



Bio-Fuels and Global Climate Change

By Jay Abolofia



Not just for popping anymore.

President Bush, in his most recent State of the Union address, declared that the United States would reduce its gasoline consumption by 20% in the next ten years. His proposal to do so is focused primarily on the increased domestic production of ethanol (made from corn and other crops) from its current level of 5.4 billion gallons a year to 35. It is clear that this plan would marginally reduce America's dependence on imported oil, but would it have any effect on America's disproportionate contribution to global climate change?

It is quite transparent that Bush's policy is primarily focused on national security and pork barrel politics rather than the environment. Our nation's imported oil comes mainly from hostile regimes in Latin America and the Middle East, many of whom have or will soon have access to weapons of mass destruction. In addition, ethanol production currently receives a subsidy of 51 cents per gallon, which may increase to further incentivize its production. All in all, Bush's constituency of corporate Midwest farmers is growing increasingly wealthy while the environment may be receiving the short end of the stick. There are clearly an assortment of social and environmental externalities that come with the increased production of domestic bio-fuels and it appears that our President's recent proposal will do little to truly confront America's profligate consumption of oil and asymmetric contribution to global climate change.

With the government's increased demand for domestic bio-fuels there will be an inevitable shift in land use decision-making across the country. The conversion of open spaces and forested landscapes to agriculture may single handedly transform such eco-friendly bio-fields into net producers of carbon while simultaneously contributing to a variety of other environmentally damaging practices. The benefits of bio-fuels are most notably the fact that they are derived from plants, so that they absorb carbon as they grow and release it as they are burned as fuel – making the process carbon neutral. This neutrality though, in fact, breaks down when forested lands are cleared for corn production and is further tarnished when a significant increase in fertilizers is used to aid the production process. In sum, increased production of bio-fuels may directly or indirectly lead to such detrimental environmental effects as erosion, nutrient runoff, water contamination, and increased carbon emissions. When all social and environmental costs are accounted for, such processes may in fact yield a net loss to society.

Not only are there hidden environmental costs to domestically produced bio-fuels, but their amplified production will likely be accompanied by increased subsidies. The agricultural sector already receives a plethora of subsidies from the U.S. government and with a new political demand for domestic bio-fuels, ethanol producers are most likely sitting pretty. Such market distorting behaviors may in fact be more detrimental in the long run than the aforementioned environmental consequences! For example, by subsidizing ethanol American corn

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Minimum Wage Gets a Boost

By Josh Baxley

On February 1st, The Senate voted overwhelmingly for a bill to raise the federal minimum wage by \$2.10, up from \$5.15. This was the first increase in the minimum wage in over a decade. Many economists have long argued that an increase in the minimum wage will result in an increase in unemployment. The argument is an easy one to demonstrate : all things held constant, a minimum wage acts like a price floor, lifting the price of labor-hours above the market equilibrium. Since workers' productivity hasn't changed, employers demand for labor declines.

But how true is this claim? We know the extremum holds true; a minimum wage of \$500 an hour would certainly wipe out most jobs. The thought experiment is unrealistic because all increases in the minimum wage are modest. So what about smaller increases? In 1993, economists David Card and Alan Krueger published a controversial paper that examined the before and after effects of a minimum wage increase in New Jersey. They found that rather small increases in minimum wage had virtually no effect on the unemployment rate, specifically among low-income fast food workers.

Card and Krueger's is just one paper challenging hundreds. It's tempting to dismiss their work as a statistical anomaly. But consider this: last October 659 economists signed a formal statement, sponsored by the Economic Policy Institute, titled "Hundreds of Economists Say: Raise the Minimum Wage". On the list were big-wig Nobel Prize winners like Kenneth Arrow, Joseph Stiglitz, and Robert Solow. Of course, a list of signatures is by no means definitive, but it certainly gives the argument some clout.

This is only one data point. What should be understood is that there is no clear answer to the minimum wage problem. As any former econometrics student will confirm, teasing out the effects of related variables is extremely difficult. Research challenging the popular consensus provoke thoughtful discussion and fresh debate among economists. Economics is a science; this is a natural part of the scientific method and should be celebrated as such.



Economics Alumni Networking

By Maria Kolomiets

During Career Discovery week, January 22 – 27, the Economics Department teamed up with the UW Economics Alumni Organization (UWEAO) to put together its 3rd Annual Networking Event. It was held in a rather interesting format: speed-interviewing. Many of you have heard of speed-dating, well, the idea here is to interview as many Economics alumni from a variety of different fields in order to learn more about opportunities and numerous tracks after graduation. It was definitely a great success!

Ahna Kotila, Economics undergraduate advisor, opened the event describing new programs within the Economics Department, in particular the Mentorship Program. After brief announcements, the host of the event, Derek Kalles (BA 2003), asked the alumni to present themselves, as well as share their most memorable experience while in Economics Department. Judy Thornton was mentioned quite a few times for her interest in Transition Economics and here ability to inspire students to study it.

The introductions and warm memories were followed by the main part of the event: speed-interviewing. The rotations took place every 7 minutes, during which students had a chance to ask alumni any questions. The alumni members were from a variety of different disciplines, from business to law. Thus, the event was a great opportunity to learn about diverse career tracks after graduation. The alumni were very open to answering any questions students might have had. After the rotations were over, students and alumni had some time to chat a bit more.

Overall, the event was a tremendous success. Students learned more about specific careers and options they have after graduation while alumni had a chance to give back to the Economics Department and particularly to students.

The New Economics Honors Program

By Steve Margitan

Coming spring quarter the Department of Economics will begin a redesigned honors program for students interested in graduating with departmental honors. Participating in the economics honors program gives students the chance to perform an extended research project – an opportunity common for undergraduates in many majors that the economics department wishes to expand.

The thesis remains the culmination for economics honors students, but many of the other requirements for distinction have been changed. In past years, students wishing to graduate with honors had to take special sections of ECON 300 and ECON 301, take at least one econometrics course, a senior honors seminar fall quarter of the graduating year to develop a prospectus for their thesis, and write the final thesis winter quarter of their graduating year. Given the increased enrollments in the economics major, the economics department can no longer afford to offer small honors sections of ECON 300 or ECON 301. Students have a new set of guidelines under the new program:

- Students must submit an application for entry to the departmental honors program winter of their junior year
- Admission requires a minimum 3.3 GPA in all courses and a 3.5 in economics courses.
- Students must take one econometrics course
- A required spring seminar (junior year) is offered for students to hear professors discuss their research
- An autumn seminar is offered for students to develop a prospectus
- A thesis is written winter quarter

The Department of Economics is excited about this new program and hopes these new requirements will enhance students' experience in the discipline. The first year of this program will serve as a guide on what further changes will need to occur to improve the honors experience for economics students. This is a rigorous challenge for any student. Good luck to those of you entering the program!

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farmers are not only increasing their corn crop but are decreasing their exports. This phenomenon has already had a major affect in Mexico where the price of tortillas (the nation's staple food) has increased by over 400%. Tens of thousands have recently protested the government in fear that the price increases may lead to widespread malnourishment of the country's poorest citizens who spend a third of their wages on the bread. Many economists are also predicting that ethanol's explosive growth will threaten livestock prices and that there may soon be an artificially supported investment bubble.

All and all, an increase in domestic production of bio-fuels will do little to solve our environmental woes and excessive consumption of imported oil. Instead, we need an efficient market based system that will force polluters to internalize its costs and discourage emissions, thereby encouraging the development and use of cleaner energy technologies. It seems to me that the President's call for energy independence is purely political. Increased domestic production of bio-fuels will help to keep our outrageously subsidized agricultural sector outrageously subsidized, while concurrently helping to keep rural communities in middle-America (primarily red states) afloat on US tax dollars. In the end, it is business as usual; while Bush sells free trade, American freedom, and environmental protection across the world he continues to fail to uphold them at home.

This article is an editorial piece and reflects the opinion of the author.

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The U.S. and South Korea on the verge of an FTA

By Joonsoo Kim

During the last half century, the South Korean economy has developed impressively after suffering from Japanese colonization and the Korean War. The effort of South Korean social-economic reform has enabled the country to become the world's 10th largest economy. Naturally, the economic relationship between South Korea and the U.S. can be described as a great partnership.



A photo-op at the most recent negotiation.

To improve this relationship, it has become critical for the two trading partners to solve an important problem: reaching a settlement for the U.S.-South Korea Free Trade Agreement

(FTA). Since the first roundtable discussion in Washington D.C. in June 2006, the two countries have been having a hard time agreeing on issues concerning most economic sectors. Although the conflict has significantly diminished during recent talks in February 2007 (the 7th round table discussion), there are still some areas of disagreement on both sides.

One of the biggest is in the agriculture sector. Specifically, the U.S. government requested that the South Korean government eliminate its quota on rice and processed products, while the South Korean government insists that rice must be excluded from FTA negotiations. In fact, as a matter of public policy, the South Korean government has continually retained the quota on rice imports to protect the wealth of rural areas from industrialization, and to prevent foreign suppliers from threatening the nation's food security. Besides rice-related products, both countries have still not reached agreement concerning about 200 agricultural products.

The U.S. automobile industry expects greater access to the South Korean market through the FTA. U.S. automakers have had disappointing sales in the South Korean market (which is now the 13th largest in the world). In 2005, South Korea sold 730,000 cars (4.3% market share) in the U.S. while the U.S. sold only 5,700 cars in South Korea (0.7% market share). The U.S. based firms believe that the low sales are the result of the unique South Korean taxation system. Since 100% of the petroleum products in South Korea are from imports, they discourage driving vehicles with a large engine size; this is achieved by placing a higher tax burden on larger engines. As a result, the main products of the U.S. automakers, such as pick-up trucks or SUVs, which have larger engines, are extremely expensive in South Korea, and less attractive to consumers. Thus, the U.S. is increasing pressure in the hopes of resolving this issue during the FTA negotiations.

The time for a final decision is coming soon. Both sides look forward to reaching an agreement at the final meeting in Seoul in March 2007. If they do, the new agreement takes effect in June 2007. Many experts believe that an FTA could generate a positive influence on both economies, and improve the U.S.-South Korean alliance. With the end result still unclear, all eyes are on the last meeting in Seoul.

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