WELCOME ALL UH-MANOA ECONOMICS ALUMNI!

Alumni relations have been an important new area of growth and concern for state colleges and universities during recent years. As the costs and expectations of higher education have risen faster than tax revenues, pressure has inevitably mounted for state-supported institutions to emulate their private counterparts by actively cultivating lasting relationships with alumni and asking them to contribute to their alma mater in order to make average programs good ones and good programs excellent.

Public universities, to be sure, have followed different strategies to establish relationships of good will and giving among their alumni.

In particular, while smaller private schools find that their alumni generally form a strong bond with the institution as a whole, graduates of the larger state-supported institutions are more likely to identify with the college or department in which they pursued their major subject.

Recently the UH alumni office was reorganized and revitalized. It has urged all departments and programs to establish direct contacts with their alumni through newsletters, get-togethers, fundraising events, and other activities.

At the request of Dean Neubauer of the College of Social Sciences, the Department of Economics at UH-Manoa established in 1986 a "Department of Economics Discretionary Fund" through the UH Foundation. This allows tax-deductible donations to be made through the UH Foundation that are allocated directly to the needs of the Department of Economics. Priorities for using the fund were established by Prof. Fred Hung, Chairman, Department of Economics; Prof. Marcellus Snow, Chairman, Alumni Fundraising Committee; Prof. Edwin Fujii and Sumner La Croix, members of the committee; and other members of the Economics faculty.

Among the uses to which donations to this fund have been or may be applied are the following: honoraria for distinguished speakers at faculty seminars; entertainment of visiting job candidates; renovation and redecoration of departmental rooms, in particular Porteus 515, the faculty lounge in which seminars are held; establishment of monetary awards to recognize outstanding graduate and undergraduate students; refreshments at departmental functions; and other uses that are agreed upon by the faculty.

The faculty was reluctant to solicit contributions from its alumni, however, without first setting an example of generous giving. Thus, during Fall Semester, 1986, all faculty members associated with the Department of Economics, including emeriti, visitors, affiliates, and East-West researchers, were urged to donate from $40 to $60 (depending on rank) to the fund on a one-time basis. Response was overwhelming. Virtually every faculty member contributed, and several gave as much as $100. Overall, more than $2,000 was donated to the fund by the end of the semester.

We urge our former graduate and undergraduate students to consider joining the UH Economics Alumni by contributing annual dues at a suggested level of $25. (Amounts below and above that level will also be gratefully accepted.) In addition, an Economics Alumni Committee has been formed under the chairmanship of Dr. Robert Tanimura, an economics Ph.D. alumnus and currently chief economist at Hawaiian Telephone Company. As it takes form, this group will advise members of the department on matters of recruitment and fundraising for the Department of Economics Fund.

May we invite you to join the UH Economics Alumni? Please fill out the form on p. 7 of this newsletter and send it to the address indicated. This will not only help our fund to grow, but it will confirm an address at which we can send you current information about alumni-related activities of the Department of Economics. These will include special Friday afternoon faculty seminars with distinguished outside speakers followed by alumni receptions; election of Alumni Committee officers; mailing of future issues of this newsletter; and solicitation of information and advice from our large and talented pool of alumni. Thank you for your consideration.

Sincerely,

Marcellus S. Snow
Chairman, Alumni Relations Committee
Department of Economics
FACULTY NEWS

Fred C. Hung will retire as department chairman in July after six productive years as department chair (1981-1987). Prior to serving as department chair, Prof. Hung headed the East Asian Studies Program (1968-1974 and 1976-1981). He also served as the first director of the East Asia Language and Area Studies Center (1976-1981) which was founded with a grant of almost $100,000 a year under Title VI of the NDEA Act. He was active in the establishment of the Center for Chinese Studies and has served on its executive committee for a number of years. In connection with the celebration of the bicentennial of Chinese immigration to Hawaii in 1989, Prof. Hung has been appointed by President Simone to a task force to raise money for the Center. He has taken incentive early retirement, teaching just 40% of the time. However, he will remain as active as ever.

H. Laurence Miller, Jr. will succeed Prof. Hung as department chair. Prof. Miller's interests have moved to law and economics, where he is currently publishing a number of pieces for law reviews. He will, nonetheless, remain the backbone of microeconomic theory.

Burnham O. Campbell has returned after 3 years as Chief Economist at the Asian Development Bank in Manila. He is actively pursuing joint research projects with the East-West Center Population and Resource Systems Institutes.

James Mak has been appointed Acting Dean of Social Sciences during Spring 1987. Prof. Mak has been busy. While acting as Dean, he has also headed the Hawaii Council on Economic Education and the forecasting committee of the Hawaii Visitors Bureau. In his spare time, he writes journal articles.

Moheb Ghali continues as director of the UH-Manoa Office of Research Administration. He has, nevertheless, continued to pursue his favorite hobby. A paper on inventory theory is forthcoming in the American Economic Review. Prof. Ghali will be on sabbatical next year as a Fulbright scholar in Sweden.

On personnel matters, Sumner La Croix has been tenured and promoted to associate professor. Marcelius S. Snow has been promoted to full professor.

Our newest hires have been Subroto Roy (fall 1986) and Gerard Russo (fall 1987). Prof. Roy fills our slot in macro theory, and Dr. Russo will teach micro theory. Prof. Roy is now in the process of completing a book on the philosophical foundations of economics. In a more practical vein, he and Prof. Ted James (RSI) have received a $100,000 grant to study South Asia (India, Pakistan, Bangladesh, Sri Lanka). Dr. Russo's interests are in another hot area, health economics.

THE PRICE OF LAND
IN HONOLULU--
WHY IS IT SO HIGH?

[Editor's Note: The following contribution is written by Prof. Sumner La Croix and Prof. Louis Rose of the Department of Economics, UH-Manoa. We hope to have one such substantive essay on a currently salient economic topic in each future issue of ECONews and Views.]

The price of land in Honolulu is about five times the price in major mainland cities. Observers generally attribute this to Oahu's peculiar combination of market constraints and conditions. Oahu is a small island, world renowned for its environmental amenities. It is both isolated from the mainland, and culturally and geographically nearer to other countries. It has highly restrictive state as well as local land use controls, an unusually high percentage of land in the public sector, and an uncommonly high concentration of ownership in the private sector. Although some of these characteristics can be found in other major cities, particularly those in California and Florida, this combination of land market conditions is apparently unique to Oahu.

We recently conducted an historical study which focused on the following questions: 1) To what extent do the Honolulu conditions differ from those in mainland cities; and 2) how important is each of the conditions as a cause of the high price of land? Our study compares 1980 land prices and market conditions in Honolulu with the 40 most populous cities on the mainland. We obtain quantitative measures of the various conditions and test their importance as causes of the high land price. The remainder of this brief article summarizes the findings of our more lengthy study.

First, consider the facts regarding residential land price. The FHA reports that the 1980 price of home sites in Honolulu averaged $8.60 per square foot. The average price in the mainland cities ranged from $0.48 in Atlanta to $5.57 in San Diego, with a 40-city average of $1.73.

The most important causes of Honolulu's high price are the constraints on residential land availability imposed by nature and by government. Consider natural restrictions first. We have developed a land supply index that measures the extent to which oceans and lakes constrain the supply of land. The Honolulu index is .47, meaning that our city has only 47 percent of the land that is available to any land-locked city. Although
this is the lowest index of any city, some mainland cities also are severely constrained by bodies of water; San Francisco's index is .52, and Chicago's index is .56. However, Honolulu's index is far below the 40-city average of .87. If the index took account of additional constraints imposed by mountainous terrain, it would indicate that we have even less land available for residential use, relative to most mainland cities.

Government imposes many types of restrictions on land use. We attempt to measure the importance of these restrictions by examining the extent of public land ownership and the government's power to zone land. The federal government owns about 45 percent of this amount, the State of Hawaii owns another 45 percent, and the City and County own the remainder. Although some of the public lands are available for residential and other urban uses, they are mostly unavailable.

Governments in almost all major U.S. cities have varying degrees of power to zone land use, as well as regulate and affect the cost of land use in many other ways. The exercise of such power restricts the availability of land for residential use, and drives up its price. Politically influential landowners and others attempt to persuade zoning (regulatory) agencies to restrict land availability to raise price in all cities. But they will be more successful in cities with greater zoning power. This power is greatest when there is a single zoning agency -- a public sector monopoly -- with sole jurisdiction over the entire city land market. It is weakest when there are many zoning jurisdictions in the city.

Honolulu has far greater zoning power than mainland cities because only two agencies in one jurisdiction regulate land use. The City Council and Department of Land Utilization at the local level and the Land Use Commission at the State level each have jurisdiction over the entire Oahu land market. By contrast, in mainland cities the power to zone is weaker because of the proliferation of independent local zoning jurisdictions and the absence of any higher level zoning power. The 40 mainland cities examined in our study average 72 local zoning jurisdictions. Higher level zoning powers are rare; the most notable exceptions are in Minneapolis-St. Paul and Miami, Florida, which have metropolitan federations that coordinate local government land use policies, and California coastal cities whose zoning decisions are reviewed and sometimes vetoed by regional commissions.

The concentration of private land ownership is uncommonly high in Honolulu. The three largest owners, Bishop Estate, Campbell Estate, and Castle & Cooke, hold well over 50 percent of the private land on Oahu. Some observers attribute the high price of land to monopoly practices of these owners. They do indeed possess a small degree of monopoly power within certain neighborhoods they predominantly own, such as Hawaii Kai, the Ewa Plain, and Mililani. However, in the absence of an effective cartel comprised of these and other owners, competition from other neighborhoods severely restricts their ability to withhold land and raise its price. Surely the monopoly power of these oligopolists is minor in comparison with that possessed by our State and County governments.

Of course, State and County officials are responsive to the electorate, and especially the well-financed, well-organized components of the electorate. In Land and Power in Hawaii (1985), Cooper and Daws document the past power and political connections of major landowners. It is possible that the large landowners are today playing a significant background role in State and Country government restrictive decisions. But today political power is surely more widely dispersed, so it is more reasonable to attribute restrictive zoning and regulations not only to the influence of some of the landowners, but to tourism interests (Hawaii Visitors Bureau and the Waikiki Improvement Association), farming interests (International Longshoremen and Workers Union) and especially homeowners opposed to development in their own neighborhoods. Government enhances the income, wealth or enjoyment of each of these groups by constraining residential land availability. The result is a higher price of land.

Whereas the preceding arguments focus on supply restrictions, the remaining ones focus on the demand for land. The most important difference between Honolulu and mainland cities is that there are no close substitutes for Honolulu land; alternative job and recreational centers are geographically and culturally distant. As a result, when the price of land changes, the quantity of land demanded by residents and businesses does not change very much. An example will illustrate the importance of this point. Someone who lives in Kansas City could respond to a rise in the price of land (and housing) there by moving to an alternative land market in, say, St. Louis at some economic and psychological cost. In contrast, someone who lives in Honolulu could respond to a rise in the price of land there by moving to a mainland city, but only at considerably greater cost and life-style adjustment.

Thus, Honolulu residents are less likely to make such a move; they respond by reducing their land usage by a small amount, but they generally stay in the state and pay the higher price. Thus, even if land supply restrictions in Honolulu were no greater than they are in mainland cities, such restrictions would cause a higher price here than there. It follows that the small response to
price changes exacerbates the effect of Hawaii’s supply restrictions on the price of land.

Another contributing factor is foreign investment demand. The nation with the greatest tendency to invest in U.S. real property is Japan, because of its large and persistent trade surplus, the recent appreciation of the yen, and differences in U.S. and Japanese interest rates. Real property in Honolulu is more attractive to the Japanese than real property elsewhere because Honolulu has closer linguistic, cultural, recreational, and geographical ties with Japan than any other city in the U.S. Similar arguments also apply to investment from Hong Kong, the Philippines, and Taiwan. Real property here affords a particularly convenient and safe haven for wealth subject to confiscation, if and when new governments in these nations come into power.

Remaining factors that have some effect on land price are the city's population, rate of population growth, per capita income, and environmental amenities. Honolulu's 1980 population of 763,000 was less than any of the 40 most populous mainland cities with which it is compared. This factor considered alone tends to depress the price of land. The rate of growth in Honolulu's population for the decade ending in 1980 was 21 percent. This rate is slightly higher than the 40-city average of 13 percent, tending to raise the price. Honolulu's 1980 income per capita of $10,498 was only slightly higher than the mainland cities' average, tending slightly to increase the price. Finally, Honolulu has a more pleasant climate and more beautiful scenery than most mainland cities. To enjoy our high amenity level, people may be bidding up the price of land. However, fragmentary evidence suggests that this is not a major cause of land's high price. Rather, people pay for the climate and scenery by accepting lower wages.

Our study indicates that the most important factors contributing to Honolulu's relatively high price of residential land are natural and governmental supply restrictions. Of course, little can be done to alter the constraints imposed by nature. Restrictions imposed by government's regulatory policies are more problematic. They owe their existence to the desire and power of homeowners and other interest groups to enhance income from land use and to increase property value. Existing landowners and homeowners usually oppose new residential development, as the value of their homes and land would fall if the housing stock increased. Agricultural workers and businesses join this chorus, as the land available for agricultural use would fall. Tourism interests fear new competition from new businesses resulting from the development as well as the decline of the island's environmental amenities. While these arguments demonstrate the private interests in restricting land use, they are also consistent with public interests such as a fair income distribution, maintenance of property values, environmental conservation, public safety, and other goals officially cited as the objects of government's restrictive posture. But there are other goals such as cheaper housing that are also important, and that can be achieved through relaxing current land supply constraints. This point leads us to our central conclusion. Our study demonstrates that in Hawaii, high land prices stem not from a particularly high demand to live in Hawaii, but from natural and governmental restrictions on the supply of land. Since demand factors are relatively unimportant and natural restrictions cannot be easily altered, public debate on land use in Hawaii should focus on understanding the various private and public interests inherent in government zoning and government land ownership.

The reader can obtain a copy of the complete 41 page study by writing to the authors, c/o Social Science Research Institute, Porteus Hall 704, University of Hawaii, Honolulu, HI 96822. Please send $3 to cover the cost of reproduction and postage.

DOCTORAL ALUMNUS PORTRAIT

The first subject of a doctoral alumnus portrait is Dr. Robert T. Tanimura, who is presently Rates and Tariffs Manager at Hawaiian Telephone Company.

Dr. Tanimura grew up in Honolulu and graduated from Roosevelt High School. He graduated from UH-Manoa in 1977 with an undergraduate degree from the Department of Economics. During 1977-78 he earned a master's degree in economics at the University of California at San Diego, at the same time serving as a teaching assistant. He returned to Hawaii in 1978 and began doctoral studies in economics at the Manoa campus.

While completing his doctoral studies Dr. Tanimura began working for Hawaiian Telephone Company as Senior Business Research Analyst. This job was to provide the subject matter for his dissertation topic and later career. The late 1970s were a time of considerable interest in telephone pricing, and many GTE subsidiaries, in particular GTE-Illinois, were experimenting with local measured service pricing. Dr. Tanimura's dissertation, which he completed in 1982 under the chairmanship of Prof. James Roumasset, analyzed the economic theory relating to local measured service. He concluded that the efficiencies of measured service tariffing depended substantially on metering costs and marginal costs of local service, but that even in a best-case scenario the efficiency gains to be expected were not large. This ran counter to the accepted view at the time but reflects the conclusion of more recent research.
conducted by R. Edward Park and Bridger Mitchell at the RAND Corporation, for example.

Dr. Tanimura has undertaken frequent travel to GTE headquarters in Stamford, Connecticut and to its regional offices in Dallas to consult on rate issues and implementation strategies for Hawaiian Telephone, which is a GTE subsidiary. Not long ago he appeared before the Hawaii Public Utilities Commission to present a plan for local measured service in Hawaii, beginning with a pilot program on Kauai. Although the Commission did not adopt Hawtel’s specific plan and made particular comments on its equity aspect and implementation, the Commission did not close the door on future efforts by the telephone company to charge by the call.

Dr. Tanimura sees his doctorate in economics as vital in the present environment of rapid deregulation in the telecommunications industry. "Under competition," he notes, "strategies pursued by the telephone company must make economic sense." Under regulated monopoly, he says, there was greater leeway open to the incumbent firm in pricing and other matters.

FACULTY PORTRAIT

This newsletter’s first faculty portrait is of the department’s most recently hired member. He is Subroto ("Suby") Roy, a native of India who received his education in India and England. Prof. Roy recalls his days as a secondary school student in Darjeeling with a grand view of the Himalayas.

Prof. Roy’s undergraduate degree is a B.Sc. from the London School of Economics, awarded in 1976 with first class honors in mathematical economics and econometrics. His doctorate in economics is from the University of Cambridge in 1982.

His major research effort during recent years has been the completion of a book to be published by the University of Chicago Press, entitled Principia Economica: On Values and the Scope of Reason in Economic Inquiry. Presenting a chapter of his manuscript to a departmental faculty seminar last semester, Prof. Roy caused considerable intellectual excitement by maintaining (contrary to the views of many noted economists) that the range over which economic values and assumptions are amenable to rational inquiry is much greater than has been supposed.

Prof. Roy has also completed a shorter monograph on the modern study of pricing, planning, and political economy of India. Published by the Institute of Economic Affairs in 1984, it was the subject of a lead editorial in The Times of London. Other publications include a contribution to History of Political Economy entitled “Considerations on Utility, Benevolence and Taxation” and comments on economic theory and development economics at an American Economics Association panel, published in World Development.

Prof. Roy brings considerable teaching experience to UH. He has taught economics at various Cambridge colleges, Cornell University, and Brigham Young University. He joined the UH Department of Economics in 1986.

He is married to Leena Roy, who has a doctorate in family counseling. They have one baby son and two Shetland sheepdogs and live in a condominium near the UH campus in the Punahou area.

GRADUATE STUDENT PORTRAIT

Just four years ago Dennis Foster was a tour guide for bus tours on the North Rim of the Grand Canyon. Now that Dennis is a graduate student in economics, he has abandoned the Grand Canyon for Oahu’s beaches, but buses are still a part of his life. His doctoral dissertation compares the merits of small and large buses in urban transit systems. His approach considers the cost of a bus passenger’s time as well as operating costs and congestion effects. Perhaps we’ll be seeing different sized buses touring the Grand Canyon’s North Rim sometime soon!

Dennis received his undergraduate degree from Drake University in Des Moines, Iowa. After graduation he was interested in the problems of world poverty and development and considered joining the Peace Corps. Following Alfred Marshall’s lead, he decided that the study of development economics would be more productive, entering the University of Hawaii’s graduate program in economics. After receiving his master’s degree, he left for Arizona to study urban economics. Six months of study at Arizona State University and several hundred tours of the Grand Canyon convinced Dennis to return to Hawaii to study for his doctorate. Since being appointed as an Instructor in the Department of Economics in 1986, he has become one of the Department’s most popular teachers. An organizer of Department seminars and picnics, Dennis and his wife Karen are frequent participants in Department activities. The Department wishes him well in riding his buses to the end of his dissertation.