Milton Friedman and the Size of Government

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“I am in favor of cutting taxes under any circumstances and for any excuse, for any reason, whenever it's possible.”

Milton Friedman
Taxes and Spending

Source: Office of Management and Budget.
The Expanding Role of Government

• Social programs
  – Health (Expansion of Medicare, Medicaid, and Affordable Care Act)
  – Welfare
    • TANF (Temporary Assistance for Needy Families)
    • Extended Unemployment
    • Subsidies for housing, some through the Federal Reserve
  – Social Security
    • Indexing that results in higher benefits (wages v. prices, different price indexes)

• Government intervention in markets
  – Bailouts (banks and companies)
  – Industrial policies

• Regulation
  – Dodd Frank (systemic risk regulators)
  – NLBR activist role
RESULT

• Slow Growth
• High Unemployment
• Growing Debt
GDP Growth in the US, 1947-2012

Log of Real GDP

The Current Recovery

Real GDP

GDP Growth Rate

- 30 year average
- 2001 recovery
- 2009 recovery
Annual Unemployment Rates
(Seasonally Adjusted)

Australia, France, Germany, Italy, U.K., U.S.

Debt to GDP

Source: OECD
Deficit to GDP
(Net Lending, % GDP)

Source: IMF & OMB, Nov. 2012

* Estimates
Appendix
Recoveries from Major Recessions

Average Growth Rate in 3 Years Following Trough

Great Depression (1934) 10.0%
Great Depression (1939) 12.0%
1980s Double Dip 4.0%
Financial Crisis Recession 2.0%