First Trust
Monday Morning OUTLOOK
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Policy Stagnation

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Back in the 1970s, President Jimmy Carter told us that we were just going to have to learn to live with less. The mood among establishment economists in the late 1970s was gloomy. The world was running out of oil; inflation was an odd phenomenon that was beyond our control. Sure, we could get lower unemployment, but only by letting inflation get even higher. Somehow, the US had lost its post-war economic mojo and just wasn't going to get it back.

And then came the 1980s and 1990s and these ideas were blown out of the water. We had faster growth, lower unemployment, and lower inflation.

The real problem in the late 1960s and 1970s was a series of blunders by the government. Monetary policy got too loose and social spending grew too high. Inflation pushed more workers into higher marginal tax brackets. The Great Society had laid some very bad eggs and eventually the chickens came home to roost. The solution was tighter monetary policy, deregulation, and lower tax rates.

But now, after several years of Plow Horse economic growth following a very deep recession, these theories about slow growth are making a comeback. They're not exactly the same. No serious economist claims we're about to run out of oil anymore; just the opposite, they worry fossil fuel prices are too cheap! But they have theories about why the economy has been relatively slow and they think we may have to accept slower growth over the long run as a result.

Combined, they go under the banner of "secular stagnation." This was the spirit that animated last week's Fed meeting as well as Fed Chief Yellen's press conference that followed. Productivity growth has fallen and it can't get up.

Former Treasury Chief Larry Summers has been arguing that savings are just too great given available investment opportunities, making monetary policy ineffective. Professor Robert Gordon says the good stuff has already been invented or discovered and we just have to settle for slower growth in living standards.

Supporters of the secular stagnation theory do have one strong point. The Baby Boom generation is retiring, which means the labor market is starting to lose many high-skilled workers. But we think the main problem with growth has nothing to do with this demographic shift. Instead, once again, the real culprit behind sub-par growth is wrongheaded government policies.

In a world with extraordinarily low interest rates, the federal government should be enacting deep supply-side tax cuts. Cutting taxes on capital investment should pay for itself and even if doesn't, financing it with very long-term debt would be easy. The economy is already growing faster than the level of interest rates.

The welfare state, in all of its forms, has become much too big again. Disability benefits are too easily available. For many workers, it's become a transition to retirement benefits rather than a response to a real physical need. The expansion of Medicaid under Obamacare makes it easier for low-income workers to not work and creates a huge disincentive to earn more money.

More states and local governments are "experimenting" with higher minimum wages that will only result in less hiring and lower economic growth.

In many states, our K-12 education system is under the hammerlock of government worker unions that think the schools operate for their benefit rather than the long-term interests of their students. At the college level, subsidies supposedly meant to make it easier for students to pay for a higher education have become a way for the government to funnel money to college professors and administrators. In turn, these colleges often teach subjects that don't increase their students' market value or, even worse, proselytize for a worldview hostile to the market and western civilization itself.

So the next time you hear about limits to growth or about a new era of stagnation, think about all the hurdles to growth that political elites have set up. Slow growth doesn't just happen; it's been a choice made by policymakers. But just like in the early 1980s, eventually policymakers can get it right.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
6-22 / 9:00 am	Existing Home Sales – May	5.550 Mil	**5.570 Mil**		5.450 Mil
6-23 / 7:30 am	Initial Claims – Jun 18	270K	**272K**		277K
9:00 am	New Home Sales – May	0.560 Mil	**0.558 Mil**		0.619 Mil
6-24 / 7:30 am	Durable Goods – May	-0.4%	**-0.7%**		+3.4%
7:30 am	Durable Goods (Ex-Trans) – May	+0.1%	**0.0%**		+0.5%
9:00 am	U. Mich Consumer Sentiment- Jun	94.1	**94.8**		94.3