

"GLOBALIZATION"

Last week at the local pub, wallowing in self pity over my latest faux pas predicting that oil would settle at \$35 (now \$55) and eaves-dropping on the ravings of that wrinkled, old diminutive man on the next stool about his **conundrum** on how long-term interest rates could fall as he raised short-term rates at a *measured* pace; I felt uninspired, even ill, while gazing down at the green reflection in my beer contemplating the pain and anxiety of the unwinding of the huge twin trade and budget deficits. Then *inspiration*, no... *salvation*, no... **GLOBALIZATION**.

I wasn't green. My beer was green. It was St. Patrick's Day. The "*luck of the Irish*" was with me. Irish eyes were shining and even though St. Patrick wasn't really Irish and China and India come to mind first when you think about **globalization**, Ireland is a great example of this new world integration, perhaps providing insight as to the future integration of our giant Asian neighbors.

You're thinking, "*too little inspiration and too much beer.*" You may be right! But if you give me a chance, we'll have a wee bit o' fun testing the Irish myth that kissing the Blarney Stone bestows "*persuasive eloquence*" and that's no **blarney!** First some history -

A tour of the Famine Museum in Stokestown, Ireland gives the visitor appreciation for the Irish heritage buried in oppression of tenant farmers resulting in the **Great Irish Famine** of the 1840s, the single worst social disaster of 19th century Europe. One of the poorest countries just two decades ago, Ireland has skyrocketed to the sixth richest among the European Union - surpassing Germany and having a Per Capita GDP 10% greater than all of the big four Euro economies.

Ireland underwent one of the most remarkable economic transformations, morphing from a rural, farm base society to an outsourcing and technology leader. Many high-tech American giants like Microsoft, IBM and Dell utilized Ireland as a stepping stone to trade with the European Union, EU. Early on in 1989, Intel located it's EU manufacturing and distribution center near Dublin. Just recently Google chose Ireland rather than Switzerland for it's EU headquarters.

Young professionals, who emigrated from their homeland due to lack of opportunities just a few short years ago, are now returning to Ireland with global designs. The Dublin Spire, a 400 foot monument, symbolizes Ireland's meteoric ascent from a martyred peasant society to affluent Europeans. Ireland is the financial gateway to Europe.

How did this happen right under our noses? Well, Ireland has only 4 million people while China and India each house over a billion. Although small, we have noticed some Irish revolutions - traditional Celtic step dancing evolving into **Riverdance** and the fame of the Irish rock band **U2**. But we didn't notice Ireland's economy expanding at an annual rate of over 10%/year during the late '90s. Today, the growth in both China and India at this same pace gain world attention and upset global trade balance.

With almost half of its people below 30, Ireland is young. Although not quite as young as Asia, the Irish youth are learning the "*new economy*" way of life creating a rift between young and old. In China the rift is a gorge, the young people race towards the 21st century, emigrating to the overcrowded cities, embracing the new technologies while the older people prefer their rural roots and less complicated lifestyle.

This rapid growth has taken it's toll. The Irish culture is succumbing to new found wealth while the traditional Irish way of life is vanishing — thatched roofs replaced by urban sprawl, traffic gridlock and pollution, rising alcohol and drug use, Irish Catholics not attending church, legalization of divorce and abortion. Becoming a multi-ethnic society has created social tensions. Ireland's challenge is to reap the **rewards of globalization** while retaining the Irish heritage.

Productivity gains are fueled by globalization. Dramatic productivity gains in America have resulted in more goods for less cost and less man hours holding inflation down, prices in check, and curbing employment. Are high oil prices and robust employment fueling inflation? The last oil crisis of the early '70s threw us into global recession. This time, except for mental anxiety at the gas pump, it has largely been ignored. Our resilient economy and the disinflationary effects of this global productivity may be our salvation.

Ireland's globalization was driven by foreign investment from the US. The immediate rewards of our productivity improvements were imported as well. In China and India most of the growth erupted from within, fed by huge numbers of young people demanding more. Although they borrow technology from developed countries, integration will take time.

The endless supply of young Asian workers will stimulate competition and provide low cost labor for years to come. Globalization of this labor supply is why I believe Greenspan and the Federal Reserve believe that long-term inflation is under control.

Remember that little old, wrinkled man. He testified in Congress last month about his confusion. His **conundrum** was that long-term interest rates fell as he raised short-term rates. Was it Alan Greenspan dressed as a leprechaun? Yes!

According to Irish legend, leprechauns are the thrifty protectors of the fairy treasure. They bury the mythical Irish fortune in crocks and pots. But, because the rainbows point to the cache's location, they must spend all day moving their pots-of-gold. If you catch them they have to reveal the location of their treasure, but beware, these "*little people*" can fool you with their vanishing coins or escape in a blink of the eye.

Greenspan with six interest rate hikes, has been trying to hide our pot-of-gold by raising long-term interest rates to no avail. At the March 22nd Fed meeting he solved his **conundrum** by, not only continuing his measured pace of rate increases, but more notably, signaling that inflation and price pressures were upon us. He tricked us by instilling these short-term inflation fears because he and the Fed believe "*...longer-term inflation expectations remain well contained*".

In a blink of the eye just like the leprechaun's magic gold coins, Greenspan's **conundrum** vanished. Long-term interest rates shot up depressing bond prices. The stock market followed suit. After hitting a 3-1/2 year high two weeks before St. Pat's Day, the S&P 500 plummeted 4.4%. The din of higher interest rates, heady oil prices and inflation were too much!

Greenspan's shenanigans resulted in a dismal start to '05, the third straight year blue chips started with a losing quarter. With all of these dark clouds, could there be a silver lining, a rainbow, maybe even a pot-of-gold?

Greenspan is struggling to achieve a "neutral" rate which magically allows for sustained, healthy growth while curbing inflation. Economists think our economy is heating up. The GDP 4th quarter's upward revision to 4% underscores our robust economy. 260,000 new jobs and declining unemployment finally signal our improving labor market.

Besides inflation fears, many experts fear that the "*unwinding*" of the twin trade and budget deficits will create a crisis. The trade deficit hit a record 6.3% of GDP in '04, while the budget deficit was 3.6%. We're spending almost 10% more than our gross income!

Our salvation may be **GLOBALIZATION**. Globalization will allow us to produce more with less—a bigger global pie for all to share. There may be bumps along the road but our long-term global future looks bright.

Save as much gold as you can, invest for the long term, and let's hope that the "*luck of the Irish*" is with us all.

On St. Patrick's Day - "*Everybody is Irish*"



Keith O'Kowalczyk 3/31/05



4940 Washington Blvd.
St. Louis, MO 63108
(314) 367-6555
(866) 871-6356

