# SOUTHWESTERN JOURNAL OF ECONOMIC ABSTRACTS

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Editor's Note

## The Special Sections

This year I have arbitrarily selected out two topics for
special handling.  The first is the Constitution because of the
Bi-Centennial of this most important document in the world and
U.S. history.  The second is Mexico which is our most populous
and troubled neighbor from an economic point of view.  To my
knowledge, there were two papers on the Constitution presented in
the Economics Section of the Southwestern Social Science
Meetings, 1987.  If I missed someone, my apologies.  If I have
missed a paper on Mexico, my same apologies apply.

There were several papers given on Mexico in the Economics
Sessions.  The three that are reproduced herein (as submitted)
plus several others including Roberto Friedrich, Mexican Trade
Commission for the Southwest (Dallas); W. Howard Savage,
Southwest Texas State University; L. Ray Sadler, New Mexico State
University; Alfonso Morales and Wayne Enders, University of Texas
at Dallas; and Jeffrey Brannon, University of Texas-El Paso (who
could not attend due to a last-minute field trip into Mexico).  A
special session dealt with the Chicano community with papers by
Henry Flores, St. Mary's University; Ernest Oliverez, Avienda
Guadelope Association; and Christine York, St. Mary's University.

The above points out not only the proximity of Mexico to the
United States but, even more crucial, the importance to the
Southwest specifically and to the United States generally of the
current economic malaise in Mexico.  It is a topic which we can
choose to ignore only at our mutual, long-run peril.  I hope that
the Southwestern Social Science Association increases its
attention to these problems and their mutual policy implications.

# ON TEACHING THE DEMAND/SUPPLY CONCEPT:
## A NEW APPROACH

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This paper describes a basic sequencing of material dealing with demand and supply over three undergraduate courses at the university level. A number of problems encountered by the author while attempting to teach the material over the past twenty-five years are alluded to together with some discussion relating to how this teacher has attempted to overcome them.

## First Course Principles (Macroeconomics)

The author's procedure here has been rather traditional. It has consisted of introducing the concepts of demand and supply as illustrations of basic algebraic polar coordinate theory. By keeping the class presentation focused on the mathematics of the theory through presentation of two dimensional graphs, functional relationships with their dependent and independent variables, and positive and negative sloping functions, the student "terror factor" tends to be concentrated on the math such that the demand and supply concepts themselves are normally greeted as a relief and are thus learned with a minimum of student resistance. This having been accomplished, it is but a fairly short step to developing the simple demand and supply equilibrium model. Conditional clauses ("ceteris paribus") are then invoked to demonstrate the various cases of demand and supply curve shifting together with its effect on equilibrium pricing. In all of this, no attempt is made to introduce the Marshallian concepts of short and long run supply into the picture. This is done as a closing point in the formal discussion of demand and supply.

During the remainder of the first course principles, numerous attempts are made to illustrate macroeconomic concepts by means of simple demand and supply. The extensive and varied use of demand and supply equilibrium models creates a certain unifying thread throughout first course principles as well as an obvious bridge to second course principles.

## Second Course Principles (Microeconomics)

This author reviews the basic demand and supply tools covered in the first course. In addition, historical origins and the underlying theoretical basis of these concepts are intensively discussed.

With these matters resolved, the topic of pure competition requires attention. This author's approach has centered on two well-defined steps:

Step I: Present the various demand and supply curve shifting models studied in first course principles and in each case accompany them with the equivalent model using the Marshallian short and long run supply curves.

Step II: Present the various market equilibrium models using the Marshallian short and long run supply curves in conjunction with related firm graphs.

This two-step breakdown, while somewhat cumbersome, has been met with highly positive student response and testing results. It has been this author's experience that to confront the students with the entire market/firm purely competitive equilibrium model without extensive prior preparation is to court disaster.

When the time arrives to proceed to step II and link the known quantity (the market graph) with the unknown quantity (the firm graph) the author has found it advisable to supply the students with a complete key to the steps. With the key in front of them the students can be led through the process with efficiency. In such a demonstration, it is important to stress to the students that they number each step on their graph as they undertake it. Also, it is important that each student develop his or her own code indicating when a curve has shifted. Stress should be laid on the fact that the whole process is repetitive. That is, the student shifts a curve or curves and then finds equilibrium. As each equilibrium is found it is examined for a clue as to what curve to shift next. The process is not complete until full equilibrium is attained.

What seems to work well with second course principles students is to assign them homework, after suitable class demonstration of a given case to work out the opposite case either on their own or with the help of their friends. Two educational goals are furthered by this procedure. First, class competitiveness is reduced and with it class tension. Second, by practicing the graphical techniques the students achieve a sort of "feel" for the situation and start to move away from straight memorization.

### Teaching Methodology: Intermediate Level

In addition to reviewing material covered at the principles level relative to the concepts of demand and supply, the intermediate level embodies teaching goals related to both expanded depth and conceptual integration. These include integration of the concepts of change in quantity demanded (supplied) and change in demand (supply), scale changes, short and long run demand, and disequilibrium models.

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The Changing Structure of the American Economy
Zoltán Ács
"Review"
Michael R. Butler
Texas Christian University

In this book, Zoltán Ács argues that the structure of the U.S. economy is changing in such a way that the corporate sector of the economy is in decline and the competitive sector is becoming relatively more important. The most significant contribution of the book is Ács's discussion of several policy alternatives for managing the decline of the corporate sector. For example, he criticizes policies which seek to protect or bolster the corporate sector, such as protectionist trade policy or the creation of a government-financed development bank designed to encourage investment in these declining industries. Ács views the problem as there being not too little, but rather too much investment in the declining corporate sector and argues, instead, that investment in the growing, competitive sector should be encouraged. In addition, he argues that traditional Keynesian stabilization policies are inadequate to deal with the increased structural unemployment that must result from these changes in the U.S. economy.

Had Ács focused on these arguments and supported them with more rigorous theoretical underpinning, the book would have been much improved. Unfortunately, this was not the course chosen. In particular, there are a number of things which detracted from the quality of the final product.

First, and perhaps most glaring, is the seeming lack of care which went into the publication. The number of errors and inconsistencies within the book is astounding. For example, the index is not in alphabetical order, numerous names are misspelled, and statistics within tables are not always consistent with those in the text, nor are they always accurate. This last problem is compounded by the fact that the source listed for many of the tables is "Compiled by the author", thus making it nearly impossible for the interested reader to confirm the accuracy of the data cited. Taken individually, these problems may seem rather inconsequential. Taken together, however, they leave the reader questioning the reliability of the entire book.

Second, on several occasions Ács resorts to a kind of demagoguery rarely seen in a scholarly publication. For example: "The crushing defeat of the Labor party in the June, 1983, election is testimony to the bankruptcy of the idea that Keynesian anticyclical policies can overcome the depression. Even the public knows this." This reviewer was unaware that electoral results provided a valid test of the usefulness of an economic theory. Elsewhere: "Keynesian economists believed and welcomed the fact that the large corporation would eventually extend its sway over the entire economy and be assimilated by the government in a socialist future." Later, Ács includes Jimmy Carter and, by implication, every U.S. president between Franklin Roosevelt and Carter in this socialist conspiracy.

While the changing structure of the U.S. economy and the policy response to it is of undeniable importance, Ács's conclusions need to be based on sound theoretical arguments and a careful consideration of the evidence, not on the overly broad generalizations on which Ács relies.

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# THE DEVELOPMENT OF THE PEOPLE'S COMMUNE IN CHINA

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China's communal movement was born in the optimistic fever of the great leap forward in 1958. The People's Commune is the basic unit of the socialist social structure in China, combing farming, industry, trade, local government, essential services and armed forces. It was three levels of organization: the commune, a number of production brigades under it; under each of the brigade, a number of production teams. China had an estimated total of 53,000 communes in 1978. The commune was somewhat similar to that of local government at the township level and that of an agricultural co-operative. It provided all the necessary social services and engaged in agricultural and industrial production. The production brigade acted as an intermediary link between the higher-level and basic-level units. It operated orchards and fish ponds, and run industry with a smaller scale. The production team was the basic accounting unit and had the right to decide on matters relating to its production, management and distribution. Each team was divided into several working groups. Most of groups were made up of 20 or more households. The team produced mainly the basic agricultural products and also raised livestock, poultries and fishes. Its income allocated to the state, the team and the households.

The post-Mao leadership has given high priority to agricultural modernization. A set of new policies has been put into effect to stimulate the commune members to produce more and to accelerate the agricultural growth. The most important one of the policies is the system of production responsibility. The system enables the peasants to take production responsibility and to tie their income more directly to effort in stimulating their enthusiam for production. Various types of the system have been developed and adopted by the peasants. Generally, these types are responsibility to work group, individual

farm workers, the households and the specialized producers. Among them, the last two have become widespread in the rural areas throughout China.

In recent years, with the implementation of production responsibility system, the commune revealed a contradiction of government administration and economic activities. The disadvantages were regarded as far outweighing the benefits. The 1982 new Constitution stipulates the establishment of township governments and retaining the commune as collective economic organization which is no longer function as a political power. The government had completed the separation of political and economic authority from the commune in February 1985. 91,590 people's town and township governments have been established. After the separation, the township governments, the rural local administrative form of the early 1950's are revived to handle local administrative functions. The economic activities of the former commune have designed as all-township integrated co-operative which is made up of the following three local specialized co-operatives. The industry co-operative has put under unified management of factories and workshops that were formerly commune - and brigade - run enterprises. The agricultural co-operative is primarily in the business selling technical and other services to peasants. It has taken over the agricultural extension functions of the old commune. As to the commerce co-operative, it has engaged the former procurement, marketing and consummer retail services of the commune, putting them on an enterprise basis.

Due to the system of production responsibility and the separation of government administration from commune, China's agricultural production increased rapidly from 1978 to 1985; and its over-all output value averaged an annual increase of 8.98% from 1978 to 1985. It has brought a rapid increase in peasants' income. Average per capita income for peasants rose from 133.6 yuan in 1978 to 400 yuan in 1985. Averaged an annual increase of 28.49% from 1978 to 1985. The rural life has made significant improvement.

The Market for Physician Service - Perhaps nearly but not quite competitive.

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This paper explores the physician induced demand hypothesis. I first review a recent paper by William Rushing. (1) Rushing argues that his investigation demonstrates a positive association between the physician-population ratio and the share of income society spends for medical care, which he anticipates will increase as the physician-population ratio increases. He adduces his findings as additional evidence that physicians exert sufficient market control to increase the demand and prices for their service despite an increase in the physician-population ratio. His methodology, however, illustrates several deficiences, particularly in using levels of non-detrended time series which invariably produce high R-squares without any causal relationships necessarily existing between the dependent and independent variables.

I replicate his analysis by first differencing the time series. The result is not significant. I explored alternatives to explain changes in the share variable with no success. I then use as a dependent variable expenditures for physicians services, first differencing the the values of the time series. My regression achieves a high and significant R-square with the all physician-population variable statistically significant and positive. My results indicate that a one percent increase in the office-based all physician-population ratio is associated with a three hundreths of a percent increase in expenditures for their services.

The other variable which is the CPI for physician services, used to hold physician prices constant, assumes an important and positive role in the regression, which appears to have minimal methodological problems. In addition, I disaggregated the all physician-population ratio into the four major specialties, with interesting implications, particulary with respect to the markets for general/family medicine physicians and internal medicine physicians. The coefficients attending the physician-population ratios of the four specialties are each different but each specialty appears able to pass through a substantial portion of the increases in the all urban CPI. The physician CPI is highly correlated with the all urban CPI with a one year lag.

I disaggregated the office-based physicians into general practitioners, medical specialists, other specialist, and surgical specialists to ascertain which one or ones of

these groups was reponsible for the strength of the
relationship appearing for the total office-based
physicians. The CPI index was significant and positive
but only the subgroup medical specialist demonstrated a
significant positive relationship, showing that a one
percent increase in the physician/population ratio
induced an increase in physician expendiutures of nearly
19 hundredths of a percent. The coefficient for the
General-Practitioner/Population ratio was significant and
negative, indicating that a one-percent increase in the
ratio was associated with a seventeen hundredth of a
percent decrease in physician expenditures. The
coefficients were not significantly different from zero
for either the surgical or other specialists,
indicating that an increase in the respective
physician-population ratios has no effect on the
dependent variable. Separately regressing physician
expenditures yields parameters similar to those developed
in the combined regression and the significance of the
CPI parameter persisted about the same magnitude for each
specialty. This indicates that the parameters are
basically independent.

My results suggest that the market has been able to
absorb an increased number of internal medicine
physicians without a degradation in their net
office-based income. This is not true for general
practitioner/family medicine physicians. The strength
evidenced for internal medicine may indicate both the
underlying strength of demand as well as the importance
of third party reimbursement for various procedures
employed by internal medicine physicians

1) William A. Rushing. "The Supply of Physicians and
Expenditures for Health Services with Implications for the
Coming Physician Surplus," Journal of Health and Social
Behavior 1985, Vol. 26 (December): 297 - 311.

The Effectiveness of Transfer Payments in
Reducing Poverty:  Evidence from Mississippi

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The purpose of this paper is to present a
comparative analysis of the anti-poverty effectiveness
of some of the key income maintenance programs in
Mississippi and the U.S.  Mississippi has been chosen
for the study primarily because the State is
"atypical" for at least three different, but
interrelated reasons.  Ever since the Census Bureau
began keeping records, Mississippi has had the highest
incidence of poverty, and the highest concentration of
Blacks among its population.  Furthermore, at least
until the early 1970s, Mississippi (along with a few
others in the Deep South) had had a record of
resistance to the introduction of federal social
welfare programs.  Mississippi, therefore, provides a
lesson to academic and policy makers on how income
maintenance programs worked or did not work to
alleviate poverty in an "atypical" state in the Union.

The first part of this paper will review the
growth and distribution of transfer payments in
Mississippi and the U.S. since 1965.  The various
components of the payments and growth patterns will be
identified.  A review of current literature on the
role and effectiveness of transfer payments in the
reduction of poverty and some of the major positions
on the debate will be explored in part two.  Part
three will outline a framework for evaluating the
anti-poverty effectiveness of transfer payments.  Part
four will analyze the poverty and assistance data for
families on the basis of their race and residence.
The last section will summarize the findings and draw
some policy implications and conclusions on the
effectiveness of social policy in reducing poverty.
Some of the limitations of the study will be noted in
this section.

In this study, the effectiveness of the transfer payments programs will be deduced on the degree to which the population segments in need of assistance and the segment receiving transfer payments overlap. An effective public assistance program is one that steers the poor toward maximum participation while minimizing the participation of the ineligibles. The "social safety net" will therefore, be assumed to be most effective when the degree of program participation among the eligible poor is maximized. There will be ranges of effectiveness depending on the conditional probabilities of the two groups (the target and non-target populations) participation or non-participation at any given time. The degree of net participation by the target population is assumed to be a reliable indicator of the anti-poverty effectiveness of transfer payments.

The social safety net worked remarkably well in Mississippi, at least until 1980. Transfer payments have given an income cushion to thousands of needy Mississippians (young and old) who before 1960 did not have any income to report. Even though there are pockets of extensive poverty in many parts of the State, the type of poverty that had a grip on a majority of the population, particularly in the rural area, has now become a thing of the past. Much of the improvement in the poverty conditions in Mississippi and elsewhere is attributed to the increased public assistance although changing economic conditions have some role to play in the reduction of poverty (Dellaportas, 1980, 1986). Income transfers have made it possible for millions of Mississippians to have an income cushion that an earlier generation of Mississippians to have an income cushion that an earlier generation of Mississippians did not have before the 1960's. The phenomenal increase in participation in public assistance programs came about because of the change in attitudes by citizens of the State to particpation in social programs. The most important change in attitudes, however, was in race relations which made it possible for public officials in the various counties to apply for, and receive, federal assistance to help their poor constituents, often Black.

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# AN ANALYSIS OF THE LOUISIANA EXPERIENCE IN THE MILK DIVERSION PROGRAM

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The purpose of this paper is to identify human capital, physical capital and economic characteristics of commercial Louisiana dairymen which might explain their participation or non-participation in the Milk Diversion Program (MDP), a first-ever voluntary dairy supply reduction program in the U.S. The MDP created two distinct groups of milk producers: (1) MDP participants who contracted to voluntarily reduce their milk production 5-30 percent (%) from a previous 12 month base period in exchange for a direct government payment of $10.00 per hundredweight, and (2) nonparticipants who faced a $0.50 per hundredweight reduction in the support price and $0.65 per hundredweight excise taxes on production.

Analyses were based on data originating from a January, 1983 mail survey of Southern dairy farmers. Of 236 useable surveys, 73 and 163 had been completed by Louisiana MDP participants and nonparticipants, respectively. The nine survey response items selected for analysis included age, education, equity, experience, number of cows and heifers, acres, milk sold in 1982, total acres, and production per cow.

Linear discriminant analysis (LDA) was the tool of analysis for this binary choice problem. A number of models were estimated. In general, the models were consistent with respect to sign and relative rankings of the variables in discriminating between MDP participants and nonparticipants. Analyses of the models suggest that, in terms of relative importance, the association between the variables and MDP participation was experience, milk sold, total acres, and numbers of cows and heifers in that order. The ordered strength of the association between variables associated with nonparticipation was acres, education, age, production per cow, and number of cows and heifers.

Explanations for the relationships between individual variables and MDP participation or nonparticipation were developed using tenets of static marginal analysis based on the value of milk and concepts drawn from the family/farm life cycle concept. In terms of prediction, the models did not perform any

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better than chance. The poor performance of the LDA model is probably attributable to the short-run nature of the MDP program and to the fact that the economic incentives for participation were tied to the value of the milk, and not to the value of the cow.

LDA proved to be an effective tool in identifying the relative strengths of variables which might be associated with participation or nonparticipation in the MDP. The tool and the methodology appears to have ready applicability for analysis of the second voluntary milk supply reduction program, the Milk Termination Program (MTP). Since the incentive in this second program is tied to the value of the cow rather than the value of the milk, it is expected that the LDA model will have better predictive ability. The findings with regards to the characteristics of participants and nonparticipants in these two voluntary milk supply reduction programs should be of value to policy makers in their attempts to simultaneously target programs and objectives.

An Assessment of Dairy Provisions in the 1985
Food Security Act in Terms of the "Mailbox"
Milk Price Determination Process

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Achievement of dairy policy objectives are sometimes sought by changing the relationships between the three determinants of income embodied in the equation $Y = (P - AC) (Q)$. By altering the relationships between price (P), average cost of production (AC) and/or quantity produced and sold (Q), policy makers seek to alter incomes (Y) and increase opportunity costs to the point where entrepreneurs will readjust their use of resources consistent with the policy objectives. At the farm level, the relevant price (P) is the "mailbox" milk price or MMP. The purpose of this paper was to describe the MMP determination process and to show how five dairy provisions embodied in the 1985 Food Security Act (FSA) were incorporated into that process to alter the MMP in line with dairy policy objectives.

Policy objectives of the dairy provisions in the 1985 Food Security Act (FSA) included reductions of surplus milk production and cost of the dairy price support program. The dairy provisions directed toward those objectives included:
   (1)  scheduled and "trigger" reductions in the level of the support price for milk;
   (2)  a whole herd buyout program;
   (3)  assessments on production to partially fund the whole herd buyout program;
   (4)  increases in the class I differentials of selected federal milk market orders (FMMO); and
   (5)  provisions for marketwide service payments to qualifying organizations out of the FMMO pool.

A diagram of the MMP determination process was developed to describe the relationships between eleven price series, product related adjustments (butterfat content, relative location of production), assembly and marketing costs, cooperative membership cost and legislated assessments (excise taxes) for advertising and support of voluntary supply adjustment programs that are central to derivation of the MMP. The same diagram was used to illustrate and analyze the impacts of each of the five dairy provisions upon the MMP.

Reduction in the Level of the Support Price. A reduction in the level of the support price is implemented through reduced CCC purchase prices for butter, nonfat dry milk and cheese. The reduction in the support price also lowers the M&W, Class III, Class I, Class II, FMMO Blend, FMMO Uniform, Coop Blend, and MMP prices as it is the "floor" for all milk prices. Lower milk prices are consistent with policy objectives as they reduce production while increasing commercial consumption. Both of these effects minimize surplus purchases which decreases government costs.

The Whole Herd Buyout Program. The whole herd buyout program impacted the MMP indirectly while directly reducing the milk supply which achieved stated policy objectives. The reduction in the milk supply generated upward pressures on all market dependent milk prices which reduced commercial utilizations. The inelasticity of the demand for milk netted positive increases in the blend and MMP prices. These enhanced prices work against the policy objective of reducing domestic production. However, the positive price increases were more than offset by the accompanying assessments on production to partially offset the cost of the program.

Assessments to Fund the Whole Herd Buyout Program. The incidence and full burden of the assessments fell on the milk producer in the form of a reduction in the MMP. As an excise tax, it generated revenue for the government without generating an incentive for enhanced consumption. Thus, it was consistent with policy objectives of reducing production and government costs.

Increase in the Class I Differential. The legislated increases in the class I differentials for 35 of the 44 FMMO were not consistent with the stated policy objectives for they directly increased Class I prices. The increase in the Class I price reduced class I utilizations which increased residual class III utilizations and government purchases. Because of the inelastic demand for Class I milk, net increases in revenue were reflected in higher FMMO Blend, FMMO Uniform, Coop Blend, and "mailbox" milk prices, MMP.

Marketwide Service Payments. Marketwide service payments were not necessarily directed toward the achievement of the stated policy objectives. In terms of the MMP, they represented a zero-sum game in that these payments will increase the MMP for some producers and lower it for others.

The MMP is one of the three critical determinant of income and thus can be used as an instrument to achieve stated dairy policy objectives. Dairy provisions in the FSA of 1985 were designed to achieve long standing objectives of dairy policy. All of those provisions were incorporated into the MMP determination process. However, not all of the provisions were able to generate MMP consistent with stated policy objectives.

# THE UNDERGROUND ECONOMY
## A Social Backlash Created by Society

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Since 1977, the public interest has been focused upon a socially created tax-free environment in both the United States and abroad. This environment is referred to as the Underground or Subterranean Economy, defined as an economic activity in which both legal and illegal income is either partially reported or unreported to the IRS.

Estimates as to the total of economic activity will vary by billions of dollars. It is a generally accepted opinion by contemporary writers that much of this activity is from legal sources, some estimates ranging as high as 67% of the total underground cash flow. Existing data indicates that the overwhelming proportion of this percentage of income originates in the small business sector.

The construction trades have the single largest portion of hidden economic activity. Small carpentry jobs, followed by painting and roofing, have the highest rate of incidence.

Two practices which have been measured by national polls are moonlighting and bartering. A 1984 poll estimated that moonlighting amounted to 17% of reported book earnings. Bartering by the adult population for goods and services is reported in an estimated range of 10% to 13% for the period 1979-1983.

Other areas with high levels of underground economic activity are: child and adult care; tips for services rendered; vending; cash skimming; and improper business expenses. Most sources, including the IRS, agree that the estimated illegal income generated in the underground economy in any tax year is between 30% to 40% of the total underground activity.

While there are five basic methods for computing the estimated underground GNP, the method most referenced in trade publications is that which was presented by Peter Gutmann in 1977. Gutmann follows a

relatively simple procedure of establishing a base year in which no underground economy is significant. Using this base to calculate the ratio of currency to demand deposits, Gutmann then applies more recent values of this ratio to estimate the amount of currency held for illegal purposes. Of all of the models which have been devised, the Gutmann model is the most conservative, and presumably the most nearly accurate.

A study for the period 1976-1981 was undertaken to estimate any potential effect of the underground economy upon the Federal deficit. Base data available was the Gutmann estimate of underground activity for 1976; the adjusted unreported legal-source income on Federal individual income tax returns for 1976; and the actual reported deficits for the total period of study.

Applying the actual Federal deficit between 1976 and 1981, and conservative forecasts for change in economic activity, values were computed for the legal underground activity and the corresponding estimated revenue loss. To further expand the model, the estimated deficit for each year was computed with an assumed value of 8% to demonstrate the effect of compounding upon the Federal deficit when taxable revenues remain uncollected. Given the stated parameters of the model, with or without compounding, there was a Federal surplus generated for the period of study. In the absence of available data, specific assumptions may be made for growth rates in both the total of underground activity and revenue loss in order the extend and examine the data for the period 1976-1983.

The implications from the limited data available and the literature are two-fold. First, given the fact that the Federal government must borrow funds to support any deficit, and carry forward the inherited interest from a previous period as a fixed cost, it is beyond the scope of imagination what the projected budget surplus might be if we had data available previous to the 1976 base. Second, the literature which has examined this social pattern concludes that society has reacted strongly to a perceived injustice by creating a large legal-sector underground economic activity.

Government Decisions and the Farm Sector:
Macroeconomic and Farm Policies
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CAS Publication Number T-1-249

This paper is designed to provide economic justifications for a farm policy that has generated growing subsidies to farmers in a period of austerity and sharp decreases in funding for many other government programs. Indeed, current views of the role of government suggest that a justification may be need for the existence of any farm policy at all. Many of the commonly used explanations for farm policies have been invalidated by declines in farm populations, concentration of the farming industry, and higher education levels for farmers. However, the persistence and pervasiveness of government involvement in farming over very long periods of time and across almost all societies suggests that rational explanations should be available to justify the existence of special farm programs.

There would seem to be at least two fundamental, indisputable and unique characteristics of the farm sector: (1) the importance of its final product and, (2) the uncertainty of the production process. Both of these characteristics have remained unchanged over thousands of years, and they are true throughout the world. The public is probably very risk averse, if not risk avoiding, when it comes to choosing between returns from different industries and the risk of an inadequate food supply. Not only is food production random, it is more random than most other production activities in the economy because of its long production cycles in an uncontrolled environment.

A primary justification for having a farm policy is, therefore, that some of the greatest random fluctuations occur in the one production process where the public wants the least risk. As a consequence, private decisions would be made to limit investment in farming to generate risk premiums if there were no government involvement. The public, on the other hand, wants excess investment in the sector to assure sufficient food even for the worst circumstances.

The government has responded to this difference between private and public incentives by developing a number of programs that encourage investment in farming. Farm commodity price support programs increase and stabilize the prices farmers receive. Farm credit programs have reduced the cost of funds to the sector. And, government crop insurance programs have spread the risks of production over large geographic areas.

Secondary effects have also been strong. By definition, if sufficient food is produced in the worst year, then there will be overproduction in all other years. This positive bias in quantities leads directly to a negative bias in farm prices and profits. As farmers lose, consumers benefit from the

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lower food prices caused by overproduction. Government encouragement of farm investment can, therefore, provide the justification for transfer payments to farmers over and above the investment incentive programs designed to assure consumers a constant source of food.

Another impact of longstanding government programs designed to encourage farm investment is that the sector has become more sensitive to changes in macroeconomic policies, particularly those that change interest and exchange rates. Asset values, debt levels and exports all started to decline in the first few years of the 1980s with the advent of high real interest and exchange rates. Debating whether fiscal or monetary policy has been the root cause of these changes is beyond this paper. It suffices to note that they have existed, their causes have been government policy choices, and their impacts have been devastating to the farm sector.

At this point, the U.S. is deeply involved in a process of "downsizing" the farm sector. There will have to be large, sustained profits for farmers to convince them to increase investment. And, long periods of high food prices would be needed to "upsize" the farm sector. Recent growth in farm payments can, therefore, be viewed as transfer payments from the winners created by 1980s macroeconomic policies to losers, who clearly include farmers, to avoid the potential costs of another reversal of macroeconomic policies.

High government payments to farmers need to be viewed in three justifiable categories. They are partially a continuing insurance policy paid by consumers to increase farm investment to assure a constant supply of food. Government aid to farmers is also a transfer payment, required to allow farmers to share in the benefits of a dependable food supply, or at least to keep farmers from being worse-off to satisfy the preferences of other domestic consumers. Finally, the payments include transfers from the winners created by recent changes in macroeconomic policies to farmers who have clearly lost. While the third type of payment may be temporary, the first two are based on differences between public and private incentives and provide a rational foundation for continuing a special farm policy.

# DETERMINANTS OF EARNINGS FOR THE U.S.-BORN AND FOREIGN-BORN FEMALE WORKERS IN THE U.S.A.

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Anaysis of earnings differences between U.S.-born and foreign-born male workers has been the subject of considerable study over the past decade. At the same time, labor market activities and earnings for foreign-born female workers have received relatively less attention. This research utilizes 0.1 per cent sample data of the 1980 U.S. Census of Population to study the differentials in earnings for U.S.-born (natives) and foreign-born (immigrants) female workers.

In the literature, the following model, with a few additional explanatory variables added to the model, is used for testing the human capital theory and for estimation of the earnings functions:

$$\ln Y = \beta_0 + \beta_1 S + \beta_2 E + \beta_3 E^2 + \beta_4 \ln T + \epsilon$$

where Y is the earnings, S is the years of schooling, E is the years of labor market experience and T is the time devoted to work. The coefficient $\beta_4$ in this equation is the partial elasticity of earnings to changes in time worked, and is assumed to be a constant in the model. This study hypothesizes that the elasticity of earnings for female workers need not remain constant. To test the hypothesis, the human capital model is extended to include a variable elasticity of earnings of time devoted to work. Additional attributes included in the model are occupation, industry, marital status, race, type of employer (public or private sector ), number of children born, and years since migration to the U.S. (for immigrants only).

Recent immigrants to the United States are likely to have less of the characteristics associated with higher earnings than the long time immigrants and the native workers. Over-time, the immigrants acquire more of earnings related characteristics, but at a decreasing rate. To test this hypothesis, we introduced some transforms of the following three variables: the migrant status; the years since migration; and the years since migration squared.

A number of variations of the earnings function have been estimated. The coefficients of the basic human capital variables, education, experience and experience squared have the signs as suggested by the model, and each one is statistically significant at 1 per cent level. The variable, number of children born, is also significant at 1 per cent level for each equation. We introduced this variable to account for the discontinuities in work experiences. Another interesting finding is that the average elasticity of earnings for the number of hours worked lies between 0.79 and 0.86. This result may be attributed to the elasticity changes with the variation of the number of hours worked.

We then regressed the logarithmic earnings after introducing two dummies BEL25 and ABV45 and two interaction variables LNHOUR X BEL25 and LNHOUR X ABV45. We found that the coefficient of LNHOUR exceed 1 for all those female workers who work between 25 and 45 hours a week. We also found that all of the four additional variables introduced are

significant at 1 per cent level. The interaction variables have negative coefficients, implying that the elasticity of earnings is low both at the lower as well as at the upper ends of the distribution of hours worked.

Singles and heads of single parent families of native origin earn more (approximately 1.2 and 4.4 per cents respectively) than the married native workers, but the same is not true of immigrant workers. Ceteris paribus, native black female workers earn between 2.3 per cent and 3.8 per cent more than the native white females. The earnings differentials between other miniorties (Hispanics and other ethnic groups) and white female workers is not significant.

There is approximately 7.1 per cent premium for native females working in the public sector as opposed to working in the private sector. Interestingly, the type of employment is not significant in the case of immigrants. Residents of the Southern States earn less than the residents of other states. From the coefficients of years since migration and years since migration squared, we found that earnings of foreign-born female workers rise with the time spent in the United States at a decreasing rate. The peak earnings of female immigrants is reached at about 23 years after migration.

The geometric average for native female is $5634.70 as compared to $5411.05 for immigrant females, a difference of about 4 per cent in favor of native females. This difference is not surprising because native female workers generally possess more of the earnings-related-characteristics. The native females have 10 per cent more years of schooling and work about 1.3 per cent more hours. More of natives are singles or divorced, who, on the average, earn more than married workers. Also, a larger proportion of native females (12.13 per cent) are blacks, as compared to 7.6 percent blacks amongst immigrants. More of native female workers (22.5 per cent) are employed by the public sector which are better paymasters, as compared to immigrants (12.4 per cent only). Over-all, native female workers are employed in higher paying occupations.

The over-all gap in earnings of the two groups has been analyzed using Blinder decomposition technique. The gap in the earnings is due to the differential earnings-related-characteristics possessed by the workers and also because of the different structures in the earnings equations for the native and immigrant workers. Over-all, the structural differences are in favor of immigrant female workers and the endowment differences are in favor of native female workers. The important factors contributing to the structural portion of the differentials are: education and hours worked in favor of native workers and industry, occupation and experience in favor of immigrant workers.

For the endowment based portion of the earnings differentials, the variables in favor of native female workers are: education, hours worked, type of employer (public or private sector) and occupation. On the other hand, experience and industry variables favor immigrant female workers. The gap in the earnings of the two groups is the result of various factors that act in opposite directions.

# AGRICULTURAL PRODUCTIVITY AND ECONOMIC DEVELOPMENT IN JAPAN AND TAIWAN:  COMMONALITIES AND DIFFERENCES

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The findings of the study support the major conclusion that a rise in agricultural productivity was a key influence in the process of development of both countries.  In addition, the discussion of commonalities and differences between the two countries suggests a general guideline which is to use techniques and methods that will employ factors of production in proportions roughly equivalent to the resources available.  It can also be said that economies of scale in agriculture are not likely if capital plays an unimportant role and land distribution is not based on economic considerations. Furthermore, as the case of Japan shows, it is possible to minimize the mass exodus of agricultural labor to the urban-industrial sector and, consequently, avoid the creation of mass urban unemployment by the selection of appropriate agricultural and industrial techniques.

Thus, the lessons derived from the countries examined suggest the need for considerable flexibility in any effort to develop a framework which is theoretically and  policy relevant.  Differences in the technology and institutional arrangements necessitate that they be explained rather than be taken as givens.  Finally, explanations of productivity changes must take into account economic and non-economic influences and, if possible, these must be integrated into a framework capable of analyzing not only what is common but also what is unique about development in different countries.

# AN ANALYSIS OF SELECTED DECISION SUPPORT MODELS FOR FORECASTING THE KOREAN WON

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South Korea has grown to become a major economic entity in the world in the last two decades. One of the needs of international financial managers is to monitor the behavior of the Korean Won. This study investigates the efficiency of the Korean Won and examines the goodness-of-fit of selected Box-Jenkins decision support models for forecasting the currency.

Daily data for the foreign exchange rates of the Won were obtained from the quotations listed in the Wall Street Journal. A total of 484 daily observations constituted the data set for this study. The data for this study covered the period January 1985 through November 1986. Three runs tests were used to determine if a discernable pattern of price movement exists in the series of exchange rates. The moving average (MA), the autoregressive (AR), and the moving average-autoregressive (ARIMA) models were used for fitting the data. P and Q were assigned the values 1 through 5 for running the tests.

Using all the three measures of central tendency, the runs tests indicated that the exchange rates were produced in a non-random sequence due solely to undermixing of the observations. The p-values of all the three runs were 0.0000. The MA model with a parameter of q equals 1 was the model that best fitted the data series. In all 122 lags, the computed Chi-square was extremely large. The p-values for all 122 lags were equal to 0.0000, a very good fit.

This study indicated that the current spot rates of the Won are reasonable and accurate predictors of future spot rates. The behavior of the foreign exchange rates of the Won for the period January 1985 through November 1986 was far from random. The data series could be forecasted using the MA Box Jenkins model with parameter q equals 1.

# THE IMPACT OF CYCLICAL FLUCTUATIONS ON TREND ESTIMATION OF THE CATTLE CYCLE

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The cattle cycle like its business cycle counterpart has a major impact on the economic activities of the agricultural sector. The cattle cycle has usually been identified as a cycle in cattle numbers, cattle marketed and slaughtered with its own upswing and downswing movements. Recent investigations reveal that the cattle cycle has not followed a normal pattern of cyclical activity. The concern among some agricultural economists and market analysts is whether the increased cyclical fluctuations have any adverse effect on the trend component.

The study investigates empirically whether the trend is affected by changes in the cyclical component. The procedure involved decomposing the classical time series model into its component parts and then computing the relevant component elasticities. The relationship between the trend and cyclical component can be expressed as,

$$Etc = Exc - Esc - 1$$

Where $Etc$ = Elasticity of the trend with respect to the cyclical component.

$Exc$ = Elasticity of manifest variable with respect to the cyclical component.

$Esc$ = Elasticity of the seasonal component with respect to the cyclical component.

Results of the analysis show that $Etc$ is relatively small if not insignificant. Regressing the trend component on the cyclical component, $T = f(C)$ showed no significant relationship between them. The trend does not appear to be significantly affected by the cyclical fluctuations of the manifest variable. Using annual time series data from 1934 to 1984, it was found that $Exc$ is equal to one, which implies that a percentage change in the cyclical component will cause an equiproportional change in the manifest variable with no impact on the trend.

The results show empirically that the trend and seasonal indexes are stable and reliable estimates even in the presence of strong cyclical fluctuations such as in the cattle cycle.

# AN EMPIRICAL STUDY OF THE INDUSTRIAL BOND RATINGS OF THE BANKING AND FINANCE INDUSTRY

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Bond ratings are commonly used to determine the default risk of corporate long-term debt and to judge the investment quality of long-term obligations. The purpose of this study is to determine whether a linear relationship exists between bond ratings, leverage, and profitability in the banking and finance industry.

The targeted population of this study consisted of corporations listed in the Standard & Poor's Bond Guide. A weighted random sample of 40 corporations under the Standard Industry Code of 10 and 26 was selected for the study. The sample consisted of 29 bank holding companies and 11 finance corporations.

The three independent variables were debt-to-equity ratio, return on net worth, and return on total assets. The financial data sources were obtained from the 1985 annual reports of the 40 corporations. Scores were assigned to the different bond ratings. The assignment of the bond scores was based on the Standard and Poor's Corporate and Municipal Rating Definitions groupings. Multiple regression was used for analyzing the relationship of the three selected variables to the bond ratings of the corporations.

The return on net worth ratio was the only variable identified to have a linear relationship to the bond ratings of the 40 corporations. The p-value of the variable was 0.043. However, the strength of the relationship was very weak. The adjusted R-square for this model was a low 16.59 percent.

The weak relationship between the variables and the bond ratings can be attributed to the fact that high leverage in the banking and finance industry is general knowledge to most financial managers. As a result, measures pertaining to the level of leverage and profitability are already reflected in the public information disclosed by bond rating agencies.

# GERMAN DISTRIBUTIONAL CONFLICT IN THE DECADE FOLLOWING WORLD WAR I

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The wage share of German income increased dramatically with the enactment of the eight-hour day law following the Revolution of November 1918. The sum of claims to German output exercised by the militarily victorious Allies, by the politically dominant labor unions, by bondholders, and by the capitalists who organized production, however, exceeded the output available to meet all claims in the early years of the Weimar Republic. After five years of intense distributional conflict marked by inflation and hyperinflation, rentier claims had been nullified and labor conceded the eight-hour day. The stage was set for sustained economic growth in 1924.

Could German labor have consolidated a pronounced redistribution of income in the aftermath of World War I? Could it have prevented the inflation that eroded its political and economic power? Did destabilizing distributional conflict actually cease with the price explosion and economic collapse of late 1923 and early 1924?

These questions are addressed here using newly developed estimates of quarterly German output and employment to trace the paths of productivity and of wage share through the years of inflation and stabilization crisis, 1919 to 1924. The analysis is extended to 1929 using existing data series. Findings and conclusions include:

(1) Wage share averaged 94 percent of its 1913 value over the 1919 to 1929 time span as a whole. During the April 1920 to June 1921 phase of relatively price stability, wage share averaged 98 percent of the 1913 share and, again, during the 1925 to 1929 years of relative price stability, wage share averaged 102 percent of its 1913 value. Wage share was unsustainably high during 1919, in the immediate aftermath of the war and the November 1918 Revolution. In the ensuing inflation, wage share generally suffered during times of greatest price instability. In The Economic Consequences of the Peace, Keynes asserts that the pre-war income distribution was in

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harmony with the needs and workings of European capitalism. The tendency of post-war wage share to approach and to straddle the pre-war share is consistent with Keynes' assertion, through it cannot establish that this was a uniquely viable distribution of income.

(2)  The German experience supports the Keynesian view that inflation cannot proceed unless wages keep pace.  Prior to July 1922, wages lagged prices during phases of rapid inflation, dampening inflation and blocking the outbreak of hyperinflation.  Labor's abandonment of a policy of wage restraint is statistically evidenced by feedbacks from wages to prices measured in the July 1922 - December 1923 period which are absent in the January 1919 - June 1922 period.  Hyperinflation set in with labor's attempts to have wages leap-frog over prices.  The subsequent inflation in prices left labor with an even lower real wage and wage share than when it patiently absorbed bursts of price inflation.  Hyperinflation could have been avoided, and should have been avoided from labor's point of view, by continued wage restraint.

(3)  The stabilization of prices in 1924 did not deflate the contradictory claims to German output that had fed the inflation.  Labor was inhibited by high unemployment from pushing for real wage gains much in excess of the modest productivity gains realized with stabilization.  Deficit financed social consumption enhanced labor's living standard and squeezed profits during the post-stabilization Wirtschaftswunder.  Tenuous inflows of foreign capital helped to finance the government deficit and to validate private and social spending in excess of Germany's own output.  Schumpeter observed that inflation was camouflaged by "foreign aid" in the post-stabilization years.  When this foreign aid was withdrawn, when inflation continued to be resisted by monetary restraints, and when productivity continued to lag, income depression enforced consistency on Germany's economic relations.

# Student Achievement and Size of School District in North Texas

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The American public education system has received considerable attention in the past five years, however, very little of that attention has focused on the local school district. Hanushek in his review of the research on the economics of schooling concludes that differences in student performance are not systematically related to variations in local school expenditures. This research examines this problem by focusing on two hundred and six school districts in North Texas.

The model is the classical economic production function where output, student achievement on the TABS (Texas Assessment of Basic Skills) test, is a function of locally generated expenditures per pupil, size of the school district as measured by the number of pupils, geographic size measured in square miles, and the percentage of minority students.

The regression analysis results indicate that average student performance on the TABS is positively affected by local expenditures per pupil and negatively affected as the percentage of Hispanic students in the district increases. The percentages of other minorities decreased only the scores on the writing portion of the TABS. These results indicate that more attention must be focused on the education of Texas' minority students.

The optimum size of school district, in order to minimize expenditures per pupil, without sacrificing TABS scores was found to be about three thousand students. This is larger than all but twelve districts in the North Texas sample.

The policy recommendations are straight forward, more attention must be paid to educating minority students and the economical way to do this is merge many of the small school districts in North Texas.

Trends and Cycles in the Services Sector:
How the 1980s Compare*

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There is a widely-held perception that the current
business cycle expansion has been sustained largely by
exceptional growth in the services sector.  In an
attempt to assess the correctness of this perception,
trends and cycles in services sector output and
employment since World War II are used as the bases for
comparisons with services activity in the business
cycle of 1981-1986, and especially in the 1982-1986
expansion.  This paper uses the broadest definition of
the services sector, which includes five major
industrial divisions--transportation, communication and
utilities;wholesale and retail trade; financial,
insurance and business services; and government.

Both employment and output of the services sector
are examined.  Much of the discussion of services
sector performance has relied on employment change as
an indicator but output change is at least equally
important.

There has been a secular tendency for relatively
faster growth in services than in the goods sector,
that has steadily increased the services share of both
employment and output.  The services sector share of
total nonfarm employment increased from 58 percent in
1948 to 75 percent in 1986.  Service sector employment
grew slightly faster in the 1970s and early 1980s than
in the 1950s and 1960s.  While services output grew
faster than goods output over the full postwar period,
services output grew significantly faster in the 1950s
and 1960s than in the 1970s and 1980s.

Services output and employment are not immune to
business cycles but are relatively insensitive to
cyclical changes.  Services output and employment

seldom have declined in contractions, but nearly always grow more slowly than in expansions.

Employment growth in the services sector was greater in the 1982-1986 expansion than for the average of postwar expansions, and was about the same as in the 1975-1980 expansion. In contrast to employment, services output grew significantly more slowly in the 1982-1986 expansion than on average for all postwar expansions. Services output growth was also slower in the 1982-1986 expansion than in the 1975-1980 expansion.

The present expansion is separable into a six-quarter period of rapid total output and employment growth followed by a ten-quarter period of slow growth. As real GNP growth slowed sharply, both services employment growth and services output growth accelerated slightly. This performance may be partly responsible for the perception of exceptional growth in services employment.

Comparisons of services performance in this expansion with the average for postwar expansions as well as with the expansion immediately preceding provide little support for the perception of unusual strength in the services sector in the current expansion, compared with its own past performance.

The perception of strength in services may come however, from a comparison with activity in the goods sector. This comparison provides mixed results for the expansion as a whole.

Examination of the two-part character of the expansion provides little if any support for the view that the increases in employment and output growth from the first six quarters to the next ten quarters of the expansion are evidence of unusual strength in the services sector. But growth in employment and production in the goods sector slowed sharply between the two segments, suggesting that it is the performance of the goods sector in this expansion that has been exceptional. The drastic slowing in growth of the goods sector along with a more nearly typical increase in growth of the services sector, is a likely source of the perception of exceptional strength in services.

# The New Economics of Health Care
## and the Old Theory of Consumer Demand

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The theory of consumer demand has appeared to many as almost totally inapplicable to the health care industry. This was held to be particularly true for consumer sovereignty, constraints, and the utility-maximizing rule. Until very recently, this inapplicability was valid in most respects as a result of special institutional factors, e.g., government interference, reimbursement systems, and consumer ignorance.

However, in recent years, there has been an increase in consumer awareness, competition, free market activity and institutuional changes which has given new meaning to the theory of consumer demand.

The author interfaces the economic theory with the new practices and posits a relevance of the theory and outlines some significant policy implications.

# CAN THE U.S. INTEREST RATE BE PREDICTED?

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Most economists would agree that there is an essen-
tial relationship between the supply of money stock and
the interest rate.  Some hold the view that an increase
in the supply of money would lead to a decrease in the
interest rate, and yet others claim that only unantici-
pated increases in the money supply can bring about this
phenomenon.  However, there is a consensus that under
ceteris paribus assumption, if the rate of money supply
is known, we can predict the behavior of the interest
rate.

More recently, many economists and policy makers
have begun to question the use of changes in the money
stock as a policy tool.

To investigate the relevance of the old assumption
about the relationship between changes in the money
stock and the U.S. interest rate, this study develops a
model of an open economy representable in the IS-LM
framework.  For the investigative excersize, the U.S.
(versus the rest of the world) was considered "a small
open economy".  The validity of this assumption rests on
the evidence that it is no longer safe for any economy
to ignore the "repercussions" from the rest of the world.

The study indicates that we can predict the behavior
of the U.S. interest rate if economic agents do not antic-
ipate any money supply increases and if the volume and
direction of capital movement is known.  Most importantly,
the study shows that with the increasing movement of capital
between the U.S. and the rest of the world with the in-
evitable globalization of the capital markets which affect
the domestic economy, it has become increasingly difficult
to predict the behavior of the U.S. interest rate with any
given increase in the money stock.

MARKET INFORMATION AND PRODUCT DISTRIBUTION:
KEY INGREDIENTS FOR INCREASING DEMAND FOR
FRUITS AND VEGETABLES PRODUCED
BY SMALL SCALE FARMERS

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Marketing of fresh tomatoes in Arkansas is unique
in that growers predominantly sell the crop from their
relatively small acreages to individual brokers at
auction. There are no sales in group volumes or from
a grower association packing house which is the predo-
minant practice in most competing states. Also, the
flow of information regarding the quality and availa-
bility of fresh market tomatoes from Arkansas tends to
be limited to the contacts of the active brokers and
is less than what could be accomplished through
collective effort.

Evaluation of the marketing situation was ini-
tiated with a plan for a re-examination of: (1) the
information flow, (2) the distribution process, and
(3) the quantities delivered to wholesale receivers at
terminal markets. Deliveries of Arkanasas fresh
market tomatoes were analyzed to evaluate the distri-
bution pattern and to indicate the results of the
interaction between buyers and sellers at the whole-
sale level. Summarization of the annual quantities
revealed that during the 1980-1985 period Arkansas
tomatoes were delivered to 13 of the 24 major produce
markets for which arrivals are reported. The effi-
ciency of the 1985 distribution pattern for Arkansas
fresh market tomatoes was evaluated by a linear
programming (L-P) transportation model. Results of
these calculations indicate the shipments which would
have minimized total transfer costs based on the
demands and the quantities supplied from each pro-
ducing state to each terminal.

In the optimum (least cost) model allocation of
tomato supplies, Arkansas would have been shipping
only to Dallas in June and to New Orleans and
Cincinnati in July 1985. The Dallas market will be
used to illustrate the relationship between the actual
shipments and the model allocation. For example, of
the 837 10,000-lb. units delivered to Dallas in June
1985, Arkansas supplied 12, or 1.4 percent as compared
to 51.7 percent from Florida, 21.4 percent fom
California, 20.9 percent from Texas, and 4.6 percent
from other states. In the model allocation, Arkansas
would have supplied 110 units or 13.1 percent, Florida
64.1 percent, and Texas 22.8 percent of the deliveries
to Dallas.

Information to terminal market wholesale buyers was identified as one key in reshaping the distribution process. To explore the potentials for expanding Arkansas' share to near that indicated in the 1985 transportation model, personal contacts were made with each of the 28 firms engaged in tomato marketing in the Dallas area in April 1986. This was done before the beginning of another marketing season so that information/promotion techniques could be used to inform buyers in Dallas of the supplies and qualities which would be available from Arkansas growers.

From a review of the 1986 summary of Arkansas deliveries, it was evident that collectively the Dallas wholesale produce buyers purchased fewer truck-loads from Arkansas, not more. This would seem to indicate that information alone was not sufficient to increase sales to this, the terminal with minimum mileage distance from Arkansas' production area.

Surprisingly, Arkansas shipments of 79 truck-load units in June 1986 would be allocated to Vancouver, B.C. While this market is the most distant from Arkansas, any reallocation of supplies would increase the total transportation cost for the system. If the model is constrained to prohibit Arkansas from shipping to Vancouver in June, it allocates the state's supplies to the Dallas market. However, the model would also allocate to Vancouver 79 truck-load units from Florida which had previously gone to Dallas. The added transfer cost would be $3,980.81. The model's solution for Arkansas' July shipments was not constrained because the 40 units to St. Louis and the 30 units to New Orleans were within the markets which had been served in the past.

In the allocation of shipments, the transportation models could not consider such items as buyer knowledge, relative prices, market institutions and established customer relations. Each optimum as projected could result if all buyers and sellers had complete (or perfect) knowledge of relative prices, availabilities, demands, qualities, etc. for tomatoes.

These results emphasize the need for additional research models to analyze alternatives in: (1) market institutions (auctions vs. packing house, etc.); (2) pricing structure (premiums and discounts at nearby market terminals); and (3) market acceptance variables such as estimated shelf life and quality. The minimum cost transportation optimum was not designed to address these issues nor is it adequate to measure the flow of market information.

# An Analysis of Cotton Production and
# Price Trends in Arkansas: 1950-1990

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This paper analyzes cotton production, acreage, yield and
price data for the state of Arkansas since 1950. Additional data
on world and U.S. cotton was also assembled for comparison and to
place the Arkansas data in the proper perspective. Cotton is a
major crop not only in Arkansas but throughout the south. Its
future is important to agriculture and to the textile and clothing
industries which depend on cotton as a primary raw material.

Cotton data published by the USDA in various series was
gathered together to form a more complete picture of the past,
present and future situation. The location and amounts of cotton
acreage in the state over time is specified and trends in yield,
production, prices and production costs are presented. Finally,
the impact of changing price, cost of production and yield
relationships on the extent and competitiveness of Arkansas cotton
is explored.

The results of the study show that acreage planted to cotton
has decreased at an annual rate of 37,000 acres since 1950, and
that cotton production has steadily shifted East and South in the
state. Arkansas cotton yields have trended upward at a rate of
4.6 lbs per year and have maintained a level slightly above the US
average. US and Arkansas prices are similar over time and both
have trended upward in nominal dollars but downward in constant
dollars. Increasing costs of production and decreasing real
prices have placed the state's cotton producers in a profit
squeeze that forewarns of much lower future production levels
relative to historical averages.

Long Term Care for Rural Elderly:
Analysis of Swing-Bed Utilization, 1982-1985

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The national swing-bed program was designed to address two major
issues in long term care (LTC) policies - access and cost. Hospital
occupancy nationally has been declining since the 1983 introduction of
the prospective payment system of Diagnosis Related Groups (DRG's).
Occupancy is lowest in small rural hospitals, averaging about 50
percent. In contrast to these low acute care occupancy rates, nursing
homes report occupancy rates over 90 percent. The existence of excess
acute care beds in communities suffering a shortage of long term care
beds led to a Medicare and Medicaid sponsored initiative for the rural
elderly. The swing-bed program modifies the delivery of health care
services by providing for LTC treatment in underutilized rural acute
care hospital beds, and results in increased hospital patient-days
aiding their low occupancy, low revenue problems.

There have been three stages in the development of the swing-bed
program: first, a federal experimental program in four states, from
1973 to 1981, was funded by the Health Care Financing Administration
(HCFA); second, the national swing-bed program was enacted in the
Omnibus Reconciliation Act of 1980, with statutory authority for
Medicare and Medicaid swing-bed funding added to the Social Security
Act; and third, in 1981 a 5 state, 26 hospital demonstration program
was developed and funded by the Robert Wood Johnson Foundation.

This study presents the reported data from swing-bed hospitals
from the American Hospital Association (AHA) national hospital surveys
for 1982, when swing-bed questions were first introduced, through 1985,
the most recent data available. In the survey, a swing-bed is "a
hospital bed regularly maintained for both short term and long term
use, depending on need," and refers to the total number of staffed
acute care beds designated as swing-beds (Hospital Statistics 1985).
AHA survey response data correlates highly with reported swing-bed data
from other sources, particularly Shaughnessy and HCFA.

The number of programs has more than doubled each year during the
period under study, to currently include ten percent of all hospitals
in the U.S. About one-third of the eligible hospitals in rural areas

are certified to provide swing-bed care.  The average number of swing-beds in each swing-bed hospital has also increased substantially, more than doubling from 6 in 1982 to 13 in 1984 and increasing to 16 in 1985.  Not only is the national size of the swing-bed program showing rapid growth, but hospital participants are allocating more resources to the program annually.

Average admissions in swing-bed rural hospitals showed precipitous decline from 1982 to 1983 and again to 1984.  Swing-bed admission data was not collected by AHA until 1984.  From 1984 to 1985, the average number of SNF swing-bed admissions increased 181 percent from 21 to 38, while the average number of ICF swing-bed admissions remained constant at 10.  While total swing-bed admissions more than tripled, SNF admissions increased fourfold and ICF admissions doubled.  Data on swing-bed inpatient days indicates the program's growth and importance to rural hospital financial stability.  Nearly half of swing-bed LTC patients are funded by Medicare and payment is on a per diem basis, unlike Medicare DRG acute care reimbursement.

Analysis of the AHA swing-bed data emphasizes the growth and geographic dispersion of the program.  The more than ten-fold increase in the number of swing-bed hospitals and the near tripling of the average number of swing-beds in four years attest to the workability of the program.  While the program continues to be strongest in the West North Central region, where it was initiated in the 1970's, growth in other areas is substantial.  The swing-bed program provides an excellent example of a federal health care program which was initiated on an experimental basis and carefully monitored and evaluated to develop an empirical foundation for national policy decision making.  Thus far, the program has been shown to meet rural elderly patients' need for long term care in the local community and small rural hospitals' need for enhanced fiscal stability from increased patient census and increased revenues.  The major social cost of the swing-bed program is increased Medicare long term care expenditure.

One of the difficulties in measuring the impact of the swing-bed program is its concurrence with the introduction of DRG's.  In attempts to limit expenditures, the two programs are contradictory.  While the DRG program seeks to reduce length of stay and reduce Medicare expenditures, the swing-bed program allows Medicare patients to be transferred, on paper, from acute care to long term care and to extend Medicare payment for the same hospital patient in spite of DRG limits.

The next question for the swing-bed program is whether it should be extended to larger hospitals and/or to urban areas. Three issues need to be analyzed to respond to this question:   the extent of unmet need in rural  communities; whether expansion will increase Medicare expenditure beyond acceptable limits; and whether expansion of the program will impede market incentives for capital investment reallocation by deterring the closure of inefficient or unneeded hospitals.

# THE EFFECT OF CLIENT ASSESSMENT
## UPON LONG-TERM CARE UTILIZATION AND COSTS

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## Abstract

An evaluation of the effect of client assessment and resultant placement and case management upon Medicaid long-term care utilization and costs was tested during the first year (1982) of the Arkansas Long-Term Care Demonstration Project. A quasi-experimental, separate sample, nonequivalent control group design was implemented in 28 counties (14 demonstration and 14 matched control counties). A sample of 458 Medicaid clients (255 demonstration and 203 control clients) were followed prospectively one year for Medicaid utilization and costs. Adjusted group means of the Medicaid cost data were compared and t-tests were computed to determine if differences existed between the demonstration and control clients. Multiple regression analysis, controlling for demographic, need and economic factors was used to estimate the direction and magnitude of the demonstration effect. Medicaid personal care costs increased as a result of the demonstration project without reducing Medicaid nursing home or acute care costs. Expansion of personal care services and clients occurred, rather than substitution of these services for institutional care. There was no difference in client mortality.

# DYNAMIZED AGGREGATE SUPPLY AND DEMAND BY HEURISTIC MEANS: A PEDAGOGICAL NOTE: ABSTRACT

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Relatively recently a "synthesis" form of aggregate supply and demand model has come into wide usage, incorporating the positively sloped Keynesian aggregate supply curve in the short run and the vertical classical one in the long run. A further step toward realism is the dynamized aggregate supply and demand model with inflation, rather than the price level, on the vertical axis. I have argued elsewhere that the dynamized model is not only superior to the static synthesis one, but is a relatively simple model that can qualitatively explain modern macroeconomic history. (Stephens, 1981)

However, many faculty appear to consider the dynamized model too complex to formally present to intermediate students, and its degree of future popularity appears somewhat uncertain. In his leading text Gordon uses the dynamized model, but relegates formal presentation of it to an appendix. In this regard Gordon says in the fourth edition, "The 'DG curve' has posed problems of difficulty level for some students. Now the book is designed to appeal to those who found the DG curve too difficult to include in their courses." "But those instructors who find this tool valuable ... will find ... treatment of the full SP-DG model ..." (Gordon, 1987, p. xxi)

In their leading text Dornbusch and Fischer dropped the dynamized model between their second and third editions. But they restored it in the fourth edition (1987), "By popular request ..." upon finding that its "... removal from the third edition caused far more dismay than we had anticipated." (p. xii) However, Boyes says in his text (1984, p. 268)

> As we have shown, most of the points made in our discussion of dynamics can be represented in the simple static AD-AS framework.

He also says

> This is the approach we have taken throughout this book. While some theoretical laxity must be permitted, the approach appears much clearer than alternative approaches.

He then cites the dynamized models in the second editions of Dornbusch and Fischer and of Gordon.

Another tool which is commonly used in macroeconomics texts, in addition to static and dynamic aggregate supply and demand models, is the Phillips curve.

The main purpose of this paper is to set out a technique I have used in several classes to present the dynamized aggregate supply and demand model by using the "synthesis" static aggregate supply and demand model, the analysis of the Phillips curve, and analogy.

The presentation begins with the classical and Keynesian aggregate supply curves. I first derive each separately. Then I point out that while Keynesian fixed money wage may be a reasonable assumption for the short run, it is not reasonable for the long run. Next I introduce the synthesis aggregate supply and demand model with a Keynesian aggregate supply curve in the short run and a classical one in the long run. To do this the original classical and Keynesian derivations are super-imposed.

I introduce the Phillips curve with what I call the "traditional Phillips curve," a single trade-off, short and long run, between inflation and unemployment. Then I introduce the idea that expected inflation fully feeds through into actual inflation, and go through a description of demand stimulus initially driving down unemployment, but then being defeated when expected inflation catches up to actual inflation. Thus the natural rate hypothesis is depicted.

Next I point out that in this sort of analysis one can expect unemployment and output to fluctuate in opposite directions in a systematic way. Thus if we plotted output on the horizontal axis instead of unemployment, we would get "mirror images" of our short and long run Phillips curves, along with a natural rate of output corresponding to the natural rate of unemployment.

Finally I remind the students that just as we have short and long run Phillips (i.e. dynamized aggregate supply) curves, we had short and long run static aggregate supply curves. I then suggest that by analogy it is reasonable that we have a negatively sloped dynamized aggregate demand curve just as we previously had a negatively sloped static aggregate demand curve. This completes the heuristic derivation of the dynamized aggregate supply and demand model.

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# ECONOMIC DEVELOPMENT FROM THE INSTITUTIONALIST PERSPECTIVE: RETROSPECTIVE AND PROSPECTIVE

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Economic development in poor lands over the past decade and one-half has been disappointing. That story in terms of such things as weakened LDC export markets and debilitating debt service, is rather well known, but other important things such as the conceptual structures which have informed and shaped general development strategies and programs have received little attention. This essay probes that dimension, particularly from the perspective of institutional economics.

First, associations between institutional economics and economic development and some of the major themes of institutional economics are described. Second, some of the things which went wrong with economic development efforts since World War II and some of what seems to be going wrong now are discussed. In that context, third, the prospects for economic development efforts undertaken from the institutionalist perspective are examined.

The dominant school of economics, the classical and neoclassical mainstream, largely ignored development economics from roughly 1870 to the latter 1930s. Institutional economics did not, but was largely concerned with development of the American economy. After World War II, attention was once again focused on what economic development entailed and how to change things to promote it in the lesser developed areas.

But some things went wrong. For many the decade after World War II was one of "naive optimism dashed." Decolonialization was usually difficult and often achieved in deleterious ways. There was also greater under-development of knowledge about development, and of how to induce it rapidly, than some had thought. And, the cold war impinged and greatly disrupted, diverted, and distorted efforts and resources in pursuit of global poverty reduction and economic development.

What came to shape and guide the larger economic development organizations and programs was drawn from the classical notion that capital accumulation precedes or leads in the process of development. Instead, it is innovation that creates more output which generates real capital and expanded "surpluses" in the process. And, as the second generation of development economists came to populate both academic and governmental economic positions, an essentially neoclassical habit of mind and point-of-departure perspective came to dominate economic development viewpoints.

Taken together the matters just discussed form a larger mindset which has come to dominate the perspectives and policies deemed appropriate for pursuit of economic growth and development generally. A new economic development neoclassical synthesis emerged. These perspectives have been generally consistent with and supportive of naive and costly *la Nouvelle Vague Laissez Faire* doctrine.

According to it, new international organizations to promote development are unnecessary and undesirable governmental interferences. The only changes needed are those toward freer operation of markets for goods, production, and investments across national boundaries. There is little governments in poor countries can or should do either, other than get their money and budgets right, foster private enterprise whether indigenous or imported, and "leave it to the market."

Although private enterprise and markets as organizational devices are often highly valuable as vehicles for development, and there is surely much to be done in reforming governmental practices away from ones which inhibit development and toward ones which promote it, much more is involved than merely turning things over to private enterprise and markets and expecting the best. The human created, detailed and situation-specific rules required to make markets behave properly and of the host of other accommodating institutional rules and arrangements are created through non-market processes.

At both the national and international level socio-economic systems must be designed such that the consequences of private enterprise serve public purposes rather than the reverse. The constraining as well as the permissive institutions which well functioning markets require must be present or fostered, and the design of the specific rules and arrangements various markets require must be such that the consequences of market processes enhance human welfare. Markets are means, not ends.

A shift in the fundamental doctrines taught in economics and used to formulate and justify economic development policies does not appear to be imminent. The peak of influence in the life cycle of second and third generation economists and administrators committed to a neoclassical world view is far from over. Nevertheless, the cumulative introduction and advance of institutional perspectives largely without recognition continues in many quarters. They are more consistent with the emerging world view of science generally, with the newer ideas from the other social and behavioral sciences, and the findings from the interdisciplinary centered "area of applied field work" called international development. Also, support for the most extreme versions of the new wave *laissez-faire* has little deep rooted support in the general public, among the development professionals, or in academic economics. Moreover, changes administrations and legislative bodies in major political capitals over the next several years can bring change in both public perceptions and public policies. If the Supreme Court follows the election returns, international organization and academic and research grant administrators follow them more closely.

So, as of now the prospects of economic development efforts and development economics largely pursued overtly through approaches informed by institutional perspectives are neither cheery nor cheerless.

# A BRIEF LOOK AT TEXAS PROPERTY RIGHTS AND A MODEST PROPOSAL

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The Ogalalla Aquifer underlies approximately 35,000 square miles of the Texas Panhandle. It is the source for 95% of the water used in this semi-arid area. From 1950 to 1975 the demand for groundwater increased an estimated 140%. The mining of the Aquifer has led the most severe groundwater overdraft problems in the United States to be centered in this area.

The reason for this overdraft problem, or increased water scarcity, can be traced to the property rights structure with respect to groundwater in Texas.

Texas is one of only three states and the only western state to classify underground water rights as absolute. Texans have the right to pump as much ground water as they can, to transport, and to sell the groundwater in any manner they like.

Because the Aquifer is commonly owned, with each landowner having an equal right to exploit the resource, over exploitation has occurred.

For property rights to lead to an efficient allocation of resources, they must exhibit the characteristics of universality, exclusivity, transferability and enforceability. Current Texas water law fails to meet some of these criteria.

This paper proposes a restructuring of property rights concerning groundwater. The area underlain by the aquifer would first be divided into small parcels and the water level beneath each parcel estimated. Property deeds that entitle landowners to a given amount of water over a period of time would be issued, based on both the stock and flow qualities exhibited by groundwater. Once the initial allotment is figured, the landowners would have the right to exchange these water rights in the market place.

This policy was evaluated in terms of efficiency, equity, and liberty. It concludes that this policy will lead to an efficient allocation but may not lead to an equitable distribution. It was found that this policy would, at a minimum, protect and may enhance the individual liberties of the landowners.

# A Theoretical Explanation of Managerial Prestige as a Source of Moral Hazard Behavior in the Capital Structure Decision

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This paper utilizes a modified version of the agency framework in order to provide a theoretical explanation of previous empirical findings that some managers appear to be using a lower degree of financial leverage than that predicted by the majority view of the effect of capital structure on firm value. The previous empirical findings have provided evidence that some managers make certain leverage-reducing capital structure changes which have a negative impact on shareholder wealth. The explanatory model in this paper is dependent on the assumptions that (1) firm managers are concerned with two criteria, firm value and firm (and by association – personal) prestige, when selecting a debt-equity ratio; (2) firm prestige is positively associated with financial performance and inversely associated with probability of bankruptcy; (3) the majority view of the effect of financial leverage on firm value is accurate; and (4) the directions of incremental changes in the firm prestige level associated with incremental changes in the debt-equity ratio are not perfectly symmetrical with the directions of incremental changes in firm value associated with incremental changes in the debt-equity ratio (as the degree of financial leverage increases from 0% towards 100%). A focus on managerial concern for prestige in addition to firm value when making certain financial decisions (as reflected by the first assumption) is supported by the empirical findings and statements of a number of financial economists. Unlike another contribution to the literature, the theoretical framework developed in this paper is able to explain the observation of moral hazard behavior on the part of management with respect to the debt-equity ratio selection decision without resorting to an assumption of the presence of a managerial labor market which is characterized as being informationally incomplete. An implication of the theoretical model related to the control and compensation of management is provided.

# BALANCE-OF-PAYMENTS DISEQUILIBRIUM OF GHANA: A MACROSIMULATED STUDY

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The central focus of this study is to examine whether a serious balance-of-payments disequilibrium could be rectified through an adjustment mechanism based on devaluation as its pivotal policy instrument. The study analysed this problem in the contextual setting of the Ghanaian economy as a case study over the period 1957 to 1982. In particular, the study tests the hypothesis that "devaluation, irrespective of its magnitude, will not lead to any sustained improvement in Ghana's balance-of-payments disequilibrium, unless it is accompanied by an appropriate set of policy prescriptions."

Previous studies on Ghana's balance-of-payments problems include those by Leith (1974), Apenteng (1975), Amoako (1979), Duffour (1979), and others. The study by Leith (1974), concluded that "the use of restrictive controls in the domestic economy led to poor performance of the external sector, low domestic savings and low productivity. However, the studies by Duffour (1979), and Amoako (1979) concluded that devaluation in Ghana could not lead to balance of payments improvement. Amoako also added that for a devaluation to lead to a significant improvement in balance of payments "it must be of a considerable degree."

A major limitation of the above studies is the fact that the studies are based on partial equilibrium analyses. As such, they failed to integrate the real trade sector with the capital flow sector in Ghana's balance of payments. Also Amoako's study is not backed by any empirical evidence to substantiate his claim that high devaluation will lead to an improvement in Ghana's balance of payments. It is these failings that this study seeks to overcome in a general equilibrium framework.

Section I of the study serves as an introduction to the study, Section II introduces the theoretical framework that serves to provide a theoretical foundation for the general equilibrium model of the Ghanaian economy. Section III deals with the designing of an econometric model specification and estimation of the sectoral model equations. Section IV undertakes simulation experiments to test the predictiveness of the model and to derive dynamic impact multipliers under various exogenous policy variables. The policy implications and recommendations of the study are presented in section V.

The main conclusion which follows from the study is that devaluation by itself is no panacea for Ghana's balance-of-payments disequilibrium unless it is concomitantly accompanied by a suitable supplemental policy package. Based on the findings of the study, the following policy implications are considered.

i) A policy of small adjustment in the exchange rate as opposed to the one based on "a once-for-all and large devaluations" is preferable in the Ghanaian context.

ii) A comprehensive policy aimed at increased domestic productivity is necessary to boost the production of exportables. In particular, there is an urgent need to provide for private sector participation in the Ghanaian economy.

iii) Diversification of the Ghanaian export sector is urgently called for. Such a policy should be so geared to encourage increased production of both traditional and non-traditional exports.

iv) A comprehensive policy aimed at accelerating domestic capital mobilizations is of utmost necessity to reduce Ghana's dependence on foreign sources of capital. This in turn calls for diverse steps such as providing appropriate incentives for increased savings, deregulation of the financial markets, elimination of rigidities in the interest rates, and the measure to contain inflationary pressures in the domestic economy.

v) A policy to ensure a substantial price differential in favor of producer price of exportables, as compared to the price of non-traded goods is desirable. This would go a long way to stimulate production of exportables.

vi) A multi-pronged policy to keep inflationary pressures in check in the Ghanaian economy is direly needed. This policy must serve to reduce government budget deficit by enforcing cuts in recurrent expenditure and at the same time improve the revenue by including both the non-wage income and self-employed sectors in the tax base.

In conclusion, a rational, and well-devised composite policy package as opposed to a policy of outright expediency relying solely on devaluation as a quick-fix measure deserves a high place on the government agenda in Ghana. Indeed, the beneficient prowess of devaluation could be effectively harnessed in the Ghanaian context, if and only if, it is appropriately complimented by a mutually reinforcing and well-coordinated set of policy measures as recommended above.

**Special Sections**
(See Editor's Note, Page 1)


**The United States Constitution
1787 - 1987**


**The Mexican Economy:   A Neighbor in Trouble?**

# ECONOMIC FREEDOM, THE CONSTITUTION, AND THE VALUE OF ECONOMIC EDUCATION AT THE ELEMENTARY AND SECONDARY LEVEL

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The teaching curriculum for the elementary and secondary levels in Texas public schools has changed significantly in the past few years. These changes have been brought about primarily through the enactment of House Bill 246 (HB 246). An important consequence of HB 246 and the revamped curriculum was a greater awareness and emphasis on economic education and the teaching of economics and the free enterprise system within the elementary and secondary grades.

It is the contention of this paper that this greater emphasis upon economic education at the elementary and secondary represents a tremendous step forward not only for the discipline of economics but for education in general. Because economics is not an isolated discipline but represents an important and integral component of the historical and political American experience, the greater emphasis upon economic education and the teaching of economics within the elementary and secondary grades has to help students to both understand and appreciate the unique history of the United States and the important role that economics plays in that history.

An important example of this interrelationship between economics and the American experience is the U.S. Constitution. Just like our American society is based upon political freedom, the American economic system of free enterprise/capitalism is also based on freedom--economic freedom. Economic freedom could be considered the most important and critical component of capitalism. This economic freedom comes in many forms--freedom to choice, freedom to own, freedom to produce, and freedom to make a profit.

In addition, it can be argued that without economic freedom, political freedom is impossible. Friedman takes this position when he states that economic freedom is "an indispensable means toward the achievement of political freedom" (1). The reverse can also be said to be true--without political freedom, economic freedom is not possible.

This interrelationship between economic freedom and political freedom is evident in the history of the passage of the U.S. Constitution. The U.S. Constitution is not only a product of the Declaration of Independence in 1776, but is just as much a product of Adam Smith's Wealth of Nations from the same year. What the Declaration of Independence did for political freedom, the Wealth of Nations did for economic freedom. Just as the Declaration of Independence sought to limit the political role of the government,

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declare independence from England, and establish a free country, Adam Smith's Wealth of Nations sought to limit the economic role of the government, become independent of mercantilism, and establish a free economic market.

As indicated by noted economic historian Douglass North, when the US Constitution was being formulated, the framers of the Constitution were very much aware of the economic issues found in the Wealth of Nations (2). The U.S. Constitution combined the economic freedom found in the Wealth of Nations with the political freedom of the Declaration of Independence. The result is that the Constitution not only stands for political freedom but stands for economic freedom as well. For example, the Constitution not only limited the power and the role of the government but it specified and protected property rights in order to develop free and competitive markets.

Because the Constitution not only represented political freedom but economic freedom as well, the passage of the Constitution in 1789 established both the economic and political framework for the American free-enterprise capitalistic system. Without economic and political freedom the necessary ingredients of the American free-enterprise system--private property, competitive markets, the right to make a profit, limited government, would not survive.

Because of the important interrelationship between economics and the American experience, in general, and the U.S. Constitution, in particular, it can be argued that a complete understanding of the historical development and passage of the Constitution, is not possible unless both the political and economic factors behind the Constitution are examined. For this reason, the greater emphasis upon the teaching of economics and the free enterprise system at the elementary and secondary levels in Texas public schools is a very positive step in the education process.

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# THE UNITED STATES CONSTITUTION: OUR ECONOMIC HERITAGE

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As we celebrate the bicentennial of the United States Constitution, it is important that educators examine the way in which our public schools have dealt with our nation s most significant document. A careful analysis of history and economic textbooks and curriculum trends prevalent in our secondary classrooms over the years points out a glaring omission. This omission is the neglect of the economic motivations surrounding the origins of the Constitution and the specific economic implications of the document itself. It seems that our public schools have neglected both theoretical and practical economic information in teaching the United States Constitution.

This paper first reviews the theoretical origins of Charles Beard s economic interpretation of the Constitution and Beard s influence on the social studies curriculum in the twentieth century. Secondly, this paper examines a selection of contemporary high school history and economic textbooks in an attempt to discover how they address important economic issues relating to the Constitution.

Beard s theory stemmed from his monumental work, An Economic Interpretation of the Constitution of the United States (1913). Beard attempted to establish a link between the political outcome of the convention in Philadelphia - the Constitution itself - and the economic motivations behind it. Beard saw politics and economics as being inexorably intertwined. Unlike prior historians Beard believed that the founding fathers were significantly motivated by the desire to protect the financial and property interests of an elite segment of American society. Beard went on to note that four distinct groups were disenfranchised from the entire process of developing and ratifying the Constitution. These groups were Blacks, indentured servants, women, and white males who could not meet state property requirements.

Beard s influence as a historian was remarkable. His influence upon social studies curriculum in public schools, however, has been negligible. Elementary and secondary textbooks have historically ignored or glossed over the economic dimensions of the Constitution. Even during the "Progressive Era" in American politics and education, Beard s efforts to achieve the "unity of all history" by connecting political and economic events surrounding the formation of the American Constitution were unsuccessful. Studies of elementary and high school textbooks from 1913-1934, the zenith of Progressivism in American education support this assertion. Only three out of forty seven elementary and six out of forty high school texts reflected Beard s interpretation in any significant way. Beard cited inadequate teacher training and the fact that college entrance exams did not emphasize economics as reasons for this neglect. A more likely explanation, however, is the historically conservative nature of American public education, even during times of supposedly "progressive" reform.

As a part of the current school reform movement in Texas, the legislature has mandated a listing of essential elements for all courses included in Texas public schools. Combined with a mandatory high school economics course for all students, these measures have placed a new emphasis on the teaching of economics in history, government, and economic courses. Unfortunately, however, this has yet to be reflected in high school history and economics textbooks. A careful analysis of these textbooks shows little or no mention of Beard s economic interpretation, and even more alarming, no discussion of the economic implications of the Constitution itself. The economic and political significance of the commerce clause, for example, is never discussed. In fact, there is virtually no effort made to portray the Constitution as both en economic and political document with daily relevance to our students. Ironically, the theories of Karl Marx are portrayed as having their roots in both economic and political theory.

There seems to be a great deal of room for improvement in the way our schools transmit the history and heritage of our Constitution. Ignoring the economic motivations of the founding fathers, even if they were not the overriding motivations, is intellectually dishonest. So too is studying the Constitution without paying attention to the portions of it which deal directly with economic issues. Educators must avoid isolating this "living" document from the realities and events of everyday lives, especially in terms of economic issues which affect all citizens.

THE ECONOMICS OF HEALTH CARE ACROSS THE U.S.-MEXICO BORDER
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Across the U.S.-Mexico border, two vastly different cultures
and economies face one another. Their systems of providing for the
health care needs of their citizens reflect those differences.

On the U.S. side, health care constitutes an unleashed jugger-
naut whose voracious appetite consumes over 10 percent of the GNP.
Mexico spends a scant 1.6 percent of her national output on health
care. The American system has watched while its costs have outrun
the consumer price index even during times of rapid inflation.
These costs of care were routinely passed on through to the third
party risk acceptors, i.e., insurance companies and the Federal
government through its Medicare and Medicaid programs.

Since the Second Six Year Plan of 1946 in Mexico, the Mexican
Federal government has taken it upon itself to provide for the
health care of its citizens. An array of different governmental
agencies was formed, each serving a specific target population.
Even those in rural areas without formal employment were to be
served.

Unfortunately, the Mexican economy is currently in a state of
disarray. Inflation has raged over 100 percent per year, the peso
devalues on a frequent basis, capital has left the country as well
as skilled workers, the foreign debt consumes any sources of foreign
currency, and the health care system mirrors the dire straits visible
throughout the rest of the economy.

This then, sets the stage for health care provision along the
U.S.-Mexico border. The flow of migration is northward as the lag-
ging Mexican economy vents its surplus labor force into the American
job market. With that labor force come those disease vectors whose
origins lie in the lack of development south of the border. Border
state and border county tax bases in the U.S. are tapped to provide
care for both the legal and illegal worker in need of medical
attention. What is essentially an international problem falls most
heavily on border area health care providers.

As the new immigration law is put in place, health care pro-
viders along the U.S.-Mexico border are attempting to ascertain
what the changes in demand for their services will be. With a
larger legal population their expectations are that an outward
shift in the demand function for health care will be experienced.

It is not apparent at this time how much of that increase in demand will be self-sustaining financially, and how much of the burden will fall to state and local tax bases.

In an era of cost containment and fiscal austerity at the national level, it is not likely that the U.S. Federal government will be eager to support uncompensated care given either legally or illegally migrating workers. Thus, the problem remains essentially unsolved at the border state and county level.

"Mexico:  Jumping Off The Debt Treadmill"
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Mexico's economy is on the edge of collapse.
The 1986 loan package Mexico negotiated with its
creditor banks for the International Monetary Fund
(IMF) is a stop-gap measure that allows the country
to continue to pay the interest on its immediate
debt obligations.  However, such periodic emergency
infusions of capital will only reinforce a vicious
cycle of expanding debt and harsh austerity measures
imposed upon the majority of the Mexican people.

Short-term approaches to debt also guarantee
that Mexico will continue to face periodic political
and financial crises.  When the debt crisis boils
over again.  Mexico should consider an alternative
to walking the same treadmill.  By initiating what
amounts to a default -- a refusal to repay its debt
-- Mexico could force the IMF and banks to begin
writing off much of the debt.  This action would
not provoke, as is commonly thought, massive retalia-
tion either from banks or from Mexico's trading part-
ners.  It would move the country away from austerity
and allow it to consider long-term economic reforms.

Thus in order to gain the serious attention
of commercial banks and foreign governments, Mexico
should announce its intention to repudiate its debt.
Because a sudden, unilateral default would throw
the international financial system into panic, the
only realistic option for the other major players
in this fragile scenario (the commercial banks, the
U.S. monetary authorities, the I.M.F., the World
Bank, and the Inter- American Development Bank) is
to sit down with Mexico and begin to devise a long-
term solution.

The first step would be a "conciliatory default"
where everyone agrees that the debt cannot be repaid
and that a new approach must be tried.  For all the
parties involved to save face, this could be called
a "major rescheduling," or a "long-term moratorium."
then, much like a corporation which declares a Chapter
11 bankruptcy and is protected from its creditors

while it reorganizes, Mexico could begin to work on a long-term solution to its economic crisis. In the interim, it would be relieved of having to divert resources to pay off a crushing debt burden.

Following this, the present level of interest payments must be reduced by rescheduling. Interest payments that remain would be paid for by new voluntary commercial bank lending that would be guaranteed by the U.S. government. Such a guarantee would be conditional on the major banks writing down each year 3% of the existing Mexican debt judged to be nonperforming. (Banks typically expect that a certain percentage of their loans won't be repaid and set aside reserves to cover losses from bad or "nonperforming" loans.)

None of these measures would have a major negative impact on banks, because the Mexican loans would be written off over a 5 to 10 year period, and the banks' losses would reduce their taxes. In other words, banks and U.S. taxpayers would both bear some of the costs of writing off the debt. Banks would experience lower profit levels from their loan losses, and the federal government would lose tax revenues because of the banks' lowered earnings.

Once this type of default occurs, a negotiated long-term solution to Mexico's debt crisis must guarantee the following: 1) the flow of capital out of Mexico to the advanced industrialized countries must end; 2) new money loaned to Mexico must be used for productive investment rather than for interest payments on foreign debt; 3) new lending should come primarily from private commercial banks, the only institutions that can provide adequate capital in the immediate future; and 4) capital flight must be reduced through negotiations between commercial banks, and U.S. and Mexican monetary authorities.

A long-term debt moratorium would guarantee Mexico a fresh start and some hope of success. The alternative of further economic austerity will eventually tear the country apart politically. Without a fundamental resolution of the debt problem, political reforms, income redistribution, and real economic growth will remain elusive.

# MEXICO UNDERGOES ANOTHER ECONOMIC CRISIS

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Having managed its financial and fiscal affairs poorly in the period of the oil boom, the Mexican government is in the midst of another economic crisis that threatens to have prolonged effects. The government has become hostage to the external debt, both public and private, and can no longer carry out its accustomed strategy for development. Little by little traditional populist policies inspired by the Revolution and nationalist concerns over industrial growth have given way as Mexican authorities found that they had no choice but to follow policies dictated from abroad. While these policies have imposed great social cost on the Mexican people, they have failed to alleviate the debt problem or to achieve a significant effect on the tendency toward inflation.

Even with depressed oil prices, Mexico still earns a substantial flow of dollar earnings through its exports in world markets, its border industries, and tourist spending that could be reinvested more wisely than it has in the past in ongoing development. To return to a growth track would require major domestic reforms and changes in the operation of the international financial system to alleviate the high cost of servicing the debt. This paper suggests three changes in existing institutional arrangements: (1) new sources of long-term investment funds, (2) a more effective international disciplinary agency to supervise development projects, and (3) internal fiscal controls by the Mexican government to reduce misuse and personal appropriation of public funds.

Unlike many other developing countries, Mexico has benefited from its close proximity to the United States and its involvement in the U.S. banking system, which have impelled the U.S. government to arrange special emergency assistance during the three financial crises of the past decade. While many Mexicans resent dominance by their powerful neighbor to the north, it is in the mutual interest of both countries to find a permanent solution to the debt problem and thereby avert further acute financial crises. Once that is accomplished, Mexico should be free to return to control over its own destiny.

The Evolutionary Concept of Property Rights In  Natural
Resource Management
by
Arthur Chan

"Comment"
by
Jim Horner
Cameron University

This  paper  is bold and innovative.  It is bold in that  it
challenges  orthodox theory and it is innovative in that it opens
new territories in the field of natural resource management.

The  theme of the paper is that our  current view of property
rights is inadequate to deal with modern environmental  problems.
Chan  argues that our environmental problems are institutional in
nature  and that any solutions must involve changing our view  of
property.

Three  changes are suggested for a new approach to  property
rights and the environment:  (1) Re-evaluation of our domineering
attitude  toward nature (2) Re-examination of our  interrelation-
ship with nature,  and (3) Acceptance of our place in the overall
scheme of things.

To  accomplish  these changes Chan proposes  that  we  grant
legal  rights  to  nature and  construct  a  legal-administrative
system to protect these rights.  A guardian could be appointed to
file  a suit on behalf of nature whenever rights are violated  as
nature cannot file a complaint or protest on its own behalf.  The
courts would uphold these rights.

Chan  is  aware  that his proposal may seem  far-fetched  to
some.  But  he  notes that at one time it seemed  far-fetched  to
extend rights to women,  minorities,  and other powerless groups.
Chan also counters the argument that nature should not be granted
rights because it is lifeless and senseless. He notes that modern
corporations  and trusts are lifeless and they are granted  well-
defined rights.

One possible improvement in the paper would be the  develop-
ment  of  an evolutionary view of resources.  Such a  view  might
incorporate  the  works of Eric Zimmerman who  demonstrated  that
resources  were not a function of nature but rather a function of
technology.

Minutes of the Annual Business Meeting
Southwestern Economics Association

March 20, 1987                                          Dallas, Texas

The annual Business Meeting of the Southwestern Economics
Association, meeting with the Southwestern Social Science Association,
was called to order by the President Ray Perryman of Baylor University
at 5:30 on March 20, 1987. Kathie Gilbert of Mississippi State
University moved to dispense with the reading of the Minutes of the
1986 annual meeting, which were approved and accepted as written.

The Treasurer's Report, by Rose M. Rubin of North Texas State
University, showed a current balance of $4,153.19. The balance brought
forward in March 1986 from the San Antonio meeting was $4,153.19, with
total income of $2,645.25 (including a transfer of $1,000 from the
Journal) and total expenses of $864.20. Lewis Hill of Texas Tech
University moved, Joe Davis of Trinity University seconded, and it was
voted to accept the Treasurer's Report as written.

President-Elect and Program Chairperson, Lewis Hill reported that
participation declined to about 200 due to economic conditions and
reduced travel budgets in the region. He noted the substantial
interest in the Institutional economics sessions.

J. Kirker Stevens, University of Oklahoma, reported for the 1986
Student Paper Awards Committee that Luellen Smith of Baylor University
received the first place award of $100 and Steven Holden and Scott Orr,
both of Baylor, tied for second place awards of $25. Vice-president
and Chair of the 1987 student Paper Awards Committee Lavonia Casperson
of LSU-Shreveport reported that ten student papers in three sessions
are anticipated at the 1987 meeting. She presented and moved adoption
of Guidelines for Student Paper Competition, which was seconded by Joe
Davis. The motion was passed after discussion and amendments, first by
Lewis Hill that the award process be completed by June 15 following the
meeting at which the papers were presented, and second by Kathie
Gilbert that the members of the Student Paper Awards Committee chair
the student sessions.

Bob Brazelton, University of Missouri - Kansas City, Editor of the
Southwestern Journal of Economic Abstracts, reported the Journal has a
current balance of $1,511.08 and approximately 160 copies were
distributed last year. Rose Rubin moved that the Journal be
distributed to all members of the association, rather than only to
those whose abstracts and/or comments are included. After discussion,
it was voted to table the motion until next year.

Kathie Gilbert presented the report of the Nominating Committee, composed of Gilbert, Dick Leftwich of Oklahoma State University, and Joe Davis, the three immediate Past Presidents. The following slate officers was elected unanimously:

President: Lewis Hill, Texas Tech University
President-Elect and Program Chair: J. Kirker Stevens, University of Oklahoma
Vice President: Ray Battalio, Texas A&M University
Secretary-Treasurer: Rose M. Rubin, North Texas State University
Editor, Southwestern Journal of Economic Abstracts: Bob Brazelton, University of Missouri at Kansas City.

Thanks were expressed to Charles McLure for a stimulating presentation at the Plenary Session. Abdul Turay of Mississippi State University, Chair of the Resolutions Committee commented on the Distinguished Service Awards given at the Plenary Session to Dick Leftwich of Oklahoma State University and J. Anderson Davis of Mississippi State University.

The funding of travel expenses for the Plenary speaker(s) and other speakers was discussed. The officers were requested to develop gudidelines on the use of funds for speakers, to be voted on at the 1988 meeting. A committee composed of Kathie Gilbert, Chair, David Gay of the University of Arkansas and Tom Carroll of the University of Nevada-Las Vegas was requested to examine the Journal and its policies in depth and to bring recommendations regarding the Journal to be voted on at the 1988 meeting. The succession of officers of the organization was discussed at length with advantages of different approaches outlined by Kathie Gilbert. It was decided to place this item on the 1988 agenda, with written notice to be sent to the membership prior to the meeting so that a Constitutional Amendment can be voted upon if desired.

The meeting was adjourned.

Respectfully submitted,

*Rose M. Rubin*

Rose M. Rubin,
Secretary-Treasurer

# REPORT OF THE RESOLUTIONS/DISTINGUISHED SERVICE COMMITTEE

## DISTINGUISHED SERVICE CITATION

Whereas, the Southwestern Econmics Association gratefully acknowledges, with admiration and affection, the contributions and colleagueship of Dr. J. Anderson Davis.

Therefore, be it resolved that we recognize him with a Distinguished Service Citation for his dedication and service to our discipline of economics over a span of 37 years. During a career of 30 years at Mississippi State University, Dr. Davis has devoted much of his inexhaustible energy as a teacher, scholar, and administrator. His interest in the historical and philosophical aspects of economics has attracted and inspired many in seminar and in print.

In recognition of his great service to economic education and the Southwestern Economic Association, we pay homage to Dr. Davis.

## DISTINGUISHED SERVICE CITATION

Richard H. Leftwich, former Regents professor of Economics and Chairman of the Department of Economics at Oklahoma State University, is an economist of true excellence and great distinction. As a master teacher, he has shared his wisdom and insight with a multitude of students during more than one-third of a century. As a pioneering author, he has written a total of four textbooks, all of which represent the highest form of the difficult art of writing instruction materials. A generation of students learned their intermedicate economic theory from Leftwich's The Price System and Resource Allocation, which revolutionized the teaching of intermedicate theory when it was first published in 1955. As an influential leader of the economics profession, Leftwich has not only served as President of the Southwestern Economics Association, but he has also served as President of the Southern Economic Association, of the Midwest Economic Association, and of the Western Social Science Association. In order to recognize and to express our appreciation for his long and faithful service to the economics profession in general and to this Assocation in particular, we, the membership of the Southwestern Economics Association, are priviledged to present this Distinguished Service Citation to Richard H. Leftwich.

For the Southwestern Economics Association by the Resolutions/ Distinguished Service Committee:

> Linda de la Vina
> Alexander J. Kondonassis
> Abdul Turay, Chairman

## 1987-1988 Southwestern Economics Association Committees

### NOMINATIONS COMMITTEE

| | | |
|---|---|---|
| Ray Perryman | (C) | Baylor University |
| Kathie Gilbert | | Mississippi State University |
| Richard Leftwich | | Oklahoma State University |

### PUBLICATIONS COMMITTEE

| | | |
|---|---|---|
| W. Robert Brazelton | (C) | University of Missouri, Kansas City |
| J. Anderson Davis | | Mississippi State University |
| Daniel J. Slottje | | Southern Methodist University |

### STUDENT PAPER AWARDS COMMITTEE

| | | |
|---|---|---|
| Ray Battalio | (C) | Texas A&M |
| Lavonia Casperson | | Louisiana State University at Shreveport |
| Zena Seldon | | University of Wisconsin - La Crosse |

### RESOLUTIONS/DISTINGUISHED SERVICE COMMITTEE

| | | |
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| Abdul Turay | (C) | Mississippi State University |
| Alex Kondonassis | | University of Oklahoma |
| Linda De La Vina | | University of Texas - San Antonio |

### PLENARY SESSION COMMITTEE

| | | |
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| | | |
|---|---|---|
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| Betsy Jane Clary | | College of Charleston |

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President    Richard H. Leftwich    Home:   (405) 372-5248
(1984-85)    Dick Leftwich Associates
818 W. Knapp Avenue
Stillwater, OK 74075
San Antonio, Texas 78284

# Past Presidents, Southwestern Economics Association*

| | |
|---|---|
| 1948 | Morris M. Blair, Oklahoma State University |
| 1949 | Jim Reese, Oklahoma University |
| 1950 | R.B. Melton, North Texas State University |
| 1951 | Alfred Chalk, Texas A&M University |
| 1952 | Carey Thompson, University of Texas-Austin |
| 1953 | Clay Cockran, Oklahoma University |
| 1954 | Frederic Meyers, University of Texas-Austin |
| 1955 | John P. Owen, Houston University |
| 1956 | Wendell Gordon, University of Texas-Austin |
| 1957 | Joe E. Brown, Texas A&M University |
| 1958 | Maurice Erickson, Southwest Texas University |
| 1959 | John B. Giles, Rice University |
| 1960 | Sydney C. Reagan, Southern Methodist University |
| 1961 | John N. Fry, Houston University |
| 1962 | Billy Hinton, Baylor University |
| 1963 | L.H. Merzbach, Southwestern University |
| 1964 | John L. Wortham, Texas Christian University |
| 1965 | Stephen L. McDonald, University of Texas-Austin |
| 1966 | Kendall Cochran, North Texas State University |
| 1967 | Joel W. Sailors, Houston University |
| 1968 | Richard W. Poole, Oklahoma State University |
| 1969 | Gaston Rimlinger, Rice University |
| 1970 | Thomas Beard, Louisiana State University |
| 1971 | Paul Brinker, Oklahoma University |
| 1972 | Carter Murphy, Southern Methodist University |
| 1973 | Jared Hazelton, University of Texas-Austin |
| 1974 | Ralph T. Green, Federal Reserve Bank, Dallas |
| 1975 | Frank Steindl, Oklahoma State University |
| 1976 | Robert Rouse, Texas Tech University |
| 1977 | Gloria Shatto, Georgia Tech University |
| 1978 | James Hibdon, Oklahoma University |
| 1979 | William C. Adams, Eastern Texas State University |
| 1980 | Rufus Waters, Oklahoma State University |
| 1981 | Clint Johnson, Central Arkansas University |
| 1982 | David Gay, Arkansas University |
| 1983 | Charles Maurice, Texas A&M University |
| 1984 | Joe Davis, Trinity University |
| 1985 | Richard Leftwich, Oklahoma State University |
| 1986 | Kathie Gilbert, Mississippi State University |
| 1987 | Ray Perryman, Baylor University |
| 1988 | Lewis Hill, Texas Technological University |

*Compiled from the Social Science Quarterly and its predecessor, 1948-1985. Prior to 1966, this office carried the title of Economic Section Chair, Southwestern Social Science Association.

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Those wishing to have a paper considered for acceptance must submit two copies of a 500 word summary **prior** to February 15, 1987, with a separate cover sheet listing: (1) Location of conference to be considered for; (2) Name of author(s); (3) Institution of affiliation; (4) Mailing address of author(s); (5) Phone number of author(s); (6) Number and name of the JEL categories under which the article primarily belongs.

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All participants accepted on the program will be responsible for their own expenses and payment of the conference registration fee.

**Submit To:** John M. Virgo, Atlantic Economic Conference, Southern Illinois University, Campus Box 1101, Edwardsville, IL 62026-1101, U.S.A.

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