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 – *Economist*

630-517-7756 • www.ftportfolios.com

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Is US Democracy at Risk?

As we move toward the mid-term elections, many are making the argument that "democracy is at risk." We get politicians making this argument, but when supposedly sober political and economic analysts start to make it, we do get worried.

For example, the Chief Economics Commentator of the Wall Street Journal recently argued that the Trump Administration, sometimes aided and abetted by the Supreme Court, is a major historic break with much that has made America great going all the way back to the Founders. Centralizing more economic authority in the executive branch, some argue, puts our country's long-term prosperity at risk. Apparently, a recent ruling that the president can remove the leadership of so-called "independent agencies," like those at the Federal Trade Commission is what pushed the WSJ Commentator over the edge.

We don't think this concern should be casually dismissed. Although we are not legal experts on the Federal Reserve, we think monetary policy operates better across time if the president can't easily remove Board members. The Constitution gives Congress the power to tax and spend, so reining in the use of tariffs has made it easier for companies to make decisions on where to invest. We also don't like the government taking equity stakes in private companies.

But the argument that just now, in 2026, executive power has become a unique threat to the Institutions of America and a threat to long-term economic growth is a reach.

In the 1930s, the US government underwent a massive transformation in its size and scope. Federal spending was about 3.5% of GDP before the Great Depression; it then roughly tripled to over 10% of GDP even before World War II. Then, in the 1960s, spending almost doubled again, rising from 10% of GDP to 19%.

These two periods led to a proliferation of "alphabet agencies" like the SEC, FHA, SSA, NLRB, FDIC, and then Medicaid and Medicare. Then, in 2008, during the Great Financial Crisis, bond holders in auto companies were undermined and large financial institutions were taken over by the Federal Government. Oddly, those criticizing centralization of decision-making under Trump don't look back to see those past transformations as a problem. The Federal Government has been centralizing power for decades.

Nor do they like that a couple of years ago Trump's appointments to the Supreme Court ruled on Chevron, which helped put an end to the practice going back several decades that let unelected federal government bureaucrats effectively enact laws by calling them "regulations," even when Congress hadn't explicitly authorized or approved those regulations.

All this fretting over what the Founders wanted should have started a long time ago. So, the arguments today seem more political than historical or factual. In fact, in the past twelve months federal spending is barely higher than it was in the last twelve months of the Biden Administration, in spite of inflation, aging demographics, higher health care costs, more interest on the national debt, and higher military spending. Relative to GDP, the federal government has been getting smaller. That's the opposite of putting democracy and the economy at risk. In fact, it leaves more resources in private hands, not the government's.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-14 / 7:30 am	CPI – Jun	-0.1%	**-0.1%**		+0.5%
7:30 am	"Core" CPI – Jun	+0.2%	**+0.2%**		+0.2%
7-15 / 7:30 am	PPI – Jun	0.0%	**0.0%**		+1.1%
7:30 am	"Core" PPI – Jun	+0.3%	**+0.4%**		+0.4%
7:30 am	Empire State Mfg Survey – Jul	9.7	**8.5**		5.7
7-16 / 7:30 am	Initial Claims – Jul 11	217K	**217K**		215K
7:30 am	Retail Sales – Jun	+0.3%	**+0.1%**		+0.9%
7:30 am	Retail Sales Ex-Auto – Jun	-0.1%	**+0.1%**		+0.8%
7:30 am	Philly Fed Survey – Jul	12.3	**13.9**		10.3
9:00 am	Business Inventories – May	+0.3%	**+0.3%**		+0.5%
7-17 / 7:30 am	Housing Starts – Jun	1.315 Mil	**1.310 Mil**		1.177 Mil
7:30 am	Import Prices – Jun	-0.6%	**-0.7%**		+1.9%
7:30 am	Export Prices – Jun	-0.4%	**-0.5%**		+1.3%
8:15 am	Industrial Production – Jun	+0.2%	**+0.1%**		+0.1%
8:15 am	Capacity Utilization – Jun	76.2%	**76.2%**		76.2%

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.