

Henry George Newsletter

High School Edition



Issue 18, Mar. - April 1993

ETHIOPIA REBUILDS RUINED ECONOMY

Thirty years of war and seventeen years of Marxist policies have left Ethiopia one of the poorest countries. Yet with all their problems, their government has accomplished some major reforms in the past twenty months.

This article can be used with the Land and Freedom series: World History #3, the Feudal Land System and #8, and Economics, Markets and Prices.

CAMBRIDGE PUSHES CHICAGO ASIDE

The reign of the free market Chicago school, so influential in the Reagan and Bush administrations with its notion of a limited government role in the economy, is being replaced by the Cambridge school which envisions a stronger government role in rebuilding the economy.

This article can be used in conjunction with the Land and Freedom series: Economics, #3 Economic Systems, and #15, Taxation.

Free Materials for Teachers

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Write to: *Friends of Congress*, PO Box 33636, Washington, DC, 20033



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The Simon Wiesenthal Center

The largest institution of its kind in North America dedicated to the preservation of the memory of the Holocaust, the Simon Wiesenthal Center publishes many materials dealing with the subject. The resource book *Kristallnacht* address key historical facts and includes eyewitness accounts, photographs, reproductions of Nazi documents and original newspaper articles. There is also a section of discussion questions. Another booklet, *36 Questions Often Asked About the Holocaust*, briefly depicts important events about this period.

Write to: *Simon Wiesenthal Center*, 9760 W. Pico Blvd. Los Angeles, CA 90035

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The educational publisher Learning Enrichment offers two publications:

Thriving Taiwan is an eight page booklet which includes a teaching guide and four activity masters (map, timeline, graphs and readings). They will send 25 copies upon written request.

The Kingdom of Saudi Arabia covers the role of Saudi Arabia in today's world and includes background material on the country's cultural heritage. Also included is a four page teaching guide. They will send 30 copies upon request.

Write to: *Learning Enrichment*, 105 Moody's Run, Williamsburg, VA 23185

The Role of the United States

Published by the Center for Foreign Policy Development at Brown University, this 40 page booklet is published as a public service. At the core of this unit is a framework of choices for U.S. foreign policy. These choices are future-oriented and involve four fundamental ways of looking at the world. Each of the four perspectives is a possible way for students to view the role of the U.S. government in international affairs. The pamphlet is based on a five day lesson plan.

Write to: *Choices for the 21st Century Project*, Center for Foreign Policy Development, Brown University, BOX 1948, Providence RI 02912

Ethiopia Rebuilds Ruined Economy

by Robert M. Press

In celebration of Christmas Jan. 7 in accord with the Ethiopian calendar, priests at the Balewold Orthodox Church, wearing elegant robes and hats and shaded by umbrellas, slowly circled the outside of the building three times.

In another old ritual, beggars, some deformed, made their way slowly through the dense crowd of faithful men and women gathered around the church, collecting coins in their open palms.

Against a background of rich traditions, and a mix of extreme poverty and relative affluence, Ethiopia's new rulers are trying to modernize this ancient country.

Thirty years of war and 17 years of Marxist policies have left Ethiopia one of the world's poorest countries. Infrastructure is in tatters. But while many serious problems remain and urban residents complain life is getting harder, the young Ethiopian government has accomplished major reforms in the past 20 months, according to the World Bank and United States diplomats.

Despite their history of advocating Marxism and Socialism prior to taking power, the rebels who in May 1991 ousted dictator Mengistu Haile-Mariam have steered Ethiopia toward a free market economy. Some of the initial market reforms target:

#Agriculture. Farmers for the first time are now free to sell crops anywhere, at any price. Previously, they had to sell a significant share to the Mengistu government, usually at below-market prices. The new government also offers farmers the option of a minimum guaranteed crop price.

The United Nations Food and Agricultural Organization says higher crop prices have led farmers to plant more acres. This, along with the end of the civil war and good rains, have produced what is likely to be a record crop, now being harvested.

#Transportation. Truckers for the first time may travel anywhere and charge any price, without the hindrance of tariff- and bribe-collecting road bar-

riers and other state restrictions.

Though in the short run this may push up transportation prices, in the long run, US officials say, prices are likely to fall again as the number of truckers competing for business increases. Free movement of trucks is seen as a key to moving food quickly from the fields to markets in a country where people have starved in one region while there were surpluses in another.

In a vote of confidence for the economic reforms already made and additional ones planned, Western donors held a joint meeting on Ethiopia in Paris in November, their first since 1974, approving \$1.2 billion in aid for use by June 1994.

The aid will help pay for imports and development and recovery projects, and will help to ease a "very precarious budget situation," says one Ethiopian economic official.

Senior officials in the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) say the first economic priority is development - the rebuilding of roads, schools, clinics, and hospitals destroyed during the war.

The government is planning to sell off some of the many state-owned companies, and is trimming its bloated civil service.

"In some offices there were 60 typewriters and 300 secretaries," says Gilma Kidane, an Ethiopian Red Cross official working on a government program to rebuild war-damaged areas.

"These are extraordinary changes," says Willard Pearson, director of the US Agency for International Development program in Ethiopia. But existence is still difficult for the more than 80 percent of the population who are farmers, typically earning only about \$100 a year on less than three acres of land, Mr. Pearson says.

Many Ethiopians grumble over higher living costs resulting from the Oct. 1 devaluation, by 58.6 percent, of the *birr*. Import prices shot up, but so did the price of domestic food and other items transported with imported fuel.

Laid-off government employees find it difficult to feed their families. Many of the 500,000 former soldiers of the Mengistu Army, now demobilized, are jobless and landless.

The government also has not moved completely to a market economy. The EPRDF has retained state ownership of land and key industries, including mining and communications.

Alemseged Amlak, a senior government official, says this reflects the reality of the EPRDF's broad mix of people, "from priests to communists."

Mr. Alemseged says the government wants to avoid continued economic domination by "the old ruling class," - the elite Amhars of central Ethiopia, who governed for about a century.

"We should create real change in the life of the peasant," Alemseged says.

The government retains title to land, he says, to prevent the Amhars from buying up farmland and forcing landless farmers to flood the cities, and thus increasing urban joblessness.

"We want to get rid of economic restrictions without hurting the social fabric," says Teffera Shaiwl, acting head of press and information in the Ministry of Foreign Affairs.

- Reprinted from *The Christian Science Monitor*

Questions

1. Why do you think that the rebels who advocated socialism before May 1991 have changed their thinking?
2. What market reforms have been made in agriculture and transportation?
3. How will outside aid help Ethiopia?
4. What are some of the farmer's complaints?
5. Why has the government retained ownership of the land rather than turn it over to the peasants?

Cambridge pushes Chicago Aside

by Steven Greenhouse

Washington - In the realm of economics, the arrival of President Clinton means that the liberals from Cambridge have been anointed and the conservatives from Chicago have been banished.

In making several sages with M.I.T. doctorates the new suzerains of economic affairs, the Clinton Administration has endorsed the Cambridge school's prevailing view that government has a powerful role to play in building a stronger economy.

That ends the reign of the free-market Chicago school - under the influence of the University of Chicago - which infused the Reagan and Bush Administrations with the notion that whenever government sticks its nose into economic affairs it is bound to mess them up.

"The Clinton Government promises to do exactly the kind of economics that M.I.T. is all about," said Rudiger Dornbusch, an economics professor at the Massachusetts Institute of Technology. "That means a lot of belief in the market, but determined government intervention when there is a need for it."

For example, with the wages of more and more full-time workers falling below the poverty line, the Cambridge approach would be for the Government to help low-wage workers get training for high wage jobs.

So many economists with M.I.T. doctorates have been funneled into the new Administration that the economics department there might well replace its placement office with a direct pipeline to Washington.

Consider this. Laura D'Andrea Tyson, a professor at the University of California, Berkeley and the chairman-designee of the Council of Economic

Advisers, received a doctorate in economics from M.I.T. in 1974. Alan Blinder, chosen for a second council seat, earned his M.I.T. doctorate in 1971 before becoming a professor at Princeton. Creating a possible hat trick for M.I.T., Joseph E. Stiglitz, a Stanford professor with a 1966 M.I.T. doctorate, is being considered for the council's third seat.

Lawrence F. Katz, a Harvard professor selected to be the Labor Department's chief economist, received

ics philosophy, Mr. Temin said, "We believe the market is good for most things, but not for everything, as opposed to a more Chicago view where they think the market is good for everything."

The Chicago school gets its name from the University of Chicago, whose faculty included several seminal free-market theorists, including Milton Friedman and George Stigler.

"I worry about their activism," William A. Niskanen, a University of

Chicago Ph.D., said of the arrivistes from M.I.T. He is chairman of the Cato Institute, a free-market research group in Washington, and was a member of President Reagan's Council of Economic Advisers.





How will the Cambridge approach translate into policy? While many Chicago adherents support vouchers that would subsidize students to go to public or private school, the Cambridge approach would focus on education as a government function that needs to be improved. Cambridge folks are far more likely than

the Chicago school to favor increased deficit spending to pull the nation out of recession.

Chicago scholars back lower income taxes and capital gains taxes, saying such taxes discourage work and investment. The M.I.T.-Cambridge people are not reflexively negative toward taxes. They are more open to raising taxes on the rich as a matter of equity, but many support an investment tax credit to encourage investing.

It should come as no surprise that these Cambridge views sound similar to Bill Clinton's campaign proposals: many of these M.I.T. people advised him during the campaign.

(continued on back page)

Clintonomics: What's In and What's Out		
With President Clinton in the White House, the nation's center of economic gravity has shifted.		
	IN	OUT
INTELLECTUAL CENTER	Massachusetts Institute of Technology	University of Chicago
LEADING THINKER	 Robert Solow, Nobel Prize-winning theorist on economic growth, leading advocate of short-term stimulus	 Milton Friedman, Nobel Prize-winning theorist on money supply, a foe of government intervention
GUIDING LIGHT	 John Maynard Keynes, British economist who theorized that government spending can pull nations out of recession	 Friedrich Hayek, Austrian author of seminal theories on the free market
THINK TANK	Brookings Institution	American Enterprise Institute
CHIEF FOCUS	Imperfections of the market	Imperfections of government
WHAT TO DO ABOUT GROWTH ... ABOUT THE RICH	Train unskilled workers Increase their taxes	Unleash entrepreneurs Cut their taxes
FIRST PRINCIPLE	"Have an economic strategy"	"Let the market rule"
SCHOOL CHEER	"Putting people first"	"Read my lips ..."

his M.I.T. doctorate in 1985, while David M. Cutler, a Harvard professor expected to work for the National Economic Council, received an M.I.T. doctorate in 1991. And that's not to mention Les Aspin, who received an economics doctorate from M.I.T. in 1965.

"We feel very good about all this," said Peter Temin, the chairman of M.I.T.'s economics department. While faculty members are not breaking out champagne, they hope M.I.T.'s success will help attract top-notch students the way an N.C.A.A. basketball championship helps a college woo high school all-stars.

Describing the M.I.T. econom-

"As President Clinton looks around for eminent people he would feel comfortable with, it's not surprising that he would go to M.I.T.," said Gary S. Becker, a University of Chicago professor who won the Nobel Memorial Prize in economics last year. "There has always been more of an association with the Democratic Party than the Republican Party in Cambridge."

As M.I.T. people see it, their department is to economics what Mr. Clinton's law school alma mater, Yale, is to law - each has a heavy focus on public policy. One Professor said M.I.T.'s brand of economics was "technobabble with a heart."

To be sure, M.I.T.'s professors and students toss around highfalutin terms and complex econometric equations as effortlessly as anyone. The M.I.T. faculty boasts three Nobel laureates - Paul Samuelson, Robert M. Solow and Franco Modigliani.

From the early 1960's through 1985 or so, these three attracted - and churned out - the best economics students in the nation, most economists agree. But with the Republicans in power for the last 12 years, M.I.T. produced an excess supply of Democratic economists yearning for their day in the Washington sun.

Then came Bill Clinton. Explaining why Mr. Clinton has plucked so much fruit off M.I.T.'s tree, Professor Samuelson said, "We're seeing the lagged harvest of M.I.T.'s being a crack world economics department."

Mr. Temin, the department head, insists that M.I.T.'s success in Washington shows that it still has the nation's best economics department. His colleagues across town at Harvard disagree, noting that two young stars with Harvard doctorates have received high-level posts.

Lawrence H. Summers, a Harvard professor, has been nominated Under Secretary of the Treasury for International Affairs, while Alicia Munnell, an economist with the Federal Reserve Bank in Boston, has been chosen to be the Treasury's Assistant Secretary for Economic Policy. Harvard boosters note that despite all the M.I.T. doctorates, three of the new economics officials teach at Harvard.

But M.I.T. also claims Mr. Summers because he received his bachelor's degree from there, taught there for four

years, and took graduate courses there while studying for his Harvard doctorate. Not only that, Professor Samuelson is his uncle.

"You'd have to cut up Larry Samuelson two ways," Professor Samuelson said. "His gizzard is M.I.T. and his liver is Harvard."

Mr. Katz, a Harvard professor with an M.I.T. doctorate, tries to play Solomon in assessing the two economics departments, saying, "Right now, M.I.T. and Harvard would be viewed as fairly even."

The new appointees deny that having the same pedigree means they are an insular, like-thinking clique. "Believe me, we're not a monolithic group," Mr. Katz said.

Still, Mr. Katz once studied with Ms. Tyson; Mr. Summers was an adviser to Mr. Cutler, and many of them wrote together. What is more, they all studied at the feet of Solow.

Proof that not everyone with an M.I.T. degree thinks alike is another M.I.T. product in Washington: David W. Mullins Jr., vice chairman of the Federal Reserve. Mr. Mullins, who received a doctorate in economics and finance in 1974, is a well-known conservative and could use his position to dampen the liberal activism of Mr. Clinton's Cambridge crew.

Conservatives are criticizing Mr. Clinton's economic choices, contending they do not have enough faith in free markets and will build a mountain of regulations.

Milton Friedman, a Nobel laureate and professor emeritus at the University of Chicago, said he was uneasy

about the invasion from Cambridge, even though he said several of the nominees were technically superb as economists. "It's a great mistake obviously to have an interventionist government", he said.

His Chicago colleague, Mr. Becker, was more optimistic, suggesting that the new crowd might not do things so differently from the Chicagoans because they would be smart enough to know what does and does not make good economic sense. Mr. Becker and other economists note that the 1990's brand of Cambridge economics is less liberal than the 1960's variety.

Mr. Blinder, the choice for the Council of Economic Advisers, sought to reassure conservatives, saying, "I think there are precious few in the group that can be called lefties, but certainly we're more liberal than the people leaving Washington."

- Reprinted from the New York Times

Questions

1. What are the differences between the Cambridge and Chicago Schools.
2. How might this approach impact on wages?
3. How do the two schools differ in their approach to taxes and capital gains.
4. Who are some of the noted economists associated with each school?
5. Evaluate the contrasting positions of the Cambridge and Chicago schools.

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