You Didn’t Build That

The government reported today that GDP growth in the second quarter was a [mere 1.5%.](http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm)  The average growth rate over the last two years has been 2.1%. From 1950 through 2011, the economy averaged a growth rate of 3.3%. The economy that has been growing more slowly than normal is now losing speed. Worse yet, this is when the economy is supposed to be growing faster than normal. Here are the average growth rates for the three years directly following the last quarter of contraction during the last five recessions:

2009 Q3 – 2012Q2 (The Obama Recovery) 2.2%

2001 Q4 – 2004 Q3 (The Bush Jr. Recovery) 2.7%

1991 Q2 – 1994 Q1 (The Bush Sr./Clinton Recovery) 3.2%

1982 Q4 – 1985 Q3 (The Reagan Recovery) 5.6%

1975 Q2 – 1978 Q1 (The Ford/Carter Recovery) 4.5%

President Obama is often compared to President Carter. I lived through President Carter. President Obama is no Jimmy Carter – he’s worse. President Obama’s recovery is less than half the pace of President Carter’s. Remember, President Carter deregulated the airline industry which dramatically lowered the cost of moving about the country. President Obama, on the other hand, has added a number of new regulations including, but not limited to, increasing regulations on the financial services industry (Dodd/Frank), health care (Obamacare), and the environment (no Keystone Pipeline).

On August 15th, I’m giving a talk to the Noon Rotary Club in Bowling Green, KY entitled, “Where’s the Growth?”. The short answer is that growth exists – in the public sector. Total government spending as a share of GDP has gone from 23.95% in 1950 to 33.72% in 1980, and is now 40.27% in 2012. The private sector economy cannot grow as quickly when an ever larger share of the nation’s resources are controlled by government. Governments don’t create growth, private entrepreneurs do.

Government debt has been increasing as well, working to crowd out private investment. From 1972-2012 the US federal government ran an average budget deficit of 3.0% of GDP. From 2009-2012 the deficit has averaged 8.9% of GDP. That is a deficit that is three times as large as normal. The US debt/GDP ratio has risen from 32% in 1981 to 105% in 2012. Excessive debt and continued break-neck government borrowing is strangling private sector growth.

The uncertainty of the 2013 fiscal cliff is not helping businesses engage in effective business planning. An already growth inhibiting tax code is made even worse by engaging in politically motivated temporary tax changes. What are the permanent personal income tax rates? How long does a payroll tax holiday last? (It has already lasted longer than my summer holiday). How will the new health care taxes effect capital growth?

As President Obama watched economic growth numbers slide, he recently noted that small business owners didn’t build their own businesses. Their growth came from the government. If that is the case, the government is doubly to blame for the economic slowdown. Denigrating the private sector and entrepreneurs seems to fit the President’s personal ideology; however, it seems to make an odd election strategy and an even odder economic growth strategy. If President Obama is willing to pick a fight with the private sector during his re-election campaign, what will he do to it if he gets re-elected? We’ll all be left asking, “Where’s the Growth?”.