



Obama's "Glimmers of Hope" for Economy

President Barack Obama's statement last Friday that we're "starting to see ... glimmers of hope across the economy" has gotten quite a bit of publicity. What has gotten less coverage is the president's rationale for being so optimistic in the face of bad economic news such as the unemployment rate, which rose to 8.5 percent last month, the highest unemployment rate in over a quarter of a century. (This figure does not take into account long-term unemployed who have given up looking for jobs.)



The president finds "glimmers of hope" in the Federal Reserve's easy-money policy that keeps interest rates below what the market would dictate and encourages more borrowing. He also finds it in government spending intended to create jobs.

"As a consequence of some excellent work by [Fed Chairman] Ben [Bernanke] and some coordinated activities between the various agencies, what we've seen is mortgage interest rates go down to historic lows and we've seen a very significant pick-up in refinancings," [Obama said](#) last Friday after meeting with Bernanke. "That has the effect of not only putting money in the pockets of people but also contributing to stabilization of the housing market."

But how will encouraging more private debt help the economy? The additional money that is pumped into the economy to finance these loans will dilute the value of already-existing money, causing the prices of goods and services to rise. And encouraging people to buy at artificially low interest rates creates a moral hazard since it induces people to take risks they otherwise wouldn't. In fact, it is the Fed's past easy-money policy that brought on the housing bubble in the first place, and more of the same kind of policy will not only fail to correct the problem but will make it worse in the long run.

The same day the president pointed to "glimmers of hope," the White House website published a blog entry, entitled "[Recovery in Action: 'Beginning to Percolate Nationwide,'](#)" which claims that "the Recovery Act continues to pick up steam." How so? The blog proudly points to a number of government-funded projects in various states — Arkansas, Illinois, New Hampshire, New Mexico, New York, Oregon, Texas, West Virginia, Colorado, Missouri, Kansas, Michigan — where jobs have been created or retained.

Two thousand projects have now been approved under the American Recovery and Reinvestment Act, a milestone President Obama pointed to today in [his remarks](#) at the U.S. Department of Transportation: "I'm proud to announce that we have approved the 2000th project — a project to widen an interstate and rebuild an overpass in Portage, Michigan," the president said. "This project will start this summer, creating an estimated 900 jobs right away."

There is, however, an economic downside to such jobs that neither the president nor other advocates of jobs creation through government spending point to. And that is the simple fact that the government is



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a nonproductive entity, and the money it spends for jobs creation must be siphoned out of the economy, causing the loss of jobs elsewhere. Such projects may appear to help the economy when viewed in a vacuum, but not when viewed in the context of the economy as a whole.

The way to improve the economy is to cut government spending and stop the creation of money out of thin air. But the Obama economic agenda is based on doing exactly the opposite. Those who, like Obama, believe we can spend and borrow our way out of recession will indeed find “glimmers of hope” in what the Federal Reserve and federal government have done thus far to “stimulate” the economy. But for those who believe, as this writer does, that the solution must arise from savings and the private sector, no hope will be found in those areas where Obama sees it.



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