THE DANA VIEWPOINT

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HIDING IN PLAIN SIGHT

Sometimes the goal is too close to see clearly. It's amazing that Osama bin Laden was only about one mile from the Pakistan version of West Point for five or six years and went undetected. Likewise our economic recovery. It is right there under our noses waiting to be captured. After all the government stimulus spending, the too big to fail bailouts, the Fed printing massive amounts of money and near zero interest rates have failed to raise economic growth to normal levels after a recession, it comes down to one factor - get out of the way and let the business cycle do its work. Corporations have spent the last two years cutting employment, increasing productivity measures, and building up massive cash reserves. It's estimated that companies have over $2 trillion in cash reserves on their books. Investors have another $1.5 trillion in money market funds. We don't need the Fed to print more money, and we don't need zero percent interest rates. Businesses and investors are ready and willing to do their part; now we need Congress to see what is in plain sight. They need to cut spending, reduce the overall debt and eliminate any onerous regulations that hinder business development.

The non-farm payrolls were reported for April and they showed an increase of 268,000 new private sector jobs, the best number in five years. Unfortunately, the unemployment rate jumped to 9.0% from 8.8%. That isn't all bad as it shows more people want to work and are actively searching. We don't know if McDonald's 50,000 new jobs were included in that number, but apparently thousands and thousands of people across the country lined up to apply for these jobs.

North of the border Stephen Harper won a landslide election to remain Prime Minister of Canada. He has been in office since 2006. He has been governing on a platform of lower taxes. He will soon prepare a cut in corporate tax rates to 15% from 16.5%. On January 1, 2008, Canada's general sales tax fell to 5% from 7%. Canada's debt as a share of GDP has fallen from about 70% in the mid 90's to about 35% today. Might we learn something from our neighbors to the north?

What's happening in China? For starters, they are battling inflation. Their CPI (Consumer Price Index) rose 5.4% in March, the fastest since July 2008. Their gross domestic product (GDP) grew 9.7% from a year earlier in the first quarter, down only slightly from 9.8% growth in the fourth quarter of 2010. As a result, the government increased reserve requirements at banks to 20.5%. This is the 10th increase since the start of last year. Some of their more aggressive banks have an even higher reserve requirement. China has

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also seen a large amount of foreign exchange inflows adding to their increasing liquidity problems. Inflation in China is sure to be imported in the form of higher prices here. On the other hand, this will help our domestic producers of goods.

China continues to grow and now we are hearing fears that they will overtake our economy (remember fears of Japan in the 1980's). According to the IMF (International Monetary Fund), China could surpass the US as the world's largest economy by 2016. The current growth rates certainly indicate it could happen. If China's economy continues to grow at 10%, their GDP will double every seven years. Our GDP would double every 24 years at the current 3% rate. That's a pretty simple extrapolation and not very likely. It's easier to double small numbers, but much more difficult when the numbers are larger. China has yet to show that they can handle the vagaries of economic growth, inflation, recessions, labor strife, interest rate cycles, stock market cycles, currency fluctuations, and worldwide leadership in the economic and political climate. We are still the leader in these areas, and as much as other countries like to take pot shots at us, they all look to us when problems arise. Of course we must work to maintain that leadership role.

What's with commodities? They have taken a beating over the last few days. Some are speculating that the elimination of bin Laden means an end to the war on terror and a stable political and economic environment in the Middle East with free flowing oil once again. Don't hold your breath waiting for that to happen. It will be interesting to see if al Qaeda and the Taliban have new and energetic leadership or if we took the air out of their tires. It is clear that people in the Middle East are tired of all the killing and suppression of human rights and are finally ready to stand up and fight for freedom. This is a welcome trend, and if successful, we would be able to welcome this part of the world into our economic globalization. Maybe bin Laden's death was a catalyst in the commodity sell off, but most likely it was sophisticated traders taking profits in an over extended market. We would look for more volatility.

Random Thought for May 2011: "We have tried spending money. We are spending more than we have ever spent before and it does not work."

Henry Morgenthau, Secretary of the Treasury under FDR in 1939.

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