

Mar 20, 2006

Monday Morning Outlook

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-21 / 7:30 am	Feb PPI	-0.2%	-0.2%		+0.3%
	Feb "Core" PPI	+0.1%	+0.1%		+0.4%
	Feb Leading Indicators	-0.3%	-0.4%		+1.1%
3-23 / 7:30 am	Initial Unemployment Claims	304K	300K		309K
9:00 am	Feb Existing Home Sales	6.50M	6.50M		6.56M
3-24 / 7:30 am	Feb Durable Goods Orders	+1.4%	+0.9%		-9.9%
9:00 am	Feb New Home Sales	1.200M	1.200M		1.233M

Capitalism, Profits, and the Wage Gap

In his book, *The Way the World Works*, Jude Wanniski characterized the political economy as a battle between wealth creation and the redistribution of that wealth. This battle has waxed and waned throughout history. All sorts of economic and political systems have been created and tried, with capitalism and socialism being the two main forces.

While there were many reasons that millions of Europeans fled to the United States, one of them was to find economic freedom. The free market capitalist system in the US was the great equalizer. As long as property rights were respected, and contracts were enforced, anyone with gumption, skill, intellect, self motivation, or discipline could strike it rich. As the extent of today's illegal immigration shows, the lure of freedom and opportunity is very strong indeed.

A free market system encourages entrepreneurship, which is the driving force behind all great wealth creation. Making something from nothing is an art form very few can truly accomplish. As George Gilder put it, oil was useless gunk in the ground until someone invented the internal combustion engine, now it is considered central to our economic well-being. Sand is abundant, but silica became truly valuable when someone made a computer chip from it.

At their root, all products are made up of atoms and intellect. A lump of coal or a barrel of oil is mostly atoms, with some intellect needed to get them out of the ground. A Boeing 777 is made up of both atoms and intellect. Microsoft's Windows operating system is mostly intellect. People produce these things to make a profit.

As the Soviet Union showed, a socialist system can produce things. But without a capitalist profit motive, quality was often very Week of March 27, 2006

poor, efficiency suffered and intellect was smothered. Eventually, without a profit motive, the system broke down.

Profits are the lifeblood of capitalism. High profits signal a satisfied consumer, or too few producers, and the need for further investment. Low profits, or losses, signal the opposite. Over the long run, competition erodes profit margins, which is why companies put a premium on growth.

Nonetheless, there are many who decry profits. Often, these same people complain about a widening disparity of income. While not visible on the surface, these two are inextricably linked.

Profits increase when new technologies are invented or an entrepreneur figures out how to produce or distribute more efficiently. All of this lifts productivity, which in turn increases living standards for everyone. Bill Gates and Microsoft have lifted the world's wealth, while Gates has become the world's richest man. His wealth and income, as has the wealth and income of many other entrepreneurs, increased faster than the average. This has created a widening wage gap that many now decry.

This gap is not a sign of trouble; it is a sign of growth and opportunity. If the income gap and profits were not growing, it would signal that the economy was stagnant. The capitalist system is not perfect, but it is the natural order of human action. While some get ahead by treating others poorly, the capitalist system smokes these people out quickly and lifts living standards for a wider array of society's members than any other economic system.

As a society becomes wealthier, the desire to redistribute that wealth grows. While this aspiration is noble, redistribution undermines progress and lowers standards of living for all.

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Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-28 / 1:00 pm	FOMC Meeting	4.75%	4.75%		4.50%
3-30 / 7:30 am	Q4 Real GDP: Final	+1.7%	+1.6%		+1.6%
	Q4 GDP Price Index: Final	+3.3%	+3.3%		+3.3%
3-31 / 7:30 am	Feb Personal Income	+0.4%	+0.3%		+0.7%
	Feb Personal Consumption	+0.1%	-0.5%		+0.9%
9:00 am	Feb Factory Orders	+1.5%	+0.6%		-4.5%
	Mar Chicago PMI	55.5	55.0		54.9

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Consensus forecasts come from Insight Economics, LLC

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.