

More Growth: Thank the Entrepreneur

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The economy today (real GDP) is about 7.5% bigger than it was in June 2009. The US has experienced 13 straight quarters of economic growth. It's only 2% annual growth – Plow Horse growth – but its growth nonetheless.

So the question is: What do you think caused it? After all, in the past 3¼ years the US has seen an explosion in energy drilling – horizontal drilling paired with fracking – while Apple has led the world into a new era of computing power.

If you dismiss these drivers of growth as unimportant, where would you give the credit? The government? Watching what is going on in Washington DC right now should make you question its efficacy for anything.

The deficit has been flat to down in recent years, particularly relative to GDP. It peaked at 10.1% of GDP in 2009, slipped to roughly 9% in 2010 and 2011 and just finished 2012 at 7%. These deficits are all very large, but any good Keynesian will tell you that shrinking deficits mean fiscal policy is a drag on real economic growth.

How about housing? It was not until every government program to help housing was tried, and then basically abandoned, that housing started to recover.

The Federal Reserve, now back on the bandwagon of money printing, is doing what it always has. But, its balance sheet has moved in fits and starts the past few years even as real GDP growth has been relatively steady at about 2%. There is no discernible connection.

In the end, we can't escape the underlying disagreement for every economic debate going back hundreds of years: is growth caused by the government or the entrepreneur?

Today, we think the entrepreneur is clearly winning – proving beyond a shadow of a doubt that it is innovation and creativity that create new wealth. Despite a sharp expansion in the size of government since 2008, layered on top of the gradual increases of the prior decade (this is a bipartisan disease), businesses have found a way to move forward and innovate.

Think about what you take with you when you leave your home, how you decide where to go and how to get there, and what you spend time doing when you are in your home. For many of us, it's with products that weren't even available a few years ago.

Not far off is an era when the US will be energy independent. Not because of 40 years of political promises, but because of engineers and innovation.

However, just looking at the growth rate of real GDP does not prove the success or failure of entrepreneurs. It matters what hurdles the government creates for them. Imagine what economic growth would be doing today, if the US was following the policies of the 1990s. We would even take the tax rates of the 1990s if we could only have the lower spending. But that seems a long way off.

So, instead, what the US has to contend with are brilliant entrepreneurs fighting an endless battle against government burdens. It may be their finest hour. It may not appear they are winning, but Plow Horse growth is a victory. We expect more of the same in 2013.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-2 / 9:00 am	ISM Index - Dec	50.3	49.9		49.5
9:00 am	Construction Spending - Nov	+0.6%	+0.7%		+1.4%
<i>Afternoon</i>	Domestic Car/Truck Sales - Dec	11.7 Mil	11.9 Mil		11.9 Mil
1-3 / 7:30 am	Initial Claims	360K	350K		350K
1-4 / 7:30 am	Non-Farm Payrolls - Dec	150K	155K		146K
7:30 am	Private Payrolls – Dec	153K	155K		147K
7:30 am	Manufacturing Payrolls - Dec	4K	-10K		-7K
7:30 am	Unemployment Rate - Dec	7.7%	7.7%		7.7%
7:30 am	Average Hourly Earnings - Dec	+0.2%	+0.1%		+0.2%
7:30 am	Average Weekly Hours - Dec	34.4	34.4		34.4
9:00 am	Factory Orders – Dec	0.4%	+0.3%		+1.1%
9:00 am	ISM Non Mfg Index – Dec	54.3	54.3		54.7