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Snow Day Gridlock

By Jeff Harding, on February 16th, 2010



I read where the government claims that because Washington D.C. was practically shut down by Snowmageddon we taxpayers were losing \$100 million per day from lost productivity of federal employees. Then in an unrelated matter I see where Evan Bayh announced he will not run for re-election as senator from Indiana because the lack of bipartisanship between Democrats and Republicans resulted in legislative gridlock (“the peoples’ work is not getting done”).

The thought that our bureaucracy was shut down for almost 4 days actually was kind of promising. Nothing getting done in my view is a good thing. It’s easy to be snide about this, and I am sure it caused problems for those waiting for their check to arrive, but the thought of 230,000 D.C. employees not working could arguably result in more productivity in the private sector if these bureaucrats were thwarted from their regulatory duties.

Doug Bandow at the Cato Institute ridicules the idea that we taxpayers were set behind \$300 million because of loss of federal employee “productivity” during the snow seige.

Using the term “productivity” in the same sentence as “federal government” is a dubious exercise. No doubt, in the sense of performing a task efficiently, the Feds can be productive. Just watch how quickly and completely the IRS attempts to clean out the average taxpayer. That explains the joke about Washington’s preferred tax form of just two lines: “How much do you earn? Send it in.”

But government efficiency doesn’t mean productivity in a larger sense. That is, does government activity yield a better life for Americans? On net, the answer is no. The only problem with Snowmageddon is that it has not affected the 85 percent of federal employees who work outside of the D.C. area.

About two million people, excluding the postal service and armed forces, work for the federal government. Most are engaged in counterproductive activity.

This is the first definition of the positive benefits of gridlock.

The ability of the Republicans to filibuster Democrat legislation and the prospect of a resurgent Republican presence in Congress after November is another definition: legislative gridlock.

You may not agree with my take on the benefits of government, but as an investor you should cheer. This report from [Money Morning](#) says:

What [our research] demonstrates is that the stock market’s highest performance (a 9.6% growth per annum) occurs when there’s the most political turmoil - in short, a Democratic president and a Republican Congress.

That suggests a finding that’s so surprising we weren’t sure we believed our eyes either: The Dow Jones Industrial Average Index logs its biggest net gains with a donkey in the White House and elephants traversing the halls of the U.S. Capitol Building.

Another interesting conclusion suggested by our own research, and that of other firms such as Ned Davis, is that in stark contrast to what most investors believe to be true – that Republicans are better for the markets – is that the blue-chip-dominated Dow tends to rise nearly twice as fast during Democratic presidencies (7.2%) as it does during Republican ones (3.8%).

The great equalizer, if there is one, appears to be inflation, which rapidly eats away the higher returns to bring them within a few basis points of each other over time.

People assume that a presidential administration and Congress with matching political affiliations is the best way to get things done, but in reality, the checks and balances of a mismatched pair helps to ensure that governmental agendas don’t go to extremes. Thus, somewhat surprisingly, political gridlock is actually a reality that puts investors at ease and permits the financial markets to operate efficiently.

I think this conclusion is accurate. Other studies ([Financial Analysts Journal \(Sept/Oct 2006\)](#)) suggest that small firms do better when there is political harmony. But the FAJ study doesn’t match up with the above conclusion because they didn’t specify which party held the White House and which held Congress. Money Morning says there is a correlation with a Democrat president and a Republican Congress.

One could say that if the Republicans take Congress and the result is gridlock, the stock market will do well. For business people it means less uncertainty and that means you can plan ahead without worrying about new legislation that may affect you.

Let it snow.



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