Berkeley Economic Review

BERKELEY ECONOMIC REVIEW PRESENTS

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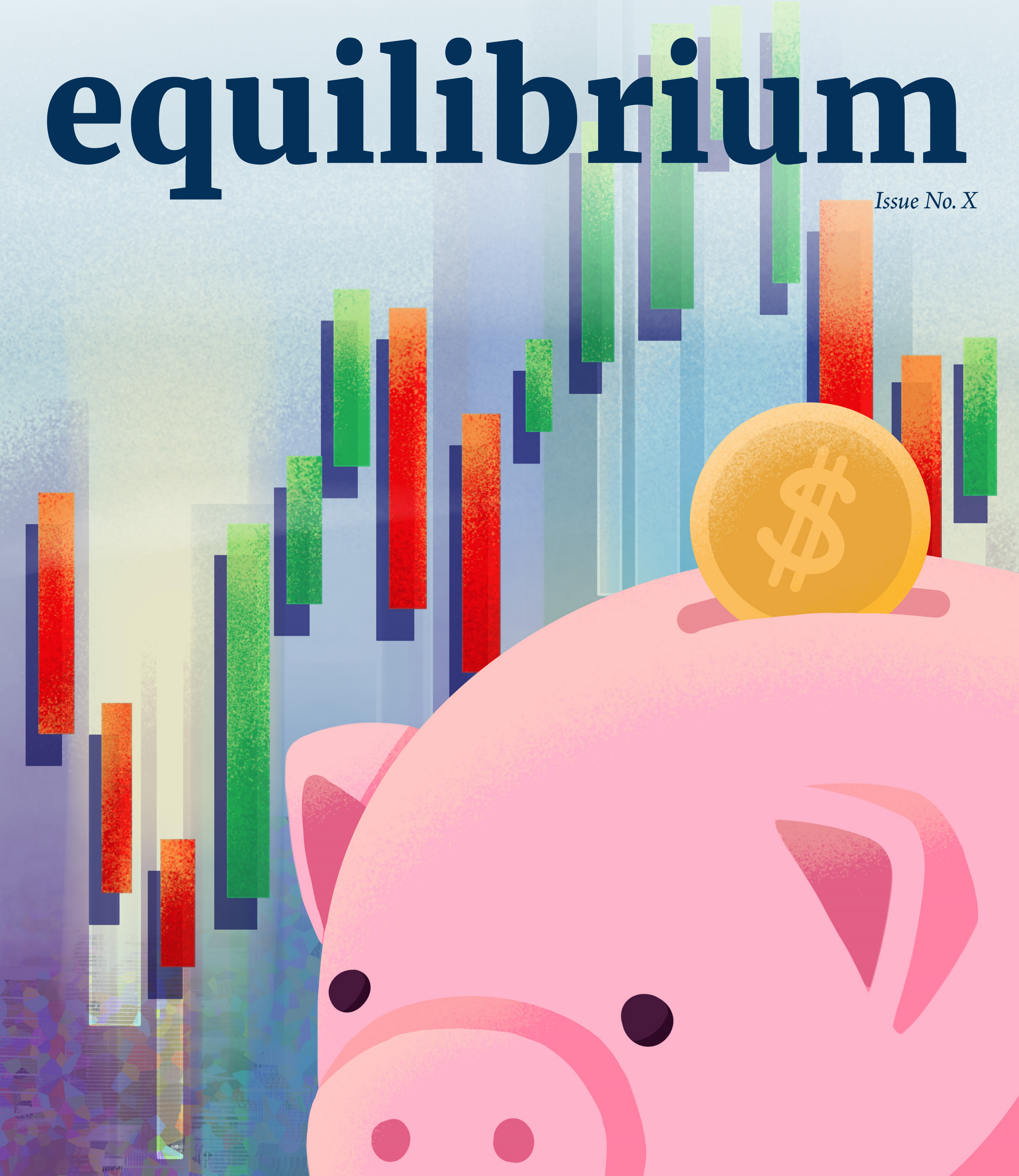
Issue No. X



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Editor's Note

Dear Berkeley Economic Review Readers,

It is with great excitement and pride that we introduce the 2024 edition of Berkeley Economic Review's magazine, Equilibrium, a publication dedicated to exploring the fascinating world of economics. This magazine is the result of the dedication and hard work of our writers, editors, and publication team, and we are thrilled to share it with you. Economics is more than just numbers and graphs—it is a lens through which we understand the forces that shape our daily lives, from the financial decisions we make as individuals to the policies that drive national and global economies. Economics is a field that adapts and learns from the changing world around us and our magazine attempts to do just this. At the Berkeley Economic Review, our mission is to make the fascinating world of economics accessible, engaging, and thought-provoking for readers of all backgrounds.

In this issue, you will find a wide range of articles that tackle some of the most pressing economic questions of our time. Whether you are interested in investigating co-ops as a solution for inequality, the complex socioeconomic effects of India's Konkan railway, the relevance of cultural norms on global businesses, or the resilience of post-pandemic businesses, this magazine offers fresh insights and thoughtful analysis. Our team, composed entirely of undergraduate students, brings passion and expertise to their work offering perspectives that will spark your curiosity and inspire you to think critically about the economic world around us.

At Berkeley Economic Review, we are committed to upholding the highest editorial standards. Each article undergoes rigorous review to ensure clarity, accuracy, and relevance, so that we can provide content that is not only informative but also intellectually stimulating. Our goal is to spark meaningful discussions and encourage engagement with economic issues.

As we continue to explore the evolving landscape of economics, we invite you to be part of the conversation. Share your thoughts, ask questions, and connect with us through our website and social media. Your engagement helps shape the future of the Berkeley Economic Review, and we value your input in guiding the topics we explore in upcoming editions.

Finally, we want to extend our deepest gratitude to our dedicated publication team and everyone who has supported us in bringing this issue to life. We hope this magazine becomes a trusted source of economic insight and a platform for meaningful discourse for years to come.

Thank you for joining us on this adventure. We look forward to learning, questioning, and discovering alongside you as we explore the complexities of the economic world.

Sincerely,
Abby Morris and Melvin Adams
Editors-in-Chief
Berkeley Economic Review

A Professor, Student, and Pizza Worker Walk Into a Bar:

Comparing Perspectives on Co-ops

There's an expression in Kung Fu Panda 4—no judgment, please, I'm a man of culture—that "each acorn reveals a promise of the larger peach tree." While the filmmakers were definitely not writing about income inequality, I nonetheless found this relevant to my previous article about co-ops. (Yes, I'm a huge nerd).

While it's just a small business in the local pizza market, The Cheese Board shows us that co-ops are an imperfect yet promising solution to inequality between employees and owners. Like the peach tree acorn, this cheese shop is a microcosm of broader discussions among academics and professors about the role of labor markets in an economy.

Nevertheless, The Cheese Board may only partially reflect what research experts think about co-ops. To learn more about the similarities and differences between academic research and the real-world applications of labor models, I interviewed Professor Emmanuel Saez and UC Berkeley student Max Moreno. Saez is renowned for his research on inequality, while Moreno is currently writing his senior Political Economy thesis on Namaste Solar, a solar panel co-op based in Colorado.

Can Co-ops Actually Reduce Inequality?

The experiences of The Cheese Board's workers illustrate that co-ops are an important tool to combat inequality between workers and owners. Joint ownership among workers enables them to directly benefit from the business's success, rather than receiving a fixed wage.
From an academic standpoint, there seems to be agreement—at least in principle. Saez cites the "split of economic surplus between workers and owners" as one of the primary causes of inequality. He sees co-ops as a "decentralized" way of bridging this gap by making the worker the owner. Max agrees that "co-ops can reduce inequality by creating an egalitarian structure, at least on a smaller scale."

Nevertheless, academics seem to be a bit more skeptical of this rosy image. Saez notes that co-ops are "hard to expand" since the onboarding process for each employee is so intensive. Workers need to be trained in a variety of skills and incorporated into the business management system, which affirms Vanessa's experience with some of the difficulties of working in a co-op. As a result of this arduous integration process, co-ops may be unable to match demand. Look no further than The Cheese Board's "long queues," says Saez.

In contrast to Saez, Max doesn't cite the onboarding process as the primary obstacle to co-op expansion. Instead, he explains that "the main barrier is simply a lack of information or knowledge that this is even an option." Max also contends that "cooperatives cannot meaningfully reduce inequality on their own" and emphasizes that "it would have to be combined with other changes or other programs." In other words, there simply aren't enough co-ops in the U.S. to make a true dent in inequality. So, what else can be done?

Co-ops Need to "Co-op"erate with Alternative Solutions

Saez, Max, and Vanessa all agree on one thing: co-ops are not the only solution to inequality.

Saez mentions the partnership model, whereby a group of "elite founders own equity" and "hire workers for pay." This system may be more efficient, particularly for law firms, as it "specializes workers by skill set"—rather than expecting the bread baker to complete taxes, like at The Cheese Board. Onboarding employees is more straightforward since the business does not comprehensively integrate workers into the decision-making and management process. Even UC Berkeley is a partnership, according to Saez, in which an "elite workforce of professors" helps hire a "second tier of guest lecturers." Despite the benefits of this alternative model, partnerships may suffer from significant discrepancies between work and pay. Saez admits there are flaws to Berkeley's partnership since the hired lecturers receive "low pay but end up doing a lot of the teaching."

Max underscores the importance of policy frameworks in supplementing co-ops and partnerships. Legal and tax structures are essential to codify co-ops into the law in that they foster co-op development through legitimacy and potential tax incentives. For example, Namaste Solar benefits from Colorado's "public benefit corporations" legislation, a distinct legal structure in which "companies can pursue specific environmental and social goals, including workplace democracy or worker-owned cooperatives." Although some lawmakers have aimed to strengthen labor power in recent years, such as through the proposed PRO Act, there remains considerable room for improvement.

Outside the US

While the bulk of Saez and Max's research concentrates on U.S. businesses, they also delve into international examples of co-op (or co-op-adjacent) models.

Max explains how co-ops globally support each other akin to how workers support each other. Most notably, the "International Co-operative Alliance brings together cooperatives from around the world, and they all are able to share ideas." This inter-co-operative collaboration enables the customization of business models to suit different industries, worker environments, labor policies, and collectivist cultures. Through this synergetic network, co-ops often consult with one another for direction or advice—Namaste Solar, for example. As the Colorado-based company completely transformed its management, organization, and pay structure, a key inspiration for its business was Equal Exchange, a co-operative that sells coffee and chocolate. Despite industry-level differences, Equal Exchange was able to offer them many insights into the structure and design of a co-op business.

These international variations not only enrich economists' understanding of co-operatives, but also guide policy research. Saez distinguishes the US and Western European countries by labor power, as it is generally "higher in Western Europe due to stronger wage regulations." This comparison allows economists to evaluate the efficacy of European versus American labor policies in terms of promoting equality and empowering employees. Saez regards European labor policies as a guide for U.S. lawmakers, viewing minimum wage as a first step but stronger union policy as a "necessary form of decentralized minimum wage tailored to industry and geography." For instance, in Scandinavia, there is "no need for a minimum wage since unions and sectoral bargaining are specific to industries and occupation."

Saez also references the Israeli Kibbutz as a "model of a voluntary socialist society." Although these organizations differ from co-ops, Kibbutz shares similar issues since their "central goal isn't just to produce something, but to maintain a community." Namely, they are "hard to sustain except in small communities where people have stronger bonds." As economics and policymakers seek to expand co-ops, the social aspect of economic and political organization cannot be overlooked. Thus, Israel's Kibbutz reveals a fundamental lesson in economics: business is a social endeavor.

"Co-ops can reduce inequality by creating an egalitarian structure, at least on a smaller scale."
-Max Moreno

It's Not All About the Money

In a lecture hall somewhere, behavioral economists are celebrating. (Well, assuming they read a random article from a know-it-all Berkeley student.) The crux of the matter? Social factors, most notably a sense of community, are more important than just paychecks.

Namaste Solar is a prime example. Max lauds its "commitment to community involvement, such as through charitable donations or vocational training programs." Here, the closely knit connection between local citizens and business ownership drives genuine community impact since "cooperatives are owned by the community that they serve, rather than by outside investors who may have no connection to the local community." The data reflects this, too. In Canada, co-ops donated 4.1% of their 2016 pre-tax profits—in stark contrast to other businesses, which contributed a mere 1% of their earnings.

The Cheese Board further demonstrates the importance of a sense of community in business. While some economists may bemoan its surplus demand and less-than-efficient production, Saez is in awe of the shop's "incredible diversity" and passion for their work. Co-ops like The Cheese Board give us "a sense that businesses are not just an economic relationship." They foster "a sense of community," which seems to be missing for most multinational, multibillion-dollar corporations. After all, "humans are social creatures who care about more than just the paycheck."

And if a French (soon-to-be) Nobel Prize winner believes that your shop has "the best cheese in the United States," you must be doing something right.

Economics Is A Game Rated E: for Everyone

Although it may seem bizarre to place an award-winning economist, a Berkeley student, and a cheese shop worker at the same table, these varying perspectives illustrate that economics involves everyone. Not only does this comparative analysis teach us about co-ops and inequality, but it also demonstrates that economics isn't in the exclusive domain of esteemed academics. Everyone has a place in the economy, and everyone's perspective is legitimate.

Perhaps this inclusivity is the core reason why inequality remains such a problem. The widening gap between the rich and the poor paints a false picture of who matters in the economy. Economics ought to be democratic—like co-ops, everyone has a say. Absolute equality may be unrealistic, but economic parity is necessary to ensure everyone's voice is heard.

This article is part of a two-part series on the role of co-ops in reducing inequality. Read Part 1 on The Cheese Board's co-op on the berkeleyeconreview.org! ■

- Tucker Gauss, Edited by Becca Peng.

Beyond Survival:

Berkeley's Post-Pandemic Small-Business Scene and Xpression's Recipe for Resilience

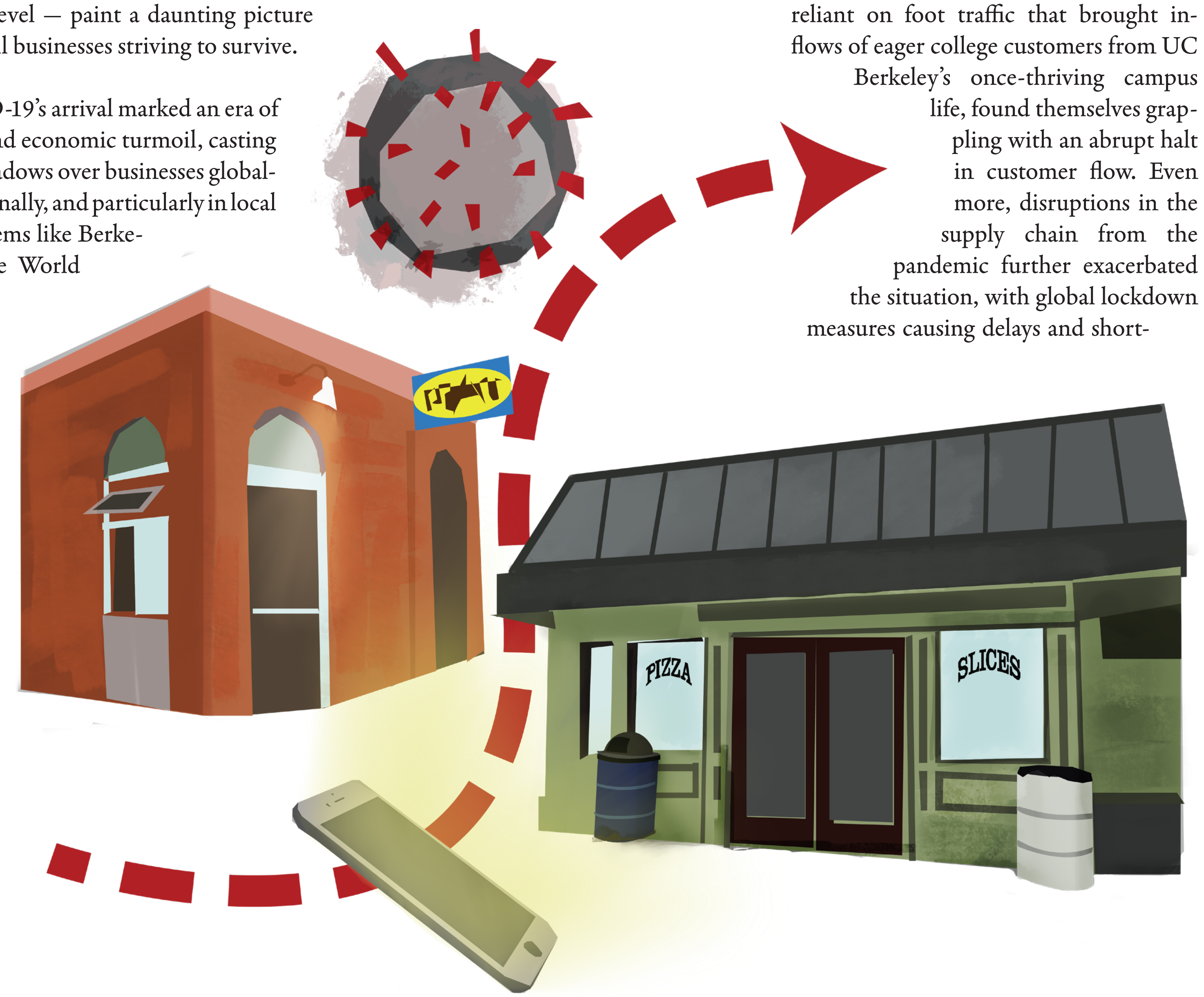
As the warm embrace of Spring welcomes us once again, it's hard not to reflect on the stark contrast to four years ago, when the world was under the shadow of COVID-19. While Zoom lessons, mask mandates, and stay-at-home orders feel like distant memories, small businesses in Berkeley continue to bear the scars of the pandemic and must navigate a landscape transformed by unprecedented challenges. Among them, Xpression, a newcomer on the scene, navigates a Berkeley vastly different from its pre-pandemic self. The influx of large corporations into Berkeley, dwindling local government support, and shifting academic habits — with online enrollment rising to 170% of its pre-pandemic level — paint a daunting picture for small businesses striving to survive.

COVID-19's arrival marked an era of profound economic turmoil, casting long shadows over businesses globally, nationally, and particularly in local ecosystems like Berkeley. The World Bank highlighted a sharp contraction in global GDP by 4.3% in 2020, underscoring the widespread economic fallout. This global crisis reverberated through Berkeley, ravaging a city formerly known for its vibrant small-business community. It was in the aftermath of COVID-19, in October 2021, that Xpression was founded on Euclid Avenue by owner Ravin Arora.

Arora moved to Berkeley in 2021 with two decades of experience in the food and beverage industry under his belt. Drawn by his son's enrollment at Cal, Arora began a family business with a clear mission: to provide Indian fusion cuisine that resonated with the students and faculty of UC Berkeley, offering a sense of comfort and familiarity to a world still adjusting to the new normal.

Xpression wasn't exactly started in a perfectly stable business environment. According to Arora, "On Euclid Avenue alone, there was an 86% turnover rate among restaurants during the pandemic."

Through an economic lens, the staggering turnover can be explained by the demand shock caused by the significantly reduced consumer spending in physical storefronts due to lockdowns and a swift pivot to remote living. Businesses, especially those reliant on foot traffic that brought inflows of eager college customers from UC Berkeley's once-thriving campus life, found themselves grappling with an abrupt halt in customer flow. Even more, disruptions in the supply chain from the pandemic further exacerbated the situation, with global lockdown measures causing delays and short-



ages, impeding businesses' ability to provide goods and services. Additionally, the heightened operational costs stemming from the need to comply with California's stringent health and safety regulations placed an unsustainable financial burden on many. Investments in sanitization measures, protective gear, and modifications for social distancing, while necessary for public health, added layers of costs during a period of drastically reduced revenues.

Despite these very novel challenges, Arora was confident in his experience to pull him through. For him, the intricacies of marketing and impressions posed no different threat: "Honestly speaking, I don't track foot traffic." He explains, "I've been in the business (for the) last 40 years, and when I stand outside (and) see the hustle and bustle, I (can) calculate when (the business) is viable and when it is not."

Arora's confidence extends to how he views competition within the local market. Despite the presence of other Indian restaurants on Euclid Ave and the increasing pressures from the presence of larger corporations, his stance is clear: "We have confidence in our brand, our marketing, our food. I don't care about the competition, even (on Euclid) there are 4 Indian restaurants. I don't have any competition with anyone. Our product is our product."

Yet, his confidence doesn't negate the recognition of broader systemic challenges, such as the need for more supportive measures from local authorities in Berkeley. The call for enhanced government support underscores a critical aspect of the struggle faced by small businesses in the area. "Honestly speaking, Berkeley could do more to support businesses, yes," Arora notes, highlighting a common sentiment among local entrepreneurs seeking a more conducive environment for their ventures to flourish.

On the opposite side of this sentiment, large corporations, with their vast resources and scale, are able to weather economic downturns more effectively and compete aggressively on price and variety, making it difficult for smaller establishments to maintain their market share. Xpression and other small businesses in Berkeley face the formidable challenge of increasing encroachment from large corporations. Arora points out this trend, noting the growing presence of large corporate-run restaurants and retail outlets that directly compete with local businesses like his own. This challenge is compounded by what many local entrepreneurs perceive as inadequate support from the local government. Despite the unique role that small businesses play in contributing to the city's culture and economy, there seems to be a gap in targeted assistance or policies that could help level the playing field. The lack of substantial local government initiatives to buffer the challenges posed by corporate competition and regulatory burdens has left businesses navigating these waters largely on their own.

Another significant hurdle comes from the changing academic habits following the pandemic, with a notable shift towards online learning among students at UC Berkeley. This shift has led to a decrease in foot traffic around campus areas, including Xpression's neighborhood of Euclid Ave. and the larger Northside area. Previously, these areas thrived on the constant flow of students, faculty, and staff seeking dining and shopping experiences between classes or campus events. However, with more students opting to stay home and attend virtual classes, the once-reliable stream of customers has dwindled. This decrease in foot traffic challenges Xpression and other similar businesses to find new ways to attract customers, highlighting the need for innovative strategies to adapt to the changing landscape. The persistence of online learning modalities and the uncertainty about future academic formats raise questions about the long-term viability of business models heavily reliant on campus proximity.

In the quest for survival, small establishments are employing a variety of inventive strategies. One such approach is geographic expansion, an initiative that could potentially safeguard the business against localized downturns and tap into new customer demographics. Arora articulates this ambition, stating, "When we find good opportunities that open up on southside… that is in the pipeline too." This strategic move could allow Xpression to capitalize on the less saturated markets and potentially more affordable rents on the south side, thereby bolstering their customer base and spreading operational risks.

Another pivotal strategy for survival is the integration of technology and embracing the digital marketplace, even when it's outside the comfort zone of business owners. Xpression, for one, has largely relied on the traditional word-of-mouth approach:

"Honestly, I am 60, and not a technological guy. That sometimes confuses me, so I don't depend on it. I depend on my word-of-mouth convention," said Arora.

However, Arora acknowledges the power and necessity of digital channels and is open to employing external expertise to capture the digital audience: "Sure, I am not educated in the tech business. If I can find digital marketing on Snapchat, TikTok, whatever the platforms there are, I would love to pay them a reasonable cost if they work to boost our sales."

Small businesses can utilize social media and online ordering platforms to engage with a broader, tech-savvy consumer base, potentially increasing their visibility and customer base. This digital transformation can lead to a better understanding of consumer behavior through data analytics, menu optimization, and more effective targeted marketing campaigns, all of which can contribute to increased efficiency and heightened customer satisfaction.

Lastly, forging strong community connections can be a lifesaver for small businesses. Establishing partnerships with local suppliers, collaborating with other businesses for cross-promotions, and participating in community events can enhance visibility and embed local businesses more deeply into the fabric of Berkeley's culture, as establishments such as Top Dog have done. Additionally, building a loyal customer base through exceptional service and unique offerings can turn first-time visitors into regulars. By prioritizing customer engagement and nurturing a sense of community around their brand, businesses like Xpression can create a buffer against the competitive pressures of larger corporations and the volatile shifts in the market.

In the wake of the pandemic, Berkeley's small businesses face a crossroads, and their future is contingent on various factors. They must navigate a landscape altered by shifts in consumer habits, economic pressures, and the incursion of large corporations. The fate of these businesses is uncertain, but we can explore two possible outcomes: failure and survival, each with its own implications for the community and consumers.

Should small businesses in Berkeley falter, the impact would reverberate throughout the community. The failure of these establishments could lead to a loss of local character and cultural vibrancy that these unique businesses bring to the city. Imagine, for one, a Berkeley without the Asian Ghetto, Top Dog, or Artichoke's! We may see a homogenized commercial landscape, dominated by chain stores and franchises, which often lack the same level of personal touch, customer service, and distinctive product offerings that small businesses are known for.

For consumers, this could mean fewer choices and a decrease in the quality and diversity of products and services. The long-term consequences may include a reduction in the economic resilience of the local community, as money spent at large chains often leaves the area, whereas small businesses are more likely to keep profits circulating within the local economy.

Conversely, if small businesses like Xpression overcome the present challenges, it could spell a bright future for Berkeley's commercial diversity. Survival may involve adaptation in various forms, such as embracing technology for marketing and sales, diversifying product offerings to appeal to a wider audience, or forming community alliances to bolster local support.

For consumers, the enduring presence of small businesses could mean a sustained variety of unique and personalized products and services. It would likely contribute to the preservation of Berkeley's distinctive atmosphere and community-oriented culture. Economically, a thriving small business sector can foster local job creation, stimulate innovation, and ensure that more money stays within the community, supporting other local enterprises and public services.

Ultimately, the trajectory of small businesses in Berkeley will hinge on the ability of business owners to adapt to a changing environment and on the willingness of consumers, local government, and other stakeholders to provide the necessary support. The resilience of businesses like Xpression serves as a testament to the potential for success even in the most challenging circumstances.

In the shadow of a post-pandemic world, small businesses in Berkeley like Xpression stand at a pivotal juncture. The narrative of these establishments is one of resilience, a testament to the unyielding spirit of local entrepreneurs who, like Arora, have adapted to an altered commercial reality. Arora's journey with Xpression underscores the thesis that small businesses can indeed survive—and even thrive—despite the influx of large corporations, the wane of local government support, and the dynamic shifts in consumer behavior.

"I believe the most important thing in the food industry is this: serve fresh food at reasonable rates, and the customer will come," Arora said. "Everybody wants freshness, flavor, and taste, with good customer service." ■

- Jack Yang, Edited by Sophie Niu

All Aboard From Mumbai to Mangalore:

A Ride Down the Coast to Evaluate the Socioeconomic Impact of the Konkan Railroad

All Aboard The Railway Train! Today, we will be one of the twenty-five million passengers who ride Indian trains every day. In the most populous country in the world, the railroad is one of the most exciting, yet important aspects of Indian life. As the true lifeblood of India, the railroads crisscross the nation in their meticulously organized yet chaotic manner to meet the economic, social, business, and leisure-oriented needs of their passengers.

Along the beautiful Western coast of the country spans the 470-mile Konkan Railway. Renowned for its scenic beauty, the Konkan Railway is an engineering marvel that opened in 1998 after less than just ten years of construction. The track spans from the bustling financial hub of Mumbai in the state of Maharashtra to the major industrial port city of Mangalore in Karnataka.

The Konkan railway, like many railways, made a significant impact on the way of life in its surrounding region. In this article, I analyzed the major socio-economic effects of the railroad primarily in regards to labor and labor economics. I have accomplished this primarily by the analysis of two reports by Sreeja Jaiswal and Gunther Bensch: Evaluating the Impact of Infrastructure Development: A Case Study of the Konkan Railway in India and The Socio-Economic and Environmental Impact of a Large Infrastructure Project: The Case of the Konkan Railway in India.

In almost all cases, large transport infrastructure ventures lead to a significant trade-off, especially in developing countries. On one hand, the affected regions generally experience an economic boom since the railways bring more job opportunities. Additionally, the connectivity brought about by a new transportation project increases regional integration which is positively associated with economic growth since it facilitates the flow of trade, capital, and people between otherwise isolated areas. However, regions also experience labor displacement, changes in the initial style of living, and even serious environmental issues.

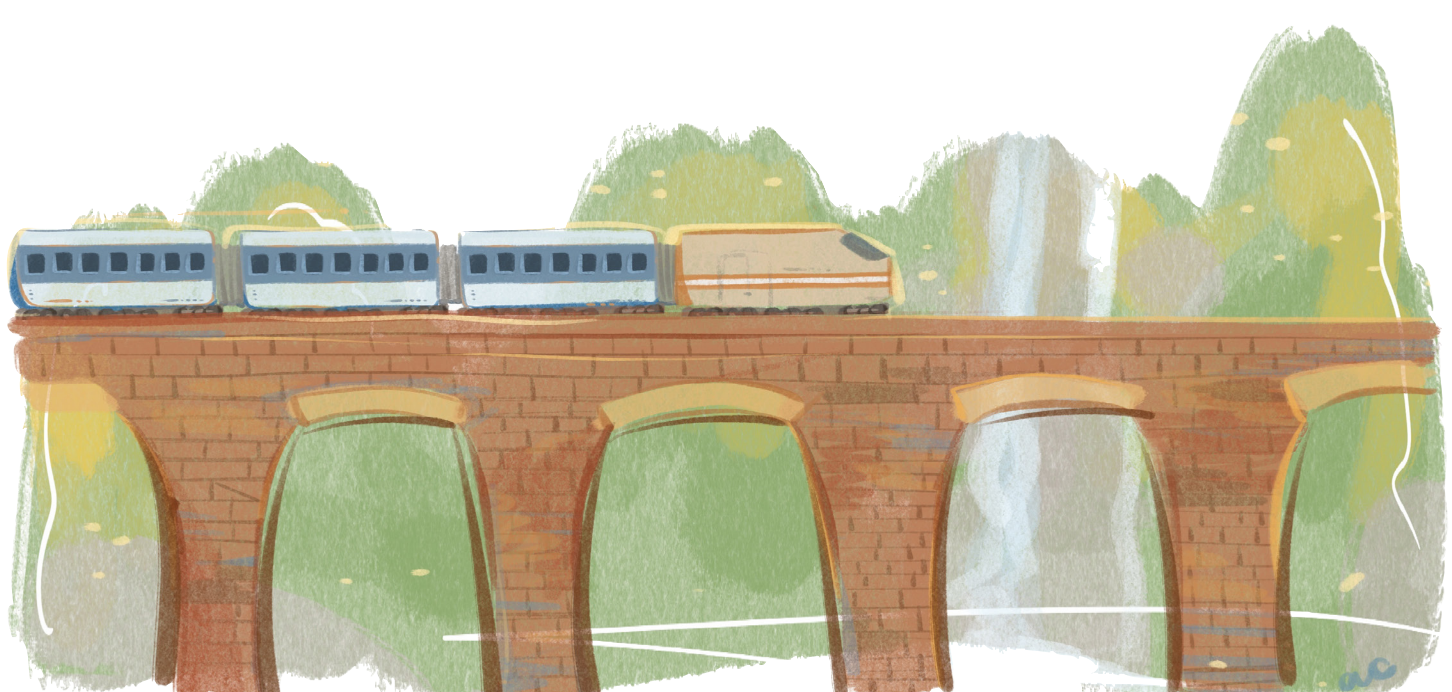
An expectation of large-scale transport projects is that the costs of transport in the respective region decrease while the time saved for passengers and freight increases. Indian railways are government-owned enterprises with the government subsidizing a significant portion of the operational and maintenance costs. This eliminates the need for rail systems to charge high prices since they are not entirely dependent on ticket sale revenue to manage the service. Additionally, the sheer number of passengers, I mean twenty-five million a day, translates to roughly eight billion journeys a year, allowing for economies of scale. With affordable fares, Indian railways play a major role in providing affordable transportation to the economically disadvantaged, leading to stark changes in the economic behavior of households and firms.

In the case of the Konkan Railway, the aforementioned tradeoff and changes in economic behavior are precisely what was observed in both of Jaiswal and Bensch's reports. Through this railway, the Western Coast was able to diversify into non-agricultural economic activities. Economic diversification refers to the shift of an economy away from a single source—in this case, agriculture—towards multiple new sectors. The improved transportation infrastructure brought about diversification into various manufacturing industries, while increasing commerce and even boosting tourism.

The reports noticed there was an increase in the crude workforce participation rate in areas that were near the train stations; this value refers to the percentage of the working-age population that is actively employed. Interestingly, the increased rate was especially defined in non-agricultural sectors, further concluding that the Konkan Railway led to economic diversification.

Increased economic opportunity and industrial diversification are typically seen in all of India's greatest railroad projects. However, one unique, fundamental impact of the Konkan railway project was that the connectivity of the railway allowed for more accessible economic opportunities, which reinforced existing migratory patterns. The Konkan region has had the historically definitive feature of male outmigration. The region has had strong migratory links to Mumbai, the capital of Maharashtra, and one of the greatest financial, commercial, and business centers of the world. With the end of the steamship routes into Mumbai in the late 20th century, land was the only way to travel, so the introduction of the Konkan Railway became an integral part of labor mobility in the region.

As a result, due to male outmigration, these migratory patterns substantially increased the female-to-male sex ratio in certain cities and decreased it in others The convenience and affordability of



the Konkan railway saw the permanent move of male populations from their rural hometowns, to metropolitan areas that provided better economic opportunities. For example, the terminal city Mangalore experienced severe male outmigration; today, the sex ratio sits at 1016 females per 1000 males. This is much higher than the sex ratio for Karnataka, the state in which Mangalore resides, which has a ratio of 973 females to 1000 males. On the other hand, Mumbai was the destination for many male migrants. Now, the city has a sex ratio of 832 females to 1000 males while the state of Maharashtra has a ratio of 929 females to 1000 males. Other examples can be seen in the sex ratio of Ratnagiri (over 1000) which experienced male outmigration and the ratio of Goa (under 960) which received many male migrants.

Figure 1: Map of Konkan Railway by Peter Christener and Uwe Dedering

A smaller, yet important effect to note is the population (and thereby labor) shifts that many regional industries experienced. Cities that were near railway stations witnessed a boom in population due to job-related migration. Consequently, the number of agricultural workers decreased because a new railway maintenance or construction job seemed more certain than a fruitful harvest season. This further contributed to the male outmigration initially discussed.

Figure 2: Map of Indian Railroads by Prokerala

With any large-scale infrastructure project, transportation-related or not, one of the largest concerns is the corresponding environmental impact. This was particularly worrisome with the Konkan Railway. The railway spanned the Western Ghats, a mountain range of exceptional biodiversity and dense forestry; thus, many environmentalists argued that its construction would be destructive to the environment, especially with regards to deforestation. However, the research in Jaiswal and Bensch's reports disproves this narrative, as there were no significant levels of deforestation— likely due to the project's meticulous afforestation efforts.

These reports are crucial to understanding the nature and ramifications of the Konkan Railway. Both reports used a combination of interview-driven data collection and quasi-experimental research design to achieve their findings. In doing so, Jaiswal and Bensch were able to assess the significant socio-economic impacts of the Konkan Railway in Western India. The railroad increased the connectivity of the coast, mobilizing a plethora of economic opportunities that then allowed for greater economic diversification across regions.

Additionally, even though the sex ratios became heavily skewed in many cities, it is unlikely that this had many negative economic effects on the individual or familial level. Think of it as a foot in either economy; the men leaving would still be participants in the economy they left behind, as they would be sending money back to their families; the men arriving, similarly, would be adding to the labor pool within their destination. Thus, the skewed sex ratios were not likely to have caused major domestic economic issues.

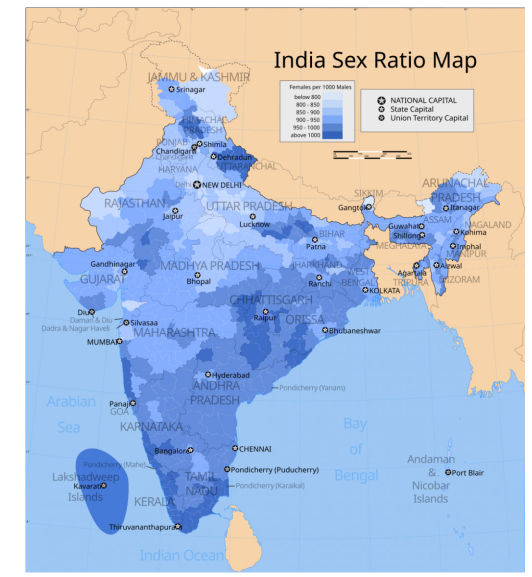


Figure 3: Map of sex ratio in India. Darker areas have a greater number of females per 1000 males. Along the West Coast, the statistics align with what was discussed in the reports: lower ratios towards the North (where Mumbai and Goa are) and higher ratios to the South (where Managolre and Ratnagiri are.)

Photo by Planemad

It can be conclusively determined that the Konkan Railway was, above all, a force for good. It's initiated a number of efforts for greater regional mobility and economic development. The Railway project is a testament to the notion of interconnectedness–from coastal cities to the heartland, India deserves a force that unites and uplifts. So, in short, all aboard the railway train! ■

- Saniya Pendharkar, Editor: Davina Yashar

Redefining Business “Culture”:

How Cultural Expectations Affect Global Economies

In the 1960s, Clark Kerr, an Economics professor at the University of California, Berkeley, popularized his theory of Convergence. Kerr proposed that as nations undergo industrialization, they become more alike socio-economically, “converging” to a greater global identity. However, Convergence doesn’t capture the depth of microeconomic paradigms throughout the many regions of the world. While the theory can illustrate macroeconomic commonalities, it fails to capture the microcosms of “Business Culture,” or more precisely, how cultures affect microeconomic transactions, and thereby economic development.

Recently, Gerard Roland and Yuri Gorodnichenko, fellow Berkeley Economics professors, proposed a way to observe the impact of cultural differences on economic transactions by studying the interactions of global economies. However, despite this being an implicitly accepted truth, systematic evidence of this relationship is still not definite. This led Roland and Gorodnichenko to pioneer an investigation into the effects of cultural distance on market integration and business transactions. They define cultural distance as “the extent to which shared values and norms differ across economic agents – on the organization of firms across borders,”—the precursor to globalization and international sourcing. Though this topic has some intrinsic ambiguity, by observing the behavior of multinational firms, it appears that Kerr’s Convergence theory is not universally applicable; specifically, certain unique international cultures are able to avoid this global-melting-pot phenomenon.

That said, let’s address the remaining question; to what extent do international cultures affect the microeconomy?

It is a difficult question to answer, as economists are unable to pinpoint the explicit effects of internationalism on the microeconomy. Realistically, we cannot derive many causal statistics. Much of what we know is founded upon correlation. As such, geographic diversity in business has been widely debated. Some speculate that cultural diversity fosters creativity and mitigates the likelihood of the groupthink trap; a more optimistic outlook would be that internationalism encourages the expansion of perspective, which optimizes decision-making. Research indicates this argument doesn’t quite embody the bigger picture. Before we can understand why, let’s look at a case study that encourages economists to define what ‘diversity’ entails and why it is crucial in understanding the question at hand.

> *“Globalizing the economy and international business culture considers factors beyond the mere exposure effect.”*

In 2021, the Harvard Business Review published a study in which researchers examined the behaviors and interactions of 5,728 individuals in 804 international teams. Each team’s performance and climate was analyzed for six months as they worked on business consultation projects. Factors such as cohesion, project participants’ satisfaction, collaboration, and interest to continue working with the team were surveyed weekly. When it came time for the researchers to report their findings, they divided diversity into two categories: contextual diversity and personal diversity. Contextual diversity is defined as differences in people’s past or present environments—in a contextually diverse environment, each individual contributes a different context for living that offers cross-cultural understanding. Personal diversity, by contrast, is what we might consider classic concepts of diversity—differences in age, gender, race, political views, etc. Interestingly, as per the survey results, the latter exhibited greater feelings of dissatisfaction. Contextual diversity–geographic diversity and international cultures–was once again implied to encourage innovation and decision-making. However, it is difficult to substantiate these claims beyond observational data. Moreover, contextual diversity is difficult to implement without first overcoming the problems associated with personal diversity. Thus, from the perspective of the laborer, it is unlikely that culture has explicit effects. This is a convoluted topic, because societal norms often dictate personal diversity as well.

Research from the National Library of Medicine posits that cultural syndromes such as collectivism and individualism develop due to exposure to different social ecologies. Each has its own myriad of strengths and weaknesses. For example, collectivist cultures can be known to undermine independent thinking, whereas individualism may harbor a self-seeking nature that hinders collaboration. In many Asian cultures, cultural differences in communication and self-expression, whether through semantics, pragmatics, or simple language barriers, result in passive workers. Scholars attribute this dynamic to Confucianism and its philosophy that prioritizing the community is a virtue. This philosophy also has strictly-defined hierarchical boundaries, which discourages people from doing anything remotely self-interested—even something as simple as expressing oneself in the workplace.

This cultural-psyche makes it difficult for companies to globalize and grow their operations abroad. There also exist culturally systematic barriers in many global economies. In 2024, we see this explicitly in South Korea’s “Korean Discount”–

the tendency of South Korean companies to devalue their shares to artificially low-prices, ultimately decreasing foreign incentives to invest in Korean companies. A unique aspect about Korean society is that economic power is concentrated in the hands of a few conglomerates known as “Chaebols”, with the top five companies contributing over half of the entire nation’s GDP. The issue is that South Korea’s culture has a tacitly-understood system of nepotism, in which Chaebols don’t transfer their influence and power to parties outside of the Korean elite. This has led to issues such as the Korean Discount and essentially prevents foreign access to Korean markets–eroding corporate value and inhibiting economic growth as Korea can not optimally raise capital at home.

Japan has also exhibited economic hurdles fostered by cultural dynamics. The International Monetary Fund (IMF) concluded that blatant gender discrimination–while not unique to Japan–has resulted in the country’s female population having a 7% rate of enrollment in STEM degrees in university, the lowest amongst G7 countries. Economists from the IMF conclude that Japan’s biases have hindered Japan’s total factor productivity (TFP) by about 20%, and this could be said for other countries that have similar macroeconomic barriers embedded into their economies. As TFP is directly associated with the neoclassical economic growth models, Japan is hindering its own GDP growth by excluding a capable demographic from its dying labor force. Furthermore, the IMF posits that gender equality in financial institutions has led to greater financial resilience in policy making, which results in more effective leadership and the potential for globalization. This supports the World’s Bank hypothesis that long-run GDP per capita would increase by about 20% if gender gaps were closed. From here, it is apparent that cultural differences highly impact economic outcomes, and that sometimes businesses don’t prioritize what is economically efficient. Though most of the cultural influence on peoples starts out as psychological and behavioral adjustments, it burgeons into systematic issues within both the macro and microeconomy.

However, sometimes these issues don’t need to exist as systematic barriers. Going back to Roland and Gorodnichenko’s research, they assess international business relationships between a firm’s management to substantiate how these cultural differences impact business transactions. By analyzing the prospects of ownership (equity), they find that a French-led HQ firm would be 17% less likely to hold majority ownership in an affiliate if they are managed by a Chinese manager compared to a Belgian manager. In their original model, they account for foreign-policy restrictions, perpetuating that even being culturally distant results in business apprehension—sometimes even unwillingness to choose the economically efficient choice. Now, you might be thinking that personal biases have something to do with this–and you’re right. However, as mentioned in the beginning, the issue is complex and such a metric is difficult to assess. Roland and Gorodnichenko tested whether or not the nationality of managers affected the outcome of their experiment. Generally speaking, it did not. The same results were yielded, and they were able to mitigate prejudice to a viable extent.

So what does this mean? Well, research currently models what is happening or what is likely to occur. Globalizing the economy and international business culture considers factors beyond the mere exposure effect. It’s not just a matter of two-dimensional diversity—there are a number of unseen variables that require thought and nuance. However, what we can derive from this is that economics is not linear. Understanding the sociological and psychological effects of global integration can steer us in completely new directions. Kerr’s theory has validity—with economic growth comes greater globalization efforts. But convergence shouldn’t come at the loss of cultural individuality. And perhaps, by studying societal nuances, we’ll be able to better understand the complex relationships that exist in the global economy. ■

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