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U.S. Economy: Struggling to Recover

Federal spending must decrease for economy to grow, argues economist
Tyler Harris

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After four years of economic fits and starts, people want to know: is this what 'recovery' looks like?

"It just doesn't look very good," says Daniel Mitchell, libertarian economist and senior fellow at the Cato Institute. Mitchell, a New Yorker who holds bachelor's and master's degrees in economics from the University of Georgia and a PhD in economics from George Mason, points to the gross domestic product (GDP) as a direct indicator. "Normally, when you have a recession…you bounce back. We're struggling just to get up to the long-run average."

The U.S. could fall into an economic malaise mirroring conditions in Europe, if the government's spending habits continue. Mitchell says federal spending increased from $1.8 trillion to $3.5 trillion under President George W. Bush, and to $3.8 trillion under President Obama.

"That has enormous implications," he says. "We are becoming more like Europe and less like Hong Kong and Singapore."

Adding that federal spending is expected to jump, Mitchell notes the U.S. GDP has been around 20% since World War II, and countries in Europe are much higher. "All of these countries are in fiscal crises with federal government spending at 50% GDP," he says. "We're doomed if we don't change anything."

Spending on social welfare programs needs to be reformed, he says. While these programs are idealistically beneficial, that impact may change over time. He directly addresses "Obamacare" and says decreasing this kind of spending would result in more growth.

"Even if you have mediocre economic growth, what does that mean?" He asks. "Without raising additional taxes, the government gets more revenue."

Private sector growth

Mitchell says allowing the private sector to grow faster than the government would slowly eliminate the deficit. "You balance the budget in ten years," he says. "Even if you're Greece, you'll solve your problems this way."

He points out eras of economic growth, like the 1990s. "I recall that as being pretty good years," he says. "Why don't we copy the Clinton spending policy?"

Countries like Canada have been able to get rid of red ink in five years by restraining the growth of government spending. "At the end of just five years, they had a surplus," he says. "All your problems get solved. It's just a question of how fast they get solved."

Mitchell says this is something politicians have not been addressing. "Solve the underlying problem, don't address the symptoms," he says. "The problem is the government is too big, and it's getting bigger."

Although corporate profits are up, unemployment is also up, and employers are looking at potential employees as liabilities rather than assets, he notes.

"Employers only create jobs when they think a new employee will increase their profits."

He blames both Republicans and Democrats in the White House, including both candidates in the upcoming presidential race. "Obama didn't hit the brakes, he hit the accelerator," he says. "And nothing that I've said suggests that Romney would be any better."

-Harris is a Farm Progress field editor.