

End of an Era

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Over this past Fourth of July weekend, in Chicago, the Grateful Dead, or at least what’s left of it, played its last concert. It’s the end of an era, one that epitomized the liberal political earthquake of the 1960s and 70s – VW vans, flower power, tie-dyed tee shirts, drugs, protests, and social justice.

From an economic perspective, the individual freedom expressed by “Dead-Heads” is refreshing, and in its positive form leads to entrepreneurial thinking. However, the politics of the era supported Keynesian stimulus-spending and redistribution. Non-defense government spending soared in the U.S. and, especially in Europe, during the 1960s and 1970s.

This experiment failed. Economies deteriorated and it took the elections of Margaret Thatcher and Ronald Reagan to turn the tide in the 1980s. But like the Grateful Dead, after the death of lead singer-songwriter Jerry Garcia, it never really disappeared. So, in many places around the world economic mayhem has returned.

Exhibit A, is Greece, where the liberal logic prevailed, helped along by academic intellectuals like Joseph Stiglitz and Paul Krugman, who have argued that as long as a country can borrow and spend, there will be positive economic multipliers that create jobs, wealth and growth. We would laugh out loud if there weren’t so many people actually suffering.

When Greece joined the Eurozone back in 2001, it had the chance of a century to right its fiscal ship. Interest rates fell on Greek debt even as the economy performed relatively well. Lawmakers could have used the windfall to de-regulate the economy, privatize, and reduce its long-term spending commitments. Instead, the government used the windfall to pass out more “free” treats to voters all the while receiving intellectual and political cover for this bad behavior from leading academics around the world.

But, eventually, you run out of other people’s money when you don’t grow or pay it back. Now the bill is coming due and yet, the “Debt-Heads” in Greece who grew dependent on the treats of that bygone era, defiantly told the IMF, the ECB, and other European governments – the only ones left crazy enough to lend to them – that they wouldn’t downsize the bloated Greek government and they expected more money anyway.

But this isn’t just about Greece. The same era came to an end in Detroit over the past several years and now Puerto Rico. High taxes, regulation and redistribution designed to buy votes, led to a

private sector too small to generate the revenue required to keep the system going. Puerto Rico applies the same minimum wage rules that the U.S. uses. These wages are way too high and the results are catastrophic. These liberal policies are from an era gone by, and the results are the same. Reality wins and Puerto Rico faces painful restructuring or bankruptcy, too.

In the end, political models that work by siphoning money from the more productive to buy the votes of the less productive often end up “going over the edge.” This system only works when the benefits for the productive of being part of a society exceed the costs and in some cases governments find the right balance. But it’s hard for politicians who get a taste for redistribution to stop.

So, the big question is: will the problems in Greece, Detroit and Puerto Rico be seen as a sign that this era needs to come to an end? Or, will politicians and voters ignore them and stay tied to the failed policies of the past?

Clearly, in the U.S. the recent Supreme Court decision over health care suggests that we have not learned. SCOTUS let the government grow larger by twisting the meaning of words in legislation enacted by Congress.

In essence, in its ruling on the health law, the Supreme Court allowed supporters of the Affordable Care Act (aka Obamacare) an open field to end run around the election of Scott Brown to the Senate in January 2010. His election meant Obamacare’s supporters no longer had a filibuster-proof majority. The House had to either pass a Senate bill that was not ready for prime time or go completely back to the drawing board and try to compromise with the president’s opponents. But now Obamacare’s supporters get to implement a version of the law that was never enacted, for which they never had 60 votes.

For the U.S. economy this means, for now, big government. And, what that means is that entrepreneurs have a big burden to carry. And a heavier jockey means a slower horse – a Plow Horse!

The good news is that Obamacare was already here, and the economy was still growing. So, while we can see in Detroit and Greece, the eventual results of big government, we also know that three things are true. First, American entrepreneurs have been able to grow in spite of all this. Second, there is ample evidence the liberal ideology has failed. And, third, that Americans have shown throughout history that they can change course when faced with the reality of failure.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
7-6 / 9:00 am	ISM Non Mfg Index – Jun	56.4	56.3	56.0	55.7
7-7 / 7:30 am	Int’l Trade Balance – May	-\$42.8 Bil	-\$43.0 Bil		-\$40.9 Bil
2:00 pm	Consumer Credit– May	\$18.5 Bil	\$18.5 Bil		\$20.5 Bil
7-9 / 7:30 am	Initial Claims – July 4	276K	276K		281K