

July 12, 2010

Subject: CASEY REPORT

Chris,

I just finished the piece you sent me on the economy and US Debt/GDP prospects. What stands out is that this analysis is likely to be accurate. Growing revenues are not likely to equal the CBO projections - possible, but highly unlikely - and the debt level is going to grow significantly.

I had hoped that economic growth would somehow find a way to wind its way upward through the equity investment side of our economy and that the stimulus would generate a momentum that would cause self sustaining growth. That seems improbable today.

Unemployment is likely to continue at the 10% level and to grow larger. At some point, unemployment insurance will have to end. What will replace that insurance? That is a question worth thinking about. One alternative is a large infrastructure project that is designed around an energy plan - A movement toward natural gas for vehicles, power grid upgrade, solar, wind and nuclear projects - all interesting options.

Government debt is the problem. The only solution, from an economist's standpoint, is to balance the equation off of net exports.

$GDP = C + I + (\text{Imports} - \text{Exports})$

Reduce imports and GDP grows! Now that is an "identity".

Getting back to the Casey Report, government debt is likely to continue to grow as the report projects. However, it isn't just the debt level that we have to consider. The real issue is the cash flow required to service that debt. One "light at the end of the tunnel" that is not mentioned is that government debt interest rates are falling. The cost to service that debt is falling, even as the debt level is growing. The real issue to consider is government cash flows. This will impact the debt levels. Japan has survived for years with this scenario.

Economic growth is important. It won't come from the consumer until unemployment falls. Reducing imports of energy resources will remove a drag on economic growth. That leaves investment to carry the burden of GDP growth. This is how the future - the next 10 years - is going to look. This is the restructuring that will have to take place if the US economy is to grow - Investment.

Dick