

Conservative Inconsistency and TARP

Are economies inherently unstable? Are people driven by “animal spirits,” and therefore susceptible to wild overreactions of stupidity and greed? And is government intervention necessary to stabilize these unstable, emotional markets?

Or, do you believe that capitalism is inherently stable and that economic problems typically have their roots in government mistakes?

These are the most basic of all economic questions. The answers cut one way or the other – either you believe and act as if the government is necessary for economic stability, or not. Every bit of economic analysis and most political decisions about fiscal policy take one side or the other of this debate.

The Obama Administration is arguing that insurance companies don’t have competition (i.e. free markets failed) – that’s why we need a public health insurance option. And there are many who will claim that we need “another” government stimulus plan to help create jobs. Still others think that without government intervention, man-made global warming will cause Manhattan to be covered by water.

Typically, it is liberals who believe these things, while conservatives will often argue the opposite – insurance companies should be allowed to compete across state lines, stimulus doesn’t work, and global warming is scare-mongering on a massive scale.

The relatively stark dividing line between these two camps has been understood by most people. But sometimes the line drifts and confusion reigns. Last year, for example, with

Treasury Secretary Hank Paulsen in charge, many conservatives got so spooked that they supported a liberal response to the crisis, taking over financial institutions, threatening CEO’s, and pushing hard for a \$700 billion bailout fund (TARP).

While some argue that “everyone is a general after the battle,” we argued loudly last year that mark-to-market should be changed and government involvement should be minimized. Treasury and Fed officials, along with many analysts and influential pundits, said that the threats to the economy were so grievous and scary that government bailouts were the “only” answer. This argument won the day and many leading Republicans voted to pass TARP. Many of those votes came from “conservative” politicians who also supported the \$150 billion stimulus bill in February 2008. They refused to push for changes in mark-to-market accounting.

Now, with the unemployment rate at 10.2%, many of those same conservatives want to make the case that it is Obama administration policies that have caused this to happen. This is awfully confusing to the average American. Why are one set of bailouts good and necessary, but another set bad and political?

Don’t take this in the wrong way. We are classical economists, we believe Keynes was wrong. We think government caused the bubble to begin with and then made it worse by over-reacting and panicking. But, it’s awfully hard to support conservatives this year who argue against government growth, when last year they supported government bailouts. It’s inconsistent and it’s confusing.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-30 / 9:00 am	Chicago PMI - Nov	53.0	52.4	56.1	54.2
12-1 / 9:00 am	ISM Index - Nov	54.8	54.7		55.7
9:00 am	Construction Spending - Oct	-0.5%	-0.2%		+0.8%
<i>sometime</i>	Domestic Auto Sales - Nov	3.7 Mil	3.7 Mil		3.7 Mil
<i>during the day</i>	Domestic Truck Sales - Nov	4.2 Mil	4.3 Mil		4.2 Mil
12-3 / 7:30 am	Q3 Non-Farm Productivity	+8.5%	+8.7%		+9.5%
7:30 am	Q3 Unit Labor Costs	-4.2%	-4.0%		-5.2%
7:30 am	Initial Claims - Nov 28	480K	471K		466K
9:00 am	ISM Non-Man. - Nov	51.5	51.6		50.6
12-4 / 7:30 am	Non-Farm Payrolls - Nov	-120K	-90K		-190K
7:30 am	Manufacturing Payrolls - Nov	-50K	-40K		-61K
7:30 am	Unemployment Rate - Nov	10.2%	10.0%		10.2%
7:30 am	Average Hourly Earnings - Nov	+0.2%	+0.2%		+0.3%
7:30 am	Average Weekly Hours - Nov	33.1	33.1		33.0
9:00 am	Factory Orders - Oct	0.0%	+0.2%		+0.9%