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KERN ECONOMIC JOURNAL is a quarterly publication of California State University, Bakersfield. Its purpose is to track local trends and analyze regional, national, and global issues that affect the economic well-being of Kern County. The journal provides useful information and data that can help the community make informed economic decisions.

We wish to gratefully acknowledge the Journal sponsors:



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Editorial and analytical articles on important local, regional, national, and international issues and trends are invited for *consideration* of publication in the journal. Articles (not exceeding 800 words in length) must be submitted to the Managing Editor in hard or electronic copy. Individual authors are responsible for the views and research results.

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Photo: Amtrak Station, Bakersfield

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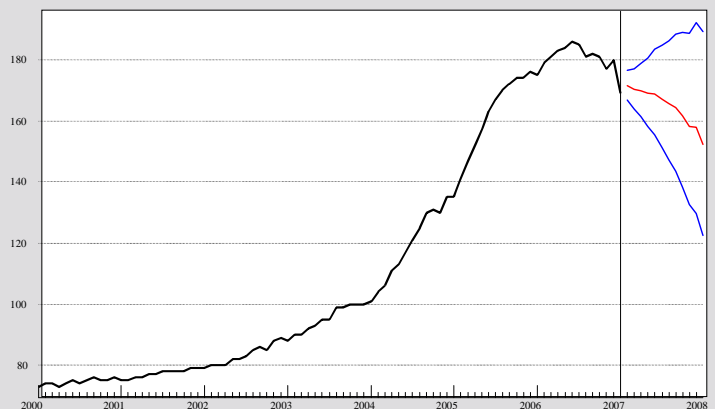
Econ Brief!

Forecasting Housing Price per Square Foot

During the housing boom of 2000-06, the median housing price for all residential units sold in Kern County more than tripled from \$82,200 to \$275,700. On average, the county's median price appreciated 23% per year. The local housing market recorded the largest one-year appreciation rate of nearly 40% in 2005. In the meantime, the average square footage of housing units gradually increased from 1,100 to 1,500 and the median price per square foot rose 143% from \$75 to \$181.

In the current housing market slump, we project the county's median housing price to appreciate at a modest rate of 2.5% to arrive at \$282,600 in 2007. This price increase reflects the rising land value and construction cost for new homes. With such a small price appreciation rate and larger new homes being constructed, the median price per square foot is going to fall. According to kerndata.com, the county's median price per square foot plunged from \$186 in June 2006 to \$169 in January 2007.

Our *optimistic* forecast indicates the median price per square foot would continue to rise to \$185. However, our *pessimistic* forecast shows the median price per square foot to plunge to \$147. In a more *realistic* scenario, we project that the median price per square foot will fall 8.4% from \$181 in 2006 to \$165 in 2007. This market correction is taking the price per square foot to the level of June-July 2005. Such a price reduction under the *realistic* scenario implies a loss of equity for homeowners and cuts into profitability for homebuilders.



ECONOMY AT A GLANCE!

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB

Preliminary data for the first quarter of 2007 indicate that the U.S. economic growth was the weakest in four years. The GDP growth rate of 1.3% was one-half of the 2.5% in the previous quarter. Several factors contributed to this slow growth including a slumping housing market and deteriorating international trade.

The Index of Leading Economic Indicators, a measure of future economic activity, declined three-tenths of one percent from 138.0 to 137.7, suggesting continued sluggish growth. While the rate of unemployment remained constant at 4.5%, inflation was on the rise. The cost of living inflation increased 3.8%; the cost of employment inflation averaged 3.1%; and the cost of producing inflation climbed 7.0%.

In California, the unemployment rate increased from 4.7 to 4.8%. The state added 109,600 workers to its labor force of whom 93,800 were employed and 15,800 were jobless. While 3,600 farm jobs were lost, nonfarm industries added 36,500 paid positions.

In Kern County, labor market conditions worsened as 7,000 farm jobs were lost mostly due to the winter freeze of the citrus crop. The labor force increased by 8,900 members of whom 2,900 were employed and 6,000 were jobless. While government employment remained constant, private companies created 3,000 nonfarm jobs. The county's unemployment rate climbed from 6.9 to 8.5%. Still below the county average, the rate of unemployment ascended from 4.9 to 5.9% in Bakersfield; from 3.9 to 4.8% in Ridgecrest; and from 5.4 to 6.6% in California City.

Kern's economy grew at a rate of 2.5% per year. The county's economy generated \$15.36 billion in personal income, \$90 million more than that of the previous quarter. Personal income per worker inclined from \$48,980 to \$49,150.

Kern County consumers did not express greater confidence in financial conditions of their families and friends as the *Index of Consumer Sentiment* stayed constant at 125. Although businesses remained optimistic about local employment and financial conditions, their degree of confidence continued to erode as the *Index of Business Outlook* fell to 117.

Recession in Kern County's housing market continued as the median sales price for all units decreased \$8,900 (or 3.2%) to reach \$267,800. In Bakersfield, the median housing price depreciated 4.2% to arrive at \$281,700. While the median housing price dropped in California City, Taft, and Tehachapi, it appreciated in Delano, Ridgecrest, and Rosamond. The housing affordability index – measured as the average labor income divided by the median housing price – improved from 13.6 to 14.2%. Although the interest rate on thirty-year conventional mortgage loans dropped to 6.22%, the total number of units sold in the county declined from 3,287 to 2,529. The housing market showed more signs of softening as the number of new building permits plunged from 1,372 to 1,022 and the foreclosure activity increased from 1,044 to 1,297.

In commodity markets, the average price of San Joaquin crude oil declined from \$49.26 to \$47.09 per barrel. However, the average price of regular gasoline in the Bakersfield metropolitan area soared from \$2.41 to \$2.70 per gallon. Likewise, the unit price of California's Class III milk edged up \$1.40 to attain \$14.28. The index of prices farmers received for their outputs climbed 8 percentage points to reach 128, and the index of prices farmers paid for their inputs increased 6 percentage points to attain 153. As a result, the parity between output prices farmers received and input prices farmers paid improved 2 percentage points.

In the first quarter of 2007, the composite price index of stocks for the top five *market-movers* in Kern County (2006.1 = 100) recovered from 112.1 to 112.9. Relative to four quarters ago, the composite price index of stocks for these *market-movers* edged 12.9% higher. While stocks of Chevron and Granite Construction gained value, the price per share declined for San Joaquin Bank, Occidental Petroleum Corporation, and Tejon Ranch Company.

KERN COUNTY BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY

PROFESSOR OF ECONOMICS, CSUB



Business optimism continued to erode in Kern County. While business managers remained confident about local economic conditions, their degree of optimism declined from the previous quarter. In the first quarter of 2007, the *Business Outlook Index* fell 7 percentage points to arrive at 117. The loss of business confidence is alarming since the index value has plunged 20 percentage points in four consecutive quarters.

The *Business Outlook Index* is constructed from responses of managers to a randomized telephone survey. Index values greater than 100 indicate optimistic perceptions, whereas values less than 100 imply pessimism. The intent of the survey is to provide private-sector managers and public-sector administrators with primary data that would help them make more informed decisions. The other purpose of the survey is to identify factors that have helped brighten or darken the local business outlook. Valuable insight may be gained by comparing the index with recent employment and financial trends of individual organizations.

In addition to the overall index, we calculated two sub-index values. The *Index of Current Conditions* fell 7 percentage points to reach 109. Likewise, the *Index of Future Conditions* lost 6 percentage points to attain 125. These results indicate that business managers have be-

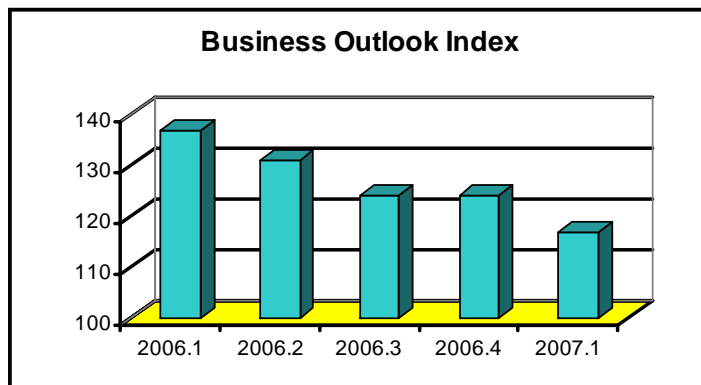
come less optimistic about both current and future conditions. As shown in the following table, their confidence about current and future conditions has eroded considerably since four quarters ago.

Employment Outlook – Sixty percent of interviewees reported that the number of jobs in their companies stayed constant this quarter, but 22 percent said more jobs were available in their companies. Looking ahead, 56 percent perceived that the number of jobs would stay constant, whereas 30 percent expected their companies to hire more workers next quarter.

Financial Outlook – Forty-two percent of survey respondents reported that financial conditions (sales and profits) of their companies were constant this quarter, whereas 38 percent indicated increased profits and sales. Predicting next quarter, 27 percent expected financial conditions of their companies to remain constant, but 55 percent anticipated increased sales and profits.

Industry Outlook – Forty-eight percent perceived that employment and general business conditions of their industries remained the same as the previous quarter, and 27 percent felt these conditions improved. Thinking one quarter ahead, 47 percent anticipated that employment

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	Current Quarter	Previous Quarter	Four Quarters Ago
Index of Business Outlook	117	124	137
Index of Current Conditions	109	116	135
Index of Future Conditions	125	131	140

BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS

ASSOCIATE DEAN AND ECONOMICS PROFESSOR,
CSUB



The Bakersfield Index of Consumer Sentiment attained a solid reading of 125 in the first quarter, the same level as in fourth quarter, 2006. The University of Michigan's national index of consumer sentiment also was nearly unchanged, decreasing slightly from 92.5 to 92.2.

The absolute levels of the national and local indexes cannot be directly compared since they are differently tabulated ordinal scales with differing base years. However the distribution functions of the two indexes can be compared. A reading of 125 for the Bakersfield index exceeds two-thirds of the readings since CSUB began tabulating it in 1999. The University of Michigan's national index is below average for this same period, exceeding just 42 percent of quarterly readings since 1999.

We compile the Bakersfield Consumer Sentiment Index from telephone surveys administered to a random sample of households listed in the phone book. The index is constructed and reported to help local business leaders compare national and local trends in expectations. The index also may provide insight into whether a local company's sales over the previous quarter reflect overall trends in the local economy or shifts in its relative competitiveness.

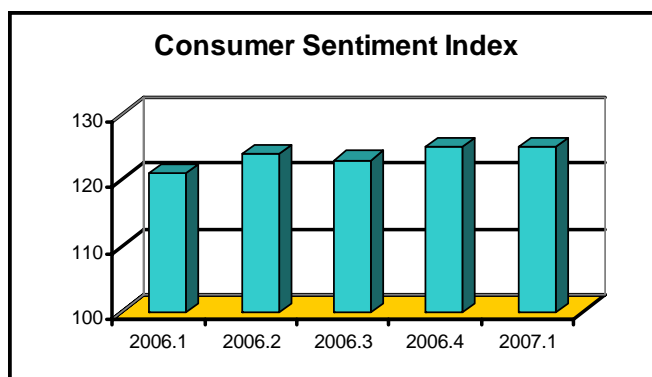
The Bakersfield index is disaggregated into sub-indexes relating to current financial conditions and future expectations. For the fourth consecutive quarter, households were more bullish about their current situation than their expectations for the coming year, although the discrepancy narrowed a bit. The sub-index measuring current conditions decreased from 142 to 138, while the sub-index measuring future expectations increased from 107 to 111 in the first quarter. An index reading of 138 for current financial conditions is quite high: it is exceeded just once every 20 or so quarters. In contrast, a reading of 111 for future expectations is exceeded roughly three-fourths of the time.

The sub-index measuring current conditions is constructed from questions relating to discretionary spending and financial well-being compared to one year ago. This sub-index declined primarily due to a reported retrenchment in household spending. Only one-in-six

households reported spending *more* than usual on discretionary items compared to one-in-three in the previous quarter. The percent reporting they spent *less* than usual increased from 21 to 29 percent (adjusted for holidays and other special occasions).

Expectations improved because fewer households reported their acquaintances in Kern County were bearish about the coming year. In the fourth quarter of 2006, nearly one-half of the respondents indicated their acquaintances were pessimistic about the coming year compared to only one-third in the most recent quarter. There was little change from the previous quarter in how households assessed the risk of drawing down savings or incurring debt to purchase big ticket items.

In summary, the Bakersfield Consumer Sentiment is holding steady at a level that is exceeded just one-third of the time. This seems reasonable, since nothing is causing the local economy to diverge from national trends. Nationally, growth has slowed, but a recession does not appear eminent. Construction and factory production lack momentum, but nonagricultural employment, personal income, and sales are doing well, thanks to a vibrant personal services sector.



(Continued on page 5)

Table 1: Index Values			
	This Quarter	Last Quarter	4 Quarters Ago
Bakersfield Consumer Sentiment Index	125	125	121
Subindex: Current Conditions	138	142	120
Subindex: Future Expectations	111	107	122

Table 2: Recent Buying and Financial Trends			
	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment).	16 %	56 %	28 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	65 %	29 %	6 %
How your acquaintances in Kern County are doing financially compared to one year ago.	69 %	29 %	2 %

Table 3: Future Expectations			
	Better or more stable	About the same	Worse or more risky
The most likely financial situation of your family one year from now.	41 %	48 %	11 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	28 %	37 %	35 %
	Safe time to buy	Neutral response	Risky time to buy
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	34 %	42 %	24 %

Business Outlook (Continued from page 3)

and general business conditions of their industries would be unchanged, but 39 percent expected progress.

Economic Outlook – When asked about Kern County’s economy, 40 percent of interviewees perceived no improvement this quarter, but 35 percent felt conditions improved. Likewise, 42 percent felt that economic conditions would be unchanged next quarter and 40 percent anticipated that the economy would get better.

Factors Affecting Business Outlook – We asked business managers to identify factors that have affected employment and financial conditions of their companies. They felt the following factors brightened the business outlook:

- Local economic and population growth
- High oil prices
- Increased international trade

However, survey respondents expressed the belief that several factors darkened the business outlook:

- Loss of business and jobs caused by the freeze of the citrus crop
- Loss of equity caused by falling housing prices
- Uncertainty about the war in Iraq and potential conflict with Iran

THE CEO PROFILE!



Introduction

Michael Olague, the Retail Sales Director for Rabobank, N.A., is responsible for the management of the overall sales function of the Retail Bank. In addition, he directs the Small to Medium Business Banking Division for the San Joaquin Valley, Ontario, and Glendale markets. He is based out of the bank's Bakersfield office and has 30 years of experience in the banking industry. During his banking career, he has held a number of positions which has included directing business banking and middle market banking teams.

A Bakersfield native, he holds a Bachelor's degree in business from California State University, Bakersfield. He also is a graduate of the University of Virginia's Graduate Banking School. He currently is on the executive board of the Mid State Development Corporation.

Interview

1. What are your responsibilities at Rabobank?

As the Senior Vice President and Retail Sales Director for Rabobank, N.A., my responsibilities include the management of the overall sales function for retail banking. Additionally, I direct all initiatives regarding the implementation of products and services for the branches as well as manage the Small to Medium Business Banking Division for the San Joaquin Valley, Ontario, and Glendale markets.

2. What is it about the banking business that keeps you motivated?

It is all about the people you work with and the customer relationships you develop that makes my profession as a banker truly enjoyable. In the thirty years that I have been in the banking business, I would say my current role with Rabobank has allowed me the unique opportunity to assist in the framework of developing a stellar Bank franchise in California. The vision of the Bank is to offer community-oriented relationship banking with the capabilities and resources of a \$700 billion global bank. The bank's commitment and focus on serving our customers and communities makes me proud to be associated with the company.

3. What is the mission of Rabobank?

Rabobank, N.A. is the U. S. Retail Banking division of the Rabobank Group, an international financial services organization with over \$700 billion in assets. Rabobank operates in 38 countries and knows that success is made by understanding and recognizing the needs of each locale. Our people are empowered to make decisions that help to build communities and make them a great place to live and work.

4. What are the main services that Rabobank provides for its customers?

Rabobank is a full service community bank focused on meeting the banking needs of consumer and business customers. We specialize in providing financial services to businesses and organizations, commercial real estate investors and developers, individuals, and agricultural customers. We offer a full suite of products/services delivered by our local relationship bankers. Rabobank was founded as a community bank over 110 years ago, and today we remain committed to providing personal service backed with the strength and resources of a triple A rated bank.

5. How does Rabobank contribute to the Kern County community?

Rabobank is committed to fueling growth and economic investment in the areas we serve, and investing resources in our local communities is a high priority. We support the Kern Economic Development Corporation, which is an important community partner that helps to attract new businesses to the area and brings new jobs to the community. Our employees volunteer hundreds of hours in local charities like the American Heart Association, American Cancer Society, Chamber of Commerce and Habitat for Humanity Golden Empire. Rabobank has been a regular contributor of California State Bakersfield University, Bakersfield. Our employees have been instrumental in delivering financial literacy classes at the local schools as well as serving on numerous boards for local charities and organizations. Rabobank is proud to continually contribute to the Kern County community.

BUSINESS EDUCATION

THE MBA AS A MANAGEMENT DEVELOPMENT TOOL: ARE YOU SPENDING WISELY?

MICHAEL BEDELL

ASSOCIATE PROFESSOR OF MANAGEMENT AND
DIRECTOR OF MBA PROGRAM, CSUB



One of the characteristics of successful organizations is the consistent development of financial capital, physical capital, and human capital. The one truly unique component in this trio is the component that is most difficult to duplicate – human capital. Organizations that fail to take a proactive approach to developing and maintaining human capital will be less competitive. There is evidence that organizations that manage their human capital effectively will outperform organizations that do not by 30 to 40 percent (Pfeffer, 1998).

The difficulty is that management development needs are difficult to define. Unlike training situations where a very specific set of skills are required to do the current job, development is interested in ensuring that the future management team has the skills they need at some time in the future (5 years or more?) in a competitive environment that is unknown. This uncertainty usually results in the decision to select a development methodology that will provide the future manager with a broad set of skills and analysis tools. Many organizations turn to advanced management degrees – such as the Master in Business Administration (M.B.A.) – as one way to develop the desired competencies.

The M.B.A. degree has a reputation for a curriculum that develops excellent analytic skills; providing broad exposure to business successes and failures through case studies; and developing individual management competencies. There are also very valuable other intangibles that come with an M.B.A. program in the form of networking with other future business leaders.

Unfortunately, not all M.B.A. programs are the same. For the organization that is trying to get the most development out of a tuition reimbursed M.B.A. it is very important to “do the homework” necessary to learn just exactly what each option offers.

So what characteristics should an M.B.A. program have? A good M.B.A. will (1) employ professional instructional faculty who have the highest degrees in their field, consulting/work experience and are experts at delivering

a curriculum to maximize learning; (2) provide networking and other opportunities; and (3) be accredited by a business specific accrediting body such as the AACSB. Think of accreditation as an assessment of program quality much like your Accountant having a CPA, your Attorney having passed the BAR, or your Doctor being board certified. And make sure the accreditation is business specific – you wouldn’t allow a CPA to fix your broken leg?

Programs that provide credit for work experience short change your development needs as the employee is there to grow beyond past experiences. And make sure to check out the faculty and their backgrounds. Programs that rely on busy professionals to deliver a canned curriculum are often without the skills necessary to develop an optimum learning environment for everyone. Finally, carefully check out the time to and number of courses to graduation. Many compressed schedule programs run twice as many short courses than a more traditional program (and more tuition).

As an employer, you spend a lot of time hiring only the best employee for each position. Likewise, your development choices need to ensure that you keep the best possible employees growing and developing. This will ensure that your organization will have the best possible group of future leaders.

Pfeffer, J. (1998). *The human equation: Building profits by putting people first*. Harvard Business School Press.

THE ECONOMIC AND FISCAL IMPACTS OF NASCAR RACEWAY ON KERN COUNTY¹



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Introduction

The purpose of this study is to quantify the economic and fiscal impacts of the new NASCAR Raceway on the economy of Kern County. This raceway, replacing the popular and successful Mesa Marin Raceway, is planned to be a multi-use facility featuring a half-mile paved oval raceway. As shown in Map 1, the new raceway is located on Enos Lane and Highway 43, southwest of the intersection of Enos Lane and Interstate 5.

The Impact of Sporting Events

Economic and fiscal impacts of motor sports are noteworthy as they attract spectators from outside the county, hence bringing new money to its economy. Unlike professional sports that attract largely the home crowd driving to the arena for each game and then back to the suburbs right after it is over, motor sports bring visitors to

the area for a few days of fun and entertainment. In addition to paying entry fees to the raceway, they spend money on lodging, food, transportation, shopping, and entertainment to enjoy their stay.

In this study, we will analyze the financial data and attendance projections provided by project directors to measure the expected addition to annual tourist revenue in Kern County. We will estimate the direct and indirect economic impacts of increased tourism on the local economy. In particular, we will break up the direct and indirect impacts of these expenditures on businesses such as hotels, restaurants, retail shops, and automotives needs. Finally, we will forecast the expected increase in local taxes that these new expenditures generate in Kern County. To measure these direct and indirect effects, we

(Continued on page 9)



¹This study was commissioned by the Kern County Economic Development Corporation and financed by a grant from Citibank.

will apply the Regional Input-Output Modeling System (RIMS II) multipliers for Kern County. We will also analyze the data by IMPLAN Pro, a state-of-the-art computer software package.

In general, economists agree that sporting events exert positive economic and fiscal impacts. However, they caution us that the size of these impacts may not be large enough to justify financing by public funds. Factors depressing these impacts include:

1. Spending on sport events is often a substitute for other spending. Hence, sporting events do not add to the local economy. They simply replace other entertainment spending.
2. Sporting events may discourage other spending the day of the events. Crowds created by sporting events may cause other consumers to stay home.
3. If the local economy is at full employment, then the employment effect is felt elsewhere.

Why is Kern County NASCAR Raceway Different?

Given these factors, why should we expect NASCAR in Kern County to be any different? There are actually several good reasons to expect a positive economic impact from this raceway. Most importantly is the location of the raceway. The NASCAR Raceway is located outside the city of Bakersfield along Interstate 5, which is readily accessible to all residents of California. This is a noteworthy advantage because the location of the raceway suggests that the events it hosts will not discourage other economic activities. Furthermore, unlike a raceway located in a major city and/or tourism destination, one can expect that tourists coming to Kern County would not be coming without the raceway. In other words, this raceway should attract tourists to the county, thus generating new spending and tax dollars.

In addition, Kern County's economy is not at full employment. Historically, Kern County has recorded double-digit unemployment rates because of its specialization in the production of farm products and extraction of crude oil. Although the county's unemployment rate has fallen below 10 percent in recent years, it is still 2 to 3 percent above the state average. In 2006, the rate of unemployment averaged 7.6 percent for Kern County and 4.9 percent for California. We expect the county's un

employment rate to converge toward the state average with continued job creation in industry and services. Hence, jobs created by the NASCAR Raceway are going to assist people in our community.

Beyond these issues is the plethora of events the raceway will host. Consider the following list of events planned for the NASCAR Raceway:

- 34 race events
- Competitor testing
- 40-60 other non-racing events
- 30 corporate meetings
- 47 days of film production
- 30 days of a race car driving school
- 4 to 6 concerts

Given this list of events, we can expect the raceway to be occupied more than half the year. In other words, unlike a football stadium, this structure will be frequently utilized.

The final issue we must note with respect to this raceway is that it is entirely privately funded. It is not a structure that requires public financing. Hence a significant public expenditure associated with many sporting teams and events is not foreseen for Kern County NASCAR Raceway.

To estimate the economic impact of this multi-use sporting and entertainment project, we are going to focus on three issues: the expenditure on constructing the raceway, the impact of tourism on Kern County's economy, and the revenue created by the raceway. These three issues will be examined in terms of direct, indirect, and induced economic, employment, and fiscal impacts².

The Impact of Construction

It is projected that \$35 million will be spent on constructing the raceway. Beyond the direct impact of this spending, we also expect both an indirect and an induced impact. The indirect impact – or the impact on other industries – is estimated to be \$2.4 million. The induced impact – or the impact on households – is estimated to be about \$16.3 million. The sum of the impact of this spending – the direct, indirect, and induced impacts – is \$53.7 million.

(Continued on page 10)

²Indirect effects refer to the inter-industry impacts of spending. Induced effects are the result of extending the tracing of indirect effects "through" household expenditures.

Beyond the spending, the construction of the raceway also creates jobs. We project that the construction project will create 3,639 full-time-equivalent positions. This direct employment impact would help add 273 more jobs in construction-supporting industries. The employment impact of construction is projected at 3,912 full-time-equivalent paid positions. Considering the average annual occupational wages of \$38,300 in Kern County’s construction industry, we estimate that these new jobs will generate a total payroll of \$149.8 million.

	Economic Impact	Employment Impact
Direct Impact	\$35,000,000	3,639
Indirect Impact	\$2,444,600	77
Induced Impact	\$16,263,500	196
Total	\$53,709,500	3,912

The Impact of Tourism

As noted, the raceway will be hosting a variety of events. Many of these have the potential of bringing in tourists. Historical attendance data from the Mesa Marin Raceway allowed us to estimate the number of tourists each event will bring in to the new raceway and the number of nights each tourist might spend in Kern County.

Specifically, for the 34 race events, we expect 53,240 visitors who are expected to stay at least one night in Bakersfield. For the other events, only a percentage of tourists would stay one night. For example, only about 40 percent of the out-of-town visitors for the corporate meetings will stay one night in Bakersfield. The total number of tourists and nights stayed is reported in Table 2.

Events	Estimated Tourists	Nights Stayed
Race Events	53,240	53,240
Competitor Testing	400	100
Other Non-Racing events	60,000	15,000
Corporate Meetings	15,000	6,000
Film Production	750	675
Race Car Diving School	4,500	900
Concerts	2,500	500
Total	136,390	76,415

For each night stayed, we expect spending on lodging. In addition, we expect tourists to spend on retail, dining, automotive needs, and some miscellaneous items. Such spending will have corresponding indirect impacts on the local economy, which we can estimate via various multipliers in measuring the spending and employment impacts.

Direct tourist spending is estimated to total about \$16.4 million per year. Visitors are projected to spend \$1.4 million on lodging, \$3.4 million on retail trade, \$6.8 million on dining, \$2.7 million on automotive expenses, and \$2 million of miscellaneous items. These direct expenditures are expected to generate \$8.9 million of income for industries supporting tourism and \$7.4 million of earnings for households employed by these industries. The total economic impact of tourist spending is estimated at \$32.8 million per year.

Source	Direct Impact	Indirect Impact	Induced Impact	Total Impact
Lodging	\$1,432,781	\$831,013	\$716,391	\$2,980,185
Retail	\$3,409,750	\$1,807,168	\$1,738,973	\$6,955,890
Dining	\$6,819,500	\$3,955,310	\$3,205,165	\$13,979,975
Automotive	\$2,727,800	\$1,391,178	\$954,730	\$5,073,708
Miscellaneous	\$2,045,850	\$920,633	\$797,882	\$3,764,364
Total	\$16,435,681	\$8,905,301	\$7,413,140	\$32,754,122

In addition, the raceway will help create jobs in tourism and tourism-supporting industries. We project that tourist spending will add 394 full-time-equivalent positions in the tourism industry and help create 415 jobs in industries supporting tourism. The total employment impact of construction amounts to 809 full-time-equivalent paid positions. Considering the average annual occupational wages of \$25,600 in Kern County’s tourism and tourism-supporting industries, we estimate that these jobs generate a total payroll of \$20.7 million.

	Economic Impact	Employment Impact
Direct Impact	\$16,435,681	394
Indirect Impact	\$8,905,301	218
Induced Impact	\$7,413,140	197
Total	\$32,754,122	809

(Continued on page 11)

The Impact of Gate Receipts

The final impact from the NASCAR Raceway is from the events themselves. Again estimates were provided of the expected attendance and average price for each event. Using these data, we were able to estimate the revenue generated by these events. Of the total gate receipts of nearly \$21.6 million, race events account for about \$8 million or 37% and all other events for the remaining \$13.6 million for 63%.

From this total we subtracted both the prize money paid to participants and the money spent to maintain the track. We expect the prize money to leak out of the Kern economy since the participants often come from outside the local area. Once this money is subtracted, though, we are left with an estimated \$19.7 million.

Table 5: Value of Gate Receipts

Events	Attendance	Average Price	Total Revenue
Race Events	169,020	\$47.50	\$8,025,431
Other Non-Racing Events	190,480	\$25.00	\$4,762,010
Race Car Driving School	4,500	\$400.00	\$1,800,000
Concerts	62,500	\$112.50	\$7,031,250
Total	426,500	-	\$21,621,691

Once again, we see in addition to a direct impact, an indirect and induced impact from this spending. As noted in Table 6, the summation of all these impacts is close to \$38.9 million. These expenditure impacts in all raceway events are projected to create 1,273 full-time-equivalent positions in Kern County. Considering the average annual occupational wages of \$38,500 in the regional racing and track operations industry, we estimate that these new jobs will generate a total payroll of \$49 million.

Table 6: Economic Impact of Gate Receipts

	Economic Impact	Employment Impact
Direct	\$19,721,691	596
Indirect	\$11,438,581	370
Induced	\$7,691,460	307
Total	\$38,851,731	1,273

Total Economic and Fiscal Impacts

If we put together the impact of construction, tourism, and attendance, we see that this raceway will have a significant and positive impact on the local economy. The construction alone should generate \$53.7 million for the local economy. Tourism is projected to add nearly \$32.8

million and attendance should also add almost \$38.9 million in additional economic activity each year for Kern County’s economy. The total annual impact of tourism and gate receipts is estimated at \$71.6 million.

Table 7: Total Economic Impact

	Direct	Indirect and Induced	Total
One-time Construction Impact	\$35,000,000	\$18,709,500	\$53,709,500
Annual Spending Impact:			
Tourism	\$16,435,681	\$16,318,441	\$32,754,122
Gate Receipts	\$19,721,691	\$19,130,040	\$38,851,731
Total Gate Receipts per year	\$36,157,372	\$35,448,481	\$71,605,853

The NASCAR Raceway is projected to create 3,912 full-time-equivalent jobs in the local construction and construction-supporting industries. Tourism is expected to add 809 jobs per year and gate receipts could open 1,273 paid positions annually. Together, tourism and gate receipts would be responsible for an additional 2,082 jobs per year.

Table 8: Total Employment Impact

	Direct	Indirect and Induced	Total
One-time Construction Impact	3,639	273	3,912
Annual Spending Impact:			
Tourism	394	415	809
Gate Receipts	596	678	1,273
Total Gate Receipts per year	990	1,093	2,082

All these activities generate tax revenues for local governments. We estimate that the construction of the raceway will generate \$4.6 million in tax revenue. Added to this fiscal impact is the annual property tax that Kern County would collect after the valuation of the structure. Additionally, we project that the raceway will generate \$5.2 million per year in sales tax revenues from tourism and gate receipts.

(Continued on page 20)

TRACKING KERN'S ECONOMY

FIRST QUARTER OF 2007

ABBAS P. GRAMMY

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Economy

Personal Income - Kern County's personal income (in constant 1996 dollars) increased from \$15.27 billion in the fourth quarter of 2006 to \$15.36 billion in the first quarter of 2007. The county's economy expanded \$90 million this quarter. Over the previous four quarters, Kern County's economy has added \$500 million of personal income.



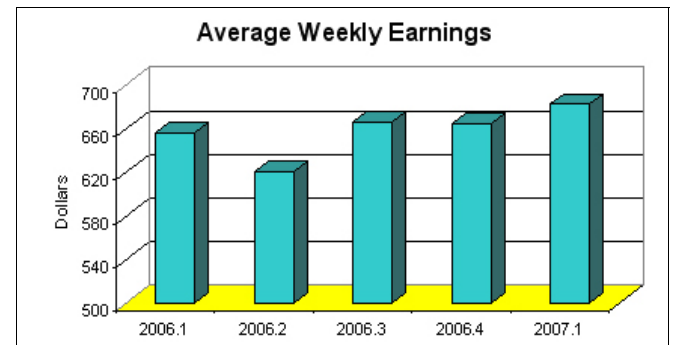
Growth of Personal Income - In the first quarter of 2007, personal income grew at an annual rate of 2.5%, which was 1.1% slower than that of the previous quarter. Compared with the first quarter of last year, the rate of economic growth was slightly faster.



Personal Income Per Worker - Labor productivity is measured by personal income per worker. In the first quarter of 2007, personal income per worker increased \$140 from \$48,980 to \$49,150. Labor productivity has increased \$970 since the fourth quarter of last year.

Manufacturing Wages - In the first quarter of 2007, weekly wages paid to local manufacturing workers increased \$18.15 from \$664.67 to \$682.82. On average, 12

they worked 41.9 hours per week at \$16.28 per hour. Relative to the first quarter of last year, local manufacturing workers earned \$26.41 more per week.



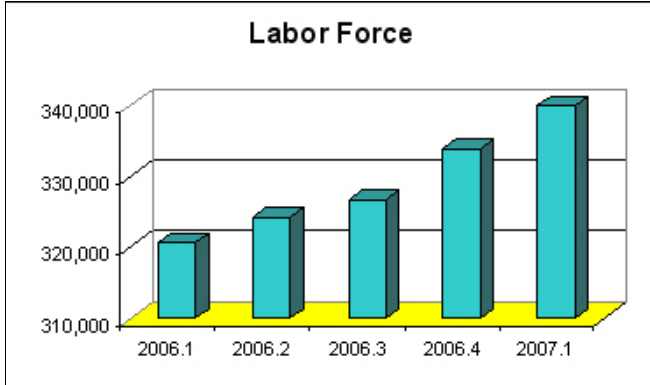
Labor Market

To analyze labor market conditions in Kern County, a time-series dataset was established (January 2000 – March 2007). Monthly employment data were adjusted in three ways: (1) to calculate informal employment (i.e., the difference between total employment and industry employment), accounting for members of the labor force who are self-employed or work outside their county of residence; (2) to adjust the dataset for the effects of seasonal variations; and (3) to take three-month averages for the analysis of quarterly changes. Changes in the local labor market are shown below:

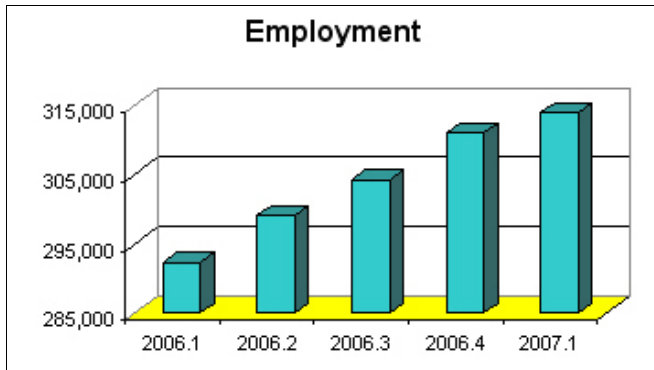
Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
8,900	2,900	6,000	-7,000	3,000	3,000	0

(Continued on page 13)

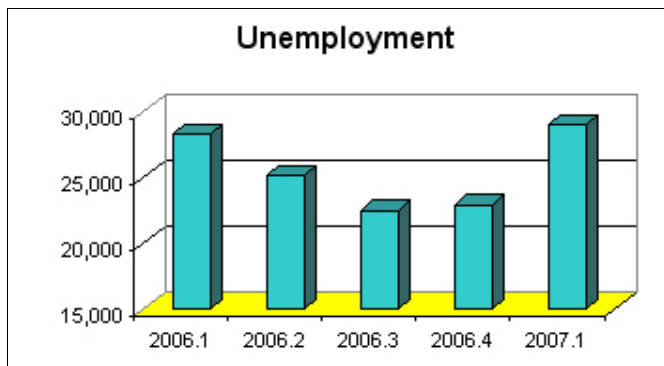
Labor Force - The civilian labor force increased by 8,900 workers from 333,900 in the fourth quarter of 2006 to 342,800 in the first quarter of 2007. Compared with four quarters ago, the labor force increased by 22,100 workers.



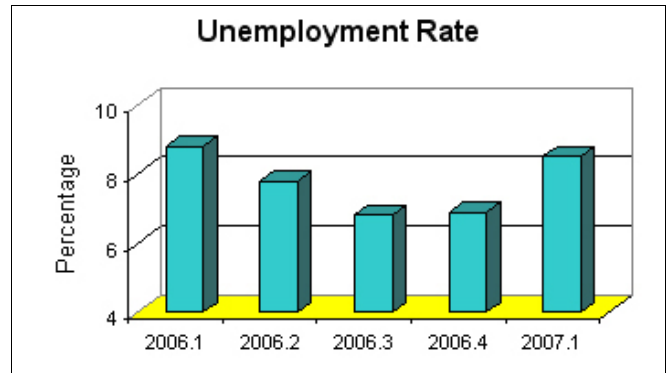
Employment - Total employment climbed by 2,900 from 310,900 in the fourth quarter of 2006 to 313,800 in the first quarter of 2007. Relative to the first quarter of 2006, 8,300 more workers were employed this quarter.



Unemployment - In the meantime, the number of jobless workers increased by 6,000 as unemployment increased from 23,000 in the fourth quarter of 2006 to 29,000 the first quarter of 2007. Likewise, 700 more workers were unemployed relative to four quarters ago.



Unemployment Rate - The rate of unemployment climbed sharply from 6.9% in the fourth quarter of 2006 to 8.5% in the first quarter of 2007. Compared to the first quarter of 2006, the county's unemployment rate was slightly lower.



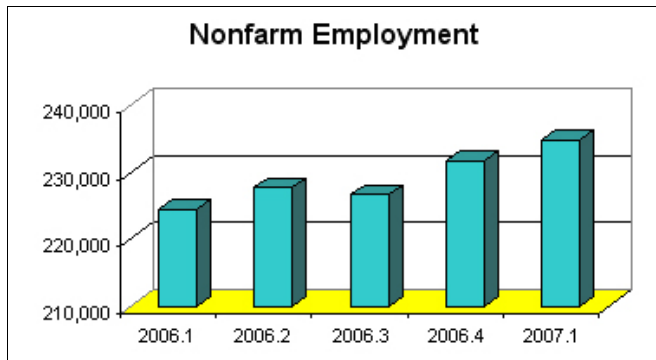
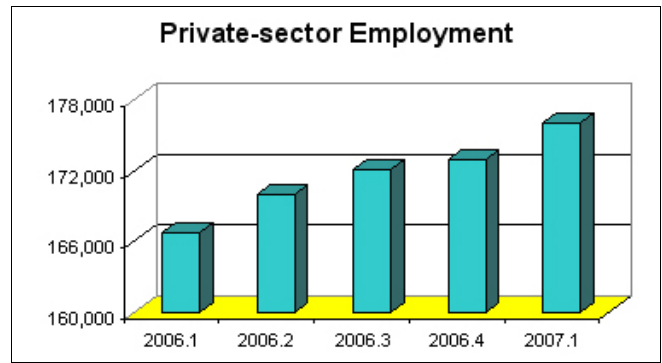
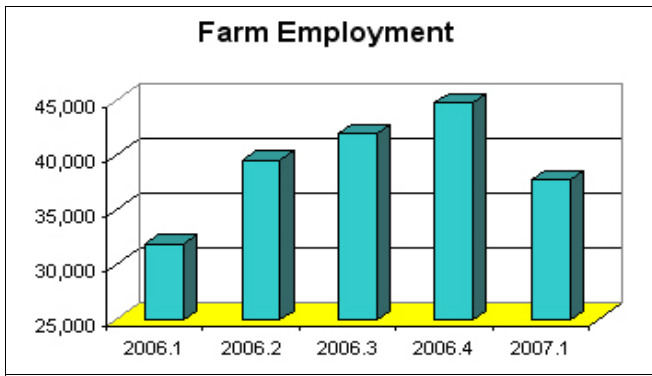
The rate of unemployment varied considerably across the county. It ranged between 3.4% in Kernville and 23.8% Arvin. The rate of unemployment was below the county's average of 8.5% in Kernville, Lebec, Ridgecrest, Tehachapi, Inyokern, Bakersfield, California City, Rosamond, Frazier Park, and Taft. In contrast, the rate of unemployment was above the county average in Oildale, Lake Isabella, Mojave, Shafter, Lamont, Wasco, McFarland, Delano, and Arvin.

Unemployment Rate of Cities			
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	3.4	Oildale	9.0
Lebec	3.7	Lake Isabella	10.4
Ridgecrest	4.8	Mojave	10.8
Tehachapi	5.7	Shafter	15.5
Inyokern	5.7	Lamont	15.7
Bakersfield	5.9	Wasco	16.2
California City	6.6	McFarland	18.5
Rosamond	6.9	Delano	23.2
Frazier Park	7.5	Arvin	23.8
Taft	8.3		

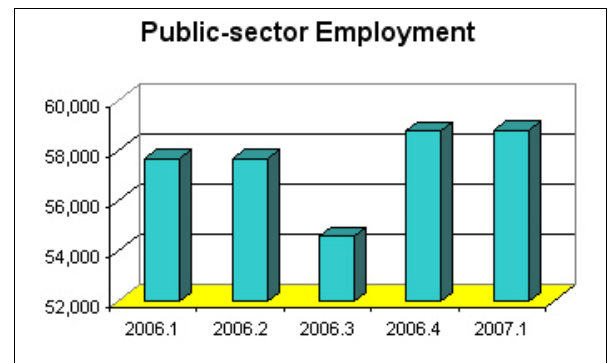
Note: City-level data are not adjusted for seasonality.

Farm Employment - In the first quarter of 2007, Kern County lost 7,000 farm jobs as employment plunged from 44,700 to 37,700. However, farm employment was 5,800 higher than that of four quarters ago.

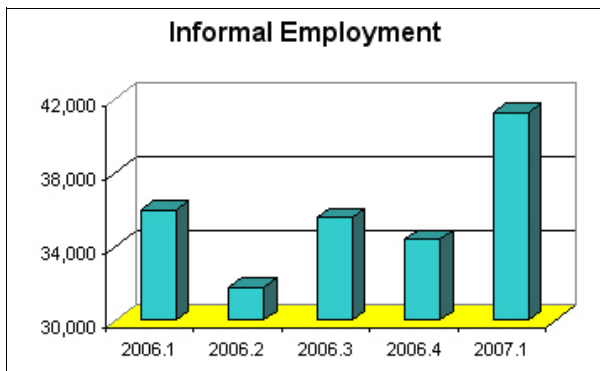
Nonfarm Employment - In the first quarter of 2007, the number of nonfarm workers increased from 231,800 to 234,800 for a gain of 3,000 jobs. Nonfarm industries have added 10,400 new jobs since the first quarter of 2006.



Public-sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the first quarter of 2007, public-sector employment remained constant at 58,800. The public sector has added 1,100 jobs since the first quarter of last year.

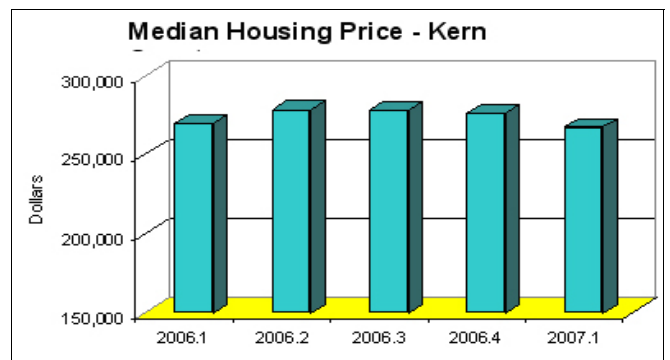


Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the first quarter of 2007, the number of workers engaged in this market increased by 6,900 from 34,400 to 41,300. Likewise, the informal labor market has gained 5,800 jobs since the first quarter of last year.



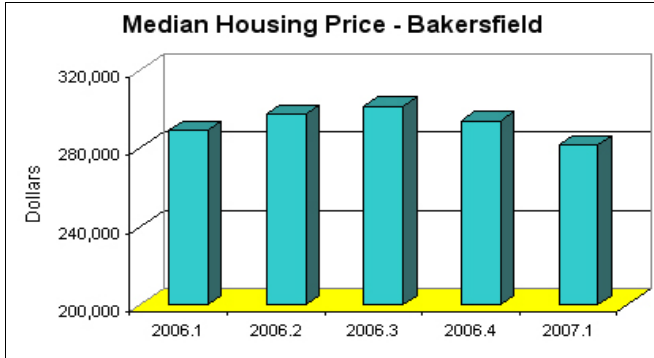
Housing Market

Housing Price - In the first quarter of 2007, Kern County's housing market continued to soften. The total number of all residential units sold in the county dropped by 758 from 3,287 to 2,529. In the meantime, the median sales price for all residential units depreciated \$8,900 (or 3.2%) from \$276,200 to \$267,300. The county's median housing price was \$2,400 (or 0.9%) lower than that of four quarters ago.



Private-sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the first quarter of 2007, private-sector employment increased by 3,000 from 173,000 to 176,000. The private sector has added 9,300 jobs since the first quarter of last year.

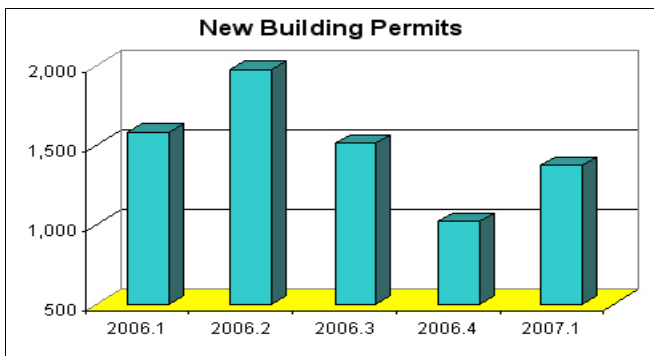
In Bakersfield, the number of all residential units sold fell from 2,478 in the fourth quarter of 2006 to 1,894 in the first quarter of 2007. Meanwhile, the median housing price depreciated \$12,500 (or 4.2%) from \$294,200 to \$281,700. Since the first quarter of 2006, the city's median housing price has depreciated \$7,300 (or 2.5%).



In the first quarter of 2007, the median housing appreciation rates varied across the county. Among selected locations shown below, the median housing price appreciated in Delano, Ridgecrest, and Rosamond, but depreciated in Bakersfield, California City, Taft, and Tehachapi.

Location	Median Price 2007.1	Median Price 2006.4	Median Price Change	Median Price Change
Kern County	\$267,800	\$276,200	\$-8,900	-3.2%
Bakersfield	\$281,700	\$294,200	\$-12,500	-4.2%
California City	\$222,700	\$232,900	\$-10,200	-4.4%
Delano	\$230,000	\$206,800	\$23,200	11.2%
Ridgecrest	\$194,700	\$193,800	\$900	0.5%
Rosamond	\$281,500	\$275,200	\$6,300	2.3%
Taft	\$149,400	\$154,800	\$-5,400	-3.5%
Tehachapi	\$295,000	\$301,400	\$-6,400	-2.1%

Building Permits - In the first quarter of 2007, the number of building permits issued for the construction of new privately-owned dwelling units increased by 350 from 1,022 to 1,372. Likewise, 207 less building permits were issued relative to the first quarter of 2006.

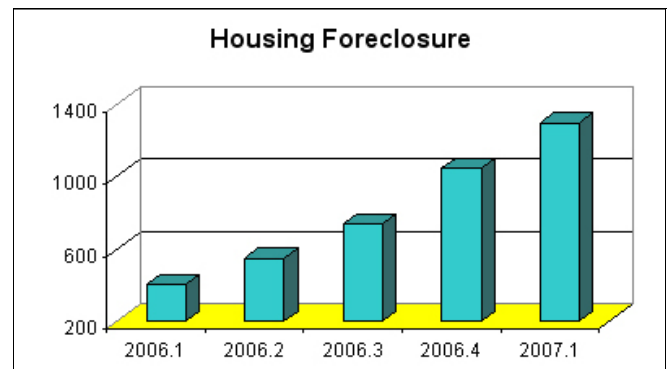


Mortgage Interest Rate - Mortgage loan interest rates remained low. In the first quarter of 2007, the interest

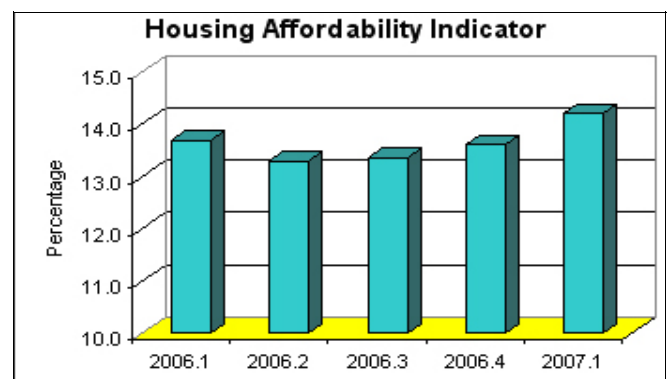
rate of thirty-year conventional mortgage loans decreased slightly from 6.25 to 6.22%. Since the first quarter of last year, the mortgage loan interest rate has fallen 0.02%.



Housing Foreclosure Activity - Foreclosure activity in Kern County increased from 1,044 in the fourth quarter of 2006 to 1,297 in the first quarter of 2007. As a result, 253 more homeowners received notices of loan default. Also, the number of default notices more than tripled (from 406 to 1,297) since the first quarter of 2006.



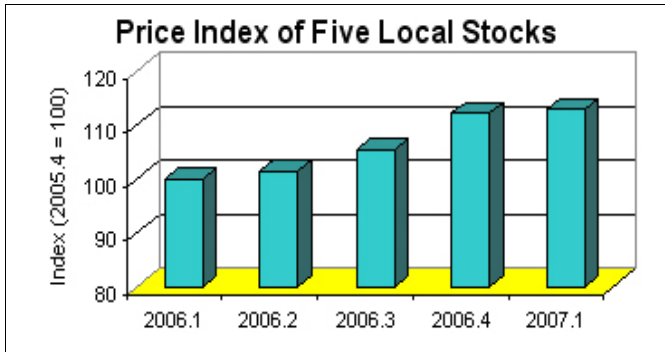
Housing Affordability - Here, we define housing affordability as the average household income divided by the median housing price. In the first quarter of 2007, the housing affordability indicator increased from 13.6 to 14.2%. Compared to four quarters ago, the affordability index gained 0.5%.



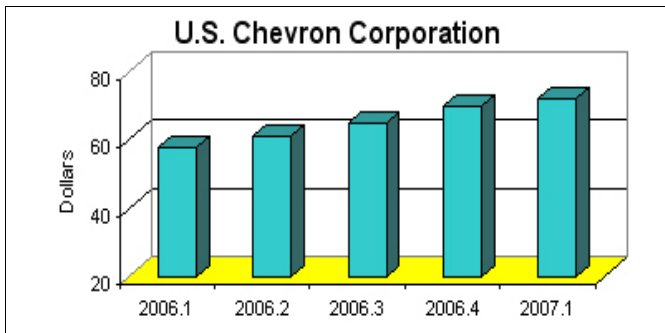
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Stock Market

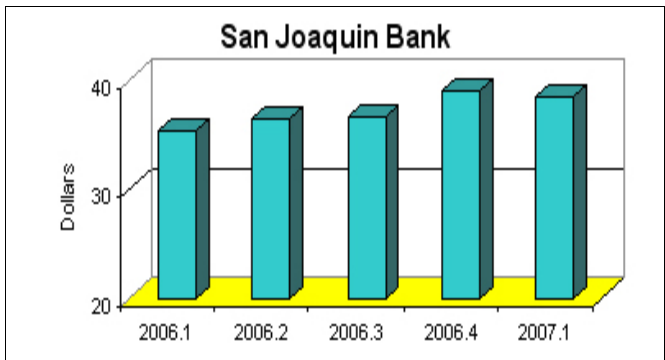
In the first quarter of 2007, the composite price index (2006.1 = 100) of the top five locally traded stocks inclined 0.8% from 112.1 to 112.9. The index has climbed 12.9% since the first quarter of 2006. These top five local *market-movers* are Chevron Corporation, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.



Chevron Corporation US: CVX gained \$1.79 per share as its price climbed from \$70.00 in the fourth quarter of 2006 to \$71.79 in the first quarter of 2007. CVX has gained \$13.89 or 24% since the first quarter of 2006.

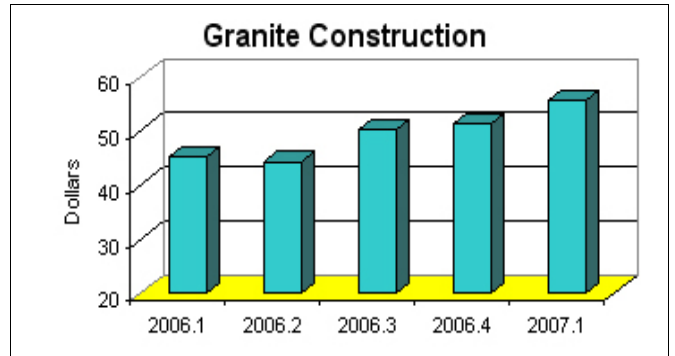


San Joaquin Bank: SJQU lost \$0.50 per share as its price fell from \$39.00 in the fourth quarter of 2006 to \$38.50 in the first quarter of 2007. Since the first quarter of 2006, SJQU has gone up \$3.25 or 9.2%.

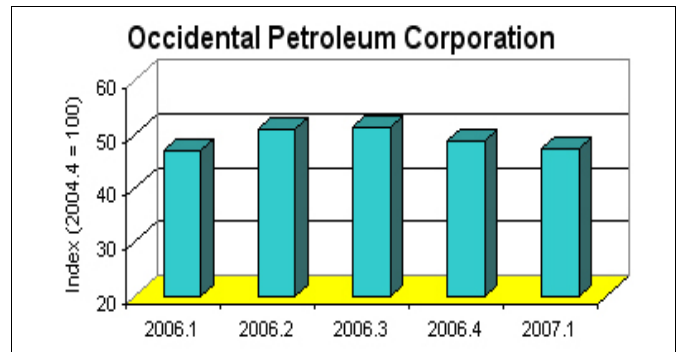


Granite Construction: GVA gained \$4.38 per share in the first quarter of 2007. Its stock price climbed from

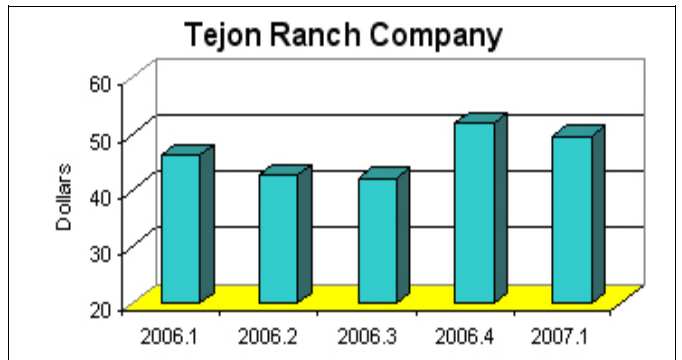
\$51.34 to \$55.72 per share. GVA has climbed \$10.55 or 23.4% since the first quarter of 2006.



Occidental Petroleum Corporation: OXY lost \$1.44 per share as its stock price fell from \$48.70 in the fourth quarter of 2006 to \$47.26 in the first quarter of 2007. However, OXY has jumped \$0.28 or 0.6% since the first quarter of 2006.



Tejon Ranch Company: TRC lost \$2.21 per share as its stock value dropped from \$51.80 in the fourth quarter of 2006 to \$49.59 in the first quarter of 2007. Since the first quarter of 2006, TRC has gained \$3.36 or 7.3%.

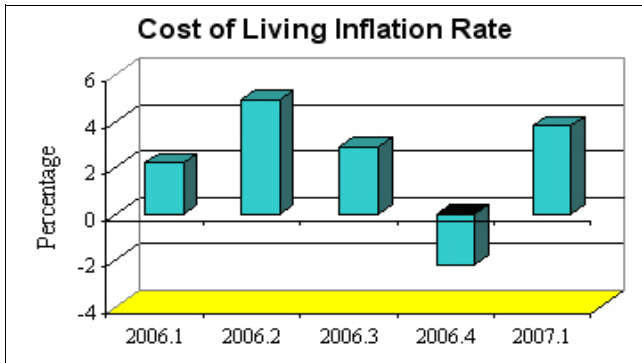


Commodity Prices

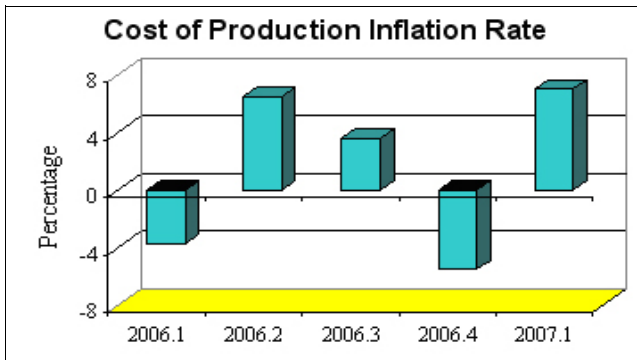
Cost of Living – The Consumer Price Index (CPI) for all urban areas (1982-84 = 100) declined from 202.2 in the fourth quarter of 2006 to 204.1 in the first quarter of 2007. In annual rates, the cost of living inflation rate ac-

(Continued on page 17)

celerated from -2.2 to 3.8%. Relative to the first quarter of 2006, the CPI inflation rate edged 1.4% higher.



Cost of Production – The Producer Price Index (PPI) for all commodities (1996 =100) rose from 164.4 in the fourth quarter of 2006 to 167.1 in the first quarter of 2007. In annual rates, the cost of production inflation rate accelerated from -5.5 to 7.0%. Relative to the fourth quarter of last year, the PPI inflation rate edged up 10.7%.

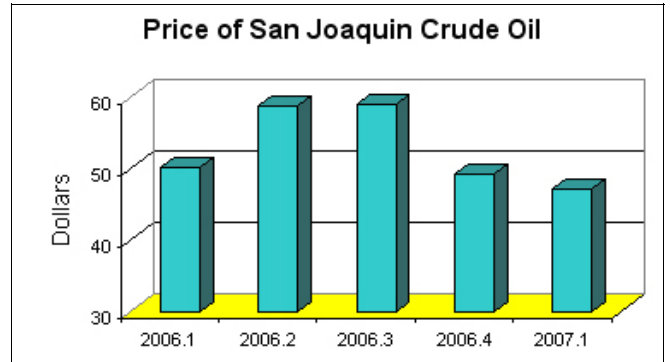


Cost of Employment - In the first quarter of 2007, the index of employment cost for all civilian workers (December 2005 = 100) increased at an annual rate of 3.1% from 103.4 to 104.2. Over the previous four quarters, this inflation rate gained 0.7%.

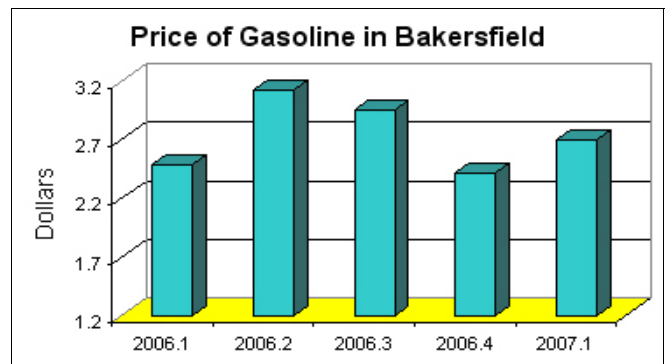


Price of Oil - The average price of San Joaquin Valley heavy crude plunged \$2.17 per barrel from \$49.26 in the fourth quarter of 2006 to \$47.09 in the first quarter of

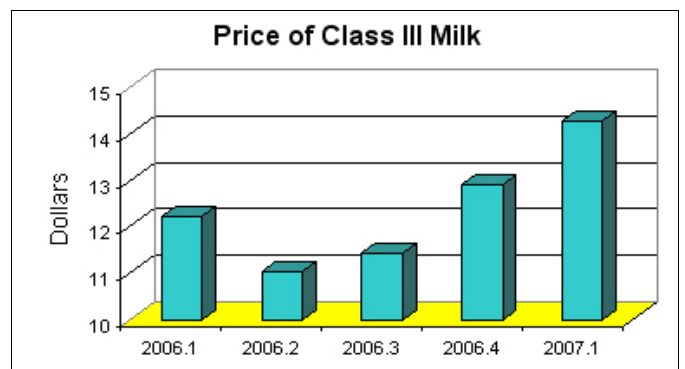
2007. The average price of crude oil has edged \$3.12 per barrel lower since the first quarter of 2006.



Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon climbed 29 cents from \$2.41 in the fourth quarter of 2006 to \$2.70 in the first quarter of 2007. The average gasoline price was 22 cents higher relative to the first quarter of last year.



Price of Milk – The average price of Class III milk increased \$1.40 per cwt from \$12.88 in the fourth quarter of 2006 to \$14.28 in the first quarter of 2007. The average milk price was \$2.05 higher relative to the first quarter of 2006.

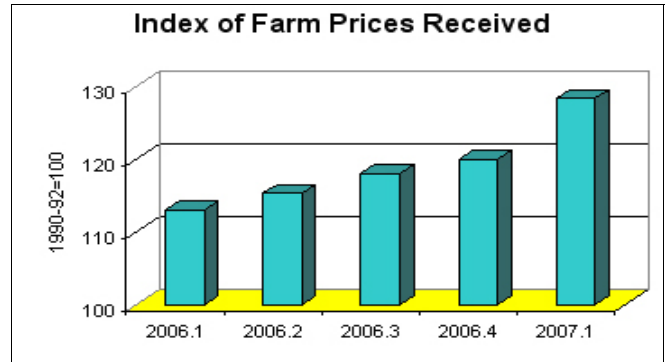
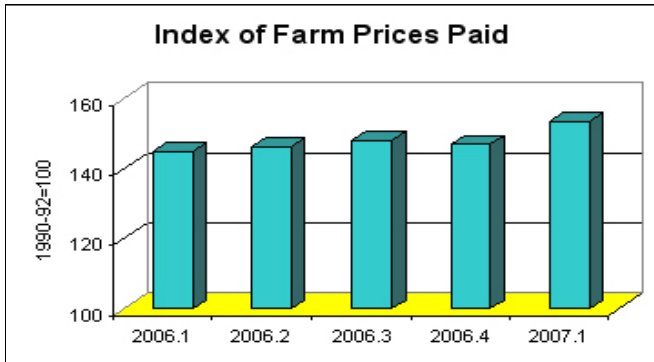


Farm Prices – In the first quarter of 2007, the national Index of Prices Paid by Farmers (1990-92 = 100) for commodities, services, interest, taxes, wages, and rents

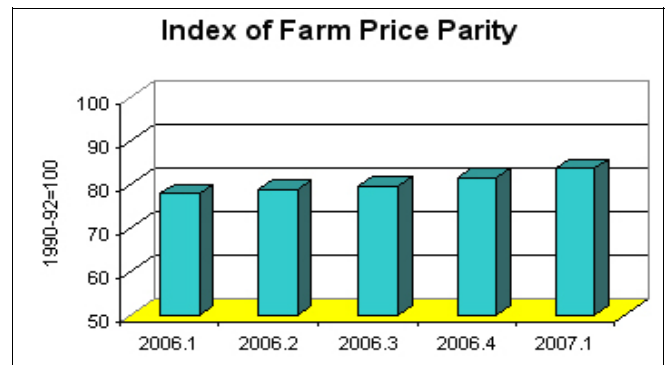
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rose 6% point to reach 153. This index has gained 8 percentage points since the first quarter of last year.

farmers paid recovered 6 percentage points from first quarter 2006.



The national Index of Prices Received by Farmers for all farm products (1990-92 = 100) rose 8 percentage points from 120 in the fourth quarter of 2006 to 128 in the first quarter of 2007. This index was 15 percentage points higher than that of the first quarter of last year.



The Index of Farm Price Parity is measured by the ratio of the Index of Prices Received to the Index of Prices Paid. Values of this index less than 100 illustrate the imbalance between prices farmers pay for their inputs and prices farmers receive for their outputs. In the first quarter of 2007, the Index of Farm Price Parity improved 2 percentage points from 82 to 84. Likewise, the parity between output prices farmers received and input prices



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BOOK REVIEW

WEALTH AND OUR COMMONWEALTH: WHY AMERICANS SHOULD TAX ACCUMULATED FORTUNES

BY WILLIAM H. GATES, SR. AND CHUCK COLLINS
BOSTON, MA: BEACON PRESS, 2003



REVIEWED BY: MARK A. MARTINEZ
ASSOCIATE PROFESSOR AND CHAIR OF POLITICAL SCIENCE, CSUB

Upon John Jacob Astor's death in 1848, newspaper publisher James Gordon Bennett argued that half of Astor's then astounding \$20 million estate belonged to the city of New York. Why? Because Astor's wealth "had been augmented and increased in value by the aggregate intelligence, enterprise and commerce" of the city. Bennett would no doubt make the same point about today's successful entrepreneurs.

Now, there's no doubt the fortunes of wealthy entrepreneurs are a product of hard work. But hard work alone is not sufficient to explain wealth creation. The fact that the U.S. long ago decided to educate, protect, and facilitate the commercial prospects of ordinary Americans also had a significant hand in the individual successes of America's entrepreneurial icons. Because society creates the conditions under which wealth is created, the U.S. government has a legitimate claim to tax the accumulated fortunes of those who benefited most from the system.

This is the theme taken up by William H. Gates, Sr. and Chuck Collins in *Wealth and Our Commonwealth: Why Americans Should Tax Accumulated Fortunes*. In their book the authors argue the U.S. is a success because of "the things we have done to strengthen equality of opportunity." One of those "things" has been a consistent pattern of creating public minded institutions and putting "a brake on the accumulation of hereditary wealth" that dates back to the Founding Fathers.

The authors share the Founding Father's concerns that entrenched and powerful economic aristocracies would "distort" our democracy while "negating" equality of opportunity. So they make it clear the nation's founders wanted to avoid the conditions that encouraged inherited power and legacy privileges. Looking at the aristocracies of Europe they saw unbalanced distributions of wealth that were made possible by rigid inheritance laws and entail, which rewarded idleness while stifling talent and initiative.

To guard against perpetuating this system in the U.S. a premium was placed on civil liberty and free enterprise. This was paired with property laws and equitable land distribution policies that helped make this country a land of opportunity, and rewarded the most diligent and talented (as long, of course, you were a white male – but that's another story).

To insure a dynamic market economy would flourish – where ambition and competition weed out idleness and poorly conceived ideas – public investments and public institutions had to be created. As believers in the maxim, "To whom much is given, much is expected," it only makes sense for the authors that the wealthy help support these institutions.

This is in line with the thinking of the intellectual godfather of capitalism, Adam Smith. He supported the progressive taxation of wealth and recommended, for example, higher road tolls on luxury carriages so "the indolence and vanity of the rich" could contribute to larger societal interests.

Many ignore this line of thinking. They argue the estate tax is really a "death tax" that represents an unwarranted government taking – as if the Paris Hilton's of the world actually have a legitimate claim to all the money that simply falls into their laps for no other reason than they came out of the right womb.

Arguing the estate tax is both just and necessary, Gates and Collins take on these and other "myths" by challenging several "Abolish the Estate Tax" tenets:

- It Ruins the Family Farm? When pressed, the American Farm Bureau could not produce one example of a family losing the farm to the estate tax.
- Family Businesses Sold to Pay Taxes? The vast majority of family business failures occur be-

(Continued on page 20)

Table 9: Total Fiscal Impact	
	Tax Revenue
One-time Indirect Business Tax - Construction	\$4,636,600
Annual Sales Tax Receipts:	
Tourism	\$2,375,674
Gate Receipts	\$2,816,751
Total	\$5,191,424

Concluding Observations

In this study, we project that the NASCAR Raceway under construction in Kern County will generate positive economic and fiscal impacts. In particular, we find construction of the raceway will generate \$53.7 million in economic impact and \$4.6 million in fiscal impact. The employment impact of construction is estimated at 3,912 full-time-equivalent jobs. Using the average annual sal-

ary in the local construction industry, these new jobs will create \$149.8 million in total payroll.

Annually, the raceway is expected to exert a spending impact of \$32.8 million from tourist spending and create 809 jobs in tourism and tourism-supporting industries. These expenditures are expected to generate nearly \$2.4 million in tax revenues for Kern County governments and \$20.7 million of income for the local workforce. Likewise, gate receipts will add \$38.9 in total economic impact, 1,273 in employment impact, \$49 million in payroll impact, and \$2.8 million in fiscal impact.

In addition to these measurable effects, the opening of the new raceway will restore Bakersfield’s reputation as a NASCAR town and create a larger fan base for this immensely popular sport. In other words, the economic impact understates the value of this project on the quality of life in Bakersfield and Kern County.

Book Review (Continued from page 19)

cause of the poor management of children who inherit business, but don’t understand the industry.

- Unfairly Punishes Success? Top income earners often pay an effective tax rate below those in the middle and lower income tiers. The estate tax makes the tax system a fairer code of distributive justice.
- Double Taxation? Because 98 percent of the population is exempt from capital gains taxes at death, this is a Red Herring. As well, the bulk of assets taxed in an estate represent appreciated property – e.g. real estate, stocks, art, etc. – that weren’t properly taxed as their value increased.
- Violates Capitalist Principles? As a society we tax transactions. This allows us to track, understand and pay for activities the government is called upon to monitor.

One issue of concern for Gates and Collins is how inherited wealth has created a jaded and misinformed elite class culture. And it is how this culture embraced by the legacy aristocracy that is particularly annoying for the authors.

For example, because the vast majority do little to earn their windfall most are not only “ill-prepared to earn their own way in the world” but become “fearful of losing even part of their inheritance.” This explains why legacies (like Richard Mellon Scaife, for example), fund think tanks and initiatives that are either politically mischievous or purveyors of misinformation. And then there’s this: Two out of every three adults who receive significant inheritances “view themselves as members of the ‘I did it on my own’ club.”

The authors suggest this attitude may be widespread among America’s “moneyed aristocracy” since almost 60% of them were born into money. This works against the entrepreneurial spirit and has had the corrosive effect of creating a class of people who are so dependent that they live “in anticipation of future inheritances.”

There’s more to this story. But, at the end of the day, the authors do a good job of helping the reader understand the myths and moral arguments behind the estate tax. While you might not agree with the authors conclusions it’s so well documented, and tied into moral and religious principles, it’s difficult to ignore their arguments – or their conclusions.

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