

The Econ Exchange

NEWS AND NOTES FROM THE DEPARTMENT OF ECONOMICS

VOLUME SIX, NUMBER TWO

FALL 2003

California's Fiscal Crisis: What's Next?

A Note from Chair Richard J. Gilbert

While the State of California struggles through its fiscal crisis, the Department of Economics at Berkeley continues to distinguish itself as one of the world's premier economics research and teaching departments. This edition of *The Econ Exchange* profiles two of our four new faculty members – Raj Chetty and Chang-Tai Hsieh. Raj specializes in public economics and Chang-Tai specializes in growth and development economics. The next edition of *The Econ Exchange* will profile our other two new hires, Pierre-Olivier Gourinchas and Shachar Kariv.

This Fall we inaugurated the Behavioral Experimental Economics laboratory. We call it the X-Lab. The X-Lab is a joint venture between the Department of Economics and the Haas School of Business, led by John Morgan at Haas (who also has a joint appointment in our Department) and George Akerlof. The X-Lab will be an extraordinary research tool to study human behavior in a setting that mirrors actual real-

See **CHAIR** page 11

By

**Alan J. Auerbach,
Robert D. Burch Professor of Economics and Law**

The recall of former Governor Davis and his replacement by Arnold Schwarzenegger can be tied heavily to the critical state of California's finances and the difficulty that the previous Governor had in dealing with it. As of this writing, it is anyone's guess how the new governor will act to resolve the state's fiscal problems and how things will play out in the state legislature. But, given the vagueness of many political discussions, some concrete facts can be useful in understanding the options.

It requires more than a familiarity with basic accounting concepts to decipher the California budget. Words like "expenditure," "revenue," and "deficit" appear to change definition somewhere between Berkeley and Sacramento. Nevertheless, certain facts stand out. California ended its 2002-03 fiscal year on June 30 with a general-fund budget gap that was addressed in this year's (2003-04) budget by the issuance of nearly \$11 billion in bonds. This year, the budget appears in balance as the result of an apparently large expenditure reduction. Part of this reduction is real, as we at the University of California know. The increase in the Vehicle License Fee

"California's Fiscal Crisis"
Thursday, April 15, 2004

**An alumni outreach symposium
presented by Professor Alan
Auerbach and other experts on the
California budget situation.**

*See Page 12 of the Econ Exchange for more
details and registration information.*

See **STATE** page 11

ALUMNI EXCHANGE

ALUMNI UPDATES...

1984 Economics Ph.D. **Arij Lans Bovenberg** is a 2003 recipient of the NWO/Spinoza Prize. The Spinoza Prize is the most significant Dutch award in the sciences. Bovenberg, of Tilburg University and Erasmus University Rotterdam, was called the "first economist who can fill the gap left by Tinbergen" by the Prize's jury report. Each recipient receives one-and-a-half million euros to freely devote to his or her research, which recognizes each scholar's outstanding, pioneering and inspiring scientific work.

From **Ross Henderson** (A.B. 1988): Seeking situations where demand exceeds supply, I spent 12 years in the field of international trade and distribution with positions in Tokyo and Los Angeles, with a brief pitstop for a UCLA MBA. Subsequently, I served as CEO of the venture-funded B2B, ClickTex (de mortuis nil nisi bonum). Since 2001, I live and work in Connecticut and serve as Managing Director of Employment Tax Specialists (M&A focus). Go Bears.

Petra Moser (Ph.D. 2002) was awarded the Gerschenkron Prize for best dissertation in economic history (European, Asian, and comparative topics) by the Economic History Association for her dissertation "The determinants of innovation: New evidence from nineteenth-century world fairs", supervised by Christina Romer. The dissertation prize is named for former Cal and Harvard professor Alexander Gerschenkron.

Gary Slavitt (PMP 1978) is Senior Executive Vice-President of the Plant Earth Global Services, a full service Human Capital Management and Management Consulting firm. The company is headquartered in San Diego. Gary is married to Evelyn Margolin (UCSC '80) and lives in Sacramento. They still attend all the home (and several road) Cal football games.

Note from the Editor: Alumni, please submit your Alumni Updates to alumni@econ.berkeley.edu on the following schedule: October 1 (for Fall edition), and April 1 (for Spring edition). Thanks.

THANK YOU TO OUR FRIENDS

The Department of Economics gratefully acknowledges the alumni, friends, and organizations who made donations to the Economics Annual Fund, Centennial Fund, and other ongoing initiatives from June through November 2003:

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John S. Ziegler '79

Undergraduate Student Scholarships in Economics:

Michael '67, '68, '71 and Christien Boskin

Graduate Student Support Fund in the Social Sciences:

Jeffrey Kichaven '77

Alumni Relations/Outreach:

The Koret Foundation

Donor Profile: Steve Sidener

Steve Sidener is a founding contributor to the Department of Economics Centennial Fund. Over the past year, he has given several large gifts to the Fund towards our goal of raising \$500,000.

Steve Sidener, a name partner in the San Francisco law firm Gold Bennett Cera & Sidener LLP, specializes in complex commercial disputes, including antitrust and securities litigation. He received his B.A. degree in Economics from Cal in 1982. As an economics major, Steve's interests included public finance, macroeconomic theory and econometrics. He credits his time in the department with preparing him for this later career in law. Steve regularly appears in federal courts throughout the country and is currently litigating several high-profile antitrust cases involving international price-fixing cartels. Steve lives in Walnut Creek with his wife Susan.



launching what has become the Pell Grant program, the foundation of need-based federal support for college students.

"Every student and every campus leader alive today owes Clark Kerr a great debt of gratitude – for it was his vision and his bold determination that helped create the modern university, and the idea that students from all walks of life should have access to college," said David Ward, president of the American Council on Education and former chancellor of the University of Wisconsin at Madison.

UC Berkeley Chancellor Robert M. Berdahl said that Kerr was "one of the most revered leaders in public higher education in the 20th century. Every chancellor of Berkeley, every president of the University of California, I think, consulted with Clark because he kept abreast of everything that was happening on the campus. He was really a remarkable influence well beyond his tenure as chancellor and president because of his devotion to the university, his great concern about it."

A professor of economics and industrial relations and a masterful labor negotiator, Kerr joined the UC Berkeley faculty in 1945 as a flood of post-war servicemen and women enrolled. What this generation of students did with the opportunities afforded them by the GI Bill of Rights would have a deep impact on Kerr's insistence on universal access to higher education.

Kerr rose to prominence on the faculty during a particularly tense time in the university's history. As the Cold War heated up, the University of California Board of Regents threatened to fire all professors who refused to sign a loyalty oath.

Some faculty members refused to do so, and Kerr, then a junior member of the Academic Senate Committee on Privilege and Tenure, was a forceful and reasoned advocate for the faculty position before the UC

*See **KERR** page 10*

In Memoriam: Clark Kerr, 1939 Econ Ph.D.

Former UC President Clark Kerr, a national leader in higher education, dies at 92

By Marie Felde, Media Relations (excerpts reprinted with permission)

Clark Kerr, a towering figure in higher education, died Monday, Dec. 1 at the age of 92. As president of the University of California, he was chief architect of the master plan that guided California public higher education for four decades and is still a national model.

Kerr, who also served as UC Berkeley's first chancellor, was admired as an elegant thinker of great intellect. His clear, logical vision of both the promise and problems of modern higher education influenced generations of political and education leaders, from California Gov. Edmund G. "Pat" Brown to Presidents Eisenhower, Kennedy and Johnson.

Following publication of the Master Plan for Higher Education in California, Time magazine featured Kerr on its cover on Oct. 17, 1960, chronicling his inspired leadership and deft guidance of the growing UC system.

Although born in an era when fewer than 5 percent of America's 18-year-olds attended college, the former Pennsylvania farm boy believed that every student should be entitled to a college education, whether or not his or her family could afford it. On a national level, his vision is credited with

Raj Chetty: A Second Generation Economist

A new faculty profile

Just six years ago, Assistant Professor Raj Chetty planned to pursue a career in biomedical science. His love of abstract thinking and the opportunity to make exciting discoveries seemed to make biomedicine the perfect fit for a career of experimentation. Then he enrolled in an advanced microeconomics class in his first year as a Harvard undergraduate, and an economist was born. But this economist was born to an economist—his dad is Boston University School of Medicine health economist and statistician VK Chetty.

Chetty chose economics because his preference for conceptual thinking, combined with his interest in social welfare, had found its intellectual outlet in the fields of microeconomic theory and public finance. His 2003 Harvard Ph.D. dissertation “Consumption Commitments, Preferences over Wealth, and Optimal Unemployment Insurance” posits a new theory of risk preferences that has applications in many domains, ranging from social insurance to portfolio choice. Chetty shows

theoretically that fixed commitments (such as mortgage, car payments, school costs) raise risk aversion with respect to wealth fluctuations. Using data on the behavior of unemployed individuals, he shows that the magnitude of this effect is very large in practice. A subsequent



paper shows that consumers with a high degree of commitment tend to invest in safer portfolios, and discusses implications for equity risk premiums. Chetty is continuing to explore the implications of commitments by investigating their effects on labor supply responses to tax policy. More recently, he has also become interested in behavioral economics

and public finance, studying the effects of taxation in a model where consumers are not fully aware of all the taxes they must pay.

Chetty says that he chose Berkeley over Princeton, Stanford, and Chicago because of its strong economics faculty, particularly in his primary areas of interest, public finance and applied theory. He values the collaborative nature of the department’s faculty and feels that many new research projects are likely to come from working with his new colleagues. In fact, he is just beginning to work on the effects of the recent dividend tax cut with Associate Professor Emmanuel Saez. In addition, he hopes someday to collaborate on research in his native India, as his father did earlier in his career.

Outside the office, Raj enjoys the many benefits of living in Berkeley. He frequently joins colleagues Botond Koszegi and Ted Miguel for games of pickup basketball, and also plays tennis on a regular basis.

Chang-Tai Hsieh: Looking at Growth and Development One Country at a Time

A new faculty profile

Chang-tai Hsieh spent many hours during his youth reading about space travel and other subjects of interest in the library of the United States Information Agency in Paraguay, where he grew up, the son of a businessman from Taiwan. He claims always to have been interested in trying to discover why things work the way they do, and thus found himself entranced with economics as a vehicle to understanding. So, he studied, along with the Apollo missions, *The Worldly Philosophers: The Lives, Times and Ideas of the Great Economic Thinkers* by Robert L. Heilbroner, which led Hsieh to believe that through the power of ideas the world could be changed. He learned that economists need a combination of skills—writing, mathematics, history—and he recognized that the greatest among them—Smith, Keynes, Marx—all possessed these qualities in abundance.

As an undergraduate at Swarthmore, Hsieh studied political economy, though he says he learned very little actual economics. His program of study, based on the Oxford University model, focused primarily on the process of thinking and learning, but his small group of fellow students ultimately produced five

economists. Hsieh became an economist here at Cal, under the tutelage of advisor Paul Romer, David Romer, and Brad De Long. He also worked later with Christina Romer. He defines himself as a subspecialist in the areas of growth and development economics and he completed a dissertation entitled “Essays in



Economic Growth” for his 1998 Ph.D. After a five-year stint as an assistant professor at Princeton, Hsieh finds himself back at his alma mater, teaching political economy in both the Department of Economics and the Political Economy of Industrial Societies (PEIS) program major within International and Area Studies.

Hsieh’s research has shifted to using microdata to shed light on larger questions in economic

growth and development. His myriad research interests have resulted in papers which range from historical looks at 20th century pound sterling crises and Great Depression-era Federal Reserve Bank policies to current East Asian factor and labor markets, Chile’s nationwide school voucher program, Japanese fiscal policy, and the labor market impact of Russian immigration in Israel. Hsieh’s newest projects address growth in Chile’s economy due to changes in the credit market system in that country and an effort to explain China’s large share of the external trade market in the international economy. He is looking at microdata regarding both China’s rise in productivity and in trade diversion practices which create barriers to trade within that vast nation.

In his continuing quest to understand why things work the way they do, Hsieh anticipates a future research project which will attempt to illuminate the reasons for the diversity of educational quality in poor and rich countries. Is the difference in teacher salaries? In limited access to education for poor children? Hsieh finds that although much research has been done, very little true understanding has resulted. Hsieh also intends to add a new field course to Economics’s development sequence in 2004-05: Growth and Development in Political Economy.

XLAB: EXPERIMENTAL SOCIAL SCIENCE LABORATORY

by
Grace Katagiri

One of the most important developments of the last few years has been the recognition that controlled laboratory experiments, long the heart of the scientific method in the “hard sciences,” are a critical tool for research in the social sciences as well. While this has long been acknowledged in, say, psychology, increasingly economists, anthropologists, political scientists, and scholars in other fields are using laboratory methods with great success. Indeed, the awarding of the 2002 Nobel Prize in the Economic Sciences to Professors Daniel Kahneman and Vernon Smith, pioneers in the use of experimental methods to understand economic decision making, explicitly recognized this.

Cal, which strives to be at the forefront of this scientific “revolution” in the social sciences, received funding this summer to establish a new Experimental Social Science Laboratory, also known as XLab. Initial funding sources include the National Science Foundation, CITRIS, Berkeley’s Vice Chancellor for Research, and Hewlett-Packard. Long-term support will also be forthcoming from the Department of Economics’ Centennial Fund. XLab is housed in space provided by the Institute of Business and Economic Research and the Haas School of Business. Principal investigators include George Akerlof, Teck Ho, Barbara Mellers, and John Morgan. Morgan is the current Director of XLab, and is assisted by IT Manager Grace Katagiri.

Morgan notes that the long-term goal of the Xlab is to be the premier intellectual center for theorizing and experimenting in important research areas that integrate studies of behavior in currently separate social science disciplines. As Morgan explains, “The key to achieving this goal is to dramatically lower the ‘barriers to entry’ for researchers seeking to incorporate experimental methods into their research. That’s really Xlab’s *raison d’etre*.” Previously, these barriers were formidable. Experimental research requires substantial resources that are ordinarily beyond the means of individual faculty and student researchers. Subjects in experiments are paid a participation fee, and experimental facilities require adequate space and computer systems. Researchers are required to develop human subjects protocols in compliance with federal guidelines. And so on. XLab is pioneering a new approach to these issues, with the goal of making experiments easy and affordable for all researchers.

XLab takes advantage of recent advances in wireless and notebook technology. The core of its equipment is comprised of 50 wireless-enabled laptops that can be charged up and moved from place to place on mobile carts. A “master” laptop, which is pre-installed with web-based experimental software, travels with the carts. A private and secure wireless network can be created quickly when an access point is plugged into the master system. “XLab is designed to be a self-contained laboratory on wheels,” says Katagiri, although the majority of its use will come in lab space provided by the Haas School.

XLab is scheduled to open its doors in December. Inquiries can be emailed to Grace Katagiri at katagiri@haas.berkeley.edu.

Faculty News & Notes

In May, **Pranab Bardhan** presented lectures at the University of East Anglia, UK (on the Economist's Approach to Corruption), the World Bank (Inequality and Collective Action), and the University of Santa Clara (Globalization). That same month, he participated in a MacArthur Foundation-funded conference on Centralization and Delivery of Public Services that he had helped to organize at the LSE. He gave the Inaugural Luca d'Agliano Lecture on Development Economics at Turin, Italy on "Globalization and the Poor" in June. August found Bardhan in South Asia, with a series of lectures at the Central Bank of Sri Lanka in Colombo, and a Ford Foundation-funded conference on "Conversations between Economists and Anthropologists: Alternative Approaches to Cooperation on the Commons" that he was involved in organizing. In September, he gave a lecture on Indian Political Economy at the School of Advanced International Studies at Johns Hopkins. He also organized the biannual conferences of the MacArthur Foundation Research Network on Inequality (of which he is co-Director) at MIT in May and October.

Assistant Professor **Raj Chetty** has just received the National Tax Association's annual award for the best dissertation in 2003 for his thesis entitled "Consumption, Commitments, Preferences over Wealth: Optimal Unemployment Insurance". His award came with an invitation to give a presentation at the NTA meetings in Chicago in November.

Barry Eichengreen's book *Capital Flows and Crises* will be published in Spring 2003 by MIT Press.

This fall, **Bronwyn Hall** taught in the European Summer School on Industrial Dynamics in Corsica and presented papers at two conferences in Paris (OECD, on Innovation and Intellectual Property, and INSEE-CREST/NBER, on R&D, Education, and Productivity). Together with a number of European academic economists, she has been involved in policy statements on the current debate at the European parliament over software patenting in Europe.

Microeconomics theorist **Shachar Kariv** reports that his paper "Distinguishing Informational Cascades from Herd Behavior in the Laboratory" (joint with Bogaçhan Celen, NYU) won the Richard Crowell Memorial Prize Paper Competition (2002). He further reports that he has three forthcoming papers in the journals *Games and Economic Behavior* and the *American Economic Review*.

Emeritus Professor **Jack Leticche** presented the keynote address entitled "The Economic Factor in International Terrorism" at the Federal Government Senior Executive Program in Tampa, Florida on May 17, 2003. He also spoke on "The World Economy and Counter-Terrorism" at the Western Management Development Center in Aurora, Colorado on August 20th.

Congratulations and good luck! **Dan McFadden** is President-elect, and **Janet Yellen** Vice President, of the American Economic Association Executive Committee for 2004.

Faculty News & Notes

The paper which resulted from **Ted Miguel's** research in Tanzania, "Worms: Identifying Impacts on Education and Health in the Presence of Externalities", is forthcoming in *Econometrica*. This summer and fall, Miguel presented his research on sub-Saharan Africa at a plenary session of the Centre for Economic Policy Research (CEPR) Annual International Conference on Transition Economics in Budapest (July) and at the World Affairs Council of Northern California (October).

Maury Obstfeld traveled to the Rajk Laszlo College for Advanced Studies in Budapest, Hungary, to give a lecture on the occasion of being presented the John von Neumann Award for 2003. Obstfeld mentioned that several other Cal faculty have won this award in the past: **John Harsanyi, Hal Varian, and Oliver Williamson**.

In September, **Martha Olney** ended her 9-year term as Meetings Coordinator for the Economic History Association. She'd been coordinating the association's annual meeting since 1995. The 9 EHA presidents she had served presented her with a plaque commemorating her service, and the association's membership rewarded her with an extended standing ovation at its annual banquet in Nashville. Marty has recently been appointed to the Advisory Council of McDonough School of Business' Credit Research Center at Georgetown University.

John Quigley was a visitor at the Board of Governors of the Federal Reserve during the past winter where he presented papers on "Stock Market Wealth, Housing Market Wealth and Consumption" and on "Price Discovery in the Housing Market". He presented papers at The Royal Institute of Technology in Stockholm and at Koç University in Istanbul. In May, Quigley gave the keynote speech at the ENHR Conference in Tirana on Housing Markets in Transnational Economies, sponsored by the UN. He also participated in conferences sponsored by the NBER and the Brookings Institution.

The 2003 California Establishment Survey was designed by **Michael Reich**, professor and research chair at the Institute for Labor and Employment. The survey targets private businesses with 5 or more employees and poses questions about human-resource policies, pay, training, workforce composition, and benefits. Just as the State Legislature passed Senate Bill 2, which requires employers to provide health care for their employees and dependents by certain dates, and under certain circumstances, Reich's survey of 776 California businesses found that 64% of those surveyed were in favor of the provisions under SB2, and that 59% of respondents who do not currently offer health insurance also expressed support for the reforms detailed in the bill. Reich's survey also estimated the costs to the affected businesses of providing health insurance to employees (including dependents). The average cost of \$1343 per employee represents a 0.2-per cent increase in overall operating costs for the businesses. Reich plans to release the survey results for over 1000 businesses in 2004.

News from the Undergraduate Economics Association:

The Undergraduate Economics Association (UEA) defines itself as a lively club for Econ majors, those considering Economics as a major, or just students who like economics. The Association's goal is to build interest and camaraderie among Economics undergraduates, and to provide resources that will help students get the most out of the Economics Department's offerings and services.

This year, the UEA published its first-ever newsletter, and an impressive one it is. In addition to interviews of department faculty (the first is with Chair Richard Gilbert), the UEA newsletter—called *The Possibilities Frontier*—reviews classes of interest to Econ undergraduates, including the cross-listed C110 "Game Theory in the Social Sciences", which is taught by Econ Ph.D. and Political Science Professor Bob Powell, and Econ 104, "Advanced Microeconomic Theory", taught this Fall by newly-arrived Assistant Professor Shachar Kariv. In addition to general information about the intellectual content of each class, the reviews include information about how the class is structured; ie., number of problem sets and how they are to be approached, whether exams are cumulative or limited, and some notes on the teaching philosophy of the professor. This first issue also unveils what seems to be, for undergraduates, the mystery of department seminars, and discusses all the advantages of attending them (including the fact that your GSI may be giving one!), goes on to profile the 2003 Nobel Laureates in the Economic Sciences, and then ends with a smattering of economist-centered jokes and a column entitled "This Month in Economic History", which includes tidbits dating from November 1851.

Graduate Student Updates

Once again, the Department of Economics was successful in placing its 2003 crop of Ph.D.s. Congratulations to our graduates, one and all! The list of graduates and their new positions follows:

JOHN BLUEDORN	<i>Postdoctoral Fellow, Nuffield College, Oxford University</i>
CLAUDIO BRAVO-ORTEGA	<i>Consultant, Latin America and the Caribbean Chief Economics Unit, World Bank</i>
MICHAEL BRUNETTI	<i>Economist, ERS Group</i>
ELIZABETH CASCIO	<i>Assistant Professor, Department of Economics, UC Davis</i>
KEVIN COLE	<i>Senior Research Associate, Mellon Capital Management, San Francisco</i>
ANDREA DEMICHELIS	<i>Research Economist, International Finance Department, Board of Governors, Federal Reserve System</i>
GABRIEL DEMOMBYNES	<i>Young Professional, World Bank</i>
CARLOS DOBKIN	<i>Assistant Professor, Department of Economics, UC Santa Cruz</i>
ERIK EYSTER	<i>Permanent Lecturer, London School of Economics</i>
SERGIO FIRPO	<i>Assistant Professor, University of British Columbia</i>
LAURA GIULIANO	<i>Russell Sage Foundation Postdoctoral Fellow, Haas School of Business, UC Berkeley</i>
PAULA GIULIANO	<i>Economist, International Monetary Fund</i>
JESSE GIUMMO	<i>Visiting Professor, Dartmouth College</i>
RUSSELL GREEN	<i>Research Economist, Office of International Affairs, U.S. Treasury</i>
REBECCA HELLERSTEIN	<i>Research Economist, Federal Reserve Bank of New York</i>
DAVID HUFFMAN	<i>Postdoctoral Fellow, University of Bonn, Germany</i>
JOHN IFCHER	<i>Research Economist, Office of the President, University of California</i>
PABLO KLEIN	<i>Assistant Professor, University Anahuac, Mexico</i>
ETHAN LEWIS	<i>Research Economist, Federal Reserve Bank of Philadelphia</i>
MEGAN MACGARVIE	<i>Assistant Professor, Department of Finance and Economics, School of Management, Boston University</i>

JUSTIN McCRARY	<i>Assistant Professor, Ford School of Public Policy and Economics, University of Michigan</i>
JESSE ROTHSTEIN	<i>Assistant Professor, Department of Economics and Woodrow Wilson School of Public Policy, Princeton</i>
JEAN-PHILIPPE STIJNS	<i>Assistant Professor, Department of Economics, Northwestern University</i>
CHARLES UDOMSAPH	<i>Research Economist, World Bank</i>
TILL VON WACHTER	<i>Assistant Professor, Department of Economics, Columbia University</i>
JEFFREY WEINSTEIN	<i>Economist, General Accounting Office</i>

Other news from our current graduate students:

First-year student **Jordan Beck** reports that he was awarded the 2003 Frank W. Taussig Award for the best undergraduate paper in economics by the international economics honor society Omicron Delta Epsilon. The article "Can Groupthink Psychology Influence Federal Open Market Decisions" will be published in *The American Economist*.

In October, fifth year students **Miguel Fuentes** and **Pablo Ibararan** attended the 8th Annual Meeting of the Latin American and Caribbean Economic Association (LACEA) in Puebla, Mexico. Both presented papers at the conference that form part of their dissertation work.

Andrew Hayashi reports that he and fellow graduate student **Paul Cathcart** (with sponsorship from David Card) won a research grant from the Pell Institute to do a paper on opportunity in higher education.

KERR from page 3

Regents. In 1952, when he was selected to be the campus's first chancellor, Kerr was the choice of the faculty nominating committee.

Kerr's dry sense of humor made him among the most quoted university leaders in the country. To this day, hardly a student arrives at UC Berkeley without hearing at least once Kerr's observation: "If you are bored with Berkeley, you are bored with life."

But it was his comment at a faculty meeting in 1957 that found its way into Time and Playboy magazines and into university lore. Asked what the chancellor was doing about parking, he replied that the chancellor's job had come to be defined as "providing parking for faculty, sex for the students, and athletics for the alumni."

Kerr served as UC Berkeley chancellor from 1952-58, when he was elevated to president of the University of California system. He served in that role until 1967. It was an era of tremendous growth, planning and student unrest.

As UC president, he also spearheaded the negotiation of California's Master Plan for Higher Education. Adopted by the state Legislature in 1960 with only one dissenting vote, it assured access to public higher education for all California students and defined the roles of the UC campuses, California State University and California's system of community colleges. The plan has been used as a model in education planning around the world.

"Clark Kerr was a giant in American higher education, and the entire University of California community joins in mourning his loss," said UC President Robert C. Dynes. "He was the dean of the higher education community not only in California, but in America, and we will be forever in his debt for the extraordinary contributions he made to educational excellence and opportunity.

As Kerr summed up his UC presidency at a 1967 news conference, he spoke of his accomplishments: "In the history of the university, we've never turned away a qualified student from the State of California; I hope we never do. It will be a sad day when that happens."

KERR cont'd next page

KERR from page 10

But for all his successes, Kerr struggled with growing student unrest, which reached historic dimensions with the Free Speech Movement that rocked the Berkeley campus beginning in 1964. It accelerated student activism on a national scale, but its tumultuous conclusion marked the low point in Kerr's storied UC career as he was caught between increasingly liberal students and conservative politicians.

Born in 1911 in Stony Creek, Penn., Kerr attended a one-room school as a youngster. He headed off to Swarthmore, a Quaker college, where he earned his B.A. in 1932, was the student body president and became a lifelong follower of the Society of Friends.

He intended to attend law school at Columbia University, but a summer peace caravan to California changed his mind. Taken with California, he enrolled to study economics at Stanford University, where he received his M.A. in 1933. He received his Ph.D. in economics from UC Berkeley in 1939 following a year as a UC Newton Booth Fellow studying at the London School of Economics.

Kerr chose to enter an emerging field, labor economics. He became a well-known, highly regarded labor negotiator. He returned to UC Berkeley in 1945 to head the new Institute of Industrial Relations, a pet project of then-Gov. Earl Warren.

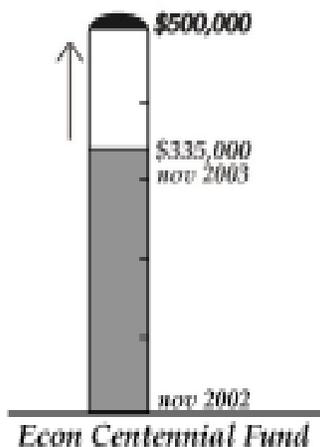
Kerr is survived by his wife, Catherine; two sons, Clark E. Kerr of Alamo, Calif., and Alexander "Sandy" Kerr of Australia; daughter, Caroline Gage of Orinda, Calif.; and William "Bill" Kerr, a half brother living in Pennsylvania. He also leaves seven grandchildren and one great-grandchild.

CHAIR from page 1

world economic environments. It is already the second-largest facility of its kind in North America.

In November we held a seminar on the California Fiscal Crisis featuring a presentation by Alan Auerbach. Alan is Director of the Robert D. Burch Center for Tax Policy and Public Finance and an often-quoted expert on the State's fiscal situation. We plan to hold a symposium later this Spring that will examine the fiscal crisis and related issues in more detail. Look for an announcement of this event in *The Econ Exchange*.

Although the Department has been thriving, there is no doubt that the State fiscal emergency will weigh heavily upon us. With your support we can weather the fiscal storm and continue to be a premier economics department. Last year, when we celebrated our Centennial, I set a goal of



\$500,000 to endow a new Centennial Fund. We are within striking distance of our goal thanks to contributions from many of our alumni and own faculty. With your help, we can reach our goal and help insure the success of our Department.

STATE from page 1

(VLF) shows up as an expenditure reduction as well. (Remember, this is "advanced" accounting.) But much of the expenditure "reduction" involves gimmicks that cannot be sustained, leaving us with a projected deficit of \$8 billion for the coming fiscal year, according to the Legislative Analyst's Office.

Now, consider some simple arithmetic. If Governor Schwarzenegger succeeds in repealing the VLF increase, this will add another \$4 billion to the gap he faces. If his promise not to touch education is interpreted as forcing no further reductions in the budget for K-12 education, and his pledge not to increase taxes holds, then he faces a problem of cutting about \$12 billion from a budget of around \$45 billion that has already experienced some cuts. A background in magic, rather than acting, might have been more helpful.

California's current crisis has many sources, including the recession of 2001 and the collapse of the dot-com boom that had produced a surge in revenues on which our government came to depend. There are also more chronic aspects of the problem that relate to our state's impressive experiment in direct democracy, which has given us tight constraints on tax and expenditure changes and the requirement of a 2/3 majority in the legislature to pass a budget. Addressing these chronic problems would do little to deal with our immediate crisis, but they could forestall the next budget crisis (or the next recall).

The Econ Exchange

NEWS AND NOTES FROM THE DEPARTMENT OF ECONOMICS

The Econ Exchange is published semiannually for alumni and friends of the Department of Economics, University of California, Berkeley.

DEPARTMENT OF ECONOMICS

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THE ECON EXCHANGE

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Join us for an alumni outreach symposium:

California's Fiscal Crisis
Thursday, April 15, 2004
3:00-6:00pm

Place: TBA (on the Cal campus)

Does California's unprecedented recall of Governor Gray Davis, and his replacement by Arnold Schwarzenegger, really represent a solution to California's budget crisis? Join experts from Cal and other universities around the state for an afternoon on the California budget situation. In addition to Burch Professor Alan Auerbach, symposium speakers will include Professors Steven Sheffrin (UC Davis) and John Ellwood (UCB), among others.

For more information, call Outreach Coordinator Jane Turbiner (510-642-1966) or email: alumni@econ.berkeley.edu. Registration will take place in late February or early March.

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