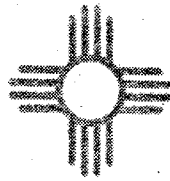


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Finding the truth about the economy is difficult

It is said that Voltaire did his best thinking while he was in the bathtub. Sometimes my thoughts are clearest when I'm swimming. After one recent session, I found myself exchanging global political-economic theories with a shower-mate, an esteemed member of the local legal community, about how current events affect working people.

ROB RIKOON



Real Money

Not to worry, no bawdy jokes or politically incorrect stories come out of the mouths of the folks where I swim. No sir. We discussed, heatedly at times, how America's ruling class, the one-third of 1 percent of our population that owns 30 percent of the country's assets, implements its program and maintains its power. One condition of the dominance of the elite is that there must always be a way to make people like you and I feel that we have the chance to move up on the socio-economic scale. Most of what we read, see and hear in the media seeks to promulgate this belief. The assurance that our personal progress is possible is what America is all about. But is it real?

When it comes to where the money hits the road, i.e., how to invest in times like these, the proper strategy is not so clear. The U.S. economy looks like it is getting better — economic growth is driving the dollar and interest rates upward, but I wonder if it is real. A closer look at the numbers shows that our growth is fueled primarily by defense spending.

Government spending had its largest percentage increase since 1951, when the Korean War was happening. Consumer spending has also increased, aided by lower income-tax rates, rebates, child-care payments and a continued increase in consumer debt. The bad news is that unemployment continues to rise. When hiring

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begins again, I wonder if the openings will be meaningful, career-oriented jobs or low-wage service jobs. A shrinking job market for college grads is a harbinger of reduced affluence for all of us.

Stocks have gone up over the summer while bonds have drifted lower because of widespread anxiety about inflation. Many stock prices are higher because of stupendous profit reports, which look good thanks to the new tax laws. The 2001 and 2003 tax changes allow for paper profits to go up without real growth. Companies also appear to be making more money because they continue to cut jobs. Very few are making more money because their businesses are expanding, which is what is necessary

for a sustained recovery.

The presidential race of 2004 hinges on the economy. Everything possible is being done to ignite "growth" so that the economy looks strong next November. I wonder if it will be real growth and if not, what the cost will be for political meddling in economic affairs. My primary concern is that the government's estimate of deficits for 2003 tops \$450 billion and stands at \$475 billion for 2004.

There is an old saying, "figures don't lie but liars can figure." Government projections are usually overly optimistic and rely on an assumption that the economy will be growing at a sustained rate of 3 percent or more. Low interest rates, tax cuts and revised accounting rules that favor corporate profits do not ensure achieving

the targeted growth rate past the November 2004 goal. The most precious ingredient for a sustainable-growth economy — confidence — is not yet manifest.

Abraham Lincoln said: "You can fool some of the people all of the time, and all of the people some of the time, but you cannot fool all of the people all of the time." Most Americans remain skeptical that government and corporate America are looking out for our general welfare. Take the new tax "cuts." The middle class may find its effective tax rate going up. This is because of something called the "alternative minimum tax."

Known as AMT, it originally was enacted to make sure that the rich paid some income tax. Analysts say that one-child families with

income as low as \$71,000 will be hit with AMT by 2006 and couples with similar income levels with two or more children will see tax credits either reduced or wiped out. It is estimated that by 2010, 25 percent of all taxpayers will be subject to AMT.

Unsurprisingly, the AMT does not affect families making more than \$627,000. The upshot is that we have a tax cut that is actually a tax increase. Approximately 10 times the number of people who were not subject to the AMT tax when it first came out will fall under its purview over the next seven years.

The new tax law is only one example of how most public discussions about important issues are cloaked by articu-

late falsehoods. How will we really know whether inflation is back? Watch the price of gold, which is up 11 percent over the last five months. Are we having a real economic recovery? I think we need to see meaningful jobs created in order to feel that the country is on the right track.

The stock market is up and that's good news. One well-regarded analyst, Barton Biggs, says, "For stocks to rally, you do not need good news, you just need news to be less bad." Is it a real bull market or is it just a paucity of imagination in what we can do with our money? What are our options?

We have structural problems in health care, education and energy — all complex

situations that threaten any long-term rally in stocks and bonds. Fortunately, most people in the United States are not afraid to look at the truth and take action on their own. One thing is clear: Neither government nor big business will address the real issues. The middle class and upper-middle class have always believed in their prospects for mobility by playing by the rules.

Unfortunately, these groups end up bearing the burden and costs of the excesses and mistakes of corporate and political leaders.

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