Rich: Told You So

By fitsnews • on July 5, 2011

*By **Howard Rich*** || There's no joy in saying "We told you so." Not when millions of Americans are beset by falling home prices, stagnant income levels, deteriorating job opportunities and rising consumer prices.

And let's not forget the trillions of dollars in debt America's politicians have saddled taxpayers with in an unsuccessful effort to alleviate these economic ills.

Free market advocates repeatedly warned political leaders of both parties regarding these inevitable "bailout byproducts," but they didn't listen. Instead, they rushed to reward their favored banks and bureaucracies for years of gross fiscal negligence — leaving taxpayers stuck with a scarcely-fathomable tab.

The only silver lining to this Keynesian tsunami? The failure of history's largest, costliest and least effective government economic intervention could be the impetus for an urgently needed course correction — and a long-overdue debunking of one of the greatest myths in our history.

According to Barack Obama and the New Keynesians, years of unrestrained and unregulated "corporate greed" pushed America to the precipice of a second Great Depression. That's when government rode to the "rescue" with more than $13 trillion worth of new spending, lending, loan guarantees and money-printing.

It's a familiar narrative — one evoking all too common misconceptions about the policies responsible for the depth, duration and the eventual demise of previous economic downturns.

Like its predecessors, however, this narrative ignores a flood of politically correct, government-mandated lending that helped artificially inflate the nation's housing bubble. It also ignores a steady increase in deficit spending in the years leading up to the recent recession.

This isn't a past tense situation, either — the interventionist spigot is still flowing. Washington is staring down its fourth straight budget deficit of more than $1 trillion, while the Federal Reserve is just now winding down its latest $600 billion installment of "quantitative easing."

Even Wall Street — which soaked up more than its fair share of the borrowed largesse — is finally saying enough is enough.

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"They've done more than enough already," one investment analyst said this week. "Any further stimulus only increases the long-term risk of inflation, which we already view as high."

Indeed. Now if we could just wind the clock back three years — and $13 trillion.

In 2008, Keynesian economist Gauti Eggertsson published a paper in the American Economic Review which presented a theoretical basis for the Bush-Obama doctrine of "over-stimulation." His fundamental premise was that the interventionist policies of Franklin Roosevelt's administration lifted the nation out of the Great Depression — ostensibly in contrast to the policies of Herbert Hoover.

Obviously, it's not hard to find fault with Hoover's disastrous response to the stock market crash of 1929 (especially the Smoot-Hawley Tariff Act of 1930 and the Revenue Act of 1932). But those were interventionist excesses — and Hoover's contemporaries knew all too well that he was hardly the laissez-faire scapegoat he's made out to be in government textbooks.

"That man has offered me unsolicited advice for six years, all of it bad," Hoover's predecessor Calvin Coolidge once said.

As Commerce secretary to President Harding, Hoover also recommended a massive federal response to the post-World War I depression. Fortunately, Harding chose to ignore Hoover's advice, and his hands-off treatment of the 1920-21 depression is widely credited with ending that downturn in short order — just as Harding and Coolidge's tax cuts paved the way for robust economic growth in the ensuing years.

"The secret to the quick recovery was that the government generally stood aside and let the market recover by itself," a 2005 report by the Cato Institute's Chris Edwards noted. "Wages and prices adjusted, resources shifted to new areas of growth, profits recovered, business optimism returned, and investment rose."

Even Keynesians are forced to acknowledge that this economic recovery commenced in short order "despite the absence of a stimulative government policy."

"Government policy to moderate the depression and speed recovery was minimal," says economist Robert J. Gordon. "The Federal Reserve authorities were largely passive."

Obviously the virtues of a "minimal" and "passive" government approach were not shared by Hoover and Roosevelt. Nor was the spectacular failure of Hoover's and Roosevelt's Keynesian approach heeded by Bush and Obama.

As a result of Hoover's and Roosevelt's mismanagement, the jobless rate remained above 14% from 1931-1940. While it's everyone's hope that current elevated levels of unemployment won't drag down our economy for such an extended period, the disastrous Bush-Obama response to the recent recession — and the looming specter of Obama's socialized medicine law — don't offer much cause for optimism.

"Told you so" — but let's hope for the sake of our economy (and the taxpayers who support it) that our leaders have learned their lesson this time. We can't afford any more "stimulus."

***ABOUT THE AUTHOR**: Howard Rich is chairman of **Americans for Limited Government**. He is also a syndicated columnist for **Liberty Features**. This column, which is reprinted with permission, was originally published in **Investor's Business Daily**.*

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By guero July 5, 2011 at 8:17 am

Go home, Howie. And take your minion, Billy Folks with you.

Voucher clowns telling us Wall Street had nothing to do with Bush's Recession. Stop peeing, Howie, no one believes it's rain…

By Yay! July 5, 2011 at 8:22 am

I like this article, but wish Rich would do away with the idea that a collapsing economy will finally debunk the myth of Keyenesianism.

There will be an attempt to re-write history, much like the Hoover "laissez-faire" propoganda the pols and the economists living off gov't handouts(which is most of them) have done in regard to the great depression. Then they will conspire to protect their banker buddies and blame the collapse on the Keynes notion that "they haven't gone far enough" in stimulus, etc. et al

It's a helluva a way to prove Keyenes was full of shit;(collapsing the economy)so to me there is no "silver lining" as Rich puts it.

Either way we are screwed, the time to make change was years ago.

People have yet to feel the full force of the pain that overspending for 40 years has wrought.

Whether the pols wake up and realize it now and cease spending or inflate away until the dollar succumbs really doesn't matter much…except maybe in timelines.

If they continue to inflate away my guess is we have 3-5 years tops(maybe less…who knows) versus if they stop printing money the pain is coming much more quickly…but then at least it should be a little less severe if managed properly. The latter if probably better if you trying to do things orderly.

Either way the dollar is toast…but as Keynes liked to say "we are all dead in long run"…which is really sick but to me; it epitomizes the idea that theft from future generations is 'OK'…but whatever.

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