

Populist Uprising or Conservative Revival?

Steve Moore, economic advisor to President-Elect Donald Trump told a DC-newspaper, The Hill, and the Republican leadership; *“Just as Reagan converted the GOP into a conservative party, Trump has converted the GOP into a populist working-class party.”* (The Hill, Jonathan Swan, 11/23/2016)

According to the Merriam-Webster dictionary, a Populist is, “a member of a political party claiming to represent the common people.” The opposite of populist is elitist. We don’t think Mr. Moore was calling President Reagan an elitist, so what was he saying? What does “populism” mean when it gets translated into economic policy?

We would rather ignore all this political stuff, but government has become so large and intrusive that its decisions make a huge difference for the economy and investors. Our constituents are investors, so we think it is important to answer this question. After all, Mr. Moore is a key economic advisor to the new President.

Having lived in the Midwest since the 1970s we’ve seen up close the Rust Belt’s economic troubles that Trump tapped into throughout his campaign. He resonated so much with these voters that he won Wisconsin, Pennsylvania, Ohio, Indiana, and Michigan. Moore said that traveling the Rust Belt states with the Trump campaign *“altered his politics.”*

“It turned me more into a populist,” he said, expressing frustration with the way some in the Beltway media dismissed the economic concerns of voters in states like Ohio, Pennsylvania and Michigan. “Having spent the last three or four months on the campaign trail, it opens your eyes to the everyday anxieties and financial stress people are facing,” Moore added. “I’m pro-immigration and pro-trade, but we better make sure as we pursue these policies we’re not creating economic undertow in these areas.” (The Hill, Jonathan Swan, 11/23/2016)

After reading this we wonder why it takes traveling in the Midwest to understand this. Is the rest of the country that out of touch? Have they simply ignored the economic data? Incomes in the Midwest have been growing slowly, Detroit went bankrupt, blue collar jobs have suffered in the region, and population growth has slowed.

What we find worrisome is that the new Trump Administration seems to think the economic problems of this region (and the rest of the country) are due to trade and immigration. We do agree that there are issues in both

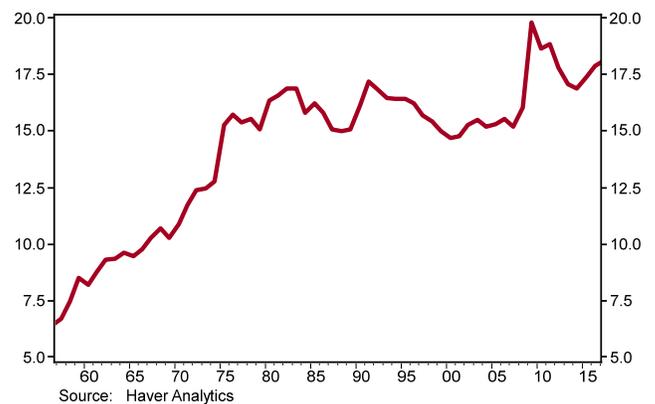
categories. Illegal immigration is a problem. And, free trade bills should be one page, not thousands, filled with such complexity that it requires ever-increasing government involvement. In addition, everyone knows that China violates patents and subsidizes their industry – currency manipulation is more complex and merits very careful consideration.

But are these really the causes, or is slow economic growth a symptom of a different set of problems? A bad diagnosis can lead to the wrong treatment. So if Populism is in the business of blaming elites for the problems of the common people, should it blame foreign elites, or domestic elites, for today’s issues?

We could focus an entire piece on the problems of the Rust Belt – high taxes, unions, regulations, and failing schools. But these problems are just the tip of the iceberg. The real reason the US is growing so slowly, the real reason incomes aren’t rising as rapidly as they have in the past - is simple. Government is just too darn big.

Contrary to popular thought, the US is not growing slowly because technology is stealing jobs. It is not growing slowly because productivity isn’t improving. It is not stuck in a secular stagnation because of China, Mexico or inequality. The US is growing slowly because it is carrying the burden of a massive government. See the chart below to get a sense of how large the US federal government has become.

Govt Outlays Ex-Defense as a % of GDP



All government spending is financed by borrowing or taxing from the private sector. The more the government spends and the more it redistributes the more it “crowds

out” economic growth. The bigger the government, the slower the economy, jobs and incomes grow.

Federal Government spending, excluding defense, has risen from around 6% of GDP to over 17% of GDP in the past 60 years. We use non-defense spending to highlight the “core” cost of government and redistribution. The only decades since the 1950s where “core” spending (as a share of GDP) fell were the 1980s and 1990s. Actual government spending grew, but it grew at a slower pace than GDP, which meant every year the private sector was able to hold onto more of its profits and incomes.

The result was a booming stock market, job market and rising incomes. A complete turnaround from the malaise of the 1970s. No wonder Ronald Reagan (who the media tagged as a person not up to the task of being President) was beloved by so many when he left office.

In the past 15 years, under President Bush, President Obama and a Republican Congress that ended the Sequester, non-defense federal government spending has increased by 3% of GDP from 14.8% to 17.9%. What that means is that 3% of GDP has shifted from productive to non-productive areas of the economy. It’s not a coincidence that real GDP and productivity growth have slowed.

If the Trump Administration wants to call itself populist instead of conservative, who cares? But if it really wants to improve living conditions for the average American, not just in Rust Belt states, but everywhere, what it needs to do is reduce the size and scope of the federal government. We would call that a Conservative revival, and it would be Populist too.

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