio station for advertisement and promotion of artists and performances, Clear Channel utilizes its enormous network to offer artists unrivaled exposure. In today's climate where new artist development is struggling, CCC can promise established artists a larger cut and can cultivate new artists who would have no opportunities in a more competitive

environment.

While CCC was consolidating its operations from 1996 to 2001, concert ticket prices rose 66%. As Clear Channel took control of the promotion industry, it was able to outbid all competition with enormous artist performance guarantees. It is these figures that drive up ticket prices, a function of the bargaining between the artist and the promoter. In addition, Clear Channel is able to elicit an extra \$5-10 in service charges on each ticket because so few rival promoters exist to offer lower rates for other concerts.

negotiations that bring an artist into the media's view.

While internet file sharing will continue to grow as both a competitor to record companies and radio stations and as a means for artist exposure, the majority of money to be made in the industry still lies in live performances. Artists popularized by a digital music file will still need a promoter and venue, and if they wish to be selling tickets for \$75 each, they will have one option—get airtime on a Clear Channel radio station and book a Clear Channel venue.



## Conclusion: Impact on Consumers and the Future of the Industry

Clear Channel Communications succeeds and continues to grow because of the enormous costs involved in booking, promoting, and hosting a concert, and it is these ever-rising costs that allow top acts like the Rolling Stones to ask hundreds of dollars for a ticket while other acts have difficulty booking a full tour and selling tickets at \$40 a piece.

The network of radio stations and venues allows CCC to establish relationships with certain artists that it chooses to promote above others and dictates which music becomes popular and reaches consumers. The music itself is now less important than the underlying business decisions and

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# My Son the Witch Doctor: The Bush Tax Cuts and the Return of Voodoo Economics

*By Jason Roth*

*Bush's unchecked commitment to supply side economic policy threatens America's economic future.*

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In his 2000 Presidential campaign, Governor Bush pledged to cut taxes in order to return to the average American his share of the record budget surplus. Branding himself a “compassionate conservative,” Bush vowed to use the rest of those remarkable surpluses to create effective social programs, to pay down the national debt, to privatize Social Security, and to broaden prescription drug coverage. A *moderate* tax cut, he argued, would leave the federal government with the means to finance these social programs.

Now, three years—and three tax cuts—later, the Bush administration and the Republican majority in Congress have abandoned the tenants of fiscal responsibility. Shortly after Bush's inauguration, the U.S. economy experience a recession—unemployment levels rose, and the stock market faltered. Despite the economic downturn since his election campaign, the Bush stubbornly adhered



to his tax cut policy. A tax break, his administration argued, would provide a powerful supply-side stimulus to the economy. Lower income taxes would create incentives to work, increase labor supply, and lower unemployment levels.

However, no such labor market stimulus ever materialized. While consumer expenditure rose significantly in the third quarter of

2003, the economy has experienced a jobless recovery. Unemployment remains at 6 percent—2 percentage points than under the Clinton administration [7]. Lasting unemployment underscores the failure of Bush's tax cuts as supply side stimuli. Ironically, while in a 1980 debate Bush Sr. once branded supply side policies as “voodoo economics,” the present Bush administration has revived supply side theory as the cornerstone of its economic policy.

Bush's tax policy failures come at great fiscal cost. As the war on terror and the campaign in Iraq demand massive government spending, the Bush administration has foolishly cut its tax revenue that serves as the major source of government finance. With large spending and depleted revenue, the projected budget surpluses that Bush pledged to give back to Americans—estimated at \$5.6 trillion from 2001 to 2011—have collapsed into record deficits [1]. This fiscal year alone, the Congressional Budget Office estimates the deficit will reach \$401 billion [8]. Annual deficits are poised to plague the government's budget for years to come—experts forecast that annual deficits will accumulate to \$5 trillion by the year 2013 [3]. Despite

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the calamity of this ten-year \$10.6 trillion swing in the national budget, President Bush's worst fiscal offense still awaits. As unchecked budget deficits drive up the national debt, and the costs of non-discretionary spending on programs like Social Security and Medicare rise, today's reckless tax cutting has put America on an apparent collision course with inevitable fiscal crisis.

### **The Flaws in the Tax Breaks—Why They Haven't Helped Those They Should**

In pushing for the first 2001 tax cut, President Bush argued that the budget surplus had created the leverage for sensible income tax relief for middle and working class Americans. However, as the economy hit a recession in the summer of 2001, and the budget surplus dissipated, the Bush administration shuffled its cards. Now, it argued, the tax cut would serve as more than just an aggregate demand stimulus. Tax relief would put money directly back into the pocket of the American consumer. Tax cuts would help resuscitate both consumer spending and revive American industries. In support of its 2003 tax cut plan, the administration maintained that tax cuts would create a supply-side stimulus to benefit long run growth. This tax break on dividend income would give companies extra incentives to invest in capital and demand more labor. In time, tax cuts would spur productivity growth and lower unemployment [4].

In reality, Bush's tax cuts have failed to live up to any of these foolhardy goals. Instead of largely benefiting working class Americans most in need, Bush's tax cuts mainly serve the interests of the top income tax bracket and corporate profiteers. In a misleading publicizing campaign for the first tax cut plan, the White House billed the tax cut as a broad, equally dispersed benefit. The tax cut, it argued, would average \$1000 per person. In reality, this statistic was

grossly skewed by disproportionately large tax cuts for the rich. The 2001 tax plan's principal policies cut income taxes for the top bracket, and eliminated the estate tax, which affects only those inheriting a large sum of wealth. Indeed, by the time it is completely phased in, the 2001 tax cut will deliver 42 percent of the tax break to Americans with earnings in the top one percent of the income distribution [4]. Under the false guise of equal tax breaks for all, Bush's tax plans reward the very affluent (often loyal Republicans), at the expense of those most stricken by a sluggish economic recovery.

### *The Supply Side Fallacy*

The Bush administration points to its 2003 tax cuts as the source of the astounding 8% GDP growth in the third quarter of 2003. Undoubtedly, tax cuts promote consumer expenditure as a demand stimulus to the economy. Despite this astounding growth, labor markets have not responded. While consumer demand has risen, businesses have not substantially increased investment or hired workers. Capital investment spending has increased only marginally [5]. While the dividend tax break did raise corporate profits, Bush's tax plan provides no remedy for the elevated unemployment levels in the long run. Indeed, since Bush took office, the economy has shed 2.8 million jobs [7]. In those three years, Bush has neglected to responsibly address this problem.

### **Budget Deficits and Their Implications**

Not only have the tax cuts failed as supply-side stimuli, but their imprudent timing has created record budget deficits. Government relies on tax revenue to finance its spending. In today's troubling international climate, the government must spend liberally. The global war on terrorism and a war in Iraq cost the government billions of dollars a year. The initial Iraqi campaign in the spring of 2003 cost \$79

billion alone [6]. Military spending will continue for the foreseeable future. In September 2003, President Bush asked Congress for an additional \$87 billion for military and reconstruction in Iraq and Afghanistan [7]. The cost of fighting these wars alone is enough to push the budget into the red. However, cutting taxes in addition to exorbitant military spending has generated record deficits.

In its unwavering support for tax cuts, the Bush administration has ignored the dangers of sustaining large budget deficits over a prolonged period of time. In fact, many proponents of the Bush tax plan argue that cutting taxes forces the government to tighten its budget and cut wasteful spending. With the spending commitments to the war on terrorism and in Iraq, such "starve the beast" tactics are utterly naïve. While major combat in Iraq may be over, the United States has the expensive, and largely unilateral, obligation to finance Iraq's reconstruction. Much of the government's other spending commitments are mandatory and cannot be dropped. Social Security and Medicare, both non-discretionary spending programs, demand a large portion the budget. No matter how great the tax cut, the government must continue to finance these programs.

As a result, little spending money remains to tackle pressing domestic issues. For instance, in light of the massive budget deficit, Congress scrapped plans for President Bush's lofty prescription drug plan. In its place, it authorized a cheaper and less effective plan that fails to provide the broad insurance coverage that Bush's administration has espoused [2]. President Bush, the self proclaimed "Compassionate Conservative," has in fact little means to address this important domestic concern.

### **The Long Term Costs of Budget Deficits**

As the government runs record deficits, the Bush administration

continues to disregard the deficits' implications for the national debt. Indeed, many politicians see the budget deficit as a benign short term nuisance. To cover its expenditures, the government can simply borrow by issuing bonds to domestic or foreign investors. In the short run, the government can run deficits and still finance its spending and transfer programs. However, chronic annual budget deficits sharply increase the government's debt. The more it borrows, the more the government must pay interest on its debts. In the long term, financial commitments to interest payments will create significant additional strains on the budget.

Thus, with the government debt doomed to rise, America may very well be headed towards a fiscal crisis. Commitments to the arduous task of fighting terrorism and rebuilding Iraq, will force America's military spending to remain high for the foreseeable future. America's aging population, and the Baby Boomers' looming retirement will vastly increase the cost of funding Medicare and Social Security. By 2008, when the Baby Boomers begin to collect their Social Security checks, non-discretionary spending will dominate government expenditure [3]. If future governments hope to provide the valuable social services that America currently offers, they will be forced to generate the necessary revenue through very high taxation.

Without a responsible tax policy, the government's present fiscal commitments will inhibit its future spending power. Doggedly bound to exorbitant military spending and ineffective supply-side policy, the Bush administration's tax cuts place America's economic future in jeopardy. Today's fiscal irresponsibility may lead to a future economic crisis that even the most accomplished witch doctor would be unable to prevent.

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# Bush's Fiscal Policy: Necessary for the Times and for the Future

*By Andrew Bluestein*

*Criticism of Bush's fiscal policy is short-sighted and does not take into account all the possible long-term benefits of the policy.*

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With the next presidential election coming up in about one year, the debate over what President Bush has done to help the struggling economy will heat up. The outcome of this debate will have an important impact on whether or not Bush gets re-elected. In order to evaluate Bush's fiscal policy, one must look beyond the talk of the deficit and take into consideration the current times we are in and the long-run effects of the tax cuts. There are benefits of the policy in the short term, and more importantly, in the long term.

### **Short term Benefits**

President Bush's tax cuts will help stimulate the economy in the short term. The most concerning issue facing the current economy is the 6% unemployment rate. This rate is not high compared to the past, when unemployment rates hit double digits, but is still considered a significant problem by most politicians in

Washington. Bush's plan counters this problem by giving companies more incentives to invest in new capital. According to Bush, this investment will lead to the creation of one million jobs [1]. These new jobs will increase consumer spending and revitalize the economy in the short run.

### **Long term Benefits**

Some argue that Bush's tax cuts won't stimulate the economy because they favor the rich over the poor. However, this criticism overlooks two issues. One is that any tax cut sufficient to resonate across the enormous economy would have to go to the rich because they pay a significant majority of taxes. If the cut was only for the poor, it would not be large enough to have a significant effect. Second, there are benefits from having the rich pay fewer taxes. Opponents of this statement reason that the poor spend a greater percentage of their income and this increase in spending is needed to stimulate the economy. However, this belief is flawed because the economy grows faster when there is more savings. Current consumption is not necessarily the best for the economy in the future. By shifting the tax burden off the rich,

the saving rate of the economy will increase since the rich save relatively more of their income compared to the poor. The result is greater growth and a stronger economy in the long run. The tax cuts might not be best for stimulating spending in the short term, but the cuts will be best for the long term by encouraging investment, savings, and the creation of jobs.

### **The Budget Deficit**

The major criticism of Bush's tax cut and increased spending due to the war on terrorism is that these policies will lead to a large budget deficit for 2004. Recent estimates value this deficit at \$475 billion [2]. Critics argue that deficits are bad for the economy in the long run because they will lead to tax increases in the future and a restricted economy. However, this deficit must be kept in proper perspective and people have to understand that this deficit is not that bad. First, one must consider that budget deficits occur when there is a recession and a war at the same time. In a recession, total output and total income is decreasing and there are less people working compared to good times. The result is less tax revenues for the government. In times of war,

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the government increases its defense spending to accommodate the military in the war which in turn increases government spending. Therefore, in times of war and recession, tax revenues decrease and government spending increases, resulting in a

represent 4.2 percent of the total economy (GDP) [2]. This amount is large but manageable. In the last 20 years, we have encountered six larger deficits, all occurring after a recession, and we have managed all of them [2]. Therefore, the current deficit is not as

However, when looking at the deficit in the context of the current times and what the deficit will be when Bush's tax cuts have its effect on the economy, the deficit is no longer a problem. Bush's policies will make the country better off in the current times and in the future, and for this he warrants serious consideration for a second term.



budget deficit. The situation that we are in right now parallels the above situation. Hence, we should expect a budget deficit. Critics will respond by saying that Bush's extraordinary tax cuts are making the problem worse than it needs to be. I counter with the argument that Bush has no choice. A smaller tax cut will not stimulate the economy as much as the current one and it is not wise for Bush to decrease his spending on the war because the result could be a disaster in the battlefields of Iraq and Afghanistan. The only other solution would be to cut spending in other areas. Bush has tried to do this with issues like Medicare, but there are too many current social problems for spending to decrease too much. Ironically, those who do the criticism, democrats, want to increase spending on other issues like Medicare, prescription drugs, and social security. All this would do is increase the budget deficit more. President Bush has constructed a policy that fits the times and the alternatives do not fully take into account the needed tradeoffs in government spending.

It is also important to look at how large the deficit is when evaluating it. The current deficit projection will

bad as some would like you to believe. We will get by this current deficit and will come out stronger in the future just like we have in the past.

A third factor to take into consideration in evaluating the current deficit is what the long-run deficit will be. Under Bush's proposals, the deficit would decrease to 1.7 percent of the economy in 2008 [2]. The decrease will result from a stimulation of the economy with the tax cuts. The one million jobs that the plan will create will increase tax revenues in the future and the deficit will no longer appear to be a problem. This occurred in the late 1990's when the deficit was erased. The reversal of this deficit was a result of a booming economy, which skyrocketed tax revenues. When the economy rebounds, the deficit will diminish and will not be a problem.

### Conclusion

President Bush's fiscal policies will create jobs in the short-term and will lead to a better economy in the long-run. Those who criticize Bush because of the current budget deficit only do so to win votes from the common voter who does not know better and not to help out the economy.

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# “Beep, Beep”: The Economic Impacts of Traffic Congestion on Campus

By Thomas Wei

As a fellow Cornellian, if you aren't awoken by the incessant shrieking of your alarm clock every morning, you, like me, are probably jolted up by the sounds of automobiles zooming by your window. This is true whether you live on North campus (think about the garbage trucks), in the construction laden area of West campus, or in the bustling “metropolis” of Collegetown. Traffic flow certainly has a normative presence throughout Cornell University and Ithaca. This comes as no surprise for a campus that encompasses 745 acres of land. The thought of traversing from residence to class halls in order to make 8 AM labs is often very unappealing to sleep-deprived undergraduates. This distaste is compounded by the frequent hazards of steep inclines and frigid temperatures. Indeed, many would rather hit the gym in their free time, rather than get their daily exercise by walking to class.

The simple solution to this

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dilemma: a car. What's easier than getting up, jumping into a car, and arriving at class with minimal hassle? Unfortunately, as most of you probably suspect, the issue is a bit more complicated than that. This article is the first of two separate papers, which informally outline a study conducted by a few colleagues and I concerning what we dub as “Cornell's Transportation Problem.” This first paper covers the relevant issues, presents our research methodology, and discusses our preliminary hypotheses; a formal literature review has been omitted for the sake of brevity. The second paper, to be published in a later issue of this journal, will report our principal findings and will subsequently evaluate any implications that arise.

## The Problem

At the conclusion of every lecture hour, 13,000+ students rush out of buildings and move through central campus to their next destination. Along East Avenue, which runs through the main part of campus, there is often a long caravan of automobiles lined up. It can typically take longer to drive than to simply walk down the length of the road. This is the essence of the

“transportation problem”: congestion. Anyone who has had a public finance or microeconomics course can tell you that congestion is a potentially negative effect associated with a public good. Public goods exhibit two characteristics: non-rivalry and non-excludability— National Defense is a classic example. At Cornell, the public good in question is the road system. Congestion can result from a public good that is not perfectly non-rival. That is, at a certain level of consumption, an additional person's



use of the good adversely affects the usage of everyone else. A good illustration of this is local parks. Generally, many people can play in a park, without affecting anyone else who wants to also use it. But, if enough people are using the park, space becomes constrained, and the next person who wants to join might have a difficult time doing this. This is what we see with road traffic at Cornell: too many people want to drive on roads which have limited capacity, making it tougher for other drivers to use the same roads. Furthermore, the number of cars is positively related to road degradation, thus negatively impacting future users. The time lost while waiting in traffic through this congestion can't be understated. This is a problem for many major cities, and although Cornell may not be as adversely affected, there is no doubt that many students have been late for work or exams while trying to get to their destination via motor vehicles.

The increased danger of more motor vehicles on the road is also apparent. Between classes, hundreds of students cross roads, and bicyclists share lanes with automobiles. More cars necessarily imply a greater risk of accidents involving cars, bicycles, and/or pedestrians. Reports of accidents in this regard have prompted the Cornell Police to be ever stringent about pedestrian crosswalk and general traffic laws on campus.

An externality is simply a direct or indirect effect of a person's actions on others not involved with the actions. If it is a negative effect, economic theory predicts that there will be a larger than efficient quantity of that "action" because the marginal private cost is lower than the marginal social cost, but since the individual performing the action only need consider the private costs, he sees the cost to consume as cheaper than it actually is; the result is that he consumes more than is socially optimal. In the case of Cornell traffic, the obvious externality is pollution.

Exhaust gases are argued by many to be major pollutants of our atmosphere, which may lead to problems of ozone depletion, global warming, and acid rain. Furthermore, poor air quality can lead to health risks, particularly respiratory ailments. If drivers had to compensate non-drivers for these external costs, then there definitely would be fewer vehicles on the roads. The fact that auto manufacturers are currently in the process of developing much more fuel efficient vehicles is testament to the salience of this issue. A second externality, which was alluded to in the beginning of this article, is noise. The consequences resulting from not being able to get a good night's sleep are well documented, and the rackety noise from vehicles constantly rolling by certainly does not help in satisfying this basic biological necessity.

### Background and Theory

From Consumer Theory, we know that a person's demand for any good or service (in this case, driving a car on campus) depends principally on four factors: price of good, price of related goods, income, and taste/preferences. The actual cost of having a car on campus is difficult to estimate simply because there are so many implicit and hidden costs; so we are going to use a proxy variable for that factor, namely, the price of on-campus parking. Presumably, people drive on campus during the day to get to a class, and if they get to a class, they have to leave their car somewhere. If they have nowhere to leave their car while at class, there would be no incentive (in fact, probably a disincentive) to drive the car up. Now, this variable is not a perfect indicator, because people could have a friend as a chauffeur and so forth; nevertheless, we feel it is the most efficient and reliable way to estimate the true costs of having a car on campus.

In this study, we chose to look at two of the factors in particular: price of good and price of related goods. We

want to look at how changes in these values affect the demand for these goods. We won't evaluate the income and tastes/preferences factors simply because tastes are incredibly complex to operationalize, and income is an exogenous factor in the sense that no Cornell policy (that is legal) can significantly affect income, both on an aggregate and individual level. However, since income is easily measured, we will incorporate it into our statistical model, so that we can control for its effects. We won't include tastes since it's incredibly difficult to quantify; we'll just have to hope that we have a representative sample, and that the omitted variable bias resulting from it is small.

The goal from these constructs then is to produce findings on how sensitive Cornell undergraduates are to changes in costs of parking on campus. And in effect, we will compare these to how sensitive the same population is to changes in the price of related goods. In this case, we've chosen to look at mass transportation, which we've rationalized to be an imperfect, but close, substitute for cars. Since we don't have data on cross-price elasticities to make an empirical judgment, we'll just have to impose this assumption, though it is based on logical intuition. In Ithaca, this means the Tompkins Consolidated Area Transit (TCAT), a busing system that is heavily subsidized by Cornell University to encourage usage (and to discourage cars). By comparing the effects of these factors, we can determine what the most efficient policy is to curtail the public transportation problem.

If you've looked around campus recently, you'll notice that there is a lot of construction, particularly around the West Campus area. Specifically, parking spaces have been added at the bottom of Libe Slope, and there are proposals to add a parking lot and garage to West Campus. This is a supply side approach to the issue, and

a few studies have looked at the supply effect on traffic congestion. This is, however, beyond the scope of our study. We are only comparing factors that affect the demand for parking, treating the supply of parking spaces as given. Nevertheless, it is important to note that there are other methods to deal with the problem (think about Keynesian versus Supply-Side macroeconomists and how they differ).

### Methods and Model

The data will be conducted via a survey. Though we will be using non-probability sampling techniques, all efforts will be made to ensure that the selection of potential respondents is reasonably heterogeneous, in order to minimize bias. The survey will ask hypothetical questions about willingness to pay for parking on campus; information will also be collected about hypothetical prices of other goods, income levels, and preferences for cars versus buses. Ideally, to derive the demand curve, we'd find the optimization points (utility maximization) for each respondent for every price level of on-campus parking. With this price consumption path, we could draw individual demand curves and then sum these up for an aggregate demand curve. Unfortunately, since we don't know the precise tastes (indifference map) of the individuals, this theoretical method is infeasible. Thus, we have to assume that respondents will pick their optimizing point automatically in the survey. Then we can aggregate the data for every price and derive a demand curve. This curve is of course an estimate based on sample data, rather than on the population. We go in with the assumption that the demand curve will satisfy the properties of a typical demand function, because there is no *a priori* reason to suspect otherwise. That is, the demand as a function of price is downward sloping (as price rises, quantity demanded declines). We will ultimately estimate a log-linear multiple regression model- demand for parking will be a function of price of

parking, price of busing, and income- which will facilitate the computation of the price, cross-price, and income elasticities of demand (a measure of consumer sensitivity to these respective factors). Finally, we will compare the first two elasticities (controlling for income) to determine the relative sensitivities of parking prices versus price of a substitute good (TCAT busing).

A brief point of clarification for those who haven't had an econometrics course yet: a regression model is basically a best-fit "line" for your data; by "best" we mean that the sum of the squared deviations from the line to the actual data points are minimized (called the method of Ordinary Least Squares, OLS; there is another method for fitting the line called Maximum Likelihood, but OLS is easier to understand and just as appropriate for such situations). In this case, the "line" is not actually a line, rather a four-dimensional figure, since each variable is a dimension in the model. Consequently, there's really no way of visualizing the regression equation. Luckily, we can nevertheless stick with the algebra to produce the results we want.

### Expectations and Rationale

We expect the aggregate demand curve for parking on campus to be relatively elastic (i.e.,  $|\epsilon| > 1$ ), especially at a higher price threshold. The reasoning for this is that parking on campus, or even having a car is in fact probably unnecessary. It really is similar to a luxury good. Though some may argue with this, it's not something Cornell undergraduates need for survival, like food, for example. There are many alternatives offered to cars, including bus transportation, biking, and even housing location. These factors are supplemented by the rigidity of the Cornell Commuter and Transportation Services in conjunction with the Cornell Police Department in enforcing strict parking codes during the day, which then provide exogenous

disincentives to bring a car to campus, independent of the direct costs (like paying for a parking permit). As a result, we feel that these external factors make potential commuters particularly sensitive to changes in parking prices, perhaps even more so than changes in TCAT commuter bus passes.

Bus transportation does have its drawbacks, primarily because it is less convenient than a car. Bus routes sometimes don't come very often, and don't necessarily run around the clock. Furthermore, some bus locations are relatively far from residence locations or don't go close to where you want to go. Overcrowding on buses is sometimes an issue, especially at peak times for certain routes. Finally, though heavily subsidized bus passes are not free, costing a user \$1.50 per ride, or \$190 for a 12 month unlimited ride pass. In terms of convenience, it appears some are currently willing to pay the difference between a parking pass and a bus pass.

As a result, we hypothesize that our findings will lend support to the idea that raising prices of parking would be a more cost-effective alternative than lowering the price of busing. Lowering the price of busing requires Cornell to subsidize TCAT, costing the university money. If they raise the price of parking, more revenue can be collected, and only the fewer people willing to pay the higher price will continue to demand parking. The lowered demand will decrease traffic congestion and provide a much more efficient outcome than what we see today. It is possible that issues of fairness can arise with this policy with regard to monetary considerations; however, economic efficiency is the main evaluative criteria we will utilize. Our hope, then, is that the results of this study will offer some insight into the resolution of Cornell's, as well as many other residential educational institutions' "transportation problem."

# Taking a Stroll with Park

By *Rushi Parikh*

*Which Cornell Economics Professor was once trained as a sniper?*

With a B.A. in Law from Seoul National University in Korea, an M.A. as well as a Ph. D in Economics from UCLA, and a brief stint in the Korean army, Kichool Park is a captivating and shrewd professor who has the uncanny ability of making undergraduate microeconomics lectures a memorable experience. I sat down with the third-year Cornell professor in order to learn more about his past educational experiences, his profession, and his current research.

RP: Tell me about your education in Korea. I know Korea was engulfed by serious political turmoil in the late 1980's and early 1990's. What was it like studying in such a chaotic environment?

KP: Although I attended Seoul National University from 1987 until 1992, the political situation in Korea did not allow me to really study at the university. Without being able to consistently use the university's

resources, my classmates and I were forced to study amongst ourselves and basically learn on our own.

RP: Talk about auto-tutorial. So, after you graduated in 1992, what did you decide to do?

KP: In Korea, the government enforces mandatory service in the army. So after I finished my B.A. in Law at Seoul, I chose to postpone my studies and serve in the army for twenty-six months.

RP: It must have been difficult to just suddenly stop your life and enlist in the army.

KP: Yes, not only did I have to put my career goals on hold, but I also was separated from my family and from my girlfriend, who is now my wife, for twenty-six months.

RP: What position did you hold in the army?

KP: Well, while serving as a military police officer, I was also trained as a sniper. In my prime, I could hit a small target three-hundred yards away nearly every time. And I also earned a black belt in Taekwondo. I was dangerous.

RP: Who knew that Cornell's Economics Department had a walking weapon of mass

destruction! So after you left the Korean Army in 1994, where did your academic ambitions lead you?

KP: I wanted to do my graduate studies here in the U.S., so I worked hard on my applications for a few years. In 1996, I went to UCLA where I spent five years earning my M.A. and Ph. D in Economics.

RP: What was the transition from Korea to the U.S. like? Did you speak English fluently at the time?

KP: Upon arriving at UCLA, my English was terrible, so I faced a considerable language barrier. When professors gave verbal lectures without writing on the blackboard, I was completely lost! I would have to read a textbook over and over just to make sense of it.

RP: Do you remember any particularly embarrassing moments from those days?

KP: Well, one time an attractive female classmate of mine asked me, "How are your kids?" But I heard, "How are your kisses?" I was so confused. I thought to myself, "Why does she want to know about the quality of my kisses?" I finally answered, "They are good,

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not bad.” I was pretty embarrassed when I realized that she was just asking about my children.

RP: After five years at UCLA, what would you say are the biggest differences between the academic institutions here in the U.S. and in Korea?

KP: I think undergraduate programs here and in Korea are pretty comparable. The major difference is in graduate programs. Graduate programs here have more money, and therefore can fund better quality institutions with better faculty that will attract students worldwide. Korea, as well as other countries for that matter, simply does not have the financial capabilities to fund the types of graduate universities that the U.S. can, and so U.S. graduate programs are superior.

RP: So, after earning your Ph. D in 2001, how did you end up at Cornell?

KP: As a professor, my job is divided equally between teaching and researching. Cornell offered the best research environment, particularly because two of my colleagues in the Economics Department share my research interests in economic theory and game theory. So, despite Ithaca’s weather, Cornell was a perfect fit for me.

RP: Tell me about your current research projects. Is there anything that would be of particular interest to the average Cornellian?

KP: My major research project involves stock price manipulation. I have found that with a large enough sum of money, it is possible to bully other investors into buying shares of stock off of you. By buying mass quantities of a certain stock, you can lead other players in the stock market to believe that you must have some reliable information, and so they will be lured into buying shares of the stock that you can conveniently

sell to them. I am also researching how to find the best local beer most quickly. I think that the entire student body here at Cornell is researching this topic as well.

RP: You have an opportunity to better the lives of all Cornell students with your research, Professor Park. The sooner you determine the best Ithacan beer, the better off we all will be. So, besides researching, you teach undergraduate and graduate microeconomics. All undergraduate economics majors are required to take intermediate microeconomics. Why should they choose your course?

KP: Well, if you are looking into studying economics at the graduate level, you should take my course. Graduate level economics is very analytically based, and my course will prepare you for that. But even if you are not interested in graduate level economics, you should still take my course because it is a fair one that rewards hard work.

RP: I am in your intermediate microeconomics course. Do you have tips you would like to share?

KP: Master the problem sets within a time constraint! You need to develop the problem-solving techniques that allow you to solve lots of problems within a limited amount of time. And of course read the textbook.

RP: Lastly, there is a myth amongst your former 313 students that problems containing the names of your children, Hyunjee and Jaewoo, are harder. Is it true?

KP: Well, those problems are probably more realistic, so they could be a little trickier, but a prepared student should not have any difficulties with them.

RP: In other words, watch out for Hyunjee and Jaewoo!

### Conclusion

After chatting with Professor Park, I am even more convinced that

he is one of the best professors within Cornell’s Economics Department. His past experiences coupled with his sense of humor make for intriguing lectures that help you to *learn* the material. I definitely recommend Professor Park’s course to any future 313 students. It is a challenging, yet doable course that stimulates interest in microeconomics.

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# A Personal Experience with Fraud

By Tulika Kumar

*Summer experience with state government agency gives insight into economic wrongdoing.*

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The New Jersey Bureau of Securities, a part of the Department of Law and Public Safety, serves as New Jersey's complement to the Federal Securities and Exchange Commission. The Bureau implements the New Jersey Uniform Security Act by making sure that broker-dealer firms, agents and investment advisors are registered with the state. Legal action is taken towards those who are not registered or those not in compliance with such rules and regulations [1].

## **Personal experience as an intern**

Starting as an intern at the New Jersey Bureau of Securities, I had no idea what to expect. All I knew was that the Bureau was concerned with financial matters. Within just a few days, the attorneys that I worked for opened my eyes to a number of everyday financial fraudulent behaviors that needed legal attention; it was this aspect of regulation that I got to know very well over several

weeks of the summer.

One of the first projects I was assigned was under the direction of a regulatory officer at the Bureau of Securities, Ethan Silver. This project involved investigating a company selling mutual funds. This company initially had two owners, Smith and Jones\*. At some point, Jones left the company and decided to venture on his own. He started the same kind of financial advising practice that he and Smith had owned, selling and dealing with mutual funds. Smith contacted the Bureau of Securities with the complaint that Jones was not certified to sell mutual funds. Upon such notification, Silver started to investigate the validity of Smith's claims. As an intern, I investigated the qualifications required for one to transact in mutual funds.

I started researching by visiting the website for the National Association of Securities Dealers (NASD), which regulates the securities industry. According to its website, "[the] NASD registers member firms, writes rules to govern their behavior, examines them for compliance and disciplines those that fail to comply" [2]. Essentially, the NASD requires those individuals involved in the sales or transactions of securities to register

and to successfully complete certification exams. These "series examinations" give an individual certain capabilities with securities transactions. In my investigation of Jones, I had to specifically check whether or not he was certified for mutual funds. This required proper completion of the Series 6 exam, containing 100 multiple-choice questions. The two hour and fifteen minute exam grants proper authority to effectuate variable products, such as mutual funds.

With Silver supervising, I composed a letter asking Jones to provide the New Jersey Bureau of Securities with details of his certification. If he had taken the Series 6 and provided documentation for it, then all would be well. If he had not, he was at risk of legal attention from the Bureau of Securities for dealing in mutual funds without proper certification.

In addition to investigating Jones, I worked on some other exploratory projects. Under the direction of Steven Wachtel, another regulatory officer at the Bureau of Securities, I researched a man named John Wealth\* who gave free money making seminars. Wealth used high-

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pressure sales tactics to coerce people into real estate investments. He had been in legal trouble with the attorneys general of Michigan, Pennsylvania, and Tennessee. In Michigan, the attorney general ordered a “cease and desist from engaging in certain unfair, unconscionable, or deceptive methods, acts or practices in the conduct of trade or commerce” for Wealth’s company [3]. (Similar action was taken by Pennsylvania and Tennessee). Wealth continued to give these get-rich seminars in the New Jersey area, so regulatory officer Wachtel began an investigation by attending a local seminar. My job, under Wachtel, was to continue the investigation by checking Wealth’s legal history in New Jersey and several neighboring states.

Investigative projects such as these seek to ameliorate wrongful financial behaviors by bringing them in compliance with state and national securities laws. As a result, most projects at the New Jersey Bureau of Securities require a thorough understanding of securities law. The ultimate discretion and oversight is given by the Chief of the Bureau.

### Conclusion

Securities regulation is a dynamic field with a large set of changing rules at both the state and national levels. New regulations are implemented almost every minute. The New Jersey Bureau of Securities, as I witnessed this summer, maintains a standard for financial institutions.

As for myself, I have always been interested in the financial world. It was interesting this summer to see the regulatory aspects; I had not before known just how much wrongdoing is actually committed on a daily basis. Average consumers are unaware of unfair practices and are at risk of loss of investment. The New Jersey Bureau of Securities, as well as the state agencies of the other forty-nine states,



works to regulate these fraudulent practices not only to protect the innocent average consumer, but also to maintain federal standard among individuals involved with securities transactions.

\*real names have been changed to protect identity

### REFERENCES

1. Bureau of Securities <http://www.state.nj.us/lps/ca/bos.htm>
2. NASD [www.nasd.org](http://www.nasd.org)
3. Website about John Wealth (cannot disclose for identity purposes)
4. Personal communication with Steven Wachtel, Ethan Silver at the New Jersey Bureau of Securities (June 2003 – August 2003)



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# ECON 368: Game Theory

*By Jeffery Zhang*

*Instructor: Prof. Lawrence Bloom, Ph. D. University of California at Berkely, 1977, Professor of Economics*

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I think most people would find Game Theory a stimulating course because Prof. Blume is an engaging lecturer. Perhaps the word lecturing doesn't quite do justice to what he does in class. He always adds interesting anecdotes and examples to illustrate the material. And of course, what is a game theory class without games?

There was a number guessing game in which everyone had to guess a number, and the person who guessed closest to one third of the class average would get \$5. This game turned out to be an excellent example of collusion. It turned out that a group of students colluded to fix the game and share the prize. As Prof. Blume observed, sometimes the best strategy in a game is to break the rules.

As a math major who is taking this class for fun, I find the lectures entertaining as well as educational. On a serious note, the class is by no means an easy A, since there is actual content in the lectures and the book, since some

work is required to do well in this course. Additionally, I would recommend those who wish to take this course to have taken Econ 313 and 319 first. Although it is possible to take this course without having first taken Econ 313 and 319, it does use some material covered in those courses, such as the Stackelberg-Cournot Duopoly problem from 313 as well as some probability covered in 319. Therefore it may be slightly difficult in the beginning for those who have yet to take Econ 313 and 319. The mathematical requirements for this course are quite light, mainly consisting of some basic knowledge of probability. However, the most important pre-requisite for this course is common sense. There are no formulas and equations to memorize, so plug and chug won't work here.

If you can handle a little probability and don't mind applying some thought to solving problems, then this will be an enjoyable course to take.

## Grading

There is one prelim (open book/open notes), one final and usually one problem set per week.

## Class Size

Approximately 60

## Topics

1. Rational Choice
2. Strategic Form Games
3. Extensive Form Games
4. Equilibrium
5. Mixed Strategies
6. Refinements of Nash Equilibrium
7. Bayesian Games
8. Evolutionary Game Theory

## Course Website:

<http://instruct1.cit.cornell.edu/courses/econ368/>

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*Jeffery Zhang '05 is an Economics major in the College of Arts and Sciences*

# ECON 333: Financial Economics

*By Anna Nesterova*

*Instructor: Prof. Morten Nielsen, Ph. D. University of Aarhus, 2002, Assistant Professor of  
Economics*

Taught by Prof. Morten Nielsen, this course is a solid introduction to the art of asset pricing and portfolio management. You will learn about the different methods companies employ to raise money, the pros and cons of stock options and mutual funds, and about various degrees of financial risk and the payoffs for taking them.

His notes are straightforward, well organized and concise. Going to class will eliminate the need to read the textbook though you will still need it for the problem set questions which are found at the end of each chapter.

Exams are in-class and consist of a problem from each of the chapters covered. If you are a quick thinker and do well under time constraints, the exams should be straightforward.

The Professor is concerned with student progress and is flexible about scheduling appointments for extra help outside of office hours. He also has a good sense of humor, which

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Economics and Modern  
European Studies  
major in the College of Arts  
and Sciences*

is a plus when you are stressed out about exams and other Cornell student woes.

Overall Financial Economics is an excellent course to take if you are interested in learning practical, useful models for personal and corporate investment management.

## **Grading**

There are two prelims weighing 30% each and a final exam weighing 40%. There are problem sets but they are for your own good and are not collected.

## **Class Size**

Approximately 150 but there are considerably less on any given lecture.

## **Topics**

1. The Valuation of Assets
2. Risk and Return
3. Corporate Financing
4. Debt and Dividend Policy
5. Financial Planning

## 6. Options and Risk Management

### **Class Website:**

<http://instruct1.cit.cornell.edu/courses/econ333/>

# Experiences as a Graduate Student in Cornell

By Vidhi Chhaochharia

I would first like to tell you a little about my education before I came to Cornell. After completing my schooling, I did my undergraduate studies in Economics at Presidency College, Calcutta, after which I did my masters in Quantitative Economics at the Indian Statistical Institute. While I was completing my masters, I decided that I would like to do a PhD in Economics. The process is by and large similar for all students across the board, in the sense that we all take the GRE, write statements of purpose, get recommendation letters and send out applications to schools.

Things worked out well, and the next thing I knew I was enrolled in the PhD program in Economics at Cornell. The PhD program in Economics does not have a uniform structure across schools, but essentially most programs share some commonality. One is required to take a general set of advanced Microeconomics, Macroeconomics,

Mathematics and Econometrics courses, to create a foundation in Economics. The method of evaluation at the end of the first year of the program differs across schools. In Cornell, we are required to take Qualifiers (also known as Comprehensive Examinations) in Microeconomics and Macroeconomics that are designed to test one's foundations in Economics. The exams as are not the easiest, but a lot of practice in problem solving and a thorough understanding of the material helps one get through. Other schools (e.g. University of Rochester) instead of general exams require students to take special field exams where students decide as to which two or three field they are most interested in, and take Comprehensive exams in them. Once I had taken the qualifiers, it seemed like a big hurdle over, however now it seems it was just the beginning.

The second year, unlike the first is unstructured where people shop around to find areas they are interested in. I did the same; by the end of the first year, I knew I was broadly interested in Macroeconomics, International Economics and Econometrics. So my best strategy was to take graduate level courses in the

above mentioned areas. I also took courses in International Finance, just to get a perspective. Overall, the second year is relatively relaxed, when one is just shopping around, and the pressure to start research has not yet built up. By the end of the second year, I vaguely knew what I was interested in, and hence talked to a couple of professors to try and decide in which direction to proceed. I read a lot of existing literature, but to come up with something new and interesting was a stupendous task. Subsequently I began talking to a professor in the business school, Warren Bailey, who specializes in International Finance. A couple of meetings and long discussions started me thinking of potential areas of research and things that I might try and do.

I decided that I would like to work with Professor Bailey, as my advisor. The choice of an advisor is somewhat crucial in how your PhD shapes up. I realized somewhere along the way, that I was not one of those students who could manage on their own; I needed a lot of guidance and structure. The choice of my advisor provided me the necessary structure I needed along with the fact that I could talk to him with a considerable level

*Vidhi Chhaochharia is a Ph. D. candidate for Economics in the College of Arts and Sciences*

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of ease.

I started my third year with grand plans of completing at least one paper; however it remained just a plan. I still took courses but research ideas and new topics were hard to come by.

One of the things that would help in doing better research is probably working before one decides to go to graduate school. I definitely think that working gives a person maturity and well defined ideas as to what exactly one would like to do in research. Well defined goals helps one get focused from the very beginning and starting research earlier in your PhD career is always a good idea, since even though five years seems like a lot of time, it really is very short, to get all the research one wants to get done. Maybe an internship in the summer at varied places, probably research institutions, and corporate organizations, would in the very least define as to what one does not like to do.

PhD student life is characterized by many ups and downs. Days go by where you think you are working very hard, but in terms of concrete results one has nothing. Friends, definitely help to smooth out the cycles, In Cornell I did manage to find a very supportive group of friends, who are not competing with you but are more than willing to help you through the process.

It might seem that I have painted a rather gloomy picture of the PhD, but there are moments when one becomes very enthusiastic and optimistic with what they are doing. The PhD program can be summed up as coming up with a problem and then solving it. Think of the possible scenario, where one comes up with a problem, which is new in the sense that nobody has thought of it before and yet at the same time it is interesting enough to demand a thorough study. The next step is to solve the problem, where the very process of solving it is extremely exciting and satisfying.

Thus the PhD program though rigorous and tedious is certainly an invaluable experience in life.

# College Economics: Maximizing Time

*By Stephen Degrow*

Time maximization is a treasure that everyone desires because it creates superior efficiency and minimal opportunity costs. The key to unlock this pot of gold is often difficult to obtain. However, by fighting off certain distractions that cause the continued decrease in productivity that occurs during marathon study sessions, one can successfully maximize their time.

## **Types of Disturbances**

The distractions that cause diminishing returns to homework come in three distinct forms that can be arranged on a spectrum ranging from monopolistic distractions to competitive distractions. Monopolistic distractions are those that obtain a death grip on you and take away your productivity for prolonged periods. Some examples of these are online communication and solitaire. These diversions are dangerous because they can exercise strong market power over your study

industry. Competitive distractions, on the other hand, can not control your time for long periods. However, like a bad cold, they just do not go away. In these instances, simple things appear to be extremely amusing, and constantly compete with your homework for your attention. Competitive distractions include the cool noise your pen makes whenever it is clicked, and the funny way your room looks when your head is upside down. These are likely to occur after many hours of studying, when one's attention span is that of a caffeine filled three year old. In between the monopolistic

distractions and the competitive distractions are the monopolistically competitive distractions. These are the mutt diversions, that is, they have some of the qualities of both extremes.



## **Regulating the Disturbances**

The battle against monopolistic distractions can be won by block scheduling. This method of regulation involves taking on homework in one or two hour intervals throughout the day. By taking part in this practice, one is less likely to experience a shrinking attention span because her or his mind does not have to focus on a single topic for too long. Block

scheduling, however, does have its drawbacks. It is not always good for writing papers because it can break

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up the flow of your thoughts. It is also not good for people who like to get things done in one shot.

Competitive distractions can be handled with food regulation. The idea behind this method is that food never fails to satisfy. A good burger, cookie, or candy bar can, in some ways, exceed all other pleasures in life because they consistently give you what you want. The biggest advantage to this technique is that it does not require any new knowledge to perform, all one has to do is eat while studying. This procedure is especially effective for eliminating weekend distractions. Since there is a party going on in your mouth, it is not as distracting or depressing to see your friends go out have a good time while you study.

### **Final Thoughts**

Reducing diminishing returns to homework by obliterating distractions, results in time maximization. By practicing block scheduling and food regulation one can obliterate the Rockefeller disturbances that often monopolize our day. Once these crafts have been mastered, one can experience the luxury of having Carnegie efficiency and minimal opportunity costs.

# Give Us a Break

By Tianai Lin

*Are we expecting too much out of Economics?*

It has been said that economics is a “dismal science”. Thomas Carlyle coined the term in response to Thomas Malthus’s prediction that exponential population growth combined with linear food supply growth would result in worldwide famine. Today, although that prediction has been disproved, it is perhaps for this very reason that some people deride the value of economics and support John Galbraith’s assertion that “economics is extremely useful [only] as a form of employment for economists.” In my paper, I wish to make the case that we should allow economists some breathing space – after all, they are certainly not having an easy time facing criticism for being too pessimistic and optimistic.

One common criticism of economics is that it makes simplifying assumptions that are too unrealistic. For instance, the assumption of utility maximizing behavior by rational

individuals forms the foundation for a significant part of fundamental economic theory. However, the concept of the Homo Economicus fails to account for other motives that drive man’s economic behavior, such as altruism or a sense of duty. This lack of realism can be extended to the neo-classical assumption that firms aim to maximize profits, an assumption which William Baumol and Oliver Williamson denigrate as being insufficient in portraying the complications within firms and their coalition of conflicting interests. In today’s large joint-stock corporations, it is increasingly difficult to discount the role that shareholders and managers play in the day-to-day operations of the firm, since they will often have interests that are incompatible with that of profit-maximization per se.

Still, it would be unfair to attack economics on the grounds of its many improbable assumptions, since even the hard sciences take liberty to assume that some variables are constant, or that friction is zero, etc. If models are to reveal anything, they must be simpler than reality: the challenge is to simplify usefully.

This brings us to Milton Friedman’s argument that “a theory

should be judged not on the realism of its assumptions but the accuracy of its predictions.” By allowing some leeway for the simplifying assumptions that economists make, it is hoped that the predictive ability of their theories will increase. To continue my previous example of the neo-classical theory of the firm, profit maximization does provide an elegant, commonsense avenue for predicting the behavior of firms. Granted, it cannot reflect the panoply of forces that motivate firms as well as behavioralist theories can. However, simple solutions can often suggest answers to complex problems. Indeed, empirical evidence shows that profit maximization is one of the top priorities for a firm. Similarly, while perfect competition is a rarity in the real world, the competitive model is far from being a total failure as it is still a crucial benchmark for evaluating the performance of other firms. The key in the model is not “whether an industry is uncompetitive, but [rather] how far...conditions deviate from competition” (John Galbraith).

On the other hand, economists are often unpopular because they are seen as the dirty realists of the social sciences. They warn us constantly about difficult choices and trade-offs

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– which is best summed up in the catch phrase “there is no such thing as a free lunch.” Thus, it seems that economists face a double-edged sword as they are attacked for being both too realistic and unrealistic at the same time.

Nevertheless, the most indicting criticism of economics is that economists constantly disagree with one another. They bicker over issues ranging from simple definitions (such as terms like “consumption” or “unemployment”) to policy recommendations (for example, rules versus discretion). In response, I would argue that disagreement is not necessarily a bad thing. By questioning and disproving a hypothesis, the body and strength of economics actually grow. Progress arises from disagreement, not consensus. The former enhances the dynamic nature of economics as it constantly evolves to better its applicability to the real world. For instance, criticism of profit-maximization led to the formulation of alternative theories such as managerial utility theory, growth maximization, satisficing, rules-of-thumb and so on, which contributed enormously to our overall knowledge of firm behavior. One must not forget too that “the Theory of Economics does not furnish a body of settled conclusions immediately applicable to a policy. It is a method rather than a doctrine, an apparatus of the mind, a technique of thinking, which helps its possessor to draw correct conclusions” (John Maynard Keynes). A case in point is the cost-benefit analysis, which shows an individual how to decide on the best policy. It is a framework for considering a range of costs and benefits in monetary terms by quantifying and monetizing the various impacts of policy implementation. Although some impacts are difficult to monetize, cost-benefit analysis can nevertheless serve as a useful tool in alternatives evaluation. Risk assessment methods, life valuation techniques and so forth also provide useful means of weighing alternative

choices. Interestingly, economic theory seems to be reaching a point of crisis where its relevance to the world is being questioned. In March 2000, *The Economist* ran an article with the subtitle as “In the long run, is the subject dead?” It posed the question of whether “the discipline has come down with nothing more complicated than a bad case of diminishing returns. Perhaps as much light as will ever be shone on the inexhaustibly complex behavior of economic actors has by now been cast, and it is futile to hope for more”.

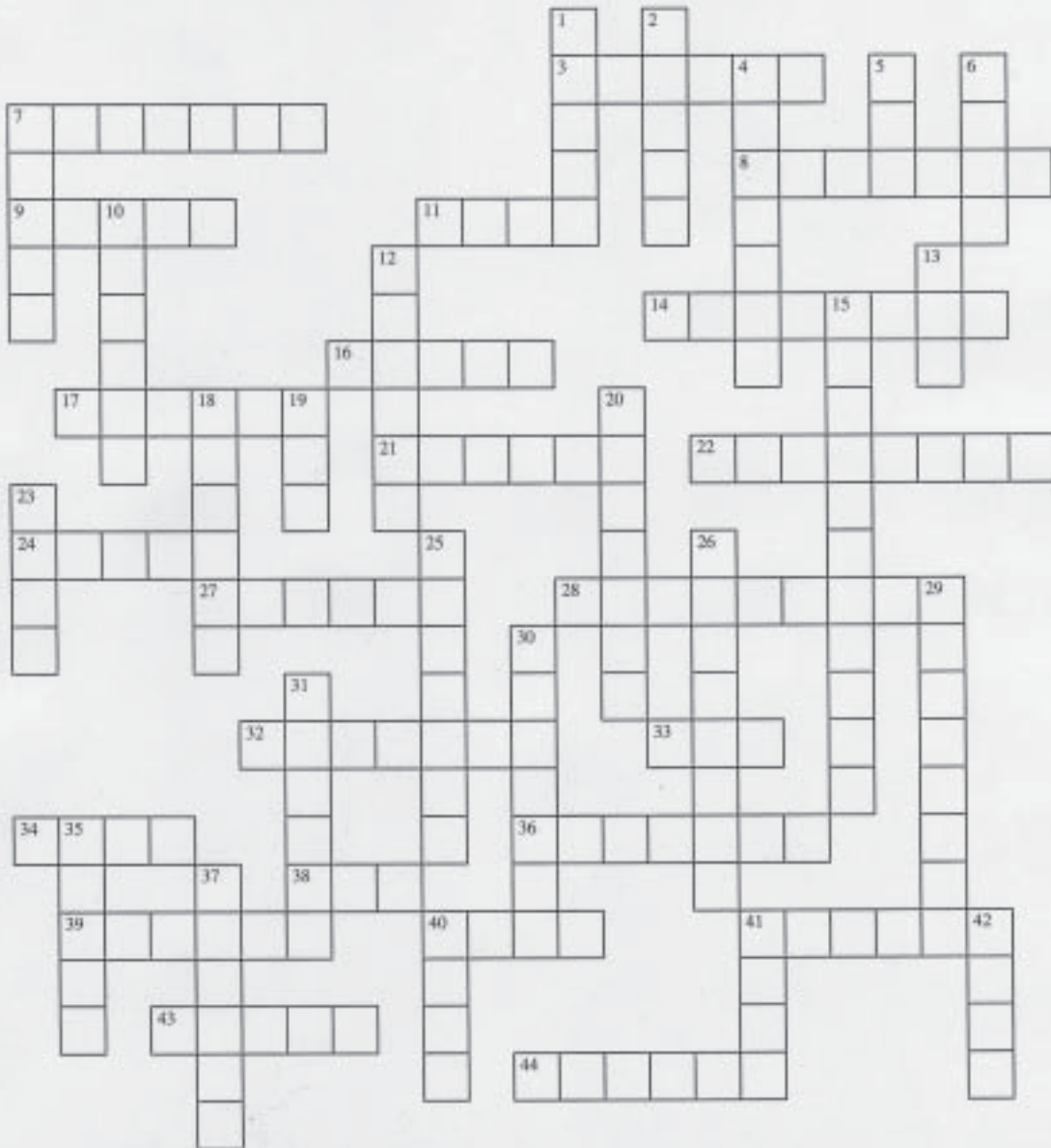
It is true that economics has not provided a panacea for problems like scarcity, inflation or unemployment. However, neither has any other academic discipline. Criticisms that the neat theoretical tools of economists are ineffectual when faced with the problems of the real world where models can break down and the ‘*ceteris paribus*’ clause becomes just a fantasy are thus unjustified. Economic theory does not lead directly to a single policy prescription for every case. David Ricardo’s Law of Comparative Advantage presents a strong justification for economic cooperation, showing that commerce policies should be aimed at promoting free trade, yet it is up to politicians to decide when protectionist policies may be more beneficial in the short-run, such as in the case of the infant industry.

To put it another way, economics occupies a unique position amongst the ranks of academic disciplines as a practical yet theoretic science. Despite its flaws, its *raison d’être* – to understand the workings of resource allocation and provide solutions to coping with the scarcity problem – remains a noble one that deserves attention. It would do us well to remember John Hicks’ assertion that “there can be no economic theory that will do for us everything we want all the time.” In doubting its value, we need to first question whether we are asking too much from economics itself.

The answer is not always clear but the fact that economics continues to be studied worldwide certainly hints at its perennial utility.



# Crossword



**ACROSS**

- 3 Reduces international trade
- 7 Consumers and producers enjoy
- 8 Useful for startups
- 9 Important factor of production
- 11 Unrecoverable costs
- 14 \_\_\_\_\_ rate of substitution

**DOWN**

- 1 \_\_\_\_\_ market
- 2 The \_\_\_\_\_ triangle
- 4 Specific \_\_\_\_\_ model
- 5 Adjustment for inflation
- 6 Money without physical backing
- 7 Famous growth model economist

- |                                           |                                              |
|-------------------------------------------|----------------------------------------------|
| 3 Reduces international trade             | 1 ____ market                                |
| 7 Consumers and producers enjoy           | 2 The ____ triangle                          |
| 8 Useful for startups                     | 4 Specific ____ model                        |
| 9 Important factor of production          | 5 Adjustment for inflation                   |
| 11 Unrecoverable costs                    | 6 Money without physical backing             |
| 14 ____ rate of substitution              | 7 Famous growth model economist              |
| 16 A medium of exchange                   | 10 Consumer constraint                       |
| 17 Economics of crime and punishment      | 12 Zero in longrun equilibrium               |
| 21 ____ effect                            | 13 Reduces domestic trade                    |
| 22 Bad for consumers                      | 15 Many times imperfect                      |
| 24 Hecksber-____ Model                    | 18 Emphasized pump-priming                   |
| 27 ____-led growth                        | 19 ____ materials                            |
| 28 Rents without risk                     | 20 ____ paribus                              |
| 32 Can maximize producer surplus          | 23 Opportunity ____                          |
| 33 Edgeworth ____                         | 25 Consumers maximize                        |
| 34 Most individuals averse to             | 26 Interest rate charged by the fed to banks |
| 36 Profit plus costs                      | 29 Rates that float                          |
| 38 Recongnition ____                      | 30 When all costs are variable               |
| 39 Purchasing power ____                  | 31 Vertical function in the longrun          |
| 40 Lender to home buyers                  | 35 Used to produce a good                    |
| 41 Price goes up, demand goes up          | 37 Policy controlled by Congress             |
| 43 Economies of ____                      | 40 Many issued by the government             |
| 44 Downward sloping when goods are normal | 41 An old standard                           |
|                                           | 42 Famous equilibrium                        |

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*From the President*

I cannot now remember who said this—was it Rawls or Coase?—”Cornell Economics Society is one of the greatest things that has happened to mankind since man stepped on the moon.” Having spent two years in this society I find myself fully in agreement with ... Rawls, or should it be Coase?

This has been a wonderful semester for the Cornell Economics Society (CES). We managed to have several successful events including a social with CES members and faculty members from the Field of Economics. We also had a number of professors join us for talks through the semester. This gave CES members a terrific opportunity to interact with faculty outside the classroom. A special thanks to those who actually managed to attend these meetings and give us their time. In particular, thanks to Professors Basu, Lyons, and Vogelsang for addressing CES.

This semester CES also had many opportunities to interact with the corporate world. Many firms contacted CES members as a part of their recruitment process. We had a very pleasant breakfast with some employees of Bain and Company. Thank you Ian, Anthony, and Justin for joining us at an unearthly hour and answering our endless questions

and giving us the chance to find out more about life after Cornell.

The board this year is unbelievably good to work with. Nick, Justin, Allen, Doug, Kim, Philip, Linda, Anna, and Michael, you are ideal colleagues. Anna, thank you for all the hard work you put into the Visible Hand and for making our interminable board meetings entertaining. Nick, thank you for all your support, help and friendship. In addition to a terrific board, we’ve made a marvelous group of friends! Next semester should be even more exciting.

Thanks to last year’s President, Eric Hon. It is a pleasure to follow in your footsteps.

None of this would have been possible without Professor Wissink, our faculty advisor. Without her continuous energy, advice and help, CES would be completely lost. Professor Wissink, as a teacher, an advisor, and a mentor, you have been indispensable to CES. Thank you so much for everything; we look forward to another semester of working with you.

Finally, a big thank you to all our members, old and new. We appreciate your participation and feedback and hope we can be the board that you want us to be.

Sincerely,

Diksha Basu  
President

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