



*Those who cannot remember the past are condemned to repeat it. Santayana*

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## WINTER WARNING



### Put Some Pork on Your Fork

The U.S. Congress has passed President Obama's Recovery and Reinvestment Act unveiling a \$787 billion (U.S.) economic stimulus package which provides an array of tax cuts for individuals and business; aid to cash starved states; food assistance for the poor; infrastructure spending for road and bridge construction; additional jobless benefits and billions of dollars in new spending on other items. The Congressional Budget Office outlines the allocation of monies to an host of areas as follows:

#### Initiatives and Programs

#### Cost in Billions

State aid	\$ 53.600
Transportation and Housing	61.051
Homeland Security	2.744
Defense	4.531
Government	6.707
Energy / Environment	50.775
Agriculture	26.431
Commerce / Justice / Science	15.810
Military / Veterans	4.246
State Aid for Medicaid	90.042
Arts / Indian Reservations	10.545
Individual Aid	58.143
Health Information Technology	17.559
Individual Healthcare Assistance	24.677
Education / Social Security / Labour / Social Services	71.274
Tax Cuts	288.482
Oversight	.025
Foreign Relations	<u>.602</u>
<b>Grand Total</b>	<b>\$787.241</b>



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The problem with this economic stimulus package is threefold, whereas, only a small portion of these funds will be allocated in 2009; it will be largely ineffective if severe problems in the banking system are not rectified and the majority of the jobs created by this initiative will be temporary, not permanent in nature.

One week later, the House of Representatives passed a \$410 billion (U.S.) omnibus bill packed with pork, pet projects and earmarks which President Obama vowed to minimize during the election campaign. Currently being debated in the Senate, the bill is a reflection of both Democratic and Republican priorities and increases spending on domestic programs by an average of 8% in the current fiscal year ending September 30, 2009. It increases budgets for the Departments of Education, Health and Human Services, Housing and Urban Development and Transportation, among others and allots these agencies \$31 billion (U.S.) more than they received in the last fiscal year. In fact, 8,500 "Congressionally designated" earmarks were included in the bill at a cost of \$7.7 billion (U.S.), up 3.4% from a year ago. Finally, the bill actually includes one pet project to help producers of genuine pork in the form of a \$1.8 million (U.S.) research initiative in Iowa, to conduct a study of "swine odour and manure management". Perhaps, that's what lawmakers should have named this legislation.

### **A Man of Constant Sorrow (2)**

Also, inserted into this same time frame is U.S. President Obama's budget proposal for fiscal 2010, which reveals forecasts for deficits of \$1.752 trillion (U.S.) for fiscal 2009 and \$1.171 trillion (U.S.) for 2010, representing 12.3% of GDP and 8.0% of GDP, respectively. Indeed, this budget forecasts annual deficits in the hundreds of billions of dollars through 2019, increasing the national debt level exponentially, and which already totals \$10.6 trillion (U.S.). The President's Council of Economic Advisors must have convinced Mr. Obama that the U.S. economy will begin emerging from the current depression in the second half of this year, therefore, income tax increases for many Americans, to be imposed in 2010 in an attempt to reduce the deficit situation, should be readily absorbed. In point of fact, many forms of state and local tax increases are already wending their way through the American economy, from property tax hikes in New Jersey to speeding ticket fines in Florida. Frankly, we see the introduction of tax hikes during a severe depression and record stimulus plans, as creating a more confusing, convoluted and counterproductive economic situation.

Unfortunately, for the Obama administration, we do not envisage the American economic universe unfolding in the manner portrayed in the President's budget. Economic growth projections set forth in the President's budget constitute 'a pipedream of wishful thinking' (see *Winter Warning, A Man of Constant Sorrow -- February 16 /09*). Having just witnessed a GDP contraction rate of 6.2% on an annualized basis in the 4th. quarter of 2008, how can the Obama administration forecast the following annual rates of real GDP growth with any semblance of



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of credibility?

<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
- 1.3%	3.2%	4.0%	4.6%	4.2%

It is clear to us that these estimates represent unrealistically optimistic growth projections because the current global depression will prove to be much deeper and more protracted than President Obama's economic advisors ever contemplated. In other words, we don't need to be served a key lime dessert aboard a flight from Vancouver to Toronto, in order to recognize 'pie in the sky' when we see it.

**Written By: Christopher Funston**

**Ian A. Gordon, The Long Wave Analyst, [longwaveanalyst@telus.net](mailto:longwaveanalyst@telus.net)**

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