THE DANA VIEWPOINT

MONEY

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It's true; those that forget history are doomed to repeat it. John Law, a Scottish economist, established the Banque Generale in France in 1716. The purpose was to stimulate a flagging French economy. John Law believed that money was only a means of exchange that did not constitute wealth in itself and that national wealth depended on trade. Law's views held that money creation will stimulate the economy, that paper money is preferable to metallic money which should be banned, and that shares are superior forms of money since they pay dividends. Law proposed to stimulate the French economy by replacing gold with paper credit, then increasing the supply of credit, and finally reducing the national debt by replacing it with shares in economic ventures. Law then used paper money to set up the Mississippi Company, a trading company in Louisiana. People flocked to buy shares. After several scandals and wildly fluctuating share prices, the company failed, taking down Banque Generale, and the French economy. Though Law's economic policy failed - his theories live on today - three hundred years later.

Congress seems to think money and debt do not matter, as we watch annual deficits and the national debt spiral out of control, and yet, the Federal Reserve continues to print money trying to stimulate our sluggish economic growth. It's not working. Look at the March jobs report:

1. 88,000 new private sector jobs created when economists were expecting 200,000; 300,000 are needed for a healthy economic recovery.
2. 500,000 people left the workforce, basically giving up on looking for a decent paying job.
3. The labor force participation rate dropped to 63.3%, the lowest since 1979.
4. The unemployment rate dropped to 7.6%. However, if you add back the people who have dropped out of the labor force since the recession began (the government does not consider them unemployed) the unemployment rate is over 11%.

Add to this the increasing costs of the Affordable Care Act (now that we have passed it we are finding out what's in it) and the massive amount of new regulations. Corporate lawyers and accountants are working overtime trying to discern if they can expand and add new employees. These are the causes of the problem. Money is the effect. When you treat the effect of a problem you create the next problem. The government's solution to any problem is to throw more money at it. USPS and Amtrak don't work – throw money at them. Education doesn't work – throw more money at it. The real unemployment rate is too high – throw more money at it in the form of entitlements (food stamps, disability payments or extended unemployment

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benefits). Now Japan is following in our footsteps as the Bank of Japan plans to double its purchase of bonds, increasing the monetary base. Of course the yen dropped in value to under one dollar. Could this be a start of a currency war? Doubtful. Fortunately, it would be difficult for the European Union to print more money as there are too many countries involved to reach an agreement. Austerity measures seem to be the route for them. Worst case would be for governments to step in and tax the savings of its citizens.

If you are still reading this letter - here is the good news. It's not just money per se that drives the economy. It is the velocity of that money. Right now most of the money being printed by the Treasury is sitting idle in banks and on corporate balance sheets. It is being used to reduce corporate debt, buy back corporate shares, or to buy other companies. This is laying the foundation for solid corporate finances that will lead the way in turning this economy around. Corporations are learning to deal with the uncertainties in the market place and will eventually unleash this money to increase profit margins. The stock market, though making marginal new highs, is treading water until such time as investors see some positive evidence that the government will stand aside somewhat, and let the free enterprise system do its thing. It won't take much to light a fire under this economy. We are still the biggest economy in the world, we have the most skilled work force, and we still attract the best and the brightest creative entrepreneurs.

The action by lawmakers in Cypress to impose levies on savings accounts must be raising eyebrows throughout the European Union, especially in Spain, Italy and Portugal. That sort of thing should not happen in a Republic like ours, and our lawmakers should be vigilant to see that it doesn't.

Random Thought for April 2013: "A government big enough to give you everything you want, is a government big enough to take away everything you have."

Thomas Jefferson

R.I.P Margaret Thatcher, the Iron Lady

15800 W. BLUEMOUND RD • SUITE 250 • 53005-6026 • P.O. BOX 1067 • BROOKFIELD, WI • 53008-1067 • 262.782.3631 • FAX 262-782-0581
365 ERICKSEN AVENUE.N.E. • SUITE 312 • SEATTLE, WA • 98110-1888 • 206.855.8781 • FAX 800.560.6227

E-Mail: dia@danainvestment.com
Web Site: www.danainvestment.com