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First Trust

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Monday Morning Outlook

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Fiscal Stimulus, Just Say No

One of President Bush's most lasting economic legacies will be his use of temporary, Keynesian, fiscal stimulus measures in an attempt to manage the economy and offset recessions.

Back in 2001, Treasury Secretary Paul O'Neill got the ball rolling by insisting that the first round of Bush tax cuts include a $300 rebate per taxpaying adult, which was distributed in checks sent out from July through September that year. The rebates were designed to give the economy a temporary boost in the face of recession.

Then, in 2003, middle-income taxpayers were given an "advance" payment of $400 per child for the increase in the child tax credit made law that year. Otherwise they would have had to wait until early 2004. This time, the idea was to "jump start" the economy into faster growth. Next came the rebates passed out earlier this year: $600 per taxpaying adult plus $300 per child. Like 2001, the checks were designed to avert or diminish a recession.

Policymakers have been way too focused on the short-term so far this decade, which stands in marked contrast to the thrust of policy from 1981 through 2000, when presidents, both Republican and Democrat, were more focused on the long run health of the US economy.

What's worse is that the stimulus measures didn't work. In fact, the 2001 rebates, because they increased the short-term cost of reducing taxes, caused President Bush to phase-in cuts to marginal tax rates. This slowed the economy as investors and businesses postponed activity and income recognition, waiting until tax rate cuts were fully phased-in.

We are concerned that whoever wins tomorrow's presidential election will follow this path and sign onto the outline of House Speaker Pelosi's quest for yet another short-term stimulus package, this time focused on a combination of tax rebates, extended jobless benefits, expanded food stamps, aid to state spenders, and infrastructure. In fact, Senator Obama has already stated his support.

Now, there is nothing wrong with boosting infrastructure spending, where needed. But that policy change should be directed at efficiently meeting long-term building goals, not just timed to boost the economy when policymakers think it needs boosting.

As a whole, another short-term stimulus will just leave the US deeper in debt with no change in the incentive to work, save, or invest, meaning workers and investors will have to pay higher taxes in the future. If the new president wants to quickly send a positive message to the markets, he should announce that the era of short-term management of fiscal policy is over.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-3 / 9:00 am	ISM Index - Oct	41.0	**42.4**	38.9	43.5
9:00 am	Construction Spending - Sep	-0.8%	**-1.0%**	-0.3%	0.0%
sometime	Domestic Auto Sales - Oct	4.1Mil	**4.1 Mil**		4.3 Mil
during the day	Domestic Truck Sales - Oct	5.0 Mil	**4.9 Mil**		5.2 Mil
11-4 - 9:00 am	Factory Orders - Sep	-0.8%	**0.4%**		-4.0%
11-5 / 9:00 am	ISM Non-Man. - Oct	47.0	**46.4**		50.2
11-6 / 7:30 am	Q3 Non-Farm Productivity	+0.8%	**+0.4%**		+4.3%
7:30 am	Q3 Unit Labor Costs	3.0%	**+2.3%**		-0.5%
7:30 am	Initial Claims - Nov 1	476K	**477K**		479K
11-7 / 7:30 am	Non-Farm Payrolls - Oct	-200K	**-150K**		-159K
7:30 am	Unemployment Rate - Oct	6.3%	**6.3%**		6.1%
7:30 am	Average Hourly Earnings - Oct	+0.2%	**+0.3%**		+0.2%
7:30 am	Manufacturing Payrolls - Oct	-62K	**-64K**		-51K
7:30 am	Average Weekly Hours - Oct	33.6	**33.6**		33.6
2:00 pm	Consumer Credit – Sep	$0.0 Bil	**$2.0 Bil**		-$7.9 Bil