



# **TJIC Alert**

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**June 2009**

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## **U.S. ECONOMY**

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### **1. Economic Slowdown Widespread Among States in 2008**

U.S. Bureau of Economic Analysis

June 2, 2009

Full Text: [http://www.bea.gov/newsreleases/regional/gdp\\_state/2009/gsp0609.htm](http://www.bea.gov/newsreleases/regional/gdp_state/2009/gsp0609.htm)

New statistics released by the U.S. Bureau of Economic Analysis show that economic growth slowed in most states and regions of the U.S. in 2008 as economic growth overall slowed. Real GDP growth slowed in 38 states, with downturns in construction, manufacturing, and finance and insurance restraining growth in many states. Growth in real U.S. GDP by state slowed from 2.0 percent in 2007 to 0.7 percent in 2008.

### **2. Tough Decisions and Limited Options: How Philadelphia and Other Cities Are Balancing Budgets in a Time of Recession**

Pew Charitable Trusts

May 18, 2009

14 p.

Full Text:

[http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Philadelphia-area\\_grantmaking/FINAL\\_Budget%20Brief.pdf](http://www.pewtrusts.org/uploadedFiles/wwwpewtrustsorg/Reports/Philadelphia-area_grantmaking/FINAL_Budget%20Brief.pdf)

The report looks at how 13 major cities are coping with the recession and finds that most are facing significant budget gaps and are cutting services and personnel in response. It examines the budget decisions that have been proposed or enacted in Atlanta, Baltimore, Boston, Chicago, Columbus (OH), Detroit, Kansas City (MO), Los Angeles, New York, Philadelphia, Phoenix, Pittsburgh and Seattle.

[Note: contains copyright material].

### 3. The Quiet Coup

Simon Johnson

*Atlantic*

May 2009

Currently available online at <http://www.theatlantic.com/doc/200905/imf-advice>

Johnson, former chief economist of the International Monetary Fund, writes that the Obama administration is unlikely to reform the U.S. financial system because his top economic advisers have been recruited from the leading investment banks, the very institutions in need of reform. "The finance industry has effectively captured our government," Johnson writes; "recovery will fail unless we break the financial oligarchy that is blocking essential reform." Johnson said that the U.S. financial troubles are similar to the crises that brought heavily indebted developing countries to the IMF for loans. The author, now a scholar at the Massachusetts Institute of Technology, asserts that the U.S. financial disaster was brought about by an "Oligarchy, running the country rather like a profit-seeking company in which they are the controlling shareholders." He said that government bailouts of the banks that have become too big to fail are not incentives to reform. "The government's velvet-glove approach with banks ... is inadequate to change the behavior of a financial sector accustomed to doing business on its own terms," Johnson asserts. In contrast to the administration's bailout strategy, Johnson has another proposal: nationalize troubled banks and break them up as necessary. Without thorough banking reform, the author said that the world risks going into an economic slump worse than the Great Depression. "We face a synchronized downturn in almost all countries, a weakening of confidence among individuals and firms, and major problems for government finances," Johnson writes.

### 4. Fact Sheet: Reforms to Protect American Credit Card Holders

The White House

May 22, 2009

Full Text:

[http://www.whitehouse.gov/the\\_press\\_office/Fact-Sheet-Reforms-to-Protect-American-Credit-Card-Holders/](http://www.whitehouse.gov/the_press_office/Fact-Sheet-Reforms-to-Protect-American-Credit-Card-Holders/)

President Obama signs the Credit Card Accountability, Responsibility, and Disclosure (CARD) Act of 2009, marking a turning point for American consumers and ending the days of unfair rate hikes and hidden fees.

### 5. The Last Temptation Of Risk

Barry Eichengreen

May/June 2009

*National Interest*

p. 8-14

Currently available online at <http://www.nationalinterest.org/Article.aspx?id=21274>

Eichengreen, professor of economics and political science at the University of California, Berkeley, provides an interesting analysis of how the "Great Credit Crisis" developed, asserting that the problem lay not so much with the weakness of the underlying economic theory as with the cherry-picking by financial decision makers of the theories that supported excessive risk taking. The concept of Value at Risk, which seemingly reduced risk to a single number, led to the idea that risk could be mastered. Memories of past market crashes faded, and deregulation was "on the march." There was also pressure to conform to the accepted views rather than focus on the warnings coming from agency theory (which pointed out that compensation practices encouraged short-term thinking and excessive risk taking), information economics (which indicated that borrowers take on more risk when using other people's money), and behavioral economics (which can explain the herd mentality that leads to bubbles, panics, and crashes). The problem was not the failure of economists but the "partial and blinkered reading" of the available literature.

**6. Federal and State Cigarette Excise Taxes United States, 1995-2009**

Centers for Disease Control and Prevention

May 22, 2009

Full Text:

[http://www.cdc.gov/mmwr/preview/mmwrhtml/mm5819a2.htm?s\\_cid=mm5819a2\\_x](http://www.cdc.gov/mmwr/preview/mmwrhtml/mm5819a2.htm?s_cid=mm5819a2_x)

On April 1, 2009, the largest federal cigarette excise tax increase in history went into effect, bringing the combined federal and average state excise tax for cigarettes to \$2.21 per pack and achieving the Healthy People 2010 (HP2010) objective (27-21a) to increase the combined federal and average state cigarette excise tax to at least \$2 per pack. The report summarizes changes in the federal excise tax, as well as state excise taxes for all 50 states and the District of Columbia (DC) from December 31, 1995 to April 1, 2009.

**7. Federal Housing Finance Agency Report to Congress 2008**

Federal Housing Finance Agency

May 18, 2009

156 p.

Full Text: <http://www.fhfa.gov/webfiles/2331/FHFAReportToCongress2008final.pdf>

Federal Housing Finance Agency (FHFA) releases FHFA's first Report to Congress, detailing the findings of the agency's 2008 annual examinations of Fannie Mae, Freddie Mac, the 12 Federal Home Loan Banks (FHLBanks), and the Office of Finance. The report is the first Report to Congress since FHFA was established by the Housing and Economic Recovery Act of 2008 (HERA), signed into law in July of 2008. The report includes conclusions from the examinations of the FHLBanks, information about the compensation of FHLBank directors, and housing mission and goals information for all 14 GSEs.

**8. The Route to Reform: Blueprint for a 21st Century Federal Transportation Program**

Transportation for America

May 11, 2009

100 p.

Full Text: [http://t4america.org/docs/blueprint\\_full.pdf](http://t4america.org/docs/blueprint_full.pdf)

As Congress takes up debate over the federal surface transportation program, Transportation for America (T4 America) calls for the transformative change required to ensure that policies and programs are better aligned to serve the needs of a 21st Century America. It recommends that Congress should not shy away from restructuring the federal surface transportation program and its agencies. This means planning transportation systems and development patterns, to ensure that there are convenient and affordable travel options available to everyone, in every community, at every stage of life.

**9. Financial Resources, Living Arrangements, and Private Transfers**

Quifei Ma

May 6, 2009

RAND Corporation

86 p.

Full Text: [http://www.rand.org/pubs/rgs\\_dissertations/2009/RAND\\_RGSD241.pdf](http://www.rand.org/pubs/rgs_dissertations/2009/RAND_RGSD241.pdf)

The paper analyzes the care giving behavior of adult children toward elderly parents and their living arrangements. Using data collected as part of the U.S. Health and Retirement Study, the author investigates the role of children's characteristics, primarily wealth and wages, in determining co-residency. The author also analyzes new intergenerational transfer data that have recently become available in the Chinese Social Survey of Family Dynamics, and assesses whether or not these data are useful to measure family support.

[Note: contains copyright material].

## **10. The Return of the State: The New Investment Paradigm**

Marshall Auerback  
Levy Economics Institute of Bard College  
Full Text: [http://www.levy.org/pubs/wp\\_561.pdf](http://www.levy.org/pubs/wp_561.pdf)

May 2009  
15 p.

To save America and the global economy as a whole, the private/public sector balance has to shift, and the neoliberal economic model on which the country has been based for the past 25 years has to be modified. In the working paper, Marshall Auerback details why the role of the state needs to be reemphasized.

[Note: contains copyright material].

## **11. Leveling the Playing Field: Curbing Tax Havens and Removing Tax Incentives for Shifting Jobs Overseas**

The White House  
Full Text:  
[http://www.whitehouse.gov/the\\_press\\_office/LEVELING-THE-PLAYING-FIELD-CURBING-TAX-HAVENS-AND-REMOVING-TAX-INCENTIVES-FOR-SHIFTING-JOBS-OVERSEAS/](http://www.whitehouse.gov/the_press_office/LEVELING-THE-PLAYING-FIELD-CURBING-TAX-HAVENS-AND-REMOVING-TAX-INCENTIVES-FOR-SHIFTING-JOBS-OVERSEAS/)

May 4, 2009

President Obama and Secretary Geithner unveil two components of the Administration's plan to reform U.S.'s international tax laws and improve their enforcement. First, there's a call for reforms to ensure that its tax code does not stack the deck against job creation in the States. Second, they seek to reduce the amount of taxes lost to tax havens, either through unintended loopholes that allow companies to legally avoid paying billions in taxes, or through the illegal use of hidden accounts by well-off individuals.

## **12. Global Monitoring Report 2009: A Development Emergency**

World Bank  
Full Text:  
[http://siteresources.worldbank.org/INTGLOMONREP2009/Resources/5924349-1239742507025/GMR09\\_book.pdf](http://siteresources.worldbank.org/INTGLOMONREP2009/Resources/5924349-1239742507025/GMR09_book.pdf)

May 9, 2009

244 p.

The global economic crisis, the most severe since the Great Depression, is rapidly turning into a human and development crisis. No region is immune, says the report. The poor countries are especially vulnerable, as they have the least cushion to withstand events. The crisis, coming on the heels of the food and fuel crises, poses serious threats to their hard-won gains in boosting economic growth and reducing poverty. It is pushing millions back into poverty and putting at risk the very survival of many.

[Note: contains copyright material].

## **13. Two Views on the Cause of the Global Crisis: Parts I and II**

Yale Global  
Full Text:  
Part I – <http://yaleglobal.yale.edu/display.article?id=12327>  
Part II – <http://yaleglobal.yale.edu/display.article?id=12338>

May 4, 2009

The first view contends that income inequality and speculative investment by the rich and poor in America led to financial meltdown. On the other hand, the second view contends that the twin excesses, financialization and globalization, caused the crash.

[Note: contains copyright material].

#### 14. Last Man Standing

Tyler Cowen

*Wilson Quarterly*

Currently available online at

[http://www.wilsoncenter.org/index.cfm?fuseaction=wq.essay&essay\\_id=517090](http://www.wilsoncenter.org/index.cfm?fuseaction=wq.essay&essay_id=517090)

Spring 2009

p. 55-58

The author, a professor of economics at George Mason University, believes that although America's relative decline in global affairs has been foretold many times, it never quite seems to happen. Today, the rest of the world is looking to the U.S. to pull it out of a recession (or depression), even though many blame us for having started it. The truth is that the worse things get for the world as a whole, the more the U.S. gains in relative power and influence. The U.S. has more demographics than many countries; with its relatively unified system of governance, the U.S. Federal Reserve can simply print money to fund bailouts, and even if that is an ugly alternative, the government's ability to act underpins the credibility of the system as a whole. The European Central Bank (ECB) is explicitly banned from creating more euros for bank bailouts; the Swiss central bank could, but the prospect of the resulting inflation and rapid depreciation of the Swiss franc makes this an unappealing choice, especially for a country that has marketed itself as a financial haven. It's not widely recognized that Europe, because of its systemic weaknesses, already has required implicit bailouts by the U.S. European financial institutions are prominent on the list of creditors of the failed insurance company AIG. Few U.S. financial regulators would say it openly, but one reason why the Fed rescued AIG was that it knew that European regulators could not handle the fallout from an AIG collapse.

#### 15. Recipe for Disaster

Felix Salmon

*Wired*

Available online at [http://www.wired.com/techbiz/it/magazine/17-03/wp\\_quant](http://www.wired.com/techbiz/it/magazine/17-03/wp_quant)

March 2009

p. 74-79, 112

In the 1990s, a mathematician named David Li solved one of the most difficult problems in the financial world – determining correlation, or how seemingly disparate events are related – with a simple formula, one which quickly became ubiquitous in finance worldwide. Li's formula, known as a Gaussian copula function, appeared to be a breakthrough, enabling hugely complex risks to be modeled with more ease and accuracy than ever before. Despite the warnings by some analysts, not the least of whom was Li himself, that the formula had its limitations, the creation and trading of asset-backed securities and derivatives exploded to unimaginable levels. The model started falling apart in 2008, as the correlation modeling was drawing on data only for the recent period in which asset prices were rising.

#### 16. The End of Plenty: The Global Food Crisis

Bourne Joel K., Jr.

*National Geographic*

June 2009

Currently available online at

<http://ngm.nationalgeographic.com/2009/06/cheap-food/bourne-text>

This special report reviews in-depth the problem of how to feed a world that is consuming more food than farmers have been producing. The combination of several factors has led to the current global food crisis. Populations in many poor countries are burgeoning, and consumers in countries experiencing new economic growth are eating more meat. There are growing demands for grain for food, animal feed and fuel. Global warming has restrained growth in yields by depleting water and soil resources. As a result, food prices have risen dramatically, and global grain reserves have dropped to record lows; the author notes that these factors ensure that food prices are not coming down soon. Although controversial, some are calling for

another “green revolution”, involving new seed varieties and environmentally-sound uses of fertilizer, pesticides and irrigation; it must include Africa, Bourne writes, and in half the time of it took for the first revolution that led to a reduction in widespread hunger in Asia in the 1960s and 1970s. An increasing awareness of the importance of agricultural development has led to more investing in that area by international donors and by some countries -- like Malawi -- whose leaders want to turn their nations into surplus producers.

### **17. Could Food Shortages Bring Down Civilization?**

Lester Brown

*Scientific American*

May 2009

Currently available online at

<http://www.scientificamerican.com/article.cfm?id=civilization-food-shortages&page=5>

The author, president of the Earth Policy Institute, writes that the biggest threat to global stability is the potential for food crises in poor countries to cause government collapse. Food scarcity and the resulting higher food prices are pushing poor countries into chaos. Such “failed states” can export disease, terrorism, illicit drugs, weapons and refugees. Water shortages, soil erosion and rising temperatures from global warming are placing severe limits on food production. Without massive and rapid intervention to address these three environmental factors, the author argues, a series of government collapses could threaten the world order.

### **18. Farm Futures**

Catherine Bertini; Dan Glickman

May/June 2009

*Foreign Affairs*

p. 93-105

Currently available online at <http://www.maxwell.syr.edu/FA.pdf>

The U.S. should make agricultural development its top foreign aid priority and get other international donors to do the same, say Bertini, a former head of the United Nations World Food Program, and Glickman, a former U.S. Secretary of Agriculture. They say chronic hunger, which now affects nearly 1 billion people around the world, is a national security threat. Terrorists are using free food to lure hungry students into organizations that teach extremism. Diseases related to hunger are the world's leading health threat, claiming more lives than AIDS, malaria and tuberculosis combined. But, the authors write, the traditional approach to foreign aid has been defensive, such as the U.S. putting more than \$2 billion into food aid in 2008 to cope with a global food crisis. The focus, instead, should be on helping rural communities, especially in Africa and Asia, become more self-sufficient in food production. Key to this approach is making loans, improved seeds and fertilizers, and training in better farming methods available, especially to women farmers, who are the ones primarily responsible for farming in developing countries. The authors call for the U.S. Congress to pass the Lugar-Casey Global Food Security Act to boost funds for agricultural research and education. They want the Congress to change policies that currently give preference to U.S. carriers transporting aid, and call for the United States to consolidate the administration of U.S. food aid programs under one agency.

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