

# THE LOWE DOWN

LOWE INSTITUTE OF POLITICAL ECONOMY

A bi-annual newsletter summarizing the programs and activities of the Lowe Institute.

Fall 2011

Volume IV, Issue 1

## 2011 CMC-UCLA Inland Empire forecast warns of sluggish growth

by Chase Gray,  
CMC '12

For the second consecutive year, the Inland Empire Center at the Lowe Institute teamed up with the UCLA Anderson Forecast to provide an analysis of the state of the Inland Empire economy and prospects for future growth in the region. Yet again the conference was a resounding success, with hundreds of the area's most influential business and political leaders gathering at Citizens Business Bank Arena on September 22<sup>nd</sup> to hear forecasters from CMC and UCLA.

Although the conference itself was successful, the message delivered was not nearly as upbeat. The Inland Empire was hit harder and longer by the Great Recession than the country as a whole and it will continue to struggle in the future. The National Bureau of Economic Research dates the recession from December 2007 to June 2009. The Coincident Economic Index, built specifically for the Inland Empire by analysts at the Lowe Institute, suggests a regional recession that began as early as April 2006 and did not end until September 2010. A 19 month national recession could have lasted as long as 54 months in the Inland Empire.

The region's Leading Economic Index, also built by Lowe analysts, shows the Inland Empire economy began to grow in December 2008. By March 2010, however, growth had flatlined. The CMC-UCLA forecasting



teams foresee sluggish growth continuing into the near future. Baseline unemployment projections exhibit double-digit levels through 2014. Significant improvement in the housing market and logistics sector will be necessary to lift the region toward stronger growth in the future.

The conference opened with a welcoming by Brock Blomberg, dean of the Robert Day School of Economics and Finance at CMC, and Chris Myers, president and CEO of Citizens Business Bank. Jerry Nickelsburg, senior economist at the UCLA Anderson Forecast, followed with his analysis of the national and statewide economies. He foresees limited growth in the U.S. economy in the near future, although a contraction is unlikely unless significant issues arise with European banks or an unexpected collapse in consumer demand at home. Gradual growth should return by mid-2012.

At the state level, the dichotomy between the coastal and inland areas is still the main story. The gap between the two regions will likely grow as Coastal California

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# Message from the director

I hope that everyone had a fun and productive summer. I would like to update everyone on recent and upcoming events at the Lowe Institute.

We have revamped our summer program which we are quite excited about. The summer program starts out with the Lowe Institute sponsoring an internal faculty seminar. The event allows faculty to present their research and discuss economics with their colleagues. We have also implemented a new student program that is designed to provide students with some skills that are useful in both academia and the private sector but are not traditionally offered in the standard economics curriculum. As usual, we hire 7-10 students to work 40 hours a week during the summer. The new program consists of teaching students the basic tools to forecast economic and financial time series. Economics faculty of the Robert Day School teach several forecasting modules that provide students with instruction on predicting the time path of economic data. Students forecast economic time series for the United States and the Inland Empire. The students then work with economics faculty to write the economic forecast of the Inland Empire for the CMC-UCLA Inland Empire Forecast Conference.

The second part of the new summer program is housing economics. The Lowe Institute has teamed up with Gerd Ulf-Krueger, the principal and founder of HousingEcon.com. Mr. Krueger is a well known expert on housing economics in the Southern California region. Mr. Krueger and a couple of CMC students work together to write a housing report for the CMC-UCLA Inland Empire Forecast Conference.

The Lowe Institute, CMC, and UCLA Anderson hosted

## Inland Empire forecast, cont. from page 1

recovers faster than the national average while Inland California languishes. Nickelsburg forecasts slow growth statewide until the end of 2012 followed by incipient recovery. California's unemployment rate could even rise slightly in the near-term with a single-digit rate unlikely before 2014.

The director of the Lowe Institute, Marc Weidenmier, succeeded Nickelsburg at the podium to provide a forecast for economic growth in the Inland Empire. The rise and fall of the region is striking. Between 2002 and 2005 it experienced real GDP growth rates approximately double the national average. In 2008, however, economic growth dropped by 3.3 percent while output in the entire country was flat. Even in 2010, when the U.S. economy grew 3 percent, the Inland Empire exhibited stagnant real GDP. Optimism going forward is muted. Economic growth is not likely to strengthen in the near future and some unemployment indicators suggest the Inland Empire may yet to

our Annual Inland Empire Forecast Conference at the Citizens Business Bank Arena in Ontario on September 22. Professor Marc Weidenmier gave the Inland Empire forecast while Jerry Nickelsburg of UCLA Anderson gave the forecast for California and the United States. The Conference also included a real estate panel of local experts including Randall Lewis and a representative from KB Homes. Approximately 450 government and business leaders attended the event.

We continue to sponsor faculty student research projects. The Lowe Institute is currently sponsoring 9 projects during the 2011-12 Academic Year. We are excited about a paper called "America's First Great Moderation" that Ryan Shaffer '12 has written with me and Joseph Davis, the Chief Economist of Vanguard. Ryan identifies the period 1841-1856 as the longest expansion in American history. Ryan then examines the causes of this unparalleled period of economic growth. He finds that new technologies, western expansion, and greater risk sharing through the development of financial markets played an important role in the economic expansion. It is also important to note the expansion occurred despite the absence of a central bank and government fiscal policy.

We also have several upcoming events that we would invite everyone to attend. We will be hosting a student research conference on December 1st and the Southern California Applied Microeconomics Conference on April 13, 2012.

I wish everyone a happy and safe holiday season.

Regards,

*Marc Weidenmier*

have really recovered from the Great Recession.

Weidenmier was followed by a real estate panel consisting of Randall Lewis of the Lewis Group of Companies, Steve Ruffner of KB Homes, John Semcken of Majestic Realty, and Gerd-Ulf Krueger, principal economist at HousingEcon.com. The panel was moderated by Larry Kosmont, president and CEO of Kosmont Companies. Panel members generally agreed that local governments need to reduce fees to encourage home builders to restart construction. Krueger also worried about a "distressing gap" between new home and resale median prices.

A pair of county officials delivered the final presentation of the morning. Mary Jane Olhasso and Lisa Brandl, of the San Bernardino and Riverside County Economic Development Agencies, respectively, took the stage to provide an update on regional growth and actions county governments are taking to spur investment and revive the local economy.

# Interview with Professor David Bjerk

by Kanupriya Rungta, CMC '14

*Bjerk is an Associate Professor at the Robert Day School of Economics and Finance at Claremont McKenna College. He sat down with Kanupriya Rungta (CMC '14) to discuss his latest paper, Behind the Veil of Ignorance, which looks at different motivations behind redistributive taxation.*

*Behind the Veil of Ignorance is a very interesting name. Where does the project come from and what were your findings?*

I have always been interested in experimental economics and did some work in that field as a graduate student, but I had not worked on it since then. I was also interested in redistributive taxation and poverty policy and I was looking to try something new. Two years ago I found a student willing to help, so I started this project.

In this paper, we were trying to understand people's motivation for redistributive taxation: What influences their thinking? We



Professor Bjerk

found two primary reasons that people believe in redistributive taxation. For some it is a form of assurance if things go wrong for them in the future. It is in their financial self-interest. For others, there exists a vague sense of just allocation that leads them to prefer redistribution.

*What data did you work with?*

We collected some of our own data by carrying out a modified version of the dictator game. Participants earned actual money, between \$10 and \$30. We wanted to see how much of it they would share under different circumstances.

I divided them into two groups. The first group had to decide how much money to share without knowing whether they would be giving or receiving money. The second group had to make the same decision, but they were told in advance whether they were a giver or a taker.

In the first group, people were motivated by self-insurance. Since they had uncertain future income they were in favor of redistributive taxation. The second group turned out different. If the participant was rich, the only reason to opt for redistribution was a general sense of equity. If they were poor, the only reason not to choose redistribution was some larger sense of justice that did not allow that.

We later let participants communicate anonymously with one another via web chat and found that they became much more empathetic. It was amazing how just a small amount of communication had huge results. Unfortunately we could not really measure empathy apart from allowing the participants to chat with one another.

*How did your results compare to real world scenarios?*

We applied what we found in the lab to real data and saw how preferences for redistribution change as people age. Younger folks exhibit greater uncertainty about their financial future and are thus more amenable to redistribution. Older people know fairly well how much money they have or will make in the future. They tend to either heavily favor or heavily oppose redistribution.

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# Summer research at the Lowe: forecasting growth in the Inland Empire



by **Manassinee Moottatarn, CMC '13**

Professors Manfred Keil and Marc Weidenmier spent the past summer working alongside CMC student research analysts to create a forecast for economic growth in the Inland Empire. According to their final report, hope for economic recovery in Southern California exists in the robust growth of the Coastal California Area (CCA) and corresponding spillover effects into the Inland California Area (ICA).

The Great Recession hit the Inland Empire (IE) particularly hard. Even though the IE economy experienced real GDP growth rates twice as large as those of California and the US from 2002 to 2005, 2008 and 2009 were disastrous years. Real GDP fell by 8.8 percent in the IE from 2006 to 2010, compared to California's 3.7 percent decline.

To measure the economic impact of the Great Recession on the IE, the team constructed a quarterly macroeconomic index of economic activity in the IE for the period from the second quarter of 2000 through the first quarter of 2011. They forecasted that significant economic growth will not arrive until at least 2013, perhaps as late as 2015. "The most discouraging aspect of the research that we did this summer is the consistency with which this array of forecasting tools is predicting a painfully slow recovery both for the Inland Empire economy and the American economy," said William Dodds (CMC '13), one of the student research assistants.

Instead of the traditional north-south divide, there now appears to be an east-west divide in California, where the gap is growing between the prosperous CCA economy led by exports, innovation, and knowledge communities, and the sluggish ICA economy hindered by an overhang of excess housing and a contraction in government employment. Jobs growth in the CCA was 1.7%, significantly above the 1% national average, while job growth in the ICA was abysmal. Growth was near zero in the Sacramento Delta, -0.4% in the IE, -1.1% in the San Joaquin Valley, and -2.5% in the Mid-Coast region.

Housing is still more affordable in the IE than in the coastal areas, but commuting costs are high and rents and home prices have fallen on the coast. With little prospect of employment in

construction in the near future, there exists a construction skills surplus, leaving the IE with a severe structural unemployment problem. The research calls for providing incentives to encourage skilled labor to move out of the IE altogether.

The IE logistics sector is not getting sufficient demand for a robust revival. Since most demand for IE goods comes from the rest of the United States, increases in national consumption expenditures could spur IE exports and revive its logistics sector. In the last six months, however, national consumption has shown weak growth and the IE logistics sector has become a shadow of its former self.

The extent of the economic downturn varies from county to county, with large differences in unemployment between IE cities as well. The research finds that cities closer to the Southern California coastline have lower unemployment rates than those cities farther from the Pacific. But there are some exceptions to the findings. Montclair, for example, has a higher unemployment rate than Redlands, even though it is much closer to the water. The team surmised that the poorer the average household is the lower the educational achievements of high school students and thus the higher the unemployment rate. Another related factor might be crime. Montclair has a considerably higher crime rate than Redlands.

Education is on IE policymakers' minds. The research suggests that education must play a central role in reducing unemployment in the IE. If the IE seeks productivity gains and higher average incomes, then more resources will have to be invested in educating the workforce, especially in those counties with exceptionally high unemployment rates. "Recent cutbacks in local government expenditures and layoffs have disproportionately affected the education sector, but education matters a lot," said Professor Keil. "For teachers to perform better without additional resources, perhaps incentives such as merit-based salary increases could be used."

Keil hopes to continue the forecasting series. With so much data to analyze, he is looking for students to become Lowe Institute research assistants. "It is a wonderful opportunity for students to work closely with professors and be exposed to graduate-level

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# CMC seniors attend Harvard International Development Conference

by Chase Gray, CMC '12

*CMC students Emma McConnville (CMC '12) and Sara Reed (CMC '12) traveled to Cambridge, Massachusetts last April to attend the Harvard International Development Conference, hosted by the Harvard Kennedy School of Government, MIT, and Carnegie Mellon University. The annual conference intends to “foster a constructive dialogue between leading academics, practitioners, policy makers, and students concerned with creating a better world.”*

## *What is the Harvard International Development Conference?*

It is a conference for graduate students and professionals to come together and go to different lecture series on international development topics like social entrepreneurship, financing, healthcare, and conflict zones. I attended the social entrepreneurship sessions that discussed the development of the middle-income loan sector and the future of African agriculture as well as a lunch about women in the discipline.

The session on Africa's future as the world's breadbasket was particularly interesting. The long-term goal is to turn African farming into a sustainable agricultural business using cell phones to figure out pricing discrepancies across farms in different areas so a true market can be created.

## *How did you learn about the conference?*

Saumya Lohia (CMC '12) told me about it and I was immediately interested. I grew up in Latin America and have worked on numerous development projects in the region. In a lot of ways I find international development more interesting than local development. It sounds odd because I could probably be more effective helping people on a local rather than a global level. But I think there is a social injustice that rings true from a Rawlsian perspective.

## *What made you decide to attend the conference?*

After reading William Easterly's *The White Man's Burden* I knew I wanted to go. The top-down approach to international development does not seem to be working. A speaker at the conference brought up a particularly pertinent example: An NGO in Africa gave a particular medicine to AIDS affected pregnant women to prevent their children from prenatally contracting the disease. They have been giving local groups supplies of the drug and telling them to do the best they can with it. Someone drops off a box of pills and the local health workers give a pill to whoever comes by. But the problem is that you have to give each woman a pill every week. If the woman misses a pill, the whole treatment is rendered ineffective. You need to ensure that everyone who comes in has at least four pills that month. That does not necessarily happen when you have a top-down approach. At a local level you can be more aware of the distribution practices, saving a lot of money from going to waste.

## *What international development work have you done in the past?*

I set up the Special Olympics in Mexico City for a high school project. I also worked with Ashoka in Costa Rica and at a school in Nicaragua. I definitely tread carefully. I do not donate money blindly to any NGO, local or foreign. From each of these experiences I have learned a lot about making businesses work abroad.

## *What are your career plans?*

I am currently waiting for a response on my Fulbright application. It would be for a bi-national business grant in Mexico City, hopefully allowing me to work for a Mexican firm. Understanding foreign business plans can help you start your own non-profit that works in coordination with the for-profit sector. I hope to eventually build my own NGO, but I need to figure out what people need first. Because I am not on the ground I do not understand the problems people face, but hopefully I will be able to tap into that next year.

# James Stewart: leadership and ethics

by Kanupriya Rungta, CMC '14

On September 14<sup>th</sup>, Pulitzer Prize-winning journalist James Stewart visited the Marian Miner Cook Athenaeum to discuss leadership and ethics, drawing examples from his latest book, *Tangled Webs: How False Statements are Undermining America: From Martha Stewart to Bernie Madoff*.

While people tell all kinds of lies: white lies, big lies, and small lies, Stewart focused specifically on criminal lies. Stewart noticed an increase in perjury cases nationwide, from Arnold Schwarzenegger to Dominique Strauss-Kahn, and decided to investigate. He found that telling the truth in particularly dramatic high-profile situations requires substantial integrity that the objects of his study often lacked.

In his talk Stewart focused on four cases that had drawn great media attention: Martha Stewart's ImClone insider trading case, Bernie Madoff's Ponzi scheme, Scooter Libby's leaking of confidential information regarding the identity of a CIA operative, and Barry Bonds's steroid case. All four have been convicted in a court of law yet all but Madoff believe they are innocent.

Stewart explored the motivations behind these felonies and found that in each case, loyal enablers surrounded the accused. The enablers did not consider themselves to be lawbreakers, but they did aid in committing perjury. In Martha Stewart's case, it was her lawyers who knew about important destruction of evidence but chose not to report it. For Scooter Libby, it was Vice President Dick Cheney. Libby went to Cheney to confess his role and Cheney, in turn, covered his ears with his hands and said that he did not want to know anything.

When Barry Bonds was taking steroids, his trainer, doctor, fellow players, and team management knew about it, but none of them raised questions. In Madoff's Ponzi scheme, other inves-



James Stewart at the Athenaeum on September 14.

tors and staff at Fairfield Greenwich, an investment firm, knew of his activities. When the Securities and Exchange Commission summoned Fairfield Greenwich managers for questioning, they called Madoff and were given instructions on what should be said to the investigators.

The negative repercussions of high-profile perjury cases are immense, particularly because the behavior of leaders influences the ethical culture of entire organizations. When powerful people commit perjury, they set a poor moral standard. The implications can be disastrous.

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analysis," said Keil. Dodds describes his experience participating in the project as "fantastic." He added: "In addition to delving into interesting research on the unique regional economy, my understanding of econometric and statistical methods greatly expanded as I learned how to use a wide variety of forecasting tools." Jane Brittingham (CMC '12), Brianna Losoya (CMC '12), and Artemis Shen (CMC '13) also conducted research for the forecast.

# Interview with a board member: Ken Novack

by Peter Meyer, CMC '12

*Ken Novack (CMC '67) serves on the Lowe Institute's Board of Governors. The retired chairman of Schnitzer Steel Industries is heavily involved in the CMC community, also serving on the College's Board of Trustees as well as the Advisory Board at the Kravis Leadership Institute. He received his B.A., cum laude, in 1967 from CMC, known at that time as Claremont Men's College. He sat down with Peter Meyer (CMC '12) on a recent visit to campus.*

*How did CMC prepare you for life after college?*

CMC taught me critical thinking. I really believe at the end of the day, you just need to know how to think.

*What was your first job out of college?*

I actually attended graduate school immediately after leaving CMC. At the time, it was a choice between going to law school and going to Vietnam. My first job out of law school was as an associate at a law firm.

*How did you get into the steel industry?*

I am retired now, but I used to be in the steel industry. It was just a series of happenstances, you know. I grew up in the scrap and steel business and it was something that I was exposed to my whole life. The steel business was not really my main profession. I was simply on the board of the company.

Schnitzer Steel had a lot of problems resulting from violations of the Foreign Corrupt Practices Act (FCPA). As a board member, I was asked to oversee our response to what we discovered in terms of violations of the FCPA. The chairman and CEO was implicated in that whole process so the firm's response fell to me. As a result of that, I ended up becoming chairman myself. So while that is what is written on my business card, it is not how I spent the bulk of my career.

*How did you spend the bulk of your career?*

I practiced law until I was about 45. After that I went on to run a private investment concern, Schnitzer Investment Corp., which really focused on the real estate development and ocean

transportation businesses. I mostly managed that business and ended up as the last man standing at the steel company out of happenstance.

*If you could go back to school, what would you do differently and why?*

I would probably take a few more courses that were not in my major. It would have broadened my horizons. I also think that I would have worked a lot harder at my academics and tried to get involved in more school activities outside of classes.

*You are on the Board of Governors of the Lowe Institute and the Advisory Board of the Kravis Leadership Institute. Why do you feel it is important to maintain this strong relationship with your college after graduating?*

If someone else had not maintained that relationship before, then there would not be an alma mater. I think you have to give back. You have to do whatever you can to help make that entity better. If you are fortunate, you can give back financially. But not everyone can afford to do that, so you need to otherwise give back in another way; maybe offering your time or skill set. It really just stems from a sense of obligation. I think that giving back to your school can also be a privilege. If you can somehow influence and contribute to an entity like CMC, to help it do its job better, that is really cool. I think I am getting back as much as I am giving.

*What is the best piece of advice that you could give to a CMC student graduating this year and embarking on a new career?*

I think there has been a departure from the mentality that was prevalent when I went to school, which was that you better pick what you want to do wisely because you could end up doing that for the rest of your life. There is so much pressure to choose the right community, the right profession, and to get with the right firm. These are overwhelming decisions and I think it is not all that important where you start out. If you can find something that you really like, then there is a good chance that you are going to do it for the rest of your life. You might as well be patient and find something you are passionate about. If you happen to enjoy something that pays a lot, that's great. But I see a lot of people who are

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# Summer research at the Lowe: fixing the broken housing market

by Manassinee Moottatarn, CMC '13

Since the housing bubble began to burst in 2006, adjustment in the Inland Empire (IE) has been sluggish and is now well into its fifth year. Analysts believed that the IE economy may not recover without a robust new housing market, but the Lowe Institute's summer research project on housing in the Inland Empire by Gerd-Ulf Krueger and CMC research assistants found that the healing process is making headway; with foreclosures receding, inventory of existing homes increasing, and positive net domestic migration as a source of housing demand.

Krueger is a respected housing economist and founder of HousingEcon.com, a research firm that provides analysis on housing markets and submarkets. He worked with CMC students Jane Brittingham (CMC '12) and Tim Park (CMC '13) to investigate the housing situation in the IE, the thirteenth most populous metropolitan area in the US.

Affordability is the key factor still drawing people to the IE. The area has always acted as an outlet for expansion from coastal counties in Southern California. Population growth and high living costs encourage migration into the IE for its cheaper housing and land availability. A job recovery in Southern California would likely revive the IE housing market, especially in areas nearest to the coast. The research surmises that high affordability and migration should lead to a sustainable resale volume recovery in 2012.

Krueger notes that foreclosures are being recycled quite efficiently in the IE. The team's research finds that a foreclosure "tsunami" will not happen. There is evidence of strong demand from investors and regular buyers alike for homes. Vacancy rates rose but the increase was not as large as previously thought because vacancies in vacation and seasonal homes did not rise as dramatically.

Krueger's team then investigated regional variations that could provide a clue as to where new home construction might increase first. They hypothesized that housing overhang was less concentrated in the IE's western markets so an increase in housing starts would begin there. To test their hypothesis, Krueger

and the students performed various analyses ranging from examining the distribution of the oversupply to looking at trends in prices, sales, and unsold inventory to forecast what the future of housing might look like.

After running vector auto regressions on sellout months and median home prices, the team found a surprising result: "Sellout months don't necessarily determine prices. Prices determine sellout months," said Krueger. There is likely to be a supply response once prices change. It would not be surprising for short-term supply in the resale market to rise. Investors who bought foreclosed properties to rent them out might want to claim equity windfalls.

Even after the market recovers, however, price growth will be slow. "Prices will remain flat due to the excess supply, making the market unappealing for those looking to sell their homes," said Tim Park. "Moreover, a generally dim outlook on the IE job market makes it hard to think that sales will be spurred by increases in employment, which will further inhibit any growth in prices."

What is the public policy prescription from their findings? "We came to the conclusion that local governments should do their best not to get in the way of home builders and the handling of distressed properties," noted Park. "Our report prescribes lower impact fees and little to no intervention in the foreclosure process. Conversely, governments should become more proactive in urban infill developments to help the recovery move along."

The research offers a forecast beyond the current economic malaise and gives hope for the IE economic recovery. "The experience working with CMC students was excellent," said Krueger. "My interns were highly motivated and worked hard."

"We were able to learn techniques that are not often taught in classes, while also applying things that we have learned in the past to real situations," Park mentioned. "It was definitely rewarding to see the final product presented at the Inland Empire Forecasting Conference."



# Meet a new professor: Ricardo Fernholz

by Manassinee Moottatarn, CMC '13

*Ricardo Fernholz is a new assistant professor in the Robert Day School of Economics & Finance. He sat down with Manassinee Moottatarn (CMC '13) to discuss his first impressions of CMC and his opinion on the state of the global economy. Fernholz earned a B.A.S. from Stanford University and a Ph.D. from the University of California, Berkeley. His research interests include international finance, macroeconomics, and game theory.*

*What is your impression of CMC thus far?*

I am deeply impressed with CMC students. They are incredibly passionate for knowledge. The students in my intermediate macroeconomics class have been keen to come to my office hours for in-depth explanations.

*What do you enjoy most about the economics department at CMC?*

There is a great deal of camaraderie in the department. From what I have seen elsewhere, economics professors usually break into factions by their respective subject areas - macroeconomics, microeconomics, econometrics, finance - or are segregated by ideology. At CMC, the economics professors share their opinions with one another and work amicably as a team.

*What does the current economic climate mean for the discipline of economics?*

These are challenging times. The diversity of responses to the global financial crisis put forward by so many intellectual heavyweights is stunning. There is no consensus among the academic and business communities about the causes and effects of the crisis, or how to solve it. But what is clear is that the twists and turns are too unpredictable to condense down to a simple prin-

ciple, and the costs too enormous to bypass the opportunity for reform. For example, the paradigmatic shift in the thinking of European Union officials, that more fiscal integration is necessary to keep the political union intact, is gaining ground. To let the monetary system crumble is to betray the ongoing project of creating the most prosperous union the world has seen.

*What types of research have you conducted?*

I explored exchange rate manipulation and the transparency of central banks in foreign exchange interventions, as well as information manipulation on a global level. I look forward to collaborating with students on topics they are interested in.

*Do you have any words of advice to CMC economics majors?*

Keep in mind that economics is an imperfect science. It may shed light on different policy questions but it is not the sole answer to any problem. A constantly evolving discipline, economics has its share of flawed theories. There are always ambitious people testing the limits and coming up with new hypotheses. CMC students can answer the questions of our time by being inquisitive, gathering empirical data, and taking into account viewpoints from a variety of sources; everything from academic journals to blogs can provide insight.



# America's first great moderation: interview with research analyst Ryan Shaffer, CMC '12



by Kanupriya Rungta, CMC '14

## *What is your research project about?*

My project with Professor Weidenmier is about business cycles in antebellum America. It started with our discovery that the period from 1841-1856 was very productive and is unmatched in American history in terms of stability and length. We looked at industrial production index data with our collaborator, Joseph Davis. The productivity of this period betrays traditional conceptions of the time that assume it was very erratic. The project was about identifying that period and attempting to understand what created the circumstances that led to such high productivity.



## *What were your findings and how did you go about discovering them?*

We termed this period the First Great Moderation. In economics, the Great Moderation is the period from the late 1980s to the early 1990s which was very productive and stable due to the advent of high technology.

We used our data to see what led to a similar but even more stable period in the mid-nineteenth century. We found a variety of indicators, one of which was agriculture prices, especially those for cotton, which represented 20% of the antebellum economy. There was also great technological innovation in railroads and machinery since this was the period shortly after the industrial revolution began in America. We also found that during this period there was a phenomenon called wage-price flexibility. That is, despite the fact that wages and prices were very volatile, people could find employment soon after being laid off, especially in the Midwest, because of the westward expansion. That prevented a lot of fluctuations from presenting themselves as a loss of production.

In 1836 the Second Bank of the United States lost its charter, which meant there was no central bank to back up bank failures. America also had bimetallism instead of a single currency. Supposedly that meant there was a lot of fluctuation in the currency. What we found was that regional variation in interest rates actually began to converge. This decrease in volatility allowed greater inter-state expansion and, hence, more stability.

## *There is talk of this project getting published in a top economic journal. Tell us more.*

Well, that is the idea. Presently, I am working on two versions: one for my thesis and another with Professor Weidenmier. We are sending a draft of the latter version out to journals and we hope that it does get published.

## *What were some challenges you faced?*

I think the biggest challenge I faced was dealing with the lack of data from that period. We did have Mr. Davis's industrial production index, which was very useful. Outside of that, however, the data was inconsistent and very little information was available on things such as stock prices and price fluctuations. Moreover, we often had to forge our own path since the period has not been well understood. It has certainly been a rewarding experience but there have also been some challenges to overcome.

## *What else have you done with the Lowe?*

I started working at the Lowe during the spring semester of my freshmen year on a project with Professor Henrik Cronqvist. I then began a project with Professor Weidenmier to understand price fluctuations through shipping data. From the summer after my sophomore year, I started working on this project. I hope to finish it by the end of this academic year so we can send it out for feedback.

# The west and the rest: Niall Ferguson comes to CMC



by Shree Pandya, CMC '14

Students, faculty, and alumni gathered on Parents Field on October 21<sup>st</sup> to celebrate the completion of CMC's most ambitious architectural project yet, the Kravis Center. In a manner befitting the grand building, the day involved a lunch with Henry Kravis (CMC '67), tours of the institutes housed within the Kravis Center, an inspiring convocation, and a ribbon-cutting ceremony. The audience was also treated to a keynote address by Dr. Niall Ferguson, an engaging and dynamic economic historian who spoke on the subject of his latest book, *Civilization: The West and the Rest* (2011).

Ferguson is the Laurence A. Tisch Professor of History at Harvard University and William Ziegler Professor of Business Administration at Harvard Business School. He is also a Senior Research Fellow at Jesus College, Oxford, and a Senior Fellow at the Hoover Institution at Stanford University. His scholar-

ship includes the critically acclaimed *Paper and Iron: Hamburg Business and German Politics in the Era of Inflation* (1995), *The World's Banker: The History of the House of Rothschild* (1998), and *Ascent of Money: A Financial History of the World* (2008). To Ferguson, the crucial difference between Western states and the rest of the world lies in the West's institutions. He argues the six institutions that gave the West its comparative advantage were competition, science, a rule of law based on property rights, medical breakthroughs, consumer society, and a strong work ethic. He believes, however, we are effectively neutralizing our advantages in a variety of ways. Subpar competition in public schools, lagging patent production relative to East Asian countries, and a generation of children with a diminished work ethic has eroded the West's advantage.

To combat these challenges facing American society, Ferguson concludes, we need better global leadership. During his speech he pointed to Kravis and exclaimed, "You are so lucky to have this guy!" In truth, Claremont McKenna students are lucky, period. As an educational institution, CMC is uniquely equipped to prepare its students for a changing world through its emphasis on leadership, teamwork, and innovation. The appeal of this educational style is not lost on international students. Eighteen percent of the freshman class hails from abroad, indicating that CMC attracts the best and brightest domestically and internationally.

Ferguson's talk was especially applicable given the current global environment, and, upon introspection, somewhat heartening. "You live in a time of unprecedented excitement and opportunity," Ferguson declared. While the state of the world economy remains uncertain, CMC graduates can rest assured that their preparation will equip them to dictate not only their own futures, but the futures of their respective nations.



Niall Ferguson delivers the featured address at the Kravis Center convocation on October 21.

## Ken Novack, cont. from page 7

passionate about the money and not what you do to make it. I think you have to find your passion and pursue it. That is the same advice I gave my children and it worked for them.

I really do not think you have to get it right the first time. When I left school, if you had a resume that had four jobs on

it over forty years then you were really screwing up. Today I do not think that matters. The bad part about this is that I do not think firms have the same loyalty to their employees as they used to. The good news is that it lets you move around and be a lot more flexible. I guess my advice is; to the extent that you are able, pursue your passions.

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# Calendar of Events

**9 • 22 • 11** CMC-UCLA Inland Empire Forecast Conference - Citizens Business Bank Arena, Ontario, CA

**10 • 6 • 11** Board of Governors Meeting - California Club, Los Angeles

**12 • 1 • 11** Lowe Senior Thesis Writer's Conference - Marian Miner Cook Athenaeum, CMC

**4 • 13 • 12** Southern California Conference in Applied Microeconomics

## Lowe Research Assistants 2011-12

Barclay, Connor  
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Su, Van-Anh  
Sud, Ankit  
Tischenko, Igor  
Varghese, Matthew

## Lowe Down Staff Fall 2011



**From left: Manassinee Moottatarn, Shree Pandya, Kanupriya Rungta, Chase Gray.**

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Staff Writers: Manassinee Moottatarn, Shree

Pandya, Kanupriya Rungta, Peter Meyer

Photography: Morgan Beltz

Layout: Tess Sewell

## David Bjerck, cont. from page 3

*Did you face any challenges?*

The biggest challenge I had was finding a causal effect, as opposed to a correlation. The data might not be there for what you want to prove.

*What do you think of President Obama's tax policy?*

I think his tax policy is pretty reasonable. We have a sizable deficit, so we have to raise revenue. At the same time we are worried about cutting spending, which is why taxing the wealthy is good, since they will be least affected. Any tax has some drawbacks, but I believe that is the way to go.

*What other projects are you working on?*

I just wrote a paper on college dropouts. I found that we can differentiate between students who drop out with no plan and students who drop out with a specific idea of what they want to do instead. The former make the transition very poorly and do not even compare favorably to individuals with only a secondary education. The latter tend to be similar to high school graduates in terms of their earnings and lifestyle.