BARRON'S
ONLINE

| SATURDAY, OCTOBER 2, 2010

Manufacturing Follows Script

By GENE EPSTEIN

The latest Purchasing Managers Index, while down from a recent peak, isn't signaling general weakness. Also, the meaning of "pro-corporate."

IN A RECOVERY THAT HAS SO OFTEN been subpar, it's reassuring to find a trend that is about par for the course. In this case, it's the recent trend in the Institute for Supply Management's composite index of manufacturing.

The ISM reported Friday that its Purchasing Managers Index had slipped to 54.4 in September. While that is still solidly expansionary—anything over 50 signals expansion—many people were disappointed that the PMI is down from a recent peak of 60.4 in April.

With so much that has been disappointing, an upside surprise from the PMI would have been especially welcome. But it is worth noting that the PMI generally weakens at this stage of a recovery and that its decline is therefore hardly evidence of general weakness in the economy.

The script works roughly as follows. In recessions, the PMI always plunges well below 50—and, as in this case, often below 40--as production plummets below the level of demand and inventories are liquidated. With the recovery, the PMI then rebounds quickly to expansion territory as the inventory liquidation ends and restocking resumes. This pop in the PMI generally ends fairly quickly, as the index subsides but still signals expansion.

An exception: the recovery of 1983, when accelerated demand pushed the PMI to nearly 70 before it started to subside. But alas, 2010 is not 1983.

WHAT EXACTLY DOES IT MEAN TO be "pro-corporate"? According to a recent article in the New Yorker (Aug. 30), the "pro-corporate movement" was "in many ways" a reaction to the "antiwar movement [which] had turned its anger on defense contractors, such as Dow Chemical…" during the Vietnam War. To "defeat" such elements, the article says, "business leaders needed to wage a long-term unified campaign to change public opinion." Thus, the birth of the pro-corporate movement.

Those business leaders must be making a terrible hash of it, if the New Yorker's list of pro-corporate-movement members is given credence. The "libertarian think tank, the Cato Institute," is among those named. New Yorker readers might be surprised to find that on foreign-policy matters, Cato scholars have been pretty consistently antiwar, having opposed, for example, the wars in both Iraq and Afghanistan. Even more surprising, a Cato Institute exposé called "The Corporate Welfare State: How the Federal Government Subsidizes U.S. Businesses," proposed we "reform or terminate" these subsidies to companies that

BARRON'S ONLINE

include "Boeing, Xerox, IBM, Motorola, *Dow Chemical*…" [italics mine].

Similarly, in the world according to the New Yorker, the Mercatus Center of George Mason University is also pro-corporate. That especially caught my eye, since I recommended a recent Mercatus minibook on the financial meltdown, *Gambling with Other People's Money*, by George Mason economics professor Russell Roberts ("**Betting on a Better Book,**" May 31).

To borrow a cliché, Wall Street corporations hardly need enemies with pro-corporate types like Roberts. According to his book, the main cause of the meltdown was "crony capitalism, the mutual aid society where Washington takes care of Wall Street and Wall Street returns the favor."

There is a tragic tendency to confuse terms like "pro-corporate" with "pro-free market." Those of us who favor the free market are more often anticorporate, since the "mutual aid society" Roberts condemns so often characterizes our crony capitalist system.

E-mail:gepstein@barrons.com