

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD  
SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION



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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.

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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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# INSIDE THIS ISSUE:

## **Cover Page**

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**Economy at a Glance!** .....2

## **Opinion Surveys**

*Kern County Business Outlook Survey* ..... 3  
*Bakersfield Consumer Sentiment Survey* ..... 4

## **The CEO Profile**

*Debbie Moreno, President/ CEO, The Greater Bakersfield Chamber of Commerce* ..... 6

## **Business Education**

*Open Space Planning: Improving Citizen Understanding* ..... 8

## **Feature Stories**

*Determinants of Housing Prices in Antelope Valley, California* ..... 10  
*Ethical Behavior of Bakersfield Business Managers* ..... 11

## **Tracking Kern's Economy**

*Economy* ..... 13  
*Labor Market* ..... 13  
*Housing Market* ..... 15  
*Stock Market* ..... 17  
*Commodity Prices* ..... 18

## **Econ Brief!**

*Shift in Ethnic Composition of Kern County* ..... 12  
*Why Are Food Prices Rising?* ..... 21  
*Recession, Inflation, or Both?* ..... 21

## **Book Review**

*William J. Baumol, Robert E. Litan, Carl J. Schramm (2007), Good Capitalism, Bad Capitalism, And the Economics of Growth and Prosperity, Yale University Press* ..... 20

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# ECONOMY AT A GLANCE!

*ABBAS P. GRAMMY*

PROFESSOR OF ECONOMICS, CSUB

The U.S. economy eked out a slim expansion in the first three months of 2008. Advanced estimates released by the Bureau of Economic Analysis indicate that the economy held steady from the previous quarter as the real gross domestic product (GDP) grew at an annual rate of 0.6 percent. Increased export sales and rising business inventories helped stave off an expected contraction. However, troubling signs appeared in the form of loss of consumer confidence, a slowdown in sales of durable goods, and the sharpest drop yet in the ailing housing market.

The Index of Leading Economic Indicators – a measure of future economic activity – declined for the second consecutive quarters. Using 2004 as the base year, the index fell from 104 to 102, expecting sluggish growth to continue over the next 4 to 6 months. Relative to four quarters ago, the index was down 2.7 percentage points. For the third consecutive quarters, the rate of unemployment climbed one-tenth of one percent to attain 4.9 percent. In the meantime, the cost of living inflation remained at high rate of 4.3 percent, and the cost of producing inflation accelerated from 9.0 to 15.1 percent. The cost of employment increased 3.7 percent.

In California, the unemployment rate rose for four consecutive quarters from 4.8 to 5.9 percent. While the state's economy added 11,500 members to its workforce, it lost 21,400 jobs and had 32,900 more workers jobless. The farm market lost 6,300 jobs and non-farm industries cut 122,500 paid positions. Industries of wholesale and retail trade, professional and business services, education and health-care services, leisure and hospitality, and government added jobs. In contrast, construction, manufacturing, finance and insurance, real estate, and information services reduced employment.

In Kern County, households became pessimistic about their employment and financial conditions as the *Consumer Sentiment Index* crumbled 23 percentage points to arrive at 88. Likewise, Kern County businesses lost confidence about their employment and financial conditions as the *Business Outlook Index* dropped 12 percentage points to reach 94.

In the meantime, the county's economy grew at a sluggish annual rate of one-half of one percent, 1.3 percent slower than that of the previous quarter. The county's economy generated \$15.68 billion in personal income, \$20 million more than the previous quarter. Personal income per worker, a measure of labor productivity, increased \$40 to reach \$43,670.

Adjusted for seasonal variations, Kern County's labor market data showed mixed results. The county's labor force added 170 members. Total employment declined by 170, which was comprised of 1,580 *less* farm jobs, 1,720 *more* nonfarm jobs, and 310 *less* informal jobs (self-employed workers and those working outside the county). In Kern's nonfarm market, construction, wholesale and retail trade, transportation, warehousing and utilities, real estate and rental and leasing, and leisure and hospitality cut jobs. In contrast, manufacturing, professional and business services, educational and health services, and government increased employment. In the meantime, the number of unemployed workers increased by 340 and the rate of unemployment climbed one-tenth of one percent from 8.7 to 8.8 percent. Still below the county average, the rate of unemployment rose from 5.6 to 7.1 percent in Bakersfield, from 4.5 to 7.9 in California City, from 4.5 to 5.7 percent in Ridgecrest, and from 5.4 to 6.9 in Tehachapi.

Kern County's housing market remained soft both on price and volume sides. The county's median sales price for all residential units depreciated \$17,800 (or 7.3 percent) from \$242,600 to \$224,800. In Bakersfield, the median housing price plummeted \$22,800 (or 8.9 percent) from \$256,100 to \$233,300. The number of homes sold in the county decreased from 1,910 to 1,749 in Kern County and from 1,406 to 1,248 in Bakersfield. Similarly, the number of building permits issued for the construction of new privately-owned dwelling units declined from 669 to 645. The county's foreclosure activity accelerated from 2,631 to 3,211. As a result, 580 more homeowners received notices of loan default from their mortgage bankers.

*(Continued on page 19)*



# KERN COUNTY BUSINESS OUTLOOK SURVEY

**ABBAS P. GRAMMY**

PROFESSOR OF ECONOMICS, CSUB



The survey of business outlook provides data for making more informed decisions. In addition, the survey identifies factors that help brighten or darken the local business outlook.

In the first quarter of 2008, Kern County business decision-makers have turned pessimistic for the first time in ten years. The *Business Outlook Index* fell below the “neutral” mark of 100, crumbling 12 percentage points from 106 to 94. The index value has lost 23 percentage points since the first quarter of 2007.

In addition to the overall index, we calculate two sub-indexes. The *Index of Current Conditions* plunged 12 percentage points from 105 to 93. Similarly, the *Index of Future Conditions* declined 11 percentage points from 106 to 95. These results indicate that business managers, being worried about current and future economic conditions, have gained pessimistic perceptions.

### Employment Outlook:

Fifty 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 and 28 percent reported reduced employment.

Looking ahead, 56 percent perceive that the number of jobs will stay constant, whereas 14 percent expect their

companies to hire more workers next quarter. The remaining 30 percent anticipate a smaller workforce next quarter.

### Financial Outlook:

Forty-seven percent of survey respondents reported that the financial conditions (sales and profits) of their companies were constant this quarter, whereas 23 percent indicated increased profits and sales and 30 percent believed profits and sales would be lower.

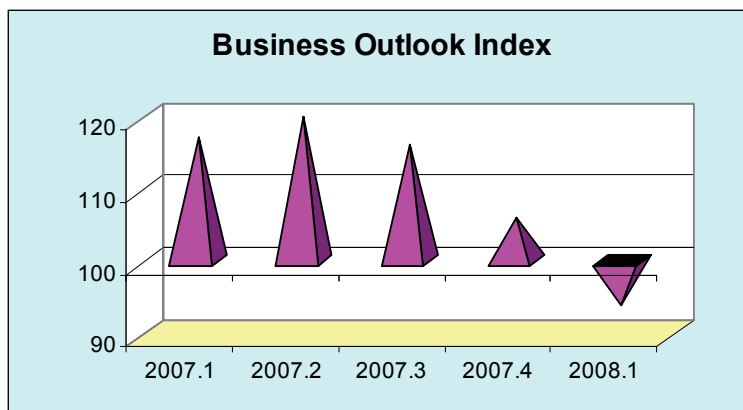
Predicting next quarter, 50 percent expect financial conditions of their companies to remain constant, but 29 percent anticipate increased sales and profits and 21 percent predict lower sales and profits.

### Industry Outlook:

Fifty-four percent perceived that the employment and general business conditions of their industries remained the same as the previous quarter, but 20 percent felt these conditions improved and 26 percent felt crumbling business conditions.

Thinking one quarter ahead, 63 percent anticipate that the employment and general business conditions of their industries will be unchanged. However, 15 percent expect progress and 22 percent feel otherwise.

*(Continued on page 5)*



	Current Quarter	Previous Quarter	Four Quarters Ago
<b>Index of Business Outlook</b>	<b>94</b>	<b>106</b>	<b>117</b>
Index of Current Conditions	93	105	109
Index of Future Conditions	95	106	125

# BAKERSFIELD CONSUMER SENTIMENT SURVEY

**MARK EVANS**

ASSOCIATE DEAN, SCHOOL OF BUSINESS AND PUBLIC ADMINISTRATION  
PROFESSOR OF ECONOMICS, CSUB



**B**akersfield consumers started 2008 pessimistically. The Bakersfield Index of Consumer Sentiment declined for the fourth consecutive quarter, reaching its lowest value since CSUB began tabulating it in 1999. The index stood at 88 compared to 111 in the fourth quarter of 2007. Nationally, the University of Michigan's Index of Consumer Sentiment also plummeted to its lowest level over this same period, declining -- for the fifth consecutive quarter -- from 78 to 73.

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 consumer attitudes. The index also may provide some insight into whether local sales trends reflect broad national and regional trends or shifts in market share. The index readings strongly suggest that you are not alone if your retail sales are down.

The Bakersfield index is disaggregated into sub-indexes reflecting recent financial conditions of households and their future expectations. The first quarter's significant decline in the composite index reflects slippage for both sub-indexes.

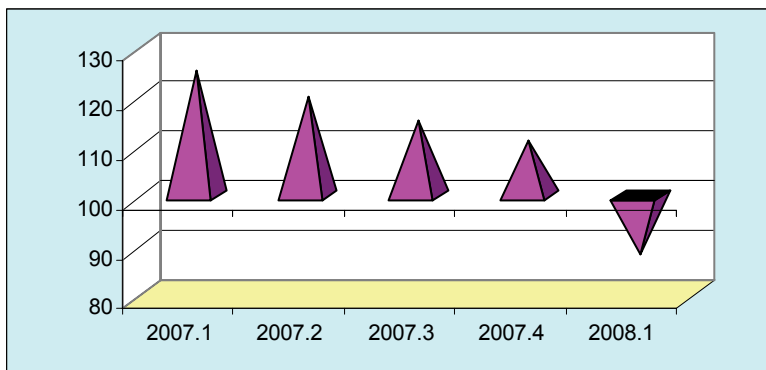
The sub-index measuring current financial conditions is constructed from questions relating to discretionary spending and financial well-being compared to one year ago. This sub-index decreased from 109 to 79. While one-in-four households reported spending more than usual on discretionary items in the previous quarter, only one-in-ten indicated their discretionary spending was

above average in the first quarter. In first quarter, roughly one-in-three households reported spending less than usual; in the previous quarter it was only one-in-four. In the final quarter of 2007, one-third of the households indicated they were better off financially than one year ago; in this quarter, one seven percent stated they were better off. The percent of households stating they were worse off than one year ago increased sharply from 13 to 32 percent.

The sub-index reflecting expectations for the coming year declined by a lesser amount -- from 113 to 96. Whereas one-in-three households thought their financial situation would improve over the coming year toward the end of 2007, only one-in-five were optimistic in early 2008. Twenty-one percent were pessimistic things would get worse for their family over the coming year, compared to only 12 percent in the fourth quarter. The percent who thought this was a risky time to borrow or draw down assets to make a major purchase increased from 17 to 24 percent. Only six percent thought this is a safe time to make a major purchase compared to 17 percent in the fourth quarter.

The bad news is that monthly mortgages are cutting deeply into household income, as household wealth declines with real estate prices. The good news is that the necessary economic and financial adjustments are taking place and monetary and fiscal policies have been expansionary to support a return to growth once these painful adjustments are made.

*(Continued on page 5)*



<b>Table 1: Index Values</b>			
	<b>Most Recent Quarter</b>	<b>Previous Quarter</b>	<b>One Year Ago</b>
<b>Bakersfield Consumer Sentiment Index</b>	<b>88</b>	<b>111</b>	<b>125</b>
Sub-index: Current Conditions	79	109	138
Sub-index: Future Expectations	96	113	111

<b>Table 2: Recent Buying and Financial Trends</b>			
	<b>More than usual</b>	<b>Same as usual</b>	<b>Less than usual</b>
Your recent spending on discretionary items (dining out, weekend outings, entertainment).	11%	53%	36%
	<b>Better off</b>	<b>Same</b>	<b>Worse off</b>
How your family is doing financially compared to one year ago.	7%	61%	32%
How your acquaintances in Kern County are doing financially compared to one year ago.	13%	61%	26%

<b>Table 3: Future Expectations</b>			
	<b>Better or more stable</b>	<b>About the same</b>	<b>Worse or more risky</b>
The most likely financial situation of your family one year from now.	22%	57%	21%
	<b>Optimistic</b>	<b>Neutral</b>	<b>Fearful</b>
How your acquaintances in Kern County view the coming year.	29%	48%	23%
	<b>Safe time to buy</b>	<b>Neutral response</b>	<b>Risky time to buy</b>
Is now a safe or risky time for most people to use savings or incur debt to buy expensive goods?	6%	70%	24%

**Business Outlook** (Continued from page 3)

**Economic Outlook:**

When asked about Kern County’s economy, 63 percent of interviewees perceived no improvement this quarter, but 14 percent felt conditions improved and 23 percent said conditions worsened.

Likewise, 58 percent felt that economic conditions will be unchanged next quarter. However, 19 percent anticipate that the economy will get better and 23 percent feel it will get worse.

**Factors Affecting Business Outlook:**

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

- Higher prices for crude petroleum
- Higher prices for farm products
- More affordable land prices

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

- The sub-prime mortgage crisis and mounting property foreclosures
- Weakness of the U.S. dollar relative to the Canadian dollar and the euro
- Rising fuel and labor costs

# THE CEO PROFILE!



**D**ebra L. Moreno is the President/CEO of the Greater Bakersfield Chamber of Commerce. She has been with the Bakersfield Chamber for 18 years serving as Vice President in charge of operations before being offered the position of President/CEO in May of 2004. The Bakersfield Chamber is one of the largest Chambers in California and considered one of the top 100 most influential Chambers in the nation by the U.S. Chamber of Commerce.

A native of Long Beach, California, Debbie attended California State University Long Beach and later CSUB. Her first career was as a Real Estate Broker in Tehachapi California. After moving to Bakersfield she served as the Confidential Assistant to then Kern County Sheriff John Smith before joining the Chamber. Debbie serves as an officer of the Board of Directors of Western Association of Chamber of Commerce Executives, a Chamber professional organization representing 14 states where she served as The Chairman of their annual conference of nearly 600 Chamber professionals in February of 2006. She also serves as vice chair on the Board of Directors of the Southern California Chamber of Commerce Executives Organization and speaks at numerous Chamber related conferences.

Community affiliations include serving on the United Way of Kern County Board of Directors, Workforce Investment Board, Mid State Development Board and Executive Board, Greater Bakersfield Vision 2020, Inc. and chairman of its Vision Image Subcommittee and she is a member of the CSUB Executive Advisory Council to the business school. She is married to husband Tony, retired Pacific Bell and currently working for Valley Clean Air Now, and their son Marcus attends UCLA.

## **What is the mission of the GBCC?**

The Chamber has both a mission and a vision statement. The mission is to provide leadership for a healthy business community. The vision is that the Greater Bakersfield Chamber will be the authoritative voice for a diverse and changing business environment. We revised both statements in 2006. What kept coming out when we looked at our statements was that the business community looks to the Chamber for leadership and so those were kind of the words that we wrestled with. We were

looked at as an authority and a strong organization and so leadership was a really important issue for us.

## **What are some of the challenges facing GBCC in achieving its mission?**

The economy is up and down and in a year like this, it is sustainability of the membership. We're doing pretty well so far for the year, but I think membership in a Chamber, even though many businesses see it as so important and so vital, is something that is also thought by most to be that discretionary check that you write after you pay your mortgage and after you pay your utility bills. So there's a segment of businesses that we're not quite sure how we're going to get through this year in membership. On the other hand, a year like this becomes very strong in our other activities, because those that "get it" know that they need to be out there and be more engaged with the community when they need to keep their businesses healthy. So our education programs are strong, our marketing, advertising, sponsorship, those kind of programs are very strong this year because people know that they need to reach out to keep their businesses strong.

## **What are the major accomplishments of GBCC during your tenure?**

I've been here 18 years and the President since 2004. In the area of representing the interests of business with government we have a very active political arm of what we do as a Chamber We created a political action committee back in the late 1990's which was kind of an added piece to the advocacy of that. We were already doing a lot on issues advocacy but now we also do endorsements and funding of candidates.

As far as individual programs go, our Leadership Bakersfield program is huge and we created a youth leadership program for high school kids seven or eight years ago now and that has been a really, really successful program. One of the things that we really like about that is that we do an entrance and an exit questionnaire with the kids when they come into the program. Many of them, when they start the program, you ask what they're going to do when they get out of school, whether they go to

*(Continued on page 8)*



college here or somewhere else, they respond, “leave Bakersfield, there’s nothing to do here.” What we’ve found in this program is that a really good number of those kids at the exit interview for the program say that they had no idea that there was so much in the community of value. They still want to go there and go do that, but they realize there’s opportunity in this community and reasons to be in this community and stay here. So I think it opens the eyes of young people.

As far as our business education goes, we do a lot of seminars and workshops and different programs like that. I think one the biggest things we’ve done recently was with our bringing the Disney Institute Program to town. We did that in 2007. It was so successful that we brought it back again this year. Between the two years, around 550 people participated in a really high quality business training program because we were able to bring them to town.

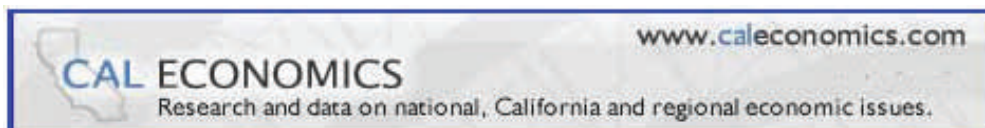
### **How would the budgetary shortfall of the State of California affect small business development in Kern County?**

Here’s what’s going to happen with the state budget. Departments are going to get cut back, so then there’s going to be the potential for more creative ways to augment budgets, such as adding fees. We can’t tax, so we’ll make it a fee. So that’s a challenge. It’s also more people vying for fewer services. So part of what this organization is there for is to try and discourage taxes from being disguised as fees, if it is going to be something that is onerous or targets a particular segment and isn’t fair across the board. So that is the kind of thing we watch out for. We’re an advocate for the business model of “spend what you have and don’t plan budgets where the

expenses are considerably higher than the revenue stream.” This isn’t the way you would run your business and expect to stay in business, so we advocate being responsible in how you budget. The governor has a tough job in front of him this year. I think he’s right in that there needs to be a system put in place to do his budgeting so that every year we don’t start over again trying to figure it out. It’s as if every year it’s a different puzzle and there are no parameters in place for what is acceptable for putting together a state budget. And so, often times the budget is not in place in time. Everyone has to deal with waiting. It’s like you start the negotiation from zero every year, and so it would be nice to have some long-term solutions that would help each year to make the budgets happen more easily.

### **How does the California Chamber of Commerce influence political decisions made in Sacramento?**

The California Chamber has a big impact, it’s one of the main things they do. They have a huge staff and work very hard on state issues. We work with the California Chamber of Commerce but in our own organization we have always been heavily involved in issues. We take positions on issues and then we advocate for them. We have an upcoming trip of about 8 or 10 of our Chamber members that are going up to Sacramento on a legislative trip in May. Again, one of the reasons that we do candidate endorsements is because we feel that it would be really nice to be proactive at the beginning and have people in place, locally and in Sacramento, that are going to be business-minded as they make their decisions on what to do for local or state government rather than always fighting the bad bills that make no sense and that hurt the economy. So we try to be proactive by doing that. We have a small staff and a lot of volunteers that work in that area on behalf of our organization.



- Answering business and economic questions
- Providing data and reports on demographic and economic conditions of California, San Joaquin Valley, and Kern County
- Conducting survey research, market analysis, impact study, feasibility study, statistical analysis and forecasting, cost-benefit analysis, and cluster analysis

## BUSINESS EDUCATION

# OPEN SPACE PLANNING: IMPROVING CITIZEN UNDERSTANDING

*CRAIG W. KELSEY*

DEAN, EXTENDED UNIVERSITY DIVISION

PROFESSOR OF PUBLIC POLICY AND ADMINISTRATION, CSUB



There are many important planning efforts engaged in by the business and government agencies. One critical area is the development of the Open Space Plan. Citizens are frequently confused about the term “open space” and why agencies would set as a priority such an unusual planning activity. In an effort to better clarify the concept of open space planning for the citizen, the following set of “typical” citizen questions are posed with a response made by an agency professional.

**Citizen:** Thanks for spending some time with me. I am a little confused about this thing called open space. What is open space?

**Professional:** Because the concept of open space is so specific to each region of the country, there is no universally accepted definition. However most government agencies would indicate that open spaces are land or water areas which are not developed for residential, commercial, industrial or institutional use that serves as a protected resource in which the area is generally finite, exhaustible and perhaps vulnerable.

**Citizen:** That was helpful but what are some specific examples of open space areas?

**Professional:** Depending on the region of the state and certainly the country there could be great variations in unique open space areas. They range from fragile to rugged, desert to mountain and land to water. Some typical places might be undeveloped land, passive recreation areas, natural areas, historic sites, forest preserves, agricultural land zones, archeological remains, habitat areas, mountains, views, vistas, cliffs and caves, aquifers, marshes, wetlands, water bodies, river ways, water fronts and shorelines, pathways of many types and even flood plains. As you can see there could be great variety of open space areas.

**Citizen:** Why is it important to have an open space plan?

**Professional:** There are a host of possible purposes for open space areas, and planning is the best way to yield

long term use and protection for these unique resources. Some positive actions that occur from proper open space planning include: creating passive recreation areas, protecting wetlands, establishing needed use linkages, controlling sprawl and growth patterns, establishing or maintaining aesthetic appeal, stimulating economic vitality, creating important buffer zones between developments, water sheds or other areas, flood prevention, reducing soil erosion, improving water quality, prevention or controlling of natural disasters, elimination of man made hazards, tourism development, business attraction, protecting property values, creating ecological balance, protecting cultural and heritage sites and providing for agricultural use. It seems as if the list is endless.

**Citizen:** That’s interesting. Do open spaces have benefits for the community beyond what you have mentioned?

**Professional:** Open space planning and concern for the associated areas may be a rather significant part of a community or perhaps will have a more limited impact. But generally open spaces contribute to three broad areas of the community: social quality of life, environmental preservation, and economic vitality. When important open space areas are identified and set aside, it can contribute to a more positive social experience. Open spaces represent places of escape and relaxation, may be locations of beauty, provide a sense of community identity and might even help to define unique aspects of the local lifestyle. In addition, these places may provide opportunities for unusual educational experiences, appreciation for local heritage understanding and even areas for fitness and health. Depending on the specific open space area the environment may be protected and enhanced increasing healthier natural systems. This may lead to the filtering of water, noise and sight barriers, development of natural habitats, stimulating biological diversity and may even impact local temperatures. These areas might even become living museums. Most citizens would not think about the potential economic vitality that attention to open spaces bring. For example, some open spaces

*(Continued on page 9)*

will provide for product yield such as wood, food produce, wildlife, fish and fuel. Some types of open space areas attract tourism and travelers, stimulate economic investment of existing companies and attract new business ventures to the community. Depending on the open space, public services may be reduced and property values enhanced.

**Citizen:** Ok then, so who is involved in preparing an open space plan?

**Professional:** Certainly the local government agency that has responsibility and oversight for local land and water areas is the key contributor to the planning effort and should be the led agent. Land owners, leasees or users would want to be invited as a partner to this planning effort. They of course would have important perspectives to share. Interested parties such as conservation groups that advocate for land and water sensitivity could contribute much to the process. The business community and civic organizations have a voice that is important to hear during these types of planning efforts. On occasion local school districts and non profit organizations may feel that they will be impacted by any decisions made by an open space plan. Lastly but certainly not least is the public. This may come through advisory boards, public hearings, focus groups, charettes or membership on the planning committee.

**Citizen:** Tell me a little more about which agency would be responsible open space planning.

**Professional:** The local government agency most likely to be the guardian of existing and potential open space land or water would be the parks and recreation department. Some communities have a specific open space department or rely on other levels of government such as the county or state to drive the open space planning process. The parks and recreation department typically provides structure in four important areas: planning, management, maintenance, and technical assistance. The agency usually has responsibility for oversight of current and future land uses and as a consequence needs to concern itself with planning elements. The agency is also required to respond to and create land use regulations and to provide a process for reviews, appeals and final disposition.

As a management arm the parks and recreation department has jurisdiction for the land and water sites and focuses on creating land trusts, creating funding strategies and obtaining land donation. Open space, as a non-developed site generally requires minimal maintenance.

But that is not the same as no-maintenance. Fragile areas, passive use sites and undeveloped areas still require necessary maintenance, security, safety and site evaluation. Overtime questions will emerge regarding these open space sites and the parks and recreation department is in a good place to provide technical assistance to those concerned with the site. The agency will have staff, experience and resources close at hand to answer the concerns of the public.

**Citizen:** You've shared important information with me, now lastly, is having an open space plan optional?

**Professional:** California Government Code 65910 indicates that, "Every city and county by December 31, 1973, shall prepare and adopt an open space zoning ordinance consistent with the local open space plan..." Also California Government Codes 65560 through 65570 make clear the need for such an effort.

Hopefully this set of questions and answers will prove helpful for the general citizenship, advisory boards, commissions and other citizen based task forces. Open space planning is vital to quality of life and well informed citizens are an important support element.



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# DETERMINANTS OF HOUSING PRICES IN ANTELOPE VALLEY, CALIFORNIA



*SUSAN LIBBY*  
CSUB ECONOMICS STUDENT<sup>1</sup>

## Introduction

The real estate market has been a topic of debate for several years when the price of homes appreciated sharply, then as the market stabilized, and now as home sales and prices have fallen. In looking at some of the factors that tend to affect housing prices, I will examine which factors have the strongest influence in initiating a change in the price of homes sold in the Antelope Valley.

Published empirical research studied the determinants of housing prices, for which researchers concluded that, “real housing prices are estimated to decline with increases in real after-tax interest rates, and rise with both cyclical and more prominent income increases.”<sup>2</sup> These findings with regard to interest rates and income give me reasons to include these variables in my model.

Additional research studied the effects of income, wealth, the stock of housing, and interest rates on the price of homes. The study concluded that the “main determinants of house prices seem to be nominal interest, household income, and the supply of new dwellings.”<sup>3</sup> These findings strengthen my decision to include interest rates, household income, and the inventory (supply) of homes in my model.

Another empirical study looked at several traditional housing characteristics to explain housing prices. Included in this study was a review of 125 previous empirical studies which summarized how many times a specific variable was present, how many times it was positive, negative, and most importantly, not significant.<sup>4</sup> These findings showed that (among other variables) lot size, square feet, and the age of the home were signifi-

cant in estimating housing prices. The number of days homes stay “for sale” in the market was found to be inconsistent in this study. However, I believe it does influence the price of homes in Antelope Valley; therefore it will be included in my model.

## Model and Results

In this study, I analyzed the determinants of housing prices in the Antelope Valley (an area bordering northern Los Angeles and southern Kern Counties in Southern California). Data for housing prices and characteristics from 2006 were gathered from the Greater Antelope Valley Association of Realtors.<sup>5</sup> Interest rates for conventional thirty-year fixed mortgages were obtained from the Federal Reserve Board, and the data for the average household income for each zip code was obtained from the Greater Antelope Valley Economic Alliance. A simple random sample of 92 records from 2006 sold data was used in this empirical analysis.

In my empirical study, the dependent variable was the sales price of residential units in dollars and the independent variables were:

- Average household income in the zip code where the house was listed for sale
- The thirty-year fixed conventional mortgage rate at the time the home went into escrow
- The number of homes on the market throughout the duration of the listing
- The house area measured in square feet
- The lot size measured in square feet
- The number of days the home was on the market before it went into escrow

*(Continued on page 12)*

<sup>1</sup>Recipient of the Wall Street Journal Award for Outstanding Economics Major, 2007-08

<sup>2</sup>Peek, Joe and James A. Wilcox. “The Measurement and Determinants of Single Family House Prices.” Federal Reserve Bank of Boston. Working Papers No. 91-7. December 1991.

<sup>3</sup>Berglund, Jonas. “Determinants and Forecasting of Housing Prices.” Thesis, Department of Economics. Uppsala University. 2007.

<sup>4</sup>Zietz, Joachim, Emily Zietz, and Stacy Sirmans. “Determinants of House Prices: A Quantile Regression Approach.”

<sup>5</sup>Courtesy of Century 21 Yarrow & Associates, Lancaster, CA.



# ETHICAL BEHAVIOR OF BAKERSFIELD BUSINESS MANAGERS

**ABBAS GRAMMY**

PROFESSOR OF ECONOMICS, CSUB

To assess ethical behavior of local business managers, we conducted a telephone survey to a random sample of the Greater Bakersfield Chamber of Commerce's membership. The survey was conducted by my capable research assistant, Sachi Kageyama, in January-February of 2008. She completed the survey with a response rate of about 60 percent to arrive at a sample size of 100. The survey was a modified version of that published in D. Rachman, M. Mescon, C. Bovée, and J. Thill, *Business Today*, 6<sup>th</sup> ed., McGraw Hill. It consisted of ten questions:

1. It is okay to withhold negative information about a product in order to make a big sale as long as the negative aspect is not dangerous or life-threatening.
2. There are times when a manager must overlook contract and safety violations in order to get on with the job.
3. It is not always possible to keep accurate expense records. Therefore, it is sometimes necessary to give approximate figures.
4. There are times when it is necessary to withhold embarrassing information from the boss.
5. We should do what our managers suggest, even though we may have doubts about its being the right thing to do.
6. It is sometimes necessary to conduct personal business on company time.
7. Taking a friend to lunch and charging it to the company as a business expense is acceptable as long as the bill is reasonable and doing so does not become a regular habit.
8. Management must be goal-oriented. Therefore, the end usually justifies the means.

9. If a large expense on entertainment would win a big contract, I would authorize it.
10. Taking home company property (pencils, paper, tape, and the like) for personal use is an accepted fringe benefit.

The response to each question required one of four possibilities: 0 if strongly disagree; 1 if disagree; 2 if agree; or 3 if strongly agree. Total survey scores, varying between 0 and 30, are broken into 6 categories shown in the following table. Also shown in the table is the frequency distribution of survey responses.

The frequency distribution has a mean of 1.2, standard deviation of 1.8, and 95 percent confidence interval of 0.7 to 1.7.

The survey results indicate that the majority of respondents, 55 percent, had "good" ethical standards or better. The remaining 45 percent of respondents rated their ethical practices as "average" or lower. While 7 percent of respondents said they applied "excellent" ethical standards to their decisions, only 8 percent of respondents exhibited "poor" ethical judgment. To put it differently, 92 percent of survey respondents had "average" ethical standards or better. One interesting anecdotal observation Sachi discovered was that nearly all respondents scoring "high" or better were self-employed owners and managers, whereas those scoring "average" or lower were mostly big-business employees.

Possible Score	Label of Score	Relative Frequency (%)	Cumulative Relative Frequency (%)
0	Excellent	7	7
1-5	High	11	18
6-10	Good	37	55
11-15	Average	37	92
16-20	Poor	8	100
21-25	Deficient	0	-
29-29	In Trouble	0	-
30	Corrupt	0	-

I experimented with various specifications of the model, which led me to arrive at the following conclusion. The average household income and the house area (in square feet) had the greatest and most significant impacts on sales prices in the Antelope Valley residential housing market for the year 2006. My findings are supported by economic theory. As household income increases, spending generally will increase. Therefore, high-income households are willing and able to spend more on their home purchases. In addition, as the house area gets larger, the costs associated with building the additional space would increase, thus raising the sales price. Households would value the extra space and pay more for larger homes.

I still believe that interest rates have a profound influence on the selling price of homes although my study did not prove that to be the case. This inconsistency may be due to the fact that my sample covered only one year, during which the mortgage interest rate was fairly stable. Further research could analyze the impact that interest rates have on homes in Antelope Valley through several methods such as expanding the sample, looking back to the home sales from five to ten years prior, or using a lag model. Many other variables in this study may become more significant if the sample size were larger, taken from several years rather than one year, or from a wider area, possibly expanding to all of Los Angeles or Kern County.

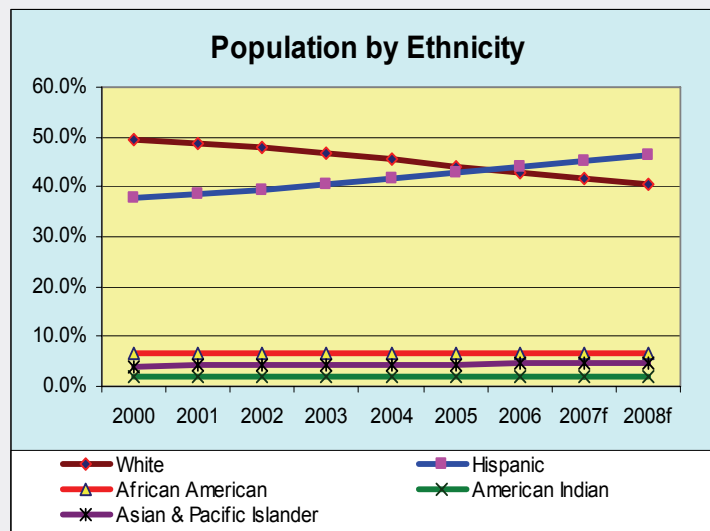
**Econ Brief!**

**Shift in Ethnic Composition of Kern County**

Kern County’s population has grown from 671,300 in 2000 to 801,600 in 2007. These additional 130,300 persons translated into an average annual growth rate of 2.6 percent. At this growth rate, the county will add 20,600 new residents to reach a total population of 822,200 in 2008. If this trend continues, the county’s population will exceed one million by 2016.

Demographic data point to a major shift in the ethnic composition of Kern County’s population: *the share of the Hispanic population exceeds that of the White population.* The White population share declined gradually from 49.6 percent in 2000 to 41.7 percent in 2007. In the meantime, the Hispanic population share climbed steadily from 37.8 to 45.3 percent. Given the dynamics of the local population, we expect the 2008 trend to evolve to 46.4 percent Hispanic, 40.6 White, 6.6 percent African American, 4.5 percent Asian and Pacific Islander, and 1.9 percent American Indian.

Data Source: Rand California, <http://ca.rand.org/>



# TRACKING KERN'S ECONOMY

FIRST QUARTER OF 2008

ABBAS P. GRAMMY

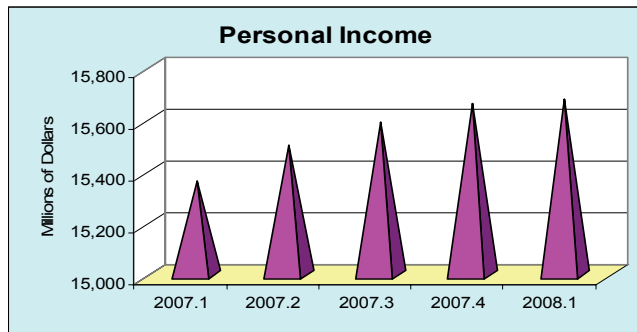
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## Methodology

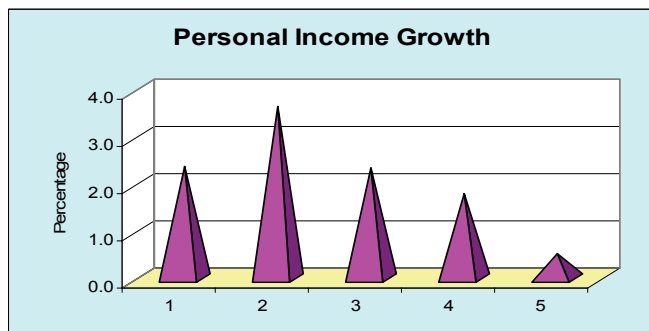
To track Kern's economy, we established a monthly database covering January 2000 through March 2008. Employment data were adjusted in three ways: (1) transform monthly data into quarterly averages; (2) calculate informal employment to account for self-employed labor and those who work outside the county; (3) convert the data to the most recent bench mark; and (4) adjust the dataset for the effects of seasonal variations. Note here that the discrepancy of data presented here from those of the previous issue is due to the adjustment to March 2007 bench marking process.

## Economy

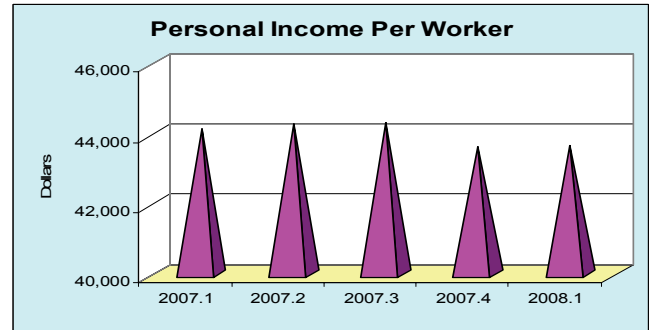
**Personal Income** - Kern County's personal income (in constant 1996 dollars) increased from \$15.66 billion in the fourth quarter of 2007 to \$15.68 billion in the first quarter of 2008. The county's economy created \$20 million of income this quarter. Over the previous four quarters, Kern County's economy has added \$320 million of personal income.



**Growth of Personal Income** - In the first quarter of 2008, Kern's economy grew at an annual rate of one-half of one percent, 1.3 percent slower than that of the previous quarter. Compared with the first quarter of 2007, the rate of economic growth has slowed 1.9 percent.



**Personal Income Per Worker** - Labor productivity is measured by personal income per worker. In the first quarter of 2008, personal income per worker inclined \$40 from \$43,630 to \$43,670. However, personal income per worker has gone down \$460 since the first quarter of 2007.

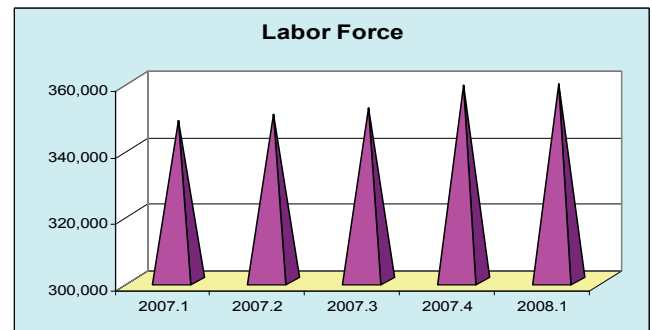


## Labor Market

The quarterly changes in major labor market indicators are shown below:

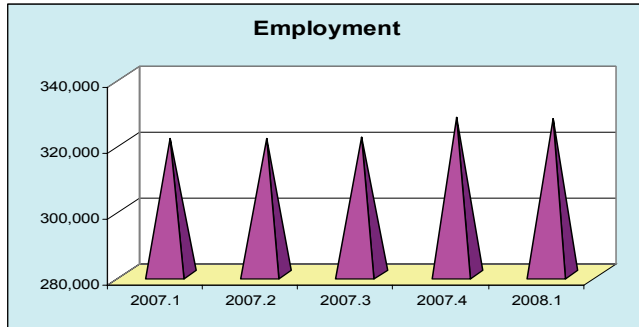
Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
170	-170	340	-1,580	1,720	1,670	50

**Labor Force** - The civilian labor force increased by 170 workers from 358,920 in the fourth quarter of 2007 to 359,090 in the first quarter of 2008. Compared with four quarters ago, the labor force has increased by 11,040 workers.



**Employment** - In the first quarter of 2008, Kern County's economy lost 170 jobs as total employment declined from 327,680 to 327,510. However, the county employed 6,110 more workers since the first quarter of last year.

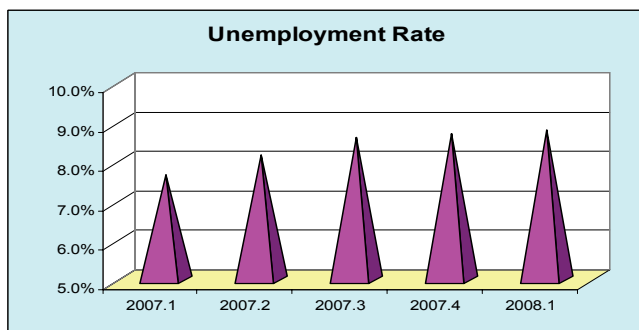
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**Unemployment** - In the meantime, the number of jobless workers increased by 340 as unemployment rose from 31,240 in the fourth quarter of 2007 to 31,580 the first quarter of 2008. Relative to four quarters ago, 4,930 more workers were unemployed this quarter.



**Unemployment Rate** - The rate of unemployment jumped one-tenth of one percent from 8.7 percent in the fourth quarter of 2007 to 8.8 percent in the first quarter of 2008. This quarter's unemployment rate was 1.1 percent higher than that of four quarters ago.

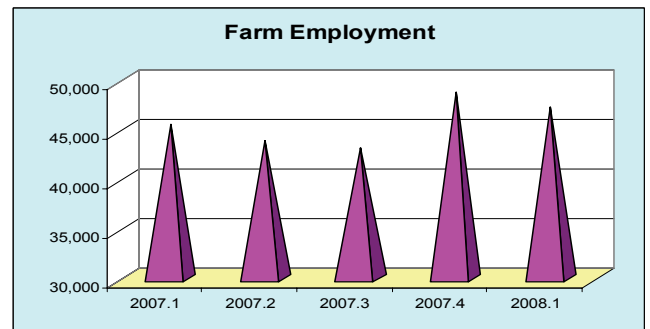


The rate of unemployment varied considerably across cities. It ranged from 4.1 percent in Kernville to 27.5 percent in Arvin. The rate of unemployment was below this county's average in Kernville, Lebec, Ridgecrest, Tehachapi, Inyokern, Bakersfield, California City, and Rosamond. In contrast, the rate of unemployment was above the county average in Frazier Park, Taft, Oildale, Lake Isabella, Mojave, Shafter, Lamont, Wasco, McFarland, Delano, and Arvin.

Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	4.1	Frazier Park	8.9
Lebec	4.5	Taft	9.9
Ridgecrest	5.7	Oildale	10.7
Tehachapi	6.8	Lake Isabella	12.3
Inyokern	6.8	Mojave	12.7
Bakersfield	7.1	Shafter	18.2
California City	7.9	Lamont	18.4
Rosamond	8.2	Wasco	19.0
		McFarland	21.4
		Delano	26.8
		Arvin	27.5

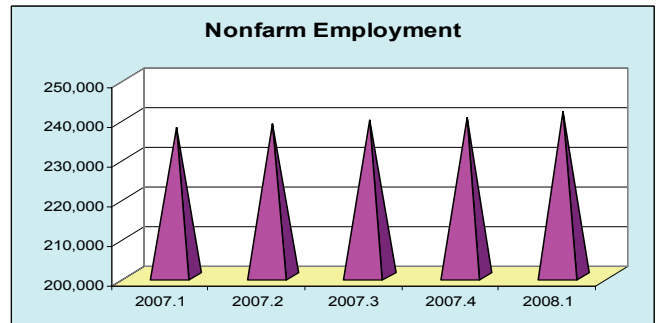
Note: City-level data are not adjusted for seasonality.

**Farm Employment** - In the first quarter of 2008, Kern County lost 1,580 farm jobs as employment decreased from 48,820 to 47,240. However, farm employment this quarter was 1,760 greater than that of four quarters ago.



**Nonfarm Employment** - Kern County added 1,720 jobs in the market for nonfarm labor. The number of jobs in this market increased from 239,880 in the fourth quarter of 2007 to 241,600 in the first quarter of 2008. Since the first quarter of 2007, nonfarm industries have added 4,110 jobs.

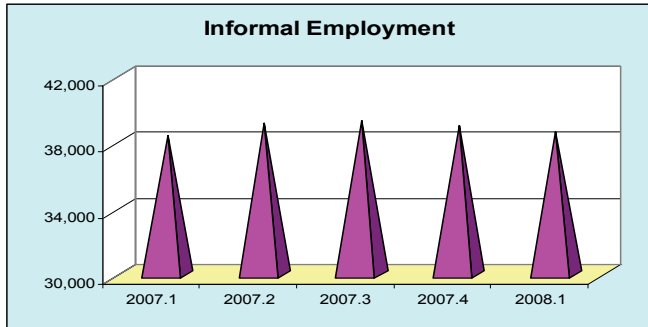
Among the nonfarm industries, construction, wholesale and retail trade, transportation, warehousing and utilities, real estate and rental and leasing, and leisure and hospitality cut jobs. In contrast, manufacturing, professional and business services, educational and health services, and government increased employment.



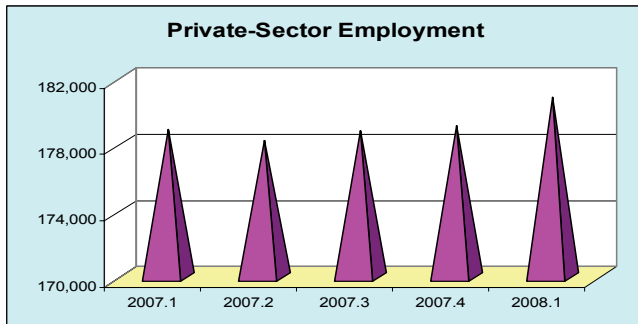
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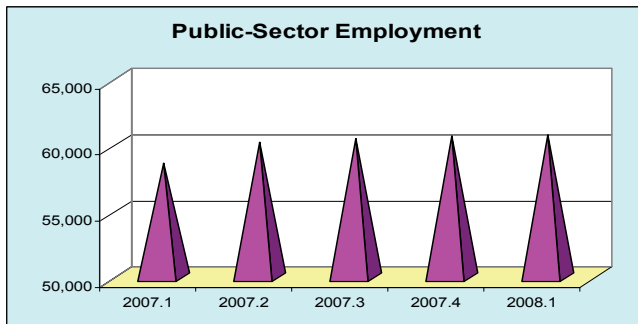
**Informal Employment** - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the first quarter of 2008, the number of workers engaged in this market decreased by 310 from 38,990 to 38,680. However, the informal labor market has added 260 jobs since the first quarter of last year.



**Private-sector Employment** - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the first quarter of 2008, private companies added 1,670 jobs as their employment rose from 179,160 to 180,830. The private sector has added 1,930 jobs since the first quarter of last year.

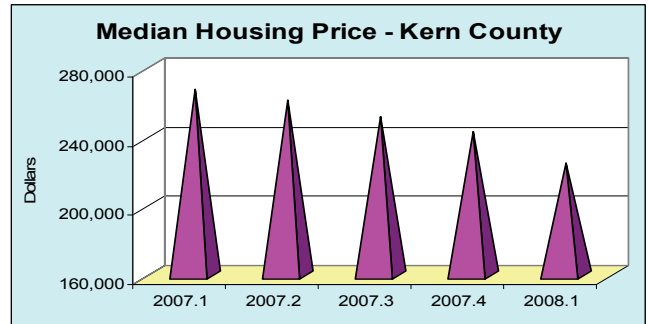


**Public-sector Employment** - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the first quarter of 2008, government agencies added 50 jobs as their employment rose from 60,720 to 60,770. Since the first of last year, the public-sector has employed 2,180 more workers.

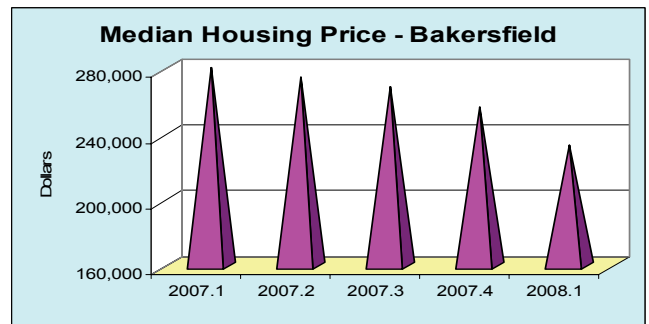


**Housing Market**

**Housing Price** - In the first quarter of 2008, Kern County's housing prices continued to fall. The median sales price for all residential units depreciated \$17,800 (or 7.3 percent) from \$242,600 to \$224,800. The county's median housing price averaged \$42,500 (or 15.9 percent) lower than that of four quarters ago.



In Bakersfield, the median housing price depreciated \$22,800 (or 8.9 percent) from \$256,100 in the fourth quarter of 2007 to \$233,300 in the first quarter of 2008. The city's median housing price has depreciated \$48,400 (or 17.3 percent) since the first quarter of 2007.

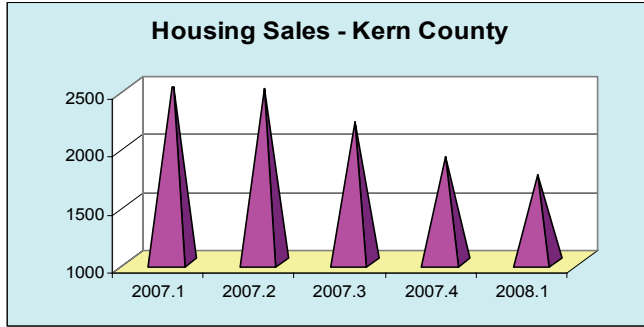


Housing price changes varied across the county. Among selected locations shown below, the median housing price appreciated in Ridgecrest and Tehachapi. However, the median housing price depreciated in all other cities. In particular, Bakersfield, California City, Delano, Rosamond, and Taft recorded sizable depreciation rates.

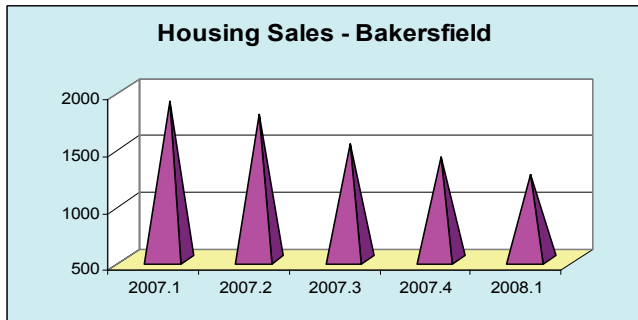
Location	Median Price 2007.4	Median Price 2007.3	Median Price Change	Median Price Change
Kern County	\$224,800	\$242,600	-\$17,800	-7.3%
Bakersfield	\$233,300	\$256,100	-\$22,800	-8.9%
California City	\$165,200	\$199,750	-\$34,550	-17.3%
Delano	\$204,300	\$207,300	-\$3,000	-1.4%
Ridgecrest	\$189,300	\$177,600	\$11,700	6.6%
Rosamond	\$257,200	\$260,000	-\$2,800	-1.1%
Taft	\$115,800	\$148,900	-\$33,100	-22.2%
Tehachapi	\$271,100	\$253,300	\$17,800	7.0%

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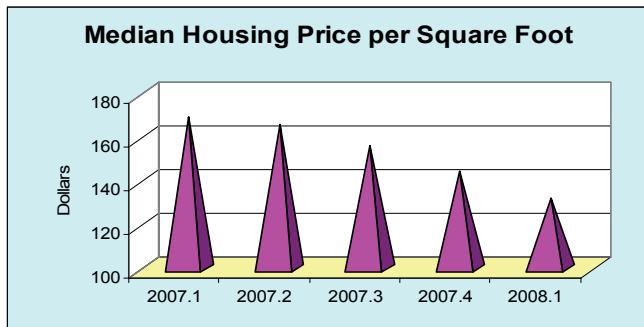
**Housing Sales - Kern County** - Kern's sales continued to plunge as 161 (or 8.4 percent) less homes were sold. The number of residential units sold fell from 1,910 in the fourth quarter of 2007 to 1,749 in the first quarter of 2008. The number of units sold this quarter was 780 (30.8 percent) less than that of four quarters ago.



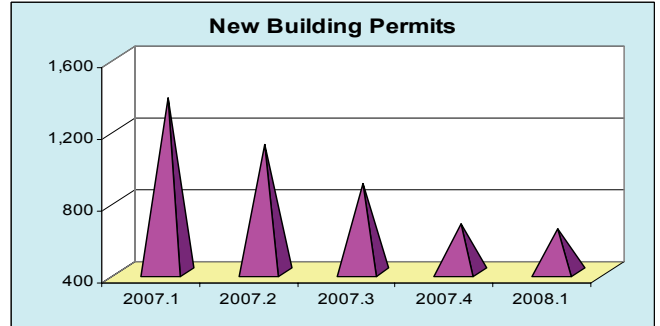
In Bakersfield, sales declined by 158 (or 11.2 percent). The number of all residential units sold fell from 1,406 in the fourth quarter of 2007 to 1,248 in the first quarter of 2008. Since the first quarter of last year, sales have plunged by 646 units (or 34.1 percent).



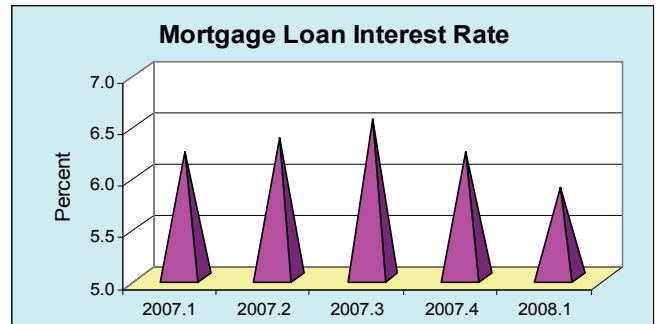
**Median Housing Price per Square Foot** - The median sales price per square foot of housing area declined \$12 from \$144 in the fourth quarter of 2007 to \$132 in the first quarter of 2008. Since the first quarter of last year, the median housing price per square foot has dropped \$37 from \$169 to \$132.



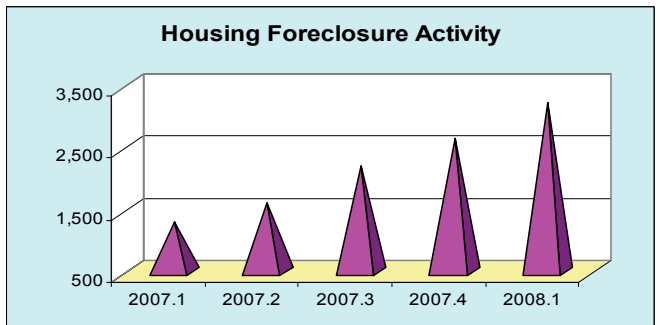
**New Building Permits** - In the first quarter of 2008, the number of building permits issued for the construction of new privately-owned dwelling units fell by 24 from 669 to 645. Relative to four quarters ago, 727 less building permits were issued this quarter.



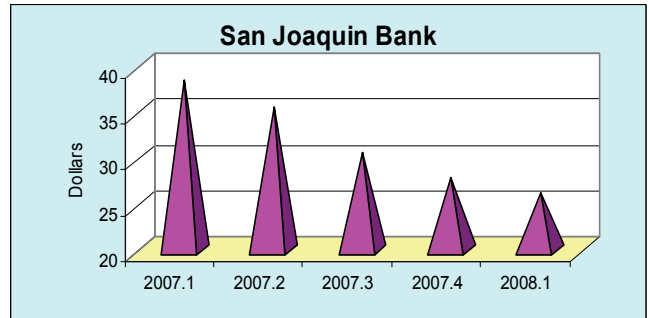
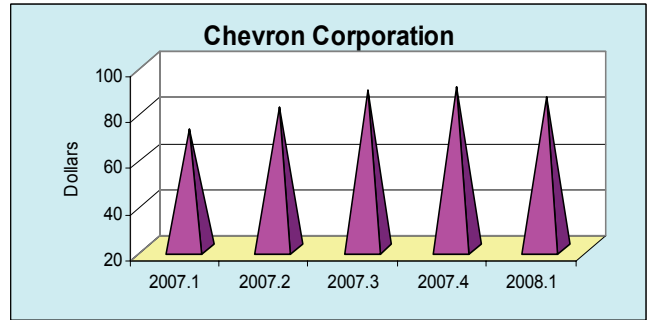
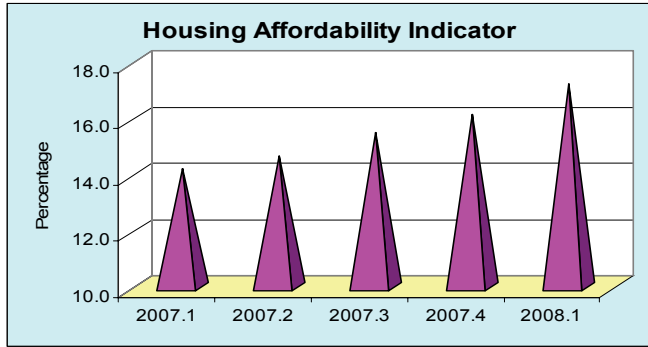
**Mortgage Interest Rate** - In the first quarter of 2008, the interest rate of thirty-year conventional mortgage loans decreased from 6.23 to 5.88 percent. Since the first quarter of last year, the mortgage loan interest rate has fallen 0.34 percentage points.



**Housing Foreclosure Activity** - In the first quarter of 2008, the county's foreclosure activities accelerated from 2,631 to 3,211. As a result, 580 (or 22 percent) more homeowners received notices of loan default from their mortgage bankers. Since the first quarter of 2007, 1,914 (or 148 percent) more local homeowners received notices of loan default.

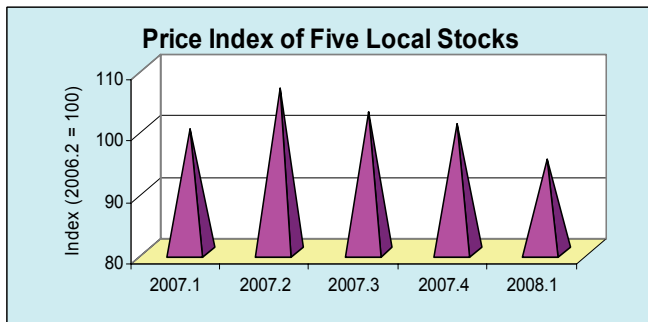


**Affordability** - We define housing affordability as the median household income as a percentage of the median housing price. With a slow rise in household income, but a sharp decline in the housing price, the housing affordability indicator improved from 16.1 percent in the fourth quarter of 2007 to 17.2 percent in the first quarter of 2008. Compared with four quarters ago, the affordability index gained 2 percentage points.

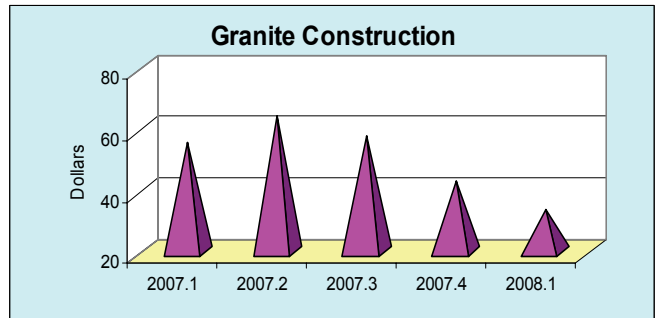


**Stock Market**

In the first quarter of 2008, the composite price index (2007.1 = 100) of the top five locally traded stocks declined 5.8 percentage points from 100.8 to 95.0. The index was 5 percentage points lower than that of the first quarter of 2007. These top five local *market-movers* are Chevron Corporation, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.

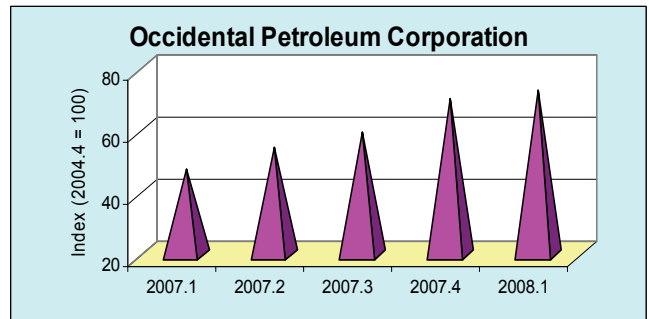


**Granite Construction:** GVA lost \$9.46 (or 22.0 percent) per share in the first quarter of 2008 as its stock price plunged from \$42.99 to \$33.53 per share. Likewise, GVA has lost \$22.19 (or 39.8 percent) since the first quarter of 2007.



**Chevron Corporation US:** CVX lost \$4.57 (or 5.1 percent) per share as its price dropped from \$90.07 in the fourth quarter of 2007 to \$85.50 in the first quarter of 2008. However, CVX has gained \$13.71 (or 19.1 percent) since the first quarter of 2007. 8.7 percent) since the fourth quarter of 2006.

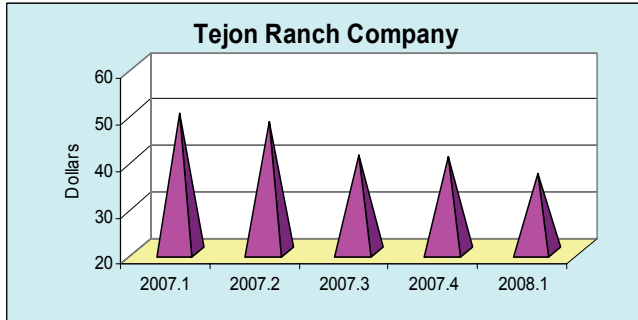
**Occidental Petroleum Corporation:** OXY gained \$2.43 (or 3.5 percent) per share as its stock price climbed from \$69.97 in the fourth quarter of 2007 to \$72.40 in the first quarter of 2008. OXY has gone up \$25.14 (or 53.2 percent) since the first quarter of 2007.



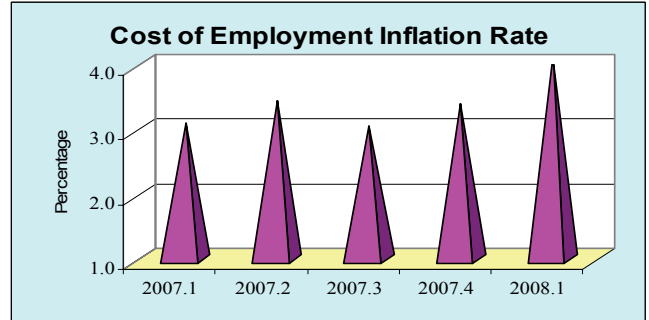
**San Joaquin Bank:** SJQU lost \$1.57 (or 5.7 percent) per share as its price fell from \$27.76 in the fourth quarter of 2007 to \$26.19 in the first quarter of 2008. Likewise, SJQU has lost \$12.31 (or 32.0 percent) since the first quarter of 2007.

(Continued on page 18)

**Tejon Ranch Company:** TRC lost \$3.47 (or 8.6 percent) per share as its stock value dropped from \$40.27 in the fourth quarter of 2007 to \$36.80 in the first of 2008. Similarly, TRC was down \$12.79 (or 25.8 percent) relative to the first quarter of 2007.

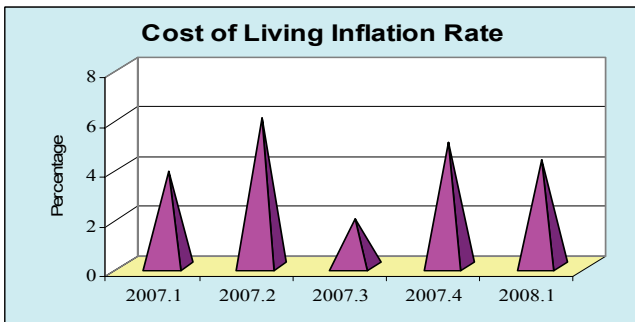


**Cost of Employment -** In the first quarter of 2008, the Employment Cost Index (ECI; December 2005 = 100) increased at an annual rate of 3.7 percent as the index value rose from 106.8 to 107.8. The ECI was one percentage point higher than that of four quarters ago.

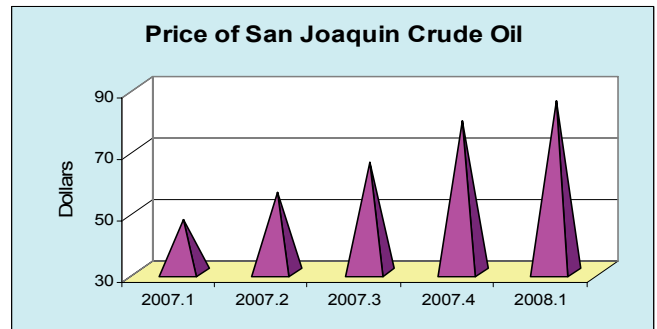


**Commodity Prices**

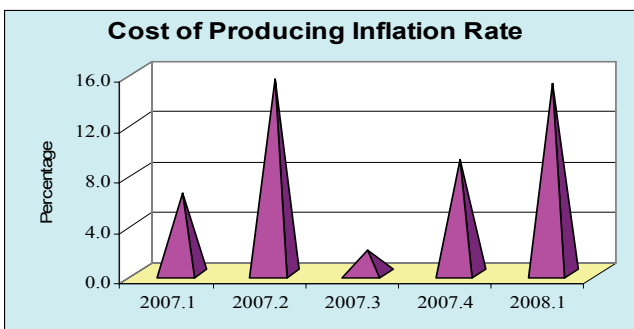
**Cost of Living -** The Consumer Price Index for all urban areas (1982-84 = 100) inclined from a revised figure of 210.6 in the fourth quarter of 2007 to 212.8 in the first quarter of 2008. In annual rates, the rate of inflation for cost of living decelerated from 5.0 to 4.3 percent. Since the first quarter of last year, the cost of living inflation rate has risen one-half of one percent.



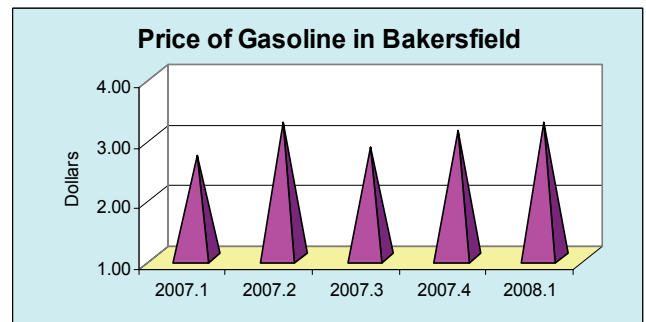
**Price of Oil -** The average price of San Joaquin Valley heavy crude was up \$6.37 per barrel from \$79.13 in the fourth quarter of 2007 to \$85.50 in the first quarter of 2008. Likewise, the average price of crude oil was up \$38.41 per barrel relative to the first quarter of 2007.



**Cost of Producing -** The Producer Price Index for all commodities (1996 =100) climbed from 177.5 in the fourth quarter of 2007 to 183.8 in the first quarter of 2008. In annual rates, the inflation rate for cost of producing accelerated sharply from 9.0 to 15.1 percent. The cost of producing inflation rate was 8.7 percent higher than that of the first quarter of 2007.



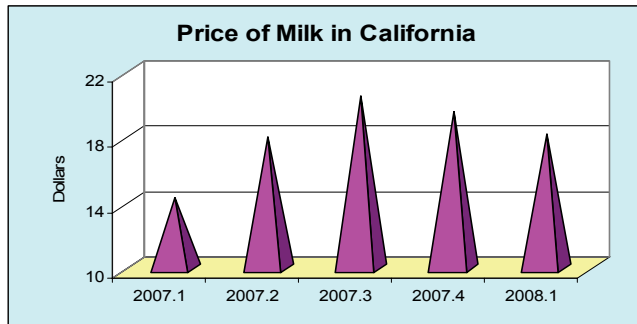
**Price of Gasoline -** In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon rose 12¢ per gallon from \$3.11 in the fourth quarter of 2007 to \$3.23 in the first quarter of 2008. Likewise, the average gasoline price was up 53¢ relative to the first quarter of 2007.



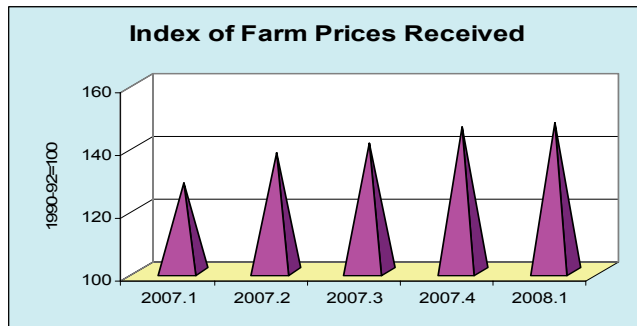
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**Price of Milk** - The average price of California's Class III milk decreased \$1.39 per cwt from \$19.51 in the fourth quarter of 2007 to \$18.12 in the first quarter of 2008. However, the price of milk has gone up \$3.84 since the first quarter of 2007.

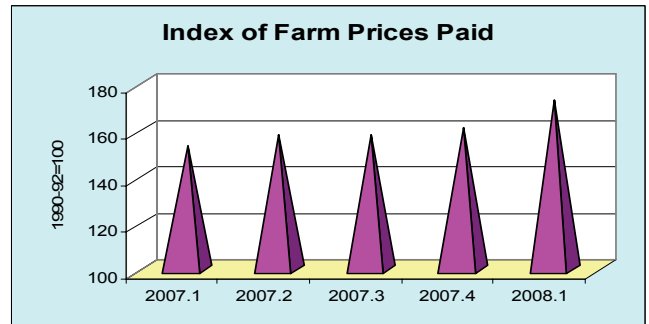


**Farm Prices** - In the first quarter of 2008, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) rose one percentage point to arrive at 147. This index was 19 percentage points higher than that of four quarters ago.

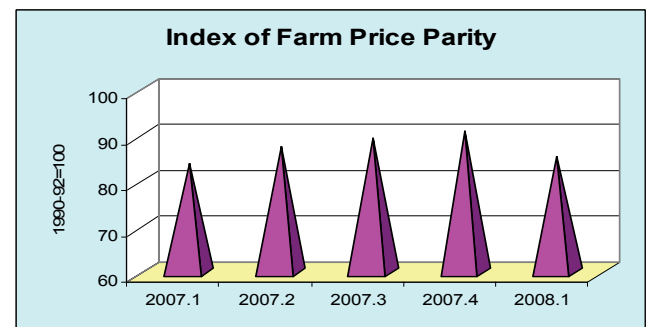


The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents rose 12 percentage points to reach 173. Similarly, the index has gained 20 percentage points since the first quarter of last year.

The Index of Farm Price Parity is the Index of Prices



Received by Farmers as a percentage of the Index of Prices Paid by Farmers. In the first quarter of 2008, the Index of Farm Price Parity fell 6 percentage points to reach 85. However, the gap between prices paid and prices received by farmers has narrowed one percentage point since the first quarter of last year.



In commodity markets, the average price of San Joaquin crude oil climbed \$6.37 to reach \$85.50 per barrel. Similarly, the average price of regular gasoline in Bakersfield metropolitan area increased 12¢ to arrive at \$3.23 per gallon. The unit price of California's Class III milk edged down \$1.39 to attain \$18.12. The index of prices farmers received for their outputs climbed one percentage point to reach 147, and the index of prices farmers paid for their inputs rose 12 percentage points to arrive at 173. As a result, the gap between prices farmers received for their outputs and prices farmers paid for their inputs widened 6 percentage points to attain 85.

In the first quarter of 2008, the composite price index of stocks for the top five *market-movers* in Kern County (2007.1 = 100) went down to 95.0 from 100.8. Relative to four quarters ago, the composite price index of stocks for these *market-movers* edged five percent higher. While stocks of Occidental Petroleum Corporation gained value, the price per share declined for Chevron Corporation U.S., San Joaquin Bank, Granite Construction, and Tejon Ranch Company.

## BOOK REVIEW

# GOOD CAPITALISM, BAD CAPITALISM, AND THE ECONOMICS OF GROWTH AND PROSPERITY

BY WILLIAM J. BAUMOL, ROBERT E. LITAN, CARL J. SCHRAMM (2007), YALE UNIVERSITY PRESS



REVIEWED BY: NICOLE MUN SIM LAI  
ASSISTANT PROFESSOR OF ECONOMICS, CSUB

Since a century ago, the purchasing power of Americans has increased ten-fold. How can this phenomenal growth be sustained through the next century? In fact, economic growth has been an important research topic among economists. Theories and empirical evidence suggest factors such as technological advancement, capital investment, skilled labor, and effective public policy promote prosperity.

In managing the economy to achieve and sustain growth, there are two vastly different types of economic systems: capitalism and communism/socialism. Capitalism is an economic system resting on the private ownership of property in contrast to communism, which is based on common ownership of property by the state. The fall of the Berlin Wall in 1989 may have proven capitalism to be superior to communism. Although capitalism is today widely practiced all over the world, it appears in different forms. Some forms promote growth and prosperity, while others create wealth concentrated in the hands of a small group of individuals.

*Good Capitalism, Bad Capitalism* identifies and discusses four distinct forms of competing national models with their underlying structures, which determine the pace of economic growth. This book is written by three economists, namely William Baumol (an economist at New York University and Princeton University), Robert Litan (a researcher at Brookings Institution and vice president of Kauffman Foundation), and Carl Schramm (president of Kauffman Foundation).

First, “state-guided capitalism” is practiced by less developed countries such as those in south and east Asia. In these countries, the government maximizes economic growth by supporting certain industries that are expected to be promising. This form of capitalism could be successful for these countries in catching up with cutting-edge technology. However, there are some pitfalls: excess and uneven capital investment and prevalence of corruption, which make the economy vulnerable to financial crisis.

Second, “oligarchic capitalism,” is a form in which power and wealth is held by a small group of individuals and families. Countries in the Middle East and Latin America are some examples. This practice causes wealth inequality and corruption, which eventually dampens economic growth.

Third, “big-firm capitalism,” is a form in which major economic activities are carried out by giant enterprises. Some examples are found in Europe, Japan, South Korea, and the United States. Economists suggest that monopoly and oligopoly result in higher prices limited outputs. Also, without competition, firms may neglect inventions and innovations. In some cases, however, authors suggest that big firms are the way to achieve cost efficiency by having mass production. Also, big firms possess the cash flow to invest in significant research and development projects.

Fourth, “entrepreneurial capitalism” is a form in which small and innovative firms play a major role. Entrepreneurship here refers to business enterprises that invent and commercialize products, not just anyone who starts a business. Entrepreneurship, with the motive of profit-making, is recognized by authors as the engine of economic growth.

What works best? The authors advocate a right blend of “entrepreneurial capitalism” and “big-firm capitalism.” New product must be commercialized and mass-produced at low costs. This mixture happens to describe the American economic performance over the past decades, during which long term growth was witnessed. Japan and Europe - dominated by “big-firm capitalism” - can accelerate growth with a boost of “entrepreneurship capitalism.” The United States, however, is in danger of moving toward “big-firm capitalism” at the expense of “entrepreneurial capitalism.”

## *Econ Brief!*

### **Why Are Food Prices Rising?**

Food prices have risen sharply! On average, Americans spend nearly 13 percent of their disposable income on food. They spend a bit more than 7 percent of their incomes on preparing food at home and about 6 percent on dining out. Thus, rising prices for basic food items take a larger portion of the consumer budget.

Between July 2006 and 2007, the Bureau of Labor Statistics reported that egg prices jumped 33.7 percent; whole milk was up 21.1 percent; fresh chicken 8.4 percent; navel oranges 13.6 percent; apples 8.7 percent; dried beans 11.5 percent, and white bread 8.8 percent. Food prices have continued their sharp rising trends, causing hardship for low- and middle-income households and aggravating poverty and hunger.

Reasons for rising food prices across the country include:

- Summer 2006 heat wave causing beef, dairy and poultry losses, and late Spring 2007 freeze damaging fruit and vegetable crops in Central California
- High prices of diesel fuel, increasing both production and transportation costs
- Higher costs of nitrogen fertilizer application
- Increased demand for corn for ethanol production, reducing the amount of corn available for animal feed and rising corn prices
- Weak U.S. dollar driving up prices of imported dairy products, fruits, and vegetables
- Rising per capita dairy consumption
- More stringent enforcement of immigration laws, reducing the supply of foreign farm workers

Source: McClatchy: Truth to Power, <http://www.mcclatchydc.com/>

## *Econ Brief!*

### **Recession, Inflation, or Both?**

Many economists believe that the U.S. economy is about to fall into a recession, while inflation is on an accelerating pace. They offer several reasons for this grave condition:

1. Massive military expenditures in Iraq and Afghanistan
2. Rising prices of fuel, causing higher production and transportation costs
3. Rising prices of farm products and higher food prices
4. Lingering recession in the residential real estate market
5. Worsening sub-prime mortgage crisis: rising loan defaults and mounting home foreclosures
6. Slow-down of construction and manufacturing industries
7. Large trade deficit with China and Japan
8. Accumulating national debt as Chinese and Japanese buy more U.S. government bonds
9. Crumbling consumer and business confidence
10. Erratic behavior of the Stock Market

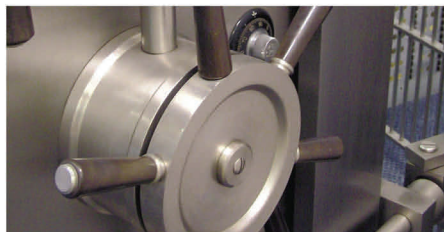
It appears that economic policy-makers concentrate on expansionary incentives to mitigate recessionary effects. President Bush's short-term fiscal stimulus (i.e., a one-time \$100 billion tax-rebate to households and \$50 billion tax-break to businesses) aims at boosting consumer spending and business investment. In addition, the Fed's monetary stimulus of money creation and interest rate reduction would help increase consumer spending and business investment. However, these stimuli would accelerate the pace of price inflation. The U.S. economy could very well fall into an unavoidable trap of higher unemployment and rising inflation.

Kern Economic Journal 4045  
Abbas Grammy  
School of Business and Public Admin.  
California State University, Bakersfield  
20 BDC  
9001 Stockdale Highway  
Bakersfield, CA 93311-1022

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