Berkeley Emeriti
TIMES

September 2009

Associate Professor Maximilian Auffhammer, Ph.D.

Department of Agricultural and Resource Economics (ARE)

"Air Pollution and Global Warming: Ganging Up on India's Rice-Growing Sector"

Saturday, September 19, 2009

The Faculty Club

Our speaker, Maximilian Auffhammer, is Associate Professor of Agricultural and Resource Economics and International and Area Studies. His undergraduate and masters degrees are from University of Massachusetts, Amherst: B.S. Environmental Science, M.S. Resource Economics and Econometrics. He earned his Ph.D. in Economics at the University of California, San Diego in 2003 and has been at Berkeley since then. His research area is Environmental Economics and Policy, primarily focused on climate change, typically using highly technical statistical and mathematical models for analyzing and predicting pollution levels in order to shed light on the effects of current and proposed policies attempting to control climate change and pollution. He has written extensively on China and India as well as the problem in the United States.

Professor Auffhammer has been cited for his excellence in teaching: UMASS Amherst - Vijay Bhagavan Memorial Award, 1997, UC San Diego - Chancellor's Teaching Fellow Award, 2002, and the UC Berkeley Distinguished Teaching Award, 2009. He revitalized one of the the least successful courses in ARE, turning it into one of the most popular and successful courses in the graduate program. This academic year he is teaching the intermediate courses in micro and macro economics and also an advanced graduate course in mathematical economic models.

Off campus, Maximilian may be found enjoying time with his wife, Lori, and one-year-old Noah.

Mailing Address
UC Berkeley Emeriti Association
1925 Walnut Street # 1550
Berkeley, CA 94720-1550

UCB Retirement Center
Patrick Cullinane, Director
André S. Porter, Program Manager

Office	UCB Retirement Center
Telephone	510/642-5461
Fax	510/643-1460
Web site	thecenter.berkeley.edu
Email	emeriti@berkeley.edu

Berkeley Emeriti
TIMES

Volume 19, Number 1

Published before each meeting of the UC Berkeley Emeriti Association: To provide closer networking for members with; meeting announcements, meeting reviews, executive committee actions, pertinent campus news, and to reach out to members who cannot attend the meetings.

Editor: Claude Babcock
Phone: 510/848-3368
Email: cbabcock@berkeley.edu

Economic Hard Times Foretold

At the UCBEA meeting on Saturday, May 9, 2009 Professor Martha Olney presented a persuasive and quite disturbing analysis of the current economic crisis in a talk titled “How Did We get Here? Understanding the Recession and the Route to Recovery.”

Professor Olney began her talk with a warning: Don’t trust those economic models (mathematical sophistication notwithstanding) that are based on assumptions that the future will mimic the past. The present situation bears little resemblance to the past on which the models are based, usually the post WWII period.

She first discussed the financial or credit crisis in which lending institutions will not lend to each other because they lack confidence in the borrower’s ability to repay, i.e. trust is lacking. How did this come about? This crisis occurred where practices and conditions in the mortgage business of the past few years produced a housing boom and bust.

House buyers with a good credit rating and ability to put down 20% of the purchase price qualified for a standard fixed-rate 30-year loan (prime mortgage). However, with home prices rising 15% annually, lenders saw a new opportunity. Buyers lacking good credit and a down payment (sub- prime credit rating) were offered a house for a zero down payment, and a loan with interest-only payments for the first two years of a 30-year loan but with the following 28 years to be repaid at a high interest rate. Professor Olney gave an example of a $300,000 house so offered for which the interest-only payments would have been $1,000 per month, but for which the payments after two years go up to $2,600! Not to worry. At that time you can refinance this house into a standard 30-year loan at the prime fixed rate. This is possible because the value of the house will have risen 15% each year, and you are now borrowing only about 76% of the value of the house. (You have cashed in on the unearned increment, but probably not as Henry George had in mind.)

Some buyers had difficulty maintaining the new prime rate payments, and foreclosures began to rise 4 or 5 years ago. In the meantime, the higher prices stimulated home building and the rate of home price increase began to rise at only 10%, a rate insufficient to keep the bubble expanding. Banks put foreclosed houses on the market further depressing prices, and a cascade began, resulting in one-third of U.S. homes going “underwater”, i.e., having a market value less than the mortgage. The institutions holding these mortgages don’t know their value because some owners will walk away while others hang on. These questionable assets have poisoned the financial system.

If banks resume lending, the financial crisis may be at an end, but not the recession. We are in a recession when less is produced each month. The decline may cease with production stabilizing at some lower level. Recovery is the end of falling production, not its rise to previous levels. The latter state may be a long time in coming. We have been in recession 18 months, but if we look at the record of recovery after the great depression, eight years passed before recovery, 1933 to 1941, when we went to war.

Spending increases are essential to recovery, and consumption spending has led the way out of all post WWII recessions. But Professor Olney asserts

Continued on next page

Economic Hard Times, continued

that it won't happen this time.

Over the last 20 years household spending increased from about 60% to about 70% of Gross Domestic Product. Since 1980 the personal saving rate of Americans has skidded from about 10% to zero. Borrowing, in the form of home equity loans and credit cards, has depleted disposable income in a spectacular way. (The public is much more aware of credit card debt, but home equity debt is about 10 times greater.) Therefore, personal spending is restricted by this huge accumulation of debt.

Investment spending is restricted by both a lack of funds and a lack of demand. There is a large overhang of houses restricting new construction. People are not buying new cars. A weak dollar would assist the American balance of trade, but that is not likely because foreign investors have loaned us enormous numbers of dollars and don't want to be repaid in devalued dollars. The global recession, the first since the 1930's, makes export growth unlikely.

Huge cuts in public services are coming, here and in other states. Cutting spending and raising taxes both make a bad economy worse. The federal stimulus bill will help over the next two years while it is being spent. It has kept us from a hard crash, but what will take its place?

We were given a credible explanation of How Did We Get Here (from the first part of Professor Olney's title), but The Route to Recovery was not similarly illuminated.

Expect a long, slow recovery.

Larry Waldron

Satisfactory Services

New Listings

We haven't run member recommendations in a few years, but now we've received several. I feel this a sign of the times. (All numbers are 510 area code unless noted.)

Electrician - Earle's Lo-Cost Electric (436-4787, earle@sbcblobal.net. (Grace Smith, 548-5392; jmsmith@berkeley.edu)

Accupuncturist - Karen Cutler, L.Ac. (654-3873) (Grace Smith, 548-5392; jmsmith@berkeley.edu)

Massage Therapist - Paul St. Amour a certified therapist accredited in Swedish, Acupressure, Shiatsu and Reflexology. He offers a "gentle touch" for seniors to help promote energy, circulation and relaxation for inner healing and well being. Reasonable rates, has a massage table he can bring to your home. (658-8004, paulsaintamour@sbcglobal.net) (Mertis Shekeloff, 841-7037. I have benefited from his work.)

Roger Glassey: Operational Research: Keep that Assembly Line Moving to Moving that Assembly

It was one of those lovely September days that lets you know it's no longer a given that fog will haunt you every morning, when Roger Glassey and I sat down for coffee. One of the first things you notice is the blonde hair and broad smile of someone you'd seen in an MGM musical with June Allyson. Growing up in upper New York State near Syracuse, he entered Cornell University, majoring in Mechanical Engineering. After graduating and marrying Joan Ganders, the two studied for a year at the University of Manchester (a former mill town selling Indian cotton back to the Far East as manufactured goods, but now remembered as a place where they bought Raleigh bicycles and began touring England and the Continent).Back in the United States Roger secured a position at Eastman Kodak, but the decision was made to return to Cornell for a Ph.D., the cost of which the Ford Foundation would underwrite.

There was also a further enticement to teach. The Ford Foundation wanted people who would teach and turn out engineers and mathematicians to overcome the Russian advancement in space science; the educational loan would be forgiven after five years. Following a February interview in Ann Arbor, Roger flew to Berkeley on one of those beautiful early spring days when you could eat outside at Sproul Plaza. Joan had been to Berkeley one summer when she was eight, so there was little conversation before the decision to move west in 1965.

Professor Glassey has been with Industrial Engineering and Operations Research since then. It would appear one of his favorite courses is an undergraduate inquiry into hardware and software programming of small, mobile robots. In the final project, the robot, roaming in Etcheverry Hall, must find the (simulated) bomb and send the information back to Mission Control within forty-five minutes. Who could resist a problem like that? *Ed.*

In Memoriam

Mary Dee Vermuelen

December 10, 1916 - April 9, 2009

She was alert and optimistic to the end

BERKELEY EMERITI TIMES
University of California, Berkeley
1925 Walnut Street # 1550
Berkeley, CA 94720-1550

Upcoming Events

Registration for the following programs is through the Retirement Center, 642-5461

The Victorian Novel - Professor Catherine Gallagher, Eggers Professor of Literature, Department of English, will discuss the variety of form, function and importance as well as the narrative persistence in our time of four of the best.

September 14: *Vanity Fair,* William Makepeace Thackeray.
September 21: *Wuthering* Heights, Emily Brontë.
September 28: *Great Expectations,* Charles Dickens.
October 19: *Middlemarch,* George Eliot

From Stalemate to Checkmate: The Great War 1914-1918 - Professor Tom Barnes, Boalt Hall School of Law, Department of History, Canadian Studies Program, discusses the three battle stages along the 440-mile Western Front.

October 15: *Guerre de Course,* 4 August -24 November 1914
October 22: Stasis, 24 November 1914-21 March 1918
October 29: Mobility Regained, 21 March-14 November 1918

Bells, Bells, Bells – and a Chance to Meet the Berkeley Carrillonneur

Register at the Faculty Club, co-sponsor of this event, 540-5678

Imagine a warm evening, sipping wine, nibbling on snacks and listening to Jeff Davis performing on the Sather Tower bells. On Thursday, September 24th, Jeff will dedicate his 6 p.m. bell ringing to a special program. We do not know yet whether the structural work on the tower will permit people in the carillon room with him,; regardless, Jeff will join us after the concert for dinner in the Great Hall, talk about bells, bell ringing, and answer questions. This stellar evening, last done five years ago, is $40 per person, all inclusive.