First Trust
Monday Morning OUTLOOK
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Pseudo-Economics

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To paraphrase the late Jude Wanniski – the history of man is a battle between the creation of wealth and the redistribution of wealth. Jude was a Supply-Sider, which means an economist who believes that entrepreneurship and supply (not demand) drives economic growth.

Jude didn't invent this. Adam Smith and Joseph Schumpeter, along with Austrian economists, Eugen von Böhm-Bawerk, Ludwig von Mises and Friedrich Hayek and the late, great Milton Friedman were all instrumental in the development of free market thought; the appreciation of entrepreneurship; and the importance of small government.

The other great contribution of the Austrians and Milton Friedman was in monetary policy. Friedman proved the Federal Reserve caused the Great Depression, while Ludwig von Mises talked of a "crack-up boom" – a money and credit-fueled boom that ended in a massive economic contraction and collapse. While Nobel Prizes have become a joke, both Friedman (for monetary thought) and Hayek (for proving Socialism fails) won them.

These thoughts were the intellectual underpinning of the Thatcher, Reagan, Wałęsa, and Clinton boom of the 1980s and 1990s. They also led to a USSR collapse.

Since then, a cottage-industry of copy-cat, Wiki-reading, blog-writing, pseudo-economists has sprung up. Fueled by a misunderstanding of 2008, these prognosticators, using selective excerpts from Austrian thinkers, have created an entire theory that the US economy today is in a "crack-up boom." The boom, according to them, has been caused by the Fed, QE and zero-percent interest rates, and now that the Fed has tapered and started hiking rates, it's over and a bust is on its way.

These ideas and forecasts find fertile ground because so many investors are still scared of 2008. They have "hypochondria" or "PTSD" as opposed to faith in free markets. And, if someone tells them the only reason stocks are up in the past seven years is because of easy money, and if there is plausible basis for believing this, many investors feel like the market could collapse at any moment.

And this is the nub of the matter. The pseudo-Austrians have focused almost solely on money; they've forgotten the entrepreneur. So, with the Fed tightening, everything becomes bad and requires some reaction by government. Falling oil prices (which should be viewed as a great supply-side success) are viewed as a demand-side (money) problem. China, which is a communist country, becomes a problem that government must manage. In other words, these so-called Austrian thinkers have, in effect, become demand-siders because they focus so much attention on what government is doing.

We view the world through Austrian and Monetarist thought processes, but we don't see anything like what the doom and gloom crowd does. We believe quantitative easing did not boost economic growth because banks shoveled that money straight into excess reserves. Even after the recent Fed tightening, there are still roughly $2.3 trillion in Excess Reserves in the banking system. This is the first Fed tightening in history that doesn't really reduce liquidity in the banking system.

We also believe new technologies, like fracking, 3-D printing, cheap and quick manipulation of the genome map, the cloud, apps, smartphones, faster communication and computer chips – in other words, good old entrepreneurship is driving profits and economic output inexorably upward.

And when we step back, the past six years suggests the creation of wealth is proceeding fast enough to offset the growing redistribution of wealth. The economy is not growing as fast as it could, but it is growing nonetheless. Ludwig von Mises called entrepreneurs "Angels." These Angels have been eking out a victory against big government. It's a small victory, creating Plow Horse growth, but there is no reason to suspect it has come to an end. Stay positive. Real Austrians do.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-14 / 7:30 am	Initial Claims – Dec 9	275K	**275K**		277K
7:30 am	Import Prices – Dec	-1.4%	**-1.5%**		-0.4%
7:30 am	Export Prices – Dec	-0.6%	**-0.6%**		-0.6%
1-15 / 7:30 am	Retail Sales – Dec	-0.1%	**-0.2**		+0.2%
7:30 am	Retail Sales Ex-Auto – Dec	+0.2%	**+0.3%**		+0.4%
7:30 am	PPI – Dec	-0.2%	**-0.2%**		+0.3%
7:30 am	"Core" PPI – Dec	+0.1%	**0.0%**		+0.3%
7:30 am	Empire State Mfg Survey – Jan	-4.0	**-3.0**		-4.6
8:15 am	Industrial Production – Dec	-0.2%	**-0.3%**		-0.6%
8:15 am	Capacity Utilization – Dec	76.8%	**76.7%**		77.0%
9:00 am	Business Inventories – Nov	-0.1%	**0.0%**		0.0%
9:00 am	U. Mich Consumer Sentiment- Jan	93.0	**93.1**		92.6