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By ALAN REYNOLDS

'So it seems that we aren't going to have a second Great Depression after all,' wrote New York Times columnist Paul Krugman last week. "What saved us? The answer, basically, is Big Government. . . . [W]e appear to have averted the worst: utter catastrophe no longer seems likely. And Big Government, run by people who understand its virtues, is the reason why."

This is certainly a novel theory of the business cycle. To be taken seriously, however, any such explanation of recessions and recoveries must be tested against the facts. It is not enough to assert the U.S. economy would have experienced a "second Great Depression" were it not for the Obama stimulus plan.

Even those who think government borrowing is a free lunch can't possibly believe the government has already done enough "stimulus spending" to explain the difference between depression and recovery.

CNNMoney recently calculated that the stimulus plan has spent just \$120 billion—less than 1% of GDP—mostly on temporary tax cuts (\$53 billion) and additional Medicaid, food stamps and unemployment benefits. Less than \$1 billion has been spent on highway and energy projects. Commitments for the future are much larger, but households and firms can't spend commitments.

Proponents of Big Government can't say we avoided the next Great Depression due to hypothetical stimulus money that is mostly unspent. So they argue it's more important that the federal government merely continued spending and didn't "slash" spending as in the early 1930s. But the federal government didn't slash spending in the early '30s. Federal spending rose by 6.2% in 1930, 7.7% in 1931 and 30.2% in 1932. Since prices were falling, real increases in federal spending were huge during the Hoover years.

President Obama clearly believes Big Government is the antidote to this and perhaps all recessions. At his first news conference in February, the president said, "The federal government is the only entity left with the resources to jolt our economy back to life." Yet that raises a key question: If the U.S. economy could not recover without a big "jolt" of deficit spending, then how did the economy recover from recessions in the distant past, when the federal government was very small?

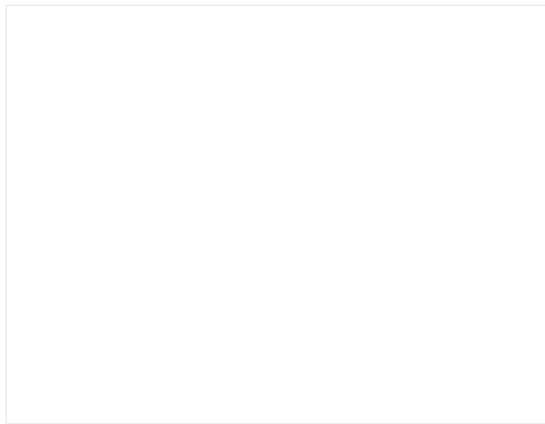
A 1999 study in The Journal of Economic Perspectives by Christina Romer (now head of the Council of Economic Advisers) found that "real macroeconomic indicators have not become dramatically more stable between the pre-World War I and post-World War II eras, and recessions have become only slightly less severe." Ms. Romer also noted that "recessions have not become noticeably shorter" in the era of Big Government. In fact, she found the average length of recessions from 1887 to 1929 was 10.3 months. If the current recession ended in August, then the average postwar recession lasted one month longer—11.3 months. The longest recession from 1887 to 1929 lasted 16 months. But there have been three recessions since 1973 that lasted at least that long.

The relative brevity of recessions before the New Deal is particularly surprising since the U.S. economy was then dominated by farming and manufacturing—industries far more prone to nasty cyclical surprises than today's service-based economy.

In the late 19th and early 20th centuries, nobody thought the government could or should do anything except stand aside and let the mistakes of business and banking be fixed by those who made them. There were no Keynesian plans to borrow and spend our way out of recessions. And bankers had no Federal Reserve to bail them out until 1913. Yet recessions after the Fed was created soon turned out to be much deeper than before (1920-21, 1929-33, 1937-38) and often more persistent.

It's clear that U.S. history does not support the theory that Big Government means shorter and milder recessions. In reality, recessions always ended without government prodding, long before anyone heard of Keynes and long before the Fed existed. What's more, recessions ended more quickly before the New Deal's push for Big Government than they have in the past three decades. The economy's natural recuperative powers before the 1930s proved superior to recent tinkering by Big Government economists, politicians and central bankers.

The recent experience of other countries provides another way to test the Big Government theory of economic recovery. If it is true that Big Government prevents or cures recessions, then countries where government accounts for the largest share of GDP should have suffered much smaller losses of GDP over the past year than countries where the private sector is



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dominant.

The chart nearby lists 13 major economies by the size of government spending relative to GDP using OECD figures for 2007 (the U.S. is well above 40% by 2009). Europe's big spenders are at the top, the U.S. and Japan are in the middle, and fiscally frugal countries like China and India are at the bottom.

The last column shows the change in real GDP over the most recent four quarters—ending in the second quarter for the U.S., U.K., Germany, Japan, France, Italy, Sweden and China, but the first for the rest. Four of the five deepest contractions happened in countries with the biggest governments—Sweden, Italy, Germany and the U.K. Japan's government spending in 2007 was about like ours, but Japan's tax rates are far more punitive and the economy has suffered endless "fiscal stimulus" packages. China's central government spent 22% of GDP, but 30%-plus with local government included.

To believe Big Government explains why this extremely long recession was not even longer, we need to find some connection between the size of government and the depth and duration of recessions. There is no such connection in U.S. history, or in recent cyclical experience of other countries.

On the contrary, recessions have become longer as the U.S. government (and the Fed) became larger, more expensive, and more involved in the economy. Foreign countries in which government spending accounts for about half of the economy have also suffered the deepest recessions lately, while economic recovery is well established in countries where government spending is a smaller share of GDP than in the U.S.

In short, bigger government appears to produce only bigger and longer recessions.

—Mr. Reynolds is a senior fellow with the Cato Institute and the author of "Income and Wealth" (Greenwood Press, 2006).

Printed in The Wall Street Journal, page A13

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