YOUR MONEY

Jobs Pattern on the Right Path, So Why Aren't the Numbers Adding Up?; The Race Factor in Unemployment; Why State Budget Shortfalls Are Your Problem, Too;

Aired February 5, 2011 - 13:00   ET

ALI VELSHI, CO-HOST: Jobs are being created, the unemployment rate is going down, but something is not right. The pattern is on the right path but the numbers are kind of wrong.

Welcome to YOUR MONEY, I'm Ali Velshi.

The unemployment rate dropped to 9 percent while 36,000 more jobs were added in January. Still to economist Peter Morici of the University Of Maryland School Of Business, this is a, quote, lousy business report, a lousy jobs report. Peter, is the economy getting better or worse?

PROF. PETER MORICI, UNIVERSITY OF MARYLAND SCHOOL OF BUSINESS: Well, the economy is growing again, but it's not creating any jobs. Businesses are emphasizing those activities that don't require employees. Frankly, with the higher health care costs and the undervalued currency that China has, American businesses are focusing on technology. Where they can make more with fewer people or where their technology gives them an edge.

So there's not a lot in the way of production workers. Even with that we did see some manufacturing growth. But what's so troubling is that across the service sector there were so many job losses. This looks like an economy that's seen its day.

VELSHI: Yes, that's the sector we think at least that we're going to have job growth in. Christine Romans host "Your Bottom Line," every Saturday at 9:30 Eastern. When this jobs report came out on Friday I was listening to Christine on TV describing it. It is always a tough job because it comes right out and everybody wants analysis immediately. The analysis you provided Christine I believe you used the word funky.

CHRISTINE ROMANS, CO-HOST: Funky, that's a technical term in the labor market.

And quite frankly that's what the numbers looked like to me. You got a jobless rate that fell to 9 percent. At its surface we want it to be going down, but you only had 36,000 jobs created. You try to look at a trend and for the year, 215,000 fewer jobs were created than we thought. But more jobs were created in November and December than we thought. So trying to find a trend is just really quite difficult here.

I think what's important for people to understand without getting too wonky about these funky numbers is that there are two different sets of data that they use. One set of data where the Labor Department calls people up and they say, are you working, and people say yes or no. And another set of data that's the companies, who report whether they're hiring or firing, and how many jobs that they have.

I really want to ask the Diane Swonk, the chief economist at Mesirow Financial, I want to ask you Diane could it be that in this new kind of jobs market that we have, when the Labor Department is calling people up and saying are you working and they say, well, yes, and they are working but they're working at home or they are working part-time or they are working kind of a contract job or something and it's not captured overall in the numbers, is that how we can explain only 36,000 jobs created but a 9 percent unemployment rate?

DIANE SWONK, CHIEF ECONOMIST, MESIROW FINANCIAL: That's part of the explanation. There's no question that one of the things that the BLS data is very bad at, the official government data, is capturing shifts in small business employment and particularly new firm employment. We saw a doubling of IPO's in the fourth quarter and that's just a harbinger of new hiring going forward by new firms. And I think that is very important.

The other issue is weather, 886,000 workers did not show up for work the week the survey was taken. The bulk of the losses in this report came in construction and in transportation jobs. Atlanta Airport, the busiest in the world, was shut down.

VELSHI: Right.

SWONK: All those service personnel that service those jobs did not show up across the east coast and that had a major toll on employment. So as much as I agree that we're getting job growth but not enough, the job gains have accelerated, other reports have underscored that, and this report needs to be taken with a grain of salt. Because weather does play a role. Listen we had a blizzard in Chicago, my husband's from California; he was trying to shovel in shorts. It just doesn't work.

ROMANS: A grain of salt or a truck of salt and sand, right?

SWONK: Well, we needed a truck of salt and sand on Lake Shore Drive.

ROMANS: That's right.

VELSHI: Hopefully a few months from now when we look back and we see that bar chart of jobs lost and jobs gained we'll have some sense that this was an anomaly, if weather did play that kind of role. Mark Preston, CNN senior political editor, Mark, Federal Reserve chairman Ben Bernanke was quite candid this week. He was talking about the reality of ongoing unemployment during this recovery. Listen to what he said.

BEN BERNANKE, CHAIRMAN, FEDERAL RESERVE: It will be several years before the unemployment rate has returned to a more normal level. Until we see a sustained period of stronger job creation we cannot consider the recovery to be truly established.

VELSHI: All right. This is something he's been saying for some time. He's saying it's going to take a long time. He said four or five years. The economy will play a huge part in whether the president does keep his own job and his re-election beyond 2012. So, Mark, what's going to happen in politics about this?

MARK PRESTON, CNN SENIOR POLITICAL EDITOR: Well, clearly the White House is very concerned about where the unemployment rate is at this point. You know, for him to be really safely re-elected I think that he would have to be below 8 percent and in fact on Friday right after the jobs report came out we saw speaker John Boehner put a statement out and say that the administration hasn't kept to their promise to keep unemployment below 8 percent.

But you know, look, Ali, he's had some good news, and we should point this out to our viewers, President Obama has had some good news in the past couple of weeks. His approval rating right now according to the most recent CNN Poll is at 55 percent. The bad news is, though, his approval rating on the issue of the economy is at 45 percent. So there's still a lot of work to do politically for President Obama.

VELSHI: And the economy continues, whether its jobs or the deficit, it continues to be the biggest issue on the minds of Americans, as you know, Mark.

OK, everybody stay where you are.

Jobs coming back for some but not for all. Why race still matters in this recovery, coming up next.

VELSHI: The official unemployment rate for everybody in the country stands at 9 percent right now. Whites are actually faring better in the population as a whole; their unemployment rate is 8 percent. Blacks, nearly double that, 15.7 percent, Hispanics at 11.9 percent, Asians at 6.9 percent.

Christine Romans joins me again.

Christine, blacks nearly double the unemployment rate of whites. Tell me how why that is and how it works as we start to recover.

ROMANS: Even in good times, even when you're creating 100,000, 200,000 new jobs every month you have this disparity between whites and black unemployment rate in this country. So it's something that social policy people and economists have argued about forever. Why structurally is this a problem? How do you fix it? It's a combination of things. Frankly it's discrimination, it's education, it's opportunities in the workforce, it's the jobs that are available to move up the ladder, but this time when you're only creating 36,000 a month like you did last time you're capturing people who are well connected in the economy, they're connected to other people who already have a job, they may have recently actually had a job already, so it just makes an already tricky and troubling situation even worse.

We want to be able to have a rising tide that lifts all boats, even in good times it sometimes doesn't always lift all boats. But this period in particular, 6 million people out of work for six months or longer, we've got major, major issues here with the labor market.

VELSHI: Peter Morici, one of the things that is interesting you often talk about disparities in currency and what types of jobs we do, we've seen some growth in manufacturing jobs in the last few months which may have to do with the fact that the U.S. currency is a little weaker making U.S. manufactured goods a little more attractive to the world, but here's where we have two different types of discrepancies in the types of people who are employed in the U.S.

People in manufacturing and construction jobs, men in particular, have really taken it on the chin in the last few years. And these racial discrepancies that we were just pointing out on the wall, on that graphic I just showed. Talk to me about both these discrepancies and what they mean to our success in the future.

MORICI: Well, on the manufacturing side, the kinds of jobs that are being created are very technical in nature. A lot of them are engineering and things of that nature. If you go to universities, minorities, especially Hispanics, are very underrepresented in those technical areas. Engineering programs in particular.

A lot of this is interesting high school age blacks and Hispanics in those kinds of very technical careers. It's not just engineering, its finance and some of the other areas, software. So there's an absence of preparation. And frankly, the college achievement level of those groups is much lower, and that's what matters today.

VELSHI: Yes. And Diane those groups, let's just pick up on that, engineering, software, finance, accounting, education, private education, anything to do with health care, these are growing fields. These are the places where people are still able to find jobs. But we have a lot of job openings in this country and we continue to hear that the people who need the jobs are not the same people who can apply and fill the jobs that we have openings for. So who is faring the best and what do we do for everybody else?

SWONK: Well there is no question there's a big gap between the jobs that are being offered and the job skills of the people who really need the jobs the most that have been unemployed the longest, that 43.8 percent that have been unemployed for more than six months that Ben Bernanke actually underscored his concern about of lost human potential out there in capital in the U.S. economy. The real issue is education at the end of the day, but it's even more than that. We aren't even preparing our high school graduates with the skills they need to enter the labor force, and then the median education, community colleges, the training that comes after that, you don't all have to be rocket scientists but many of these technical jobs in manufacturing could be filled with a little more training that's not being offered in our economy, is being offered if places like Germany. We're not seeing that done here. And so I think there's also a place where we could see some more shorter term training done, better preparation without them all being rocket scientists and engineers.

I talked to two manufacturers just last week who said that they've got jobs open in the U.S. that they can't fill and it's engineering but then it's also this technical area. So I think there really is an opportunity there in sort of more marginal training, not as much as a commitment to undergraduate but getting to that next level.

VELSHI: Mark Preston, President Obama's reached out time and time again to the business community, surrounded his White House team with business people. Are they going to give him what he needs? Which the long and short of it is job creation.

PRESTON: I mean, look Ali, the fact is that there has been this tension between business America and the Obama administration. You know business America feels like the Obama administration has been attacking them. They've brought in Bill Daley who has very strong ties of course to business America, as the new chief of staff, and I think that's going to be a good bridge to build back in order to try to get the economy back on track.

The White House can't do it alone. You know, big business can't do it alone. They have to work together. The question is where can they work together? There still is going to be some flash points where they're not going to agree, but the fact is they have to agree on some things. Ali look during the president's State of the Union Address, he emphasized a couple points which we shouldn't be too surprising, he emphasized education and he emphasized research and development. I certainly think on the latter, I think that that's something that could be achieved very, very quickly between business and the White House.

VELSHI: All right. Peter good to see you. Diane thanks very much. Mark, always my pleasure, and Christine of course, the host of "Your Bottom Line" on CNN Saturday mornings at 9:30 Eastern. Stick around, Christine we have more to talk about.

Chances are that your state government is having some money problems. Budget shortfalls are much steeper in this recession than in the last, and the pain is not going to end before 2013. Now, this is a problem for you specifically, and I'll tell you why, next.

VELSHI: More than 100 million Americans, one in three, felt the power of this week's snow, ice, lots of freezing rain, travel cancellations, school closures. But as the snow piles up, so do the costs. Somebody has to pay for all that snow removal, and city and state budgets are already struggling. Take a look at this, 44 states and the District of Columbia, everything in red, project budget shortfalls for the next year, and that totals $125 billion.

Only six states are in good financial shape. Not surprisingly, the states doing the best tend to have below average unemployment rates. So while the recession is over, we're told things could get a lot worse still for the states that you live in, and by the way, the cities you live in, which also depend on those states being financially healthy. Maya MacGuineas, is with the New America Foundation a left of center nonprofit organization. Maya snow just the latest problem after a couple of very rough years that are causing state budgets to be in such a sorry state. Is this likely an end? Is there something that states should be doing differently?

MAYA MACGUINEAS, DIR. NEW AMERICA FOUNDATION: Well, it's going to be a long haul for the states to get into better fiscal situation, much like the federal government, we are spending too much and we are raising too little in revenues. But the states are going to be sort of hit with a couple different things. So they're just coming out of the effects of the economic recession that they've felt very hard, and revenues are starting to tick up a little. But two more things loom out there for them.

One, the stimulus that came in was helping the states, is going to get pulled back next year and that's going to be a big hit for them. They're not going to have the money that the federal government was funding through stimulus. And second, the federal government has to come up with a plan to balance its own books, which means the money it generally gives to state and local governments is probably on the chopping block. So a lot of changes will have to be made structurally to get that sea of states that need to improve their finances into better shape.

VELSHI: And this is an important discussion. I'm going to talk about it a little later, which is that we all agree we need to get the federal budget and the federal financial house in order but it, does trickle down to at the state level and then the city level.

Let's bring in Philadelphia Mayor Michael Nutter. Mayor Nutter was out there last week shoveling shovel snow, helping people out there.

I know every time there's been a snow issued in Philadelphia, you get down to your emergency center and help to direct things. You're always on the ground but there's a bigger issue here.

You believe that these state money problems are making it much more difficult for cities like yours. You came in to Philadelphia trying to deal with the budget issue before this whole recession came along, and it has done nothing but get worse.

MAYOR MICHAEL NUTTER, (D) PHILADELPHIA: Well, Ali, thank you. You're absolutely right. We jumped on the economic recession very, very quickly, took strong measures, cut budgets, reduced the size of our workforce, stopped our tax reduction program, and increased some taxes, at least temporarily to get us through a very, very difficult two-year period.

We had to fill a $2.5 billion five-year plan gap. But we did it. And we didn't lay off one police officer, not one firefighter, and we maintained our core services here in the city. We've actually stabilized Philadelphia's budget after two of the worst years in recent history. Now we're faced with a situation at the state level, state government has an estimated $5 billion deficit on about a $29 billion budget, 85 percent of which goes to public education, social services, and prisons. And so there's very little discretion. As you were talking about earlier, in terms of the federal government.

VELSHI: Right.

NUTTER: Very little discretion on the state side. Those areas, if there are significant cuts, Philadelphia is a city and a county where one of 67 counties in the commonwealth of Pennsylvania. Cuts in those areas will have devastating impact all across the commonwealth of Pennsylvania. So cutting budgets has to happen. We all get that. It's how you do it and what is the impact as it comes down to cities and metropolitan areas. And I'm very, very concerned about it.

VELSHI: Philly is one example, but whether you're in Pennsylvania, or you are in New York State, or you are in California, or any of these places with massive budgets --

NUTTER: Or in New Jersey right across the river.

VELSHI: Or in New Jersey where you have seen in some cases police forces, half of the police force gone in Camden. Richard Florida, the author of "The Great Reset," Richard falling housing prices are one of the big things affecting state budgets.

RICHARD FLORIDA, AUTHOR, "THE GREAT RESET:" Absolutely falling housing prices are killing city budgets, because cities and counties are so dependent upon that property tax as a source of revenue. But then as individuals lose their wealth, they lose their jobs, their housing values, they go into foreclosure, that trickles down to the state and you get this kind of terrible cycle that the mayor was talking about.

And then if the state comes, state budget cuts come they hurt the city. So I think absolutely we've got to get housing prices stabilized, it looks better. The unemployment report this week looks better, so hopefully over the next couple of years we can start improving this fiscal outlet, get our states and cities balanced and move on to growth. But I'll tell you, it is a tough time. And as I wrote in that book Ali "The Great Reset" this is not a three, four, and five-year process.

VELSHI: Right.

FLORIDA: These crises are generational in scope. It's going to take a while for us to get out of this. VELSHI: But Maya the one thing we do not want is we do not want our cities slipping into urban decay. We do not want an urban underclass developing again. Our cities have fought this back for years. What can states even do now? Look at California with Jerry Brown as a governor coming in with stuff that would make Arnold Schwarzenegger blush in terms of cuts. New York State doing the same thing. Mayor Nutter is talking about Pennsylvania. What can states in these positions do?

MACGUINEAS: Well, there's no avoiding that these are tough choices that are going to have to be made. But you make a very good point, which is you don't want to be so focused on the short term that you lose the bigger picture and cause more problems as a result. So there's urban decay that can certainly be the result, there is also pulling back on the spending for public investments which would actually help us grow the economy in the longer term.

I don't want to put out the myth there that we can kind of grow our way out of these problems, but you don't want to be so short sighted that you pull back on investment in human capital or infrastructure or these things that help keep generationally the economy strong. We're at real risk for doing that. But then again it's not like there's easy things to cut, these are all things people like and do play an important role and we're going to have to talk about taxes as well.

VELSHI: Let's talk about - go ahead Mayor Nutter.

NUTTER: I think you have to have a balanced approach. You're right, you cannot just sit here with a straight face and say, oh, we're just going to completely grow our way out but you also can't say you're going to completely cut your way out. That was the balanced approach that we took enhancing revenues or contacts increases, made some strategic cuts but did not damage the core services of what a city has to provide. No one wants to invest in a city that's not safe or it doesn't have an educated workforce.

VELSHI: You want businesses to come in more than already are there, Philadelphia is a city that does have education and technology, but you want more people to come in and they want to depend on a stable and growing transit system. They want to depend on a stable and growing police force, you know safer streets.

NUTTER: Right.

VELSHI: This does affect your ability to compete with other cities that are also bidding for a company's business.

NUTTER: Absolutely. The clock is always ticking and people are always watching. And the things that we did ultimately, yes, they were painful, yes some people were upset, but they -- the public I think understands it. Now we've stabilized our finances, and we're starting to see the turnaround.

Next Tuesday and Wednesday we'll make a series of announcements, groundbreakings that will produce over 1,000 new jobs in Philadelphia over the course of the next two to three years. And other companies are investing and expanding in the city because they see, even though we have fewer police officers, not through layoffs, but through attrition, crime continues to go down. They see the gains that we're making in education. They see that we're changing our systems to make it easier for businesses to operate. That is the essence of not making short-term damaging decisions that end up hurting you more in the long-term.

VELSHI: Richard -- go ahead.

FLORIDA: I think the Philadelphia turn around and what Mayor Nutter is doing is fantastic, but as you know our cities are competing, it's not just Philly against Baltimore against New York against Los Angeles; we are in a global competition.

VELSHI: It's regional.

FLORIDA: Throughout Asia particularly, want to lure the same businesses. I think our big cities under leadership of great mayors like Mayor Nutter, Mayor Bloomberg and many others have done fine. Those second and third tier cities, the Harrisburg's of the world, the Youngstown, the Allentown's, the Dayton's are the ones that are getting hit. And there is one thing if we're going to keep America competitive, when we look at the real advantage America has, it's these fabulous state universities. I'm a product of Rutgers University on a garden state scholarship from a working class family.

VELSHI: Right.

FLORIDA: Our states now are slashing the budgets, whether it's the California system, the Michigan system, the Illinois system. Many of those universities have become more reliant on tuition and on their own funding. But I'll tell you what really worries me. If we damage the ability of our country to invest in what you called human capital, attract the best and brightest, I think that's the biggest short and medium term danger and we've got to remain steadfast in those investments.

VELSHI: All right. I think we're all agreed on what shouldn't happen and how we have to keep competitive.

Richard Florida, great to see you.

Mayor Nutter, thanks very much.

And, Maya, great to see you as well. Thanks for a great, robust discussion. We should have this again.

Well another major tax cut could be on the way. If you think it's going to be more money in your pocket, however, think again. I'll explain after this.

But first, outsourcing is a cheaper option for many businesses. In this week's "Turn Around" hear how one woman says keeping her work in house turned out to be the most profitable move.

STEPHANIE ELAM, CNN CORRESPONDENT (voice over): What do you do if you can't find cute, personalized gifts for your friends having babies? If you're Cindy Teasdale McGowan, you start a company online that does just that. Welcome to mak-a-boo.

CINDY TEASDALE MCGOWAN, OWNER, MAKABOO.COM: the whole point is that you are making boos. A lot of kids call their blankets or their play things, boos.

ELAM: After working for Snap Fish, Cindy knew how to build a great website but knew nothing about embroidery.

MCGOWAN: So my original plan was to outsource that portion of the business.

ELAM: But within months of her 2009 launch, she had a hiccup with the embroidery company. It quit. So when the embroidery company backed out what was the first thing you did?

MCGOWAN: I mean, words that I can use on television are -- I really panicked. My first thought was, let's replace the partner. I thought, just bring it in house.

ELAM: Doing the sewing herself, put a new stitch in her side, finding and leasing a $15,000 embroidery machine.

MCGOWAN: All of a sudden we were starting two businesses instead of one. We were starting an online retailer which I sort of know how to do and then we were starting an embroidery provider which I knew nothing about at all.

ELAM: With 20 percent growth a month Cindy says this was the best thing for mak-a-boo.

MCGOWAN: In hindsight there's no way we could do what we do not doing the embroidery our self. It's always on our watch.

ELAM: To keep growing Cindy used Groupon and even gone Hollywood.

MCGOWAN: We've joined a celebrity gifting program so when new babies are born in Hollywood to celebrity parents we send mak-a-boo gifts to them.

ELAM: And Cindy is not done with her labor of love.

MCGOWAN: I cannot imagine having a day that I say, wow, we've made it. I just can't imagine that. And if it happens it will happen for like two hours and at hour three, I'll say, all right what are we going to do now?

ELAM: Stephanie Elam, CNN, St. Louis, Missouri.

VELSHI: Well the continuing unrest in Egypt could mean higher prices for things you buy here in the United States. Christine is back with us. Christine what are we likely to see going up in price if this continues?

ROMANS: Well Peter Butelli (ph) Hanover told me Ali that a concern in the oil market will be Egypt and what's going on there. Not just Egypt but whether it spreads, there is more unrest around the region. So watch for gas prices. They've already been up, but he calls this a gnawing concern on gas prices. Food prices already up; in Egypt they're up 17 percent.

One of the reasons why those people are rallying, and/or rioting, and they're doing it on an empty stomach. Food prices up sharply there and they continue to move higher, and we don't really see a pull back in that here any time soon.

In clothing prices, maybe we will see clothing prices up. You know cotton is at an all-time high. Egypt a big cotton exporter, unclear about what's going to happen going forward there. But that uncertainty always adds to prices. And then how you heat your home with heating oil that is also a derivative of crude oil, and so there you go that's another thing to be watching out here.

Now I want to be really clear about something. Even before Egypt, people calling for these prices to stay high and keep rising higher, they were blaming China, Russia, India, Brazil, big demand from everyone else but look, in the U.S. we spend 11 percent of our money, our budget on food. In Egypt, it's about 40 percent. So think about that. I mean, you think about just how difficult these rising commodity prices are in different parts of the world. China by the way more than 30 percent. That's why the Chinese authorities are so good at focusing on jobs, jobs, jobs so that the street in China doesn't look like the streets in Egypt right now.

VELSHI: All right. Egypt is not an exporter of oil. About 1.8 million barrels per day pass through the country by way of the Suez Canal, by the way which is just 2 percent of the world's supply. That's all that Egypt is responsible for. If you take a look at crude oil prices, however, starting last Thursday, take a look. As tensions mounted in Egypt, oil prices went from $85 a barrel to $92 a barrel by Monday. It hovered above 90 for the rest of the week.

Richard Quest, host of CNNI "Quest means Business." Good friend of mine, Richard we talk endlessly about the fact that there's a long- term increase in the prices of oil anyway. Supply is tight. This made it go up a few bucks. What are we thinking about in terms of oil prices for the long-term with or without this uprising in Egypt?

RICHARD QUEST, CNN INTERNATIONAL ANCHOR/CORRESPONDENT: Well I think the first thing you have to realize is there was a general uptrend and there was a pressure on the oil market. Whether by supply constraints, whether by increased demand. Don't forget, as economies have started to pick up, particularly for example in the United States, countries like Germany, that is also increased the demand. So the idea that prices were moving slowly and inexplicably upwards was there anyway. But even though Egypt is not a major producer, the Suez Canal doesn't carry most of the oil, look around you, Ali. Look at all the other countries, where the slightest interior of what, political instability, possibly power supply lines. Anything at all that is what is causing this.

VELSHI: Let's pick up on that. CNN correspondent Leone Lakhani joins me from Dubai.

Leone started in Indonesia went to Egypt, we've seen bits of unrest in Yemen, in Jordan, talk about unrest in Syria, this could spread. Are we going to see oil markets react like this every time there's this new brand of conflict in the Middle East?

LEONE LAKHANI, CNN CORRESPONDENT: It's what Richard says Ali. There's so much of the oil supplies are actually based in the Middle East that any kind of volatility, any kind of unrest will rattle the markets and rattle investors. You know as Christine pointed out, markets don't like uncertainty, and that's what the situation is at the moment. Now, Richard pointed to the Suez Canal on the right side, we also have the Strait of Hormuz which is a very narrow passageway, again in a volatile neighborhood, and anything that happens to the oil supplies that come out of the Middle East most of it will pass through that passageway, which again is another contentious point due to piracy concerns, due to the volatile neighborhood, again, Ali. So that again will rattle investors.

VELSHI: OK Richard, let's pull out to a bigger picture. Forget the oil for a second. Egypt, massive country. Plays a very important role economically and politically in the Middle East. The Middle East of course remarkably important to the global economy. What are the implications for the Middle East in general if this kind of unrest continues?

QUEST: Now, this is really interesting, Ali. Because what I'm hearing from the experts, which the number of options and the range of results, economically and business wise, I'm not talking politically now. I'm talking about the sort of thing that you and I and Christine view on a daily basis. It is highly unlikely that whatever scenario comes out of Egypt it will be either a far left wing or a far right wing state-run economy. Anyone who's been to Egypt knows it's a trading nation, give them something and they'll sell it somewhere in the world. That is not going to change.

A deal to be done, a bargain to be had, a product to be sold. So do not -- this is one of the reasons, just one of them. For example, let's take Israel just off the coast. The Israelis, for example, are slightly of course they're concerned about what's going to happen, the complexion of government, the peace process, but if you take it in terms of are they worried about economically, perhaps not so. Because they know the Egyptians know, everybody I've spoken to in Egypt tells me that the business environment that will subside after this is over won't be that different from that which is happening now.

ROMANS: But this time, Ali, they've got to make sure that whoever is in power is going to have to share some of that with the people. Because one of the things you see here is you see an economy in Egypt that had been moving forward and it recovered from a global financial crisis but that wasn't shared with the people. And when you have so much of your family budget goes to just feeding your family, only one in ten with a bank account there, it is a cash economy, there's the transparency international points out there is an awful lot of black market bribery and bartering going on and stuff, people don't feel like they have an opportunity that is a real problem. One thing the Suez Canal I think I agree with Richard, that as long as you have control of the Suez Canal, that country has control of the Suez Canal, business will be first and foremost and that means that American ships and international trade will continue to flow through there. We've seen no threat of that, quite frankly, so far.

VELSHI: All right. Christine, Richard Leone thanks very much for this good discussion. Leads into our next discussion, by the way, and that is as we saw, oil prices are up and gas prices for those of you who drive are up to and both of them as all of them just said, could be going higher. So how do you make money off of oil? We'll talk about it, after the break.

VELSHI: The chaos in Egypt has triggered new concerns about the volatility of the oil market. When prices rise it can be an opportunity for investors to make money in oil stocks an energy company. Stephen Leeb is the author of "Game over." He is going to show us just how to do that. Stephen great to see you, we've asked you for two funds, two mutual funds, that would be good for investors to look into. Let's start with a Vanguard Energy Fund. What is it and why do you like it?

STEPHEN LEEB, AUTHOR, "GAME OVER:" I like Ali, well, anything that comes out of Vanguard you're paying very, very little in the way of fees. That's automatically a plus, but that's not enough of a reason.

VELSHI: Sure.

LEEB: Vanguard Energy Fund basically tries to give you safety. Their largest position is Exxon, but they also try and give you growth. If you look at their second largest position, it's occidental petroleum. That's a big company but it's nowhere near as big as some of the other major oil companies. But what distinguishes Occidental from a lot of the others is that they do have real honest to goodness growth in both production and reserves. That's very, very unusual.

And Chevron, which is also there, is probably of the major super -- of the super majors, is probably the best position from a growth point of view. So, you know, if you just look at their top three holdings, you're getting a very, very good combination of safety and some growth in the energy patch.

VELSHI: All right. Let's talk about another way to play that rise in oil prices. Is as oil

prices rise production increases so you can invest in companies that explore for oil, produce it or distribute it. Tell us about the Guinness Atkinson Global Energy Fund.
LEEB: All right. Well this is a much more aggressive fund, Ali. Basically what they're after is just growth. I mean, their biggest position is Chesapeake. At least according to the post recent releases that I've seen. And Chesapeake is really your typical; I don't know if you can say typical, it's a growth energy company. And it has a major stake in shale gas, and that's one of the most exciting areas in the whole hydrocarbon universe. And I think the third biggest position, Suncor nonconventional oil. If there's any place where there's growth in the hydrocarbon oil universe it's going to be in nonconventionals.

VELSHI: When you say nonconventional an example?

LEEB: That would be tar sands that would be shale oil, shale gas; continental resources would be another one. I mean, it's -- anything that is not, you know, just something you drill a hole in the ground and watch the oil come up.

VELSHI: Well you make a good point that there are lots of other ways to get into oil, but it is risky, so mutual funds are helpful on that front because one company doesn't dominate the way they might be if you just buy the stock of that company.

LEEB: Absolutely. And if you look at Guinness, for instance, you'll also find a bunch of refineries in that. And you know, that's interesting, because refineries are also part of the whole oil universe. And there are times where you'll see refineries going one way; you'll see oil stocks going another way. Other times, like in 2006 you see gas stocks going down, and oil stocks going up. It's very hard for the typical investor who wants to be involved in the energy patch to really get the kind of diversification you're going to get in a really good mutual fund. And these two funds are really, really good. Safety, if you want Vanguard, aggressive if you want Guinness.

VELSHI: Man, you are so good at making this so accessible to our audience of regular investors. Stephen always a pleasure to see you.

LEEB: Thanks Ali.

VELSHI: Well 2010 ended with major tax cuts. There could be one more big one but not everybody agrees that it will boost the economy. We'll hash it out next.

VELSHI: 2010 ended with major tax cuts, but there could be one more big one. President Obama suggested cutting the corporate tax rate in the State of the Union Address.

BARACK OBAMA, PRESIDENT OF THE UNITED STATES: Tonight I'm asking Democrats and Republicans to simplify the system. Get rid of the loopholes. Level the playing field. And use the savings to lower the corporate tax rate for the first time in 25 years without adding to our deficit. It can be done.

VELSHI: Stephen Moore is an editorial writer for "The Wall Street Journal." Stephen, I believe you've never met a tax cut that you didn't like. Why might this one that the president is talking about be important for economic growth?

STEPHEN MOORE, EDITORIAL WRITER, "WALL STREET JOURNAL:" I love this idea, Ali, you're right. It's not just because I like tax cuts. I just think we have a hopelessly inefficient and uncompetitive tax code. I've been saying that for years and now the president is saying it. And the idea here is something I think liberals and conservatives, you and I can agree on. Let's get rid of a lot of the pollution and junk and carve outs and special interest loop holes in the tax code and bring the rates down, create a level playing field Ali that will make American businesses more competitive. As you know, our American corporations now face nearly the highest corporate income tax rate in the world. I think that puts us in a competitive disadvantage.

VELSHI: All right. Stephen Chipman is the head of one of the largest accounting firms in the world, Grant Thornton. Stephen, let's talk about this, on one hand you hear about loopholes, on the other hand you hear companies don't pay taxes or they pay too much tax. Companies have become expert at finding loopholes. Tell me about the current corporate tax system in the United States. Is it inefficient?

STEPHEN CHIPMAN, CEO, GRANT THORNTON: Well, we would certainly agree, Ali that the tax code is complex and it is not a level playing field, and we don't think it's about necessarily attacking or defending loopholes. We would agree it's about competitiveness and creating a level playing field, as Stephen said, both domestically here in the United States but also globally. We did a recent survey of CFOs across the United States and Grant Thornton and 76 percent of them said lowering the corporate tax rate would be their first priority in tax reform.

VELSHI: Take a look at this chart. Global average corporate tax rate since 2005, went up a little bit in 2006, but generally have been edging lower around the world. There are some people who think that the president should cut corporate taxes or should encourage it. There are some people who don't. Eliot Spitzer is one of them. He is the Co-Host of "Parker Spitzer" and former New York governor. He wanted to be here today but he couldn't so he left us this. Listen.

ELIOT SPITZER, CO-HOST, CNN'S "PARKER SPITZER:" Look, the president is right to want to cut the corporate tax rate but only if he does it in conjunction with closing all the loopholes that permit so many corporations right now to pay virtually nothing. I'll give you one example. Carnival Cruise Line last year made $11.3 billion in profits, not revenue, profits, only paid about 1 percent in a tax. And, therefore, if you want to lower the rate for everybody so you're saying we'll be more competitive with other nations in the world, you have to eliminate the loopholes that let some of the companies get away scot-free. That way the government gets the revenue that it needs and it could be a fair tax across the board. Some wouldn't pay more; others wouldn't pay none at all.

Kind of like the personal income tax we could all agree eliminate some of the loopholes, rates for everybody come down, you still get the same revenue. So the answer simply lowering rates is incomplete. Lower the rates, but close the loopholes at the same time.

VELSHI: All right. Stephen Chipman let me just ask you about that. He's saying we generally end up with everybody paying a lower tax as a percentage but some people who weren't paying taxes end up paying more. Bottom line is translate this to me to employment. If we did that, you and Stephen both say we would become more competitive. What does that mean? Does that mean more companies will relocate to the United States or keep jobs here? Is that what we're talking about?

CHIPMAN: Yes, Ali. We clearly think that lowering the tax rate, reforming corporate taxes would spur investment domestically. We think it would bring funds back to the United States. Interestingly, Grant Thornton did a study in 2004 when there was a tax holiday on repatriotation of funds; $362 billion dollars came back into the United States for investment. We also think it would be more attractive for global companies to relocate to the United States with a lower corporate tax rate and a more effective corporate tax system. All leading to what we believe would be investment and potentially more jobs.

VELSHI: Stephen Moore, will the people who generally back the idea of corporate -- cutting corporate taxes, will they back a robust elimination of some of these loopholes because sometimes that support is coming from the same people.

MOORE: Yes. You know, Ali, listening to what Eliot Spitzer just said, I think this is a first in CNN history that I agree entirely with what Eliot just said. And the fact is I do think that there's this bipartisan consensus emerging. Now when you were talking -- when you showed that chart with the international average now at about 24 percent, it's important for your viewers to know that we're at about 39 percent when you include the state and local taxes. So we're about 50 percent above the international average.

How does this translate into jobs? I really believe that one of the reasons we've seen outsourcing in the last few years, American companies creating jobs abroad, and I talk to these CEOs all the time, they say there's a 15 percent tax disadvantage of investing in the United States versus abroad. So for the average person watching the show wondering how this translates into jobs, it means America is a better place to do business, to build factories in.

VELSHI: All right. Guys, good to talk to you as always. Thanks very much for being with us. Stephen Chipman of Grant Thornton and Stephen Moore with "The Wall Street Journal" a pleasure to talk to you both about taxes.

Earlier in the show we talked about the sorry state of state budgets in the U.S. You're going to be hearing a lot more about slashing the federal budget. When we come back, I'll tell you why maybe we don't want to be in so much of a hurry to do that.

VELSHI: Time now for the XYZ of it. You will be hearing a lot of talk these days about the federal budget deficit and how congress, particularly Republicans in congress, want to slash it. It is a popular position. One that was key to the conservative victory in last year's midterm elections. President Obama got the message. He's been paying more lip service to the issue since then. But here is what you need to know.

The drive to cut federal spending could have a dire impact on already strained state budgets. And that's going to curtail public services where you live. Things like schools, roads, libraries, garbage collection, public swimming pools, and, as we have seen, bad weather response. By last year because of the recession more than a third of state budget expenditures were being paid for by transfers from the federal government. That's a big jump from previous years.

The great recession decimated state budgets. Property taxes dropped along with foreclosures. State tax revenue fell as consumers spent less, and business taxes fell as mom and pops shut their doors. Obviously state income tax dropped along with the number of people who were employed, but states pulled back on their spending and at the same time they were forced to rely more on the federal government, particularly for essential services like hospitals and teachers and emergency services.

So while we're all struggling to figure out what to cut from the federal budget, remember that all the cuts can only come from a small percentage of Uncle Sam's spending pie. The 15 percent of it known as non-security discretionary spending and that is precisely the slice that your state may be relying on to keep your police at full force or your firehouses open. Curbing our government spending is necessary, but the how and the why and the what are equally important.

Thanks for joining the conversation this week on YOUR MONEY. We're here every Saturday 1:00 p.m. Eastern and Sunday at 3:00 p.m. Eastern.

You can also catch Christine Romans on "YOUR BOTTOM LINE" Saturday mornings at 9:30 a.m. Eastern.

Stay connected 24/7 on Twitter, @AliVelshi and @ChristineRomans.

Have a great weekend.