

US Politics - Cage Match Or Pillow Fight?

On Tuesday night, President Obama will deliver his third State of the Union address and the first since his self-described electoral “shellacking” last November. The Republican response will be delivered by House Budget Committee Chairman Paul Ryan of Wisconsin.

With the President from Chicago and Ryan from its northern neighbor this could be considered a sequel to the Bears-Packers NFC championship game. After all, if you listen to conventional wisdom, Republicans and Democrats are like gladiators in a cage match. Republicans want small government and less spending. Democrats want big government and more spending. Republicans believe in free markets and capitalism. Democrats believe in government control and the welfare state.

The problem is that this cage match often looks more like a pillow fight. At least the results look like there are few differences between the parties. Throughout history, almost no matter who was in power, the government has become bigger and more intrusive. The 1980s and 1990s were an aberration. In 1960, non-defense federal spending was 8.5% of GDP. By 1982, this spending had soared to 17.4% of GDP. Then Reagan and Clinton cut it back to 15.2% of GDP by 2000. This progress was reversed and for 2011, the latest budget from the White House projects non-defense federal spending will be 20.4% of GDP, the largest share ever in history. No wonder the Tea Party was founded and no wonder politicians are sounding more conservative.

By all accounts, President Obama will promise “responsible” spending reduction, and possibly Social Security reform and corporate tax cuts in his address on Tuesday night. After moving the country sharply to the left, he is trying to sound more like Bill Clinton in an attempt to absorb the lessons and message of last November’s election.

And Congressman Ryan will try to sound like Milton Friedman, Friedrich Hayek and Ronald Reagan all rolled into one. He will talk about the benefits of free markets and the negative economic impact of increased government spending and regulation. Republicans want to roll back Obamacare and Ryan will channel Ronald Reagan.

But Ryan has often voted like John Maynard Keynes. Back in February 2008, he agreed with President Obama’s future top economic advisor, Larry Summers, and voted for the Bush Stimulus Bill. He also voted for TARP, No Child Left Behind and the Medicare Part D drug benefit. In other words, he voted for large increases in government spending while a Republican was president, but is now arguing against spending when a Democrat is in the White House. We hope he can explain some of this in his speech on Tuesday night.

All of this is driven by politics, not economics. The economics are simple. Everywhere we look around the world and throughout history, the larger the government share of GDP, the higher the unemployment rate. Government spending, by definition, must be paid for by the private sector. The bigger the government is the smaller the private sector is and the fewer jobs are created. Cutting spending is the way to increase economic growth and create jobs. But this only happens when the political winds are blowing the right way.

And the good news is that because of the elections last November, the politics have changed. Politicians in Washington, of both parties, are being forced to consider more free market solutions to problems and to address the growth in government. Time will tell whether a new leaf has really been turned, but for now, the direction of policy is much better for markets and the economy than it has been in many years. Politicians have pulled out their pillows and are now debating how to shrink government, not expand it.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-25 / 9:00 am	Consumer Confidence - Jan	54.6	54.3		52.5
1-26 / 9:00 am	New Home Sales - Dec	0.300 Mil	0.292 Mil		0.290 Mil
1-27 / 7:30 am	Durable Goods - Dec	+1.5%	-0.2%		-0.3%
7:30 am	Durable Goods (Ex-Trans) - Dec	+0.9%	+0.3%		+3.6%
1-28 / 7:30 am	Initial Claims - Jan 22	407K	396K		404K
7:30 am	Q4 GDP Advance	+3.5%	+5.4%		+2.6%
7:30 am	Q4 GDP Chain Price Index	+1.5%	+2.1%		+2.1%
8:55 am	U. Mich. Consumer Sentiment	73.4	73.0		72.7