Faculty Differ on Bush’s Plan for Social Security

Despite their sharply opposing views of President Bush’s proposal to privatize Social Security, Randall Kroszner and Austan Goolsbee agree on one point: creating private accounts will do nothing to address the question of how to keep the program financially solvent.

They offered opposing views during two panel discussions hosted by the George J. Stigler Center for the Study of the Economy and the State earlier this year.

At the February event, Kroszner, professor of economics and a member of President Bush’s Council of Economic Advisers from 2001 to 2003, said he saw “an important need for reform.” He predicted a $10 trillion deficit in the Social Security treasury, due partly to a decreasing number of employees paying into the system. He also called Social Security “a bad deal, because you can’t pass the benefits on to your children if you and your spouse pass away, and you can’t have a diversified portfolio.” Additionally, private accounts, which President Bush favors, would give ownership, Kroszner said. “The government can’t take away an account with your name on it.”

Kroszner said that Social Security “is the only program in the world on alternate federal funding. Part of the problem, he said, because it only affects “the young old” instead of the more elderly, who already rely on a certain level of benefits.

Kevin Murphy, George J. Stigler Distinguished Service Professor of Economics, who joined the panel discussion in April, said it is very difficult to predict the actual shortfall in a pay-as-you-go system because there are so many variables. He agreed with Goolsbee that raising the retirement age was a better option than changing the indexing, he said, because it only affects “the young old” instead of the more elderly, who already rely on a certain level of benefits.

Goolsbee, Robert P. Gwinn Professor of Economics, conceded there’s a long-run solvency problem with Social Security, but he disagreed with Kroszner’s figures, putting the shortage at $3.7 trillion. “It’s an immediate crisis,” he added. “I don’t care whether you raise taxes or cut benefits. For sure, you should not borrow the money to fix the situation, which is the backbone of the current proposal. Raising the retirement age is a better way of cutting benefits than changing the indexing, he said, because it only affects “the young old” instead of the more elderly, who already rely on a certain level of benefits.

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Chicago GSB Faculty Weigh In on Tsunami Relief and Pension Accounting

Education Helps When Disaster Hits

No amount of planning can prevent disasters like the Indian Ocean tsunami, but investing in education would help poorer nations cope with unexpected catastrophes, according to Nobel laureate Gary Becker, PhD ’55 (economics), University Professor of Economics and of Sociology. While disaster victims in rich nations usually have medical, property, and life insurance to help them recover, those in poor nations often rely on their families and neighbors for assistance, leaving them with nowhere to turn when disasters affect whole families and neighborhoods. “Since education raises the earnings of individuals and the per-capita incomes of countries, education clearly makes it easier to cope with disasters,” Becker wrote in a Wall Street Journal op-ed piece. “Opposition leaders are in place in each country who will seek to capitalize on those failures to convince their followers that only new regimes or independence will provide a solution to their misery. Watch these four countries for more political turmoil.”

To learn more about Becker’s research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

Lack of Relief Could Spark Revolution

Countries that fail to provide adequate relief to their citizens in the wake of the tsunami—particularly Indonesia, Thailand, Malaysia, and Sri Lanka—could see their failures exploited by revolutionary or separatist leaders, warned Manin Zoris, professor emeritus of business administration. “The responses of the governments of these countries, on the basis of their past failures at effective governance, will be seen as grossly inadequate by the disaster’s victims,” Zoris wrote in a Chicago Tribune op-ed piece. “Opposition leaders are in place in each country who will seek to capitalize on those failures to convince their followers that only new regimes or independence will provide a solution to their misery. Watch these four countries for more political turmoil.”

To learn more about Zoris’s research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

Pension Accounting May Be Overly Aggressive

A paper coauthored by assistant professor of finance Joshua Raush, which he presented to the Securities and Exchange Commission, offers statistical evidence backing an SEC investigation into whether companies manipulated earnings by making overly aggressive assumptions. Published by the National Bureau of Economic Research, the paper found that U.S. companies are more aggressive in pension accounting when the tactic boosts reported profits, as well as when executives exercise stock options and prepare to buy other companies. “The results in our paper point to opportunistic behavior on the part of managers in setting pension assumptions, and we believe that this impacts reported earnings and pension fund investment choices,” Raush told the Wall Street Journal.

To read the paper “Earnings Manipulation and Managerial Investment Decisions: Evidence from Sponsored Pension Plans” or learn more about Raush’s research, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.
Bertrand Awarded Elaine Bennett Research Prize

Professor of economics Marianne Bertrand is the 2004 recipient of the Elaine Bennett Research Prize, awarded by the American Economics Association’s Committee on the Status of Women in the Economics Profession (CSWEP).

The prize recognizes and honors outstanding research in any field of economics by a woman at the beginning of her career. Bertrand is an applied microeconomist who has done work on racial discrimination, CEO pay and incentives, and the effects of regulation on employment, among other topics in labor economics and corporate finance.

A faculty member since 2000, Bertrand is a Neubauer Family Faculty Fellow. She is the second GSB professor chosen for the Bennett award since it was established in 1998. Former faculty member Judith Chevalier won the inaugural award, which has been granted to only two other women...

To read “Why Jamal Can’t Get a Job,” an article on Bertrand’s research that appeared in Chicago GSB, go to gsbwww.uchicago.edu/news/gsbchicago/sum_fall03/index.htm.

Distinguished Service Professorships Announced

Four GSB faculty members received distinguished service professorships last winter: John Huizinga, Kevin Murphy, Raghuram Rajan, and Richard Thaler.

Huizinga, a member of the faculty since 1980 and deputy dean for the faculty from 1993 to 2004, is now Walter David “Bud” Fackler Distinguished Service Professor of Economics. Huizinga is an expert in empirical studies in macroeconomics and finance, both domestic and international, and he has been a consultant to the International Monetary Fund and a member of the American Economics Association and the Econometric Society.

Murphy is now George J. Stigler Distinguished Service Professor of Economics. A member of the faculty since 1983, Murphy has studied the empirical analysis of inequality, unemployment, and relative wages; the economics of growth and development; and the economic value of improvements in health and longevity. In 1997, Murphy received the John Bates Clark Medal from the American Economics Association, given every two years to the most outstanding American economist under age 40.

Rajan is now Joseph L. Gdowski Distinguished Service Professor of Finance. A faculty member since 1991, Rajan is an expert on international financial intermediation and regulation, corporate finance, and the theory of organizations. During the 2004–05 academic year he was on leave from the GSB and served as economic counselor and director of research for the International Monetary Fund in Washington DC. Rajan’s awards and honors include the inaugural Fisher Black Prize, awarded by the American Finance Association to the person under age 40 who has contributed the most to the theory and practice of finance. Rajan also won the Beattie Prize three times for distinguished papers in the Journal of Finance in 2000, 2001, and 2002.

Thaler is Ralph and Dorothy Keller Distinguished Service Professor of Behavioral Science and Economics. Thaler, who also serves as the director of the Center for Decision Research at the GSB, has focused his research on behavioral economics and finance and the psychology of decision making. A faculty member since 1995, Thaler also is a research associate at the National Bureau of Economic Research and codirects the bureau’s Behavioral Economics Project.

To read more about the research of Huizinga, Murphy, Rajan, and Thaler, visit gsbwww.uchicago.edu/news/gsbchicago/facultylinks.html.

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Animals to Auto Racing: What Faculty Are Reading

GSB faculty read more than research in their areas of expertise. Here’s a look at what two professors had on their bookshelves recently.

Tanya Menon
Associate Professor of Behavioral Science

The Ape and the Sushi Master: Cultural Reflections of a Primatologist, Frans de Waal (Basic Books, 2001)

“Anyone who loves observing human behavior would enjoy books on animal behavior. This book considers the question of whether animals have culture. One of the most interesting stories is about a Japanese monkey who learns to wash potatoes in salt water. The innovation is learned by other monkeys on the island who apparently agree that salty potatoes are tastier, and generations later, the monkeys on that island are still exhibiting this behavior.”

Chimpanzee Politics: Power and Sex Among Apes, Frans de Waal (Johns Hopkins Paperbacks, 2000)

“This book got famous because Newt Gingrich recommended it to Republican congressmen. It concerns power, politics, and coalition building among monkeys—with obvious parallels to human hierarchies.”


“Because I teach a class on power, I like to look at it from different angles, so international relations is a subject I draw examples from all the time. The best book I’ve read on this subject, this is a succinct summary of how international relations has changed from the bipolar world of cold war politics to a power structure dominated by the United States. It considers the surprising fact that coalition building and relationships with allies have become much more complicated for the United States since the fall of the Soviet Union. It’s fascinating to learn about the deeper structural reasons why Americans and their allies seem to be seeing things so differently—rather than simply blaming particular American political parties for this fallout.”

James Schrager
Clinical Professor of Entrepreneurship and Strategic Management

They Made America: Two Centuries of Innovators from the Steam Engine to the Search Engine, Harold Evans (Little, Brown, 2004)

“A superb history of inventors and entrepreneurs, this giant book captures both my interest in history and my work in the study of new enterprise. Exhaustively detailed with stunning period photos, the book features topics ranging from the telegraph (Samuel Morse) to blue jeans (Levi Strauss); flight (the Wright brothers) to cars (Henry Ford); MRI scanners (Raymond Damadian) to eBay (Pierre Omidyar). As an extra bonus, throughout the book I get to test the models we build in New Venture Strategy and see how well they apply in these well-described cases. Highly recommended.”


“Unusual and thoughtful book about Grand Prix auto racing in the 1960s, recently rereleased. Unlike many who cover GP racing, Daley is neither breathless yepchant nor hand-wringing critic. With both carefully chosen words and stunning photos, he captures this ‘golden age’ of motor racing, when drivers received a pitance to risk their lives and many paid the ultimate price. Required reading for gearheads.”


“I like to look at economics books, and not just those written by economists. The premise of this book is a report on the author’s world travels, asking the essential question of macroeconomics: ‘Why do some places prosper and thrive, while others just suck?’ Highly enjoyable and while the outcome is predictable—it’s all about free markets—the journey is both entertaining and worthwhile. Great fun for political junkies or econ geeks (I qualify on both counts).”

Readings

Financial Times Mastering Series Still Popular

Several years after GSB faculty were tapped to share their expertise on finance and strategy for a series of articles for the Financial Times, the audience for their work continues to grow. The articles were gathered into volumes on each topic, and the resulting Financial Times Mastering series proved popular in the United States and the United Kingdom, where Mastering Finance has sold more than 24,000 copies and Mastering Strategy has sold nearly 12,200 copies. Both books have been reprinted by a host of foreign publishers.

“The FT decided to do Mastering Strategy, and I chose the topics and the writers,” said Robert Gertner, Wallace W. Booth Professor of Economics and Strategy. Articles first appeared in the newspaper in 1999. “They are a combina-

Facility who contributed to Mastering Finance

Robert Aliber
Professor emeritus of international economics and finance

Nicholas Barberis
Former faculty member

Robert Hamada
Edward Eagle Brown Distinguished Service Professor Emeritus of Finance

Steven Kaplan
Neubauer Family Professor of Entrepreneurship and Finance

Anil Kashyap
Edward Eagle Brown Professor of Economics and Finance

Randal Kroszner
Professor of economics

Richard Letchford
Fuji Bank and Heller Professor of Accounting and Finance and deputy dean for faculty

Raghrum Rajan
Joseph L. Gidwitz Distinguished Service Professor of Finance

Richard Thaler
Ralph and Dorothy Keller Distinguished Service Professor of Behavioral Science and Economics

Luigi Zingales
Robert C. McCormack Professor of Entrepreneurship and Finance

Faculty who contributed to Mastering Strategy

Ronald Burt
Hobart W. Williams Professor of Sociology and Strategy

Judith Chevalier
Former faculty member

Luís Gariazzo
Associate professor of economics and strategy

Robert Gertner
Wallace W. Booth Professor of Economics and Strategy

Austan Goosbee
Robert P. Gwinn Professor of Economics

Thomas Hubbard
Former faculty member

Marc Knez
Clinical professor of strategic management

Canice Prendergast
W. Allen Wallis Professor of Economics

Toby Stuart
Former faculty member