



**M&I Bank**

**STORAENSO**



# **WISCONSIN RAPIDS 2005 ECONOMIC INDICATORS**

**2nd Quarter 2005  
presented  
September 23, 2005**

**Presented by:**

**Central Wisconsin Economic Research Bureau**

**Randy F. Cray, Ph.D., Professor of Economics and Director of the CWERB**

**Scott Wallace, Ph.D., Assistant Professor of Economics and Research**

**Associate of the CWERB**

**Alexander Richter, Administrative Assistant**

**Special Report: Free Enterprise in China – with apologies to Alexis de Tocqueville.**

**Gary E. Mullins, Ph.D., Chair, Division of Business and Economics and Professor of Business – University of Wisconsin-Stevens Point .**

**Historical Analysis: An Examination of Unemployment Rates and Business and Retailer Confidence in Central Wisconsin over the last Fifteen Years.**

**Alexander Richter and Nathaniel Throckmorton, Research Assistants, CWERB.**

## TABLE OF CONTENTS

<a href="#">National and Regional Outlook</a> <a href="#">Table 1</a>	1
<a href="#">Central Wisconsin</a> <a href="#">Tables 2-6</a>	4
<a href="#">Marshfield</a> <a href="#">Tables 7-10</a>	8
<a href="#">Wisconsin Rapids Area</a> <a href="#">Table 16, Figures 1-6</a>	15
<a href="#">Special Report</a> <i>Free Enterprise in China – with apologies to Alexis de Tocqueville</i>	21
<a href="#">Historical Analysis</a> <i>An Examination of Unemployment Rates and Business and Retailer Confidence in Central Wisconsin over the last Fifteen Years</i>	30



**A joint initiative between the Heart of Wisconsin Business & Economic Alliance and the Community Foundation of South Wood County, supported with partial financing from the US Dept. of Agriculture and Wisconsin Dept. of Commerce with federal community development block grant funds.**



CWERB - Division of Business and Economics  
University of Wisconsin-Stevens Point  
Stevens Point, WI 54481  
715/346-3774 715/346-2537  
[www.uwsp.edu/business/CWERB](http://www.uwsp.edu/business/CWERB)

## National and Regional Outlook

Given the vast amount of damage caused by Hurricane Katrina this section of the report will be devoted to the economic impacts of this historic storm. Before Katrina's arrival on our gulf shores the U.S. economy was growing above a 3 percent rate per year. The unemployment rate was falling and payrolls were expanding. Moreover, interest rates, while trending upward, remain at relatively low levels. This is good news because these conditions will help buffer the U.S. economy from the negative effects of the storm.

Most analysts believe that the direct impact of the storm is not sufficient to push the economy into recession. For example, if the economy is growing at around 330 billion dollars per year and the storm's direct economic impact is 100 billion dollars, the economy will slow, but not go into recession. However, economists are concerned with the secondary effects of Hurricane Katrina. These items can best be described as the economic aftershocks of the storm. The economic aftershocks of the storm create a so called negative multiplier effect that has the potential to do additional harm to the economy. Under worst case scenario, these ripples might be capable of pushing the economy into recession. However, most economic analysts do not see this happening.

Katrina is most likely to go down in history as the most expensive natural disaster ever to impact the U.S. The Congressional Budget Office estimates that 400,000 jobs will be lost this year because of the storm. In addition, Wall Street forecasts believe the storm will cut as much as 1.5 percent from GDP growth in 2005. Some economic analysts are already putting the economic loss at above 100 billion dollars. This, of course, does not even take into account the suffering and human tragedy caused by the storm. Given the magnitude of Hurricane Katrina, what are the likely ripple effects?

New Orleans and the gulf area are of great strategic importance to the U.S. New Orleans is the largest port in the U.S. The eastern third of the country, and, in particular, the Midwest relies on the Mississippi River and the port of New Orleans to get exports out of the country and imports into our heartland. To the extent that this transportation link to the rest of the world has been damaged or greatly impaired, businesses engaged in exporting activity will experience a reduction in sales revenue. This could mean inventory buildups and eventually employment layoffs at those firms.

The offshore oil fields and refinery capacity of this region is vital to the overall economic health of the U.S. economy. With the demand for oil and other energy sources already being pushed up by strong world-wide economy it is easy to understand how any disruptions would place a great deal of upward pressure on the prices of most energy sources. The impact of gasoline, heating oil, natural gas, and electricity prices are already rippling throughout the economy. Business firms and consumers will have to make some hard choices as to how much of their income they

are willing to allocate to energy purchases. These choices will cause changes to their normal spending patterns and impact businesses and workers alike. Unfortunately, this rise in energy prices comes at a time when the average U.S. household savings rate hovers at around zero percent and personal debt is at record levels. In other words, households will have to make some tough decisions.

Another issue related to higher energy prices and the disruption of the flow of cheap imports is the overall inflation rate. The aforementioned items will clearly put pressure on the overall price level. This puts the Federal Reserve and Alan Greenspan in a difficult position. If they ease credit conditions in an attempt to keep the economy afloat they run a real risk of contributing to spiraling inflation. In the long-run this is a worse outcome than allowing a brief recession to occur. On the other hand, if the Federal Reserve tightens up on credit conditions and increases interest rates in an attempt to curb inflation they run the risk of driving up interest cost to consumers and businesses. Given the large amount of adjustable rate debt that households are carrying they will be squeezed by higher debt payments and be forced to cut down on their consumption of other goods and services. Once again, we will have a ripple effect impacting the economy.

It has been often said that Wisconsin's economic performance is highly predicated on energy prices and the level of interest rates. We are an energy importing state and our economy is dominated by the interest rate sensitive manufacturing sector. The more quickly the dissipation of the after effects of Katrina, the better off the Wisconsin economy will be. History has taught us that natural disasters, no matter how terrible, eventually play themselves out. In the case of Katrina, it could be a decade before New Orleans resembles its former self. History has also taught us that there is usually a flurry of spending that takes place after a disaster. This spending is a stimulus to the economy and helps to offset the negative effects mentioned earlier. The very act of rebuilding is perhaps the key to avoiding a recession and why most economists do not see Katrina pushing the U.S. into recession. This, however, does not mean that the economic impact of the storm will not be felt by the country.

**TABLE 1****NATIONAL ECONOMIC STATISTICS**

	<b>2004 Second Quarter</b>	<b>2005 Second Quarter</b>	<b>Percent Change</b>
Nominal Gross Domestic Product (Billions)	\$11,666.1	\$12,376.2	+6.1
Real Gross Domestic Product (Billions of 2000 \$)	\$10,704.1	\$11,092.0	+3.6
Industrial Production (1997 = 100)	115.1	119.7	+4.0
Three Month U.S. Treasury Bill Rate	1.36%	3.08%	+126.5
Consumer Price Index (1982-84 = 100)	189.7	194.5	+2.5

## Central Wisconsin

The central Wisconsin economy continues to move forward despite a few bumps along the way. In summary: unemployment rates were generally lower than year ago; total employment, was for the most part lower; nonfarm employment registered modest gains; sales tax collections were up slightly in all three counties; and business leaders were fairly upbeat about the direction of the regional economy and their particular industry.

There is a substantial amount of good news to report in Table 2. Though Marathon County experienced an increase, it still has the lowest unemployment rate in the area. All other reporting areas saw a marked decline in their rates of unemployment. Portage, Marathon, and Wood counties rates now stand at 4.8, 4.3, and 5.5 percent respectively. This gives central Wisconsin a weighted unemployment rate of just 4.7 percent, down from 5.1 percent from a year ago. The state and nation also experienced declines in their rates, 4.8 and 5.2 percent respectively.

Total employment is estimated by the state by the means of a household survey. Employment in Portage County is estimated to have risen from 37.1 to 38.4 thousand, or by 3.5 percent. In contrast, Marathon and Wood Counties employment levels are estimated to have declined by 3.7 and 4.2 percent respectively. Similarly, when compared to employment levels achieved in 2004, Wisconsin's employment figure is down by 12,000 positions, or about 0.4 percent.

Modestly better employment news comes from the survey of business firms. These data are used to estimate total nonfarm employment. In Table 4, total nonfarm employment is said to have risen by about 400 positions or by 0.3 percent from last year. Even the beleaguered manufacturing sector managed to post a small gain. The majority of the industrial sector posted modest gains. In sum, there are now 149 thousand people employed in central Wisconsin business firms.

Sales tax collection in the three county area is given in Table 5. Sales tax collections are not just a barometer of local retail activity. In addition, retail activity is a gauge of the overall health of the economy. Collections were up by 1.6 percent in Portage County. Likewise, Marathon County sales tax collections rose by about 1.5 percent and Wood County collections rose by 0.4 percent over the period. Thus, each county experienced a modest increase in retail activity before inflation is taken into account.

For each report, the CWERB surveys a group of regional business leaders to garner their assessment on economic conditions. This survey group believes there has been a modest improvement in national, local and industry conditions. This group is generally most upbeat about future economic conditions in the local area and in their particular industry. This appears to bode well for the future direction of the economy.

**TABLE 2****UNEMPLOYMENT IN CENTRAL WISCONSIN**

	<b>Unemployment Rate June 2004</b>	<b>Unemployment Rate June 2005</b>	<b>Percent Change</b>
Portage County	5.7%	4.8%	-15.4
City of Stevens Point	N/A	6.5%	N/A
Marathon County	4.2%	4.3%	+1.9
Wood County	6.3%	5.5%	-12.3
Central Wisconsin	5.1%	4.7%	-7.8
Wisconsin	5.2%	4.8%	-7.2
United States	5.8%	5.2%	-9.8

**TABLE 3****EMPLOYMENT IN CENTRAL WISCONSIN**

	<b>Total Employment June 2004 (Thousands)</b>	<b>Total Employment June 2005 (Thousands)</b>	<b>Percent Change</b>
Portage County	37.1	38.4	+3.5
City of Stevens Point	N/A	13.2	N/A
Marathon County	74.9	72.1	-3.7
Wood County	39.5	37.8	-4.2
Central Wisconsin	151.5	148.3	-2.1
Wisconsin	2,956.0	2,944.5	-0.4
United States	139,862	142,457	+1.9

**TABLE 4****CENTRAL WISCONSIN EMPLOYMENT CHANGE BY SECTOR**

	<b>Employment June 2004 (Thousands)</b>	<b>Employment June 2005 (Thousands)</b>	<b>Percent Change</b>
Total Nonfarm	148.6	149.0	+0.3
Total Private	130.0	131.2	+0.9
Construction & Natural Resources	6.3	6.4	+1.6
Manufacturing	30.3	30.4	+0.3
Trade	25.2	25.2	+0.2
Transportation & Utilities	7.8	8.1	+3.8
Financial Activities	10.3	10.3	0
Education & Health Services	21.2	21.5	+1.4
Leisure & Hospitality	11.7	11.5	-1.7
Information & Business Services	17.6	17.5	-0.6
Total Government	18.4	17.8	-3.3

**TABLE 5****COUNTY SALES TAX DISTRIBUTION**

	<b>Sales Tax 2004 Second Quarter (Thousands)</b>	<b>Sales Tax 2005 Second Quarter (Thousands)</b>	<b>Percent Change</b>
Portage County	\$1,099.7	\$1,117.8	+1.6
Marathon County	\$2,611.1	\$2,649.6	+1.5
Wood County	\$1,107.4	\$1,112.0	+0.4

**TABLE 6**

**BUSINESS CONFIDENCE IN CENTRAL WISCONSIN**

	Index Value	
	March 2005	June 2005
Recent Change in National Economic Conditions	63	57
Recent Change in Local Economic Conditions	52	55
Expected Change in National Economic Conditions	58	60
Expected Change in Local Economic Conditions	54	65
Expected Change in Industry Conditions	54	62

100 = Substantially Better

50 = Same

0 = Substantially Worse

## Marshfield

Highlights of the report include: industrial sector employment is off the pace of last year; retailer confidence has grown over the past 12 months; help wanted advertising has surged; total caseload in public assistance has dropped sharply; new unemployment claims have risen while the total caseload has actually gone down; residential and nonresidential is generally off the pace of a year ago; and the Clark County economy appears to be healthy and moving forward.

Total nonfarm employment is based upon a statewide survey of employment. For Wood County the state estimates that total nonfarm employment contracted by 2.1 percent from June 2004, or by 900 positions. The largest contributors to the decline were the manufacturing and government sectors. Each sector lost an estimated 500 positions since June 2004. The only sector to register an increase was transportation and utilities. This sector added 200 positions for a 6.2 percent gain. There were five sectors that were statistically unchanged over the year.

The CWERB survey of local merchants is given in Table 8. In general terms, the level of optimism has risen over the past three months. When asked about total sales the group felt that retail activity was much better than a year ago. However, store traffic was judged to be at about the same level as in 2004. With regard to the future, the merchants felt that store sales would be definitely higher this year when compared to activity levels of last year. Store traffic is forecasted to be slightly lower in the months ahead.

More good news comes from the help wanted advertising index. The index rose sharply from 88 to 105, a healthy 19 percent gain. Even though the index does not capture all job listings in an economy, it is nonetheless a good barometer of labor market conditions. The results suggest an increase in the overall pace of hiring activity is now taking place. Meanwhile the U.S. index remained flat over the past twelve months.

Additional good news comes from the public assistance claims data. For Wood County the total caseload on a monthly average basis declined from 115 to 85 cases. This is a contraction of about 26 percent. Another helpful measurement of family financial distress is unemployment claims data. On a county wide basis, new claims rose from 194 to 208, an increase of 7.2 percent. However, better news comes from the fact that total claims fell from 1,526 to 1,393, or by 8.7 percent.

Residential Construction activity was generally off the pace of last year. The number of residential permits issued contracted by 33.3 percent, and the associated value of the permits fell by 21 percent from a year ago. Also, the number of housing units declined from 20 to 10 during the period. Residential alteration permits fell from 285 to 259; however, the associated value climbed from 1.4 million dollars to 1.5 million dollars over the course of the year.

Nonresidential construction is presented without percentages. This type of activity tends to be very volatile with sharp upswings or downswings in activity levels. The number of permits issued was 2 and the value reported was just 2 thousand dollars. The very small dollar amount of activity is associated with the construction of two small storage sheds. The number of business alteration permits reached 14 and they are estimated to be worth about 3.3 million dollars.

Tables 14 and 15 present Clark County data. Total nonfarm employment rose by 1.9 percent. Further, the unemployment rate in Clark County has declined from 6 percent to 5 percent over the year. These and other data are provided for Clark County because it is an important market area for Marshfield area businesses.

**TABLE 7****WOOD COUNTY EMPLOYMENT CHANGE BY SECTOR**

	<b>Employment June 2004 (Thousands)</b>	<b>Employment June 2005 (Thousands)</b>	<b>Percent Change</b>
Total Nonfarm	43.4	42.5	-2.1
Total Private	38.0	37.7	-0.8
Construction & Natural Resources	1.7	1.7	0
Manufacturing	7.3	6.8	-6.8
Trade	6.3	6.0	-4.8
Transportation & Utilities	3.2	3.4	+6.2
Financial Activities	1.2	1.2	0
Education & Health Services	10.3	10.3	0
Leisure & Hospitality	3.2	3.2	0
Information & Business Services	4.9	4.9	0
Total Government	5.3	4.8	-9.4

**TABLE 8****RETAILER CONFIDENCE IN MARSHFIELD\***

	<b>Index Value</b>	
	<b>March 2005</b>	<b>June 2005</b>
Total Sales Compared to Previous Year	53	66
Store Traffic Compared to Previous Year	55	56
Expected Sales Three Months From Now	60	66
Expected Store Traffic Three Months From Now	60	56

100 = Substantially Better

50 = Same

0 = Substantially Worse

\* Data collected by UW Marshfield-Wood County

**TABLE 9**

**HELP WANTED ADVERTISING IN MARSHFIELD**

	Index Value	
	2004	2005
Marshfield (June) 1980=100	88	0
U.S. (May) 1987=100	39	37

**TABLE 10**

**PUBLIC ASSISTANCE CLAIMS IN WOOD COUNTY**

	2004 Second Quarter (Monthly Avg.)	2005 Second Quarter (Monthly Avg.)	Percent Change
Total Caseload	115	85	-26.1

**TABLE 11****UNEMPLOYMENT CLAIMS IN WOOD COUNTY**

	<b>2004 Second Quarter (Weekly Avg.)</b>	<b>2005 Second Quarter (Weekly Avg.)</b>	<b>Percent Change</b>
New Claims	194	208	+7.2
Total Claims	1526	1393	-8.7

**TABLE 12****RESIDENTIAL CONSTRUCTION IN MARSHFIELD AREA\***

	<b>2004 Second Quarter</b>	<b>2005 Second Quarter</b>	<b>Percent Change</b>
Residential Permits Issued	15	10	-33.3
Estimated Value of New Homes	\$2,124.0 (thousands)	\$1,671.0 (thousands)	-21.3
Number of Housing Units	20	10	-50.0
Residential Alteration Permits Issued	285	259	-9.1
Estimated Value of Alterations	\$1,377.6 (thousands)	\$1,477.4 (thousands)	+7.2

\* Data collected by UW Marshfield-Wood County

**TABLE 13****NONRESIDENTIAL CONSTRUCTION IN MARSHFIELD AREA\***

	<b>2004 Second Quarter</b>	<b>2005 Second Quarter</b>
Number of Permits Issued	1	2
Estimated Value of New Structures	\$2,771.4 (thousands)	\$2.0 (thousands)
Number of Business Alteration Permits	19	14
Estimated Value of Business Alterations	\$3,821.4 (thousands)	\$3,296.1 (thousands)

\* Data collected by UW Marshfield-Wood County

**TABLE 14****CLARK COUNTY EMPLOYMENT BY SECTOR**

	<b>June 2004</b>	<b>June 2005</b>	<b>Percent Change</b>
Total Nonfarm	10.3	10.5	+1.9
Total Private	8.2	8.4	+2.4
Construction & Natural Resource:	0.6	0.6	0
Manufacturing	2.8	2.8	0
Trade	1.5	1.6	+6.7
Transportation & Utilities	0.4	0.5	+25.0
Financial Activities	0.3	0.3	0
Education & Health Services	1.1	1.1	0
Leisure & Hospitality	0.8	0.8	0
Information & Business Services	0.7	0.7	0
Total Government	2.1	2.1	0

**TABLE 15**

**CLARK COUNTY EMPLOYMENT STATISTICS**

	<b>June 2004</b>	<b>June 2005</b>	<b>Percent Change</b>
Unemployment Rate	6.0%	5.0%	-16.6
Total Employed	16,031	17,189	+7.2
Total Unemployed	1,023	905	-11.5
Labor Force	17,054	18,094	+6.1

## Wisconsin Rapids Area

The results of this report are summarized in the following paragraph. Industrial sector employment is off the pace of last year; Wisconsin paper manufacturing employment, while considerably below its peak level, may be trending upward; help wanted advertising is up by about 14 percent from a year ago; public assistance claims in Wood County have contracted by 26 percent; the total caseload of unemployment claims fell by about 9 percent from a year ago; Wisconsin's average manufacturing wage has been flat over the past several years; and other data in the report suggest that the labor force has contracted.

Total nonfarm employment is based upon a statewide survey of employment. For Wood County the state estimates that total nonfarm employment contracted by 2.1 percent from June 2004, or by 900 positions. The largest contributors to the decline were the manufacturing and government sectors. Each sector lost an estimated 500 positions since June 2004. The only sector to register an increase was transportation and utilities. This sector added 200 positions for a 6.2 percent gain. There were five sectors that were statistically unchanged over the year.

Figure 1 presents Wisconsin's paper manufacturing employment from 2003 to the present. Paper manufacturing employment in the state has declined from 41.5 thousand to around 38.0 thousand over the period. However, the good news is that employment in this important sector appears to be in the midst of a recovery. The low point in paper manufacturing employment occurred in earlier 2005 and has trended upward since this date. Increases in world wide demand for these products has contributed to the recent scenario.

Table 8 shows the help wanted advertising index at a 73 level. Since the CWERB just started collecting the data in 2005, there is no comparable number in 2004. Further, the index reading of 73 indicates that there are .73 jobs being advertised for each job listed in the base year. The U.S. index remained virtually unchanged over the same period. Help wanted advertising only picks up a small part of the total number of jobs available in an area. However, economists have found a strong correlation between these indexes and future labor market activity.

Additional good news comes from the public assistance claims data. For Wood County the total caseload on a monthly average basis declined from 115 to 85 cases. This is a contraction of about 26 percent. Another helpful measurement of family financial distress is unemployment claims data. On a county wide basis, new claims rose from 194 to 208, an increase of 7.2 percent. However, better news comes from the fact that total claims fell from 1,526 to 1,393, or by 8.7 percent.

Figure 2 gives Wisconsin manufacturing average weekly earnings for the past three years. In 2003, the weekly average rate stood at 645 dollars per week. In mid 2005 the average weekly earning is just around 640 dollars. Thus, paper manufacturing wages have been flat over the past several years. If inflation is taken into consideration, the situation would show that real wages in manufacturing have been falling. World wide competition has undoubtedly contributed to the situation and has helped to put downward pressure on manufacturing wages.

Figures 3 through 6 give the reader a good overview of some of the major economic trends in the local area. Figure 3 shows that employment in Wood County has been trending upward since the beginning of the year. However, about 2,000 jobs have disappeared from the peak period in 2004. Figure 4, however, shows that unemployment has stayed at about the same level over the past three years. In addition, fluctuations in these figures represent the seasonal nature of unemployment levels. Figure 5 shows that this is also true for the unemployment rate in Wood County. If employment in an area has generally trended downward over a number of years and yet the unemployment rate is fairly consistent of the same period, it means the labor force must be contracting. This is indeed the case as Figure 6 shows this to be true for Wood County. From mid 2003 to 2005 approximately 2,000 people have dropped out of the labor force. This means that they are no longer looking for employment.

TABLE 16

HELP WANTED ADVERTISING IN WISCONSIN RAPIDS

	Index Value	
	2004	2005
Wisconsin Rapids (June) 1980=100	NA	73
U.S. (May) 1987=100	39	37

Figure 1

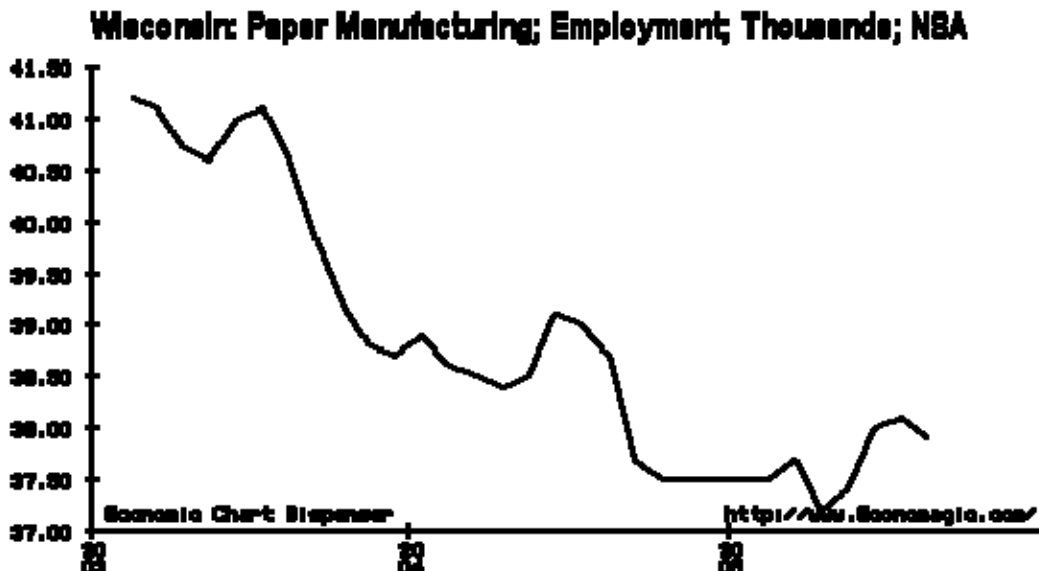


Figure 2



Figure 3

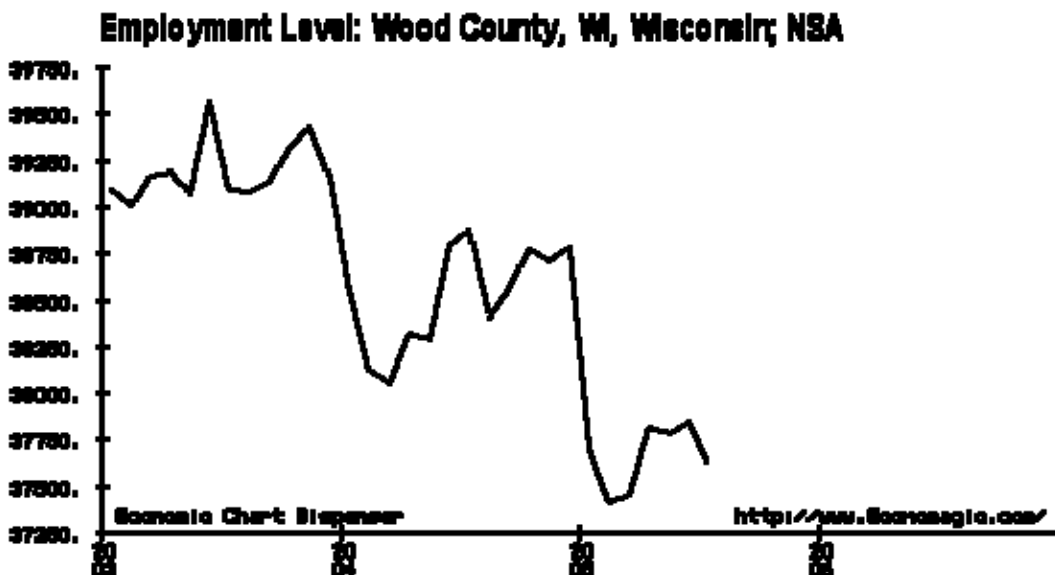


Figure 4

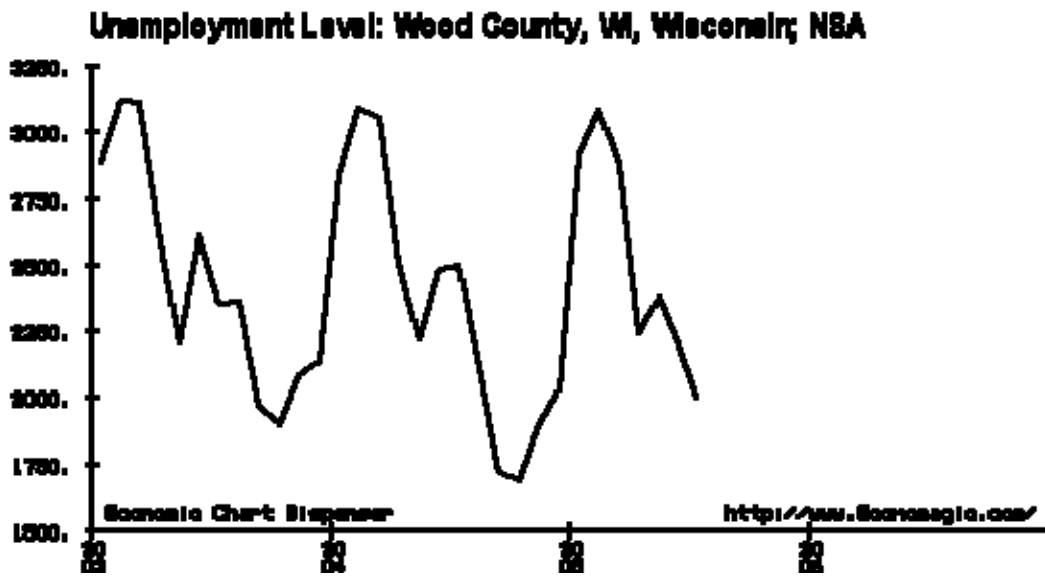


Figure 5

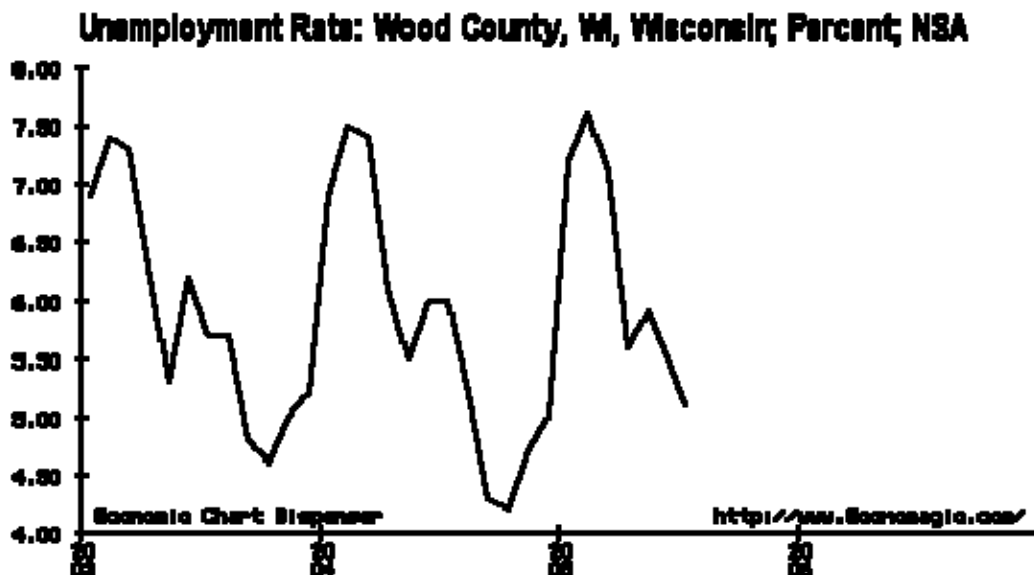
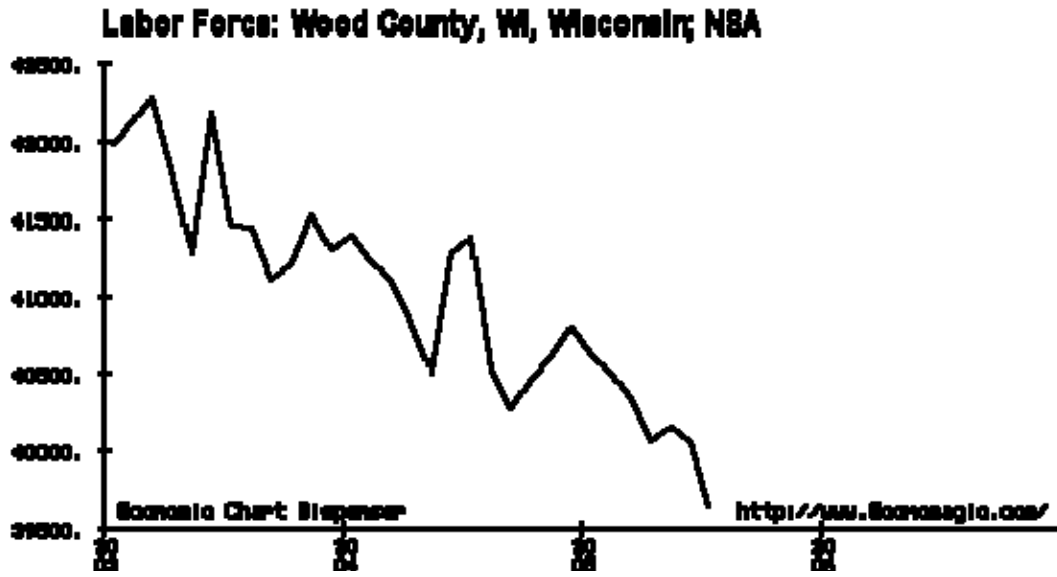


Figure 6



**Free Enterprise in China – with apologies to  
Alexis de Tocqueville  
Gary E. Mullins, Ph.D.**

## **Introduction**

This is a paper about my experiences on a recent month-long trip to China. This report is not intended to be scholarly – merely impressions after spending a very short time in China. Most of the things I will discuss are either things that I saw, or things that I learned while in China. Where I have used sources, I have referenced them in footnotes. When Alexis de Tocqueville wrote about the United States in the 1830s, he had spent 18 months here in the 1830s. I spent  $\frac{1}{18}$  of that time in China, and my observations are considerably less informed than his. However, I hope this will give the reader a feel for what one might find in China. Recognizing that the Chinese economy and society are among the most rapidly changing on the face of the earth, many of these observations will be obsolete by the time this paper is published.

To summarize my experiences in China, I found China to be a very interesting country, and the people were uniformly warm and friendly to me. They often took pity on us poor dumb Americans by keeping our groups out of trouble when we didn't recognize the potential for problems. One of these instances involved our Beijing tour guide, Ms. Tan. During our first day's lunch, one of the students said that he would just drink water. Ms. Tan shook her head vigorously, and said, "No! No! No! You don't want to do that!" We found out later that Chinese tap water is not drinkable for westerners.

I begin this paper with a blatant "plug" for our China Internship program, and then move on to discuss some general observations about China's society. In the remaining parts of the paper, I discuss the government's role in the Chinese economy, the impact of economic reform, and conclude with a series of observations about specific topics in no particular order.

## **But First, a Word from our Sponsor: UWSP's China Internship Program**

In June 2005, I had the privilege and pleasure of leading 7 students on the China Internship Program. As part of this program, students spend an entire month in China. The first few days are spent sightseeing in Beijing. Then the students fly to Chengdu, a city of approximately 11 million people, which is considered a medium sized city by Chinese standards. This city has few tourist attractions although Chengdu is the city that most tourists going to Tibet pass through. For the 3 weeks the students are in Chengdu, they are essentially "working stiffs" who have to deal with the day-to-day challenges the average person has to deal with in China: getting to and from work, eating, getting their laundry done, etc. At work, students must try to get things done in

an extremely foreign environment. This is a near total immersion into the Chinese business world.

This program is virtually unique. Though there are many study abroad programs in China, most of them are historically and culturally oriented. Our program gives students who speak little or no Chinese the opportunity to understand the nature of Chinese business, the Chinese economy, and the Chinese people. I believe that any student who will work for a company that does business in the global marketplace should participate in one of the many international programs. Further, I believe that businesses should consider hiring students who can help them compete in the global marketplace. UWSP ranks in the top 20 nationally in percentage of students who engage in an international experience. Personally, I believe this is an underutilized resource for Central Wisconsin's business community.

Now that the advertisement is complete let's discuss my experiences in China. I will begin with a few observations about China's society in general.

### **Society in General**

There were two things I thought I was prepared for when I went to China: the number of people, and how foreign things would be. Unfortunately, I discovered that I was not ready for either. Although one can visit major cities in the U.S., it is difficult for a westerner to be prepared for the population density in China's cities. Doing anything in a Chinese city is a very competitive exercise. In merely moving from point *A* to point *B*, people have to fight the crowds and jostle for position. Traffic is a truly fluid thing with little regard to the normal rules of the road. Although the Chinese normally drive on the right-hand side of the road, the left-hand lane, ordinarily reserved for oncoming traffic, is viewed by the Chinese driver as simply another option for forward movement unless confronted head-on by a larger vehicle. Additionally, the westerner is unprepared for the sheer volume and variety of the vehicles available for transportation. These range from human-powered rickshaws to large diesel trucks and luxury Mercedes automobiles. However, the greatest number of vehicles I encountered were bicycles and electric-powered scooters. I found the scooters the most dangerous because they are virtually silent, and they are fast – with a top speed of around 25 miles per hour. All this occurs in a setting that is extremely alien to the average westerner.

Spoken language is very different to western ears. In Chinese, each "word" has its own intonation which can change the meaning. Also, the Chinese language uses words in combinations that may change the meaning of a given word. Add to this the apparent requirement that Chinese must be spoken rapidly and forcefully, and the average

westerner gets the impression that everybody is arguing all of the time.<sup>1</sup> Exacerbating the problem for westerners is that very few people in China speak English. Not only is this true in smaller cities such as Chengdu, but it is also true in Beijing. In Beijing, we stayed in a four-star hotel catering to foreigners, and we found that about one person in five spoke English.

The written language is also unintelligible to westerners. In western languages, there are letters in an alphabet that are combined to make words. As a result, westerners can often understand things on a basic level. In Chinese, the language is made up of pictographs that are combined to convey concepts. You can rarely point to a pictograph and say that means, for example, *Subway* the way you can in French or Spanish. Also, to be fundamentally literate<sup>2</sup> in Chinese requires knowledge of at least 3,000 pictographs; such literacy does not occur until the early teenage years.

Although English is not in common use, virtually every street sign is translated into English. As someone who spoke only English, it was far easier for me to navigate in China than it would be for a person who spoke only Chinese to navigate in the U.S. Unfortunately, many of these signs are literally translated from Chinese into English. Westerners have, somewhat arrogantly, named this type of English *Chinglish*. My favorite translated sign was at the home of a famous poet in Chengdu. It read, "Here water is making very deeply! Be Carefully!" I am sure English translated directly into Chinese would produce similar humorous results.

One interesting aspect of China is that the people have a generally positive view of Americans. This is especially true in Chengdu. They still have memories of World War II, which they call the "War of Japanese Aggression," and of the Flying Tigers stationed in Yunnan province just south of Sichuan province where our students worked. They are also very interested in our political process. I have never been asked as directly who I supported during the 2004 presidential election. I generally responded with jokes such as "One of our cherished liberties is the right not to talk politics." My friends in China found this very puzzling.

Smoking is much more prevalent in China than in the U.S. If you ask for a nonsmoking table at a restraint, the waiter will simply remove the ashtray. People smoke all of the time everywhere. Finally, most westerners think of China as a very ancient society. In many ways this is true, but most of the things people think of as typically Chinese were built at the time of the European Renaissance or somewhat earlier. While the Great Wall was begun more than 2,000 years ago, the Forbidden City was constructed in the

---

<sup>1</sup> As frustrating as the language problems were, I enjoyed many English-language movies dubbed in Chinese. These included *Kramer vs. Kramer*, *Gosford Park*, *The Caine Mutiny*, *On the Waterfront*, and the television show *Mythbusters* although this is probably no more peculiar than a Chinese speaking person seeing *Crouching Tiger, Hidden Dragon* dubbed in English.

<sup>2</sup> Someone who is fundamentally literate is able to read and write enough to operate in the business world as most adults would – the ability read and understand directions, newspapers, contracts, etc.

late 14<sup>th</sup> and early 15<sup>th</sup> centuries. Although these are interesting observations about China's society in general, the manner in which the Chinese practice free enterprise in the context of its Communist governmental structure is even more interesting.

### **Communism versus Capitalism: the Chinese Government**

The government in China is a communist, one-party state. Only Communist Party members are allowed to have any kind of governmental position, and this requirement means that quite minor governmental officials must subscribe to the ideals of the Communist Party. In China, the news is censored, information is suppressed, and governmental officials must be atheists. In contrast however, the Chinese economy is extremely capitalistic.

The safety net we associate with governmental programs is virtually nonexistent in China. There is enough support to provide the basic necessities such as food and shelter, but not much else. During our last weekend in Chengdu, I had the "pleasure" of arranging the medical care for one of our students at 1:30 a.m. on a Sunday (it's a long story), and the hospital wanted cash on the spot. I thought that this was because I am a westerner, but my tour guide explained that all medical care must be paid for in this manner. She told me about how angry her parents were when she helped to pay for an aunt's surgery.

The anger of the tour guide's parents is understandable because China is just now beginning to experiment with social security. Currently, parents expect their children to support them in their old age. Due to the "one child" policy in China, there are looming demographics imbalances. In the future, there will be relatively very few young people to support a large aging population. This could be further exacerbated by potential future gender imbalances due to such things as allegedly more frequent adoption (by westerners) of female children than male children, and the alleged choice of parents to end pregnancies that would result in the birth of girls more frequently than those pregnancies that would result in the birth of boys. China may need to implement more safety net programs for its society, or these future demographic imbalances, coupled with such problems as income inequity (discussed later), may put pressure on the Chinese society that could lead to serious future consequences.

In summary, China exhibits a seeming schizophrenia between the way its government operates and the way individuals operate in their private lives. This is explained by the 1962 quote from Deng Xiaoping,<sup>3</sup> "It doesn't matter whether your cat is black or white, as long as it catches mice." This shows China's extreme commitment to pragmatism. In the next section, I will discuss how well China's free-enterprise cat works.

---

<sup>3</sup> See <http://phs.prs.k12.nj.us/~ewood/China2/politicalculture.htm>

## Capitalism versus Communism: Some General Observations about the Economy

One of our first experiences in Beijing was our *Hutong*<sup>4</sup> tour. This is a tour of some of the backstreets of Beijing to see how the average Chinese person lives. It is probably more accurate to say that this is how some Chinese people lived in Beijing a number of years ago because now most people in Beijing live in apartment buildings. However, as an economist, the most interesting things I saw related to the entrepreneurial nature of the Chinese economy and culture. Every second or third door had a small shop selling virtually everything someone would need – meat, electronics, clothes, produce, etc. Further, every sale is a negotiation. There is a clear tradeoff between the price spent on an item and the time spent negotiating what the buyer will pay, and most Chinese people are willing to spend their time negotiating for a lower price. Virtually all transactions are cash transactions. This combination of widespread entrepreneurial activity combined with the “cash is king” attitude of the Chinese consumer makes government regulation of the Chinese economy virtually non-existent.

This lack of governmental influence even extends to such things as paying taxes. For example, China has implemented a tax collection strategy that is part lottery and part public service campaign. When you receive the bill for dinner in a restaurant in China, there is a scratch-off portion. If you scratch it off, and reveal a number, you receive the amount listed in Yuan, the Chinese currency. If there is no number, the bill says, “Pay Your Taxes,” and you receive no money. From my discussions with friends in China, my impression is that the Chinese bureaucracy has virtually the same capabilities (technology, impact, etc.) as it did 20 years ago. Thus China has the paradox of a communist government with a very small impact on the marketplace. At the same time, the U.S. government’s impact on our economy is growing with such regulatory measures as Sarbanes-Oxley. In China, there either are no regulatory agencies such as the EPA<sup>5</sup>, FTC, and FDA. Other agencies are unable have much of an impact on the economy. As a result, the commercials on Chinese television offer an amazing variety of products and make extravagant claims about the products advertised.

By far, most of these products are purported to improve physical appearance. Such products include breast augmentation products (pills, ointments and electrical devices), and even a product, similar to the rack (the medieval torture device), which is supposed to make the user taller. However, more products are offered for weight loss than for anything else. Weight loss products include pills, exercise equipment, and electrical devices designed to melt fat. This concern about obesity can be traced to the way China’s economic reform was conducted.

The first beneficiaries of economic liberalization were farmers. Rather than having the government control their output, they could grow their crops in the most efficient manner

---

<sup>4</sup> In Chinese *hutong* literally means *Small Street*.

<sup>5</sup> Chinese cities are extremely smoggy, and its rivers are also polluted.

possible in order to make money. As prices were allowed to increase, more farmers began producing more efficiently, and as agricultural output increased, prices dropped. Consequently, food became abundant and relatively cheap. Combine this with the fact that China has living memory of famine, and China may fall victim to a future obesity epidemic similar to our current obesity epidemic. While I was in China there were several English-language government-controlled news reports about the growing obesity problem in China.

### **Resource Prices and Currency Exchange Rates**

China is a very inexpensive country by western standards. In part, this due to the exchange rates maintained by the Chinese government. When I was in China, the exchange rate was 8.2641 RMB<sup>6</sup> (Yuan). This was recently reduced to about 8.08211,<sup>7</sup> a reduction of approximately 2 percent. It is generally conceded that the Chinese currency is undervalued relative to the rest of the world's currencies. In part, this is clearly governmental policy, and represents one of the few areas of effective control by the government. However, the other reason prices are cheap in China is due to the nature of the labor market. They have a large workforce, and this has the effect of lowering wages..

The impacts of low Chinese labor prices are easy to see. For example, if there is a water main break in a city in Wisconsin, a backhoe is dispatched with at most 2 or 3 workers. If there is a water main break in Beijing, 20-30 workers are dispatched with picks and shovels. When you eat at a restaurant in China, you will be greeted by 4 or 5 people, and be served by 2 or 3 different people, and have a waiter or waitress stay at your table during your entire meal. Finally, when you go anywhere in the major cities, you will find people directing pedestrians, and other people sweeping the streets by hand with very large brooms. These public jobs are a Chinese version of W2, and the people doing these jobs are very happy to have them. As Thomas L. Friedman says in his book *The World is Flat*, "People in India and China are starving for your job."

This hunger for jobs produces a remarkable competitiveness in the Chinese workforce that is translated into China's economy in general. The notion espoused by some in the U.S. is that children should play games and not keep score is an idea that finds little resonance among the people I met in China.

Interestingly, many of the Chinese people I talked to considered western businesses unfair competitors due to their reliance on capital for production. Their view was, "Yes, we don't pay our workers much, but we do pay them. Machines work essentially for free, are more precise than human workers, and aren't subject to fatigue, old age, etc." These conflicting views confirm the economic view that resources prices (governed by supply and demand) have the power to exert a great influence on the economic

---

<sup>6</sup> RMB stands for *Renminbi*, or Peoples' Currency. See <http://www.google.com/search?hl=en&lr=&q=RMB>

<sup>7</sup> I found this exchange rate on <http://www.google.com/search?hl=en&lr=&q=RMB>

landscape. So far, this paper has surveyed the Chinese economic landscape. In the following paragraphs are some general observations presented in no particular order that flow directly from the information presented above.

### **Finance – Cash is King**

The one industry heavily regulated in China is the financial services industry. The types of transactions U.S. consumers regularly perform (e.g., electronic payment, debit card payment, wire transfers, simple checking transactions, etc.) are extremely rare in China. As I stated before, “Cash is king.” Consequently, people must go to elaborate means to protect their cash. Under my shirt, I wore a money belt and a purse that went around my neck and under my arm.<sup>8</sup> When I paid my Chinese counterpart in Chengdu, we had to find a bank that would cash a lot of traveler’s checks. Then, my colleague had to go home to put the money in a safe. I asked my counterpart why UWSP couldn’t simply send a wire transfer to Sichuan University. He responded that the foreign student and faculty offices preferred cash. As you can see, these kinds of cash transactions are very difficult to regulate.

### **State-Owned/Controlled Businesses**

Western analysts often state their concern that there are many Chinese businesses that are either wholly owned by the government, or enjoy large governmental subsidies. For example, there was considerable concern about the attempted merger with Unocal by the Chinese National Oil Company (CNOOC). Although we are correctly concerned about the governmental subsidies to some Chinese companies, I believe this concern may cause us to ignore the real risks associated with competing against Chinese businesses. The real powerhouses of the Chinese economy are the small and medium-sized enterprises (SME’s). These businesses are highly competitive, and when coupled with the entrepreneurial spirit of the Chinese people, there is the potential for serious future competition.

### ***Guan Xi*, and the Importance of Relationships**

In order to get along in China, everyone practices *Guan Xi*. This concept is generally translated as developing relationships prior to doing business. The idea is that first we become friends and once we develop a level of trust, then we can do business.

This approach was developed due to historic inefficiencies in the flow of information within the Chinese economy, and because contracts were very difficult to enforce. Traditionally, there were no Chinese credit agencies. Also, ancient Chinese courts

---

<sup>8</sup> Given Chengdu’s heat neither of these items smells like a rose.

practiced a severe method of tort reform; if a plaintiff brought an unworthy case, the court might punish the plaintiff. Such punishments might include beatings, forfeiture of property and execution. Because of these factors, the potential for fraud was rampant. Thus, *guan xi* is a way of protecting the parties by exacting a cost to the reputation of any party who reneged on the contract.

At its most benign, *guan xi* is similar to our concept of networking. However, at its least benign, it may force partners to engage in such things as bribery and nepotism, and can result in patronage schemes worthy of Tammany Hall. Also, your competitor may have a relationship with a patron more powerful than yours, and this gives your competitor an unfair advantage. Finally, consider the costs associated with not having a relationship in such a business environment. The unspoken implication of not having a patron is that you are fair game. Our students observed this when they went shopping, and they tried to bargain with the vendors. One student said, "I need to go consult with one of my Chinese friends." Upon hearing this, the vendor dropped her price by more than 100 Yuan. However, this approach didn't work in all situations. One vendor responded, "Oh, you have Chinese friends? So do I," and summoned a large tough-looking man. Our student beat a hasty retreat, and the vendor lost his sale.

## **Income Inequity**

One side effect of China's economic liberalization is income inequity. The Chinese are very concerned about this. There are many plans under consideration about how to reduce income disparities. However, the ineffectiveness of the Chinese government makes these plans unlikely to come to fruition. A government that cannot collect its taxes is unlikely to redistribute income or wealth. During the Cultural Revolution, income, wealth and occupational redistribution were attempted using the severest methods possible. These attempts at redistribution resulted in the widespread disruption of the Chinese economy and social structure. I believe that this kind of disruption to Chinese society is something that few would be willing to risk. Further, it is impossible to dispute the positive influence of economic reform in China, and few Chinese citizens would want to go back to the days prior to reform. Consequently, I expect that while there will be a lot of hand-wringing, very little real income redistribution will occur.

## **Alcohol**

In China attitudes toward alcohol are very similar to U.S. attitudes in the 1950's and 1960's. It is not at all uncommon to have alcohol served during the lunch hour. My counterpart at Sichuan University was quite fond of rice "wine," which was really more like rice vodka. Its alcohol content of this liquor is 54 percent. The standard toast sounds to western ears like the word *Gambay*, and is roughly translated as, "Bottoms

Up!” Although most people drink considerably in China, I never saw anyone pressured to drink. Additionally, Chinese laws concerning DWI are quite severe, and I never saw any of my Chinese colleagues drive after drinking.

In addition to their rice “vodka,” China produces many excellent beers. Everyone knows about Tsingtao, but all of the beer I consumed in China was excellent. In China, their view of beer is similar to the way Americans viewed beer during the temperance era – beer was considered the drink of moderation. Sometimes, my Chinese counterparts would drink beer to sober up after drinking too much rice “vodka.”

## **Piracy**

Our students found that virtually all of the software used at their place of employment was pirated. Further, product piracy is practiced in many different forms. Consumers can purchase any kind of knockoff from Rolexes to fake ancient Chinese artifacts. I warned our students against trying to make a killing by buying inexpensive Chinese goods. A good rule of thumb is that if you like something, and the price is acceptable, buy it. Westerners often become rather smug when discussing the piracy of our products and software. However, one of my Chinese friends pointed out that the western age of mercantilism, the renaissance and the age of exploration were, in large part, fueled by Chinese inventions including movable type, gunpowder, paper money, and large sailing ships.

## **Conclusion**

In this paper I have reviewed some of my experiences in China. These experiences have been so different and varied that it has been very difficult to know what to include and what to exclude. Several people have asked me if I would go on this trip again. The answer is yes. I will lead UWSP’s 2006 China Internship Program. If you know of anyone who is interested in going, please have them contact me.

## **An Examination of Unemployment Rates and Business and Retailer Confidence in Central Wisconsin over the Last Fifteen Years**

Alexander Richter and Nathaniel Throckmorton  
Research Assistants at the CWERB  
University of Wisconsin-Stevens Point

### **Introduction**

Our main goal is to further enrich the surrounding community's knowledge of the economic conditions in central Wisconsin over the past 15 years, from 1990 through 2004. The purpose of our research was to identify similarities and differences between the central Wisconsin counties' unemployment rates, and to identify possible relationships between retailer confidence indices. Additionally, we compared unemployment rates to business and retailer confidence indices in central Wisconsin to determine whether or not the confidence of businesses and retailers in the economy reflects changes in area unemployment rates. The entire report, which details the statistical analysis of the data and includes a more elaborate commentary with tables and graphs, can be found online at <http://www.uwsp.edu/business/CWERB>.

### **Findings**

Over the 15 year time frame, the unemployment rate was significantly lower for Wisconsin compared to the national rate. This implies that, on average, Wisconsin has a better workforce environment and economic conditions than many of the other states in the union. In addition, the difference in the average quarterly unemployment rate may be due to Wisconsin's strong work ethic and public education system compared to the average state.

Wood County's average unemployment rate was significantly higher than Portage and Marathon Counties' unemployment rates. Furthermore, Portage and Marathon Counties' unemployment rates were statistically equivalent. A possible explanation for this deals with how the municipalities are structured in Marathon and Portage Counties. In Marathon there is a large city, Wausau, adjacent to two towns, Rothschild and Schofield. Similarly, Portage County has a city, Stevens Point, which is adjacent to two towns, Whiting and Plover. On the other hand, Wood County has two smaller cities, Wisconsin Rapids and Marshfield, which are not adjacent. It seems likely that the geographic relationship of the municipal populations in Marathon and Wood Counties is more conducive to a healthy employment situation. In addition, Wood County's high dependence on paper manufacturing is likely to have played a role in this outcome.

Wood County's unemployment rate was significantly higher than the rate for the State of Wisconsin. This difference cannot be attributed solely to the layout of Wood County's municipalities. Education and health care services typically account for nearly a quarter of Wood County's employment, creating less variety in the labor market. The lack of variety in the labor market may have led to poor job opportunities for people who were looking for work in other sectors. Also, the reliance on a struggling paper manufacturing industry,

along with the less than optimal geographic relationship of its municipal populations, could possibly be creating the atypical unemployment rates. In general, Portage and Marathon Counties have more stable employment situations with respect to Wisconsin than that of Wood County's situation.

During the relevant period, central Wisconsin had better employment conditions than the nation on average. In all instances, when the average unemployment rates for each of the central Wisconsin counties were compared with the national rate, they were significantly lower.

The CWERB conducts a quarterly survey asking businesses and retailers in central Wisconsin to rate their confidence regarding economic conditions. On average, retailers in Portage and Wood Counties experienced similar changes in total sales and store traffic. On the other hand, when Portage or Wood County were compared with Marathon County, the difference in retailer confidence was significant. It should be noted that Marathon County experiences a much higher level of economic activity than Portage or Wood County—this could be the cause of the difference in confidence.

Retailers in Portage and Wood Counties are less reliable predictors of future changes in total sales and store traffic than those in Marathon County. This means that the survey is more useful in predicting what will occur in the next quarter given the expected confidence in total sales and store traffic by retailers in Marathon County. The opinions of retailers in Portage and Wood Counties were determined to be less helpful in predicting what total sales will be like in the future quarter. The fact that Marathon retailers are better predictors of the future may be due to greater economic stability. That is to say that growth may be more constant in Marathon County and more variable (or less predictable) in Portage and Wood Counties. Economic stability in Marathon County can be attributed to the greater amount of economic activity as evidenced by sales tax distributions and a more robust employment situation.

There was an inverse relationship between the central Wisconsin yearly change in the unemployment rate and retailer confidence in total sales. This means that if the central Wisconsin unemployment rate decreases, retailers have a relatively higher confidence in total sales. Likewise, the opposite holds true. Support for this comes from the fact that a higher unemployment rate results in a decrease in the average amount of disposable income per consumer. Thus, one would expect that a decrease in disposable income directly influences the level of sales at retail outlets.

There was an inverse relationship between the national half-year change in the unemployment rate and business confidence in national activity. This means that central Wisconsin businesses' confidence in current national economic activity correlated well with similar changes in the national unemployment rate. However, there was no apparent relationship between the central Wisconsin half-year change in the unemployment rate and business confidence in local activity. A possible explanation for this may be due to the fact that it is easier to predict economic activity on a larger scale than a smaller scale. For example, a business that provides services to hundreds or thousands of customers

nationally can gauge economic activity much better than a business serving relatively few customers locally. Another factor contributing to this inverse correlation may be due to the stability of national activity in comparison to the variability in local activity.

There was an inverse correlation between retailer confidence in expected store traffic and the central Wisconsin yearly change in the unemployment rate one quarter in the future. Although this correlation does show that one variable relates to another, it does not imply causality. However, it is possible that if entrepreneurs expect to perform well in the future, more likely than not economic conditions will improve due their increased activity. This is an illustration of self-fulfilling prophecy.

There was an inverse relationship between business confidence in expected local activity and the central Wisconsin half-year change in the unemployment rate two quarters in the future. This reinforces the notion that as businesses in an area become more confident in local activity, the area experiences a better employment situation. If businesses expect an increase in activity, then they must accommodate for such expectations. Therefore, we see an immediate impact on the unemployment rate.

## **Conclusion**

Over the last fifteen years,

- the state of Wisconsin had significantly lower unemployment rates than the nation.
- Wood County's unemployment rates were significantly higher than Portage and Marathon Counties' unemployment rates.
- Wood County had significantly higher unemployment rates than the State of Wisconsin.
- Portage, Marathon and Wood Counties' unemployment rates were significantly lower than the national unemployment rate.
- Marathon County retailers were significantly more confident in total sales and store traffic than retailers in Portage or Wood Counties.
- Marathon County retailers were better predictors of future total sales and store traffic; Portage and Wood Counties' retailers were less accurate predictors of future total sales and store traffic.
- there was an inverse relationship between the central Wisconsin yearly change in the unemployment rate and central Wisconsin's retailer confidence in total sales.
- there was an inverse relationship between the national half-year change in the unemployment rate and business confidence in national activity.
- there was an inverse relationship between central Wisconsin's retailer confidence in expected store traffic and the central Wisconsin yearly change in the unemployment rate one quarter in the future.
- there was an inverse relationship between central Wisconsin's business confidence in expected local activity and the central Wisconsin half-year change in the unemployment rate two quarters in the future.

## **Data Sources**

Central Wisconsin Economic Research Bureau Business and Retailer Confidence data can be found in part on the web at <http://www.uwsp.edu/business/cwerb/>, or by calling 715-346-3774 for further information.

Department of Workforce Development Local Area Unemployment Statistics can be located at <http://worknet.wisconsin.gov/>, by clicking Data Analyst on the left, Data Tables in the submenu, and then Query for LAUS.

Department of Workforce Development Industry Data for Wisconsin counties can be located at <http://worknet.wisconsin.gov/>, by clicking Data Analyst on the left, Data Tables in the submenu, and then Query for Non-Metro County Industry Employment Estimates.

Wisconsin Department of Revenue County Sales Tax Distributions can be located at <http://www.dor.state.wi.us/report/c.html>.