A Report from the Chair

Dear Alumni and Friends,

There are two pieces of good news to report since last year's issue. First is that the faculty have continued working, noses to grindstones, and count this as a period of considerable productivity. We have enjoyed having another fine group of students, some truly outstanding. Many faculty members have devoted many hours to community service of one sort or another. And as you can see from the marginal notes throughout this newsletter faculty have generated an admirable body of research.

Second is somewhat more prosaic but comes to the great relief of everyone involved in the department: we have finally been given permission to fill the vacancy left by the retirement last year of our longtime department secretary, Juliet Pila. In the interim, our clerk, Patricia Nishita, has labored with skill, loyalty and dedication but with the sort of apprehension one feels on a surfboard facing a 30-foot wave. (Or so I imagine; I must confess I've never been on a surfboard, much less looking up at a 30-foot wave.) Pat will be promoted to Department Secretary and we'll recruit a new clerk. Faculty and some students are looking forward to a return to normalcy. Other students face the happy prospect of learning what normalcy is.

On the other hand (it's hard to overcome the habit of being a two-handed economist) we were able to replace Rayburn Williams, who retired in June 1995, by bringing Andrew Mason from the East-West Center to a full-time tenure-track position in the Department (see page 8). Although funds were released too late to find a full-time visitor, we have had a series of six short-term lecturers (see page 9). All were excellent; some so much so that students petitioned for additional lectures!

Last year I noted that "Hawaii's protracted economic slump hit the university and the department noticeably, but we want to let you know that we're still here." Hawaii's economy, incredibly, remains stuck on a low-growth path, with sugar plantations closing, defense spending down and only meager or no growth in visitors. The University continues beset by budget problems, and the Department of Economics has been hit hard by what seem entirely random reductions in resources. After a barely-distributed lag, U.H. has followed a national trend toward diminished numbers of majors and student enrollments. At the same time, as surely as demand curves slope downward, the large increases in U.H. tuition rates imposed last fall cut into economics enrollments as well.

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Thanks to the hard work of Professors Carl Bonham, Byron Gangnes, and several student assistants, the Department now has a very nice web page. The web page will serve as the initial point of contact for information on Economics degree programs and faculty, as well as such current activities as seminars and visitors. http://www2.soc.hawaii.edu/econ/.

Over the years, one of my greatest personal pleasures has been the practice of non-constructive recreational complaining. (It's generally no problem to find a subject, you can do it indoors or out, alone or with a partner, with or without a computer. I recommend it.) The
UNDERGRADUATE FOCUS
SOCIAL SECURITY...OR, INSECURITY?

By John Araki, Kam Au, Kona Bridges, Kris Cook, James DeLacy, Rene Hernandez, Roger Hill, Randy Ito, Calvin Kamada, and Jesse Obanla

Editor's Note: This article was written as a group project in Dr. James Mak's Undergraduate ECON 496: Contemporary Economic Problems Spring 1997.

Do you ever think about retirement? Most young people don't. Even if you are a high school student and only have a part time job, you are probably paying FICA or social security taxes. This is the tax most people say "you can't get back" when you file your income tax return. It's the money that the federal government is supposed to give back to you, and more, when you retire. But with all the problems that face Social Security, most young people today don't believe that they will ever see any of their money. If nothing is done to fix it, the Social Security System is expected to go broke by the year 2029, about the time when you start thinking about your own retirement. So what's the story?

History and Description of the Social Security System

In the midst of America's Great Depression in 1935, President Franklin Delano Roosevelt signed the Social Security Act and created what has become one of the most popular social programs in U.S. history.

Social security is a government pension program designed to supplement the private retirement incomes of the elderly and allow them to live independently and with dignity. Most working Americans are required to pay social security taxes to support the system. When they retire, they receive a monthly check from the government roughly related to their contributions, but within a narrow range. Thirty million Americans received monthly retirement benefits from Social Security in 1994 that averaged about $700 per person. For many retirees, it's a large part of their total retirement income. The monthly Social Security benefit payments are adjusted upward each year to keep up with inflation.

But Social Security is more than just a retirement savings program for the elderly. For example, if one of your parents dies, your family could receive survivors benefits from Social Security. Over 7 million Americans received survivors benefits in 1994, averaging nearly $655 per month. If your working parent becomes disabled and cannot work, your family can also collect disability payments from Social Security. In 1994, 5.4 million disabled workers received benefits under Social Security averaging $661 per month. Few people are aware that more than 900,000 disabled children also receive benefits from Social Security.

How Does It Work?

It's quite simple. Social Security is a "pay-as-you-go" system. That means that each generation pays for the retirement benefits of the preceding generation. You and others in your age group pay the Social Security benefits that your parents will receive, and when you retire, your children and others in their age group will pay for your Social Security benefits. Almost everybody who is employed pays into the system. If you have a part time job, look at your most recent pay stub and you will see that 6.2 percent of your pay is deducted for FICA—you're contribution to the Social Security System. Your employer matches your contribution. The total amount (currently equivalent to 12.4 percent of your pay) goes to fund the Social Security System. Employers may be paying lower wages so they can over their share of the Social Security tax. So the next time your parents accuse you of not doing anything for them, tell them that you're not only paying for their retirement, but their whole generation.

Problems With Social Security

The main problem with a pay-as-you-go system is that each generation doesn't have the same number of people. When Social Security began, the country was relatively young and there were few retirees compared to the number of workers who paid into the system. Since then, the number of retirees receiving benefits has increased rapidly, partly because retirees are living longer. Birth rates have also fallen resulting in slower growth of the labor force. Hence, there are relatively fewer people working today to finance benefits paid out to the growing number of retirees. In 1935, there were 42 workers to just one retiree receiving benefits; today the ratio is closer to 4 to 1. By the year 2030, there will be only 2 workers paying into the System to support 1 retiree.

Actually, the System is currently collecting more than it is paying out in benefits. The surplus—$59 billion in 1995—is going into a trust fund and being invested in government bonds. By around 2012, taxes collected will fall below benefit payments, and the System will have to dip into the trust fund. By the year 2029, the trust fund will be depleted. Social Security tax collections will then be unable to pay all the benefits promised to Americans unless taxes are increased. Alternatively, Americans will have to accept lower benefits. Either way, your return on your contribution to the Social Security System will be reduced. Can the Social...
Security System survive if people don't believe that they are getting their money's worth?

**Proposals for Reform**

Every four years, an Advisory Council is appointed to review the status of the Social Security System. It was believed that the last council, formed in 1983, had fixed the Security System so it wouldn't need major changes for 75 years. Obviously, it didn’t turn out as expected. The latest council, formed in 1994, has the same assignment: to suggest ways to fix the System if necessary, so it would remain financially sound for another 75 years. In other words, the System has to collect enough money to pay promised benefits without having to perform more major surgery on it. Another concern of the council members was that Americans must believe that they are getting their money's worth from the future benefits that they will receive. That's the only way to maintain the popularity of the System.

Although the council was made up of 13 experts, they could not agree on a single recommendation. Instead, they offered three options. While there are major differences among them, all three specify that some part of the Social Security money should be invested in stocks. Over the long run, stocks have yielded a higher rate of return on investment than government bonds. Return on stocks are expected to grow 7 percent per year faster than inflation, compared to only 2.3 percent on government bonds.

All three options also propose ways to raise the nation’s savings rate either through higher taxes, requiring individuals to set up savings accounts for retirement, trimming benefits, or gradually raising the retirement age. The increase in national savings is needed to finance more investment in the economy. More investment means an expansion of the nation's productive capacity and faster growth of the nation's economy. Since stocks represent the productive capacity of the private economy, a bigger economy means that more stocks will become available. Without more stocks, the additional demand for shares by the Social Security System would only lead to higher share prices, but lower their actual return. Thus, there would be no longer any advantage to invest some of the Social Security money in stocks.

The option with the least drastic changes keeps the current benefits system largely as is. To fund future payments, Social Security benefits which are not currently subject to federal income taxation will now be taxed. Additionally, up to 40% of the Social Security money will be invested in stocks (instead of government bonds) to yield a higher return.

The second option increases the normal retirement age gradually through the next century in tandem with people's life expectancy. You are asked to contribute an additional 1.6 percent of your payroll (not called a "tax") into an individual retirement account to be held by the Social Security System. You can direct the System to invest this money among a limited combination of stocks and/or bonds.

The most drastic option partially privatizes the Social Security System. In this system, you are allowed to set up your own individual retirement account (called private security account) using 5 percent of the (total 12.4 percent) Social Security payroll tax, and you also have complete control over how your money is invested. Another 5 percent of the social security tax will be managed by the Social Security System with a promise to pay a flat sum to every retiree regardless of how much you contributed into the System. (This is so you would have some money when you retire just in case your individually managed retirement account turned sour) The remaining 2.4 percent of the current Social Security tax will continue to fund disability and survivors' benefits.

Privatization of the Social Security System changes it from the current pay-as-you-go system to a pay-for-yourself system. It creates a temporary problem of transition from the current system to the proposed system. Under our current system, your parents pay for the retirement benefits of their grandparents, and you are expected to pay for the retirement benefits of your parents. But under privatization, you are expected to contribute only to your own future retirement. Who will pay the retirement benefits of your parents? No one. The solution is to ask everyone to pay slightly higher taxes for a number of years so that your parents can receive the benefits that they were promised.

Privatization raises another tough question. Under our current system, Social Security transfers income from people with higher incomes to those with lower incomes. Under privatization you get to keep all of the return from your individual retirement account. The rich and the capable people may exert political pressure on politicians to allow them to invest more of their money in their own personal retirement accounts, leaving the poor and the less capable people in the System. This could threaten the survival of the Social Security System as a national retirement system. Is that a desirable outcome for American society?

*Continued on page 10*
La Croix continued


Lee participated in several professional meetings and universities including the ASSA Meeting in New Orleans, University of British Columbia, Andong National University at Korea, EWC-KDI Conference on the Multilateral Trading System in Maui, and a conference on the International Implications of Korea Unification, Seoul, Korea.

Focus on Research
Sustainability: A Redundant and Ad Hoc Criterion

By James Roumasset
Professor of Economics

One of my pet peeves (besides the fads and fancy of development policy) is the propensity of economists to invent ad hoc concepts when more fundamental constructs are both available and more suitable for policy analysis. Previous examples include externalities as spillovers (it is market organization not the "spillover" that matters), merit goods, option value, and quasi-option value (expected utility theory is sufficient for all three), and "Armington" elasticities (whose constancy is inconsistent with neoclassical theory). Now we have "sustainable development" to add to the list.

It took awhile, but discussions of sustainability are now converging. Four economic "Handbooks" (the Elsevier Handbooks in Development, Population, and Resources/Energy, and the Blackwell Handbook in Resource Economics) now give largely overlapping treatments, and all rely on neoclassical growth theory. It has been established that early notions of constraining the objective function to prevent the stock of natural capital from declining are inappropriate: such rules should be derived not asserted. Two principle versions of sustainable growth remain - maximin growth and "opportunistic" growth.

Maximin growth involves a misapplication of Rawlsian distributive justice to intergenerational equity. The proposition that individuals could reach an ethical consensus to maximize the welfare of the least well-off individual is rather implausible even for its intended use redistributing income among a finite number of income groups. It is less suitable for the problem that maximin intergenerational equity is meant to address - the choice of alternative consumption streams that reach across unbounded time. Consider two alternative consumption trajectories. One is constant from here to eternity at the maximin level. The other crosses the maximin level from below at some finite time and continues to rise asymptotically towards some level that is a constant multiple (greater than one) times the maximin level. Now as the "impartial spectator" contemplates the "original position," the probability of being born into one of the early generations (when consumption is less than maximin) is negligible compared to that of being born in one of an infinite sequence of generations thereafter. (Indeed, it approaches zero as the number of generations approaches infinity.) And we may suppose that avoiding this negligible probability can never compensate for missing out on an infinite sequence of possible consumption levels above the maximin, i.e. that the maximin consumption level is less desirable than its alternative. This is equivalent to assuming that the elasticity of the marginal utility of consumption is less than infinity.

The remaining interpretation of "sustainable growth" involves constraining a utilitarian intergenerational welfare maximization problem such that consumption is never allowed to decline - a literal interpretation of "sustainable consumption." My first objection to this approach is that representing a preference ordering as itself a constrained optimization problem is not only manifestly ad hoc (it corresponds to an arbitrary and unexplained sequence of time-specific utility discount rates) but is only capable of representing a partial ordering. Consumption trajectories that violate the sustainability constraint are left unranked. A more fundamental concern, however, is that under the most plausible scenario, optimal growth is forever non-negative, rendering the sustainability constraint redundant and "sustainable growth" indistinguishable from "optimal growth." Showing that "optimal growth" already contains "sustainable growth" requires first adopting Frank Ramsey's "ethical indefensibility" of non-zero utility discount rates. As Ramsey himself demonstrated, technical objections to a zero rate of pure time preference on the grounds that this would lead to an unbounded social welfare function are readily overcome by a suitable transformation of the welfare function. And only a zero rate fully captures the notion of intergenerational impartiality. The other requirement is that the efficient steady state use of resources is non-declining, which follows in turn from

Continued on Page 11
Focus on Teaching

By Byron Gangnes
Undergraduate Chair and Associate Professor of Economics

The economics curriculum at UH is ever evolving. While staple classes like Principles and Intermediate Theory are on the books year after year, their focus adjusts to reflect changes in the discipline and in the policy questions at the core of public debate. And new courses are added from time to time to introduce students to emerging economic knowledge.

This year three new courses are being offered in the department. Professor Sumner La Croix has introduced Growth and Crisis in the World Economy, a senior-level writing-intensive seminar that begins with the industrial revolution in Great Britain and ends with the remarkable growth in East Asia in the last 20 years. The inquiry focuses on why some countries become leaders, how other countries catch-up or fall behind, and why new leaders periodically emerge.

Professor James Mak has turned the Economics 496 Contemporary Economics Issues course for this spring into a student-directed inquiry into current policy issues. After an initial segment analyzing proposals for social security reform, the class will choose from a menu of topics including the economics of homelessness, how to pay for Hawaii tourism promotion, economic implications of same sex marriage, and the U.S.-China economic relationship.

Professor Mak's course runs as a learning community where students participate fully in the exploration of each issue. According to Mak, "The Professor (me) doesn't profess expertise in the topic, only that he is competent (I hope) to learn with the students. Hence, many questions I can not answer and we will look for the answer in the seminar." For the Social Security module, the class will use their research on the issue as background for a formal group debate on the merits of specific reform proposals. As a whole the class is drafting an essay on the subject for the spring issue of America West, the San Francisco Federal Reserve Bank publication on economic education (reprinted here on page 2).

Professor James Roumasset and Department alum Lee Endress, Director of the College of Security Studies at the Asia Pacific Center, have teamed up to teach Economics and Cooperation. The course examines how cooperation evolves and explores the role of government in facilitating cooperation. Using game theory and microeconomic principles, students analyze conflict and cooperation in areas ranging from foreign policy to environmental security to the East Asian Miracle. Along with reading and discussion, students learn directly about conflict and cooperation through role playing and classroom experiments.

As you can see, the economics curriculum is changing to keep in step with emerging issues and methods. But long-timers need not feel too envious of today's undergraduates. After all, we still make them sweat through Econ 301.

Department Gets Connected

The Economics Department now has its place on the World Wide Web. The Department's homepage includes program information, course schedules, faculty research activities and more. You can point and click to find:

- undergraduate and graduate program information
- course descriptions for the coming term
- faculty office hours
- web pages for each professor, with teaching a research information
- a schedule of upcoming seminars
- an online version of the guide "Majoring in Economics"
- this newsletter

Several professors are now using the web to support their courses. Look to their faculty homepages for links to course sites. And in the future, expect to see more detailed information on research activities, including electronic versions of Working Papers, a graduate student homepage and other improvements.

Visit the Economics Department Homepage: http://www2.soc.hawaii.edu/css/dept/econ/

FACULTY NOTES


During the last year Andrew Mason has begun a project, Population and the Asian Economic Miracle, that is examining the ways in which demographic forces have influenced economic development in East Asia during the last thirty-five years. The project is supported by grants totally more than $300,000 from the Agency for International Development, the Rockefeller Foundation, the William and Flora Hewlett Foundation, and the Ministry of Foreign Affairs of Japan. With funding from the Center for Global Partnership of the Japan Foundation, Mason has been working with colleagues at the University of California at Davis and Nihon University on Asian labor migration. The results were published as a special issue of the Asian and Pacific Migration Journal, 1996, "The Dynamics of Labor Migration in Asia." Mason also published, "Population and Housing," Population Research and Policy Review 1996.


Denise Eby Konan and Keith E. Maskus, "Joint Trade Liberalization and Tax Reform in a Small Open Economy: The Case of Egypt," No. 97-3.


James Roumasset, "Review of Vos and Yap’s The Philippine Economy: East Asia’s Straw Cat?" No. 96-15.


Eric Iksoon Im, "A Note on Derivation of the Least Squares Estimator," No. 96-11.


Natalia Tabatchnaia-Tamirisa and Denise Eby Konan, "National Security or Private Profit? Trade in Dual-Use Commodities," No. 96-5.


Chung H. Lee and Charles E. Morrison, "APEC and Two Koreas," No. 96-3.


Denise Eby Konan, "The Vertical Multinational Enterprise and International Trade," No. 96-1.

Please address requests to: Editor, Working Paper Series, Department of Economics, University of Hawaii at Manoa, 2424 Malle Way, Porteus 514, Honolulu, Hawaii 96822.

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Burnham O. Campbell Memorial Fund

We wish to express our thanks to those of you who have earmarked your donations to the UH Foundation for the Campbell fund. This scholarship fund established in Campbells’s memory will benefit graduate students of economics specializing in Asian development. Your gifts mean a great deal to us.

To ensure accurate processing of your gift, please complete this form and mail it along with your tax-deductible donation to: Burnham O. Campbell Memorial Fund, UH Foundation, P.O. Box 11270, Honolulu, HI 96828-0270.

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Payable to “CAMPBELL MEMORIAL FUND, UH FOUNDATION”
I work for a matching-gift corporation and am enclosing a corporate matching gift form. __yes ___ no
Focus on Hawaii
Hawaii Economy Creeping Forward

By Carl Bonham & Byron Gangnes
Associate Professors of Economics

Hawaii’s economy is still struggling to recover from its longest slump since statehood. In 1996, real economic activity showed very little growth, and the economy continued to shed jobs, albeit at a slower pace than in preceding years. Real personal income of Hawaii residents was virtually flat for the year. According to econometric model forecasts constructed in the Department’s Hawaii Economic Research Organization, the outlook for 1997 and 1998 is for only moderately higher growth. A bright spot on the horizon is the apparent stabilizing of the local job market and a bottoming out of the construction cycle.

The External Environment
Conditions outside Hawaii look favorable for gradual improvement here. We expect continued moderate growth for the U.S., with U.S. real personal income expanding through 1997 and 1998 at a 2.4% average rate, roughly in line with the consensus view. The California economy, which expanded briskly last year, is likely to continue at a rate better than the nation as a whole. We project 1.5% growth in jobs over each of the next two years.

Like most observers, we expect fiscal tightening in Japan to limit expansion this year, with moderately higher growth resuming in 1998. Japanese real income is expected to grow by 1.4% in 1996, strengthening to 2.4% the following year. Forecasts are mixed on whether the dollar will head still higher or begin to retreat from its recent strength. We assume a yen/dollar exchange rate near the current 125 level for the next two years.

Local Conditions
Last year saw the visitor industry get off to a quick start, with arrivals for the first half of the year 12% higher than in 1995. But arrivals faltered in the 1996 second half, and for the year arrivals were less than 3% above 1995 levels. This weakness has persisted into the first two months of 1997, likely the result of a weak yen and rising Hawaii hotel room rates. We expect a resumption of 3-5% quarter-on-quarter growth rates later this year, but annual arrivals will likely fall short of 1996 totals. We project nearly 5% arrivals growth the following year.

Since the 1990s recession began, job market weakness has been a continuing drag on the local economy. The number of non-agricultural jobs peaked at almost 543 thousand in 1992, but had fallen to 529 thousand by last year. Many of these job losses, more than seven thousand since 1992, have occurred in the construction industry, which has seen a dramatic decline in activity since 1991. The good news is that employment prospects are slowly improving. While construction may fall a bit further, the big declines appear over, and we expect to see a small net addition of jobs for the overall economy this year. This will help personal income strengthen from the dismal performance of 1996 to rise nearly 1.5% in both 1997 and 1998. GSP, the broadest measure of Hawaii economic activity, will manage about 1% annual growth over the forecast period, on par with the State’s preliminary estimate for 1996.

Although economic performance in the 1990s has been dismal, the period has seen considerable improvement in local inflation conditions. Consumer price inflation, which exceeded seven percent as recently as 1991, has steadily fallen to 1.7% in 1996, the lowest annual rate of price increase since 1964. Demand weakness may explain part of this decline, but changes in retailing, with the introduction of large discount merchants, clearly also has played a significant role. Continued weakness in Hawaii real estate and the gradual

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Hawaii Economic Indicators (Annual Growth Rates)

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<td>Visitor Arrivals</td>
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<td>-1.0</td>
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<td>Real Gross State Product</td>
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<td>0.9</td>
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<td>Consumer Price Inflation</td>
<td>1.7</td>
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*Estimate

FACULTY NOTES

FACULTY NOTES

Marcellus Snow is taking his third sabbatical at UH over the one-year period encompassing the Fall 1996 and Spring 1997 semesters. In October he presented a recent paper on Chinese telecommunications at M.I.T. (Research Program on Communications Policy) and at Harvard University (Center for International Affairs). He interacted with students and faculty during a ten-day stay as a visitor at M.I.T. He also presented a paper at the University of Utah. He plans to do academic visiting during April and May in Washington, D.C. Snow is working on papers and doing background reading in the areas of telecommunications economics and information theory.

Calla Wiemer is on leave this year in Beijing doing research on China's urban labor markets. She has collected survey data from 2500 households yielding work histories for all family members. The purpose of the project is to discover how households are coping with the transition from state-assigned to market-determined employment.


Preliminary results were presented at a conference held in Honolulu earlier this year. Papers were presented by twenty-five scholars from Japan, Taiwan, South Korea, Singapore, Thailand, Indonesia, and the United States. A number of our former students were among those who authored papers — Mathana Phananirattai, Hananto Sigit, Bashiro Ogawa, and Young-Soo Shin. Current and former faculty — John Bauer, Jerry Russo, Sunner LaCroix, Jim Roumasset, and Harry Oshima — were also actively involved.

The research reported at the conference touched on a wide range of issues, but the greatest interest was generated by a group of papers that examined the high rates of saving and investment that have characterized the region. A number of recent studies have found that growth in capital financed primarily by high rates of domestic saving has been the most important factor behind Asian economic success. Of course, high rates of saving in Japan, Singapore, Taiwan and to some extent South Korea have also financed development efforts elsewhere in Asia (not to mention the US deficit). Three papers presented at the conference identified demographic factors, namely the decline in the number of children per family, as a prime contributor to the emergence of high saving rates in East Asia.

If the research presented at the conference proves correct, demographic factors will play an equally important role in the future of the region. Because demographic changes have been so rapid, the countries of East Asia are the most rapidly aging in the world. As the numbers of elderly retirees rise, saving rates can be expected to fall. Already there are indications that demographic factors are beginning to depress national saving rates in Japan and Taiwan. Other East Asian countries may follow in the near future.

Professor Mason is currently discussing the project with prospective publishers and he will be spending the Spring and Summer editing the collection of papers for a book. He is chairing a session on the project at an international conference being held in Washington, DC in

Faculty Profile: Andy Mason

The newest addition to the Department of Economics is Andrew Mason. As many of you know, Professor Mason has been a member of the Department since 1975 when he accepted a joint-appointment with UH and the East-West Center. The recent change is that the University of Hawaii at Manoa is now his home institution and that he is more actively involved in teaching and other departmental activities.

This semester Professor Mason is teaching Introduction to Statistics (Econ 321) for the first time in many years. He confesses some relief that the basic material of introductory statistics changes so slowly that even a prolonged absence from the classroom doesn't leave one out of date. On the other hand, modern computer technology has revolutionized the way we gather and analyze statistical information. Today's college students need to be able not only to calculate means, variances, and correlation coefficients, but to use the latest spreadsheet packages and statistical software, and to locate information and to communicate results through cyberspace. If you want a taste of how all of these elements are being combined in the modern classroom, take a look at the homepage Professor Mason is constructing for Econ 321 — the address is http://www2.hawaii.edu/~amason/.

Outside of the classroom, Professor Mason is directing a major study of the Asian economic miracle. The countries of East Asia have experienced much more rapid economic growth during the last three decades than countries in any other part of the world. Indeed, their rates of growth far exceed those experienced during any period of human history. Understanding the sources of East Asian success could facilitate the development of policies needed to speed economic growth in other parts of the world where standards of living are lagging. Moreover, understanding the sources of success will also help us assess whether rapid economic growth can be sustained or not.
March. While there he will brief senior officials at AID and Congressional staffers on Capitol Hill. This summer he'll return to Washington to participate in a two day workshop for the World Bank staff at which the results will be presented and discussed. In September, he will fly to London to present results at a one-day program for European media. And in October, he and others involved in the project will present results at a two-day seminar for senior Asian government officials at Nihon University in Tokyo.

Although Population and the Asian Economic Miracle is consuming most of Professor Mason's time, he has been working on several other projects. He recently completed a project on Asian labor migration with Philip Martin, an economist at the University of California at Davis. The work was supported by the Center for Global Partnership of the Japan Foundation and the results are published in special issues of the ASEAN Economic Bulletin (1995) and Asian and Pacific Migration Journal (1996).

Professor Mason also continues his work on the HOMES model. The HOMES model is used to project the number and demographic characteristics of households and to assess the sectoral and macroeconomic impact of demographic change. In a recent article in Population Research and Policy Review, Professor Mason reports on the use of HOMES to forecast housing demand in Asian countries. Currently, he is working with Hiro Ogasawa and officials from the Statistics Bureau of Japan to update their forecasts for Japan. Later this year, he'll be spending a week in the Philippines where the model is being used by the National Economic Development Authority in their long range planning efforts. Former student Rachel Racelis is in charge of that effort.

Professor Mason will be more actively involved in Departmental affairs, but he will continue to split his time between UH and the East-West Center. He recently stepped down from his position as Director of the Population Program, but will continue his association with the Center as Senior Fellow.

On the personal side, he and his wife, Janet, are adjusting to being "empty nesters" after twenty-five years of childrearing. Janet worked as risk manager at Hawaiian Electric for ten years, but resigned last year to pursue a small business opportunity. Their two children are living in California. Jennifer is working for a home health care agency in San Francisco and will enter dental school in the Fall. Malia is a freshman at the University of California at Berkeley. Alas, neither seems likely to follow in their father's footsteps and pursue economics.

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**Economics Lecture Series**

**Department of Economics**

**Spring 1997**

The Economics Department has invited six internationally recognized economists to give a series of lectures to its undergraduate and graduate students for the Spring 1997 semester. These short intensive courses are intended to provide our students with frontier knowledge of the most critical topics for the profession and the Asia-Pacific region. A short biography of each lecturer and the dates they will be in residence at the University of Hawaii follow.

Shyam Sunder, Richard M. Cyert Professor of Management and Economics, Carnegie Mellon University. In residence February 8-20, 1997. Professor Sunder has published widely in several fields, including accounting, economics, management, and finance. His current research investigates the efficiency of financial markets, the theory of auction markets, as well as economic and management theories of the corporation.

Robert Evenson, Professor of Economics, Economic Growth Center, Yale University. In residence March 1-8, 1997. Professor Evenson is widely known for his research in the field of development economics and agricultural development. His recent research has focused on the role of technology in agricultural development.

Keith Maskus, Professor, Department of Economics, University of Colorado. In residence March 18-21, 1997. Professor Maskus has written a widely used text on international economics. His research focuses on how intellectual property rights affect trade, investment, industrial structure and R&D (research and development).

Rodney Smith, Assistant Professor, Department of Economics, University of Minnesota. In residence February 18-March 10, 1997. Professor Smiths research focuses on game theory and the design of optimal incentive structures.

Anil Bera, Professor, Department of Economics, University of Illinois. In residence April 7-25, 1997. Professor Bera has published extensively in the field of econometrics and has devised numerous new estimators and tests for use in econometric analysis.

Gary Libecap, Professor of Economics and Law, University of Arizona. In residence May 5-8, 1997. Professor Libecap is known for his research on development of property rights in natural resources. His recent research investigates property rights formation in Brazil's Amazon region.

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**SEMINAR HIGHLIGHTS**

January 10: Magnus Blomström of the Stockholm School of Economics, "Regionalism and Foreign Direct Investment."

January 17: Robert Rice of the University of Melbourne, Australia and the World Bank, "Culture and the Effectiveness of Economic Development Policy."

January 24: Andrew Mason of the University of Hawaii, "Population, Saving, and the Asian Economic Miracle."

January 31: David Colander of Middlebury College, "Post Walrasian Macroeconomics."

February 21: David McClain of the University of Hawaii, "APEC: Magic and Mystery."

March 21: Keith Maskus of the University of Colorado at Boulder, "Joint Trade Liberalization and Tax Reform in a Small Open Economy: The Case of Egypt."

April 18, Lien Tran of Rand Corporation, "How important is information asymmetry in credit markets in Vietnam."

April 25, Kwang Soo Chong, of the University of Hawaii, "Stackelberg Leadership in Dynamic Oligopoly."

April 28, Lynne Bennett of the School of Forestry and Environmental Studies, Yale University, "Conflict and Cooperation in Asia: An Application of Interconnected Games."

May 2, Heidi Albers, Stanford University, "Conservation, Preservation, and Resource-Use Incentives for Indigenous Populations: China and Thailand."

Promotions & Appointments

Our warmest congratulations to Pat Nishita, who has been promoted from clerical steno to department secretary!

Summer La Croix is currently serving as a member of an expert panel assisting the City of Honolulu Planning Department in the evaluation of the Waikiki "room cap," a city regulation that restricts the number of visitor accommodation units in Waikiki. He is also Co-Chair of the Faculty Senate Budget Committee and a member of the Manoa Priorities Committee for the 1996-1997 academic year.

James Mak is currently serving on City Planning Department's Advisory Panel on Waikiki Hotel Room Tax Analysis and the State Council on Revenues. In addition, Mak was elected to the Arts and Sciences Executive Committee and appointed by the Vice President of Research to the University Distinguished Lecture Series Committee.

Carl Bonham serves on the State Council on Revenues and the Board of Hawai'i Economic Association.

Resignations

Luigi Ermini resigned from the University effective January 1997.

Calla Weimer resigned from the University effective July 1997.

Baby Boom!

Rayne Peerenboom born to Calla Weimer and Randy Peerenboom on June 12, 1996.

Joseph Henry Konan born to Denise and Abel Konan on October 26, 1996.

Issac Hesselbacher Heinrich, born to Kristin Hesselbacher and Jeffrey Heinrich on September 12, 1996.

David Anthony DeWeaver, born to Angela See and Mark DeWeaver on April 12, 1997.

Social Security continued from page 3

Should Social Security Money Be Invested in Stocks?

The idea which has received the most attention, and some of the sharpest criticism and praise, is the recommendation that Social Security money be invested in the stock market. Historically, stocks have produced higher returns than government bonds partly because stocks are riskier investments and the higher yields are required by their investors for taking on this additional risk.

Are stocks too risky to invest your retirement savings? There are different opinions on this question. Time magazine's Wall Street columnist Daniel Kadlec says, "Do it." The widely read columnist, Ellen Goodman, equates investing in the stock market to gambling in the market. "Social Security isn't supposed to be a national lottery. We're talking about a trust. Or is that just the name of it?" One of our classmates argues that if any of the Social Security money is to be invested on Wall Street, let us make sure that we keep it less than 20 percent of the total assets. It is unlikely that Americans will reach a consensus on this issue soon.

Conclusion

The reality of Social Security is that the system cannot continue indefinitely under present rules. You can think of Social Security in terms of sharing a blanket with a friend. Just when you think you've got enough to be comfortable, some of it is taken away. As we approach 2029, more and more of that blanket is pulled away from us. The options available to us range from keeping the old blanket with some mending to giving each one of us our own blanket.

But there is no imminent danger to Americans if no drastic change is made. MIT economist Peter Diamond argues that "we could easily middle through" the next 75 years with a prompt package of tax increases and benefit cuts. Recently, a panel of experts reported that the consumer price index computed by the U.S. government overstates actual inflation by 1 to 1.5 percent per year. Since Social Security benefits are adjusted upward each year for inflation, benefits paid out have exceeded the annual increases in the cost-of-living. Computing the consumer price index correctly would save the Social Security System huge amounts of money each year and delay the need for drastic overhaul of the System.

All of these options may be politically difficult for our legislators to sell to Americans. The choice is not a simple one. With more than 30 years left before the System goes bankrupt, it might be politically expedient to ignore this problem for now.

Does America need a Social Security System? The promises of the current system were made over 60 years ago. In homes across America, the elderly, widowed or disabled are receiving their earned retirement and disability benefits. So far America has kept her promises. How important is saving the Social Security System to you?

Department of Economics

Ph.D. Degrees

Fall 1996


Summer 1996


Spring 1996


Fall 1997


Sustainability, continued from page 4
assumptions allowing resource renewability or
the existence of a backstop technology
(e.g. photovoltaics). The first order conditions
for this model involve drawing down the stock of
natural resources according to a general
equilibrium version of an extended Hotelling
condition for efficient use of renewable or non-
renewable resources and building up the stock
of capital according to the Ramsey savings
condition. Consumption in this model rises
monotonically towards the Golden Rule steady
state.

In summary, sustainability constraints add no
content to optimal growth problems, which
already take intergenerational equity into
account. It may be meaningful to remark that a
particular development strategy has the
consequence of non-sustainable consumption
levels, but the optimal strategy remains
unchanged by distinct sustainability concerns.

A Report from the Chair
continued from page 1
department chairmanship has been a wonderful
place to nurture this skill. To tell the truth,
Declining marginal utility has probably set in. As
former students, I'm sure you that you too have
nurtured and developed some skills in this area.
Keep us up to date. Write your complaints. We
promise not to answer....

Hawaii, continued from page 7
incorporation of lower rental rates into the CPI,
will continue to hold down inflation. We expect
inflation to fall below the 1% level in 1997
before rebounding somewhat in 1998.

Uncertainties
The HERO forecast we have described is for
only very modest improvement over the recent
poor performance of the local economy. These
predictions are derived from a statistical model
that incorporates information about past
developments in the economy and projected
changes in the external environment. As we
discussed earlier, the strength in Japanese and
U.S. economies augurs well for recovery here.
Less certain is the risk associated with the
Weakened yen, which may pull down visitor
arrivals or expenditures further than we now
anticipate. There is also risk in the advanced
age of the US economic expansion, and the
Federal Reserve Board's apparent resolve to
limit expansion to reign in inflation. At home, it
is possible that firming of the job market will
contribute more to consumer confidence and
renewed spending than we anticipate, creating a
bit more expansion than currently forecast.

For more information see the HERO home page:
http://www2.soc.hawaii.edu/econ/HERO/

Information Request: Applied MA Program
The Masters Degree program was revitalized in 1994 to meet the student demand for a terminal professional degree program that prepares them to work in business, government, international organizations, and non-governmental agencies. The degree places less emphasis on theoretical training and more emphasis on policy analysis and hands-on learning-by-doing. The program focuses on Asia-Pacific policy issues, the opportunity to design an individualized, multi-disciplinary program by taking courses in other departments at the University, and the development of research skills through both individual and group research projects. Full time students can complete the program in about 18 months. Students who are currently employed can enroll as part-time students and progress as their own pace.

Please complete this form and mail it to: Applied MA Program, Department of Economics, 2424 Maile Way, Forrest Hall 542, Honolulu, Hawaii 96822-2223.

I am interested/know potential candidates in the University of Hawaii's new Applied MA Program in Economics. Please send program information and an application package.

NAME ____________________________
ADDRESS ____________________________
ALUMNI NEWS

Everett Peter Kanehiro (B.A. 1989) is a graduate student at the American Graduate School of International Management, Thunderbird, Arizona.

Kwang Doo Kim (Ph.D. 1976) has been appointed as a Minister to the Monetary Board, Korea.

Teresa O’Kane (B.A. 1985) is the owner of Foster Kane Investments (Real Estate Developing) in San Jose just completed a year an a half trip around the world “witnessing the world’s varied economies first hand.”

Keiko Ohta (M.A. 1983) is an associate professor at Nagaoka Junior College, Niigata Japan.

Justin Song (BA 1988) has received a commercial pilot license from the Flight Service Academy and is the Vice-President for Tokai Kairasuto Co. in Kawasaki, Japan.

Prijono Tjitrobojanto (Ph.D. 1981) is an assistant to the State Minister for Population of the Republic of Indonesia (RI) and has served as the deputy chairman at the National Agency for State Administration and as an advisor to the Minister of Trade.

Caryn Tottori (M.A. 1987) is a research statistician for the State of Hawaii's Alcohol and Drug Abuse Division, Department of Health.

George H. Tokumoto, MBA (BA 1947) retired in 1995 as a statistician, State Registrar of Vital Statistics, Hawaii and now plays golf twice a month.

Michael J. Vasper (B.A. 1987) married a UH graduate in communications in August 1996 and is a Senior Human Resources Specialist, Pomaire, Honolulu, Hawaii.

The Newsletter Editor is Denise Eby Konan, Assistant Professor of Economics.

LET US HEAR FROM YOU

Please send us news about yourself or update your address.

Mail to: Newsletter ♦ Economics Department ♦ Room 542 Porteus Hall ♦ University of Hawaii at Manoa ♦ Honolulu, Hawaii 96822 USA.

Or email us at: econ@hawaii.edu

Name _____________________________________________

Address ____________________________________________

Email account _______________________________________

UH Degree(s) and date(s) ______________________________

Major Professor _____________________________________

Degree(s) from other institutions and date(s) ____________

Present position, employer, location ______________________

Awards, honors, fellowships ___________________________

Other news and information ___________________________

Please visit us at our Website at http://www2.soc.hawaii.edu/econ/

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