



Commentary

Congratulations to Canada for the spectacular performance in the winter Olympics. With no gold medals in the previous two home games, Canada tops the charts with 14 gold medals this time around. A parallel can be drawn between this achievement and Canada's economic position in the world. Canada certainly has one of the strongest banking systems, Gov't deficit to GDP, overall debt to GDP, and current account deficits. If the Olympics were celebrating the performance of the participating nations' economies, Canada would have been number one for all metals."

Like the Olympic Games hosted in the past, Canada has not always been in a prestigious position. In 1994 Canada was caught in the 'debt trap'. After years of Liberal social policies, Canada was running massive deficits to GDP at both the Federal and Provincial levels. Canada had one of the highest deficits to GDP in the world. To finance the growing mountain of debt, Canada had to keep raising interest rates to attract foreign lenders to purchase its debt. Additionally, the Canadian dollar remained under pressure from as current account deficits grew. It seemed hopeless for Canada, but the citizens woke up and voted change.

A hard lesson learned, which might explain its current financial health. Unfortunately, the opposite seems to be happening south of the border. The US appears to be entering its period of liberal economics. At \$1.5 trillion, the US federal deficit is 10% of GDP and rivals that of Canada's in 1994. States such as California, NY, Michigan, and Florida are also running massive deficits to GDP. And, it does not stop there as cities and counties across America are in equally bad shape.

Is it just the declining economy that has brought on this massive red ink? No, the declining economy has just surfaced the trend of flagrant benefits and entitlements to government employees. This ebb tide is exposing the many bathers without suits.

I will give a simple but acute example of this largess an agency that is not part of the Federal Government, a state government, or a city or county government. It is a typical water company called the Marin Municipal Water District (MMWD). I cite this example for its simplicity:

- 1) MMWD proposed to raise rates +9.8% in 2010. This is after raising rates +7.3% in 2009 and +9.7% in 2008.
- 2) At the recent meeting to discuss the rate increase, there were 250 angry protestors. The CEO was not present, as he was at a global warming conference in Chicago.
- 3) The stated reason for this rate hike was the -8.5% decline in water volume which was explained to be from an unusually cool summer. The real reason for the volume decline was the previous +18% increase in prices.
- 4) MMWD needs to raise rates to cover the +20% increase in wages, benefits and pension accruals over a three-year period. The utility has been granting pay raises in this recession while their rate payers have been losing their jobs and homes.
- 5) MMWD advertises that there is an acute water shortage to justify the rate increases, when in fact there is a massive surplus of water spilling over the dams.
- 6) None of the rate increases have gone to capital projects or things that would benefit the rate payers.
- 7) Better yet, they want to build a new 'green' desalination plant. This water will cost +400% more per gallon than the water spilling over the dams in the unused reservoirs.

The salaries and benefits of this municipal water district are basically in line with all of the other state workers in California.

- 1) The wages/benefits are 100% higher than comparable jobs in the private sector.

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Commentary, continued

- 2) The workers can not be fired.
- 3) They receive healthcare, life & disability insurance not offered in the private sector.
- 4) They can retire after 33 years of service with 100% of the highest years' pay and full benefits indexed to inflation.

Not bad for government work!

MMWD's rate increase will just balance the books for this coming year. With the +9.7% increase in rates, users will continue to buy less water. But MMWD is not cutting any costs, so another rate increase will be needed the following year to pay the increasing cost of benefits to both working and retired employees. Thus, the never ending cycle will continue until a 'blow torch' is taken to these liberal compensation structures.

Sadly, I suspect we are in the early innings of the 'government cost spiral' rather than at the end. Americans have been fat and happy for too long. There is still a feeling of invincibility and not enough pain. Few Americans have any memories of the damage that is born from complacency.

Canadians clearly saw the destruction of their government's profligate ways. The 'score' was posted daily as the Canadian dollar declined from 90 cents to 62 cents. On the nightly news was talk about the rising cost of going to Seattle for a case of cigarettes or to Florida for a sun tan. The news also kept talking about how the date of "I now work for myself and not the tax man" kept moving later into the calendar year.

With the Treasury bailing out everything in site and the Federal Reserve buying the Treasury's debt with printed money, there is no obvious way for most Americans to 'score' how much water is entering the ship. But the ship is taking on lots of water. The water is rising, but for the time being it is behind bulkheads in various compartments.

I fear the US will not be winning many 'economic gold metals' in the next few Olympic Games. We have a lot more to learn from our neighbors north of the 49 parallel than how to win a hockey game in overtime. GO CANADA!!

-Derek Webb

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