

Big Government Causes Slow Growth

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In 1930, Pluto was declared the ninth planet. In 2007, it was demoted to “dwarf planet” status by astronomers after considering new evidence. There are now only eight planets.

Also in the 1930s, the ideas of John Maynard Keynes came of age. In spite of a massive amount of evidence that these ideas don’t work, unlike astronomers, economists won’t demote Keynes’s theories to the dustbin of history.

This isn’t that surprising. Whether Pluto is a planet, or not, doesn’t impact politicians, or their constituents. If it did, Pluto might still be categorized as a planet.

Keynes thought a free market economy should be managed: in fact, needed to be managed. His ideas flourished in the 1930s when the US was in the Great Depression. Keynes believed that a lack of consumer demand was the culprit to economic problems and government should spend to boost jobs and economic activity.

To this day, in the name of Keynes, economists and politicians support stimulus spending, unemployment benefits, minimum wages, and the redistribution of income.

Not only do politicians and bureaucrats get to increase the size of their budgets and take credit for benefiting constituents, but they get to do it in the name of helping the overall economy. They do it in the name of Keynesian economic theory.

But there is no evidence it has worked. Keynes’s theories, as mentioned earlier, have been around for over 80 years. Countries all over the world have tried them. Government budgets have increased dramatically.

This spending encompasses food stamps, welfare, unemployment benefits, Social Security, Medicare, Medicaid, ethanol, solar, wind, and electric vehicle subsidies. State and local governments have boosted the minimum wage and created special subsidies and income support for citizens. Other

countries have single-payer healthcare systems and even bigger budgets relative to GDP than the United States.

But there is no economic nirvana anywhere. After 80 years of growth in government, and little economic growth to show for it, doesn’t anyone think we ought to stop and question the underlying assumptions that support these Keynesian policies?

Since the current expansion started, U.S. real GDP has expanded at just a 2.1% annualized rate. At the same time government spending, tax rates and regulation have increased. These government burdens reduce entrepreneurial activity, jobs, income growth and push companies out of the U.S.

But many ignore this correlation between bigger government and slower growth. Instead of blaming government there are endless non-government excuses for slow growth. Some blame demographics and some blame weak investment by companies. Other explanations include income inequality, foreign trade, the residual effects of the financial crisis, or government debt levels (which result from low tax receipts.)

All of these explanations shift the blame to the private sector for slow growth and support Keynesian, big-government policy. Unfortunately, government is funded by taxing incomes and profits of business activity or borrowing the wealth generated by that activity. It’s true that government can help create a positive environment for business, by, for example, enforcing the rule of law and contracts. But the U.S. long ago surpassed the pro-growth level of spending.

The point is government doesn’t create wealth. The private sector does. No matter what Keynesian theories say, it’s a truth politicians and bureaucrats don’t find very appealing.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-9 / 2:00 pm	Consumer Credit– Nov	\$18.4 Bil	\$18.6 Bil		\$16.0 Bil
1-12 / 7:30 am	Initial Claims – Dec 7	255K	255K		235K
7:30 am	Import Prices – Dec	+0.7%	+1.4%		-0.3%
7:30 am	Export Prices – Dec	0.0%	+0.9%		-0.1%
1-13 / 7:30 am	Retail Sales – Dec	+0.7%	+0.7%		+0.1%
7:30 am	Retail Sales Ex-Auto – Dec	+0.5%	+0.4%		+0.2%
7:30 am	PPI – Dec	+0.3%	+0.2%		+0.4%
7:30 am	“Core” PPI – Dec	+0.1%	+0.2%		+0.4%
9:00 am	Business Inventories – Nov	+0.6%	+0.5%		-0.2%
9:00 am	U. Mich Consumer Sentiment- Jan	98.5	98.7		98.2

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.