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Economy Better, but Still Growing Too Slowly Because of Anti-Growth Policy

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The new Bureau of Economic Analysis (BEA) report measuring how fast the economy grew in the fourth quarter of 2013 and for the entire year of 2013 confirms that while the U.S. economy has clearly picked up steam, it is still in the grip of a subpar recovery from the recession that ended in 2009.

The cost of this slack-paced expansion—compared to past recoveries—has been $1.3 trillion in gross domestic product (GDP), according to the Joint Economic Committee.[1] In other words, the U.S. economy would be generating about $1.3 trillion more in output and income to American workers and businesses if recent policy mistakes had not prevented an even average recovery. This growth deficit is a major reason opportunity remains stagnant and talk of income inequality is growing.

Growth Is Picking Up, but Is It Sustainable? The good news from the BEA report is that growth for the second half of 2013 was 3.5 percent and private-sector growth, which is what matters, was closer to 4 percent.[2] That is hardly warp speed, but it feels like taking a lap in a race car on the Indy 500 track compared to the slow-motion growth rate since the recession officially ended.

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Over the full year of 2013, however, the economy grew at an anemic 1.9 percent. That is an alarmingly slow rate of expansion this far into the recovery, especially considering the economy has never had a breakout year of exceptional growth since the recession ended. Growth during the recovery has averaged 2.3 percent annually compared to over 4 percent during the average post–World War II recovery.[3]

Growth in the fourth quarter indicates that a pickup in the economy to a more normal rate of expansion might not be on the horizon as many had hoped. In that period the economy slid to 3.2 percent growth from 4.1 percent in the third quarter. While the economy did pick up steam in the second half of 2013 compared to the first half of the year, the fourth quarter deceleration is worrisome.

Adding to the concern about the fourth quarter slowdown is a recent spate of other weak economic indicators. The stock market has shed more than 7 percent since mid-January this year, car sales were weak in January,[4] and the manufacturing outlook deteriorated in January compared to December.[5]

The monthly jobs report for January comes out tomorrow and will add another data point indicating whether the economy is slowing down or continuing the momentum it built at the end of 2013.

Some argue that decreases in government spending were a contributor to soft growth in 2013.[6] They have the story backward. Government spending has fallen over the past six months even as the private economy shifted into a faster gear. The reduction in spending facilitated the pickup rather than inhibiting it.

Money the government did not spend is resources it did not take out of the private sector either through taxing or borrowing. The private sector either spent those resources in 2013, boosting other sectors of the economy, or will spend them going forward which will result in stronger growth then. Either way the economy does not suffer when the government spends less.

Substantially Weaker Growth Than After Similarly Severe Recession. The current recovery looks to be particularly troubling compared to what happened following the last severe recession from July 1981 to November 1982. In 1986, the fourth full year of the recovery from that recession, the economy grew 3.5 percent—almost twice as fast as in 2013, the fourth full year after the recent recession ended.

The much bigger disappointment is the failure of this expansion to experience a breakout period of growth. At this stage of the post-1982 expansion, the economy averaged 4.9 percent annual growth, with seven quarters exceeding 5 percent. In 1984, growth sprinted forward at a 7.3 percent clip, while the fastest growth rate for the current recovery has been 2.8 percent in 2012.

During the first four years of the post-1982 recovery, the economy created 11.6 million jobs. The current recovery has created just over 6 million.[7]

Anti-Growth Policy Blunders to Blame. The stark difference between these recoveries raises the question: What is different this time that is preventing the economy from growing faster? The answer is that persistent policy failures emanating from Washington are causing the economy to fall short of expectations for four years and running.

The litany of policy abuses is long and includes:

- The near $1 trillion stimulus in 2009;
- $6 trillion added to the national debt since President Obama came into office[8];
- Obamacare;
- The Dodd–Frank financial reform law, which has suppressed bank lending;
- Environmental regulations on oil, gas, and coal production that have interfered with a more robust energy-sector boom;
- A general and sharp increase in regulations[9];
- The inability of Washington to confront the looming explosion of spending on entitlements such as Social Security and Medicare as millions of baby boomers enter retirement;
- The uncharted waters of the Federal Reserve's quantitative easing (QE) program and its ongoing tapering of that initiative, which has financial markets in a guessing game of what the Fed will do next and how these maneuvers will affect interest rates and inflation; and

1. Joint Economic Committee, "Recovery's Growth Gap Remains Large," http://www.jec.senate.gov/republicans/public/?a=Files.Serve&File_id=357eb391-3bf4-4d0e-95a6-8a938e739c0f (accessed January 31, 2014).
2. U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product: Fourth Quarter and Annual 2013 (Advance Estimate)," January 30, 2014, http://bea.gov/newsreleases/national/gdp/2014/pdf/gdp4q13_adv.pdf (accessed January 31, 2014).
3. U.S. Department of Commerce, Bureau of Economic Analysis, "National Income and Product Accounts Tables," Table 1.1.1, http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1 (accessed January 27, 2014).
4. Same Ro, "Auto Sales Missed Big in January," *Business Insider*, February 3, 2014, http://www.businessinsider.com/january-us-auto-sales-2014-2 (accessed February 4, 2014).
5. Press release, "January 2014 Manufacturing ISM *Report On Business*: PMI at 51.3%," Institute for Supply Management, February 3, 2014, http://www.ism.ws/ismreport/mfgrob.cfm (accessed February 4, 2014).
6. Jason Furman, "Advance Estimate of GDP for the Fourth Quarter of 2013," The White House, January 30, 2014, http://www.whitehouse.gov/blog/2014/01/30/advance-estimate-gdp-fourth-quarter-2013 (accessed February 4, 2014).
7. U.S. Department of Labor, Bureau of Labor Statistics, Current Population Survey, household data, employment status of the civilian population by sex and age, seasonally adjusted, http://www.bls.gov/webapps/legacy/cpsatab1.htm (accessed January 31, 2014).
8. U.S. Office of Management and Budget, *Budget of the United States Government, Fiscal Year 2014*, Table 7.1, p. 143, http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/hist.pdf (accessed January 31, 2014).
9. James L. Gattuso and Diane Katz, "Red Tape Rising: Regulation in Obama's First Term," Heritage Foundation *Backgrounder* No. 2793, May 1, 2013, http://www.heritage.org/research/reports/2013/05/red-tape-rising-regulation-in-obamas-first-term.

- Tax increases from Obamacare and the 2013 fiscal cliff deal that raised taxes on investment and small businesses.

Troublingly, this list is not exhaustive. These mistakes have all contributed to a ratcheting down of growth and help explain why so many Americans believe that the recession has never really ended.

The policy failures all have one thing in common: They enlarged the size of the federal government and its role in the economy and lives of the American people.

Contrasted with the approach followed by President Reagan and Congress following the 1982 recession, the approaches could not be more different. President Reagan and Congress enacted a pro-growth agenda that cut taxes and reduced the reach of government. The wide disparity between growth during the ensuing recovery then and the current recovery speaks volumes about which approach is better for the economy.

Faster Growth Hopefully in Store for 2014. Hopefully, 2014 will be that year of breakout growth for the recovery that the economy so desperately needs and Americans lacking opportunity crave. The case for optimism is twofold. American businesses are in strong financial shape on balance, with large cash surpluses and bullish profits, as reflected in the rapid stock market run-up in 2013. And there is a small likelihood of Washington enacting any new anti-growth legislation this year such as more stimulus spending, a cap-and-trade regime to regulate carbon emissions, and more harmful tax increases.

The gridlock in Washington now is mostly a plus for the economy. The new GDP report confirms that in Washington these days, less is more.

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