First Trust
Monday Morning OUTLOOK

Brian S. Wesbury – *Chief Economist*
Robert Stein, CFA – *Dep. Chief Economist*
Strider Elass – *Senior Economist*
Andrew Opdyke, CFA – *Senior Economist*
Bryce Gill – *Economist*
Nate Gerze, CFA – *Economic Analyst*

630-517-7756 • www.ftportfolios.com March 24, 2025

Symptoms or Causes

In spite of severe polarization on so many issues, there is at least one thing that Americans agree on across the entire political spectrum, left, right, and center. That is: At some point in the past sixty years, or so, something major went wrong with the US economy and it is still causing problems today.

What are those problems? Different political tribes, and their respective economists and commentators, may explain it differently, but they generally agree that economic growth and productivity increases are too slow, the distribution of income is too skewed toward the upscale, housing is unaffordable, and there is too little manufacturing in the US.

The left often blames "greed" and "capitalism," or maybe just "late capitalism," and proposes to raise taxes on the rich. If you listen closely, they argue that capitalism's worst evil is that it causes "climate change," which just makes every other problem worse. They want higher tax rates on regular income and investment income, and even talk of a wealth tax on unrealized capital gains. Then, by redistributing that money to the appropriate people and places, the US could fix all the economic problems that confront it.

On much of the political right there is a different narrative, which was recently expressed in depth by former US Trade Representative Robert Lighthizer in an interview with Tucker Carlson. In his telling, the movement toward freer world trade over the past forty or fifty years, what he calls "hyper-globalization," is at the root of many economic and social problems.

As manufacturing went global, the fabric of the US changed. Not only did the US economy slow, but the structure of the country changed. He argues that many places have lost their sense of community, compared to the immediate post-World War II era in which rich, poor, and middle class, often lived in the same towns.

His argument is bolstered by the data. Industrial production data show that manufacturing has grown just 4.3% in the past twenty-five years. Not 4.3% annualized, we mean 4.3% *total*. This translates to 0.2% annualized growth. In some cases, entire industries are uncompetitive without large government contracts, like shipbuilding.

Both narratives, in our opinion, are trying to deal with the symptoms of the underlying problem, not the problem itself. This is similar to the argument that our food supply makes us less healthy (obesity, diabetes, compromised immune systems). By treating these symptoms, we are ignoring the root cause.

There is an "elephant in the room" and almost no one incorporates it into their analysis. That elephant is the massive growth in the size and scope of the federal government. Excluding defense (in order to understand the impact of the bureaucracy and redistribution) federal government spending was 7% of GDP in the 1950s. That rose to 10% in the 1960s and then 14% in the 1970s. It stabilized there between 1980 and 2000, but then started growing again. So far in the 2020s, non-defense government spending has averaged 23% of GDP, more than triple its size in the 1950s.

Every dime the government spends is taken from the private sector, so the bigger the government gets, the smaller the private sector becomes. Adding all government spending – federal, state and local – with the cost of regulation, and government directs or prevents more than 50% of all output. No wonder saving rates are low, houses are unaffordable, manufacturing has moved, and economic growth rates have stumbled.

In many respects we have already abandoned capitalism. Abandoning it harder, or moving toward protectionism, is not the real answer. We believe shrinking the size of government itself would fix most of our problems, certainly the economic ones.

There is enormous upside potential (long-term, not short term) if DOGE helps the federal government get its fiscal house in order and downsizes government spending. Yes, we know it's disruptive in the near term, but this is the kind of disruption that deals with the major cause of our problems, not just the symptoms.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
3-25 / 9:00 am	New Home Sales – Feb	0.680 Mil	**0.677 Mil**		0.657 Mil
3-26 / 7:30 am	Durable Goods – Feb	-1.0%	**-1.5%**		+3.2%
7:30 am	Durable Goods (Ex-Trans) – Feb	+0.2%	**+0.3%**		0.0%
3-27 / 7:30 am	Initial Claims – Mar 22	225K	**224K**		223K
7:30 am	Q4 GDP Final Report	+2.3%	**+2.4%**		+2.3%
7:30 am	Q4 GDP Chain Price Index	+2.4%	**+2.4%**		+2.4%
3-28 / 7:30 am	Personal Income – Feb	+0.4%	**+0.4%**		+0.9%
7:30 am	Personal Spending – Feb	+0.5%	**+0.4%**		-0.2%