

Economics Newsletter

Newsletter of the Department of Economics

Greetings from the chair

Hi everybody! As you know, we're living through exciting times in Oregon's higher educational system. Big budget cuts driven by the recession and legislative priorities are clashing with rising enrollments as the "baby boom-boom" heads to college.

That's the bad news. The good news is that PSU is still staffed by people determined to maintain and raise our standards—to make this a fine university—and we're working strategically with the resources we have.

In the Economics Department we're focusing on our strengths: (1) energy and the environment, (2) economics and social policy, (3) international economics and development, and (4) methods. This year we particularly hope to make progress in the areas of energy and the environment with a new hire and a new program, as you'll see elsewhere in this newsletter.

Also, we're making sure that it's possible to earn an undergraduate degree in economics either in the daytime or the evening.

Beyond the department, the university has made substantial strides in recent years. We are now the biggest public institution in the state; we've significantly increased our graduate enrollment and research funding; and this year we were noted in *U.S. News and World Report's* review of U.S. colleges for the national recognition given University Studies, our general education program.

So, how are we? Well, things have been better, but they've also been worse. Hey, compared to the Vanport Flood, this budget cut is nothing!



Mary King

Schmidt predicts more strikes in professional sports

According to a study by Martin Schmidt, professional strikes may become more frequent. Schmidt, who co-authored the study with David J. Berri, an economics professor at CSU



Bakersfield, found that after every major strike in professional sports, fans returned to the games almost immediately.

While fans of professional sports leagues often react with "disgust" to the management-labor conflict that has plagued professional sports and threaten to never return, their actual responses are quite different. This suggests a reason why labor conflict appears with increasing frequency in professional sports: with millions, perhaps billions, at stake in each dispute and no permanent fan repercussions, each side has an incentive to hold out and no reason to be concerned with their fans.

Neoliberal meltdown in Argentina

By Leopoldo Rodriguez, Assistant Professor of Economics

In December of 2001 the Argentine economy entered the most dramatic phase of a long and painful economic crisis. The inability of the country to meet foreign debt payments, and a sharp devaluation, caught the attention of the news media. What is less often discussed is that Argentina has been in recession since late 1998, and that throughout the 1990s the country was considered a model reformer.

The story really begins at least a decade earlier. To contain hyperinflation, the minister of economy, Harvard-trained Domingo Cavallo, tied the money supply to the amount of foreign reserves held by the Central Bank. Accompanied by a fixed exchange rate of one peso per U.S. dollar, the measure fully eliminated inflationary pressures within a couple of years.

Far less popular with Argentines, but promoted by the World Bank, International Monetary Fund and the U.S. Department of Treasury, were other economic reforms including privatization, trade and financial liberalization, and deregulation. Privatization included water and sanitation, telecommunications, electricity, roads, and even the postal service. Trade liberalization was swift and comprehensive. Financial market liberalization attracted massive inflows of short-term capital flows as well as an influx of foreign banks. The reforms were praised around the world. On December 4, 1994, the *Washington Post* boasted: "A tour of one of the hottest Latin [sic] economies—Argentina—shows why financial analysts view Latin America as one of the world's leading investment opportunities. Deregulation, privatization, tax reform, and free trade are combining to sweep the continent out of the economic backwater and into the global mainstream."

What could have caused the prolonged agony and current

Supporting your department

Enrollment at PSU keeps going up! But support from the legislature isn't keeping pace. . .

Our growth means a need for more scholarships and student aid; classroom, lab and library support; and money to support faculty efforts to improve their teaching, expand their research and develop PSU programs.

Please remember the Economics Department when you give to the University. Make your check payable to *The PSU Foundation—Department of Economics* and mail it to:

Department of Economics
PO BOX 751
Portland OR 97207-0751

or log on to
http://www.foundation.pdx.edu/donation_form.phtml and give on line.

Your support makes the difference in the life of our students! Thanks for helping those coming behind you.

Portland, OR 97207-0751
PO Box 751

Department of Economics

PORTLAND STATE
UNIVERSITY

department in energy and environmental economics. If all goes well, we should be able to enroll students in this program beginning in fall '03.

The proposal builds both upon our general master's degree in economics and the graduate certificate in applied energy economics and policy. The certificate is taught by a team of both regular and adjunct faculty, to combine academic expertise with the kind of knowledge that's only gained by working in the field.

The department has just received permission to recruit a new full-time member of the faculty whose specialty would be the economics of energy, the environment, and sustainable development. In next year's newsletter, we hope to report to you that we've added a faculty member and a new program!

Portland State University is an affirmative action / equal employment opportunity institution.

Nonprofit Org.
U.S. Postage
PAID
Portland, OR
Permit No. 770

collapse? A fixed exchange rate is difficult to sustain under repeated external shocks, and these came in waves: the Mexican peso crisis of 1995, the Southeast Asian crisis of 1997, and in 1999 the devaluation of the Brazilian real and the rise of the U.S. dollar against the Euro. The first two shocks caused short-term capital to leave Argentina, severely weakening the banking sector. The last two destroyed whatever price competitiveness Argentine products may have enjoyed with the country's two largest trade partners. However, the effects of these shocks would not have been nearly as dramatic if two underlying conditions had not been present.

First, privatization resulted in rising fees, massive layoffs, concentration of wealth, and lower price competitiveness for Argentine products. Rapid and indiscriminate trade liberalization resulted in widening trade deficits and the deindustrialization of entire regions.

Second, the solution pushed by the IMF to make Argentine products attractive abroad was a protracted deflation. The prescription to deal with the devaluation of the real was identical: cut government expenditures to drive prices—and hence wages—down.

The nation sunk deeper into recession. In December 19, 2001, after more than three years of the recession-austerity spiral, Argentines of all stripes went out on the streets demanding the resignation of Domingo Cavallo from the Ministry of Economy. By the next day their anger had forced the resignation of President Fernando de la Rúa as well.

Penniless, without an elected head of state, and in the midst of a social revolt, the Argentine government defaulted on its debt payments and floated the exchange rate. Fears of a return to the hyperinflation of 10 years earlier fueled a run to the dollar. Bank accounts had already been frozen in mid-December amidst fears of a collapse of the banking system. In the nine months that have lapsed since the foreign payments default, the IMF has denied any assistance to Argentina, insisting on more reforms and greater austerity. Unemployment levels hover around 25 percent, making the social situation extremely explosive.

News from the Osteuropa Institute in Munich

By John Hall, *Professor of Economics*

The EU stands on the verge of proceeding with an “eastern enlargement” that will increase its size substantially. The current 324 million EU citizens should grow to a number that could exceed more than 500 million. Most of the new members will be in former communist countries, having spent four decades on the shadowy side of the Iron Curtain.

Challenges facing both the EU as well as the accession countries are formidable. Never before has the Union absorbed so many countries with such disparate historical

experiences: exhibiting such great inequalities in income, such large populations dependent on incomes generated in agriculture—and in such a compressed time period. Never before in history have peoples in Central and Eastern Europe had to face complying with directives coming from committees based in Brussels, some staffed by members not completely sure of the location of some of the countries that will join their Union.

The GDPs of the countries invited to join the Union total less than five percent of the GDP produced by the existing EU-15. EU accession means that structural funds (primarily for public goods such as infrastructure) and agricultural funds (mostly to subsidize food surpluses) will be transferred to the joining nations, likely reducing the level of transfers to Spain, Portugal, Greece, and Ireland. The declines in transfers from this group, sometimes characterized as the “Poor Four” has generated its fair share of excitement.

There exists a vast pool of highly qualified and, compared to the wages in the EU-15, poorly paid workers in Eastern Europe. Thus the pressures for migration to the EU-15 are indeed great. Germany and Austria helped to pass rules that would allow the EU-15 to block the inflow of Eastern European labor for up to seven years after accession. However, most likely highly qualified Eastern European labor will be welcomed and appreciated by businesses.

One of the more difficult tangles arising with eastern enlargement has to do with the sharing of power. Should the political power of an EU member state remain comparable to its contribution to the EU's tax revenues? Or, should so-called small countries have a voice and level of political power equivalent to large and affluent countries such as France, Britain, and Germany? Voting rights and power relations between and among EU members are challenges that will have to be satisfactorily dealt with in preparation for the first big round of eastern enlargement in 2004.

For further reading: *www.lrz-muenchen.de/~oeim Working Paper 240, “Toward Agenda 2007: Preparing the EU for Eastern Enlargement,” coauthored by Wolfgang Quaisser and John Hall, February 2002, 73pp.*

Departmental news

Potiowsky remains state economist. Tom Potiowsky, now working as the state economist, is extending his leave to continue in his state post a while longer. According to Potiowsky, he’s “just learned the job and can’t quit now!” Maybe he’s just hoping to experience what it feels like to be a messenger with good news. . . hopefully sooner, rather than later!



Ervin named academic sustainability coordinator. Late this summer, Professor David Ervin was named PSU's first academic sustainability coordinator. Ervin is charged with facilitating academic research, teaching, and community outreach on sustainability topics university-wide. A bit daunted by the challenge “of herding cats,” Ervin is excited at the potential for PSU to make a substantial contribution to scholarship in this area, which is often described as comprised of three key elements: environmental, economic, and social.

New scholarship for international students. This year the Economics Department is giving its first-ever International Economic Graduate Assistantship. The scholarship—which was anonymously donated to the department—provides for a research assistantship stipend for the first year the recipient is enrolled in the master's program, supplemented by the College of Liberal Arts and Sciences with a tuition waiver for the first year of study. Our first winner of the scholarship, Yi Wang from the People's Republic of China, will arrive in winter '03. The donor intends to fund a first-year master's student every

Alumni news

If you're not mentioned in this section, won't you please send us your news for next year? You can email it to Mary King at kingm@pdx.edu.

Amelia Chan says “I am working swing shift for U.S. Treasury now. My children are going to college at OSU.” You can reach her at: ameliattc@yahoo.com.

Diane Malowney is now a financial analyst at Portland General Electric, where she's been for two and a half years. She says that she'll gladly answer inquiries about opportunities at PGE. Email her at Diane_Malowney@pgn.com.

Marquita Guzman wrote to let us know that she “survived the AEA Summer program and miraculously I still want to study economics! It was a tremendous learning experience and a great opportunity to meet some really well-known economists.” Marquita participated in the American Economics Association program for people interested in economics graduate school who are members of groups under-represented in the field, primarily African Americans, Latinos, and Native Americans. You can email Marquita at: marquita.guzman@intel.com.

Christian Kiedaisch reports he “finally decided to continue my studies in Munich where I will get my master's degree in two more years. The things that I will miss about the PSU Economics Department are the small classes where one could ask questions during the lecture and the friendliness of the professors who were really supportive to the students and often allowed them to do part of the class work (like a paper)

in a field that interested them most. For me the one year exchange program was a good experience and studying in the U.S. meant much more than just learning in a different language. Therefore I won't forget about the PSU Economics Department and hope that the students and professors there have a nice and productive time.” christianki@web.de

Jens Rabe and Sonchawan (Awn) Tamkaew, who met as students in the PSU Economics Department, have announced their plans to marry in Thailand. Jens is working trading in international currencies while Sonchawan is working toward her Ph.D. at the University of Bonn.

Takeshi Maeda moved to Washington, D.C., where he works for the Washington Representative Office of the Bank of Tokyo-Mitsubishi as a researcher. His email address is: tmaeda@comcast.net.

Nick Portalski is currently finishing his final academic work for his M.A. at the Graduate Faculty in New York City. He also recently completed work on Bob Frye's latest documentary film about Berlin, *Berlin Metamorphoses*. Nick was responsible for the film's translation and research. Currently, he is considering work in film-making and journalism. After two and a half years of captivity, his feelings about NYC are extremely mixed. He's nostalgic about Stumptown, friendly people, cheap rent, and three-dollar beers. Talk to him at: portalski@yahoo.com.

Laura Tils “earned a B.S. in economics from PSU in '94, worked in South Korea for nearly a year,

year, an extremely generous proposition for which the department is very grateful.

Departmental award winners 2002. Han Soderberg won the Harold Goodhue Vatter Prize, named in honor of Professor Vatter's lifetime of scholarly teaching, research and writing in the field of economic history. The prize recognizes a student who has demonstrated excellence in the field of economics and exemplifies the scholarly values of Professor Vatter, who taught in the PSU Economics Department through summer 2000.

The Carl Campbell award—shared this year by Kathryn Thomsen and Casie Nash—honors another previous member of the PSU economics faculty. Professor Campbell, also an economic historian and a poet, taught at Carlton College, Whitman College, and the University of Massachusetts before coming to PSU in 1963.

New master's degree proposed: Energy and environmental economics. Professor Patricia Koss has developed a proposal for a new master's degree to be offered by the

returned to Portland and Seattle to find myself grievously underemployed for a number of years, then returned to school. I am currently working on my J.D. at New York Law School and plan to find myself happily employed in the area of media/broadcast/telecommunications law very soon! I wish everyone the best, and I can be reached at: laurajt@hotmail.com.”

Gul Unal, working on her Ph.D. in economics at UMass, Amherst, says, “I have finished my comprehensive exams and should complete all my requirements this term. Then, hopefully, I'll be starting my dissertation. I am teaching one course and serving as a research assistant for a professor in environmental economics. Other than that my life is pretty much like the life of a graduate student, studying, partying whenever there are parties and there is time, and enjoying being a graduate student at UMass. I still miss Portland a lot, and not to mention PSU. :)” You can reach Gul at gul@econs.umass.edu.

Ain Vale recently moved to Pittsburgh to attend the MBA program at Carnegie Mellon University's Graduate School of Industrial Administration. He reports, “The pace is grueling, but the atmosphere is wonderful and I'm having a great time. I'm planning to focus on Operations Management and Finance, and I recently won permission to cross-register in the Slavic studies department at nearby University of Pittsburgh to give my degree an international twist. The education I got in the Economics Department at PSU has been a terrific asset for me, and I want to thank all of my former professors and classmates for their help and advice. My email address is ain@cmu.edu— please keep in touch!”