

E NEWS

THE ECONOMIC NEWSLETTER OF EAST STROUDSBURG UNIVERSITY

FALL 2009

Recession Continues - Signs of Hope in the Local Economy

By: Professors Andrew Nelson and Constantinos Christofides

As the recession in the US deepened during 2009, the local and regional economies likewise experienced labor market declines. Relatively high unemployment continues to be a major concern in the region, although there are signs of stabilization.

The unemployment rate for Monroe county was 9.0% in September 2009, which was among the highest rates for the region, although it is slightly below the national average, according to the US Bureau of Labor Statistics. (See table 1). While unemployment rose 2.8 percentage points in Monroe County, it was below the average increase for Pennsylvania and the United States of 3.1 and 3.5, respectively. The adjacent counties in the New Jersey experienced more dramatic increases in the unemployment rate as the recession in the New York City regional economy continues to deepen.

Table 1. Local and Regional Unemployment Rates.

Area		September 2008	September 2009	Net Change
United States		6.0	9.5	3.5
Pennsylvania		5.2	8.3	3.1
Lackawanna	PA	5.6	8.3	2.7
Luzerne	PA	5.9	9.2	3.3
Monroe	PA	6.2	9.0	2.8
Northampton	PA	5.4	8.8	3.4
Pike	PA	6.0	8.6	2.6
Wayne	PA	4.6	6.6	2.0
Sussex	NJ	4.8	8.5	3.7
Warren	NJ	5.0	8.8	3.8

Source: Bureau of Labor Statistics, Local Area Unemployment Statistics

The Pennsylvania Center for Workforce Information and Analysis has recently reported that both the number of Unemployment Compensation for Initial Claims and for Continued Claims for October 2009 have increased for Monroe County from 909 to 938 (Initial Claims) and from 5,080 to 7,020 (Continued Claims) from October 2008. Both are below their 4-month averages and Continued Claims seems to be have peaked in March 2009 for Monroe, Pike, and Wayne Counties.

IN THIS ISSUE



Local:

- Recession Continues –Signs of Hope in the Local Economy1
- Life After Industrial Collapse2

National:

- The National Economy3
- Survey Predicts Economic Growth ...5
- A Federal Dilemma6

International:

- An Insight into the G20.....7
- Obama in China.....7
- Impact of the Global Financial Crisis on the Russian Economy.....10

Special Topics:

- Regulatory Apathy: Its Effect on our Economy and Society.....11
- How to make a difference in a Micro way.....13
- Understanding Capitalism.....14
- Department News & Credits.....15

Attention Readers:

If you no longer wish to subscribe to East Stroudsburg University's Economic Newsletter, please contact Sue Prutzman at sprutzman@po-box.esu.edu

County employment decreased by 1,000 jobs in Monroe County to 55,950 from January to March 2009. Net losses were from private industry, especially from trade, transportation, and utilities and leisure and hospitality. Employment in professional business services increased by approximately 2,000 employees from January to March 2009.

The average weekly wages in the Monroe increased by 0.4 percent in the first quarter of 2009 compared to the same quarter of 2008, while other nearby counties experienced losses. The average weekly wage of \$710 is second only to Northampton County for Northeastern PA, table 2.

Since initial unemployment claims are considered to be leading indicator, this trends suggests further increases in the unemployment rates of our local counties during the remaining months of 2009 and perhaps even extending into early next year

Table 2. Local and Regional Employment and Average Weekly Wages.

	Employment	Average Weekly Wages	Percent Change (Wages)
Nationwide	128,992,170	\$882	
Statewide	5,449,387	862	
Lackawanna	98,860	646	-0.2
Luzerne	137,040	668	-0.7
Monroe	55,948	710	0.4
Northampton	96,656	769	-0.1
Pike	10,129	535	-1.7
Wayne	14,590	580	-0.2

Source: Bureau of Labor Statistics, Local Area Unemployment Statistics

Life After Industrial Collapse: Can Pittsburgh Serve as a Model for Detroit?

By: Caitlin Zaroni

The recession caused by the sub-prime mortgage crisis is having drastic effects on the U.S. economy. One of the hardest hit industries, along with housing, is automobile manufacturing and related fields. Unemployment and stringent credit guidelines have limited Americans' ability to purchase big-ticket items, leading to a near-collapse of the auto industry. The hardship of the industry is evidenced by an unemployment rate nearing 15% in Michigan, where Detroit is the heart of American automobile manufacturing. Michigan's economy is heavily reliant on this single industry. Even with the aid of a government bailout, the decline in American automobile companies' revenues and profits is expected to continue. State and federal officials must find a way for the economy in Detroit to reinvent itself and recover from industrial collapse.

How does a city transition from an economic collapse to a thriving economy? Detroit and Michigan officials may want to use the city of Pittsburgh as a model. Although Pittsburgh has been affected by the recessionary conditions, it has fared very well compared to other major cities, including Detroit. Unemployment in

Pittsburgh is currently around 7.9% while the national average hovers around 10%. While housing prices declined approximately 6.9% nationally in 2008, they rose 2% in Pittsburgh. Wages in the Pittsburgh area are rising and foreclosures are comparatively uncommon. On choosing Pittsburgh as the host city for the G-20 summit in September, President Obama called the city, "a bold example of how to create new jobs and industries while transitioning to a 21st century economy."

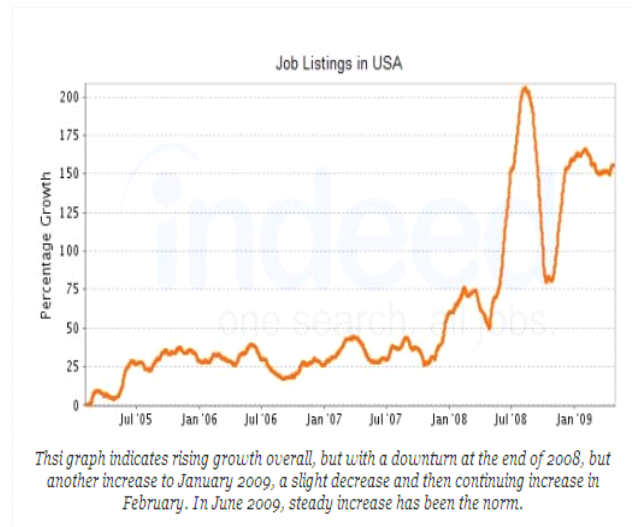
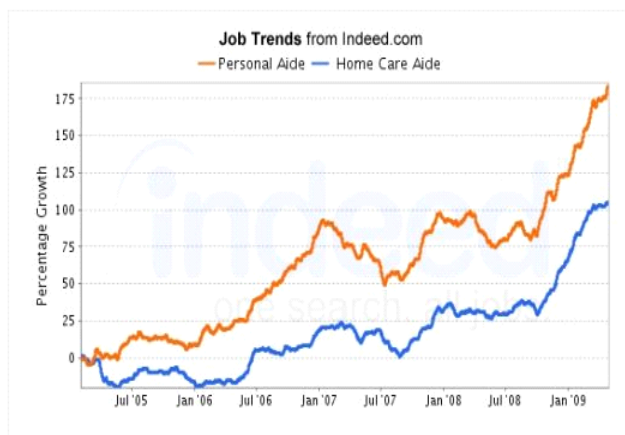
In the 1980's Pittsburgh was in a similar economic position to the one Detroit is in currently. The steel industry that had shaped and defined the city had completely collapsed and disappeared. While the deindustrialization of Pittsburgh was a long and painful process, the resulting recovery is one that is to be admired during these tough financial times. It took a long time for Pittsburgh to move on from the steel era. One of the positive results was that there never was a real estate boom equivalent to those in other states such as California and Florida. Since housing prices did not over-inflate, there were not as many housing-related losses in the region. PNC Bank, which is headquartered in Pittsburgh, was relatively conservative with their lending during the housing boom, which helped Pittsburgh become one of the country's major banking centers.

The most important initiative enabling economic growth in Pittsburgh is the transition from reliance on steelmaking and

heavy industry to diversification of their economic composition into areas such as education, medical technology, health care, information technology and energy efficient technologies. Popularly referred to as the “eds and meds” strategy, these industries are amongst the most resistant to economic downturns. The city is using globalization to its advantage; inviting foreign companies into the city and attracting foreign investors to invest in local companies. Pittsburgh was able to attract a quality workforce due to the number of educational institutions in the city, its affordability and its central and accessible location. In order to sustain economic prosperity, Pittsburgh is also looking toward the future.

There is strong growth in the high technology sector and new commercial developments. A Casino on the North Shore and a new Pittsburgh Penguins arena promise to attract more residents and visitors to the city. The G-20 also highlighted the fact that much of the new construction in Pittsburgh focuses on environmental sustainability. A “green collar” workforce is being created in the areas of biodiversity and environmental education. This effort is being spotlighted by the United Nations, as they chose Pittsburgh to host World Environment Day in 2010.

While the two cities economies may not be entirely equivalent, the success Pittsburgh has had can serve as a model for Detroit. Heavy reliance on a single industry, particularly in the manufacturing sector, has proven to be disastrous for large metropolitan areas during steep recessions. The biggest lesson Detroit must learn from Pittsburgh is to diversify the industries that define the economy of the region. It may be a long road to recovery, but it is possible.



The National Economy

By: Professor Todd Behr

According to the National Bureau of Economic Research the current recession began in November 2007. Two years later the economy still remains weak, although modest signs of recovery are appearing, and some forecasters are cautiously optimistic.

Real GDP increased at a 3.5% annual rate in the third quarter led by increases in personal consumption expenditures; residential investment expenditures, business inventory accumulation and federal government spending. Although exports also increased, imports increased at a growth not seen since the early 1980s. The increase in GDP does not necessarily mean that our economy has turned the corner, however. GDP also grew in the second quarter of 2008 before resuming its decline, and GDP in the Euro-area, Canada and Japan continued to fall as well. China, whose economy grew at an 8% annual rate over the first three quarters appear to be one of the few countries that are immune to the worldwide recession

Unemployment rates increased to 10.2% in October as nonfarm employment declined by 190,000, particularly in construction, manufacturing and retail trade. Service industries in general and the health care sector in particular added jobs. Recent employment reductions have been smaller than the declines which were in the 600,000 to 700,000 range during the third quarter of 2008 through the first quarter of 2009. Still, job losses reduce personal income, and the fear of job loss can restrain consumer spending and retard economic growth.

The reported unemployment rate understates the actual rate because it does not include discouraged workers who have stopped looking for a job and have dropped out of the labor force. There were 800,000 discouraged workers in October, which is a substantial increase from the 480,000 a year ago. Finally, unemployment rates lag changes in economic growth and many forecasters expect high unemployment over the next few years.

The Consumer Price Index rose at a seasonally adjusted rate of 0.2 percent in September. Inflation remains low as one would expect, given the weakness of the economy. Food prices actually declined, but were offset by increases in energy prices; medical care, and prices of new and used cars.

The federal government's budget position deteriorated during the fiscal year which ended on September 30. Federal receipts fell dramatically as personal income taxes, payroll taxes and corporate income taxes all declined along with the economy. Outlays also increased for national defense, social security, Medicare, Medicaid, and unemployment benefits. Additional increases were used to support the Troubled Asset Relief Program, and to help fund Fannie Mae and Freddie Mac. Remaining spending increases were due to the first wave of spending under the economic stimulus package that Congress passed last fall. As a result of these changes the federal deficit grew by \$960 billion dollars over the fiscal year to \$1.4 trillion dollars. The deficit to GDP ratio increased from 3.1% to 9.9%, which represents its highest level since 1945.

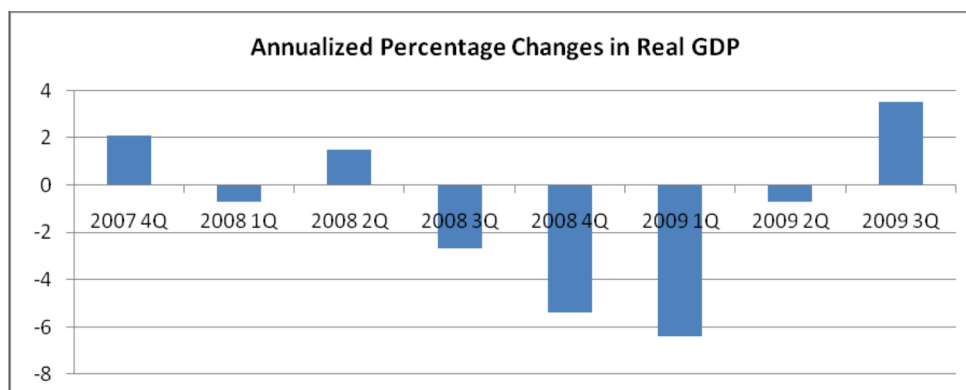
The economic collapse also reduced tax revenues and caused expenditures to increase for income support programs at the state and local level, forcing many state governments to reexamine their budget priorities.

Monetary and fiscal policy stances have remained stimulative. The Federal Reserve has dramatically increased the monetary base, reduced interest rates, and offered new

programs to help increase spending. Unfortunately the banking industry, along with the remaining financial sector, is still very weak, and banks appear to be cautious about lending money at the same time that consumers appear to be unwilling to borrow the money. Increased federal government spending and reduced taxes could also help to increase spending. However, only about 30-35% of the stimulus money has actually been spent, and not all of the money has been spent on productive activities. In addition, some analysts worry that the increased money supply could increase inflation, and they also worry that the large budget deficits could drive up interest rates. At present interest rates, inflation rates, and inflationary expectations are all low, but future increases could weaken any economic expansion and could actually create a second recession.

There are signs that the economy may be starting to recover. The October survey of manufactures by the Institute for Supply Management indicates factory orders and business confidence are increasing. The Conference Board's Employment Trends Index increased for the second consecutive month and the Board's Senior Economist, Gad Levanon, believes the improvement indicates that job losses will end in early 2010. In the meantime, businesses are expected to increase the hours worked by current employees before adding new workers to the payroll. This point is reinforced by the Bureau of Labor Statistics which reports that 9.3 million workers are categorized as involuntary part-time workers.

The Conference Board's Index of Leading Economic Indicators increased by 1% in September following five consecutive increases — which is also promising news. The stock market continues to rebound, and increases in the value of investor portfolios may help to increase consumer confidence and create additional spending. Unfortunately, the Conference Board also reports that its Consumer Confidence Index fell in September and October. Since personal consumption expenditures consistently represent



approximately two-thirds of total spending, it is unlikely that we will experience strong economic growth until consumer spending picks up.

Finally, recent announcements by Federal Reserve officials and professional forecasters offer some optimism. In early November, the Federal Reserve's Federal Open Market Committee stated that economic activity is continuing to expand and that inflation and inflationary expectations are a minor concern at present. In a similar vein, the most recent Survey of Professional Forecasters reports that Real GDP should increase at an annual rate of 2.2% in the fourth quarter and should continue to increase at annual rates of between 2.5% and 2.6% over the next year. Additional good news is that forecasters expect annualized inflation rates will be 2% or less during the next year. On the downside, Real GDP typically increases at a much faster rate during the early stages of an economic expansion and the relatively sluggish growth rate will hamper rapid job creation. Consequently, the forecasters believe that unemployment rates will remain persistently high at 9.6% in 2010 and only decline gradually and modestly to 8.9% and 8.0% in 2011 and 2012.

Survey Predicts Economic Growth

By: Chris Jamieson

Expected job increases in the service industry are being attributed to the growth plans within many U.S. companies, due to an increase in customer demand. As specified by a recent *USA Today* article, entitled *Outlook for Jobs Turns Positive*, U.S. companies are reporting an increase in the workforce rather than a decrease. This increase in the workforce is largely directed toward meeting increased consumer demand.

Based on a National Association for Business Economics survey, the *USA Today* article explains how the service industry is in high demand. Manufacturing companies also reported an improved outlook for hiring employees in the next six months. Regarding service companies, "31% of service companies say they'll add workers in the next six months, up from 16% in an April survey. Just 3% say they'll cut staff." The reason for this increase in workforce can be attributed to the high consumer demand reported. The survey shows customer demand increased from the last two quarters, according to the *USA Today* article. Increased consumer demand is fueling companies, especially in the service industry, to increase their workforce. In the current quarter, specialized labor is so cheap that companies can

increase their output by a higher number than the wage they are paying each unit of labor. The wages of each unit of labor are cheaper than output ($W < MPL$). Companies will continue to hire labor until each unit of labor produces less than the output, especially when marginal product of labor is negative. This demonstrates the diminishing return on the marginal product of labor.

The survey also found an increase in sales for the first time in a year, according to the article. Increases in spending cause companies to expand in order to maximize output. The law of supply and demand determines a companies' growth strategy. The increase in sales represents a decrease in disposable income, which means that demand is high for goods and services. In order to meet increased output to maximize profit, companies must hire more labor that is specialized.

Workforce solutions include a positive increase in the labor force, which is the first step, on a national level, toward lowering unemployment rates. Although unemployment rates should peak at a higher percentage than the current rate, some economists are predicting that we may have hit rock bottom and are now beginning to see indicators demonstrating economic growth. Nonetheless, signs of a struggling economy still overshadow this survey and the national as well as local economies continue to look bleak.

Whether the forecast of this survey will be the end of the recession or will it remain an optimistic calculation - only time will tell. However, one aspect is certain, the aftermath will be seen by economists and felt by the world.

References & Citations

Allen Bruce, Doherty Neil, Mansfield Edwin, and Weigelt Keith, *Managerial Economics* (New York: Norton, 2009), pp. 97-102.

Davidson, Paul. 2009. Outlook for jobs turns positive. *USA Today*, October 26, Sec. B

HubPages.com Top Jobs in America. "Top Jobs In North America and Where to Find Them." <http://hubpages.com/slide/Top-Hot-Jobs-in-America/1256674>. (accessed Oct. 28, 2009)

HubPages.com Top Jobs in America. "Top Jobs In North America and Where to Find Them." <http://hubpages.com/slide/Top-Hot-Jobs-in-America/1256993>. (accessed Oct. 28, 2009)

A Federal Dilemma

By: Anthony Malin

In recent months, the Federal Reserve has been facing harsh criticism over its policy of increasing the monetary base. The Fed's decision to increase bank reserves was their attempt to restore confidence in the market and give banks incentives to begin lending again. Critics claim that the excess liquidity will lead to high inflation in the near future.

One of the most influential figures expressing concern is former Fed Chairman Allen Greenspan. In a recent Bloomberg News interview, Greenspan is quoted as saying "Unless we sterilize or unwind the big monetary base we've built up, two, three years out inflation really begins to take hold." Texas Representative Ron Paul, touting his new book "End the Fed" has been making appearing on cable talk shows giving the story credence and it is now quickly growing legs. Much of the recent rhetoric is beginning to resonate with American consumers fueling a national concern by an already skeptical public. Critics such as Rep. Paul associate the unpopular bank bailouts and huge bonuses to Wall Street Executives and Federal Reserve policies. He believes that Fed policies allow banks to make huge profits while main street suffers, but are these claims warranted?

In the current situation, banks have a flood of excess reserves that are mostly tied up in low yield Treasury Bonds. Banks would much rather put this money to work in higher yielding loans, but the banks are still rattled by the current state of economy and will risk lending only to credit worthy borrowers. The Fed has many tools at its disposal to shore up liquidity quickly. By raising reserve rates, or the money banks are required to keep on hand, would greatly shrink excess money available to loan to consumers and will give more time for the Fed to mop up any excess money that could lead to inflation during any future expansion. The dilemma the Fed faces is not *how* to get money out of the system, but *when*.

Nobel Prize Winner, Professor of Economics, and New York Times op-ed columnist Paul Krugman made the claim that taking liquidity out from the system too soon can prolong or even deepen the recession. Krugman wrote in a recent op-ed piece in the New York Times about the repercussions of moving money out of the system to soon and before the economy has moved to a state of full employment. He is quoted as saying "the first example of

policy in a liquidity trap comes from the 1930s. The U.S. economy grew rapidly from 1933 to 1937, helped along by New Deal policies. America, however, remained well short of full employment. Yet policymakers stopped worrying about the depression and started worrying about inflation. The Federal Reserve tightened monetary policy while FDR tried to balance the federal budget. Sure enough, the economy slumped again, and full recovery had to wait for World War II".

**"The dilemma
the Fed faces
now is not
how to get
money out of
the system,
but *when*"**

With October unemployment figures toppling a unprecedented 10.2 percent, there seems little chance that the Fed will have any worries of inflation. Greenspan's economic outlooks seem overly optimistic for the next few years. Most economists believe that recovery will be slow and unemployment will remain high throughout the periods. Some have redefined full employment from a traditional 5 percent to 7 percent. It is no doubt that the Fed will closely be watching how liquidity and inflation begin to change, but for now employment is the true key to recovery.

Until unemployment figures begin to ease, banks will remain hesitant in lending, only to adding to the woes of the recession. The continued tight credit market will contribute to the recession and conjointly effect unemployment. It seems almost irrational for anyone to suggest focusing on inflationary pressures now, when the economy is not projected to grow for some years and the true focus should be on unemployment and not phantom inflation. To get caught in the a liquidity trap now, would only give banks less incentive to lend, damping any chance of recovery — or as history points out — sending the economy into a second round of contraction.

It will be interesting to see is how Fed Chairman Bernanke deals with his dilemmas. Will he follow the lead of Greenspan and remove liquidity from the system early to avoid inflation? Will Bernanke heed Professor Krugman's warning and avoid the liquidity trap once faced in the 1930's? Will Ron Paul successfully rally the American People to, as he proclaims "End the Fed?" which most economists agree would have a disastrous effect when expansion comes.

References:

Paul Ron. CNN Opinion Page. <http://edition.cnn.com/2009/OPINION/10/30/ron.paul.fed/> . Last Updated October 30, 2009. Viewed October 1, 2009

Jones Forest. MoneyNews.com Street Talk Page. http://moneynews.newsmax.com/streettalk/greenspan_inflation_risk/2009/10/09/270446.html . Last Updated October 9, 2009. Viewed October 1, 2009

Krugman Paul. Sacramento Bee Opinion Page. <http://www.sacbee.com/opinion/story/1949389.html> . Last Updated September 1, 2009. Viewed October 1, 2009

An Insight into the G-20

By: Matthew Khela

The G-20 began in 1999. It is comprised of twenty world leaders from their respective countries who are mostly ministers of finance or central bank governors. The twenty countries include: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom and the United States of America. Although the group does not have any permanent secretary or permanent staff members, many people feel that the countries involved should change and rotate with their membership status. This should be done to ensure that the group does not gain too much power. The chair of the group rotates annually among all the members. The chair is also part of a revolving three-member management team of past, present and future chairs. This is known as the "Troika". The specific role of the Troika is to ensure the agenda is followed through and that the G-20 stays on track. The G-20 is essentially a group of individuals with a mutual interest and background that discuss world financial matters and key policy issues pertaining to the promotion of international financial stability. These meetings are usually protested violently.

Recently, the leaders of the G-20 nations agreed to create a plan within certain timeframes to create new rules to regulate the global financial system. These rules are designed to stimulate global institutions to improve capital cushions and avoid excessive risk-taking. Their goal is to stimulate economies and secure financial systems after, what is now known as the worst financial crisis in decades.

President Obama stated during the recent G-20 summit, held in Pittsburgh, that important groundwork are laid out

during the meeting for future success. After much discussion it was agreed that the United States, due to its heavy debt, would support private savings and China, having much surplus, would encourage more consumption of domestic goods. They decided that by the end of 2010, all the members of G-20 would come to terms on which rules would be enforced for improving "quantity and quality" of bank capital while simultaneously taming excessive risk-taking. Their goal was to realize full enforcement of these rules by the end of 2012.

The G-20's primary focus is to make certain that a financial crisis of this magnitude will not be repeated. They are working to restore global wealth. The group has several other agendas, which include different emergency tactics when responding to possible crises and long-term issues regarding climate change and international development. The G-20's purpose is to manage risk and control universal effects on the global economy. Part of the plan is to also increase capital requirements and to implement compensation/bonus rules that limit the amount of risk-taking activities. This, in turn, will deter systemic spillover to the general economy in the near future.

Obama in China: A Broader Perspective Into Calls for IPR Compliance

By: Ashley Burrell

Impassioned international intellectual property right (IPR) disputes are increasing at a rapid pace, withstanding the growth in pledges from countries making a commitment to protecting and preventing unauthorized use. As President Obama tours Asia, in particularly China, IPR infringement may be offered as a topic of discussion, in addition to China's commitment to climate-change issues and the global financial crisis. According to Michael Barbalas in his *Wall Street Journal* opinion piece, "Mr. Obama has built on the positive U.S.-China momentum that President Bush developed later in his presidency. By focusing on significant energy on areas of common ground, like cooperation on climate change and stimulus spending, while downplaying third-rail issues like Taiwan and Tibet, Mr. Obama has built up political capital

with an initially unsure Beijing.” According to the U.S. Embassy in Beijing, China, on average 20 percent of all consumer products in the Chinese market are counterfeit. Table 1 demonstrates intellectual property seizures in the U.S., of goods from China amounted to 81%. This made China the number one supplier of counterfeit products to the U.S. in 2008 according to U.S. Customs and Border Protection Statistics.

Due to the encouragement of a growing economy, China was credited with reform measures of property laws as well as a judiciary affecting the curtailment of intellectual property rights violations. According to legal scholar, Jiang Zhipei, these efforts by the courts have helped regulate the market and improved the investment environment. However, Barbalas argues that China’s cursory IPR policies regarding pharmaceuticals are of keen interest in order to provide access to better quality medicine.

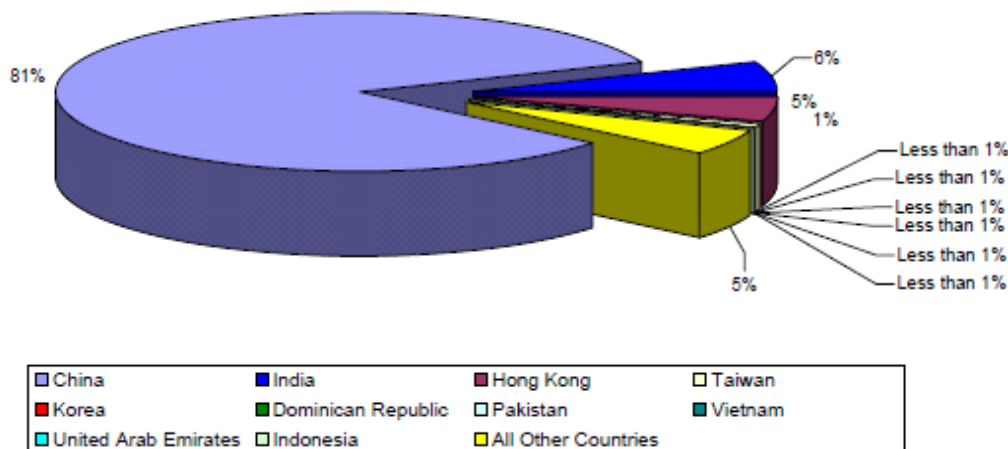
There is a long time understanding among economists and property rights lawyers that property rights encourage the development of new technologies and products. However, many advocate limitations on property rights, in order to curtail monopolies. As more governments decry stronger IPR regulations, the GIPC offers startling findings in a new report, titled *Intellectual Property and Green Growth: Analysis and Implications for International Climate Negotiations*. GIPC states that weakened Intellectual property rights policies would lead to green job losses of 1 million by the year 2020 in the U.S. According to the Secretary of Commerce, Gary Locke, in a speech to the Washington International Trade

Association in Washington, D.C., “every year, American companies in fields as diverse as energy, technology, entertainment and pharmaceuticals lose between \$200-\$250 billion to counterfeiting and piracy.” With the economic crisis still in force, WIPO Director General Francis Gurry stated, “despite the short term effects of the economic crisis, countries must work together to ensure that the IP system serves as a stimulus for developing solutions to the global challenges confronting policy makers across the world.”

Highlighting the problem with IPR infringement, The World Intellectual Property Organization held a forum in New Delhi, India on November 11th outlining the challenges and opportunities facing the intellectual property community. India’s Minister for Commerce and Industry, Anand Sharma, stated that, “intellectual property is in the spotlight, receiving more focus and attention than ever before.” According to WIPO, Mr. Sharma noted that, “technological innovation is driving economic development and underlined the Indian Government’s commitment to ensuring a robust IP environment – both in terms of a legal and administrative framework.”

One challenge facing international organizations, including the UN, is highlighting the incentives for less-developed countries to comply with internationally mandated IPR policies. Less-developed countries may not see significant benefits; rather they are concerned with imposed costs, such as higher priced medicines, according to a report entitled, *Integrating Intellectual Property Rights and Development Policy* by the Commission on Intellectual Property Rights. Table 2

Table 1.



demonstrates that IPR Pharmaceutical seizures by the U.S. Customs and Border Protection amounted to 10% of all seizures in 2008.

According to Science in Africa, Commission Chair John Barton stated that, “developed countries often proceed on the assumption that what is good for them is likely to be good for developing countries. But, in the case of developing countries, more and stronger protection is not necessarily better. Developing countries should not be encouraged or coerced into adopting stronger IP rights without regard to the impact this has on their development and poor people. They should be allowed to adopt appropriate rights regimes, not necessarily the most protective ones.”

In light of these concerns, the WIPO held a meeting on November 2, for the Advisory Committee on Enforcement. Developed countries heard pleas from developing countries regarding implementation strategies that take into account the social and economic impact of anti-counterfeiting policies. Developed countries have the right to protect their interests, but many are calling on the U.S., for instance, to improve its own domestic intellectual

property laws and pressure other countries with an even hand and conscience.

References:

“A call to improve intellectual property rights of developing countries: Commission on Intellectual Property Rights.” *Science in Africa*. October, 2002.

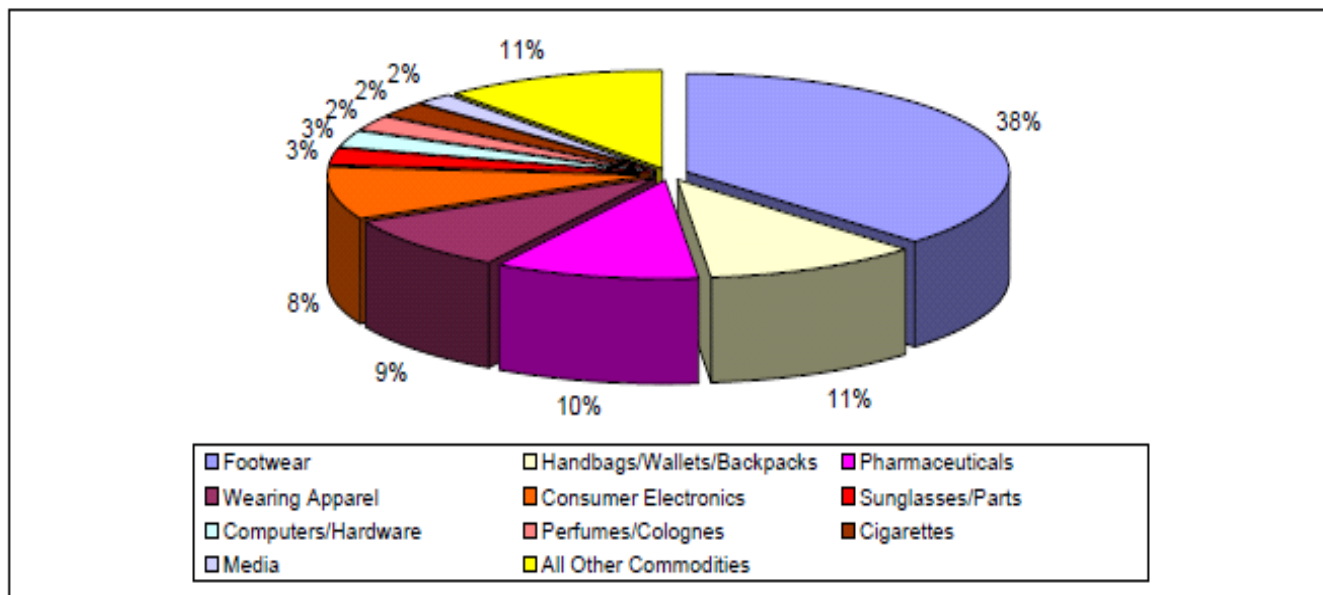
Barbalas, Michael. An Agenda for Obama in China: Focus on trade, market access and climate. *The Wall Street Journal*, Opinion Asia. November 12, 2009.

Department of Homeland Security, U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement: FY 2008 Top Trading Partners for IPR Seizures. U.S. Customs and Border Protection, National Targeting and Analysis Group, Los Angeles.

Mara, Kaitlin. “IP Enforcement Work at WIPO gets boost from developing nations.” *Intellectual Property Watch*. November 6, 2009.

“International Forum Opens with Emphasis on Need for Balance in IP Systems.” World Intellectual Property Organization. Press Release. November 11, 2009.

Zhipei, Jiang. “Judicial Protection of IPR in China.” *China IPR Law*.



Source: Department of Homeland Security, U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement: FY 2008 Top IPR Commodities Seized. U.S. Customs and Border Protection, National Targeting and Analysis Group, Los Angeles.

The Impact of the Global Financial Crisis on the Russian Economy

By: Yuliya K. Lynch

Today, many countries are suffering from a Financial Crisis. Russia is no exception. The Global Financial Crisis caused losses in many sectors of the Russian economy, particularly the stock market and GDP. This paper will demonstrate some of the impact this crisis has on these sectors and the perspectives for the Russian economy.

The Russian Trading System (RTS) had been weakening over the summer of 2007 even before the U.S. crisis hit. For duration of two months after May 18, 2007, the U.S. stock market fell by 11.51 percent and the Russian market fell by 13.11 percent. Various factors influenced the Russian stock market, but oil prices falling from \$147 to \$86 between July and October of 2007 was the main factor. During the winter of 2008-2009, the RTS decreased by 51.81 percent, while the U.S. fell by 8.51 percent. Additionally, prices on metals and oil had fallen significantly at the end of 2008. As a result, investors pulled their funds out of the market and provoked a sharp fall of the indices. International investors also pulled \$741 billion out of the market by October, 2008. As a result, the RTS and Russia's MICEX Index fell by more than 601 percent.



* Monthly averages.
Source: The Bank of Russia.

It is clear that the Russian stock market has declined dramatically over the past 12 months. Firstly, the Russian financial market depends on the stability of the American Stock Market. Secondly, a decline in commodities' prices caused a deficit and a lack of confidence among foreign investors. Globally, the bank crisis limited liquid funds and as a result, some of the banks went bankrupt while others limited lending.

These same factors impacted the RTS and affected the GDP growth rates, which previously had been gaining 71 percent each year for the past eight years.

Russia's export income and government tax revenues were increased by high oil prices. This improved liquidity, lowered interest rates and created a buildup of the central bank's foreign currency reserves. In the near future, nominal GDP will most likely decrease because of low oil prices, the bankrupting of banks and businesses, and the resulting in spending. According to the Bank of Finland Institute for Economies in Transition (BOFIT), the forecast for Russia is a GDP decrease of 10.4%, a 14% negative change in industrial production as fixed investments decrease by 18.9% during 2009.

The affects of the Global Financial Crisis on financial markets and government intervention in Russia have been analyzed. It is clear that a decline in commodity prices caused a deficit and decreased the confidence of foreign investors. Nominal GDP will most likely continue to decrease because of low oil prices, the bankruptcy of some major companies and the resultant decrease in spending.

Investors, stockholders, financial companies, builders and real estate agencies are waiting for the U.S. economy to improve and for more progress from Russia's planned government reforms. According to the Russian Economic Report: April - June 2007, under the new budget, Russia plans to increase spending by 25% by 2010, including social services spending. To help fight the crisis, the government needs to diversify exports in order to reduce dependency on high commodity prices and natural resource sectors. To compete with the West, Russia would have to improve

its system of financial intermediation, transport infrastructure and control of unreformed natural monopolies, as well as delay privatization of agricultural land. The building of human capital is another aspect that must be taken into consideration to recover from the crisis. Increasing social spending and investing in education and health care systems could trigger the recovery process.

Although, Russian markets greatly depend on the changes in the U.S. economy, the government needs to take serious action regarding managing its own financial markets and implementing more effective government interventions to improve the performance of its economy during and after suffering from this global financial crisis.

References:

Russian Analytical Digest 48/08-1

<http://www.mfat.govt.nz/Foreign-Relations/Europe/0-russiaecoreport-july07.php>

Bryanski Gleb. "MICEX Head Backs State Halts." Moscow Times. November 2008. Last access: 20 May 2009. <<http://www.moscowtimes.ru/article/1009/42/372366.htm>>.

BOFIT Russian Statistics. Finland Bank. n.d. Last access: 11 October 2009. <http://www.bof.fi/bofit_en/seuranta/venajatilastot/>.

BOFIT forecast 2008-2010. Rosstat 2000–2007. Finland Bank 14 February 2008. Last access: 20 May 2009. <http://www.cbr.ru/eng/statistics/credit_statistics/print.asp?

[file=iip_rf_07_e.htm](#)>.

Bush, Jason. "The Credit Crisis Hits Russia". Spiegel Online International. 8 October 2008. Last access: 11 October 2009. <<http://www.spiegel.de/international/business/0,1518,582844,00.html>>.

Faulconbridge, Guy. "Kremlin says to defend Russian middle class in crisis". fxstreet.com. 28 November 2008. Last access: 11 October, 2009. <<http://www.fxstreet.com/news/forex-news/article.aspx?StoryId=3a96ba72-9d0f-43cc-ac1b-145d0b808f39>>.

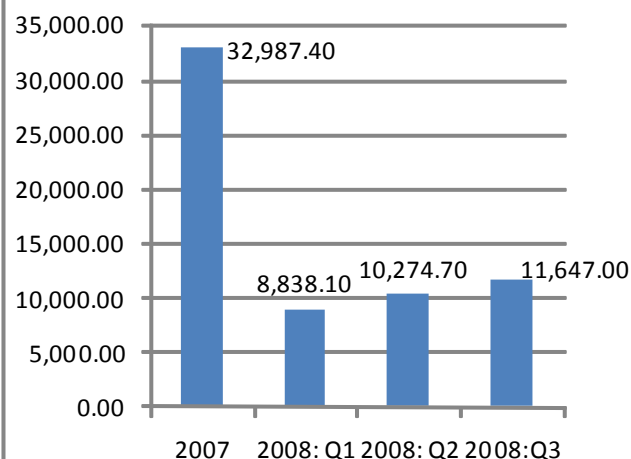
Nikolaeva, Daria. "Monitoring Minzdrava" (in Russian). Kommersant, December 9 2008. Last access: 11 October 2009. <<http://www.kommersant.ru/doc.aspx?DocsID=1091372&ThemesID=437>>.

Quarterly Inflation review, 2008 Q3. The Central Bank of Russia. 2008. Last access: 11 October 2009. <http://www.cbr.ru/eng/publ/root_get_blob.asp?doc_id=8370>.

2009. <http://www.cbr.ru/eng/publ/root_get_blob.asp?doc_id=8370>.

"Rossiyskie giganty sokraschayut" (in Russian). newsru.com. 6 November, 2008. Last access: 11 October 2009. <<http://www.newsru.com/finance/06nov2008/magnitka.html>>.

GDP (bln. Rubles)



Regulatory Apathy: Its Affect on our Economy and Society

By: James Carroll

According to Duverger's Law, our winner-take-all election system dictates that we should have two major parties. Duverger's Law states that a proportional representation system will lead to multiple parties, whereas a winner-take-all or first-past-the-pole system will yield only two dominant parties. The parties in power will ultimately retain control over the electoral system, thus the number of parties in a nation state (Colomer, 1). There are a few exceptions to this law (such as in Canada), but the United States is not one of them (Clough, 1). Our nation has two influential parties and many economists and political

scientists charge that the U.S. must either change its electoral system or revolutionize its party system.

There are two main external reasons third parties never had any validity in the United States. First, there are huge financial costs in running a viable campaign. Second, incumbents have an advantage in elections. Third parties were excluded from elections by the two major parties through a number of crafty electoral regulations (i.e. "Gerrymandering"). These fabricated districts held off-year elections and closed primaries prohibiting the fusion of candidates from ballots and instituting registration deadlines and requirements for ballot access.

Examples of these regulations are petitions requiring the obtaining a significant percentage of the previous election and prohibiting third party participation in debates. Democrats and Republicans have averted competition by quickly adopting popular policies from weaker political organizations as well. Since our nation has only two parties, "conservative" and "liberal" policy are defined by these two parties and shape our policies and laws. One of these ideologies our nation is forced to adopt is the Republican ideology of Regulatory Apathy that reemerged during George W. Bush's Presidency.

Regulatory Apathy is the belief that firms or corporations should have free reign in the market. This ideology has allowed numerous transgressions such as toxic assets, environmental harm and minimizing worker's rights. Our parties believe that solutions are found in their polarized ideologies, however, the solution to our problems and the current global issues such as the current economic crisis and global warming may not be found through our two major parties' doctrines. Third parties have offered many contributions throughout our historic past and their influence must not be lost. Third parties have propelled change in areas such as the women and minority rights' movements, immigration laws, child labor laws, worker's rights and marijuana law reform to the forefront of the American political arena. If our political parties remain stuck in their ways third parties may be able to shed light on some of our current issues.

Financial Institutions and Investment Firms synthetically created the toxic assets referred to as CDSs and CDOs,

which eventually lead to our current economic crash. A CDS, or Credit Default Swap, is a contract that has a buyer making payments to receive a payoff, if the underlying credit terms default. A CDS bets that a group of loans will, in part, or in whole default, therefore spreading financial ruin. CDOs or Collateralized Debt Obligations are a type of asset-backed security (ABS) that receives value from fixed assets. The risk of the overall CDO depends on underlying assets and their individual risks, as the payments for the CDO go in order of seniority, security, or safety. These toxic assets were re-cut and re-sold multiple times and brokers could not cover all potential losses that caused the assets to fail.

The financial institutions involved in the original assets and the corresponding trades eventually failed. When these institutions failed, shareholders lost most of their investments which led to investors selling stocks across the market and our economy spiraling out of control. Our world is in the worst recession since the Great Depression and our slow ascent will prove costly. Our government must do everything in its power to solve our current problems (Norris, 1).

The conservative or Republican ideology that believe corporations deserve free reign have led the United States into its current economic crisis. If there were regulations on the trade of toxic assets such as CDSs and CDOs, then financial institutions deemed "too big to fail" would never have proven that title false. There were bureaucratic agencies in place, such as the Office of Thrift and Supervision and the Federal Reserve, but these agencies overlooked these activities. Their ineffectiveness and lack of influence over the market minimized their power and scope. Our government must become proactive with regulations if our nation intends to minimize global economic crisis such as the one we are currently facing.

References: Clough, Emily. "Exceptions to Duverger's Law". *Midwestern Political Science Association*. 2006 Annual Meeting, p 1.

Colomer, Joseph M. "It's Parties That Choose Electoral Systems". *Political Studies*. Vol. 53 Issue 1, p. 1-21.

Norris, Michael. "How *Credit Default Swaps* Spread Financial Rot". *NPR*. "All Things Considered". 30 October 2008.

How to Make a Big Difference in a "Micro"Way

By: Samantha Mostaccio

In western societies where financial institutions are established in everyday life, individuals and firms have relatively easy access to financial capital. However, millions of people in the rest of the world have difficult or no access to financial capital, and that is a problem. One solution to the problem is "microfinance". Microfinance is the provision of financial services to the poor who are typically ignored by traditional financial service institutions.

A microfinance institution (MF) provides the poor with financial services in a safe and controlled environment. The hundreds of MFs vary a little, depending on the region and people they are targeting to help. There are some that focus solely on woman with no economic empowerment or in rural populations.

So why don't they just go to a bank? The truth is that most banks typically do not serve the poor. For example, a man in Africa who is a goat herder just does not have the money to open a savings account or to offer collateral to secure a loan. He more than likely does not have a credit history or is even able to complete the necessary paperwork, as most are illiterate. For many people that have these issues they can only borrow money from loan sharks with interest rates that are so high it is impossible to repay. Any savings they might try to keep in their homes are vulnerable to theft, or their savings might be in the form of livestock, which is vulnerable to disease or is perishable.

There are a few exceptional banks that will accommodate such borrowers. A small bank in Bangladesh called Grameen Bank lends to women and another commercial bank in Bolivia does the same...but most do not.

Millions of people around the world could help themselves if they just had access to low-cost money for starting or expanding their small businesses. Whether they need tools, seed, fertilizer, cloth or store supplies, it just takes that start-up capital to give them a chance to be self-sufficient. MF institutions connect people through lending for the sake of alleviating poverty.

So who can actually lend? People and organizations can lend just as banks and other non-government organizations do. MF institutions, entrepreneurs and individuals like each one of us can actually act as a bank to provide the funds to the MFs that they in turn lend to other entrepreneurs around the world. Kiva is one of the largest MF institutions out there. It is extraordinary because it is helping real people make strides toward economic independence for themselves, their family, and their community. Loans are usually for a 6-12 month term and records of when the investor gets repaid his/her money are kept online. You can actually check the progress and photos of the person you lent your money to.

For illustration, here's one personal case out of millions: Yeku Sesay is a Sierra Leone man who at age 21 had both his arms cut off for voting by the rebel soldiers. Yeku was a double amputee whose only prospects were begging in the streets of Freetown. He took out a 300,000 Leones (about \$100 U.S. dollars) to start a small business. Yeku sold soap, biscuits, and small items for a small profit and paid off the initial loan. He invested the rest into his business and now supports his family and three children and his younger brother's schools fees. This is just one of the many beautiful stories that show how small loans can actually change lives.

All around the world there has been significant life-altering changes in people who have received loans from the MF institutions. In Bangladesh, clients have increased their household assets by 112% and their incomes by 43%. In El Salvador the weekly income increased by 145%, in India, half of share clients graduated out of poverty, and in Ghana, 80% of clients had secondary sources. The list goes on and on.



**Why not research MF institutions
around the world
and see how YOU can help
change the world and make a
DIFFERENCE in someone's LIFE.**



Professor Kane joined ESU in 1972, teaching classes in Macroeconomics, Microeconomics, International Trade, International Finance, History of Economic Thought and Economic Growth and Development. He has always been actively involved in various students organizations and in other areas of service to ESU and the community.

Dr. Kane officially retired in May, 2009, but he remains an active and integral part of the Department of Economics and the ESU community.

Understanding Capitalism

By: Mamadou D. Kane, Professor Emeritus

Capitalism is the economic system whereby the means of production such as labor, land, capital, technology, and entrepreneurship are privately owned. The production of goods and services and the distribution of income are carried out through the operation of markets, through supply and demand. Modern capitalism started in Western Europe in the 16th century with the break-up of the feudal system and the formation of nation-states. England was the early starter and leader in economic modernization. The cloth industry in England expanded rapidly in the 16th, 17th, and 18th centuries. English entrepreneurs invested excess output over consumption to build more workers. Other countries in Europe soon followed suit.

Factors involved in the development of capitalism were many, including the Scientific Revolution with Isaac Newton (1642-1727). Economic analysis derived from scientific analysis of the physical world. The accumulation of merchant capital financed industry capital. The influx of gold and silver from the New World into Western Europe through Spain caused hyperinflation in the 17th century. The Reformation in the 16th century promoted hard work and frugality, and interest charges on loans. It justified economic and financial inequalities. The rise of the nation-states brought about uniformed monetary systems, legal codes, etc. making it possible to shift from public to private initiatives. As a result of the above developments in the 1750s in England, the Industrial Revolution started. It was characterized by a shift from commerce to manufacturing. For the first time profits were invested in the development of technical knowledge. Classical capitalism put emphasis on self-interest, individual initiative, and competition as championed by Adam Smith (1711-1790) in his path breaking book: An Inquiry Into the Nature and Causes of the Wealth of Nations. (1176).

After the defeat of Napoleon at Waterloo in 1815, British capitalism spread like a brush fire, especially in the English-speaking world. It became the dominant trend and system. The classical Gold Standard brought stability and economic growth. Western Europe, North America and Japan enjoyed an unprecedented period of economic expansion and prosperity. When World War I started in 1914, commercial flows were disrupted. After the war a period of expansion and prosperity followed, but it was short-lived. The stock market collapsed in October 1929 in New York and the great depression started. Many people lost their life savings. They lost their jobs (25% unemployment). Companies went bankrupt on a large scale. These unfortunate events cast doubt on the capitalist system as a whole. The laissez-faire capitalism of the Physiocratic and classical schools were no longer in vogue.

Then, during the Great Depression a British economist, John M. Keynes (1883-1946), wrote a revolutionary book: The General Theory of Employment, Interest, and Money (1936). Keynes, contrary to classical belief, advocated government intervention in the economy to promote full employment with stable prices through fiscal and monetary policies. Keynes stated that effective aggregate demand determines the level of employment and income. Since the end of the World War II, Keynesian economics has dominated macroeconomic policy and thus far, the results have been positive. Western Europe, North America and Japan have prospered again, proving that capitalism can reform itself and open new frontiers. It is dynamic. It is resilient. The economic system will guarantee individual liberties.

We are just coming out of a severe recession. Unemployment is still very high. With sound economic policies, we shall overcome. Laissez-faire capitalism is no longer possible. Corporations have grown big and we need to oversee their activities. Capitalism is the oldest economic system. It is also the most efficient system. Capitalist countries enjoy higher standards of living and greater individual liberties. Japan is a good example: It has very few natural resources, and yet it is the second largest economy in the world. Let us compare South Korea vs. North Korea, former West Germany vs. East Germany or Hong Kong with the rest of China.

The difference is Free Enterprise — otherwise known as Capitalism! Capitalism is here to stay. It will probably not be free wheeling capitalism but Capitalism nonetheless. ■

Editors:

Nicholas Pulsinelli

Sue Prutzman

Circulation Manager:

Sue Prutzman

Graduate Student Coordinator:

Ashley Burrell

Contributing Writers:

- Andrew Nelson
- Constantinos Christofides
- Caitin Zaroni
- Professor Todd Behr
- Chris Jamieson
- Anthony Malin
- Matt Khela
- Ashley Burrell
- Yuliya Lynch
- James Carroll
- Samantha Mostaccio
- Professor Mamadou Kane

Faculty and Adjunct Advisors:

- Todd Behr
- Richard Booser
- Shiv Bunjun
- Constantinos Christofides
- Pats Neelakantan
- Andrew Nelson
- Robert Wolfe

Department News:

The Faculty and Students of the Department of Economics have been busy!

Faculty recently attended the 25th Annual National Association for Business Economics Policy Conference in Washington, D.C. to hear varying perspectives and policy prescriptions. In spring 2010, they will be attending the Ursinus College Economics Conference with outstanding ESU students who will be presenting papers at the conference.

After a motivated group of students came together, the Economics Club was re-established and now boasts an impressive number of members. The club promotes campus awareness of recent research and career opportunities in Economics. The Club will be hosting events in the coming semesters such as panel discussions, a speaker series and trips to places of economic activity, such as Wall Street and Washington, D.C.

This year's recipient of the Delarco Economic Research Award was Nicholas Pulsinelli, an Economics major. Nicholas provided outstanding service in the publishing, editing and processing of the E-News.

We would also like to acknowledge Anthony Di Tondo, who was the recipient of the Kenneth E. & Charlotte M. Starner Scholarship. Anthony is a dual major in Economics and Business Management with a specialization in finance.

ESU Distinguished Professor of Economics, Dr. Constantinos Christofides, was recently awarded the ESU Great Teacher Award. Dr. Christofides has been a faculty member at ESU for 36 years. Under his direction the E-News was born, with the first issue published on November 1, 1997.

Dr. Christofides also started the ESU Alpha Xi Chapter of Omicron Delta Epsilon, The Economics Honor Society. Since its inception over 300 exceptional students have been inducted into the society.

Finally, this newsletter features an article by our newly-retired Associate Professor of Economics, Mamadou Kane. Before retiring, Dr. Kane was granted the distinct honor of serving as Grand Marshall of the ESU graduate commencement ceremony held in May 2009.

Dr. Kane has not only been a much loved and respected colleague for over 30 years, but a devoted friend.

We hope you enjoy our publication and want to remind you that the E-News can now be found on the Economics Department website at www.esu.edu.

Thank you for your interest in ESU's Economics Department newsletter.

- Dr. Pats Neelakantan, Professor and Department Chairperson



E-News is written and developed by students from the Department of Economics and others interested in the field. It is a service to ESU and the community.

If you would like to be added to our mailing list or would like to contribute an article to E-News, contact one of editorial staff:

tbehr@po-box.esu.edu

sprutzman@po-box.esu.edu



Department of Economics
East Stroudsburg University
200 Prospect Street
East Stroudsburg, PA 18301

NONPROFIT ORG.
US POSTAGE PAID
EAST STROUDSBURG
UNIVERSITY