

Keynes Just Didn't Get It

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Forget the January Effect or Super Bowl indicator. There are only two things that really matter when it comes to the economy and financial markets – entrepreneurship and policy.

For all of US history, entrepreneurship has been a given. It's an ability to look at the existing mosaic of life – all the beautiful little pieces as they exist right now – and see a new way of putting them together, a new way of organizing the atoms of our universe that has never been tried before. It's creation. It's awesome. And it's the way growth happens.

In 2014, technology is expanding rapidly – fracking is changing the entire geopolitical landscape, 3D-printing, the cloud, tablet and smartphone, apps, and genetics are generating new and amazing products, drugs and efficiencies. And the benefits of these technologies alter all industries.

Entrepreneurship creates new products, boosts productivity, increases standards of living, and in this process, creates new jobs. Yes, ATMs reduce the number of bank teller jobs, but not the total number of jobs. By reducing costs, ATMs, like tractors or airplanes, boost efficiency and increase the resources available to create new products and jobs.

What interferes with this process is government spending, taxation and regulation. Taxation and borrowing, to finance government spending, redirects the new resources created by entrepreneurship in a politically favored direction. Sometimes,

as with highways, police, or the justice system, this spending creates added benefits and can increase economic activity.

But, when spending is simply used to redistribute income, pick winners and losers or penalize wealth, the resources are redirected in a way that benefits one politically-connected group over another and often in ways that reduce the overall willingness to work, save, or invest.

This is exactly the opposite of the belief held by many economists who claim an affinity for the ideas of John Maynard Keynes. They argue government spending boosts economic activity by more than the actual spending. For example, \$1 spent on unemployment benefits, defense, or food stamps will boost economic activity by \$1.25 or more.

The only problem is that there is absolutely no evidence to support this argument.

Federal spending (trailing 12 months) fell 6.6% between June 2012 and December 2013 and the budget deficit fell from 8.0% of GDP in 2011 to 3.3% in 2013. According to Keynes, this should have hurt the economy. Instead, private sector real GDP grew 5.1% at an annual rate in the second half of 2013, while private sector nominal GDP grew at a 6.7% pace.

As government spending fell, private sector activity accelerated. Entrepreneurship creates wealth, not government. That's what Keynes just didn't get.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-3 / 9:00 am	ISM Index – Jan	56.0	56.2	51.3	56.5
9:00 am	Construction Spending – Dec	0.0%	-0.4%	+0.1%	+1.0%
afternoon	Total Car/Truck Sales – Jan	15.7 Mil	15.7 Mil		15.3 Mil
afternoon	Domestic Car/Truck Sales – Jan	11.9 Mil	12.0 Mil		11.6 Mil
2-4 / 9:00 am	Factory Orders – Dec	-1.8%	-1.8%		1.4%
2-5 / 9:00 am	ISM Non Mfg Index – Jan	53.7	54.0		53.0
2-6 / 7:30 am	Initial Claims - Feb 1	335K	337K		348K
7:30 am	Q4 Non-Farm Productivity	+2.8%	+3.5%		+3.0%
7:30 am	Q4 Unit Labor Costs	-0.7%	-2.3%		-1.4%
7:30 am	Int'l Trade Balance – Dec	-\$36.0 Bil	-\$36.0 Bil		-\$34.3 Bil
2-7 / 7:30 am	Non-Farm Payrolls - Jan	185K	130K		74K
7:30 am	Private Payrolls – Jan	190K	130K		87K
7:30 am	Manufacturing Payrolls – Jan	10K	10K		9K
7:30 am	Unemployment Rate – Jan	6.7%	6.7%		6.7%
7:30 am	Average Hourly Earnings – Jan	+0.2%	+0.2%		+0.1%
7:30 am	Average Weekly Hours - Jan	34.4	34.5		34.4
2:00 pm	Consumer Credit– Dec	\$12.0 Bil	\$15.5 Bil		\$12.3 Bil