



Gridlock to the Rescue?

Not only does gridlock allow the president to blame Republicans for not solving the financial crisis that his own runaway spending created, the inability to carry out as much government intervention in the economy as when the Democrats controlled both Houses of Congress means that the market can now recover on its own to some visible extent before the next election.

Such a recovery would of course be credited as a success of the Obama administration's policies. With this theme being echoed throughout the pro-Obama media, enough voters might be sufficiently impressed to give the president a second term.



The media and the intelligentsia seem obsessed with the idea that government intervention is necessary to get the economy out of the doldrums. This is certainly the prevailing dogma but it is contradicted by history. Yet who reads history any more?

If you look back through history and compare what happens when the federal government intervenes during a downturn in the economy with what happens when the government leaves the market free to work its own way back, doing nothing has by far the better track record.

First of all, this country existed for a century and a half without the federal government intervening to save the economy. No downturn in all that time was as severe or as long-lasting as the downturn that persisted throughout the decade of the 1930s, when both the Hoover administration and the Roosevelt administration intervened on an unprecedented scale.

There was no Federal Reserve System to help — if that is the word — during downturns before 1914. One of the few things on which liberal economists like John Kenneth Galbraith and conservative economists like Milton Friedman agreed was that the Federal Reserve made the Great Depression of the 1930s worse.

Economists writing in a leading scholarly journal in 2004 concluded that government intervention prolonged the Great Depression by several years.

Back in the 1930s, John Maynard Keynes cautioned President Roosevelt about demonizing and threatening business. Yet FDR, who said in his famous first inaugural address, “We have nothing to fear but fear itself,” spent the rest of the decade spreading fear to businesses and investors — and wondering why there was still mass unemployment, despite his record-breaking spending.

Back in 1920-21, there was a sharp economic downturn, with unemployment spiking to 11.7 percent. President Warren G. Harding did nothing, except for cutting government spending. Yet the economy quickly recovered and annual unemployment rates ranged from a high of 6.7 percent to a low of 1.8 percent in the rest of the decade.

In the mid-1940s, as World War II neared its end, Keynesian economists were frantically trying to come



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up with postwar plans to prevent massive unemployment when 12 million people were to be discharged from the military and millions of civilians would lose their jobs when plants producing military supplies shut down.

Two things prevented those wonderful Keynesian plans from being put into operation. First, the atomic bomb brought the war to an end much sooner than anyone expected. Secondly, the Republicans got control of Congress, producing the “do-nothing 80th Congress” that President Harry Truman excoriated during his 1948 election campaign.

In short, plans for vastly expanded government intervention were thwarted — and the “problem” that such intervention was supposed to solve did not materialize. There was a G.I. Bill of Rights for returning military veterans but this was a fraction of what liberal Keynesians had been contemplating.

Anticipating postwar employment problems, former Vice President Henry A. Wallace wrote a book titled *60 Million Jobs*, advocating sweeping government interventions to achieve this otherwise unattainable goal. Wallace’s interventions never took place, but the free market created 60 million jobs anyway.

A stock market crash in 1987 broke some records set in 1929. But Ronald Reagan did nothing, despite howls from the media, and the economy recovered — leading to 20 years of prosperity.

Obama may yet be re-elected, as a result of gridlock.

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