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KERN ECONOMIC JOURNAL

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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:

Business Outlook Survey: Business managers are slightly less optimistic about local economic conditions. The Business Outlook Index declined by 1.2 points from 126.1 in the first quarter to 124.9 in the second quarter of 2002.

Factors contributing to business pessimism are:

- Crisis in business ethics as a result of corporate scandals
- Volatility of the stock market and the falling trend of stock prices
- Uncertainty in international politics, especially in the Middle East
- Lack of rainfall, resulting in drought conditions
- Decline of the tourist industry, both locally and nationally
- Deficit in the state budget

Reasons for business optimism include:

- ✓ Low interest rates
- ✓ Construction boom
- ✓ Increased business in the automotive repair services
- ✓ Location of major distribution centers in Kern County
- ✓ Increase in fundraising for local public safety services *(Full story on page 2)*

Consumer Sentiment Survey: Households have turned more optimistic about local economic conditions. The Consumer Sentiment Index improved 12 points from 113 in the first quarter to 125 in the second quarter of 2002. Compared to one year ago, 40 percent of the respondents said their families are doing financially *better*, 45 percent *the same*, and 15 percent *worse*. Anticipating one year from now, 60 percent of the respondents perceived their financial conditions to be *better*, 34 percent *the same*, and 6 percent *worse*. *(Full story on page 3)*

Kern County's unemployment rate dropped to its "natural rate" of about ten percent. It decreased from 11.4 percent in the first quarter to 10.9 percent in the first quarter of 2002. The labor force increased by 4,900 persons as the number of *employed* workers rose by 5,800. 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)*

In a national survey, Kern County is ranked low in economic strength. The prime reason for this low ranking is that although the economy is growing, it remains unstable. Hence, the key to improving *strength* of the local economy is to take advantage of its rich natural resource base and diversify production from raw materials to merchandise exports. Earnings from exportation of processed foodstuff and refined petroleum products shall contribute to sustained and stable growth and improved strength. *(Full story on page 8)*

The racial profile of Kern County's population suggests considerable diversity. When compared to the nation, Kern County has a greater percentage of the people declaring a multi-racial heritage, but a smaller percentage classified as White, African-American, and Asian. When compared with the state, the county has a smaller percentage of the people claiming multi-racial, African-American, and Asian heritage, but a greater percentage classified as White. *(Full story on page 13)*

Kern County's crime rate declined at an average annual rate of 5.2 in 1990-2000. Its crime rate rose from 3,015 in 1990 to 3,129 in 1993. It then recorded a consistent falling trend reaching 1,756 in 2000. In 2000, Kern County had a crime rate lower than both California and San Joaquin Valley. *(Full story on page 16)*

KERN BUSINESS OUTLOOK SURVEY

ABBAS P. GRAMMY, PROFESSOR OF ECONOMICS AND DIRECTOR, CENTER FOR ECONOMIC EDUCATION AND RESEARCH

This article presents opinions of business managers regarding current and expected economic conditions of Kern County in the second quarter of 2002. Over the first three weeks of July 2002, we telephoned a random sample of 250 members of the Greater Bakersfield of Commerce, of whom 100 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*. Results are illustrated in Figure 1.

After recording a large increase in the previous quarter, the BOI fell 1.2 percentage points from 126.1 to 124.9. This decline indicates that business managers are less optimistic about local business conditions. Compared with four quarters ago, the BOI is 1.0 percentage point lower.

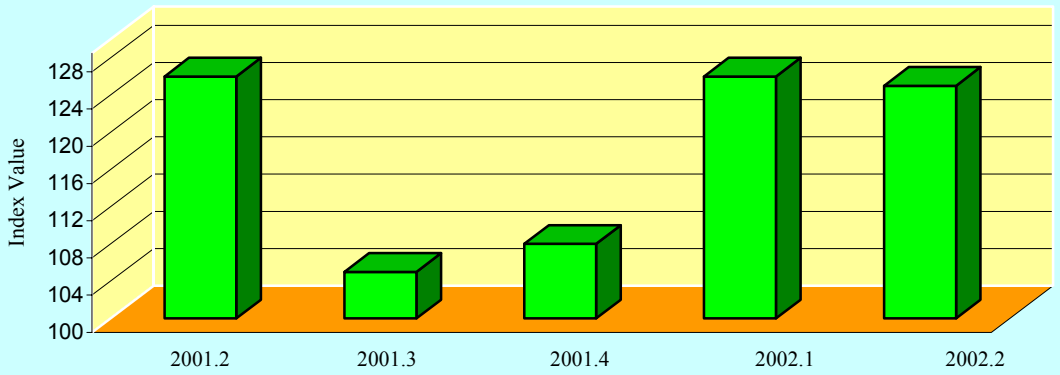
As shown in Table 1, the majority of survey respondents reported that the number of jobs in their companies stayed the same as the previous quarter. They expected the number of jobs available in their companies to remain unchanged next quarter.

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

The majority of business managers

(Continued on page 4)

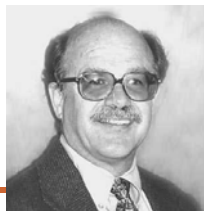
Figure 1: Business Outlook Index



Question	Response		
	Better	Same	Worse
	(Percentage of Total Responses)		
Employment in your company this quarter was	30	50	20
Employment in your company next quarter will be	28	59	13
Financial condition (sales or profits) of your company this quarter was	48	41	11
Financial condition (sales or profits) of your company next quarter will be	61	34	5
Employment and general business conditions in your industry this quarter were	36	38	26
Employment and general business conditions in your industry next quarter will be	43	42	15
Employment and general business conditions in Kern County this quarter were	33	49	18
Employment and general business conditions in Kern County next quarter will be	39	50	11

BAKERSFIELD CONSUMER SENTIMENT SURVEY

MARK EVANS, INTERIM DEAN, EXTENDED UNIVERSITY DIVISION



For the second consecutive quarter, the Bakersfield Consumer Sentiment Index made solid gains, continuing its recovery from the September 11-induced recession. The index rose from 113 in the first quarter to 125 in the second quarter of 2002. 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 108 in first quarter to 119 in the second quarter. The forward-looking Index of Future Expectations increased from 118 in the first quarter to 132. 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. A robust 25 percent of households purchased a big-ticket item in the second quarter, compared to 11 percent in the first quarter. Overall spending on discretionary items was greater than normal in one-of-four households, compared to one-in-three during the previous quarter. However, it was less than normal in less than one-in-five households, compared to one-in-four during the previous quarter. During the last two quarters of 2001, discretionary spending was less than normal in one-half of the households. Heads of households were asked how their families were doing financially compared to one year ago. The percentage that was doing better increased slightly (from 37 to 40 percent), while the percent who were doing worse was cut in half (from 29 to 15 percent).

To assess consumer expectations, households were asked how they thought the financial situation of

(Continued on page 4)

TABLE 1
INDEX VALUES

	Most Recent Quarter	Previous Quarter	One Year Ago
Bakersfield Consumer Sentiment Index	**125**	**113**	**119**
Sub index: Recent Buying & Financial Trends	119	108	115
Sub index: Expectations	132	118	122

TABLE 2
RECENT BUYING AND FINANCIAL TRENDS

	More than usual	Same as usual	Less than usual
Your recent spending on discretionary items (dining out, weekend outings, entertainment)	27 %	54 %	19 %
	Better off	Same	Worse off
How your family is doing financially compared to one year ago.	40 %	45 %	15 %
How your acquaintances in Kern County are doing financially compared to one year ago.	30 %	64 %	7 %

Business Outlook *(Continued from page 2)*

perceived that current employment and financial conditions of their industries were the same this quarter. However, they anticipated that employment and financial conditions of their industries would improve next quarter.

Nearly fifty percent of the business managers felt that employment and general business conditions in Kern County were the same as the previous quarter. They also anticipated that employment and general 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:

- Crisis in business ethics as a result of corporate scandals
- Volatility of the stock market and the falling trend of stock prices
- Uncertainty in international politics, especially in the Middle East
- Lack of rainfall, resulting in drought conditions
- Decline of the tourist industry, both locally and nationally
- Deficit in the state budget

Major factors perceived to improve business outlook are:

- ✓ Low interest rates
- ✓ Construction boom
- ✓ Increased business in the automotive repair services
- ✓ Location of major distributing centers in Kern County
- ✓ Increase in fundraising for local public safety services

Overall, business managers remained less 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)*

their families would change over the coming year. The percent of respondents who thought their situation would improve increased from 37 percent in first quarter to 60 percent in second quarter. The percent that thought their situation would worsen decreased dramatically from 26 to 6 percent. When asked how acquaintances in Kern County viewed the future, the responses were similar to self-assessments in that the percentage reporting their acquaintances expected worsening conditions decreased by one-half from the previous quarter (from 24 to 11 percent). There was no significant change from the previous quarter in attitudes regarding whether this is a safe or risky time to incur debt or draw down savings.

Summing up, declines in the value of stock portfolios did not appear to negatively affect economic expectations of local households in the second quarter. Expectations continued their strong recovery from the lows reached in the third and fourth quarters of 2001.

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	60 %	34 %	6 %
	Optimistic	Neutral	Fearful
How your acquaintances in Kern County view the coming year.	45 %	44 %	11 %
	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?	38 %	30 %	32 %

Employment and Unemployment in Kern County

Abbas P. Grammy, Professor of Economics and Director, Center for Economic Education and Research

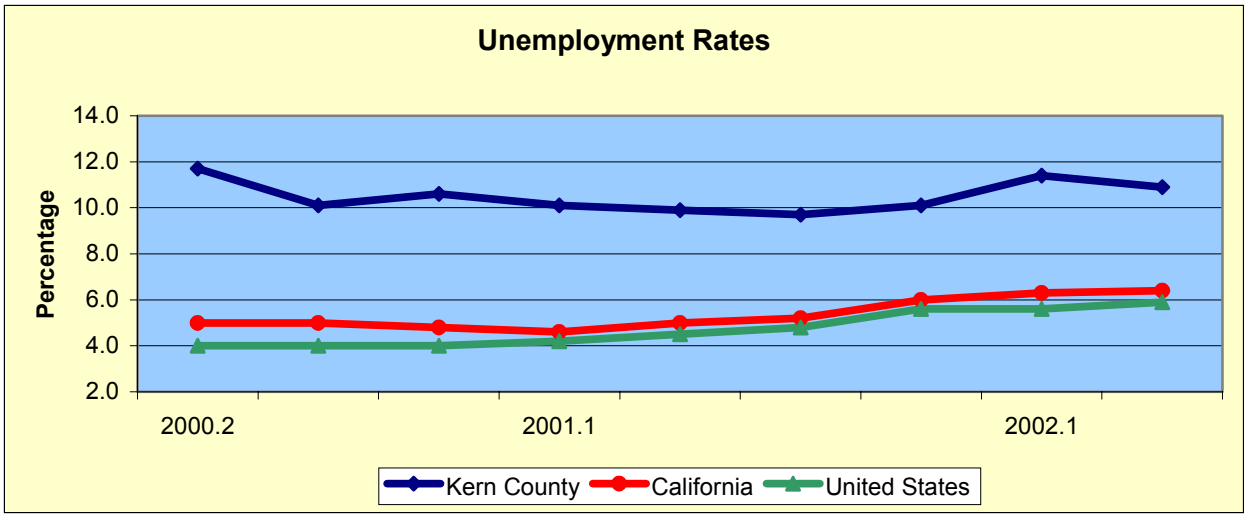
Analysis of *seasonally adjusted*[1] labor market data indicates that the unemployment rate declined by 0.5 percentage points from 11.4 percent in the first quarter to 10.9 percent in the second quarter of 2002.

The labor force increased by 4,900 persons and total employment rose by 5,800. Employment in the farm sector increased by 8,000 and in the nonfarm sector by 1,100. However, in the market for self-employed workers and those who work outside their place of residence 3,300 jobs were lost.

Among the nonfarm industries, construction, manufacturing, retail trade, finance, insurance and real estates, services, and local education added jobs, whereas mining, transportation reduced employment.

Nonfarm employment increased at an annual rate of 2.2 percent in Kern County. But, it declined by 0.2 percent in California and 3.0 percent in the United States. Over the previous four quarters, nonfarm employment growth averaged 3.3 percent in Kern County, -1.0 percent in California, and -1.3 percent in the United States.

The chart below illustrates unemployment trends in the local, state, and national economies. Historically, the rate of unemployment in Kern County had been in double digits. However, Kern's unemployment had fallen into single digits in two consecutive quarters and for the fourth time in four years-- the first quarter of 1997, fourth quarter of 1999, and second and third quarters of 2001. Between the first and second quarters of 2002, the rate of unemployment fell from 11.4 to 10.9 percent in Kern County. It increased from 6.3 to 6.4 percent in California and from 5.6 to 5.9 percent in the United States. Compared with four quarters ago, the unemployment rate increased by 1.0 percent in Kern County, 1.4 percent in California and 1.4 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.

Cost of Living in Bakersfield

Abbas Grammy, Professor of Economics and Director, Center for Economic Education and Research

The Cost of Living Index constructed by the American Chamber of Commerce Research Association (ACCRA) is a measurement of *relative* price levels of consumer goods and services. The index provides useful and reasonably accurate measure of cost of living differences among participating urban areas. Average prices of 62 basic consumer goods and services are collected at a specific time period and according to standard specifications. Weights are assigned to prices to incorporate the importance of these items in the consumer budget. Separate price indices are calculated for six commodity baskets including grocery, housing, utilities, transportation, health care, and household goods and services. These indices are combined to construct a composite cost of living index. The ACCRA reports for the first quarter of 2002 for selected cities in California. Data for various cost of living items are tabulated below.

Housing Cost

Housing is most affordable in Bakersfield, but least affordable in San Francisco. Following Bakersfield are two neighboring cities of Visalia and Fresno and, and behind San Francisco are Los Angeles-Long Beach and San Diego.

Grocery

Likewise, Bakersfield is the least expensive city in the cost of grocery items ahead of Riverside and Fresno. In contrast, San Diego, Oakland, and Sacramento are the most expensive cities in grocery cost.

Utilities

Bakersfield is the fourth most expensive city in utilities behind Visalia, Sacramento, and Palm Spring. Perhaps due to the "economies of scale," the larger cities of San Diego, San Francisco, and Oakland provide utilities at lower cost.

Transportation

Bakersfield, Visalia, and Fresno have the lowest transportation cost, respectively. Whereas, San

(Continued on page 7)

City	Housing	Grocery	Utilities	Transportation	Health Care	Household Items	Composite Index
Bakersfield	89.7	98.3	128.2	91.6	114.5	101.9	99.6
Fresno	99.7	108.8	114.3	99.6	109.0	104.0	104.2
Los Angeles-Long Beach	202.8	113.8	107.5	100.5	111.9	109.2	135.3
Oakland	164.2	123.9	99.8	115.9	131.4	104.4	126.4
Palm Springs	100.4	119.2	133.7	112.1	153.2	116.3	115.1
Riverside	98.8	106.8	97.5	101.9	116.1	101.8	102.1
Sacramento	121.4	122.7	137.7	109.0	146.9	110.0	119.2
San Diego	170.4	123.9	92.8	122.1	133.1	109.2	129.8
San Francisco	353.0	118.2	96.2	130.0	147.5	112.7	183.0
Visalia	90.4	117.8	138.4	96.1	109.6	102.8	104.2

Cost of Living *(Continued from page 6)*

Francisco, San Diego, and Oakland have the highest transportation cost.

Health Care

The cost of health care is the lowest in Fresno, Visalia, and Bakersfield. Health care goods and services are quite costly in Palm Springs, San Francisco, and Sacramento.

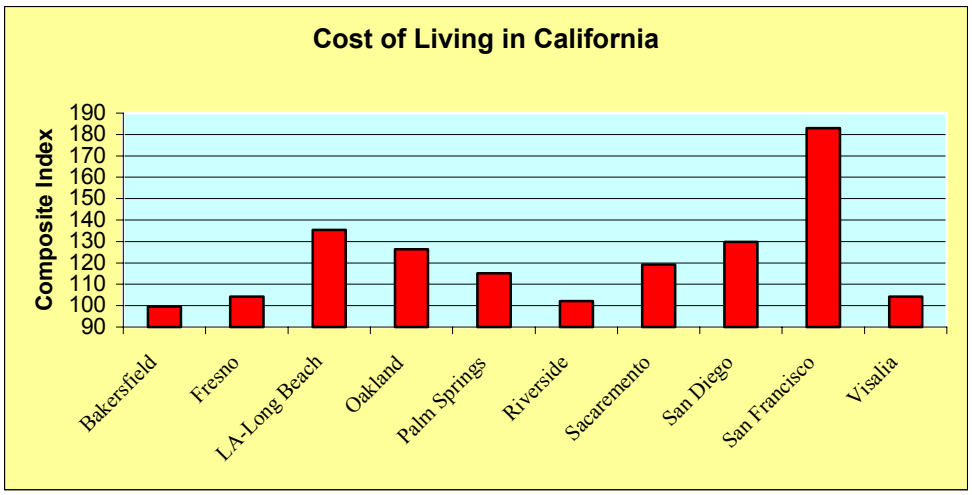
Household Items

When household goods and services are considered, Bakersfield is the second least expansive city behind Riverside, but ahead of Visalia and Fresno. On the other hand, Palm Springs, San Francisco, and Sacramento are the most expensive cities for the supply of household services.

Overall

As illustrated in the following graph, Bakersfield enjoys the lowest cost of living among these selected cities. Fresno and Visalia are the second least expensive cities of the sample. The most attractive features of living in Bakersfield is affordable housing, low grocery cost, inexpensive transportation services, and cheap household consumer goods and services, which includes items such as haircut, dry cleaning, newspaper subscription, and movie tickets.

The composite cost of living index for Bakersfield is 99.6, which is a whopping 83.4 points lower than that of the most expensive city, San Francisco. This sizable difference between the two cities is an important economic development factor for business and workforce retention and relocation. Workers relocating from San Francisco to Bakersfield will gain nearly 88 percent in buying power. They could afford a modest cut in after-tax income and still enjoy a higher standard of living. Whereas those contemplating an offer to move from Bakersfield to San Diego would lose nearly 46 percent in buying power and would not be able to maintain their living standards even after modest pay increases.



Economic Strength of Kern County

Abbas Grammy, Professor of Economics and Director, Center for Economic Education and Research

POLICOM Corporation annually measures and ranks the *economic strength* of 381 metropolitan areas in order to study the growth and stability of these local economies. It defines: *strength = growth - instability*. Here, *growth* is the average annual growth rate and *instability* is the average annual deviation of growth from the previous year. This formulation rewards economies that have steady growth patterns over an extended period of time. In contrast, economies that are subject to boom and bust cycles typically rank low in strength.

The sample consists of 25 years of data on 18 economic indicators. The economic indicators examined are listed below:

- Per Capita Personal Income
- Total Earnings
- Total Employment
- Annual Earnings Per Worker
- Wage and Salaries Workers – Earnings
- Wage and Salaries Workers – Employment
- Wage and Salaries Workers – Annual Earnings Per
- Nonfarm Proprietors – Earnings
- Nonfarm Proprietors – Number of Firms
- Nonfarm Proprietors – Annual Earnings Per Worker
- Retail Trade – Earnings
- Retail Trade – Employment
- Retail Trade – Annual Earnings Per Worker
- Construction – Earnings
- Construction – Employment
- Construction – Annual Earnings Per Worker
- Medical Transfers to the Poor (Medicaid)
- Income Maintenance (Welfare)

These indicators are chosen in order to study the way in which local economies behave and the factors that cause them to behave in a particular manner.

The time interval, 1975- 1999, is divided into 1975-89 and 1990-99. From the panel dataset, the average deviation from the previous year (*instability*) and the average annual increase (*growth*) are calculated for each indicator and each time period. The total for 1990-99 is doubled and added to the total for 1975-89 in order to give the last 10 years twice the emphasis of the previous 15 years. Then, the data for both 15-year and 10-year terms are totaled for each indicator. From these totals, the composite index of *economic strength* is calculated for local economies.

The latest POLICOM economic strength rankings for the metropolitan areas were released on August 28, 2001. Accordingly, Austin-San Marcos, TX is the highest-ranking metropolitan area, whereas Odessa-Midland, TX ranks the lowest. The top 10 metropolitan areas of the nation are:

1. Austin-San Marcos, TX
2. Denver, CO
3. Atlanta, GA
4. Seattle-Bellevue-Everett, WA
5. Salt lake City-Ogden, UT
6. Raleigh-Durham-Chapel Hill, NC
7. Dallas, TX
8. For Collins, CO
9. San Antonio, TX
10. Madison, WI

The highest-ranking metropolitan area of California is Santa Rose (18) and the lowest is Merced (300). Surprisingly, the Los Angels-Long Beach metropolitan area is ranked 164. The top 10 metropolitan areas of California are:

1. Santa Rosa (18)
2. Oakland (19)
3. Riverside-San Bernardino (20)
4. San Diego (37)
5. San Francisco (38)
6. San Jose (39)
7. Sacramento (43)
8. Orange County (59)
9. Ventura (72)
10. Santa Cruz-Watsonville (95)

The highest-ranking metropolitan area of the San Joaquin Valley is Modesto (124) and the lowest is Merced. The ranking of these

(Continued on page 9)

Economic Strength *(Continued from page 8)*

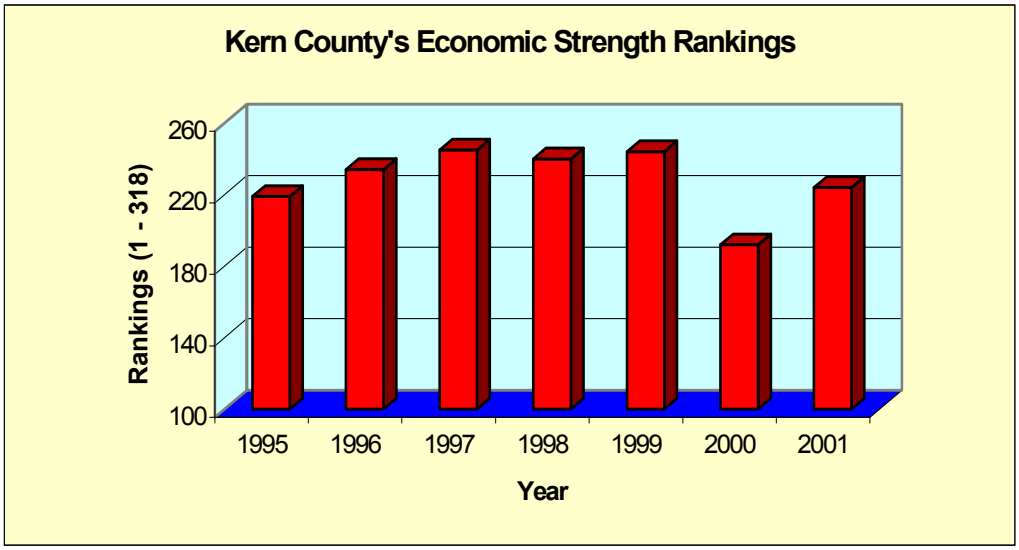
communities is shown in parentheses:

1. Modesto (124)
2. Fresno (128)
3. Stockton-Lodi (177)
4. Visalia-Tulare-Porterville (223)
5. Bakersfield (224)
6. Merced (300)

According to the POLICOM rankings, the *economic strength* of Bakersfield Metropolitan Statistical Area (MSA), or Kern County, has been low and variable over the past 7 years. Kern County ranked 219 out of 318 metropolitan areas in 1995. Its ranking fell to 234 in 1996 and 245 in 1997, but rose to 240 in 1998. The county's ranking declined to 244 in 1999, improved to 240 in 2000, but fell again to 224 in 2001.

In the POLICOM measurement of *economic strength* where *strength = growth – instability,* economies that experience rapid, but variable growth patterns rank lower than those with slower, but stable trends. Hence, the key to gaining strength is for local economies to sustain growth over an extended period of time. Sustained growth could be achieved by reducing vulnerability to local business cycles such as incidence of crop failure and dependence on external markets.

Historically, Kern County has been a "boom and bust" economy. One explanation for its low raking of *economic strength* is dependence on the production of natural resources including raw farm products and crude petroleum, whose prices are determined in the international and national markets. As such, Kern County is a "price-taker" whose economy is vulnerable to rather frequent and often deep price variations of these products. Hence, the key to improving *strength* of the local economy is to take advantage of its rich natural resource base and diversify production from raw materials to merchandise exports. Earnings from exportation of processed foodstuff and refined petroleum products shall contribute to sustained and stable growth and improved strength. Industrialization via export promotion would help Kern County become a strong and viable local economy.



Zoning for Job Creation and Investment in Southeast Bakersfield

David Lyman, Principal Planner, Economic Development, City of Bakersfield

Has the Enterprise Zone helped create jobs and investment in southeast Bakersfield? This article analyzes the past five years' annual reports jointly prepared by the City of Bakersfield and County of Kern and submitted to the California Technology, Trade, and Commerce Agency. These annual reports detail job creation, building activity, and business growth in the Southeast Metropolitan Bakersfield Enterprise Zone.

Background:
In 1985, the California Legislature approved two separate economic development incentive programs: an Enterprise Zone program and an Economic and Employment Incentive Area program. City and County submitted a joint application under the latter program to designate an area of commercial- and industrial-zoned land in southeast metro Bakersfield as an "Incentive Area." The area received designation by the State of California October 15, 1986.

In 1996 Senate Bill 2023, authored by Senator Jim Costa, merged the two programs into a unified Enterprise Zone program. This new legislation eliminated the programs' conflicting procedures for how employers access various state tax benefits. These benefits include a credit to encourage the hiring of eligible workers and a credit to spur the purchase of processing and manufacturing equipment for use in Zones. On January 1, 1997, the former Southeast Metropolitan Bakersfield Incentive Area was converted to an Enterprise Zone. This article analyzes the performance of the Zone since that conversion date.

Findings:
To determine if the Enterprise Zone has helped create jobs and investment in southeast Bakersfield, this analysis looked at three key indicator areas in the annual reports: building permits, business activity, and job creation. In each indicator area, significant increases have occurred since the conversion to Enterprise Zone status in 1997.

Building Permits:
Two indicators were used to determine building permit activity: the number of building permits issued, and the valuation of these building permits.

Number of Building Permits
The first step in measuring the level of building activity was a review of the number of building permits issued. As shown in Table 1, 513 building permits have been issued in the Zone since 1997. It must be remembered that a permit for a small renovation is counted the same as a permit for new construction. Therefore, the best reflection of the level of building activity is not the number, but the valuation, of those same building permits.

Valuation of Building Permits
As shown in Figure 1, the valuation of building permits issued in the Zone has risen substantially, from $2.2 million in 1997 to $13.1 million in 2001, a 495% increase.

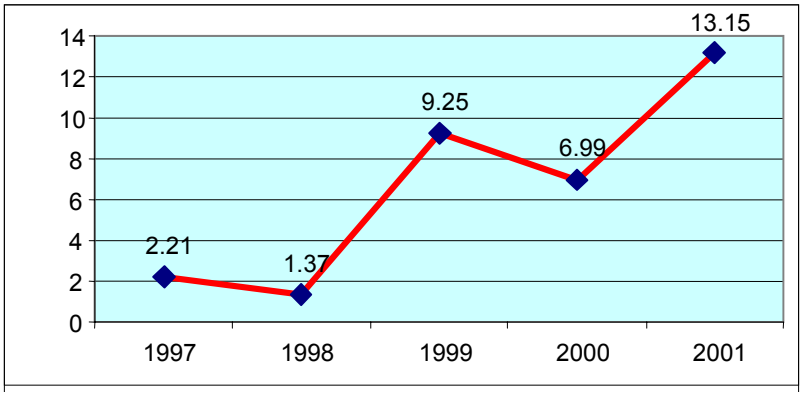
Business Activity:

New Business Licenses
Since 1997, 127 new business licenses have been issued in the En-

(Continued on page 11)

Table 1: Building Permits Issued	
Year	Building Permits Issued
1997	134
1998	56
1999	70
2000	132
2001	121
Total	**513**

Figure 1: Valuation of Building Permits (in $ millions)



Jobs & Investment *(Continued from page 10)*

terprise Zone (Table 2). However, while the City of Bakersfield issues business licenses, the County of Kern generally does not. Therefore, business license data reflect only new business activity in the City portion of the Zone; the actual number of new businesses in the Enterprise Zone will be higher than the figure shown.

Number of Businesses

The number of businesses operating in City and County portions of the Enterprise Zone continues to rise steadily, from 385 in 1997 to 463 in 2001 (see Figure 2). This represents an increase of 20.3% in the number of businesses operating in the Zone over the past five years.

Job Creation:

A key indicator of the Enterprise Zone's performance is the number of employee vouchers issued. Vouchers are issued for each employee that is (1) a member of a group targeted for employment[1], and (2) hired by an Enterprise Zone employer. Each voucher issued represents one new hire. As shown in Table 3, 3,185 vouchers have been issued since 1997, meaning 3,185 individuals from the targeted groups were hired by Enterprise Zone businesses during the past five years.

This is a significant number of new hires in a geographical area that is approximately four square miles. However, it represents only those hires that met the criteria for vouchering. What is not answered by the vouchering data alone is how many *total* new hires were made by Zone employers. To calculate this larger number, the researcher contacted the Human Resources departments of the three largest Enterprise Zone employers to gather the total number of their new hires for 2001; this figure was 1,219.

Through calculations detailed in Table 4, it is estimated that for every vouchered employee hired, an additional 1.899 new hires were made in the Enterprise Zone. Applying this multiplier to the number of all vouchered employees hired since 1997, the total number of new hires in the Enterprise Zone since 1997 is estimated to be 6,048.

The number of new hires in the Enterprise Zone since 1997 is significant. These new hires are the equivalent of five State Farm Insurance facilities (approximately 1,200 employees each) or six Target Distribution Centers (approximately 1,000 employees each).

Of the new hires, vouchered employees represent approximately 53% of all new hires in the Enterprise Zone. From this, it is clear that a majority of new hires in the Enterprise Zone are the unemployed, underemployed, displaced, disadvantaged, and residents of the Targeted Employment Area (TEA).

Summary:

Since 1997, the Southeast Metropolitan Bakersfield Enterprise Zone has realized significant economic gains in terms of greater building permit activity, business activity, and job creation. These gains can be summarized as follows:

- The valuation of building permits has increased 495% since 1997 to over $13 million in 2001.

- The City of Bakersfield has issued 127 business licenses in the Zone since 1997. Because Kern County does not issue business licenses, the actual number of new businesses in the Zone is larger than this figure.

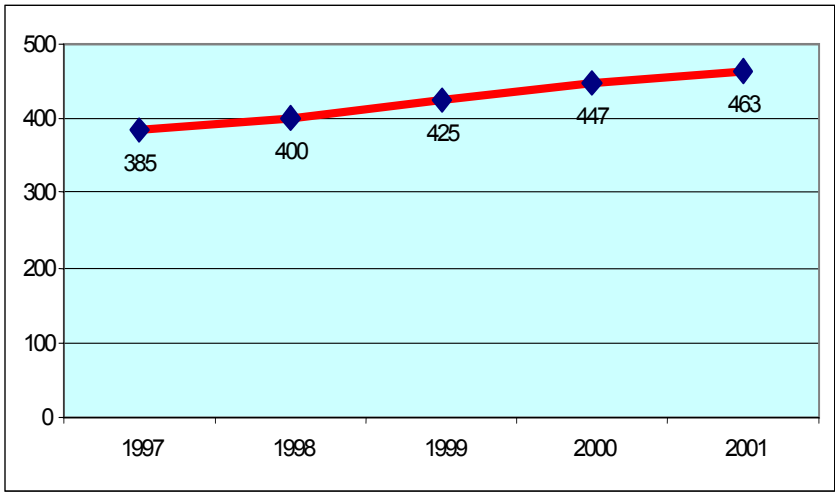
(Continued on page 12)

Table 2: Business Licenses Issued

Year	Business Licenses Issued
1997	22
1998	18
1999	33
2000	33
2001	21
Total	**127**

Note: Kern County does not issue business licenses; therefore, these figures reflect only business activity within the City of Bakersfield portions of the Enterprise Zone.

Figure 2: Number of Businesses



Jobs & Investment *(Continued from page 11)*

● The number of businesses in the Zone has grown to 463, an increase of 20.3% since 1997.

● This increase in building and business activity is reflected in an increase in job creation, resulting in 3,185 vouchers issued for eligible employees hired by Zone employers.

● Vouchered employees -- those that are generally unemployed, disadvantaged, or residents of the Targeted Employment Area -- accounted for approximately 53% of all hires by the Zone's three largest employers in 2001.

● An estimated 6,048 total new hires have been made in the Enterprise Zone since 1997. This number of new hires in the Zone is equivalent to five State Farm Insurance facilities or six Target Distribution Centers.

Table 3: Employee Vouchers Issued

Year	Number of Vouchers Issued
1997[2]	1,380
1998	394
1999	497
2000	272
2001	642
Total	3,185

Table 4: Calculation of Total New Hires

Total new hires by three largest Enterprise Zone employers, 2001	1,219
÷ Vouchers issued for Enterprise Zone employers, 2001	642
= Vouchering multiplier	1.899
X Vouchers issued by all Enterprise Zone employers, 1997 – 2001	3,185
= Total new hires by Enterprise Zone employers 1997 -2001 (estimated)	6,048

[1]These groups generally are the unemployed, underemployed, displaced, disadvantaged, and residents of the Targeted Employment Area (TEA).

[2]1997 was the first year of Enterprise Zone designation and, thus, the first year that vouchers were issued in the Bakersfield Enterprise Zone. To accommodate requests from Zone businesses, City and County allowed retroactive vouchering of employees who were hired prior to the January 1, 1997 conversion date. Thus, the vouchering figure for 1997 includes not only vouchered employees hired during 1997 but also those otherwise-eligible employees hired prior to January 1, 1997.

Racial Profile of Kern County: A Census Report

Abbas Grammy, Professor of Economics and Director, Center for Economic Education and Research

The racial composition of the population reveals interesting differences with respect to geographical location. In the 2000 Census, the American people found an opportunity to declare a multi-racial heritage. The percentage of survey respondents declaring "two or more races" was nearly twice greater in California than the United States. As shown in the Table 1 and Figure 1, the percentage of population counted as multi-racial was 2.4 in the United States and 4.7 in California. The percentages of the multi-racial group in the County of Kern and City of Bakersfield were comparable with that of California. Because of these differences, a greater percentage of people declared "one race" in the nation than the state, county, and city. The percentage of survey respondents declaring "one race" was nearly 98 in the United States and about 96 in California, Kern, and Bakersfield.

As depicted in Table 1 and Figure 2, over 75 percent of the national population classified themselves as White as opposed to about 60 percent in the state population. At the county and city level, nearly 62 percent of the population indicated that they were of the White race.

(Continued on page 18)

Table 1: Racial Composition of Population

	United States	California	Kern County	Bakersfield
Two or more Races	2.4	4.7	4.1	4.4
One Race	97.6	95.3	95.9	95.6
White	75.1	59.9	61.6	61.9
African-American	12.3	6.7	6.0	9.2
American-Indian and Alaska Native	0.9	1.0	1.5	1.4
Asian	3.6	10.9	3.4	4.3
Hawaiian & Pacific Islander	0.1	0.3	0.1	0.1
Some other Race	5.5	16.8	23.2	18.7

Figure 1: Racial Composition of Population

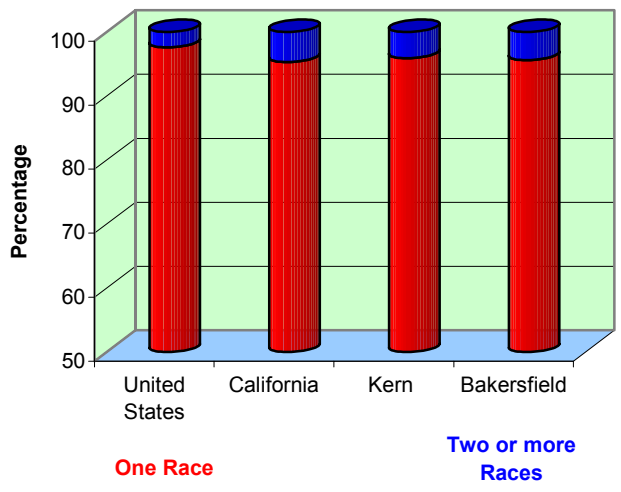
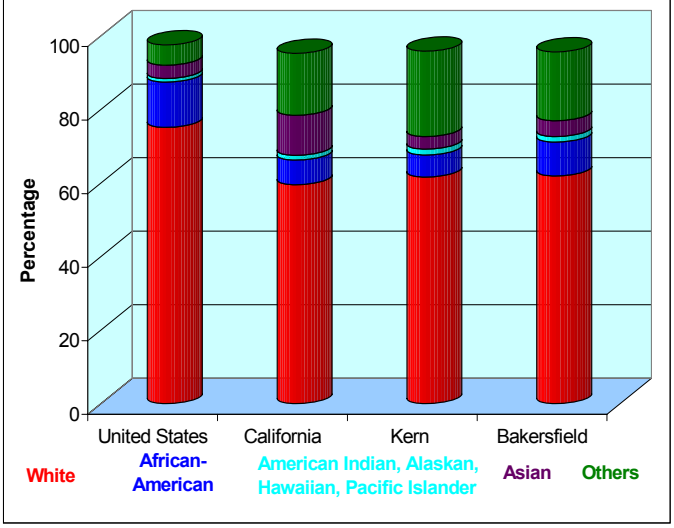


Figure 2: Percentage of Racial Groups



Meeting the Demand for Classroom Teachers

Douglas Oelke, CSUB Economics Major

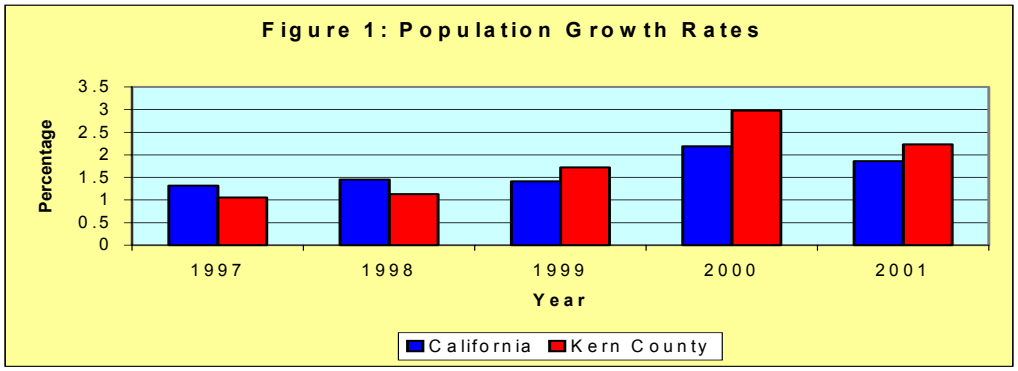
Rapid population growth exerts profound effects on the education system in our communities. For example, increasing class size results in a greater demand for teachers. The State of California has met this challenge by granting emergency credentials to students majoring in fields that lead to becoming classroom teachers. In addition, the market for teachers has given signals through more lucrative salaries and benefits to college students considering teaching as an occupation.

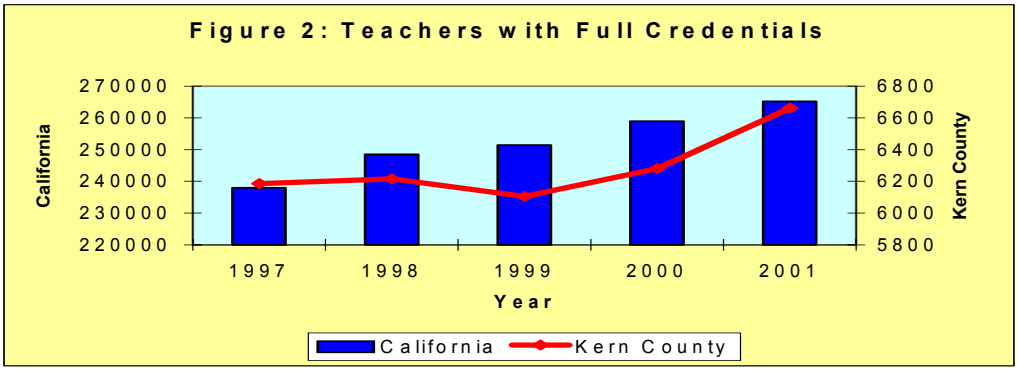
Populations of California and Kern County have shown similar growth trends. As Figure 1 depicts, the rate of population growth of Kern County has exceeded that of California in 1999-2001. With this information, it may be possible to assume the number of teachers in Kern County has grown at a faster rate than that of California. Surprisingly, the actual number of teachers in Kern County did not meet this assumption. Not only the growth rate of the number of teachers in Kern fell short of that of California, the number of teachers actually declined. While California maintained a steady increase in the number of teachers to compensate for the growing population of the state, Kern County saw the number of teachers fall from 7,054 in 1998 to 7,013 in 1999.

Figure 2 depicts the number of credentialed teachers. Even though California and Kern County experienced the highest rate of population growth in the year 2000, data for the year 1999 were most surprising. In California, the number of fully credentialed teachers grew by 1.2 percent from 248,535 in 1998 to 251,431 in 1999, the smallest growth rate over the studied time period. This slowing growth may have been key in the drop of the percentage of teachers working with full credentials. In 1998, nearly 88 percent of teachers in California possessed full credentials, compared with 86 percent in 1999. A negative growth rate was realized in Kern County as the number of fully credentialed teachers declined 1.8 percent from 6,216 in 1998 to 6,105 in 1999. With this decline, the percentage of fully credentialed teachers in Kern fell from 88 percent in 1998 to 87 percent in 1999.

At times when the demand for teachers exceeds its supply, the number of credentialed teachers cannot meet that demand. To cover the shortage, the state and county grant emegency credentials. An emergency credential allows semi-qualified individuals to teach while obtaining full credentials. Figure 3 shows the number of teachers working with emergency credentials in California and Kern County. The

(Continued on page 15)





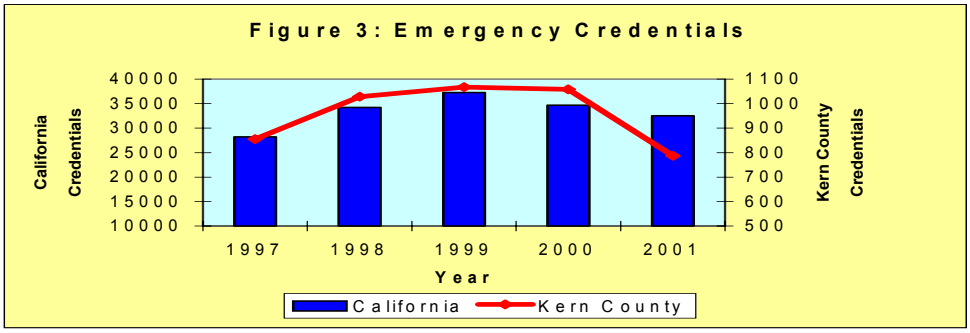
Teachers *(Continued from page 14)*

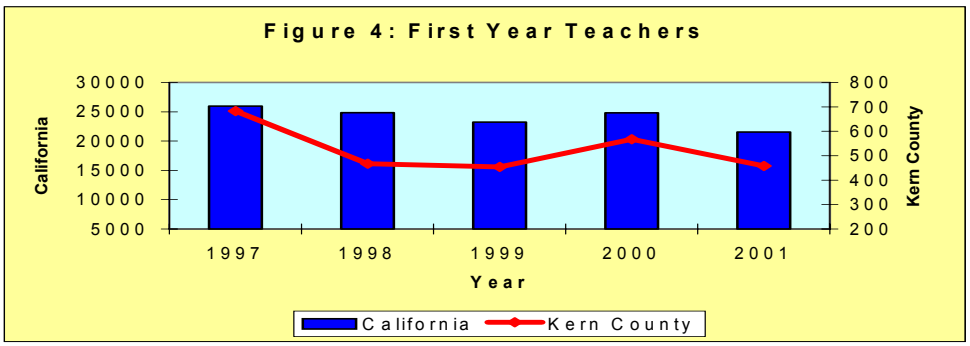
year 1999 saw the maximum number of emergency teachers in the state and county. California had nearly 14 percent of its teachers working with emergency credentials, and Kern County had more than 12 percent. The rising demand for teachers induces students to major in the liberal arts and sciences, which lead to becoming credentialed classroom teachers. Figure 4 illustrates the numbers of first year teachers in California and Kern County.

Though, once again, operating on a much smaller scale, the trend for Kern County seems to loosely follow that of California. One significant difference between the two trends is the percentage change. The percentage changes in first year teachers for Kern County are much higher than the state of California.

From the data analyzed in this study, no significant pattern and correlation can be determined. It seems when population grew the fastest was not when the most emergency credentials were being issued. Nonetheless, Kern County is moving right along with the state in meeting the demand for classroom teachers.

Sources of Data: www.census.gov and www.cde.gov





Business Ethics *(Continued from page 19)*

due to completely avoidable actions driven by personal greed, the punishment should reflect the severity and magnitude of the damage. Ten years in prison does not adequately express the grief caused by an avoidable tragedy. The stock market always has a risk factor, but those who cheat others should not be lightly reprimanded.

The latitudes the corporations are given to report earnings and expenses should be greatly reduced. Stricter laws should be in place to ensure that corporations are actually reporting the truth, and chief executives should be held personally accountable for the quality of their accounting practices. This responsibility is a logical counterpart to the high compensation of chief executives and more responsibility will weed out cowardly business leaders. It is the shareholders' right to have top executives with integrity and fidelity.

Lastly, performance-based bonuses to the top executives should no longer be tax deductible beyond a certain amount, and the maximum deductible salary that can be paid to top executives should be increased beyond one million dollars. This arrangement would discourage corporations from offering excessive stock options to chief executives but still provide an incentive for profit. It would also provide an incentive for more ethical business behavior. If executives agree to being compensated less in stock options and more in salary, they will not need to rely on unethical scheming to receive a large payoff. Corporate executives would no longer be motivated to make extreme personal gains and would maintain higher standards to ensure that business is profitable. These measures could possibly help remedy the crisis in business ethics and help reestablish faith in the stock market.

Crime Reduction in the San Joaquin Valley

Abbas Grammy, Professor of Economics and Director, Center for Economic Education and Research

The California Crime Index (CCI or the crime rate, hereafter) measures the number of reported serious offenses per 100,000 persons. These crimes include homicide, forcible rape, robbery, aggravated assault, burglary, and motor vehicle theft. According to data published by RAND California (*http://ca.rand.org*), the crime rate had a declining trend in California, San Joaquin Valley, and Kern County over the past decade. But, this falling trend was not consistent in every year and every community.

Typically, the crime rate rose slowly in the first three to four years of the 1990s and fell sharply afterward. Table 1 depicts the average crime rates in 1990-2000 and Table 2 presents the average annual *crime reduction rates* for the same time period.

In California, the CCI rose from 3,438 in 1990 to 3,536 in 1992, but declined gradually to 1,791 in 2000. Over this period, the crime rate fell at an average annual rate of 6.8 percent.

In the San Joaquin Valley, the crime rate reduced slower than California. The CCI rose from 2,844 in 1990 to 3,304 in 1994, but plummeted to 2,019 in 2000. The crime reduction rate averaged 3.2 percent annually. Figure 1 depicts the valley's average crime rates in 1990-2000. Fresno had, by far, the highest rate followed by San Joaquin, Stanislaus, Madera, Kern, Tulare, Merced, and Kings, respectively.

(Continued on page 17)

Figure 1
Average Crime Rtes in San Joaquin Valley

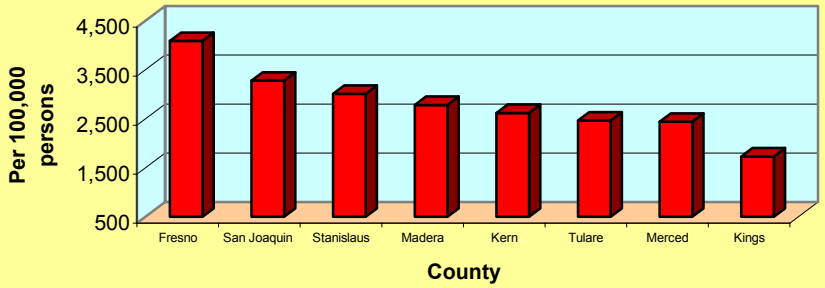


Table 1: The California Crime Index

Area	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	Mean
California	3,438	3,538	3,536	3,409	3,189	2,937	2,568	2,397	2,084	1,774	1,791	**2,787**
San Joaquin Valley	2,844	3,025	2,788	3,279	3,304	3,233	2,747	2,743	2,406	2,090	2,019	**2,771**
Fresno	4,064	4,842	5,406	5,191	5,188	4,830	3,974	3,491	2,886	2,514	2,606	**4,090**
Kings	1,747	1,933	1,953	1,815	1,921	2,096	1,905	1,948	1,355	1,257	1,120	**1,732**
Madera	2,826	2,636	2,811	2,995	3,244	4,028	2,642	2,893	2,451	2,105	1,987	**2,783**
Merced	2,036	2,104	2,133	2,769	2,794	2,811	2,640	2,802	2,550	2,209	2,001	**2,441**
San Joaquin	3,769	3,899	3,933	4,175	4,025	3,434	2,918	2,793	2,541	2,293	2,291	**3,279**
Stanislaus	2,892	2,977	2,964	3,562	3,485	3,424	3,203	3,234	2,761	2,359	2,246	**3,010**
Tulare	2,403	2,752	2,791	2,597	2,706	2,532	2,295	2,390	2,424	2,126	2,141	**2,469**
Kern	3,015	3,057	3,121	3,129	3,072	2,710	2,396	2,425	2,283	1,853	1,756	**2,626**
Arvin	1,880	2,000	1,539	1,950	1,391	1,362	1,785	1,882	2,036	1,374	1,871	**1,734**
Bakersfield	3,654	3,486	3,461	3,699	3,591	2,855	2,411	2,438	2,357	1,886	1,667	**2,864**
California City	1,456	1,547	1,419	1,385	1,450	1,625	2,074	1,926	1,737	1,310	1,724	**1,605**
Delano	3,712	3,497	3,857	3,233	3,415	3,337	3,110	2,874	2,582	1,732	1,465	**2,983**
Ridgecrest	1,830	1,477	1,324	1,820	1,891	1,765	1,600	1,510	916	1,060	1,168	**1,487**
Shafter	2,390	2,388	2,810	3,191	3,073	2,258	1,882	2,418	2,375	1,897	1,595	**2,389**
Taft	4,017	4,622	4,973	4,046	4,307	4,351	2,258	3,341	3,389	1,670	1,206	**3,471**
Rest of the county	309	340	352	368	341	202	236	84	84	292	228	**258**

Crime *(Continued from page 16)*

In Fresno County, the crime rate increased from 4,064 in 1990 to 5,191 in 1994, but declined gradually to 2,606 in 2000. On average, Fresno's crime rate fell at an annual rate of 4.1.

In Kings County, the CCI rose from 1,747 in 1990 to 2,096 in 1995 before falling to 1,120 in 2000. The county's crime rate fell at an average annual rate of 4 percent during this period.

Madera's crime trend was similar to that of Kings. Its CCI rose from 2,826 in 1990 to 4,028 in 1995, but declined to 1,987 in 2000. On average, the crime rate in Madera County fell 2.3 annually.

Merced was the only county with a positive average crime reduction rate. Its annual crime rate rose at an average rate of 0.5 percent over the eleven-year time interval. Merced's CCI rose from 2,036 in 1990 to 2,802 in 1997, but fell over the following three years to arrive at 2,001 in the year 2000.

The County of San Joaquin recorded a crime rate of nearly 4,000 in 1990-94. Over the following six years, the county's crime rate declined consistently to reach 2,291 in 2000. Its crime reduction rate averaged 5.1 percent annually.

In Stanislaus County, the CCI rose from 2,892 in 1990 to 3,485 in1994 before falling gradually to 2,246 in 2000. Its crime reduction rate averaged 2.3 per annum.

The crime rate in Tulare County increased from 2,403 in 1990 to 2,706 in 1994; it plunged to 2,295 in 1996, rose again to 2,4424 in 1998, and fell again 2,141 in 2000. Because of this volatile trend, Tulare's crime reduction rate average only 1 percent annually.

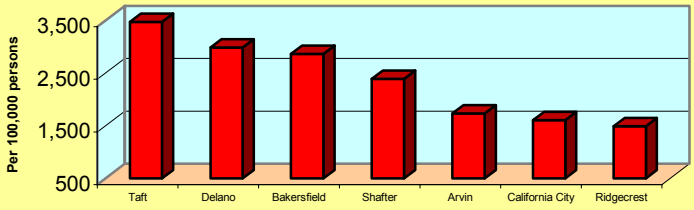
Kern County's crime rate rose from 3,015 in 1990 to 3,129 in 1993. It then recorded a consistent falling trend reaching 1,756 in 2000. The county's CCI declined at an average annual rate of 5.2. In the year 2000, Kern had a crime rate lower than both California and San Joaquin Valley.

(Continued on page 18)

Table 2: Crime Reduction Rates

Area	Average Annual Percentage Change
California	-6.8
San Joaquin Valley	-3.2
Fresno	-4.1
Kings	-4.0
Madera	-2.3
Merced	0.5
San Joaquin	-5.1
Stanislaus	-2.3
Tulare	-1.0
Kern	-5.2
Arvin	3.1
Bakersfield	-7.9
California City	3.3
Delano	-9.0
Ridgecrest	-2.6
Shafter	-2.8
Taft	-7.3

Figure 2
Average Crime Rates in Kern County



Crime *(Continued from page 17)*

The cities of Bakersfield, Delano, and Taft were able to sharply lower their crime rates. In contrast, Arvin and California City witnessed their average crime rates to rise. Figure 2 depicts the county's average crime rates in 1990-2000. Taft had the highest rate followed by Delano, Bakersfield, Shafter, Arvin, California City, and Ridgecrest, respectively.

In Arvin, the CCI had a volatile trend. It rose from 1,880 in 1990 to 2,000 in 1991, fell to 1,362 in 1995, increased again to 2,036 in 1998, plunged to 1,374 in 1999, but climbed to 1,871 in 2000. On average, Arvin's crime rate increased at an annual rate of 3 percent.

In the City of Bakersfield, the crime rate went down from 3,654 in 1990 to 3,461 in 1992, but rose to 3,699 in 1993. Its CCI then began a falling trend reaching 1,667 in the year 2000. Bakersfield's crime rate declined at an average annual rate of 7.9 percent.

While fluctuating, California City's crime rate rose from 1,456 in 1990 to 1,724 in 2000. Its CCI increased at an average rate of 3.3 per year.

Delano had an unstable, but declining crime trend. Its CCI rose from 3,712 in 1990 to 3,857 in 1992, but declined gradually to 1,465 in 2000. On average, Delano's crime rate fell by 9 percent annually.

In the City of Ridgecrest, the rate of crime declined from 1,830 in 1990 to 1,324 in 1992, rose to 1,891 in 1994, fell to 916 in 1998, but rose to 1,168 in 2000. The city's average crime reduction rate was 2.6 percent annually.

The crime rate in Shafter rose from 2,390 in 1990 to 3,181 in 1993, but fell gradually to 1,595 in 2000. The city's CCI declined at an average annual rate of 7.3 percent.

Taft began the 1990s with the highest crime rate in the county, but began the next decade with the second lowest. Its CCI rose from 4,017 in 1990 to 4,973 in 1992. Over the following years, the city recorded a volatile, but declining crime trend. In particular, its CCI was cut into half from 3,389 in 1998 to 1,670 in 1999 and continued to decline to 1,206 in 2000.

Data presented in Table 1 indicate that the mean crime rate was slightly lower in the San Joaquin Valley than California. But, data shown in Table 2 explain that the average annual rate of crime reduction was lower in the valley and the state. In Kern County, the crime rate was lower than the valley and state averages and the average annual crime reduction rate was greater. While Bakersfield's mean crime rate was higher than the county average, its crime rate fell at a faster rate.

A wide range of demographic, social, economic, and political factors help reduce crimes. For example, an aging, better educated, and more affluent population is less likely to engage in unlawful activities. Likewise, improved allocation of public and private funds to create educational, recreational, and employment opportunities for the youth would help reduce the demand for crimes. On the supply side, improved technology and increased funding for public safety and security services would contribute to crime reduction.

Racial Profile *(Continued from page 13)*

On the other hand, the percentage of African-Americans was considerably higher in the nation than the state. In the United States, 12.3 percent of the people declared African-American compared with 6.7 percent in California. Interestingly, the City of Bakersfield had a larger percentage of African-Americans than both the state and county.

Both the county and city recorded higher percentages of American-Indians and Alaska Natives than the state and nation. Whereas, California had a higher percentage of Native Hawaiian and Other Pacific Islanders than the United States, Kern, and Bakersfield.

Nearly 11 percent of the Californians were of the Asian heritage including Asian Indian, Chinese, Japanese, Korean, Vietnamese, Filipino, and Other Asian. The state's percentage is almost three times greater than those of the nation, county, and city. Over 23 percent of the county population was lumped together as "some other race" compared with 18.7 percent in Bakersfield, 16.8 percent in California, and 5.5 percent in the United States.

The racial profile of Kern County suggests greater diversity when compared to that of the United States. Kern County has

- A greater percentage of the people declaring a multi-racial heritage, American-Indians and Alaska Natives, and "some other race"
- A smaller percentage of the people classifying themselves as White, African-American, and Asian

Crisis in Business Ethics

Jarrod Ashby, Student, Centennial High School

Note from the Editor: This is the winning essay of a $1,000 college scholarship contest for high school students attending our Enterprise College program in summer 2002. Thanks to a matching award from Mid State Development Corporation, the second place essay written by Arthur Palomo from East Bakersfield High School also received a similar scholarship. Special thanks to Michael Olague of Bank of America, Cece Shanyfelt of State Farm Insurance and Keith Brice of Mid State Development corporation for judging the submitted essays.

The stock option arrangement is conducive to behavior that is purely profit oriented. This arrangement allows an investor to purchase a certain number of shares at a certain time for a fixed price. The person with a stock option will benefit if the fixed price stock is worth more than its market value. Assume your employer gives you an option to buy 100 shares of the company at $20 each for a total amount of $2,000. Then, you find an opportunity to sell your shares at $40 each for $4,000. As a result of this transaction, you make $2,000 of profit. On a larger scale, assume your company's CEO is given the option to buy 50,000 shares at $20 each. Further assume that the company's stock price increases to $40 a share. By selling his stocks, this CEO makes a quick profit of $1,000,000. Present day CEOs often rely on such spontaneous profits because stock options make up such a high percentage of their annual compensation. The rationale for this kind of compensation is to induce top executives to help corporations thrive and expand. As corporations prosper, their stock prices rise, benefiting all shareholders. However, this desire to boost stock prices may lend to unethical business behavior.

The key to increasing the price of a publicly traded stock is to make the corporation appear more appealing to investors. A CEO can achieve this objective by showing, in financial reports, that the corporation is profitable. Such a financially solvent company that reports high earnings will attract more investors to buy shares of the corporation. The increased demand for shares of that company is ultimately beneficial to the shareholders and those who have stock options. Furthermore, top executives are motivated to inflate stock prices in order to increase their own net worth. They might do everything in their power to make the corporation more appealing to investors. Usually, this is done through legitimate and healthy business practices, but as recent events have demonstrated, these powerful executives might bypass legitimate business practices for personal gain.

Through tricks of accounting, corporate earnings can appear to be much larger than they actually are. It is possible to show certain expenses, which are paid already, as paid over a period of time instead. In this practice, only a fraction of the actual expenses are reported each quarter. Profits can be handled in the same manner. Future receipts are sometimes reported as earnings, even though the payments have not been received. This type of accounting is used to boost corporate earnings and to attract investors. In most cases, these misplaced funds will gather and grow, unbeknownst to shareholders. Investors relying on published financial reports are let down when they learn that dishonest accounting masked the company's actual earnings. Shareholders who sell their stocks before the accounting fraud is revealed could escape unscathed. Insider trading allows for this scandal to happen.

The state of affairs known by the top corporate executives gives them an unfair advantage, especially when bad accounting practices threaten to topple the company. CEOs with thousands of stock options can sell their shares on the knowledge that the company will soon go bankrupt, or its stock price is about to plummet. Selling stocks on this type of price-sensitive information is called insider trading. Insider trading is what allows top executives to walk away from their bankrupt companies with millions of dollars.

Fortunately, this type of unethical business management is carried out by an extremely small number of corporate executives, hardly as abundant as the media would depict. Unfortunately, the severity of the damage is widespread. Mega corporations such as Enron and WorldCom that have recently been caught in scandal have negatively impacted investors confidence and stock market performance. The number of people affected by each unethical business management is disturbingly high, mandating that the crisis somehow be remedied. President Bush proposed and outlined certain necessary actions in his July 9th address on Wall Street. Some of these changes were more severe penalties for corporate fraud, more funding and power given to the SEC, and the need for shareholders to become more actively involved in their corporations

President Bush proposed raising the maximum prison sentence for corporate fraud from five to ten years. This change, however, does not reflect the severity of fraud that has recently been uncovered. A better proposal would be a twenty or thirty year maximum prison term to ensure that abusing power would pose too much of a risk. If the savings of shareholders are devastated

(Continued on page 15)

Was or Wasn't it a Recession?

Abbas Grammy, Professor of Economics and Director, Center for Economic Education and Research

Was it a recession? How long did it last? How deep was it? How frequent was it? Could the recession reoccur soon? The verdict is in! The revised data on the inflation-adjusted Gross Domestic Product (GDP) help us answer these questions.

Yes, it was a recession! The economy experienced *three consecutive quarters of negative growth.* In the first quarter of 2001, the GDP declined nearly $14 billion or at an annual rate of 0.6 percent. In the second quarter, it plummeted $37 billion or at a rate of 1.8 percent. Finally, in the third quarter, the GDP declined about $7 billion or 0.3 percent.

The recession lasted only three quarters! The economy fell into a recessionary mode after experiencing a period of robust growth that lasted thirty-one consecutive quarters, from the second quarter of 1991 through the fourth quarter of 2000.

The recovery began in the fourth quarter of 2001 when the GDP rose at an annual rate of 2.7 percent. Recovery gained momentum in the first quarter of 2002 when the economy expanded at a feverish rate of 5.0 percent. However, the pace of the recovery slowed unexpectedly as the GDP increased at a rate of 1.1 percent in the second quarter of this year.

The recession was rather mild! In the first and third quarters of 2001, the GDP fell less than one percent and in the second quarter less than two percent. Over these three quarters, our $10 trillion economy lost $58 billion. This loss of the output due to negative growth was only 0.6 percent. Compared with the previous recession, the recession of 2000 was mild. As shown in the following table, the GDP declined 2.0 percent during the recession of the early 1990s compared with 0.8 percent in the recession of 2001.

The recession reoccurred within 10 years! The previous recession occurred during the presidency of George H. W. Bush and the recovery began too late to help his re-election campaign. The most recent recession occurred in the first year of George W. Bush's presidency. The economy was already in a recessionary mode prior to the terrorist attacks of September 11th. Interestingly enough, the third quarter decline was the smallest of the three quarters. The ensuing fourth quarter recovery was fuelled by strong consumer spending and increased government expenditures.

Recession could reoccur soon! Economists are concerned about the risk of a double-dip recession because of multiple crises:

- Financial crisis: persistent uncertainty in domestic and global financial markets. The Stock Market has become increasingly volatile partly due to the business scandals that contributed to the downfall of such mega-corporations as Enron and WorldCom
- Economic crisis: renewed currency and banking meltdown spreading throughout Latin America, requiring U.S. financial assistance.
- Political crisis: continued violence in the Middle East, increased probability of a second U.S.-Iraq war, and the weakening U.S.-Saudi alliance in addition to military involvement in Afghanistan and continued repression and hostility in Iran and Indonesia

These crises would engage the U.S. government and could hinder our fragile economic growth.

Figure 1
Economic Growth: 1990.1 - 2002.2

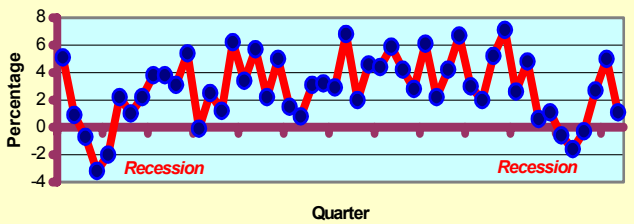


Table 1: Most Recent Recessions

Recession	First Qtr. Annual Growth Rate (%)	Second Qtr. Annual Growth Rate (%)	Third Qtr. Annual Growth Rate (%)	Average Growth Rate (%)
1990.3 - 1991.1	-0.7	-3.2	-2.0	-2.0
2001.1- 2001.3	-0.6	-1.6	-0.3	-0.8