California State University, Bakersfield
School of Business and Public Administration

Kern Economic Journal

Volume 10 Issue 4

2008 Fourth Quarter

Award of Merit from the California Association for Local Economic Development

www.csub.edu/kej/

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:

KERN ECONOMIC JOURNAL is a quarterly publication (February, May, August, November) 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. Sources of funding for the journal include university contributions and sponsorship and subscription fees.

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.

Publisher and Managing Editor: Abbas Grammy, CSUB (661/654-2466)
Design & Production: Sylvia O'Brien, O'Brien Images (775/473-4169)
Content Editor: Emerson Case, CSUB

To become a sponsor, please visit www.csub.edu/kej for the sponsorship form and benefits or contact the Journal's Publisher and Managing Editor.

INSIDE THIS ISSUE:

Cover Page: *Winter in Frazier Mountain Park* **Photo Source:** *www.google.com*

Economy at a Glance!

Abbas P. Grammy
Professor of Economics, CSUB

Advanced estimates released by the Bureau of Economic Analysis indicate that the United States economy declined at an annual rate of 3.8 percent in the fourth quarter of 2008. The decrease in real GDP in the fourth quarter primarily reflected negative contributions from exports, personal consumption expenditures, equipment and software, and residential fixed investment. These effects were partly offset by positive contributions from private inventory investment, federal government spending, and imports.

The Index of Leading Economic Indicators – a measure of future economic activity – continued its falling trend. The index fell to 99.4 from 100.7, expecting sluggish growth to continue over the next three to six months. For the sixth consecutive quarter, the rate of unemployment increased, climbing from 6.0 to 6.9 percent. In the meantime, the economy recorded rapid deflation as the cost of living decreased 9.7 percent and the cost of producing decelerated 37.4 percent. The cost of employment increased at a slow annual rate of 1.8 percent.

In California, the unemployment rate climbed from 7.6 to 8.6 percent. The state's economy added 164,000 members to its workforce. Meanwhile, the number of employed workers declined by 42,700 and the number of jobless employees rose by 206,800. The farm market gained 3,600 jobs, but non-farm industries cut 114,400 paid positions. The industries of construction, manufacturing, wholesale and retail trade, transportation and warehousing, financial activities, administrative support and waste management, leisure and hospitality, and government agencies cut jobs. In contrast, the industries of educational services, health-care and social assistance, and information added jobs.

In Kern County, households remained pessimistic about employment and financial conditions of their families and relatives as the *Consumer Sentiment Index* stayed constant at 74. In contrast, Kern County businesses became less pessimistic about their employment and financial conditions as the *Business Outlook Index* rose 2 percentage points to reach 90.

In the meantime, the county's economy declined at an annual rate of 3.4 percent. The county's economy generated $15.57 billion in personal income, $135 million less than the previous quarter. Economic decline coupled with labor force growth caused personal income per worker to fall $800, reaching $41,600.

Kern County's labor market conditions deteriorated. The county added 4,000 members to its workforce. Nonetheless, 700 fewer workers were employed and 4,700 more workers were unemployed. The loss of 6,300 farm jobs was partly offset by the gain of 3,100 nonfarm jobs and 2,500 informal jobs (self-employed workers and those working outside the county). Among the nonfarm industries, construction, manufacturing, professional and business services, and leisure and hospitality reduced employment. In contrast, retail trade and local public education added jobs. The rate of unemployment climbed to 10.2 from 9.0 percent. Still below the county average, the rate of unemployment averaged 7.4 percent in Bakersfield, 8.3 in California City, 6.0 percent in Ridgecrest, and 7.1 in Tehachapi.

Kern County's housing market recession continued with falling prices and lower sales volume. The county's housing prices continued to fall. The median sales price for all residential units depreciated $25,900 (or 14.2 percent) from $182,400 to $156,500. In Bakersfield, the median housing price plummeted $32,600 (or 17.1 percent) to $158,300 from $190,900. Depreciation in prices caused housing affordability to rise from 21.9 to 24.2 percent. The number of homes sold declined from 3,190 to 2,921 (or 8.4 percent) in Kern County and from 2,462 to 2,202 (or 10.5 percent) in Bakersfield. The number of building permits issued for the construction of new privately-owned dwelling units declined from 513 to 326. The county's foreclosure activity increased 16.8 percent from 2,196 to 2,566. As a result, 370 more homeowners received notices of loan default from their mortgage bankers.

In commodity markets, the average price of San Joaquin crude oil dropped $60.47 to reach $45.08 per barrel. Similarly, the average price of regular gasoline sold in Bakersfield metropolitan area decreased $1.66 to arrive at $2.42 per gallon. The unit price of California's Class III milk edged down $1.33 to attain $15.95. The index of prices farmers received for their outputs fell 14 percentage points to reach 142, and the index of prices farmers paid for their in-

(Continued on page 19)

Kern County Business Outlook Survey

Abbas P. Grammy
Professor of Economics, CSUB

Data from our recent survey indicate that Kern County businesses have become less pessimistic about local economic conditions. In the fourth quarter of 2008, the *Business Outlook Index* improved slightly. The index stood at 90 compared to 88 in the previous quarter and 106 four quarters ago. Although managers are concerned about employment and general business conditions, they are less worried than the previous quarter.

Kern County's *Business Outlook Index* is compiled from telephone surveys administered to a random sample of local business managers listed in various telephone directories. Index values above 100 indicate optimism, while values below 100 suggest pessimism. The intent of the survey is to help business managers make more informed decisions given local economic trends. Survey results also enable investors to assess the potential for local economic growth based on the degree of business confidence.

To make an in-depth analysis of business confidence, we disaggregated the *Business Outlook Index* into two subindexes relating to recent and future business perceptions. The *Current Conditions Index* climbed 2 percentage points to arrive at 89. Likewise, the *Future Conditions Index* gained one percentage point to reach 91. Although business managers are still worried about current and future economic conditions, they are less pessimistic than the previous quarter.

Employment Outlook:
Fifty-seven percent of interviewees reported that the number of jobs in their companies stayed constant this quarter, but 15 percent said more jobs were available in their companies and 28 percent reported reduced employment.

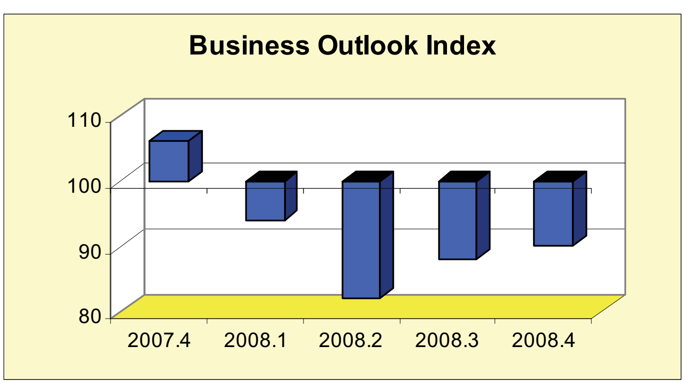
Likewise, 66 percent perceived that the number of jobs would stay constant next quarter, whereas 12 percent expected their companies to hire more workers. The remaining 22 percent anticipated a smaller workforce.

Financial Outlook:
Sixty-seven percent of survey respondents reported that the financial conditions (sales and profits) of their companies were constant this quarter, whereas 13 percent indicated increased profits and sales and 20 percent stated lower profits and sales.

Similarly, 68 percent expected financial conditions of their companies to remain constant next quarter. However, 14 percent anticipated increased sales and profits and 18 percent predicted lower sales and profits.

Industry Outlook:
Seventy-nine percent perceived that employment and general business conditions of their industries remained the same as the previous quarter, but 12 percent felt these conditions improved and 19 percent felt crumbling business conditions.

Equally, 69 percent anticipated that the employment and general business conditions of their industries would be unchanged next quarter. However, 10 percent expected progress and 21 percent felt otherwise.



	Current Quarter	Previous Quarter	Four Quarters Ago
Index of Business Outlook	**90**	**88**	**106**
Index of Current Conditions	89	87	105
Index of Future Conditions	91	90	106

(Continued on page 5)

Bakersfield Consumer Sentiment Survey

Mark Evans
Associate Dean, School of Business and Public Administration
Professor of Economics, CSUB

After six quarters of decline, the Bakersfield Index of Consumer Sentiment stabilized in the fourth quarter, remaining at a reading of 74. After partially recovering in the third quarter from six straight quarters of decline, the University of Michigan's national index gave back this ground in the fourth quarter, declining from 65 to 58. However, the national index has achieved modest monthly gains in December and January, providing some hope that the "fear factor" is close to bottoming out nationally and locally. Both indexes are at their lowest level since CSUB's Economics Department began compiling the local index in 1999. The absolute magnitude of the two indices cannot be compared since they have different base years and are tabulated from different questions using different formulas.

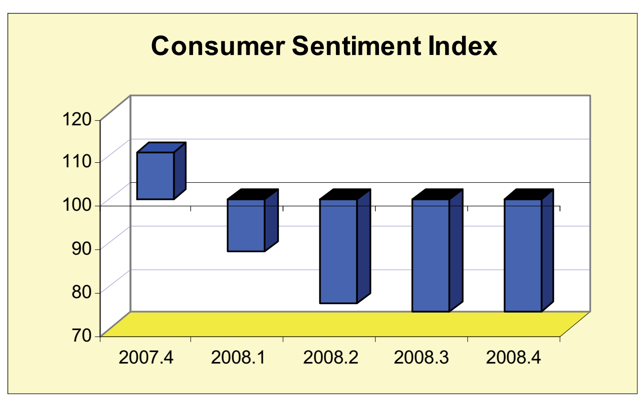
CSUB's Economics Department compiles the Bakersfield Consumer Sentiment Index from telephone surveys administered to a random sample of households listed in the phone book. The index is constructed to help local businesses compare national and local trends and may provide insight into whether a Bakersfield company's sales trajectory reflects industry trends or shifts in market share.

The Bakersfield index is disaggregated into sub-indexes reflecting financial outcomes over the previous 12 months and expectations for the coming year. Although the composite index was unchanged, there were large offsetting movements of the two sub-indexes. The sub-index measuring recent trends declined sharply, while the sub-index reflecting expectations for the coming year increased by the same amount.

The sub-index measuring recent trends decreased from 78 to 62, an historical low. The percent of respondents reporting that their recent spending on discretionary items was "more than usual" collapsed from an already miniscule 10 percent in the previous quarter to a nearly nonexistent one percent. The households reporting they spent "less than usual" increased from roughly one-in-five during the third quarter to one-in-three. The percent of households reporting their family was financially better off than one year ago decreased from seven to three percent. The percent reporting they were worse off increased from 31 to 36 percent. Similarly, almost no one reported that their acquaintances in Kern County were better off than one year ago; over 50 percent indicated their local contacts were worse off.

However, the sub-index reflecting expectations for the coming year increased from 70 to 87. The percent of respondents optimistic that things would become better or more stable within a year for their families more than tripled from eight to 26 percent. The percent thinking financial conditions of their local contacts would improve over the next year increased from less than one-in-five to nearly one-in-two. Not surprisingly, there was a fifty percent increase (from 30 to 45 percent) in the frequency of respondents who thought this is a risky time to use savings or incur debt to buy expensive goods, suggesting that the community at large is working hard to restore liquidity to its balance sheets.

With a new administration working fervently to implement a large and front-loaded stimulus package, it is hoped the expectations sub-index will sustain its recent gains and eventually pull the current conditions sub-index upward.



(Continued on page 5)

Consumer Sentiment *(Continued from page 4)*

Table 1: Index Values			
	Most Recent Quarter	**Previous Quarter**	**One Year Ago**
Bakersfield Consumer Sentiment Index	**74**	**74**	**111**
Sub-index: Current Conditions	62	78	109
Sub-index: Future Expectations	87	70	113

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).	1 %	68 %	31 %
	Better off	**Same**	**Worse off**
How your family is doing financially compared to one year ago.	3 %	61 %	36 %
How your acquaintances in Kern County are doing financially compared to one year ago.	1 %	46 %	53 %

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	26 %	32 %	42 %
	Optimistic	**Neutral**	**Fearful**
How your acquaintances in Kern County view the coming year.	48 %	20 %	32 %
	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?	5 %	50 %	45 %

Business Outlook *(Continued from page 3)*

Economic Outlook:

When asked about Kern County's economy, 66 percent of interviewees perceived no improvement this quarter. Nevertheless, 11 percent felt conditions improved and 23 percent said conditions worsened.

Likewise, 64 percent felt that economic conditions would be unchanged next quarter. However, 12 percent anticipated that the economy will get better and 24 percent felt conditions are likely to get worse.

Factors Affecting Business Outlook:

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

- Greater expenditures during general elections
- Lower fuel costs
- Increased business sales during the holiday season

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

- Falling housing prices and more short-sales and foreclosures
- Business closures and rising unemployment
- Slow auto sales

THE FOCUS GROUP PROCESS IN COMMUNITY PLANNING

CRAIG W. KELSEY
DEAN, EXTENDED UNIVERSITY DIVISION
PROFESSOR OF PUBLIC POLICY AND ADMINISTRATION, CSUB

Capturing public input is a helpful and critical element of proper community and business planning. The public can provide vital, direct and meaningful input that allows the professional to consider future decision making actions with greater security and accuracy. Public involvement techniques can help define user wants, desires, needs, priorities, and participation and satisfaction levels. Any or all of this type of data is informative for planning purposes. If the assessment device is constructed as such, vital geographic and demographic information can be obtained. When superimposed over other information, such as new community initiatives, very specific management decisions can be made. Good management strategy and policy development is based on accurate and current public input, and those policies that clearly reflect the needs of citizens coupled with agency or business resources are most likely to have meaning. Most planning studies use citizen involvement as a critical element in designing for the future.

After all, the planning should mirror the community context for which the plan is designed. Public involvement can come through a variety of different methods (telephone calls, mail-out surveys, on-site questionnaires, door-to-door interviews, public hearings, etc.) each with its particular set of strengths and concerns. Re-emerging as a popular approach is the "public focus group" method. This process consists of asking highly-committed and well-informed citizens to spend an evening discussing, debating and then prioritizing pre-determined community issues that are deemed critical by the professional staff.

These issues might be generated by the professional staff as would questions used for the other survey and questionnaire methods or in conjunction with a citizen/business advisory committee or technical assistance team. Each issue is placed on a 8 ½ x 11 index card and as the citizens discuss, with the help of a trained facilitator, the various merits of importance of each issue the cards are continually readjusted on a table or bulletin board in a line-of-priority order until the citizens are satisfied that the issues are in the most appropriate priority order. This process allows large groups of citizens to focus on highly complex issues in a short period of time under a controlled environment with a high degree of citizen involvement and commitment.

The public focus group is an excellent blend between the traditional public hearing and the common survey approach to collecting citizen input. The public hearing allows citizens to express views in an open forum which provides important perspectives for planners to hear. However, at times public hearings get derailed on issues brought up by the strongest and loudest voices in the meeting and it is very possible that the information brought forward is so varied and individual that it can not be tabulated and no clear trends emerge. The survey is used to control the specific information that the planners need (by asking very specific questions on the survey form) and hence tabulation and trends, if any, clearly emerge. In fact, if demographic and geographic information is asked, then the trend can become very neighborhood or citizen specific. However, the survey is usually filled out by citizens in isolation (in their home with little or no interaction with others) and the very important hearing and sharing of divergent views is missed.

The public focus group brings together both needed elements: control by dealing with pre-determined issues (the same as the survey questions) and active dialogue by encouraging citizens to discuss and debate those issues from their unique vantage points. Previous research has illustrated the successful use of the focus group method in which a wide array of issues and groups has been studied. Specifically such concepts as; market research, nutrition, nursing, community colleges, TV commercials, supermarkets, phar-

(Continued on page 7)

macy education, employee relations, public relations, high-risk families and libraries have found the focus group process helpful.

This method has its own set of strengths and concerns but depending on the circumstances of the community, the citizens, local issues, time frames and such it can be a viable mechanism for helpful public input. Public focus groups generally are inexpensive (usually the cost of a public meeting space and a trained facilitator). Allow for a high level of control of public input, that is, the citizens are focused on the pre-determined issues not personal or hidden agendas that sometimes emerge during public hearing styled meetings. They also elicit usable, detailed and comparable information such as the relative importance of one community issue over another. Additionally, these types of meetings help to inform citizens of issues, share information that might make for a better informed citizenry and can help to identify new issues of concern not previously known by the professional staff.

Experience has also shown that people involved in focus groups feel better about citizen involvement, more committed to the decision made and become active voices for the implementation of the decision making process. However, public focus groups can not enter tain all issues of concern, and so some citizens might feel frustrated if an item of specific concern to them was not dealt with. Related to this might be a citizen who attempts to introduce a new issue that the citizen feels is of equal or greater importance than the predetermined issues brought before the group. Also, by the very nature of the citizen discussion, debate and prioritization process of the meetings some citizens dominate the conversation, attempt to overly influence others in the group and might even frustrate the purpose of the focus group. It should be recognized that not all community issues important to citizens can be included in the focus groups, and so opportunities need to exist after the meetings for citizens to discuss with professional staff these additional and different issues. One of the key components to making the process work is an experienced facilitator who can control the direction of the meeting and handle unrelated interests.

Public focus groups are an effective means of obtaining public input that is generally inexpensive, relatively rapid and engenders high citizen involvement and usually solid citizen commitment. Of course, it is not appropriate in all communities or for all circumstances, but its use has increased in popularity primarily due to its effectiveness as a planning tool.

Econ Brief!

Housing Crisis in the Central Valley

In the fourth quarter of 2008, 17,888 Central Valley homeowners received notices of loan default of whom 12,588 (or 72 percent) had their homes foreclosed by their mortgage lenders. The housing crisis was quite serious in Kern County as well. Kern County ranked second (behind Sacramento) in the number of default notices received and fourth (behind Sacramento, San Joaquin, and Stanislaus) in the number of trustee deeds recorded. Of these 2,566 Kern homeowners receiving default notices, 1,512 (or 58.9 percent) lost their homes.

This unprecedented housing crisis is expected to continue in all Valley communities as they experience a multifaceted problem of falling housing prices, loss of equity, high foreclosure activity, and lack of refinancing opportunity.

Location	Default Notices Received	Trustee Deeds Recorded	Foreclosed
Central Valley	**17,888**	**12,588**	**72.0%**
Colusa	53	35	66.0%
El Dorado	311	157	50.5%
Fresno	2,004	1,198	59.8%
Kern	**2,566**	**1,512**	**58.9%**
Kings	155	50	32.3%
Madera	425	349	82.1%
Merced	1,006	940	93.4%
Placer	892	450	50.4%
Sacramento	4,186	3,167	75.7%
San Benito	142	138	97.2%
San Joaquin	2,546	2,051	80.6%
Stanislaus	1,978	1,559	78.8%
Sutter	200	148	74.0%
Tulare	896	460	51.3%
Yolo	292	211	72.3%
Yuba	236	163	69.1%

Source: DataNews.com

Reflections on Quality: Reputation, Accreditation and Dedication

Janice A. Black
Associate Professor of Management, CSUB

Reputation is somewhat of a funny concept. Basically, a reputation is our short hand way of describing the value that we place on a person or organization. Some reputations are the result of an enduring relationship with that person or organization (based on our experiences) while others are the result of one crucial event (based on an observation made at a critical time such as during a natural disaster). Still others are the result of the assurance of a respected third party that an individual or organization will perform at a desired level (like passing a CPA exam or law board). We most often use reputation in a positive fashion and certainly that is the type of reputation-use that organizations desire. But the funny part is just how quickly it can erode. One major slip-up or a couple of bad events perhaps only in an area tangently related to an organization can result in word of mouth sharing that undermines a good reputation. Having outside assurance that it is only an aberration helps to mitigate any slips.

Quality (or the lack of) is a key issue that causes an organization to gain a good (or bad) reputation. Whether your organization produces a product, grows produce, provides a service, or extracts a mineral, a quality output will enhance your reputation. Often, the product provided is so complex that a consumer will look to a neutral third party to give them the baseline assurance of quality. For many occupations, this may be an organization that supervises a proficiency exam or issues a professional license. For manufacturing plants, there is also certification available. For example, the International Standards Organization issues a certificate to validate that an organization is following good management practices. In this instance, it is not the people who are critiqued but rather the entire organization. In education, school districts have teachers who are certificated and schools or districts which are accredited. Higher education also has multiple assurances of quality control.

College level instructors and professors are required to have attained at least one higher degree level than that in which they teach or to have obtained a "terminal" degree or certification. The "terminal" degree required for teaching at a four-year college or university is generally a doctorate degree or a professional certificate. Beyond this criterion, both institutions and professional degree programs require accreditation.

For example, the CSUB is accredited by the Western Association of Schools and Colleges. To maintain accreditation full assessments of university programs are done on a ten-year cycle. Beyond this university-wide accreditation process, the School of Business and Public Administration (BPA) also undergoes separate accreditations for its degree programs. For the Department of Public Policy and Administration, the accrediting body is the National Association of Public Affairs and Administration. For business programs, the accrediting body is the Association to Advance Collegiate Schools of Business, International (AACSB), which is the toughest accrediting body for schools of business. BPA has both of these accreditations.

As of September 2008, I am a new associate professor in the Department of Management and Marketing. Being a new faculty member to BPA but not new to academics, it is important to me that I join an institution that has a strong reputation. Before deciding to join BPA, I looked for these basic assurances of quality. I was not just reassured, but impressed by CSUB and the BPA's accreditation history. Almost since its inception, business degrees have been accredited by AACSB. As far as I can tell, it has successfully passed its reaccreditation every cycle. In fact, after a comprehensive assessment of the business degrees, the AACSB has reaccredited the BPA this academic year. Reaccreditation is not necessarily automatic nor is accreditation universal across the CSU campuses. I chose to join BPA and become a member of this find community of scholars and students.

Since arriving, I find BPA reaccreditation to be a testimony to our dedication to students, scholarship, and community outreach. Whether located here in the southern end of the San Joaquin Valley, or in one of the major metropolitan areas of world, you can be very proud of the quality of education provided by the School of Business and Public Administration. I can speak to the quality of the business degree due to my previous experiences in higher education, my having a terminal degree

(Continued on page 9)

and my previous work experience outside of higher education.

Faculty members are researching, publishing, and mentoring students. We have several outreach programs for prospective students (e.g., Enterprise College and Virtual Enterprise). BPA also has programs of outreach to the business community through faculty-supervised student-performed applied projects. This latter program is very attractive to me. My areas of expertise are strategic growth, leadership development, small business management, and entrepreneurship. I research, teach, and conduct workshops in these areas. I fervently believe in the involvement of my students with the business community. I structure my classes so that there are applied projects that help enrich student learning experience and establish employment contacts. I commend my colleagues for doing similar applied projects.

Let me also commend the broader community's support of the BPA. From the enthusiastic involvement of the advisory council to the named labs and classrooms, it is evident that many local businesses provide active support now and have also done so in the past. While our current times put constraints on all of our budgets, I urge you to consider continuing to support the BPA. As an example, instead of immediately hiring a replacement professional, consider shifting some of your hiring budgets toward "hiring" groups of our students to work on projects for your business for a term. We have opportunities for all sizes of businesses and projects whether small, medium or large business and whether small, medium or large projects. While our faculty supervised teams cannot do everything and neither can they do it in extremely short amounts of time, we can do it reasonably fast. If you were to provide some scholarship funds for which the student teams doing the work could compete, that would allow you to continue to support BPA, get some potential solutions for your identified project problems and provide our students with some real work experiences! Hiring students in professional internships or part-time jobs would enable you to see the quality of our students and our dedication to enhancing the business and economic development of Kern County.

Again, I say be proud of your School of Business and Public Administration at CSUB. It is a quality school with high quality programs and deserves its strong reputation. Its small size makes it easy to connect no matter your interests.

Econ Brief!

Who's a Perfect Job Candidate?

Communication (both verbal and written) is the highest-valued skill and honesty/integrity is the most desirable quality that employers deem important in job candidates.

Other high-valued skills include interpersonal communication, teamwork, analytical thinking, and computer know-how. Other desirable qualities are strong work ethics, motivation/initiative, and flexibility/adaptability. Interestingly, personal attributes like a sense of humor, risk taking, and creativity do not place as high. Although employers place GPA toward the lower end of their wish list, nearly 70 percent of survey respondents report that they screen candidates based on GPA with a cutoff point of 3.0.

Rank	Employee Quality & Skill	Survey Scores
1	Communication skills (verbal and written)	4.7
2	Honesty/integrity	4.7
3	Interpersonal communication skills	4.5
4	Strong work ethic	4.5
5	Teamwork skills	4.5
6	Analytical skills	4.4
7	Motivation/initiative	4.4
8	Flexibility/adaptability	4.3
9	Computer skills	4.2
10	Detail-oriented	4.1
11	Leadership skills	4.0
12	Organizational skills	4.0
13	Self-confidence	3.9
14	Friendly/outgoing personality	3.8
15	Tactfulness	3.8
16	Well-mannered/politeness	3.8
17	GPA (3.0 or better)	3.7
18	Creativity	3.6
19	Entrepreneurial skills/risk-taker	3.2
20	Sense of humor	3.2

Note: Employers ranked these skills/qualities on a scale of 1: lowest to 5: highest.
Source: NACE Research: Job Outlook 2005 National Association of Colleges and Employers

Recession and Recovery[1]

Abbas Grammy
Professor of Economics, CSUB

The U.S. economy has been in recession since December 2007. This recession is showing signs of a demand-side downturn, with weak consumer spending, declining business investment and rising unemployment. In 2008, the economy grew at a sluggish rate of 1.2 percent, consumer spending rose about 0.3 percent, investment demand plummeted 5.9 percent, and the unemployment rate climbed to 5.8 from 4.6 percent. In particular, the recession deepened last quarter as the economy plunged at an annual rate of 3.8 percent and unemployment rate soared to 6.9 percent.

In light of a negative growth rate in the fourth quarter of 2008, economists have revised their forecasts for 2009. They expect negative growth, rising unemployment, and tapering investment. This forecast is based on several factors. Consumer confidence is at a record low and business layoff is at a record high. The housing market is in recession. In addition to falling prices, loan defaults and foreclosure rates are extremely high. Even though banks have greater liquidity and charge lower interest rates, the credit market is still tight for both consumer and business loans. With an unprecedented number of workers losing jobs, consumer spending is not showing any signs of recovery. In addition, the recession spreading globally has reduced the demand for American-made goods, resulting in a larger trade deficit. Moreover, low saving rates have provoked greater capital outflow from the United States.

There is a good chance, however, for the U.S. economy to begin a slow recovery late 2009 or early 2010 due to expansionary monetary and fiscal policies. The Federal Reserve Board has taken extraordinary actions to drop the short-term interest rate to a historically low level. Additionally, the Federal Reserve Board has pumped much liquidity into the banking system in order to restore confidence to the financial market and to support consumer and business lending.

Furthermore, the Bush administration's $750 billion-plus “bail-out” package would substantially support financial institutions, which have issued risky mortgage loans, to remain solvent and gradually stabilize. Spending the remaining $350 billion of these rescue funds in the first half of 2009 would support investment and consumption. Short-term loans to the domestic automakers would also help the industry to restructure and become more competitive.

The “stimulus” package proposed by the Obama administration is a textbook response to recover from a demand-side recession. The proposed policy is comprised of substantial spending increases and middle-class tax cuts. The package includes as much as $850 billion of spending on infrastructure, health care, education, energy, and subsidies for states. Other measures are weatherizing one million homes, saving energy costs at federal government agencies, modernizing schools, and doubling renewable energy production. The goal of the “stimulus” package is to create 3 million jobs over a period of two years and to "*lay a foundation for a stronger economy in the future*.” With proper revision of proposed spending and tax cut components of the “stimulus” package, the Congress is expected to approve the plan and send it to the White House for the president to sign.

The combination of these monetary and fiscal stimuli is expected to trigger a lasting recovery. However, consumer spending and employment would require more time to recuperate. For the entire 2009, the economy would experience negative growth, reduced consumer spending, high unemployment, falling prices, and low interest rates.

The cost of this recovery is a mounting federal budget deficit and an accumulating national debt. Eventually, it could cost the government several trillions of dollars in loans, loan guarantees, and investments to rescue the economy. In the absence of additional tax revenues, the federal government will have to borrow all that money from domestic and foreign investors to pay for its massive spending increase. The prospect of ending military conflict in Iraq and Afghanistan should help alleviate the heavy financial burden of war on the federal budget.

[1]This is a revised version of an article published in *The Bakersfield Californian*, Sunday, January 18, 2009.

THE ECONOMIC ROLE OF INTEREST RATE

MAHDY F. ELHUSSEINY
ASSISTANT PROFESSOR OF FINANCE,CSUB

Introduction

The interest rate is an important determinant of the saving and investment behavior of households and businesses and therefore a key factor for long-term economic growth. Throughout history interest rates have been variously set by the Federal Reserve Board (hereafter, the Fed). For example, the Federal Funds Rate (hereafter, FFR), the short-term interest rate in the United States, has varied between about 0.25 to 19 percent from 1954 to 2008. It is important to discuss the factors that cause the interest rate to fluctuate and to what extent these fluctuations can impact the economy. It is also important to conclude by discussing the role of the interest rate in the current economic turmoil.

Factors that cause interest rate to fluctuate

Generally speaking, macroeconomic factors such as monetary policy, federal budget deficit or surplus, and business conditions are among the most important economic factors that may cause interest rates to vary across time. A brief discussion to shed some light on each factor is as follows.

Monetary Policy - One of the major responsibilities of the Fed is to control the money supply. Every time the Fed acts to stimulate the economy, the money supply increases. These type of actions will cause the interest rate to decline. The Fed also can intervene by changing the interest rate directly in response to some economic conditions. For example, the Fed may cut the FFR to induce banks to borrow from each other and make more business loans. However, cutting this key short-term rate, does not necessary lead to lower long-term interest rates such as the thirty-year mortgage rate.

Federal Budget Deficit or Surplus - Whether the federal budget is in deficit or surplus depends on the relationship between government spending and government revenue. If the government spends more than it receives, it runs a deficit and vice versa. Historically, the United States has operated with a deficit for several decades. In order to recover the deficit, the government can raise taxes, borrow money, or print money. If the government prints more money given the supply of goods and services, inflation will accelerate and the interest rate will rise. Borrowing money is an alternative often used by the federal government. When the government borrows, the demand for funds increases and the interest rate will go up. The Treasury Department reported on January 2009 that the national debt reached $10.7 trillion.

Business Conditions - Business conditions affect interest rates directly and sometimes indirectly. The US economy has gone through business cycles within the past several decades. The following table shows the timing of business cycles, economic conditions, and actions that had to be taken by the Fed to modify the interest rate in order to help the economy recover.

(Continued on page 12)

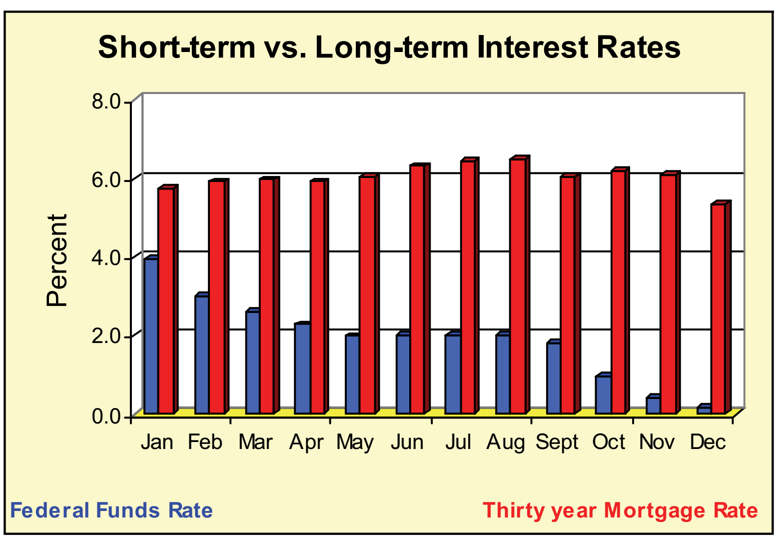
Time	Business Cycle	Action Taken
1972 -1981	High inflation rate	The interest rate rose significantly to compensate for the high level of inflation
1990 – 1992 & 2000 - 2001	Mild recession where - Less demand for money - Low rate of inflation	The interest rate decreased in order to stimulate the economy and help households borrow and spend more
2004	The economy bounced back	The interest rate was raised again by the Fed
September 2007 – now	Subprime tragedy Significant recession	During this period, the FFR went through a series of cuts from 5.25 percent to almost zero.

The interest rate and the current economic turmoil

Actions - As stated previously, interest rates were low during the period between 2000 to the beginning of 2004. Specifically, the FFR was around 2 percent during this cycle of economic conditions. Such low interest rates helped to stimulate the economy and allowed banks to give mortgage loans with very good conditions. Investment banks heavily participated in the process of giving easy loans to whoever needed was. These actions from banks as well as other mortgage lenders sent a signal that the economy was going through overheated conditions. The Fed responded by increasing the FFR more than 15 times in 2004-2006. The FFR was 5.25 percent in June 2006. In September 2007, the subprime tragedy heavily hit the economy signaling an expected recession. The Fed responded by increasing the supply of money in order to stimulate the economy. The Fed intervened through a series of actions. First, it provided more liquidity through lending cash loans to banks with good conditions. Additionally, the Fed provided more liquidity to non-banking institutions such as investors in major credit markets. The major objectives of the Fed were to lower interest rates and to provide easier credit conditions. The Fed cut the short-term interest rate from September 2007 to December 2008 to almost zero.

Impact - Did the Fed intervention really help the economy to rebound? In order to answer this question, we need to analyze the consequences. There are two major consequences from the Fed's actions. First, reducing the short- term interest rate may help stimulate the economy to a certain extent (of course there is a long way to go) by making loans more available. However, the credit quality of household and business borrowers has been negatively impacted because of the current economic turmoil and the uncertainty of the market as banks and non-bank lenders became more reluctant to lend. Also, an unprecdentent recession in the housing market resulted in huge losses in bank capital and made banks less able and more hesitant to lend. So, the actions that were meant to lower short-term interest rates and provide easier credit conditions to stimulate the economy didn't really help as long-term mortage-loan rates have stayed high.

Secondly, lower interest rates caused US government bonds to lose attractiveness. Specifically, international investors found these bonds worthless and then began to sell their holdings for US dollars. Then, they sold US dollars to buy their home currency. The supply of the dollar increased, it lost value against foreign currencies. With depreciation of the dollar against foreign currencies, American-made products became cheaper overseas and foreign-made products becme more expansive to American buyers. As a result, US exports increased relative to imports, thus improving the balance of trade.



Tracking Kern's Economy

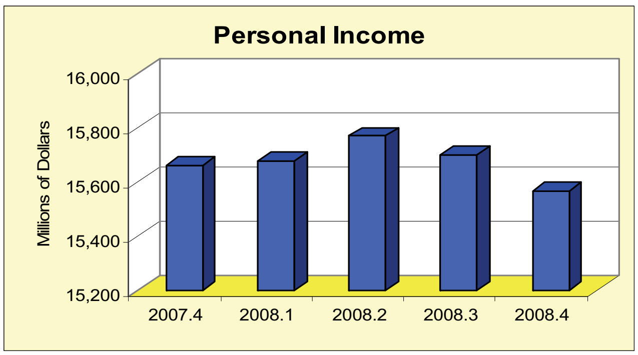
Fourth Quarter of 2008

Abbas P. Grammy

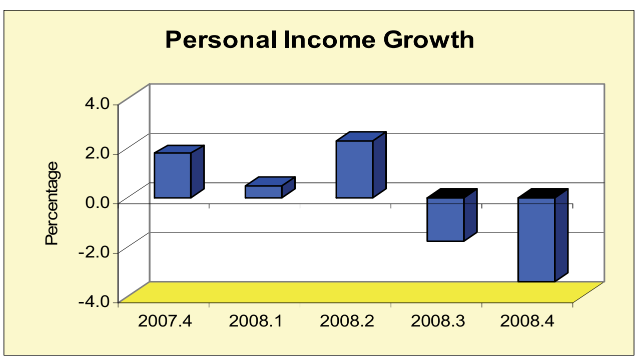
Professor of Economics, CSUB

Economy

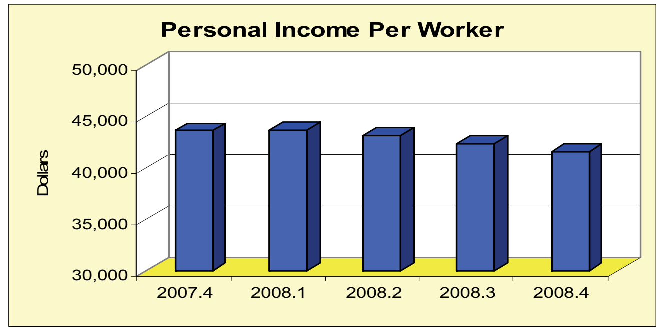
Personal Income - Kern County's personal income (in constant 1996 dollars) decreased from $15.70 billion in the third quarter to $15.57 billion in the fourth quarter of 2008. The county's economy lost $135 million of income this quarter. Likewise, the county's personal income was $95 million less than that of the fourth quarter of 2007.



Growth of Personal Income - In the fourth quarter of 2008, Kern's economy declined at an annual rate of 3.4 percent, 1.6 percent slower than that of the previous quarter. This quarter's growth rate was 5.2 percent slower than that of four quarters ago.



Personal Income Per Worker - Economic decline coupled with labor force growth caused personal income per worker to fall $800 from $42,400 in the third quarter to $41,600 in the fourth quarter of 2008. Personal income per worker was $2,030 less than that of four quarters ago.

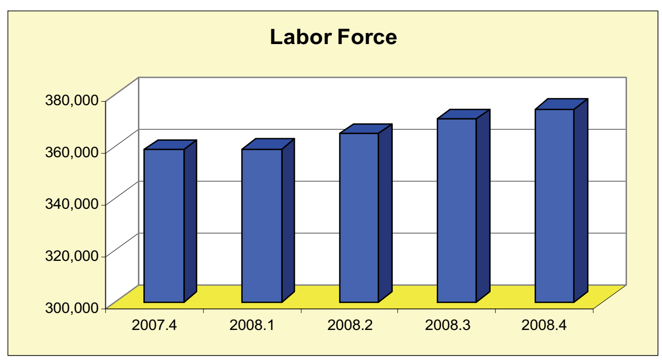


Labor Market

We have adjusted labor market data for seasonal variations and report the quarterly changes in major labor market indicators below:

Labor Force	Total Employment	Total Unemployment	Farm Employment	Nonfarm Employment	Private-sector Employment	Public-sector Employment
4,000	-700	4,700	-6,300	3,100	-800	3,900

Labor Force - The civilian labor force increased by 4,000 workers from 370,500 in the third quarter to 374,500 in the fourth quarter of 2008. Compared with four quarters ago, the labor force has increased by 15,580 workers.

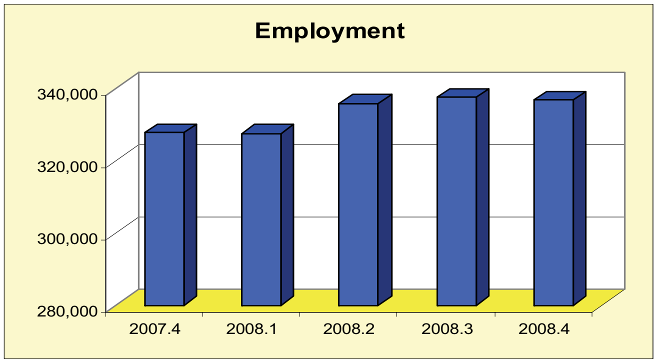


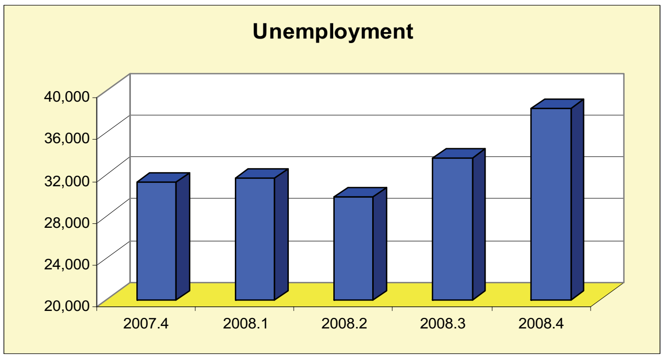
Employment - In the fourth quarter of 2008, Kern County's economy lost 700 jobs as total employment declined from 337,600 to 336,900. However, the county employed 9,220 more workers since the fourth quarter of last year.

Unemployment - The number of jobless workers increased by 4,700 as unemployment rose from 33,500 in the third quarter to 38,200 the fourth quarter of 2008. Similarly, 6,960 more workers were unemployed this quarter than four quarters ago.

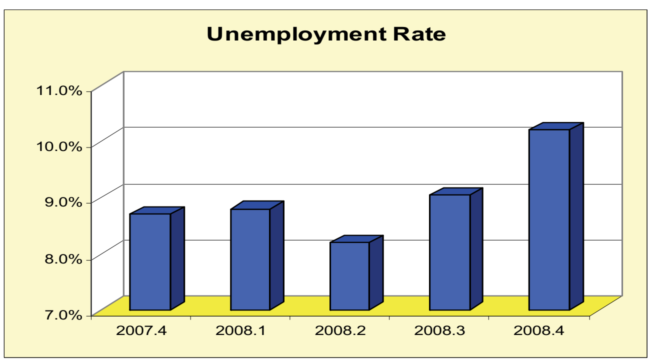
(Continued on page 14)

Tracking *(Continued from page 13)*





Unemployment Rate - The rate of unemployment inclined 1.2 percent from 9.0 percent in the third quarter to 10.2 percent in the fourth quarter of 2008. Likewise, this quarter's unemployment rate was 1.5 percent higher than that of four quarters ago.



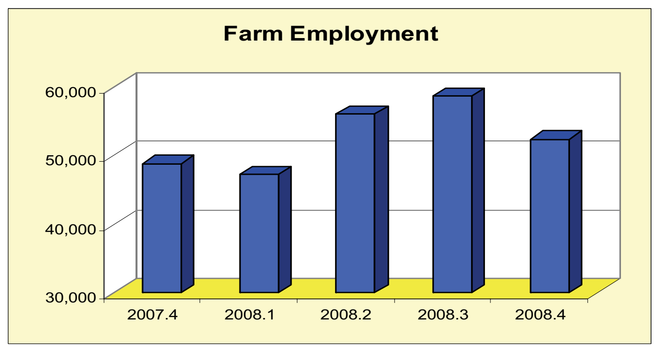
Using non-seasonally-adjusted data, the rate of unemployment varied considerably across cities. It ranged from 4.3 percent in Kernville to 28.4 percent in Arvin. The rate of unemployment was below the county's average in Kernville, Lebec, Ridgecrest, Tehachapi, Inyokern, Bakersfield, California City, Rosamond, and Frazier Park. In contrast, the rate of unemployment was above the county average in Taft, Oildale, Lake Isabella, Mojave, Shafter, Lamont, Wasco, McFarland, Delano, and Arvin.

Unemployment Rate of Cities

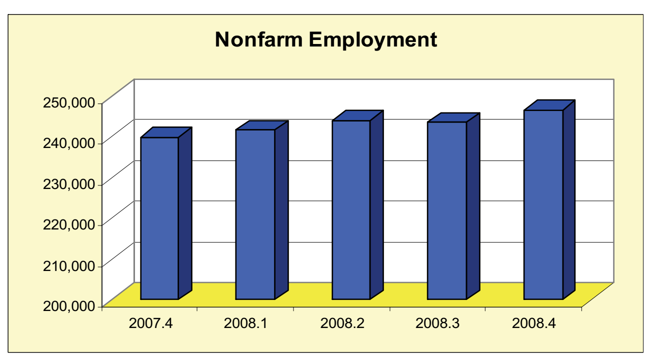
Location	Unemployment Rate (%)	Location	Unemployment Rate (%)
Kernville	4.3	Taft	10.4
Lebec	4.3	Oildale	11.2
Ridgecrest	6.0	Lake Isabella	12.8
Tehachapi	7.1	Mojave	13.3
Inyokern	7.1	Shafter	19.0
Bakersfield	7.4	Lamont	19.1
California City	8.3	Wasco	19.8
Rosamond	8.6	McFarland	22.3
Frazier Park	9.3	Delano	27.8
		Arvin	28.4

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

Farm Employment - In the fourth quarter of 2008, Kern County lost 6,300 farm jobs as employment decreased from 58,700 to 52,400. However, the county's farm employment this quarter was 3,580 greater than that of four quarters ago.



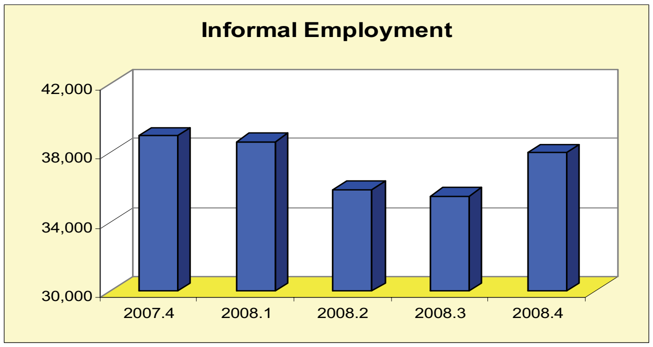
Nonfarm Employment - Kern County gained 3,100 jobs in the market for nonfarm labor. The number of jobs in this market increased from 243,500 in the third quarter to 246,600 in the fourth quarter of 2008. Likewise, nonfarm industries have added 6,720 jobs since the fourth quarter of 2007. The industries of construction, manufacturing, professional and business services, and leisure and hospitality reduced employment. However, retail trade and local public education added jobs.



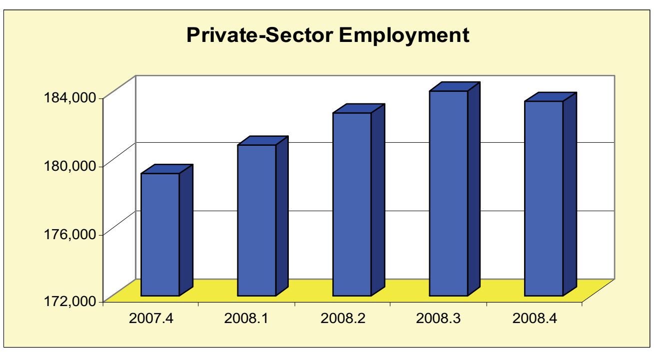
(Continued on page 15)

Tracking *(Continued from page 14)*

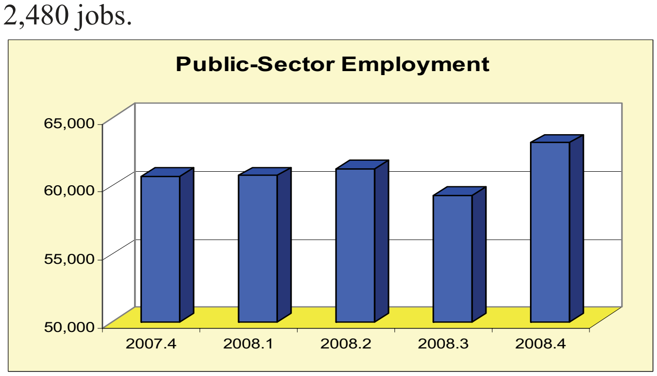
Informal Employment - Informal employment is the difference between total employment and industry employment. It accounts for self-employed workers and those who work outside their county of residence. In the fourth quarter of 2008, the number of workers engaged in this market increased by 2,500 from 35,510 to 38,010. In contrast, the informal labor market had 980 fewer jobs relative to the fourth quarter of last year.



Private-sector Employment - Nonfarm employment is comprised of private-sector employment and public-sector employment. In the fourth quarter of 2008, private companies lost 800 jobs as their employment fell from 184,200 to 183,400. However, the private sector offered 4,240 more jobs four quarters ago.

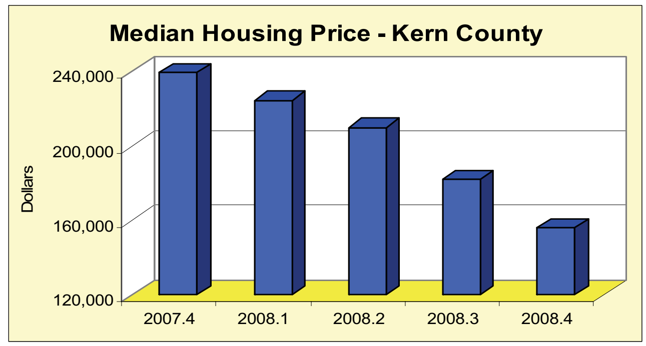


Public-sector Employment - The public sector consists of federal, state, and local government agencies. The local government labor market includes county and city agencies and public education. In the fourth quarter of 2008, government agencies added 3,900 jobs as their employment rose from 59,300 to 63,200. Since the fourth quarter of last year, the public sector has added 2,480 jobs.

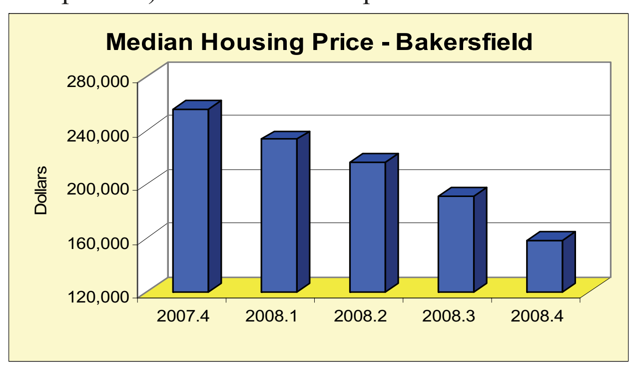


Housing Market

Housing Price - In the fourth quarter of 2008, Kern County's housing prices continued to fall. The median sales price for all residential units depreciated $25,900 (or 14.2 percent) from $182,400 to $156,500. The county's median housing price has plunged $86,100 (or 35.5 percent) since the fourth quarter of last year.



In Bakersfield, the median housing price depreciated $32,600 (or 17.1 percent) from $190,900 in the third quarter to $158,300 in the fourth quarter of 2008. The city's median housing price has plunged $97,800 (or 38.2 percent) since the fourth quarter of 2007.



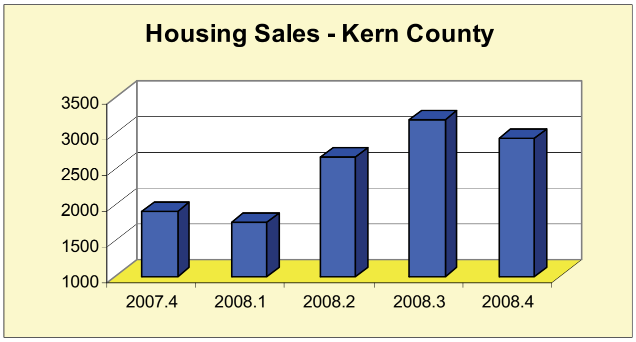
Housing price changes varied across the county. Among selected locations shown below, the median housing price depreciated in all areas, except Ridgecrest and Delano. In particular, Bakersfield, Tehachapi, California City, Rosamond, and Taft recorded double-digit depreciation rates.

Location	Median Price 2008.3	Median Price 2008.4	Median Price Change	Median Price Change
Kern County	$182,400	$156,500	-$25,900	-14.2%
Bakersfield	$190,900	$158,300	-$32,600	-17.1%
California City	$115,500	$83,000	-$32,500	-28.1%
Delano	$144,900	$156,800	$11,900	8.2%
Ridgecrest	$176,400	$183,300	$6,900	3.9%
Rosamond	$178,300	$143,250	-$35,050	-19.7%
Taft	$110,200	$87,300	-$22,900	-20.8%
Tehachapi	$231,700	$206,700	-$25,000	-10.8%

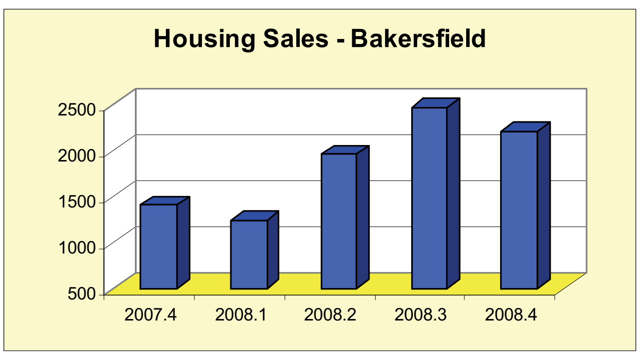
(Continued on page 16)

Tracking _(Continued from page 15)_

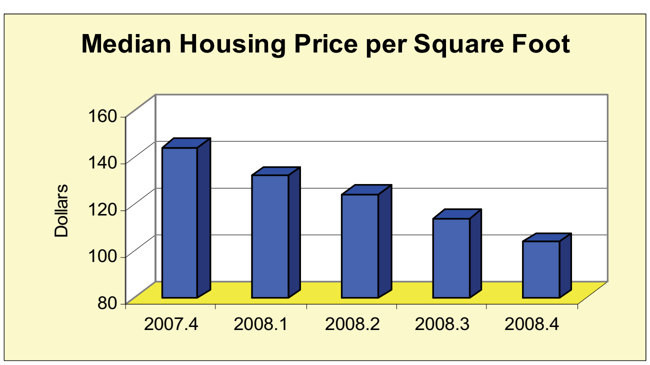
Housing Sales - Kern County's sales decreased considerably as 269 less homes were sold. The number of residential units sold declined from 3,190 in the third quarter to 2,921 in the fourth quarter of 2008. However, the number of units sold this quarter was 1,011 more than that of four quarters ago.



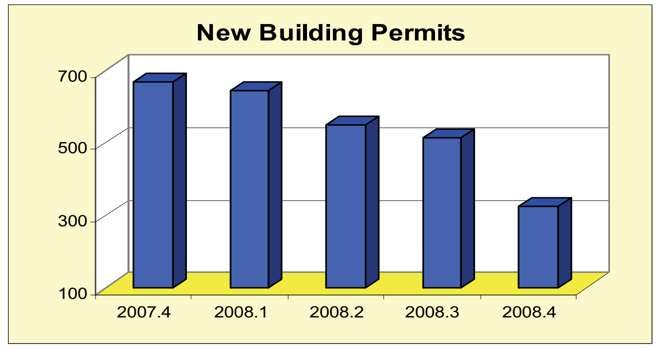
In Bakersfield, sales declined by 260 units. The number of all residential units sold dropped from 2,462 in the third quarter to 2,202 in the fourth quarter of 2008. Since the fourth quarter of last year, sales have risen by 796 units.



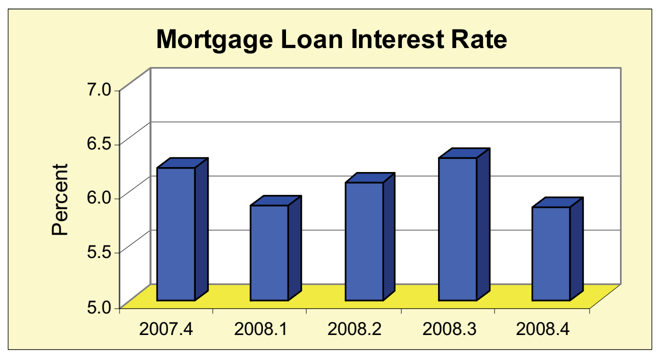
Median Housing Price per Square Foot - The median sales price per square foot of housing area declined $10 from $114 in the third quarter to $104 in the fourth quarter of 2008. Since the fourth quarter of last year, the median housing price per square foot has dropped $40.



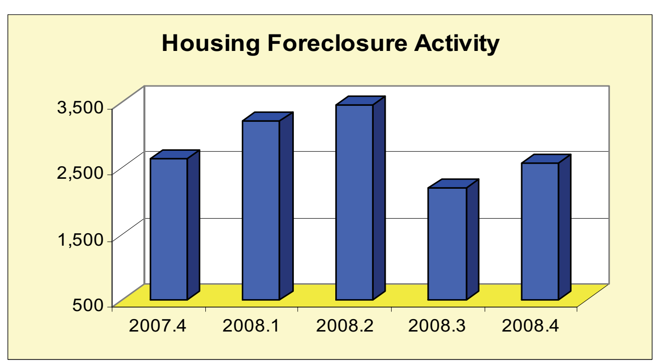
New Building Permits - In the fourth quarter of 2008, the number of building permits issued for the construction of new privately-owned dwelling units fell by 187 from 513 to 326. Relative to four quarters ago, 343 less building permits were issued this quarter.



Mortgage Interest Rate - In the fourth quarter of 2008, the interest rate of thirty-year conventional mortgage loans decreased from 6.32 to 5.87 percent. Since the fourth quarter of last year, the mortgage loan interest rate has fallen 0.36 percentage points.

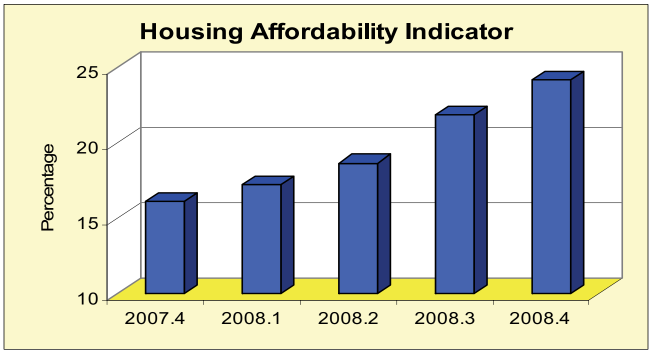


Housing Foreclosure Activity - In the fourth quarter of 2008, the county's foreclosure activity accelerated from 2,196 to 2,566. As a result, 370 (or 16.8 percent) more homeowners received notices of loan default from their mortgage bankers. Of those receiving default notices, 1,512 (or 58.9 percent) lost their homes. Compared with four quarters ago, the foreclosure activity was slowed 2.5 percent.



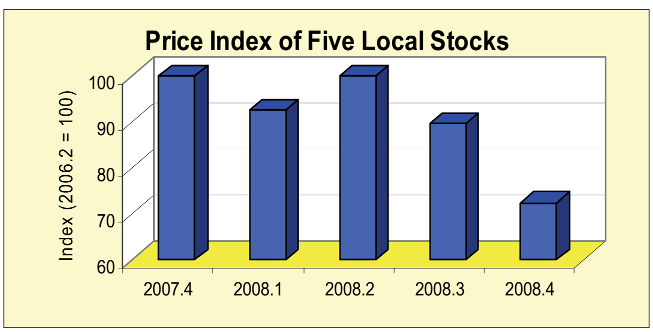
(Continued on page 17)

Housing Affordability - The housing affordability indicator improved from 21.9 percent in the third quarter to 24.2 percent in the fourth quarter of 2008. Compared with four quarters ago, the affordability index gained 8.1 percentage points.

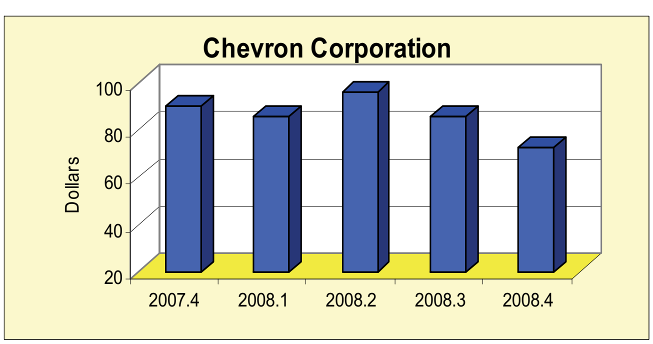


Stock Market

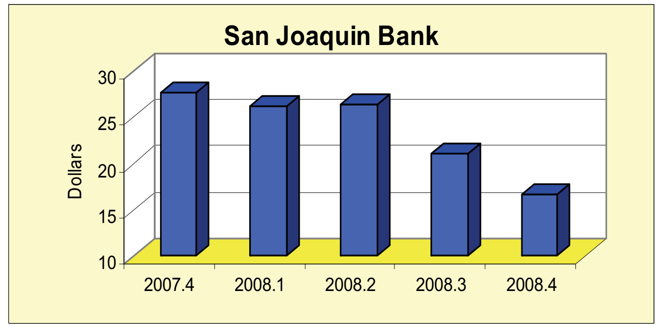
In the fourth quarter of 2008, the composite price index (2007.4 = 100) of the top five locally traded stocks declined 17.2 percentage points from 89.6 to 72.4. The index was 27.6 percentage points lower than that of the fourth quarter of 2007. These top five local *market-movers* are Chevron Corporation, San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.



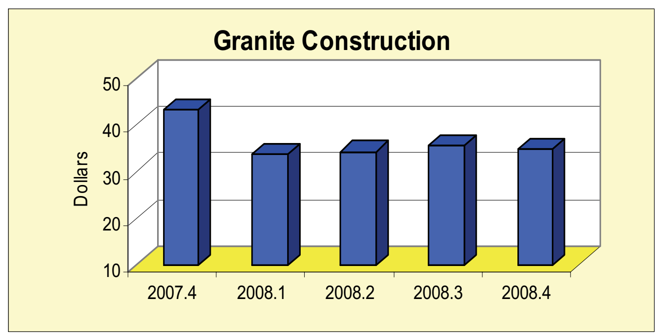
Chevron Corporation US: CVX lost $13.75 (or 16.0 percent) per share as its price dropped from $85.91 in the third quarter to $72.16 in the fourth quarter of 2008. Likewise, CVX has lost $17.91 (or 19.9 percent) since the fourth quarter of 2007.



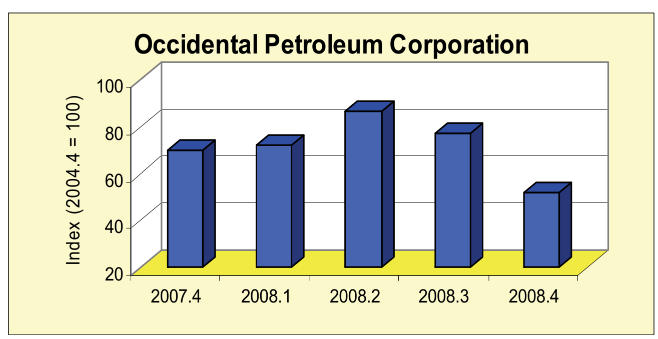
San Joaquin Bank: SJQU lost $4.56 (or 21.5 percent) per share as its price fell from $21.17 in the third quarter to $16.61 in the fourth quarter of 2008. Likewise, SJQU has lost $11.15 (or 40.2 percent) since the fourth quarter of 2007.



Granite Construction: GVA lost $0.66 (or 1.9 percent) per share in the fourth quarter of 2008 as its stock price dropped from $35.36 to $34.70 per share. Likewise, GVA has lost $8.29 (or 19.3 percent) since the fourth quarter of 2007.

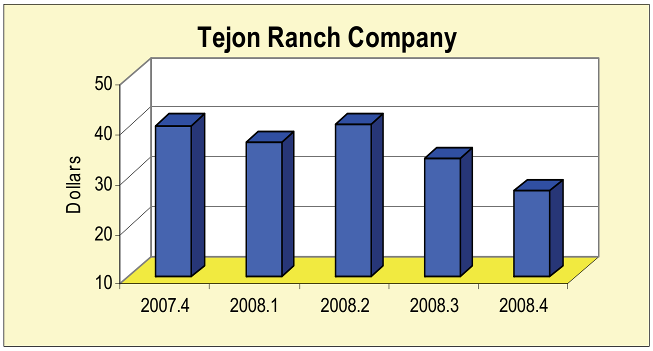


Occidental Petroleum Corporation: OXY lost $25.49 (or 33.0 percent) per share as its stock price declined from $77.31 in the third quarter to $51.82 in the fourth quarter of 2008. Similarly, OXY has gone down $18.15 (or 25.9 percent) since the fourth quarter of 2007.



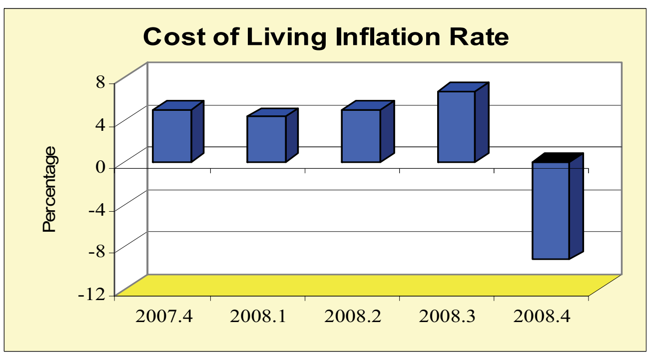
Tejon Ranch Company: TRC lost $6.38 (or 19.0 percent) per share as its stock value dropped from $33.56 in the third quarter to $27.18 in the fourth quarter of 2008. Likewise, TRC was down $13.09 (or 32.5 percent) relative to the fourth quarter of 2007.

(Continued on page 18)

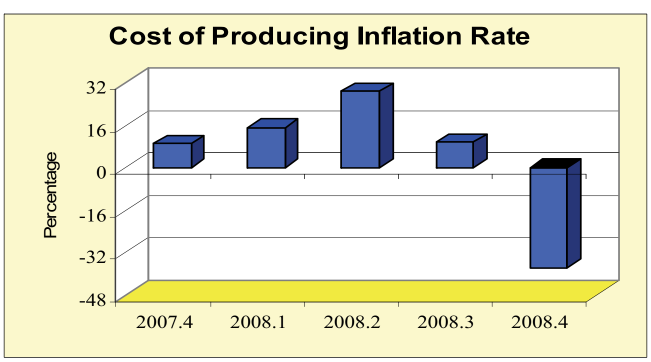


Commodity Prices

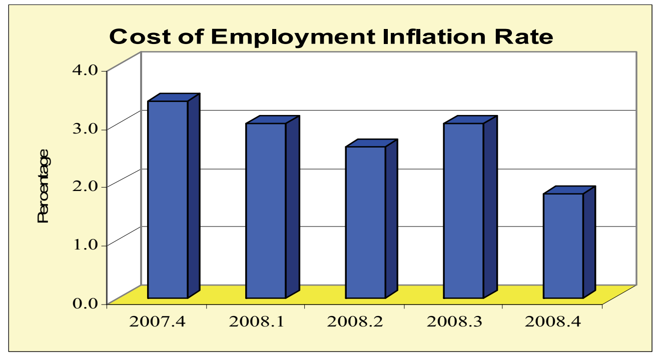
Cost of Living - The Consumer Price Index for all urban areas (1982-84 = 100) declined from 219.0 in the third quarter to 213.8 in the fourth quarter of 2008. In annual rates, the rate of inflation for cost of living decelerated from 6.7 to -9.2 percent. Since the fourth quarter of last year, the cost of living inflation rate has fallen 15.9 percent.



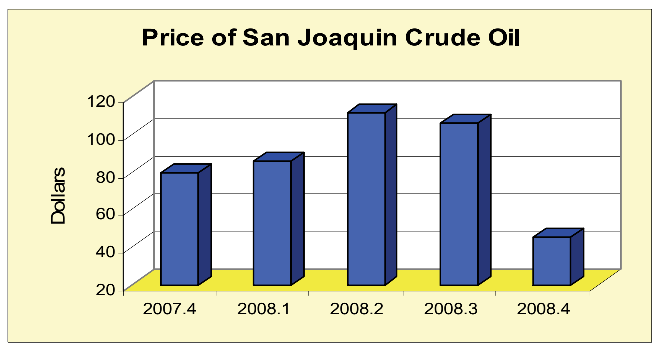
Cost of Producing – The Producer Price Index for all commodities (1996 =100) tumbled from 200.6 in the third quarter to 178.4 in the fourth quarter of 2008. In annual rates, the inflation rate for cost of producing decelerated at a sharp rate of 37.4 percent. The cost of producing inflation rate was 47.1 percent lower than that of the fourth quarter of 2007.



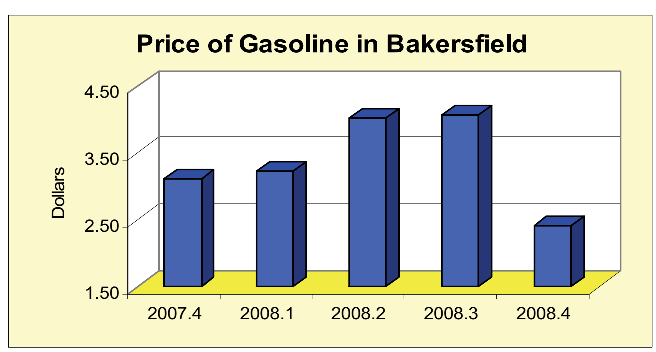
Cost of Employment - In the fourth quarter of 2008, the Employment Cost Index (ECI; December 2005 = 100) increased at an annual rate of 1.8 percent as the index value rose from 109.1 to 109.6. The employment cost inflation rate was 1.2 percent lower than that of the previous quarter and 1.6 percent lower than that of four quarters ago.



Price of Oil - The average price of San Joaquin Valley heavy crude was down $60.47 (or 57.3 percent) per barrel from $105.55 in the third quarter to $60.47 in the fourth quarter of 2008. Likewise, the average price of crude oil was down $34.05 (or 43.0 percent) per barrel relative to the fourth quarter of 2007.



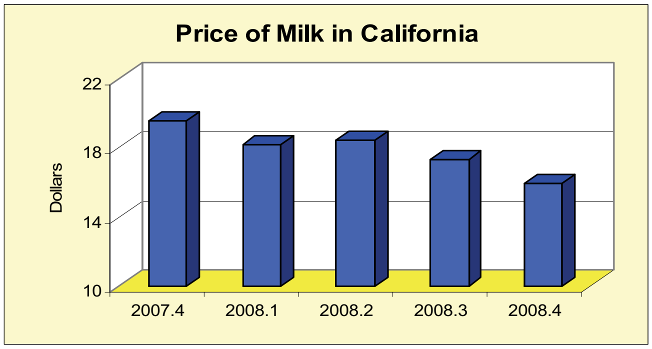
Price of Gasoline - In the Bakersfield metropolitan area, the average retail price of regular gasoline per gallon fell $1.66 (or 40.7 percent) per gallon from $4.08 in the third quarter to $2.42 in the fourth quarter of 2008. Compared with the fourth quarter of last year, the average gasoline price was down 69¢ (or 22.2 percent).



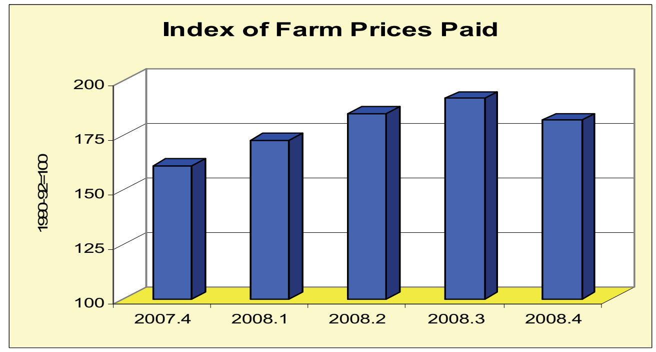
(Continued on page 19)

Tracking (Continued from page 18)

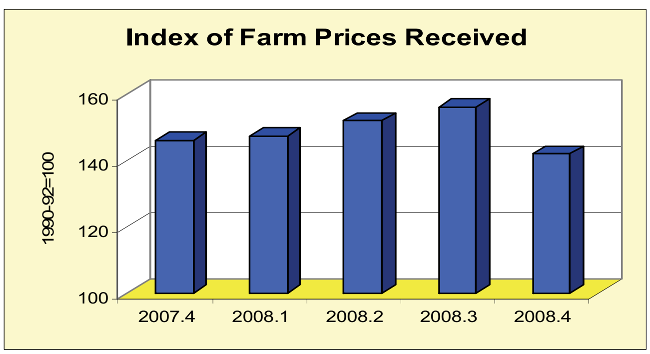
Price of Milk - The average price of California's Class III milk decreased $1.33 per cwt from $17.28 in the third quarter to $15.95 in the fourth quarter of 2008. Likewise, the price of milk has gone down $3.56 since the fourth quarter of 2007.



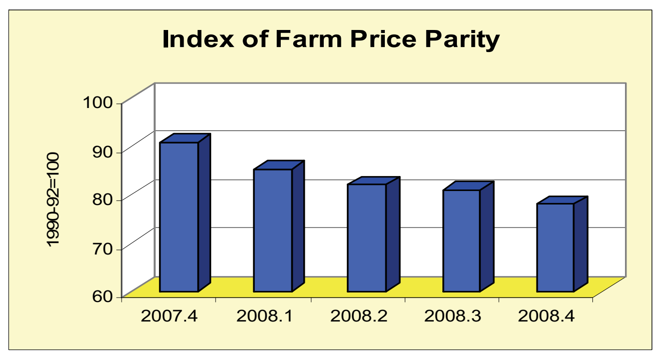
The national Index of Prices Paid by Farmers for commodities, services, interest, taxes, wages, and rents declined 10 percentage points to reach 182. However, the index has gained 21 percentage points since the fourth quarter of last year.



Farm Prices - In the fourth quarter of 2008, the national Index of Prices Received by Farmers for all farm products (1990-92 = 100) dropped 14 percentage point to arrive at 142. This index was 4 percentage points lower than that of four quarters ago.



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 fourth quarter of 2008, the Index of Farm Price Parity fell 3 percentage points to reach 78. Likewise, the gap between prices paid and prices received by farmers has widened 13 percentage points since the fourth quarter of 2007.



Economy at a Glance (Continued from page 2)

puts dropped 10 percentage points to arrive at 182. As a result, the parity between output prices farmers received and input prices farmers paid widened 3 percentage point to reach 78 percent.

In the fourth quarter of 2008, the composite price index (2007.4 = 100) of the top five locally traded stocks declined 17.2 percentage points from 89.6 to 72.4. Relative to four quarters ago, the composite price index of stocks for these *market-movers* edged 27.6 percent lower. The average stock prices fell for Chevron Corporation U.S., San Joaquin Bank, Granite Construction, Occidental Petroleum Corporation, and Tejon Ranch Company.

Book Review

Nudge by Richard H. Thaler and Cass R. Sunstein. New Haven and London: Yale University Press, 2008

Reviewed by: Mark Evans, Associate Dean, School of Business and Public Administration, CSUB

"Rational choice modeling" has been the economists' dominant method for explaining and predicting human behavior since Adam Smith. This method assumes the individual has a computer-like ability to calculate trade-offs and an imperative to choose the course of action most aligned with self-interest. Sophisticated users of this method do not believe individuals are fully rational; rather they use the method to explain or predict changes in aggregate-level behavior. If the personal benefits of an activity increase or if its personal costs decrease, economists predict increased activity at the market level. Likewise, if an activity has decreased, economists seek to explain the change in terms of a decrease in benefit or increase in cost to the typical decision maker. Simply put, farmers can be expected to plant more corn when the price increases and less when it decreases. It is granted that not all decision makers are rational, but presumed that cognitive errors are random and cancel one another out at the aggregate level.

An emerging field, behavioral economics, departs from this orthodoxy and focuses on identifying situations where decision making is systematically biased. Daniel Kahneman, 2002 co-recipient of the Nobel Prize in Economics has called an early paper by Richard Thaler, co-author of this book, "the founding text in behavioral economics."

Nudge presents a behavioral economics approach to policy making that authors Thaler and Sunstein label "libertarian paternalism." Their approach is paternalistic in that it builds on findings that decision makers are sometimes their own worst enemies and proposes interventions to protect people from themselves. It is libertarian in that their proposals maintain freedom of choice and value outcomes from the perspective of those making the decisions. This is not an oxymoron in that they propose interventions that affect how decisions are framed, but leave the freedom to make decisions intact. They argue that policy makers should become "choice architects," using the findings of cognitive psychology and behavioral economics to explicitly frame decisions in a way that will "nudge" them to be more consistent with desired outcomes.

For example, inertia is a systemic bias in decision making. Anything that is a "default option" will be frequently chosen. In most organizations, the default option for 401k contributions by a new employee is zero contribution. In the absence of an overt action by the worker, nothing goes into the 401k. Over the life cycle, workers would agree they should increase the percentage contribution as their kids are raised and shift portfolios toward fixed assets as retirement approaches. Inertia prevails. In most cases, none of this happens or too little happens too late. Thaler and Sunstein propose that all of this happen automatically as the default option with employees retaining authority to make choices departing from the default.

The first part of this highly readable book summarizes various types of systemic decision making bias and enumerates a toolkit of strategies for choice architects. The second half has chapters on various social problems in which the authors propose nudges that can be used by choice architects to improve outcomes. These chapters primarily cover topics relating to personal finance, health care, and education. It will not surprise me if their chapter on privatizing marriage wins converts on both sides of the gay marriage issue.

The rational choice model has served economics well and is here to stay. However, there is growing receptivity to new approaches and the economics discipline is being enriched as a result.

Econ Brief!

Economic Development of the San Joaquin Valley

The San Joaquin Valley (hereafter, the Valley) is California's top agricultural producing region, sometimes called "the nation's salad bowl" for the great array of fruits and vegetables grown in its fertile soil. It consists of eight counties of Fresno, Kern, Kings, Madera, Merced, San Joaquin, Stanislaus, and Tulare. With an area of 27,280 square miles, it takes 17 percent of the land area in California. With a population of 3.6 million, it accounts for 10 of California's population. With a rapid population growth of about 3 percent, the Valley's per capita income is still under $20,000. Although heavily engaged in farm production and exportation, the economic development strategy of the Valley calls for diversification to value-added agriculture, manufacturing, and services.

A study by the California Economic Strategy Panel has suggested that the Valley is poised to become a key regional player in California's new economy. It urges Valley industries to adopt a new approach to economic development. The study indicates that the "new economy" is not necessarily about technological advancement, but about applying new ways of doing business to a wide range of products. These new ways are:

Fast: Companies must compete to develop and produce innovative products and services faster than their competition.

Global: Companies must operate and sell globally and compete against foreign competition both in product quality and price.

Knowledge-based: Companies must hire and train educated, cultured, healthy, and skilled labor.

Networking: Companies must specialize in what they do best and develop relationships with partners, suppliers, and subcontractors to do the rest. They tap into information and innovation networks to stay abreast of change.

Technology-intensive: Companies must create, adapt, and use efficient technology in order to minimize costs of production and distribution.

All these characteristics boil down to *innovation*. To compete globally, companies must innovate continuously. They must develop better products and services faster than the competition. This characterization is applicable to all industries from apparel to agriculture, from timber to telecommunications, from light industrial manufacturing to computer software.

Source: The Economic Future of San Joaquin Valley, The Great Valley Center, January 2000.

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