First Trust
Monday Morning OUTLOOK
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Cut Spending to Grow Economy

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Austan Goolsbee, former Chairman of President Obama's Council of Economic Advisors, was interviewed by Paul Gigot on Fox News this past weekend and asked about slow economic growth. He argued that "a lack of 'aggregate demand' around the world and in the United States" is reducing business investment and slowing economic growth.

Aggregate Demand is economic code for "spending." And politicians love to blame a weak economy on a lack of spending. After all if the economy is weak, then what government leaders need to do is increase the size of government and its spending!

Count us incredulous. There is absolutely no evidence to back this argument up. Between 1992 and 2000, the eight years of Bill Clinton's presidency, consumer spending averaged just 65.1% of GDP, but real GDP grew 3.8% annually.

In the past five years, consumer spending has averaged 68.3% of GDP, the highest five-year period in history. Yet real GDP grew only 2% per year. In other words, aggregate consumer demand has risen sharply, but the economy is growing more slowly.

And if you think government spending is a solution to this problem, think again. Between 1992 and 2000, federal government spending averaged 19.2% of GDP. In the past five years, government spending has averaged 21.5% of GDP.

In other words, both government and consumer spending are higher as a share of GDP today than they were in the 1990s, yet real GDP growth is slower. Demand is not the problem. It's supply that's the problem. The more the government redistributes, the more it undermines the ability of new technology to boost growth.

Every dime of government spending is either taxed or borrowed from the private sector. And it is this spending, this taxation and deficit spending, that crowds out the private sector, preventing it from growing and creating even more wealth.

Investment isn't the problem, either. If businesses aren't investing enough then there would be shortages of something, but there aren't any shortages….except, maybe, of commonsense.

So, how about some commonsense? When an entrepreneur boosts productivity, supply increases at a lower price. This boost in productivity leads to more profits and incomes for businesses and employees. But if profits and incomes are taxed and borrowed, the benefits of the new technology don't fully reach the economy and aren't fully reinvested towards future growth. Remember the story of the people on the island?

Instead government is redistributing them to those with a higher propensity to spend, which boosts spending, but not investment.

If the US goal is to encourage more investment, then government spending (crowding out) must be reduced. Of course, Goolsbee doesn't see it this way. As a result, he is really part of the problem, not a part of the solution. Want a bigger economy? Then cut the size of government. It's the only way.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
10-3 / 9:00 am	ISM Index – Sep	50.4	**50.2**	51.5	49.4
9:00 am	Construction Spending – Aug	0.3%	**+0.1%**	-0.7%	0.0%
afternoon	Total Car/Truck Sales – Sep	17.5 Mil	**17.4 Mil**		16.9 Mil
afternoon	Domestic Car/Truck Sales – Sep	13.3 Mil	**13.6 Mil**		13.1 Mil
10-5 / 7:30 am	Int'l Trade Balance – Aug	-$39.2 Bil	**-$38.8 Bil**		-$39.5 Bil
9:00 am	ISM Non Mfg Index – Sep	53.0	**52.8**		51.4
9:00 am	Factory Orders – Sep	-0.2%	**-0.2%**		+1.9%
10-6 / 7:30 am	Initial Claims – Oct 1	256K	**256K**		259K
10-7 / 7:30 am	Non-Farm Payrolls – Sep	173K	**190K**		151K
7:30 am	Private Payrolls – Sep	170K	**182K**		126K
7:30 am	Manufacturing Payrolls – Sep	-4K	**-7K**		-14K
7:30 am	Unemployment Rate – Sep	4.9%	**4.9%**		4.9%
7:30 am	Average Hourly Earnings – Sep	+0.3%	**+0.2%**		+0.1%
7:30 am	Average Weekly Hours – Sep	34.4	**34.4**		34.3
2:00 pm	Consumer Credit– Aug	$16.5 Bil	**$17.3 Bil**		$17.7 Bil