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## Corrupt Acts Since Fall 2016 and Their Implications

Ryan Shiplet

Since the release of the Panama Papers, corruption has been a hot topic. Let's take a look at corrupt acts exposed in the past 6 months and what they mean.

### South America:

Late last year, as part of the investigation into Petrobras (a massive oil company in Brazil which itself has been investigated for corruption), Odebrecht settled with the Brazilian, Swiss, and American governments in a corruption investigation. Odebrecht, according to BBC News, is Latin America's largest construction conglomerate and focuses on large infrastructure projects like a port in Cuba and much of the infrastructure used for the 2014 World Cup. Per BBC News, Odebrecht is also one of the largest donors in Brazilian politics. The Wall Street Journal states that Odebrecht has lined the pockets of politicians to secure the bid for large infrastructure projects that have gone more than four times over budget. Since opening the investigation of Odebrecht, several politicians outside of Brazil are now being investigated for bribery charges involving Odebrecht. In Colombia, prosecutors claim to have evidence of \$1 million in donations by Odebrecht to the 2014 re-election campaign of Juan Manuel Santos. In Venezuela, Transparency International researchers and journalists were arrested as they investigated the connection of Venezuelan President Hugo Chavez. The Odebrecht bribery charges have spread all over South America.

### Pakistan:

In November of 2016, an investigation into financial wrongdoing by Pakistan's Prime Minister Nawaz Sharif began, following the release of the Panama Papers that tied the Prime Minister and his family to expensive residential properties in London, according to The New York Times. As the decision of the investigation continued into April, it ruled there was insufficient evidence to remove Sharif from office, but it would continue to investigate his family members, according to The New York Times.

### France:

While corruption thrives in the developing world, it also exists in the developed. In March, 2017, François Fillon was investigated for misappropriation of government funds for allegedly paying his wife for jobs she did not do, per the Wall Street Journal. Ex-presidential candidate, Marine Le Pen, is also under

investigation for misuse of funds while a member of the European Parliament. She says she will not comply until after the second round of voting in the French election, according to the Wall Street Journal.

### Implications:

Corruption has been a problem for centuries. There are two views economists take on corruption. The first is that corruption "greases the wheels." Bribery naturally takes place due to inefficiencies in the market. For example, bribes take place at borders to expedite border crossing or to transport illegal substances into another crossing. There is a market for bribes that makes up for inefficiencies in the legal market. The more generally accepted theory is that while there is a market for bribes, corruption ultimately hurts the economy by creating some deadweight loss. Corruption does indeed smooth transaction costs for some individuals, but generates a negative externality. In politics, money goes in the pockets of politicians and out of the pockets of constituents. Especially in the developing world, corruption hinders economic growth. So what do these recent acts show about the direction in which corruption is heading?

On one side, these investigations and convictions reveal the vast amount of corruption within politics around the globe. It is disheartening and concerning that in the 21<sup>st</sup> century, economies and politics are held back by their dishonest politicians. The South American economy could have seen higher growth if a competitive market prevailed. Instead, Odebrecht received contracts to build infrastructure with bloated budgets, and millions if not billions of dollars went into the pockets of the several corrupt politicians. In the Western world, misappropriation of public funds is being investigated. Given the two investigations within France alone, how many more politicians- and how many more billions of dollars are being used in corrupt manners?

On the other hand, these investigations show a changed attitude towards corruption. Officials are being investigated, and the people want retribution. As corrupt acts are exposed and politicians are fined or thrown in prison, the cost of committing corrupt acts increases. With increased costs, corruption should in theory decline.

Is the glass half empty, or is it half full?

# Trump's Trade Policy: Make China Great Again

Yinong Su

Despite Trump's tough talk on China during the presidential campaign, it seems over the first hundred days that the new administration is busily working to make China great again with its retreating trade policy. Trump has pulled the United States out of the Trans-Pacific Partnership (TPP), a blow to the credibility of the U.S. as economic and strategic partner of Asia Pacific. Moreover, Trump declares that he will terminate NAFTA if he can't negotiate a better deal. Trump believes partners on the other side of the table will bend under pressure, but he forgets that these partners can simply turn to the other superpower—China. In fact, China is more than happy to occupy the power vacuum in Asia Pacific and Latin America created by America's retreat on trade.

Abandoning the TPP, which Trump claims is “a great thing for the American worker,” turns out to be not so good for Americans, but it is truly great for China. The TPP possesses various components rendering its economic impact beneficial. First, the TPP supports “Made in U.S.A” exports and jobs. Forecasts show the TPP will increase annual exports in the United States by \$357 billion, or 9.1 percent of current total exports, over baseline projections by 2030. Estimates also suggest workers would have gained 0.5 percent more real income per year once fully implemented. Even less-educated workers would have benefited.

Second, to abandon the TPP is to relinquish rule-setting power at the same time. Withdrawal from the TPP overlooks its innate strategic importance. The TPP is more than just cutting tariffs; it is a great instrument for the U.S. to promote its values and a rule-based trading system. Many Asian countries, including Singapore, hope the agreement will shape the framework of future international trade and deal with issues beyond tariffs, including the protection of intellectual property, which is the big-gest problem concerning Americans doing business in Asia. Completing the TPP will establish a healthy guide for trade in Asia that could be binding for China and the United States in the future. The China-led RCEP (Regional Comprehensive Economic Partnership) that is under negotiation, a rival of the TPP, does not contain clauses addressing important free trade agreement quality issues like the TPP does. Many U.S. trading partners have joined the RCEP, while it would be hard for the U.S. to exert influence as it is not a member of the RCEP.

Trump will make China even greater by terminating NAFTA. When Trump accuses Mexico of unfair trade and stealing jobs from the U.S., he neglects an increase in export-related U.S. jobs, more competitive U.S. companies, and lower consumer prices brought by NAFTA. Even if NAFTA is revoked, the lower-skilled jobs are still unlikely to return to the U.S., while ordinary consumers will suffer from higher prices. Furthermore, Mexico has already expressed its will to negotiate a bilateral agreement with China. How Trump deals with Mexico will generate a great impact on the rest of Latin America. If the U.S. miscalculates, it will open its backyard to the Chinese to exert their economic power.

The Trump administration keenly proposes one-on-one bilateral free trade agreements, presuming this will give Washington more leverage when negotiating terms. But they should refrain from suppressing partners on the other side of table, as they can simply embrace China. It is important to notice that the mess of bureaucracy and complex system of bilateral agreements are likely to discourage small and intermediate businesses from joining. In addition, bilateral trade agreements also bring larger costs of trade diversion. Multilateral agreements are preferable to bilateral ones because they involve more countries and create a more competitive environment, creating more trade than it diverts; a bilateral agreement includes only two countries and thus will divert more trade, diminishing the benefits from free trade.

The rules-based open American economy is facing challenges from anti-trade rhetoric at home and the rise of China. The United States needs to take actions addressing these challenges, but the U.S. cannot achieve its goal by making unwelcoming moves towards reversing the trend of globalism. Withdrawal from the TPP and terminating NAFTA put large economic gains at risk and damage the credibility of the United States as an economic and strategic partner, especially as China expands its leadership in the economic and political order by promoting its low-barrier, less open, economic system.

*This article reflects the views of the author, not the Department of Economics nor its faculty.*



# Incentives for Sustainability: What We Can Learn on the Road

Bella Brown

Incentive structures at an individual level have the power to create real market changes towards an ecologically friendly future. These incentives can come in the form of subsidies, given for choosing a green alternative action or product, or taxes, levied on environmentally harmful goods. Consumers react to taxes and subsidies, which, if implemented correctly, should equalize the price gap for more sustainable products, help internalize negative externalities such as climate harm, and allow the market to change purchasing patterns. With a strong enough incentive, consumers will make the greener choice – something cities throughout the world have learned through the implementation of incentives for consumers' vehicle purchases, transportation habits, and roadside litter behavior. In this article, I will narrow my focus to the roads of major cities as a tool to explore the power of consumer-based incentives.

Most OECD countries work to keep their transportation sustainable by implementing subsidy schemes for the purchase of green vehicles, based on energy-efficiency or alternative fuel usage. Canada, for example, utilizes an ecoAUTO Rebate program, in which fuel-efficient vehicle purchases are rewarded with refunds from C\$1000 to C\$2000. The Italian government also offers a rebate of €1000 for consumers who upgrade their cars to fuel-efficient models. On the streets of Rome, Vespa drivers are encouraged to trade in their machines for a bicycle and a neat sum of €250.

An increased usage of bicycles on the road is also visible in major cities such as Amsterdam and Paris, both members of the European Cities for Cyclists Network, which funds bicycle donations and bike lanes (to incentivize safe bike travel). Commuters in our very own UW community may have noticed new protected bike lanes spreading around Ravenna and on Roosevelt this past year, which may inspire more bikers to don a helmet and hit the pavement instead of busing or driving to class. Another massive biking subsidy, in the form of actual bicycles, was implemented in 2007 in Paris when the Velib (free bike) program placed 20,000 bikes around the city in hopes that citizens' use of this alternative transport would reduce traffic and pollution.

Amsterdam, the capitol of the Netherlands, is well known for its bikes, but the nation also implements broader subsidy incentives that impact their roads. In 2002, the Nu Spaarpas program was founded in Rotterdam, in which consumers could earn "green points" by separating recycling from their trash, using public transportation, or purchasing green products. The points could then be redeemed for discounts on sustainable goods or - coming full circle back to the pavement - be redeemed for public transport tickets. In just one year, 1.5 million points were issued to over 10,000 households.

Along with these subsidy schemes to incentivize individual purchases of green vehicles and utilization of sustainable transportation such as bikes or busses, many nations use taxes to curtail demand for transportation goods with high external environmental costs, by raising the price such that unsustainable choices are less economically viable. A common example is motor fuel taxes, which range from 20-25% of sales price in the U.S. to 40-60% in Europe. In addition to taxing fuel, the U.S. introduced the Energy Tax Act in 1978, which stipulated a tax on the purchase of inefficient vehicles. However, many of the "gas-guzzlers" that shadow the streets of the U.S. are excluded from this law, due to their classification as "light trucks." This loophole for large-car enthusiasts is one example of the shortcomings of environmental regulations. However, congestion taxes in cities like Stockholm and London target vehicles more universally, charging any cars driving into the city center during working hours. These taxes effectively reduce individual demand for unsustainable goods as well as unsustainable actions.

Along with taxing and subsidizing different forms of transportation, there are ways to incentivize making the roads we walk and drive on cleaner. Many countries have recycling systems, such as the pfand system in Germany, in which a deposit paid on beverage containers is refunded when the packaging is returned. This has decreased the amount of litter, as there is an incentive to return the Pepsi cans and beer bottles which often end up discarded by the roadside to a recycling center. In Ireland, a policy Seattlelites should recognize all too well was implemented which reduced the consumption of a commonly littered item, plastic bags, by 92% - a €0.15 levy on each new bag. Such measures reduce the amount of litter found on common roads and incentivize recycling or reusing when litter is found.

These implemented schemes of subsidies and taxes shift consumer demand towards environmentally friendly goods and practices by incentivizing greenness, and allowing market forces to work in promoting now-affordable sustainable options. Such schemes may hold the key to inspiring individuals to contribute to lower emissions, less littering, and more ecologically friendly practices on the road. Although these money-based schemes have been proven to work, one last example of an incentive for cleaner roads takes an alternate approach — some Berlin, London, and Helsinki trash cans, when offered rubbish or recycling, reward the recycler with a solar-powered chorus of Abba, celebrity-voiced "Thank you!"s, or, when in Liverpool, you might even be lucky enough to get a recording of the Beatles. With rewards and incentives, whatever the kind, sustainability can be encouraged on an individual level.

**Math/Stats Review:** In early Fall Quarter 2017 the EUB will host its Mathematics and Statistics Review Seminar to help students brush up on the mathematics and statistics used in intermediate and advanced economics classes. From partial derivatives to confidence intervals, the EUB has you covered.

## Paul Heyne Seminar and Econ Major Social

This quarter, the Economics Undergraduate Board will have Professor Nives Dolšak of the School of Marine and Environmental Affairs discuss the economics of climate change on **May 23rd** (exact room TBD) from **6:00 p.m. - 7:00 p.m.**

After the lecture will be the quarterly UW Econ Major Social with pizza.

# Anti-Dumping Against China

Kjersti Anderson

Much of President Trump's former campaign platform on international issues revolved around trade with China. Accusations flew, and Trump called China a currency manipulator. Trump is not alone, however, in this kind of accusation. Economists such as Nobel Laureate Paul Krugman have urged the US government to consider stronger actions against China to address the ubiquitous problems of currency manipulation and dumping plaguing many markets. In the latest news from across the Atlantic, the European Commission introduced levies that range from 18.1% to 35.9% for five years on certain steel items from China. This action may seriously hamper trade relations between the EU and China, and the US is trending towards a similar path. Why is this such a large issue?

Dumping occurs when a product is exported at a price determined significantly lower than the product receives in the home economy. This damages demand for the same product made in the importing country, as domestic producers cannot compete against importers that are selling at a discounted price. Another accusation hurled against China frequently is one of currency manipulation. Keeping the renminbi low ensures that exports remain relatively cheap compared to home products as well. A combination of currency manipulation and dumping into importing markets significantly dampens demand, and creates output gaps, for the importing market.

China would appear to be targeted with 23 of the 31 ongoing anti-dumping investigations by the European Commission involving Chinese products. The steel market is a particular place when hints of protectionism come into play: the Chinese steel industry is the largest in the world, accounting for nearly half of global production. Domestic consumption of steel in China is waning which likely means even more glut in the export market for steel. To bring it into perspective, every 1% increase in exports is almost the equivalent of the entire export market for American steel mills. This, and similar statistics, likely influenced the April 20<sup>th</sup> decision by the US to launch a national security investigation into Chinese steel markets, which could lead to similar European Commission-style levies on imports. While the United States is currently in a purely rhetorical battle over alleged trade malpractices in this specific market, the implications could be severe, while still unknown. Following the findings of the investigation into Chinese steel markets could lead to needed action to protect American corporations and preserve jobs. However, slapping tariffs on one of the United States' largest trading partners could incite retaliatory action and sour relations for years to come.

**Career Seminar:** The EUB is hosting its Career Seminar for anyone looking to learn more about economics-related careers from UW Econ Alumni. Panelists include Rebecca Gee, Jeff Lewis, and Clint George. The event will take place in **Smith 307** on **Tuesday, May 30th** at **6:30 P.M.**

**Economics Tutoring:** The EUB offers free tutoring every weekday at various times every quarter! Check the schedule on the EUB website to see tutoring times. If you need help with an upper-level class, however, make sure you check the website to see which tutor can help.



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**Comics from xkcd.com and smbc-comics.com.**

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