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Domestic ABCs (the political version)

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This week's *Tea Leaf* is our semi-annual alphabetic view of the U.S. economy. Global ABCs will follow, presumably on November 29, 2006.

A**rrogance**—the perils of power for the Republican leadership in the halls of Congress made a mockery of prior Republican values. Add in scandal and the Iraqi situation and a perfect storm struck

B**ush**—very low approval ratings have limited his ability to get desired legislation passed. His Social Security reform desire is dead...his prescription drug program ought to be. His version of immigration reform will be a tough sell

C**ongress**—the good news for the Democrats?...Majority control. The bad news?... Margins are so thin that any Presidential vetoes will be impossible to overturn without Republican support

D**emocrats**—one positive reality of split government is that extreme positions simply have no chance of becoming legislation. Governing from the center is the only way to get anything done

E**armarks**—in 1994, the Republicans called the 1,500 earmarks (pork barrel spending items) in Democratic spending bills a fiscal disgrace. This year, the Republican-controlled Congress approved closer to 15,000 earmarks, at a cost exceeding \$10 billion. Did someone lose their way?

F**ederal Reserve**—seventeen 0.25% tightening moves between June 2004 and June 2006, with the Fed then moving to the sidelines. The impact of Democratic control of the Congress on the Fed?...somewhere between zero and none

G**lobal Economy**—another year of real (inflation adjusted) growth above 4.0% now unfolding makes for the strongest four-year period since the early 1970s. Good political news here

H**health Care**—higher on the Dems' agenda than it was on the Repubs'. Greater political pressure to control prescription drug prices is likely. Complete government control over health care is not the answer...just ask Canadian citizens

I**raq**—expect the President to give high credibility to the James Baker-led panel reviewing options. The Democrats now talk of withdrawal beginning in 4-6 months. Republicans definitely want the U.S. role in Iraq greatly reduced prior to the next round of elections in 2008

J**obs**—despite Democratic dogma, job gains have been solid in recent years, with rising job totals in 2006 as measured by the household survey the strongest since 1984. A return to extremely tight labor availability in coming years is a given

K**nowledge**—and the Ability to Think—the key to individual success in an increasingly sophisticated economy. Perhaps the two national teachers' unions, some of the strongest Democratic supporters, will allow greater experimentation with vouchers and charter schools. Don't hold your breath

L**eadership**—one major issue to watch. Many of the newly-elected Democrats are politically moderate in nature. In contrast, new Democratic leadership in the House of Representatives including Pelosi, Rangel, Frank, Dingell, and Waxman are the poster boys (and girls) of liberalism

Minimum Wage—a major Democratic priority, with an increase to around \$6.75-\$7.25 hourly likely to be phased in over the next 2-3 years. The current \$5.15 level has not been changed in nine years. Hopefully, future adjustments will be tied to the cost of living, taking politics out of the issue

National Debt—our gross national debt near \$9.0 trillion is 65% the size of annual U.S. economic output (GDP). The Japanese national debt is 150% the size of theirs. The budget balancing issue becomes tougher in coming decades

Oil Prices—the Democrats talk of oil/energy independence for this nation while at the same time blocking access to potential sources of new domestic oil and natural gas in Alaska and far off the nation's coasts. You can't have it both ways

Protectionism—various Democrats will promote much more restrictive trade policies with other nations. God forbid you put a roomful of economists together. The ONLY think we will agree on is any legislation that promotes bridges to trade is positive...any legislation that promotes barriers to trade is negative

Quagmire...Split Government...Stalemate—many Washington-watchers (including me) have no problem with split government. Nothing really happens...allowing the American economy to work its own magic with less interference

Republicans—more conservative leadership will soon emerge. As one pundit put it, "When Republicans run for office as Reagan conservatives they win. When they run as Democrats they lose."

Stocks—likely to do well over the next few years as millions of Baby Boomers save more aggressively for their (our) Golden Years. The stock market WOULD NOT look favorably on returning capital gains and dividend tax rates to much higher levels

Taxes—the Democrats talk of keeping tax rates low for middle-income families...not necessarily so for higher income families. The President will be more than willing to use his veto if necessary

Unemployment—currently at 4.4%, the lowest in more than five years. Despite illegal immigration and despite Democratic rhetoric, the major issue for tens of thousands of American employers is and will remain, "Where can we find anybody to hire, especially with skills?"

Victory—the Democratic position during recent years was to be anti-anything proposed by the opposition, with few new ideas. Leadership requires something quite different

Wall Street—simply stated...I remain bullish on stocks. The stock market rallied into the election because it too liked the idea of stalemate in Washington

Exports—at a record level of \$123 billion in September, more than offset by \$187 billion in imports. U.S. gains in exports should continue as the global economy remains solid

York (New)—will the Empire State's junior senator (Hillary) lead the ticket in 2008? Many Democrats (and Republicans) hope so

Zero Sum Game—see "P" above. Any trade restrictions we impose on another nation are soon matched or exceeded by that nation...a process known as "tit for tat." Democrats must be very careful

"TEA"ser

My doctor told me to stop having intimate dinners for four...unless there are three other people.

—Orson Welles



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