

Want Faster Growth? Put the Jockey on a Diet!

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The number one reason the US has a Plow Horse economy rather than a Race Horse economy is the growth in the size and scope of the federal government, which sits like a grossly overweight jockey atop an otherwise healthy thoroughbred.

After being limited in the 1980s under President Reagan and then in the 1990s in President Clinton’s first six years in office, it started creeping upward again.

At first, it didn’t seem like a big deal. The economy was booming in the late 1990s, and so the increase in spending was hard to notice. From 1992 to 1998, discretionary spending – federal outlays that have to be approved every year – were up only 0.5% per year.

Yes, much of the spending restraint was due to the Peace Dividend after the demise of the Soviet Union. But social (or non-military) discretionary spending grew at only a 4% annual rate, which was slower than the 5.6% annual growth rate of nominal GDP (real GDP growth plus inflation). In other words, social spending was shrinking relative to the economy.

Then, the limits on the size of government gave way. Maybe it was an inevitable political reaction to prosperity. Voters don’t mind politicians loosening the purse-strings when times are good. Or maybe President Clinton was just spending more to reward supporters for standing by him during impeachment.

Either way, discretionary spending started moving up faster, growing 3.6% in 1999, 7.5% in 2000, and 5.5% in 2001 (the last budget President Clinton had a hand in) with increases in social spending leading the way.

Then came President Bush, who ushered in No Child Left Behind, a new prescription drug entitlement for seniors, and, eventually, TARP and “temporary” stimulus in 2008. In eight years, discretionary social spending rose 6.8% per year, and that doesn’t even include prescription drugs or TARP. Total spending soared 8.3% per year. In Fiscal Year 2009, the federal government was spending 24.4% of GDP, up from 17.6% eight years prior.

Then came an avalanche of new spending initiatives in President Obama’s first 15 months that substantially increased the future path of government outlays. Not all of it was designed to show up right away, just like FDR and Social Security or LBJ and Medicare and Medicaid. But data from the CBO show that between taking office and mid-2010, his policies added about 9% to future government spending.

And that’s not even counting some of the new spending, which is hidden. When Obamacare regulates health insurance markets to raise insurance rates for some people and cut them for others, it’s no different than the government taxing healthy people and spending money on the sick. But now, instead of collecting and spending the money directly, the government gets insurance companies to do the dirty work for it.

In 2010, voters reacted by handing control of the House of Representatives back to the GOP and, in 2011, some progress was made against higher spending. In particular, they passed a Sequester. But then the discipline faded and, with budget deal after budget deal, spending started creeping up again.

And so here we find ourselves, with huge entitlement programs ready to ramp up further as the Baby Boomers keep retiring and much of the economy regulated more than ever before.

Underneath all this are entrepreneurs generating new ideas, keeping the economy going, but only able to push growth to a Plow Horse pace, not the Race Horse pace we’d have if the jockey slimmed back down to where it was in, say, 1998.

Increasingly, it looks like the only way to end the upward spending ratchet is for voters to elect a president dedicated to a smaller government at the same time they elect a Congress with the same commitment. Less spending, less regulation, particularly in energy and health care, as well as lower tax rates are the only policies that can stir the economy out of its doldrums.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
2-11 / 7:30 am	Initial Claims – Feb 7	279K	283K		285K
2-12 / 7:30 am	Retail Sales – Jan	+0.1%	-0.2%		-0.1%
7:30 am	Retail Sales Ex-Auto – Jan	0.0%	-0.2%		-0.1%
7:30 am	Import Prices – Jan	-1.5%	-2.0%		-1.2%
7:30 am	Export Prices – Jan	-0.6%	-1.0%		-1.1%
9:00 am	Business Inventories – Dec	+0.1%	+0.3%		-0.2%
9:00 am	U. Mich Consumer Sentiment- Feb	92.5	92.5		92.0