

## Financial FQs Where is Harry Truman—Part III?

Most historians consider Harry Truman as one of our great Presidents, even though he didn't consider himself as such. It wasn't until later years showed the greatness of "give 'em hell, Harry", as he was called once at a whistle-stop during his 1948 presidential campaign that defeated the heavily favored New York Governor Thomas Dewey.

He faced tough economics times, as we do now, with an even larger debt load due to WWII, and 5 million servicemen/women returning home and out of work. He was also was faced with a Republican Congress in 1946, unhappy with the huge debt load. Sound familiar, as we said last week?

With so much uncertainty, he did what great Presidents do, he became a transformational leader, in the words of conservative columnist George Will. And he suffered the slings and arrows of disapproval for it. "The President is always abused. If he isn't, he isn't doing anything," is one of his better-known 'Trumanisms'.

What were the lessons learned? Daughter Margaret put together a book of his pithy sayings, in WHERE THE BUCK STOPS-The Personal and Private Writings of Harry S. Truman. Edited by Margaret Truman. 388 pp. New York: Warner Books, 1989.

Maybe his outstanding trait was that he was plain spoken—who grew up on a small farm in the heartland of Missouri. And he never left his roots, retiring back to his Independence in 1954. He never loved Washington, D.C., either. He once advised, "If you want a friend in Washington, get a dog."

""A good president just can't pay any attention when the press tries to abuse him, Truman writes; "the papers often abuse him when he's right. It doesn't bother any man in office who wants to do the right thing," he adds. "He goes ahead and does it no matter what the newspapers may say. I never cared anything about what they said about me as long as they didn't jump on my family. If they did that, then they got into trouble.

"It doesn't make any difference whether or not the thing he (the President) decides to do is unpopular, or whether his doing it makes him unpopular for a while. If he does the right thing the popularity will come. If he doesn't, well, then, too bad."

But that was just the surface. His economic philosophy mirrored Roosevelt's New Deal, because he was always for the underdog. In fact, he won over Dewey because the pollsters who had predicted his defeat forgot to poll those lowest on the economic ladder who turned out in droves to vote for him.

And we have the same need now to boost the earning power of those wage and salary earners lowest on the economic ladder who comprise more than 50 percent of the workforce, yet whose incomes have stagnated after inflation since the 1970s.

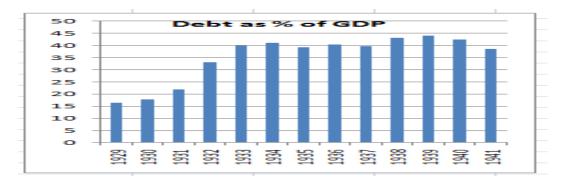
Job formation has really been increasing since January, and real estate prices have inched up, but sales remain stagnant. This is while corporations have reported record profits over the last 2 quarters with the highest profit margins since WWII, yet they have not been investing in either new plants or employees.

And so government has had to step in to counteract the cash hoarding of some \$1.8 trillion being held by the S&P 500 corporations alone. But why such a fear of debt,



when the Great Depression has provided us with a lesson of what needs to be done to counteract such fears?

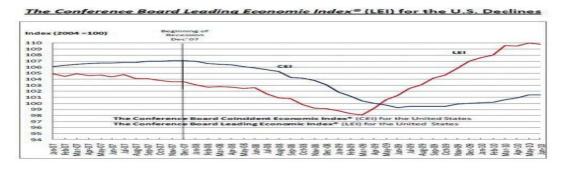
Economist Paul Krugman has pulled up some of the Great Depression's history and surprise, the Hoover Administration's emphasis on reducing deficit spending increased debt as a percentage of GDP, while shrinking actual GDP growth (and revenues). But increased government spending (and debt) during Roosevelt's New Deal increased economic growth, so though debt loads were high, it brought the U.S. out of the 1929-1933 depression and produced 3 years of growth. The double-dip only returned in 1937, when Roosevelt listened to the bankers and tried to reduce the deficit prematurely.



"The experience of the 30s," writes Krugman, "offers no support to those who worry about the debt consequences of deficit spending in a depressed economy — FDR didn't do enough stimulus, but the spending he did do was not reflected in a spiraling, or even rising, debt burden. And the evidence is consistent with the view that austerity, Hoover-style, may well be self-defeating even in a narrow fiscal sense."

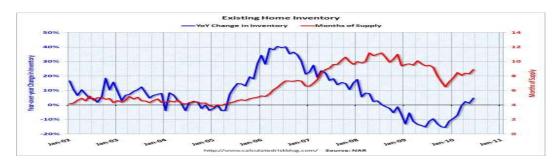
Supporting the present picture is weak growth of the Conference Board's Index of Leading Economic Indicators, a monthly snapshot of 12 important indicators that affect growth, such as interest rates, and hours worked.

"The LEI decreased in two of the last three months, but its level is still about 4.5 percent above its previous peak before the recession began," said Ataman Ozyildirim, economist at the Conference Board. "Moreover, the gains among the LEI components have been widespread, with the exception of housing permits and stock prices, pointing to an expanding economy, but at a slower pace in the second half of the year."





A major reason for continued sluggish growth is that real estate, the traditional first responder to better conditions has still to work off more than 1 million units in excess inventory built up over the bubble years. Total inventory peaked in 2006, but months of supply didn't peak until 2008, as the sales' rate declined drastically with bursting of the credit bubble.



This increase in inventory is especially bad news because the reported inventory is already historically very high, and the 8.9 months of supply in June is well above normal.

So there is good reason for the Fed to continue to hold interest rates at record lows, and Chairman Bernanke has promised to do so for "an extended period" in his latest congressional testimony. "We are ready and we will act if the economy does not continue to improve -- if we don't see the kind of improvements in the labor market that we are hoping for and expecting," he said.

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