# E-NEWS

THE ECONOMIC NEWSLETTER OF EAST STROUDSBURG UNIVERSITY

## Fall 2011


CC Image courtesy of S_Falkow on Flickr

## Education Earns its Keep

**Kevin Clark**

It turns out that one thing we were told as children is true. As youth, our parents and teachers have been badgering us to stay in school.  It turns out that our parents and teachers seemed to know what they were talking about.

A recent study by the Bureau of Labor Statistics, which used their own data and data from the Census Bureau, took an in depth look at earnings and education attainment, and their findings indicate a strong correlation between educational attainment with earnings and employment status.

Over the years the level of educational attainment has increased according to data collected by the Census Bureau. For example, in 1940 24.5% of people over the age of 25 had at least a high school diploma and around 4% had at least a bachelor's degree. In the 2000 Census, those numbers had increased to 85% for high school graduates and 27.7% for bachelor's degree holders.

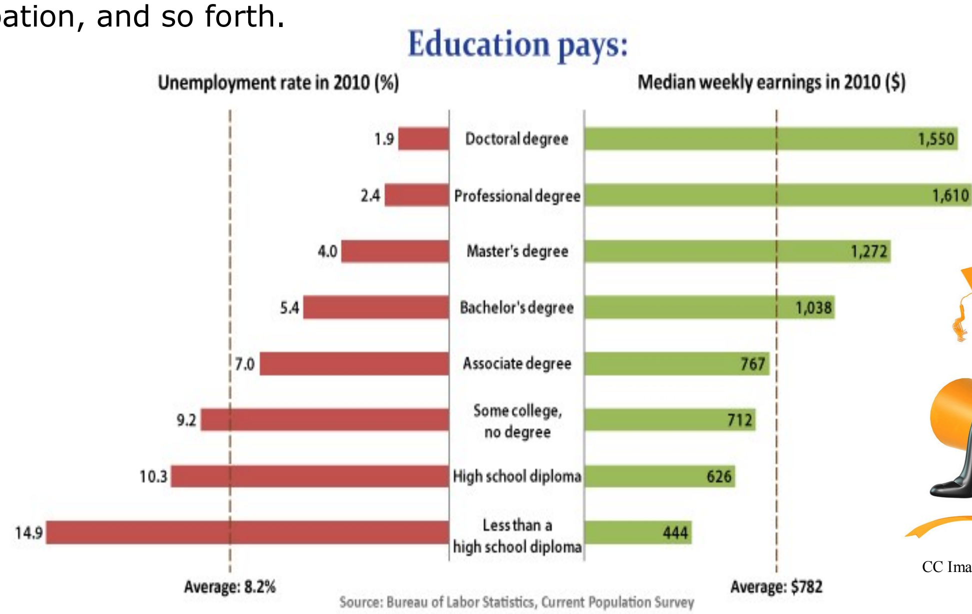
The low numbers for previous decades may be partly explained by the fact that


**The publication of the E-News is made possible through the support of the East Stroudsburg University Economics Department and the College of Arts and Sciences.**


## IN THIS ISSUE

people frequently entered the labor force at much younger ages to help contribute to the family income. In addition, the heavy economic emphasis on mining, manufacturing, and agriculture meant that specialized knowledge skills were less in demand than they are in today's high technology dominated economy. Specialized jobs mean that workers need a higher level of education, and the increased labor productivity creates higher wages for workers with advanced degrees. In addition, workers with higher educational attainment are more likely to have lower unemployment rates and are also more likely to have full time year round positions rather than a part time job, which also translates into higher wages and income.

The following chart illustrates the importance of education for superior labor market outcomes. The information compiled from the Bureau of Labor Statistics and the Current Population Survey shows that, on average, college graduates earn far more and are much less likely to be unemployed than those who never attended college or never completed their college degree. Of course "averages" tend to ignore variability of the data. For example, unemployment rates and weekly earnings will vary within the category of college graduates, as it will within any category of the table, because these outcomes are also associated with grade point average, major, occupation, and so forth.





CC Image courtesy of LumaxArt on Flickr

The data in the chart is striking, and the connection between education and beneficial labor market outcomes is apparent for all education levels. The more education one has, generally speaking, the better the outcome. So, in reality, education pays in more ways than one. It pays in dollar value but it also pays in employment status. So now we can say with confidence, "Stay in school!"

Note: Data represents 2010 annual averages for persons age 25 and over. Earnings are for full-time wage and salary workers.

**Data Sources:** Bureau of Labor Statistics, Current Population Survey.

# The Dodd-Frank Act: Protection of Problems

**Dan May-Rawding**

With financial tensions high from the global recession, economists, politicians, and business leaders are searching for a solution. On July 21, 2010, President Barack Obama signed the Dodd-Frank Act into legislation in response to the recent global recession.

This act is designed to protect the people by preventing banks from making risky investments. It also gets rid of the notion of "too big to fail", stating that tax payers will no longer be held responsible for stimulating failing companies. These companies will tend to prevent bailouts and minimize collateral damage. Christopher Dodd, one of the creators of the bill, says that the bill will create confidence in our economy.

Many critics of the bill say that it actually hurts confidence in the markets, suggesting that the bill is "too big to work." Bank of America's year-to-date stock is down over 50%, and the recent controversy over the $5 per month debit card fee is a result of the Dodd-Frank Act.

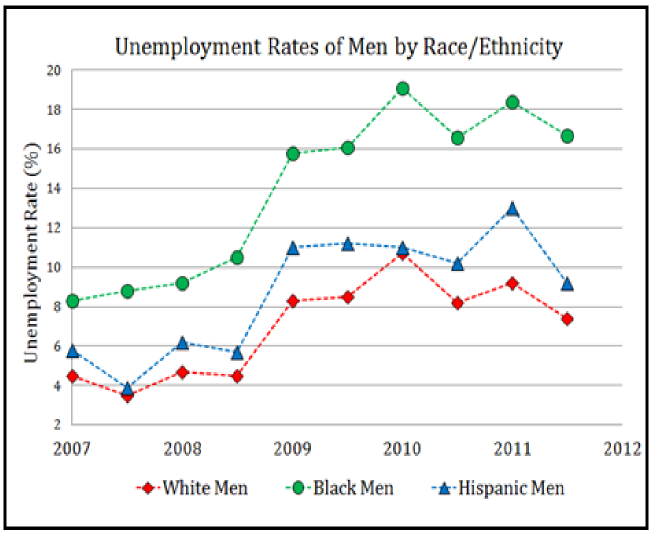
According to Brain Moynihan, CEO of the Bank of America, the Dodd-Frank Act is costing them billions of dollars. President Barack Obama said "You don't have some inherent right to a certain amount of profit, if your customers are being mistreated." Later, he added, "this is exactly the sort of stuff that folks are frustrated by." Many people in response to Obama's comments simply say if people do not like the $5 charge they can leave Bank of America. Due to the consumer outrage, Bank of America has decided not to implement the $5 fee. Currently there are members of congress trying to repeal this act, saying that it is doing more harm than good.

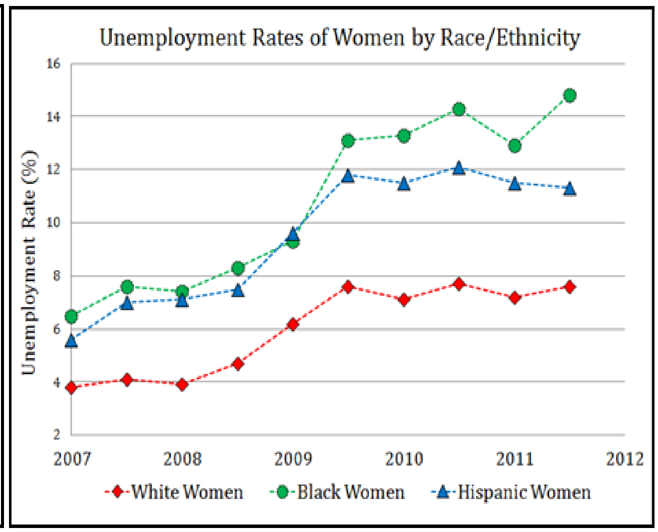
President Obama signs the Dodd-Frank Wall Street Reform and Consumer Protection Act on July 1st, 2010.

# The Growth of Gaps in Unemployment Rates between Gender, Ethnic, and Racial Groups

**Brian Caiazzo**

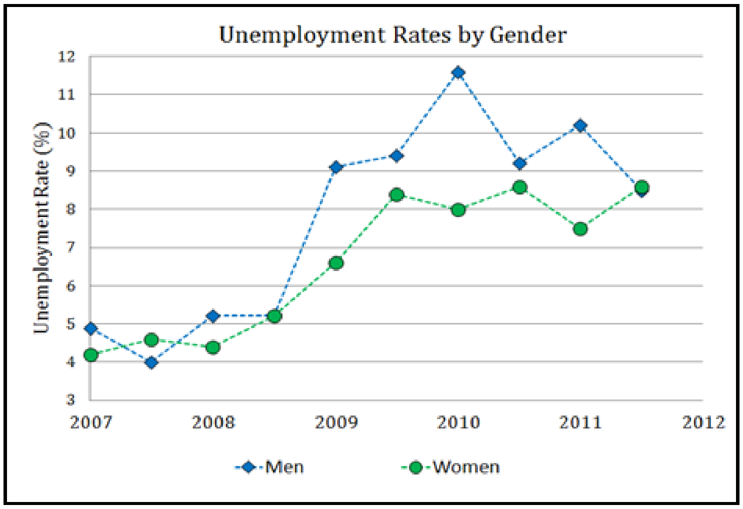
During the recent 18 month recession which lasted from December 2007 to June 2009, numerous measurements of economic hardship increased for the United States. The most commonly discussed was the rapid growth of the United States' unemployment rate. In 2007, the overall unemployment rate reached a relative minimum at 4.6% but then increased to reach a 28 year high of 9.6% in 2010, a 108% increase in the unemployment rate. Though this economic trend is more than noteworthy, it does not clearly depict the entire picture. Through a demographic analysis of the U.S. unemployment rate, it becomes evident that the recession affected certain gender, racial, and ethnic groups more severely than others.




When we take a deeper look at the unemployment rates by gender, as well as by race and ethnicity, we cannot help but notice the growth of preexisting gaps in unemployment rates between particular groups. For instance, the gap in unemployment rates between men and women was approximately non-existent during July of 2008. However, the unemployment rate of men exceeded that of women by 3.5% by January of 2010. Similarly, the gap in unemployment rate between white men and black men grew from 3.8% in 2007 to 9.0% in 2011, a 137% increase in the magnitude of the gap. Finally, the gap between white women and Hispanic women grew from 1.8% to 3.7% (a 105% increase), while the gap between white women and black women grew from 2.7% to 7.2% (a 167% increase) during of the recession and the months following.

When looking at such figures, the question of employment discrimination inevitably arises. Though trends of growing gaps in unemployment rates between certain groups suggest that employment discrimination may be occurring, we must also consider some of the nondiscriminatory factors that may be partially responsible for such economic trends.




The first nondiscriminatory factor we must consider is the occupational distribution of the United States' economy. For example, the decline of the manufacturing and construction industries, both of which are traditionally occupied in majority by men, has caused a disproportionate number of male workers to become unemployed during the recent recession. However, women are likely to be affected more so during the months following the recession. Consider the fact that women comprise 81% of all elementary and middle school teachers. Since occupations, such as teachers, that are funded by taxes tend to experience a delayed effect of economic decline, it is likely that the unemployment rate of women will significantly exceed that of men over the next year.

Another major factor that would not be considered discriminatory is the strong correlation between educational attainment and unemployment rate. It is well documented that workers with lower educational attainment not only have higher unemployment rates, but they are more likely to become unemployed during times of economic decline. Since the black and Hispanic populations have traditionally had lower high school and college attainment rates, we would expect that a disproportionate number of black and Hispanic workers would become unemployed during time of economic decline. As the economy begins to recover, we would expect that these excessively large gaps in unemployment rates would revert back to their state prior to the recession.

Now that we have discussed two of many nondiscriminatory factors that may be responsible for the growing gaps in unemployment rates, it should be noted that the extent to which nondiscriminatory factors affect unemployment rates is difficult to determine and thus it is difficult to determine to what extent any significant employment discrimination occurred during the recent recession.

**Sources:** Bureau of Labor Statistics

# The Shortcomings of the Consumer Price Index

**Mike Prestoy**

Inflation is the annual percent increase in the cost of goods and services. To organize these massive accounts of items that range from common to obscure, the Bureau of Labor Statistics (BLS) measures the average prices of 2011 goods and services purchased by typical urban wage-earners, such as housing, food, and apparel. The BLS calculated weighted average prices. The weights used in this calculation represent the relative importance of the goods in the consumers' budgets.

The consumer Price Index reflects the spending habits of typical urban wage-earners. Not everyone's expenditures fit to the CPI-U's weights. The consumer's personal preference of goods may differ from the typical urban wage-earners.

Furthermore, the CPI has a substitution bias. Because of fixed weights, CPI does not reflect tendencies of consumers to substitute relatively cheaper goods. If the price of a particular good or service increases, consumers might opt for an alternative good or service that has not increased in price as drastically over the same time period. A price index called chain CPI now takes such substitution into effect. The rate of change of the chain CPI is significantly less than that of the CPI.

If over a given year, a good or services has improved quality due to technological advances, it consequentially should cost more. How much of the cost increase is due to price inflation, and how much is due to the increase in the quality of the product? Because CPI measurements do not address this question, it tends to overestimate the actual rate of inflation.

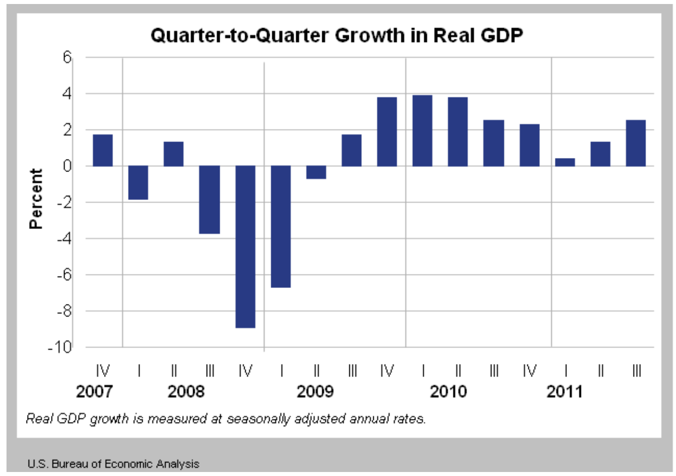
New products enter the market on a regular basis. Some of these products are similar to others with minor modifications or additions. Other products are completely original innovations and thus are not included in the CPI calculation. The U.S. Department of Labor has been slow in including new products in the CPI measurement. Sometimes, the addition of these products might take decades, and by the time the BLS adds the product the price has significantly decreased. For example, the CPI did not include VCRs, microwave ovens, personal computers, and cell phones for more than 10 years after their initial release of these products.

Finally, the CPI fails to account for consumers who shop at discount, retail, and online stores that notoriously beat traditional small vendors in competition. It is estimated that, because of the reasons mentioned above, the CPI overestimates inflation by approximately 1.5%.

**Sources:** Bureau of Labor Statistics

# GDP Second Quarter 2011

**Christine DePalma**




According to the National Bureau of Economic Research, real GDP increased at a 1.3 percent annual rate in the second quarter and 2.3 percent in the third quarter, after growing by 0.4 percent in the first quarter of 2011. What led to the acceleration of the real GDP in the second and third quarters can be summed up by looking at the following: Imports, government spending, business investment, and consumer spending.

Imports declined drastically during this period, both in goods and services. Among the factors affecting this deceleration, the Japanese earthquake and tsunami disrupted the supply chain. Exports showed a slight decrease.  Although service exports picked up, overall exports of goods slowed. Since exports decreased, it could signify a lack of global demand for United States goods.

In contrast, federal government spending increased due to an upturn in national defense spending. Following the first quarter decrease in nondefense spending, the second quarter saw government spending drop even more. Decreased government spending at the state and local level remained unchanged from the first quarter.

Overall, business investment picked up during the second and third quarters of 2011. Residential investment accelerated, but on the other hand, inovation investment declined. Consumer spending sharply decelerated this period, despite the fact that expenditures on services maintained the same growth rate as in the first quarter. Consumer spending decreased primarily due to the decline in motor vehicles and parts.

Prices of goods and services purchased in the U.S. rose by 4.0 percent in the first quarter to 3.2 percent in the second quarter and 3.6 in the third quarter. What mainly induced this deceleration was the fact that energy prices decreased, while food prices maintained the same percentage increase. Personal saving rate accelerated rising from 4.9 percent to 5.1 percent. Disposable Personal Income continues to increase modestly at 0.7 percent.

**Sources:** Bureau of Economic Research

# Recovery Act

## Suane McLeish

CC Image courtesy of Steve Rhodes on Flickr

CC Image courtesy of a_roadbiker on Flickr

The American Recovery and Reinvestment Act was passed by Congress on February 17, 2009 and signed into law by President Obama four days later The Act was formulated and implemented in response to the recession that began in December 2007. This recession, the result of a collapse of the housing market and a meltdown in the financial system, led to a slowdown in manufacturing orders and significant reductions in business investment. Consequently, United States real GDP contracted at an annual rate of 6 percent and employment fell by nearly 700,000 jobs per month.

The primary objectives of the American Recovery and Reinvestment Act (ARRA) was to save jobs, create jobs, and to provide temporary relief programs for those most impacted by the recession. These objectives were to be accomplished by an economic stimulus package, which included direct spending on infrastructure, education, health, and education ($275 billion) as well as federal tax incentives ($288 billion), and expansion of unemployment benefits and other social welfare programs ($224 billion).

Although ARRA originally budgeted $787 billion towards economic stimulus, the amount was recently increased to $840 billion to align with the President's 2012 budget and with scoring changes made by the Congressional Budget Office. It is worth noting that the funds were distributed gradually since the Act's passage, and by September 2011, approximately 87% of the $840 billion had been allocated towards tax benefits ($300.1 billion); contracts, grants and loans ($215.5 billion); and entitlements ($213.0 billion).

In addition to providing support for those families and individuals who experienced economic hardship as a result of the recession, the rationale of the economic stimulus package was to generate increased spending that would create higher output and employment. Critics of ARRA contend that many of the funds were distributed towards inefficient projects, and that the Act would generate unintended consequences and negative feedback loops that would impede economic growth.

Supporters argue that the funds had a more beneficial impact on the economy by increasing spending and reducing economic uncertainty. Recognizing these views, the Congressional Budget Office (CBO), has estimated the likely impact of the ARRA on real GDP growth, as well as the labor market. Their estimates appear in the following table.

| Calendar Year Average | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Real GDP (%) | | | Unemployment (% Points) | | | Employment (Millions of people) | |
| | Low | High | | Low | High | | Low | High |
| 2009 | 0.9 | 1.9 | | -0.3 | -0.5 | | 0.5 | 0.9 |
| 2010 | 1.5 | 4.2 | | -0.7 | -1.8 | | 1.3 | 3.3 |
| 2011 | 0.8 | 2.3 | | -0.5 | -1.4 | | 0.9 | 2.7 |
| 2012 | 0.3 | 0.8 | | -0.2 | -0.6 | | 0.4 | 1.1 |

The CBO estimates were formed by first acquiring information supplied by recipients of ARRA funds. Recognizing the potential bias of this source, the CBO also collected its own data on key economic variables and used the information by either employing forecasting models or by using multi-equation macroeconomic simulation models to estimate the Act's impact on the economy.

According to the CBO, the ARRA was responsible for higher real GDP, employment growth, and lower unemployment rates, with the major benefit occurring in 2010 and decreasing thereafter. Since real GDP and employment growth are still sluggish and unemployment rates remain stubbornly high, the President and some members of Congress are considering further economic stimulus. At the same time, other members of Congress, worried about the increasing federal debt, are resisting new stimulus attempts. No doubt, the debate will continue through the upcoming election cycle.

See *www.recovery.gov* for details on specific categories, as well as for the distribution of the stimulus dollars across the states and within the states. For example, since ARRA was passed, the United States Department of Health and Human Services has allocated $6.1 billion in stimulus funds to the Commonwealth of Pennsylvania for Community Health Services, universities and to other institutions to provide fiscal relief; improve and expand access to health care; provide health care and other social services for its most vulnerable citizens; establish the infrastructure for health information technology, and conduct scientific research.

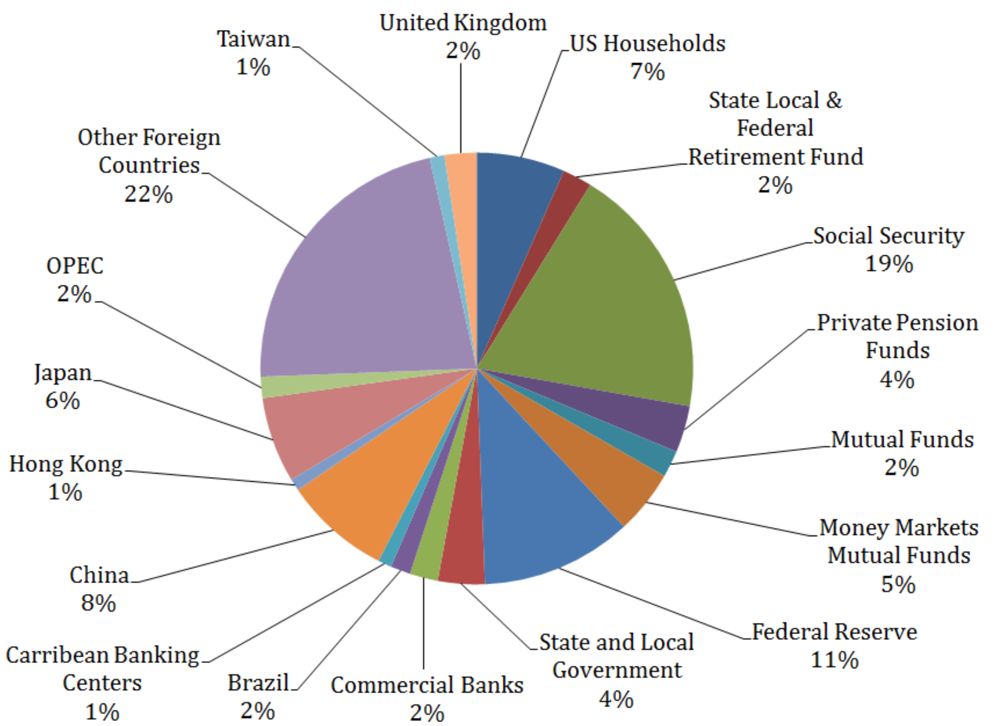
**Sources:** Congressional Budget Office, "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from April 2011 through June 2011," August 2011, page 3.

# United States' Deficit

**Idowu M.Omowole**

The United States of America has the largest economy in the world with a GDP of 15 trillion dollars. The US has also a very large debt. The public debt has increased by over $500 billion each year since fiscal year (FY) 2003, with increases of $1 trillion in FY2008, $1.9 trillion in FY2009, and $1.7 trillion in FY2010. As of October 22, 2011, the gross debt was $14.94 trillion, of which $10.20 trillion was held by the public and $4.74 trillion was intra governmental holdings. The gross domestic product at the end of June 2011 was $15.003 trillion (July 29, 2011 estimate) Total public debt outstanding to GDP ratio is at 99.6%, and debt held by the public to GDP ratio is at 68%.

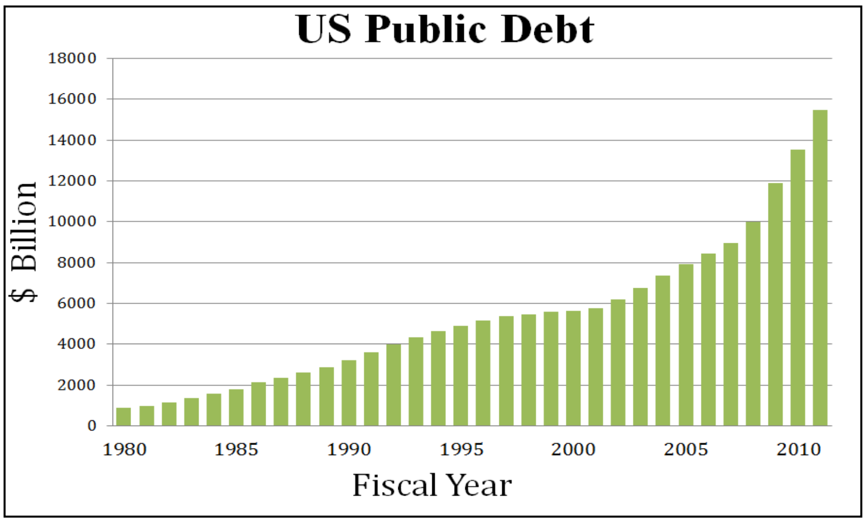
The growth of the public debt has been caused by many years of federal government deficits held by individuals, corporations, banks, insurance companies, pension funds, mutual funds, state and the local governments, foreign countries and the Federal Reserve.




Government debt is an accumulation of budget deficits. Year after year, the government cut taxes and increased spending. In the short run, the economy and voters benefited from deficit spending. Usually, however, holders of the debt want larger interest payments to compensate for what they perceive as an increasing risk that they will not be repaid. This added interest payment expense usually forces government to keep its debt within reasonable limits.

On August 5, 2011, after Congress voted to raise the debt ceiling of the United States government, the credit rating agency, Standard & Poor's, downgraded the U.S. credit rating from AAA to AA+, the U.S.'s first downgrade since its original AAA rating by Moody in 1917.

As of Sept. 30, 2009, the national debt was almost $12 trillion and interest on that debt was $383 billion for the year, according to the Treasury Department's Bureau of the Public Debt. In October, The Congressional Budget Office estimated the 2009 budget deficit to be almost $1.4 trillion (about 10% of GDP). In August, the White House Office of Management and Budget (OMB) estimated total government revenues at about $2 trillion. The revenue estimate included $904 billion from individual income taxes. This means the cost of interest on the debt represented more than 40 cents of every dollar that came in from individual income taxes.




"It is the interest on the national debt that makes our future unstable. The exploding size of that burden suggests that, short of devaluing the dollar and taking a large bite out of the middle class through inflation and taxation, there is no way to ever pay down that bill'' Kadish, L. (The Wall Street Journal, October 2009)

The effects of large deficits pose the potential for great economic decline if nothing is done to control further increases. Many of the foreign holders of U.S. debt are investing more in their own economies. Over time, diminished demand for U.S. Treasuries could increase interest rates, thus slowing the economy. Furthermore, anticipation of this lower demand puts downward pressure on the dollar. That is because dollars, and dollar-denominated Treasury Securities, may become less desirable, so their value declines. As the dollar declines, foreign holders get paid back in currency that is worth less, which further decreases demand.

**Sources:**

http://en.wikipedia.org/wiki/United_States_public_debt

http://useconomy.about.com/od/fiscalpolicy/p/US_Debt.htm

http://online.wsj.com/article/SB20001424052748704429304574467071019099570.html

# How the American Dream Turned into the American Nightmare

**Tom Fail**

CC Image courtesy of Images_of Money on Flickr

America has long been heralded as the land of opportunity. Anyone with the will and determination can achieve their goals in America—that is our credo. The American Dream is subjective, but tends to involve obtaining a quality education, getting a good paying job with benefits, owning a home, and having on average 1.8 kids, 1.7 dogs, and 2.2 cats! In recent years the American dream has come under attack. Our educational system ranks 25th in Math, 17th in Science, and 14th in Reading in comparison to 34 other developed countries. Our unemployment rate stands at 9 percent, and the underemployment rate stands 17 percent. On top of all of that, it is estimated that 1 in every 200 homes will be foreclosed upon, and the poverty rate has skyrocketed in recent years.

How did we get here? As we recover from the worst financial conditions since the Great Depression, many wonder what can be done to fix our ailing economy. Legislators debate the role of government in the economy, tax policy and the ever-growing national debt. In terms of home foreclosures, the United States is suffering due to a broad system of financial deregulation that made cheap credit easy to obtain. Starting in the 1980s into the 1990s, with the dismantlement of the Glass-Steagall Act and the hands-off approach to finances, credit risk could be spread across the world. This led banks to lend more, since they were not completely liable for the loans after origination, and encouraged consumers to borrow more, since mortgages were less expensive and readily available without even documenting sufficient income!

In 1995, President Clinton announced an initiative to increase the amount of home ownership in the United States from 65.1% to 67.5%. This push was extended by President Bush with a “zero down initiative”, which under some circumstances could waive the minimum 3% down payment rule for taking out a loan for first time home buyers. The American Dream was coming true—financial innovation was allowing people to achieve the American dream of buying a house, a nice car, and flat screen TV to put in the home, whether they could afford it or not. People did not have to settle for a small house, the old television, the generic furniture. They refinanced their mortgages to get some cash for a trip to the mall, or even a vacation in Europe.

The problem with these initiatives was that people who should not have been qualified to obtain credit were able to obtain it. Securitization and derivatives contracts got lenders off the hook for the money that they lent out. Originators collected fees for loans, and then would combine thousands of mortgages, credit card debt, student loans, and other types of debt. All this debt was chopped into bundles and sold to investors across the globe. Banks were happy because they were making more loans than ever, and households were happy because they got lower interest rates and credit was plentiful—until the bubble burst.

In December 2006, New Century, the second largest subprime mortgage lender was audited as nearly 17% of its loans were going to default within the first three months of origination. This clearly showed that loans were made to people that had no capacity to pay off the loans that they were taking out. At Goldman Sachs, review of subprime securities showed that borrowers had been lent on average 99.3% of the value on their house. Therefore, when the housing market crashed, many people left their homes. They were not worth the amount they were paying, and they did not have a significant amount of their money invested in the property.

How can we fix the problem? The solution cannot be quickly addressed. Americans need to be more conscientious about finances, and banks need to be more sensible about credit. A worldwide economic crisis was triggered when banks and consumers threw caution to the wind and made senseless decisions. People refinanced their homes to take out additional cash, their credit card debt swelled, and they saved less money. Banks focused on short-term profits and bonuses, rather than making sensible loans to qualified individuals. With the current turbulent Euro-zone, and a stagnating domestic economy, Congress will need to set aside the deeply divided partisanship of late and work towards a solution to secure our economic future. Wall Street, Main Street and the United States Treasury cannot afford to wait for these issues to work themselves out. We need action, and we need it now. The financial regulation was inadequate; the banks were irresponsible, and the consumers were irresponsible. Now let us hope that the Congress is different. That is only a hope.

i. Final Report of Michael J. Missal, Bankruptcy Court Examiner, In RE: New Century TRS Holdings, Chapter 11, Case No. 07-10416 (K)C), (Bankr. D. Del), February 29, 2008, pp. 145, 138, 139-40.

**Sources:**
http://www.avma.org/reference/marketstats/ownership.asp, http://abcnews.go.com/Politics/china-debuts-top-international-education-rankings/story?id=12336108 , http://www.fdic.gov/about/comein/files/foreclosure_statistics.pdf

# An Update of the Troubled Asset Relief Program (TARP)

**Matthew Todesco**

The Troubled Asset Relief Program was created in October 2007 after President Bush signed into law the Emergency Economic Stabilization Act of 2008. Among other things, this law granted the Department of Treasury authorization of up to $700 billion, which they could use to purchase 'troubled assets'. The CBO report from 2008 defines a troubled asset as, "residential or commercial mortgages and any securities, obligations, or other instruments based on or related to such mortgages that in each case was originated or issued on or before March 14, 2008." The report further defines a troubled assets as any financial instrument that, if purchased, would theoretically promote financial market stability. Section 202 of this law indicates that the Office of Management and Budget (OMB) must submit semi-annual reports on the Treasury's purchases and guarantees of troubled assets and that the CBO must make an assessment within 45 days of the report's issuance. These semi-annual assessments must discuss the following effects the cost of purchase and guarantee of troubled assets, the information and valuation methods used to calculate these costs, and the impact on the federal budget deficit and debt.

By the end of December 2008, the Treasury had spent $247 billion, with $178 billion going into the Treasury's Capital Purchases Program, $40 billion allocated to American International Group (AIG), $20 billion to Citigroup, and $5 billion to GMAC. Although the original intention was to purchase troubled assets, much of the funding was quickly used to purchase equity in troubled institutions. For example, the $178 billion from the Treasury's Capital Purchases Program was used to purchase shares of preferred stock and warrants from 214 large U.S. financial institutions, including Citigroup, JP Morgan Chase, and Wells Fargo, who each received $25 billion. In addition, Bank of America received $15 billion, and Morgan Stanley received $10 billion as did Goldman Sachs. Each of these financial institutions was required to pay a 5% dividend back to the government for the first five years and 9% thereafter. The exception is AIG which was required to pay a dividend of 10% each year.

Since the original CBO report was published, many of the recipients paid back part or all of their initial allocation, as noted by the Congressional Oversight Panel. The COP, which was created as part of the original TARP legislation, was empowered to track and evaluate the disbursement of funds. The Panel issued its final report in March 2011.

The report gives a mixed assessment to the TARP. According to the COP, the major benefit of the program was that it was instrumental in preventing a financial market meltdown in 2008 and 2009. In addition, this benefit was obtained at modest direct cost to the taxpayer. The original estimated cost (after repayment of funds by recipients) was $356 billion. The most recent estimate by the Congressional Budget Office is that the final cost to taxpayers approximately $25 billion, a large amount, but considerably smaller than its original forecast.

On the other hand, TARP had negative aspects that were not as easily measured by dollar costs, and that which were blamed for creating distortions in the financial marketplace. Chief among these was the assumption of a "too big to fail" policy that could contribute to significant problems of moral hazard in the future. The idea is that by creating a perception that the federal government will not allow large institutions to fail, these institutions are encouraged to take excessive risks. If they are successful they will pocket the profits, but if they are unsuccessful the costs will be passed onto the taxpayer. A related problem is that since the same policy is not applied to smaller financial institutions, these institutions are placed at a competitive disadvantage. This will make it more difficult for them to attract funds, and this difficulty will generate higher interest costs and reduced profitability that could eventually lead to bankruptcy. Since many small businesses rely on financing from small and local financial institutions, the problem will place smaller and local businesses at a disadvantage as well.

A similar problem is that the "too big to fail" policy was used as an argument to assist the domestic automobile industry.  That policy was outside the presumed objective of supplying assistance to the financial services industry.

Finally, problems with collecting and reporting the data increased the difficulty for federal oversight bodies, such as the COP, the Congressional Budget Office, and the Government Accounting Office to monitor these activities.

All of the above created a stigma about TARP which increased taxpayer anger and constrained TARP's ability to pursue its objectives. It will probably take many years to finally assess the overall impact of the program.

**Sources:**

1. CBO, "The Troubled Asset Relief Program: Report on Transactions Through June 17, 2009," June 2007, p.1

2. Congressional Oversight Panel, "March Oversight Report: The Final Report of the Congressional Oversight Panel,", March 16, 2011.

# An Update on The Local Economy

### Constantinos Christofides

Employment in Monroe County has shown no significant improvement according to the latest report released by the Pa Department of Labor and Industry In November, the unemployment rate in the county was 9.7%, in September (down from 10.2% rate reported in August 2011) and slightly lower than the 10.0% reported a year ago. The unemployment rate of Monroe County is higher than the 8.3% rate of Pa and also higher than the 9.1% of the entire country.

The total number of jobs in Monroe County increased by 400 from August to September 2011 and by 600 since last year. Building activity in the area continued to decline from 232 in 2010 to 156 in 2011. Construction in the county has practically ceased in the aftermath of the national housing crisis. Housing prices continue to decline. Foreclosures continue to increase and the dismal state of the construction industry will probably continue into next year.

# The Livingston Survey and the Survey of Professional Forecasters

### Kyle Booser

The Federal Reserve Bank of Philadelphia releases two sets of consensus forecasts of major economic variables, through the Livingston Survey which is published twice a year, and the Survey of Professional Forecasters, which is published on a quarterly basis. The surveys forecast different aspects of the macroeconomy, including growth rates of real GDP, unemployment rates, interest rates, and stock market projections.

The participants of the Livingston Survey believe that the growth rate of real GDP will increase from a projected rate of 2.2% for the first half of 2011 to 3.2% by the end of the year, but will then decline to a growth rate of 3.0% for 2012. The members comprising the Survey of Professional Forecasters project slightly lower growth rates for the next few years. They believe real GDP will increase by 1.7% for 2011, followed by 2.6% in 2012, and then continue to grow at a rate of 2.9% in 2013, and 3.3% in 2014.

Both forecasting groups continuously revise their forecasts based on new information. The forecasts for real GDP growth mentioned above are slightly higher than the previous forecast made by the Livingston Survey, but slightly lower than the previous forecast made by the Survey of Professional Forecasters.

Both the Livingston Survey and the Survey of Professional Forecasters are pessimistic about labor market conditions in the near term. They project unemployment rates to remain about 9.0% throughout the next year and a half, and will gradually decline to 8.5% by the end of 2012 and furthur to 8.0% by the end of 2013.

However the two surveys hold slightly different views about underlying labor market conditions. Previous forecasts by the Livingston Survey projected much higher unemployment rates than their most recent report, indicating that they believe the labor market will continue to improve slowly over the next few years. On the other hand, although the Survey of Professional Forecasters hold a similar view, they recently increased their estimate of the natural rate of unemployment. The natural rate of unemployment is considered to be the long-term sustainable rate of unemployment, and is frequently used as an estimate of the full employment rate of unemployment. When aggregate demand increases and the actual rate of unemployment is driven below the natural rate, inflation is expected to increase. When aggregate demand decreases and the actual rate of unemployment rises above the natural rate of unemployment, inflation is expected to decrease. Due to structural and demographic changes in the labor market and in the rest of the economy, the participants of the Survey of Professional Forecasters have increased their estimate of the natural rate to 6.0%. This indicates that when the labor market is in a position of long-run equilibrium, six percent of the labor force will be unemployed. This is the highest unemployment rate in over 15 years.

The Livingston Survey forecasts increases in Treasury bill and note rates over the next year. They project three-month Treasury bill rates of 0.20% for December 30, 2011 and 1.58% by the December 31, 2012. They believe that ten-year Treasury notes will increase from 3.72% to 4.50% over the same period. Their forecasts for the three-month rate has fallen and the rate for the ten-year rate has increased from previous forecasts, which means the respondents believe that the yield curve will become steeper over the next year.

The Livingston Survey also projects stock prices for the S&P 500 Index. The Forecast indicates that the Index will rise through the next two years compared to their previous survey. By the end of 2012 the Index is expected to increase to 1463.5 compared to the previous forecast of 1350.0

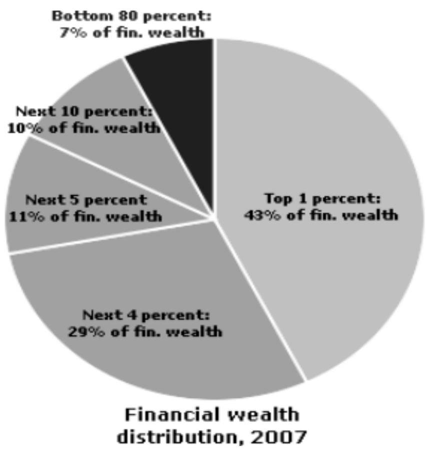
Overall the surveys forecast an improvement in economic performance over the next two years. Real GDP growth is expected to be sluggish at first, then rise, and the unemployment rate will continue to decrease and fall to 8.0% (although this rate will still higher exceed the natural rate of 8.0%). Interest rates on Treasury notes are also expected to increase as well as the S&P 500 Index. These forecasts show that the economy is slowly pulling out of recession, but still will take time to fully recover.

# What are they Protesting?

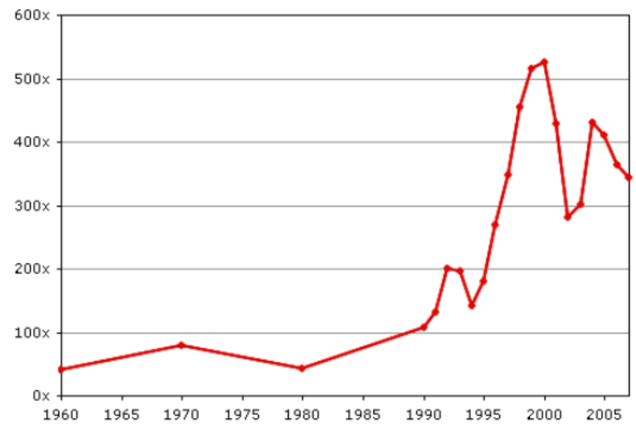
**Brian Caiazzo**

Perhaps the most profound protest demonstration since the 1960s, the Occupy Wall Street (OWS) demonstrations officially began on September 17, 2011. Since their arrival, many Americans have been left in the dark as to what exactly they are protesting. Though the activists are somewhat scattered in the identification of their goals and demands, the majority of the protesters points of emphasis are founded on strong and straightforward economics. In particular, the OWS protestors are bringing to light the drastic growth of economic inequality and corporate greed.

**Financial Wealth Distribution in the United Sates** [1]

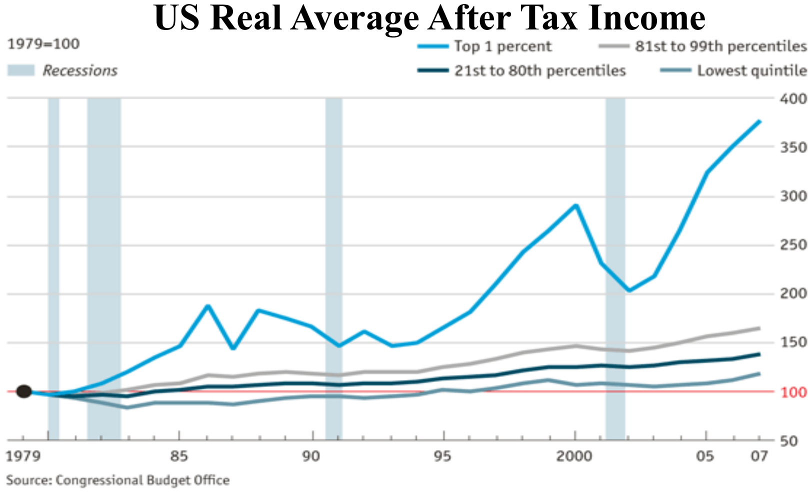



**CEO's Pay as a Multiple of the Average Worker's Pay**




Source: *Executive Excess 2008*, the 15th Annual CEO Compensation Survey from the Institute for Policy Studies and United for a Fair Economy.

**US Real Average After Tax Income**




The above charts can provide a basic economic perspective on the significance of the OWS catch phrase, "We are the 99%!"

1.Wolff, E. N. (2007). Recent trends in household wealth in the United States: Rising debt and the middle-class squeeze. *Working Paper No. 502.* Annandale-on-Hudson, NY: The Levy Economics Institute of Bard College.

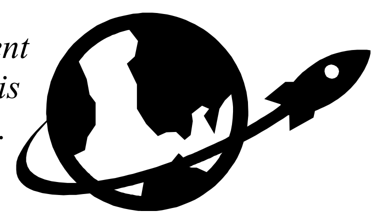
Each year, for the last 13 years, our students, faculty, and editors work to publish this newsletter. We are pleased and proud to say that circulation has grown to over 2,000 people who receive the print version and more who read it online.

Unfortunately, due to the cost of printing and mailing, we are forced to cut down the amount of copies we send.

Therefore, if you have been able to view the E-News online and do not need the paper copy, we would appreciate if you would inform us. If you want to continue to receive the paper copy, we will happily keep you on the mailing list. Just let us know your preference!

EconNews@esu.edu

*E-news is written and developed by students of the Economics Department and others interested in the field. it is a service to ESU and the community.*



**East Stroudsburg University is committed to cultivating an environment where the quality of education is enhanced and enriched by a diverse campus community. We are committed to creating a campus where differences are celebrated through a supportive climate in which students are able to reach their academic potential, and in which faculty and staff develop and flourish personally and professionally. Developing a diverse campus community is a continuing challenge not a fixed goal as we prepare our students to live and work in a multicultural and diverse nation and world.**

The Economics Department gratefully acknowledges Dr. Peter Hawkes, Dean of the College of Arts and Sciences and Dr. Van Reidhead, Provost and Vice President of Academic Affairs for their continued support of the E-News, the Economics Department, and its students.

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