

## US Macroeconomics

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### Why We Are Bullish on DOGE

The Department of Government Efficiency (DOGE) is a Presidential advisory group set up to trim government spending. Elon Musk, one of the co-heads of the agency (alongside Vivek Ramaswamy), said the goal was to trim \$2 trillion in spending from a roughly \$7 trillion per annum federal budget. Some market participants have dismissed this idea. We vehemently disagree with these folks. There is immense waste, fraud, and abuse in the government in addition to a broadly (and extremely) inefficient framework under which the federal government operates.

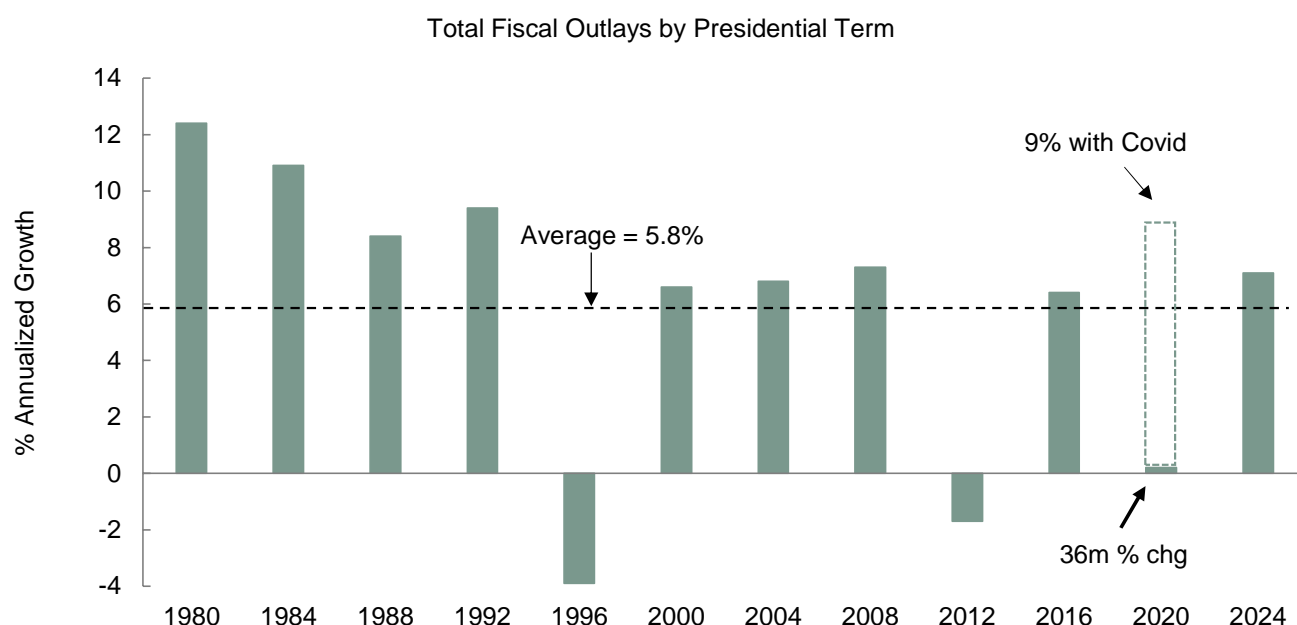
For example, according to a recent Government Accountability Office (GAO) report to Congress (see [link](#)), data from 2018 to 2022 show that **the federal government loses between \$233 billion to \$521 billion annually to fraud**. Also, remember that reconciliation scores budgeting over a 10-year period, which means that this equates to trillions of dollars in potential savings.

Specifically, substantial cost cuts could be had in military procurement considering that the **Department of Defense has failed every single audit since they became legally compulsory in 2018**. Last fiscal year alone, outlays for national defense totaled \$1.0 trillion, meaning significant savings are likely to be had. DOGE can help address this by highlighting the inefficiencies in the department.

Moreover, it is worth considering the relative parsimony of the first Trump Administration. In the chart below, we show total federal expenditures by election year. Through the first three years of Trump 1.0, government outlays were essentially flat at a 0.2% annualized rate, which is the third smallest amount in our sample. It was only after the onset of the global pandemic, when the United States economy was forced to close, that government spending increased, largely in the form of income support to businesses and households.

The fact that total federal spending was so contained in the first Trump Administration, combined with DOGE's novel waste cutting mission, makes us bullish on the prospect for meaningful fiscal reform at the Federal level.

Cuts in federal spending will free up scarce resources, dampen inflationary pressures and weigh on long-term interest rates, which are all positive for risk assets and stocks. Consequently, investors should cheer not jeer DOGE.



Source: Department of Treasury, Haver, SMBC Nikko

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