

## Bad Logic

Both [Robert Kuttner](#), a long-time critic of free markets, and [Richard Posner](#), a long-time supporter of free markets, recently made the same argument. Kuttner said “markets are not self-correcting. If they were, [then] Wall Street would not be lined up for trillions of dollars in government handouts.” Posner, in a recent WSJ Op-Ed said capitalism is “not inherently stable.” He argued that the seriousness of the downturn (he says it is the worst since the 1930s) is proven, “by the dizzying array of programs the government is deploying and the staggering amounts of money it is spending....”

This “if the government is spending lots of money, then the economy must really be bad and markets don’t work” argument has been made by many analysts in recent months. But just because it is being used does not mean it is right. In fact, these statements of logic are deeply flawed and mistaken.

If fire trucks came roaring up to your house, and the firemen started spraying water, breaking out windows and chopping holes in the roof, one would think the house was on fire. But, it doesn’t have to be. Activity is not proof.

With all due respect to Richard Posner, this is not the worst economic crisis since the Great Depression. It reminds us more of the banking crisis of the 1980s and 1990s, when bank loans to farms, oil, and Latin America went bad all at once. On a mark-to-market basis, every money center bank was bankrupt in the early 1980s.

But, these bankrupt banks, and savings and loans, did not destroy the economy. Back in the 1980s the government gave banks time to work out their problem loans. Meanwhile, the Reagan tax cuts lifted growth and the economy eventually grew its way out of most of the problem. The RTC was finally put into place in the late 1980s to clean up the banks that just could not dig themselves out of their problems.

In other words, the Bush and Obama teams are doing things that the Reagan administration would have never done. Mark-to-market accounting rules have significantly increased the size of financial market problems and overestimated losses. Then, the extent of those losses were used by the government to justify a heavy hand of regulation and control. The stress tests were just another chapter in this saga. Government involvement begets more government involvement.

In response to all of this, we propose a different argument, using different logic. *If* the government had not involved itself so deeply in this crisis, *then* the US economy would most likely have avoided a recession altogether. Capitalism is not broken. In fact, allowing the market system to deal with the problems of the last few years would have been much better than having the government do it.

In our view, the government has committed arson and is now claiming that the building owners are liable for the amount it costs to put out the fire.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-12 / 7:30 am	Int'l Trade Balance - Mar	-\$29.0 Bil	<b>-\$25.8 Bil</b>		-\$26.0 Bil
1:00 pm	Treasury Budget - Apr	-\$20.0 Bil	<b>-\$20.0 Bil</b>		-\$192.3 Bil
5-13 / 7:30 am	Retail Sales - Apr	+0.0%	<b>+0.5%</b>		-1.1%
7:30 am	"Core" Retail Sales - Apr	+0.2%	<b>+0.8%</b>		-0.9%
7:30 am	Export Prices - Apr	-0.2%	<b>+0.0%</b>		-0.6%
7:30 am	Import Prices - Apr	+0.5%	<b>+1.3%</b>		+0.5%
7:30 am	Business Inventories - Mar	-1.1%	<b>-1.2%</b>		-1.3%
5-14 / 7:30 am	PPI - Apr	+0.1%	<b>+0.2%</b>		-1.2%
7:30 am	"Core" PPI - Apr	+0.1%	<b>+0.1%</b>		+0.0%
7:30 am	Initial Claims - Apr 9	610K	<b>609K</b>		601K
5-15 / 7:30 am	CPI - Apr	+0.0%	<b>+0.2%</b>		-0.1%
7:30 am	"Core" CPI - Apr	+0.1%	<b>+0.2%</b>		+0.2%
7:30 am	Empire State Mfg Index - May	-12	<b>-5.0</b>		-14.7
8:15 am	Industrial Production - Apr	-0.6%	<b>-0.5%</b>		-1.5%
8:15 am	Capacity Utilization - Apr	68.8%	<b>68.8%</b>		69.3%
8:45 am	U. Mich. Consumer Sentiment	66.5	<b>68.0</b>		65.1