

An Eye on the Economy

ASSOCIATE PROFESSOR OF ECONOMICS XUN POMONIO PROVIDES INSIGHT INTO THE GLOBAL FINANCIAL CRISIS.

By Kari VanDerVeen PHOTOGRAPHED BY BILL KELLEY

As someone who grew up in China during the Cultural Revolution, Xun Pomonio knows what it's like to live through a period of political and economic upheaval.

Pomonio was in elementary school, living in Shanghai, one of the world's largest cities, when the Cultural Revolution began in 1966. The government halted traditional classes and sent millions of urban students like Pomonio to state-run factories and farms where they learned from peasants, workers and soldiers.

After graduating from high school, Pomonio spent five years working on a state-run farm before the revolution ended and anyone who wanted was allowed to take a college entrance exam. An entire generation had been denied access to higher education for the decade during the revolution — a segment of the population that came to be known as China's "lost generation" — and people of all ages took the exam. Only 4 percent passed, and Pomonio was among that small number.

She attributes that bit of luck to the fact that she was persistent about studying on her own during the years she didn't have access to traditional education, reading as much as she could and keeping journals. "Higher education happened for me because I was lucky and persistent," she says. "I feel like someone who has lived through a world war or deep economic depression. For me, waste is not an option."

Although Pomonio describes the Cultural Revolution as a "bitter experience" because of the hardship it brought her family, she credits it with making her more independent and giving her the chance to learn things at factories and farms that she otherwise would not have known. Moreover, the experience gives her a unique worldview at St. Olaf College, where she has taught since 1991.

In addition to the principles of economics, Pomonio teaches international economics, China's transition economics, and statistics for economics and business. Her research has focused on international and development economics, and over the past few years she has developed an interest in sustainable development and the issue of water shortage.

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You performed research more than a decade ago comparing the attitudes of students in China, Russia and the United States toward the financial markets. What were some of your findings and do they shed any light on how individual countries are reacting to the current financial crisis?

In one question [in my research] regarding market price fluctuations, Chinese students showed they were more skeptical to markets [and] more trusting of government involvement than either the Russian or U.S. students. When asked whether government should limit market price increases, Chinese students favored such intervention by 40 percent, whereas only 13 percent of Russian students and 10 percent of U.S. students did. In general, however, the three student groups showed surprisingly similar attitudes toward the market, its incentives and other issues related to market economies.

What effect does the current turmoil in the American economy have on the rest of the world?

The current crisis clearly illustrates that, despite the world's interconnectedness, the U.S. economy — and its financial market in particular — dominates the world economy. Most developed economies have free convertible capital markets that are linked to each other by the fact that they purchase each other's financial assets and also lend money to each other. When the U.S. financial market goes into major shock, the rest of the world immediately and directly follows. Financial markets worldwide react by tightening credit, mainly by selling stock holdings and suspending lending. Thus, both the world's real economy and its credit market suffer when its major player suffers, tsunami-like. Nor do developing countries escape the carnage. If they do major business with the [United States], then their future export sector will decrease and impact their present stock markets.

Which countries will be impacted most significantly by the economic crisis?

Countries whose financial markets are freely convertible and linked closely with [that of] the United States — mainly developed countries, such as the United Kingdom and other European countries — will feel the largest effects. Countries whose financial assets make up the bulk of their total GDP also will really suffer. Iceland, pushed to the brink of national bankruptcy by the financial crisis, serves as a perfect example of the combination of the both effects. Countries with the least regulation and most corruption will also see a severe negative impact. Confidence also is a significant factor. A lot of today's stock selling and credit crunching worldwide came indirectly from distrust among the world's investors and savers.

Some countries seem to be insulated to some extent from the global financial crisis. *The New York Times* reported that China, for example, has had restrictions on large movements of money in and out of the country and has immense reserves of foreign currency that may insulate it from some of the troubles on Wall Street. Is there any country that will be isolated from this crisis?

Developing countries with partial or no convertibility of their capital markets are less affected. Chinese citizens are not allowed to purchase U.S. stocks; thus, China is not affected directly by the toxic securities in the [United States]. However, China will be affected by things such as its exports to the [United States], which is a large part of China's GDP.

Yet with a large population, China still has its own internal demand, which drives its economic growth. The same holds for other large and growing developing economies, such as those of India and Brazil. They will be relatively insulated from the world's financial fallout but will be affected as exporters if and when the U.S. recession deepens.

You've also done research on sustainable development in western China, specifically looking at the country's water conservation policies. Is there a time when there will be a greater demand for water than there is supply — similar to what we are currently facing with oil?

Demand for water already exceeds supply in China as well as many other places in the world. In China, economic development drives most of it. Water restoration needs are not yet recognized in China. No one can deny that the supply of water is actually decreasing at a steady rate, mainly from climate change, environmental degradation and industrial and agricultural pollution.

You've led students on January Interim off-campus study programs to China. What are some of the most important things students have learned from these experiences?

Students learned how few resources and opportunities Chinese people have had over the years compared to their large population needs and wants. They also learned how large the potential is for economic as well as personal development in China. Students realized that Chinese people are open, friendly, hard-working and eager to learn, but are not yet as innovative as Americans. Americans still hold the comparative advantage. But China's modern education system is catching up quickly.

The current global economic crisis seems to underscore the importance of graduating students who are responsible and knowledgeable citizens of the world. How does a liberal arts education at St. Olaf prepare students to analyze and respond to worldwide issues such as this? Economically and financially, most of today's world is interconnected in some way or another. Some of us would add that the world is also interconnected morally, intellectually, spiritually and politically. A liberal arts education provides the best opportunity to understand the rest of the world.

Has the current state of the economy changed how you teach or discuss economics with your students? Yes. Today I put more emphasis on market limitations and government functions — in other words, how government can help to lay a level ground so that markets can operate in the most smooth, transparent and efficient way possible. As in the idea of democracy, responsibility, rules and laws come with the territory. Markets also should be run responsibly with rules and laws. Self-interests should include compassion, inclusiveness and honesty as a moral obligation. Without that, markets will fail to operate effectively and eventually backfire because of self-interests. So here the government can [implement] the rules and laws that guard against destructive forces such as greed, dishonesty, bigotry and predatory behavior. 🦁

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