

Politicizing the Economy

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If we were put in charge of the world, if we had complete control of fiscal and monetary policy, we would change things.

But we aren't in control. And complaining gets us nowhere. Our job is to keep investors informed and to share our best thinking about where the economy and financial markets are headed.

We won't always be perfect. We have made mistakes in the past and we will make them in the future. When we are wrong, we will say so, and when we are right, we will try to remember when we were wrong.

At the same time, we will attempt to figure out why we were wrong. For example, we thought the US would avoid a recession in 2008 – we wrote it, we said it on TV, we gave speeches about it. We were wrong. Unfortunately, we thought there was no way that the government would allow mark-to-market accounting (M2M) to remain in place.

We think this was our mistake. It was so clear to us that M2M was the problem, but the Paulson Treasury and Bernanke Fed did not see it that way. The result: TARP and QE.

Both TARP and QE were mistakes. In the six months after TARP was passed and QE first went into effect, the S&P 500 fell an additional 40%. The stock market did not bottom until overly rigid M2M accounting rules were fixed in March/April 2009. That's when the economy and the stock market reversed course. This wasn't a coincidence.

We also don't subscribe to the Reinhart-Rogoff thesis, that economic growth is always slow after financial crises. We believe the only reason this appears to be true is because governments often grow and make major mistakes during and after financial crises. It is the growth of government and major policy mistakes that hold the economy back, not the crisis itself. In other words, we are not surprised by the relatively slow recovery, but we completely disagree with the conventional wisdom about why it is so.

The real drivers of growth, the real creators of wealth have nothing to do with most of what people are talking about today. It's not about deleveraging and QE, rather it's about Entrepreneurs versus government.

New ideas, innovation, creativity, and surprises, drive growth. And these days, innovation is amazing. Fracking, the

Cloud, Smartphone, Tablet, 3-D printing...all these, plus more, boost productivity, profits and opportunity. And they are doing so in spite of what we think are policy mistakes.

This puts us on the wrong side of both political parties. The Right, who superficially understand supply-side thinking, see a recession around every corner and argue day and night that the economy is awful, terrible, or inches from another recession. It's all because of Barack Obama. The Right wants a recession to prove that government is too big.

The Left blames capitalism for the crisis, hates the Sequester and always wants more government, so it also wants to spin the economy in a negative light. The Left wants more spending and will argue that the economy needs it.

We weren't surprised when both the front page and the editorial page of the Wall Street Journal argued that the July employment data were evidence of an economy in trouble.

We, on the other hand, look at the July data and are kind of amazed. Forty-one months of consecutive gains in private sector payrolls! And Q2 GDP, even at 1.8% growth, seems almost miraculous, given tax hikes, Obamacare, Dodd-Frank, QE, and Sequester politics.

We aren't arguing it's a boom, but it certainly isn't a bust either. We call it the Plow Horse economy, and we are not shocked that corporate profits have been beating the consensus 2/3rds of the time for the past 4 years. And, for the record, since QE money creation is boosting "excess reserves," and not M2, and since government spending has been falling as a share of GDP, we don't believe it's all a sugar high, either.

What we are trying to say is: "our narrative" is different from the "politicized narrative." This means our narrative is attacked from both sides. We have been called "friends of Obama" and "right wing extremists" on the same day.

Others don't miss a chance to say "First Trust missed the recession of 2008" as if this proves we don't understand what's going on today. But when we step back, especially after a 177% total return for the S&P 500 since March 2009, and a 4.8% annualized return since 12/29/2007, we think the naysayers are allowing their political views to bias their economic/market forecasts. We try really hard not to do that. What we want to do is help investors make better decisions.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-5 / 9:00 am	ISM Non Mfg Index – Jul	53.0	53.0	56.0	52.2
8-6 / 7:30 am	Int'l Trade Balance – Jun	-\$43.5 Bil	-\$42.2 Bil		-\$45.0 Bil
8-7 / 2:00 pm	Consumer Credit– Jun	\$15.0 Bil	\$15.0 Bil		\$19.6 Bil
8-8 / 7:30 am	Initial Claims – Aug 3	335K	336K		326K