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First Trust

Aug 23, 2010 Monday Morning Outlook

Brian S. Wesbury - Chief Economist
Robert Stein, CFA - Senior Economist

We Knew Ronald Reagan…and He's No Reagan

Guess what? The Washington Post says Obama advisers are looking to Ronald Reagan for "comparison and inspiration." The Post says both presidents had, "*big and bold plans - Reagan with massive tax cuts, Obama with a massive stimulus package and national health care. Reagan's goal was to shrink government. Obama's efforts have enlarged government.*"

A deep recession knocked Reagan's approval rating down and Republicans took a beating in the 1982 mid-terms. But he won a landslide second election in 1984 anyway.

President Obama hopes to repeat this feat and wants to give a speech in 2017 like the one Reagan gave in 1989. Reagan said this, "*Some pundits [back in 1980] said our programs would result in catastrophe.…Our plans for the economy would cause inflation to soar and bring about economic collapse. I even remember one highly respected economist saying, back in 1982, that 'the engines of economic growth have shut down here, and they're likely to stay that way for years to come.' Well, he and the other opinion leaders were wrong. The fact is, what they called 'radical' was really 'right.' What they called 'dangerous' was just 'desperately needed.'*"

Unfortunately, the economists Reagan talked about (the ones against tax cuts) are in control now. They are advising President Obama. But those same old Keynesian ideas are just as wrong today as they were back in 1980.

No matter how many Obama economists say that stimulus has a positive multiplier, it's simply not true. Stimulus spending does not stimulate. Because it takes resources from growing sectors of the economy and pushes them to shrinking sectors of the economy – it de-stimulates. It taxes and borrows from good business models to support bad business models.

It's simple math. Enlarging government means shrinking the private sector. History is clear: The larger the government share of GDP, the higher the unemployment rate. But before you think that we have slipped into pessimism, we expect growth to accelerate in the year ahead and we expect the unemployment rate to fall further.

Nonetheless, the dynamism of the economy has been compromised and this growth will not be as strong as it could be. The wealth that new technology is producing will not lift opportunity like it did in the 1980s and 1990s. Think about it this way – you can still work, play and handle daily activities when you have a cold, but it's harder and not as fun.

We know many people think the country has a deadly disease, but the underlying strength of the economy (due to a technology and productivity boom) is allowing growth to continue even though government has become a huge burden.

Moreover, the Fed is running an accommodative monetary policy these days. Back in the early 1980s Paul Volcker was fighting runaway inflation with a zeal rarely seen in central bankers and interest rates were in the double digits.

Although our base case is that the economy will continue to improve – the US recovery is not going to be anywhere as strong as the 1983-84 recovery. In the first two years of the 1980s recovery, the US economy grew at a 6.5% annual rate and the unemployment rate fell 3.5 percentage points, from 10.8% to 7.3%. Inflation fell to an average of just 4%.

No one expects that kind of economic turnaround in the next few years. Partly, this is because advisers to President Obama have told him that recoveries from financial crisis are always slower than other recoveries, even though this is not true. And this is where we feel somewhat sorry for the current President. He inherited a mess from the Bush Administration. Spending was already on a sharp upward trajectory in early 2009 and TARP was possibly the biggest Republican policy mistake since Hoover's 1932 tax hike.

But instead of reversing course, his advisers told him to push the spending pedal to the floor. The Obama deficits have hit 10% of GDP, while the Reagan deficits peaked at just 6%. So, spending deficits don't stimulate, while tax cuts do.

Actual economic performance says Reagan's tax cuts beat Obama's stimulus easily. And in the end, that's why this analogy is not a good one for President Obama.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
8-24 / 9:00 am	Existing Home Sales – Jul	4.650 Mil	**3.960 Mil**		5.370 Mil
8-25 / 7:30 am	Durable Goods - Jul	+3.0%	**+6.5%**		-1.2%
7:30 am	Durable Goods (Ex-Trans) - Jul	+0.5%	**+2.0%**		-0.6%
9:00 am	New Home Sales - Jul	0.330 Mil	**0.340 Mil**		0.330 Mil
8-26 / 7:30 am	Initial Claims - Aug 21	490K	**490K**		500K
8-27 / 7:30 am	Q2 GDP Second Report	+1.4%	**+1.1%**		+2.4%
7:30 am	Q2 GDP Chain Price Index	+1.8%	**+1.8%**		+1.8%
8:45 am	U. Mich. Consumer Sentiment	69.6	**69.6**		69.6

Consensus forecasts come from Bloomberg. 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.