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IS A DOUBLE-DIP RECESSION AROUND THE CORNER?

Jim Chen, Norfolk State University
Anthony W. Chen, Evergreen Associates
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The United States entered into the Great Recession in December 2007 and spread the economic crisis to the world later in 2008. To reinvigorate the world's economy, the G-20 has held summits on financial markets and the world economy five times since November 2008, every country implemented economic stimulation measures, and the central banks around the world cut interest rates again and again. Though the Business Cycle Dating Committee of the National Bureau of Economic Research declared that the recession ended in June 2009, the recovery has been weak. This paper argues that a double-dip recession is unavoidable and we can do little about it.

ALIGNING ECONOMICS PROGRAMS WITH AACSB ACCREDITATION PROCESSES

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Cheryl McConnell, Rockhurst University

ABSTRACT

A challenge facing business schools, and of particular interest here, economics programs in business schools, is that of aligning programs to be consistent with the assessment expectations for AACSB accreditation. In the process of defining expectations and measuring achievements, a torrent of new vocabulary, processes, and expectations on faculty have been imposed. Many faculty members feel overwhelmed and resentful about the process and requirements. However, what can await a school and/or program at the end of the process is a unified, articulable view of program learning goals, how the program seeks to achieve the goals, and whether the goals are being met. The authors present a systematic process by which an economics program was successfully aligned with AACSB processes and standards, and examples of assessment plans, reports, and outcomes are provided. Excellence in student learning is the goal the authors share with others in their profession, and aligning programs as described here can create an opportunity to determine where quality learning is already happening, and where changes may be needed in order to achieve this level of excellence. It is hopeful that by describing the requirements and implementation processes of an assessment plan, this can serve as a model for others who engage in the process.

THE CASE FOR INTENSIVE SKILL-BIASED TECHNOLOGICAL CHANGE

Stuart J. Fowler, Middle Tennessee State University
Jennifer J. Fowler, Belmont University

ABSTRACT

The skill-premium, defined as the relative wage of college to high-school graduates, has steadily increased over the past twenty years. Though skill biased technological change (SBTC) is generally considered to be the cause of the rise (Bound and Johnson 1992), little is known about the processes that have generated the improvements in technology. In this paper, we construct an intergenerational model of skill acquisition for the purpose of evaluating two theoretical alternative sources of SBTC. We find that intensive SBTC is necessary for the complete characterization of the observed changes in the wage premium profile. An example of intensive SBTC includes technological improvements in the actual acquisition of skills. In this case, an intertemporal substitution effect generates a reduction in the rate of skill acquisition by the old thereby replicating an important fact found in the data.

JEL classification: *J24, J31, E21*
Key Words: *Human Capital, OLG, Skill Biased Technological Change*

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THE EFFECT OF VERTICAL KNOWLEDGE SPILLOVERS VIA THE SUPPLY CHAIN ON LOCATION DECISION OF FIRMS

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ABSTRACT

In this paper a game theoretic model is employed to analyze the relationship between strategic location decision of firms in the supply chain considering the role of horizontal and vertical knowledge spillovers, and numerical approach is applied to characterize the equilibria of the considered multi-stage game. Geographical concentration or isolation as equilibrium outcome is determined based on our different parameterizations and two scenarios each consists of two separated cases, which we establish according to the location of our agents. In the first scenario both suppliers are supposed to be located in different regions while in the second one they act in a same region. In addition, first case of each scenario considers geographical isolation of two producers whereas second case investigates the geographical concentration. Furthermore, the effect of different technological level of our agents on their final location decision is investigated.

JEL Classification: C61, C72, C88, D83, L13, R30

Keywords: Strategic Firm Location, Knowledge Spillover, Geographical Concentration, Supply Chain

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THE CONFRONTATION: FTC VS. IBM

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ABSTRACT

This paper was written from notes taken during 1977, and therefore should be read considering that timeframe. International Business Machines' (IBM) confrontations with the Federal Trade Commission (FTC) over antitrust violations has spanned many decades. The purpose of this paper is to outline IBM's history of violations and the action taken by the FTC as of 1977 to bring IBM under control. It will be shown that IBM has had a long and costly confrontation with the FTC. More attention will be given to the developments in the 1970s and the actions taken against IBM.

INTRODUCTION

IBM, the world's largest nonunion employer and one of the top ten corporations nationwide in terms of earnings in 1977, has been involved in antitrust suits from its very beginning, and possibly even before its original incorporation. Incorporated in 1924 under the direction of Thomas Watson, IBM traces its beginnings from John H. Patterson's National Cash Register (NCR) corporation. It is interesting to note that sales and salesmen in the 1920s had a somewhat shady reputation, and Patterson wanted to restore the public's respect for selling, an occupation he compared to teaching (Schwartz, 1974).

A federal judge in February 1977 rendered a directed verdict for IBM in an antitrust suit by California Computer Products, Inc., who stated that they would appeal the verdict. As of late 1977, the case has not been ruled on and a decision has not been reached. Apparently, for over 50 years, this has been the pattern of judgments concerning antitrust cases brought up against IBM. In August 1977, the Court of Appeals reversed a 1972 directed verdict in favor of IBM and ordered a retrial of Greyhound Computer Corporation's antitrust suit against the company (Anonymous, 1977, November). Many judgments started out as antitrust violations against IBM, only to have the lower court reverse the verdict and leave the higher courts to decide on the fate of the violation as charged. The higher courts must not give IBM cases priority, for they never appear to be ruled on. This is a major problem--stagnation at higher levels. This is where unconcerned legislation takes its toll, an occurrence which shall also be addressed in this paper.

FTC VS. IBM: GENESIS

Length in litigation cases seems to be the norm, especially antitrust cases. However, not even IBM's litigation case can compare to one recorded in Poona, India. On April 28, 1966, Balasaheb Patloji Thorat received a favorable judgment on a lawsuit filed by his ancestor, Maloji Thorat, 761 years earlier in 1205 (McWhirter & McWhirter, 1976). Those involved with the various IBM lawsuits may facetiously suggest that IBM is trying for the record. IBM first provoked the ire of the FTC back in the early part of 1933. IBM was charged with tying, a type of monopolization which requires customers to buy a second product in order to get the product

or service that they want (Shepherd, 1973). In this example of tying, IBM was guilty of requiring the users of its machines (the government) to use only its punch cards with IBM's equipment. The user of IBM's machines acquired only the right to use, not to possess, the equipment, and tie-in clauses in lease contracts obliged the user to buy IBM punch cards and paper even though any cards could be used by the machine. The court stated, "It is possible for others to manufacture and sell satisfactory and usable tabulating cards" (Rodgers, 1973). IBM did not restrict its paper stock suppliers except in the case of punch cards. Thus, IBM had all of the card business at fixed prices.

Under the Sherman Act and the Clayton Act of 1914, the FTC charged IBM with tying in March of 1933. The charge was that federal agencies leasing tabulating machines were required to buy the necessary punch cards only from IBM and not from other competitors (Rodgers, 1973). At this same time, IBM and Remington-Rand, Inc. combined to restrain commerce, as it was soon charged, "by entering in an agreement (1) not to sell machines but to lease them on condition that the lessee purchase at fixed prices and use the tabulating cards made by the lessor (IBM, Remington-Rand) or pay an additional rental for the machines, and (2) to sell cards only to lessees" (Rodgers, 1973).

According to court records, by the end of 1935, IBM had 4,313 calculating machines, 4,106 sorting machines, and 8,412 punch machines in use in the U.S. The company had under lease 85.7% of all tabulating machines, 86.1% of sorting machines, and 81.6% of all the punch machines. As for the punch card market, IBM income from this source was $2.6 million in 1926 and rose to a high point of nearly $4 million (Rodgers, 1973). Trying to defend itself against the FTC's charges of monopolization, IBM's legal staff argued that the tying clause in the lease involved a reasonable control of the commerce in cards. Any defect in the cards requiring such control might make maintenance of the machines difficult. However, this was not the issue; the issue of the case was whether competition was lessened according to pertinent provisions of the Sherman and the Clayton Acts.

G.E. VS. IBM--1970

In 1970, General Electric Corporation (G.E.) sold its computer business to Honeywell Corporation, a competitor within the computer industry. In the mid-1960s, G.E. was considered to be IBM's strongest competitor. However, by 1970, G.E.'s position in the market place was weakening and the technical capabilities of its computer products were losing ground to competitors. From 1957 to 1970, G.E. sustained net losses from its computer operations of $162.7 million (Anonymous, 1976, January). To complicate matters, G.E. also suffered a costly strike, and because the nation was in a slight recession, the company was in financial difficulty.

It was in this environment that the computer division's management decided to undertake the manufacture of a broad new computer line that would have 20-30% better performance than IBM computers and would sell for about the same price. It was estimated that the new computer line would generate revenue of $8.2 billion and profit before taxes of $2.34 billion in the 13 years from 1969-1981. However, the program was proposed to incur losses through 1973 of $538 million. Profits would begin in 1974, but the cumulative losses would not be offset until 1977. G.E. computer executives forecasted a net cash drain of $685 million through 1974--a considerable loss which would require G.E. to borrow at least $500 million to undertake the project. G.E. was to become a clear second in the industry if the plan succeeded, with 8% of the market by 1975 and 10% in succeeding years. In 1969, G.E. market share was between 4% and

5% (Anonymous, 1976, January). The plan was based on certain faulty assumptions: (1) that G.E. could acquire customers from IBM; (2) that IBM would stand a large loss in the market share without retaliating; (3) that G.E. could achieve needed inventions on schedule; and (4) that G.E. would develop even better computer products than IBM.

In the 1970s, some computer companies were managing to compete on the basis of specialization in certain products or uses, whereas G.E. was a generalist, attempting to compete across the board with IBM. However, IBM had 210 sales offices in the U.S. and 17,000 salesmen and system analysts. G.E. had 38 offices with a staff of 600. To reach its 1975 objective, G.E. would have to increase sales force strength by 60-70% per year and develop salesmen twice as productive as IBM's. Also, whereas G.E's manufacturing costs were 47% of its computer revenue, IBM's were estimated at 20% (Anonymous, 1976, January). Finally, G.E.'s management viewed the industry as being on the threshold of a major merger movement..

FTC'S BATTLE FOR INFORMATION

Now in its third year of testimony (as of 1977) with the end nowhere clearly in sight, the longest court trial in U.S. history involving IBM has gained the court's temporary attention again. IBM will begin submitting evidence to disprove the U.S. Justice Department's claims that it has monopolized or attempted to monopolize the general purpose digital-computer market. This defense effort is expected to require another three or four more in court years. At a pretrial hearing in 1973, U.S. Judge David Edelstein steadfastly predicted that he would "prove the legal system is so advanced and so sophisticated that there is no case that is unmanageable" (Anonymous, 1977, June). His predecessors who have dealt with IBM's antitrust violation cases have not been able to produce the results that Judge Edelstein has predicted.

The paper work involved with this case approaches an almost unbelievable amount. IBM has supplied an estimated 60 million pages of documents, and other computer concerns provided 115 million more (Anonymous, 1977, June). The courtroom has now seen four million of those pages, through 50 witnesses and about 4,000 exhibits and 50,000 stenographic transcript pages of testimony; IBM has listed 350 additional witnesses for future swearing (Anonymous, 1977, June).

IBM VS. CALIFORNIA COMPUTER PRODUCTS, INC.

The last time IBM won an important antitrust case was in 1975. That case involved IBM and Telex Corporation, and was decided at the U.S. Appeals Court level. Telex won its first trial in 1973 and the reversal surprised the computer industry. In early March of 1977, IBM won another important antitrust case, this time against California Computer Products, Inc. This decision makes several similar antitrust cases, also brought by West Coast companies, look weak. These cases were initiated soon after Telex Corporation's opening victory against IBM in 1973. Now IBM has probably escaped paying most of the billions of dollars in damages that these companies were seeking as restitution (Madrick, 1977, March).

The California Computer Products case has been said to be very similar to IBM's biggest antitrust violation case--that of the broad-based suit brought by the Justice Department that is now being heard in the New York Federal District Court. California Computer Products' loss to IBM probably indicates that the Justice Department case will not hold up either, at least not if it reaches a higher court (Madrick, 1977, March). Many of California Computer Products'

arguments against IBM were similar to those complaints by Telex in its loss to IBM. The Judge in this case did not base his decision on IBM's market share alone, which is vital in antitrust law. The Judge stated that: "California Computer Products was unable to demonstrate IBM's monopolistic practices on any market" (Madrick, 1977, March).

HOW EFFECTIVE ARE THE ANTITRUST LAWS

Some critics of this lengthy trial contend that the main thing that the trial will prove is that the antitrust laws have become so complex to enforce in our economy that they will rarely become effective in controlling violations. A central problem dominates the case: how to define what market is actually involved. The Justice Department's chief lawyer for the case contends that IBM controls a dominant 70% of the market for general purpose computers and related equipment; IBM lawyers, led by former Attorney General Nicholas de B. Katzenbach, state that the true market in which the company competes is the much broader one for all kinds of electronic data-processing equipment, and that in any case a 70% share has not constituted a monopoly in previous cases (Anonymous, 1975, June). The courts generally use Judge Learned Hand's famous dictum that "90% is enough to constitute a monopoly; it is doubtful whether 60 or 64% would be enough; and certainly 33% is not" (Shepherd & Wilcox, 1973). Apparently, IBM's 70% share of the market is in the undefineable gray area.

Another important issue of the case is how did IBM achieve its pre-eminent position? The FTC states that IBM is guilty of using predatory tactics. The company attributes its success to "better products, greater productive efficiency, better service, right judgments about the future at key periods of time and the willingness (of management) to back those judgments" (Anonymous, 1975, June). If IBM is eventually judged to be a monopoly and found guilty of other antitrust violations, exactly what would the government do about it? Government lawyers have asked the Court to break up IBM but have not yet specified into how many companies and of what size. In the unlikely event of a government victory, dealing with such questions will also add to the timetable.

Senator Frank Church (D-Idaho) states that monopoly laws "are only an empty gesture now" (Anonymous, 1975, June). Yet few alternatives have been proposed to curb antitrust violation. Two reforms suggested by some lawyers and politicians are: (1) cutting down on legal battles by giving a tax break to company shareholders if they agree to a government-sought divestiture; and (2) eliminating antitrust trials entirely by having Congress legislate divestiture for specific industries. However, neither of these proposed actions seems likely to be adopted without a lengthy IBM-like court battle.

CONCLUSION

IBM has $5.2 billion in cash and marketable securities as of 1977, more than any other company in the nation (Anonymous, 1977, December). A possible explanation for this surplus of funds would be that IBM is saving this cash to pay off possible antitrust damages. Between the Justice Department and the several companies that have filed antitrust suits against IBM, the company could be liable for up to $5 billion in damages. Most of the suits that have been brought by competitors have been settled by IBM out of court or for a small sum. IBM's management denies that it is holding the cash against possible courtroom losses. "One of the most frustrating things about all this is the theory that it is (IBM's) corporate strategy to pile up

cash before litigation" (Anonymous, 1977, December). This is only IBM's opinion. "A key strategy of a corporate defendant this size in antitrust cases is the strategy of attrition; IBM has many times more money than the Justice Department has, and can command the expertise of vastly greater research and specialist's resources" (Rodgers, 1973). In other words, monetary fines do not seem to affect IBM to any great extent.

Affixing criminal culpability within the bureaucratically dense corporate structure is difficult (Stone, 1975, August). "The U.S. criminal justice system has not been disposed to put members of the corporate elite behind bars; the problem seems to be more in the administration of the law than the law itself--though white-collar penalties should be tougher and tough laws requiring specific internal corporate responsibilities should be enacted" (Stone, 1975, August).

Many criminologists and sociologists state that the best remedy for crime is punishment that is swift and certain. With proper prosecution, corporate criminals might be put under control (Stone, 1975, August). However, even before the formal creation of IBM, the FTC had charged them with antitrust violations only to let the cases drag through the courts. Again, the end is nowhere clearly in sight for due punishment for IBM's case involving antitrust violations.

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