Failed leadership = failed policy = faltering economy

August 31, 2011 by John Cochran

Below is a letter I sent to Denver post in response to an editorial praising recent remarks by Fed Chairman Bernanke: Denver Post, "Fed chief speaks loud and clear":

> In your August 27, editorial "Fed chief speaks loud and clear" you correctly summarize that the U.S. economy should bounce back and that what is standing in the way, is the *people in charge*. But Chairman Bernanke's analysis is wrong and does not identify the true culprits. The economy has been effectively held back by the *regime uncertainty* created by the anti-market rhetoric and environment emanating from the leadership in Washington. A similar environment forestalled recovery in the 1930s. The Fed's near zero interest rate policy in the 2003-05 period was, if not the cause, the enabler of the events leading to the 2007 financial meltdown. The current Fed commitment to long term near zero interest rates, which has been appropriately criticized by retiring Kansas City Fed chairman Thomas Hoenig, now threatens to revive the stagflation of the 1970s.
>
> Fiscal policy has been even more wrong and ineffective. The U. S. *should not have* had to endure the lingering slow recovery and debt burdens that were the predictable effects of a return to crude Keynesian policy based on the old idea that vast amounts of public spending could … cure a recession and ignite a new era of government-led prosperity. Compare the administration's prediction that the 2009 $862 billion stimulus package would keep the unemployment rate below 8% to the February 9, 2009 Cato Institute letter (WSJ, p. A14), signed by over 200 economists, which argued that support for the stimulus was "a triumph of hope over experience to believe that government spending will help the U.S. economy … ." This is as true now as it was then. While better economic policy may unfortunately have to await new leadership in Washington (and at Fed), that better policy is now, and was at the time of the passage of the failed stimulus, a policy that "should focus on reforms that remove impediments to work, saving, investment, and production. Lower tax rates and a reduction of government are the best ways of using fiscal policy to boost growth." Hope that we don't have to endure a lost decade of poor economic performance because of this enormous failure of leadership, both political and economic, to retain a hard learned
> lesson from history –Keynesian spending policy is a dead end policy.

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