Financial Lessons from the 1946th

Jason E. Taylor

Over the past two years, countries around the world have led to najstimulativnije fiscal policies that we have ever seen, at least during neratnog period. Greece, U.S., India and the United Kingdom, among others, currently have a current account deficit over 10% of the gross domestic product (GDP). The average deficit of the Member States of the Organization for Economic Cooperation and Development (OECD) is a staggering 8.2% of GDP. Of course, this is a classic "Keynesian" response to the economic downturn - when demand falls in the private sector, government must fill the gap in order to safeguard the economy from collapse.

Historically, the idea that the huge deficits, such as those we have seen over the past two years, can help to restore the economy back to the level of full employment was founded on the experiences of the Great Depression and World War II. Economy returned to the level of full employment only after a massive war deficits were developed. To illustrate, the U.S. deficit ranged between 21% and 27% of GDP between 1943rd and 1945. (Double the deficit to GDP ratio from the present), while unemployment fell from about 14% in 1939th about 2% during the war.

But if the economic experience of World War II actually provides evidence in favor of Keynesian fiscal policy? In an article published in June 2010. in Kejtovom political report, with Richard Vedder of Ohio University and I argue that the real economic lessons from that period can be learned from the experience 1946th , when the war economic "incentives" very quickly withdrawn.

Back then, Keynesian economists have strongly argued that if the government let the army and stop the production of weapons, unemployment will return to the level from the time of depression. Despite these warnings, the government has sent home most of the soldiers, the military canceled the contracts and eliminate the economic control of the war period. Followed by predictions of economic Armageddon. In September, the 1945th forecaster predicted that the U.S. unemployment rate to jump to a level between 12% and 35%.

Despite these warnings from public spending has fallen from 84 billion dollars in 1945. less than $ 30 billion in 1946., while the 1947th United States had budget surplus of close to 6% of GDP, which are paid the debt that was gathered during the war. It was a "great de-stimulus" - the largest and fastest turnaround from deficit to surplus in history. A substance was, despite the widespread prediction to the contrary, unemployment has remained below 4.5% between the 1945th and 1948th

How did this happen? Labor market as quickly and efficiently set up when they were finally freed. Most economists now recognize that the constant intervention in the 1930s, especially in terms of wages, extended and deepened the Great Depression. Certainly the employment situation in the postwar period, and it helped that some workers during the war period voluntarily withdrawn from the labor force and return to school or to their pre-war role of housewife. However, the data show that, despite the huge withdrawal of government incentives in the economy, employment grew by more than 4 million people between the 1945th and 1947th at a time when Keynesian models predict that it will fall like a stone.

The irony is that only three years it takes to Keynesian fiscal policy comes to intellectual impasse. History is (a significant number of empirical research) has shown that the fiscal stimulus largely ineffective cure for ailing economy. If the lesson has not been fully overcome in the 1990s, the experience of Japan during the "lost decade", when large deficits and massive government intervention led to stagnation, it seemed that finally "threw mud" in the Keynesian body. Tombstone was then carved, Secretary of the Treasury Bill Clinton administration, Robert Rubin, who turned Keynesian economics on its head by claiming that the surplus, not deficit, stimulate the economy by maintaining low interest rates.

Economists have long claimed that Keynesian fiscal policy is ineffective in creating new jobs and increase GDP, deficit spending because "istiska" private sector spending eating up resources that would otherwise be available. There is simply no free lunches. Of course, in contrast withdrawal of governmental fiscal incentives should not mean loss of jobs or lower GDP.

With measures to reduce the deficit, which is currently being implemented across Europe - and discussed in the U.S. - lessons from the 1946th give some hope.

Jason E. Taylor is a professor of economics at the University Mičigan Sentral, president of Economic and Business Historical Society and co-author of the study stimulus through spending cuts: Lessons from the 1946th, Kate Political Report (June 2010).

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Quotes

Democracy is a nation of its essential reality, democracy for the nation elected its goal. Democracy and the nation - Yeah! Democracy and Nation - No! - Borislav Pekic

Poll

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