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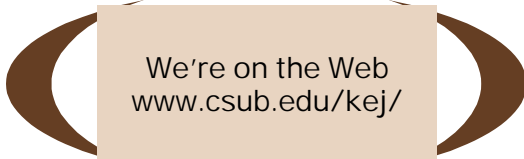
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KERN ECONOMIC JOURNAL is a quarterly publication by the Center for Economic Education and Research at California State University, Bakersfield. Its main purpose is to track local trends and analyze regional, national, and global issues that affect 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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Local Economy in Perspective:

Businesses are less optimistic about local economic conditions. The Business Outlook Index decreased from 129.4 in the third quarter to 120.4 in the fourth quarter of 2000. *(Full story on page 2)*

Local factors perceived to improve business outlook:

- Higher prices for crude oil
- Lower interest rates
- Popularity of e-commerce
- Affordability of housing
- Increased cultural and entertainment activities

Households expressed less optimism about local economic conditions. The Consumer Sentiment Index declined from 125 in the third quarter to 111 in the fourth quarter of 2000. *(Full story on page 3)*

Question	Better	Same	Worse
How your family is doing financially compared to one year ago?	28%	52%	20%
The most likely financial situation of your family one year from now?	43%	40%	17%

Non-farm employment increased by 700 or at an annual rate of 1.4 percent. The rate of unemployment increased from 10.1 percent in the third quarter to 10.6 in the fourth quarter of 2000. Over the past four quarters, Kern County created jobs at a rate of 1.0 percent compared with California at 2.8 percent and the United State at 1.6 percent. *(Full story on page 5)*

Housing Price: Kern County offers the most affordable home prices among 24 California counties. The average price of a single-family house in the year 2000 was \$108,105, which was 74 percent less than that of Orange County and 80 lower than that of San Francisco County. *(Full story on page 12)*

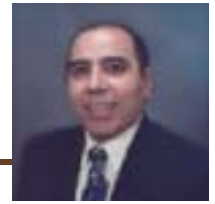
Earning Differentials: In contrast to the state and national labor markets, college educated full-time Hispanic male workers in Bakersfield earn more than their White counterparts. On average, Hispanics earn 13 percent more, but African-Americans earn 22 percent less than White workers. *(Full story on page 6)*

Travel/tourism is a major industry in Kern County. In 1998, travel/tourism spending amounted to nearly \$789 million. The industry offered 9,340 jobs with a total payroll of over \$121 million. Travel/tourism generated more than \$56 million in local and state taxes. *(Full story on page 15)*

Oil and natural gas industry is a major contributor to Kern County's tax proceeds. The assessed value of the oil and natural gas properties in 2000 was over \$14 billion. So, the industry generated more than \$140 million in property taxes. *(Full story on page 18)*

KERN BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS



This article presents opinions of business managers regarding current and anticipated economic conditions of Kern County in the fourth quarter of 2000. On January 3-5 and 8-12 we telephoned a random sample of 400 members of the Greater Bakersfield of Commerce, of whom 82 replied. Responses were enumerated to construct a Business Outlook Index (BOI). The BOI value of 100 indicates *neutrality* about local business conditions, greater than 100 expresses *optimism*, and less than 100 *pessimism*.

Between the third and fourth quarters of 2000, the BOI declined from 129.4 to 120.4. This decrease indicates that business managers are less optimistic about local business conditions. Compared with one year ago, the BOI rose by over 10 points, indicating reduced optimism in the business community.

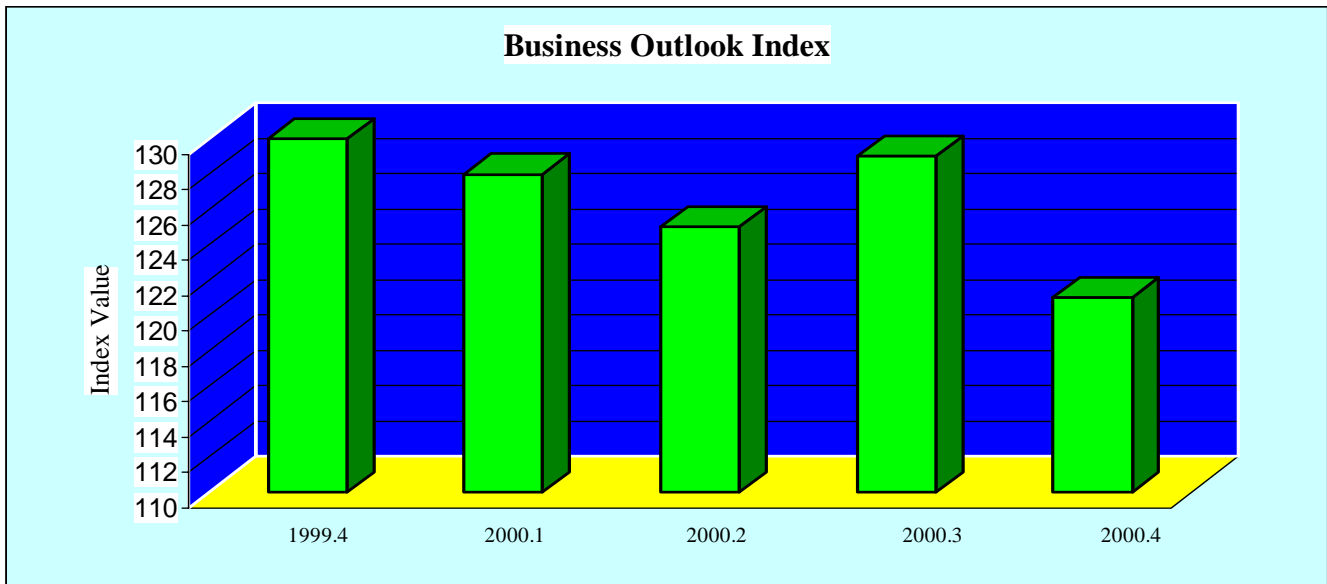
The majority of survey respondents reported that the number of jobs in their companies stayed the same as the previous quarter. They expected the number of jobs available in their

companies to remain unchanged in the next quarter.

Nearly one-half of business managers perceived that financial conditions (sales or profits) of their companies improved this quarter and project improvement into the next quarter.

The majority of business managers perceived that current employment and financial conditions of their in-

(Continued on page 4)



Question	Response		
	Better	Same	Worse
Employment in your company this quarter was	20.7	58.6	20.7
Employment in your company next quarter will be	26.8	69.5	3.7
Financial condition (sales or profits) of your company this quarter was	48.8	34.1	17.1
Financial condition (sales or profits) of your company next quarter will be	59.7	29.3	11.0
Employment and general business conditions in your industry this quarter were	24.4	62.2	13.4
Employment and general business conditions in your industry next quarter will be	35.6	55.0	9.4
Employment and general business conditions in Kern County this quarter were	26.8	52.5	20.7
Employment and general business conditions in Kern County next quarter will be	32.9	53.7	13.4

BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS, INTERIM DEAN, EXTENDED UNIVERSITY DIVISION



After increasing in third quarter, the Bakersfield Consumer Sentiment Index returned to its second quarter value at the end of year 2000. The index value was 111 in second quarter, 125 in third quarter, and 111 in fourth quarter. The index is compiled from telephone surveys administered to a random sample of households listed in the Bakersfield section of the phone book. The index also is disaggregated into sub-indexes relating to recent trends and future expectations. Both sub-indexes decreased in the fourth quarter. The Index of Recent Buying and Financial Trends decreased from 123 to 110, while the Index of Future Expectations decreased from 127 to 113. The retreat was expected, given media attention to the

national slowdown, yet the index remained above the 100-threshold. Index values over 100 are indicative of consumer optimism, while values below 100 suggest pessimism. The Bakersfield Consumer Sentiment Index was below its value of 117 one year ago, primarily because of a decline in expectations rather than actual circumstances.

The Index of Recent Buying and Financial Trends is constructed from responses to questions relating to expenditures on discretionary items, financial status of the household compared to one year ago, and perceived financial condition of acquaintances in Kern County. Most of the decrease in the subindex reflecting recent trends was attributable to

changes in responses to the question relating to self-reported financial conditions. When heads of households were asked how their families were doing compared to one year ago, 28 percent indicated they were financially better off, compared to 43 percent reporting an improvement during the third quarter. Respondents indicating their financial situation worsened increased from 10 percent in the third quarter to 20 percent in the fourth quarter.

To assess consumer expectations, households were asked how they thought the financial situation of their families would change over the coming year. While only four percent thought their financial situation

(Continued on page 4)

**TABLE 1
INDEX VALUES**

	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	111	125	117
Sub index: Recent Buying & Financial Trends	110	123	113
Sub index: Expectations	113	127	121

**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)	28 %	47 %	25 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	28 %	52 %	20 %
How your acquaintances in Kern County are doing financially compared to one year ago.	32 %	56 %	12 %

Business Outlook (Continued from page 2)

dustries were the same this quarter and are likely to remain constant in the next quarter.

Over fifty percent of business managers felt that employment and general business conditions in Kern County were the same as the previous quarter. They expected employment and general business conditions in Kern County to stay constant next quarter.

Survey participants were asked to comment on local, regional, national, or international factors that have affected employment and financial conditions of their companies.

Major factors perceived to hinder business outlook are:

- Power crisis: higher prices of natural gas and shortage of electricity
- High fuel costs, increasing production cost
- Increase in the minimum wage, increasing the cost of employment
- Cumbersome and costly environmental regulations
- Lingering uncertainty about the national election and the economy
- Increased business competition and lack of qualified workers

- ✓ High prices for crude oil
- ✓ Lower interest rates
- ✓ Popularity of e-commerce
- ✓ Affordability of housing
- ✓ Centennial Garden offering cultural and entertainment programs

Overall, business managers remain optimistic about local business outlook. But, their degree of optimism has somewhat reduced. A wide range of positive and negative factors has contributed to forming business perceptions. It appears that pessimism is gaining momentum as the cost of doing business is on the rise.

Major factors perceived to improve business outlook are:

Consumer Sentiment (Continued from page 3)

would worsen in third quarter, 17 percent thought it would worsen in fourth quarter. Keeping this shift in expectations in perspective, 43 percent expected their financial situation to improve over the coming

year while 40 percent expected no change. Respondents also perceived their acquaintances in Kern County to be less optimistic than in the previous quarter. Finally, households were asked if now is a safe or risky time to use savings or incur debt to purchase expensive goods. Thirty-

two (32) percent thought this is a prudent time to draw down savings or incur debt, compared to 37 percent in the previous quarter. Thirty-six (36) percent thought it was a risky time to make a major purchase, compared to 21 percent in the third quarter.

**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	43 %	40 %	17 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	36 %	45 %	19 %
	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?	32 %	32 %	36 %

EMPLOYMENT AND UNEMPLOYMENT IN KERN COUNTY

ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

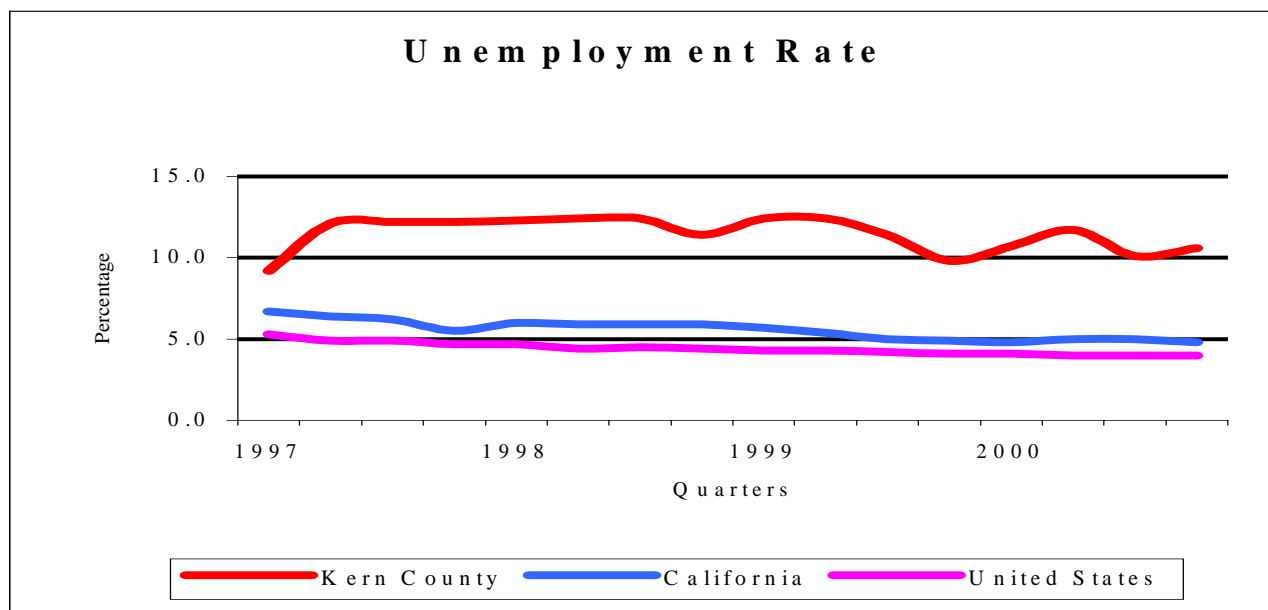
Seasonally adjusted¹ data indicate that Kern County continued to experience double-digit unemployment in the fourth quarter of 2000. While the non-farm sector added 700 jobs and the number of self-employed labor and those who worked outside their residential locations increased by 1,700 persons, the farm sector reduced 3,500 jobs. As a result of an increase in the labor force and a larger number of unemployed persons, the unemployment rate rose by one-half of a percentage point from the previous quarter.

In the non-farm sector, employment increased in transportation, retail trade, services, federal and

state government, and local education. However, jobs were lost in manufacturing and services industries. In the fourth quarter of 2000, non-farm employment increased at an annual rate of 1.4 percent in Kern County, 2.4 percent in California, and only 0.4 percent in the United States. Over the previous four quarters, non-farm employment growth averaged 1.0 percent in Kern County, 2.8 percent in California, and 1.6 in the United States.

The following chart illustrates unemployment trends in the local, state, and national economies. Historically, the rate of unemployment in Kern County had been in double digits. Twice in

the 1990s, the first quarter of 1997 and fourth quarter of 1999, Kern's unemployment rate fell to single digits. Between the third and fourth quarter of 2000, the unemployment rate rose from 10.1 to 10.6 percent in Kern County. The quarterly unemployment rate declined from 5.0 to 4.8 percent in California, but stayed constant at 4.0 percent in the United States. Compared with the fourth quarter of 1999, the unemployment rate increased from 9.8 to 10.6 percent in Kern County, but fell from 4.9 to 4.8 percent in California and from 4.1 to 4.0 percent in the United States.



¹ Quarterly data are adjusted for seasonality by the X-11 procedure of the ARIMA model using the SPSS statistical software package.

THE IMPACT OF TOURISM: BRINGING DOLLARS TO KERN COUNTY

BARRY ZOELLER, EXECUTIVE DIRECTOR, KERN COUNTY BOARD OF TRADE



Kern County's economy is often associated with oil and agriculture. While those two segments may be the twin pillars of the county's economic base, other industries play a significant and growing role in Kern County's economic health. The travel/tourism industry is one such example. At first glance, many people may not associate Kern County with travel/tourism. But that is a false picture. The industry may not be as large in Kern County as it

is in other parts of the state, but travel/tourism still plays a vital role in the local economy.

Consider its significance. As illustrated in the following table, the direct impact of travel spending in Kern County increased from \$656.8 million in 1992 to \$788.8 million in 1998. If travel/tourism were a commodity, it would be Kern County's top crop by a large margin. Grapes were Kern County's top crop in

1998. But grapes' value of \$427.45 million is significantly less than travel/tourism. In fact, the total value of Kern County's top two crops that year (grapes and citrus with a combined value of \$749.30 million) still did not equal the total generated by travel/tourism.

(Source – Kern County Agricultural Commissioner)

(Continued on page 7)

Travel Spending by Type of Traveler Accommodation (\$Million)							
	1992	1993	1994	1995	1996	1997	1998
Destination Spending	650.1	650.7	690.9	683.5	698.8	747.3	781.4
Hotel, Motel, B&B	171.7	158.3	180.7	176.4	169.4	183.9	201.1
Private Campground	61.7	62.6	58.6	50.5	56.3	60.8	60.8
Public Campground	11.7	12.6	12.8	12.7	13.1	13.5	13.5
Private Home	134.2	144.6	155.7	159.4	164.0	169.8	171.3
Vacation Home	47.6	48.0	49.4	51.5	56.0	64.1	70.0
Day Travel	223.1	224.5	233.6	232.9	240.0	255.4	264.7
Air Transportation	5.6	9.2	6.5	5.9	5.2	6.0	6.3
Travel Arrangement	1.0	1.0	1.1	1.0	0.9	0.9	1.0
Total Spending	656.8	660.9	698.4	690.3	704.9	754.2	788.8
Travel Spending by Type of Business (\$Million)							
Destination Spending	650.1	650.7	690.9	683.5	698.8	747.3	781.4
Accommodations	72.4	68.0	75.4	72.9	71.5	77.7	85.2
Eating, Drinking	104.9	99.2	110.8	109.1	111.3	119.6	128.5
Food Stores	58.0	53.7	62.5	62.3	64.5	68.3	71.9
Ground Transport	142.4	148.3	151.8	150.5	155.1	165.4	159.3
Recreation	76.3	80.1	81.2	80.7	82.7	88.6	94.6
Retail Sales	196.1	201.3	209.1	208.0	213.7	227.ä	241.9
Air Transportation	5.6	9.2	6.5	5.9	5.2	6.0	6.3
Travel Arrangement	1.0	1.0	1.1	1.0	0.9	0.9	1.0
Total Spending	656.8	660.9	698.4	690.3	704.9	754.2	788.8

Source: California Division of Tourism, California Trade and Commerce Agency

Tourism (Continued from page 6)

One should not be surprised by these figures, considering travel/tourism is the third largest retail industry in the country. Only automotive dealerships and food stores generate more annual sales. And when it comes to employment, travel/tourism is considered the largest industry in the world.

The table below indicates that Kern County's travel/tourism employment and total payroll increased from 8,860 jobs and \$99.2 million in 1992 to 9,340 jobs and \$121.4 million in 1998. Across the country, travel/

tourism employs more than 17 million people. Employment is also growing, with the Travel Industry Association forecasting employment in travel/tourism will increase faster by 2006 than employment in the overall economy. The growth is expected to be even greater in California, which is already the nation's leader in travel/tourism employment. According to the Center for the Continuing Study of the California Economy, a Palo Alto-based research group, travel/tourism employment in California is expected to grow twice as fast as the total economy over the next ten years.

As travel/tourism benefits the economy, it also enriches government. Spending by international and domestic travelers generated a total of \$82.6 billion in tax revenue for federal, state and local governments in 1998. Data presented in the following table show that Kern County's contribution to local taxes increased from \$10 million in 1992 to \$13.2 million in 1998. Contribution to state tax receipts rose from \$35.4 to \$43 million over the same period. Overall, the industry's tax contribution increased from \$45.5 million in 1992 to a whopping \$56.2 million in 1998.

(Continued on page 8)

Employment Generated by Travel Spending (Jobs)							
	1992	1993	1994	1995	1996	1997	1998
Accommodations	1,710	1,570	1,690	1,600	1,560	1,660	1,760
Eating, Drinking	2,990	2,830	3,160	3,100	3,060	3,090	3,210
Food Stores	320	280	320	320	330	340	340
Ground Transport	60	620	620	600	610	650	670
Recreation	1,520	1,600	1,630	1,610	1,570	1,560	1,570
Retail Sales	1,510	1,520	1,540	1,500	1,510	1,560	1,600
Air Transportation	80	130	70	70	70	80	90
Travel Arrangement	110	100	120	100	90	90	110
Total Employment	8,860	8,650	9,160	8,910	8,800	9,030	9,340
Total Travel Payroll (\$Million)	99.2	99.1	105.0	103.1	104.6	112.2	121.4

Source: California Division of Tourism, California Trade and Commerce Agency

Tax Revenues Generated by Travel Spending (\$Million)							
	1992	1993	1994	1995	1996	1997	1998
Local Taxes	10.0	10.0	11.6	11.5	11.5	12.3	13.2
State Taxes	35.4	35.7	37.5	38.1	38.7	41.2	43.0
Total Taxes	45.5	45.7	49.1	49.7	50.1	53.5	56.2

Source: California Division of Tourism, California Trade and Commerce Agency

Tourism (Continued from page 7)

Multiplier Effect

Travel/tourism also produces secondary impacts over and above the direct impact of travel-related expenditures. This multiplier effect can be quite significant. These secondary outputs (sales) and earnings (wage and salary income) arise from *indirect* and *induced* spending. Indirect spending occurs as travel industry businesses purchase goods and services from local suppliers, generating additional output or sales indirectly.

The other type of secondary impact is the induced effect on sales or output. This results as the employees of travel businesses and their suppliers spend part of their earnings in the area. This spending itself generates sales additional to the direct impact of expenditures made by travelers in the county.

The California Division of Tourism estimates that for the typical California city or county, the true value of this multiplier effect will fall in the range of 1.5 to 2.5. Thus, the \$789 million in direct travel-related expenditures for Kern County would generate total business valued at between \$1.2 and \$2.0 billion.

The Future of Travel in Kern County

Kern County is well positioned to take advantage of recent trends in travel/tourism. According to the 2000 Travel Monitor, a research series on travel habits, preferences and intentions of Americans, conducted jointly by the Yankelovich Partners research firm and the marketing and public relations firm of Yesawich, Pepperdine and Brown, the biggest

obstacle to travel is not a lack of money, but a lack of time. This *time poverty* is having a profound impact on the travel/tourism industry. Family vacations lasting up to two weeks are becoming much less common. Today's vacationers are looking for shorter vacations, usually lasting no more than five days. With shorter vacations, travelers want to spend less time getting to their destinations and more time enjoying them. As a result, travelers will devote a maximum time of three hours traveling to their destination. That puts Kern County right in the sights of the huge Southern California market.

But travelers are not only looking for shorter vacations, the Travel Monitor also reveals vacationers are looking for adventure when they travel, they want "new" experiences, to visit places that will satisfy their intellectual curiosity, and they want destinations to package trips into a convenient bundle. Kern County has the tourism assets to satisfy all those desires.

To help ensure that Kern County captures as much of the Southern California travel/tourism dollars as possible, the Kern County Board of Trade is intentionally marketing to the Southern California market. A new billboard on Highway 99 is one example. The billboard, located just north of Highway 119, greets all northbound traffic out of Los Angeles with the message, "Discover Adventure – Discover Kern County." The billboard depicts a number of adventure-oriented experiences in Kern County, including whitewater rafting, skiing, kayaking and off-roading. Skydiving and rock climbing will replace the skiing and off-roading scenes during the spring and summer months.

In addition to the billboard, the Board of Trade is also participating in the marketing of the new IMAX motion picture, "Adventures in Wild California," which is being used by the California Division of Tourism to promote travel to the state. Kern County is listed as a "Wild Destination" on the official website and has three pages of content displaying how one can "Discover Wild California in Kern County." Kern County is also a major advertiser in California's Official Tourism guide and has placed ads in a number of consumer magazines, including *The Readers Digest* and *Sunset*.

The travel/tourism industry in Kern County has grown over the years, and that growth can be expected to continue. As the industry grows, and more travel/tourism dollars are brought to the county, the end result will be more jobs and increased economic opportunity.



PROPERTY TAX CONTRIBUTION OF OIL AND GAS INDUSTRY TO KERN COUNTY

PETER H. J. TUCK, CHIEF APPRAISER, KERN COUNTY ASSESSOR'S OFFICE



The economic contribution of the oil and gas industry to Kern County is well known and documented. However, there is an aspect of the industry's contribution that is not particularly well known or understood. This contribution is the tax the industry pays on oil and gas properties it owns or operates in Kern County. This property tax, being a significant expense to the industry, is a major source of revenue for the county, cities, schools, and special districts.

The basis for this tax is the assessment placed on oil and gas properties. The county's general tax rate is one percent of the assessed value in accordance with the law established by Proposition 13 in 1978. Special districts, bond indebtedness, and approved fees are added to this tax base. The total rate, which varies with location within the county, is usually a fraction of a percent over

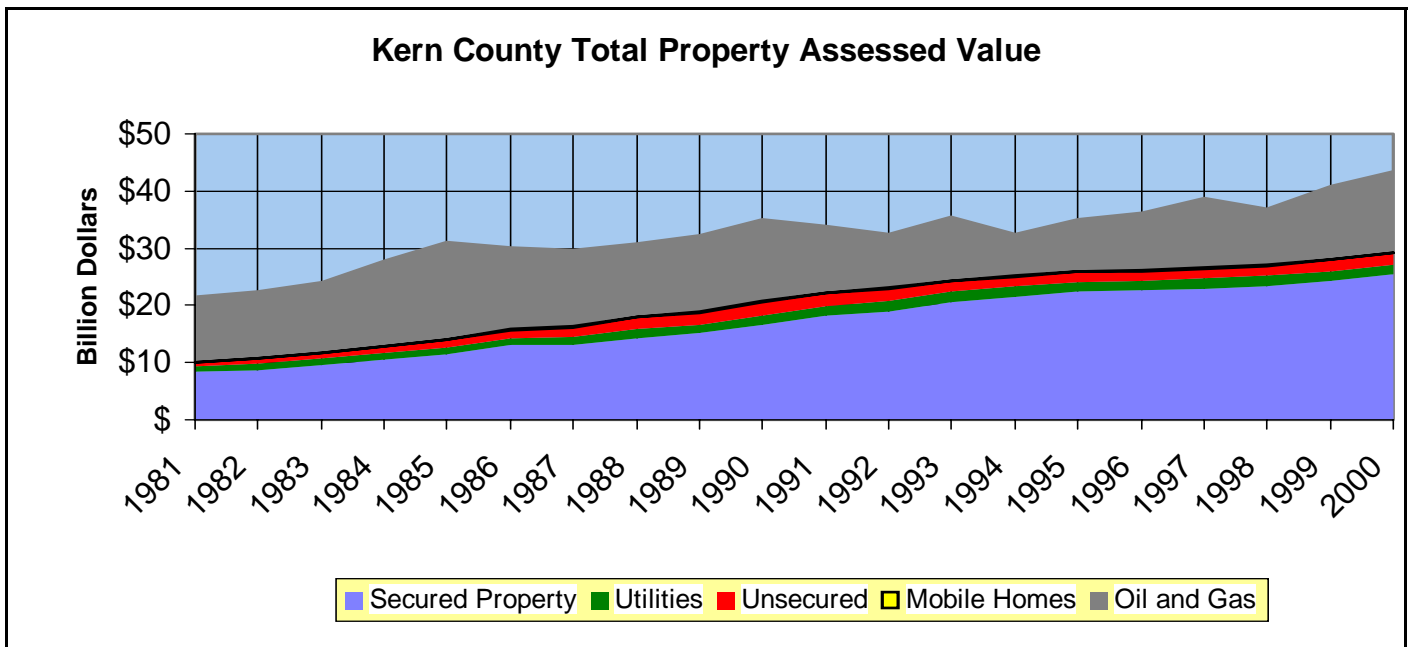
the one percent general rate. Oil companies, school districts, and the county carefully scrutinize the assessment process, outcome, and residual activities each year.

A historical perspective helps demonstrate the magnitude and impact of the oil and gas property assessments on Kern County's economy. As illustrated in the following chart, the total assessed value of all properties has increased from \$21.7 billion in 1981 to \$41 billion in 2000. Assessment of the oil and gas properties as a portion of this total ranged between \$7.6 billion in 1994 to \$17.3 billion in 1985. The oil and gas property assessments as a percentage of the county's total assessed value varied between 55.2 percent in 1985 to 23.2 percent in 1994. Since assessment of oil and gas properties fluctuate from one year to the next, and given that the local economy has grown over the past twenty years,

the contribution of the oil and gas industry as a percentage of total assessed value has had a tendency to decline. Currently, oil and gas property assessments account for approximately 30 percent of the county's total property valuation.

Tax contribution of the non-oil and gas properties, growing at average annual rate of 5.9 percent, has been increasing since 1981. In contrast, the contribution of oil and gas properties to the county's tax base, growing at an average annual rate of 14.8 percent, has declined in seven of the last eighteen years. In six of these seven years, the decline in the oil and gas assessments was sufficient to lower the county's total assessed value. The following plots illustrate a steady and gradual increase in the total non-oil and gas property assessments against the fluctuating oil and gas property assessments.

(Continued on page 10)



Oil & Gas Industry (Continued from page 9)

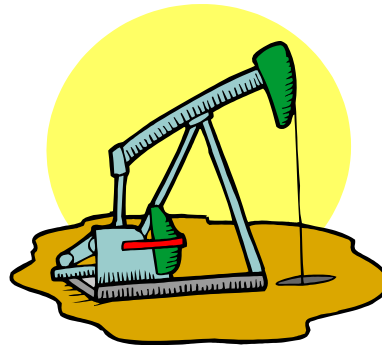
Historically, the assessment of the oil and gas properties has contributed \$76 to \$172 million annually to the county's total property tax revenue. Each year the county and the oil and gas industry carry out an involved process of exchanging, analyzing, and evaluating detailed information regarding the properties. From this process a Fair Market Value (FMV) and a Proposition 13 Factored Base Year Value (Prop. 13) are calculated for each property. These calculations are made effective as of January 1st each year or what is referred to as the Lien Date.

In California, the taxpayer is entitled to the lower of an assessment based on the FMV or Prop. 13 calculation method. The FMV is the current market value of the property based on current expectations for a property's development taking into account "reasonably anticipated" operating conditions and market values. The Prop. 13 value is the value at acquisition plus additions for new reserves and construction, less depletion, abandonment or retirement of facilities and equipment. The Prop. 13 value is adjusted each year by a factor of two percent or the annual inflation rate, whichever is lower. Since 1978, the adjustment factor has been 2 percent in all but four years.

Property taxes paid by the oil and gas industry greatly benefit the local economy. But, the dramatic swing in the valuation of oil and gas properties caused by unstable oil prices introduces an element of uncertainty in determining the county's tax revenues. This statement is particularly true for the communities and districts located in areas adjacent to major oil fields. The change in the overall oil and gas assessment roll-

ing from one year to the next can be 20 to 30 percent. Individual property value or property value within a limited area can change even more dramatically. The level of property tax revenue for an entity one year may be significantly higher or lower than the next. Clearly, this uncertainty makes long range planning and budgeting rather difficult for Kern County.

The oil and gas industry will continue making major contributions to Kern County's economic base. The general public often overlooks property taxes paid by the industry as benefits to the community. The assessed value of oil and gas properties in Kern County for the 2000 Assessment Year was over \$14 billion. This value generated over \$140 million in property taxes. According to the distribution pattern of property tax revenues, 60 percent is allocated to the schools, 30 percent to the county, and the remaining 10 percent to cities and special districts. Although it is unlikely for the oil and gas industry to equal its 55 percent contribution to the county's assessed value again as it did in 1985, the industry remains an extremely important, if not vexing, source of property tax revenues and community development.



MULTI-MILLION DOLLAR GROWTH: LOCAL GOVERNMENT BUDGET 1936-2000

SRIRAM KHÉ, DIRECTOR, ENVIRONMENTAL RESOURCE MANAGEMENT PROGRAM, CSUB



Kern County’s annual budget, overseen by the Board of Supervisors, is almost a billion dollars for fiscal year 2000-2001. It is reasonable to assume that the 2001-2002 budget may even exceed a billion dollars, which is far greater than the 6.7 million dollars expended by the county government in 1935-1936. This article highlights some of the changes in the financial aspect of the county government.

County governments have a dual role of being the local government as well as a representative of the state government. County governments have to, therefore, implement state and federal programs irrespective of local preferences. As a local government, the County of Kern has to also provide services to the resi-

dents in unincorporated areas of the county.

While we think of California as highly urbanized, with most of the population living in incorporated cities, unincorporated communities are home to almost a fifth of the state’s residents, and serving these residents is primarily the responsibility of county governments. Kern County is the sixth largest county in California, in terms of population living in unincorporated areas—in excess of 271,000 according to population estimates in 1999 (Source: Alvin D. Sokolow, “Caring for Unincorporated Communities” *California County*, March/April 2000, Table 1.)

As shown in Table 1, the county’s population growth has been quite

impressive, with growth rates often higher than the population growth rate observed in the entire state.

How has the county government budget changed over the years? Financial data were examined for the fiscal years (FY) 1935-1936, 1968-1969 and 2000-2001. FY 1936 was selected because that was the earliest record of county budget in the university library’s collections. While data for FY 1936 and 1969 came from financial statements, which mean these were audited data, the FY 2001 data are from the proposed budget. Table 2 includes revenue and expenditure data for the three fiscal years.

(Continued on page 12)

Year	Kern County Population	Change	California Population	Change
1900	16,480		1,485,053	
1910	37,715	128.9%	2,377,549	60.1%
1920	54,843	45.4%	3,426,861	44.1%
1930	82,570	50.6%	5,677,251	65.7%
1940	135,124	63.6%	6,907,387	21.7%
1950	228,309	69.0%	10,586,223	53.3%
1960	291,984	27.9%	15,717,204	48.5%
1970	329,162	12.7%	19,953,134	27.0%
1980	403,089	22.5%	23,667,902	18.6%
1990	543,477	34.8%	29,760,021	25.7%
2000 (estimate)	658,900	21.2%	34,336,000	15.4%

Source: <http://www.dof.ca.gov/HTML/DEMOGRAP/1900-90.htm> (California State, Department of Finance, *Historical Census Populations of California State and Counties, 1850-1990.*)

Item	FY 1935-36	Adjusted FY 1936 in 2000 Dollars	FY 1968-69	Adjusted FY 1969 in 2000 Dollars	FY 2000-2001
Total Revenue	\$7,476,868	\$93,685,159	\$76,817,705	\$364,115,922	\$ 922,632,523
Total Expenditure	\$6,732,190	\$84,354,342	76,426,395	\$362,261,112	\$ 922,632,523
Surplus (Deficit)	\$744,678	\$9,330,818	\$391,310	\$1,854,809	\$ -

Local Gov't. Budget(Continued from page 11)

The data for FY 1936 and FY 1969 have also been adjusted for inflation and have been reported in constant dollars. (Refer to the article by Margaret Malixi on page 21 for a discussion on inflation.)

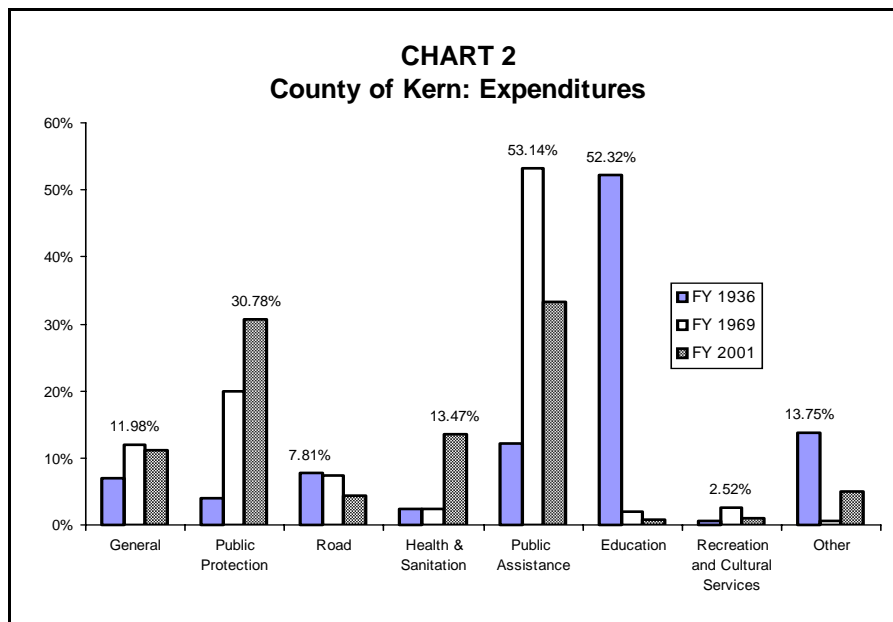
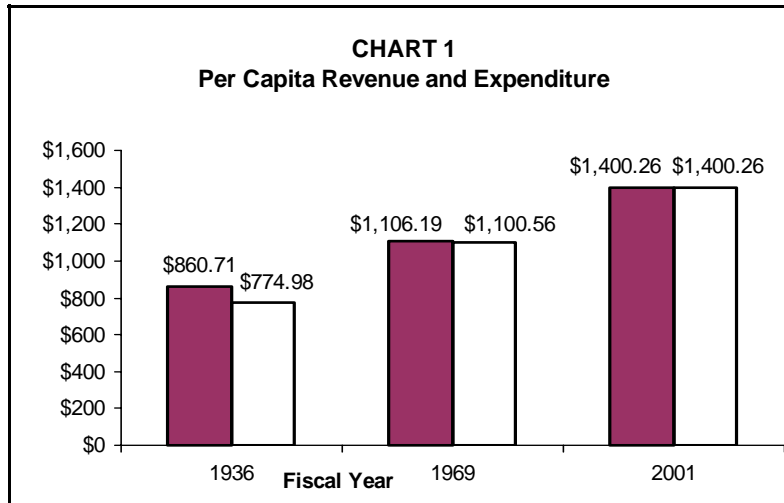
Inflation adjusted revenue and expenditure in FY 2001 are almost ten times the FY 1936 figures—even though the county population has barely sextupled over the same time period. Thus, as shown in Chart 1, expenditures per capita have almost doubled between 1936 and 2000.

Analysis of expenditure by various categories clearly demonstrated the changes in priorities over the time period. However, the multiple layers of local government are not captured in this analysis. For instance, while in 1936 the revenues and expenditures of the K-12 education system were captured as components of the county government finances, in later years (including 1969) these were separately reported by the Superintendent of Schools. Similarly, even though it may appear that spending on roads has sharply decreased, the category “road” does not include the multi-million dollar transportation program through spe-

cial districts such as the Kern Council of Governments (KernCOG) or the Golden Empire Transit District (GET.) Chart 2 shows how the monies were expended.

A final note: how have the salaries for elected and appointed officials changed? In the case of supervisors, inflation adjusted salaries show a big jump from FY 1936 to FY 1969—from \$45,091 to \$71,158. Since then the salaries of supervisors have just about kept pace with inflation, as shown in the following table. The salaries of a few other elected and appointed officials have also been

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HOUSING PRICE DYNAMICS IN KERN COUNTY

CRAIG GALLET, ASSISTANT PROFESSOR OF ECONOMICS

Kern County ranks as one of the most affordable places to live in California. Indeed, when comparing average home prices throughout the state, it is hard to beat Kern County.

The following table illustrates the high variability of home prices across the 24 California counties using the average figures for 2000 (January through October 2000). Among these 24 counties, Kern

County ranks as the least expensive place to buy a home, while Santa Clara ranks as the most expensive.

Furthermore, the San Joaquin Valley (Kern, Fresno, Merced, Tulare, Madera, Stanislaus, and San Joaquin counties) offers the lowest home prices. The average price for a single-family home in 2000 is only \$125,600, which is \$138,500 less than the state average, \$367,800 less than the Los Angeles Region (San

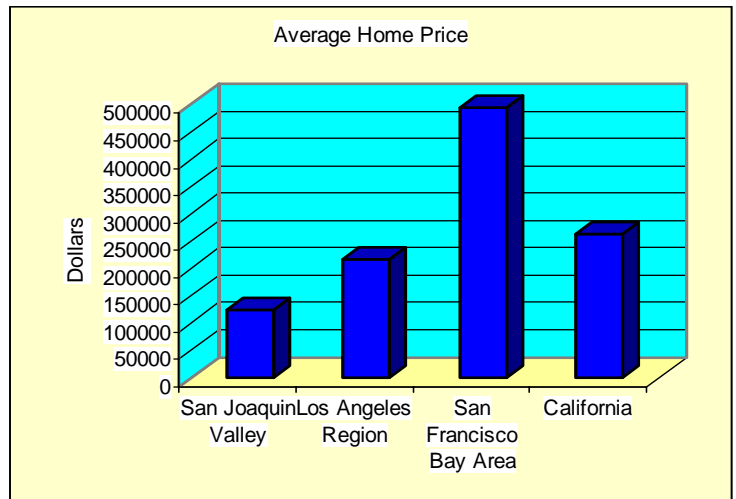
Bernardino, Riverside, Los Angeles, Ventura, and Orange counties), and \$367,800 less than the San Francisco Bay Area (Alameda, Monterey, Santa Cruz, San Francisco, Santa Clara).

Also highlighted in the second figure below, the monthly average single-family home price for Kern County has been consistently less than the state average. Moreover, as average

(Continued on page 14)

County (Ranked Least to Most Expensive)	Average Single-Family Home Price in Dollars
Kern	108,105
Fresno	112,488
Merced	114,200
Tulare	123,922
Madera	127,590
San Bernardino	134,492
Stanislaus	139,079
Sacramento	156,010
San Joaquin	167,224
Riverside	177,028
Yolo	200,079
Solano	202,330
San Luis Obispo	253,297
Los Angeles	287,336
San Diego	322,400
Ventura	331,376
Sonoma	341,572
Santa Barbara	365,855
Orange	375,184
Alameda	375,906
Monterey	431,399
Santa Cruz	445,913
San Francisco	590,012
Santa Clara	623,924

Source: Rand California (<http://ca.rand.org>).



Source: California Association of Realtors

Housing (Continued from page 13)

home prices have increased over time in many California counties, prices have remained relatively stable in Kern County. As an implication, when comparing Kern County to Orange and San Francisco Counties, two of the state’s most expensive counties to buy a home, as of September 2000, the average home price in Kern County was 74 and 80 percent below the averages for these two counties, respectively.

Factors Affecting the Housing Market

Why are there such disparities in home prices throughout the state? Since mortgage payments are a significant share of consumer expenditures, it is not surprising that much attention has been given to answering this question. Perusing various studies, one finds that housing prices are dependent upon both demand and supply conditions. In particular, factors that tend to increase county-specific demand or decrease county-specific supply generate upward pressure on housing prices.

Focusing on the demand side of the market, consumer preferences toward housing are driven by many factors. First, the “cost” of home ownership, which not only includes the home price, but mortgage payments and property taxes as well, greatly affects the demand for housing. When the housing “cost” increases, consumers tend to defer housing purchases to a later date. The second demand factor is consumer income. Since increases in consumer income imply that more households are able to afford a home purchase, housing demand increases with income. The third factor is the number of consumers. As the local population increases, the demand for housing increases. Consequently,

the demand for housing in rural communities is much lower than that in larger cities. Fourth, community amenities, which range from job market prospects to socioeconomic characteristics (such as crime rate and quality of schools), have an impact on housing demand. The demand for housing would be larger in communities with more attractive amenities. Lastly, the time of year is an important indicator of demand, such that demand is higher in spring and summer, but lower in autumn and winter.

Similar to demand, the supply of housing is driven by several factors. For example, higher home prices induce builders to produce more. Also, factors that increase the cost of building a home (such as construction wages and materials prices) will lower supply, as builders transfer some of the cost increases into the final price of the home. Also, the number of construction companies and workers affect the supply of housing in a positive manner.

Determinant	Kern County	Orange County
Average Home Price	\$94,884	\$300,265
Per Capita Income	\$19,042	\$30,737
Population Density	77	3,391
Crime Rate	5,425	3,485
Construction Workers	9	53
Unemployment Rate	12.2	3.2

Source: Rand California (<http://ca.rand.org>).

In light of the discussion above, using data across 24 California counties for 1997, I find that differences in average home prices across these counties are indeed explained by various factors. In particular, per capita income, population density (measured as the number of persons per square mile), crime rate (measured as the number of serious

crimes per 100,000 persons), number of construction workers (in thousands), and the unemployment rate explain much of the variation in home prices from one county to the next; such that those counties with higher home prices tend to have higher per capita incomes, higher population densities, lower crime rates, higher numbers of construction workers, and lower unemployment rates. Hence, comparing Kern County to Orange County in 1997, the table below illustrates the differences in housing prices as well as their determinants. Differences in housing prices are predictable based upon key determinants. For example, relative to Orange County, home prices in Kern County are lower due partly to weaker demand (resulting from lower per capita income, lower population density, a higher crime rate, and a higher unemployment rate).

In conclusion, as home prices continue to rise at alarming rates in many California communities, incentives are such that businesses are tempted to look elsewhere to locate their operations. With its close proximity to “high price” communities, Kern County is in an ideal position to attract those firms that have decided to relocate. However, if this induces the demand for housing to increase at rates beyond supply, housing prices in Kern County will eventually increase at a rising rate. While this is ideal for home sellers, home buyers beware.

EARNING DIFFERENTIALS IN BAKERSFIELD: HOW DO WE FARE?

JENNIFER VANGILDER, ASSISTANT PROFESSOR OF ECONOMICS



Data from the Bureau of the Census indicate that Kern County's population grew by 15.5 percent from 543,477 in 1990 to 648,987 in 1998. The majority of this growth is attributed to an increase in the minority population. In particular, the Hispanic population increased by 43 percent and the African-American population rose by 25 percent. With the rapid growth in minority population, it is essential to track their success in the labor market and find out how much they make in comparison with the majority group. This task can be achieved, in part, by looking at earning differentials.

Earning differentials are statistical indicators to study the status of one group's money wage relative to that of another group with similar characteristics. These statistics are typically expressed in percentage. For example, the Hispanic male workers earned 64 percent as much as of that of White male workers in 1996. This number is calculated by divid-

ing the median annual earnings for the Hispanic workers by the median annual earnings for the White workers.

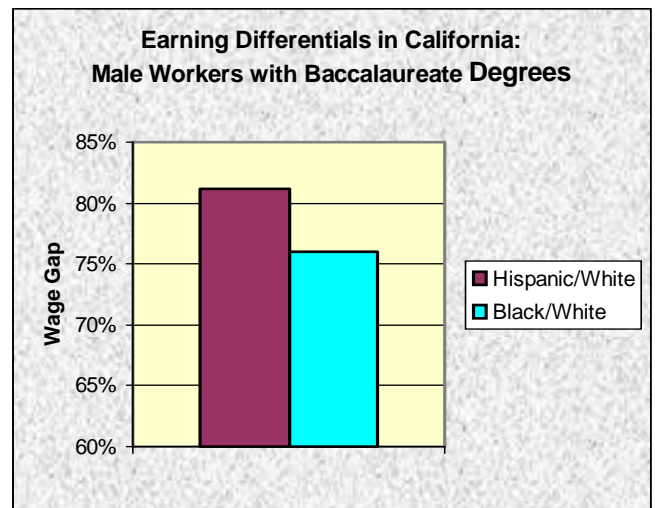
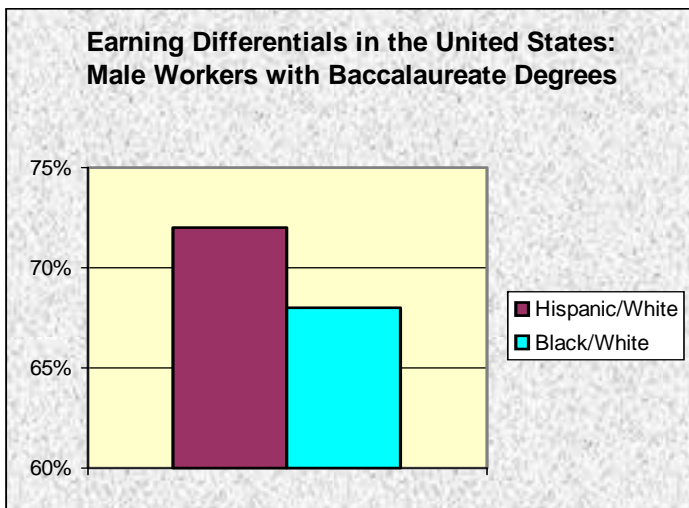
Using earning differentials as a comparative indicator of the wage gap is somewhat controversial. Differences in the average pay of one group relative to another group can be caused by many factors. More specifically, earning differentials can be due to differences in productivity (i.e., education, skill level, and work experience), differences in job requirements, or discriminatory behavior of employers and co-workers. With all these factors interacting, it is difficult to determine precisely how much of the wage gap is due to discrimination and how much is due to differential choices and preferences. Although it is important to note that these complexities exist, analysis of the earning differentials can provide insight into the advances or setbacks of various groups in the labor market.

Earning differentials by race and ethnicity are of interest in the eco-

nommic community because the differences appear to be highly pronounced. Understanding the sources of these differences is critical in implementing policies that might narrow the wage gap. For example, the following chart exhibits earning differentials for full-time male workers holding baccalaureate degrees in the United Statesⁱ. The extension of education in the trend analysis is used to put workers on a more common ground in job level, wage level, and wage growth. Hispanics, on average, earned 72 percent and African-American 68 percent of the wage paid to White workers.

Labor market data for California provide interesting results. The chart below illustrates earning differentials for full-time male workers holding baccalaureate degrees in Californiaⁱⁱ. Minority groups in the state fare better than those in the nation. Hispanics, on average, earned 81 percent and African-American 77 percent of the wage paid to White workersⁱⁱⁱ.

(Continued on page 16)



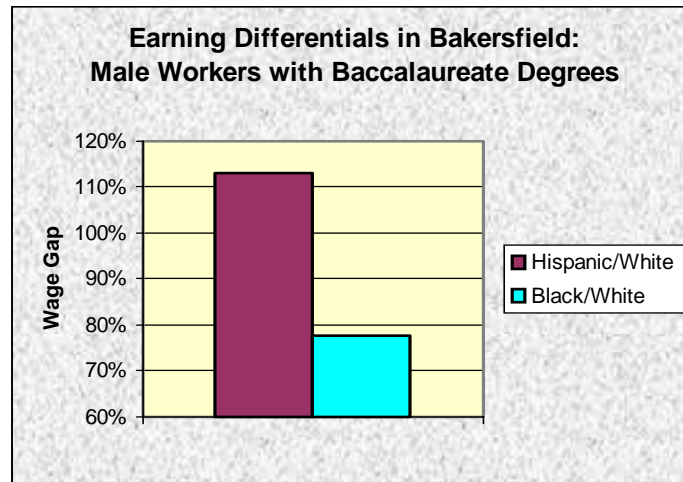
Earning Differentials (Continued from page 15)

Local labor market data reveal an even more interesting scenario. The chart below illustrates earning differentials for full-time male workers holding baccalaureate degrees in Bakersfield. The most interesting point to note is that Hispanic workers earn 113 percent of the average wage paid to White workers. In other words, Hispanics earn 13 percent more than comparable White workers. This finding is significant since it indicates that college educated Hispanic men in Bakersfield appear to experience no discriminatory behavior as compared to their counterparts in California and United States. Earning differentials for African-

American workers are similar to those in the state and nation^{iv}. This finding confirms the assertion by Verdugo (1992) that the cost of being an African-American worker is substantially greater than that of being a Hispanic. This cost manifests itself in the form of larger earning differentials between African-American and White workers^v.

Labor market studies contribute earning differentials to the relative youth of the population, English language deficiency, and lower education attainment of minority workers. What is causing Hispanic males in Bakersfield to be prospering at such a higher level than Hispanic workers in California and the United States?

What is causing Hispanic males to be prospering at such a higher level than White and African-American workers in Bakersfield? Could their earning differentials be the application of the Affirmative Action favoring them? Could it be some form of reverse discrimination benefiting Hispanic male workers? Could it be due to their higher productivity levels? These questions cannot be answered with certainty and limited data. What can be stated with certainty, however, is that college educated Hispanic male workers in Bakersfield appear to be making strides toward prosperity.



ⁱData provided by the Department of Labor

ⁱⁱData provided by the Government Information Sharing Project: <http://govinfo.kerr.orst.edu/>

ⁱⁱⁱHispanic women in California earn 91.53% and Black women 92.43% of a White women’s salary.

^{iv}Hispanic women in Bakersfield earn 110.83% and Black women % of a White women’s salary.

^vVerdugo, Richard R. (1992). “Earnings Differentials between Black, Hispanic, and Non-Hispanic White Male Worker: On the Cost of Being a Minority Worker, 1972-1987”, *Social Science Quarterly* v73, n3: pages 663-673.

ANTELOPE VALLEY: AEROSPACE CAPITAL OF THE WORLD

DELORES MORRIS, ECONOMICS MAJOR, CSUB

Antelope Valley is known as the “aerospace capital of the world.” To verify this claim, one must look at the composition, extent, and location of the companies that make up the industry. According to *Aerospace Facts and Figures*, standard industrial classifications applicable to the aerospace industry include 10 broad classifications and 29 sub-classifications. Because of the large number of industrial classifications, the aerospace industry consists of hundreds of big and capital-intensive firms. Their combined sales account for over 3 percent of the Gross Domestic Product.

Table 1 exhibits data reported by the Department of Defense (DOD) on prime contract awards for selected major military hardware by geographic region for the fiscal year 1998. In the aircraft classification, the Pacific region ranks second behind the South Atlantic region, but ahead of the West North Central region, each of which was awarded

with contracts over \$4 billion. In the classification of missiles and space systems, the Pacific region received about \$4.5 billion in government contracts. This amount was more than twice greater than that of the second place location, the Mountain region. The Pacific region, placing second behind the South Atlantic region, was awarded contracts totaling \$2.6 billion in the production of electronics and communications equipment.

Both the DOD and NASA report the amount of aerospace contracts awarded to their top prime contractors. As shown in Table 2, of the top ten DOD’s prime contractors, four operate facilities in the Antelope Valley. They are Lockheed Martin Corporation, The Boeing Company, Raytheon Company, and Northrop Grumman Corporation. Lockheed Martin Corporation topped the DOD’s 1998 list of prime contractors with awards totaling \$12.3 billion. The Boeing Company with

\$10.9 billion and Raytheon Company with \$5.7 billion were in the second and third place, respectively. Northrop Grumman Corporation with contracts totaled \$2.7 billion was in the fifth place behind General Dynamics.

In the NASA’s 1998 list of prime contractors, The Boeing Company captured the top place with contracts totaling nearly \$1.5 billion. Lockheed Martin Corporation was in the third place with about 1 billion worth of government contracts.

The aerospace industry in the Antelope Valley enjoyed increasing sales and employment from 1981 through 1991. But, 1992 marked the beginning of an economic decline that lasted until 1995. This sharp decline brought about labor lay-offs and relocations, resulting in a persistent recession of the local economy. Since 1996 though, the aerospace

(Continued on page 18)

Table 1: Department of Defense Contracts Awarded by Regions

Region	Aircraft (millions of dollars)	Missiles & Space Systems (millions of dollars)	Electronics & Communications Equipment (millions of dollars)
New England	1,493	838	1,163
Middle Atlantic	1,348	368	1,880
East North Central	1,441	147	841
West North Central	4,298	306	534
South Atlantic	5,455	1,373	4,198
East South Central	417	626	204
West South Central	2,658	983	774
Mountain	1,084	2,014	617
Pacific	4,496	4,498	2,602

Antelope Valley (Continued from page 17)

industry has recorded increased sales and employment. What did the year 2000 bring to the aerospace industry? *The Antelope Valley Press* (November 23, 2000) reported that Lockheed Martin Corporation and The Boeing Company have just completed flight tests of two technologically sophisticated aircrafts.

These two leading aerospace firms are competing for what could be the largest aircraft acquisition program in the history of the Pentagon. The program calls for more than 3,000 aircrafts to be made for the United States Air Force, Navy, and Marines and for the United Kingdom Royal Navy and Royal Air Force. It appears that the aerospace industry and the Antelope Valley are going to en-

joy a prosperous 2001.

References Cited:

Aerospace Facts and Figures 1999-2000, Aerospace Industries Association
The Antelope Valley Press (November 23, 2000)
www.aia-aerospace.org/departments/stats/yrendr99.html

Table 2: Contracts Awarded by Company

Department of Defense		National Aeronautics and Space Administration	
Company	Amount of Contract (millions of dollars)	Company	Amount of Contract (millions of dollars)
Lockheed Martin Corp.	12,341	The Boeing Co.	1,488
The Boeing Co.	10,866	United Space Alliance LLC	1,480
Raytheon Co.	5,661	Lockheed Martin Corp	982
General Dynamics Corp.	3,680	McDonnell Douglas Corp.	420
Northrop Grumman Corp.	2,691	Thiokol Corp.	362
United Technologies Corp.	1,983	Allied Signal Technical Services	275
Textron Inc.	1,838	Boeing North America	261
Litton Industries Inc.	1,644	Lockheed Martin Eng. & Sci.	227
Newport news Shipbuilding Corp.	1,546	TRW Inc.	224
TRW Inc.	1,346	Computer Sciences Corp.	177

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STRATEGIES FOR BUSINESS-FRIENDLY REGULATIONS IN SAN JOAQUIN VALLEY

ABBAS GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

The previous issue of this journal reported on the strategies for economic diversification as an attempt to overcome Barriers to Job Creation in the San Joaquin Valley, a project undertaken by the Central California Futures Institute (CCFI). In spring of 1998, we assisted the Institute to form *action research teams* of volunteer public and private leaders from the valley communities to develop strategies for overcoming such barriers. An action research team consisting of the three community leaders worked together over a three-month period to develop strategies that help overcome a serious job creation barrier, *cumbersome and costly government regulations*. Team members were

David Mitchell

Supervising Air Quality Planning
San Joaquin Valley Unified Air Pollution Control District, Fresno

Sheri Oneto

Consultant
Development Resources, Stockton

Alene Taylor

Supervisor, District 5
Kings County Board of Supervisors,
Hanford

Summary of their *government regulations* report is as follows.

Introduction:

The stories are well known. Businesses are in a “just in time” mode of operation. When a business decides to expand, it must do so quickly and at competitive prices. Fees associated with water and utility hookups and other costs that cit-

ies and counties assess both new and existing businesses can easily create a climate perceived as hostile to business. Strategies to overcome this barrier must include assessing the business climate of each community and then making changes, as needed, to create a positive environment that both attracts and retains businesses. Centralized service centers that can handle the majority of business needs should be encouraged along with a building permit process that is streamlined and timely.

Policy Recommendations:

Support Legislative Actions to Modify Cumbersome and Costly Regulations

If we choose the path of least resistance and do nothing to change regulations, but rather learn to live with them, we must present them in a positive light. We need to stress to businesses that the quality of life will never deteriorate thanks to the stringent environmental rules that protect air quality, etc.; the Valley will never become heavily industrialized; and that we will never become Los Angeles.

If we choose to try to change the rules and regulations, which dictate our lives, we must fight this battle at the state and federal level. We must be specific about the change we wish to make and be able to give a good explanation of why it needs to be changed. Organizations have learned that to be reactive to laws does not work. More and more, groups like the Chamber of Commerce and Farm Bureau are proac-

tive. They write the legislation, present it to their state or federal representatives for authorship and to help lobby the bill through. Although a time consuming and expensive process, it can be a successful process that achieves an organization's objectives.

Encourage Local Governments to Reduce the Effects of Regulations on Job Creation

The following actions can be undertaken to reduce the effects of regulations on job creation:

- Transfer some of the costs of developing (e.g., sewer fees, plan review fees) to the general fund
- Provide tax breaks to new and expanding businesses locating in the Valley
- Help provide a steady source of funding for long range land use and environmental planning to improve the quality of life and business environment in the Valley communities

Make New Regulations Performance-Based, Business-Friendly, and Easy to Understand

When the industry being regulated has a choice in the method of complying with a regulation, it often can find a better way to achieve the desired results. If this information is shared in the regulated community, cost of compliance can decline for all. Regulations must be written in plain, easy to understand language. Even technical writing can be vastly improved if it is direct, clear, and

(Continued on page 20)

Strategies (Continued from page 19)

concise. Employees should be trained to avoid “governmentese” and to use plain language. Agencies and departments should provide one-stop shopping for permits and offer friendly customer services. They must emphasize improvements in service that streamline the process and reduce cost through automation and improved organization of work. They also need to expand access to online information about regulations

and be able to accept online permit applications.

Concluding Remarks:

California has a strong environmental tradition. It is often the first state in the union to identify an environmental problem and enact regulations to alleviate that problem. Overall this tradition has probably made California a better place to live, but it has also made business operating more costly and cumbersome.

some. Although industrial production is more costly here, keeping the human environment pristine and healthy is attractive to businesses that desire a better quality of life for their employees. It also attracts tourists from around the world to enjoy what our state and region offers. Regulations, therefore, must exist in balance with the needs to expand the economy, while ensuring that “quality of life” principles are preserved.

Local Gov't. Budget (Continued from page 12)

compared in the same table.

Studies have shown that the share of local government expenditures in the Gross Domestic Product (GDP) have been increasing, even as state and federal expenditures have been decreasing as a percentage of the GDP. The following chart shows increasing

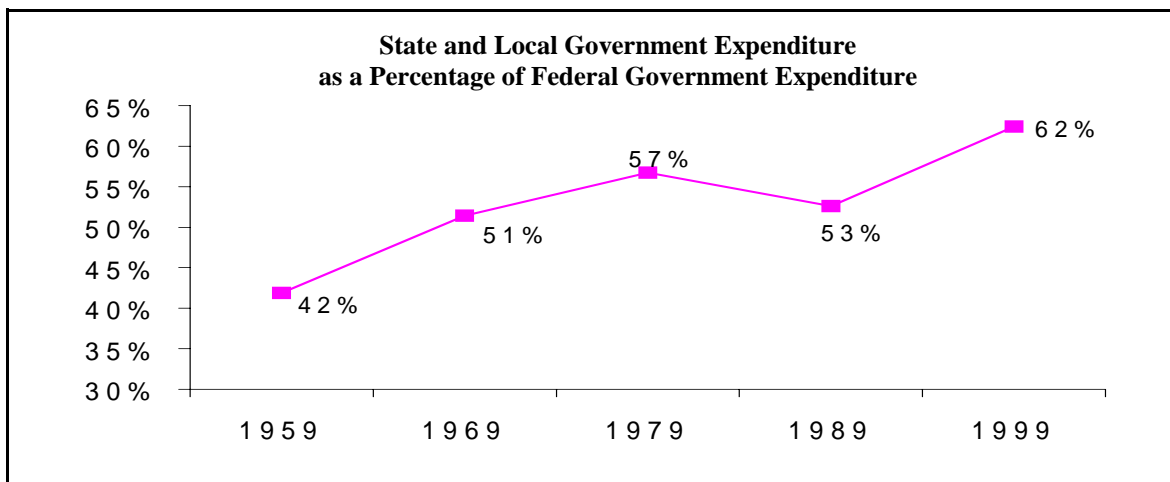
trend in the total of state and local government expenditures as a percentage of the federal government expenditure.

The data examined for the County of Kern show that the per capita revenue and expenditure have indeed increased over the years. It will certainly be interesting to find out how local government budgets have

changed with respect to the county's economic output. Given that the County of Kern is merely one among the many local governments with which residents interface, the rest including city governments and various special districts, this exercise, therefore, provides an economic rationale for the late Tip O'Neil's dictum that “all politics is local.”

	FY 1935-1936	Adjusted FY 1936	FY 1968-1969	Adjusted FY 1969	FY 1999-2000
Board of Supervisors	\$3,600.00	\$45,091.00	\$15,000.00	\$71,158.00	
DA	n.a.	n.a.	\$24,000.00	\$13,852.00	\$132,158.52
Sheriff	n.a.	n.a.	\$21,000.00	\$99,621.00	\$115,034.66
CAO	n.a.	n.a.	\$26,184.00	\$124,213.00	\$130,914.00
County Counsel	n.a.	n.a.	\$29,400.00	\$139,470.00	\$130,914.00

Note: the data reported here do not include other compensations such as a county vehicle, or a vehicle allowance.



Source: Table B-82, *Economic Report of the President*, January 2001

INFLATION IN CALIFORNIA: PAST AND PRESENT

MARGARET MALIXI, PROFESSOR OF ECONOMICS

Recent price inflation in California, measured by the Consumer Price Index (CPI), shows an average annualized percentage increase of 3.4 percent (1982-84=100) over the first eleven months of 2000, exactly matching the national average over the same period. Consumer price inflation in the Los Angeles-Long Beach region lagged the state by 0.1 percent in 2000, while price escalation, fueled mostly by phenomenal growth in the Silicon Valley, continued in the San Francisco-Oakland-San Jose area averaging 4.2 percent.

This analysis is based on CPI data for urban consumers (CPI-U) published by the Bureau of Labor Statistics and collected from eighty-seven urban areas across the country. The index is

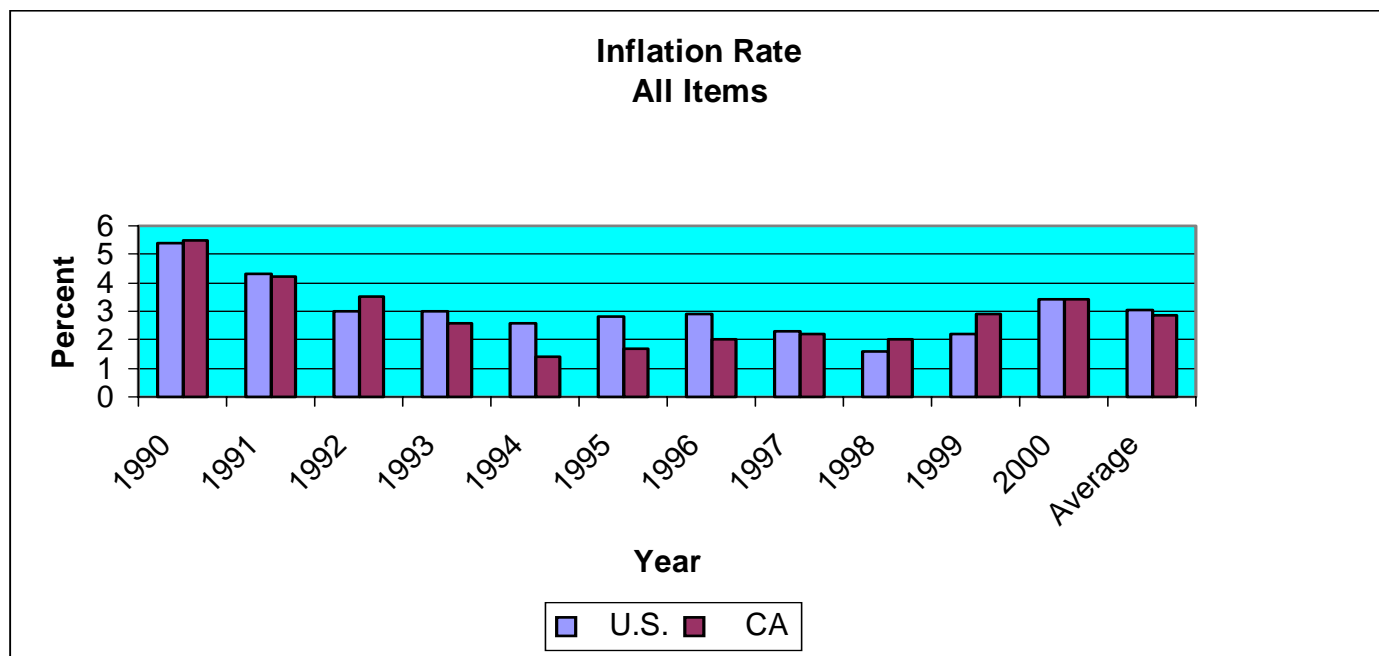
based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living.

Higher food and energy prices explain most of California's recent inflation. The average percentage increase for 2000 drops to 0.2 percent when food and energy are excluded from the CPI calculations, while the national average drops to 2.4 percent when food and energy are removed. State energy prices rose less sharply than the national average by 14.4 percent. Nationally, energy costs increased an average of 17.2 percent in 2000. On the other hand, the increase in state housing costs is less than half the increase in the national

average at 1.2 percent. Notably, housing prices in the San Francisco Bay area have risen by five times the California average to 6 percent, while home prices have risen more moderately in the Los Angeles area. Gas price increases in California, although significant, averaging 20.4 percent in 2000, have risen more moderately than the national average increase of 29.7 percent. Natural gas prices however, rose 8 percent more than the national average.

Over the previous decade (1990-2000), U.S. inflation averaged slightly more than 3 percent, while the California average was 2.9 percent. Inflation was as high as 5.5 percent for California and

(Continued on page 22)



Inflation (Continued from page 21)

5.4 percent for the U.S. prior to the 1990-91 national recession. California had since enjoyed moderate price inflation reaching a low of 1.4 percent in 1994, during the prolonged California recession when unemployment rose to 9.4 percent.

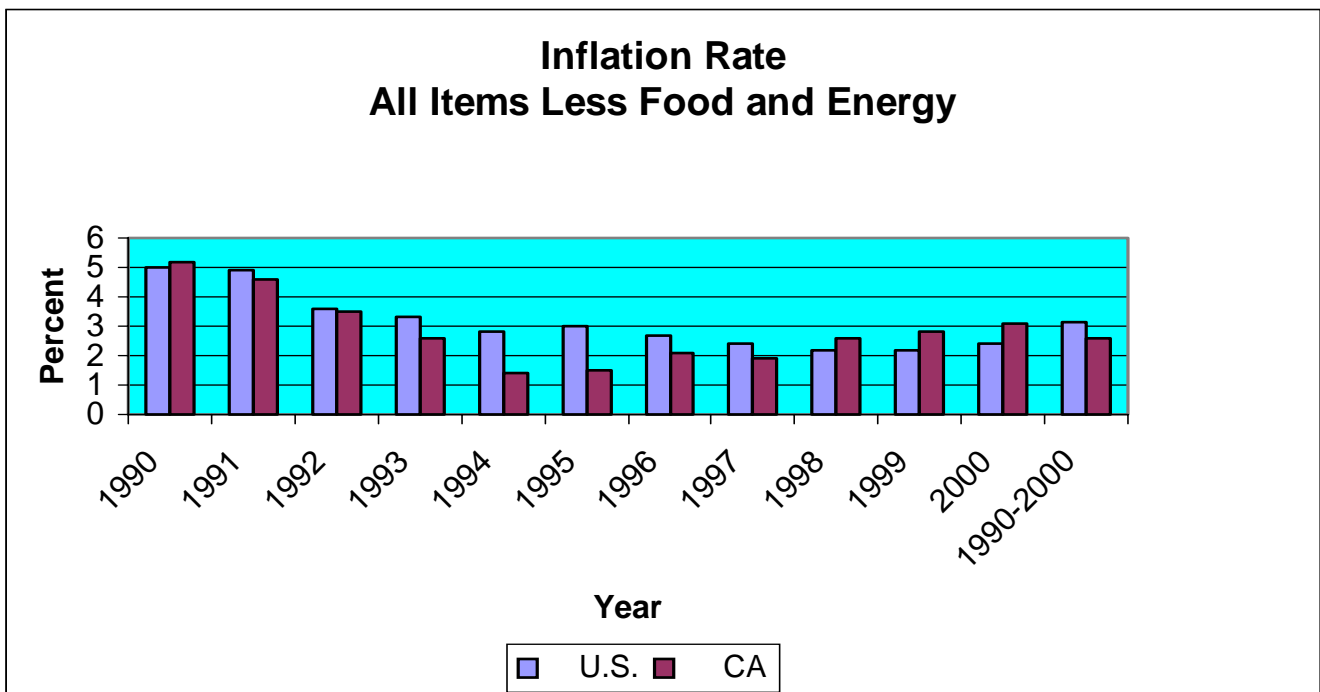
Inflation picked up as California began its strong recovery in 1995, fueled by the success of the state's high-tech exports. California's general prosperity and falling unemployment rates were temporarily threatened in 1997 by the Asian currency crisis. Late in 1997, weakness in California's

major Asian trading partners curbed demand for state exports, keeping inflation in check. By 1998 Asia's financial crisis helped boost the dollar's value. The appreciating dollar discouraged exports and encouraged cheaper imports, keeping a lid on prices. The inflationary impact of the Asian crisis was felt around the world as a slowdown in energy and commodities demand by the former red-hot Asian economies lowered prices worldwide.

By 1999 signs of a recovery in the major Asian economies put renewed pressure on prices. Price inflation in the U.S. and

California started to pick up in 1999 and continued into 2000.

Regional inflation has been higher than the state average in the San Francisco Bay Area over the preceding ten-year period at 3.3 percent, fueled primarily by soaring housing prices, rising wages due to labor shortages in key industries, and phenomenal growth in the Silicon Valley. Slow recovery from the severe defense cuts of the nineties, which resulted in thousands of jobs being lost and falling home prices, led to relatively low average price inflation of 2.7 percent in the Los Angeles region during the previous decade.



PROSPECTS FOR A RECESSION IN THE UNITED STATES

ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

When President Clinton was asked whether a recession is ahead as President Elect George W. Bush takes office, he quickly replied that recession, defined as *three consecutive quarters of negative growth*, is unlikely to occur. I agree with the President's opinion as long as we have an independent central bank, the Federal Reserve System, led by the legendary Chairman of the Board of Governors, Alan Greenspan.

To research President Clinton's assertion, I analyzed data on the Real Gross Domestic Product (market value of final goods and services in constant dollars) from the first quarter of 1967 to the third quarter of 2000. Recession has not occurred frequently. Over the past thirty-four years, the United States experienced only three recessions: fourth quarter of 1969 to second quarter of 1970, third quarter of 1974 to first quarter of 1975, and third

quarter of 1990 to first quarter of 1991. These 9 consecutive quarters of negative growth out of 135 quarters translate into a 94 percent chance that a recession would *not* occur. Of these three recessions, only one occurred within the first year of a new presidency. So, there is a 98 percent chance that a recession would *not* occur within the first year of a presidential inauguration.

The first recession began nine months after President Nixon took office in January 1969. President Nixon was reelected when the economy was riding a growth roller coaster. He faced a recession eighteen months after his second term in office. This economic decline fueled by the quadrupling price of imported crude oil was rather difficult to correct since the economy suffered from high inflation and high unemployment at the same time. The third recession happened

eighteen months after President George H. W. Bush was inaugurated. A broken promise of "no new taxes" to cover the mounting federal budget deficit contributed to President Bush's economic decline.

In the first two years of President Carter's administration, the economy enjoyed rapid growth. In the last two years, however, the economy became sluggish and stagnant. Once again, an energy crisis fueled inflation and stagnation. President Regan inherited an economy that was recovering from two consecutive quarters of negative growth. His first two years in office were rather traumatic with 4 quarters of negative growth (2 of which were consecutive) and 4 quarters of sluggish growth. Passing such a harsh economic climate, President Regan enjoyed six years of consecutive growth. The economy declined in the first quarter of Clinton's presidency. Since

Recessions Since 1967			
Recession	First Quarter Annualized Growth Rate (%)	Second Quarter Annualized Growth Rate (%)	Third Quarter Annualized Growth Rate (%)
1969.4 - 1970.2	-1.51	-0.15	-0.06
1974.3 - 1975.1	-4.05	-0.05	-5.56
1990.3 - 1991.1	-0.06	-3.41	-2.62

Recession (Continued from page 21)

then, we have enjoyed prosperity as evident by 30 consecutive quarters of rapid growth.

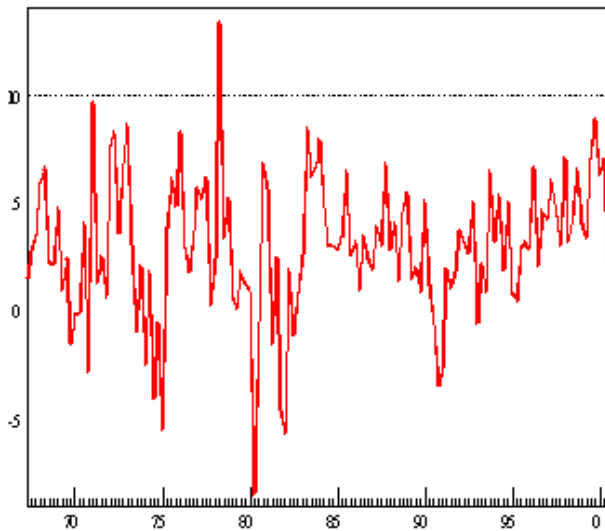
I do not foresee a recession to occur next year. On the contrary, I forecast the economy to continue to grow at a slow rate in the first two quarters, and become more sluggish in the last two quarters of 2001. To maintain a 3.0 percent average growth rate for the entire year, an expansionary policy is required to lower interest rates to stimulate growth in the third and fourth quarters. Even at the absence of an expansionary policy, my statistical model indicates that the economy, gaining momentum beginning the first quarter of 2002, shall grow at a

healthy rate over the following seven quarters. Overall, I forecast an average growth rate of 2.9 percent over the next four year. This average growth rate places President George W. Bush ahead of Presidents Nixon-Ford, Carter, Regan I, and George H.W. Bush administrations, but behind Regan II, and both Clinton terms.

As a matter of fact, I expect the Federal Reserve System to accelerate growth while keeping inflation in check. The implementation of a “large and across the board” tax cut, as promised by President Bush, requires a lengthy and controversial bipartisan approval process. The proposed tax cut plan may not be a wise remedy in light of our huge national debt service pay-

ment, deteriorating physical infrastructure, and the prospect of an insufficient social security trust fund. The budget surplus should be used to pay down the national debt, invest in the infrastructure, and help overhaul the social security system. I would advise President Bush to rely on stabilization policy of the Federal Reserve System whose actions effectively and promptly affect our decisions to save and invest. The new administration should strive toward building confidence and sustaining an environment supportive of growth. George W. Bush should expect “managed” growth a decade after a recession that cost George H. W. Bush his job.

Quarterly Growth Rates Since 1967



Presidential Economic Scoreboard		
President	Time Period	Average Growth Rate (%)
Nixon	1969-1972	3.0
Nixon-Ford	1973-1976	2.1
Carter	1977-1980	2.8
Regan I	1981-1984	2.6
Regan II	1985-1988	3.4
Bush, George H.W.	1989-1992	1.8
Clinton I	1993-1996	3.0
Clinton II	1997-2000	4.6
Bush, George W.	2001-2004	2.9

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