Emperor Obama’s New Clothes

Last week President Obama’s Debt Commission reported the urgency of creating a plan to reduce the nation’s debt to GDP ratio. My, how time flies. That was so last week.

This week President Obama and his Congressional Enablers have a new $800 billion stimulus plan for the economy. First, they’ll extend the Bush tax cuts for everyone. Then they’ll extend the stimulus tax cuts. Then they’ll give a two percentage point reduction in the payroll tax for a year. Then they’ll provide an extra 13 months of unemployment insurance for people who have already been unemployed for two years. Who knew that austerity could be so much fun!

How foolish the Irish must feel. [Their austerity package requires spending cuts and tax increases](http://finance.yahoo.com/news/Debthit-Irish-publish-apf-4008797829.html?x=0&.v=10). Those silly Spaniards have unveiled a [new round of budget cuts](http://articles.latimes.com/2010/dec/04/world/la-fg-spain-austerity-20101204). So have the [Portuguese](http://english.irib.ir/news/political/item/68231-portugals-austerity-budget-approved-by-parliament), (not to mention the Greeks). Why don’t these debt riddled nations just borrow more money to stimulate their way out of debt? Oh yeah, they can’t, because investors rightfully assume that these governments will go bankrupt without undertaking austerity reforms.

Let’s compare the US to two groups of economies. The first group (Group A) is made up of six of the seven countries that rank higher than the US in the Heritage Foundation economic freedom index (not including Ireland): Hong Kong, Singapore, Switzerland, Australia, New Zealand, and Canada. The second group (Group B) is made up of the four European economies in trouble over their high sovereign debt: Greece, Ireland, Spain, and Portugal.

Below are the current average rates for the two groups

**Group A US Group B**

Economic Growth 4.8% 3.2% -1.2%

Unemployment 4.9% 9.8% 14.4%

Budget Deficit -1.4% -9.0% -15.7%

Trade Surplus/Deficit 4.9% -3.3% -4.9%

There are two divergent economic growth patterns at work here. Group A’s citizens save, invest, work, produce, and sell the product of their work around the world. Group B’s citizens spend, borrow, have low labor force participation rates, and buy things produced in other more productive parts of the world.

The US is lagging the other “free market” economies of the world. Our growth is slower; our unemployment rate is much higher; and our trade deficit is only dwarfed by our budget deficit. Rather than emulating the countries in Group A, we are acting like the road to prosperity is to follow the example of Group B.

Let me be clear. The path that Group B chose over the last decade has led their economies to not only stop growing, but to contract. The latest stimulus bill reminds me of the US Army slogan, “Be All You Can Be”. We’re acting like we want not only to join Group B, but to lead it.

It looks to me that the US President and Congress are looking to get some new clothes. However, this time instead of our emperor and his buddies being naked, they will be clad in really expensive clothes paid for by the nation’s credit card. They’re just hoping that we won’t notice.