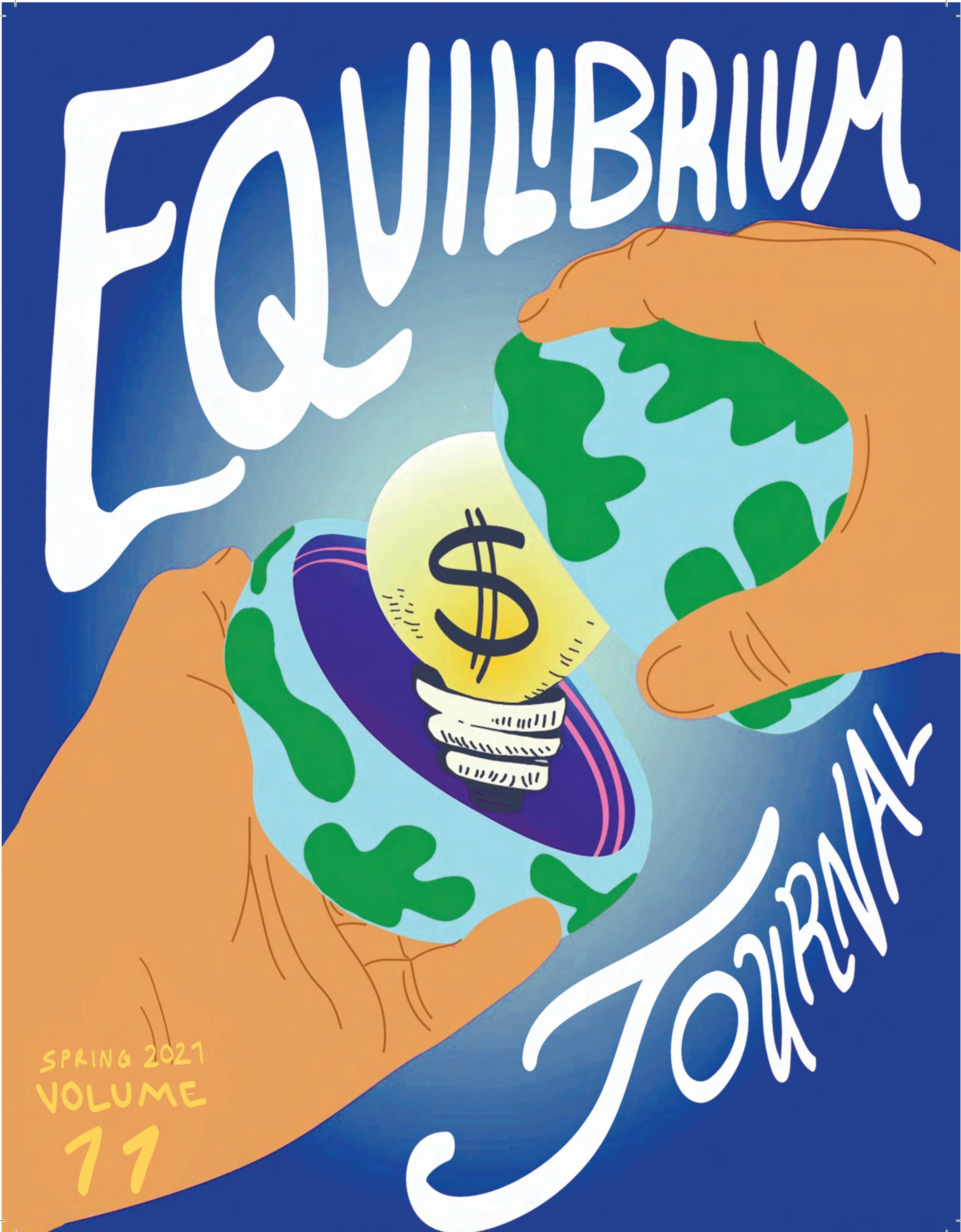
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Letter from the Editors

Dear Reader,

As we emerge from the grips of the coronavirus pandemic, we are proud to introduce our eleventh volume of Equilibrium: The Undergraduate Journal of Economics. Our journal again puts the writing and intellectual talents of Wisconsin's finest economics students on full display. The pieces herein tackle vexing economics issues, including trade, housing, and environmental matters affecting society. Welcome to the newest installment to Equilibrium, Volume 11.

Our journal was produced entirely from the work of undergraduate students. The researchers, writers, and designers behind this journal poured their passion into every page. We are beyond honored to have had the opportunity to lead such skilled individuals to this final product. The journey to Volume 11 left us impressed at every step along the way.

We owe special recognition to a number of individuals who proved instrumental to making this journal a reality. To our researchers, writers, and designers: thank you for your persistence through a most challenging year. You set a model of excellence for others to emulate in the years to come. Thank you to Nick Bourke and the Economics Department at UW-Madison for your unending support to the journal and students. Much appreciation to Amy Schultz of the Digital Studies program for partnering us with talented designers. Last, thank you to the Economics faculty members who aided our writers along the way.

As our time with Equilibrium and the University of Wisconsin draws to a close, we are grateful for the many experiences and triumphs of the past year. Thank you for your support, and now please enjoy Volume 11 of Equilibrium.

Sincerely,

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Editors in Chief

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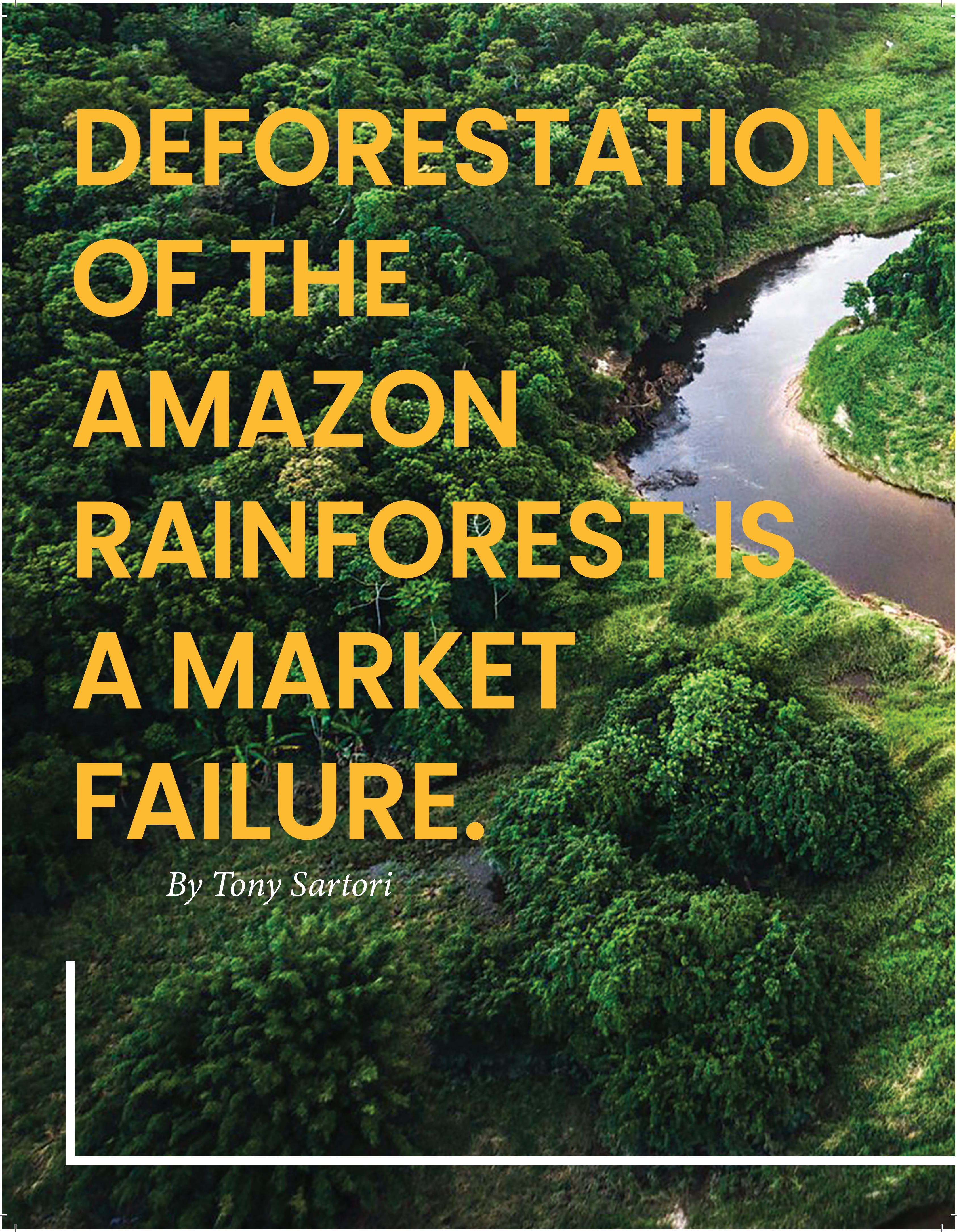
DEFORESTATION OF THE AMAZON RAINFOREST IS A MARKET FAILURE.

By Tony Sartori



HERE'S WHAT WE CAN DO ABOUT IT

The Amazon rainforest is the world's largest forest, sustaining life to roughly 10% of all the species on the planet. However, approximately 17% of the Amazonian rainforest has been destroyed over the past 50 years, with losses still on the rise.[1] These losses not only impact the immense diversification of life in that ecosystem, but they also impact the amount of carbon dioxide (CO2) emitted into the atmosphere, climate change, and even the global economy. The continued deforestation of the Amazon rainforest serves as a perfect example of a market failure, and unless combated, will continue to negatively impact the world.

Why is deforestation of the Amazon a big deal?

Aside from the obvious impact on wildlife in the region, the deforestation of the Amazon immensely impacts climate change. Approximately two billion tons of CO2, a greenhouse gas produced by burning fossil fuels like coal and oil, are absorbed just by the trees in the Amazon alone, which is around 5% of annual global CO2 emissions.[2] CO2 is a heat trapping gas which has a long life when emitted into the atmosphere, keeping the heat on the Earth's surface rather than letting it escape into space. This greenhouse effect alters Earth's weather and climate systems, shifting wildlife populations and habitats, melting ice caps, rising sea levels, and air pollution among a variety of other effects. Figure 1 depicts atmospheric CO2 concentration, while Figure 2 depicts global average temperature over the past 150 years.

These effects not only harm the planet, but can cost businesses, families, governments and taxpayers hundreds of billions of dollars through rising health care costs, destruction of property, increased food prices, and more.[3]

What exactly is happening?

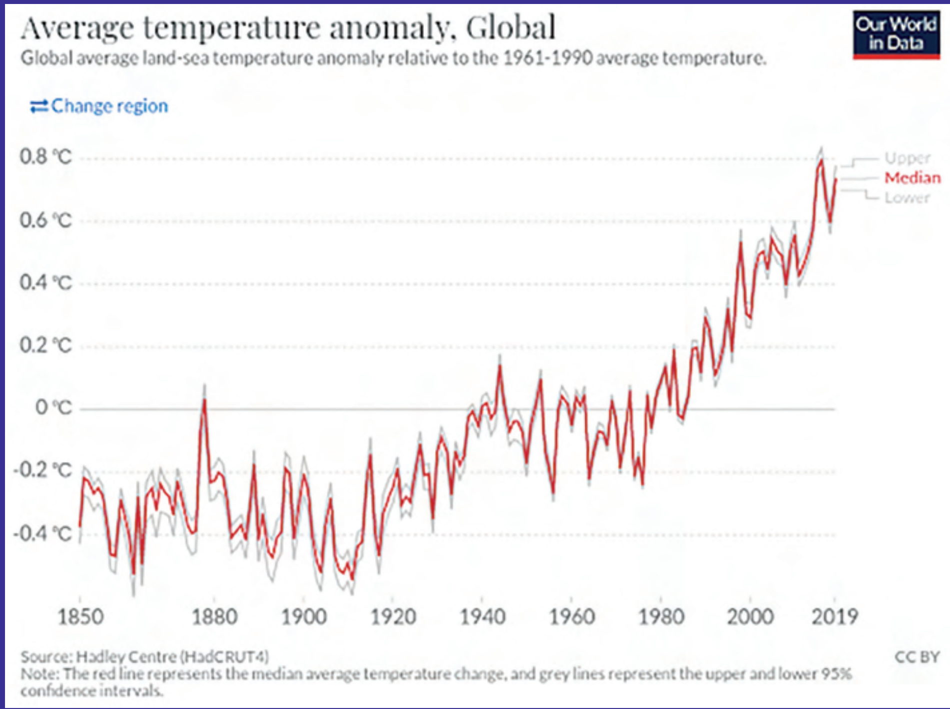
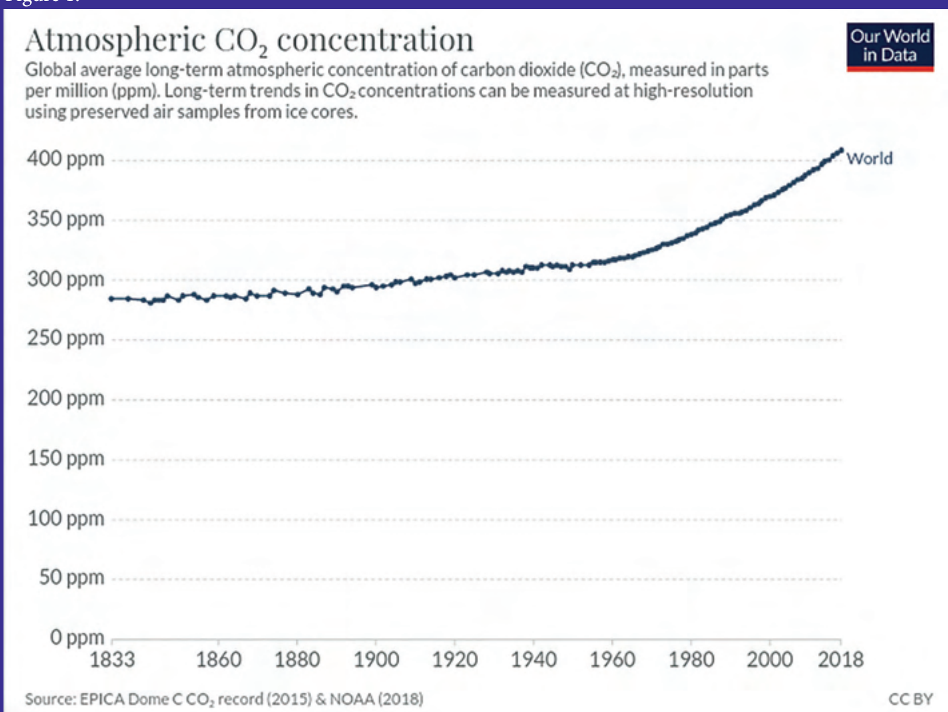


Figure 2.

Landgrabbers are clearing the Amazon rainforest for cattle ranching and crop production, cutting down and burning the trees. This slash-and-burn method not only destroys trees necessary for the absorption of CO2, but the flames themselves also emit millions of tons of carbon every day.[2] Between 1970 and 2005, an area of forest the size of the state of Connecticut disappeared each year on average from the Amazon. In 2019, a new Brazilian government led by Jair Bolsonaro took over and deregulated many policies in place which protected the Amazon rainforest in an attempt to fix a struggling economy, resulting in a 30% increase in deforestation in the region in 2019 compared to 2018.[4] Due to Covid-19, law enforcement efforts in protecting the Amazon have diminished greatly, as the New York Times reports that deforestation in the region between January and April 2020 was 55% greater than the same period in 2019.[5] If the evidence proves the horrible effects of deforestation on a global scale, then why are people still slashing and burning the Amazon? Well, the regions in and around the Amazon rainforest are among the poorest in Brazil, a relatively poor country to begin with, and clearing land for cattle ranching and crop production provides an immediate economic benefit to the owner. Brazilians in the region choose to deforest rainforest land as the cattle ranching industry is a relatively easy market to enter. Cattle ranching serves as the predominant industry influencing deforestation in the Amazon, as an estimated 70% of the cleared land is now cattle pasture. [4]

How is this a market failure that not only affects the climate, but the global economy?

Figure 1.



The deforestation of the Amazon rainforest is a market failure which affects both the global climate as well as the global economy. A market failure is an economic situation defined by an inefficient distribution of goods and services in the free market. Deforestation of the Amazon rainforest for cattle ranching is inefficient for multiple reasons. First of all, the climate of the Amazon region is not one suitable for raising cattle, as it is very hot, humid, and damp. The average temperature of the Amazon rainforest region ranges between a humid 72-93° year round. The ideal average temperature range for raising dairy and beef cattle is between 41-77°, with temperatures over 80° leading to heat exhaustion. Secondly, according to renowned ecologist and president/founder of the Earth Innovation Institute Daniel Nepstad, the productivity of cattle ranching in the Amazon region is notoriously low. Nepstad also elaborates on the fact that there is only one Amazon rainforest, but a million other more efficient places on the planet to raise cattle. On a podcast episode of Freakonomics titled "The Simple Economics of Saving the Amazon Rainforest", Nepstad explains that the situation in Brazil "is a great example of a market failure … where converting a 300-ton forest that would have 200 tree species and tons of unknown other species for a weak cattle pasture that will give you maybe 30, 50 kilos of beef a year, is one of the worst trade offs, I think, in the world".[4] Steve Levitt, host of the aforementioned episode of Freakonomics and economics professor at the University of Chicago, further elaborates on the market failure of the deforestation of the Amazon for cattle ranching: "With a social cost of carbon of $50 per ton of CO2 and the current best estimates of the carbon stored in the Amazon, each hectare (approximately two and a half acres) of land preserved as forest is worth over $28,000 based on the carbon alone. That isn't even putting a value on biodiversity or tourism. When land is worth almost thirty times more - to all of humankind - as forest, but instead people cut it down to grow cattle, that is the absolute definition of a market failure."[4] The social cost of carbon figure Levitt refers to in the previous quote involves an industry wide accepted estimated cost on the global economy for each ton of CO2 emitted, due to the costs associated with combating CO2 emissions and the adverse effects of climate change. While this deforestation is a clear market failure, there are potential solutions to this problem.

What can we do about it?

In 1996, Costa Rica had a deforestation rate of over 4% per year. Leaders in Costa Rica decided to put a price on rainforests to help combat inefficient deforestation, the first region to really implement a financially driven policy against deforestation. These leaders decided to incentivize rainforest protection, offering to pay citizens for protecting or restoring rainforest on their property. This incentive-driven policy succeeded, as year over year tree cover loss in Costa Rica has decreased over the past two decades, doubling its total forest cover over the last thirty years.[4] A similar incentive-driven approach should be taken to combat the inefficient deforestation of the Amazon rainforest. A fair deal needs to be reached between Brazilians and the global community, as the Amazon rainforest - though important to the global community - belongs to the Brazilians. Brazilians should want to get paid to stop what they are doing to their land, and the rest of the world should be willing to pay to protect that land which benefits environments all over the planet. It would not be fair or ethical to instruct Brazilian citizens to stop their efforts on making a living, however, it is in the global community's interest to incentivize those citizens to stop deforestation. In an interview with the Financial Times, Brazil's Minister of the Environment Ricardo Salles stated that "the opportunity cost must be paid by someone, and … someone means those who have the funds or the necessary sources of finance for that." Salles estimated the cost to be $120 per hectare, or approximately $12 billion a year.[6] Levitt weighs in on this estimate, stating that "by my calculations, from a purely economic perspective, Brazil should be willing to stop deforestation for $1 to $2 billion per year. The rich nations of the world should be willing to pay up to $40 billion. That is a lot of room for bargaining, and the $12 billion number that the Brazilian minister threw out doesn't seem crazy."[4] In 2016, 195 countries signed the Paris Agreement - a treaty created in an effort to combat climate change. Most of the world's largest countries are involved, including Brazil. Under the direction of the Paris Agreement, Brazil states that they will aim for carbon neutrality by 2060. However, under Bolsonaro's government, deforestation has not stopped. As illustrated earlier, it is increasing rapidly. Conservationists in Brazil argue that Bolsonaro is promising carbon neutrality to quiet protestors while he continues to promote rapid deforestation. It is important for the global community to come together and figure out the appropriate steps needed to come to an agreement to stop this deforestation. Bargaining for countries to pay to protect something that is not even within their borders will always present trouble, especially in the current political climate where every dollar spent is critically scrutinized. However, if we do not take on the cost now, we will have to take on a much larger cost later. Protecting the Amazon rainforest is a crucial step in reversing the damage done to our planet and protecting future generations of global citizens.

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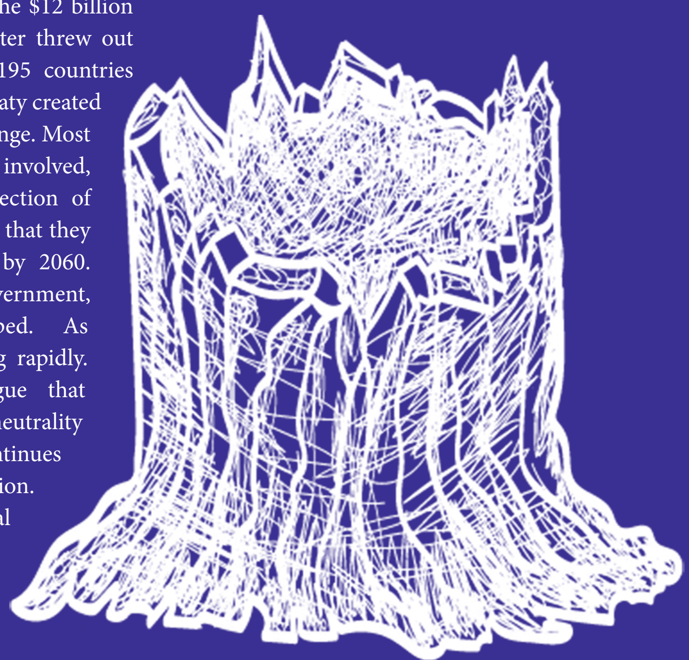

THE COMPLICATED CRONNIES: *by Garett Timm Gloudemans*

America has the biggest grossing economy in the entire world.1 On any given night of the year, 750,000 Americans are left with no bed to sleep in. The richest 1% of all Americans hold more wealth than the entire middle class. Of all economic-powerhouse G7 nations, the US has the highest income inequality between the rich and the poor.2 These unfortunate statistics are true at a time when aggregate wealth in the US is 98 trillion dollars.3 This brings great difficulty to describing the current US socioeconomic condition as a successful one. How did we get here? Some may say that this is naturally the result of economic "survival of the fittest" and conclude these results are of people being more talented or hardworking than others, and that nothing needs to be done. Others say this is the direct result of disgusting exploitation brought on by the failure of the economic system capitalism is, and that this system must be completely scrapped to provide an ethical economy. While American voters (and consumers) have been arguing to each other over where to cast votes to approach the US socioeconomic condition, the "CEO's" of "The Great American Duopoly" have been exploiting its own employers: the taxpayers. What is often overlooked is the reality that the teamwork of politicians and corporations, categorized as a form of crony capitalism, can hold much responsibility for the inefficiencies of the federal government that ultimately results in raging socioeconomic disparities in the US.

Defined by Harvard Business School Professor Malcom S. Salter, crony capitalism is a "shared interest—or even collusion" between industries and the politicians that regulate them. Politicians serve private interests at the expense of public interests to receive compensation through campaign funding or political support.4 Paid by citizens who trusted them to vote on their behalf in American democracy, political leaders that participate in corruption has led to serious socioeconomic consequences.

One of the most vicious crony cycles America is trapped in is the continuous growth of interest group-funded campaigns. With promises to "look out for" a massive corporation's industry, product, or competition, politicians accept ridiculous sums of campaign funding. Come time to form legislation, these same politicians cut corners and swing policy to benefit their campaign funders, so that they may continue to fund them and ultimately allow this politician to stay in power. A seemingly obvious instance of crony collusion between corporation and government, it often goes without blame on socioeconomic problems, and general inefficiencies within the US government. Many solutions proposed that work to solve common US inequalities go unsupported in congress because a certain policy may impact the industry that funded the politician that then votes against these solutions. One of the clearest examples of industry funding comes from research gathered by Malcom Salter being, at a growing rate for each election cycle, the finance and insurance industry funds $148 million to politicians in the 2012 election, with 56.7% going to republican lawmakers. Beating the healthcare industry, ideology organizations, single-issue groups, and unions, this powerhouse industry makes some republican congressmen their puppets in legislation. Much of the responsibility of the 2008 financial crisis, which financially ruined millions of Americans and devastated the economy, is tied to a period of significant deregulation of this industry prior to the crisis by economists, and the votes in favor of such deregulation can be directly tied to $1.7 billion in elections leading up to the crisis. The two top recipients of this funding through the many years prior to 2008 were the chair of the Senate Banking Committee, and the chair of the House Financial Services Committee.

So, industry contributors can be directly correlated with development of US policy, what does this have to do with how horrible the socioeconomic status compared to total wealth is

Rank	Sector	Amount	Dems	Repubs	To DEMS / To REPUBS
1	Finance/Insur/RealEst	$148,812,902	34.0%	56.7%	
2	Other	$102,349,407	44.6%	38.4%	
3	Ideology/Single-Issue	$91,246,490	34.9%	38.3%	
4	Misc Business	$76,880,659	36.8%	56.4%	
5	Lawyers & Lobbyists	$63,932,395	60.9%	32.5%	
6	Health	$56,766,404	40.6%	53.7%	
7	Labor	$43,802,297	47.5%	6.4%	
8	Communic/Electronics	$39,230,466	55.6%	36.9%	
9	Energy/Nat Resource	$36,386,539	21.5%	72.7%	
10	Agribusiness	$25,940,108	26.3%	70.1%	

in the US? This pattern of corruption and crony capitalism in the US has stacked up over time. While citizens sit and watch the dollar amount of industries contributing to politicians rise, it is no surprise that some politicians advertise to voters that they accept no money from corporations with hopes to get votes from it. Come solutions to poverty and wealth inequality comes a major price tag. This price would have to be charged to those who can afford it, which is those running massive corporations. How do you make the top 1% share when they have such a deep-rooted influence on getting politicians to combat costly policy? Policy possibilities to spread the $96 trillion in US wealth must face the Goliath of tied-up corporation-politician teams.

An important distinction must be made between the extent to which an economic system or political system causes great socioeconomic disparity. Once the fight transitions to a unified battle against the duopoly of the Democratic and Republican parties and crony capitalism, Washington grid lock may dissipate, real solutions will take honest consideration, and US inequalities will improve. It is imperative that each and every American holds their vote for congressional representatives with full dedication to the political system in place so that representative may be chosen on the basis of ideas and values, rather than political title. While ideas such as support for ranked-choice voting and congressional term limits would aid phenomenally in combatting government corruption, these solutions start in policy within our own government. The most immediate solution starts with both the informed consumer and voter.

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AN UNDER-PERFORMING U.S. SOCIOECONOMIC CONDITION

THE GREAT MIGRATION & & & & HISTORIC INEQUALITY IN AMERICA

BY CONNOR GATES

In 2016, Black American Households had on average one-tenth the wealth of their White counterparts. While staggering, this difference does not trace its origins to recent history. Instead, Black Americans have long suffered inequalities that led to prolonged and compounding gaps in wealth accumulation that are seen today. After the abolition of chattel slavery in the United States, Black Americans should have been able to take home wages, build communities, and eventually overcome their terrible and oppressed past. Instead, Black Americans have experienced profound and growing wealth inequality that has not been overcome with time. Why is it that Black Americans have lived and worked for generations in the United States but have been denied their realization of the American dream like so many other immigrant and ethnic communities in the U.S.?

Answering this question requires an analysis of the demographics, economics, and policy decisions within the United States since the end of the Reconstruction Era in 1877. The subsequent 100 years saw the U.S. economy and society undergo a fundamental change, from a developing early-stage industrial power into an economic and political hegemon. The end of Reconstruction in 1877 is an important date to begin the analysis because it signaled the creation of Jim Crow legislation in the post-Civil War southern states and catalyzed a mass migration of Black American citizens towards cities in the northern United States. Jim Crow legislation is an umbrella term for the set of laws and practices that reverted newly emancipated Black Americans in the Southern United States to second class citizens, enacting de facto and de jure segregation of Black society from equal opportunity. All the while it seemed that Northern U.S. cities, booming with industry, could offer jobs and a chance to escape slavery's legacy. As a result, millions of Black Americans moved north looking for opportunities to establish a higher quality of living standards for themselves and their families. As it came to be known, the Great Migration did not help prevent Black Americans from facing discrimination and barriers to success predicated on the color of their skin and their past. The barriers to advancement, including both passive and active efforts to segregate Black society, prevented the development of community resources and growth in human capital.

The first stage of the Great Migration lasted roughly from the early 1900s to the beginning of the Second World War and laid the foundation for discrimination and economic marginalization of Black Americans in the northern United States. The circumstances for Philadelphia's poor Black population were documented by W.E.B. DuBois in his essay The Philadelphia Negro. By 1896, the time of DuBois' writing, Philadelphia had undergone a large economic reorganization away from small shops and home industry and towards large factories and department stores. This shift, although appearing to offer more opportunity, did not translate to success for the city's Black population. Black Americans arrived in northern cities with little formal training other than agricultural work, as slavery had prevented generations of people from accumulating knowledge and skills beyond the plantation and cash crop business. This reality severely limited job prospects for recent migrants to low-skilled occupations in domestic and personal services[1]. Furthermore, White European immigrants cornered the skilled labor opportunities in trades, manufacturing, and unions and were often very selective in their acceptance of new members. In an effort to maintain high wages, jobs and training were afforded sparingly and went to those with close social and familial connections to the union members[2]. These factors led to the Black population in the city being disproportionately employed in low wage sectors that concentrated poverty instead of opening new avenues of opportunity.

Why is it that Black Americans have lived and worked for generations in the United States but have been denied their realization of the American dream like so many other immigrant and ethnic communities in the U.S.?

The segregation into low-skill, low-wage employment was not unique to Philadelphia and created a revolving door of poverty in many northern cities. William Julius Wilson, in his article "Black Underclass" (1984), argues that Black migrants to northern cities were unable to corner sectors of the economy due to the continuous influx of Black Americans from the southern United States. Changes to immigration law in the 1920s cut off the flow of migrants from areas like Japan, China, as well as Southern and Eastern Europe. Local economies therefore absorb the reduced immigrant populations without displacing white residents currently living in the community from their job prospects. Asian communities did in fact face similar racial discrimination from white society but were able to build successful communities because their populations never grew large enough to be deemed a threat. According to the 1970 census, 22,580,000 Black Americans lived in the United States, compared to only 435,000 Chinese and 591,000 Japanese[3]. Continuous migration of poor Black Americans to northern cities expanded the size of the urban Black communities while Asian communities had their external flow of people cut off. Overtime this skewed the age profile of urban Black communities, compared to that of Asian communities, keeping it relatively young and poor[4]. These demographic factors contributed to a revolving door of poverty for Black Americans living in northern cities and compounded into generational economic hardships not faced by other immigrant communities.

The city of the Chicago, only a few years after DuBois' essay was published, painted a fundamentally different picture for the opportunities available to Black Americans in Northern U.S. cities at the time. In their book "Black Metropolis", written in 1945, St. Clair Drake and Horace Cayton, Jr examine life for Black Americans before and after the Great Migration in order to understand the reasons for inequality in standards between Black and White residents. While many of Chicago's Black population around the time of the Great Migration found themselves trapped in low skill, low wage employment, they built and fostered a high level of community resources unlike that of Philadelphia's Black community at the same time. Between 1890 and 1914 Chicago's Black community developed a hospital and training school for nurses, a YMCA, and branches of national organizations such as the NAACP. Four newspapers were started to serve the Black community, and local leaders maintained an active presence in city politics while advocating for economic and political equality[5]. These institutions did not prevent Chicago's Black population from experiencing discrimination or inequality, but they did equip them with resources to improve their standards of living over time. Progress was being made.

This progress did not continue forever, and like many parts of the U.S. in the aftermath of the First World War, Chicago erupted into racial violence during the 1919 Race Riot. Over five days, thirty-eight people were killed, five hundred people were injured, and over a thousand people were left homeless[6]. $250,000 dollars in property damage was recorded, equivalent to $3.9 million in 2021[7]. The violence resulted in Chicago's growing Black population being labeled as a problem for Chicago by their White counterparts and helped fuel inclinations to fortify de-facto and de-jure methods of segregation. Although Black residents and migrants in Chicago built a self-sufficient and resilient community, violence and destruction evoked by racial hatred undermined their hard work and progress, leaving the community less equipped to combat poverty and inequality.

Another important mechanism that limited equal opportunity for Black Americans were restrictive private and government housing policies. Even when migrants were able to find quality jobs in manufacturing and industrial sectors, racist housing and financing policies concentrated Black populations within the inner city, effectively establishing ghettos for Black Americans. Local ordinances and housing covenants came into practice early in the 20th century to explicitly limit equal housing opportunity for Black Americans. In 1910 for example, the city of Baltimore enacted policies that prevented Black Americans from purchasing homes in White dominated neighborhoods, and vise versa, under the justification that successful Black Americans were trying to "get as close to the company of white people as circumstances will permit them" [8]. In 1926, city officials in Indianapolis adopted an ordinance that only allowed Black men and women to move into white majority neighborhoods if they first gained the written consent of a majority of its residents[9].

These laws and practices were effective in carving up neighborhoods between White and Black population groups, establishing de-facto and de-jure segregation in northern American cities.

After the Second World War, authorities made use of home loan policies to further discriminate against Black Americans. As the U.S. suburbanized, agencies such as the Federal Housing Administration (FHA) used explicitly racist appraisal standards when judging mortgage applications. Restrictive policies had concentrated Black homes near multi-tenant rentals and industrial developments. Under FHA standards, this made Black homeowners ineligible for mortgages, as the developments in their neighborhoods would drive down the price of single-family homes[10]. The FHA further defended their standards and restrictive policies under the pretext that Black Americans who purchased homes in or around White neighborhoods would decrease the value of those white-owned properties[11]. As a result, Black Americans were forced into accepting contract sales, in which homeownership would be transferred to the buyers after fifteen to twenty years but at risk of eviction should the purchaser miss a monthly payment. These payments usually occurred at inflated market prices which made missed payments all the more likely[12]. The actions of the FHA denied equal opportunity for Black Americans in home financing and forced many into accepting contracts that kept them from long term home equity.

Restrictive housing policies and financing practices have had profoundly detrimental effects on equal opportunities for Black Americans in northern cities. They have actively stifled the natural integration of American society and enacted physical barriers between our communities. Baltimore's 1910 restrictive ordinance, mentioned earlier, caused extreme pain for its citizens because they had been living side by side, regardless of race. We must also recognize the inability for Black Americans to move outside of areas explicitly authorized when discussing Black community resources and the impact of their neglect by local and federal authorities.

Concentration of Black Americans into urban areas left their communities particularly vulnerable to structural economic changes resulting from deindustrialization. The Fair Housing Act, passed in 1968, rendered housing discrimination illegal and promoted equal access to housing for Black Americans[13]. But just as Black Americans could express greater freedom in the housing market, deindustrialization altered the nature of the American Economy and urban job markets. William Julius Wilson writes, "the shift from goods-producing to service-providing industries, the increasing polarization of the labor market into low-wage and high wage sectors, technological innovations, and the relocation of manufacturing industries outside of central cities" all negatively impacted urban minorities[14]. Cities in America changed from industrial powerhouses to "centers of administration, information exchanged, and service provision"[15] and well-paying jobs accessible to Black communities disappeared. Past housing discrimination and restrictive policies concentrated the negative impacts of deindustrialization within Black communities and contributed to increases in poverty and inequality for Black Americans living in urban areas.

Black migrants faced disproportionate barriers to equal opportunity predicated on the color of their skin throughout the United States. These barriers fueled a vicious descent into urban poverty that led to the establishment inner-city ghettos and generations of economic inequality. In Philadelphia, residents of the seventh ward had little choice in the way of occupation or education from the minute they arrived or were born. While European immigrant and White communities used social connections to corner occupational niches and positions in unions, Black communities were deprived of resources that would enable them to learn or develop new skills. Before the 1919 Race Riot, Black Americans in Chicago could establish quality standards of living and then recontribute their skill sets back within their community for the next generation to utilize. Violence fueled by racial prejudice fundamentally shattered the progress built up by those successive generations and served as a justification for segregation in Chicago, rather than integration. Restrictive housing laws and active exclusion from FHA mortgages uniquely disadvantaged Black Americans and forced their communities to remain segregated. Generations of Black families seeking a better life were confined to inner city, low value housing while White Americans established home equity in new suburbs fueled by the post-World War II boom. When Black Americans successfully fought for and gained equal opportunities in housing markets, deindustrialization pulled the job markets out from underneath their communities and destroyed well-paying job prospects.

In all of these contexts, Black Americans were neglected and discriminated against in a manner that forced their communities into cycles of poverty and inequality. Barriers to equal opportunity held back generational accumulation of resources in Black communities on which wealth, educational opportunities, knowledge in skilled trades could be built. When observing how Philadelphia's Black population in the seventh ward started working from an earlier age, W.E.B. DuBois commented, "This is an indication of the absence of accumulated wealth, arising from poverty and low wages, the general causes of poverty are largely historic and well known; to appreciate the cause of low wages, we have only to see the few occupations to which Negros are practically limited, and imagine the competition that must ensue"[16]. These factors have led to a long-term concentration of disadvantage, to which William Julius Wilson stakes his claim that historic discrimination compounded by demographic and economic changes have led to the establishment of a Black underclass in American society[17].

Overall, it is important to acknowledge the historical roots of racial inequality that still find their way into our modern society and way of life. The influence of this history can be seen in the killing of George Floyd as well as the uneven burden inflicted by the Coronavirus Pandemic on Black communities in the United States. By examining the patterns of development that created present day circumstances, we can better implement solutions that tackle a seemingly insurmountable issue for our society. Racial inequality does not trace its roots to lack of effort on the part of Black Americans who migrated to other states seeking a better life. Instead, Black Americans were economically limited in their ability to accumulate human capital and wealth in an effort to build sustainable communities on which successive generations could improve their quality of life. As Isabel Wilkerson writes in "The Warmth of Other Suns", Black Americans have worked to accomplish what many peoples in the history of our nation have built. From the original pilgrims that fled tyranny, to European Jews that fled death in the face of pogroms and Nazism; the United States has been a destination to stake one's own future on the merits of hard work and effort. As Americans, we must create a society that amounts to that proud lineage for all of its citizens, not just those of means or a certain complexion.

https://blog.frontiersin.org/2018/09/07/working-towards-a-more-equal-sustainable-future-chief-editor-valeria-pulignano-leads-work-employment-and-organizations-specialty/shutterstock_1072789088/

THE HUB 2 & THE MADISON HOUSING MARKET



Late in 2019, a real estate development company known as Core Spaces proposed the development of a new apartment complex at 126 Langdon St.[1] Many residents of Madison will recognize Core Spaces from some of its other developments, such as the Hub and the James. This new complex would be known as the Hub 2, a seven story building capable of housing around four hundred residents, mainly catering to students.[2] But after facing stiff opposition from those in the neighborhood and students across campus, the project was dead, voted down seven to one by the Madison Plan Commission.[3]

According to a petition which demanded that the development be halted that received over two thousand signatures, some reasons making up the opposition to the development were concerns over the development's ability to comply with several zoning regulations and concerns over the preservation of the historic langdon neighborhood.[4] Further, there was anxiety surrounding its environmental and traffic impacts, and most principally, consternation that building a new luxury apartment complex would inevitably contribute to a housing market that is increasingly unaffordable for students.[5] However, much of the evidence surrounding this last claim suggests that the opposite is true, that the development of luxury housing creates more affordable housing for everyone.

While the other concerns surrounding the development may be valid, it is important in principle to evaluate this claim surrounding affordability extremely carefully. The city of Madison was one of the fastest growing in terms of population in Wisconsin, growing by 1.14 percent in 2020.[6] As both the city and university continue to grow, it is becoming more and more inevitable that Madison will be forced to make decisions on how to effectively manage this growth. While the 2 percent growth in rental prices in Madison has mainly stayed consistent with national average,[7] and is less than the 3.02 percent average increase in Wisconsin[8], the primary focus of this adaptation to Madison's ever-growing population will be within its housing market.

Furthermore, as issues of racial injustice continue to dominate the national conversation, it is important for us to ascertain how we can truly make housing more affordable and mitigate gentrification. This is especially relevant for the city of Madison, as the city's rapid growth has created worries for residents living in south Madison, one of the city's most diverse and multicultural neighborhoods.[9]

While concerns surrounding gentrification and affordability are certainly relevant whenever building new housing is discussed, the conclusion that many students and those living in the neighborhood have reached is incorrect. Ultimately, building more housing, especially luxury housing such as the Hub 2, is the key to creating a more affordable and sustainable housing market that limits the displacement of its prior residents.

A key concept in the problem of gentrification seems to have been glossed over in this conversation. When a neighborhood is gentrified, it is not because new, more expensive, housing developments have been built. Rather, it is due to the influx of residents, combined with a lack of vacancies, that are unable to be accommodated by the neighborhood. Thus, excess demand puts upward pressure on prices, displacing the prior residents.[10]

This can be explained using supply and demand. As more people move into a neighborhood or city, the demand curve for housing shifts to the right, causing an increase in price. To neutralize the increase in price, supply must also be increased in order to house a greater

"When a neighborhood is gentrified, it is not because new, more expensive, housing developments have been built. Rather, it is due to the influx of residents, combined with a lack of vacancies, that are unable to be accommodated by the neighborhood."















quantity of people without any effects on price.

A common reply to this argument may be that while increasing the supply of housing is good, new units should be made to be as affordable as possible, and therefore the Hub 2 should have increased the amount of affordable units that it could provide. However, there is a substantial amount of evidence to suggest that the construction of even luxury, or new market-rate housing in technical terms, provides a viable source of low income housing.

This occurs through a process known as filtering. During this process, more affordable housing is provided by the addition of new market-rate housing. This occurs because as more luxury housing is built, people who are currently living in middle-income housing who can afford to live in this new, more expensive housing then move out, causing rental prices for these middle income developments to become cheaper.[11] This causes a sort of ripple effect within the housing market. As these new vacancies successively allow people to move up through the housing market, the benefits are ultimately delivered to low-income individuals in the form of lower demand for the housing that they can afford, causing a decrease in rental prices.[12] The construction of new, more expensive housing results in cheaper, higher quality housing for all. This means that if the Hub 2 were to have been built, the average rental price would decrease for students living in mid-range housing developments such as La Ciel or the Hawthorne Apartments, as well as those living in complexes catering to lower-income students. As residents with a higher willingness to pay for housing move out, the owners of these complexes would be forced to lower rent in order to fill the vacancies created by the addition of new housing.

Most importantly, there is evidence to suggest that this process of more attainable housing for all does not take long to come to fruition. A study from the UpJohn Institute used the address history of 52,000 residents in large cities living in new multifamily housing.[13] By analyzing their address history, and then analyzing the address history of the current residents of their previous addresses, it was found that a strong migratory link exists between the development of new market-rate housing and individuals moving up to higher quality housing from low-income housing.[14] Using a simulation model combined with the address history data, the study found that through the addition of 100 new market-rate housing units, 45-70 and 17-39 individuals are able to move out of below median and bottom quintile housing units respectively within five years, suggesting that the benefits of building new luxury housing are delivered to the entire population relatively quickly.[15] This means that the benefits of new market-rate housing would be passed on to current students during the short period in which they participate in the housing rental market in Madison.

Beyond its effects in the short term, there is overwhelming evidence to support the notion that not only does building new luxury housing open up vacancies in lower-income housing, but that luxury housing will eventually become affordable housing. According to a study from the Oregon Office of Economic Analysis, new market-rate housing built in the 1970s in Portland, Oregon which rented at 11 percent higher above the overall market, are now rented at a rate 6 percent lower than the overall market. [16] This suggests as the cost of luxury housing depreciates over time, it eventually becomes affordable, meaning that rental prices for the Hub 2 complex would eventually become affordable for most students. This revelation on its own has big implications beyond just affordability. It suggests that building luxury housing like the Hub 2 would not only be instrumental in reducing housing costs, but would also be vital to improving the overall quality of housing in Madison.

Lastly, it is important to acknowledge a key idiosyncrasy in the Madison housing market that makes a development like the Hub 2 a very attractive option. The city of Madison is surrounded by water on two sides, therefore, there is very limited space on which housing can actually be developed. Therefore, in order to adequately increase the housing supply, high density housing like the Hub 2 must be built, even if some believe it to be an eyesore..

Ultimately, while there are other reasons to oppose the construction of the Hub 2, concerns surrounding both displacement and affordability are not valid. Through a shifting of the supply curve and the process of filtering, the construction of new market-rate housing like the proposed Hub 2 would have both lowered the cost of housing as well as improving its overall quality. In the incredibly segmented housing market of Madison, with students and non-students rarely sharing living spaces, building a high density complex like the Hub 2 would retain gentrifying influences near the center of the city, far away from areas in which they could cause harm. Although the project had its shortcomings, the city would have ultimately benefited from its construction. I would posit that creating more affordable housing for the entire population should take precedence over concerns surrounding the aesthetics or character of a neighborhood that very few actually benefit from. In order to build sustainable growth, Madison, and many other mid-sized cities like it, will need to build new market-rate housing.

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A CONVERSATION WITH DR. MATTHEW FRIEDMAN

Dr. Matthew Friedman has a versatile anad engaging personality that is evident through his passion for teaching classes at the University of Wisconsin, as well as through his research and work in public policy.

In this conversation, Dr. Matthew Friedman provides insight on his interests in economics, his research motives and experience, as well as advice for students who are interested in getting immersed into the field of economics, academic research, and learn more about its relevance in everyday scenarios.

by Fatima Ali

Could you talk a bit about your background, in your own words?

I did my undergraduate at the University of Colorado at Boulder, where I double majored in Economics and Broadcast Journalism. After I finished my undergraduate, I sailed down to the Bahamas and then went to find a friend in Newport Beach. For a bit I sold headphones at Bose and got into factoring, where I sent invoices to garment workers and truckers and got to learn a lot about interesting industries and especially got interested in corporate finance. Eventually, my wife went to Philadelphia for law school, so I moved there and I worked at a place called Aesop, where I was able to learn more about employee-stock ownership. Employee-stock ownership scenarios typically dealt with people who wanted to sell their business, perhaps to their employees and then pay off the owner and distribute the shares to the workers. There are a lot of liquidity events that are factored in when dealing with this type of situation and the company involved needs to forecast how much cash they would need for this to work out. During my time at Aesop, I learned a lot about economic forecasting and gained a lot of basic rudimentary knowledge. I was excited to learn more about the intricate models and gain greater certainty about how economics works and use this knowledge to be intrinsically valuable to myself and others by being better at predicting. Prior to going to graduate school, I did economic consulting in Newport Beach and Philadelphia. It was the first job for me that sparked interest in Economics and made me want to gain more insight on economic issues, such as the economic collapse that was happening as a result of the Great Financial Crisis. I did graduate school at the University of Wisconsin, where I was able to connect with people who have similar interests as me in the field of Economics.. It's really neat being at UW, especially since my parents were at UW as well when I was younger. I've taught in South Dakota, Hawaii, and the University of Wisconsin, and in particular have taught students courses in business applications and theories that students can use to do work in Economics and Finance.

What sparked your interest in Economics initially and what are some specific fields you enjoy studying within Economics?

I am most interested in how people are impacted by economic policy. Some topics I'm interested in are how much money is available, and this interest was sparked when I was at the University of Colorado in 2006. The United States was in a financial crisis and I didn't understand what was happening with Collaterized Debt Obligations (CDOs) and credit default swaps. Calamities struck and it was the economists who were meeting to save the economy and the world. I am also interested in behavioral economics, particularly because many students are really interested in this field and I knew a lot of people who did marketing research and found subtle ways to influence decision making.

Why did you decide to go to graduate school for Economics?

I decided to go to graduate school to learn more about the associations and connections that can be made in economics, and then in turn, teach and write about these phenomena. Questions such as, "Why is it that people earn different amounts of money?" or "Why is it that states have different minimum wage?" are questions that I wanted to gain some clear answers to. Economists have a lot of valuable stuff to say, and as an undergraduate, I couldn't understand what professors were doing as researchers, which is why I wanted to gain more experience in economics and have the opportunity to be able to explain various economic topics to students in the future. I also found that research experiences in graduate school were extremely beneficial in allowing me to learn more about the different connections that can be made in economics, as well as find areas that I'm passionate in teaching and conducting research in.

What was your first research opportunity and what was that like?

Originally, after graduation, my plan was to go into broadcast journalism. However, for graduation, I needed to complete an honors thesis and so I decided to brainstorm a topic that I could connect to real life experiences that I'm passionate about. In college, I volunteered for a place called Boulder County Cares that essentially wanted to fix homelessness. While working at Boulder County Cares, I worked with really industrious people who wanted to stay alive, but were affected by inefficient resource distribution, which I saw as a major problem. Homelessness was a problem when I was an undergraduate, but it wasn't as much of a problem as it is now. In my senior thesis, my goal was to write about redistribution and find better ways to distribute products to homeless people. I wanted to find and research economic policies that might affect an outcome for the future, especially when it comes to poverty alleviation and homelessness.

Something interesting I find is that really smart economists have trouble conveying their message to a broader audience and boiling down their research so people can see exactly what the research is and how it impacts them. Oftentimes, there is a lot of intricate math and detailed models in the research that economists are pursuing, and there needs to be a unique way in which they can frame the work in a way that engages people. A lot of times you also need to find an audience to talk about your research with, and as a broadcast journalism major, I was able to leverage my skills from that field in order to find ways to effectively engage with my students and people I am speaking with regarding my research.

You were a fellow at the Brennan Institute in 2015. What kind of work were you able to work on there and how did that experience impact your future career in teaching and research?

The Brennan Institute for Justice is a public policy group that focuses on work regarding public interest, specifically election integrity, fair courts, ensuring people who are eligible to vote are able to vote, as well as advocating to ensure that people who are able to work have the opportunity to work. At the Brennan Institute, I did research for the purpose of gaining information and disseminating this information to public and government officials for the possible implementation of good policy goals. In my group specifically, we wanted to reduce mass incarceration, fines and fees, and also dive into long-term consequences for groups that are significantly affected. We explored the topics of reducing prison population, sentence length and possible alternatives to incarceration. This meant looking at the costs and benefits of mass incarceration and asking questions such as, "Is there crime control benefit?", "What are the fiscal costs and secondary and tertiary costs that are affected by dependants?", as well as what happens to people who leave prison and try to assimilate back into society. We wrote a lot of policy papers, such as white papers, and shared them with the media and policymakers. We also organized groups that involved law enforcement leaders, sheriffs, DAs, people who dealt with these issues on a regular basis and wanted to advocate with us on our positions. My work here made me realize that sometimes having the best idea isn't always about being right, but rather, it is about trying to convince people and show how your stance is more effective and efficient. I ended up doing a lot of teaching through writing and one-on-one meetings and really enjoyed that since I had time to explore the first principles of economics and spend more time one-on-one with people who were curious about exploring mass incarceration and its economic and policy ramifications.

Your CV mentions that you have a research interest for Applied Economics, Criminology, as well as race and ethnicity. How do those areas intersect with each other and what has been the relevance of that intersection in the last decade?

It's evident that laws govern not just the way we live, but that the criminal justice system has some stark disparity that needs to be explored. There are some problems with the mechanism that is used in the criminal justice system and that is affecting families as well as the socioeconomic statuses of many people within the US. Given the current issues with race disparities, as well as the pandemic, there should be more attention highlighted within the criminal justice system in America.

Could you talk about your working research piece: "Do Better Neighborhoods Matter? A New Perspective on Geographic Variation in Parental Valuation of Public Education."

My piece hones in on how school quality is something that home buyers consider when finding a location to buy a home. In the paper, I combine property sales data from the Wisconsin Department of Revenue with student performance data from the State's Department of Education in order to measure the capitalization of school quality. Using variation in housing price, as well as assignment zone boundaries and changes in housing prices following changes to school assignments in several large urban and suburban districts I found large premiums associated with negligible differences in average student performance across school attendance areas. Even though the large housing price effects observed in the data seem to be affected by school assignments, the effect is mediated by controlling for subsequent demographic changes in the school attendance area.

What kind of techniques do you use when conducting research and how do you determine success during the research process?

I find research questions based off of logical inconsistencies that are found in beliefs that are commonly held by society. Then I go collect data and try to formulate the simplest summaries possible for the problem I am trying to answer. My aim is to answer the question "What is the truth?" in any given problem and pinpoint what the facts are and how can I find and make the solution crystal clear for the audience.

What are your future plans for research, is there anything you are currently working on or hoping to publish in the future?

COVID-19 has slowed down a lot of research, but I am still working on "Do Better Neighborhoods Matter? A New Perspective on Geographic Variation in Parental Valuation of Public Education." In the future, I also want to work on research that takes place in Hawaii regarding their tax policies and specifically the 1986 Real Estate tax bill. There is a provision in the tax bill that introduces an investment vehicle that has exploded in popularity over the last few decades. I am interested in the implications for local real estate and for tax advantage as a result of the introduction of that investment vehicle.

What is your teaching philosophy?

I believe people best learn by doing things. As an instructor, my job is to provide guardrails for people to explore on their own. There are all sorts of rabbit holes within associated fields in economics. For instance, behavioral economics isn't accessible to a lot of people, so you have to go down other routes in order to connect this material in ways that are interdisciplinary and can be well-connected to real life. It can be dark and scary when exploring a new field in economics, so I allow people to explore the field in whatever depth they are comfortable with through readings, written assignments, and other activities.

What are some of your favorite courses to teach and why?

I love teaching behavioral economics to students because it really emphasizes the inconsistencies with neoclassicalism and rationality. It is a very versatile field within economics that can be applied to so many real-life scenarios such as finance, daily human interactions, as well as marketing and advertisements that we see at different stores or commercials.

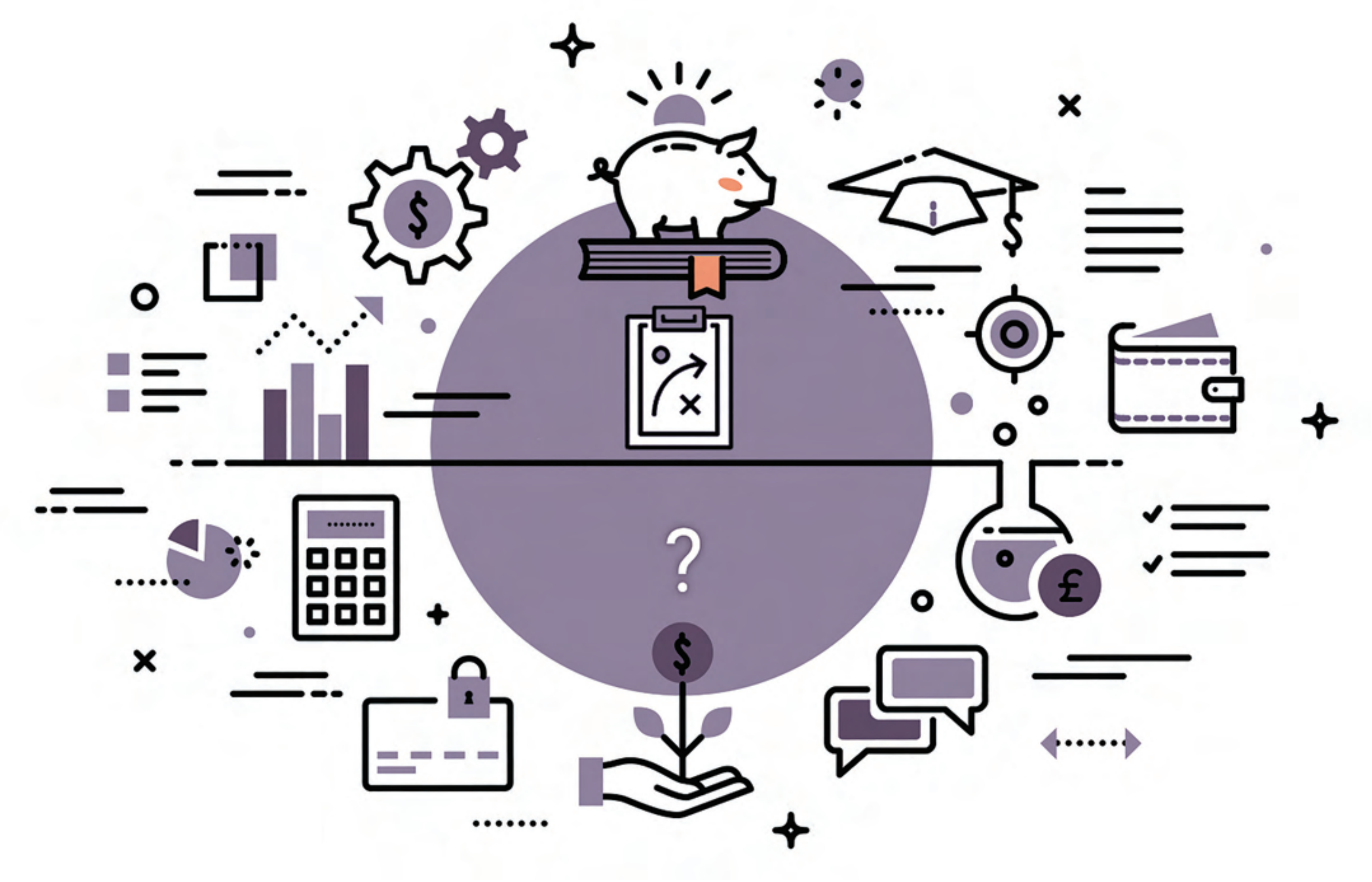
Do you have any advice for students who are majoring or thinking about majoring in Economics?

Trying to pinpoint exactly what it is that employers want when hiring a new graduate might not be helpful, as the skills that employers view as essential right now might not be in demand the moment you graduate. That being said, having knowledge of economic theory and how markets reveal prices in order to generate surplus is always valuable. That knowledge will help you in life and give a clearer world view. I would encourage studying economics if it's a fascinating subject area to you, people definitely value an economics background. The framework you learn and use in economics will afford you many opportunities. The major allows you to confront many challenging situations. You are able to learn more about and answer questions such as why sweatshops exist, why there is poverty in this world, why there is mass unemployment in the rust belt, why there are losers and winners in society, as well as many other tough questions.

What are your thoughts on the US and Global economy currently?

I think it's a very exciting time to be an economics student. Previously, we went through a time of great moderation and static equilibrium; however, given the current situation with COVID-19 and the low interest rates set by the Fed, we will see a lot of disruption and first principles of economics in action. For instance we will see a lot of actions and theories regarding inflation and specifically measures to counteract inflation. We will also potentially see non-binding policies become binding policies, which in turn will have real world applications. Overall, it is very advantageous to have good economics foundations in order to understand what is happening in the economics and fiscal policy world. Although this is a turbulent time, there is a great opportunity to predict economic actions and see what will happen next as the pandemic and recovery process plays out.

Financial Literacy and the Underbanked and Unbanked: A Dire National Study



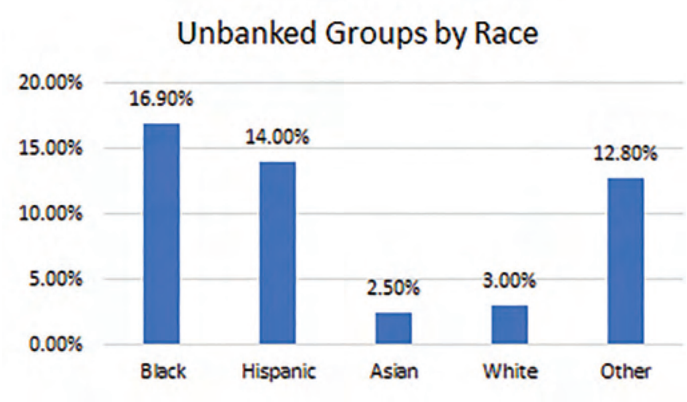
By Weesam Chehab

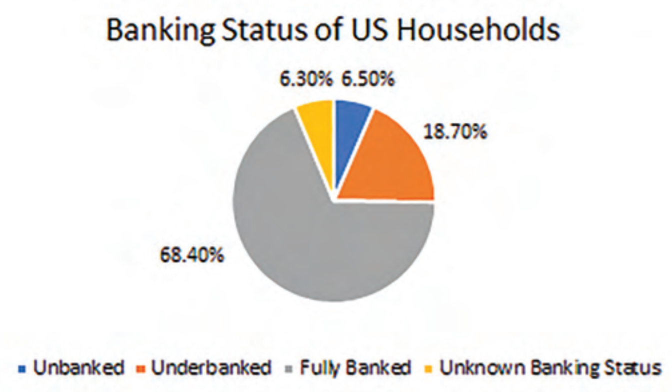
Image from https://digitalhumans.com/blog/how-to-improve-financial-literacy-with-ai-digital-humans/

In the United States, standard K-12 education leaves children unprepared for the financial tasks they must undertake as they enter adulthood. They have a limited scope of financial literacy in areas such as taxes, budgeting, banking, and investing. The main focal point of this opinion piece is financial literacy as it relates to being underbanked or unbanked. A household that is unbanked is one in which no member has a checking or savings account. A household that is underbanked is one in which a member has an account at an insured institution but uses financial products or services outside of a bank. Minorities are especially prone to being underbanked or unbanked, a trend that stems from a number of issues, including the stigmatization of banks in certain segments of Black America. To deal with the problems of being underbanked and unbanked, we must deal with the problem of financial illiteracy, especially in minority populations in the United States.

In better understanding how American banking and finance can help the economy, the Federal Reserve can better aid people in their attempts to benefit from federal laws such as the Community Reinvestment Act of 1977. Indeed, more legislative involvement and reform is needed in this area, perhaps now more than ever, given the negative ramifications of COVID-19 for the economy.

Financial illiteracy relative to being underbanked or unbanked is widespread in the United States: “In 2017, 6.5 percent of US households were unbanked.... An additional 18.7 percent of US households were underbanked in 2017” (FDIC Survey, 2017). This is a shocking statistic reflecting not only individuals' inability to save money and to invest for their futures but also vulnerable communities' inability to reinvest in themselves. Being underbanked or unbanked is an especially prevalent trait in Black and Hispanic communities, where the rates sit at about 16.9 percent and 14 percent respectively in comparison to Asians and Whites, where rates sit at 2.5 percent and 3.0 percent. These numbers show how America has failed to financially educate certain minorities like Black and Hispanic communities. The FDIC stated, “In 2017, more than half (52.7 percent) of unbanked households cited ‘Do not have enough money to keep in an account’ as a reason for not having an account, the most commonly cited reason” (FDIC Survey, 2017). This figure further supports the idea that the general US population has a woefully inadequate grasp of how the banking system works and how a proper understanding of banks can benefit the possessor of this knowledge. According to a study by Davoli et al., “financial illiteracy is more severe among women, African Americans, and Hispanics, … [and] those without a college degree, low-paid workers, and the unemployed” (Davoli et al., 2020). All of these findings go to show that the United States has done a lackluster job in supporting Americans from a financial perspective.





Initiatives such as the previously mentioned Community Reinvestment Act (CRA), launched in 1977 by the Federal Reserve, have addressed this issue but have achieved less than optimal progress.The CRA was enacted to encourage depository institutions to meet the credit needs of low and moderate income (LMI) neighborhoods. On the basis of the CRA's directives, the FDIC, the Federal Reserve Board, and the OCC, “examine state member banks to evaluate and rate their performance; considers banks' CRA performance with other supervisory information when analyzing applications for mergers, acquisitions, and branch openings; [and] shares information about community development techniques with bankers and the public” (New York Federal Reserve, 2019). The CRA originally tackled the problem of redlining, which discourages banks from providing services to LMI neighborhoods. The CRA became a political issue when the act received backlash that it had contributed to the 2008 financial crisis. In recent years, any effectiveness of the CRA has faded, stimulating calls for new, revitalized legislation that accounts for the massive technological advances that have occurred since the 1970s in banking and financial services. The Fed has considered this matter and hopes to implement a new initiative that breathes new life into performance tests which assign overall rankings of Outstanding, Satisfactory, Needs to Improve, and Substantial Noncompliance. They also measure public input, restructured asset thresholds, and improved outreach.

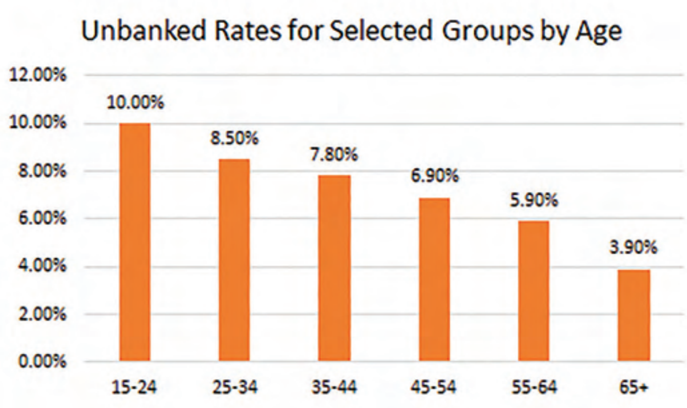
Other organizations have attempted to help bridge the gaps in financial literacy across the United States. Among these organizations are the US Department of Treasury's MyMoney.Gov program, which provides educators with curriculum resources devoted to finance. The Federal Deposit Insurance Corporation has designed MoneySmart to help people of any age strengthen their financial skills. The National Financial Educators Council is devoted solely to providing educators with financial-literacy curriculum. However, none of these efforts is an all-encompassing solution and some require out-of-pocket money. “In 2009, only 30 percent of individuals in the US could correctly respond to three basic financial literacy questions on interest rates, inflation, and risk diversification” (Davoli et al., 2020). The United States continues to suffer from underfunded public schools equipped with outdated or inefficient curricula. A combination of solutions must address the issue of outreach in ways that tackle the gross racial disparities characterizing financial illiteracy and financial well-being throughout the country.

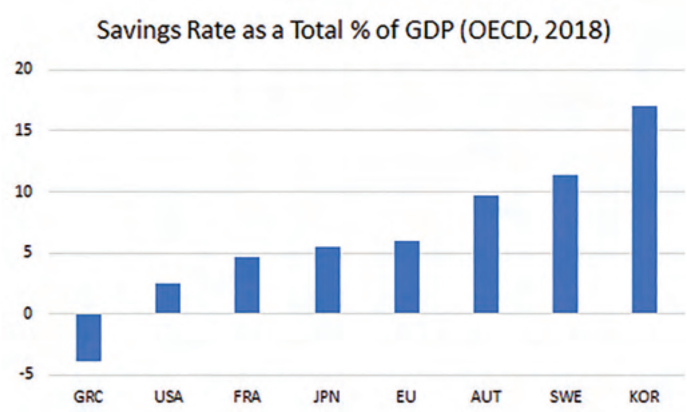
Improvements in financial literacy can also improve people's financial situations. For example, certain minorities that are consistently gentrified and redlined in their respective geographies can improve their use of banking by becoming more financially literate. The Federal Reserve influences people's financial situations chiefly through monetary policy. For the Fed to exercise its largest potential outreach, more citizens must be financially literate and utilize that literacy to engage in banking. As stated in previous paragraphs the government needs to create programs to address literacy in minority communities to improve faith in the financial system.

Should the government turn a blind eye to financial literacy it could have national consequences. Consider, for example, America's reliance on consumption as the largest factor in the country's gross domestic product (GDP). According to Federal Reserve Economic Data (FRED), consumption accounts for 68% of GDP (FRED, 2021). In 2018 according to data from the Organization for Economic Co-operation and Development (OECD), the United States had a national savings rate of 2.4% of GDP, which is one of the lowest internationally (OECD, 2018). On top of this, FRED showed that, shortly before the COVID-19 pandemic, the country's personal savings was around 8.3 percent (FRED, 2021). Nielsen data shows that "somewhere between 50 percent and 78 percent of employees earn just enough money to pay their bills each month" (Washington Post, 2020).

As we know there is a large mistrust of financial institutions by minority communities like Blacks and Hispanics. As we stated this is due to redlining and gentrification where they are limited in their economic opportunities to grow and are not given sufficient support by banks in areas such as credit or loans. On top of this there is limited support from the government to provide financial literacy infrastructure for them as well. As such the best way to approach the lack of trust between banks and consumers in these LMI communities and improve financial literacy could be in the form of partnerships with local organizations, small businesses, schools, and other entities that serve a given community. These entities would need to bolster employment in LMI communities, create outreach programs, offer classes on financial literacy, and offer timely advice on major household financial decisions.

Another way to promote is to integrate technology into banking. Text-messaging services, online customer service, online banking tools, and other such methods could help many members of LMI communities engage in sounder personal-finance practices. Many people put trust in technology to do their day-to-day business so why not also implement it in financial decision making to bridge the gap in trust. On top of this, policymakers could create a forum where they can receive public input and connect with the community on a deeper level to attract interest. When financial institutions can generate trust and familiarity in a community where it had been previously been lacking, conventional methods can then be integrated like investing, financial planning, diversification of savings, and other matters key to healthy personal finance. Public-sector and private-sector restructuring of personal-finance resources should focus on the monetary affordability, the practical accessibility, and the conceptual simplicity of the financial information being offered. The federal government's revitalization of the CRA can promote these new initiatives. Whether the outcome is a reduction in redlining or an increase in financial aid for small minority-owned businesses, financial-literacy rates will stand a better chance of increasing while rates of the underbanked and unbanked will stand a better chance of decreasing, especially over the long term.





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Why the trade war was a failure for the U.S.

Under the Trump administration, the U.S. was consistently engaged in a battle with China over trade issues that can be traced back to 2018. The U.S. launched relentless tariff attacks on Chinese goods with the stated aim of decreasing the trade deficit with China, bringing manufacturing back to the U.S., and putting an end to “forced technology transfer”. The trade friction caused bilateral and global economic instability.

The two countries signed the first-phase treaty on January 16th, 2020, which marked the temporary ceasefire between the two largest economies on Earth.

Before the recent ceasefire, the trade war led to an increase in the tariffs by about 300%- 400%.

However, the trade war is an unnecessary struggle that only brought more pain than gain, which is demonstrated by four unsatisfactory phenomena:

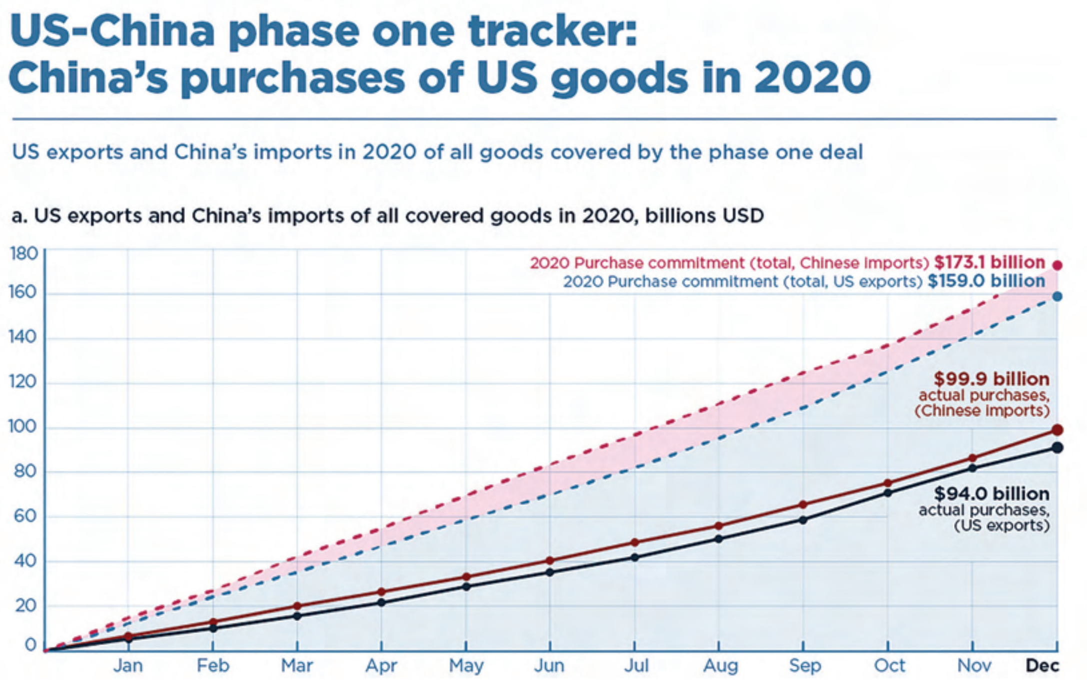
First, the trade war did not attain its initial goals. President Trump’s target was to reduce the U.S. trade deficit with China, bring manufacturers back to the U.S., and ensure that China buys more goods originating from the U.S. The high tariffs prevented many U.S. companies from purchasing relatively inexpensive goods from China, and consequently, they began to seek more expensive substitutes hailing from other countries. Although the trade deficit with China decreased by an amount of 15 billion dollars, the value of America’s overall trade deficit approximately increased by the same amount (Figure 1). A hypothetical explanation is that the U.S. spent twice as much money on alternatives after it halted the use of inexpensive goods from China. Moreover, although the unprecedented high tariffs prevented many Chinese factories from directly exporting goods to the U.S., it is worth mentioning that China still plays a significant role in the new manufacturing chain. As there has been an increase in manufacturing in Southeast Asian countries that pay lower labor prices, China began to increase its exportation to these countries and thus, continued to benefit from U.S. purchases indirectly. In fact, many new factories in countries like Vietnam and Indonesia were owned by Chinese companies. In other words, the trade war succeeded in remolding the production line in Asia but failed in bringing manufacturing to the U.S. and in limiting China’s authority in international trade. Finally, China is still not buying even the minimum number of U.S. products stated in the treaty. According to the Peterson Institute of International Economics, until October 2020, both the U.S. exports and China imports only met about 55% of the purchase commitment in the phase one deal (Figure 2). [1]

Figure 1. US trade deficit with China decreased but total deficit increased in the trade war.
Source: The Economist. https://www.economist.com/finance-and-economics/2019/12/18/how-us-china-trade-has-changed

Second, the trade war resulted in substantial economic damage and suppressed the U.S. domestic economy. As a result of the extra tariff, Industries such as trade, and the service sectors experienced more suppression than stimulus due to the lost of comparative price advantage, while the construction sector suffered from the higher price of raw materials and semi-manufactured goods. U.S. Domestic investment also faced several challenges; employment in critical economic sectors is facing downward pressure. Many manufacturers and traders are suing the U.S. government because they paid the tariff instead of Chinese producers. The endless lawsuits significantly slowed down the regular production and pulled com-

1 US-China phase one tracker: China’s purchases of US goods. (2020, May 18). PIIE. https://www.piie.com/research/piie-charts/us china-phase-one-tracker-chinas-purchases-us-goods

Figure 2. China is buying only half of the commitment
Source: PIIE. https://www.piie.com/research/piie-charts/us china-phase-one-tracker-chinas-purchases-us-goods



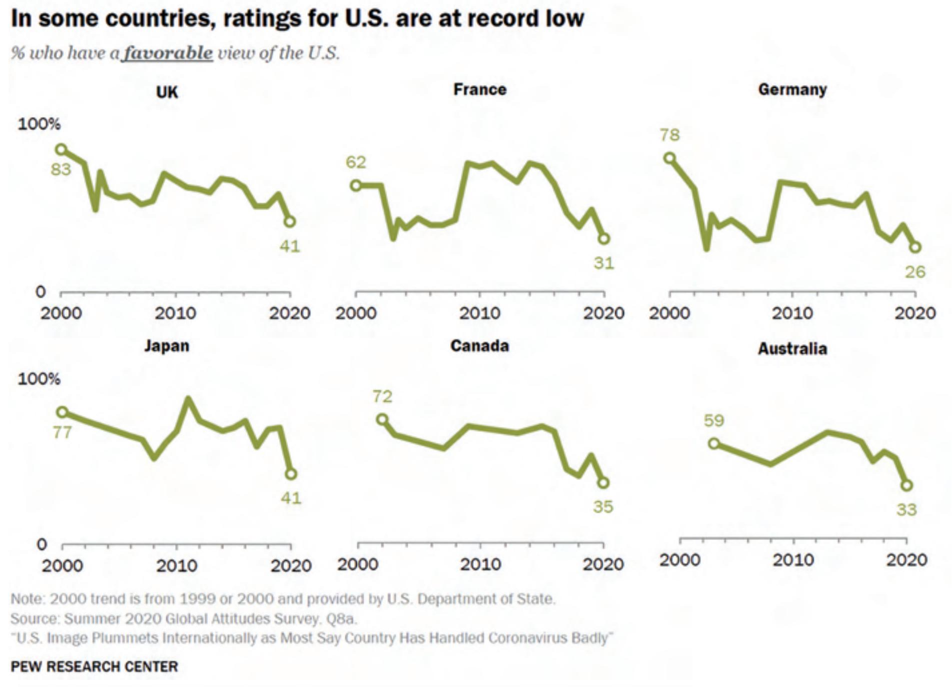


Figure 3. US international image plummeted in the recent years
Source: Pew Research Center. https://www.pewresearch.org/global/2020/09/15/us-image-plummets-internationally-as-most-say-country-has-handled-coronavirus-badly/

panies into the mire of bureaucracy.

Third, the trade war caused damage to America's international reputation, both politically and economically. For its alliances, once it cut off the trade with China, Mexico became the biggest trading partner with the United States in 2020. However, even after signing the USMCA treaty, President Trump continued to exert coercion and intensive pressure on Mexico, which severely damaged his reputation as a trustworthy trade partner and negotiator. The alliances of America situated in Europe also demonstrated record-low confidence in the superpower (Figure 3).[2] An important reason was President Trump's soft attitude on China's human rights problems and domestic political issues in Hong Kong. In his public speeches, President Trump expressed a stronger desire for establishing a trade deal by praising president Xi on his domestic measures, which was frequently criticized by the western world. This appeasing attitude and the "U.S. first" principle undoubtedly frustrated many international alliances of the U.S. and significantly damaged its political image.

Finally, on the other side of the war, China seemed to find a way to recover and maintain its authority in international trade: it exported more to the ASEAN countries and European countries instead of the United States. The Chinese Ministry of Commerce claimed that the export levels recovered in June, during which the numbers matched those recorded in December 2019.[3] According to the CPB World Trade Monitor, China's global export share had increased to 11.9%[4], which was slightly higher than the value demonstrated in July 2018, when the U.S. government first imposed an extra tariff on China. This elasticity can be explained in four ways: emphasizing trades with Southeast Asian and European countries, actively depreciating Renminbi (Chinese Yuan) to maintain China's benefits in international trade, transporting Chinese products to the U.S. through the Southeast Asian countries to avoid the high tariff, and reinvesting companies' profits in technological innovation for more advantages in the quality and cost of Chinese products.

Generally speaking, it's hard for the trade war to be viewed as strategically wise for America. Besides the fact that it lost more than it gained, both economically and politically, the uprising of trade protectionism and unilateralism is also ringing the alarm globally. The cut-throat competition that resulted from the trade war is moredestructive than constructive. U.S. and China should return to the right track of fair and open competition under a multilateral frame and serve their responsibility as the world's two biggest economies to push the global economy forward.

New opportunities and problems facing the two economies in 2020

The fiercest challenge of 2020 was the coronavirus, a global pandemic, whose outbreak in February led to the biggest economic crisis since WWII. The lockdown of manufacturing plants and the reduction of consumer spending caused the collapse of the labor market. However, compared to China's quick lockdown and quick recovery, it took much longer for many western countries to react. According to the OECD's forecast pertaining to the size of economies, the U.S. economy's size in 2021 would be the same as its size in 2019, while China would continue to expand at a rate of 10%.[5] The main reason for this significant difference between economic performances can be attributed to the difference in the control of the COVID spread. China walked out of the shadow in April and May and continued its work in the production and manufacturing lines. On the other hand, the impact of COVID on the U.S. economy has just started and would last until 2021.

Both China and the U.S. are facing their own challenges. For China, the primary weapon required to eliminate the effects of COVID and recover from the economic impact is by further stimulating infrastructure construction and state spending instead of increasing household wealth. China has a weak unemployment safety net, which makes the conditions for its workers worse than in Europe and America. Also, China's political system faces the danger of over-centralizing power and censoring innovative thoughts, which might slow down the economy in the long run. China needs a steady yet thorough economic and political reform to stay competitive in the new global situation.

The United States has de[...] certain accomplishments in dealing w[...] OVERFLOW TEXT?

2 U.S. Image Plummets Internationally as Most Say Country Has Handled Coronavirus. Badly. Pew Research Center's Global Attitudes Project. https://www.pewresearch.org/global/2020/09/15/U.S.-image-plummets-internationally-as-most-say-country-has-handled-coronavirU.S.-badly/

3 Monthly Statistics of Import and Export of Goods. (n.d.). Commercial Data-Ministry of Commerce of the People's Republic of China. Retrieved November 7, 2020, from http://data.mofcom.gov.cn/hwmy/imexmonth.shtml

4 https://www.cpb.nl/en/worldtrademonitor

5 The pandemic has caused the world's economies to diverge. (2020, October 8). The Economist. https://www.economist.com/leaders/2020/10/08/the-pandemic-has-caU.S.ed-the-worlds-economies-to-diverge?itm_source=parsely-api

Image credit: designer491 | Getty Images

PPP Loans: Economic Stimulus, or Breach of The First Amendment?

By Matthew Watiker

The United States' constitution and its importance is likely something which you have been familiar with since your days in elementary school. One of the significant ideas of the first amendment within the constitution is that the United States government may not "pass laws which aid one religion, aid all religions, or prefer one religion over another," as interpreted by the Supreme Court. Known as the establishment clause, this portion of the constitution was put in place to ensure that the federal government does not provide aid or special funding to religious institutions that would not also be available to their secular counterparts. For the vast majority of American history, this principle has been followed, however, with the U.S government's 2020 Payment Protection Program, direct favoritism has emerged by the government towards religious institutions which conflicts with the constitutional basis the country was built upon, and should not be tolerated in a country whose citizens are becoming increasingly irreligious.

The Payment Protection Program (PPP) is a $669 billion federal subsidy program put forth by the Small Business Administration (SBA) of the U.S government to support small businesses and nonprofits who have experienced a decrease in revenue in response to the COVID-19 pandemic, intending to incentivize these businesses to keep their employees on payroll. To ensure that only small businesses and nonprofits receive aid, an essential part of the program is a rule which states that only entities with fewer than 500 employees are eligible for support; however, with this rule comes one very important exception: religious institutions.

Under the Payment Protection Program, religious entities in the United States have received at least $7.3 billion in PPP loans, making them by and large one of the largest beneficiaries of the program. A national survey conducted by Lifeway Research found that 40% of all protestant churches in America applied for funding through the program and that 60% of these requests were approved. Moreover, The Jewish Federations of North America in July 2020 stated that 575 strictly Jewish synagogues and institutions have received PPP loans, massing to the funding of between approximately $540 million and $1.3 billion, a number which is sure to have risen as pending applications have, and will continue to receive further approval.

Not having to comply with the maximum number of employees rule set by the SBA allows for religious institutions to dodge a restriction of the program which the SBA has been particularly strict upon. Under this rule, businesses or nonprofits who operate under an "umbrella" or parent company, whose number of employees span over 500 across all subsidies or local centers, are unable to receive aid even if the individual operating entity has fewer than 500 individuals employed. In other words, not hindered by their large number of employees, large megachurches and religious "conglomerates" whose number of employees span well over 500 can use their PPP loan to fund their clergymen's salaries with little to no restrictions.

Pat Markey, the executive director of the Diocesan Fiscal Management Conference, defends the rule exception, claiming that the goal of the exception is not to aid religious institutions, but rather to ensure more employees involved in nonprofits are kept on payroll, as a fair portion of the United States's nonprofit sector are houses of worship. The problem with this way of thinking is that while it is true that more nonprofit employees will be kept on payroll as a result of the exception, the United States government is blatantly, and unconstitutionally favoring nonprofit employees who happen to work in religious fields. Under the SBA's ruling, employees who work in large religious nonprofit institutions are worthy of payroll, while those who work in similarly situated secular institutions and nonprofits are excluded from the program. The Archdiocese of Louisville, for instance, whose subsidiaries span across 84 religious establishments and churches, was awarded over $20 million in subsidies, while similarly structured secular nonprofits such as the YMCA, Goodwill, and the Boys and Girls Club, were simply ineligible to receive any funding at all through the Payment Protection Program.

The way by which the federal government has chosen to prioritize religious institutions through the Payment Protection Program is unconstitutional and displays an act of unequal treatment towards religious entities in a country that is increasingly secular.

The favoritism expressed by the SBA and the federal government towards religious institutions is perhaps shown best when looking into the way the SBA has responded to Planned Parenthood's requests for PPP loans. At first, local Planned Parenthood centers applied for and received nearly $80 million in aid from the SBA; however, in May 2020, the SBA reversed their agreement of funding and subsequently demanded that these local centers return the money which they received, as these centers operate under the "umbrella" organization of the Planned Parenthood Federation of America, an institution which employs over 500 people, and therefore are ineligible for funding.

The way by which the federal government has chosen to prioritize religious institutions through the Payment Protection Program is unconstitutional and displays an act of unequal treatment towards religious entities in a country that is increasingly secular. According to the General Social Survey, which has surveyed American religious affiliation over the past 50 years, the percentage of Americans who identify as religiously unaffiliated has increased from 6% in 1991, to 23% in 2018, with an average increase of .6% per year.

Regardless of the fact that the nation is trending away from organized religion, the United States must not support programs such as the Payment Protection Program which undermines the constitution and moves funding away from the small business sector, to instead provide funding for religious institutions which masquerade themselves as such. The separation of church and state is a fundamental value of the United States, and if the federal government chooses to continue to fund different sectors of the economy unequally to support organized religion, then America will be moving in a direction of not only economic harm for small businesses, but also one which undermines the core values and needs of the American people.

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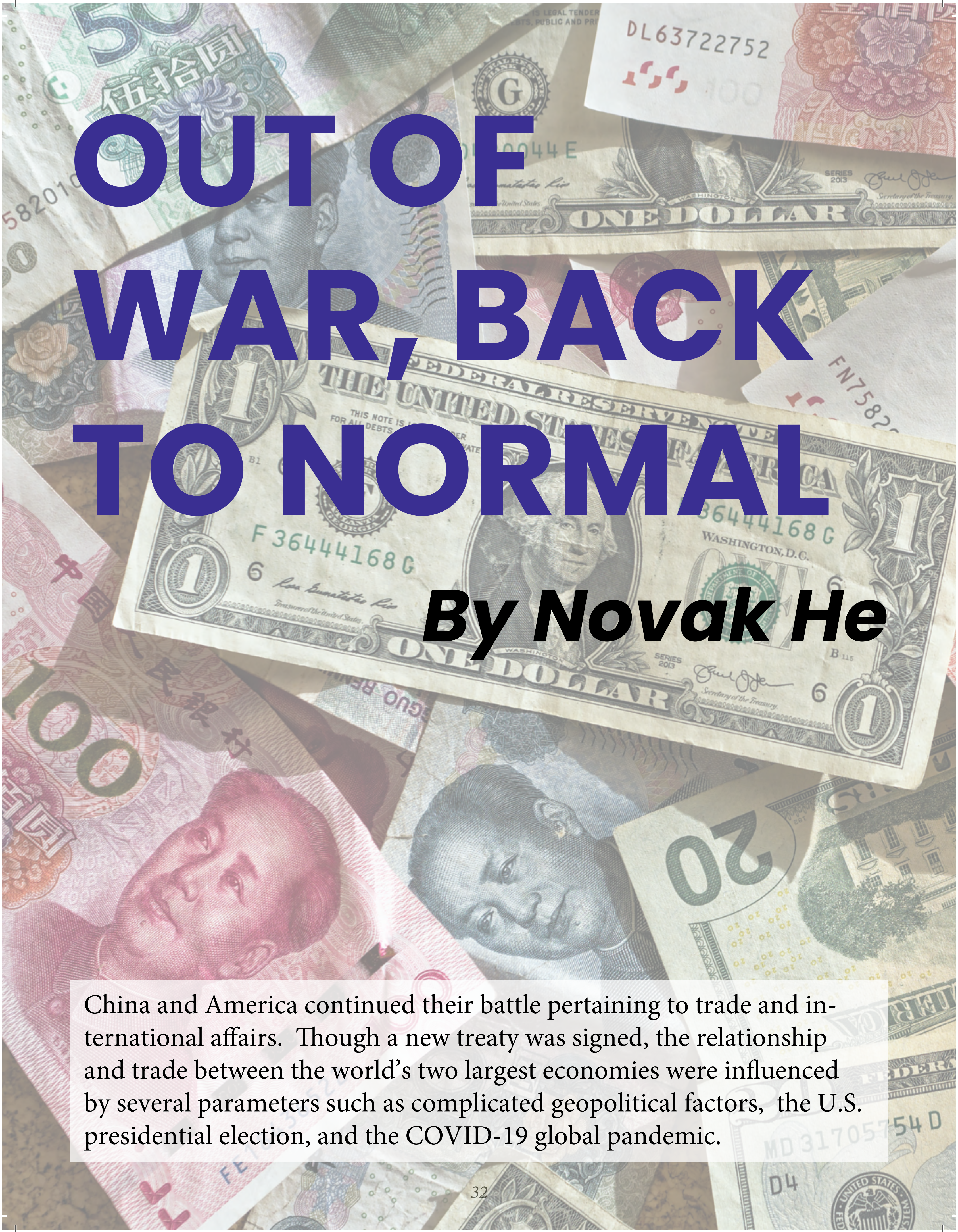

OUT OF WAR, BACK TO NORMAL

By Novak He

China and America continued their battle pertaining to trade and international affairs. Though a new treaty was signed, the relationship and trade between the world's two largest economies were influenced by several parameters such as complicated geopolitical factors, the U.S. presidential election, and the COVID-19 global pandemic.

Photo by Eric Prouzet on Unsplash

TRENDING SINO-US TRADE IN 2020

pact of COVID on its economy: it has released considerable stock market stimulus and unemployment relief. It is also more willing to accept industrial restructuring. However, the problem in America is bipartisan conflict. Several times, President Trump referred to the COVID as “the conspiracy of the Democrats” and seriously undervalued the importance of various safety measures, including wearing masks. He also attacked health experts like Dr. Fauci in public. These unnecessary political actions reduced his credibility and imposed difficulties in containing the deadly virus. Besides, the bipartisan battle has also lowered the efficiency in releasing economic reliefs and new policies, which might be critical to saving and recovering the U.S. economy from the pandemic.

In November 2020, ASEAN members and five regional partners——China, Japan, Korea, Australia, and New Zealand signed the Regional Comprehensive Economic Partnership (RCEP), arguably the largest free trade treaty in history. The emergence of such a treaty showed the determination towards attaining multilateral development and cooperation among Asia-pacific countries, many of which were former TPP members. Led by China, the treaty also reflected China’s contribution to international trade and its economic recovery from COVID. China is inching towards becoming the leader in cross-continental cooperation projects since the “Belt and Road” proposal, while the U.S. has been retreating from multiple international treaties such as the TPP and the Paris Climate Pact. For the U.S. to achieve its targets of retrieving its global leadership, it must contain the COVID pandemic domestically as soon as possible, stabilize its economy, and return to influential international treaties. America can retain its position as a leader of the world only by showing its responsibility and willingness to cooperate. Abandoning unilateralism and trade protectionism and creating an open trade environment with the benign competition is beneficial for a healthy global trade market and the development of the world.

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Green Dollars, Green Planet

Reconciling Industrial Markets and the Global Warming Prevention Movement through a Cap-and-Trade Emissions System

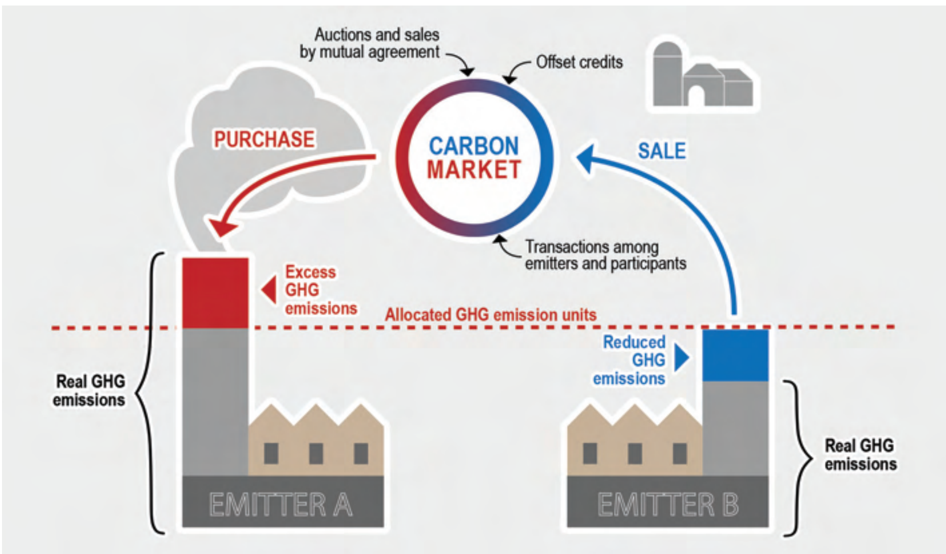
By Aiden Regan

Photo from iStock.com

The United States may have the largest world economy, but we also win the prize for second most carbon emissions and third most per capita[1]. In a perfect world, we would want to be global leaders in both GDP per capita and minimized greenhouse gas (GHG) emissions. Unfortunately, those in power have long valued the profits of industry over the protection of our environment. Proponents of industry argue that government emissions regulations damage our economy by enforcing inefficiency. However, there is an economic tool capable of simultaneously reducing GHG emissions and staving off market inefficiency: the cap-and-trade system.

The cap-and-trade system for emissions has a simple structure. The government issues a set quantity of GHG emissions permits that sum up the total emissions goal for the country. These permits can be bought and sold between companies, and they become a market of their own as the companies determine pollution reduction techniques in order to avoid the permit costs. The cap-and-trade system provides incentives for corporations to lower their pollution while retaining some market efficiency that wouldn't exist with traditional government regulation[2]. Emissions can be further reduced as the government sees fit by decreasing the total quota of issued permits in the market. A cap-and-trade system should become an important component of existing government regulations in order for the US to emerge as a world leader in reducing GHG emissions.

Along with their existing regulations, the EU and twelve US states currently have cap-and-trade GHG emissions systems. The impact of a cap-and-trade system is based on how many permits are distributed. Even though the EU has given out more permits than planned since 2008, the system has still decreased carbon emissions by 3.8%[3]. The state of California, which has been the American model of the cap-and-trade system since 2013, has also experienced lesser reductions from too many permits. However, a price ceiling will be implemented into the program in 2021, and the program is targeted to achieve carbon neutrality by 2045[4]. Decreasing



Visualization of the cap and trade system

Source: Ministry of Sustainable Development, Environment, and Fight Against Climate Change

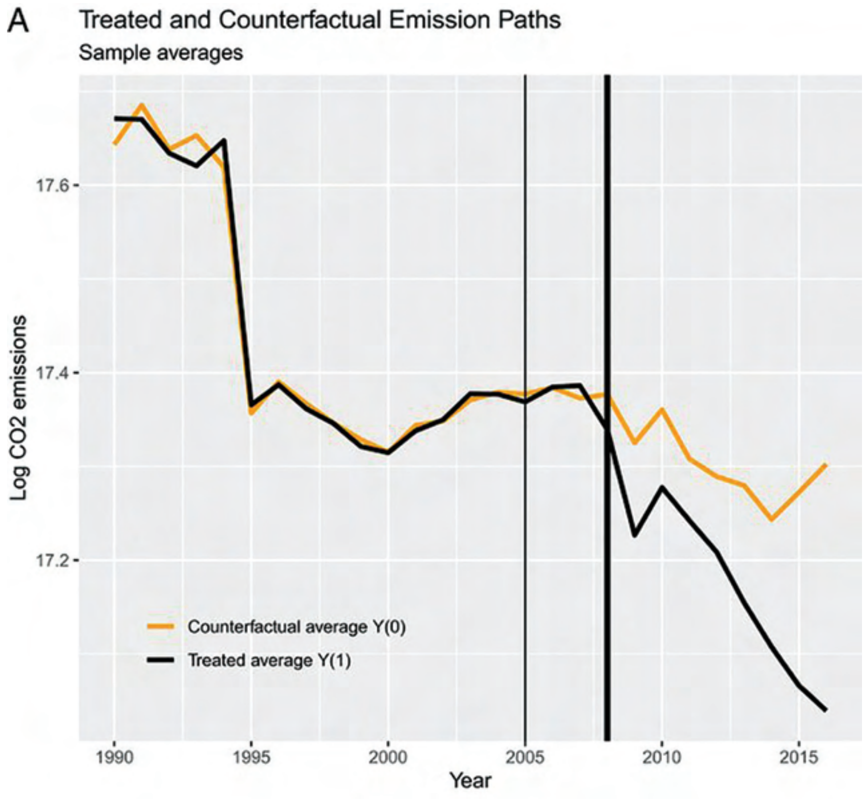


Figure 1. Effect of the EU ETS over time. The mean CO2 emissions paths for actual (black line) and counterfactual (yellow line) emissions. The thin and thick black lines mark years 2005 (start of pilot period) and 2008 (start of second trading period).
Source: https://www.pnas.org/content/117/16/8804

permits and introducing price ceilings to build off of pre-existing regulations will be the teeth needed to turn the cap-and-trade system into a formidable opponent of climate change.

Despite its initial issues, the EU's system has proven to be an important component of the carbon reduction campaign. Figure 1 illustrates the cap-and-trade system effectiveness. The black line, which represents the EU's carbon emissions including the cap-and-trade starting in 2008, decreases at a much sharper rate than the counterfactual emissions line. Looking into the future, an even steeper reduction is possible as the total emissions quota decreases. There isn't a lot of other data to demonstrate a cap-and-trade system's effectiveness since the system is relatively young and untested. However, the initial results have been very promising.

There is no way to significantly reduce the impacts of climate change without introducing some form of deadweight loss into American markets. Energy, industry, and transportation will absorb the majority of market inefficiency caused by emissions reduction. In turn, these industries will place the incidence on consumers by increasing prices. However, it's crucial to remember that pollution is an externality which already creates loss for everyone. By internalizing its effects through the cap-and-trade system, the deadweight loss introduced is a small price to pay for the reduction of air pollutants.

Why hasn't the United States already implemented a cap-and-trade system to help the environment? The government actually has implemented one. The 1990 Clean Air Act included a cap-and-trade system for acid rain. When the cap took effect in 1995, acid rain emissions for the first year fell by three million tons. Over the course of its first twenty years of existence, the cap also saved approximately $122 billion a year in benefits from avoided illness, death, and damaged ecosystems[5]. Even with this success, the US government has been wary of including all greenhouse gas emissions in the cap-and-trade system. Even though the economic benefits of the cap-and-trade system are clear, the US has remained with the status quo of industrial emissions. It's time to repeat the successes of the Clean Air Act and include all greenhouse gases in a cap-and-trade system.

If the United States as a country joined the EU, California, and many other governments in implementing a cap-and-trade system that had significant teeth, America would much more rapidly join other regions of the world in their journey towards carbon neutrality. However, the most important determinant of success is not just implementing the system. In order for it to work to its full potential, there must be a small number of permits released and there should also be interventions such as price ceilings. A cap-and-trade system that complements other standard pollution regulations is one of the most economical ways to reduce climate change.

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HOW A CHANGE IN OUR PERCEPTION OF HOMELESSNESS CAN HELP SOLVE THIS CRISIS

By Rahul Bhavsar

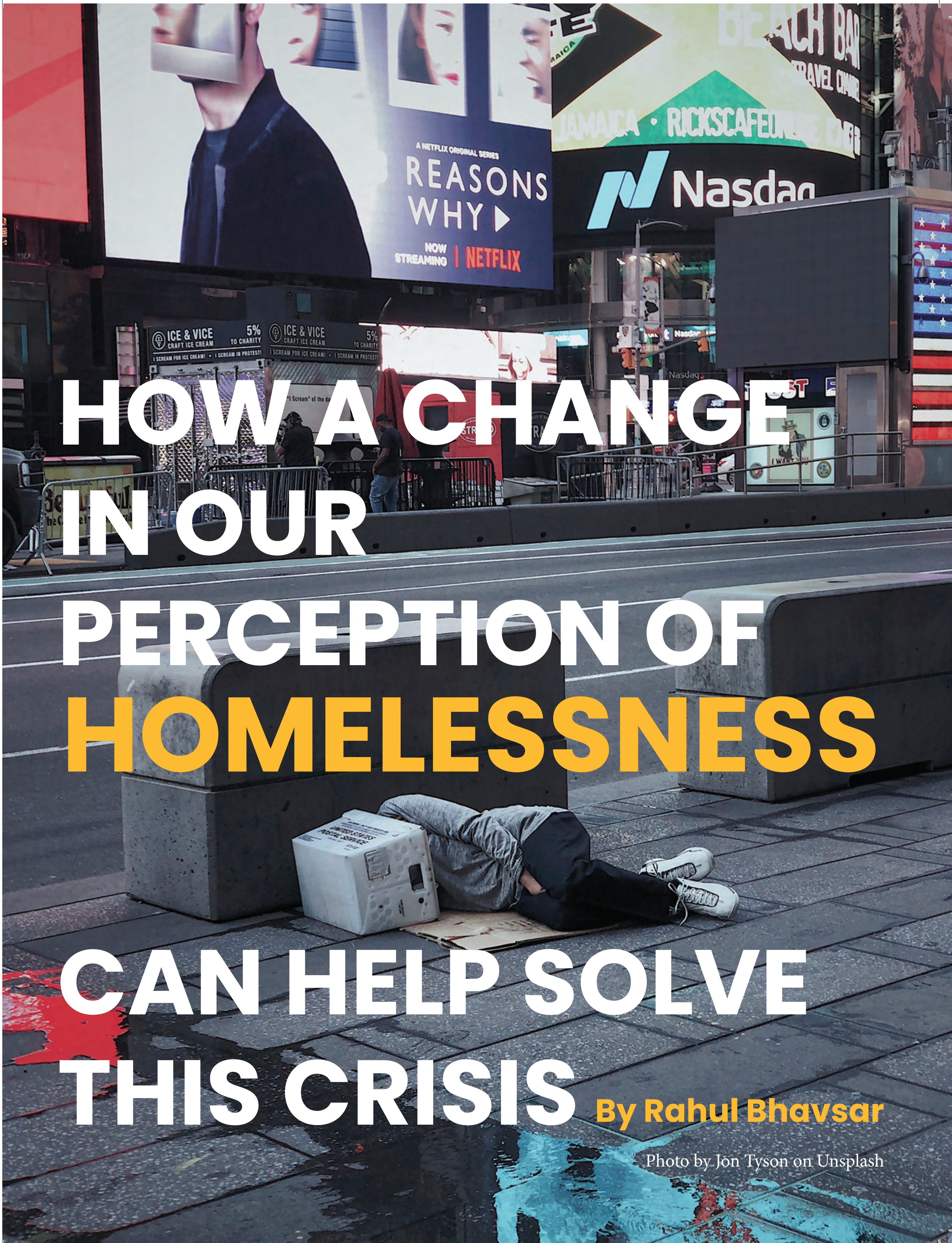

Photo by Jon Tyson on Unsplash

Figure 1. Source: Pew Research Center

Homelessness is an issue that is not unique to any particular region or country, but the way that this is handled can vary greatly. Here in the US, homelessness is a growing issue that has been highlighted by the Coronavirus outbreak. Many valuable resources have been shut down due to necessary lockdowns. Our homeless population is among one of the most vulnerable communities thus it is important for us to ask: how has homelessness changed over time and how can we work to eventually end it? In this article, I argue that we must look to Finland for a successful model on ending homelessness.

When looking at homelessness and the possible solutions, it is important to ask: what are the causes of homelessness. The truth is that there are a multitude of reasons that could cause a person to become homeless. In this paper, I will go over a few of the national policies that have had a hand in the growing rate of homelessness. One of the most contentious issues in American politics is the federal minimum wage. Politicians often like to explain that the minimum wage has increased and is on an upward trajectory, and at face value, it is true. When looking at a minimum wage growth chart, we can observe a steady rise (Figure 1). However, we must remember that this is a nominal value, which means that values we see on the chart are not adjusted for inflation. It is an important distinction to make because when we correct for inflation, we can see the purchasing power that consumers have. And that is actually the entire point of studying minimum wage in the first place. Saying that the minimum wage in 1961 was $1.15 (DOL) is meaningless unless we can put it in context. Now, we have arrived at a topic of paramount importance- the context, better known as the cost of living. The cost of living is a metric that measures how much a given family unit must earn in order to live comfortably in a set location. An article published by the University of Nebraska- Lincoln details the cost of living for one family of farmers in Nebraska. The article found that the family's cost rose from roughly $30,000 in 1994 to roughly $100,000 in 2013. The article went on to explain that the family's income did not rise to match this increase. Other costs such as medical care, healthcare cost, and education were big factors in the increase. In 2013, the BLS reported that productivity has seen rapid growth. It would then be logical to predict that wages have followed the same trajectory and that is not the case. This means that people are doing more work for less money. Now we can see the combination of rising productivity and inconsistent growth of minimum wage has helped to increase poverty and homelessness (Figure 2). A popular counterargument is that people should attend college and then pursue a well-paying job. However, we can clearly see that there is a high financial barrier for entry. It is important to understand that homelessness is the result of national policies and numerous other circumstances.

Now, let us examine American policies that are meant to aid homelessness.
There were 4 bills (HR 1863, HR 5393, S 2016, HR 2339) that were introduced by various Representatives and Senators that meant to tackle homelessness through different methods. Two of the bills discuss homelessness among the veteran population. HR 1853, written by Rep. Maxine Waters, suggests appropriating 1 billion dollars to "remain available until expended, for emergency relief grants under this section to address the unmet needs of homeless populations in jurisdictions with the highest need." It is apparent that there are politicians who are worried about homelessness and want to find a solution; however, that number is not nearly high enough. All four of the bills mentioned above have not been passed in either chamber of Congress. During 2020, Congress passed just one bill giving $1200 to every American adult. Furthermore, Congress set aside $4 billion for homeless specific programs, but unfortunately most of the money never reached those communities (USA Today). Countries such as the UK, the Netherlands, and South Korea immediately provided aid to their citizens. We can see that the US is clearly not

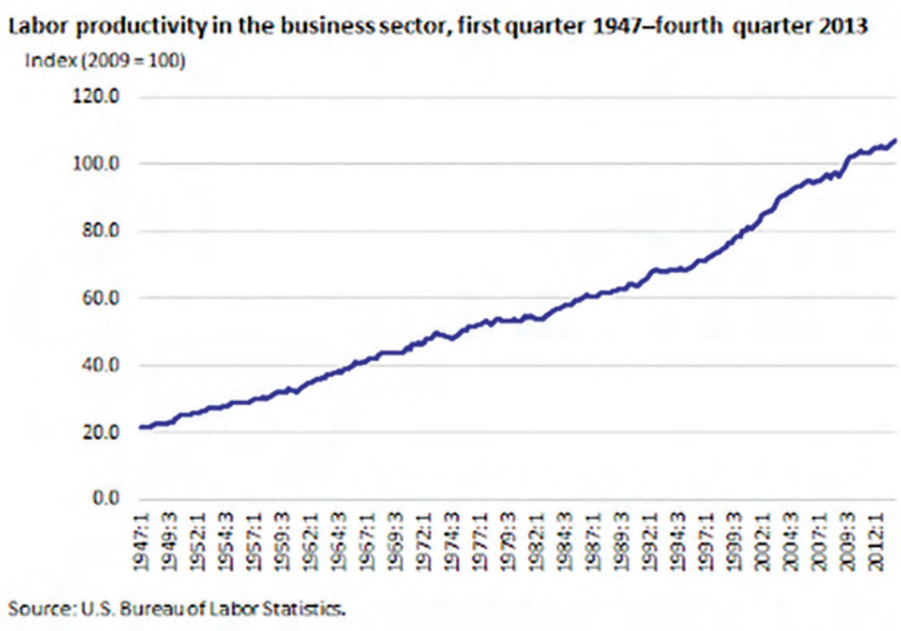

Figure 2.

doing enough for their homeless population, which continues to suffer during this pandemic.

When looking for a suitable plan to eradicate homelessness, we must look to Finland. In 2009, Finland launched their “Housing First” program which guarantees housing to those who need it. The program’s core belief is that housing is a right. The Finnish program was intended to provide unconditional housing immediately (Figure 3). The residents there pay low rent, and in addition, also have the option to apply for financial assistance. Juha Kaakinen, CEO of Y-Foundation, says that Finnish officials recognized that temporary housing and hotels were not effective in eliminating homelessness. In other words, since the current temporary approach to housing was not yielding the desired results, officials decided that providing stable housing should be the first step to recovery, not the last. Kaakinen further explains, “To say, look, you don’t need to solve your problems before you get a home. Instead, a home should be the secure foundation that makes it easier to solve your problems.” One of the biggest factors in the program’s success is the focus on individual housing. Many people who suffer from drug abuse often struggle to recover in group homes, where drug use is rampant. The individual housing also allows the resident to have privacy, which may not have been possible in a group home. Tatu Ainesmaa, one of the residents, explains that he is relieved that he is finally able to stay in an apartment of his own and take responsibility for himself. This is a sentiment shared by many other residents, who stay for varying lengths of time. When housing is not a worry, residents are able to focus on other aspects of life such as recovery, job training, or education. Ainesmaa is enrolled in a two-year job training program which will eventually end with a job offer. Another resident was able to train to become a chef during his five-year stay. It is evident that this program based in Helsinki, where half of Finland’s homeless population resides, is seeing major success. There are, of course, high costs involved with the program. Healthcare, insurance, and other factors amount to roughly 15,000 euros per person (Guardian). A program with such high ambitions and high costs requires precise planning. Finland has shown us that it is possible to create a program that actually helps people get out of homelessness instead of temporarily delaying it.

With all of this in mind, the question now becomes: How much are we willing to help one of our most vulnerable populations? It is important to consider that a project of this scale is possible, but the only thing stopping us is ourselves. The way we treat one of our most vulnerable populations is indicative of our character. Congress members must at least begin the conversation about a permanent solution for homelessness rather than simply accepting fate. I believe that one of the biggest reasons why the United States has been unable to eliminate homelessness is because the scope of our policy is inherently flawed. Our policies work, to some degree, to try and minimize homelessness. Meanwhile, Finland completely shifted their focus to eradicating homelessness. This shift in perspective has fundamentally changed the way that homelessness is viewed in Finland. We must work to change our culture which would help to shape the conversation about homelessness.

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Figure 3. Photograph by Sampsa Kettunen/Y-Foundation

INTERVIEW: Professor David Johnson

By Tye Rubin

Photo from University Communications

David Johnson is a professor of economics and a senior lecturer at UW-Madison and has built a reputable career in environmental economics and teaching. Professor Johnson has worked extensively with the Conservation Strategy Fund, which is an organization dedicated to using economics to create long-term conservation solutions by lowering the costs of these solutions. Prior to teaching at Wisconsin, Johnson had taught at numerous other prestigious institutions, including Harvard, Duke, Stanford, and Wellesley. Johnson has been recognized for his engaging teaching style and is a sought-after professor to learn from. In this interview, we speak to Professor Johnson regarding his academic career, teaching career, work with the Conservation Strategy Fund, and his thoughts on the economy today.

How did you first become interested in economics, and at what point did you realize you wanted to major in the subject?

"I spent my first semester in college as a chemical engineering major…..then, advanced general chemistry and general physics led me in a different direction! When seeking advice from my RA before my first spring semester, I explained that I loved math but didn't want to be a math major. She said, "Why don't you try economics? They use a lot of math there…." I took macro principles the next semester and have never looked back. I was hooked on the ability of economics to use rigorous analysis to solve a real-world problem. I still am."

"I came to economics from a strong interest in applied mathematics, basically.

Although I've always loved math, I didn't see myself as a math major – I preferred math classes with numbers in them as opposed to those that lived in n-dimensional space, so to speak. To this day, I continue to be fascinated by the promise of economics, and it's a fascination I seek to share with each student who signs up for one of my courses."

How was your experience working at Harvard, and how does it compare to your experience working at Wisconsin?

"Harvard was the fourth stop on my magical mystery college teaching tour (Duke, Stanford, and Wellesley came before), and I would truthfully say the differences among the students studying in those institutions is smaller than you might think. Indeed, I continue to have opportunities to teach interesting and interested students here in Wisconsin. It's energizing for me to interact with intelligent young people who have a story to tell and demonstrate a genuine interest in discovering how and why a knowledge of basic economics is necessary for them to become better global citizens. That dynamic is as alive here at Wisconsin as it was (is) at Harvard. OK, my office at Harvard was larger than the one here…..but I'm never in it anyway!"

You're known for your attention-grabbing teaching style. Has your teaching style changed from your time at Wisconsin?

"I've never liked the word "lecture." Parents lecture their children on the perils of drug use or unsafe driving. I prefer to characterize my teaching style as a "lively discussion." My job is to challenge, motivate, and inspire. No one, myself included, enjoys being lectured. If I've done my job, you'll leave my courses with more questions than answers – but you'll know how to find those answers and appreciate why they matter. I teach 25 students the same way I do 300. I only present class material that is important for my students to know….grabbing and keeping their attention is easier that way."

You've done work with the Conservation Strategy Fund; can you describe that work, and are you still involved with the CSF?

"I've been working with Conservation Strategy Fund (CSF) since 2003. My job is to teach environmentalists about markets, market failure, and the importance of incorporating environmental costs and benefits into economic policy analyses. CSF helps those dedicated to environmental issues harness the power of markets in order to design policies that support sustainable environmental resource use."

What role do you believe economics has in conservation, and currently, what role does conservation have in the economy today?

"Not surprisingly, I think economics plays a critical role in both conservation and climate change. Moral arguments against destroying the planet make for great bumper stickers and coffee mugs, but they are doing precious little to improve environmental outcomes.

Pricing carbon will turn even the most amoral individual into an environmentalist by creating profit-making opportunities in alternative energy markets. What's more, economists are notorious cheapskates. So if you tell us the sun, for example, can provide us free energy (once we make a slight infrastructure investment), we're all in, and with a slight nudge, the rest of society will be, too."

"Unfortunately, the state of Wisconsin charges us an extra $75 annually to register our Prius in this state; evidently, the authorities think we're not paying our "fair share" of the gas tax because our car gets 45 miles per gallon!

Couple that with the fact that we're putting solar panels on our house in Madison this month because a part of the federal tax credits for solar energy expires at the end of this year. My home state penalizes me for emitting less carbon, and my federal government is cutting back on my incentives to emit even less. Needless to say, we economists ain't making our case as forcefully as we need to be, which is why I continue to believe that my work with CSF is so incredibly important."

Do you have any general thoughts about the economy today, and to what extent is knowledge of microeconomics important for the average person today?

"As challenging as this year has been, it's reminded me of one of my favorite JFK quotes several times- "In a crisis, be aware of the danger, but recognize the opportunity." In the past nine months or so, we've come face to face with inadequacies in the healthcare system, in unemployment benefits, in education, in police tactics, in our criminal justice system, and in the public confidence in our electoral system. If we seize each of these opportunities for reform, we have the chance to address inequalities and inequities across races, genders, and cultures."

"But to have a seat at any of those policy reform tables, we need to understand basic microeconomics and how our market system has limited some while enriching others."

Any advice for undergraduate economics students looking to get into economic research?

"If I were an undergraduate economics major now, I'd be asking research questions about how to "Build Back Better" (to borrow a phrase!). The federal stimulus package last March functioned as a Universal Basic Income might. It also extended unemployment benefits to contract workers (Uber drivers and the like). The CDC's COVID data show that African Americans and Latinos are 2.8x more likely to die from COVID than whites. The pandemic has exposed systemic failures in healthcare, the social safety net, and in our labor markets, all of which should keep those undergraduate economics majors who are interested in research busy for the next decade!"

Thoughts after the interview

After talking to Professor Johnson, it is evidently clear that when armed with economic theory, conservation can become environmentally friendly and economically friendly. Through the applied mathematical techniques utilized in economics, the world could transition towards clean energy and, at the same time, increase economic opportunities. The United States could implement the economic theory that supports sustainable technologies by providing a tax credit for using sustainable technologies such as solar and environmentally-friendly vehicles. The United States should create incentives to steer away from negative externalities and not towards them. During the pandemic, many people have suffered economically. According to Professor Johnson, this has shed light upon the inequalities existing in all the facets of our modern-day society. When economic comfort is stripped away, those who are marginalized step into the limelight and make us realize that it is time for reforms. Economic research into health care, social safety net programs, and labor markets during the pandemic could help the United States improve many of the parameters contributing to various systematic failures. To execute quick and effective reforms to support these changes, we will need people with significant knowledge in microeconomics to create effective policy and reform. Thank you to Professor Johnson for his time and insights!

My job is to challenge, motivate, and inspire. No one, myself included, enjoys being lectured. If I've done my job, you'll leave my courses with more questions than answers – but you'll know how to find those answers and appreciate why they matter.

From bad to worse to … better?: The COVID-19 Pandemic on Economic and Population Health

By Rohan Shah

Bad

In March 2020, as frenzied Americans reacted to the onset of the COVID-19 pandemic by flocking to supermarkets for stockpiling hand sanitizers, economic and medical officials were scrambling to reassure the public. However, one thing was clear: no one knew what was going to happen. From late January to early March, the markets reflected this uncertainty with historic drops in the NASDAQ-100 and S&P 500 (falling by 7.4% and 10.6% respectively - FRED). Real disposable income dropped sharply as well, from 17,287 to 16,453 in May, which further fell to 15,349 in November. With a dramatic fall in consumer spending following the enactment of lockdowns and mass layoffs, nearly every sector saw a downturn, bringing the economy to a standstill. As markets plummeted, it is undeniable that the pandemic shed light upon a different aspect of American society, which was masked in times of economic prosperity and is often taken for granted: the inextricable link between economic health and the disparities in physical health outcomes. With the onset of the pandemic and the consequent recession, health inequalities became wider for poorer Americans, exacerbating dangerous COVID-19 health outcomes and ultimately highlighting the need for quick action.

The connection between economic health and physical health was widely researched, most notably with respect to income and health. In a report published in 2015 by the Urban Institute, researchers cemented the impact that income has on health. By using data from 2011, the researchers presented a concerning correlation between income and the prevalence of chronic disease in America. They found that adults who made less than $35,000 a year were at a higher risk of suffering from coronary heart disease, diabetes, liver disease, and kidney disease than adults who made more than $100,000 or between $75,000 and $100,000. Among poorer Americans (annual family income of less than $35,000), roughly 8% suffered from coronary heart disease, while only 5% of wealthy Americans suffered from it. When it comes to kidney disease, poorer Americans suffered at a rate of 3% compared to less than one percent, which is the general rate among their wealthier counterparts (Woolf). While the numbers offer strong evidence correlating income and health, the causation is entrenched in the U.S healthcare system. While the controversy of private versus public healthcare is definitely relevant, the truth is that the steep insurance prices naturally dissuade millions of Americans from purchasing healthcare each year. Lower-income Americans are less likely to find healthcare affordable, along with the copays, deductibles, and the rising costs of medicines associated with it. By the same token, the subsidized costs of Medicaid are sometimes still too high for many, further dissuading them from insuring themselves much the same with private healthcare. While the price of Medicaid is substantially lower and improves coverage significantly, there are chances of lagging in medical treatment based on the financial incentives of physicians. In a study conducted in 2014, researchers in the Department of Economics at UC-SanDiego, found that with the increase in reimbursement rates, the supply of care provided by physicians also increases a 2% rise in reimbursement leads to a 3% increase in care), highlighting a gap in care that can arise from the payment structure of Medicaid (Clemens).

Both private and public health insurance in America, while not perfect, still exists as the most widely utilized pathways to obtaining care; nevertheless, income dictates healthcare. If gaps in medical care and the consequent poorer health outcomes mirror gaps in income, then with the widening of income inequality, health inequality will naturally follow. In fact, income inequality has been increasing in the U.S. The gini coefficient score (an index tracked by the World Bank representing income inequality) for the U.S was 38 in 1991, 40 in 2010, and in 2018, it increased to 41.4. Regrettably, the 'health is wealth' adage can be turned on its head: wealth is health.

Worse

"A syndemic is a set of closely intertwined and mutual enhancing health problems that significantly affect the overall health status of a population within the context of a perpetuating configuration of noxious social conditions." (Bambra).

The link between economic health and the population's health is well established. During the COVID-19 pandemic, this correlation has proven to be particularly prevalent. In a recent discussion regarding COVID-19 and its effects on population health, the myriad health problems that compound on each other was referred to as a syndemic; COVID-19 has been experienced as a syndemic among a certain subset of the population, specifically those who are near the bottom of the socioeconomic ladder (Bambra). Those with lower SES (socioeconomic status) are low-income individuals who are more likely to suffer from chronic health conditions. The aforementioned maladies such as diabetes, chronic heart disease, liver disease, and kidney disease have all been identified as risk factors that can increase the severity and mortality of the coronavirus. This idea of a syndemic is crucial to the understanding of how health inequalities have once again prospered during the COVID-19 pandemic. For those with lower SES, there are often systems that propagate unequal differences in health outcomes. For example, in the case of diabetes (one risk factor for severe COVID-19 outcomes), the prevalence of the disease is influenced by a multitude of elements. In "The Social Determinants of Health and Diabetes", published in January 2021, researchers summarized the effects of intrinsically linked factors such as income, education, occupation, neighborhood dynamics, and physical environment that directly influenced the prevalence of diabetes. One such finding revealed that at the neighborhood level, the observed differences in rates of diabetes were directly attributable to SES. Moreover, in census tracts with lower incomes, lower high school graduation rates, and crowded housing, the prevalence of type 2 diabetes was significantly higher (Hill-Briggs). This interplay of income, education, and other variables contribute to stark disparities in the rate of diabetes and numerous other chronic conditions that predispose individuals to potentially severe and fatal health outcomes. The unequal prevalence of chronic conditions amongst those with lower SES is significant inequality in health. Moreover, when this is considered in conjunction with COVID-19, these inequalities continue to widen.

Today, health inequalities are being realized in the mortality rates of COVID-19. The coronavirus is not biologically predisposed to infect specific people, and therefore, it would be expected that all members of society would contract the virus at equal rates; they would presumably also experience mortality at similar rates. However, historically, we can see that the biological ambivalence of viruses indeed has no bearing on mortality, and in fact, inequalities in mortality can be traced to socioeconomic status and income. During the Spanish flu and H1N1 pandemics, poorer people across the globe died at significantly higher rates, and the jarring inequalities of COVID-19 infection and mortality rates mirror those of past pandemics. In a study published in January 2021 titled "Social determinants of mortality from COVID-19", researchers carried out a simulation of COVID-19 mortality using distributions of the characteristics of COVID-19 deaths. The researchers found that those with below the median income ($55,000-$65,000) make up around 66% of COVID-19 deaths (Seligman). Further, using regression analysis, the researchers found that as income decreased, the odds of mortality rose significantly. This means about two-thirds of the COVID-19 mortality rate is attributable to middle and lower-income individuals, as opposed to the even distribution of deaths expected in an equal world, proving that health inequality mechanisms, driven by economic inequality, are thriving during this pandemic.

The situation in the U.S is grim. While it is an established phenomenon that with economic shocks, health outcomes deteriorate disproportionately, the level of economic shock that emerged from COVID-19 was both unexpected and unprecedented. In 2008, during the financial crisis, unemployment peaked at nearly 10%, and health inequalities widened significantly along with noticeable increases in morbidity (FRED). Comparing this to the COVID-19 pandemic, where unemployment reached a high of 15%, it is expected that for those with low SES, this larger and more sudden economic shock will continue to drastically widen health inequalities at higher levels than before. As the U.S. economy begins to recover from a GDP level of 19,520 billion dollars in the second quarter of 2020 to the current level of 29,414 billion dollars, the following questions remain: will this economic improvement narrow health inequalities, and if so, how will these health inequalities be narrowed down?

Better?

As questions surrounding the lasting economic impacts of the COVID-19 pandemic emerge, so too are the questions concerning health. If the disparities in healthcare are so dire right now, what can be done? What should be done?
While evaluating the latter is much more difficult, a brief overview of American history can be informational when evaluating the former.

From the 1960s to the 1980s, the U.S employed drastically different policies when it came to social programs, and though still highly contentious, valuable lessons can be gleaned from the "War on Poverty". It began in 1964 and was brought to fruition by the administration of President Lyndon B Johnson, culminating in a series of programs implemented throughout the 1960s; some of these programs included the expansion of social security benefits and the food stamp act. Aimed to target the root causes and amplifiers of poverty, the program significantly augmented welfare in the U.S. In a 2008 study entitled "The Fall and Rise of U.S. Inequities in Premature Mortality", researchers analyzed health outcomes from the 1960s through the 1980s and 90s, specifically focussing on health disparities. The findings are particularly notable because of the clear focus on the inequalities in health.

Historically, both real income and GDP in the U.S. have consistently risen since the 1960s, and with them, population health. American life expectancy has also increased, and the number of morbid years lived has declined(i.e.: the compression of morbidity), reflecting the link between economic and population health. However, although it seems like all Americans have gotten healthier, the rate at which this has occurred among poorer Americans is lower. Using county mortality data, the researchers analyzed premature mortality (deaths under the age of 65) for the U.S and found that from 1966 to 1980, the disparities in premature mortality shrank across the country: the absolute and relative differences lessened. Comparing this to the time period of 1981-2002, these differences in premature mortality between high and low-income quintiles changed in the opposite direction, widening the health inequalities: the rates of premature mortality between income groups spread out (Krieger). The historical context of these patterns of inequality intersects with the social policies of the 1960s and 1980s, where welfare was expanded and then drastically rolled back.
Clearly, as programs aimed at alleviating poverty are implemented, the health of those suffering from poverty becomes better at similar rates as wealthier Americans. Conversely, when those programs are no longer effective, the opposite result occurs. Frankly, this correlation does not come as a surprise. However, it is important to note that the costs and benefits of welfare expansions and reductions come into play. In the aftermath of the 2008 recession, fiscal policy was the conduit for much of the economic rebuilding around the world, with austerity being implemented in many cases and sometimes even failing (for example, in Greece in 2009). Regardless of the outcomes of these interventions, the struggles faced by the policymakers back then were different from what they do now. Now, still in the throes of a global pandemic, policymakers are faced with both the economic ramifications of COVID-19 and the public health consequences; over half a million Americans have died from the SARS-CoV-2 virus. This is a direct threat to people's lives. In the 2008 recession, the economic severity was significant, and residual health disparities deteriorated, but the housing market crash in itself did not kill. On the other hand, COVID-19 does kill people. This distinction calls for economic and medical thinking to work in tandem in order to address the most pressing need, which is the health of the American people.
In the 1960s, the world was not plagued by a global pandemic. However, the executive branch of the government deemed it necessary to expand welfare to limit poverty, and it succeeded in diminishing health inequality across the nation. In 2021, there is a global pandemic that continues to disproportionately harm those at the bottom of the socioeconomic ladder, and quick action is needed. Short-term government investment in welfare is required to curb these deepening health disparities. While the implications of a long-term welfare expansion can be debated, these discourses should be tabled for now. With the continued payment of stimulus checks, the economy will witness growth to match the pre-pandemic levels, and the gap in health outcomes across income levels will shrink. Most importantly, it will happen soon. For America, a country that is still experiencing high COVID-19 mortality, rapid government action will set the table for doctors, economists, and policymakers alike to evaluate what went wrong during the pandemic and ensure that the health of all Americans is protected in the future.

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