

E NEWS

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The Local Outlook

By: Professor Andrew Nelson

The worst of the recession may have passed, but a strong and quick local recovery is not likely. In all areas of the region and nationally, the unemployment rates are higher than a year ago, see table 1 below. There are some indications that wages are modestly improving, such as fewer initial claims for unemployment benefits, but without job growth, the economy is expected to linger for an extended period.

The unemployment rate for Monroe County was 10.2% in January 2010, which was among the highest rates for the region and slightly above the national and state averages, according to the US Bureau of Labor Statistics, see table 1. While unemployment rose 1.1 percentage points in Monroe County, it was below the average increase of 2.0 for both Pennsylvania and the entire country. The adjacent counties in New Jersey experienced much 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 | | January 2009 | January 2010 | Net Change |
|---------------|-----------|-----------------|-----------------|---------------|
| United States | | 7.7 | 9.9 | 2.0 |
| Pennsylvania | | 6.8 | 8.8 | 2.0 |
| Lackawanna | PA | 8.2 | 9.7 | 1.5 |
| Luzerne | PA | 9.2 | 10.9 | 1.7 |
| Monroe | PA | 9.1 | 10.2 | 1.1 |
| Northampton | PA | 7.9 | 9.9 | 2.0 |
| Pike | PA | 10.1 | 10.6 | 0.5 |
| Wayne | PA | 9.0 | 9.2 | 0.2 |
| New Jersey | | 7.5 | 9.9 | 2.4 |
| Sussex | NJ | 7.8 | 10.5 | 2.7 |
| Warren | NJ | 7.7 | 10.6 | 2.9 |



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National Unemployment Rates by Gender

By: Ewelina Puk

The state of today's economy is making everyday living for the average person as difficult as winning an Olympic gold medal. As the number of job opportunities go down, the unemployment rate, on the other hand, increases. All across the country the unemployment rate varies, as the demographics change in different regions of the United States.

According to the Bureau of Labor Statistics, unemployment nearly doubled over the past two years; increasing from 4.6% in 2007 to 9.3% in 2009. Factors such as age, race, education, and gender all played a role around different regions of the country.

New York Times columnist Bob Herbert recently stated, "Nearly 80% of the jobs lost during the current recession were jobs held by men. This has left the unemployment rate for males at 10.0%, while only 7.2% of women are unemployed." Yet another statistic featured by Herbert confirmed that nearly half of the lost jobs were held by workers under the age of 30. Also, the highest unemployment rate, 9.9%, is held by the individuals between the ages of 25 and 34 (Department of Numbers).

A recent data gathered by the Department of Numbers website states that Asians and Whites have the lowest unemployment rates, while African Americans and Hispanics have higher unemployment (see Table 1).

According to a report conducted by CNNmoney.com, in September of 2009 the state of Wyoming ranked #1, among the 50 states, with the lowest unemployment rate of 3.2 %. Pennsylvania, New Jersey, New York and Alabama ranked at #25 with a 6.1% unemployment rate. The states with the highest unemployment rate were Rhode Island (9.3%) and Michigan (9.6%)

Table 1: Unemployment and Ethnicity

| Race/Ethnicity | January 2010 |
|--------------------|--------------|
| White | 8.7% |
| African American | 16.5% |
| Hispanic or Latino | 12.6% |
| Asian | 8.4% |

Understanding the Behavior of the FED and Other Central Banks

By: Professor Richard Booser

The role played by a central bank in a macro-global economy is generally a very misunderstood concept. The current financial crisis has brought the central bank debate to the forefront of U.S. policy discussions. The debate over the role and performance of the FED and the other central banks continues to rage on.

Political and economic rhetoric aside, the primary focus for any central bank at this juncture of the global recession is to correctly time the reversal of expansionary monetary policy as economies recover from recessionary conditions. The mistiming of a monetary policy move from expansionary to contra dictionary policy could either unleash inflation or push a fragile economy back toward recession. Economists and media pundits biased toward preventing inflation have argued that now is the time for the Bernanke FED to begin to raise its benchmark interest rate - the federal funds rate.

The current U.S. benchmark interest rate is currently pegged to a range of zero to 0.25 percent. Despite a growing concern that such a low interest rate regime will give rise to inflation and/or asset bubbles, there is a very small likelihood that the FED will raise the benchmark federal funds rate in the near-term. To understand this last statement, one must consider the basic economic model framework that most, if not all G20 central banks employ. The standard model framework that central banks use is some variation of the Investment-Saving, Phillips Curve, and Monetary Rule (IS-PC-MR) model. This model employs a "monetary rule", whereby central banks use policy changes in the real rate of interest (the benchmark fed funds rate less the inflation rate) to move both the actual inflation rate to the inflation target (generally 2% per year) and the actual Real Gross Domestic Product to the output target (potential RGDP). When the actual inflation rate and the actual RGDP are both on their targets, then the so called inflation and output gaps are both zero. Now each central bank may apply different weights or importance to price stability versus growth. Nevertheless, when both gaps are zero, a central bank would view their economy as being in long-run equilibrium with a stable inflation outlook moving forward.

Currently in the U.S., standard indices of the actual inflation rate are below the two percent target (FED actually has a 1% -2% range, but targets closer to 2%), indicating a negative inflation gap. With the U.S. economy in a slow growth mode, the annualized output gap is also negative. Moreover, if you look at the output gap using the rate of unemployment, the unemployment rate output gap is a negative 4.7% (natural rate of 5%-actual 9.7%). Since a FED policy of raising the interest rate would move the economy in a direction that would cause both the output and inflation gaps to move away from zero (i.e., become more negative), it is highly likely that the FED interest rate policy will remain on hold. If and when these gaps move very close to zero or become positive, then the FED will begin a policy of interest rate increases. Accordingly, despite the noise from pundits and a few inflation-bias economists, one should not look for an interest rate policy shift in the immediate future.

But was the stimulus package a complete waste? Obama's economic advisors say the stimulus package will save/create 3.5 million jobs throughout 2010. Some economists are finding that figure to be a little high and expect lower success of the stimulus package. Hopefully the stimulus package saves as many jobs as the Obama administration is projecting throughout 2010 and even more, since it cost 787 billion taxpayer dollars.

Is the Stimulus Package Paying Off?

By: Chris Jamieson

With the unemployment rate topping 10% and a loss of 4 billion jobs in 2009, many economists are beginning to wonder if the stimulus package was a waste of taxpayer's money. The Obama administration stated that the stimulus package created and saved a total of 640,000 jobs that received the stimulus monies. Some economists are estimating that figure to be lower, saying that the Obama administration did not consider certain factors that influence employment rates such as the impact on consumer demand from tax cuts, spending by newly employed and insurance programs for the unemployed.

With the unemployment rate so high and the decrease in jobs, Obama has had to add this issue to his "to do list", alongside of the health care bill, the Afghanistan war and the climate change crisis. The president is planning to tour the nation with a goal in mind of stopping the fear of a falling economy from spreading. On this tour the president will address spending programs and new tax proposals to help many of the unemployed.

Losing the Top Spot? United States GDP Compared to China's GDP

By: Nicholas Papa

Over the last decade or so, many assumptions have been strewn about classrooms in the United States that the U.S. will soon be taken over on the GDP scale by China. In the year 2008, as stated by World Bank, the United States had a GDP of around \$9.87 trillion, and China had a GDP of around \$1.08 trillion. While this is a constantly debated topic buried under piles of statistical graphs and information, people seem to have different takes on the matter. As a college student, it may be very difficult to understand this concept. It would be easier for us to comprehend this subject if we had a broader view from both sides. John M. Berry, of *The Economist's View*, submitted an article entitled *China's Booming Economy Will Never Surpass U.S.* On the other end of the spectrum, and in this case the world, Chi Hung Kwan, of the *Research Institute of Economy, Trade and Industry*, gives a perspective of expertise in China's economic reform. Kwan's article is titled, *The Day When China's GDP Surpasses that of the U.S.*

Berry starts out by explaining how China's economy is growing at an extremely fast rate. Chinese statisticians said that in about 35 years it would overtake the U.S. economy. Berry strongly disagrees with these claims. He states that, "sustainable nominal GDP growth of 5.5 percent annually is well within the capability of the U.S. Eleven percent growth, about what Chinese authorities expected in 2007, isn't remotely possible in the long run." We can find out how fast a country can double their GDP by recalling the "Rule of 70" from Macroeconomics. This shows that to find the amount of years it takes to double you divide 70 by the

growth rate of that country. 70 is used from the Log of 2 which is .70. The United States' current growth rate is around 1%. So to find the doubling time we divide: $70/1\%$ which equals around 70 years to double. In China's case, it would take about 8 years because the growth rate is around 9%. So the equation would look as follows: $70/9\% = 7.777$. Some changes in the growth rate can have large effects on the output and standards of living in the long-run. Population growth is an important factor in GDP. One reason the growth of China's economy looks so "formidable" is their massive population of over 1.3 billion, compared with fewer than 300 million in the United States. Continued immigration is increasing the population in the U.S. by about .92 percent a year. (U.S. Census Bureau) China's population is expanding at a much smaller .58 percent due to the "one child per family rule" as well as no net immigration. Given the difference in populations, the Census Bureau projects that the U.S. population will rise by 124 million by 2050. By 2050, China's projected population is expected to rise slightly, by less by 118 million. China does have an advantage in the rapid movement of workers from rural agriculture into higher productivity jobs in industry and services. On the other hand, it is a process that can only occur once, just as it was largely completed in the U.S. more than half a century ago. Berry also believes that underlying grievances and unrest will continue to grow towards the Communist Party in China and when the Party loses control of the country a "major disruption of the economy is highly likely." Berry finishes with, "China will remain a formidable economic competitor. Nevertheless, of necessity its growth will slow before too many more years pass and the U.S. economy will remain the largest in the world."

C.H. Kwan, author of *The Day When China's GDP Surpasses that of the U.S.*, has a different view on the subject. China has experienced high economic growth for many decades now. Many specialists believe that it won't be long until China passes the United States in terms of Gross Domestic Product. Kwan believes that exchange rate is the key to passing the United States in GDP. He states, "While the difference between the real growth rates of the two

countries will certainly play a role in this shift, it will also greatly depend on the future course of the yuan/dollar rate." Recently, the yuan has lost major value in terms of inflation rates in the country as well as abroad. Policies of the Chinese government to maintain a low exchange rate to boost exports are one of the main sources of the falling value of the yuan. Yet, even if the government could control the nominal rate, the real rate is more than likely to be decided by economic fundamentals. Lowering the nominal exchange rate would lead to a rise in inflation and would not necessarily bring about a drop in the exchange rate in real terms. China's economy would be characterized by a high rate of productivity growth and thus a high rate of wage increase in its traded sector (the manufacturing industry). Due to labor mobility across industries wages will be projected to rise, which ultimately causes a rise in the relative price of traded to non-traded goods. This causes the real exchange rate to appreciate as a result. Also, an improvement in the terms of trade results in a rise in the real exchange rate. Kwan ends with, "If sooner or later the downward trend of the yuan against the dollar turns into an upward trend, this catching up process would be shortened significantly." Through all the talk of a rise in economy, one needs to consider the decline as well. Another interesting theory to analyze would be that of a "crash" in the Chinese economy. If this is indeed a topic of concern, the entire world economy could be affected by a crash in China's economy and global recessions could become a problem. To this day, no emerging nation has avoided a crisis that sent markets plunging. To maintain their economy, China will need to maintain a rapid growth by spending. So before we think about China passing our economy we need to consider that fact that China's collapse is a possibility that will hurt the U.S. as well as the whole world. China is nothing short of a fast growing economy and the real exchange rate of a fast growing economy tends to appreciate over time. Kwan believes that if China's economy continues to grow so will the exchange rates of the yuan. Overall the GDP depends on the growth of both economies. In China's case, exchange rate is one of the most important factors in passing the U.S. in GDP. Another is the future of the Chinese government. The United States and China's

strength in economy will come down to their population. Currently the growth rate in population is leaning towards the U.S. Although this will be a close race for many years, only time will tell. "By most standards of living have improved worldwide. This is especially true for North America and Europe, however even the life in the poorest of countries is better than a century ago."

Toyota's Recall Sparks Positive Growth in the Auto Industry

By: Chris Jamieson

February was a positive month for the auto industry. The large automakers reported gains in sales, despite the winter weather. The reason for these positive gains in the auto industry is largely attributed to the impact of the Toyota recall.

The Toyota recall was known to the public over the full course of February which impacted the automakers monthly sales. Toyota reported a loss of -8.7% in auto sales for the month of February. The automaker estimated losses of near 18,000 vehicles in sales. Most of these losses were directed toward consumers who have not owned a Toyota before. These consumers who may have been interested in a vehicle manufactured by Toyota, were steered away by the recall, which lead to gains for other automakers.

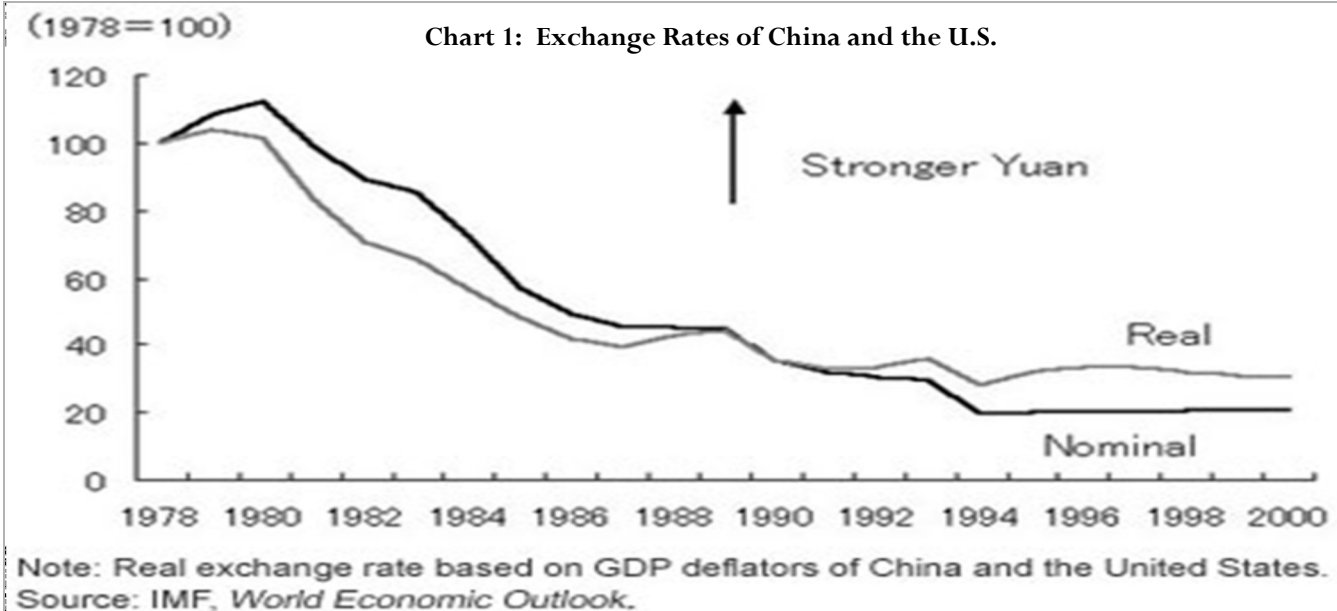
February was a surprising month for the automaker Ford, which reported gains of 43% in sales. Ford out sold GM for the first time in over a decade in monthly sales. GM also reported gains for the month of February and more importantly, GM showed a large gain in sales for its four ongoing vehicle brands: Chevrolet, GMC, Buick and Cadillac.

Several automakers, including; Nissan, Volkswagen and Subaru also capitalized gains on Toyota's recall. The auto industry is showing signs of spark early in this first quarter all thanks to Toyota's poor quality.

Credit Cards and their Effect on Consumer Spending

By: Nicole Richards

Credit cards are an essential business mechanism to both corporations and consumers. Credit cards are viewed as a necessity within the economy due to the fact that they are used to purchase both goods and services on credit. It is increasingly necessary to own a credit card because the majority of purchases such as travel, lodging, and internet purchases require credit cards to complete transactions. From the 1990s until the 21st century the credit card industry has emerged significantly.



Credit card companies often target college students. It portrays the idea that you can make purchases at your convenience by the swiping of your card. Most college students believe that a credit card is a status symbol and a prized possession of the American consumer. However instead of the credit cards acting as an efficient and more convenient means of payment, it causes a lot of debt among the student body as well as adults. Moreover, credit card debt resulted in the downfall within the economy.

In 2007, according to the "ABC News Poll: The New Normal: On the Brink of Recession," it was stated that consumers' credit liability has been increasing over time. Therefore, in the foreseeable future consumers are advised to invest their money more conservatively and above all cut their credit card debt. The diagram displays the number of consumers willing to cut back on credit card debt and save their money.

After the poll was taken there was a drastic change in consumer spending power. For instance, statistics show that retail sales in May were down 9.6 % from the previous year, consumer credit declined at an annual rate of 7.5 % in April and the savings rate escalated to a 14 year high.

Nevertheless, the government has contrived a decision to pass a new legislation stating that young adolescents between

the ages of 18 to 20 need parental consent to be a credit card holder. This legislation is being initiated due to the fact that adolescents lack an educational foundation about credit card usage and the high interest payments that must be made. Therefore, credit cards are both a powerful advantage and a powerful disadvantage of consumer credit.

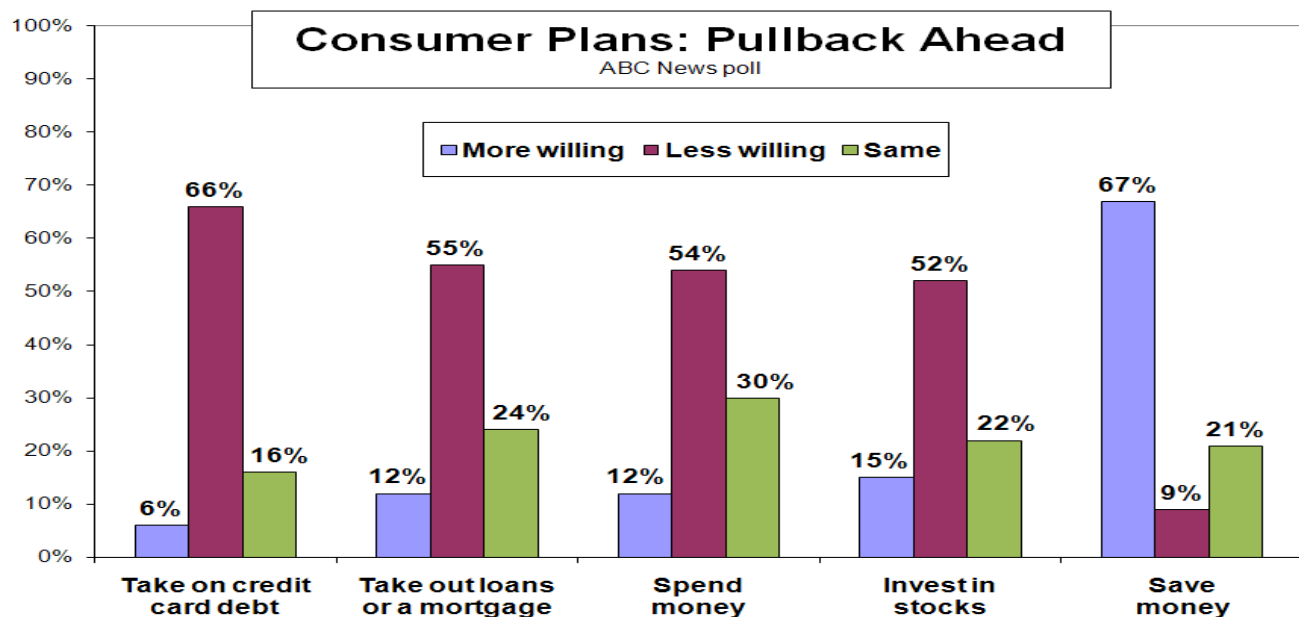
Sources:

www.globalresearch.ca/PrintArticle.php?articleId=17903
www.abcnews.go.com/print?id=7802574

Higher Education Prices

By: Melissa Scaccia

Most students who choose to continue into higher education after high school cannot find a clear picture in their minds as to why college fees are always exceedingly higher. They are baffled at the prices and do not exactly understand what lies beneath this ongoing economic issue. The main focus is concentrated on four year public colleges and universities in every state. States are responsible for the funding of these institutions but are not always on their top of the list of priorities to attend to, especially during an economic recession. The expense for educating students at a higher



level is on the rise, and colleges and universities increase tuition and fees to level out the problem. According to the American Association of State Colleges and Universities (AASCU), Economists use the Higher Education Price Index (HEPI) to follow the changes in prices and determine future characteristics of these indexes. HEPI simply records the calculations that measures inflation for college goods and services. In 2006, the AASCU claims higher education institutions witnessed a 5.0 percent price increase, while the consumer price index only went up by 3.8 percent. HEPI calculations during this time blamed price increases in areas such as utilities where prices climbed 27.1 percent in only one year for the differences. The institutions struggle and try to make the right financial decisions.

After observing past statistics for 2006, we make our way to recent data of HEPI. According to the Commonfund organization, “the FY2009 HEPI calculation reveals that the inflation rate for colleges and universities was 2.3%, or less than half the 5.0% rate for FY2008. This compares with an annualized Consumer Price Index (CPI) – calculated using an average of monthly CPI index figures from July to June – of 1.4% for the same period. (“Commonfund,” 2010).” These statistics show that even though the inflation rate for colleges and universities can reverse from year to year, rising from nearly half of the consumer price index to decreasing nearly half of CPI, the cost of a higher education still increases every year.

Some attempts are being made to control high costs while maintaining a high quality education for students. These steady, stable affordable prices for higher education will create more opportunities for the people who struggle financially.

Hyperinflation – Is It All Hype?

By: Matthew Khela

Inflation is defined as the increase in prices and the fall in the purchasing value of money. Deflation is the reduction of the general level of prices in an economy. What do these two situations have in common? The answer may seem contrary because the very foundation of either situation is simply a nation plagued by a mountain of debt. The form of debt can

vary. It could either be a massive national debt or an insolvent financial system. Sometimes, it could be a combination of both.

Disinflation is simply when the inflation rate slows. The determining factor as to whether a nation experiences disinflation, deflation, inflation or hyperinflation is in the response of that particular nation’s monetary authority. If the monetary authority does not take action immediately, deflation may become apparent. Banks could go bankrupt and depositors might experience their savings being wiped out. On the other hand, if the authority chose to monetize a country’s national debt, they may experience hyperinflation.

One of the more well known countries that experienced hyperinflation was Germany. After World War I, Germany experienced a high monthly inflation rate. On average, prices quadrupled each month during the sixteen months of hyperinflation. Although this was well studied and more people knew about it, there was a larger hyperinflation period that occurred in Hungary after World War II. From August 1945 through July 1946, the estimated prices rose in Hungary at the rate of nineteen percent per day.

So what causes hyperinflation? The world wars themselves did not cause the hyperinflations in Germany and Hungary. The destruction of resources during war can explain why prices in Germany and Hungary would be higher after the war than before. However, the wars themselves cannot explain why prices would continuously rise at rapid rates during hyperinflation periods.

Hyperinflation is generally caused by a rapid growth in the supply of paper money. It occurs when the authorities of a nation regularly issue large quantities of money to pay for a large flow of government expenditures. It can actually be compared to a form of taxation when the government prints money.

A hyperinflationary spiral tends to be self-perpetuating. Suppose a government is committed to financing its expenditures by issuing money and begins by raising the money stock by ten percent each month. Soon, the rate of inflation will increase. The government will observe that it can no longer buy as much with the money it is issuing and this can likely lead to a further increase in the money supply.

During this hyperinflation, there will be a continual tug-of-war between the public and the government. The public will try to spend their money quickly in order to avoid the inflation tax. Meanwhile, the government responds to higher inflation with even higher money supply growth.

<http://www.askoxford.com/>

<http://www.econlib.org/library/Enc/Hyperinflation.html>

Can the Global Economy Survive Another Cold War?

By Anthony Malin

The dawn of the 1990's marked the end of a standoff between two Military Juggernauts. For almost 50 years the United States and the former Soviet Union engaged in a passive war of superiority. Today, a new Communist nemesis has risen, but unlike the cold war of the past, nuclear weapons have been replaced with currency manipulation. World domination is no longer defined by a fear of military strength but the world domination of global markets through cheap labor, a massive industrial base and cheap exports. The new cold war theater is the global free markets, as an economics showdown looms between the United States and the Peoples Republic of China.

For years established economies such as the United States and Europe have cried foul, accusing China of manipulating their currency. As the global economies boomed during the early 2000s, the response by political leaders was little more than a public rebuke of China's policies. U.S. unemployment figures are looming around 10 percent, with the unemployment figure actually closer the 17 percent (if one adds underemployed workers and discouraged workers). With a US economy that refuses to energize, politicians are ramping up their war of words and may escalate the war beyond rhetoric. Unlike the cold war of the past, however, where nuclear weapons and arms buildups were the devices of retaliation, the nuclear weapon in an economic war is much more primitive, namely "Protectionism".

In mid March of this year, under congressional pressure from Democrats and with bipartisan support of Republicans, the Obama administration escalated it's rhetoric by accusing the Chinese Government of protectionist practices. The U.S.

Treasury Department issues biannually its report of nations that engage in currency manipulation and other protectionist acts. China has managed for years to evade the list, but with pressure mounting, China may find itself at top of the list as a major violator — thus opening the door for congress to place tariffs on Chinese imports.

Nobel Prize winning economist and Princeton University Professor of Economics Paul Krugman, in his biweekly Ed-Op column in the New York Times, cheered the overdue response by congressional leaders. Dr. Krugman explains that the Chinese have ramped up the manipulation in the recent years to protect its own economy by printing currency and flooding the foreign exchange market with its "renminbi," the Chinese form of currency. Dr. Krugman goes on to say that in 2003, the Chinese were adding reserves of 10 billion a month. Today, the Chinese have ramped up the printing presses to 30 billion a month, accumulating a whopping 2.4 trillion dollars in excess reserves and growing.

Mark Drajem of BloombergNews.com, wrote on March 15, 2010 in an article entitled "Democrats Increase Pressure on Obama Over China's Currency," that Dr. Krugman calculates that 1.5 percent of global GDP is lost to China by it's manipulation of currency. In other words, China is stealing 1.5 percent of the world's wealth to enrich its own economy. This comes at a time when stalled economies can least afford it.

For a struggling United States economy, this currency manipulation means fewer jobs for Americans. By artificially keeping the renminbi low, the Chinese in essence secure its manufacturing base at the direct detriment of the United States and other producing nations. The devalued currency makes exports much cheaper, making it harder for other nations manufacturing bases to compete. To exasperate the difficulties trading nations face is closed markets for imports to enter the Chinese markets investment system that limits only Chinese nationals to invest within the country.

The Chinese have for years denied charges of any protectionist practices and state that the escalating rhetoric is a product of a global economic downturn that the United States created. While the rhetoric has become harsher of late from Washington, the accusations are not new. On June 10th 2004, Elizabeth Becker article appearing in the New York

Times business section entitled “White House Shuns Role of Textile Quotas” writes of a rare bipartisan effort of 130 Democrats and Republicans. They requested the Bush administration delay a prior agreement reached between the World Trade Organizations to phase-out global quotas on textiles, citing that China’s currency manipulation, direct government subsidies to Chinese textile manufactures, and rebates would give an unfair advantage to China’s textile industries. The article claimed that lifting the quotas would flood the market with Chinese and Indian apparels, decimating the U.S. textile industry at a predicted loss of 30 million jobs globally and 650,000 jobs lost in the U.S. The Bush administration fought back the request by announcing it would not delay the quotas, but would prepare the American Textile Industry for the wave. In hindsight, with the U.S. textile industry nearly nonexistent today, the Bush administration did nothing to preserve those jobs.

While the textile industry only represents a small shrinking sector of the U.S. economy, it is an example of how China’s unfair trade practices have reached across a broad spectrum of not only the U.S. economy, but globally. For years, pro free-trade politicians and economists have claimed that opening global trade will give American consumers access to cheap goods, but ignored the manipulations of other countries to create a climate of unfair advances and the inabilities for American workers to compete in a global market.

Globalization may be defined as trade, but far from free. The prices which were kept artificially in the past are now costing the American Consumer dearly. How much stimulus money is needed to create 650,000 jobs lost to unfair trade practices to the Chinese just in the textile industry alone? If one compounds the effect across the broad sector of the U.S. economy, the cost escalates much deeper than imaginable. The American worker experiencing declining wages for years and the resultant drop in standard of living can directly be linked to unfair global markets. The advocates for open global markets robust argument of the past have fell silent to such tactics as currency manipulation by competing countries. A cold war does exist today, but unlike the clearly defined adversary of the past, the adversary seems elusive. It would be easy to define China as the opponent, but with the

support of mainstream economists and corporate lobbyists influencing the political landscape, the American worker seems to be fighting a war on all fronts with little in the way of the ammunition of influence to compete.

Jamaicans Rage under IMF Conditionality

By: Shane McFarlane

Many may see the International Monetary Fund and its conditionality as long term development tools for small developing countries or countries faced with unstable financial systems. For most Jamaicans, however, it is much like a plague on their pockets and lifestyle, and many view it as a hoax for development. In November 2009, the Jamaican Central Government, en route to implement strategic development to achieve economic growth, sought US \$1.3 billion from the IMF to further increase government spending on specific programs not made transparent to the Jamaican people. Jamaicans immediately began to feel the effects of conditional changes enforced upon the economy to gain a grip on the IMF loan, without any warning to the general public. For as we all know, he who pays the piper calls the tunes, imposing new IMF sounds that most Jamaicans were not ready to dance to.

People woke up to the dawning of a new tax package. If the government were to receive the loan, it was therefore a restrictive obligation for them to cut back government debt by increasing taxes to reduce the fiscal deficit. The \$22 billion tax package was a surprise to most people, who saw increases in the General Consumption Tax (GCT) that placed relentless pressure on the poorer class. As one might imagine, a fiscal crisis that had been lingering showed its ugly head in an environment where people were already edgy and reluctant to tax increases. The opposition party in the house of government (Peoples National Party), with its leader, former Prime Minister Portia Simpson Miller, undoubtedly rejected the tax package and called for a thorough review. She also encouraged most Jamaicans, who opposed the bill, to have peaceful protest to force the government to relinquish the new taxes. However, the bill’s revision only rerouted the tax burden from the

poor class and placed it on the middle and professional classes instead. This was not a successful fight for most Jamaicans because they were again defeated by untimely and non-transparent government goals — but at least the poor were given a threshold to breathe.

The government, on a mission to cut national debt, had to cut back on interest rates. Interest payments on government issued securities stood at a massive 17% and accounted for most government expenditures. Despite its large number, it is one of the more flexible ways of adjusting the deficit. Therefore, in a race to reduce national debt an emergency meeting was organized with prominent members of the banking industry and government officials. Negotiations were held with government aiming to cut interest rates to 9% (an almost 50% reduction). Private banks in Jamaica make most of their profits from interest payments made by government on securities that they hold. The effects on the bank balance sheets will be insurmountable and future developmental projects will be facing the threat of going into shambles.

The government also launched a debt exchange program urging public holders of government issued papers to turn them in for an exchange of new ones, which only excluded international Eurobonds. Under the terms of the exchange, the price is fixed with each holder of old bonds receiving new bonds on a par or one for one basis, as well as a cash payment of any accrued and unpaid interest. The new bonds are expected to have the same principal value, but only with lower interest rates and longer maturities. This is expected to lower the annual government debt in terms of government interest payments by Jamaicans \$40 billion.

Nevertheless, the short term problems were about to get worse as the government was being forced to sell its non-performing assets. The most common government assets appear to be Air Jamaica and government owned sugar estates. Many are now confused and are questioning the patriotism of their own leaders, especially that of Prime Minister Bruce Golding. The question being asked by many Jamaicans is, 'Why sell out for a loan which is not assured to trigger development anyway?' Prime Minister Bruce Golding found himself in a neighboring country, Trinidad, in

desperate efforts to find a new carrier to take over the troubled Air Jamaica. Loyal workers who have dedicated most of their lives to the airline are very much skeptical about their job security. The government should not only secure a new carrier but also the jobs and benefits of its people who have served the country for decades. It is also alleged that in a desperate move to secure their jobs and livelihood, pilots and other staff members of the airline wrote an impassioned letter to the Prime Minister requesting they take over operations of the airline, through their personal investments.

As far as the sugar estates are concerned, there has been four major bidders in the inquiry of the estates but only one remain to date as the government seeks to make a deal that will be beneficial instantaneously as well as in the long run. Italian company Eridania Suisse is currently in negotiations with the government and has already secured US \$15 million to finance and save the crop that was seen as the backbone of Jamaica's economic success in the past. In a trivial glance of not so bad news, there are reports circulating the Jamaican media that both Eridania and the Jamaican government will share any profits made on final sales on a 50-50 basis.

It is also a conditional requirement for the government to reduce its public sector and display sensible fiscal management. Thus far extra-budgetary governmental institutions have been a problem of proper fiscal management by the government. However, the government should choose carefully what public programs to freeze spending on in a way that will not anger the public or even hinder the operations of other dependent private programs.

But, only time can tell the tale of a success or defeat of this conditional reconstruction of the Jamaican economy. The government has completed close to 80% of the conditional requirements of the IMF, therefore the loan is only an arm's length away. It is a guaranteed fact nevertheless, that all Jamaicans are eager and rather forcedly optimistic that the injection of another US \$1.3 billion will be a successful economic growth strategy by the government.

Sources: Jamaicaobserver.com/business

Jamaica-gleaner.com/business

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Department News:

The Faculty and Students have remained busy in 2010! In January, Professors Behr, Christofides, Pats, Bunjun, Nelson and Wolfe attended a conference at the Federal Reserve in New York City.

In February, the Economics Club and Professors Pats and Behr visited the New York Stock Exchange and the Museum of American Finance. The Museum is actually located in the Bank of New York (the oldest bank in the U.S. founded in 1784 by Alexander Hamilton). With the help of a sibling of an ESU Economics alumnus, the group was actually allowed to enter the floor of the mercantile exchange to watch sugar trading in action — something not ordinarily permitted on the floor.

Two senior Economics students presented papers at conferences this year. Professors Nelson and Booser accompanied Yulia Lynch to the Eastern Economics Conference where she presented her research paper entitled “The Financial Crisis of 2008 and the Caribbean Countries.” Professors Bunjun and Pats traveled with Anthony Malin and Katherine Wolocz to the Ursinus ODE Economics Conference, where Anthony presented a paper and Katherine served as a discussant.

It is particularly rewarding for the department when we get to honor our students for their hard work. During the ODE Honors Induction Ceremony held on April 22, 2010 21 students were inducted into ODE Honor Society in Economics, bringing the total number of inductees to 328. Two scholarships were also awarded during the ceremony: The Delarco Economic Research Award winner was presented to Nicole Richards, a Business Management major and Economics minor who has been assisting our editorial staff with the publishing, editing and processing of the E-News; and the Starner Economics scholarship was awarded to Katherine Wolocz, another outstanding student of Economics and president of the Economics Club. We congratulate them both.

The Economics Club is in full swing. The club held a “Zumba for Haiti” fundraiser to benefit the earthquake relief effort. The turnout was fantastic and an impressive amount of money was raised. The club also sponsored a presentation by author and Lehigh University Economics Professor, Dr. Tony O’Brien, and held a seminar for students and the ESU community on money management and personal finance. They have trips planned in the fall to Philadelphia and to the United Nations and are planning a trip to Washington, D.C.

This fall the E-News will begin its 13th year of publication. We thank you for your interest and want to remind you that the E-News can now be found on the Economics Department website at www.esu.edu.

If you would like to be added or deleted from our mail list, please e-mail our secretary, Sue Prutzman at sprutzman@po-box.esu.edu.

- Dr. Pats Neelakantan, Professor and Department Chairperson

In order to keep the costs of printing and mailing to a minimum, if you no longer wish to receive the print version of the E-News, kindly advise us.

You can still read the E News on our website at www.esu.edu/econ/ENews.

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



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