

NOT THE SAME BALLPARK. NOT EVEN THE SAME SPORT.

Despite silly and hyperbolic analogies, the standoff in Wisconsin and unrest in the Middle East have only two things in common. Both include massive public protests, though the latter's has had far graver consequences, and both *potentially* could have *some* effect on the U.S. economy. (The italicized words, as we'll explain, are the operative words here.)

We're watching Wisconsin closely because it is a microcosm for states' problems across the country. The heart of the debate is the elimination of the public unions' (with the exception of police and firefighters') ability to collective bargain, which has led to their negotiating substantial healthcare and pension benefits. The main parts of the Wisconsin reform ask the public union members (essentially all the state and local government employees) to now help pay for their pension and health care benefits. The "help" amounts to 5.8% of their pension contribution and 12% of their healthcare premiums. In return, Governor Walker has promised no layoffs. Healthcare and pension benefits in particular account for an ever-growing problem for state and local governments across the US. In Vallejo, California, for example, 80% of the general budget was eaten up by police and firefighters' salaries and pension obligations, causing the city to declare bankruptcy.

The most important story behind the media reports is the very real and growing problem of deficit spending. The tough economic times have caused tax revenue to decline sharply while spending has been maintained at or near pre-recession levels throughout government, both at the state and federal level. That said, there is no parallel to the situation in Greece, and to make such a claim is an outrageous reach. Public expenditures in Greece are 53% of their GDP, meaning over half their economic output is used to pay for government programs, compared with the US at 24% (historic levels in the US are around 20%). It is, however, a problem that needs to be dealt with to thwart any chance of it becoming a legitimate crisis. As for now, the situation in Wisconsin, and other state governments that may follow suit, will have no real effect on the markets.

Even less can be predicted about the economic impact of the astounding events in the Middle East on the US economy. While uncertainty is an unwelcome guest, we see absolutely no reason for panic at this juncture. Oil is still flowing through Egypt and even if some pundits' worst-case scenario, the rise to power of the Muslim Brotherhood, materializes, there's nothing to indicate that the North African nation would cease oil exportation to the West. Libya, which accounts for 2% of the world's oil production and is a major provider of oil and natural gas to Europe (over 1.1 million barrels a day), is an even more volatile situation. However, what we rarely hear is that the US gets less than 1% of its oil from Libya. So these developing situations need to be monitored, as do those in Saudi Arabia and Bahrain, but the end results in both could just as easily be the creation of more vibrant economies and better standard of living for their citizens as economic strife.

So we see continued oil price volatility over the short run as uncertainty prevails. (Remember that it is in the best interest of the region to continue their oil production and shipments which allows them the critical financial capital needed to provide for the needs of the people.) And in the end, oil prices should again stabilize and not be the cause of a double dip recession. (A notion we have never believed.) Due to the economic recovery and global growth, the price of oil would be able to rise substantially from here before the global expansion would be threatened.

The developing stories from the Middle East and Wisconsin are historic. However, their impacts on the markets, at least for now, are minimal and will not cause the economic recovery to falter.