



L. R. Levin Consulting, L.L.C.

Newsletter

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The Great Six Billion Bipartisan Stimulus Of 2012

A little background: Back when I was learning economics, they used to use the analogy of Babe Ruth hitting an out of the park home run to stimulate the economy. A seat in the bleachers cost about 75 cents and a new baseball in those days cost about a \$1.50. We've come a long way since then. I preferred the nickel popcorn or bag of peanuts at the ballpark to what things cost today.

The story would go something like this: Babe Ruth hit an out of the park home run. This meant the home plate umpire had to give the catcher a new baseball for the pitcher to use for the next batter.

That meant that the ball team had to buy a new baseball for future

games to replace the one the umpire had to give the catcher. In those days they placed their orders by mail, so they had to have printed order forms to fill out, an envelope and a stamp to place the order.

Like the baseball, the order form, envelopes, and stamps had to be replaced for future orders. This meant printing business for the companies that printed the forms, envelopes, and stamps. Paper companies had to produce paper for the forms, envelopes and stamps. The letter went through the postal system. It took gasoline to fuel the trucks and planes to move the letter from New York to Kansas City where the baseballs were made. Just think of all the fuel and transportation equipment to move the paper for the forms, envelopes and stamps, etc.

When they sold the ordered baseball to the Yankees, they had to manufacture a new one to replace it.

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The baseball company produced baseballs with covers, stitches, and cores. Each of these components came from different suppliers.

The covers, for example, were made of cow hide. To get the cow hide, cattle had to be slaughtered. Ranchers had to raise the cattle, which had to eat in order to grow and fatten, so they would be ready to slaughter. To feed the cattle they needed to buy grain. Farmers need to produce the grain.

To produce the grain the farmers needed fertilizer. The fertilizer came from processed natural gas. To get the natural gas, companies need to drill wells, to drill wells, there needed to be exploration to find where to drill.

I won't even talk about the result of the broken window hit by Babe Ruth's ball. You get the idea of what the professor was doing as, after hours of tracing the chain, he declared that but for that home run, Babe Ruth would not have gotten us out of the Great Depression.



I never could tell whether the supply/pull detailed probing of that classroom exercise was Keynesian economics or supply sider economics or a little of both. Whatever it was, it illustrated to the class how the economy was comprised of millions of little transactions like the baseball example, which when taken together told us where the economy was going.

So what does Babe Ruth's home run have to do with The Great Six Billion Bipartisan Stimulus Of 2012? Well, we just learned that in the last two quarters, Obama and the Democrats raised approximately \$156 million. The combined Republican candidates and party have raised slightly less during the period for an aggregate of about \$300 million. The various key PACs, such as American Crossroads and its Democratic rival, expect to raise more than \$400 million.

It is estimated that far more than **\$3 billion** will be spent on the actual presidential campaigns in 2012. With all of the state and local races, we can expect at least **\$6 to \$10**

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billion to be spent on and because of the political campaigns.

If you think of the donors like the baseball fans buying bleacher seats, and then begin to think of what all of that spending will produce, you begin to get the picture. Think of all the TV, cable, and print advertising that will be bought in 2012 by the campaigns.

Think of all the reporters covering campaign stops and all the fast food they will buy between doing news stories. Think of all the chicken candidates and guests will eat at rallies and dinners.

The spending on transportation, cars, SUVs, buses, planes, trains. The amount of fuel that will be consumed to power all those cars, SUVs, buses, planes, trains. Think of all the people employed just to clean up after the rallies.

The presidential conventions alone will generate hundreds of millions in transportation, food sales, hotels, shopping, and entertainment dollars. It doesn't take long before you can, just like Babe Ruth's baseball, trace out six billion dollars

of bipartisan campaign related spending that will result from the highly partisan nature of the 2012 election.

The one thing both sides can agree upon is that 2012 will be hotly contested at all levels of government. Finally, some bipartisan agreement on something.

If 2008 was a love fest, this is going to be a slug fest. And a hotly contested slug fest costs more. On a macroeconomic basis, the campaign of 2012 will be a significant economic stimulus.

The economic data indicates that the economy will expand at a quicker pace as 2012 progresses.

Can Germany Save The Eurozone From A Double Dip Recession?

Germany is the manufacturing powerhouse of the Eurozone's economy. Along with France, the

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German economy dominates the Eurozone.

The formation of the Eurozone and introduction of the Euro in 1999 gave Germany a tremendous economic boost. By eliminating tariffs and exchange rate pricing variables, it permitted Germany's strong farm and manufacturing economy to expand freely throughout most of Europe.

The weak link is that the Eurozone, while a currency union, is not a fiscal policy union. Thus the economies of each country remained fiscally independent. Just as California may be fiscally liberal, while Vermont might be fiscally conservative, so too Greece is fiscally liberal while Germany is fiscally conservative.

Today many of the fiscally liberal states of the Eurozone are in deep financial trouble. For some, such as Greece, their extreme expensive entitlement programs have created major deficit budget problems. For others, such as Spain, their attempt to create a state financed green energy system, such as solar

and wind power, which could not compete with more conventional power sources, has put their economic systems at a severe competitive disadvantage.

This competitive disadvantage has caused Spain to experience major recessionary dislocations throughout its entire economy. The excesses of fiscally irresponsible Eurozone members raises the question, will France and Germany be willing or able to bailout the other constituent states?

If they do try to bailout these states, will the bailout dislocate their economies? The answer is not clear. The burden falls on Germany as the prime manufacturing economy in the Eurozone.

Germany has three main trading partners: 1) the Eurozone, 2) China, and 3) the United States. Within the Eurozone the cost of the bailouts is reducing the demand for German goods and services.

Until now Germany's trade with both the U.S. and China has been growing. The sophisticated German manufacturers have adapted quickly

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as both the recession hit and recovery began. As a result Germany has lead Europe's recovery.

Mercedes Benz, for example, is a well-known automobile manufacturer who has a fast moving economic strategic approach to developing its branding and marketing. Its flagship brand in the U.S. had been its "S" series.

Mercedes realized in the early 2000s, if it did not change strategies, that it had two primary problems with maintaining the dominance of its luxury S series. The cost of product and adding modern electronic technology. The U.S. brands were moving much faster.

Mercedes repositioned its "E" series as its dominant U.S. brand, and it began developing updated technology. By 2005 it had completely re-engineered the E series as a lower cost replacement for the S series with enhanced electronic technology.

With the recession and only a modest recovery, in the U.S., Mercedes has been carefully repositioning its "C" series to replace

the E series as the dominant U.S. brand.

At the same time Mercedes has been reading the Chinese market for its nuances. Contrary to the U.S., the Chinese market was not yet a mass luxury market.

China had a substantial growing new wealthy class that were exceptionally hungry for luxury good of the types that were most desired by Europeans and Americans. So while its S series sales were declining in the U.S., Mercedes was featuring its U.S. reputation and flagship S series in China and Asia.

Given the stability of the Euro and government pursuing pro-business economic policies, Germany has become the dominant supplier of manufacturing equipment to developing economies such as China.

Germany's success has moved Europe's industrial production 5.9% ahead of last year. As entitlement problems in Europe continue, the rate of growth is clearly diminishing.

By contrast to a slight September decline in the Eurozone's Purchasing Manufactures Index for

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both Germany and France, the other countries experienced the steepest decline in over two years.

Germany's machinery and equipment production is running 15.8% higher than a year ago. The economic data in recent months reflects a decline in Germany's sales to the U.S. and China. Inflation has masked this on a Euro basis, but not on a unit basis.

The U.S. economy is currently not growing fast enough for the U.S. to offset the Eurozone's entitlement drag on Germany.

Chinese and Asian economies are also slowing. If this continues it is not clear that China will import enough German goods and services to outweigh the crisis in the Eurozone. China's internal monetary policy includes an effort to create domestic suppliers to replace Germany.

The time is coming when both Germany and the U.S. will have to confront deficits and China's monetary and protective policy, if the recovery is to continue and Germany is to be the Eurozone's solution to the entitlement crises.

Recent Cartoon



What does the U.S. have in common with the Eurozone?

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