First Trust
Monday Morning OUTLOOK

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Departures From Free-Markets Aren't New

Recently, due to deals President Trump is making, some are saying the United States has embarked on a version of Chinese-style "state capitalism" – directly entangling markets and government. No one is claiming that the US is as involved as the Communist Party dictatorship in China or authoritarian Russia, but certainly more entangled than a normal US free market approach would permit.

There are plenty of examples to go around, like the Trump Administration putting pressure on Intel to replace its CEO, wanting Goldman Sachs to fire an economist, demanding 15% of revenue from AI chip sales to China, creating a government-owned Golden Share in Nippon Steel's purchase of US Steel, and pursuing pledges of hundreds of billions of investment from our trading partners to buy-down tariff rates.

On top of all this, the US is developing a system of tariffs that relies on the discretion of the president (and his team), varying from country to country, and in many cases product to product.

On the surface, the argument that the US is moving toward "state-run capitalism" seems to have a lot of evidence in its favor. What the argument ignores is that this started long ago.

Starting back in the 1930s, the government paid farmers either not to farm, or farm certain crops. In the 1970s, the US instituted price controls and differentiated between industries and even individual companies within industries. The US also capped oil prices, restricted branching by Savings and Loans and would not let banks pay interest on checking accounts.

For decades, by backing Government Sponsored Enterprises (GSEs), like Fannie Mae and Freddie Mac, government held mortgage rates artificially low which distorted the housing market. This bid up the price people were/are willing to pay for the existing stock of homes, while many state and local governments make it difficult to build new housing. The same thing goes for the takeover of student loans by the federal government and the push to forgive those loans. Anyone who thinks state capitalism is new doesn't know history.

There are plenty of other long-standing interferences in the market in addition to these, like ethanol subsidies and gas mileage requirements (which, contrary to the narrative about Trump were recently watered down by the Big Beautiful Bill). The Biden Administration allocated green energy subsidies to favored firms under the Inflation Reduction Act, the CHIPS Act favored semiconductor production in the US, and the Nippon-US Steel takeover was originally blocked for political reasons. Environmentalists forced manufacturers to change lightbulbs, stoves, dishwashers, toilets, washing machines, and dryers.

So, forgive us if we yawn at the current gnashing of teeth over this issue in 2025. Are we supportive of it? No. But is it new? Absolutely not. We'll breathe our last breath standing up for free markets against political meddling. We are dismayed that Republicans, who are historically associated with supporting free markets, are willing to support this, instead. No wonder younger Americans who don't know economic history well are often supportive of communism and socialism.

And while we fully understand this interference in markets began long ago, it accelerated in a huge way during the Financial Panic of 2008-09, when President George W. Bush bizarrely announced that he had to violate free market principles in order to save free markets.

Back in 2008, mark-to-market accounting procedures turned a manageable loss of housing value into a once-in-a-century financial panic. But instead of adjusting those accounting practices, policymakers set up TARP to bailout Big Banks, designed an auto bankruptcy that bailed out Big Labor, and launched multiple rounds of Quantitative Easing.

No wonder many people who might otherwise vote to support free markets became more receptive to the idea that the economic system was "rigged" in favor of certain groups. And, in turn, if politicians are going to rig the economic system in favor of those groups, why not their preferred special interests, as well?

The bottom line is that it would take a major change in political attitudes to undo the massive harm inflicted by the policy reaction to the 2008-09 crisis. We are hopeful this change in attitude arrives eventually, but don't expect it anytime soon. The current leadership expects a surge in potential long-term economic growth from its policies, but the more the government entangles itself in the market, the less likely that is to happen.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-19 / 7:30 am	Housing Starts – Jul	1.298 Mil	**1.297 Mil**		1.321 Mil
8-21 / 7:30 am	Initial Claims – Aug 16	225K	**223K**		224K
7:30 am	Philly Fed Survey – Aug	6.7	**2.0**		15.9
9:00 am	Existing Home Sales – Jul	3.920 Mil	**3.920 Mil**		3.930 Mil