



September 13, 2010

Dow: 10,463

## PASS THE AMMO

A story has it that a chaplain aboard the USS New Orleans during the attack on Pearl Harbor was walking behind a line of men, patting them on the back and saying, "Praise the Lord and pass the ammunition." He was cheering them on to keep them going. The USS New Orleans survived the attack on Pearl Harbor and went on to perform admirably in the war in the Pacific. She went on to earn seventeen battle stars for World War II service, placing her among the highest decorated ships of the war. Today many are asking Ben Bernanke to pass the ammo. Like the chaplain aboard the USS New Orleans the Fed will keep passing the ammo until we work our way out of this slow recovery period. The Fed has kept interest rates near zero and has purchased over \$1.5 trillion in Treasuries and agencies to inject cash into the banking system. When the Federal Reserve was formed in 1913, its sole purpose was to make sure that there was sufficient money in the system to provide a stable economy. The Fed has certainly provided a more than adequate money supply through asset purchases. We have said in the past that it is not just the money supply that is the key to recovery, but the velocity of money.

Now there seems to be some disagreement within the ranks of the Fed. Kansas City Fed President Thomas Hoenig has advocated raising rates, if only to 1%. He recently stated, "I believe that zero rates during a period of modest growth are a dangerous gamble." Dallas Fed President Richard Fisher has said that the economy is "not as robust as we would like" and likens the effects of further accommodation to "pushing on a string" (taken from the notes of the last Fed meeting). Although there has obviously been discussion within the Fed, Bernanke has been able to keep the troops pulling together and interest rates will remain low. Free enterprise has worked for us for several hundred years. There have been and always will be recessions and even financial panics, but the markets have the propensity to straighten themselves out.

Economic data continues to be mixed. The latest jobs report continues to be weak, depending on who spins it. Non-farm payrolls fell by 54,000 in August, however, that included 114,000

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temporary census jobs lost, so you could say the private sector gained 67,000. A positive number, to be sure, but it's not near enough to indicate a robust recovery. It is still the uncertainties holding the recovery back. Calvin Coolidge once said, "The business of America is business." Our corporate tax rate at 35% is the second highest in the free world after Japan. Congress could help by reducing that rate to at least 20%.

CEOs speak: Paul Otellini, CEO of Intel which employs 80,000 people, worries that America will not be the center of the innovation universe much longer. Otellini said, "I can tell you definitively that it costs \$1 billion more per factory for me to build, equip, and operate a semiconductor manufacturing facility in the U.S." He further stated that 90% of the added cost is due to taxes and regulations that other countries don't have. CEO David Speer of Illinois Tool Works, whose company employs 60,000 workers, recently stated, "I could borrow \$2 billion tomorrow for 3-1/2%, but what am I going to do with it?" And Ivan Seidenberg, CEO of Verizon, said, "Tax hikes, regulations and constant policy shifts harm our ability to gain private sector jobs in the US" (Investor's Business Daily, 8.26.10). These people know business and our policy makers should listen.

**Random Thought for September 2010:** "Tony Blair, former Prime Minister of England, recently released his autobiography, A Journey: My Political Life. On the economy he says, "The role of government is to stabilize and then get out of the way as quickly as economically sensible. Ultimately, the recovery will be led not by government but by industry, business and the creativity, ingenuity and enterprise of people. If the measures you take in responding to the crisis diminish their incentives, curb their entrepreneurship, make them feel unsure about the climate in which they are working, the recovery becomes uncertain."

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