

*Connecticut Business & Industry Association
Hartford Marriott Rocky Hill*

September 8, 2011

Budget Politics, Money, and Trade Is the US Too Greek to Grow?



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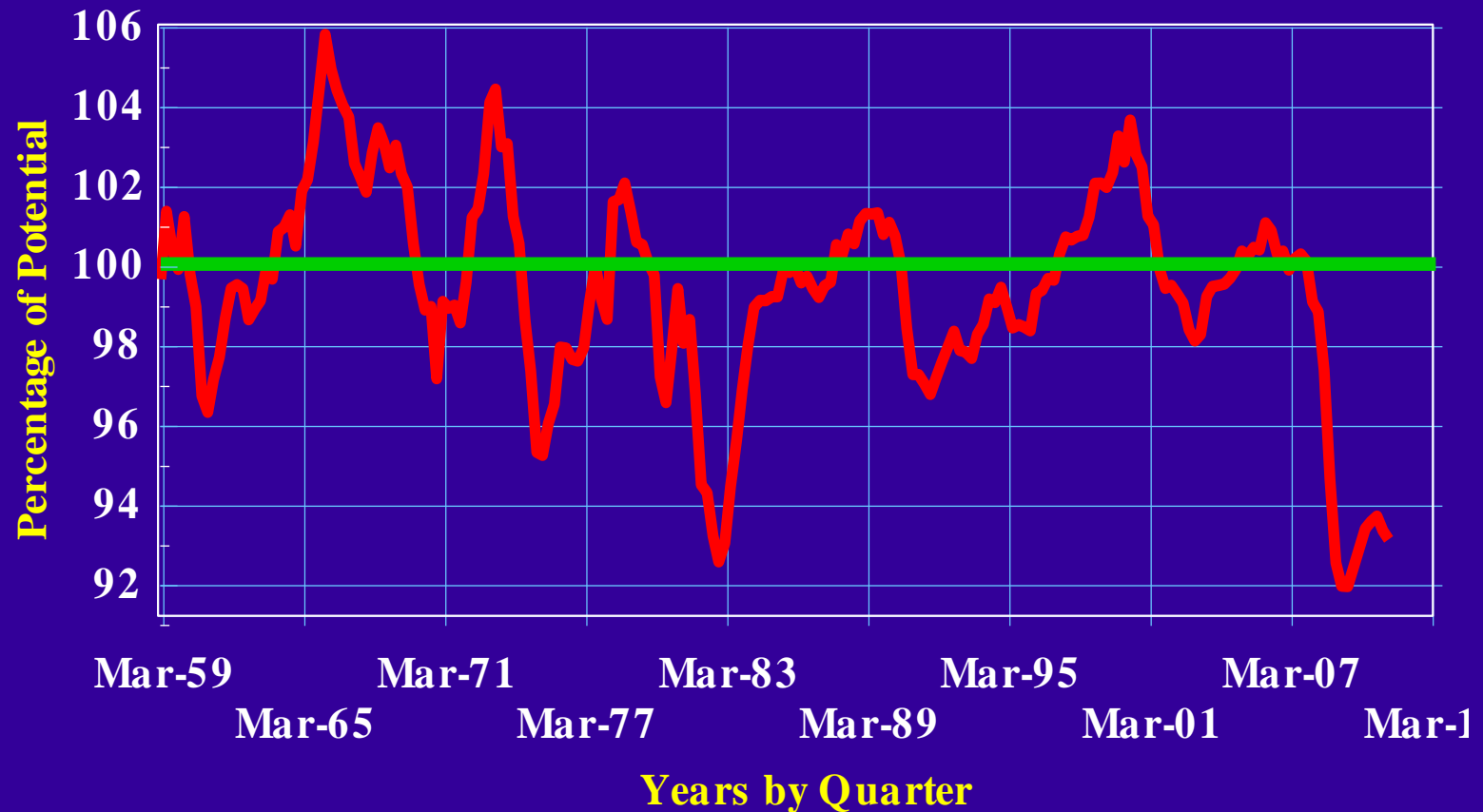
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The U.S. Situation

- **The U.S. Suffered an International Competitiveness Shock in the 1990s. The U.S. Ignored the Consequences of a Growing Current Account Deficit.**
- **Erroneously Believing that Inflation was Under Control, the Federal Reserve Remained Much Too Easy, and **Religiously** Ignored the Massive Build-up of Foreign Official Deposits at the Federal Reserve Bank of New York. Those Deposits Became the Basis for Real Estate and Commodities Speculation.**
- **The U.S. Also Flooded the World with Dollars, Contributing to Speculation and Credit Abuse Elsewhere, Although Europe Made Its Own Mistakes.**
- **We Are Inappropriately Applying a Neo-Keynesian Demand Stimulus **Religion** to an Economy that is Still Non-Competitive in the World.**
- **We are Also Further Damaging our Competitiveness with **Mindless Regulation** that Does not Honestly Apply Cost-Benefit Analysis.**

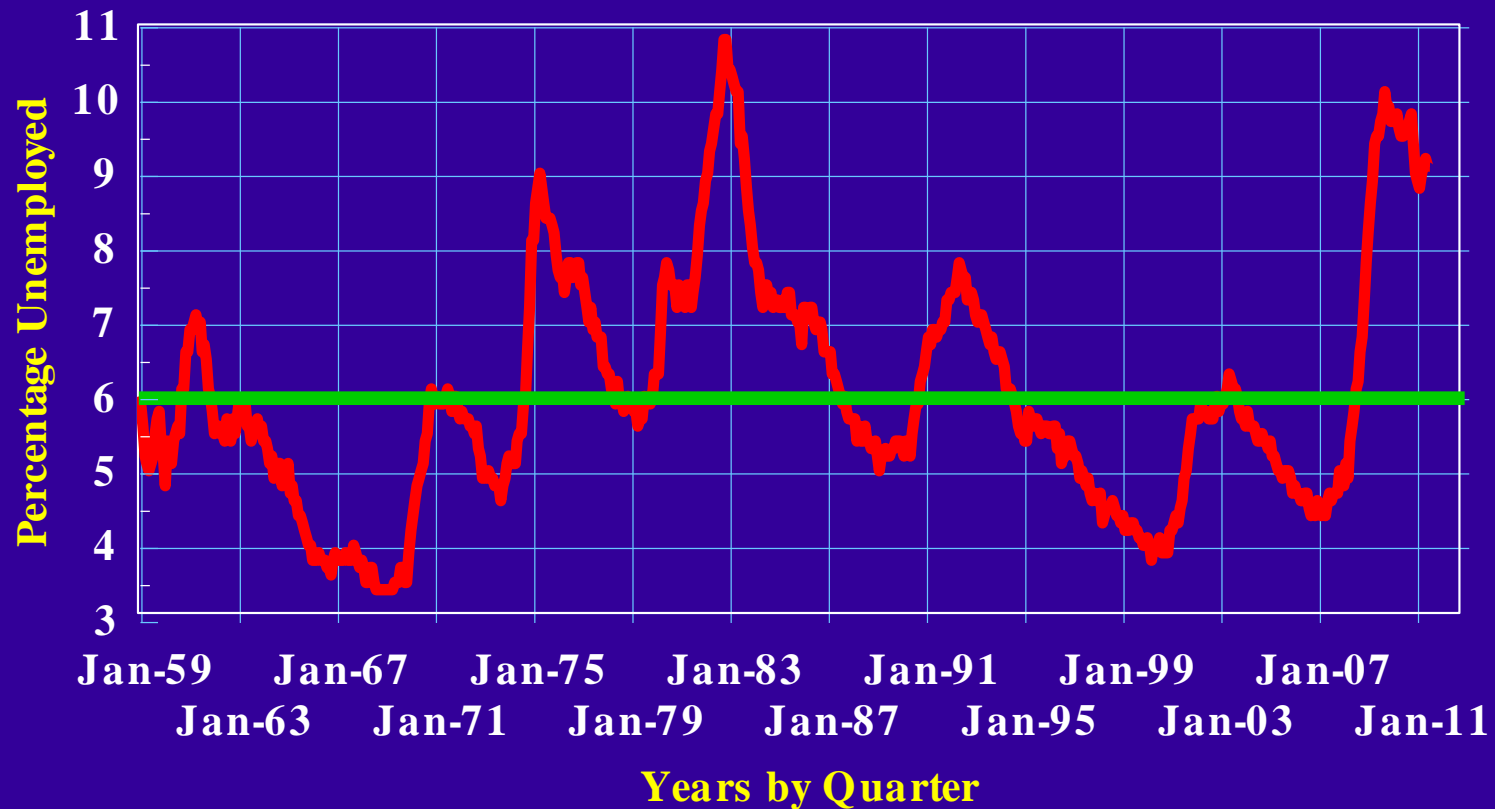
Real GDP as a Percentage of Estimated Potential

Source: Bureau of Economic Analysis



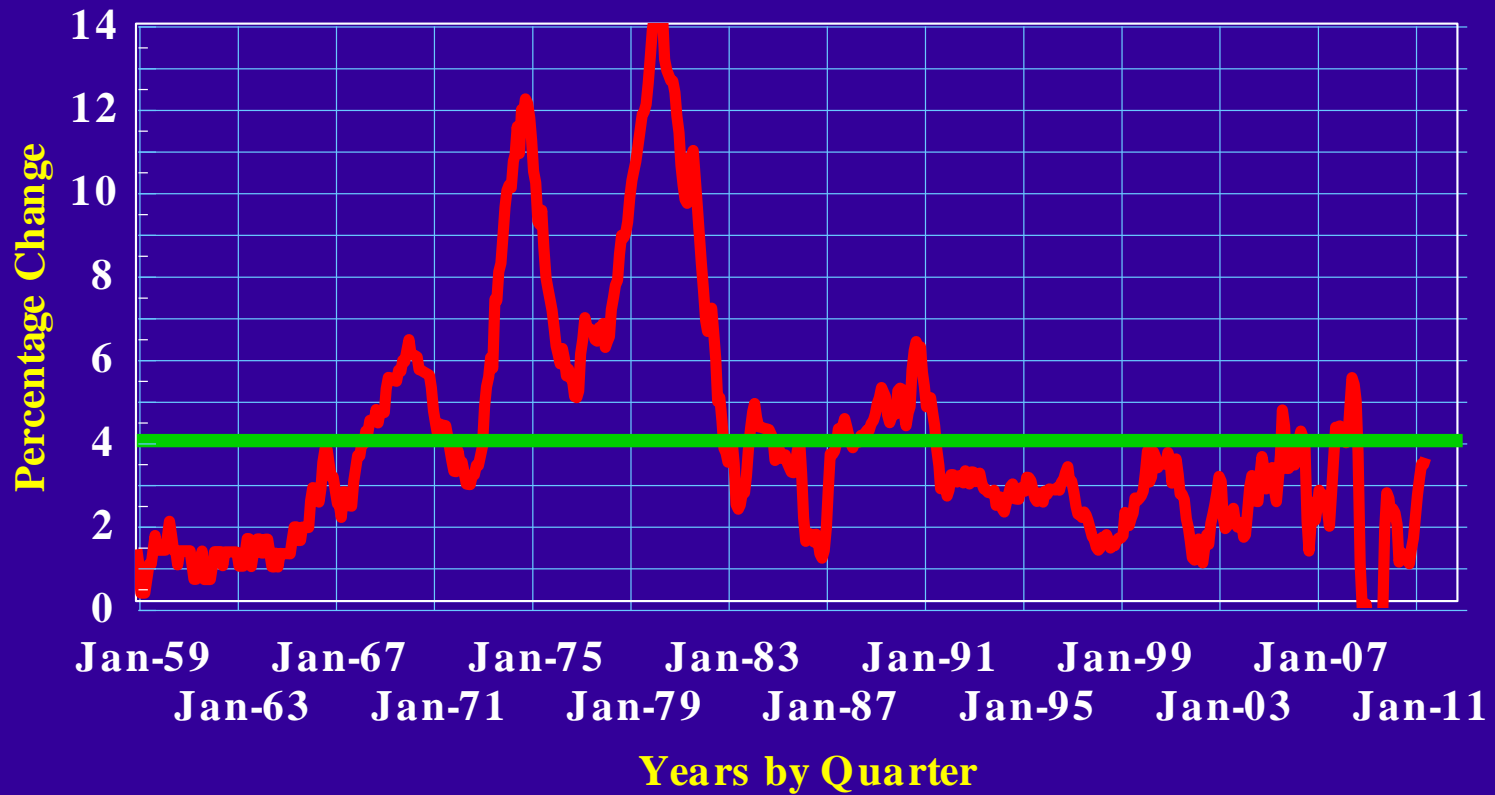
Civilian Unemployment Rate

Source: DOL, Bureau of Labor Statistics



Consumer Price Inflation Rate

Source: DOL, Bureau of Labor Statistics

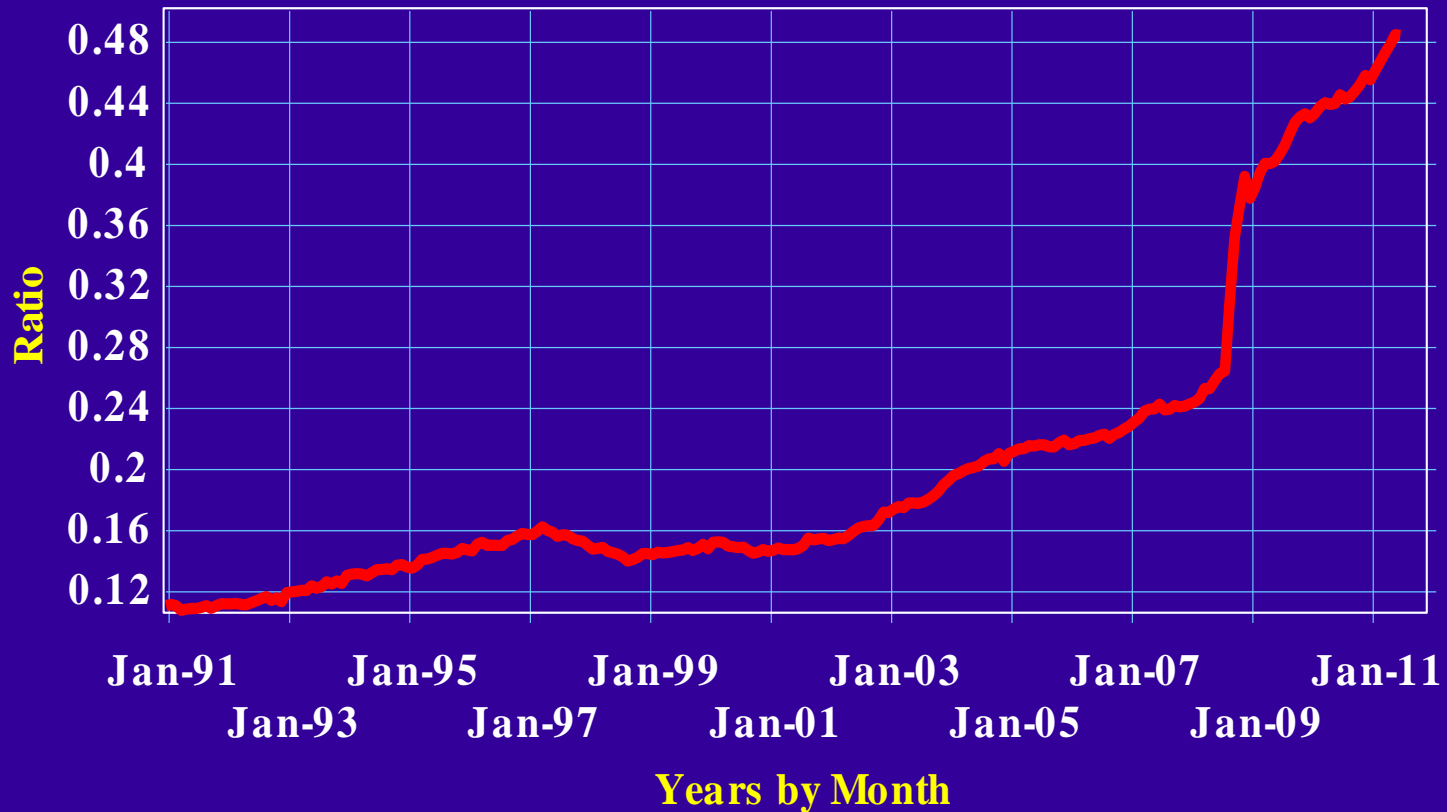


Federal Reserve and Foreign Central Bank Credit to the U.S. Financial Markets

Billions of Dollars

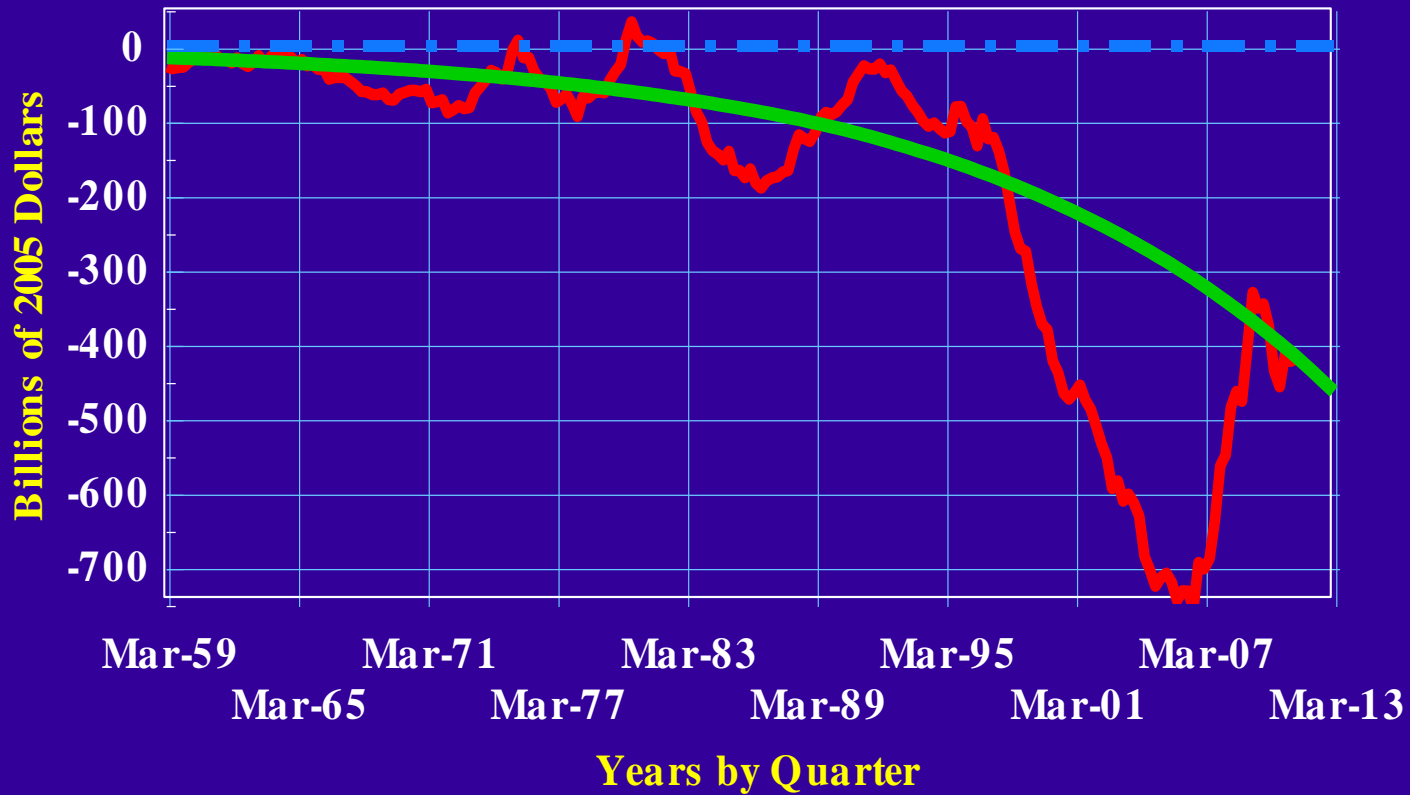


Ratio of Reserve Bank Credit, Domestic & Foreign, to U.S. Personal Income



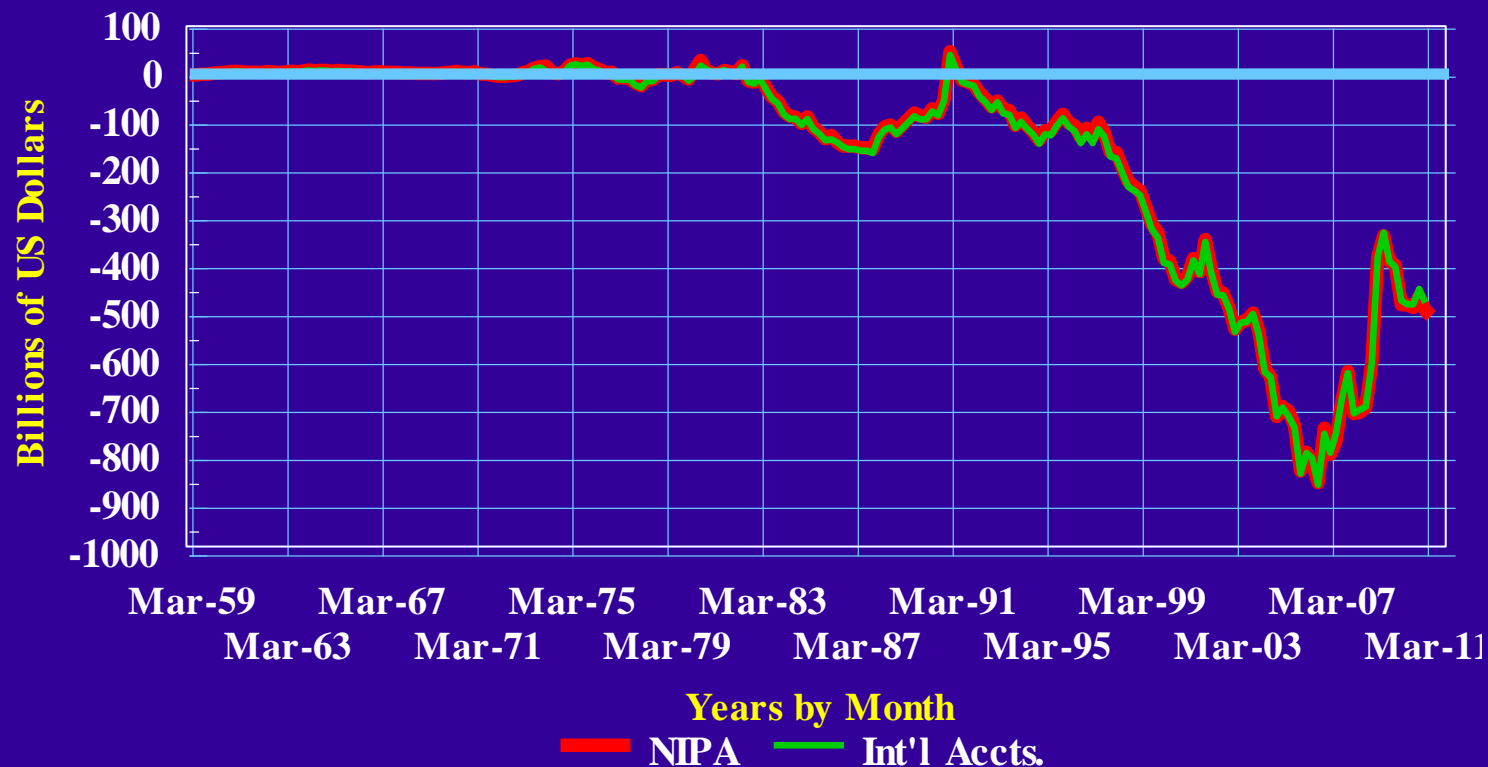
Real Balance of Trade in Goods and Services

Plotted with Trend Caused by Systematic Overvaluation of Dollar
Chain Weighted 2005 Dollars



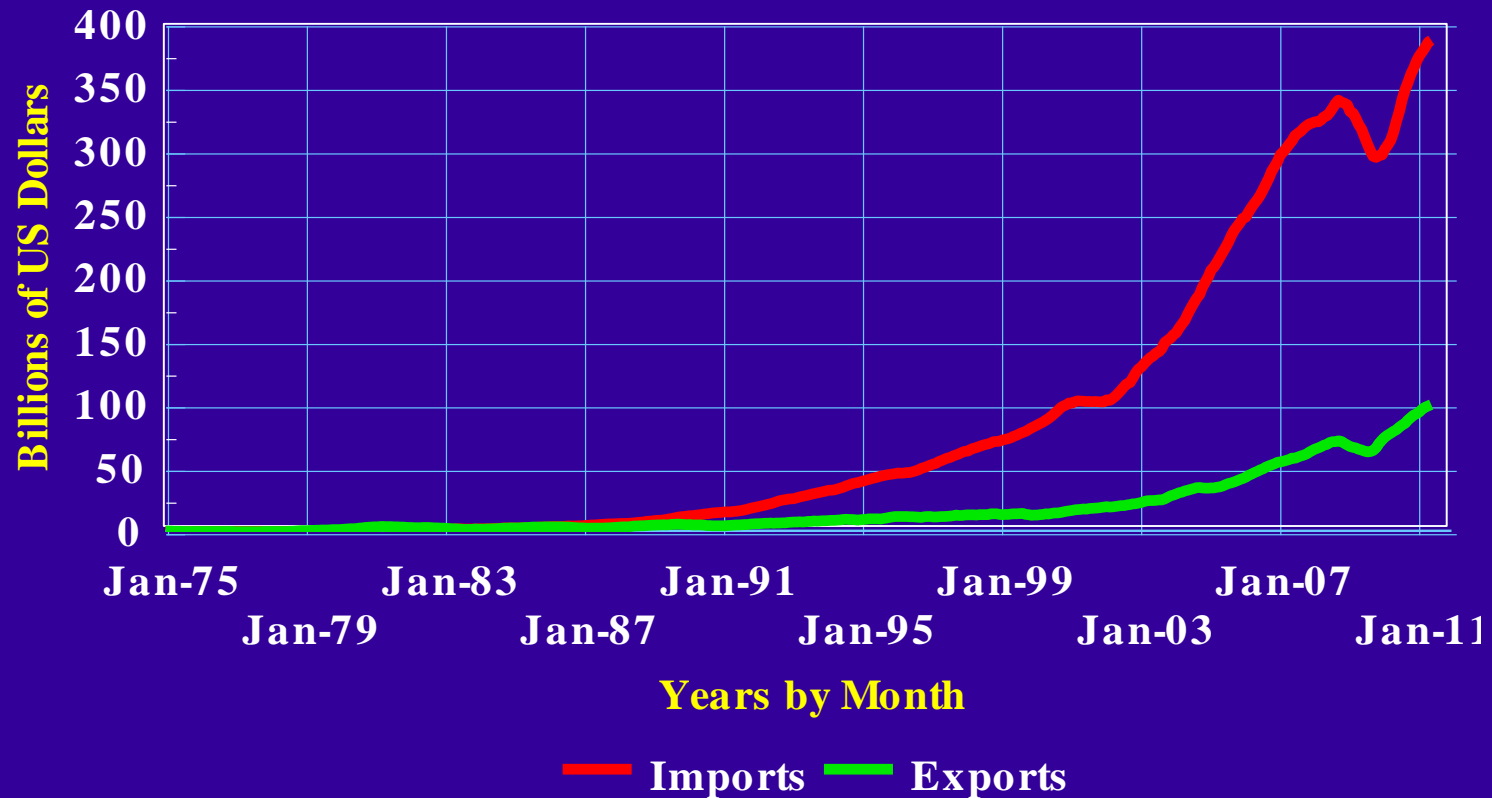
Balance of Payments on Current Account

NIPA and International Accounts, SAAR, \$Billions



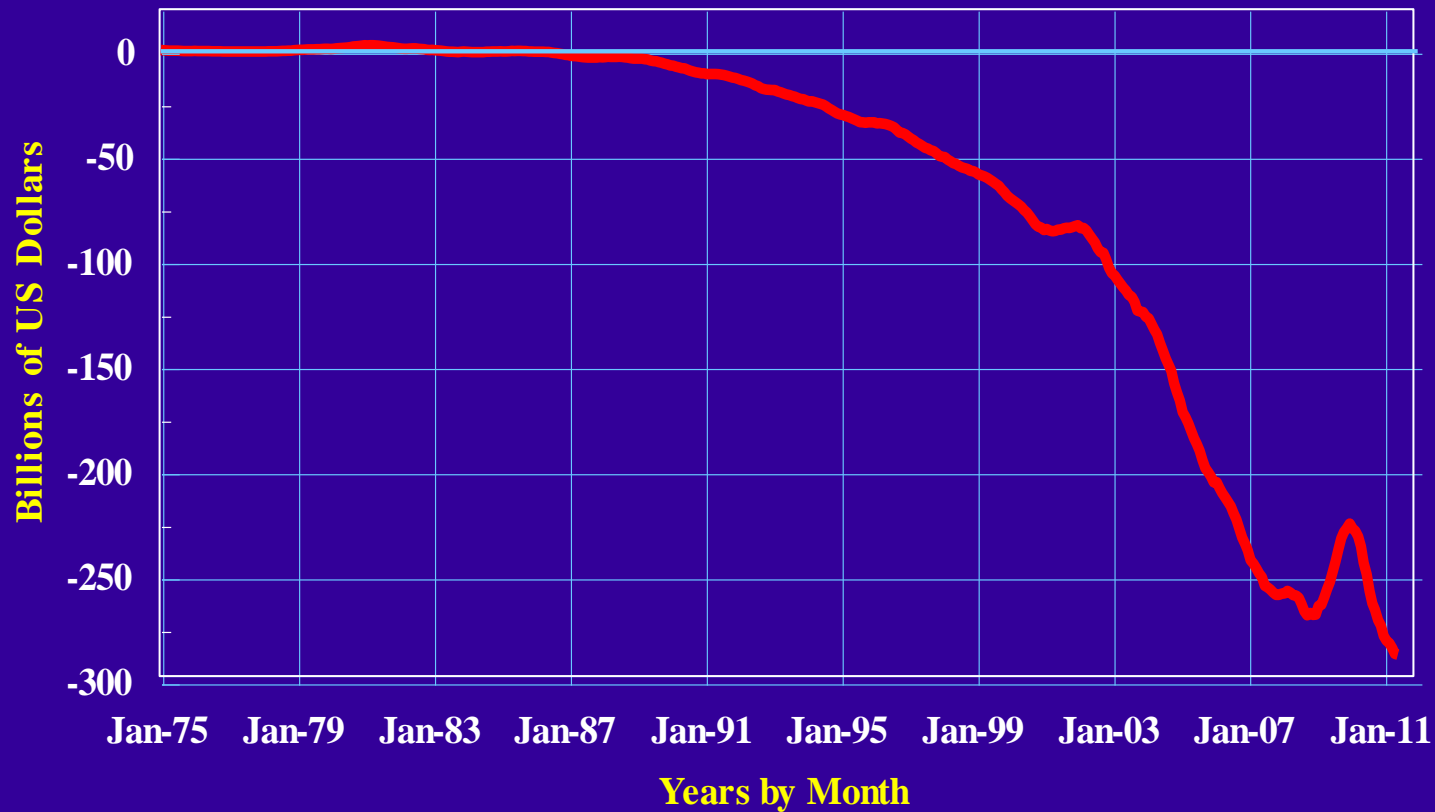
U.S. Trade with China (\$US Billions)

Twelve Month Moving Sums of Not Seasonally Adjusted Data



U.S. Trade Balance with China (\$US Billions)

Twelve Month Moving Sums of Not Seasonally Adjusted Data



Some Numbers From the U.S. Current Account

Sources: U.S. DoC and FRB

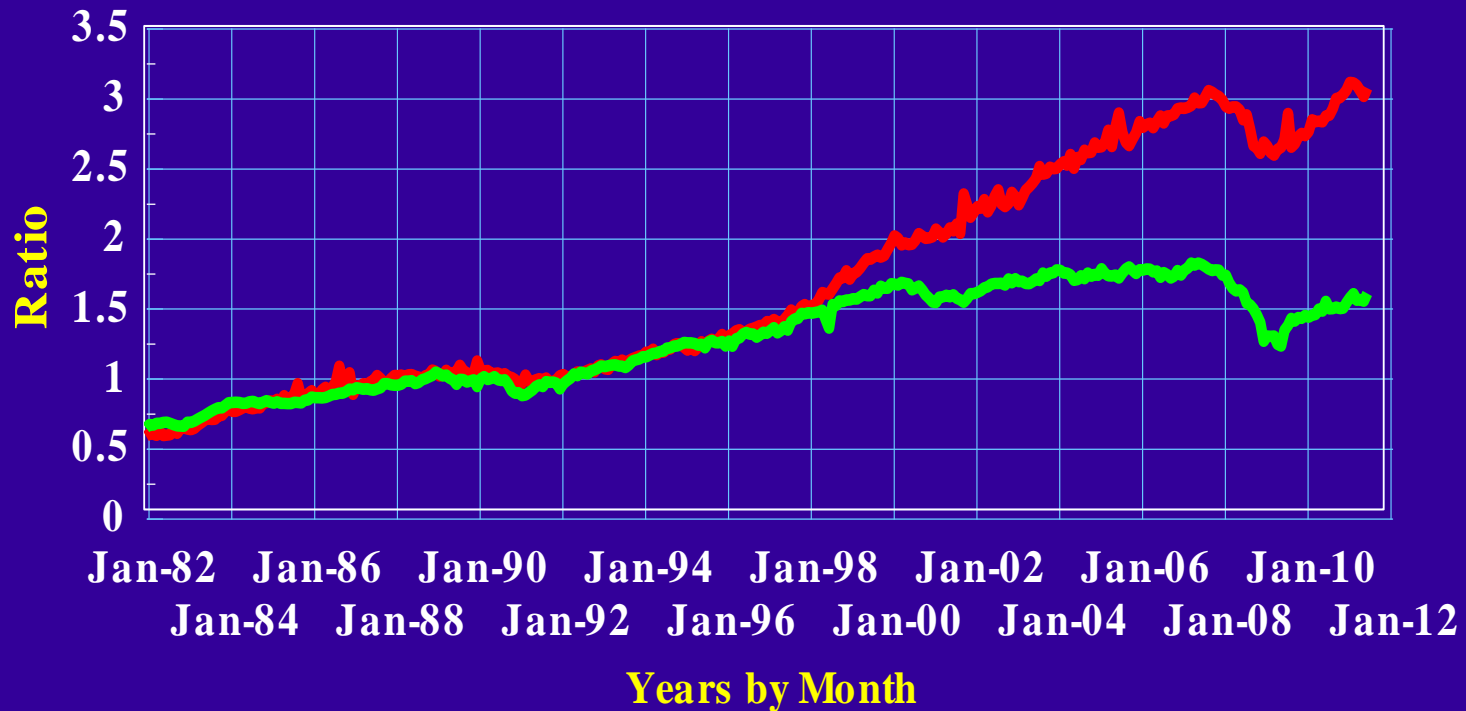
- **The Cumulative U.S. current account deficit since the Asian financial crisis equals about \$6,931.0 billion.**
- **Amount of the surplus dollars in the world reinvested in the U.S. bubble economy through the Federal Reserve Bank of New York equals about \$2,887.7 billion, since the end of 1997.**
- **Amount of the surplus dollars in the world invested in other world financial centers equals about \$4,043.3 billion, since the end of 1997.**

Failure of the Neo-Keynesian Religion

- **Although Keynes Knew Better, Fossilized Neo-Keynesians are Obsessed With Stimulating Consumer Demand.**
- **If a Country is Non-Competitive in the World, Stimulating Consumer Demand Stimulates Import Penetration, Not Production and Employment.**
- **U.S. Stimulus Programs Have Helped Chinese Workers More than U.S. Workers.**

Real Consumer Durable Demand and Consumer Durable Manufacturing Production

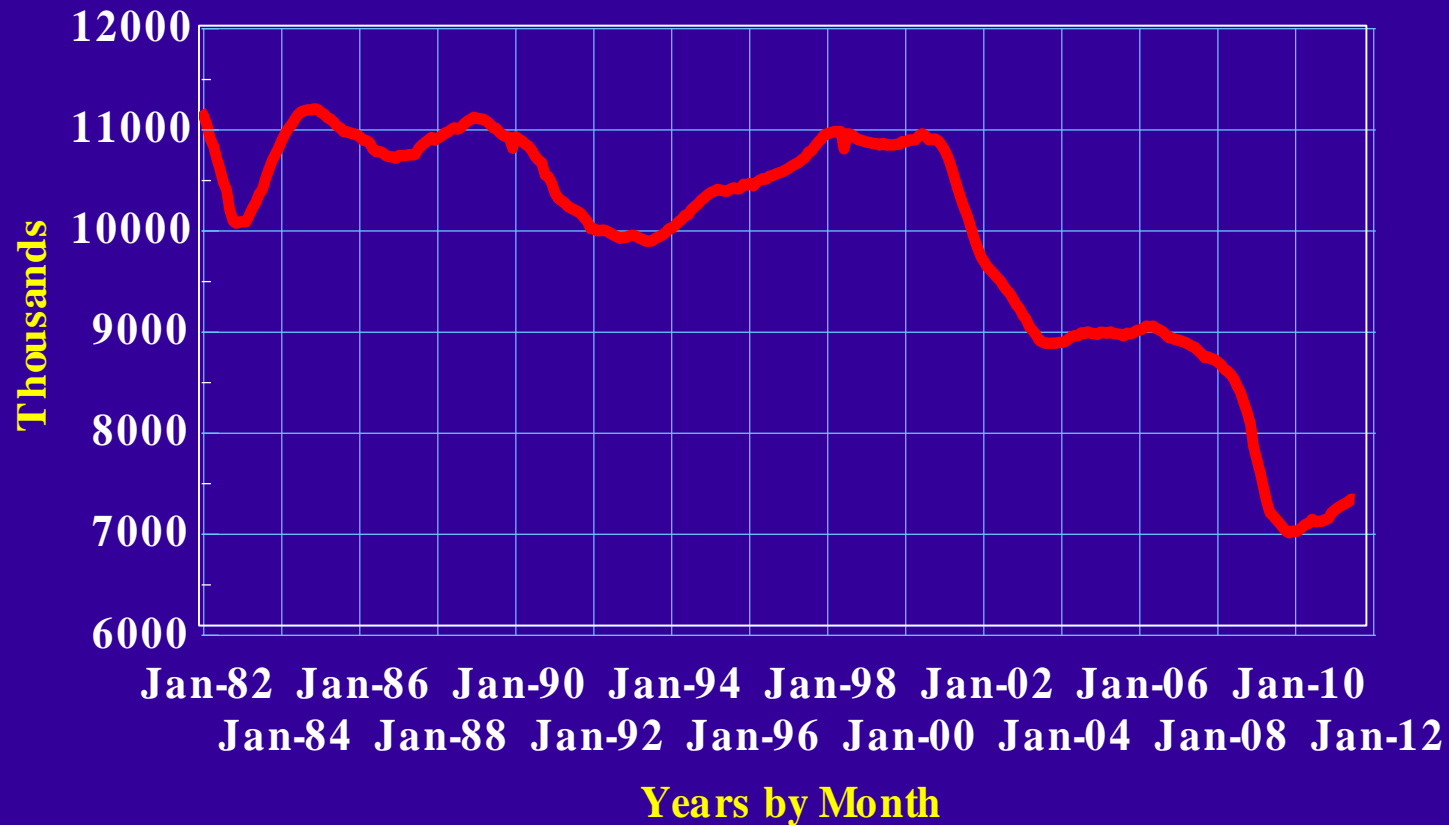
Both Indexed to January, 1992 = 1.000



— Real Consumer Durables — Durable Mfg. Production

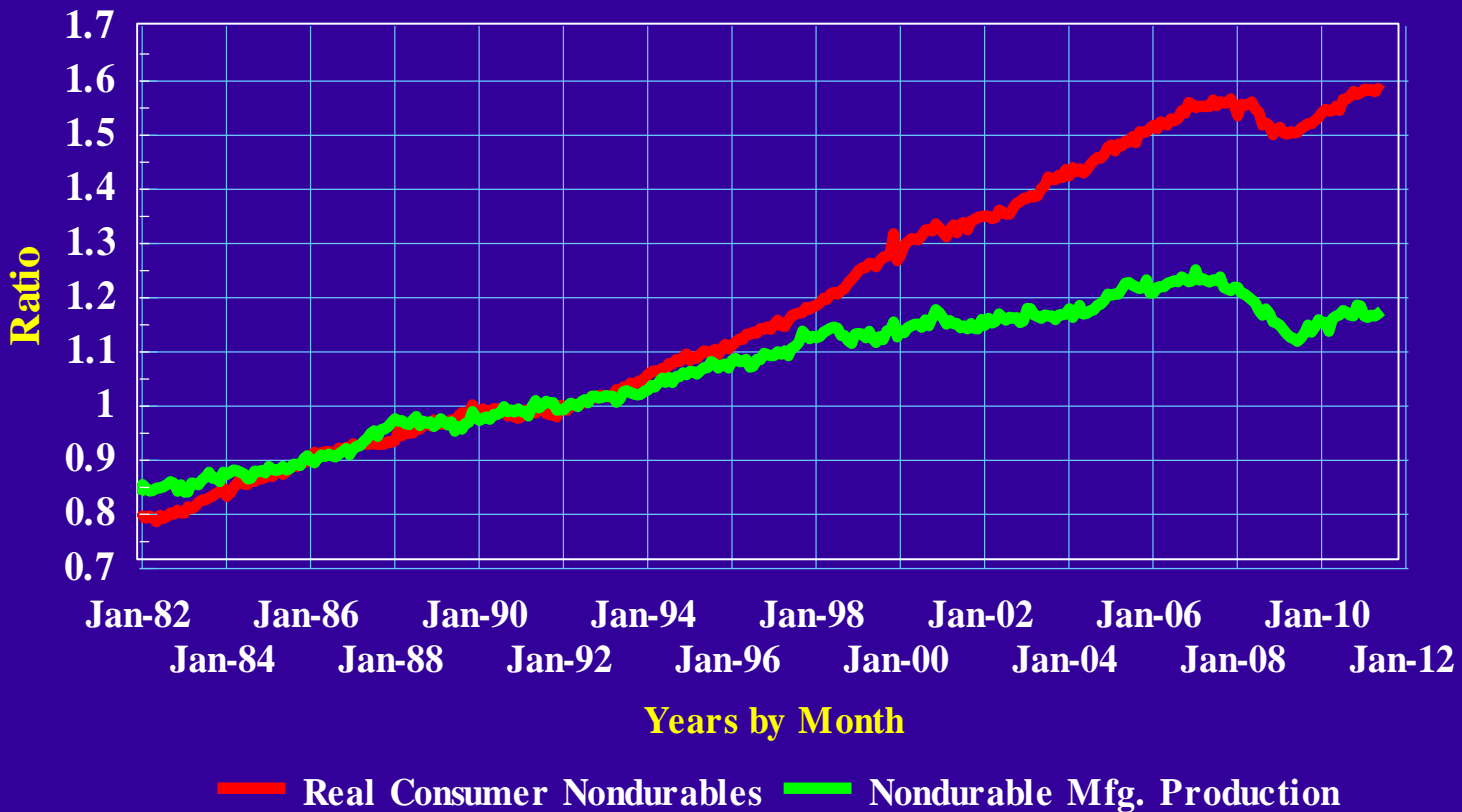
Employment in US Durables Manufacturing

Thousands of Employees



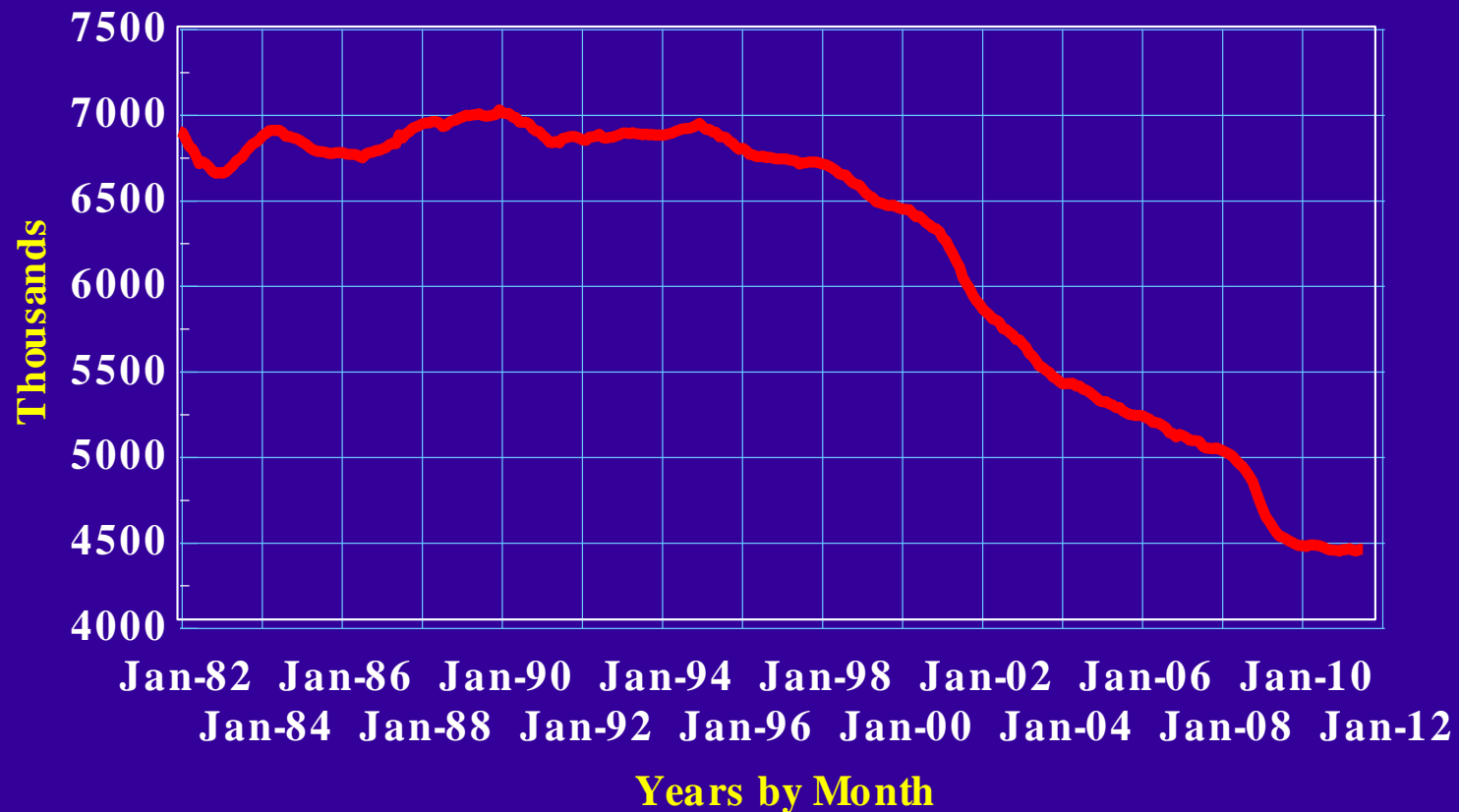
Real Consumer Nondurable Demand and Consumer Nondurable Manufacturing Production

Both Indexed to January, 1992 = 1.000



Employment in US Nondurables Manufacturing

Thousands of Employees



Exports and Business Investment are Still Vitally Important

- The Cyclical or Credit Sensitive Parts of the Consumer Economy are Housing (**2.44% of GDP**) and Consumer Durables Such as Autos, Boats, and Appliances (**9.51% of GDP**). They were Grossly Overdone on Credit.
- The Essential New Leadership Sectors are Exports (**13.29% of GDP**) and Business Investment Spending, Including Commercial Construction, Business Equipment, and Business Software (**10.65% of GDP**). Public Infrastructure can also Add to Growth, but is Problematic because of Political Corruption.
- **Our Trade Deficit Represents Approximately 8 Million Lost Jobs.**

Regulatory Barriers to Growth

(Playing Whac-A-Mole with the Economy)

- **Frustrated and Repressed Former Regulators from the Carter and Clinton Administrations, and Academic Socialists with no practical experience, have returned to Washington under President Obama.**
- **How Much has Normal Growth been Prevented by Arbitrary and Excessive Regulation?**
- **The List of Jobs-Destroying Regulatory Decrees by the Obama Administration is Growing Longer Nearly Every Week.**

Federal Government Economic Policy: Public Benefit or Special Interest Benefit?

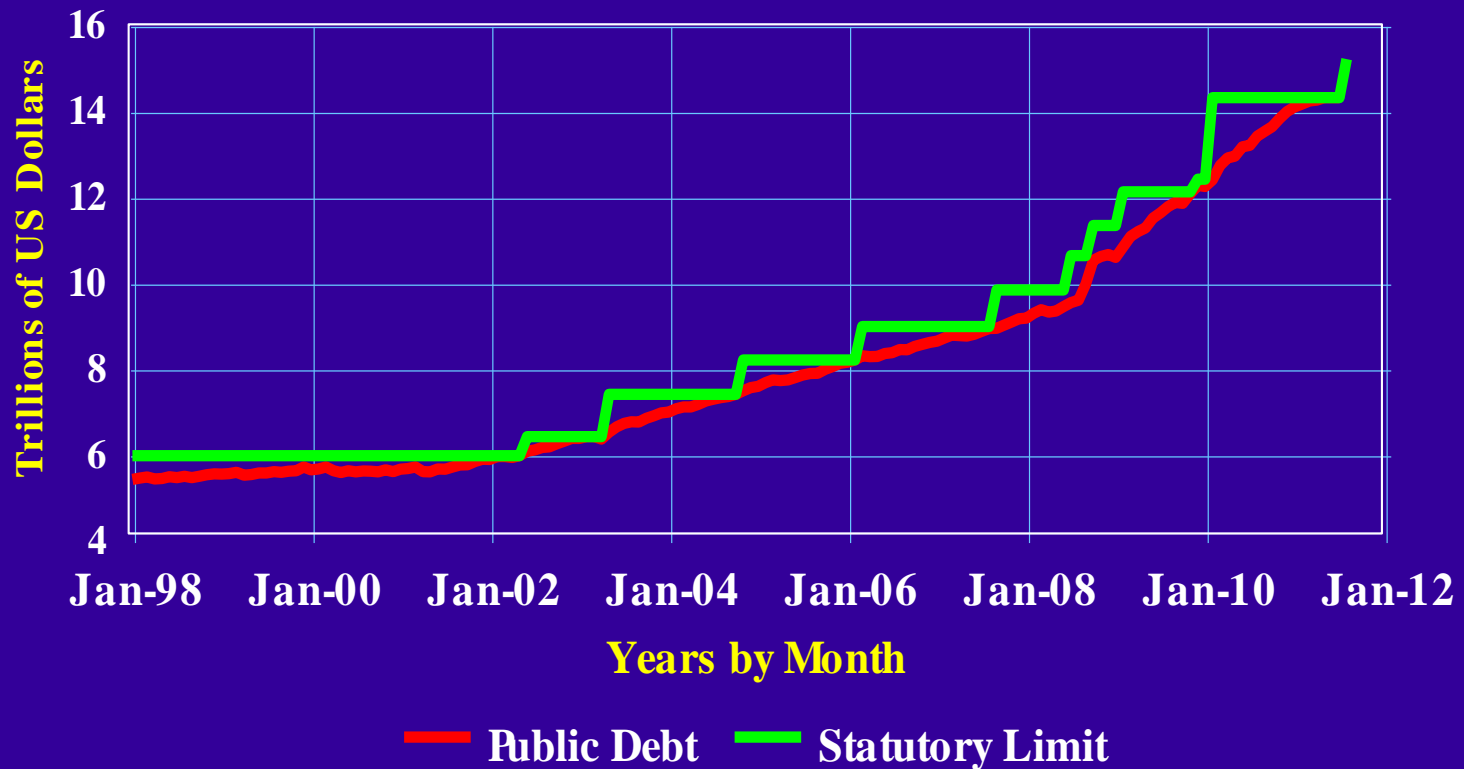
- **U.S. Bank Risk Guidelines (Basle I and II)**
- **Community Reinvestment Act**
- **Fannie & Freddie and the Mortgage Mills**
- **Mortgage Standards & Credit Ratings**
- **Commercial & Investment Bank Behavior**
- **The Stimulus Bill & Wasted Time & Capital**
- **Solyndra LLC, etc.**
- **Dodd-Frank Regulation and Bureaucratic Paralysis**
- **Corus Bankshares, etc.**
- **Obama Care & Labor Cost and Uncertainty**

The Strange Saga of the Debt Ceiling

- **The Democratic Leadership Had the Ability to Increase the Debt Ceiling in December 2010 When they Still Had Total Control. They Chose Not To in an Attempt to Trap the Republicans in a Later "Emergency" Vote.**
- **They Then Frightened Seniors With the Geithner Statement that Social Security Checks Were Threatened. They Were Not, Because the Trust Fund Still Held Years of Future Payments, all Within the Debt Ceiling.**
- **The Vote Delay Backfired on the Democrats When the Republicans Insisted on Spending Cuts.**
- **It Also Backfired on the Economy Because the Threat to Seniors and the Propaganda About the Risk of Default Damaged **Consumer Confidence**.**

Treasury Securities Subject to Debt Limit and Statutory Debt Limit

Trillions of US Dollars; Source: US Treasury



Infrastructure Bank?

- **There are reports that President Obama is seriously considering launching an "Infrastructure Bank" as a way to get around debt ceiling limits, transfer more authority from the States to the central government bureaucracy in Washington, and to fund payments to politically important projects during the election year.**
- **If the public liked the political corruption at Fannie Mae and Freddie Mac during the past fifteen years, they will really like the Infrastructure Bank Scheme.**

The International Situation

- **The Euro Zone Fixed Exchange Rates Could Have Worked in Theory, But, One Crisis was Inevitable, and a Second was Highly Likely.**
- **Ireland, Spain, and Portugal Entered the Euro at Undervalued Exchange Rates. That Encouraged Speculative Capital Inflows to the Real Estate Sectors of those Countries. The European Budget Transferred Resources to Projects that Contributed to Labor Cost Inflation in Spain and Greece. Easy Monetary Policy in Europe and the U.S. Also Worsened the Distortions in Relative Costs.**
- **The Industrial Structures in European Countries were Affected Differently by the Asian Devaluations and Trade Competitiveness.**
- **Greece Falsified Their Budget Accounts to Support a Corrupt Social and Labor Agenda and Undermined the Sense of Community in Europe.**
- **The BRIC and Commodity Bubbles Remain a Threat to World Growth and Financial Stability.**

GDP Growth Rates

IMF World Economic Outlook Update, April 11, 2011 & July 2011

	2008	2009	2010	2011	2012
Canada (*)	0.4	(2.8)	3.2	2.9	2.6
United States (*)	0.4	(2.6)	2.9	2.5	2.7
Mexico (*)	1.5	(6.1)	5.5	4.7	4.0
Britain (*)	0.5	(4.9)	1.3	1.5	2.3
Euro Area (*)	0.6	(4.1)	1.8	2.0	1.7
Japan (*)	(1.2)	(6.3)	4.0	(0.7)	2.9
China (*)	9.6	9.2	10.3	9.6	9.5
Russia (*)	5.6	(7.8)	4.0	4.8	4.5
India (*)	7.3	6.8	10.4	8.2	7.8
Brazil (*)	5.1	(0.6)	7.5	4.1	3.6
South Africa	3.7	(1.7)	2.8	3.5	3.8
World (*)	3.0	(0.5)	5.1	4.3	4.5

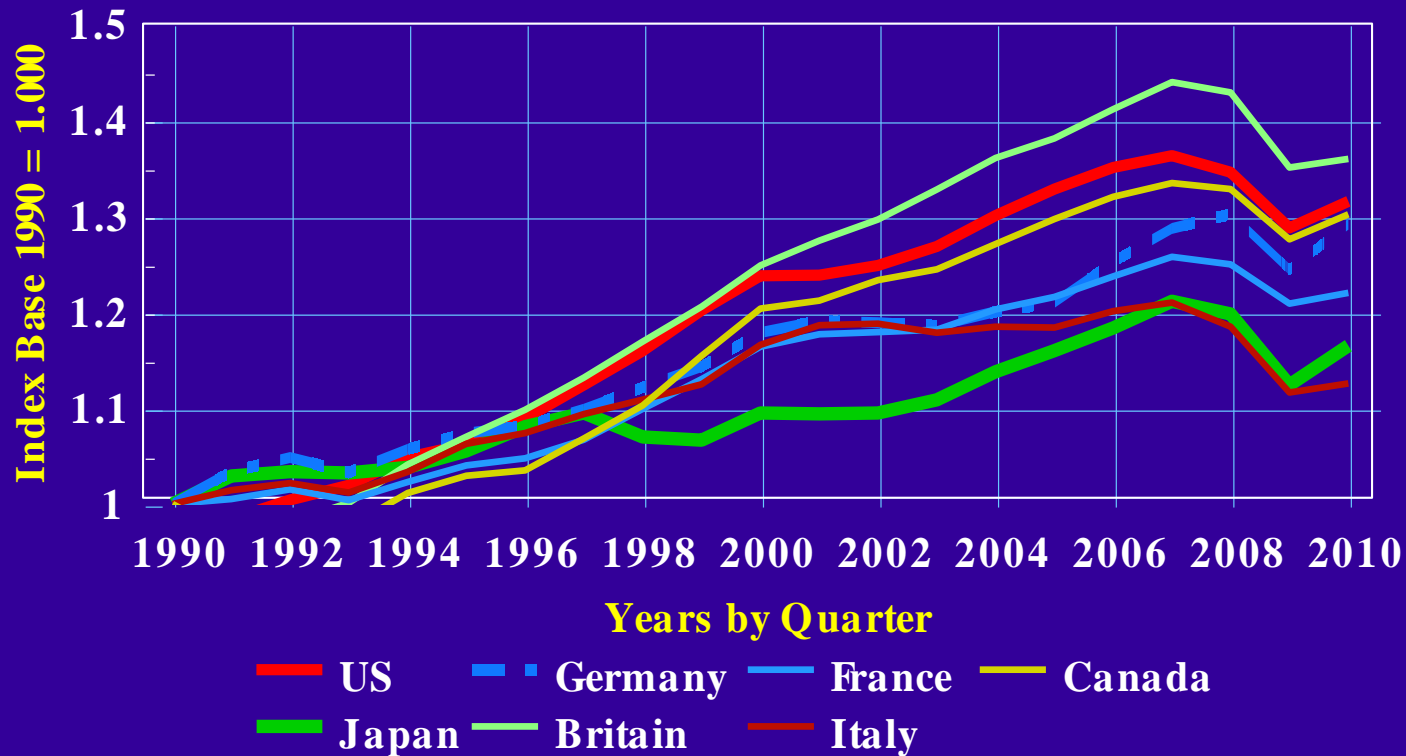
National CPI Inflation Rates

IMF World Economic Outlook, April 11, 2011

	2008	2009	2010	2011	2012
Canada	2.4	0.3	1.8	2.2	1.9
United States	3.8	(0.3)	1.6	2.2	1.6
Mexico	5.1	5.3	4.2	3.6	3.1
Britain	3.6	2.1	3.3	4.2	2.0
Euro Area	3.3	0.3	1.6	2.3	1.7
Japan	1.4	(1.4)	(0.7)	0.2	0.2
China	5.9	(0.7)	3.3	5.0	2.5
Russia	14.1	11.7	6.9	9.3	8.0
India	8.3	10.9	13.2	7.5	6.9
Brazil	5.7	4.9	5.0	6.3	4.8
South Africa	11.5	7.1	4.3	4.9	5.8
Adv. Econs.	3.4	0.1	1.6	2.2	1.7

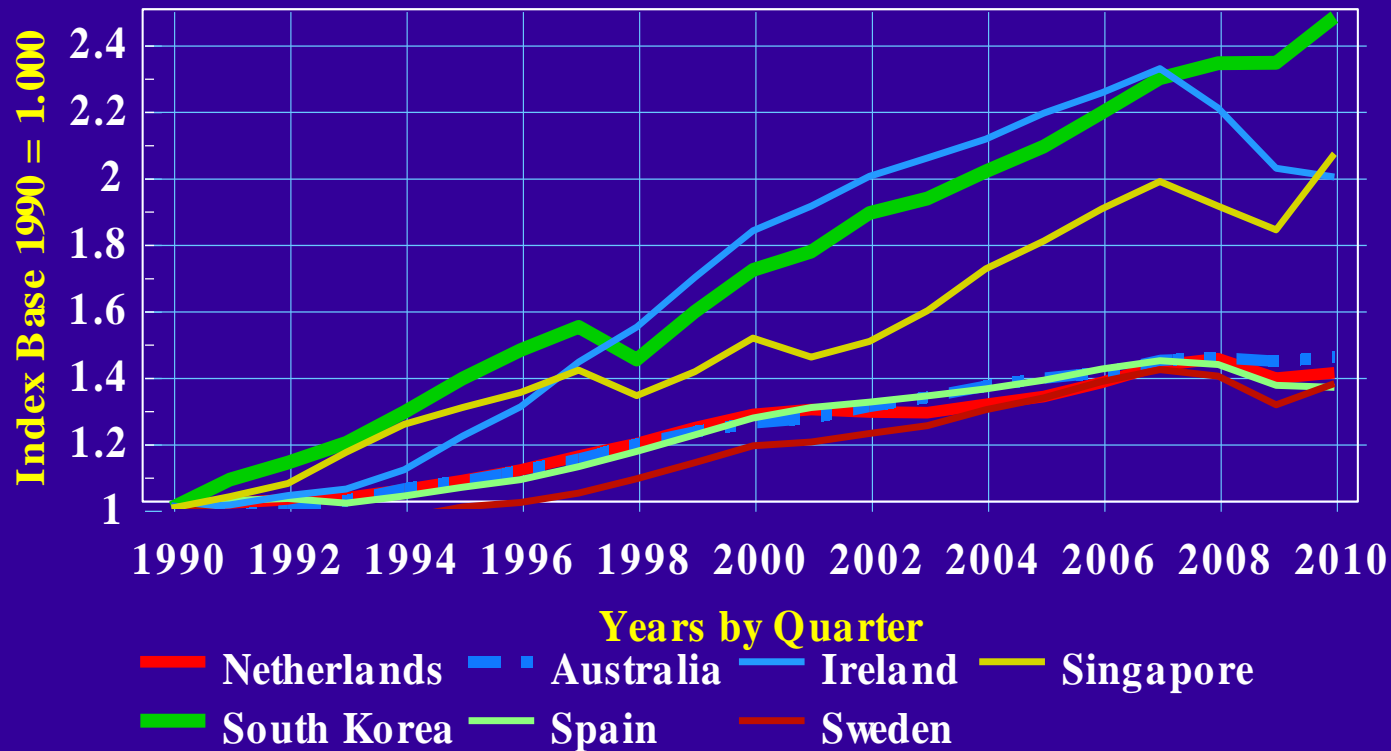
Comparisons of Real GDP Per Capita

G-7 Countries; 1990 Base = 1.000



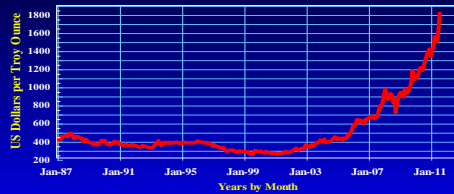
Comparisons of Real GDP Per Capita

Other Selected Countries; 1990 Base = 1.000



Gold, Crude Oil, Copper & Scrap Steel Prices

The Price of Gold
US Dollars per Troy Ounce



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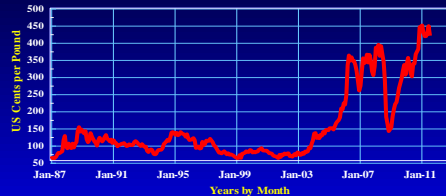
The Price of Crude Oil
US Dollars per Barrel



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The Price of Copper
US Cents per Pound



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The Price of Carbon Steel Scrap (WPU101211)
Index Value Dec-86=100.0

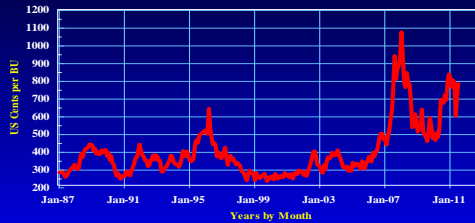


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Wheat, Corn, Soybean, and Cattle Prices

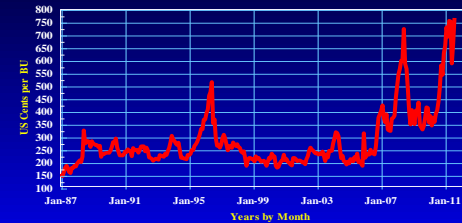
The Price of Wheat
US Cents per Bushel



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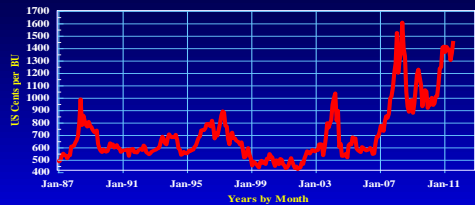
The Price of Corn
US Cents per Bushel



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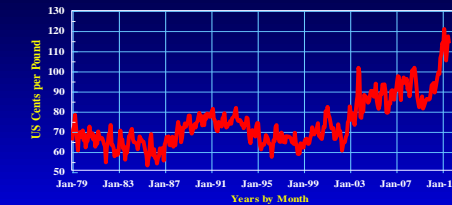
The Price of Soybeans
US Cents per Bushel



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The Price of Live Cattle
US Cents per Pound



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**We Need to Focus on
US Competitiveness
When We Do, We Can Grow Four
Percent per Year For Five Years
And Reduce Unemployment
Rapidly**



**Best Wishes
For the Year Ahead!**



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5. **Conclusion**

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