

# BIZARRO AMERICA

## FEBRUARY 2010

Once upon a time, when the NBC Television Network was competent, they produced a show that did pretty well. It was entitled, *Seinfeld*. One episode that comes to mind while contemplating the state of America today is the *Bizarro* episode. This classic episode was in reference to the Bizarro character in the Superman comic series. If you are not familiar, Bizarro is the polar opposite of Superman. In the *Seinfeld* episode characters are introduced that are the polar opposites of the shows main characters Jerry, George, Kramer and Newman. Hilarity ensued.

Welcome to Bizarro America...

Where record cold winters mean global warming. A place where failed corporations get unlimited access to capital. A nation where a football coach with a career head coaching record of 12-21 becomes the head coach at USC. A country that allows people who are defaulting on their mortgages the ability to get 30-year fixed rates at 2%, and soon principal right-downs. A republic that utilizes a ponzi-scheme called social security to fund people's retirement. A country with a corporate structure that keeps incompetent boobs in power that destroy shareholder value; and give them not golden, but diamond encrusted parachutes when they are finally shown the door. A country which is led, not by the individuals that build and create goods and services and employ people, but rather pseudo-intellectuals that have never had to make a payroll or create a business plan.

Welcome to the new era of irresponsibility. How is that *hope and change* working out?

From my February 2009 column *The Prosciutto Chronicles*...

Recessions are like the lymphatic system of our bodies. They serve a very important service. They are there to clean out all the malfunctioning, inefficient, poorly-run companies that are a threat to our economy at large. Without the lymphatic system in our bodies, cleaning out the bacteria and cancerous cells, we would not be alive for too long. The byproduct of the lymphatic system, pus; is messy and gross, yet positive and imperative in the sense that the human body is cleaning itself out. Recessions and their byproducts of bankruptcies, higher unemployment and reduced growth are natural and necessary. Without them, our system will collapse and fail. We live in the *Schumpeter* world of "**creative destruction.**" If we wish to continue to be able to invent and create; keep alive our capitalistic system that has raised our living standards to levels that kings and queens of just 100 years ago could not even dream of; a system that has lifted millions upon millions out of the world and life that Thomas Hobbes described as "**nasty, brutish and short.**"

We need to stop propping up failures. Losers must lose, winners must win. Actions or lack thereof have consequences! This philosophy applies to all aspects of our lives. If we push children through school when they are not ready or have not accomplished what is required for he or she to move on, we are harming that individual. I know this is politically incorrect, but when my son plays sports, we keep score. I know it is fashionable to not keep score for six-year-olds, because we don't want to mess with their precious self-esteem; but I could not give a hoot! When he plays well I tell him; when he plays poorly I tell him as well. The earlier my kids learn that life has winners and losers, the better off they will be.

This *new era of responsibility*, that the current administration and politicians from both sides of the aisle talk about incessantly is the ultimate oxymoron. Is it responsible to bail-out irresponsible businesses and

homeowners? Is it healthy to circumnavigate the natural progression of our capitalist system? Do we want a country of zombies; walking-dead companies that feed off the profits of the healthy?

Stephen Moore wrote in the *Wall Street Journal*, ***“Politicians invariably respond to crises, that in most cases they themselves created, by spawning new government programs, laws and regulations. These programs in turn, generate more havoc and poverty, which then inspires the politicians to create more programs...and the downward spiral repeats itself until the productive sectors of the economy collapse under the collective weight of taxes and other burdens imposed in the name of fairness, equality and do-goodism.”***

Moore cites the book *Atlas Shrugged* in his piece, ***“In the book, these relentless wealth redistributionist’s and their programs are disparaged as ‘the looters and their laws.’ Every new act of government futility and stupidity carries with it a benevolent-sounding title. These include the “Anti-Greed Act” to redistribute income (sounds like Charlie Rangel’s soak-the-rich tax bill) and the “Equalization of Opportunity Act” to prevent people from sounding more than one business (to give other people a chance). The “Anti Dog-Eat-Dog Act,” aims to restrict cut-throat competition between firms and thus slow the wave of business bankruptcies. All of these sound a lot like some of our governments actions over the past year: Emergency Economic Stabilization Act, Auto Industry Financing and Restructuring Act, and the American Recovery and Reinvestment Plan.”***

The sad reality is that throughout this entire economic episode, the strategy of our fearless leaders, is the greater the incompetence, the more government handouts you will receive. I dubbed our capital building the ***Church of Unintended Consequences*** and its high priests and priestesses are following their moniker like clockwork. There are so many different factors and players that bear responsibility for our current calamity. The reality is there is nothing the government can do to solve the excesses of the past. If one indulges in too much alcohol, the by-product is a hangover. Not only was our economy drunk on excesses, we were full blown alcoholic, and what the government is suggesting to cure the pain is more alcohol. The various packages/plans/cure-alls put forward do nothing to empower the risk takers, the job creators, the individuals who will pull us out of the recession. One of my favorite quotes from Abraham Lincoln that I have cited in this newsletter...

***You cannot bring about prosperity by discouraging thrift. You cannot strengthen the weak by weakening the strong. You cannot help the wage earner by pulling down the wage payer. You cannot further the brotherhood of man by encouraging class hatred. You cannot help the poor by destroying the rich. You cannot build character and courage by taking away a man’s initiative and independence. You cannot help men permanently by doing for them what they could and should do for themselves.***

This February will be Lincoln’s 201<sup>th</sup> birthday, I find it a tad bit ironic, when certain politicians talk about the greatness of Lincoln yet have little in common with his core beliefs. The sooner our leaders cease to behave as demagogues, and refrain from berating American businesses, the individuals that build wealth and create jobs, the sooner we will be at the conclusion of our current tribulations.

We will be reporting in great detail in future editions of the newsletter, examples of economic lunacy and irresponsibility that are spreading like the Ebola virus throughout the country. Let’s get started...

### **Student Loans**

A bill currently before the Senate would empower the Obama administration to nationalize the student lending industry. This would end the federally subsidized private loans. The ominous sounding Student Aid and Fiscal Responsibility Act would consume the entire student loan industry totaling \$103 billion in 2009-10. The administration states that this will save 87 billion.

No sale! I am not buying this nonsense. Already colleges and universities do not operate within the free market due to the federal subsidization of student loans. Under this bill they will be even more empowered to raise tuition rates. On a creepier note, politicians will have the nefarious power to bestow forgiveness of loans to whatever societal sub-group they choose to buy themselves votes or some good press. Rather than get more involved in student loan financing, the government should get out. If colleges had to mark their tuition to market, tuition prices would fall and be less of a burden.

### **See Dick and Jan Steal**

Representative Jan Schakowsky (D) and Dick Durbin have pressured Illinois state officials to use Illinois taxpayers' money to the tune of \$100 billion to bail out ShoreBank. This would be the first bank bailout by a state government anywhere. ShoreBank is in trouble for the same reasons that many other banks have gotten themselves into, from bad real estate loans, low capital. The reason for the bailout, according to Schakowsky and Durbin is the noble mission of helping borrowers in low-income communities.

Translation: Lose money. Prudent Banking 101--Loans should be granted based upon the borrower's ability to repay it.

Interestingly enough...The Bank of Lincolnwood failed last year and that was in Schakowsky's district and she made no effort to save it. Follow the money kids! According to the Federal Election Commission records reveal that ShoreBank executives and employees gave thousands of dollars to Schakowsky and Durbin. They also were big contributors to Obama's presidential campaign. Crain's Chicago Business reports that "President Obama and the first lady are former neighbors of ShoreBank executives. Other ShoreBank contributions include Democrats across the country and left-wing organizations such as MoveOn.org.

ShoreBank may not have a clue in regards to proper banking or making money, but they sure know the right politicians to buy off. Congratulations Illinois residents! I am sure you are thrilled to be bailing out another failed bank.

### **Taxing a Tax**

Currently residents of Colorado must pay a \$1.50 waste-tire fee every time they need to dispose of an old tire at any retail outlet. This fee goes not to the tire store or auto dealership but the Colorado state government. In order to boost state revenues the state is considering the "fee" to be a part of the purchase price of the tire and therefore subject to sales tax. Leave it to politicians and bureaucrats to invent new and nefarious ways to loot you. Mark my words this tax-gimmick will spread like wildfire across the country.

### **Lobby Oneself**

General Motors (aka Government Motors) laid off its outside lobbyists this past summer when it was under pseudo-special double-secret bankruptcy. Timothy Carney in the *Washington Examiner* reported that GM has brought back its K-Street firms. Reminder: GM just lost \$1.2 billion in the third quarter! Therefore, we are paying for the lobbying fees. Carney states, "***The Company's expenses are the taxpayer's expenses. Put another way, the Obama administration, through GM, is transferring wealth from average Americans to millionaire former public officials.***"

Not to mention, why would a government controlled company have to lobby the government?

### **Using My Children's Credit Card**

Senate Democrats proposed on January 20<sup>th</sup> that they be allowed to borrow an additional \$1.9 trillion to pay its bills. This record increase would force the national debt up to \$14.3 trillion. Max Baucus (D) waxed poetically, "We have eaten the meal. Now the only question is whether we will pay the check, we simply must do so."

***You Senator Baucus are not paying for anything. My kids and their kids will be paying for this. Not to mention the fact that you are also going out to fancy meals indefinitely on their dime. Pathetic fools, how they look themselves in the mirror I will never know.***

A new report that reviewed over 200 years of economic data from 44 nations does not point toward a great economic future for our kids and grandkids either. A study by economists Carmen Reinhart and Kenneth Rogoff found that almost without exception, countries that are as highly indebted as the United States is today grow at sub-par rates. When a nation's debt exceeds sixty percent of its GDP, its growth rate slows precipitously. When that ratio exceeds ninety percent, nations' economies barely grow, and can contract.

Our debt...84 percent of the country's GDP, and will cross ninety percent late this year or early next year.

### Ugly

The Congressional Budget Office's new economic and deficit forecast is out today, a week before the White House updates its forecast. Some highlights:

- CBO expects that the unemployment rate, now 10%, will rise before turning down in the second half of the year, averaging 10% in the last three months of 2010. It sees a very gradual decline in unemployment in 2011 to an average of 9.1% in the fourth quarter of that year.
- CBO doesn't expect the jobless rate to reach 5% — the level it deems consistent with the usual rate of job turnover in U.S. labor markets — until 2016.
- The agency estimates the U.S. economy shrank by 0.4%, adjusted for inflation, between fourth quarters of 2008 and 2009, and predicted it'll grow by 2.1% over the four quarters of 2010 and 2.4% over the four quarters of 2011, slower growth than the consensus of private forecasters and public forecasts of Federal Reserve officials.

A CBO summary of its economic outlook for the country...

***"The deep recession that began two years ago appears to have ended in mid-2009. Economic activity picked up during the second half of last year, with inflation-adjusted GDP and industrial production both showing gains. Still, GDP remains roughly 6½ percent below CBO's estimate of the output that could be produced if all labor and capital were fully employed (that difference is called the output gap), and the unemployment rate at 10 percent is twice what it was two years ago."***

***"Economic growth in the next few years will probably be muted in the aftermath of the financial and economic turmoil. Experience in the United States and in other countries suggests that recovery from recessions triggered by financial crises and large declines in asset prices tends to be protracted. Also, although aggressive action on the part of the Federal Reserve and the fiscal stimulus package enacted in early 2009 helped moderate the severity of the recession and shorten its duration, the support coming from those sources is expected to wane. Furthermore, spending by households is likely to be constrained by slow growth of income, lost wealth, and constraints on their ability to borrow, while investment spending will be slowed by the large number of vacant homes and offices."***

**WE'RE NUMBER EIGHT!! WE'RE NUMBER EIGHT!**

An annual ranking that is more important than the Olympics, American Idol, or any other nonsense that pop culture is pushing on us was just released. **The Index of Economic Freedom**, which is put together by the Heritage Foundation and the Wall Street Journal; grades countries on various factors including tax rates, property protection, regulations, monetary and fiscal policy and trade. Congratulations to the so-called land of liberty and freedom, we dropped once again. We are now number eight. The two countries that we beat in the top ten were Denmark and Chile, I am almost certain that Chile will beat us next year.

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I need to pick and choose from literally hundreds of examples of economic lunacy to highlight here, and taken as whole it presents the picture of a doomed nation. The patron saint of lost causes is St. Jude. I now question whether or not we are going to have to call upon his intercession.

Well...The latest federal budget is \$3.8 trillion with a \$1.6 trillion deficit. The 5.7% GDP growth was nearly as good as advertised by the talking heads. Most of the growth inventory draw downs and government spending.

In a very interesting commentary by PIMCO's Mark Kiesel manager of the PIMCO Investment Grade Corporate Bond Fund; he makes the argument that high quality corporate bonds are much more attractive than Treasuries. The two issues that Kiesel points to are creditworthiness and supply and demand.

Kiesel believes as we at Markowski Investments do that many companies have done an excellent job in improving their balance sheets by raising capital and cost cutting. In other words, they have made their balance sheets strong. On the flip-side the United States balance sheet is looking like a pencil-neck geek, revenues have decreased and liabilities increased. The supply and demand argument also favors corporate America. Corporations will not have to issue large amounts of new debt, where conversely the United States must issue insane amounts of new bonds.

I think we should leave St. Jude to help in places like Haiti. Rather than call upon him to deal with the failure of the wealthiest nation the world has ever known to spend less than we take in. The defeat of Bizzaro America is dependent upon whether or not people will be able to see beyond their own selfish interests and consider what we are doing to our children and our children's children. In a story that warmed my heart, the *Washington Post* conducted a poll that found that 58 percent of Americans say they favor a smaller government that provides fewer services. Once we get that number up to 65-70 percent that is where we get some ***change that I can believe in.***

Source:  
Kiesel Mark [Picking the Winners](#) PIMCO 01/10  
Jeffrey Terence [What Washington Post Story Did Not Say About Its Own Poll](#) CNS News 01/18/10  
Carney Timothy [GM Rehires Lobbyists](#) Washington Examiner 12/30/09  
Data Raise [Caution Over National Debt](#) McClatchy Newspapers 1/11/10  
Taylor Andrew [Democrats Propose \\$1.9 Trillion Increase in Debt Limit](#) Associated Press 1/20/10  
Shepherd Todd [State Needs More Revenue? Why Not Tax a Tax?](#) Big Government 1/10  
Cover Matt [Obama to Nationalize Student Lending With Pending Budget Bill](#) CNS News 1/20/10  
Pollak Joel [Rep. Schakowsky's ShoreBank Bailout](#) Big Government 1/10