



FALL 2019

Wheaton Center for
Faith, Politics & Economics



*ISI 2019 students and faculty in front of the Marina Bay Sands,
a symbol of Singapore's strong economic growth.*

Iron Sharpens Iron 2019

The Political Economy of Southeast Asia

By David C. Iglesias, FPE Director

One of my most impactful experiences at Wheaton College was participating in the International Study Program led by Bob and Shirley Bartel in 1978. It is my honor as FPE Director to continue their legacy with our Iron Sharpens Iron (ISI) study abroad program.

Wheaton students begin ISI by spending time on campus studying geographically relevant business, economics and international relations courses and then study abroad for four to five weeks.

SE Asia was selected for study in 2019 due to its status as post-dictatorship (Indonesia), post-genocide (Cambodia), post-war (Vietnam), and post-colonial (Singapore). The purpose of the trip was to study how well these countries have transitioned to market-based capitalism despite significant negative political economy events.

ON-CAMPUS/ISI 2019

During the on campus portion, students heard from Chad Gauger, '95, who worked for Cargill in SE Asia. Second, Singaporean Ambassador Ashok Mirpuri spoke about his remarkable country via Skype. Next, former Reagan and GHW Bush appointee Kien Pham, talked about Vietnam's economic development since he fled as a boat person in 1975. Finally, retired Major General John Borling, USAF,

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↑ Pictured Center, retired Major General John Borling with ISI students.

→ ISI 2019 visits Ha Lo Prison in Vietnam, where Major General John Borling (ret.) was a POW.



lectured about his experiences as a POW in Hanoi for 6½ years and his subsequent visits to Vietnam.

The redeeming effect of a Christian worldview is an essential part of the ISI program. Faculty leaders helped our students view their site visits through the lens of Christ's redemptive work and His Great Commission. Students also worshiped in various churches, met with missionaries, shared daily devotions and observed the impact of others' religious beliefs on their cultures.

INDONESIA

The top takeaway from Indonesia was the economic impact of a Christian led conglomerate in the world's most populated Muslim nation. Part of Indonesia's rise from frontier economy to developing economy is due to the work of a Christian businessman, James Riady. Seeing the rapid infrastructure development of Jakarta with new freeways and a subway system being built confirmed this belief. Indonesia's 270 million persons will be lifted to a more prosperous status in the coming years. One of the lingering challenges is the persistence of corruption. Unlike Singapore, which succeeded in eradicating corruption, Indonesia still struggles with the problem that impedes full economic growth.

CAMBODIA

Cambodia's economy is currently the fastest-growing economy in Asia according to the experts who briefed the group. The third largest source of revenue is tourism, which is fueled predominately by Angkor Wat. One matter of concern is the large infusion of Chinese money. The Cambodians noted that the construction of over 50 casinos into a resort area allows organized crime to move in and makes Cambodian families feel unsafe and unwelcome. This was a sober reminder that free market economies must be supported by the rule of law.

VIETNAM

The Vietnam War split the Baby Boomer generation in two and caused a rift that has never completely healed. There is a similar split in Vietnam caused both by the generation that remembered "The American War" and geography. Southern Vietnamese still call Ho Chi Minh City by its pre-war name



(TOP) ISI students and faculty at Angkor Wat | (BOTTOM LEFT) ISI student, Alison Taetzsch shakes hands with Ambassador Kritenbrink. | (BOTTOM RIGHT) Saigon Evangelical Church of Vietnam

ISI students at the Singapore Embassy with acting U.S. Ambassador Stephanie Syptak-Ramnath (front/left) and FPE Intern, Cassia Waligora (front/right at table).



of “Saigon” which is booming economically. Vietnam’s population is young and westward looking. U.S. Ambassador Dan Kritenbrink told the group that of the world’s countries, the Vietnamese have the highest approval rating of America. We were met warmly by the Vietnamese and, thanks to philanthropist Kien Pham’s network, we were able to meet both government and business leaders.

SINGAPORE

Sometimes called the “little red dot” due to its diminutive size, Singapore has gone from “third world to first world status” in 50 years according to its first prime minister, Lee Kwan Yew. This city-state was forced out of Malaysia in 1965. It had no natural resources, no factories, just human capital. Singapore had a British trained cadre of educated, English speaking Chinese, Malay and Indian workers and a strategic location at a global choke point—the Straits of Malacca—where virtually all Middle East oil transits to East Asia’s economic tigers. PM Lee eliminated corruption and established the rule of law. This set the foundation for a miraculous 50-year rise to affluence.

Another highlight of the trip was meeting acting U.S. Ambassador Stephanie Syptak-Ramnath who addressed the group after a three-panel member covered political and economic issues. The group also met with Singaporean Ambassador-at-large Tommy Koh. A respected career diplomat who was the ambassador to the United Nations, Mr. Koh was a hit with the students. Our final meeting was with maverick CEO Ho Kwon Ping, who is the CEO of Banyan Tree and author of several books including one on the political economy of Singapore called “The Ocean in a Drop.” Funny, engaging and self-deprecating, Mr. Ho created the first Asian influenced and led resort hotel chain. ★



YOUR SUPPORT IS CRUCIAL

If your personal stewardship priorities resonate with FPE’s programs, we encourage you to give online at wheaton.edu/fpe. Send questions to heidi.leffler@wheaton.edu



HOW TECHNOLOGY AFFECTS COMPETITION— THE REDBOX STORY

By Galen Smith '98, FPE Fellow

McDonald's had a problem. While morning and lunch traffic was fine, they were struggling to drive traffic to their stores in the afternoon. A number of different concepts were tested, but the one that held the most promise to attract customers was a fully automated DVD rental kiosk that they eventually called Redbox. Instead of just selling food, the new business allowed them to create experiences like dinner and a movie.

Little did McDonald's know their experiment to sell more burgers would completely change the home entertainment category by leveraging technology to drive efficiencies and disrupt the existing model.

While some may remember brick and mortar video stores like Blockbuster Video, in the late 1990's and 2000's they were a staple of most strip malls nationwide. For about \$5, you could rent a movie for 48 hours and return it to the same store. The expansive 1,500 to 2,500 square feet stores offered a variety of new releases and older titles with approximately a hundred employees and 8,000 movies per store.

Redbox, on the other hand, came to the market taking up only 12 square feet of retail space offering the latest new-release movies at a memorable and cost-effective \$1 a night. Instead of hundreds of employees, one Redbox employee services 50-60 kiosks (or mini video stores) only needing to visit each kiosk once a week as every kiosk is autonomous and networked at all times. In fact, across our network of 41,000 kiosks, our "up time" is 98% and approximately 80% of issues – such as a jammed disc – can be fixed remotely by our team.

Early on, Redbox acquired a rent and return patent, allowing customers to rent at one location and return discs at another. While a convenience to our customers, many technology hurdles must be overcome, including real-time inventory updates at our kiosks, website and mobile app to show current inventory at each kiosk. We also use complex technology to market the right title or promotional offer to the right customer at the right time – such as location-based mobile push notifications or geo-targeted social media ads.

The efficiencies driven from lower labor, space, content costs and operations, allows Redbox to make a significant profit margin at a low nightly rate (now \$1.75 a night). That

disruptive model played a significant role in Blockbuster's demise as the company was unwilling to adapt when presented with new business models and opportunities. And today Redbox has more locations than Starbucks and McDonald's combined in the U.S.

A few lessons I learned along the way:

BE OPEN TO DISRUPTION: As noted above, Blockbuster did not push itself to think differently and when presented with new business models like a kiosk (Redbox) or by mail (Netflix),

Blockbuster leadership felt their current model would serve them well. Presented with opportunities to acquire both businesses at very reasonable levels, they passed and later went out of business.

DO NOT ASSUME ALL CUSTOMERS ARE THE SAME: The most frequent question I am asked is, "hasn't everyone switched to digital?" While a vast majority of consumers in the U.S. have a subscription to an SVOD service, it does not mean it is satisfying the entirety of

their content needs nor does it mean that "going digital" is important to everyone. Last year we had over 45 million people rent from us at least once during the year. That is a lot of non-digital transactions so it's important to know the niche you serve. That said, some of our customers want a digital service from us, and that's why we launched Redbox On Demand to keep those consumers in our ecosystem.

NEVER STOP INNOVATING: You cannot become complacent even as you achieve success. While the need for continuous innovation is well known, it is much more challenging to institutionalize it. Carving out time or celebrating innovation along the way are a couple of keys to keeping innovation at the forefront of your business.

PUT PEOPLE FIRST: Technology aside, human capital is truly the most important resource of any company. Your products, patents and processes may be what a company talks about or what external investors are focused on, but if you want to differentiate your company for the long-term, it will come from attracting, growing, retaining and rewarding employees. At Redbox it is a primary focus for us.

Redbox has been on a rich 16-year run of making movie nights affordable for millions of consumers. I am looking forward to working with our teams to leverage technology that will enable us to best serve our consumers for years to come. ★



Galen became CEO of Redbox in 2016, previously serving as CFO of parent company Outerwall since April 2013, and SVP of finance at Redbox Automated Retail from 2011-2013. There he was responsible for financial operations and business negotiations including studio deals with Sony Pictures, Universal Studios, and Warner Bros. He also has served as Director of Development at Wheaton College and served as an adjunct faculty member from 2004-2007 in Wheaton's business/economics department.

During his time as an FPE Fellow, he has served our students well by fostering a spirit of entrepreneurship and innovation.

Faith and Free Market

Environmentalism Articles

by Dr. P.J. Hill and Dr. Hannah Stolze



Saving the Environment Through Property Rights and Prices

By Dr. P.J. Hill

The Scriptures are clear about the responsibility of Christians to care for God's creation. Genesis 1:28-31 describes the goodness of creation and the responsibility of humankind to be careful rulers of it. Psalm 8 gives humans a special place in the created order, "a little lower than the heavenly beings" (8:5 ESV). The actual form that our stewardship responsibility should take is more controversial, however, and involves prudential judgments about the best way to fulfill that responsibility. In this essay, I argue for a particular form of environmental stewardship, the use of property rights and prices as the best mechanism for transforming and preserving God's gift of creation.

This perspective on environmental policy, often called *Free Market Environmentalism*,¹ sees environmental problems as conflicting claims over property rights. This approach is an effort to lower the transactions costs of bargaining over the use of resources and stands in contrast to much environmental policy, which involves top down command and control through extensive regulations.



Two examples, fisheries and elephants, illustrate how property rights can reduce conflict and lead to better resource use. Historically many fisheries suffer from the tragedy of the commons, where, without any ownership claims, fishers over-harvest a particular fish stock. Command and control regulations have been used in many fisheries to attempt to preserve enough fish to maintain a healthy population. Such controls have been largely ineffective because the limits can be exploited by using bigger boats, larger crews and more equipment. In response the regulators tighten the rules, but, again, those fishing responded by fishing more intensively. In the Alaska halibut fishery the length of the fishing season was continually shortened throughout the 1980s and early 1990s to prevent overfishing. The season was shortened from six months to one month, then to 2 weeks, and finally to a few 24-hour periods. Fishers responded by getting even larger boats and larger crews and overexploitation continued.

Also, if lines got tangled, the boat operators simply cut them because there wasn't time to reel the lines in and untangle them. This created "ghost lines" that continued to catch fish, though those caught would never be landed.

In 1995 a form of a property right was established, Individual Transferable Quotas (ITQs), that specified the sustainable yield from a particular fishery and then assigned the rights to those who had traditionally been using that fishery. That property right was a

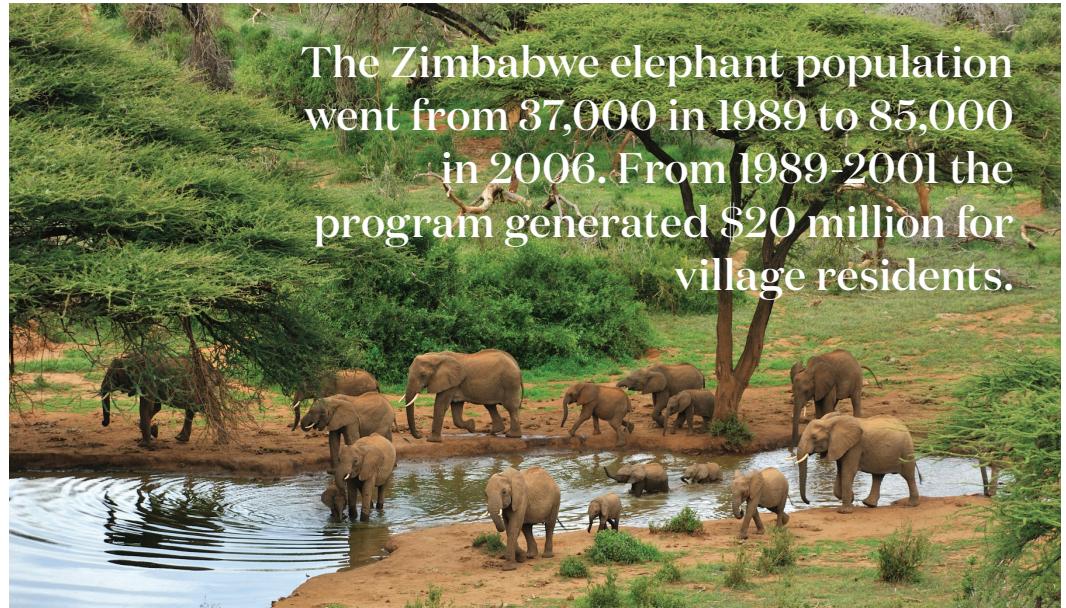
¹ For a summary of Free Market Environmentalism, see Terry L. Anderson and Donald R. Leal, **Free Market Environmentalism: For the Next Generation**, Palgrave McMillan, 2015.

percentage of the yearly allowable catch. It was fully transferable and could be used any time during the year. The season went from a few days to 8 months, equipment and crews were downsized, and the fishery became sustainable. In addition it no longer made sense to rush to fish so rapidly that ghost lines were created.

Note that property rights solutions often involve government, albeit in a lesser role than with command and control. In this case a government agency determined the total allowable catch for the year and provided enforcement mechanisms by measuring the pounds of catch from each boat landing and deducting the amount from that boat's annual quota.

The preservation of elephants in Africa provides a second example of the importance of property rights and negotiation over resource use. Kenya attempted to protect its elephant herds through top down regulation by banning hunting throughout the country. Local farmers, however, had little reason to discourage poachers since they saw the elephants as destructive to their crops and dangerous to their families. As a result the country's elephant population declined from 167,000 in 1973 to 32,000 by 2010.

In contrast Zimbabwe gave local villages control over the elephant populations, allowing them to sell hunting and photo safari rights. They could also harvest elephants for themselves that they thought were a menace to their crops and households. The Zimbabwe elephant population went from 37,000 in 1989 to 85,000 in 2006. From 1989-2001 the program generated \$20 million for village residents. Unfortunately political instability since then has made the reward program less successful.



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There are many other examples where a property rights framework can be useful in dealing with environmental issues. It can be applied to the development of viable water markets, by placing tracers in pollution, and by creating clearly defined claims to underground oil reserves. Property rights generate information and incentives for appropriate resource conservation, lessen conflict, and reduce the intrusive presence of government in people's lives. ★



FPE board of advisors chairman, Dr. P.J. Hill served as the George F. Bennett Professor of Economics at Wheaton College for twenty-five years, retiring in 2011. As a prolific scholar, as well as highly-sought after teacher and mentor, he has published many books and articles in the areas of institutional economics, property rights, and natural resources.

The Spillover Effect of Sustainability Supply Chain News on Consumer Perceptions

By Dr. Hannah Stolze

Research shows that triple bottom line sustainability, including economic, environmental, and social actions of a company impact consumers' perceptions of product quality.

TRIPLE BOTTOM LINE CONCEPT

Equally Stewarding:



= most closely achieving the goals of loving neighbors and stewarding creation

The Bible explicitly demonstrates the role of loving God and loving neighbor as the ultimate demonstration of righteousness (Deut. 6). It also establishes our initial responsibility to care for God's creation in Chapter 1 (Gen. 1). In the business world, a triple bottom line concept that focuses equally on stewarding people, the planet and profit most closely achieves these goals of neighbor love and creation stewardship. Further, business research in recent years has demonstrated that consumers have demanded greater transparency from companies. According to a recent study by Accenture, 63% of consumers prefer to buy products from companies that stand for a purpose that reinforces consumers' personal values. Consumers are ditching companies that do not pursue social awareness and improvements for the environment throughout their local and global operations. The Spillover Effect Studies conducted by researchers at Wheaton College, the University of Northern Kentucky, and East Carolina University explored how news about supply chain operations related to the triple-bottom-line (TBL) impacts consumers' perceptions.

Consumer perceptions are shaped by consumer's exposure to information about a company or product that may be unrelated to the actual quality of the products they purchase; this is defined as a spillover effect. Spillover effects go beyond product attributes. As the Accenture study found, news about TBL initiatives also spills over onto consumer perceptions of product quality and consumer willingness to buy. The Spillover Effect Studies explored how great this affect was across economic, environmental, and social news.

STUDY 1: THE EFFECT OF SUPPLY CHAIN NEWS ON PRODUCT QUALITY PERCEPTIONS

In the first study, the researchers explored the impact of positive and negative news related to TBL on consumer product-quality perceptions. Participants read a Facebook news post about the positive or negative TBL operations of a fictitious company. Only positive economic news (the firm has increased ROI for stakeholders) increased consumer perceptions of product quality. Positive environmental and social news did not significantly increase consumer perceptions. However, negative news about economic, environmentally, and socially focused operations in the supply chain significantly decreased consumer perceptions of product quality. This demonstrates that negative news about a company's economic, environmental, or social initiatives will influence consumer judgements of a company's product.

STUDY 2: THE EFFECT OF THE NEGATIVITY OF NEWS ON CONSUMER QUALITY PERCEPTIONS AND WILLINGNESS TO BUY

It is one thing if a firm does not recycle and a very different thing if a firm is dumping toxic waste, right? The second study of the Spillover Effects Studies tested the impact on varying intensities of news from very bad (near bankruptcy, waste dumping, child labor) to moderately bad (5% decrease in profit, no energy conservation certification, no pay raises) on quality perceptions and consumer willingness to buy. Interestingly, **it did not matter how bad the news was, ALL bad news decreased consumer's perceptions of product quality regardless of the intensity of the news.** Further, **as news grew worse about environmental and social actions of a company, the less willing the consumers were to buy.**

FPE 2019-2020 EVENTS

STUDY 3: THE EFFECT OF NEWS ABOUT COMPANY RECOVERY EFFORTS ON CONSUMER PERCEPTIONS

Given the increased transparency of firms, negative news is likely to surface. Therefore, it is important that companies have a strategy to recover when consumers become aware of negative situations that arise in an extended supply chain. For instance, consumers boycotted Trader Joe's for not disclosing GMOs in their products. However, Trader Joe's was able to work with consumer groups, turning a crisis into an opportunity for greater consumer involvement and more dedicated customers. The *Spillover Effect Studies* tested the effect of recovery news on consumers' perceptions and willingness to buy. **The study found that ALL recovery actions of the company, small or great, increased both consumer quality perceptions and willingness to buy products in the future.** Recovery efforts have a more dramatic effect with social and environmental recovery initiatives than with economic, but all recovery initiatives will drastically reduce the negative spillover effects of bad news and improve consumer perceptions.

Today, as Christians in business explore the scripture for ways to have kingdom impact in the marketplace, it is clear that it is important to steward people (Deut. 6), the planet (Gen. 1) and profit (Matt. 25). In business research, it has been clearly demonstrated that a triple bottom line stewardship approach not only fits with kingdom mandates, but also drives competitiveness and customer satisfaction. In a broken world, it is likely that while many companies are pursuing a more positive impact, things will go wrong. The results of this research can help guide managers in understanding the potential impacts of negatives news and encourage them to work to mitigate mistakes as honestly and quickly as possible. ★

For more on this study see, <https://doi.org/10.1002/joom.1033>.



Dr. Stolze has conducted research with over 40 companies and the Dept. of Defense in the areas of supply chain management and social & environmental sustainability. She is also the new Co-Director of the Center for Faith and Innovation (CFI) at Wheaton College. The Wheaton Center for Faith & Innovation helps Christians pursue their work in the marketplace as an act of discipleship to Jesus Christ.

THE THREE PILLARS OF FPE CONVERGE

POLITICS

THE ROLE OF FAITH IN THE PUBLIC SQUARE

October 29, 2019 | 7:00-8:00pm

Coray Gym



THE HONORABLE BILL HASLAM

Governor of Tennessee,
2011-2019

FAITH

MISSIONS IMPACT

March 18, 2020 | 7:00-8:00pm

Meyer Science Center, Lecture Hall, 145



DR. ROBERT WOODBERRY

director of the Project on
Religion and Economic Change,
Baylor University

ECONOMICS

C.S. LEWIS AND FREEDOM: CHRISTIANITY'S FAMOUS APOLOGIST MEETS ADAM SMITH

April 20, 2020 | 7:00-8:00pm

Barrows Auditorium



DR. KEN ELZINGA

Robert C. Taylor Chair in Economics,
University of Virginia

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MISSION STATEMENT

The Wheaton Center for Faith, Politics and Economics exists to advance the training of Wheaton College students and the greater community in the understanding of market economies, representative democracies, limited government and the redeeming effect of the Christian worldview on the practice of business, government and politics.

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