

Sep 5, 2006

Monday Morning Outlook

Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-6 / 7:30 am	Q2 Non-Farm Productivity	1.6%	1.5%		1.1%
	Q2 Non-Farm Unit Labor Costs	3.8%	4.0%		4.2%
9:00 am	ISM Non-Manufacturing	55.1	55.0		54.8
9-7 / 7:30 am	Initial Unemployment Claims	315K	310K		316K

Changing Times Are Challenging Times

It may sound trite, but technological change defines our world. And the changes are so rapid and dramatic that even the most astute observers cannot possibly grasp all the implications. Nonetheless, we see the benefits almost every day.

Last week, for example, we got a phone call from Russ Roberts, a professor at one of the best economic schools in the country, George Mason University. Russ is also the features editor at the Library of Economics and Liberty and he wanted us to know that he had just posted the first of a two part interview with Milton Friedman. In a great service to the world, Russ is interviewing leading economists and thinkers (many of them Nobel laureates) and making those taped interviews available at www.econtalk.org.

Because Russ is such a good economist, and these interviews are not constrained by the demands of television or print media, they are very valuable. They cover serious topics in depth and once again reveal the powerful nature of the Internet.

In the interview, Friedman said he was optimistic about the future, but he also fretted that the low inflation of the past 20 or 25 years could make people "bigger suckers." He feared that without specific rules in place to restrain the central bank, the government would try to use inflation as a form of taxation. He said, "sooner or later, government's are going to want to spend money without taxing it and the only way to do that is to print money—to create inflation."

"When I see in the Federal Reserve reports that the inflation anticipation for 10, 20 years is on the order of 2 percent a year," Friedman added, "I find it very hard to believe it. Sooner or later, the government's going to get out of hand."

These fears seem justified. The YOY change in the "core" PCE deflator has been at or above 2% for 28 consecutive months. In the past five years, the dollar has lost 56.7% of its value versus gold and 29.7% of its value versus the Euro. This is a clear sign that the Fed has printed too much money. Yet, concerns about inflation seem almost non-existent. Have we been lulled to sleep?

In another EconTalk interview, Harvard professor Robert Barro points out that "strong growth" in China and India caused a "dramatic reduction in world poverty over the last 25 years or so, and also some movement away from income inequality." The reason for this unprecedented improvement in living standards is twofold: the spread of technology and the adoption of capitalism and free markets.

It is true that technology is causing consternation and fear as "creative destruction" pushes the US and the world into a dramatic transformation, the likes of which we have not seen since the Industrial Revolution. But to suggest that we move away from free markets and utilize government power to slowdown the impact of technology and globalization, is to ignore the lessons of history.

We should not fear the economic revival in China and India. The world economy is not a zero sum game. The people exiting poverty are becoming entrepreneurs, inventors and customers. The forces of technology lift living standards as long as government stays out of the way. The right answer to closing the income gap, and raising living standards, is more freedom, not less.

Technology means opportunity. For example, some analysts bemoaned the loss of 13,500 retail trade jobs in August and even more so the 96,000 jobs lost in the past year. But this is not necessarily a sign of problems in the retail sector, which is also being affected by technology. Online spending is soaring, and product research and comparison is much easier on the Internet. As a result, we do not need as many employees working in retail. Between 2000 and 2006, inflation-adjusted (or real) retail sales per retail employee increased by 13.5% - from \$19,200 to \$21,800 per month. Even though total retail sales are at an all-time high there are roughly 70,000 fewer retail employees today than in 2000. This allows retail prices to remain low, which is an automatic boost to living standards.

Changing times are challenging times. But as Friedman and Barro remind us, the best government policies are still the tried and true policies of stable money, low taxes, and free markets.

Week of September 11, 2006					
Date/Time (CDT)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
9-14 / 7:30 am	Aug Import Prices	-0.2%	-1.0%		+0.9%
	Aug Export Prices	+0.3%	+0.2%		+0.4%
	Aug Retail Sales	+0.3%	0.0%		+1.4%
	Aug Retail Sales Ex Autos	+0.5%	+0.5%		1.0%
9-15 / 7:30 am	Aug CPI	+0.3%	+0.1%		+0.4%
	Aug "Core" CPI	+0.2%	+0.3%		+0.2%
8:15 am	Aug Industrial Production	+0.3%	+0.2%		+0.4%
	Aug Capacity Utilization	82.5%	82.5%		82.4%

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