



Fact and Comment

Active Government = Unstable Economy

11.30.09

Eighty years ago this fall the U.S. Stock Market crashed, which was followed by the Great Depression. That catastrophe, coming on the heels of World War I, destroyed the faith countless numbers of people had in democratic politics and traditional free markets. The Depression itself was portrayed as proof positive that markets are inherently unstable and that government plays a crucial and necessary role in preventing them from flying off the tracks. The same refrain is being heard again today as the economy begins a halting recovery from the disastrous financial crisis that began in the summer of 2007.

This finger-pointing at capitalism is absolutely misplaced. Every economic disaster during the last 100 years has its origins in bad government economic policies, from the Smoot-Hawley Tariff, which triggered the Great Depression, to the Federal Reserve's excessive printing of money, which brought us the Great Inflation of the 1970s and the recent housing bubble.

Despite many people's incomplete understanding of free markets (which is why I, along with coauthor Elizabeth Ames, wrote *How Capitalism Will Save Us: Why Free People and Free Markets Are the Best Answer in Today's Economy*), there's a general appreciation that they usually work better than government-dominated ones. Hence the growing political backlash against the Obama Administration's attempt to nationalize health care and extend Washington's tentacles deeper into more areas of Americans' economic lives. This is also why the election results earlier this month were so important. More and more, Americans are disturbed and, indeed, angered by what they see unfolding in the way of binge spending, increased tax burdens and government power-grabbing. The idea that a bloated federal government having more sway over health care will render us better outcomes at less cost for patients with cancer, heart disease and other illnesses is headshakingly preposterous. If Washington doesn't change course--and the vote in the House of Representatives for a monstrous health care bill demonstrates it won't--incumbents, who these days are mostly Democrats, will suffer severely next November. Incumbency is normally a huge advantage in an election, but it's become an albatross, as New York City Mayor Michael Bloomberg can ruefully attest after nearly losing his reelection bid to an incompetent, underfinanced and largely unknown opponent.

Fortunately for us the opposition to President Obama's push for more government control has deep philosophical underpinnings and an impressive array of positive policy alternatives, such as a sound dollar, cuts in tax rates, spending restraints and a host of free-enterprise reforms for health care, including allowing people to shop around the country for health insurance instead of being confined to choices in their respective states.

This kind of well-armed opposition has not always been around. During the 1930s, for instance, there were deep misgivings about many of President Franklin Roosevelt's antigrowth initiatives. Hoover Republicans, however, offered no credible alternatives, as they were still advocating Smoot-Hawley-type protectionism and raising taxes to balance the budget. For much of the 1970s neither Democrats nor Republicans had a sound explanation or remedy for endemic inflation.

But in a democracy alternatives will eventually emerge. In 1978, for example, a then very small, very young high-tech industry spearheaded a drive to slash the capital gains levy and, miraculously, achieved success. That same year an antitax initiative in California was overwhelmingly approved, despite intense opposition from virtually every establishment politician and hostility from the media. Ronald Reagan was also embracing the idea of a massive cut in tax rates, something both traditional Republicans and Democrats regarded with deep suspicion. Reagan got elected, and his policies enabled us to achieve a quarter-century-long boom.

Liberals and unions are now deeply worried that their opportunity to instantly make the U.S. into a French/German-style welfare state is passing. They're right to be profoundly concerned. The only question is how much damage they'll do before politicians sympathetic to their cause are ousted from office.

The *Positive* Way Out

On paper the U.S. financial situation is hopeless. the un-funded liabilities of Social Security, Medicare and Medicaid are in the tens of trillions of dollars. David Malpass (see *Current Events*) points out that the national debt will triple in the next decade. No amount of tax increases can begin to finance all of this. In fact, higher tax rates will crush the economy.

The only way to dig out from this ever deepening hole is through our national balance sheet. If we create an environment for economic growth the assets of the U.S. will surge, thereby making the debt less burdensome, more bearable and more sustainable. We've been here before.

In the early 1980s the U.S. economic situation also seemed beyond repair. The 1970s had been a decade pockmarked by rising rates of inflation and unemployment. "Malaise" was the adjective of choice used to describe the nation's condition. But by the close of the 1980s, despite a near *tripling* of the national debt, the U.S. was an innovating economic powerhouse. Reagan's low tax rates, a vigorous foreign policy and other reforms transformed our economy. Even though the national debt had gone up \$1.7 trillion, the wealth of the nation--assets minus liabilities--had increased by \$17 trillion.

Today, even with our depressed economic conditions, American households have a net worth of \$53 trillion and gross assets of \$67 trillion. A mere 15% increase would total some \$10 trillion, overwhelming the deficit stupidities emanating from Washington.

Free-market reforms in health care would sharply reduce these future liabilities, which are based on the assumption that there are very few productive gains to be achieved in medical care. Allowing young people to own their Social Security accounts, the assets of which would be invested productively instead of wasted by Washington politicians, would also enormously aid our economic future.

Sovietize American News?

didn't the berlin wall fall 20 years ago? yet a former executive editor of the *Washington Post* and a professor at the Columbia University Graduate School of Journalism issued a massive report recently recommending that the government get involved in saving news reporting. The fear is that the Internet is destroying newspapers, which means there won't be resources to get the news or generate in-depth, investigative stories. Thomas Jefferson must be rolling in his grave, and Lenin must be laughing in wherever it is he's now burning.

The two journalist worthies want, among other things, a National Fund for Local News (paid for through a variety of taxes), which would give public radio and public television added resources to cover more local news reporting.

Although newspapers are in serious financial straits, the sources of news reporting are as robust as ever, particularly now that technology allows countless individuals to instantly report on the Internet something newsworthy. As for longer stories and reports, they're already being generated by a number of think tanks, such as the Heritage Foundation, the Cato Institute and the National Center for Policy Analysis. There are also plenty of philanthropists who would be willing to found and support foundations whose task would be to generate investigative stories. And there will be no shortage of aggregators to bring together or summarize these reports for readers.

We don't need a Washington version of the old Soviet propaganda organs, Tass and *Pravda*.

Two Solid Hits NEEDED

the baseball universe is properly aligned again, with the New York Yankees' World Series victory. Now our national pastime's pooh-bahs should focus on two issues.

--**Length of the season.** Having the playoffs run into late October and early November is a formula for unnecessary player injuries--with cold weather and rain and possibly even snow. Television attracts maximum audiences during evening games, so Major League Baseball (MLB) has given afternoon games short shrift. If MLB can't shed its postseason afternoon-game phobia, then it should bring back during the regular season something once commonplace and now virtually extinct: the doubleheader. These don't have to be held in the same way they were in the old days, when one ticket allowed you to watch back-to-back games on a Sunday afternoon. Instead, there'd be one game for one crowd at noon or 1 p.m. and a second for an evening crowd at 7 or 8 p.m. Then the playoffs and World Series could end before we need to bring out our snow boots and skis. And the possibility of serious weather-related injury would be minimized.

--**Instant replays.** MLB uses them now for home runs hit near the foul line. No one wants to do that with strikes and balls. But there have been a number of questionable calls on base running--when it wasn't immediately clear if a player actually tagged the bag or if a runner was tagged or not. One suggestion that wouldn't disrupt the flow of the game: Each team can request one replay per game. There would be no need for the umps to leave the field to review a particular call; they could view it on a handheld device or on a nearby display screen and make a decision within seconds. During postseason games teams should be able to question two or three calls, since the stakes are much higher and the pressure far more intense. Again, this wouldn't disrupt the flow of games anymore than do television-mandated timeouts between innings for commercials.

Both changes would help the game and ultimately be good for MLB.