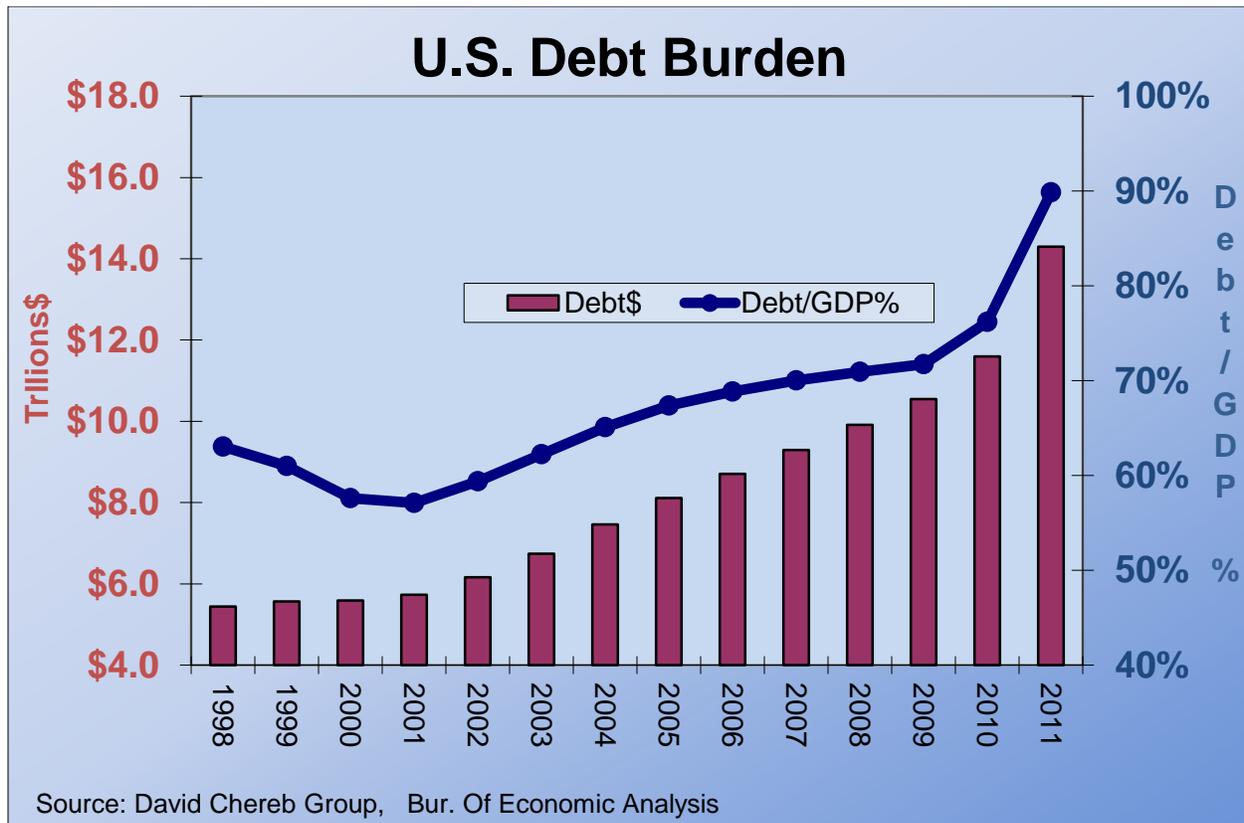


The Tipping Point: Are We There Yet?



What is more important right now, growing the economy or dealing with the deficit and debt?
Growing the economy is more important.

However, the U.S. economy will not grow faster by adding more deficit spending. We have reached the tipping point where 'more is less'. The evidence to support this view is the sharp decline in the U.S. dollar in the past five months and the rise in commodity prices. The market is telling us it will not stand by and let the Federal Reserve print more money without protecting itself. Since I believe we are past the tipping point, it means we have to deal with the growing debt or face a sharply deteriorating economy. But if we deal with the debt now by cutting spending the economy will slow for the next 12-18 months. We now have no easy solutions and are left with the lesser of two evils.

If your financial horizon is only two years long, it isn't worth reducing the debt because of the near term cost is slower growth. But if you are concerned about the next two to ten years, then it is worth it. In many ways it is a typical investment problem where decision-makers have to invest money now and hope for returns later that are large enough to justify the near term loss. Studies have shown that when the debt/GDP ratio gets too high* the economy slows for many years. We can look at Greece and

Portugal for current examples. The United States is at the tipping point and will move beyond it by the end of this year.

Remember there will be the pain of slow growth and high unemployment for a decade if we do nothing or slow growth and high unemployment for 12-18 followed by rapid growth if we cut the deficit now. Cutting the deficit is much less painful if we implement pro-growth policies by increasing the reward for entrepreneurs. We want to create the conditions where private investment explodes. This will create many new jobs and increase tax revenues. Two of the proven ways to stimulate investment are to eliminate corporate income taxes and eliminate capital gains taxes.

You mean favor the rich instead of the working man?

We can all suffer with high unemployment and stagnant incomes for a decade or we can grow and all do better. But yes, some people will get richer than you or I. Are we so angry that we'd rather see all suffer just to prevent some people from benefiting from investing? Even in socialist countries there are rich, they just work in the government instead of in private industry. We're better than that. We can all work hard, innovate and remain a prosperous dynamic economy. It's our choice.

DCG, Inc. Aggregates Forecast (Billions MTons)

2009	2010	2011	2012
1.93	1.96	1.89	1.90
Yr/Yr%Ch	1.5%	-3.5%	0.6%

*North Carolina State University. "Study finds national debt 'tipping point' that slows economic growth." *ScienceDaily*, 28 Sep. 2010. Web. 3 May 2011