RICH, POOR, AND MORE ...... AND MORE – POINT/COUNTERPOINT PART II – AND MY OPINION

Stephen L. Bakke, September 2008 and April 2011

Recession, Economic Fluctuations, Deficits, etc.

- ***Point:*** The Clinton administration took office in 1993 and deserve credit for the subsequent economic recovery.

  Counterpoint: Bill Clinton entered office with an economic recovery already two years old. The last year of "Bush I" saw our economy grow by 3.2%. The average growth rate of the economy during Clinton's administration was only 2.4%.

- ***Point:*** "Bush II" took office in 2001 and caused a recession.

  Counterpoint: When "W" took office, the economic indicators were already down. And later, retroactive adjustments pushed them down even farther. The National Bureau of Economic Research has confirmed that the indicators were down as early as 2000.

  While there is much in our economy to be unhappy with, subsequent to the "dot-com bubble" bursting prior to "Bush II", and with exception of the period of panic after 9/11, Americans' wealth has significantly expanded in the new millennia.

- ***Point:*** Considering all arguments on both sides, our economy is not good.

  Counterpoint: We have much to work on and improve, but we shouldn't deny the total reality. By any historic standard, our economic numbers aren't the best but are still reasonably good though headed in a negative direction. Of course, this should concern us. Recent unemployment numbers were in the vicinity of 5%, a figure that once was considered full employment. The consumer price index is up, mostly due to food and fuel, which we have the power to deal with. The core inflation rate has recently been under 2.5%. And productivity is up by 2.2%.

  Just looking at my lifetime, the numbers we have seen recently compare very favorably. In my lifetime we have tended to have recessions every four or five years. Recently, we have had only two mild recessions since 1983. I have seen unemployment surge to 10%, and even beyond, from time to time. And we have had very bad bouts of inflation. Put in proper context, our current situation can appear a little different than how it is constantly presented. And we can be even more proud and confident if we remember what we have experienced in the last 20 years: the stock market crash in 1987; currency meltdowns in Mexico in 1994 and in Asia in 1997; the collapse of Long-Term Capital Management in 1998; the

9/11 attacks; and the Enron collapse in 2001, among others. Our economy has adapted and kept growing in spite of one shock after another.

There are many negatives for us to pay attention to – and we must. But we must not ignore the positives – because they all "count" if you are keeping score.

- ***Point:*** Quoting Pat Buchanan, our trade deficit is a "malignant tumor in the intestines of the U.S. Economy".

  Counterpoint: Some experts feel that what foreigners don't spend here, they tend to invest here. While T-bills purchased by foreigners are debt, investment in U.S. equities is not debt and shouldn't be viewed as such. The world finds our economy attractive – even now. Just as we've been chomping at the bit to buy foreign goods and services, foreigners have been chomping at the bit to invest trillions of dollars in the U.S. To many analysts and experts that is not all bad.

  And worsening trade deficits are historically associated with fast growth of GDP and manufacturing, and more rapidly declining unemployment and vise verse – this is counter-intuitive. According to some experts, if trade surpluses are so great, the 1930s should have been a booming decade. According to data found at the National Bureau of Economic Research's "Machrohistory Database", the U.S. ran a trade surplus in nine of the 10 years of the Great Depression.

  Just for comparison, most would be surprised that while our government debt is 38% of GDP, Japan's is 86%. And many liberals' favorite area – Europe – does not have the debt problem that Japan does, but it is not nearly as favorable as ours.

  Maybe running surpluses or deficits can both be considered a "mixed bag". Just tell us the whole story!

- ***Point:*** We are in a recession.

  Counterpoint: Not even close. There have been NO fiscal quarters with no growth in GDP, including the most recent quarters. A minimum of two fiscal quarters of negative economic growth is required to officially be a recession. The last reductions in GDP were in the early months of "W's" administration – a clear continuation of the damaged economy late in the Clinton administration which was caused by the bursting "dot-com bubble".

  In fact, the Commerce Department reported in August that GDP increased at a 3.3% annual rate in the second quarter of 2008.

- ***Point:*** There is just too much bad news! We must realistically consider the possibility of more than just a recession – maybe even a depression.

Counterpoint: Liberal democrats, Wall Street critics of the administration, and bloggers routinely make comparisons to that mammoth economic disaster of the 1930s , the Great Depression.

We are not in a depression and almost certainly are not in danger of one. While the last time the term depression applied was in the 1930s, let's examine how far those conditions were from today. In the 1930s U.S. unemployment peaked at 25% in 1933 and averaged 18% for the decade. From 1929 to 1933, 40% of banks failed. For comparison, our current unemployment is approximately 5.5% which is slightly below the average since 1960 of 5.8%. While there have been significant losses associated with the mortgage crisis, on the whole, the banking system seems fairly strong according to many experts. Although banking profits in the first quarter of 2008 were down 46% from 2007, they were still $19 billion even after $37 billion in added loan loss reserves. Overall corporate profits are still running at a near-record annual rate of $1.5 trillion.

Further positive news is that, as yet, our economic slowdown does not even approach the harshest post-World War II slump in 1980 through 1982 (according to the National Bureau of Economic Research). Unemployment peaked at 10.8% in late 1982. In 1981 and 1982, housing starts were down almost 50% from their 1978 peak. From 1979 to 1982, the economy stagnated.

It seems a paradox that today's economy is so strong. Consider all the "hand grenades" lobbed at it: higher oil prices, a housing implosion, the mortgage crisis, the credit squeeze, large layoffs in certain industries (airlines, autos, construction, mortgage banking). Output in 2008 is actually still higher than a year earlier. Many experts feel our economy has an underlying sturdiness because it is driven by small businesses and we have the luxury of a flexible labor force.

If there are all these positives, why are we so anxious and fearful? Why shouldn't we be, especially considering what we constantly hear? In the face of true positives here is what we read and hear: a recent AP dispatch stated "Everything seemingly is spinning out of control….Midwestern levees are bursting. Polar bears are adrift. Gas prices are skyrocketing. Home values are abysmal. Airfares , college tuition, and healthcare border on unaffordable….Americans need do no more than check the weather, look in their wallets, or turn on the news for their daily reality check on a world gone haywire". The New York Times devoted significant space to a report about "A Slowdown With Trouble at Every Turn" – a major doom and gloom presentation. I guess that's politics in action.

Let us not be too comfortable because we have real problems and challenges, but we must acknowledge the positive aspects which we should be proud of. We are reminded of an old lesson: The business cycle is not dead as a real and expected phenomenon. Sometime in the future, maybe we will look back at these times as "The Good Old Days".

Stock and Commodities Markets

- ***Point:*** Volatile markets, with adjustments occurring and causing "heartburn" are a sign of weakness.

  Counterpoint: It is better to have investors who are "wary" than investors who are reckless. Reckless investors tend to drive up market prices in a way that causes artificial and temporary gains.

- ***Point:*** Speculators are responsible for high oil prices and volatility in other commodities markets.

  Counterpoint: Speculating and futures trading is a tradition in all commodities markets. This is a little understood activity – perhaps least of all by me. However, while sometimes inaccurate assumptions about future oil supplies do affect the oil prices, it is truly supply and demand that ultimately influences prices. Sometimes the activities of these "speculators" do cause volatility – no market is perfect. More often, however, the futures markets provide the buyers of commodities a dependable and predictable price and supply of a crucial resource for their business. As a general rule these markets actually reduce wild fluctuations and provide more certainty as to prices. Volatility is the result of confusion and uncertainty – often caused by government actions.

  Pursuing speculators as the culprit would probably be a significant waste of time. Recent proposed legislation to further regulate "speculators" in the futures markets would introduce genuine distortions to the oil and other commodities markets, and would make life even more difficult for commodity consumers who are quite reasonably using the futures market as a hedge against higher prices. This is another example of the law of unintended consequences as it relates to so much of our enacted legislation. It is an imperfect system but most likely better than the government imposed alternative.

Government's Role

In addition to the references to government woven throughout this report, here are some more:

- ***Point:*** Our government must make rules to protect us from business.

  Counterpoint: Competition will probably protect us better than the government, if the government just gets out of the way.

- ***Point:*** Our government should at least protect us from big businesses charging monopoly prices.

Counterpoint: In fact, far more government actions have been taken against businesses that charge prices considered to be too low than against businesses that charge too high prices. Huge anti-trust suits have been against companies companies charging too low prices, thereby driving competitors out of business.

- ***Point:*** Price controls protect consumers.

  Counterpoint: There is ample evidence that price controls create shortages and increase hardships.

And More

- ***Point:*** Quoting Obama, "If you believe in good schools, good roads, if we want to make sure that kids can go to college and if we don't want to leave a mountain of debt for the next generation, then…we've got to pay for these things".

  Counterpoint: I agree with this statement. But is the only way to have good schools is to spend more money? If so, then why are some of the worst schools in America, scholastically speaking, in Washington DC, where we spend $13,000 per student? Even with this spending the city ranks 51st in SAT scores – dead last. New York spends the most per student at $14,119 yet ranks 44th in SAT scores. In order to reduce our "mountain of debt" how about being creative by CUTTING SPENDING!

- ***Point:*** As Obama says (paraphrasing): Conservatives should do what the Bible says in Mathew – take care of the poor.

  Counterpoint: It is well documented that conservatives far, FAR outstrip liberals in charitable giving, even though those describing themselves as liberals have materially higher income than those describing themselves as conservatives (another surprise) – but that is the topic for a different report (stay tuned).

My Opinion

And so it goes – opinions flying around as if they were coming from different planets altogether. It baffles me as to how reasonably decent, intelligent people, presumably dealing with a similar set of facts can arrive at totally different conclusions about what it all means. And, unfortunately, the "politics of envy" often leads to programs which stifle true progress, economic growth, and employment – a great example of the latter is the issue of raising the minimum wage. What matters politically is the image of coming out on the side of "the people" and against "the privileged". But we have lost sight of who the privileged really are – sometimes it IS "the people".

Some of this, I believe, comes from the fact we are living in a time of very sophisticated "nuance" – i.e. sometimes our relative agreement on a topic (say, "figuratively" no further apart than 20 degrees out of 360) must be presented as virtually opposite. The reason is simply because we must “hold the party line” and not commiserate with the enemy – we are divided by definition.

And I believe that much of this is perpetuated by a media which is itself polarized against certain beliefs and points of view. I think I have an example of how this manifests itself: Our economy is by no way ideal, but have we evaluated our situation as individuals, or do we just believe what we are told to believe? Two, virtually simultaneous polls came up with the following: the LA Times / Bloomberg poll shows that 78% of Americans think we are in an economic recession; at the same time, a CBS News / New York Times poll reports that 72% of Americans rate their own financial situation as “good”. Similarly, a Harris Interactive poll in August shows that 94% of Americans are satisfied with the lives they lead. And according to a recent Gallup poll, only 9% of Americans are dissatisfied with their jobs and only 13% are dissatisfied with their job security. How can this be explained? I believe this is an example people listening to the media, whom they trust, rather than focusing on their own observations. Americans just aren’t as miserable as some politicians need them to be. One commentator thought this reminded him of the story of the fellow who, when caught by his wife in bed with another woman, protested “Well are you going to believe your eyes, or what I tell you?”

Another example: We are relatively quiet about food costs than about fuel increases. Why? – Because that is what we hear being hammered home every day as being our biggest concern. Fuel cost increases have been very high and are extremely painful. Fuel costs have recently gone up 25 to 40% by my measurement. Many household food items have gone up by similar amounts over the same time frame, e.g. eggs 40%; milk 26%, bread 15%; meat – a “bunch”; and so on. But as a base, food comprises about 13 percent of average household budgets, while gasoline comprises only about 4%. So food cost increases have far, far exceeded gasoline costs on the basis of cash outlay. While we hear about both, which one is pounded home to us every day far more than the other? Politics? – Perhaps.

We have to learn to make our own observations and measurements, and reach our own conclusions. I fear that too few of us detect this “spinning” of information when it occurs and simply trust everything traditional sources are telling us. I recently read a quote by an editor of a large east coast publication in which he contended (I am paraphrasing) the media may have a greater good to serve, in some circumstances, than just providing the cold hard facts. That attitude is a very “slippery slope”.

Maybe we have just been spoiled in recent decades. Have we come to expect low inflation and economic growth as the norm, with any temporary challenge considered a gigantic irritation? We must beware of those who want us to believe only the worst, for ideological or political reasons. Things just “ain’t” always as described!