

**Apr 20, 2009**

## Monday Morning Outlook

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### Tea Party Economics

Accounts vary, but it seems that a few hundred thousand people attended one of about 500 Tax Day Tea Parties on April 15<sup>th</sup>. In the aftermath, politicians on both sides of the political aisle were energized. Conservatives hoped the tea parties signaled renewed support for the idea of limited government, while some liberals called the protests unhealthy and un-patriotic. Don't ya just love politics?

The good news is that economists can take a more dispassionate view. And the way economists contribute to the debate is with Public Choice Theory, fathered by Duncan Black, Gordon Tulluck, and the Nobel Prize-winner James Buchanan. While the theory of public choice can be broadly applied, it is the ideas of "special interests" and "rational ignorance" that are useful in understanding last week's tea parties.

Here's an example of public choice at work. Let's say teachers could benefit by \$2000 each per year (in higher pay or benefits, smaller classes, etc.) from a piece of legislation currently under debate. But the cost per taxpayer averages just \$15 per year.

The "special interests" (teachers and politicians) have substantial personal incentive to see that the bill is passed. Teachers, who benefit directly, will use time and money to lobby for the bill. And lawmakers will expect campaign contributions, votes, or both, in exchange for their support.

But the taxpayer will remain "rationally ignorant" of the whole process. Why spend time even thinking about an issue when the cost is only \$15 per year?

This is why government will tend to grow in excess of what a true democracy really wants. That is, until those \$15 hits accumulate to such a level that people have finally had enough. And then, in a seemingly spontaneous eruption, the average voter finds the energy to fight back.

Apparently, this is what happened last week. This same energy was also evident in the mid-term elections of 1994 when Newt Gingrich became Speaker of the House, and in

1980 when Ronald Reagan became President by tapping into anger about the size and cost of government.

What's interesting is that many who did not have the energy or ability to attend a tea party last week still wanted to watch on TV. And the coverage of the events by Fox News (which highlighted the protests) attracted more viewers than MSNBC, CNN and CNN Headline News combined. This shows that millions more were paying attention, and suggests wider support for the protests.

Some analysts have made the case that Americans are not overtaxed (at the federal level) and therefore the protests were not justified. But this misses the point. Government spending is exploding, with the Congressional Budget Office projecting \$9.3 trillion in deficits over the next ten years. People know that this spending represents future taxes.

In addition, state and local taxes are going up, with at least 10 states planning on hiking taxes. And promised future spending on Social Security and health care must also be paid for. Under the Obama Administration's budget, federal government spending in the next ten years will average 24% of GDP; almost triple what it was back in the 1930s. As a result, when we add taxes today and expected future taxes, Americans face a bigger tax burden than at anytime in history.

Meanwhile, the government is taking over private sector companies, printing massive amounts of new money and interfering in the free market. And it doesn't help that this has happened while many government officials have run into trouble over not paying their own taxes, which undermines the Obama Administration's call for the average taxpayer to sacrifice for the greater good.

In the end, the Tax Day Tea Parties are a very interesting case study for Public Choice Theory. Whether or not they suggest a shift in the political landscape is another issue. If government continues to grow and cost more, we would expect to see more spontaneous voter response.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
4-20 / 9:00 am	Leading Indicators - Mar	-0.2%	<b>-0.5%</b>	<b>-0.3%</b>	-0.4%
4-23 / 7:30 am	Initial Claims - Apr 18	640K	<b>636K</b>		610K
9:00 am	Existing Home Sales - Mar	4.650 Mil	<b>4.570 Mil</b>		4.720 Mil
4-24 / 7:30 am	Durable Goods - Mar	-1.5%	<b>-3.9%</b>		+3.5%
7:30 am	Durable Goods (Ex-Trans) - Mar	-1.5%	<b>-3.8%</b>		+3.7%
9:00 am	New Home Sales - Mar	0.337 Mil	<b>0.347 Mil</b>		0.337 Mil