
Top Pros' Top Picks Editor's Note | 10/15/2009 1:56:00 PM

It's a Nanny State Already

In the heated debate over the role of government in the economy, from bailout protests to tea parties to rage at town hall meetings, we may have missed a key point: Most Americans already rely on it for their livelihoods.

That's the stunning finding of a recent study by economist Gary Shilling, president of A. Gary Shilling & Co.

Shilling, best known as an early bear who [predicted](#) the housing crash and deep recession, has been tracking the role of government in the US economy for almost three decades.

His research, published in the September 2009 issue of *INSIGHT*, shows that some 58.2% of Americans relied on government "for meaningful portions of their income" in 2007. That's down from the 61.2% who lived high off the taxpayers' hog in 1980, but it's up significantly from the 53.7% who benefited from government largesse in 2000.

And he thinks that number will only grow as baby boomers retire and Americans pressure Washington for more help in a chronically weak economy. By 2018, he estimates, a shocking 67.3%—more than two out of every three Americans—will rely on the government economically in one way or another.

That includes employees of federal, state, and local governments, and their dependents; recipients of pensions, Social Security, and other benefits; and employees of private companies doing business with various governments—and their dependents.

"It's heartening that public opinion remains opposed to too much government involvement—even though so many Americans are dependent on it," Shilling observes.

But it may become more and more difficult to cut government spending meaningfully in the years ahead.

"The trend is absolutely in the wrong direction," says Tad DeHaven, budget analyst at the Cato Institute, a free market-oriented think tank. "It's very hard to reduce the size and scope of government when the majority of people are dependent on it."

That's been true for decades. Government's role in the economy ballooned from World War II until 1980. Back in 1950, fewer than 30% of Americans relied on government for some form of economic assistance.

But for the next 30 years, Democratic and Republican administrations alike added layer after layer of government programs, and their counterparts on the state and local level followed suit.

From the Cold War defense buildup to President Eisenhower's highway construction to the Kennedy Era space program to the massive expansion of social welfare under Presidents Johnson and Nixon, more Americans than ever came to rely on government for economic support.

Then, for two decades, government's role shrank. By 2000, some 53.7% of Americans depended on governments for a major part of their incomes, still a majority but a big drop from 61.2% in 1980 (see table).

"Nanny Sam"? Americans' Growing Dependence on Government
1960-2007 (% of total population)

	1960	1980	1990	2000	2007
Government Employees, With Dependents	10.40%	17.70%	16.30%	14.80%	14.40%
Transfers & Pensions, With Dependents	8.20%	27.60%	26.40%	23.90%	23.80%
Other Recipients of Government Benefits, With Dependents	0.00%	5.60%	6.80%	8.90%	10.60%
Private Employment Due to Government, With Dependents	10.00%	10.40%	9.50%	8.20%	9.40%
Total Government Beneficiaries	28.70%	61.20%	55.60%	53.70%	58.20%
Non-Beneficiaries (Private Employment, With Dependents)	71.30%	38.80%	44.40%	46.30%	41.80%

Source: IWISGMI7, September 2009

Under the Reagan Administration, the number of dependents of government employees dropped sharply, Shilling estimates, while all other categories of government involvement slipped, too.

President Clinton also reduced government's scope with his administration's welfare-reform program, as well as the dismantling of the Cold War military (now half of what it was in the Vietnam War era) and the big consumer- and technology-led job growth of the 1990s.

In fact, the US added some 35.5 million private-sector jobs from 1980 to 2000, helping boost the percentage of those *not* dependent on government.

But everything headed south under President George W. Bush. DeHaven blames out-of-control spending by the president and the Republican Congress during most of his administration for the big expansion of government during that time.

Maybe even more importantly, job creation virtually disappeared. Private-sector employment grew by only 3.6% between 2000 and 2008, compared with a 23.6% rise during the Clinton years.

Why did this happen? Shilling says technology and structural changes in the economy have made companies much more efficient. "Businesses have good profits because [of] higher productivity," he says.

That means they can do more with fewer people, or hire cheaper workers abroad. Hence, much slower job growth here—and more reliance by laid-off workers on food stamps, unemployment compensation, and other government programs.

That may be a big problem for some time, because Shilling doesn't see many possible catalysts for renewed job growth. He cites consumer retrenchment, the financial sector's retreat, increased regulation, and the reemergence of protectionism as reasons he's looking for a subpar recovery, where high unemployment lingers for years.

Add the steady influx of baby boomer retirees into Medicare and Social Security, and he gets his projection of 67.3% of the population as government dependents in one way or another by 2018, when nearly one in five Americans will be getting Social Security benefits.

Absent an unexpected boost from a breakthrough technology or new industry (like, say, green technology?), Shilling sees Americans putting more and more pressure on government to "create" new jobs in the years ahead.

Tad DeHaven of Cato says Shilling's estimates are probably conservative. (Shilling bent over backwards to avoid double-counting, for instance.)

"I suspect it understates the degree of dependency," he says. "The trend is to greater dependency because of demographics."

He says it's a vicious circle: As more Americans depend on government, the impetus to reduce its role weakens. That could have profound effects on our economic growth, our fiscal stability, and the strength—or lack thereof—of the US dollar. Throw in the Obama administration's domestic agenda, and the trends could accelerate.

"There's a backlash growing, and I suggest it's going to get larger," claims DeHaven. But he recognizes there's a "disconnect" as well.

Along with the genuine antigovernment sentiments expressed at "tea party" protests, he acknowledges that public opinion can be "completely schizophrenic."

The most vocal protesters at this summer's town hall meetings over health care reform were older Americans, many of whom were on Medicare and didn't even know it was a government program. (DeHaven saw this confusion firsthand when he spoke to a group in Indiana recently.) Their beef was that the government was taking away *their* benefits and planning to give them to someone else.

In the years ahead, I think we're more likely to see battles between different groups of government recipients over pieces of the pie than principled defenses of individual liberty against intrusive government.

"It's like drugs: You give people a taste, they become addicted to it, and it's hard for them to kick the habit," he says.

"I think we're in a 'nanny state' and most people know it or have come to accept it."

Howard R. Gold is executive editor of MoneyShow.com. The views expressed in this commentary are his own.

Howard Gold

Executive Editor, MoneyShow.com

1258 North Palm Avenue

Sarasota, FL 34236

941/955-0323

Fax: 941/366-5755

E-mail: howardgold@moneyshow.com

Web site: www.moneyshow.com

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