

E-NEWS

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Monroe County: An Economic Perspective

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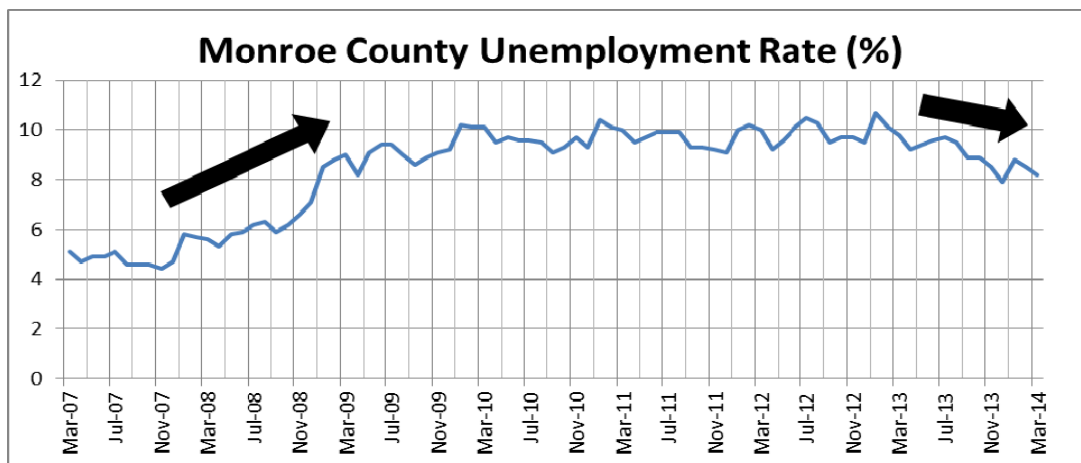
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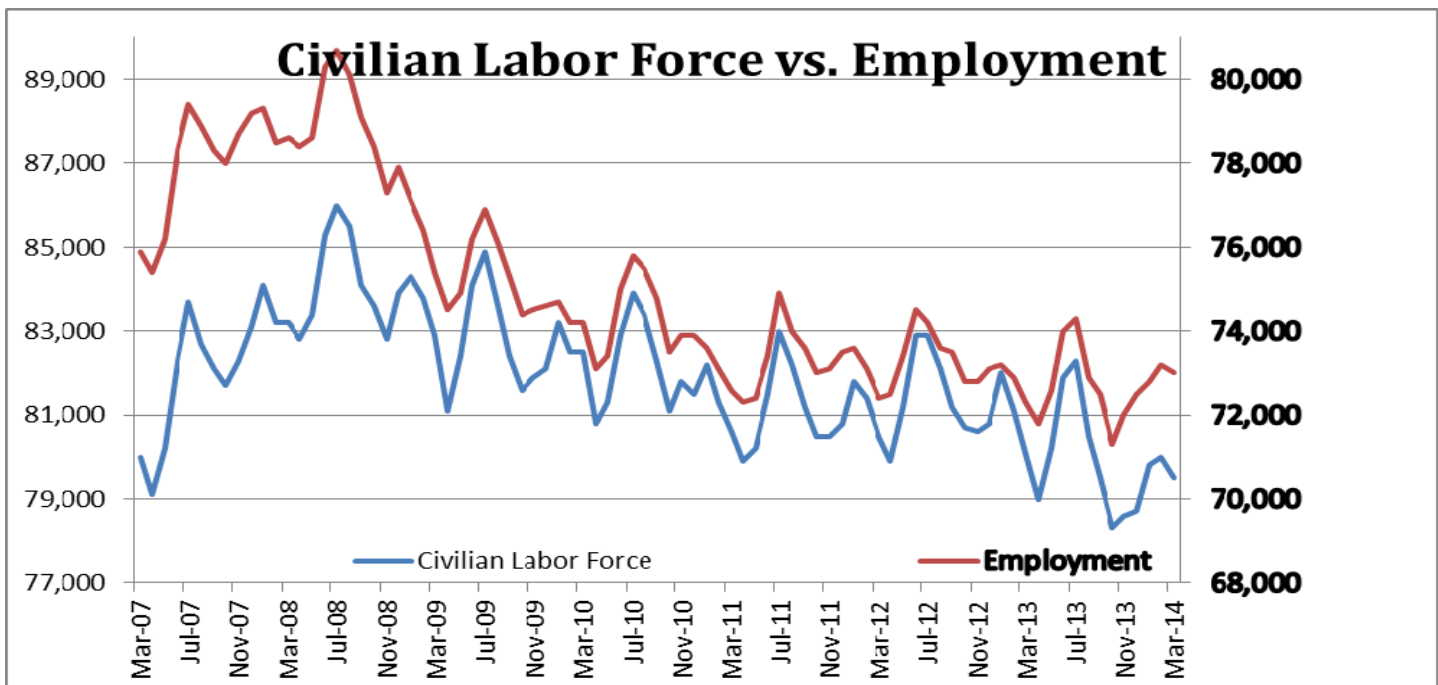
Located in the heart of Pennsylvania's Pocono Mountains, Monroe County offers its residents the serenity of the countryside with the convenience of being near 4 metropolitan areas. Settled practically in the middle, Monroe County is 1 ½ hours away from New York City, about 1 hour from Philadelphia, 40 minutes from the Scranton-Wilkes Barre area, and about 45 minutes from the Lehigh Valley. Despite more than 20,000 residents commuting from Monroe County to New York or New Jersey, major companies have still established their presence in the county. The largest private employers in the county include: Tobyhanna Army Depot, Sanofi Pasteur, Pocono Medical Center, Mount Airy Casino Resort, and Walmart. These businesses cumulatively employ approximately 11,940 people. The afore-mentioned employers account for a significant portion of Monroe County's workforce, especially when considering that the county only has a population of 169,842 according to the last census.

Since 2008, Monroe County has adapted to the changing economic environment. One of the county's major industries, construction, was vastly affected by the recession. As a result, the recession affected Monroe County more than other areas in Pennsylvania. First and foremost, its unemployment rate increased to a high level of about 10 percent in 2010 after the recession. Since 2010, the rate has remained near the 10 percent level. As of March 2014, the unemployment rate is 8.2 percent with 79,500 people in the workforce. This occurred after an unemployment rate of 7.9 percent in December, the lowest in Monroe County since the start of the recession.



The graph in the previous page shows the changes in unemployment since the recession. The arrow pointing upwards displays the upward trend in unemployment caused by the 2008 recession. The arrow pointing downwards shows a change in unemployment, with the rate decreasing in the past few years. Looking at the graph, it is evident that the economy in Monroe County has taken a great deal of time, essentially from March of 2009 to January of 2013, to change its trend to a gradually declining unemployment rate.

Year after year, the employment situation for the active labor force in Monroe County has continued to improve. Despite a labor force drop between March 2013 and March 2014, from 80,100 to 79,500, employment has increased from 72,300 to 73,000 workers. Consequently, the graph displays a stark difference in the unemployment rates year after year. From March 2013 to March 2014 the unemployment rate decreased from 9.8 percent to 8.2 percent; displaying a gradual trend reversal. However, there remains a cause for alarm. The declining civilian labor force relative to employment, illustrated in the graph below, is unsettling. The stark changes in the civilian labor force since the recession cannot be explained by death rate or other such simple factors. Instead, the most likely cause is an entire reduction of the workforce. Such people are not employed, but are also not looking for work (discouraged workers). The graph shows that the labor force has steadily decreased along with those employed. However, the gap between the labor force and those employed is incredibly close for the period under review. Consequently, the unemployment rate is skewed. The graph illustrates that the gap between civilian labor force and employment started to become wider again after November 2013.



All in all, Monroe County was affected by the recession but it is gradually improving. The improvement in the County's unemployment rate mirrors the trend of the U.S. unemployment rate, which has also declined from recession highs. However, Monroe County's rate is higher than the national rate of 6.2 percent as of March 2014. It is most likely that the unemployment rate of Monroe County will decline in the near future, barring any negative economic events.

Immigration Reform May Help Boost Economic Growth

Alek Liskov

As the drive for U.S. immigration reform becomes more bogged down in election-year politics, one facet of the issue seems indisputable: An overhaul of the country's immigration policy would be a boon to the world's biggest economy.

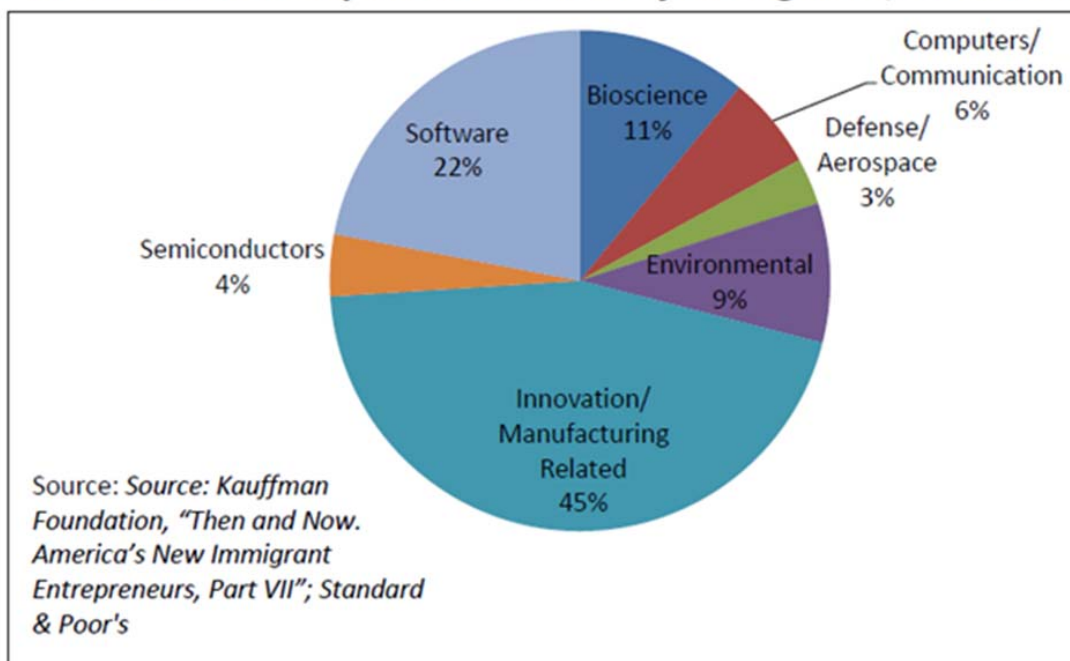
A sweeping reform would further open U.S. borders to a significant number of high-skilled noncitizens who could lawfully enter the country permanently. This would be a positive step toward growth. If such immigration reform becomes law, it could add up to about 3.2 percentage points to real GDP in the next 10 years (2015 to 2024) and would probably add even more to growth in the following decade – a meaningful bump for an economy continuing to recover from the Great Recession of 2008-2009. (Bovino, S&P Chief Economist via washingtonpost.com)

Over time, immigration reform would likely significantly increase the number of working-age people in the U.S. An influx of young skilled labor would spur economic growth, potentially add to innovation and help offset the deleterious effects of an aging American population. In addition, if reform focused on highly skilled immigrants, the ripple effects on productivity, the tax base, and jobs would be even larger.

Immigration would help reduce the government's growing budget problems, cutting about \$150 billion in real terms from the deficit in 10 years and possibly even more in the following decade. While many see immigration reform as a boost for the economic recovery, others are sure that immigrants 'steal' U.S. jobs, depress wages, and slow economic growth. I believe some of these concerns are misplaced.

The worry that immigrants are taking American jobs assumes that they only affect the supply of labor. But new workers, whether they are new immigrants entering the U.S. or new graduates, also affect demand. Recently employed workers consume goods and services leading to more revenue, more jobs, and more growth. The immigrants that come to the U.S. typically complement the native labor force; they don't substitute for American workers. The effect is created by the fact that immigrants mostly occupy the very high and very low spectrum of jobs, which doesn't interfere with the natives due to their specialization. This analysis is according to U.S. Chamber of Commerce report titled, "Immigration Myths and The Facts."

Breakdown of Companies Founded by Immigrants, 2006-2012



In addition, immigrants are particularly innovative. According to the figures from The Partnership for a New American Economy's June 2012 study, 75percent of the nearly 1,500 patents awarded to the nation's top 100 research universities went to projects at least partly headed by immigrants. Nearly all of those patents were in the STEM fields (science, technology, engineering, and mathematics). From a business perspective, 18 percent of the Fortune 500 companies had at least one founder who is foreign-born. These companies generated \$1.7 trillion in annual revenue and employed 3.6 million workers worldwide (Immigration Law Policy Center).

Because immigrants have created businesses and file patents at an especially high rate, this helps create jobs. According to the American Enterprise Institute 2011 study, from 2000-2007, each additional group of 100 foreign-born workers with an advanced degree was associated with 44 additional American jobs and those foreign-born workers with STEM backgrounds was associated with 262 additional American jobs.

Much of the resistance to immigration reform revolves around the idea that adding to the workforce would exacerbate unemployment, especially among natural-born Americans, and drive down wages for those lucky enough to still have a job.

The driving theme of this myth is that more competition means lower wages. Indeed, adding more workers to the labor force, on its own, would likely lower wages and add to the unemployment rate. However, this ignores the fact that new workers don't only affect supply, but also demand. New workers spend the money they earn.

It must be acknowledged that there may be some short-term downsides to immigration reform. It will likely result in some temporary imbalances in the skills and occupations that affect supply and demand in the labor market. In particular, the increase in the demand for labor generally lags demand for goods and services.

If capital available to workers did not increase at the same pace, there would be a decrease in the marginal product of labor and, thus, lower wages on average. As a result, the unemployment rate will likely drift slightly higher and average wages lower for a few years following immigration reform implementation than would have been the case if there were no changes.

According to the Congressional Budget Office (CBO), average wages will be slightly lower through 2024 if the immigration reform is implemented. This would happen primarily because the amount of capital available to workers would not increase as rapidly as the number of workers, and because the new workers would be less skilled and have lower wages, on average, than the labor force under current law. However, the rate of return on capital would be higher under the legislation than under current law throughout the next two decades. But as businesses expand to absorb the larger force and efficiently meet increased demand from a larger population, we'd expect to see a larger economy, with increased productivity and higher wages later.

As an added benefit, the U.S. population would be younger on average. Immigration reform would add an estimated 13.7 million people to the country by 2033 — just 6 percent of 65 or older, according to the Bipartisan Policy Center's (BPC) October 2013 immigration study. By comparison, the Census Bureau projects that 20 percent of U.S. residents will be 65 or older in 2030. This is especially important in light of the strain that medical costs place on the public finances with an aging population.

Employment-based reform would provide a short-term solution to the current "skills gap" businesses face. Additionally, it would provide long-term solutions like school-business partnerships, which would produce graduates with skills that meet business needs. In short, it could help make grow the U.S.'s economic pie.

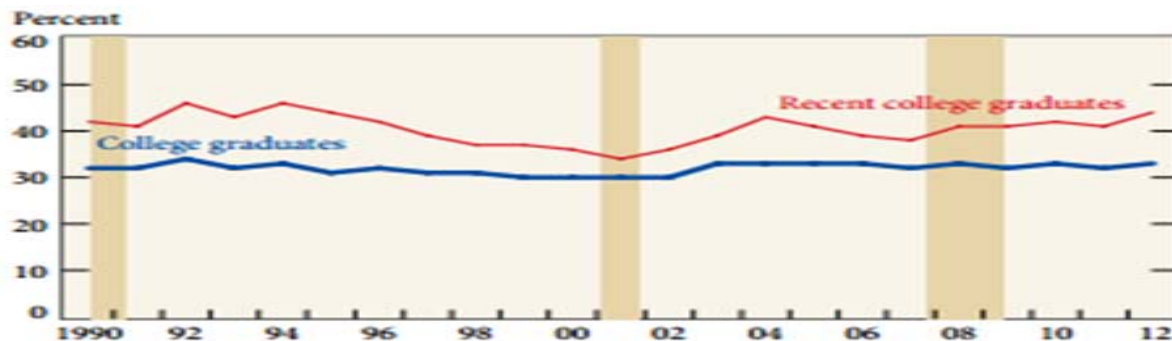
“To Degree or Not To Degree”

Cadia Woods

With the ever increasing student loan debt and default and the slow recovery of the economy; one continues to examine the benefits of a college degree. It can safely be said that the value of a degree at any level has declined relatively over the years. Employers are now more focused on experience rather than the encased piece of paper given after years of hard work. Unemployment and underemployed has been and continues to be the reality for many recent college graduates.

It is common to be out of work for some time as recent college graduates transition into a career shortly after graduating. However over the years this period has become increasingly longer. According to the BLS release for February 2014 the unemployment rate among persons with a Bachelor's degree and higher is 3.4%. This number however does not paint a true picture as it includes graduates who are employed in fields other than their degree including wage earning jobs; some of which may be at or below minimum wage rate. The *BLS Characteristics of Minimum Wage Workers* release for 2013 shows that 18.2% of persons with a Bachelor's degree and higher were employed at an hourly rate, and 7.9% were earning wages at or below the minimum wage rate. For Pennsylvania graduates the reality is even more shocking, as on a state by state basis this number is 5.4% in PA. A report by the New York Federal Reserve addressed the ever present issue of underemployment among recent college graduates. It compared recent college graduates to all college graduates and interesting trends were found. Underemployment for all college graduates was steady over the years (1990-2012) suggesting that is it a common trend, however for recent graduates it is higher and more erratic and highly dependent upon the business cycle as it peaked at times of recession such as between that is 1990-1911 and 2007-2009. The report also noted an inverse relationship between unemployment/underemployment and age.

Underemployment Rates for College Graduates



Sources: U.S. Census Bureau and U.S. Bureau of Labor Statistics, Current Population Survey, March Supplement; U.S. Department of Labor, O*NET.

Notes: College graduates are those aged 22 to 65 with a bachelor's degree or higher; recent college graduates are those aged 22 to 27 with a bachelor's degree or higher. All figures exclude those currently enrolled in school. Shaded areas indicate periods designated recessions by the National Bureau of Economic Research.

Many explanations have been put forward for these statistics. Among these explanations is the recent recession of 2007-2009. Businesses were severely crippled and those that were able to hang on are slowly recovering and the job market is slowly opening up again. On the other hand, another explanation proposed is that the era of technological boom created a change that led to many businesses hiring graduates because of the need for cognitive skills to keep up with the new changes. In today's world however as more and more people are developing these skills on their own with online resources, there is less need to hire college graduates to fill the void and as such many of them end up in jobs where they are overqualified. Yet another explanation is the fact that many businesses are now focusing a lot on the added experience. A full time college student especially one who transitioned right out of high school can only fit so much experience into their years of study and thus after leaving college they seem to be unqualified due to lack of experience. The underemployment-age inverse relationship as shown by the New York Federal Reserve report proves this point. After graduating and being underemployed, but gaining experience for a few years, many are then able to transition successfully into a career.

Aside from the issue of unemployment/underemployment, many graduates are also faced with the reality of the burden of student loans. Currently student debt accounts for the largest share of consumer debt (excluding mortgages) and it is the only type

of consumer debt that has continued to increase rapidly over the years, especially after the recent recession. According to collegeboard.org, the average costs of tuition and fees for a public four year college for the academic year 2013-14 are \$8,646 (in-state) and \$21,533 (out-of-state); an increase of 2.9% and 3.1% respectively. These numbers do not take into account the cost of room and board or even textbooks. Even with the availability of grants and scholarships, outstanding student loans reached over 1 trillion dollars shortly after 2007. The rising cost of a college education is not the only factor to consider, the total number of borrowers has also increased. According to the St Louis Federal Reserve; between 2005 and 2012 there was a 54% increase in the numbers of borrowers. To ascertain just how much rising tuition costs have played a part in this it is essential to determine the average debt per borrower; during the same time period (2005-2012), this increased by 56%. The average amount per borrower is estimated at \$25,000; however a more accurate estimate is given by the median, which is estimated at half the average. This is due to the fact that the average is skewed to the right by persons with an extremely high outstanding balance. The rate of delinquency and default is yet another issue. By the end of 2013, 11.5% of graduates were at least 90 days delinquent and currently the rate of default is at its highest with one in 10 recent borrowers defaulting on federal student loans within the first two years. There is therefore cause for concern that a possible student loan bubble may trigger another recession.

Even if you are lucky getting admission in a college of your choice, the joy of choosing a college after high school is becoming more and more difficult. For most Americans, with no prospects of a job and the burden of debt, one has to weigh the decisions. Loan repayments become due six months after graduating whether you have a job or not. For those with high balances it may seem as though they are forever in debt and unable to start building assets and saving for retirement. Education however, is still the best self investment a person can make and every effort should be made to take advantage of opportunities.

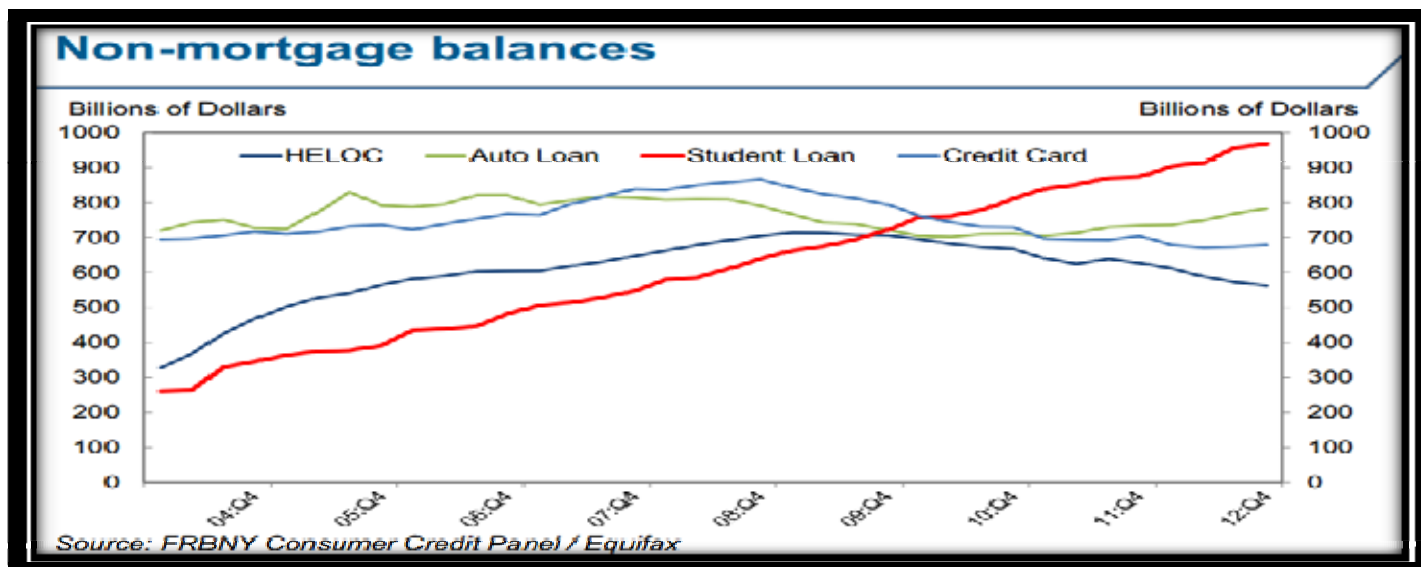


TABLE 1

HIGH-DEBT STATES	
Delaware	\$33,649
New Hampshire	\$32,698
Pennsylvania	\$31,675
Minnesota	\$31,497
Rhode Island	\$31,156
Iowa	\$29,456
Maine	\$29,352
New Jersey	\$29,287
Ohio	\$29,037
Michigan	\$28,840

TABLE 2

LOW-DEBT STATES	
New Mexico	\$17,994
California	\$20,269
Arizona	\$20,299
Nevada	\$20,568
Wyoming	\$21,241
Utah	\$21,520
Tennessee	\$21,775
District of Columbia	\$22,106
Kentucky	\$22,384
Louisiana	\$22,789

Bitcoin: Currency or Property

Maggie Dumas

Fiat currency may be found in the wallet of nearly every citizen of the United States. Familiar denominations of \$10, \$5, and \$1 pass through our hands daily, whether in the form of cash, check, or point-of-sale electronic debits. In 2009, however, a new type of currency, “virtual currency” was created and began to circulate across the internet. The most prominent form arrived with Bitcoin, a firm which deals in what it calls “crypto-currency” (Bitcoin Foundation). Not widely used until very recently, speculation surrounding Bitcoin and its trading mechanisms has hit an all-time high this year as another online exchange of the currency failed in February. These exchanges operate under simple assumptions regarding Bitcoin market value and currency exchange rates. The collapse has thrown the virtual currency into the limelight. But just what is a “virtual currency”? According to their website,

“Bitcoin is a consensus network that enables a new payment system and completely digital money. It is the first decentralized peer-to-peer payment network that is powered by its users with no central authority or middlemen. From a user perspective, Bitcoin is pretty much like cash for the Internet” (Bitcoin Foundation)

Issues arise with this form of currency often. Questions regarding security and taxation are the most prominent. The Internal Revenue Service (IRS) has taken action against these questions and made the point of determining, at least at present, whether Bitcoin will enter the tax ledger as currency or property.

For those unfamiliar with the currency, Bitcoin operates almost exactly like a consumer debit or credit transaction. First conceived in 1998, the thought of “crypto-currency” evolved in 2009 with the creation of Bitcoin (Bitcoin Foundation). Speculation abounds over the official creator of Bitcoin, however. The Bitcoin Foundation is quick to note that the creator of Bitcoin is about as relevant as the “man who invented paper” (Bitcoin Foundation). The currency, which is predominantly virtual is transferred between two parties in a manner not unlike a wire transfer. Each purchaser holds a unique identification code, which they use to access and transfer their own funds. These funds, Bitcoins, are created against a coding mechanism called “mining.” Mining refers to the processing of transactions and network security protocol by “miners”. With every successful round of mining, miners are rewarded with a predetermined number of Bitcoins. With every cache of Bitcoins mined the total amount of currency available increases until it reaches a threshold of twenty-one million (Bitcoin Foundation). At this point Bitcoins will stop being produced and will become purely a tradable object. As for valuation, Bitcoins hold value purely on transactional demand. The more demand that arises for the currency, the higher the currency will be valued. This structure allows the currency the unique honor of being valued purely on supply and demand, and not on a gold or silver standard or a government’s monetary policy.

On March 25, 2014 the IRS issued a notice announcing that virtual currency, including the entity known as Bitcoin, would be taxed and held as property. The announcement states Bitcoin “does not have legal tender status in any jurisdiction” (IRS). These notations added to virtual currency force the legal taxation and claim of any transaction or holding as capital in regard to Bitcoin and other “virtual currencies”. In her article explaining the statement, Rachel Abrams notes “employers who choose to pay wages in Bitcoins will have to report those wages just like any other payment made with property, and Bitcoin income will be subject to the normal federal income withholding and payroll taxes” (Abrams) and further states that the announcement from the IRS comes as a response to the need for consumer protection against a flawed system (Abrams).

Notable actions included in the statement include the notion that while Bitcoin may be used as a means of payment for transaction purposes, it must be claimed at its current market value for any tax purposes, as measured in US Dollars. The IRS also noted that Bitcoin and other virtual currencies will be treated the same as stocks or bonds with respect to Capital Gains/Losses (United States). This statement places virtual currencies into a legitimate standing with the taxation policy of the United States. Other topics covered in the notice include the gain to personal income when Bitcoins are “mined,” the effect, if any, Bitcoin has on self-employed income, as well as remunerations received when a contractor is paid in virtual currency (United States). Interestingly, the statement also explains that “Payments made using virtual currency are subject to backup withholding to the same extent as other payments made in property. Therefore, payers making reportable payments using virtual currency must solicit a taxpayer identification number (TIN) from the payee” (United States).

Whether the IRS will accept backup withholding in the form of Bitcoins is doubtful, but the value of the virtual currency is enough to base taxable income in the eyes of the IRS, especially in the event the agency must withhold back-due payments.

It is hard not to see the similarities between Bitcoin and standard currency. These similarities extend even into the “mining process” of the virtual currency which is structured to “mimic the extraction of gold or other precious metals from the earth—only a limited, known number of bitcoins can ever be mined” (Brito 5). With the understanding that eventually decreased

supply will increase demand, one must recognize that the market value of a particular horde of Bitcoins will dramatically increase personal wealth in the taxation standards of the IRS. Certainly the taxation entity of the US Government has realized this potential as well. The new taxation standards put into effect on the 25th of March must in some way reflect the IRS's acknowledgement of a need for eliminating phantom personal wealth. Outlined in their "Primer for Policymakers", Brito and Castillo introduce several key challenges facing both the current and potential users of the virtual currency. These challenges: volatility, security breaches and criminal uses are all impacted by the IRS decision to view the virtual currency as property (Brito 9). Clearly a line has been drawn in the taxation policy of the United States regarding the view and further the importance of Bitcoin as a viable currency. We must only wait to see the impact Bitcoin will have on consumer transactions in the months and years to come.

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Department News

Prof. Pats Neelakantan

The Economics Department wholeheartedly welcomes its newest member, Dr. Christopher Warburton, who joined as an adjunct faculty from fall 2014. Dr. Warburton completed his Ph.D. in Economics from Fordham University, NY. He brings with him over ten years of experience in teaching, research and service from colleges in and around New York City. He published many articles in peer reviewed journals, and wrote five books dealing with international economics, criminal law and finance. Over the years, Dr. Warburton taught many courses at graduate and undergraduate levels including International Economics, Economics of Crime, Financial Economics, and Econometrics.

On a sad note, Dr. Wei Gao, who joined our Economics Department during fall 2013, left ESU at the end of spring 2014 to pursue a second doctoral degree in Finance. Dr. Gao was very appreciative of our department colleagues, and the commitment and quality of our students. We wish him the very best in his new endeavor.

The Business & Economic Research Group made many significant achievements during the year. Prof. Behr and Prof. Christofides completed a project on "Economic Impact Study of the Pocono Raceway," which received wide accolades from the Governor of Pennsylvania to regional leaders. Also, BERG completed the first ever "Monroe County Regional Economic Score Card" a \$15,000 grant from the ESU Research & Economic Development, which was sponsored many regional partners. The findings were presented by Prof. Behr at the ESU Economic Outlook Summit on September 5, 2014.

In December 2014, Professors Behr, Christofides and Neelakantan of BERG completed the \$15,000 research grant from the Center for Rural Pennsylvania, a legislative agency of the Pennsylvania General Assembly on "Analysis of Unearned Income in Pennsylvania," and submitted their final report. Recently, BERG was awarded another \$15,000 grant on "Economic Outlook for Rural Pennsylvania Over the Next 10 Years" which will start in February 2015.

On Thursday, April 10, 2014 Economics Department, and the Econ Club, organized the Bloomberg Aptitude Test (BAT) in our campus. The test is widely used by many employers in the finance and banking industry when hiring for jobs and internships. The department is proud to note that our students performed better than US and World averages particularly in the area of Analytical Reasoning, and Charts/Graphs Analysis.

During October 2014, the Department of Economics and the Desi Student Organization (DSO) organized the annual multicultural event, the "Festival of Lights (Diwali) Program" in the Keystone Room, which was attended by over 200 people of diverse backgrounds. Prof. Pats Neelakantan serves as the advisor to DSO.

The Economics Department hosted a guest speaker on November 24, 2014. An Econ Alumni, Christine Depalma, spoke about "What it's like working as a professional in the Insurance and Financial Industry." Topics covered include internships, employment and life in New York City.

Some of our recent graduates joined top notch schools to pursue graduate education. Stephen Kozak received admission and financial aid from prestigious schools such as The Johns Hopkins, Georgetown, Brown University, and Carnegie Mellon. Jose A. Martinez Morazan, another Econ Major, joined Brandeis University, one of the top programs in the country and was awarded an excellent scholarship. Alek Liskov, the past Econ Club President, joined the MS in Business Intelligence & Analytics (BIA) at Stevens Institute of Technology, a premier program in the nation.

Erick Garcia, an Econ & Math major, was chosen to be the Commencement Student Speaker at the fall 2014 Graduation Ceremony on December 13, 2014. It is worth pointing out that Erick ranks in the top 1% of all tournament chess players in the country, and the U.S. Chess Federation honored him with the title of 'National Chess Master.' Erick has applied to many top graduate schools to pursue his Ph.D. in Economics and plans to choose an academic career after graduation. We wish him the very best and hope that one day he may be teaching here at ESU!

Finally, the department ended the year with its Annual Holiday Party on Tuesday, December 9, 2014. It was a busy day with attendees including students, faculty and many from the administration. We were heartened to see so many people taking time from their busy schedules to wish everyone Happy Holidays. What a nice way to end the year and prepare for another great year 2015!

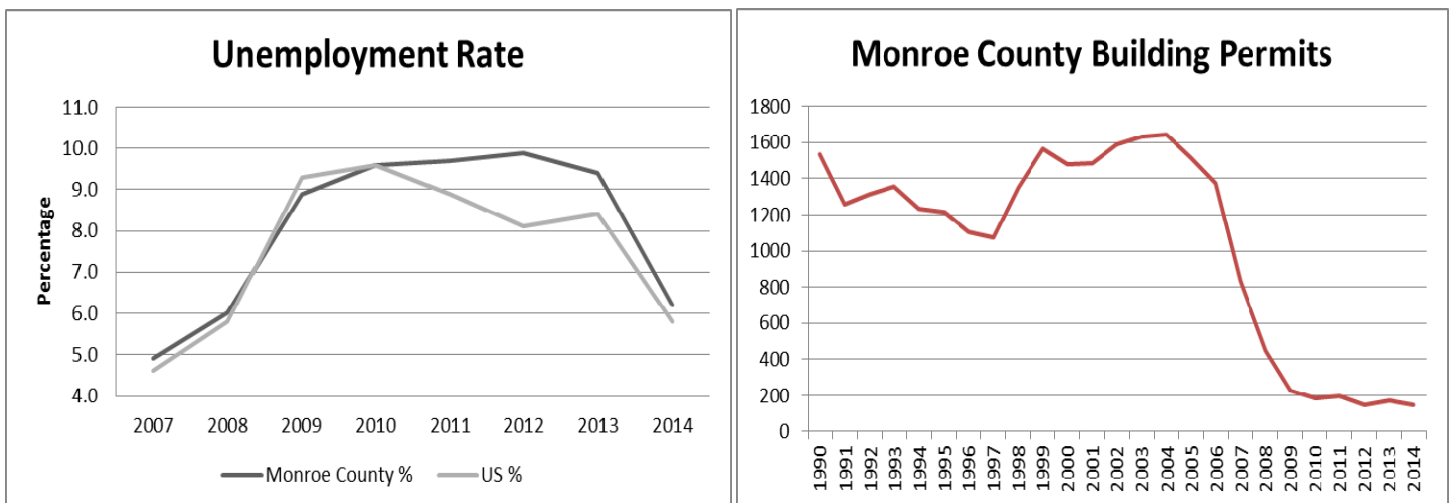
The Local Economy

Prof. Constantinos Christofides

The economy of Monroe County showed signs of considerable improvement in 2014. The Pennsylvania Department of Labor and Industry, Center for Workforce Information Analysis reported on December 30 2014 that total employment in Monroe County increased from 72,300 in November 2013 to 74,400 in November 2014.

The employment growth, combined with a relatively stable labor force, contributed to a lower unemployment rate of 6.2% in November 2014 compared to 9.4% a year ago. (All figures are seasonally adjusted).

Monroe County has lagged behind most of the other Pennsylvania counties, posting the fifth highest unemployment rate among 67 counties in the state. The state average unemployment rate was 5.1%. The unemployment rate is often described as a lagging indicator since business firms do not increase or decrease hiring immediately as economic conditions change. The Great Recession officially ended in June 2009 but unemployment rates for both the nation and the local economy continued to rise until 2011 for the United States and 2013 for Monroe County.



It is not certain why the local economic recovery has lagged behind the nation but there are two possible factors that may have contributed to the slower recovery of the region:

1. The building industry of the county experienced a more extreme bubble than the nation and therefore a more severe crisis and
2. The population of Monroe County grew much faster than the state during the years preceding the recession leading to the greater growth of the labor force.

The greater growth of the labor supply combined with the lagging demand for labor during the recession contributed to higher than average unemployment rates.

In spite of the significant gains in the county employment levels and the impressive decrease of the unemployment rate, the building industry of the region remains depressed.

The building permits issued in Monroe County in 2014 are estimated at 150 compared to 171 in 2013. Historically these are extremely low numbers indicating that the recovery of the local housing markets has a long way to go.

To illustrate the inflated explosion of the building industry of Monroe County note that the number of building permits reached a peak of 1644 in 2004 and the county had been at that higher plateau for two decades until the bubble burst leading to the national recession in 2007.

As seen above, the considerable overbuilding combined with the high population growth and the subsequent decreases in the demand for housing caused by the slower population growth and the general deterioration of the local economy have combined to create a more severe housing crisis in the region than the state and the nation.

The housing market adjustments will therefore require more time for Monroe County than the state and the nation in general.

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