First Trust
ECONOMIC RESEARCH REPORT
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Downsizing the Bureaucracy Won't Crash the Economy

The new Trump Administration hasn't wasted any time since last week's election win, with new information around economic policy and staffing appointments making news on a daily basis. In our opinion, the recent announcement of a new Department of Government Efficiency or "DOGE" headed by Elon Musk (who obviously came up with this name and acronym) and Vivek Ramaswamy, has been the most important so far.

As we mentioned in Monday's piece, both these individuals have been making the rounds on various podcasts, before and since Election Day, speaking about plans to not only cut unnecessary regulation, but also potentially move agencies out of D.C. and downsize the headcount of the Federal bureaucracy by up to 50%. For context that would be the biggest reduction in headcount since the aftermath of WW2 as the US demobilized from the war effort. Like everything in politics there are those who oppose these ideas. One argument in opposition is that mass layoffs in Washington put the US economy at risk for a recession. We think this worry is misplaced.

The current Federal Government workforce (excluding the military) is roughly 3.0 million. Meanwhile, total employment in the US is around 160 million. We currently have 7 million unemployed individuals bringing the unemployment rate to 4.1%, a relatively low rate historically and one that hasn't caused the US economy to stop growing. If the "DOGE" were successful in firing 50% of Federal employees, total unemployment would rise to 8.5 million and the unemployment rate would increase to just 5.0%.

If these job losses were all in the private sector, say in construction, it would lead to less production and a potential housing shortage. But, if these job losses are in bureaucracies that often interfere with production, then growth may actually accelerate. Don't get us wrong, we aren't against stop lights and speed limits, and we don't want to wait even longer to get our tax refund. But, a lot of government can be streamlined and automated. Moreover, these bureaucrats love to add pages to the Federal Register (a good proxy for total regulation). Today, total pages of regulation have rebounded to near a record high.

Further, the vast majority of these workers will find work in the private sector, where free markets more efficiently allocate resources. These are well educated individuals with lots of potentially valuable skills that aren't being fully utilized. The unemployment rate for people with a college degree or higher in the US is currently just 2.5%. These former bureaucrats would be able to find new jobs relatively quickly and this reallocation of talent would be an asset to future growth and innovation. And throughout the process, generous severances packages would give workers ample coverage while they find new work.

The reality is that the government has gotten too darn big. The Competitive Enterprise Institute estimates that regulation costs the US economy roughly $2 trillion a year. Add in Federal, State and Local spending and over 50% of the US economy is at the whim of the bureaucracy. This puts a wet blanket on innovation, with companies spending countless hours, dollars, and intellectual manpower trying to comply with rules and regulations, rather than applying those resources toward new and innovative ways to improve consumers' quality of life. One clear example of this economic distortion, the Wall Street Journal recently reported 40% of the S&P 500 by market capitalization is being investigated by the Department of Justice, while the Department of Wildlife is interfering with the launch of rockets. The real question is if we can afford **not** to address this growing problem, and we find it very encouraging that leadership is finally taking the issue seriously.

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