IBR

Wharton
UNIVERSITY of PENNSYLVANIA
A STUDENT INITIATIVE

PUBLISHED BY STUDENTS OF THE WHARTON SCHOOL

ARIANNA HUFFINGTON

THE CATALAN SECESSION

THE DEBT NEXUS

ENTREPRENEURSHIP IN LATIN AMERICA

ABOUT iBR

about us

The International Business Review is the only undergraduate print publication from the University of Pennsylvania's Wharton School. Going beyond the scope of the American economy, IBR is region-based and covers a diverse array of business trends. IBR features internationally relevant articles written by University of Pennsylvania undergraduates and interviews with international business executives. With every issue, we aim to bring a global vision to the business world.

subscribe

The International Business Review is published once per semester and distributed throughout Penn and other locations. We also offer yearly subscriptions, domestically and internationally. If you are interested in subscribing to our publication, please visit ibrmagazine.com.

advertise

Our readers are the next generation of innovative global business leaders and professionals in the University of Pennsylvania and Wharton community. By advertising or sponsoring our publication, you receive unique access to this community. Please visit ibrmagazine.com for details.

get involved

If you are interested in writing or getting involved with IBR, please email us at questions@ibrmagazine.com. We are always looking for the best writers and talent to help lead our publication.

about wharton

Founded in 1881 as the first collegiate business school, the Wharton School of the University of Pennsylvania is recognized globally for intellectual leadership and ongoing innovation across every major discipline of business education. With a broad global community and one of the most published business school faculties, Wharton creates ongoing economic and social value around the world. The School has 5,000 undergraduate, MBA, executive MBA and doctoral students; more than 9,000 annual participants in executive education programs; and a powerful alumni network of 91,000 graduates.

FROM THE EDITORS

The Wharton International Business Review is the Wharton School's undergraduate international business publication, delivering global business insight from Penn undergraduates, faculty, and top executives.

As the global economy picks up speed in some places and stutters in others—the strength of emerging markets and the European crisis, for example—we often overlook our own long-term domestic challenges and opportunities. This spring's issue of IBR attempts to remedy that oversight with a special feature on U.S. fiscal and economic policy. Beyond the short-term crises of fiscal cliffs, sequesters, and continuing resolutions, where are we headed? What does that mean for our future selves and our future world? And how do we ensure our future remains bright? Our special feature—an in-depth analysis of fiscal policy, flanked by interviews with Arianna Huffington, Editor-in-Chief of the Huffington Post, and Wharton's Olivia Mitchell—looks to help answer these questions.

But this issue has far more in store beyond our special feature, and we keep true to our name with a global focus once again. From the possibility of a Catalan secession and budding Latin American Silicon Valleys to charity in the Middle East and pharmaceuticals in India, our writers examine the global trends in business, economics, and politics shaping the world as we know it. Our faculty quotes page is back again, providing snippets of insight from Penn's top professors, as are IBR's Favorite Things. We're also introducing a new special piece—a profile of one of Wharton's best student entrepreneurs. This issue, we spoke with Katlyn Grasso, a Wharton sophomore launching an online global leadership school for young women. And finally, an opinion piece from the board touches on the direction we see the U.S. heading.

With that, we hope you enjoy reading IBR as much as we enjoyed creating it, and thank you!

Sincerely,

Lauren Z-Cogswell

James Calvo W'15
Editor-in-Chief

Lauren Zakarian-Cogswell W&C'15
Managing Editor

TABLE OF CONTENTS

MORE CONTENT

BY JAMES CALVO W'15

Student Startup: Katlyn Grasso & the Online Global Leadership School for Girls

The Wharton School of the University of Pennsylvania is best known for its financial prowess, but it's certainly not its only strength. Wharton is also home to thriving entrepreneurial and social impact communities; here, leaders in these fields are changing the world. Wharton sophomore Katlyn Grasso is one of them.

Grasso grew up in Buffalo, New York, attending an all-female school. Like most Wharton students, she was heavily involved outside of school, earning the Girl Scouts' Gold Award (its highest honor) and launching Comfort Kids, which provided toiletries and other essentials to female victims of domestic and sexual abuse.

"Seeing the impact of Comfort Kids first-hand as we delivered the kits to women across Buffalo made me realize that what I wanted to do had to be socially impactful," Grasso says. And as she headed into her senior year of high school, a senior-freshman mentorship program put into stark contrast a glaring problem—so many of the young girls she met through the program were content to settle; they were scared to reach their highest potential. This gave her the idea for a mentoring program between female professionals and young women: Global Girl Guidance.

Unfortunately, Buffalo wasn't a hotspot for entrepreneurship and social impact, and Grasso couldn't find the resources she needed to get the idea off the ground. Her freshman year at Wharton saw a barrage of classes and extracurriculars—consulting for small businesses, tap dancing, and volunteering with the Girl Scouts, to name a few—and it wasn't until her first year was wrapping up that she began to revisit her high school mentorship idea.

"I began thinking mentorship wasn't enough—we needed content. If girls were going to connect with professionals like lawyers and businesswomen, they needed the skills to back it up." Perhaps the path to success was to pair mentoring with education.

That fall, Grasso began leveraging the resources available at Wharton, the lack of which in Buffalo had stalled her idea. She met with engineers to develop the website; professors to develop a curriculum; professionals to help with mentoring; and funding from every avenue—research grants for education initiatives, funding through Wharton Entrepreneurship, anyone who'd consider funding an idea she describes as "the intersection of education, entrepreneurial, and social initiatives".

As the meetings progressed, Grasso's idea began taking shape: top professors provide online streaming lessons across multiple disciplines, and accomplished professionals provide practical advice and mentorship, supplementing a standard secondary education. The curriculum would be designed to teach girls what they wanted to learn but couldn't in a traditional school—a curriculum shaped by her talks with girls in Philadelphia schools ages 14-18 about their interests and needs. Her initial mentoring program idea had been transformed into an online global leadership school for girls, a decidedly more ambitious path.

But with greater ambition come greater challenges, and Grasso is hard at work solving them. One of the biggest questions—how does it make money?

"While we are a for-profit company, the goal is more of that

of a non-profit," Grasso explains—profit for purpose. While her aim isn't explicitly to generate returns for shareholders, she realizes that businesses must be able to attract and then generate capital in order to grow and accomplish their objectives. For now, she's relying on grants and research money, but only to get it off the ground.

"It is ultimately tuition-based, but we're looking at having corporations provide tuition assistance to those with exceptional merit, and as we progress, there are several women-focused venture capital firms that would be a great fit for us."

"We want to be the best platform out there, a truly global leadership school for girls. To do that, we need big names from around the world, and we need the experience to be individualized."

Whatever the challenges, however, Grasso is up for the task. The pace has only accelerated in the last two months—she estimates meeting with 40 professors and professionals in the last two months, covering everything from the curriculum to the legality of certain issues—the name of the program, for example, is still under wraps as she waits to hear back on trademarks.

" '...THE MESSAGE TO GIRLS THAT THEY CAN CHANGE THE WORLD IS CRITICAL TO PUTTING THEM ON THE PATH TO LEADERSHIP.' "

Another challenge: why this program?

"I'm looking at accreditation, so girls who complete the program will get a certificate and have something to put on their resume. The real value-add, of course, is in the content and experience itself, but we need to differentiate ourselves." By integrating education and mentorship, Grasso looks to merge the two markets—a cross between online classes, such as those offered by College Board, and such female advice & mentorship programs as Ask Elizabeth.

Luckily, as her idea progresses, the opportunities at Wharton will only increase as buzz builds and later-stage funding and support communities, like the Wharton Venture Initiation Program, open up. And she doesn't see demand for the program dissipating anytime soon.

"Women make up so few leaders in government, the Fortune 500, and the like—to change that, we need to focus on women who are 14, not 40. The message to girls that they can change the world is critical to putting them on the path to leadership." IBR

Viva la Tecnología: Investments and Entrepreneurship in Latin America

BY GABRIEL JIMENEZ C'15

Silicon Valley and herculean telecommunication firms are seldom associated with Latin America, yet seeds of technological entrepreneurship are beginning to sprout in the region. Several Latin American countries are attempting to compete in the 21st century technology race and many people focus on Mexico as the front-runner. However, Brazil, Argentina, and Chile are distinctly notable for exceeding expectations in the technology sectors. With beckoning investments and welcoming innovation in the tech field, these nations will serve as Latin America's true tech catalysts.

Brazil is Booming

Any thought of Brazil elicits its standing as Latin America's strongest economy. Even with the sixth highest nominal GDP, growing at an annual rate of 5%, Brazil is set on making a new name for itself as a technological mammoth. The country's shift to technology rests on an acute awareness of its underperforming share of the tech market with other BRICS like China and India. They are positioning their tech shift on entrepreneurial education, foreign business attraction and a tech culture revolution.

In a government-sponsored push for scientific education, Brazil's Ministry of Science, Technology, and Innovation (MCT) announced a $2.2 billion campaign, "Science Without Borders," to invest in 75,000 science and technology scholarships by the end of 2014. The initiative will provide scholarships to Brazilian students to study abroad in STEM subjects. Likewise, Brazil has introduced a string of incentives to lure in businesses from across the world.

Affectionately known as 'Lei do Bem' (Good Law), the state-funded incentives offer start-up funding and tax breaks for tech-focused innovators. 'Primera Empresa Inovadora,' (First Innovative Enterprise), financed by the financing agency under the MCT, FINEP, is a promising venture that already supports almost 1500 organizations with over $100 million. Last year FINEP invited Greg Becker, President and Chief Executive of Silicon Valley Bank and its 26 global branches, to consult the agency on investment strategies in high-tech firms. In 2011, Brazil's tech landscape was given a substantial boom in the form of a $12 billion factory built in Jundiaí by Foxconn, the world's largest manufacturer of electronic components (including Apple products). As the country's largest foreign direct investment, it gives Brazil a great entry door into the previously Asia-dominated LCD screen market. This venture is part of a systematic endeavor to minimize the country's dependence on tech imports and establish a domestic supply-chain catering to Smartphone and tablet computer producers. As promised by the "build it and they shall come" adage, this infrastructure has brought a tech reputation to Brazil.

Brazil is now a must-stop destination for the international technology community. Rio de Janeiro will host the 2013 Global Entrepreneurship Congress, while Sao Paolo will be home to a slew of technological entrepreneurship events like Innovation Qualcomm and Social Media Week. Major Brazilian cities are also beginning to house promising tech firms backed by major United States juggernauts, including J.P. Morgan

and Google.

Argentina Ascends

Unbeknownst to many Americans, Argentina has a long history in innovation and a notable track record in the sciences. Argentina was a major stakeholder in the Internet Revolution of the 1990s with a contingency of a high-tech workforce and many web start-ups. The country's 2001 economic crisis ravaged the labor market by reducing the affordability of skilled labor; however, it ultimately was a blessing in disguise, as the decreased labor costs promulgated Argentina as a location for inexpensive high-tech manufacturing. The country now hosts global tech corporations from IBM, Google, and Intel to EA, Microsoft, and Hewlett-Packard.

Argentinean firms have united around data centers to share intra-industry figures and consultations with members of the growing tech community. These data hubs have allowed technology firms to collaboratively access information previously owned by single companies and collectively focus on new technologies such as virtualization and green IT. The centers have been so successful that the Argentinean government recently invested more than $16 million in the creation of another center to serve both the public and private sectors. The country's technology networks gave rise to industry organizations like Palermo Valley, a non-profit that connects high-tech businesses in Argentina with international partners and investors.

Despite a strong manufacturing base and technology network, what has really catapulted Argentina to the top is its relative stability in the technology market after the 2009 global recession. In 2010, the country's laptop production quadrupled to 1.3 million and more than 50% of laptops purchased in 2012 were produced domestically. In 2013 alone, Argentinian sources are expected to finance 1260 scientific research and technology projects, 250 business innovations, and export $800 million in software products.

Catapulting Chile

In recent years, Santiago, Chile has earned the only legitimate position as Latin America's Silicon Valley. Brazil and Argentina boast places like Manaos and Tierra del Fuego, respectively, as comparable geographic technology basins. Yet, these locations are better known for their sweatshops and mediocre research and development than their technological entrepreneurship. Brazil and Argentina are competing with Guangdong, not Silicon Valley. As is evident in these cases, Latin America has yet to tap into entrepreneurship and innovator incentives, which explains why 76% of patents published by top United States universities had at least one foreign-born author registered. It is simply easier and more enticing to pursue tech start-ups in the US. The government-sponsored program, Start-Up Chile, might just be the venture that breaks the mold.

In 2010, Chile's Ministry of Economy began Start-Up Chile (SUP) to attract budding global entrepreneurs and bolster a culture of domestic innovation. The program gives young tech start-ups $40,000 in seed-capital with no equity stake. In return, entrepreneurs must live in Santiago, Chile for a minimum of 6 months, mentor Chileans in business, speak at local universities, and hire a quota of Chilean employees during their incubation period. More

perks of the program include a 1-year visa, free office space in proximity to other program participants, a fast track to opening bank accounts and networks with venture capitalists. Start-Up Chile began with 22 start-ups from 14 countries. The growing program now has accepted 681 companies from 6,500 applications across 60 countries—all in a matter of 3 years. Chile expects to invest $40 million in 1000 start-ups by 2014.

Initial results for SUP look promising, specifically in establishing a start-up culture of innovation in Santiago. In the past three years, the capital city has held over a thousand technology workshops and conferences, seen a surge in technological business courses in universities, and an increase of 40% more venture capital firms. Almost half of the program's applications have come from Chilean entrepreneurs, a surprising shift for a country that was run by a military dictatorship only two decades ago. Santiago is showing signs of all the promise that Silicon Valley showed in its early days and is globally making a name for itself as the ideal hub for tech start-ups. In July of 2012, Steve Wozniak, Apple co-founder, became a major fan of Start-Up Chile when he visited the country, commenting, "This is just the greatest program I've seen of its type in the world." Santiago, Chile has the foundation to be Latin America's new Silicon Valley; as it steals away entrepreneurs from the United States, the Chilean tech community anticipates all that Start-Up Chile could yield.

"SANTIAGO IS SHOWING SIGNS OF ALL THE PROMISE THAT SILICON VALLEY SHOWED IN ITS EARLY DAYS AND IS GLOBALLY MAKING A NAME FOR ITSELF AS THE IDEAL HUB FOR TECH START-UPS. IN JULY OF 2012, STEVE WOZNIAK, APPLE CO-FOUNDER, BECAME A MAJOR FAN OF START-UP CHILE WHEN HE VISITED THE COUNTRY, COMMENTING, 'THIS IS JUST THE GREATEST PROGRAM I'VE SEEN OF ITS TYPE IN THE WORLD.'"

The high-tech boom is having massive rippling effects throughout all of Latin America. In general, there are many hurdles to overcome—attracting more capital, establishing a stronger technology consumer base and scaling promising firms to the level of U.S. juggernauts. Despite such obstacles, many forecasts suggest untapped market potential. The communications service market alone is expected to reach $8 billion by 2015 with an annual growth rate of 7.4% to follow. Latin America's horizon is no longer etched with the golden hue of its maize, but rather with the silver palate of silicon. IBR

THE DEBT NEXUS

FEATURE ARTICLE | 17

BY DAVID HIRSCHY

INTERVIEWS WITH:

ARIANNA HUFFINGTON | 22

HUFFINGTON POST FOUNDER

OLIVIA MITCHELL | 30

WHARTON PROFESSOR

Featured Article: The Debt Nexus

BY DAVID HIRSCHY W'16

The year is 1960. A Belgian-American economist by the name of Robert Triffin is testifying before Congress about the dangers of the Bretton Woods system – the international monetary management plan developed by the Allied Nations of World War II. Triffin argued that any plan which denoted one national currency (in this case the US dollar) as the international standard of reserve was doomed to fail. Why? The ideal international standard of reserve is the one that minimizes risk, such that the nations of the world are comfortable and confident investing in it. Logically, using a national currency as this standard incentivizes other nations to acquire as much of this "risk-free" asset as they can, and a dollar glut ensued through a combination of this incentive and the Marshall Plan payments in the aftermath of World War II wherein there was more US currency around the world than the gold in the US reserves could support. Consequently, the US was faced with contradictory monetary policy solutions: 1) run a balance of payments current account deficit to prove liquidity and 2) run a balance of payments current account surplus to maintain confidence. Obviously these choices are mutually exclusive, and this paradox became known as the Triffin Dilemma.

Fast-forward to March 24, 2009 when Governor Zhou Xiaochuan of the People's Bank of China delivered a speech entitled "Reform the International Monetary System" that blamed using a national currency as the international standard in part for the financial market crisis of 2007 and 2008. The nation in question cannot simultaneously support both domestic and global interests.

But this is no irrelevant history lesson. A default on US debt is the worst-case scenario imagined by Triffin and his historic and modern-day proponents. With the global financial market so closely tied to the US dollar, a collapse of American currency has the potential to cause unprecedented fiscal destruction across the globe.

Now, with the debate surrounding the US debt ceiling thick in the air again, we must take into consideration the far-reaching implications of one of America's most central economic policies. Clearly, there is substantial controversy and vast diversity in opinion surrounding the US debt limit. The purpose of this article is not to offer a partisan agenda but rather to cut through the white noise of media inaccuracies and nonsensical political banter in order to offer a clearer picture of the trade-offs – the economic tug-of-war, if you will – between a number of public policy decisions, both in the short and long term. Furthermore, fiscal and monetary policy decisions are extraordinarily interrelated, often sparking chain reactions of economic events, which require much careful attention.

It is also important to emphasize the international scope of these policy decisions. The first working title of this piece was "The *American* Debt Nexus," but as much as these policies are passed by the American legislature and enforced by the American executive branch, they often influence the economic fate of the globe.

This is the debt nexus.

One of the foremost arguments regarding the costs of debt is increasing interest rates. As the United States' demand increases for credit from foreign nations (or, put in terms of the transaction, foreign nations purchase more US securities), it is entirely possible for the creditor-nations to require a higher interest rate in response to higher risk. While proponents of raising the debt ceiling cite foreign nations' sensitivity to maintaining amicable relations with the US as an argument against increasing interest rates, Standard & Poor's downgrade of the United States' credit rating from AAA (outstanding) to AA+ (excellent) represents a distinctly different analysis. A higher interest rate on US debt also corresponds to higher interest rates for American consumers, from mortgages to debt paid on credit by private American citizens.

Yet, a look at US interest rates reveals that they are desirably (and perhaps unexpectedly) low. The reason for this can be traced back to the Federal Reserve's monetary policy. By quantitative easing, the Fed has been able to maintain low interest rates for the time being. The tradeoff of this strategy is that the American inflation rate is at risk. Inflation remains safely low in the immediate future until the United States economy is fully recovered from the Great Recession, seeing as inflation rates are more sensitive during a booming economy and not normally an issue during and shortly after recessions. Thus, through a convenient collision of effective domestic monetary policy and a recession in the not-so-distant past, the cost of increasing interest rates appears to have been averted in the near future, but it is reasonable to believe that this cost may materialize in the more distant future.

A more tangible cost of debt lies in the inefficient allocation of savings. Namely, people's savings would be spent buying government bonds to finance the debt rather than investing in productive, GDP-raising projects. Although stimulus can be beneficial during and for a brief period after recession, the Congressional Budget Office warned against "persistent deficits and continually mounting debt" in a report on July 27, 2010. This cost also has the potential to increase at a faster rate in the event that the government decides to respond to public debt primarily through increasing the marginal tax rate, which would reduce work, savings, and cause further harm to production.

In fact, this loss in production may already be occurring. Per the World Bank, the United States 2012 GDP growth rate was 1.7%, down from 3.0% the year prior. However, it is difficult to prove that this drop is due to the debt overhang specifically, as the US economic recovery is still relatively shaky. However, the CBO projected in a report released on February 5, 2013 that if current law remains the same, the public debt would reach 77% of the GDP and be on an upward trend. This number is particularly significant, because the foremost research on public debt as a percentage of GDP for advanced economics by Reinhart, Reinhart, and Rogoff denotes 90% as the threshold for economic danger, accompanied by the potential for rising interest rates and even greater potential for slowing economic growth. Specifically, "losing even 1 percentage point per year from the growth rate will produce a substantial decline in the level of output, and a massive cumulative loss." More alarmingly, of the thirteen advanced economies in the study that had suffered a debt overhang between 1800 and 2011, the United States suffered the greatest drops in GDP growth rate in both the short *and* long term, revealing that perhaps the economic structure of the United States is more sensitive to a public debt overhang than other developed nations.

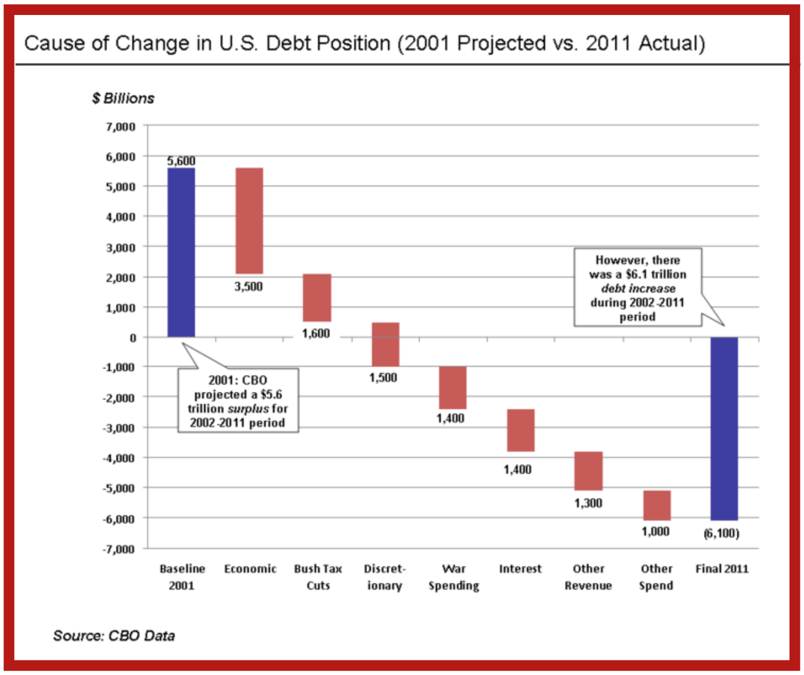
Another important consideration is that the costs of debt are likely incremental, meaning that while the 90% public debt to GDP figures indicates a severe threat, it is entirely possible (and perhaps even probable) that mounting debt

Beyond the potential and persistent costs of debt as described above, the threat of default briefly mentioned earlier during the discussion of the Triffin dilemma is also worth examination. How probable is such a default? Herein lies perhaps some of the greatest misconceptions about the US debt. Default is extraordinarily improbable, even if the debt ceiling is reached. There are a few reasons for this.

First and foremost, there is the possibility of real-time spending prioritization. Put more intuitively, hitting the debt ceiling could force a balanced budget. It is important to understand that reaching the debt ceiling does not equate to no incoming receipts. The Treasury could (hypothetically) prioritize the spending of those incoming receipts to avoid default, meaning we use inward moneys for paying off interest on debt first before spending on domestic and other issues. The first problem with this strategy is that it is utterly unprecedented; however, both the Treasury and the Federal Reserve proved through the Fiscal Crisis of 2007-2008 and the Great Recession that they are willing to entertain unprecedented policies in times of dire emergency. The second problem with this strategy is that it does not avoid budget cuts entirely. Although the interest on the debt would be easily covered and default

Features of Public Debt Overhang Episodes: Advanced Economies, 1800–2011

		Average real GDP growth		*Average real interest rates*				
				Short-term		*Long-term*		
Country	*Sample*	*Below 90%*	*Above 90%*	*Below 90%*	*Above 90%*	*Below 90%*	*Above 90%*	*Share of years above 90%*
Australia	1852–2011	4.0	3.5	1.7	−0.4	3.2	1.6	6.1
Belgium	1836–2011	2.5	2.7	2.5	2.4	2.9	3.6	20.5
Canada	1871–2011	3.6	3.2	0.6	2.4	2.3	4.5	10.6
France	1880–2011	3.2	1.9	0.7	2.1	2.1	2.5	28.0
Greece	1848–2011	4.7	3.0	–1.8	4.7	−6.0	12.5	56.1
Ireland	1924–2011	3.4	2.5	−0.6	6.1	2.3	6.5	15.5
Italy	1861–2011	3.9	1.1	0.4	4.1	2.2	4.3	48.0
Japan	1872–2011	4.2	0.8	2.1	0.3	2.7	1.4	12.1
Netherlands	1816–2011	3.3	2.1	2.4	3.1	3.4	4.3	45.6
New Zealand	1861–2011	4.8	3.1	1.9	2.7	2.1	3.0	48.0
Spain	1850–2011	2.9	2.1	2.18	2.52	2.39	9.05	18.6
United Kingdom	1830–2011	2.1	1.8	2.42	2.57	2.74	3.68	45.3
United States	1791–2011	3.6	–1.0	1.75	–4.45	3.72	–2.73	3.2



averted, it is likely that entitlement programs and/or national defense would suffer unexpected and highly disruptive cuts to their funding. The third problem with real-time spending prioritization is that it raises a number of political questions that would likely require time-intensive legislation. Primarily, what programs will suffer the most? Therefore, while real-time spending prioritization effectively blocks a default, the strategy is, as the Heritage Foundation puts it, "… the item behind the sign 'Break Glass Only in Case of Emergency.'"

Another reason that the United States cannot default is, surprisingly, the US dollar's status as the reserve currency of the world. At the risk of being obtuse, the US cannot default on debt denominated in dollars when the US has a monopoly on the production of dollars via quantitative easing by the Federal Reserve. The Federal Reserve Bank of St. Louis itself noted this fact in statement saying, "As the sole manufacturer of dollars, whose debt is denominated in dollars, the US government can never become insolvent, i.e., unable to pay its bills."

However, this does not mean that rampant quantitative easing is without consequences. As noted earlier during the discussion of the low interest rates in the United States, excessive quantitative easing endangers the inflation rate. Again, the United States is safely within distance of a recession, acting as a coincidental barrier against high inflation, but the business cycle rebound will ultimately prove harmful to the inflation rate if high levels of easing continue.

High and unpredictable inflation would be highly detrimental to the American citizenry. Not only does high inflation create a climate of uncertainty that discourages saving and investing, it is very harmful to those who live on a fixed income. Social Security and most state and federal pensions make a cost-of-living adjustment (or, conversationally, a COLA), but the vast majority of private pensions do not according to a Bureau of Labor Statistics report from 2000, which found that only 9% of private sector pensions incorporates COLAs.

Thus, between real-time spending prioritization and exorbitant quantitative easing, there are two clear safeguards against default on the national debt. Both of them carry very unfortunate and disruptive consequences, but the fact of the matter is that default is not an option. In spite of this, the looming consequences of relatively large debt necessitate a discussion of potential solutions in the short term and long term, which can be equally contentious on the Congressional floor.

Perhaps the most obvious short-term solution to debt nearing the debt ceiling is to simply raise the ceiling. Many critics argue that this response intuitively defeats the purpose of even having a debt ceiling. If the nation does not respect the purpose of the debt ceiling – to deter excessive debt – then the ceiling itself becomes moot.

At the same time, the answer cannot be draconian. The concept of the debt ceiling is simply one component of America's overarching economic policy, the overall health of which could be threatened by always and unquestioningly restricting the country within the bounds of such a ceiling. Failing to stimulate the economy during and immediately after a recession could cause a double-dip recession to occur with even more lasting consequences.

With that balance in mind, it becomes apparent that if raising the debt ceiling is the chosen route when American undoubtedly begins to near the ceiling again, the response has to be tempered with a long-term solution that controls for excessive debt, whether that is reducing spending, raising taxes, or a combination of both (which this discussion will turn to later). Without a long-term focus, the debt ceiling loses its material purpose and becomes purely symbolic, ultimately wasting time and resources.

Another less apparent short-term solution is to simply remove the debt ceiling entirely. While this might seem like an extreme response, it has garnered the support of many respected economic minds, from Treasury Secretary Timothy Geithner to Chairman of the Federal Reserve Ben Bernanke. In his argument against the debt ceiling during a presentation at the University of Michigan, Bernanke critiqued that the debt ceiling has already been reduced to purely symbolic value and that no other nation currently implements a comparable policy.

As a future taxpayer, removing the debt ceiling entirely is a troubling prospect. Even if Bernanke is correct that the debt ceiling has already become a mere symbol, it is a significant reminder that has the potential to deter unchecked spending. In the same way a speeding driver might receive a warning from a police officer that has no monetary punishment, the warning may inspire the driver to reconsider his or her recklessness. Without the debt ceiling, it may become difficult for the public to be aware of the problem of rising debt. Despite all of the misconceptions that arise from media hype, news reports that the nation is reaching the debt ceiling keep the citizenry wary of the issue. Thus,

"THE TRILLION-DOLLAR QUESTION IS 'WHICH SEGMENTS OF SOCIETY LEAST NEED THIS FUNDING?'"

even a symbolic debt ceiling has value in that it may deter irresponsible spending and provide a metric that informs the public.

Finally, and most importantly, America must also consider the long-term solutions to rising debt. These are particularly significant per the previously noted findings by Reinhart, Reinhart and Rogoff that the most concerning costs of debt are in the long-term. Ultimately, there are two broad categories of choices that can be combined flexibly: increasing revenue and decreasing spending.

Within the category of increasing tax revenue, allowing the tax cuts of 2001, 2003, and 2009 and the estate tax provisions of 2010 to expire would reduce the deficit by $550 billion in 2020 according a report from the Congressional Budget Office in November, 2012. This is the most effective proposal analyzed by the CBO in this report in terms of reducing the deficit, but one has to be wary of the implications of such a broad and indiscriminate action. As noted by the same report, one of the essential questions of evaluating debt reduction is considering the economic byproducts of any action. In the case of raising tax revenues, there is the possibility of removing incentives to produce depending on how the tax is distributed. The decrease in productivity could even offset the value of the revenue increase, resulting in an unsustainable cycle as taxes must be continually raised to maintain constant revenue while productivity falls. Without going too far into the very complicated issues of taxation, it is fair to say that increasing revenues cannot be the sole or perhaps even the major contributor to deficit reduction in the long term.

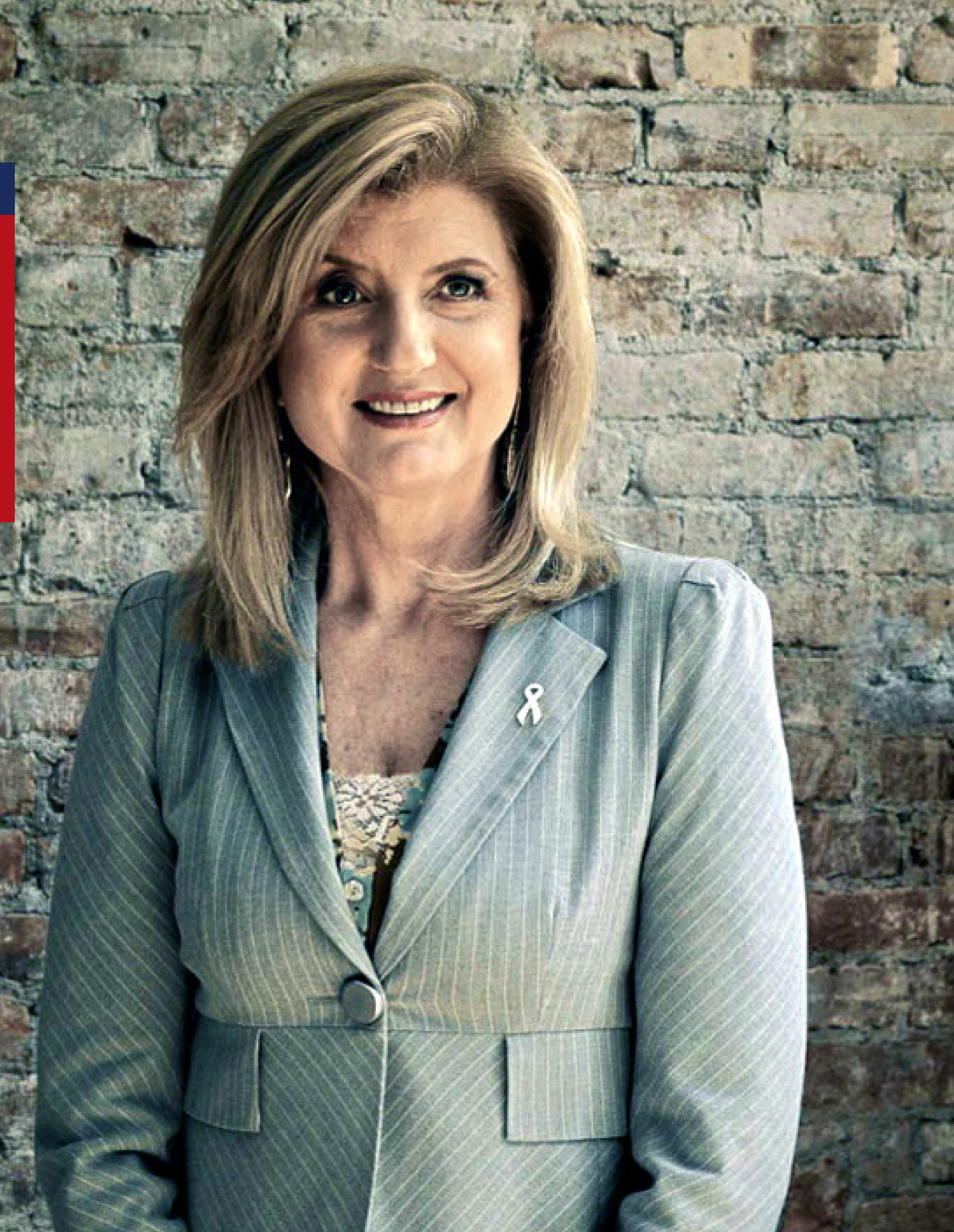
> "...THE CONGRESSIONAL BUDGET OFFICE WARNED AGAINST 'PERSISTENT DEFICITS AND CONTINUALLY MOUNTING DEBT...'"

The other contributor to deficit reduction – decreasing spending – will also be necessary component of a viable solution. The recent historic spending as a result of government expansion in combination with recession-fighting stimulus is untenable in the long term; however, where cuts are made is up to Congressional debate. The trillion-dollar question is "Which segments of society least need this funding?"

The fiscally realistic refrain throughout the debt crisis has been that the United States spends like a "big government" nation but taxes like a "small government" nation, which is the intuitive explanation for the long-term source of our national debt and corresponding proximity to the debt ceiling. From an economic standpoint, it is nearly impossible to see a solution that does not combine both increases in revenue and decreases in spending, but who bears the burden of these changes will be up for heated discussion in the political arena. At this crossroads, we can either face the reality of distributing the burden through policy or surely be crushed underneath the swelling weight of the debt nexus. IBR

INTERVIEW: Arianna Huffington, Founder of the Huffington Post

“A WORLD WITH MORE WOMEN LEADERS CAN HELP US REDEFINE SUCCESS BEYOND MONEY AND POWER. WE NEED A THIRD METRIC THAT PLACES VALUE ON OUR WELL-BEING, OUR HEALTH, AND OUR ABILITY TO LIVE THE LIVES WE WANT, NOT JUST THE LIVES WE SETTLE FOR.”



Arianna Huffington: The Founder, Chair, President, and Editor-in-Chief of the Huffington Post

INTERVIEWED BY
LAUREN ZAKARIAN-COGSWELL W&C'15
& GABRIEL JIMENEZ C'15

The sluggish recovery of the global economy since the 2008 crisis has driven volatile and uncompromising politics in the government and media. Politicians and media sources alike have vigorously addressed economic issues such as the deficit from the forefront of the 2012 Presidential Election to the rhetorical center of current debates. IBR was fortunate enough to gauge the thoughts of Arianna Huffington, syndicated writer and the head of the The Huffington Post Media group. With a focus on creative employment growth, Huffington shares her opinions on topics varying from the state of today's media and ideas on private-public business initiatives to the role of government regulation in the marketplace.

International Business Review: To what extent would you say your personal circumstances and decisions have shaped your professional success?

Arianna Huffington: I was raised in Athens by a father who was a newspaper editor, and I grew up on the romance of journalism. So, in a way, I am still pursuing that dream every day. As for the Huffington Post, bringing together people from different parts of my life and facilitating interesting conversations has always been part of my Greek DNA. So from the beginning, the whole point of the Huffington Post was to take the sort of conversations found at water coolers and around dinner tables – about politics and art and books and food and sex – and open them up and bring them online.

As for decisions, the most important decisions have been to simply keep going after my multiple failures! That's the most important decision you can make – or, at least, the most important one I've made.

IBR: Do you see the media as having become sensationalized (and to an extent commoditized), and what role does the Huffington Post play in this shift?

AH: There have certainly been a lot of shifts in the media world in the last decade, but to me, the most meaningful one hasn't been on the more sensational/less sensational axis, or the more commoditized/less commoditized axis.

The bigger shift has been on the axis of presentation vs. participation. The news used to be presented – by the few to the many. Now it's much more of a never-ending conversation, in which the reader has a voice in shaping the narrative of our world. At HuffPost, we strive to start those conversations every day, on our lively commenting platform and on our streaming network HuffPost Live.

IBR: During the past election, many supported Mitt Romney due to his extensive background in consulting and finance, believing that this trait would qualify him more than President Obama to deal with the country's economic problems. Do you agree with this characterization, and how would you evaluate the President's economic policies to date?

AH: I'm sure many people did support Romney for those reasons, but I don't think experience in finance is the most important factor in dealing with the economy. What's important is priorities and leadership – deciding what kind of economy we want to have and then being able to achieve that. On that score, I think President Obama has been mixed.

We're in a terrible jobs crisis, and yet there's been very little sense of urgency coming out of Washington. Instead, with the country still struggling with unemployment, foreclosures, and a crumbling infrastructure, the debate has been about how much to cut. What the country needs is growth and jobs, not a slightly better version of austerity.

> "OUR BIGGEST AND MOST IMMEDIATE PROBLEM RIGHT NOW ISN'T GOVERNMENT SPENDING OR THE LONG-TERM DEFICIT HORIZON. IT'S JOBS."

IBR: Given your shift in political doctrines, how would you currently define the extent of the government's social responsibility and economic regulation?

AH: Things have changed – it wasn't the goals that I thought our society should be striving toward that changed, but my thinking about how best to reach them. At a certain point, my understanding of the role of government changed. I had once believed that the private sector could step up to the plate and address the major issues our country was facing – especially the need to care for those left out of America's prosperity. But I saw firsthand that this wasn't enough.

So it became clear to me that we could never really address some of our society's most fundamental problems without the raw power and agenda-setting potential of government appropriations. And there is nothing left or right about caring for the more than 25 million people in America who are unemployed or underemployed.

In terms of regulation, the government has a definite role to play in assuring fairness, a level playing field, and a truly free market – all of which depend on strong regulations.

IBR: Which sectors and programs (education, Medicare, defense, etc.) do you think deserve the most government attention considering the current push for federal spending cuts?

AH: Our biggest and most immediate problem right now isn't government spending or the long-term deficit horizon. It's jobs. And, by the way, the best solution for the deficit is growth. According to the CBO, the sequester alone will knock 1.5 percent off our GDP – that's not going to help the deficit and it certainly won't help with jobs.

And as Larry Summers put it in 2011, "an extra percent a year on the growth rate for the next five years will do more for the budget than any amount of the entitlement-cutting that's under discussion."

IBR: What is your evaluation of the recent fiscal cliff deal, namely the tax increases on upper tier tax brackets? Where do you think the balance lies between raising taxes and reducing spending?

AH: I don't have a specific ratio of cuts to revenue increases, but the fact that this is the debate in Washington while we have 25 million unemployed or underemployed is a big part of the problem.

IBR: You have made recent public statements about your concern for the youth unemployment rate. Could you elaborate on the current situation and on your efforts to assuage this issue?

AH: We've devoted a lot of coverage to this issue on HuffPost. The unemployment rate for Millennials is over 13 percent, up 2 percent since December. If you include those who have dropped out of the job market, it's over 16 percent. We also know that entering the job market in a crisis like this has negative effects on one's career for decades.

Aside from spotlighting the problem constantly – along with associated issues like college debt, for-profit colleges, how Millennials are the most stressed demographic – HuffPost has also tried to kickstart private sector efforts to help solve the jobs crisis, especially with our

November 7, 2012

THE HUFFINGTON POST

Edition: U.S.

Search The Huffington Post

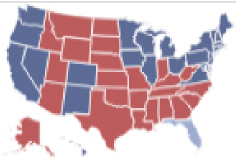
Like 744k Follow

FRONT PAGE · POLITICS · BUSINESS · ENTERTAINMENT · TECH · MEDIA · WORLD · HEALTHY LIVING · STYLE · COMEDY · LIVE · ALL SECTIONS

Election Maps • Election Results • 2012 Blog • Opportunity • Hurricane • TEDWeekends • OWN • GPS for the Soul • Black Voices • Gay Voices • Crime • Religion

FROM AP: Shaun White settles drunkenness, vandalism charges... 1 minute ago

Enter email address · Get Alerts



ELECTORAL VOTES	Va. 99% Rpt.	Fla. 100% Rpt.	N.C. 100% Rpt.	Ohio 99% Rpt.	N.H. 99% Rpt.
✓303	51%	50%	48%	50%	52%
206	48%	49%	51%	48%	47%

SENATE: 55 D — R 45

HOUSE: 193 D — R 234

CLICK FOR FULL RESULTS | SHARE

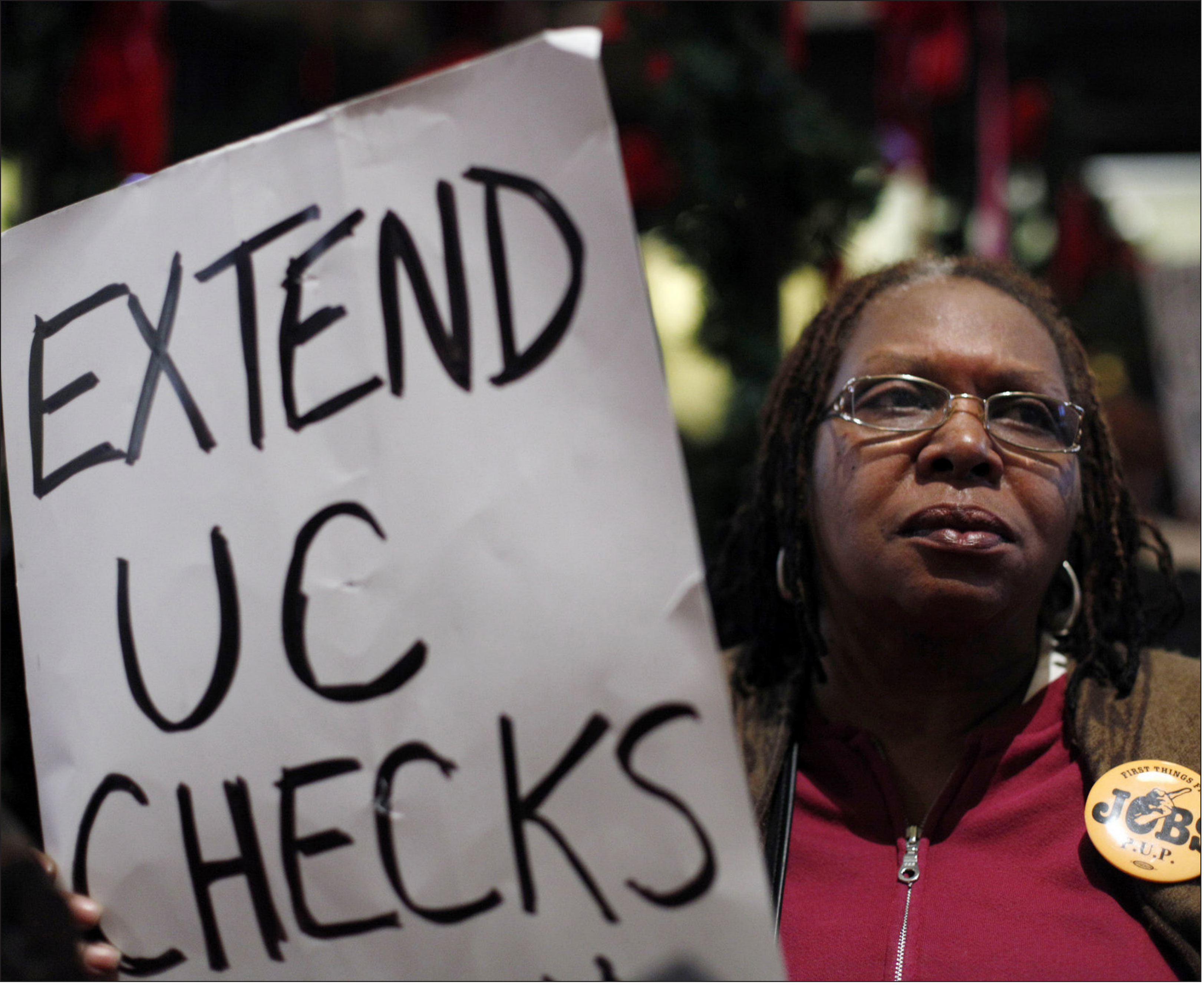
THE OBAMA ERA

Near-Record Levels Of Latino Support... 18-Point Gender Gap... 'Welcome To Liberal America'... *'Republicans Bet Everything, And Obama Won It All'...* 'Ringing Victory For Liberals'... 'Yes, Obama Won A Mandate'

huffingtonpost.com/jobrais

“ AS FOR THE HUFFINGTON POST, BRINGING TOGETHER PEOPLE FROM DIFFERENT PARTS OF MY LIFE AND FACILITATING INTERESTING CONVERSATIONS HAS ALWAYS BEEN PART OF MY GREEK DNA. ”

Arianna Huffington delivering the commencement address at CUNY Graduate School of Journalism to the graduating Class of 2009.


EXTEND
UC
CHECKS

JobRaising Challenge.

And we'll continue to shine a light on this problem, which is largely being ignored by much of the media.

IBR: There has been a lot of excitement around the JobRaising Challenge pioneered by The Huffington Post and the Skoll Foundation. What is the goal of the challenge, and how does the competition operate?

AH: The goal of JobRaising is to raise money, raise awareness and help put Americans back to work, by tapping into the barn-raising spirit that has always been part of the American DNA. When we first kicked off the JobRaising Challenge, we called on non-profits to compete for a $250,000 prize from the Skoll Foundation by describing their ideas and efforts to create jobs. A total of 217 nonprofits in 31 states and 110 cities applied. The results were astonishing. We raised over $1,500,000 to help put Americans back to work – more than $1,200,000 of that through CrowdRise alone.

IBR: As a strong and prominent role model for women, what advice would you give to female students who aspire to succeed as you have done in the business and/or media world?

AH: You're going to fail, probably many times. But the first thing to realize is that failure is okay – in fact it's essential. Very often, the difference between success and failure is perseverance. And being successful doesn't mean you have to imitate the worst aspects of our male-dominated workplace culture. A world with more women leaders can help us redefine success beyond money and power. We need a third metric that places value on our well-being, our health, and our ability to live the lives we want, not just the lives we settle for. IBR

> "THE FIRST THING TO REALIZE IS THAT FAILURE IS OKAY – IN FACT IT'S ESSENTIAL."

INTERVIEW: Olivia Mitchell, Professor at the Wharton School

“THE FUNDAMENTAL PROBLEM…IS THAT THE DEFICIT PROBLEM HAS NOT BEEN FIXED AND THAT GREAT CHUNKS OF GOVERNMENT OBLIGATIONS ARE NOT EVEN EXPRESSED EXPLICITLY AS PART OF OUR DEFICIT.”

A Conversation with Professor Olivia S. Mitchell

INTERVIEWED BY LAUREN ZAKARIAN-COGSWELL W&C'15

The global financial crisis in 2008 called our attention to a myriad of blatant flaws within foreign economic systems and practices as well as those at home in the United States. While some were more obvious, such as the housing market and later the attention called to our healthcare system, other issues culminating in the domestic debt crisis, such as pensions and social security, are ones that undoubtedly require further examination and reform. IBR sat down with Wharton's own Dr. Olivia S. Mitchell, a world-renowned economist who has dedicated her career to the field of public finance with a specialization in public and private pensions, in order to delve into this examination and discuss other pertinent issues of domestic fiscal policy.

IBR: What is your evaluation of the January fiscal cliff deal, namely regarding the changes in tax rates? Where do you think the balance is between increasing taxes and enacting spending cuts?

OM: I think raising the tax rates somewhat on high income people is certainly going to help in terms of the overall budget balance. Nevertheless, the question is: what will follow? Certainly, raising the tax rates did not fix the budget deficit. They did not slow the growth of spending and I've heard various folks argue on the Republican side that, okay, we raise taxes, that's over, now it's time to cut spending, we're not going to make another step forward unless specific spending cuts of rather large sizes are stipulated. So I think it was a step in the right direction, but nowhere near a big enough step and it may come at the cost of having to have another big fight over spending, which I think is probably inevitable.

IBR: They called the deal a compromise between the two parties. Do you really think it was a compromise? How do you evaluate that dynamic, where some party members find themselves ideologically bound? How much do you think that restricted the quality and extent of the so-called compromise that was met?

OM: Well, I think both sides called victory in that the Democrats said, "Oh gee, we got the Republicans to agree to a little bit of a tax increase" and so that's a step in their direction. The Republicans took it as a bitter pill, but then said, "Okay, now we've done our part, it's time for the Democrats to move." So, it was a compromise, but I think a short-lived compromise in that it didn't really lay the groundwork for any bigger solution, which, I regret to say, has not come forward.

IBR: $85 billion of spending cuts are scheduled to take place on March 1st, while three days ago, the Treasury Department reported a $3 billion budget surplus in January. Does this show signs of sustainable improvement/recovery?

OM: I think that the economy is picking up a little bit. The fundamental problem, however, is that the deficit problem has not been fixed and that great chunks of government obligations are not even expressed explicitly as part of our deficit. Social security underfunding has been estimated at over $80 trillion; that's not even recognized on the annual government debt scenario. Medicare underfunding is several more trillion dollars, so I think a few billion here, a few billion there, that doesn't add up to real money unfortunately. No one in Washington is admitting that still, so I'm very disappointed in the lack of focus on the big picture. The fact that the debt looks big or small compared to when Obama came in is really not paying attention to the other issues, which are the unfunded promises made to seniors. Until we incorporate those unfunded promises into our notion of the national obligations, the accounting is being done wrong. $88 trillion is the government estimate of the unfunded liability of social security and Medicare is probably less, but still in the multiples of trillions.

> “THE DEBT CEILING IN SOME SENSE IS AN ARTIFICIAL CONSTRUCT, BECAUSE IT’S A WAY OF FORCING THE ADMINISTRATION TO JUSTIFY TO CONGRESS ITS DESIRE TO ISSUE MORE DEBT THAN IT ALREADY HAS PERMISSION FOR.”

IBR: What are your views on how we should prioritize spending our tax receipts?

OM: Well, I’m a retirement expert. I’ve spent my whole career working on pensions, social security, and to some extent healthcare. What I find very concerning is the lack of attention to the bedrock of retirement security - which has always been social security in this country. No one is taking an active look at how to bring the program into solvency. The views around the time of the healthcare bill were that this would help fix Medicare, but I don’t really think we’ve done much there either, in a very concerned way. Meanwhile pensions, corporate pensions and public sector pensions, are falling apart. It’s pretty much a disaster there. To my view, the whole pillar of retirement security is crumbling and that’s a high priority. Of course, at the same time, education, healthcare, everything else matters as well. But since there are so many baby boomers retiring in the next few years, if we don’t pay a lot of attention to that pillar of retirement security, there are going to be a lot of older people voting, and they’re going to be voting in their self interests, and it’s going to probably force Medicare and social security benefits to remain a high priority on the agenda, perhaps prejudicing some of the other valuable issues. I think it’s very narrow-minded for people to vote only their own issues. A case in point came up a few years ago when I lived in upstate New York. One of the local towns voted down the town budget thirteen times in a row, because all the young folks had moved away and the only people remaining were older individuals who did not want to pass the school budget that funded the schools to the appropriate level. So it turned into a big fight and as a consequence, it of course raised a lot of ire and also meant that anyone that was thinking about moving into that township wouldn’t move there if they had kids and the younger people continued to out-migrate. So it very much changes the nature of the public amenities that are available in the neighborhood and so on. I fear that that generational conflict is going to become more pointed, especially if the economy doesn’t pick up too quickly. In an era of prosperity, there is pie to hand around. But in an era of continued unemployment and slow growth or no growth, it becomes very clear that the pie is fixed and “what you get, I don’t get” and vice versa.

IBR: What kind of reform do our social security/pension programs need?

OM: About a decade ago, I participated in the President’s Commission to strengthen social security, which was a bipartisan group composed of eight Democrats and eight Republicans. At that point, we came up with a couple of changes, the most important of which was to reduce the growth rate of social security benefits – not to cut them, but to reduce the growth rate. That type of an idea has been picked up by the most recent commission that President Obama put together to bring about changes, but then the Obama administration let that whole idea fall and no one has brought it back with any enthusiasm. It’s a relatively simple fix. It can be done such that people at the bottom of the pay distribution are protected, whereas people at the top get a CPI price inflationary index, but nothing more than that. It saves a lot of money and it can bring the system back into balance. So I think social security is fixable, if people have the willingness to actually bring about the necessary changes.

IBR: Do you think it is possible for the US to default on our currency? What would be the implications of this occurring and are they even likely enough to be worth considering?

OM: Inflation is a method of defaulting on our currency, and I’m convinced that inflation will continue. The other question people have asked is if the U.S. could default on its debt. We’ve already seen that happen in the European Union, where Greece, Cyprus, and other countries are either in the process or have already gone that route. It certainly has led to much higher interest rates when those countries have tried to borrow in the future. In the U.S.’s case, I think it would be very damaging, because so much of our debt is owned abroad, so it would have huge political ramifications as well. Having said that, I do think that inflation is an indirect way to try to not pay back as much as promised, and I am pretty pessimistic about it. I think we’re going to have a lot of inflation in the next two to five years.

MEET OLIVIA MITCHELL

Dr. Olivia S. Mitchell is the International Foundation of Employee Benefit Plans Professor at the Wharton School, as well as Professor of Insurance and Risk Management and Business Economics and Public Policy; Executive Director of the Pension Research Council; and Director of the Boettner Center for Pensions and Retirement Research; all at the Wharton School of the University of Pennsylvania. Concurrently Dr. Mitchell serves on the Wells Fargo Advantage Fund Trusts Board as an independent director; as a Research Associate at the National Bureau of Economic Research; and as Co-Investigator for the Health and Retirement Study at the University of Michigan and Associate Director of the Financial Literacy Center, a RAND/Wharton/Dartmouth Consortium. Dr. Mitchell's main interests are public and private pensions, insurance and risk management, financial literacy, and public finance. She received the MA and PhD degrees in Economics from the University of Wisconsin-Madison, and the BA in Economics from Harvard University.

Mitchell has visited or taught at numerous institutions including Harvard University, the National Bureau of Economic Research, Cornell University, the Goethe University of Frankfurt, the Singapore Management University, and the University of New South Wales. She served on the President's Commission to Strengthen Social Security, and she was a Public Member of the US Department of Labor's ERISA Advisory Council. She received the Fidelity Pyramid Prize for research improving lifelong financial well-being; the Carolyn Shaw Bell Award of the Committee on the Status of Women in the Economics Profession; and the Roger F. Murray First Prize from the Institute for Quantitative Research in Finance. She was also honored with the Premio Internazionale Dell'Istituto Nazionale Delle Assicurazioni (INA) from the Accademia Nazionale dei Lincei in Rome. Her Social Security reform study won the Paul Samuelson Award for "Outstanding Writing on Lifelong Financial Security" from TIAA-CREF. Previously she served on the Board of Directors of Alexander and Alexander Services, Inc., the Advisory Board for the Central Provident Fund of Singapore, the National Academy of Social Insurance Board, the Board of the Committee on the Status of Women in the Economics Profession, and the GAO Advisory Board. She also co-chaired the Technical Panel on Trends in Retirement Income and Saving for the Social Security Advisory Council. She has spoken for and consulted with many public and private groups including the World Economic Forum, the International Monetary Fund, the Investment Company Institute, the International Foundation of Employee Benefit Plans, the White House Conference on Social Security, the Q Group, the President's Economic Forum, and the World Bank; and she has provided testimony to committees of the US Congress, the UK Parliament, the Australian Parliament, and the Brazilian Senate. She speaks Spanish and Portuguese, having lived and worked in Latin America, Europe, and Australasia. For more information, please see http://bpub.wharton.upenn.edu/people/faculty.cfm?id=719.

IBR: What are the short and long term solutions to tackling the issue of the debt ceiling?

OM: The debt ceiling in some sense is an artificial construct, because it's a way of forcing the administration to justify to Congress its desire to issue more debt than it already has permission for. I think it's Congress that is already responsible for raising the debt and so it's a bit ironic that Congress is being told that it must raise the debt ceiling. My sense is that it may come to a government shutdown. We have seen that before where federal employees have to go on furlough, where people did not get paid for a week or so. It certainly raises questions about how we are going to continue essential services such as the military and healthcare, but I think that's more of a theatrical move because it forces the common people to try to put their politicians feet to the fire. I don't think it changes the actual underlying issue, which is that the two sides aren't talking about what the real fundamental issues are. So a debt ceiling could be raised and it probably will be.

> "We should be giving people, where they can, the message that "you should work until you're 75-80, and if possible the rest of your life," because it's just too expensive to be 120 years old and quit working when you're 60."

IBR: What do you think are the fundamental drivers of the fact that they aren't engaging in the discussions they need to be engaging in? Special interests?

OM: Certainly there's a whole lot more of lobbying going on than was ever the case. It's extremely expensive to get elected now and so everybody spends full time trying to be re-elected, with the exception of someone that just won their second term in their presidency. I used to work in a Congressman's office as a summer intern and there was real attention paid to the constituents and getting letters of recommendation from the Congressman. I'm sure they still do a lot of that but there is so much attention to every word the candidate says that it makes it very hard to broker backroom deals with transparency. Maybe that's for the good, but in the old days, you could tell one guy one thing and another guy another thing and muddle through, but it makes it much harder to do now – especially with public records where everybody can see who receives money from whom.

IBR: Based on your experiences abroad, what similarities/differences are there regarding government budgeting and spending, with a focus on how various governments deal with retirement and pension programs?

OM: The two countries that I've spent the most time working on in terms of their pensions have been Australia and Chile. Chile reformed their whole national social security system back in 1981 and they privatized the system, requiring everyone to put 10 percent of their paycheck into a scheme similar to a 401K but at the national level. It has been very successful. In fact, it was the influence of some of the Chicago boys that helped bring about some of that privatization. Over time it's been adjusted and tweaked. The last Chilean president, Michelle Bachelet, also put in place a safety net, which meant that if you worked your whole life and contributed but hadn't made any money as a low-wage worker, you would get something back from the system. She also mandated that everybody had to pay it. Before it was just wage and salary worked, but if you're self-employed or if you were an agricultural worker, you wouldn't have to. Now the idea is that it's a more encompassing scheme and the investments have been doing very well. They do a good job managing the money and retirement.

And Australia recently did something similar where nine percent of paychecks were given as a mandatory contribution. You could either invest your money in the funds your employer had chosen or you could go outside and find a licensed retail money manager. They have also had a great deal of success. The plans are portable; you still own your account as you move across employers. The downside to the Australian scheme, however, is that you can take a sum at age 55 and some people take it and immediately spend it. Then they come back with their hand out to the government saying, "Give me an old-age poverty benefit, because I'm poor," which is very common among the older population in Australia. So I think they have the contribution and investment aspects worked out well and the payout is a challenge. If you have an old age security benefit that the government is going to give you, why should you save it? I think the one challenge that we face is that you really have to consider the whole. In the case of the retirement arena, you have to consider all the pieces together. For example, one idea that various people have proposed is to require all employers to put a certain percentage of people's pay in defined contribution accounts. Right now, only 50 percent of the workforce has a pension, so then the issue is, why don't those lower-wage workers have plans? One reason is because they have other needs and another reason is that explicitly or implicitly, there are a lot of safety net programs we offer people in old age: SSI, which is Supplemental Security Income, Disability Income, Medicaid, and of course social security. All of those programs provide a relatively generous benefit for people that have not earned much their whole life. So then there are crowding-out effects. There is a disincentive to save if you know you're going to get 70 percent of your salary as a pension benefit for the rest of your life. It is insufficient to simply mandate, then wash your hands and say that you're done with it. You have to look at the interactions between the different programs that we have in place and ask, "Does this make sense?" I think in many cases, there is a good reason people don't save.

A lot of our retirement policy is not coherent or consistent. For example, we have some policies that say that you have to save your retirement money until you're 59 and a half, and if you try to get it out early, you have to pay a penalty. To some people, that signifies that when they hit that age, they're old and should retire. There are other policies like social security that say that you can get your benefit at 62, which could signify to some that they should retire. There are a lot of messages that we give to people which I think are the wrong messages in this day and age. We should be giving people, where they can, the message that "You should work until you're 75-80, and if possible the rest of your life," because it's just too expensive to be 120 years old and quit working when you're 60. That's 60 years of no support, if you have not saved an awful lot. I'm not saying that everyone is going to be 120, but that is the outer life span and it will probably go up by the time you get there. So we really must focus on getting people to work longer and invest in their skills. That's another thing: people do not seem to understand that their human capital is as important an asset as anything else they can save or put their money in over the rest of their lifetimes.

IBR: Do you think the 2008 recession has exacerbated this problem since so many workers were laid off and had severe difficulties finding new jobs at that later stage in their careers?

OM: I do think that it has been a tough time for the labor market, because people that have lost their jobs are obviously spending a longer and longer time trying to find new jobs. People that have relatively upper-middle class or middle class jobs with decent earnings are suddenly finding that they have to return to the retail sector and be greeters or what have you. What this says is that when you're 20, 30, and 40, you cannot stop educating yourself and you cannot stop investing in your human capital thinking in the back of your mind that you'll be 50 soon and you'll retire. You have to say to yourself when you're 40, "Yes, I will learn the new software program or read the new book on XYZ topic, because I'm going to need to be marketable and my skills will have to be valuable for the next thirty years." I always tell my students that it's not enough to come to Wharton once and then go away. This is only the beginning of lifelong learning. What we try to do is not only teach you, but teach you how to teach yourself, because that is the most important thing for the rest of your life.

IBR: What should students graduating in the next three or four years be anticipating in the job market?

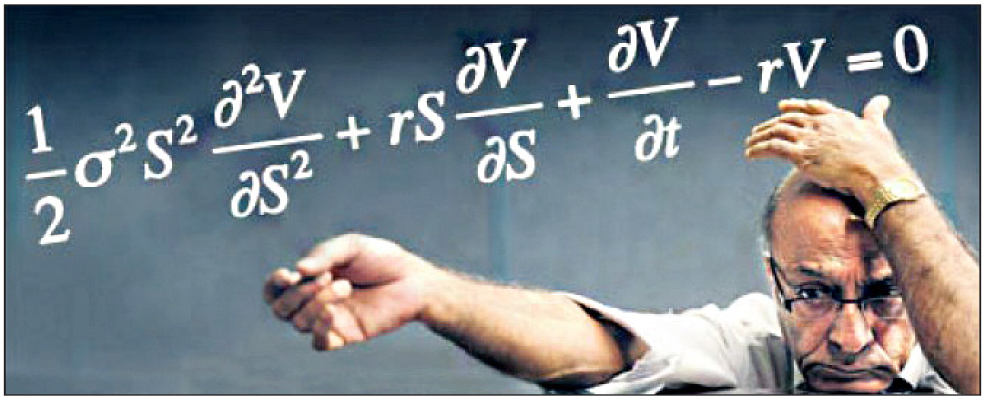
OM: I suspect that the job market can't get any worse than it was in 2008-09. (*Laughs.*) Heaven forbid, I hope I don't have to eat those words. I do think that people are realizing that the traditional jobs where a lot of Wharton students wanted to go, such as investment banking and consulting, are probably not going to be growing and may even be downsizing continuously. They should look in other directions and think about internships in other areas prior to launch. I always think of school as a place to build skills that would be difficult to acquire on your own after you graduate. Whatever is hardest for you, make yourself do that in school. If you find accounting difficult, go learn accounting, because heaven knows you will need it and it will be much easier to do it while you're here in a controlled setting than to try to read an accounting book for 120 hours in a week. I'm optimistic that the market won't get any worse, but I'm not sure that it's going to get a whole lot better. I still see fundamental weakness in the housing markets and until that is fixed – and there's no sign of that improving very much – I suspect it is going to be a long haul.

IBR: Recent comparisons have been made saying that the U.S. is the next Greece. Do you find any merit in this claim, or is it merely a product of sensationalism in the media?

OM: There are some painful similarities in that Greece has a very high deficit and a very high government debt, and the U.S. levels are not all that different. What is different, of course, is that Greece is part of the EU. It has no control over its currency and it has a very difficult time raising revenue. So I think we are in a different circumstance there. Should Greece opt of the EU, as many think it should, it would control its currency and probably devalue it quite a bit, which would make wages cheaper and therefore a lot more people would want to set up business there. But we have a somewhat different legal system – I believe that most would agree that our legal system is functioning better than those of many EU members. Our banks are in better shape; there are a number of countries in the EU where people have gotten used to transactions under the table – an unofficial black market economy – and also getting handouts from the government. We don't have the black markets that you see in some countries in Europe, but there are large chunks of the American economy that have become quite used to living in a comfortable, regulatory environment. Agriculture is one of the biggest ones. I think until we can reform some of our key industries – housing is another that has been heavily subsidized – I think it is going to be difficult to be become as productive as we need. And that's why you're getting trained to go out and bring it back to that!

Trading: Man vs. Machine

BY VICTOR ALVES W'15



While the traditional view of the stock exchange consists of shouting stockbrokers signaling in a convoluted sequence of hand gestures on the trade floor of the New York Stock Exchange (NYSE), today, the trade floor is quiet.. Exchanges such as the Nasdaq, the first electronic trading platform, rely mostly—if not solely—on computer operations to function.

The last few decades have seen the rise of finance as a more mathematical and scientific subject of study, mainly due to post-World War II discoveries in financial theory. The Modigliani-Miller Theorem shed light on capital structures, and the Capital Asset Pricing Model (CAPM) related a security's risk and expected return. Other groundbreaking discoveries such as the Sharpe Ratio led to Nobel Prizes in Economics, shining the spotlight on finance as a more mathematical discipline. However, perhaps no one model had a larger impact on the technical rise of trading than the development of the Black-Scholes options pricing model.

Fischer Black and Myron Scholes first met in Boston in the late 1960s, where they teamed up to conduct empirical tests on the CAPM. By 1973, Black and Scholes had been able to combine their disparate research assumptions and derive a function that, with stunning mathematical fluidity, explained that the expected return of an option was equivalent to the riskless rate of interest. This, in part, meant that changes in underlying securities' prices could be disregarded in setting expectations to the return in equity. The model had an important impact in options pricing; rather than using the equation to describe the current options, traders began to rely on the model to forecast future returns.

Contingent on the increasing role of mathematics in finance, technological changes in the trading environment were necessary to support the beginning of computerized trading. The Internet allowed for the creation of electronic trading platforms, such as the Nasdaq. The development of faster computers and the growing grasp of algorithms and their potentials through the early 1980s helped erect the first quantitative hedge funds, such as the eponymous Renaissance Technologies. The brainchild of investor James "Jim" Simons, a one-time theoretic mathematician now purported to have a net worth of $11 billion, the hedge fund has brought returns that surpass even those of Warren Buffet by about 15% a year for the last twenty years, on an annualized basis.

The benefits for firms have been substantial. In investment banks, the Sales & Trading departments, which partly work as market makers by providing agency trading, have scaled towards implementing algorithms that cut down on costs and specialize a trader's job description. Quantitative approaches have also been utilized in analyzing the risks of firms and applying methods to hedge the banks' positions.

Algorithmic trading has grown exponentially as computer power and financial technical know-how have expanded in and outside of the United States. The height of the 2008 financial crisis caused record losses—and fewerwins—to hedge funds across the globe; nonetheless, algorithmic trading has rebounded, with high frequency trading (HFT) comprising two-thirds of all orders coming into American exchanges. HFT, as the name suggests, attempts to utilize the sheer potency of algorithms and computers to execute millions of trades a day through split-second decisions. A recent preliminary study has shown to routinely profit from spreads of futures contracts against retail investors, at $5.05 a contract. In humans vs. machines, the machines are becoming ever more prevalent.

Yet machines are prone to errors, and the rise of quantitative trading has brought into question the destructive power of algorithms. In 1998, the notorious hedge fund Long-Term Capital Management, which utilized algorithmic trading to find arbitrage opportunities in securities and counted Scholes as one of its partners, collapsed in front of a bad bet to Russian debt.

In May 2010, the Dow Jones Industrial Average suffered an abrupt nine-percent drop that was almost fully recovered

within twenty minutes of the incident. It was an unsettling and unnatural case of hitting an unfounded bottom and suddenly springing back to normal levels. The incident, now referred to as the Flash Crisis, has been blamed on HFT systems that shifted their positions on the stocks after a large offer of futures contracts were placed on the Chicago Mercantile Exchange by an undisclosed customer.

Over the years since the end of the Great Depression, markets have behaved mercurially in rhythmic troughs and ridges as the result of millisecond mathematical decisions ordered by "black boxes," the super-computers that command HFT orders. Often times, firms maintain their computers closer to the exchanges to profit on scalping, the technique of reaping profits from the instantaneous ups and downs of market moves. Expectedly, the algorithms are generally kept as proprietary information.

"WE SHALL ONLY HOPE THAT FUTURE INVESTORS STILL APPRECIATE THE INHERENT ART IN TRADING AS MUCH AS THE ANIMATORS OF COMPUTER ANIMATED MOVIES APPRECIATE THE PERFECT MOVEMENTS AND FEATURES OF THEIR CREATIONS."

In 2012, a major market maker and trading firm proved to be a victim of its success. Within 45 minutes of a computer glitch, Knight Capital lost about half a billion dollars of its own cash, calling for a bailout. The disruption of trading within the short timeframe was so direct that it drove the shares of one technology company to four times its pre-glitch price.

The Securities and Exchange Commission (SEC) has not been able to observe the split-second decisions of HFT firms due to the sheer size and speed of trades. As a response to the Flash Crisis, the SEC has introduced the idea of combating their shortcoming through another technological development: a computer system that would identify all trades to the millionth of a second, thus helping the government agency maintain a grasp in the evolving industry. The program, "Midas," could be out within the near future.

The Great Depression also prompted a higher level of financial regulation through the Dodd-Frank Act. The Volcker Rule, a section of the Act, will provide restrictions to proprietary trading from investment banks. However, the Volcker Rule does not extend to all securities, (i.e. treasuries are exempt) and there are visible loopholes, so that banks' internal hedge funds could still engage in proprietary trading. Additionally, the hedging of risk will still be allowed once the law comes into effect, though there is a murky line between what differentiates a profitable hedge from a trade.

It comes without a surprise that trading has become more mathematical and technical within the past few years. Renaissance Technologies employs about 300 employees, a third of which are Ph.D.s in Mathematics, Statistics, Physics and related disciplines. Programming abilities are also highly valued.

The elusive question remains as to the position that colleges and professional schools must take in the paradigmatic changes taking place in trading. Undergraduate business schools around the United States have differentiated themselves from peer liberal arts schools by educating students with a focus on real-world applications, such as finance and accounting. On the other hand, as trading becomes more mathematic, quantitative majors may have become more attractive choices to certain trading routes. The curtailing of Sales & Trading departments of banks due to the Volcker Rule is also expected to decrease potential offers to students interested in capital markets.

If undergraduate business schools do not want to follow the major trends, they must expand their offers in topics from Statistics' stochastic models and Monte Carlo simulations to Computer Science's C++ programming. In order to control the machine, the man must first learn to understand it.

The art of trading is not completely out of the picture. Most hedge funds still invest in "fundamental analysis" and require expert investors to decide on the financials and the broad outlook of potential buys. The same goes for other types of financial instruments and assets. Stockbrokers still amass in the commonplace floor of the NYSE. And investment banks' traders still pick up the phone and buy millions to billions of dollars worth of securities for their clients throughout the day. It is unquestionable, however, that the industry is currently undergoing a paramount change—we shall only hope that future investors still appreciate the inherent art in trading as much as the animators of computer animated movies appreciate the perfect movements and features of their creations.

Mexico: The Next Great Investment Frontier

BY LEILA EHSAN C'15

Mexico has replaced Brazil as the favorite investment spot in Latin America. Mexican investment has been growing faster than Brazilian investment and has become cheaper for manufacturing than China. However, some investors still have reservations due to the fact that Mexico suffers from rampant crime and drug conflicts. Still, many things can be done to ameliorate the economic, political, and social issues facing Mexico at the moment, and Mexico is not to be underestimated in terms of investment potential.

Regarding economic growth, Forbes has projected that Mexico will become Latin America's largest economy, ousting Brazil by around 2020. Current estimations demonstrate significant population growth and a fall in the dependency ratio, meaning that there is a proliferation of resources taking place as well as a simultaneous rise in the GDP. GDP growth was 4% in 2011, and there was a low inflation rate of 3%. In addition to this growth, the economy has recovered from its crisis in 2008.

In terms of economic freedom, the Heritage Foundation and the Wall Street Journal's Index of Economic Freedom – which measures rule of law, limited government, regulatory efficiency, and open markets – ranks Mexico at about 50, which means that it is "mostly free." But in comparison to other countries, Mexico is ranked higher than all the countries that comprise the BRICS conference (four of which are the top non-Western emerging markets); India is at 119, China is at 136, and Russia is at 139.

Furthermore, in comparison to the BRICS countries, Mexico has a competitive industry in aircrafts and automobiles. Looking at demographics, Mexico has a sizeable population of 115 million and a workforce of 78 million, as well as a youth demographic that neither China nor Russia has available. Additionally, much like the other BRICS countries, there is an emerging middle class. Thus, it seems that Mexico is in a similar – perhaps better – position than the BRICS countries both economically and demographically.

Investment in Mexico, particularly American investment in the region, is increasing due to a number of factors. The first of these, regulatory efficiency, demonstrates that Mexico has more business, labor, and monetary freedom. The second is that Mexico has open markets, ensuring trade, investment, and financial freedom. Thirdly, wages in China are rising, which is changing the nature of the dollar-yuan relationship. China is keeping its currency artificially low to boost exports and reduce US imports; as such, increasing economic ties to Mexico will be beneficial to the United States' economy seeing as Mexico will be a low cost producer and will provide inexpensive goods. Additionally, the US already exports more to Mexico than to China: Mexico receives 75% of its foreign direct investment from the US and sends 85% of its exports back to the US, undoubtedly through the help of the North Atlantic Free Trade Agreement (NAFTA). Fourth, US companies are realizing that Mexico might be preferable over China as a production site because of "nearshoring"— the distance from Mexico to the US is shorter than from China to the US, so the cost of transporting goods is going to be significantly less expensive. Fifth, the Mexican PRI party has assumed the presidency and has gained back power from the lower house, which is vital because the party is dedicated to making market reforms that will attract investors. Finally, investment is increasing because the Mexican banking sector is comparatively small in contrast to some other Latin American economies, and economic development is low, meaning there is much growth potential.

In addition to Mexico's increasing investment, the government has bettered its higher education policies. Mexico has multiplied its number of educational institutions, and currently, many of its universities are committed to educating and graduating more students with interests in science and technology. Many of these graduates are interested in fixing Mexican and international problems through technology. Thus, it seems that Mexico's youth are equipped with interests and skills in technology and globalization.

Mexico-Guatemala border, has proliferated due to former President Calderon's failure to properly address this issue.

Although the reputation of the environment is discouraging some investors in the private sector, Mexico has a promising future, and there is much the Mexican government can do to draw in more investment. First, Mexico can make itself more appealing with regard to investment by altering its economic policies. Liberalizing the economy and jump-starting growth levels will not be easy and may lead to possible changes in labor laws, but it will bring in investors. Second, by opening up local industry and allowing for more investment in oil, there will be more foreign investment. The Mexican PRI party does not have a majority in Congress, but the PAN party (Calderon's Party) and the PRI have similar economic policy proposals and could potentially get 2/3 majority for certain bills if they form a coalition. The next president, Peña Nieto of the PRI, has already proposed labor market reform and introducing investment into the oil sector, and Nieto – armed with a team of well-respected political and economic advisers – has six years to make significant improvements.

In addition, if Mexico introduces and follows through with more risk-reduction policies and finds a long-term solution to drug violence, this will assuage the fears of prospective investors. Finally, Mexico needs to appeal more to its current investors

"ALTHOUGH THE REPUTATION OF THE ENVIRONMENT IS DISCOURAGING SOME INVESTORS IN THE PRIVATE SECTOR, MEXICO HAS A PROMISING FUTURE, AND THERE IS MUCH THE MEXICAN GOVERNMENT CAN DO TO DRAW IN MORE INVESTMENT."

Despite the increase of investment in recent months, Mexico is still considered an unattractive place by some investors. First, the rule of law, or property rights and freedom from corruption, is struggling in many regions, particularly northern Mexico, where homicide rates, kidnapping and extortion are high. Furthermore, drug trafficking is a major concern. The Mexican press is flooded with drug related issues, which has been noticed by the global media and has thus resulted in an association of Mexico with the drug trade. This in turn has stunted tourism, foreign investment, and the country's reputation as a whole. Moreover, violence due to drug trafficking causes much hesitation among investors: the current drug war has left over 55,000 people dead. Finally, the concern over organized crime, especially along the

regarding risk reduction and must demonstrate a willingness to make political, economic and social policy to counter risk. This is due to the fact that investment and risk reduction are interrelated: the more investment there is, the more of an effort the government will make to try and keep investors, meaning that there will be more policies towards risk reduction. When this happens, risk is reduced, attracting even more investors. Thus, it seems that investors need to evaluate risk versus growth potential and decide for themselves as to whether or not the benefit of investing in Mexico outweighs the cost. However, those who choose not to invest may find themselves regretting the decision if Mexico manages to make the economic, political and social improvements necessary to thrive.

The Firearms Paradox

BY ARA GARIBYAN W'15

The Bill of Rights of the Constitution of the United States guarantees all of us basic rights that the government cannot violate. Originally ratified within these ten amendments, the Second Amendment provides a right that has embedded itself within American culture. It delineates that "A well-regulated Militia, being necessary to the security of a free State, the right of the people to keep and bear Arms, shall not be infringed."

By observing the Second Amendment from a historical standpoint, one can understand that the motive behind the drafters of the Bill of Rights for including such a measure was to provide the citizens of the new nation a form of protection against the threat of tyranny they had recently fought to be free of. Giving the people the ability to arm themselves meant they would be able to defend themselves in case their government acted unsuitably and autocratically. However, purposes such as personal protection, hunting, and investing have become more practical uses for firearms throughout time.

Technological developments over time have led to the production of firearms whose power is well beyond the scope of those that existed at the time period in which the Bill of Rights were drafted. The debate that currently exists pertaining to the rights granted by the Second Amendment anticipates to more or less resolve the issue of whether there should be a ban on the ability of individuals to purchase and use certain assault weapons in the United States, which was not an issue at the time of the ratification of the Second Amendment.

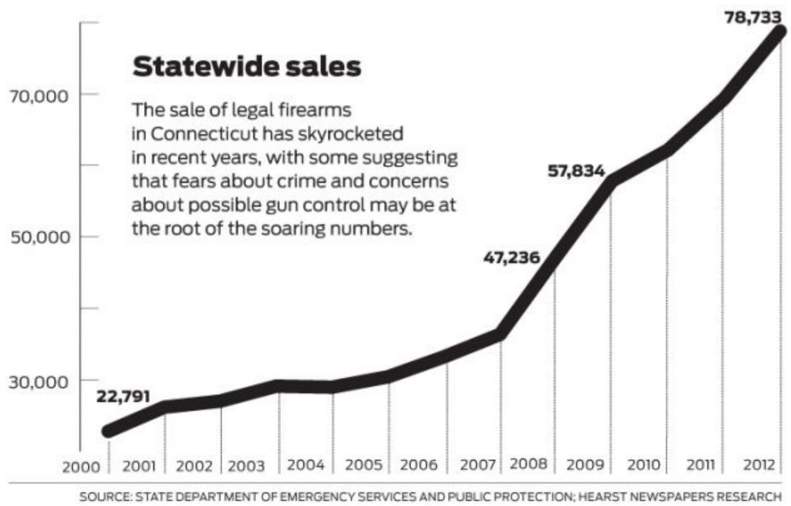
This ongoing controversy is a consistent issue that resurfaces and intensifies due to violent shootings that occur throughout the years. The tragic events at Columbine, Virginia Tech, the Aurora Theatre in Colorado and, most recently, Sandy Hook Elementary School have influenced the majority of Americans to be in favor of tighter control and regulation on firearms, specifically with a federal assault weapons ban. The Assault Weapons Ban of 2013, which collapsed in the Senate in March, contained provisions very similar to the assault weapons ban enacted in 1994 that expired in 2004, with the most significant differences being that the new ban is slightly stricter and will not expire.

Currently, 58% of Americans approve of setting limitations on these assault weapons, so it seems very surprising that recent sales figures of firearms report a dramatic boom. However, the looming threat of limitations on the firearms available for purchase will surely incentivize people to purchase what they desire while the option is still on the table. This leads to a rising demand for this particular good. More specifically, the amount of background check requests in 2012 increased by 20% from its already record high number in 2011. After the recent presidential election, firearm manufacturer Smith & Wesson Holding Corp. saw a 10.8% increase in the price of their stock. Therefore, it is interesting to observe from a purely economic point of view whether the constant threat of a federal law that limits people's availability to the access firearms is actually beneficial for business owners and investors who have a stake in the market for such goods. Though these business owners may experience an increase in the demand for their product, such sudden accomplishments as highlighted by their profits may be short-lived, as the effect could very well be just a short-term increase in sales. With legislation placing a ban on assault weapons, will these business owners experience reduced sales and profits in the long run?

"DO LIMITATIONS ON THE PRODUCTS THEY CAN SELL, SUCH AS AN ASSAULT WEAPONS BAN, SIGNIFICANTLY DAMPEN THEIR PROFIT FIGURES?"

As already illustrated by the record numbers of gun sales and increasing returns in this particular sector of the market, a short-term increase in profits is apparent in the firearm industry. It is worth examining the long-term economic effects on those who have a financial stake in the firearm trade. Do limitations on the products they can sell, such as an assault weapons ban, significantly dampen their profit figures? Ultimately, the only difference in their business will be their inability to sell certain types of assault weapons. While the sale of typical firearms remains intact, a ban on the sale

of assault weapons would, in the long run, have an adverse effect on gun manufacturers and sellers. Freedom Group, which is an American firearms manufacturer, claims that 15% of its total sales are from Wal-Mart's sales of assault weapons. This is a significantly high number when keeping in mind that these are figures taken from one retailer for Freedom Group, Wal-Mart, which happens to be the largest retailer of firearms in the US. The company even stated that if retailers such as Wal-Mart were to terminate the sale of assault weapons due to a ban, their financial condition would be negatively affected. Furthermore, Cerberus Capital Management, the private equity firm that owns Freedom Group, has begun to divest its assets and decrease its magnitude of ownership in the company. Therefore, though the present condition of firearm retailers seems to be a very comfortable one with record-high sales figures, the long-term effects of an assault weapons ban do not look so favorable at any level of this industry from manufacturers to retailers.



Another economic argument can also be made regarding the recent increase in firearm sales across the United States. This alternative explanation looks to the slow recovery of the economy from the recent recession as a result of the continued boom in the firearm industry seen as of late. Thus, the macroeconomic business cycle is a possible factor behind the increased gun sales. Even though the economy has been recovering since the recession in 2008, it has been doing so at a slower rate, meaning people do not have confidence that they are definitely better off today than they were five years ago. Therefore, because of the lack of a sure sign of immediate economic relief, home and business owners continue to expect robberies and burglaries motivated by harsh economic times. The constant increase in gun sales year after year since the recession might indicate that these people want a sense of security and protection during these uncertain times. As the business cycle continues and the economy begins to rebound more definitively, the sale of firearms will be lower relative to the numbers during the recent recession.

After observation of the recent political and economic climate of the United States, it seems as if the threat of a federal ban on assault weapons is the main factor that is driving up the sales in the firearm industry. While the effect of the business cycle may be affecting these figures as well, it is most likely only a secondary effect. Additionally, with the possible presence of a black market involving the illegal trade or importation of assault weapons, will an assault weapons ban only be reducing potential macroeconomic output in the United States? Regardless, a successfully passed ban on assault weapons will almost certainly cause lower sales figures in the firearms market, so an industry that owes much of its sales margin to the assault weapons under recent scrutiny would have to to refocus its attention to the sale of typical firearms. IBR

The Catalan Secession

BY KATHRYN HOLBROOK C'15

There has been much talk about the broad implications of the crises in Southern Europe's economies, particularly in terms of their effects on the European Union. Less has been said, however, about the potentially unsettling effects of the economic issues within the nations themselves. Spain in particular is facing something of a domestic identity crisis in the form of raised demands for secession in the region of Catalonia, home to 16% of the nation's population.

Historically, both the Basque and Catalan regions have differentiated themselves from Spain due to their distinct languages and cultures, and both contain political factions that favor independence. In the case of Catalonia, the economic turmoil facing Spain may have just provided the impetus needed to undertake more serious efforts on the road to secession.

Since the downturn, public opinion in Catalonia has turned markedly in favor of secession. A poll taken by Catalonia's Center for Opinion Studies last September cites a historic high of 51.1% of the region's inhabitants in favor of secession, marking a dramatic rise from the 25.2% in favor just two years before. A recent declaration of sovereignty from the Catalan parliament provided symbolic support for independence. Soon after this gesture, Catalonia's president Arturo Mas set a date for a referendum on the matter of secession in 2014. Mas is not a member of Catalonia's separatist parties, so his support for independence indicates a critical shift, with nationalism embraced by groups not traditionally committed to the idea.

What accounts for the uncharacteristically high secessionist sentiment in Catalonia? Tensions with Madrid over talk of a vote on independence hint at the source—Madrid has placed itself firmly against Mas's announcement of the referendum claiming its illegality under Article 2 of the Constitution, which proclaims the indissoluble unity of Spain's territory. However, it is worth noting that the Constitution was drafted in 1978 in the wake of Francisco Franco's military dictatorship by a constituent assembly unfamiliar with democratic processes. This means that Catalan calls for independence predate the legal instruments for preventing such a move.

The recent surge in support for the referendum vaguely coincides with the economic downturn in Spain. Though the crisis began as 2008 drew to a close, as marked by contracting national GDP, the increase in public support for Catalan independence coincides not with the crisis itself, but with requests by Catalonia for bailout funds from Madrid. These requests came in August of 2012, and again in January of this year. Although Catalonia is Spain's richest region, it is also one of the most debt-laden regions. Most critically, there is much tension between Catalonia and the federal government regarding taxation—Catalonia pays 16 billion euros more in taxes each year than its regional government spends. In comparison, this is an even bigger gap between taxes paid and federal money received than that of a town in Scotland, whose citizens will be voting on a referendum for independence from Britain in 2014.

Members of the regional government have voiced their resentment toward Madrid for the perceived drain on Catalonia's prosperity, arguing that their inability to meet deficit targets and the resulting bailout requests are a product of the federal taxation system. In an article published by the Macedonian International News Agency, the dean of economics and the business school at the University of Barcelona argues that the economic benefits of secession for Catalonia would equal 7% of its GDP, even after having to pay for military and diplo-

Calella de Palafrugell, Catalonia.

matic corps. Taking into account that Catalonia's economic output now accounts for 1/5 of Spain's GDP while the region makes up only 6% of the country's landmass, its productive potential is evident.

If economic considerations are the only thing fueling the burst of Catalan nationalism, then it stands to reason that a strengthening of the Spanish economy as a whole would be enough to quell the region's threats of secession. However, it seems that the shape of things is less a reaction to Spain's misfortune and more an outrage of the Catalan citizen body toward a perceived exploitation of its wealth. It is important to realize that this is occurring in the framework of a region that does not perceive itself as culturally Spanish—to illustrate, Catalan is taught in schools, with Castilian Spanish treated as a foreign language. Considering the many obstacles to independence, perhaps we are seeing an awakening of the Catalan nation to the fact that it may have the financial resources to support itself better as an independent body than as a part of Spain. With high productivity and a robust GDP, Catalonia may have the credibility abroad to be accepted as a part of the international community.

A 'yes' vote on a referendum for independence would not mean smooth resolution of Catalonia's problems. Most burdensome would be the region's application to the European Union and the attendant period of political and administrative turmoil that habitually ensues before acceptance. With such high stakes along with the disputed legality of secession, Catalonia faces many hurdles in achieving the nationhood that much of its population clamors for. But with a level of infrastructure and financial capacity far surpassing that of other regions struggling across the globe for independence, Catalonia is better positioned to realizce this dramatic change.

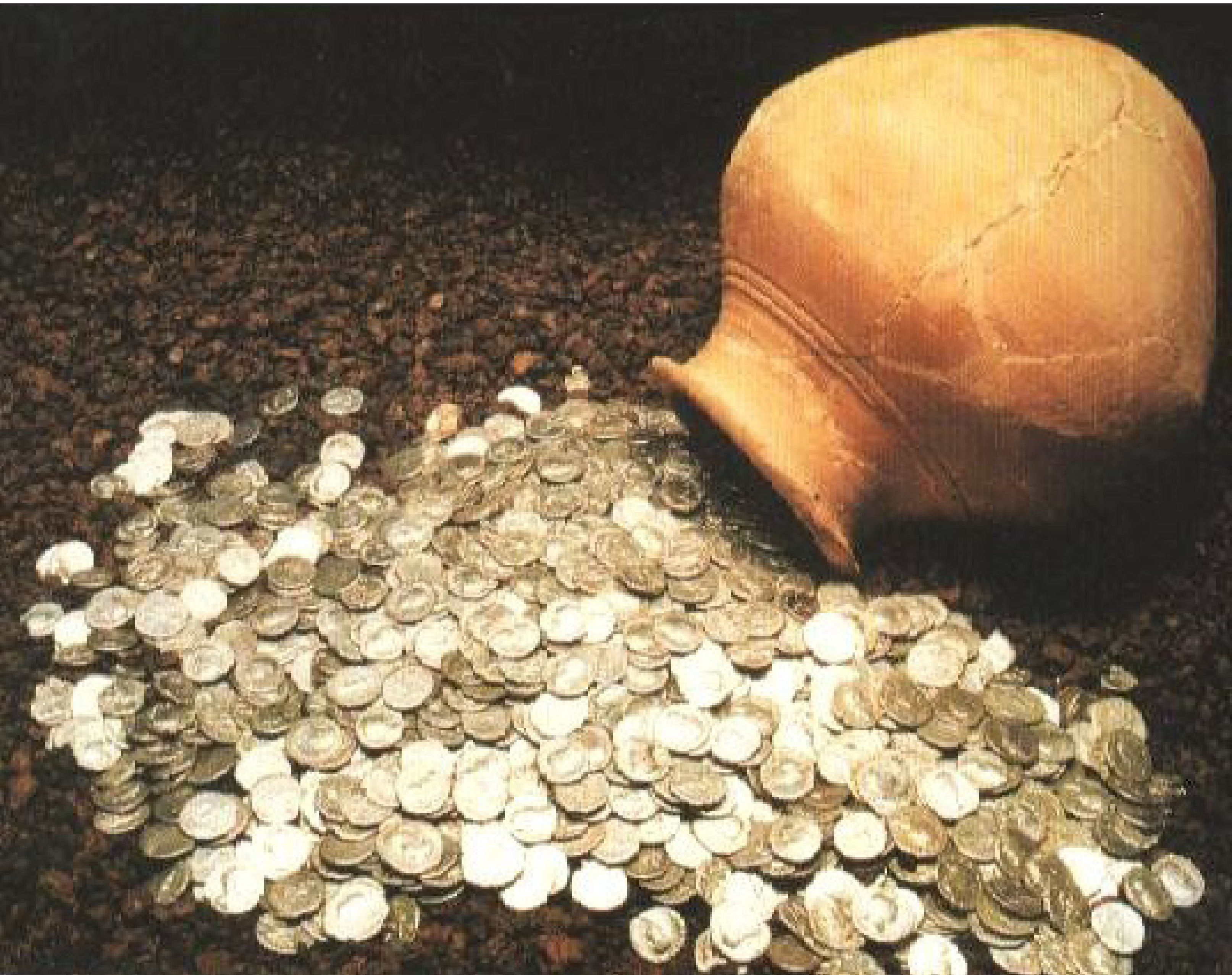
> “ A YES VOTE ON A REFERENDUM FOR INDEPENDENCE WOULD NOT MEAN SMOOTH RESOLUTION OF CATALONIA'S PROBLEMS. ”

Charitable Giving 2.0

BY OLA ABOUKHSAIWAN C'15

While the Middle East has undergone its own political revolutions, it has also gradually experienced a charitable giving evolution. Traditionally, charitable giving has been associated with the act of donating money to the "less fortunate." However, this has made our constructed division between the haves and have-nots all the more pronounced. The World Giving Index continues to suggest that the three most common "giving" behaviors are donating money, volunteering time and helping a stranger. Although these forms of giving remain timeless, there has been a change—an "evolution," if you will—in the dynamics of giving and receiving.

Civil society flourishes when its philanthropic institutions flourish. In the Middle East, Islamic philanthropic institutions have perpetuated instruments that are meant to promote social justice. Charitable giving is seen as a propeller of social justice. The propagation of a more egalitarian society is an idea that has stood the test of time, as demonstrated by the most recent political uprisings and one of Islam's most fundamental pillars: Zakat. Zakat is the practice of giving a portion of one's wealth as a tax. It is an integral part of the Islamic socioeconomic system and is considered as the "purification" of one's wealth. In addition, the notion of a "Waqf" has also been established. Waqf, which literally means "confinement

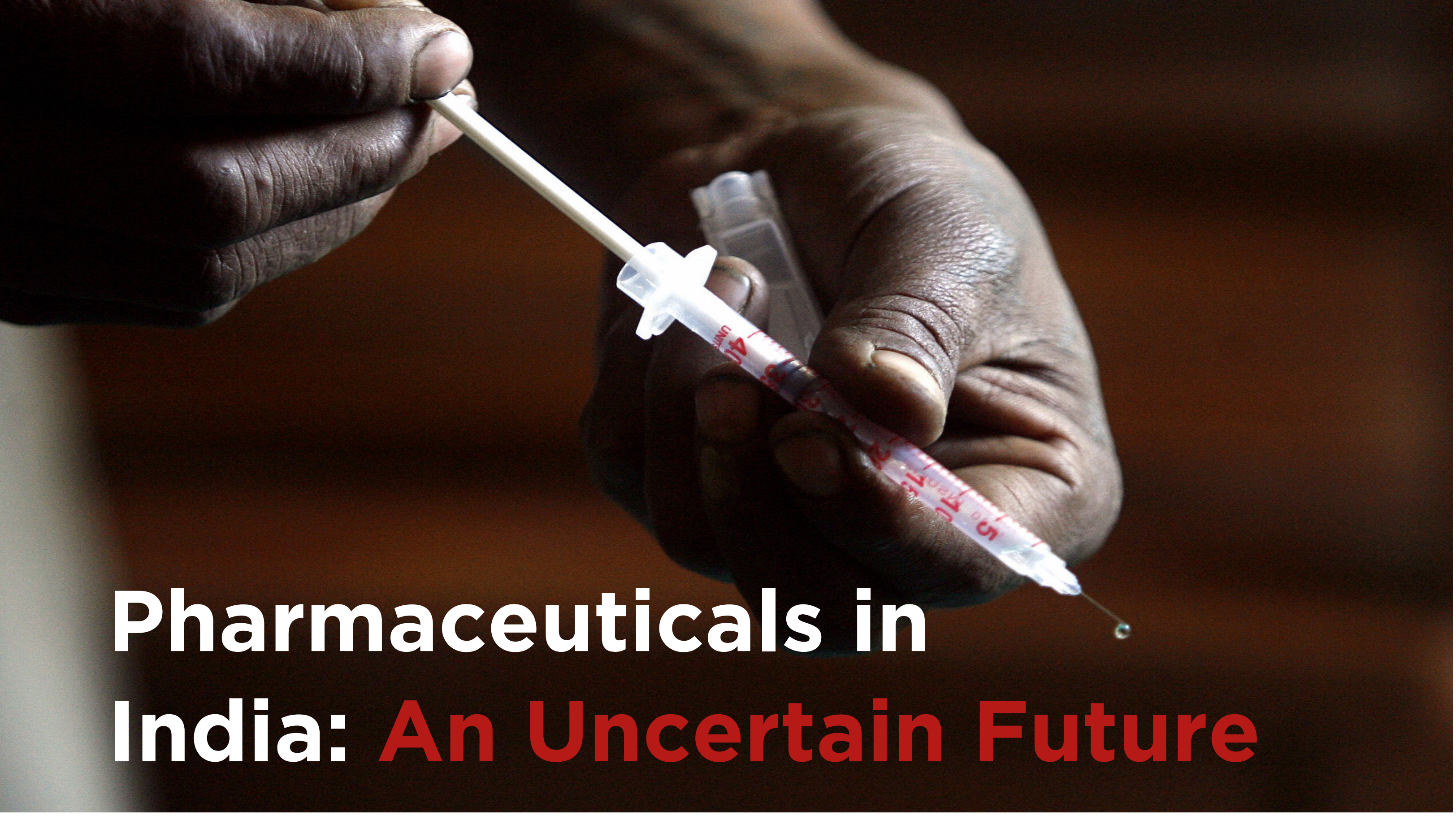


and prohibition," or causing an entity to stop or stand still, is an Islamic endowment of property to be held in trust and used for a charitable or religious purpose. Despite this, over 11 million people across the region suffer from living under $1 a day. Marwa al-Daly, an Ashoka fellow from Egypt, has turned this downfall on its head. By founding The Maadi Community Foundation, Marwa sophisticatedly combined the social, institutional and national policy elements necessary for the revival of philanthropy based on the cultural heritage of the Waqf. The Maadi Community Foundation focuses on mobilizing local resources by creating awareness about the role of local giving in development and not just charity. It also connects its philanthropies to the support of income-generating projects for those that we continue to call "less fortunate." An emphasis on local cooperation changes the relationship dynamic between those giving and those receiving.

> "WITH THE RISING COMPLEXITIES OF THE MODERN DAY, THE WAY IN WHICH WE DELIVER STRATEGIC COMPASSION AND EMPATHY HAS EVOLVED."

The importance of a sense of community has only continued to rise. The process of giving and receiving has shifted from being passive to more active and aware of what the other side has to offer. "Charitime" is a Bahraini online volunteering platform that aims to connect volunteers with those in need of assistance. Charitime aims to disrupt the charitable fundraising space, as it allows volunteers to donate their skills to not only charitable causes, but also to jobs. It is an organization that collapses the barriers of physicality—after all, the notion of "helping a stranger" need not be confined to the strangers that surround us. Charitime is playing an integral role in democratizing the practice of microvolunteering and microworking. At the top of the economy, many sophisticated mechanisms have been put in place for efficiency, regulation and the leverage of networks of resources. The same cannot be said about the bottom of economy. Charitime is counteracting this, as it has established the stepping-stones for collaborative consumption, and the notion of "modern markets" for all.

Technology has impacted the way in which we express our charitable giving. With the rising complexities of the modern day, the way in which we deliver strategic compassion and empathy has evolved. In doing so, charitable giving has become all the more penetrative, reaching beneficiaries as effectively as possible. For a long time, the less fortunate were made out to be both faceless and helpless as they are in constant need of support and sympathy. While globalization is often criticized for isolating certain communities, this has not been the case in the Middle East. Globalization is often perceived to be a culprit in increases in inequality and poverty, but this is rather debatable. Perhaps it is the forces of "glocalization"—the process of developing localities through the global system, by information technologies—that has allowed charitable giving to expand and make room for charitable receiving. IBR



Pharmaceuticals in India: An Uncertain Future

BY ANEESHA RAGHUNATHAN C'15

The pharmaceutical and drug development industry is a high-risk, high-reward industry that prides itself on fueling innovation through all phases of its product cycle. From drug discovery to clinical trials and eventually to the shelves, the drug business is a risky business. Research and development costs have hit record highs in the last ten years, and increasing government regulation on standards for testing new drugs has propelled most pharmaceutical companies into patent dependency—racing against the clock to create slightly differentiated products to secure a patent.

According to a 2008 profile on the industry published by PhRMA, the Pharmaceutical Research and Manufacturers of America, companies invest approximately $4-11 billion on research and development for the average drug. This becomes a costly investment for a success rate that is often very dubious. For example, AstraZeneca is listed as one of the top spenders on R&D costs, with a high of $12 billion per drug and a total of $60 billion overall from 1973-2011. However, AstraZeneca has only managed to get 5 drugs approved. Because there is such an innovation gap and cost risk, pharmaceutical companies are more than incentivized to hold on to their patents for as long as possible. These companies realize that when their patents expire, generic versions of the same drug will be released for a fraction of the cost of the branded drug and will be far more accessible to those who require it. Looking at the economic argument, drug companies want to prevent or delay this from happening at all costs.

In more recent years, top pharmaceutical companies have been working to increase market share by propelling their drugs to the developing world. Africa and India have been popular targets for these drugs because of the regions' readily available source of labor and large target market. However, in the last decade, India has been a large market for generic drugs. The industry has grown to be worth close to $26 billion and has drawn a lot of attention from global pharmaceutical companies. The generic drug industry in India is able to produce equally effective medicines for almost one-tenth of what the larger companies charge, allowing the much-needed medicine to be more available and affordable to the developing world.

> "...DRUG COMPANIES WANT TO PREVENT OR DELAY THIS FROM HAPPENING AT ALL COSTS."

These generic drugs that are produced in India are sent all around the developing world, specifically helping areas afflicted by AIDS and malaria in South Asia and Africa. The opposition from larger, patent-seeking companies came to a head with a lawsuit filed by Novartis against the Indian generic drug industry. The case was regarding Novartis' latest cancer drug, Gleevec, which was made generic by Indian companies and distributed widely. Generic drugs manufactured in India for conditions like AIDS, malaria, tuberculosis and other common diseases that are more prevalent in that part of the world have been distributed by UNICEF, making India the second largest distributor of generics to UNICEF.

Novartis and other larger companies argued that without legal regulation of the industry, allowing large scale manufacturing and distribution of generics would distort incentives and hinder new drug discovery and development. They lobbied instead to increase the life of existing patents or allowing companies to reacquire them. However, these actions could in fact have consequences more dire than the loss of industry and R&D dollars.

> “THERE IS NO QUESTION THAT THE STAKES ARE HIGH IN THIS CONFLICT.”

It is also important to consider the unique economic need that generic drugs fill in developing countries. Generic or low-cost versions of drugs increase the access to care and also can provide a solution for diseases that do not have a large enough market size of wealthier customers. Drugs that target tropical diseases are not manufactured as frequently as those that target diseases that are more prevalent in first world countries, and that have a more profitable customer base such as cardiac and cholesterol-reducing drugs or drugs for diabetes or depression.

This leaves orphan drugs—drugs that are produced for a rare medical condition or disease—as the only hope for eradicating tropical diseases. India’s growing pharmacy of generic drugs fulfills the need for orphan drugs. Without it and its improving infrastructure to create new drugs, many life-saving drugs would have not been developed and produced. Among several factors, the “low average per-capita income makes pharmaceutical markets in developing countries appear relatively unprofitable and therefore unattractive for R&D-oriented companies” ac cording to Villa, Compagni and Reich in the *International Journal of Health Planning and Management*.

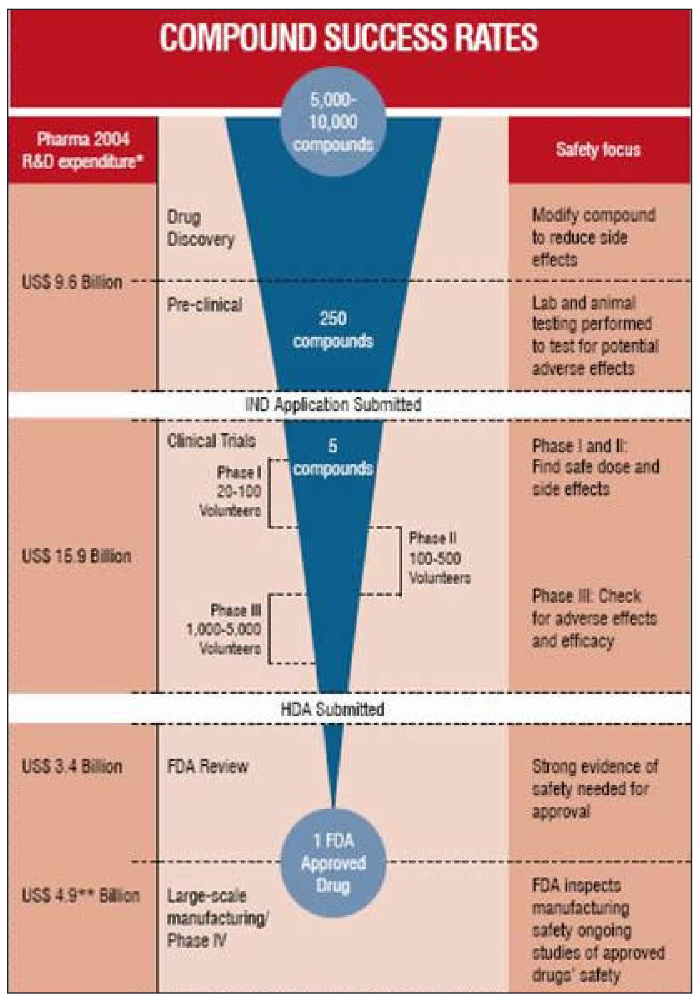
The ability of larger, international pharmaceutical companies to address this problem is questionable. According to the WHO, although trade in medicines is increasing rapidly, most of it takes place between wealthy countries, with developing countries accounting for just 17% of imports and 6% of exports. It is estimated that one-third of the developing world’s people are unable to receive or purchase essential medicines on a regular basis. Other countries like Thailand approved low-cost, copycat versions of the heart disease drug Plavix. This saved the country $24 million a year. In this case, it would make the most economic sense for India’s domestic industry, rather than larger conglomerates, to continue to grow its generic drug market and create low-cost medicines that appeal to its target audience of poorer people with these conditions.

Larger pharmaceuticals know this and strategized to lobby for a loophole in the laws. They want to extend or reinstate their patents if they come up with a new product for the same condition. However, allowing drug companies to get patents for a slightly differentiated product or a marginally better solution will only escalate the costs of development and distract incentives for innovating newer drugs—companies will be more incentivized to spend time and money on coming up with drugs that have a slight chemical difference in order to prolong the patent, redirecting energy away from actual innovation. This concept of “evergreening” could set a dangerous precedent and distort incentives to freeze true innovation and drug discovery.

Potential solutions include having larger drug companies compromise with generic drug manufacturers in India by running their own generic drug labs and pricing fairly. They can operate in a structure that allows locals to run specific branches and can obtain some potential tax benefits for working under the existing generic drug makers.

The conglomerates can also decide to pursue more differential or equity pricing in developing countries. This type of pricing calls for the sale of the same drug to different buyers at different prices, which would allow firms to price-discriminate based on the consumer’s willingness to pay. According to the WHO, differential pricing has reduced the cost of many anti-retroviral HIV/AIDS therapies by up to 90% in low-income countries. This would actually be a better solution than the incredibly high-margin, low-volume marketing schemes that larger pharmaceutical companies are currently pushing on developing countries.

There is no question that the stakes are high in this conflict. On one hand, there is the question of right to life and the right to have access to medicines that are priced fairly. Conversely, there is the question of how much is too much. Pharmaceutical companies and drug development do provide innovation and discovery. Many cures for life-threatening diseases evolved out of the current patent-protecting incentive structure. It makes the most economic sense to allow the larger pharmaceutical companies as well as the smaller, domestic generic drug manufacturers to specialize even more and occupy two different niches worxking to increase access to life-saving medicines instead of just increasing market share. IBR



Wharton's Finest: Follow-Up on the Fiscal Cliff

BY ALLISON COLLINS C'15

WE'VE HAD THE FISCAL CLIFF PARTS ONE AND TWO. IF THERE WERE A THIRD SO-CALLED CLIFF, WHAT WOULD IT BE?

AS OF LATE, MUCH DISCOURSE REGARDING THE INTERSECTION OF POLITICS AND ECONOMICS HAS BEEN CENTERED ON THE SO-CALLED "FISCAL CLIFF." THE TERM WAS INITIALLY USED TO REFER TO THE SIMULTANEOUS TAX AND GOVERNMENT SPENDING CUTS ACROSS THE BOARD SET TO OCCUR AT YEAR-END 2012. HOWEVER, THE SENATE CAME TO AN AGREEMENT LATE ON DECEMBER 31ST, JUST THREE HOURS BEFORE THE BUDGET CONTROL ACT OF 2011 AND OTHER SCHEDULED CHANGES WOULD HAVE GONE INTO EFFECT; THIS LEGISLATION WAS PASSED IN BOTH HOUSES OF CONGRESS THE FOLLOWING DAY. STILL, THIS AGREEMENT LARGELY ADDRESSED THE REVENUE SIDE OF THE CLIFF, NAMELY TAX INCREASES, AND DIDN'T DEAL AS MUCH WITH ISSUES RELATED TO SPENDING CUTS. AS SUCH, WE THEN WITNESSED THE EMERGENCE OF A FISCAL CLIFF PART TWO— THE SEQUESTER.

IN THIS INSTALLMENT OF WHARTON'S FINEST, MEMBERS OF OUR DISTINGUISHED WHARTON FACULTY PROVIDE THEIR INSIGHT REGARDING WHAT TO EXPECT GOING FORWARD.

DR. SCOTT HARRINGTON, ALAN B. MILLER PROFESSOR

“ WHETHER IT’S THE THIRD, FOURTH, OR TWENTIETH SO-CALLED FISCAL CLIFF, THE REAL CRISIS WILL OCCUR IF AND WHEN CONCERNS OVER FISCAL SUSTAINABILITY, POTENTIAL INFLATION FROM MONETARY EASING, OR BOTH SIGNIFICANTLY DEPRESS PRICES FOR U.S. TREASURY SECURITIES. IF THAT OCCURS, THE ECONOMIC FALLOUT WILL BE MOST SEVERE DOMESTICALLY AND GLOBALLY. ”

MARK PAULY, BENDHEIM PROFESSOR

“ THE THIRD FISCAL CLIFF IS GOING TO CROSS OUR PATHS WHEN THE HIGH COSTS FOR GOVERNMENT PROGRAMS FOR SENIORS, SOCIAL SECURITY AND ESPECIALLY MEDICARE, REALLY HIT, IN TEN YEARS IF NOT SOONER. THE PROXIMATE CAUSE OF POLITICAL FRENZY WILL PROBABLY BE THE MEDICARE PART A TRUST FUND COMING CLOSE TO ZERO BALANCE, BUT THE REAL CHALLENGE IS THE MUCH HIGHER TAX RATES NEED TO FUND ALL PARTS OF MEDICARE AND SOCIAL SECURITY. “CLIFFS” HAPPEN WHEN POLITICIANS CANNOT AGREE, AND IT SEEMS OBVIOUS THAT THERE IS NO EASY BIPARTISAN PATH FOR MAKING THE NECESSARY FINANCIAL CHANGES TO DEAL WITH SPENDING GROWTH IN MEDICARE. REPUBLICANS DO NOT WANT TO BUMP UP PREMIUMS ON RICH WORKERS, EVEN A LITTLE, AND DEMOCRATS DO NOT WANT TO BUMP DOWN BENEFITS FOR RICH SENIORS, EVEN A LITTLE. AND NEITHER PARTY WANT TO BUMP DOWN PAYMENTS FOR RICH DOCTORS, EVEN A LITTLE. ”

BOARD OF DIRECTORS


Pictured above clockwise from top left: Rebecca Friedemann, James Calvo, Rachel Fleszar, Yamini Nabar, Lauren Zakarian-Cogswell, and Allison Collins. Not pictured: David Hirschy, Shana Mansbach and Tiffany Tzeng.

Editor-in-Chief
James Calvo

Managing Editor
Lauren Zakarian-Cogswell

VP Design
Rebecca Friedemann

Editor
Allison Collins

VP Distribution
Rachel Fleszar

Editor
Shana Mansbach

VP Sponsorship
Tiffany Tzeng

Editor
David Hirschy

VP Subscriptions
Yamini Nabar

Our Vision for America: How the GOP can Leverage It

BY JAMES CALVO W'15, EDITOR-IN-CHIEF OF IBR

Popular culture and media portray young adults—particularly in college—as almost uniformly liberal. Save for a few die-hard conservatives, young people take the liberal view on everything, election results indicate. In the 2012 presidential election, fully 77% of votes cast on the University of Pennsylvania campus were for Barack Obama—25 percentage points above the national average. These numbers, however, hide the views shared by a surprising number of young adults: we don't support big government; in fact, anything but. Yet we can't compromise our moral convictions on social policy to vote otherwise. If the Republican Party softens its social rhetoric and instead leverages its focus on economic policy, it may well open up a wealth of support from young adults across the country.

Though the presence of the Wharton School on Penn's campus surely increases the visibility and passion behind students' economic views, it certainly doesn't diminish the conviction we have on social issues. Penn Democrats and Penn College Republicans just launched Students United for Marriage Equality, a national, bipartisan group supporting gay marriage—a view held by 81% of adults under 29, according to a recent Washington Post-ABC poll. That view is not a consequentialist, at-the-margin decision. The right to be married to the person you love, we argue, is a no-brainer, as are most of the Democrats' views on the rest of the social slate.

Meanwhile, in public policy, ethics, and economics classes, we debate the role of government in society from a philosophical and practical standpoint, challenging what we learn. In my business ethics class—required at Wharton—consensus does not, as would be expected, fall squarely on regulation and the individual at the expense of profits. Profit is the primary goal of the corporation, and society requires it, we believe. In my public policy class—also required—we argue that the government rarely aligns its employees' incentives with its goals, causing bureaucratic waste. For example, government managers tend to be paid based on how many people they manage, not on measures of efficiency or productivity—incentivizing a sprawling, inefficient bureaucracy. What BMV manager is compensated based on customer satisfaction? There are, of course, reasons for government intervention in the market. But that intervention must be limited and pursued, not with a social or idealist agenda, but with a view toward creating the freest of markets.

We believe in a thriving, dynamic America, and we recognize that the path there is somewhere between harsh austerity by way of a quickly balanced budget and the risks of an endlessly increasing debt-GDP ratio. We want a country where social safety nets help the needy but are quick to incentivize independence and mobility, where government does not hand out money simply because past laws have made it so. Social Security is not designed to automatically adapt to rising life expectancies, falling birth rates, or economic realities; a sensible, market-oriented reform is critical to long-term success. In this entitlements realm, the GOP succeeds, at least relative to the Democratic Party. Unfortunately, its budget agenda elsewhere—such as in slashing education while maintaining defense—is driven less by economic sense and more by idealist pursuits we cannot support. Education is politically easy to cut; military spending is not.

Much time is spent discussing the role of America in an increasingly globalized economy. It's a silly notion to demand America's preeminence in the realm of total GDP when, comparatively, the developing world has so much further to go. At a presidential debate last fall, Governor Romney asserted his desire to bring jobs back from China. Treating the global economy as a zero-sum game is absurd and plays to political, not economic, goals. We believe America, while outflanked by the developing world in warm bodies, can continue to produce the strongest, most innovative ideas and businesses in the world. A combination of ease of doing business, deep capital markets, a relatively unrestrictive government, and access to many of the best and brightest has made the U.S. home to many of the world's largest corporations and even more entrepreneurs. America can, and should, continue to reward innovation, merit, and enterprise. A government that attempts to replace market forces—such as in renewable energy—replaces economics with politics and causes debacles like the Solyndra bankruptcy. Likewise, a government that simultaneously subsidizes risk by way of too-big-to-fail banks but stifles innovation with restrictive regulation does not produce a thriving economy. Instead of pursuing a political agenda, the government should act to ensure markets remain free and competitive. It is difficult—but it can be done.

America can continue to be the world's beacon of success and enterprise if we make that vision our priority. Battling changing social tides, barricading our borders, and transferring our wealth to seniors should not be our focus. Building on the economic strengths of the U.S. should be the focus of our time and energy, and as the young adults inheriting our economy, want that to be the focus of our elected leaders. Policy should reward innovation, risk-taking, and entrepreneurship, and not reward or punish political targets. It should regulate, but not guide, the market. Currently, neither party has demonstrated a true commitment to that focus, although the GOP is closer. Unfortunately, until the GOP begins recognizing the conviction of our social views and focuses more on building the economy, we can't help but side with the Democrats. IBR

IBR's Favorite Things

WHITE GIRL PROBLEMS

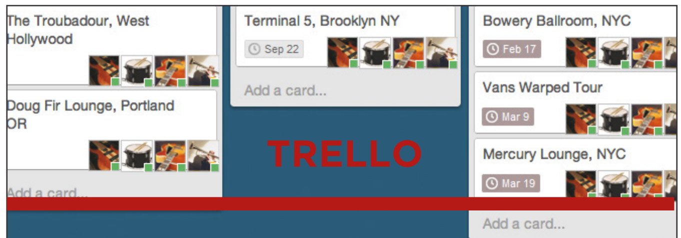
THIS NEW YORK TIMES BEST-SELLER IS THE HYSTERICALLY CANDID MEMOIR OF BABE WALKER THE NARCISSISTIC & COMPLETELY NEUROTIC GIRL THAT WILL UNDOUBTEDLY REMIND YOU MORE OF YOURSELF THAN YOU WOULD LIKE. A MUST READ REGARDLESS OF YOU BACKGROUND, AGE, OR GENDER.

-REBECCA FRIEDEMANN, VP DESIGN

NESPRESSO PIXIE

I'M ADDICTED. BUY THIS PRODUCT IF YOU LIKE QUALITY ESPRESSO & INCREASED DAILY PRODUCTIVITY.

-RACHEL FLESZAR, VP DISTRIBUTION



TRELLO

THIS TASK MANAGEMENT APP HAS CHANGED MY LIFE. USING CARDS & LISTS, TASKS BECOME VISUAL, COLLABORATIVE, & DYNAMIC, & I CAN ACCESS IT EVERYWHERE!

-JAMES CALVO, PRESIDENT

LANA DEL REY

THE VOICE OF THIS SINGER CAN ONLY BE DESCRIBED AS FABULOUSLY SORROWFUL WITH A HINT OF GANGSTER...

-DAVID HIRSCHY, EDITOR

YOGORINO FRO-YO

WHILE MANY PEOPLE SAY THAT THE BEST FROZEN YOGURT CAN BE FOUND ON THE WEST COAST, I WOULD RATHER HEAD TO PHILLY'S OUTPOSTS OF THE ITALIAN CHAIN YOGORINO ANY DAY! THEIR SUPER CREAMY ITALIAN FRO-YO & MYRIAD OF TOPPINGS MAKE IT RIVAL GELATO.

-ALLISON COLLINS, EDITOR

THE RETURN OF MAD MEN TO THE AIRWAVES

MAD MEN, AMC'S SMASH HIT SHOW ABOUT THE ADVERTISING INDUSTRY IN NEW YORK IN THE 1960S, HAS KEPT US WAITING FOR ITS SIXTH SEASON FOR FAR TOO LONG. THE RETURN OF DON DRAPER'S SUAVE & MYSTERIOUS DEMEANOR IN APRIL MAKES UP FOR ANY BITTERNESS WE MIGHT HAVE ABOUT THE LACK OF WARM WEATHER THIS SPRING.

-LAUREN ZAKARIAN-COGSWELL, MANAGING EDITOR