

Let's Finally Fix The CBO

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If they came back today, the Founders of the United States wouldn't recognize the government they created 225 years ago. They put safeguards in place – separation of powers, a bicameral legislature and reserved powers for the states – to prevent it from growing so large.

Yet, non-defense federal government spending is now 17% of GDP, triple its size in 1954, and will be headed much higher if we don't reform entitlements. The U.S. is looking more like Europe – something the Founders wanted to avoid.

Many economists and politicians argue the American Dream is gone. They reminisce about the heyday of America in the 1950s and 1960s when the middle class was strong. Their proposals for returning to that supposed nirvana include more government spending and redistribution.

But this version of the 1950s and 1960s, that government made things fair, is a fiction. During the ten years ending in 1959, non-defense federal spending was just 7% of GDP. And during the 1960s, this measure averaged only 9.6% of GDP.

In other words, if you really want to get back to the 1960s, you would argue for less government spending, not more.

But government has a built in problem – what some have called the “Deep State.” To us, this means an entrenched bureaucracy, educated in Keynesian ideology with a big government mindset that constantly pushes for more government solutions, spending and regulation, while attacking those who oppose it. This is why one of our favorite jokes about Washington rings true: “It Doesn't Matter Who You Vote For, The Government Always Wins.”

Exhibit A is the Congressional Budget Office (CBO). Uniformly, people call it “The Non-Partisan Congressional Budget Office.” While it is true that the CBO uses economic

models that are “politically” non-partisan, it is also true that the models it uses favor more spending and higher taxation. They assume government spending boosts economic growth and see few negative economic effects from tax hikes. These models, the people who defend them and the politicians that allow them to be used consistently bias policy toward a bigger government, with less faith in the private sector.

Win or lose, regardless of whom the voters elect, the unelected bureaucracy keeps marching towards a larger, more intrusive government. Partly this occurs because elected officials buckle under the weight of the data produced by the models and complicated analysis that surrounds them, even if it is erroneous. It takes active awareness and a willingness to fight to defend against this. This is especially true after a crisis that gets blamed on the private sector, like The Panic of 2008.

It's with this in mind that we urge the new Congress to replace the Director of the CBO, Doug Elmendorf. By all accounts, Mr. Elmendorf is a competent and smart man with solid credentials. But the CBO needs to junk their static and Keynesian worldview and start using more dynamic scoring. Changing tax rates can not only shift the time and place of economic activity, which the CBO thankfully includes in its model. But, what the CBO does not account for, is the fact that these changes affect the total amount of activity, as well.

In addition, it is now clear that the CBO, and its models, were manipulated by the White House to pass the Affordable Care Act. It's also clear that many knew about this. It was the Deep State in action. And, it's clear only new leadership can change that. If the GOP will not appoint people who are actively aware of the Deep State and are willing to fight it, it will lose the major policy battles even if it wins at the polls.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
11-25 / 7:30 am	Q3 GDP Second Report	3.3%	3.1%		3.5%
7:30 am	Q3 GDP Chain Price Index	1.3%	1.3%		1.3%
9:00 am	Consumer Confidence – Nov	96.0	96.7		94.5
11-26 / 7:30 am	Initial Claims – Nov 22	288K	288K		291K
7:30 am	Durable Goods – Oct	-0.6%	-0.8%		-1.1%
7:30 am	Durable Goods (Ex-Trans) – Oct	+0.5%	+0.2%		-0.1%
7:30 am	Personal Income – Oct	+0.4%	+0.4%		+0.2%
7:30 am	Personal Spending – Oct	+0.3%	+0.3%		-0.2%
8:45 am	Chicago PMI – Nov	63.0	64.2		66.2
8:55 am	U. Mich Consumer Sentiment- Nov	90.0	89.5		89.4
9:00 am	New Home Sales – Oct	0.471 Mil	0.465 Mil		0.467 Mil