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# KERN ECONOMIC JOURNAL

Volume 3 Issue 1

2002 First Quarter

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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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*Kern Economic Journal* is a quarterly publication (February, May, August, and November) on economic development issues and trends. It is owned, managed, and published by the Center for Economic Education and Research, California State University, Bakersfield. Sources of funding for the journal include 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 both hard and electronic copies. Individual authors are responsible for the views and research results expressed in their published articles.

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## *Local Economy in Perspective:*

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**Business Outlook Survey:** Businesses are much more optimistic about local economic conditions. The Business Outlook Index improved by 19 points from 108 in the fourth quarter of 2001 to 127 in the first quarter of 2002. Factors contributing to improved business perception are:

- Lower interest rates
- New home construction
- Expanding population
- High price of crude oil and natural gas
- Greater international business

*(Full story on page 2)*

**Consumer Sentiment Survey:** Households have turned optimistic about local economic conditions. The Consumer Sentiment Index improved by 18 points from 95 in the fourth quarter of 2001 to 113 in the first quarter of 2002. Compared to one year ago, 37 percent of the respondents said their families are doing financially *better*, 34 percent *the same*, and 29 percent *worse*. Anticipating one year from now, 37 percent of the respondents perceived their financial conditions to be *better*, 37 percent *the same*, and 27 percent *worse*.

*(Full story on page 3)*

**Kern County's unemployment rate remained in double digits.** It increased from 10.1 percent in the fourth quarter of 2001 to 11.4 percent in the first quarter of 2002. The labor force declined by 900 persons as the number of *employed* workers declined by 4,600 and, at the same time, the number of unemployed workers increased by 3,700. Among the nonfarm industries, manufacturing, food and kindred products, state and local government and education added jobs, whereas mining, construction, transportation, public utilities, and retail trade reduced employment.

*(Full story on page 5)*

*Despite the deep and lengthy recession of the early 1990s, Kern County has stayed on the path to prosperity.* The Quality of Life Index (QLI) increased gradually from 104 in 1996 to 118 in 2001, gaining 14 percentage points. Hence, the quality of life improved 18 percentage points in 2001 relative to 1991. After three years of stagnation, the Economic QLI improved slightly in 1994. It then rose from 103 in 1995 to 111 in 2001, gaining 8 percentage points. The Economic QLI improved 11 percentage points in 2001 relative to 1991. The Social QLI did not recover until 1996. In the following three years, however, the Social QLI increased sharply. It rose by 4 percentage points in 1996, 9 percentage points in 1997, and 5 percentage points in 1998. The index value, which remained constant at 118 in 1998-2000, increased to 120 in 2001. The Social QLI improved 20 percentage points in 2001 relative to 1991. *(Full story on page 6)*

**Women and ethnic-racial minorities play an important role in the local economy.** According to the latest published data, there are 33,474 firms doing business in Kern County, of which 36 percent are minority-owned. The minority business owners consist of 22 percent women and 14 percent with varying ethno-racial heritage. The ethno-racial distribution of business ownership is comprised of 14 percent African-American, 26 percent Asian/American Indian, and 60 percent Hispanic. *(Full story on page 13)*

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# KERN BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS



This article presents opinions of business managers regarding current and expected economic conditions of Kern County in the first quarter of 2002. Over the first three weeks of April 2002, we telephoned a random sample of 200 members of the Greater Bakersfield of Commerce, of whom 90 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 ex-

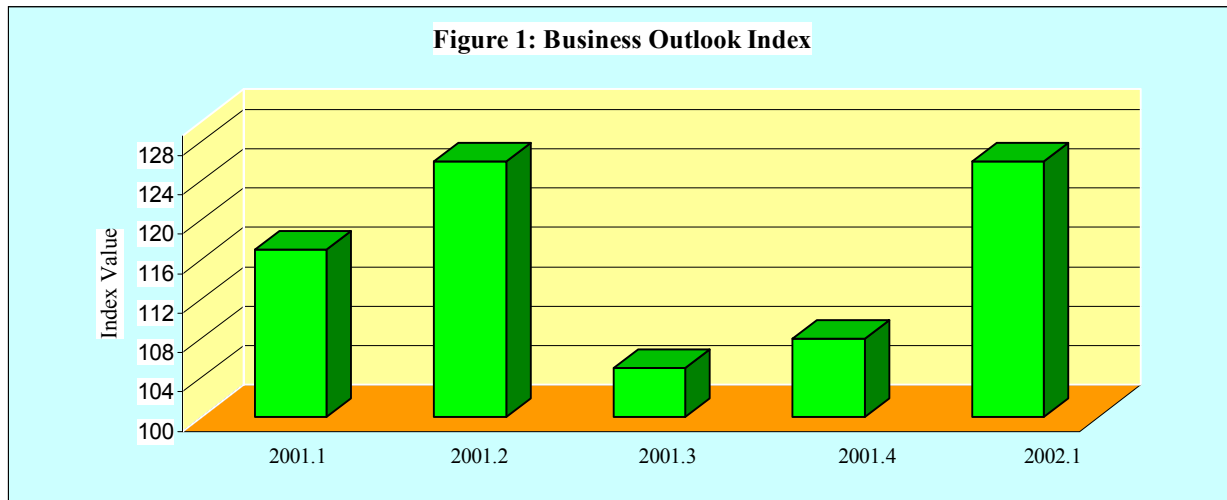
presses *optimism*, and less than 100 *pessimism*.

As illustrated in Figure 1, the BOI increased by a whopping 18 percentage points from 108.1 to 126.1. This rather sharp increase indicates that business managers are much more optimistic about local business conditions. Compared with four quarters ago, the BOI is 9 points higher, indicating considerable gain in business optimism

As shown in the following table, 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 next quarter.

The majority of the business managers perceived that financial conditions (sales or profits) of their companies improved this quarter. Also,

(Continued on page 4)



Question	Response		
	Better	Same	Worse
	(Percentage of Total Responses)		
Employment in your company this quarter was	27.1	52.9	20.0
Employment in your company next quarter will be	30.2	55.8	14.0
Financial condition (sales or profits) of your company this quarter was	45.2	39.3	15.5
Financial condition (sales or profits) of your company next quarter will be	49.4	43.4	7.2
Employment and general business conditions in your industry this quarter were	37.2	47.7	15.1
Employment and general business conditions in your industry next quarter will be	45.3	46.4	8.3
Employment and general business conditions in Kern County this quarter were	31.3	55.0	13.7
Employment and general business conditions in Kern County next quarter will be	40.5	57.0	2.5

# BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS, INTERIM DEAN, EXTENDED UNIVERSITY DIVISION



The Bakersfield Consumer Sentiment Index increased in the first quarter, approaching its level prior to September 11. The index rose from 95 in the fourth quarter of 2001 to 113. It is compiled from telephone surveys administered to a random sample of households listed in the Bakersfield section of the phone book. The index is disaggregated into sub-indexes relating to recent trends and future expectations. Both sub-indexes increased, suggesting economic conditions have improved and continued improvement is expected. The Index of Recent Buying and Financial Trends increased from 90 in the fourth quarter to 108 in first quarter 2002. The forward-looking Index of Future Expectations increased from 95 in the fourth quarter to 118 in the first quarter. Index values over 100 are

indicative of consumer optimism. Values below 100 are rare and suggest pessimism. CSUB's Center for Economic Education and Research began compiling the Bakersfield Consumer Sentiment Index in 1999. The third and fourth quarters of 2001 are the only periods during which the index fell below 100.

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. Only eleven percent of the respondents purchased a big-ticket item in the fourth quarter, compared to 14 percent in the fourth quarter. However, overall spending on discretionary

items was greater than normal in one-of-three households, compared to one-in-four during the previous quarter. Discretionary spending was less than normal in one-half of the households during the final two quarters of 2001, but in only three-in-ten households during the first quarter. Heads of households were asked how their families were doing financially compared to one year ago. More than one-in-three was better off, an increase from one-in-four of the sample during the previous two quarters. A slightly smaller percent of respondents indicated they were worse off (29 percent compared to 33 percent in the previous quarter).

To assess consumer expectations, households were asked how they

*(Continued on page 4)*

**TABLE 1  
INDEX VALUES**

	<b>Most Recent Quarter</b>	<b>Previous Quarter</b>	<b>One Year Ago</b>
<b>Bakersfield Consumer Sentiment Index</b>	<b>113</b>	<b>95</b>	<b>112</b>
Sub index: Recent Buying & Financial Trends	108	90	109
Sub index: Expectations	118	100	115

**TABLE 2  
RECENT BUYING AND FINANCIAL TRENDS**

	<b>More than usual</b>	<b>Same as usual</b>	<b>Less than usual</b>
Your recent spending on discretionary items (dining out, weekend outings, entertainment)	31 %	40 %	29 %
	<b>Better off</b>	<b>Same</b>	<b>Worse off</b>
How your family is doing financially compared to one year ago.	37 %	34 %	29 %
How your acquaintances in Kern County are doing financially compared to one year ago.	29 %	55 %	16 %

**Business Outlook** (Continued from page 2)

they projected improvements next quarter.

The majority of business managers perceived that current employment and financial conditions of their industries were the same this quarter, and anticipated that employment and financial conditions of their industries would remain constant next quarter.

Fifty-five percent of the business managers felt that employment and general business conditions in Kern County were the same as the previous quarter, and fifty-seven percent indicated that employment and gen-

eral business conditions would remain 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:

- State budget shortfall and government reallocation of funds
- Recent increase in the minimum wage
- Greater tax liabilities
- Increased health-care costs
- Higher fuel prices

Major factors perceived to improve business outlook are:

- ✓ Lower interest rates
- ✓ New home construction
- ✓ Expanding population
- ✓ High price of crude oil and natural gas
- ✓ Greater international business

Overall, business managers were a much more optimistic about local business outlook this quarter. A combination of positive and negative factors has contributed to forming business perceptions.

**Consumer Sentiment** (Continued from page 3)

thought the financial situation of their families would change over the coming year. During the fourth quarter of 2001, responses were evenly distributed: one-third thought their financial situation would improve or become more stable, while one-third thought it would worsen or become more risky. Responses were skewed toward optimism in first quarter: 37 percent thought their situation would improve while 26 percent thought it

would get worse. When asked how acquaintances in Kern County viewed the future, over one-half of the respondents reported they had observed optimism compared to about 40 percent in the previous quarter. The percent that indicated acquaintances seemed pessimistic their situation would worsen decreased from 30 percent in the previous quarter to 24 percent. Finally, 43 percent think now is a safe time to buy big-ticket items, while 33 percent believe it is a risky time. In the

fourth quarter of 2001, these frequencies were reversed: 32 percent thought it was a safe time to buy, while 42 percent thought it was a risky time.

Summing up, expectations have clearly risen from the doldrums of the third and fourth quarters of 2001. Greater Bakersfield is poised for an economic recovery that hopefully will not be derailed by escalating international conflict.

**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	37 %	37 %	26 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	55 %	21 %	24 %
	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?	43 %	24 %	33 %

# EMPLOYMENT AND UNEMPLOYMENT IN KERN COUNTY

ABBAS P. GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

Analysis of *seasonally adjusted*<sup>1</sup> labor market data indicates that the unemployment rate increased from 10.1 percent in the fourth quarter of 2001 to 11.4 percent in the first quarter of 2002.

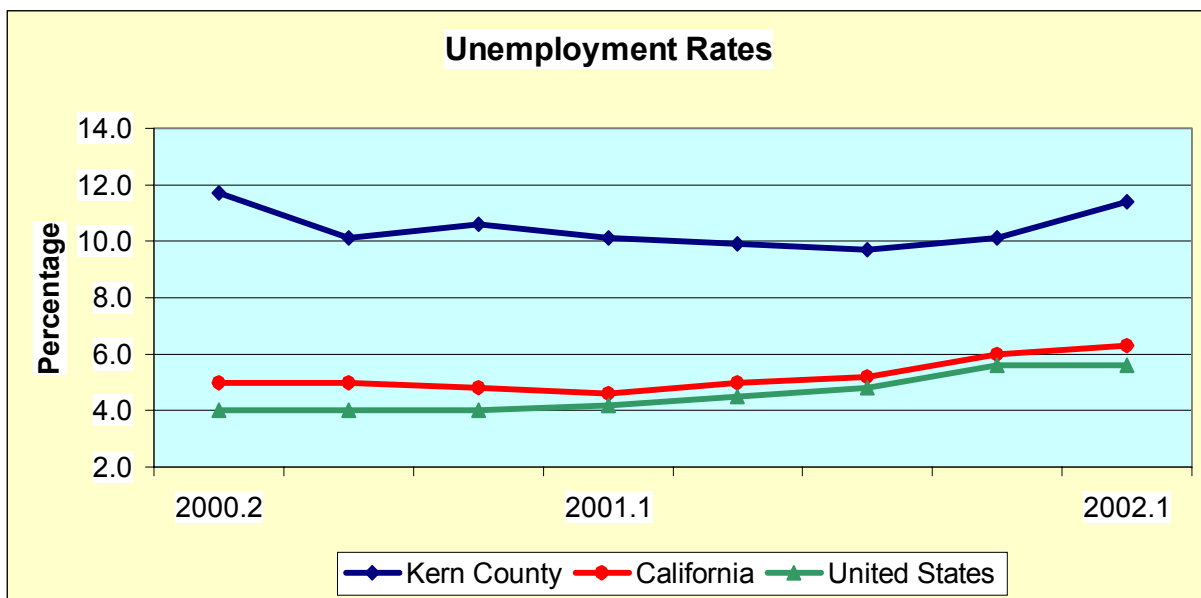
In the fourth quarter of 2001, the labor force declined by 900 persons as the number of *employed* workers declined by 4,600 and, at the same time, the number of unemployed workers increased by 3,700. The loss in total employment consisted of 10,800 fewer jobs in the farm sector, but 1,700 additional jobs in the nonfarm sector and 4,500 more jobs in the “residual” sector that accounts for

self-employed workers and those who work outside their place of residence.

Among the nonfarm industries, manufacturing, food and kindred products, state and local government and education added jobs, whereas mining, construction, transportation, public utilities, and retail trade reduced employment.

In the first quarter of 2002, nonfarm employment increased at an annualized rate of 3.4 percent in Kern County and 0.6 percent in the United States. However, nonfarm employment declined by 3.3 percent in California. Over the

previous four quarters, nonfarm employment growth averaged 2.6 percent in Kern County, -0.6 percent in California, and -0.4 percent in the United States.



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

# MEASURING THE QUALITY OF LIFE IN KERN COUNTY

ABBAS GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

**K**ern County, covering more than 8,000 square miles, is California’s third largest county in land area. The county is also known as the *Golden Empire* because of its rich history of gold, oil, and agricultural production. Today, Kern County ranks among the top five most productive agricultural counties and is one of the leading oil-producing counties of the nation.

According to the 2000 Census data, nearly 662,000 persons resided in Kern County. Compared with the previous census, the county added 118,000 (or 22 percent) to its residents. The county’s *seasonally adjusted* civilian labor force exceeds 290,000 and employment rate fluctuates around 90 percent. The largest industries of the county are government, services, agriculture, and trade, each contributing approximately 20 percent to total employment. The county’s total personal income has reached 8 billion in constant dollar and its annual crop value has exceeded 2 billion dollars.

In addition to productive agriculture and petroleum industries, Kern County’s economy is increasingly

diversified with services and manufacturing industries. The county has been chosen as the site for business locations because its proximity to major metropolitan areas, accessible transportation routes, low labor costs, affordable housing, renowned outdoor recreation, and improving quality of life.

To measure the quality of life, I select ten social and economic indicators. They are

Economic Indicators:

**Income:** Personal income per person in constant dollars

**Employment:** Growth rate of total employment adjusted for seasonal variations

**Cost of living:** Median sale price of all single-family homes in constant dollars

Social Indicators:

**Education:** Pupil-teacher ratio

**College preparation:** Total score in the Scholastic Aptitude Test

**Family environment:** Percentage of mothers with “some” college education

**Health care:** Number of physician per 10,000 persons

**Public assistance:** Family assistance per capita

**Crime rate:** The FBI crime index

**Air quality:** Number of days that the ozone level exceeds the federal 8-hour standard

I take 1991 as the *base-year*, for which the index value is 100. For the years following 1991, I adjust the base-year value by the percentage *change* relative to 1991. I then take an unweighted arithmetic mean of these social and economic indicators to construct a composite Quality of Life Index (QLI). Also, I construct separate quality of life indices for the economic (E-QLI) and social indicators (S-QLI). To correct for missing data points, I adjust the previous year index value by its *average change* over the entire dataset.

Table 1 presents the indexed values of the quality of life indicators. I calculated these index values very carefully because for some indicators an ascending-order of the data measures improvement and for others deterioration.

(Continued on page 7)

Table 1: Quality of Life Indicators

Year	Income Per Capita	Employment Growth	Cost of Living	Education	College Preparation	Family Environment	Health Care	Public Assistance	Crime Rate	Air Quality
1991	100	100	100	100	100	100	100	100	100	100
1992	99	99	103	94	100	102	100	93	98	107
1993	98	96	104	94	100	103	100	94	102	108
1994	96	98	109	97	99	108	92	94	105	106
1995	96	99	114	96	98	116	92	86	110	103
1996	96	100	116	101	100	139	92	80	115	98
1997	96	103	121	107	100	135	92	93	124	149
1998	98	104	125	111	99	141	100	115	129	130
1999	97	104	127	110	101	138	117	114	137	112
2000	98	106	127	112	101	133	117	n.a.	138	123
2001	98	108	122	n.a.	99	n.a.	n.a.	n.a.	n.a.	n.a.

*Quality of Life (Continued from page 6)*

Table 2 depicts the composite values of the overall, economic, and social quality of life indices.

Figure 1 illustrates the overall QLI trend. The QLI showed no improvement during 1991-95, when the index value remained constant. Thereafter, the QLI increased gradually from 104 in 1996 to 118 in 2001,

gaining 14 percentage points. Hence, the quality of life improved 18 percentage points in 2001 relative to 1991.

Figure 2 depicts the trends of the economic and social QLI. The E-QLI shows the same trend as the overall QLI, but at a slower pace. After three years of stagnation, the economy improved slightly in 1994. Then, the E-QLI rose from 103 in

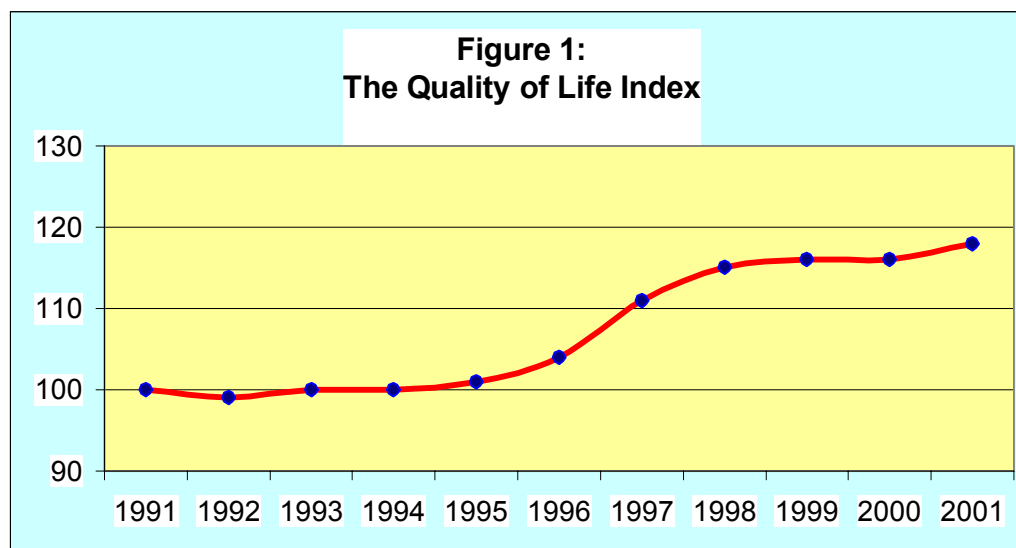
1995 to 111 in 2001, gaining 8 percentage points. In sum, the “economic” quality of life improved 11 percentage points in 2001 relative to 1991.

The S-QLI did not recover until 1996. In the following three years, however, the S-QLI increased sharply. It rose by 4 percentage points in 1996, 9 percentage points

*(Continued on page 8)*

**Table 2: The Quality of Life Indices**

	QLI	E-QLI	S-QLI
1991	100	100	100
1992	99	100	99
1993	100	100	100
1994	100	101	100
1995	101	103	100
1996	104	104	104
1997	111	107	113
1998	115	109	118
1999	116	109	118
2000	116	110	118
2001	118	111	120



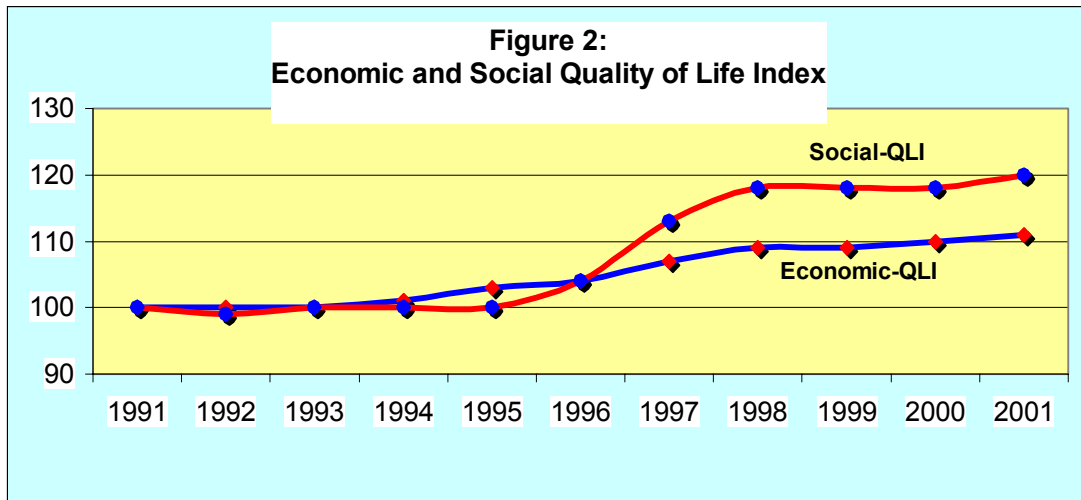
*Quality of Life (Continued from page 7)*

in 1997, and 5 percentage points in 1998. The index value, which remained constant at 118 in 1998-2000, increased to 120 in 2001. The “social” quality of life improved 20 percentage points in 2001 relative to 1991.

The QLI trends indicate that the quality of life has improved in Kern County. Although there is room for improvement in all facets of life, the county has distinct areas of strength

and weakness. In Table 2, I access these areas and make some general policy recommendations.

The key to social and economic prosperity is to sustain and enhance it over time. Despite the deep and lengthy recession of the early 1990s, Kern County has stayed on the path to prosperity. Nevertheless, it must continue to work hard to sustaining and enhancing improvements.



Indicator	Evaluation	Policy Recommendation
Income per capita	Low and stagnant	Accelerate economic growth above population growth
Employment growth	Gaining momentum	Intensify local jobs creation efforts
Cost of living	Affordable	Maintain affordable home prices
Education	Improving	Continue to lower the class size
College Preparation	Inadequate and variable	Invest in student academic preparation
Family environment	Improving	Invest in female education and work skills
Health care	Improving	Increase availability of medical services
Public assistance	High, but declining	Help welfare recipients gain meaningful employment
Crime rate	High, but declining	Invest in crime prevention and after school education
Air quality	Poor, but improving	Invest in pollution abatement

## BENEFITS OF FOREIGN-TRADE ZONES TO MANUFACTURING FIRMS

TREY BORING, VICE PRESIDENT, IMS WORLDWIDE



In the changing world of international trade, communities are forced to look at their business attraction and retention models from a different point of view. The traditional benefits available to companies through their normal flow of information have to be augmented by new incentives that meet the realization that companies now plan globally. As importing continues to be a large portion of the economy, the business community will now review the global options they have in site selection, supply chain management and expansion decisions. Communities that do not understand the incentives available to the international business concern will not be able to respond with enough information to influence the decisions the company will be making.

The Foreign-Trade Zone (Zone or FTZ) program offers communities an incentive targeted at those companies involved in international trade. These incentives are seen in the management of duties and Customs fees for companies that import merchandise or components used in a manufacturing process. The benefits available to companies within the FTZ program are targeted at making companies located in the United States more competitive globally, while promoting continued employment growth in the United States.

To answer the questions of what is a FTZ, I have included this brief explanation:

An FTZ is a designated area, which for Customs purposes is, considered outside the United States. Nearly any imported merchandise can be brought into a Zone for almost any kind of manipulation, **duty free.**

Through the utilization of a FTZ, imported material avoids any Customs duties under the following scenarios:

- ❑ Any previously imported material that is subsequently exported.
- ❑ Rejected, scrapped destroyed, waste, or merchandise returned to vendor.
- ❑ Sales to companies operating in other FTZs.

A manufacturer can sometimes take special advantage of a FTZ to reduce its overall duty exposure. If the manufacturer is producing a final product, the duty on that product if imported, would be subject to a lower duty rate than the current rates paid on imported components. Basically the imported component rate can be reduced to the final product's rate. The duty is then paid once the final product is released from the FTZ and a Customs entry is filed. Through this program, the manufacturer can then better compete with foreign companies

that may be seeking a greater market share in the United States.

A distribution facility that is importing large volumes of inventory and holding that inventory for eventual distribution to the United States can use the FTZ to delay the payment of the duty owed on the inventory. The inventory may be held for days, weeks, months or years without paying duties until it is time for the goods to leave the FTZ bound for domestic customers.

In addition, the passage of the Trade and Development Act of 2000 opened the opportunity for companies to use consolidated entries in a FTZ. All Zones were given the approval to use "weekly entry." This process allows a Zone to file one entry for duty payment to Customs a week. This greatly reduces the amount of paperwork and filling fees a large importer will face. The savings for this process are significant, since it is directly related to improved operations.

Business attraction and retention are key areas where communities should focus their FTZ attentions. New business is attracted to a community based on the overall factors that impact their particular site selection criteria, and on what the community has to offer.

*(Continued on page 10)*

*Foreign-Trade Zones (Continued from page 9)*

Just as the Enterprise Zone, Re-development Areas and other economic development incentives are paraded in front of a particular company, the FTZ should also be listed. The use of all the potential benefits a community has to offer, the better the opportunity for attracting that new company.

The same is true for companies that are already in a community. Business retention is becoming the focus of many economic development agencies. It is always better to keep your business base than to rebuild it again. Companies in the local community fit into one of two categories as they pertain to potential FTZ benefit. They either import or export currently or they will eventually. The changing business climate has put the global economy in motion and it is either in your community or it is rapidly approaching. Companies that

manufacture have been facing the global economy for over twenty years. Components are no longer made in the US, raw materials are no longer harvested in the US, the product they manufacture faces international competition. All of these issues are addressed with the FTZ.

A company that has the opportunity to benefit from the FTZ has the opportunity to add to the economic development of a community. If the company has been around the area for a long period of time or if the company is new to the area, the added benefit to the company from the FTZ makes their presence in the community more stable.

The FTZ program is intended to offer a community an additional incentive to assist in the attraction and retention of businesses in the area. Kern County is part of the FTZ administered through the Port of Los Angeles. The current

site is in the International Trade and Transportation Center (ITTC) located outside the City of Shafter. The development of this site is key to the development of the FTZ in Kern County. Companies locating anywhere in the County can work with the Port to be designated a sub-zone, but those that locate in the ITTC are locating in an area already designated.

Kern County is part of an approved Zone program and has the ability now to promote Zone benefits as a potential incentive to existing businesses and to those new businesses looking at moving into the area. The promotion of Zone benefits is all a matter of education. If those who promote the area know about the benefit, then the message is made clear and the opportunity to attract or retain those companies interested in incentives is increased.

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## URBANIZATION IN BAKERSFIELD

SRIRAM KHÉ, DIRECTOR, ENVIRONMENTAL RESOURCE MANAGEMENT PROGRAM, CSUB



*Note: The author and Abbas Grammy recently completed a study on the cost of residential development in Bakersfield. This is the last of four articles that present the study, in a shortened version, in the journal. In the previous issues, we investigated the extent of urbanization in Bakersfield, explained the selection of three sites for residential development, and measured and compared the cost of residential development of these sites. In this issue of the journal, we will discuss the lessons learnt from this study.*

*The complete study can be accessed at <http://www.csub.edu/~skhe/study.htm>*

*Effective September 2002, I will be an Associate Professor at Western Oregon University, and may be contacted at [khes@wou.edu](mailto:khes@wou.edu)*

In the study that has been summarized in this series of the articles, the cost of residential development was understood through an analysis of the major cost components. But, a typical homebuyer behaves like a typical car buyer, who may not know, and may not care, about the costs of individual components. Further, similar to a car buyer adding options to the vehicle, the homebuyer considers the possible up-

grades to a new home being built and, therefore, may be aware of only those few line items in the cost calculations. A typical homebuyer, therefore, shops for a house with the total cost as the bottom line number for comparison. When the cost components are not identifiable, and when the total cost is presented as a single figure, it is also quite possible that the consumer may not make rational choices because of a lack of information. This approach to owning a home is a contrast to the practice until a few decades ago: consumers purchased lots and then built houses by working with architects and contractors. In this approach, consumers were aware of the different cost components of a new home.

In economic terms, this arrangement of all the cost components being rolled into one single bottom line is referred to as “bundling” of costs. Utility deregulation addresses a similar ‘bundling’ of costs in electricity—bundled costs allow utilities to present the consumer with a usage fee structure that combines together the cost of production and the cost of distribution. At least theoretically, if these costs are “unbundled” or separated out, then suppliers who may be capable of producing electricity at a lower fee will then be able to sell that lower-cost electricity to the distributors of electricity. By the

same token, unbundling of costs can be an extremely difficult task, as evidenced in the case of utility deregulation in California.

In the logic presented here, homebuyers have very little control over the fundamental real estate variable: location. Of course the homebuyer can always choose a location and build his or her home. But, the ‘mass produced’ homes could be significantly less expensive than a home built ‘from scratch.’ Therefore, if the consumer has only a Hobson’s choice regarding the location for a new “mass produced” home, and if these locations involve additional cost to society, then policies should not address the consumer. Instead, policies should address the supply, which in this case is represented by developers. If the city stands to benefit from developments in locations that are closer to the ‘Central Service District’ then policies should be directed at developers and home-builders who are able to influence the city’s spatial future.

In the study, cost calculations were limited only to a few variables identified in the literature as important determinates of the cost of development. Within this limitation, calculations showed that developments that are farther from the “Central Service Dis-

*(Continued on page 12)*

*Urbanization (Continued from page 11)*

trict” impose an additional cost, which may or may not be paid by buyers of homes in those developments. In other words, distance from the Central Service District is a good proxy measure of additional costs.

Distance is not only an easy proxy measure in order to get an idea of additional costs involved, and may also provide a sense of a facility’s level of service. If a development is proposed far from the Central Service District, homebuyers may realize a drop off in the level of service in facilities that they need. The level of service of the roads, for instance, is clearly lower in the west and southwest parts of the city. Further, if a city has committed to providing a minimum level of service to its residents, then logic also dictates that the city may have to augment existing capacities in order to accommodate the additional demands and, hence, restore the level of service to acceptable levels. Who should be held responsible for the additional costs involved with improving the level of service? In other words, homebuyers in developments far from the Central Service District have to eventually foot the bill for additional facilities necessitated by the deterioration in the level of service.

The study also showed that in its current format, developers are not charged higher fees if the level of service of a facility is expected to deteriorate. Similarly, there is no incentive structure that encour-

ages developers to take advantage of high levels of service in existing infrastructure. The net result is that there is very little cost variation among housing units in different sites within Bakersfield.

There is another side to the level of service discussions: if a facility’s level of service is very high, it could also suggest that the facility is under used. For instance, in the case of roads in Bakersfield, it is not unusual for roads in the northeast parts of town to have very little congestion—i.e., a very high level of service. This means that roads in those areas are not being used to their maximum capacities. However, as has been suggested in the study, local governments do not factor in the level of service into their calculations.

The differential rate structure in the case of water also raises an issue of fairness—taxpaying city residents in one side of town—City in the Hills or Casa Loma—pay a rate that is 50 percent higher than rates paid in another side of town? Such differential rates, if they exist in other services as well, amount to a government subsidy of services, which make a service artificially cheaper than its ‘real’ cost. The city’s explanation for such a lower rate for Buena Vista is that the city owns the water rights in the Buena Vista area and does not intend profit from those rights. But, what the city owns is technically what the taxpaying residents of the entire city own—not merely the residents in a particular service area.

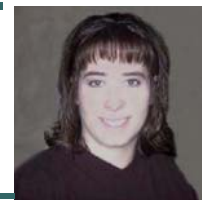
Additional questions raised during the course of this study have not been answered because of the restricted scope. Two questions in particular deserve additional attention:

1. How significantly will the spatial structures of Bakersfield change if development at the edges were charged marginal costs as opposed to average costs?
2. How to develop a fee structure for cost items like the Transportation Impact Fee so that the costs truly reflect the impact on the level of service of the respective facilities?

The researchers hope that this study will be followed up with more analysis of the economics of land use and planning in metropolitan Bakersfield. Along with other efforts such as Vision 2020, such analysis and planning could play an integral role in shaping the future of the region.

# MINORITY BUSINESS OWNERSHIP IN KERN COUNTY

JENNIFER VANGILDER, ASSISTANT PROFESSOR OF ECONOMICS



Minority-owned businesses play a substantial role in the United States economy. They have become a fast growing segment of our economy. The Bureau of Census provides periodic data that count and describe business ownership by women and members of racial and ethnic minority groups. To be included in the study firms must be at least one-half owned by women or ethno-racial minorities; have annual receipts of at least \$500; and be classified in the private-sector industry.

According to the census data, the number of Hispanic-owned business nationwide grew by 30 percent. This increase is four times greater than the rate for all firms. Additionally African-American owned businesses increased by 26 percent. California led the nation with the most minority-owned firms at 738,000 or approximately 22 percent. Despite this increase in growth

for minority-owned businesses, total sales remained disproportionately small at 11 percent nationwide and 8 percent statewide.

Kern County has also been experiencing increases in minority business ownership. According to the latest census data shown in Table 1, Kern County had 33,474 firms grossing almost \$23 billion in sales in 1997. According to the gender distribution of business ownership, women owned 22 percent of all firms and men owned 78 percent. Non-minorities owned 87 percent of all firms and minorities 13 percent. African-American owned 2 percent, Hispanics 7 percent, and Asians/American Indians 4 percent of the minority business firms.

Another topic of interest is the distribution of total sales according to gender and ethnicity. Women-owned businesses generated 11 per-

cent of the total sales and men-owned businesses 89 percent. Minority-owned businesses earned only 5 percent of the total sales and non-minority businesses 95 percent.

Figures 1 and 2 compare the distribution of minority share of business ownership with that of total business sales. Although minority-owned firms accounted for 13 percent of all businesses, they earned a mere 5 percent of the total sales. Of these minority-owned firms, African-Americans brought in about 1 percent of total sales, Hispanics 1 percent, and Asians/American Indians 3 percent. The disparity between the minority share of total numbers and the share of total sales suggests that women and minorities, by and large, own and operate small business enterprises.

*(Continued on page 14)*

**Table 1: Business Ownership by Gender and Ethnicity**

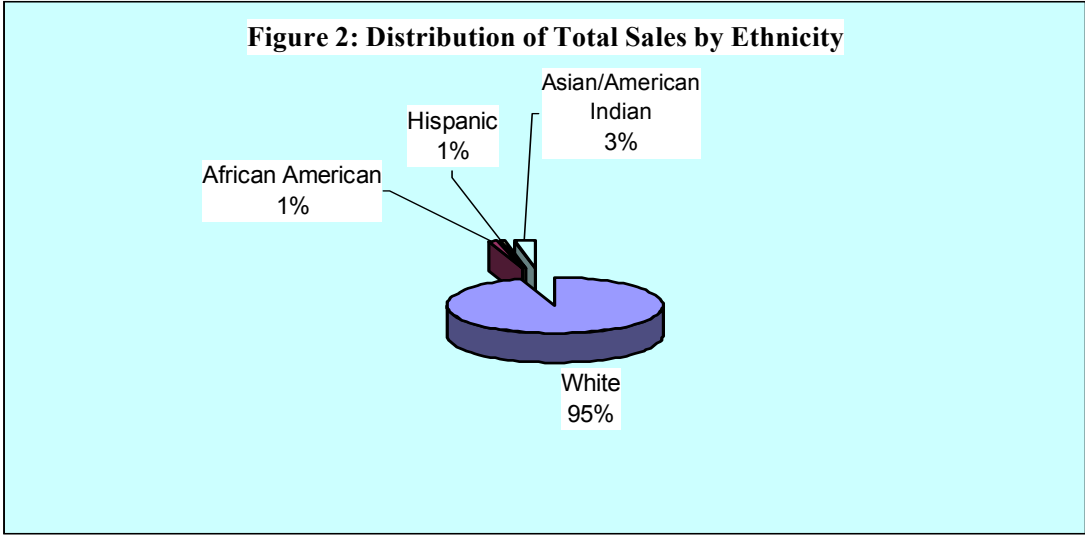
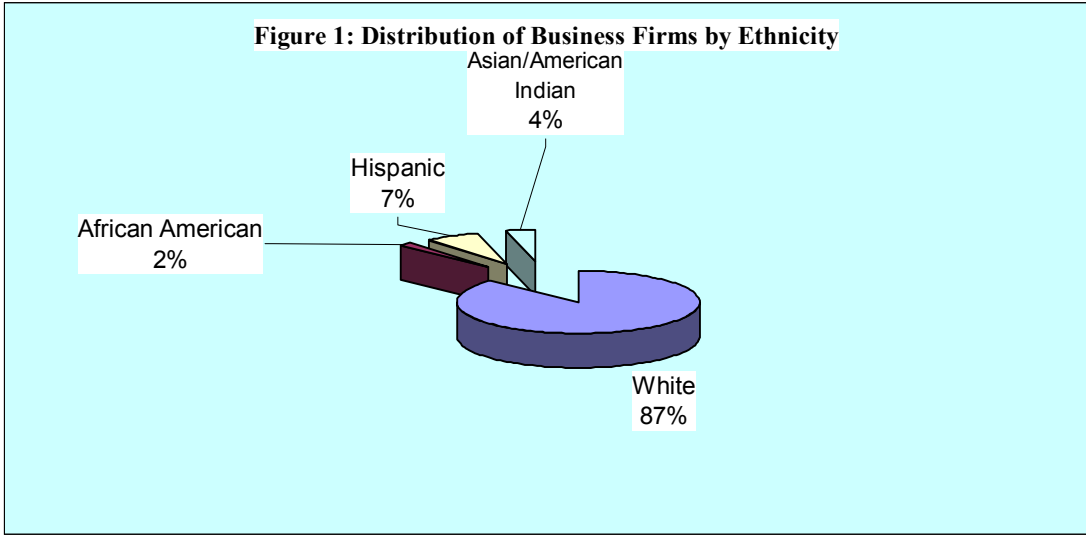
	Number of Firms	Sale Receipts (\$ Millions)	Share of Total Number of Firms (%)	Share of Total Sales (%)
All Firms	33,474	22,940	100	100
Women-Owned Firms	7,376	2,196	22	11
Men-Owned Firms	26,098	20,744	78	89
Non-Minority-Owned Firms	28,907	21,925	87	95
Minority-Owned Firms	4,567	1,015	13	5
African-American	630	36	2	1
Hispanic	2,762	210	7	1
Asian/American Indian	1,175	769	4	3

Minority (Continued from page 13)

The obvious question is should we anticipate this growth to continue. Many researchers have found the growth of minority-owned businesses to mirror the growth of the minority population. Over the next eighteen years, the minority population is anticipated to grow very rapidly. For example, projections from the 2000 census indicate that by the year 2020 the White population will

increase by 12 percent, Hispanic by 56 percent, African American by 23 percent, and Asian/American Indian by 56 percent. Even if a smaller proportion of these rapid growth rates occurs in the number of minority owned firms, these firms will comprise a substantial part of our overall firm composition. Although population can partially explain some of the growth, many other factors are also important. For instance the initial rate of business owner-

ship, government support, and human capital formation play important roles in the growth of minority business ownership. With these factors contributing to the growth of minority-owned firms, the composition of businesses ownership will continue to diversify.



## FAMILY BUSINESS OWNERSHIP

EDITED BY ABBAS GRAMMY

**S***trictly Business* is a program that airs Saturday mornings on KERN (1410 AM). Each week, Jeff Johnson, Director of Weill Small Business Development Center, interviews a member of the business community.

**Hill:** This is Bart Hill, I am sitting in for Jeff Johnson. I am talking with Ginger Moorehouse, Publisher of *The Bakersfield Californian*. We are going to talk about the newspaper business, but also family business in general.

**Hill:** What is the role of a newspaper today?

**Moorehouse:** The most important role a paper can play is as a community connection. It is a way for people to know what's going on in their community and hook into it, have an opinion about it, and exchange opinions in order to make a difference.

**Hill:** You are not simply providing information, but you are trying to pull people together. You are trying to produce reactions about things.

**Moorehouse:** I really think that our mission is greater than just the news and information. It is helping our community to grow and improve. It is finding those little spots where there may be problems and alerting people so that they can fix them and make our corner of the world a little better.

**Hill:** I hear people complaining about the newspaper in general. They complain that you are always printing bad stories. Why can't there be good news?

**Moorehouse:** We print the news and it isn't always pleasant. It really isn't our role to be promoters of all positive things. Also, printing stories that are bad stories or have negative effects on people would tell us that this is the way that people can make changes.

**Hill:** Doesn't every newspaper print all of the legal stuff like bankruptcies, divorces, and terrible personal things?

**Moorehouse:** Those divorces and bankruptcies are just a closer way to view community. A lot of weekly newspapers do this very well. They are so close to their community, and it is harder for a daily, but this is one of the roles we think that we have. That's why we have the community page with the photos and the town history.

**Hill:** I'd like to talk a little more about the newspaper. Who was Alfred Harold?

**Moorehouse:** Alfred Harold was my great-grandfather. He was the one who purchased the newspaper in 1897. He was at the time Superintendent of Schools here in Kern County. Apparently, he had always wanted to

run a newspaper and I think he had made a little money on a silver mine outside of town. So he had the money to buy the newspaper, and he was the fourteenth owner of the newspaper. It actually started in 1866.

**Hill:** Your newspaper has gone through several generations in your family. How has that changing of the guard taken place?

**Moorehouse:** Well, it is kind of interesting. It has gone down through the female line which is unusual. Usually, businesses were passed down to the sons, but they didn't have any in their family. My great-grandparents only had one child, my grandmother, and so it was passed down to her. Some people may remember Walter Payne who was publisher at the newspaper for quite a while. His recommendation was that we incorporate, and that helped us pass the newspaper down. In any case, it went from my grandmother to my mother. I had three brothers- two of them were involved with the paper, but two of them have died and one of them is very ill. And so, here it is, on the female side.

**Hill:** We want to talk about family business. Most small businesses are family business in one form or another. I have seen families getting into difficulty whenever their businesses are

(Continued on page 16)

*Family Business (Continued from page 15)*

passed to another generation. That's when the problems start. Can you talk a little bit about that?

**Moorehouse:** We have never had factionalism that some may experience in a family business. The problem is that you have people who don't work in the business who say they want more money from the business. Then, they think the other people in the family that are running the business are taking too much money. You get this factionalism, and so, we have tried to get a family business group together to talk about things you might do to succeed in passing your business to the next generation.

**Hill:** Right. It's about making money. It can't just be about carrying on a family tradition. This business has to make money or it's not going to survive.

**Moorehouse:** Yes, and I think that the business takes on it's own life, especially the newspaper business, which has such deep community roots. Our family has always believed that we need to give back to the community and the business in order for it to succeed.

**Hill:** What is the toughest part of the business for you? Is it personnel? Marketing?

**Moorehouse:** Personnel is always a problem. I have just been reading the book, *From Good to Great*, which I recom-

mend for any family business. One of the things talked about in the book is that it is so vital to get the right people on the bus.

**Hill:** Let's talk about the union in the newspaper business. Many of listeners deal with union employees which is a whole different set of circumstances. Tell us about unions.

**Moorehouse:** Well, the union is a mixed blessing. Our union has been pretty understanding. Our local people do understand our mission. Sometimes they bring in people from the outside to encourage the growth of the union.

**Hill:** What about some of the advantages of a family business

**Moorehouse:** One of the most wonderful things about it, I think, is the ability to make decisions like that, without waiting for a corporate person to tell you can or cannot do something. You don't have to prepare everything in triplicate, and if someone asks for a contribution to a community cause, you can promptly respond. Plus, it is really fun working with family members.

**Hill:** What advice would you give them with their family businesses?

**Moorehouse:** I think that it is vital to stick with it. This is a rich involvement for everybody in terms of your commitment to your work and family. It's important that you do estate plan-

ning. Tax planning, particularly succession planning, meaning which child is going to be the one to take over and be hands on at the business. How do you decide that and be fair to all of your children? I think that open communication and commitment to the future of the business that's there long after you are gone is vital to all of it.

**Hill:** You probably don't have to work, and there are probably conglomerates who would love to gobble up this little jewel. Why aren't you selling it?

**Moorehouse:** That is a great question. I am doing it because I love it. I have always felt that this was another child or family member. I am in a position where I can help this community and that means a lot to me. It give my life tremendous meaning. I think that's the answer to it all -- to make a difference.

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# MINIMUM WAGE: FEDERAL VS. STATE

AMANDA LIVESAY, CSUB ECONOMICS STUDENT



Since the passage of the Fair Labor Standards Act in 1938 the United States has had a federal minimum wage. The law sets a legal minimum on the wages that firms pay their employees. It applies to employees of companies that do at least \$500,000 in business a year. It also applies to workers of smaller firms who are engaged in interstate commerce or in the production of goods for commerce, such as employees who work in transportation or communications or who regularly use the mails or telephones for interstate communications. It also applies to employees of federal, state or local governments agencies, hospitals and schools, and it generally applies to domestic workers.

The intent of the Congress when initiating this law was to assure “the maintenance of the minimum standard of living necessary for health, efficiency, and general well being of workers.” However, each state still has the freedom to set its own minimum wage. There are currently seven states with no state minimum wage, seven states have a minimum wage lower than the federal minimum wage, twenty-six states match

the federal minimum wage, and ten states have a minimum wage greater than federal minimum wage. Despite variations among the states, it is believed that at least 10.1 percent of the workforce is directly affected by the federal minimum wage.

### Minimum Wage Controversy

There is much controversy surrounding the issue of minimum wage. Supporters of the minimum wage argue that it does what it is supposed to do, which is to raise wages of those workers with the least bargaining power. Opponents, however, claim that it costs jobs by pricing low wage workers out of the labor market. An increase in the minimum wage creates greater unemployment for unskilled labor. They also believe that it is poorly targeted, since most low-wage workers live in families with relatively high levels of income.

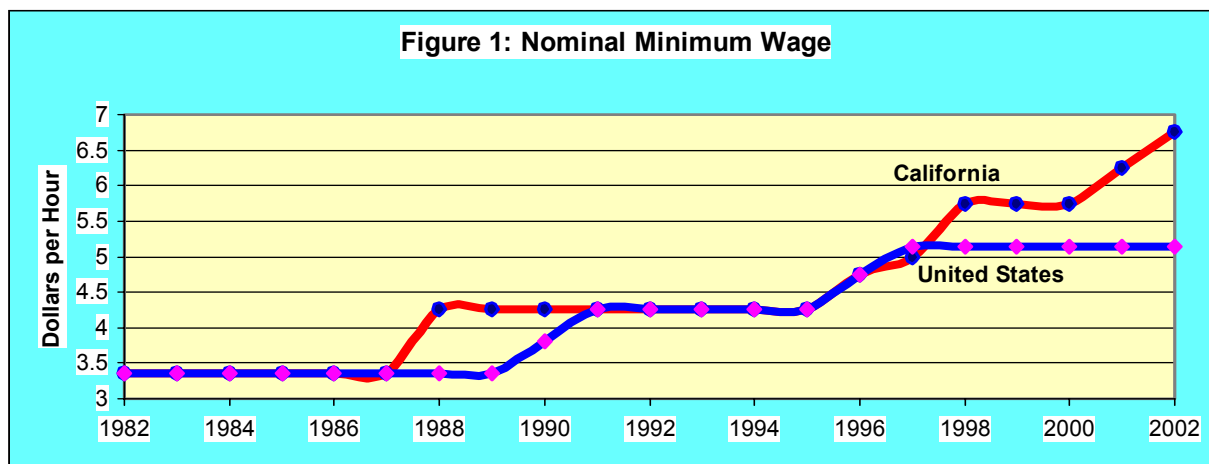
There are both social and economic implications involved in raising the minimum wage. If the minimum wage were adjusted each year by increasing the previous year’s minimum wage by inflation, there would be much less income inequality

within the United States. By increasing the minimum wage, fewer families would find themselves beneath the poverty level, struggling to make ends meet. How an increase may affect the economy is an important question. There are many studies that show that the economy will not be negatively affected; yet some economists see it differently. Many economists believe that a higher minimum wage will increase the labor cost, inducing further substitution of capital for unskilled labor. Eventually, as economic growth and inflation advance the wage rate, the relative size of the minimum wage will dwindle and demand for unskilled labor will rise. Both the positive and negative effects of the minimum wage will prove temporary, regardless the size of the increase.

### State vs. Federal Minimum Wage

California is one of the ten states that have a minimum wage greater than the federal minimum wage. Prior to 1987, the state and federal minimum wage were very much identical. As shown in Figure 1, the

(Continued on page 18)



*Minimum Wage (Continued from page 17)*

disparity began in 1988 when the state minimum wage rose from \$3.35 to \$4.25. This adjustment occurred for the federal minimum wage in 1991. Once again, the state minimum wage diverged from the federal rate when it increased from \$5.15 to \$5.75 in 1998. While there has not been any upward adjustment in the federal minimum wage since 1997, the state minimum wage rose to \$6.25 in 2001 and \$6.75 in 2002.

The controversy surrounding the minimum wage has directly affected its trends since the passing of the Federal Labor Standard Act. An increase cannot go into effect unless it is passed by the Congress and approved by the President. Since the minimum wage is not indexed to inflation or to some other measure of wage growth, when the Congress fails to increase its value, it declines in real terms. Figure 2 illustrates trends of the real (i.e., inflation-adjusted) state and federal minimum wage rates. To measure the inflation rate, I find the percentage change of the Consumer Price Index (all urban areas; seasonally adjusted; 1992=100). I note that the CPI values for California's major metropoli-

tan areas in the *south* and *north* are higher than the national rate. However, the CPI is not measured for the entire state including *central* California. Hence, I assume that the inflation rate for the entire state is similar to that of the nation.

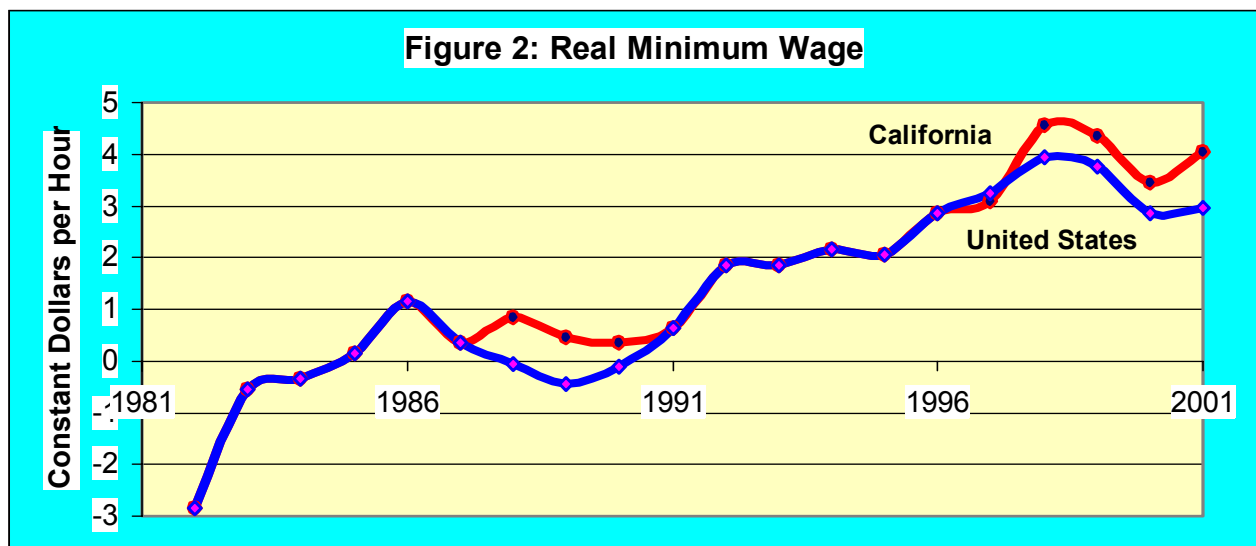
In 1982, the minimum wage was \$3.35 in both the state and nation. But, the inflation rate was 6.2 percent. This disparity reduced the real minimum wage to a negative \$2.85. The negative real minimum wage continued over the following two years. In California, the real minimum wages increased gradually from \$0.15 in 1985 to \$1.85 in 1992, \$3.10 in 1997, and \$4.05 in 2001. The federal real minimum wage has increased at an unstable and slower pace. It fell from \$0.15 in 1985 to -0.45 in 1989, rose to \$1.85 in 1992 and \$3.25 in 1997, but plunged again to \$2.95 in 2001.

The controversy over the socioeconomic effects of the minimum wage will continue, especially when politicians debate a proposal to increase the minimum wage. Regardless of the controversy, my analysis of data makes an essential point that unskilled wage earners must be protected against inflation because

higher prices erode the real income of workers. It would be, perhaps, less controversial if I recommend the "indexation" of the minimum wage in an attempt to hedge against inflation, as it is the case of the social security payments.

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# EFFECTS OF INTEREST RATE CHANGES ON BANKS' PROFIT MARGIN

ABBAS GRAMMY, PROFESSOR AND CHAIR OF ECONOMICS

If you want to set interest rates to achieve stable prices while avoiding large fluctuations in output and employment growth, how would you do it? This question is exactly what Alan Greenspan and other governors of the Federal Reserve System (the Fed) ask themselves every time they meet. The policy target that the Fed sets is the federal funds rate, which is the short-term interest rate at which banks make loans to each other. Whenever the Fed meets, it chooses the federal funds rate. The Fed's bond traders are then instructed to buy or sell government securities in such a way that the desired target rate is achieved.

## Interest Rate Determination

The hard part of the Fed's job is choosing the target for the federal funds rate. Two general guidelines are followed. First, when inflation heats up, the federal funds rate should rise in order to increase the cost of borrowing, hence discouraging investment, employment, and production. Second, when real economic ac-

tivity slows, the rate must fall to lower the cost of borrowing, hence encouraging investment, employment, and production. However, the Fed must go beyond these general guidelines and decide by how much to change the rate in order to respond to changes in inflation and real economic activity. To help this decision, economist John Taylor has suggested a simple rule for the determination of the real (i.e., inflation-adjusted) federal funds rate:

*The real federal funds rate equals 2 percent when inflation is 2 percent and the real GDP is at its full-employment level. For each percentage point inflation rate increases above 2 percent, the real federal funds rate increases by 0.5 percent. For each percentage point the real GDP falls below its full-employment level, the real federal funds rate drops by 0.5 percent*

Data on the Fed's federal funds rate and Taylor's rule indicate

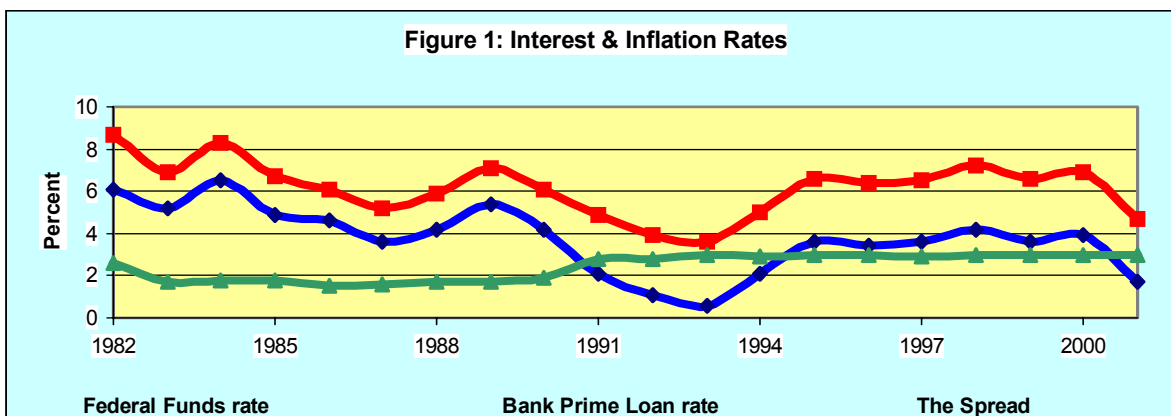
that the two trends follow each other very closely. The Taylor's rule may be a guideline that Alan Greenspan and his colleagues follow subconsciously.

## Effect on Banks Profit Margin

Banks make money by borrowing from each other at the federal funds rate and lending at the market interest rate. The percentage of banks profit (i.e., the spread) is, at the very least, the difference between the bank prime loan rate (i.e., the rate charged on loans to their "best" customers) and the federal funds rate. One misconception is that banks make a larger percentage profit when interest rates are high. In fact, the opposite may be the case: banks make a higher spread when interest rates are low.

To examine this proposition, we must take a look at the spread between the borrowing and lending rates. Figure 1 depicts the real interest rates and the spread over

(Continued on page 20)



Interest Rates (Continued from page 19)

the past twenty years. In the expansion of the 1980s, the federal funds rate varied between 6.5 percent in 1984 and 3.6 percent in 1987, and the prime loan rate fluctuated between 8.7 percent in 1982 and 5.2 percent in 1987. In all these years but 1982, the spread was less than 2 percent. In the 1990s, the federal funds rate fell to as low as 0.6 percent in the recovery of 1993. It then gradually rose to 4.2 percent in 1998. The prime rate stayed 2.8 to 3.0 percent above the federal funds rate throughout the 1990s. By the year 2001 when the federal funds

rate dropped to a low 1.7 percent, the spread remained at 3.0 percent.

In the 1980s, the federal funds rate and prime rate averaged 6.9 and 5.9 percent, respectively. While the average spread was only 1.8 percent. In the 1990s and during 2000-01, the federal funds rate plummeted by nearly 3 percent, whereas the prime rate fell by about 1 percent. The banks average spread remained at a reasonable 3.0 percent.

The Fed changes the federal funds rate to “smooth” business cycles. High interest rates dis-

courage borrowing and investing, slowing the level of economic activity. Whereas, low interest rates encourage borrowing and investing, stimulating economic growth. The spread between the federal funds rate and the prime loan rate determines the percentage of profit banks make by borrowing from each other and lending to the public. Analysis of historical data indicates that low inflation resulting in low real federal funds rate would bring about higher spreads for banks.

