The Popular Economist

Spring 2014 Newsletter | Center for Popular Economics

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http://www.populareconomics.org

Announcing the 2014 CPE Summer Workshop Series

CPE's Summer Institute has long been our hallmark program, attracting participation from labor, community, social and economic justice activists from all over the U.S. and around the world.

This year we are organizing a weekly **Summer Workshop Series** instead of our traditional weeklong, residential program. These workshops will be geared towards local community leaders and activists and the issues of most relevance to groups in the **Pioneer Valley**. While we plan to return to our conventional format in future years, we're excited about the opportunity this format gives us to deepen our work with local groups and develop new and tailored curriculum.

The Summer Workshop Series will consist of **weekly 3 hour workshops** taught by our passionate staff economists, running throughout June and July. Participants can enroll in the entire series or attend workshops a la carte to match their interests. Topics will include an **introduction to CPE's economic analysis**, the **educational system**, **health insurance**, **foreclosure**, the **local food economy**, **trade and immigration**, the **state of wages and working conditions** and **cooperatives.**

You can register for the workshops on our website, and you can also find regular updates and announcements on our new facebook page throughout the summer.

The Key to Ending the Perennial Minimum Wage Debate: One Basic Fact

Jeannette Wicks-Lim, Assistant Professor, Political Economy Research Institute, UMass Amherst

Each time a minimum wage hike is put on the table, the political debate spins on the question of whether such a move would cause business costs to increase so much that jobs are lost. To progress past this perennial debate, one key fact has to be pounded into the American psyche: *Average minimum wage hikes impose small cost increases on businesses—so small that businesses can typically adjust by means other than closing their doors or laying off workers.* Recent proposals to raise the $7.25 federal minimum present a welcome opportunity to take another whack at this.

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The Key to Ending the Perennial Minimum Wage Debate: One Basic Fact *(Cont'd from page 1)*

Take, for example, the potential impact of a $10.50 federal minimum wage proposed by Florida Congressman Alan Grayson. My colleague Robert Pollin and I estimated that the average fast food restaurant could fully cover the costs of a $10.50 minimum by raising their prices 2.7 percent. This is equal to raising the price of a $4.50 Big Mac to $4.60. We presented this key finding in a petition supporting H.R. 1346 signed by over 100 professional economists.

AP File Photo

Why such a modest cost increase, even for fast food restaurants?

Workers will receive an average raise much smaller than 45 percent.

Workers earning between $7.25 and $12.00 will likely get raises from a $10.50 minimum. (Employers give raises to workers earning a little above $10.50 in order to preserve their firm's wage hierarchy.) However, the lowest-wage workers, who get the largest raises, also work the fewest hours. As a result, a $10.50 minimum wage produces an average 16.4 percent raise *per hour worked* among workers earning between $7.25 and $12.00.

Lowest paid workers take home a relatively small share of payroll.

Because workers affected by minimum wage hikes get paid the least, work the fewest hours, and typically do not receive benefits, their overall share of the wage bill is smaller than their share of the total headcount of workers. Specifically, even though 84 percent of the 3.7 million fast food workers earn between $7.25 and $12.00 per hour, the $10.50 minimum will affect only 60 percent of the average fast food restaurant's total payroll.

Payroll only represents 25 percent of total sales.

Now let's do the math. The $10.50 minimum wage would generate an average per-hour raise of 16 percent for 60 percent of total payroll. Total payroll would therefore increase 10 percent (16 percent x 60 percent = 10 percent). Since payroll represents only 25 percent of fast food restaurants' total sales, a 10 percent payroll increase amounts to 2.5 percent of sales (10 percent x 25 percent = 2.5 percent). Tacking on employers' higher payroll taxes (7.65 percent) raises this figure to 2.7 percent (2.5 percent x 1.0765 = 2.7 percent).

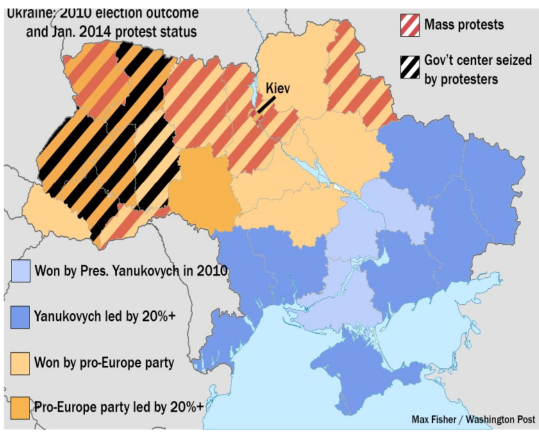
Some of these costs are offset since higher wages cause workers to stay in their jobs longer. Employers can then spend less on recruiting and training workers, and their more experienced workers are more productive. The average fast food restaurant, therefore, could fully cover the costs of the $10.50 minimum wage by raising their prices *less than* 2.7 percent.

Let's hope that the next round in the minimum wage debate can start here: minimum wage hikes, in the range currently being debated, impose only modest cost increases to businesses and therefore are unlikely to cause job losses.

Ukraine, Russia, and Economic Interests

By David Kotz, Professor of Economics, UMass Amherst.

The American media present the intense crisis in Ukraine as driven by Russian expansionism -- Russian President Putin grabbed Crimea from its next door neighbor, Ukraine, and if he is not stopped, he will grab still more. The seeds of a new cold war have been planted. However, there is more to this crisis than meets the eye. Conflicting political and economic agendas played a key role in the background to this crisis.



The undisputed facts: Crimea had been part of Russia since 1783, until Soviet Premier Nikita Krushchev decided to transfer it from the Russian republic to the Ukrainian republic of the USSR in 1954. Ukraine had been in the same state with Russia for three centuries. When the USSR was dismantled in 1991, Russia and Ukraine became separate states, with Crimea becoming an autonomous republic within Ukraine. Almost half of Ukraine's population uses Russian as their primary language. In Crimea 77% regard Russian as their native language and 59% self-report as ethnic Russian with 24% ethnic Ukrainian.

After the breakup of the Soviet Union, Ukraine's economy nevertheless remained deeply integrated with that of Russia. Ukraine imports Russian gas and oil at sharply discounted prices, and uses the energy to produce metals and chemicals that it exports. The eastern and southern region of Ukraine, where the ethnic Russian population and Ukraine's heavy industry are concentrated – and about two-thirds of Ukraine's GPD is produced -- is economically tied closely to Russia's economy. Since 1991 Russia and Ukraine have maintained close political ties, with some conflicts of interest arising at times. Both Russia and Ukraine developed major trade relations to the west as well, with Western Europe.

The root of the Ukraine-Russia crisis today is found in the economic strategy of the U.S. government since the breakup of the USSR in 1991.

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CPE Blog

The blog supports CPE's mission of demystifying the economy and putting economic tools in the hands of the people. The CPE blog provides regular commentary that is accessible, well researched and connects people to the projects, ideas, and movements associated with CPE's mission. Some of the recent posts are as follows.

Whose Recovery? By Jerry Friedman
There is a story that when the late union leader Walter Reuther was given a tour of a GM plant, a manager introduced him to a set of the company's new robots. The manager challenged Reuther to say how he would organize the robots into the UAW. The union leader supposedly responded by asking: how will General Motors sell cars to the robots? While American unions have failed to organize the workers in the new economy's factories, its capitalists seem to have figured out a good answer to Reuther's question. Read more at http://www.populareconomics.org/whose-recovery/

Should Young Workers Pass on Pensions and Fight for Social Security? By Brian Callaci
It's become increasingly clear that promises employers make to workers about their post-retirement security are eminently breakable. In the public sector, where workers long thought that their pensions were protected by ironclad state constitutions, the courts are now ruling that state and municipal governments, may in fact, abrogate pension obligations. Read more at http://www.populareconomics.org/should-young-workers-pass-on-pensions-and-fight-for-social-security/

Can American Higher Education Be Free?

By Anastasia Wilson.

With tuition at public universities averaging $8,893 and private universities tallying in at a whopping $30,094 (*without* books, room, and board!), the answer at a glance appears to be a resounding, "No! We can barely afford college as it is!" Politically, at a time of fiscal austerity and anti-tax sentiment, the possibility of free public college in the United States seems like a pipe dream at best.

But there are several compelling arguments for why the answer should actually be, "Yes, *college can and should be free*".

Huffington Post 2013

California union leader Bob Samuels argues that case in his new book, *Why Public Higher Education Should Be Free* (Rutgers University Press, 2013). The idea is that public colleges, competing for students and revenues with private institutions, are focusing too much spending on non-academic activities aimed at generating revenues and attracting wealthy students.

Former president of Miami University James Garland warns, "I just think there's a movement these days among universities that are able to do this, to turn themselves into country clubs. But inevitably that comes at expense of academic rigor and the quality of the academic program." Recent studies have shown that growth in college administrators has ballooned in the past few decades. The New England Center for Investigative Reporting writes, "The number of non-academic administrative and professional employees at U.S. colleges and universities has more than doubled in the last 25 years, vastly outpacing the growth in the number of students or faculty, according to an analysis of federal figures." Meanwhile, less is being spent on quality instruction as colleges shift away from tenured full-time professors toward reliance on low-paid, precarious adjunct and graduate student labor. This shift reflects how colleges increasingly model themselves after for-profit business, treating students like consumers of country club amenities and administrators like CEOs.

Reducing both non-academic expenditures and administrative bloat then could allow public higher education to be completely free of cost, thereby avoiding the crushing student debt that is now a norm for American students.

Economically speaking, this plan is actually feasible. Recently, the Atlantic added up the total expenditures that individuals spent on public colleges. They estimated that total spending on public colleges was about $62.6 billion—a total less than the total $69 billion spent just on financial aid programs, excluding student loans. While this crude estimate excludes non-Federal aid contributing to covering college expenses, the point is that, "starting from scratch, Washington could make public college tuition-free with the money it sets aside [in] its scattershot attempts to make college affordable today."

New ideas and possibilities for free and accessible public higher education are needed, too. The Organization for Economic Cooperation and Development (OECD) finds that the United States in lagging behind other developed countries in higher education and investment in its future workforce.

Free public higher education then may not just be feasible, but also an economic necessity in a globalized economy.

Economics for the 99%

The Occupy Wall Street movement burst out in September 2011. In an effort to assist the Occupy movement, nineteen CPE economists worked on a project to produce a booklet "Economics for the 99%." The booklet was completed in the spring of 2012. Thanks to an anonymous donation, we were able to distribute thousands of copies free of charge to Occupy groups around the U.S. The aim was to provide easily readable educational material about the roots of the economic problems that stirred the Occupy movement into life.

CPE has now updated the booklet and redirected it not just to the Occupy movement but to progressive activist movements in general. The booklet is made up of 15 short segments, each with text and graphics. The segments cover such topics as inequality, the causes of the 2008 financial and economic crash, the austerity war, a brief history of the Federal Reserve, housing and the economic crisis, a plan for financial reform, unemployment and the need for job creation, environmental policy, health care policy, and visions of economic alternatives to what we have today. The 2014 version of "Economics for the 99%" can be found on our website.

Is School Reform the Answer to Unemployment and Inequality? (No.)

By David Eisnitz.

Now that the "school reform" movement is poised to radically reshape schooling in the United States—or rescue it from "decline"—we should pause to look at schools in their historical and economic context. When we do, our schools could be seen not so much to have *declined* as to have been *dismantled*. We should consider the school reform movement in light of these issues and explore alternative ways of improving public education.

According to the narrative that has dominated the national discussion of education, the United States' school system has fallen behind those of its rivals since the 1980s. Despite enormous expenditure of public money, some combination of factors—among them, incompetent teachers protected by corrupt unions, inefficient institutions, and the dissolution of the nuclear family—have kept our schools spiraling downward. This accounts for the loss of the United States' international economic dominance, as its undereducated workers are unable to compete with foreign workers. This has led to the United States' poor economic growth, high unemployment, and so on. The solution, we are told, is "higher" and more uniform standards, greater accountability, corporate-style school administration, increased "school choice," and privatization.

There are a number of responses to this flawed set of arguments. First, public dismay over the state of American schools is nothing new. In the early 20th century, schools were accused of having low standards and of failing to impart the "male virtues." In the 1950s, there was much hand-wringing over contemporary adolescents, whose laziness and delinquency, incubated in the public schools, would surely be the end of American civilization. Schools have long been the objects of societal anxiety. Although this does not mean that modern schools are problem-free—indeed, the problems confronting American schools are urgent and highly consequential for millions of students—many of these are *social* problems that are not likely to be solved by school reform alone.

Second, school reformers often allege that spending on education has increased with no corresponding improvement in performance. And they are correct, up to a point. National inflation-adjusted average "per-pupil" expenditure *has* increased steadily…over the last century. What has also increased is the proportion of that expenditure devoted to servicing debt and the costs of administration, as well inequality of funding between districts. Due to changes in how schools are funded—especially increasing reliance on property taxes—many states' poorest districts receive as little as 10 percent of the wealthier districts' per-pupil expenditure. These disparities follow racial divides; racial public-school segregation is now greater than it has been since the 1950s. Therefore, to the extent that "achievement" can be measured across decades, it often *has* increased…

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Ukraine, Russia, and Economic Interests (*Cont'd from page 3)*

Every U.S. Administration since the first Bush Presidency has tried to gain a dominant position over the rich natural resources and the markets in the post-Soviet space for U.S. corporations. Soon after the breakup of the USSR, in oil-rich Azerbaijan a consortium of international oil companies got the contract to develop its oil. The consortium includes ExxonMobil, Amoco, and UNOCAL, as well as BP of the UK and companies from other European countries. Russia's Lukoil soon dropped out of the consortium. In Kazakhstan a big joint venture to develop oil production is 50% owned by ChevronTexaco and 25% by Exxon Mobil, with a Russian company holding 5%.

The U.S. government has sought to pull Ukraine away from its close economic, political, and cultural ties with Russia and into the orbit of the European Union and NATO since 1992.

Global News

NATO took in the former Soviet allied states in East-Central Europe and the three former Baltic republics of the Soviet Union, despite the disappearance of the USSR which had been the rationale for NATO's formation. However, Ukraine remained balanced between Russia and the West.

The "Maidan" protests in Kiev, Ukaine's capital, began in November 2013 when Ukrainian President Viktor Yanukovych, after months of vacillation, decided not to sign a proposed association and free trade agreement with the European Union. The protests at first enlisted broad participation by many sectors of the Western part of Ukraine that, fed up with corrupt governments and economic decline, hoped that closer economic

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Is School Reform the Answer to Unemployment and Inequality? (No.) (*Cont'd from page 5)*

…in those districts in which adequate funding has been maintained.

Finally, the connection between the US education system and economic decline is not as strong as is sometimes claimed. The stagnation of wages and persistent unemployment over the past 30 years are the result of political and economic changes that are global in scope. One of their most visible effects is "off-shoring," in which companies move operations to other countries. Politicians often suggest that restoring the "competitiveness" of the US workforce through education reform will convince companies to employ US workers again. The reality, however, is that the US workforce is better educated than ever. Companies move operations abroad not because US workers are inadequate but because of the low wages, lax labor and environmental standards, and increasingly important consumer demand in these countries.

This exposes one of the roots of the US public-education crisis: a well-educated populace is less important to the centers of economic and political power than it once was. School as we know it today is a relatively recent invention. It was formed in the late 19th century in part because US businesses needed a disciplined and reasonably well-educated workforce. With the relocation or increasing automation of entire industries, that need is less urgent. As always, the wealthy can educate their own children in private schools, or now in charter schools that are free to exclude whom they like.

As for the rest, the familiar neoliberal pattern proceeds: systematic defunding and undermining of public institutions followed by outrage, calls for reform, and finally privatization. As shown by the burgeoning for-profit higher education industry, which consistently fails to deliver on its promises, privatization is no guarantor of success. Even if some set of reforms could deliver school improvement, it would be unlikely to deliver a more "competitive" workforce, as measured by job growth. Therefore, it is time to change the narrative that treats workforce-preparation as the primary function of schools. We must reframe the debate, and fight for good schools not because we imagine they will provide our children with economic security but because giving them rich environments in which to learn and grow is valuable in its own right.

Ukraine, Russia, and Economic Interests (*Cont'd from page 6*). relations with the EU would serve to fix the problems. However, the proposed EU agreement included the imposition of harsh austerity measures on Ukraine and also had a clause requiring Ukraine to follow NATO military policy, a "red line" for Moscow which has long feared an expansion of NATO right on its western border. When Russian President Putin offered $15 billion in aid with no austerity conditions, Yanukovych took the Russian offer instead of the EU agreement.

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After the protest movement escalated into violent street clashes with the police, on Feb. 21 the Western powers and Russia oversaw a deal, signed by Yanukovych and the main opposition leaders, that included the formation of a national unity government and early presidential elections. However, the next day two right-wing nationalist parties, Svoboda and Right Sektor, both with fascist roots and a history of violent anti-semitism and hostility to ethnic Russians, led a seizure of power in Kiev. President Yanukovych was driven out of Kiev and soon out of Ukraine.

At this point, the US and EU governments, seeing an opportunity to pull Ukraine away from Russia and into the EU and NATO orbits, forgot about the compromise deal they had just approved and endorsed the seizure of power and overthrow of a democratically elected president. Among the first acts of the groups that took power in Kiev was to pass a law abolishing the status of Russian as an official language in regions with a majority of Russian speakers.

Russia reacted predictably to these events, denouncing the seizure of power in Kiev and denying that the new government was legitimate. Then events in Crimea began to spiral out of control. A wave of fear of the new authorities in Kiev gripped the majority ethnic Russian population of Crimea. The seizure of power in Kiev led by groups openly hostile to ethnic Russians in Ukraine spurred a wave of popular desire to return to Russia among the majority ethnic Russian population of Crimea. Crimeans took over local government buildings with assistance from intervening Russian troops and held a quick referendum in support of returning to Russia. A wave of nationalism swept through Russia in response to the events, and the Russian government accepted Crimea as a part of Russia.

While many mainstream politicians and the media are beating the drums for a new cold war and demanding that that the West stand up to Putin, it is time to head off a dangerous turn in world politics that is ultimately driven by a desire of Western corporations to control natural resources and markets in the former Soviet space. On April 17 a ray of hope appeared when a compromise agreement was reached after 7 hours of negotiation involving the US, the EU, Russia, and Ukraine. It calls for constitutional reform in Ukraine that would involve "outreach to all of Ukraine's regions and political constituencies" and rejects "racism and religious intolerance, including anti-semitism." If this leads to a Ukraine that maintains close economic ties both to Russia and the West, rather than demanding that Ukraine choose between East and West, it would enable Ukraine to survive as an economically and politically viable state and might also head off a new cold war.

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