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First Trust

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Monday Morning Outlook

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Gary Becker's Optimism

Nobel prize winner Gary Becker gave an interview to Peter Robinson last week, published in the Wall Street Journal. Becker, 79, is a founder of the Chicago school of economics (with Milton Friedman). His views are always important and you should read the interview.

Becker said the financial crisis did not undermine his belief in free markets. When asked if he agrees with arguments about the inevitability of US economic decline - as Lilliputian government activity ties the economy down with protectionism and redistribution - Becker remained hopeful. "If you have competing interest groups you don't end up with a systematic bias toward bad policy."

As an example, he talked about the outrage Americans felt toward the Wall Street bailout. He believes the outrage stemmed from a "belief in individual responsibility—the belief that people ought to be free to make their own decisions, but should then bear the consequences…" He said this underlying philosophy "…remains very powerful" and added, "The American people don't want an expansion of government…. They want limited government….I expect them to say so in the elections this November."

We hope he is right. We have expressed similar beliefs and while we agree that the November elections could be a major watershed, we are still worried about the future. No matter which party is in control, government seems to grow. In fact, even though they stand in opposition to recent action, Republicans are certainly responsible for the drift of policy. Republicans voted for the $180 billion Bush stimulus bill in February 2008 and a $700 billion dollar bailout of the banks (TARP) in September 2008. By doing this, Republicans implicitly argued that the system could not heal on its own. And if the financial system must be saved by government, why not the health care system? Let's not kid ourselves, if John McCain were President, the US would have enacted a slightly less aggressive health care bill (and maybe even cap and trade) - with Republican votes.

Becker argues that the Fed, Fannie Mae and Freddie Mac, deserve a heap of blame, but then he adds an interesting twist, saying "economists paid too little attention to the systemic risks—the risks [new financial] instruments posed for the whole financial system—as opposed to the risks they posed for individual institutions…..I wasn't surprised that we had a financial crisis. But I was surprised that the financial crisis spilled over into the real economy."

While difficult to do, this is where we disagree. Inadvertently, Becker is blaming technology (in this case, new financial instruments) for the crisis. But as our readers know, it was an accounting rule (mark-to-market) that pushed the crisis onto the real economy. Despite tons of government action the markets did not bottom until March 2009, when mark-to-market accounting was finally corrected.

With this in mind, we pensively wait for November. Let's hope Becker is right: When a bunch of scrappy American voters get to the polls they can straighten out these politicians.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-29 / 7:30 am	Personal Income - Feb	+0.1%	**+0.2%**	0.0%	+0.1%
7:30 am	Personal Spending - Feb	+0.3%	**+0.4%**	+0.3%	+0.5%
3-30 / 9:00 am	Consumer Confidence - Mar	51.0	**48.4**		46.0
3-31 / 9:00 am	Chicago PMI - Mar	61.0	**62.2**		62.6
9:00 am	Factory Orders - Dec	+0.5%	**+0.3%**		+1.7%
4-1 / 7:30 am	Initial Claims - Mar 27	440K	**440K**		442K
9:00 am	ISM Index - Mar	57.0	**57.5**		56.5
9:00 am	Construction Spending - Feb	-1.0%	**-1.1%**		-0.6%
sometime	Domestic Auto Sales - Mar	4.1 Mil	**4.3 Mil**		3.7 Mil
during the day	Domestic Truck Sales - Mar	4.4 Mil	**4.5 Mil**		4.1 Mil
4-2 / 7:30 am	Non-Farm Payrolls - Mar	+182K	**+300K**		-36K
7:30 am	Manufacturing Payrolls - Mar	+15K	**+50K**		+1K
7:30 am	Unemployment Rate - Mar	9.7%	**9.5%**		9.7%
7:30 am	Average Hourly Earnings - Mar	+0.2%	**+0.2%**		+0.1%
7:30 am	Average Weekly Hours - Mar	33.9	**33.9**		33.8