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Freeze Outlays To Make Gov't Less Dominant

By MIKE COSGROVE

The word from the Office of Management and Budget data is that federal outlays — now about 25% of GDP — are too high as a proportion of the U.S. economy and that they need to return to their average.

Federal outlays have averaged 20.7% of GDP since 1960, while federal tax revenue has averaged 18%. The federal deficit, on average, has been 2.7% of the economy.

Is it possible to dramatically reduce federal outlays as a percentage of economic activity at this point in the economic cycle? Yes, and the entire adjustment needs to occur on the outlay side.

Congress needs to freeze federal outlays at $3.83 trillion, the dollar level in 2011. Growth in economic activity would place the percentage at 20% of GDP in 2015, according to OMB economic projections. It would take fewer than five years for the U.S. to return to its long- term average.

Before everyone cries about what a cruel hardship this would be, it is important to understand the magnitude of that estimated $3.8 trillion of annual federal outlays. On a per capita basis it equates to about $12,000 a year. For an average family of three that's equivalent to an annual outlay of $36,000 per year.

In comparison, the equivalent number in 2000 on a per capita basis was $8,050, adjusted to 2010 dollars, or nearly $24,150 for a family of three. The real increase in federal outlays per capita over an 11-year period is about 50% — out-of-control federal outlays and central government expansion.

Most families in the U.S. would be jumping for joy if their family incomes had increased 50% in real terms since 2000. The size and influence of the federal government is a train wreck, and it is wrecking the American economy.

Republicans and Democrats are equally to blame for this unacceptable increase in federal outlays since 2000. Outlays had increased to $2.5 trillion by 2005 from $1.8 trillion in 2000 and are up to $3.8 trillion in 2011. Gold prices have been telling us since 2001 that the American economy and dollar have been under assault by American politicians.

Federal outlays now take up 25% of GDP — up from 18% in 2000. The federal government is so dominant that it's shutting down private-sector growth. The productive part of the economy is being displaced by big government regulation, higher costs and higher taxes, resulting in high unemployment and slow economic growth.

Facing a massive federal deficit, taxpayers and businesses reduce their outlays in anticipation of higher taxes. Households are reluctant to spend, while businesses are concerned about the higher costs implied by the Patient Protection and Affordable Care Act and are reluctant to hire.

The result is a slow-growing economy hemmed in by higher costs, more regulations and the prospect of higher taxes — federal government dominance. The brutal aspect to increased government outlays, higher taxes and more regulations is that American households get hit twice.

Once as the growing federal outlays, regulations and costs suck the productive resources away from businesses and households, and once again as countries in this global economy avoid the U.S. and seek more tax-friendly and less-costly locations in which to locate and produce goods and services.

The competitive global economy punishes economies that are being shoved and kicked by their central government into becoming high-tax, high-cost and regulatory-unfriendly locations in which to do business.

Japan's experience tells us that. The Japanese equity market is approximately one-fourth the size it was in 1989. Japan has run large central government deficits and hiked taxes and regulations since 1989. The competitive global economy pummeled the Japanese economy the past 20 years.

U.S. politicians are pushing and punching the U.S. economy in exactly the same direction as Japan with the same result. But should the U.S. Congress demonstrate fiscal restraint by freezing federal outlays, the equity market would move sharply higher while gold prices would move sharply lower, and businesses would hire and households would feel safe from a higher tax burden and be able to purchase more goods and services.

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