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The Shotgun Blog

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Monday, May 31, 2010

Cut spending without delay

I have heard several politicians and members of the chattering class claim that cutting spending immediately would be disastrous to the economy. This was a constant refrain of Gordon brown during the recent UK elections. Mr. Brown constantly claimed that it would be 'taking money out of the economy.' The Cato Institute [takes on](#) this assumption by using a historical example:

...the "Depression of 1946" may be one of the most widely predicted events that never happened in American history. As the war was winding down, leading Keynesian economists of the day argued, as Alvin Hansen did, that "the government cannot just disband the Army, close down munitions factories, stop building ships, and remove all economic controls." After all, the belief was that the only thing that finally ended the Great Depression of the 1930s was the dramatic increase in government involvement in the economy. In fact, Hansen's advice went unheeded. Government cancelled war contracts, and its spending fell from \$84 billion in 1945 to under \$30 billion in 1946. By 1947, the government was paying back its massive wartime debts by running a budget surplus of close to 6 percent of GDP. The military released around 10 million Americans back into civilian life. Most economic controls were lifted, and all were gone less than a year after V-J Day. In short, the economy underwent what the historian Jack Stokes Ballard refers to as the "shock of peace." From the economy's perspective, it was the "shock of de-stimulus."

At present the greatest threats to the economy in every western country are the deficit and the debt. The sooner that these issues are dealt with the better it will be for the long term strength of economic development. There is no convincing argument to delay the cuts that are needed.

Posted by Hugh MacIntyre on May 31, 2010 | [Permalink](#)

Comments

"There is no convincing argument to delay the cuts that are needed." How about, "I just want to get elected/re-elected so I am promising you more of somebody else's money?."

Posted by: B | 2010-05-31 6:34:40 PM

The sooner that these issues are dealt with the better it will be for the long term strength of economic development. There is no convincing argument to delay the cuts that are needed.

Posted by Hugh MacIntyre on May 31, 2010

As much as I would like to agree with you, it is not as simple as it was following the war. Times were different and so were expectations. People were far more self reliant.

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The welfare safety net was no more than soup kitchens. Expectations from government on a personal level were almost non-existent. Welfare, pension plans, medicare and other entitlements did not exist. The nanny state did not exist. Government intrusion in individual lives did not exist. (unless politically motivated). Just a few points, there are many more. The world in 1945 was ruled by the financial elite with little thought given to Joe lunchbucket. Today the voting majority is Joe lunchbucket and as long as democracy rules, no politician wanting to maintain power will mess with entitlements that the working or welfare class considers a god-given right. The cuts that are needed would create countless riots in the street and I truly believe there is a lack of will to do much more than nibble at the edges of the problem.

Posted by: peterj | 2010-05-31 11:53:00 PM

Hugh wrote... "At present the greatest threats to the economy in every western country are the deficit and the debt"...

So the latest financial crisis was caused by government spending, lol? You guys keep saying that but if one examines the historical record these crises are more about the so-called "free-market" and deregulation.

Posted by: dirk | 2010-06-01 1:08:33 AM

Dirk,

The blame for the economic crisis can be spread out among a lot of different people, but it is less likely that the crisis would have happened if it wasn't for the culture that was encouraged by the Federal Reserve. Throughout Greenspan's tenure the Fed was used as a device to bailout industries and the stock market (hardly a free market idea). With this sort of safety net, plus incentives from Congress, banks felt that they could take greater and greater risks. Eventually that practice caught up to them.

So yes, the crisis represents bad decisions from individuals but it also represents bad decisions from government.

I think anyone that would claim that a free market culture would be a utopia is mistaken. But anyone who thinks that a government-led economy, or indeed any economic arrangement would be a utopia is also mistaken. The argument is that we would all be better off in the long run with a free market place.

Posted by: Hugh MacIntyre | 2010-06-01 1:31:06 AM

"You guys keep saying that but if one examines the historical record these crises are more about the so-called "free-market" and deregulation."

Are you trying to tell us the financial industry is without regulations? It's the most regulated of all industries. Try again.

Posted by: Charles | 2010-06-01 5:18:39 AM

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