

Note from AFA President – The Economy

Friday, January 9, 2009

AFA Members, Congressional staffers, civic leaders, and DOCA members, this week I read an excellent editorial in the Wall Street Journal – talking about the upcoming stimulus package. The size of the package is still up in the air ... but most journalists have reported it to be about \$775B over two years. President-elect Obama has said it could go over \$1Trillion.

The WSJ piece tried to put the number one trillion dollars into perspective. Here are a few examples from the piece.

- One trillion dollars is about one-third of annual US government spending and 13% of the US economy
- It is more than the GDP of all but 12 countries in 2007 (US, Japan, Germany, China, UK, France, Italy, Spain, Canada, Brazil, Russia, and India, in that order)
- One trillion is roughly one-sixth of the entire outstanding US federal debt held by the public [one-tenth if you include intra-governmental debt (such as Social Security IOUs)]
- It is the cost that former Vice President Gore attaches to his plan to liberate the US of carbon-based energy.
- From an historical perspective, we spent:
 - \$15 million on the Louisiana Purchase; \$261 million in today's dollars; and \$409 billion rescaled as a share of the current economy
 - \$775 billion in rescaled dollars on the Marshall plan
 - \$7 billion in current dollars for the Panama Canal
 - \$32 billion for the New Deal; \$500 billion in today's dollars
 - \$140 billion for the Apollo space program in today's dollars
 - \$29 billion in today's dollars for the Manhattan project -- to develop the atomic bomb
 - \$114 billion for the interstate highway system; \$800 billion today

- The WSJ concludes: "The only specific American endeavor, ever, that tipped the trillion-dollar scale was World War II. That war – in which 16 million US troops [including some of you] fought for four years over two fronts – cost about \$4 trillion in adjusted dollars, or \$17 trillion in today's GDP."

Why should we worry about this? National security results from a strong economy. I often make the point that the Constitution – in the preamble – states: We the people of the United States ... [must] **"Provide"** for the Common Defense ... and **"Promote"** the General Welfare (emphasis added). The founding fathers did not choose these words idly. Clearly, defense is job one for the government. We cannot exist if we cannot defend ourselves. However, if the nation does not have an economy to support defense expenditures, it must either reduce spending and accept risk ... or run increased deficits. A deficit of this size will result in higher debt payments in the future, as well as, quite possibly, strong inflation. Thus, there is a near-term vs far-term effect. And ... we Americans are particularly weak at looking at issues over the longer term.

For your consideration.

Mike

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