THE DANA VIEWPOINT

A LIST FOR SANTA

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The economy continues to show signs of life. November job losses were reported last week at 11,000. Economists had been anticipating 100,000 to 125,000. Also, job numbers for the previous two months were revised to show 148,000 more jobs than first reported. That is the best job report in over a year. We should start to see some positive numbers early next year. Corporations have cut employment to the bone so the remaining question is how rapid and strong will the recovery be. We still have about 15 million unemployed in a 138 million job economy (*Bureau of Labor Statistics).* There are many things that can be done to accelerate the recovery, but let's focus on three – real job creation, interest rates and uncertainty.

1. **Real job creation**. One of the best ways to help small businesses expand is to keep the tax cuts of the early century in place. It really is pretty simple – promote an environment conducive to making a profit. This means lowering taxes, reducing health care costs and eliminating regulations that tie the hands of small businesses. More profit means more money to hire more employees. Free enterprise works where it is allowed to flourish. This is a formula that has produced a strong American economy for decades. Government regulations and other micromanaging only interfere with this process. We are developing some positive economic momentum now, and it will feed on itself if we let it.
2. **Interest rates**. Low interest rates were helpful in preventing a recession from turning into a depression. Low interest rates today are helping financial institutions, who can borrow at near zero rates and re-invest in longer term bonds (10 year treasuries) and earn a spread in excess of 2.5%. However, near zero rates here are causing dollars to flow overseas where returns are higher. Foreign countries are complaining that excess dollars are creating asset bubbles and undercutting global growth. According to the IMF (International Monetary Fund) US GDP has fallen to 24% of world GDP from 32% in 2001 (*Investors Business Daily* editorial). As US dollars move overseas, the dollar weakens. This coupled with high tax rates (and the

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possibility of even higher tax rates) has caused the US share of world equity market capitalization to fall to 30% from 45% (*Investors Business Daily* editorial).

3. **Uncertainty** is also hindering strong economic growth. First, we have concern over the budget deficit. What type of health care plan will be unveiled, and what will be its impact on businesses and consumer costs? Will a cap and tax bill be passed next year? Uncertainties are weighing on business expansion and Congress needs to resolve these issues. We are almost certain the tax cuts implemented by the previous administration will be allowed to expire. The equity market has staged an impressive rally from an oversold level in March of this year, and in the process, has restored much of the wealth of the American public. However, to continue this restoration of wealth these uncertainties need to be resolved and the business climate enhanced.

Federal Reserve Chairman Ben Bernanke's position as head of the Federal Reserve expires at the end of January. He sat before Congress last week while they grilled him unmercifully and blamed him for everything under the sun. Just once, wouldn't you like to see certain members of Congress grilled by Bernanke or a team of economists? Truth be told, Congress was as much to blame as anyone for the mortgage meltdown with its zeal pushing Fannie Mae and Freddie Mac to sponsor more and more sub-prime loans. Yes, Bernanke has made some mistakes, but he did act, and in all probability prevented a depression. After all, he was not balancing the family budget but a $12 trillion economy. He deserves to be re-appointed.

What an exciting year. Isn't this a great country? All religions can come together this holiday season to worship as they please. In that spirit, **we want to wish you and your families a safe and happy holiday season.**

Random Thought for December 2009: "People who refuse to face the reality of hard choices are forever coming up with some clever third way – often leading to worse disasters than either of the hard choices."

Thomas Sowell, Economist

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