Written by **Steven J. DuBord** on March 4, 2009

Shock & Awe Economics

President Obama, in his weekly radio address, called the bill a "major milestone on our road to recovery." Senator Max Baucus (D-Mont.), an Obama ally, predicted confidently that the stimulus package "will create millions of good-paying jobs and help families and businesses stay afloat financially," and will also "shore up our schools and roads and bridges, and infuse cash into new sectors like green energy and technology that will sustain our economy for the long term."

From the other side of the aisle, Senate Republican leaders blasted the package, denying that provisions in the bill would end up being timely, targeted, or temporary. Senator Lisa Murkowski (R-Alaska) accused Democrats of sausage-making as usual, claiming in a GOP radio address that supporters of the Obama stimulus agreed on "a random dollar amount in the neighborhood of $1 trillion and then set out to fill the bucket."

The most accurate appraisal, though, was served up (however unintentionally) by Nancy Benac and Calvin Woodward of the Associated Press, who called the Obama stimulus bill "shock and awe for a shaken nation." Comparing the $787 billion bill to "the military doctrine of lightning force — fast and brute, or as brute as the shaken country can manage," Benac and Woodward wrote that "America is bringing shock and awe to the home front, using dollars instead of bombs.... With a record-busting stimulus plan, the U.S. is marshaling resources against economic catastrophe in ways not seen since Franklin Roosevelt put the New Deal in motion."

The two AP reporters could not have chosen an apter metaphor. Shock and awe, be it remembered, was the Bush administration's term for the initial aerial bombardment of Iraq, especially Baghdad, designed to cow Iraqis into submission. Like all military operations, shock and awe had destruction as its chief aim. It, with the ground war that followed and is still underway, reduced Iraq to utter ruin. The Obama stimulus package, along with other measures the Obama administration and Congress have planned for the near-term future, will probably accomplish similar results for the U.S. economy.

This is not to single out the new president for any special opprobrium. Barack Obama and the new Democratic majority in Congress are merely continuing a decades-old pattern of economic policies introduced by Republican President Herbert Hoover and nurtured into full flower by his successor, Franklin Delano Roosevelt, ostensibly to combat the economic malaise of the 1930s that has since come to be called the Great Depression. The techniques pioneered by Hoover and FDR, of massive intervention into the workings of the economy on the part of the federal government, have been applied, to a greater or lesser extent, by every presidential administration and Congress since then, with scarcely a peep of dissent among lawmakers, big business moguls, or the financial powers that be.

Beltway Bizarro World

Long before the Obama stimulus package and the equally abhorrent Bush bailouts that preceded it, presidents and lawmakers have been bailing out large corporations, spending taxpayer dollars to "stimulate" the economy, using massive appropriations bills to pour money into ideologically driven projects that the free market has not been willing to support, and manipulating interest rates to promote pie-in-the-sky goals like universal home ownership. Though many of the quixotic aims of America's ruling elites are no more practical than, say, building an amusement park on the moon, old-fashioned, outmoded common sense has never deterred Beltway-based social engineers from using our own money to give us what they believe is good for us. The Obama stimulus bill, along with the rest of the Obama administration's approach to the economic and financial crisis, is but more of the same warmed-over socialism of previous administrations applied to the tattered remnants of the American free market. It differs from its predecessor programs and policies only in scope and sheer audacity.

Sometime in the years since the Great Depression, the notion that government spending and debt can have a salutary effect on the economy has gained general acceptance. This may be the reason that President Obama and his followers have gotten away with calling the so-named American Recovery and Reinvestment Act a "stimulus package." In point of fact, the $787 billion appropriations bill, like all other appropriations, large and small, that have gone before it, is nothing more than a gargantuan spending package. That is, it allocates monies taken from American taxpayers and spends them on projects that our elected leaders want.

Not that there is anything objectionable about appropriations or taxation per se; the framers of the Constitution, in one of the most controversial planks of the new federal government they created, insisted on giving Congress the power to raise revenue via taxation and to spend it in appropriations.

But this latest spending bill is like no other ever seen in Congress. For one thing, its cost (nearly $800 billion) is roughly equal to the entire national debt in 1980, as Congressman Ron Paul (R-Texas) pointed out recently on CNN. In the same interview, Congressman Paul condemned some of the shady (but politically tried and true) techniques the bill's sponsors used to get the measure passed. Much of the initial run-up in the bill's cost (at one point, the measure under consideration in the Senate was well over $900 billion) was, according to Congressman Paul, bait-and-switch to make the eventual measure seem svelte and reasonable by comparison; the bill's sponsors merely had to "propose a higher number and then pretend you're acting fiscally conservative by cutting back a little bit." Thus the final measure signed by President Obama was "only" a few tens of billions more than the original proposal vetted by the president and his allies — better than the most hypertrophied versions of the bill, but still a monstrosity.

Because of the bill's thousand pages, it was impossible for congressmen or their staffers to get any notion of what was lurking in the details, or read more than a small part. This is not at all uncommon with so-called "omnibus" legislation, where congressmen take advantage of the length and unreadability of bills to hide spending for pet projects that might attract unwanted controversy if debated openly or in discrete pieces of legislation (the antidote for this practice, as the late Congressman Larry McDonald used to do, is to read a bill only until he found the first unconstitutional provision, then vote no. Congressman McDonald seldom had to read more than a few pages before uncovering something that came a croppers of the Constitution!).

But what exactly is the "stimulus package" supposed to do? As nearly everyone knows (or thinks he knows) by now, the bill is intended to give our laggard economy a figurative kick in the pants. The recessionary crisis drags on because the economy is paralyzed, runs a familiar claim recited with mantra-like authority on every major news network. Direct government monies into carefully targeted areas of the economy (public works, especially so-called "shovel-ready" projects like road and bridge repairs, for instance), and the sleeping giant that is the American economy will awake and resume productivity.

The conceit of benign government economic stimulus is not new; it was popularized, like so much of what now passes for orthodoxy in modern economics, by British economist John Maynard Keynes. What Keynes achieved was to relieve socialism of its radical habiliments and dress it in more respectable clothing. But "Keynesian economics" is socialism notwithstanding, albeit a socialism retailed by besuited corporate executives and smooth-tongued professional economic advisers, not fiery, bandolier-toting revolutionaries. Ultimately, however, urbane, debonair Keynesianism is no less dangerous to liberty than mobs of ranting revolutionaries — more so, perhaps, because the threat is less clearly perceived.

The central premise of Keynesian economics, as with Marxism and other brands of socialism, is that the free market does not work and must be kept under restraint by economic planners. But whereas the socialism of Marx and Lenin would destroy the market root and branch, the Keynesian approach is somewhat more subtle. Keynes believed that markets worked best when enlightened policymakers reined in the supposed excesses of speculation by tight regulatory controls, exploited the monetary tricks of modern central banking to tame the business cycle, and used tax rates to manipulate productivity.

Keynes' views on the unworkability of laissez-faire capitalism led him to all sorts of odd, irrational, and counter-intuitive conclusions, most of which have been embraced wholeheartedly by the American political, media, and financial establishments. Spending and consumption, Keynes decreed, are the basis for a healthy economy, not savings and thrift. This is why American policymakers regularly decry (during recessionary times) Americans' reluctance to spend money. To believe such nonsense, we are required to assume that what makes good sense on a personal or household level — living within your means, accumulating savings, avoiding debt — somehow is wrongheaded for the economy as a whole. Yet in the Bizarro World of Keynesian economics, spending is deemed better than thrift, debt better than savings, high prices and inflation preferable to low prices and deflation, worthless paper more valuable than gold or silver, and government coercion better than freedom.

Job Creation That Won't Work

Which brings us back to the stimulus bill, one of whose stated aims is to create jobs. Let there be no misunderstanding: this bill will certainly create jobs. Government spending, federal and local, creates jobs every day, and at least some of the billions of dollars from this stimulus package will doubtless, as advertised, put Americans to work paving highways, building and repairing bridges, and the like.

But what neither this bill nor any other similar measure passed before it can do is create higher employment. *New* jobs, jobs that actually add to those already available, can only be created by more wealth, which is to say, more savings and capital formation. The only thing the government can do is create jobs where it deems them most useful, and thereby prevent the money from being otherwise put to work. In other words, the government is merely substituting its judgment for the market's, and the shovel-ready jobs it creates will prevent other jobs from being created elsewhere.

Not only that, government as a creator of jobs will always be far less efficient than the private sector, because behind every $30,000 government-job salary is a chain of planners and bureaucrats who must also be paid, and whose services will add thousands of dollars more to the price tag. Thus the government that sets about "creating" jobs ends up destroying jobs on net, as new jobs are created that cost the equivalent of several salaries apiece. This is the reason that, two terms into FDR's presidency and thousands of government-created jobs later, Treasury Secretary Henry Morgenthau, contemplating unemployment still in the double digits, could lament: "We have tried spending money. We are spending more than we have ever spent before and it does not work.… I say after eight years of this Administration we have just as much unemployment as when we started … and an enormous debt to boot!"

The long-term effect (reckoned in months, not years or decades) of the Obama stimulus bill, as with the two feckless Bush stimulus bills, will be higher net unemployment and a crushing load of debt. We will doubtless soon hear plaudits for armies of new workers hired by the government to rebuild our infrastructure, but laments that private-sector layoffs continue apace.

The stimulus bill also provides generous subsidies for inefficient industries that happen to enjoy the imprimatur of political correctness. One of these is the "alternative energy" sector. Despite a proven record of inefficiency as against nuclear power and fossil fuels, solar and wind energy will both enjoy hefty infusions of $43 billion from the stimulus bill allocated to energy, because the environmental lobby happens to deem them less conducive to global warming than, say, coal. To such people it matters not a whit that thousands of wind turbines are required to equal the output of a single coal or nuclear plant, or that countries like Denmark, who have poured money into offshore wind farms, have not been able to shut down a single conventional power plant. Appropriations for such projects are driven by political and ideological, not economic, concerns, and will inevitably divert capital from more productive to less productive channels.

In short, the Obama-Democratic stimulus package is nothing more than a congeries of spending projects that will cost vast sums of money while doing nothing to stimulate the economy. Like the make-work boondoggles of the 1930s, it will actually make things much worse by hampering the corrective forces unleashed by the recession and by diverting resources from more to less productive channels based on political gamesmanship rather than rational market-based decision-making.

Nationalization

Nor is the stimulus package the only act, or even (potentially) the most damaging act, of political folly that the new administration and Congress are contemplating. In recent weeks, the capitalist curse word — nationalization — has been gaining currency as the only way to save the banking sector from utter ruin. According to self-styled pundits from left-wing economist (and Nobel Laureate) Paul Krugman to Republican Senator Lindsey Graham, government receivership of America's banks, followed by a thorough cleansing of the boards of directors and balance sheets, is the only possible way to prevent the global financial collapse that would follow the implosion of a series of money-center banks. Wrote economists Nouriel Roubini and Matthew Richardson in a *Washington Post* op-ed:

> The U.S. banking system is close to being insolvent, and unless we want to become like Japan in the 1990s — or the United States in the 1930s — the only way to save it is to nationalize it.…

> Nationalization is the only option that would permit us to solve the problem of toxic assets in an orderly fashion and finally allow lending to resume. Of course, the economy would still stink, but the death spiral we are in would end.

Such nationalization would be temporary, its proponents hasten to assure us; "When all is well," wrote Thomas Kelley for Yahoo! News, "after quickly re-privatizing the banks by selling assets and operations to new investors, the government then steps back and lets a newly regulated bank sector float on its way."

All of this is arrant nonsense at best, and potentially lethal to our dwindling economic freedoms at worst. Nationalism used to be the recourse of backward, Old World socialists who distrusted the free market. To hear the term tossed around across the political spectrum (or at least, the spectrum of opinion permitted by the political and media establishment) is alarming to say the very least. It suggests never-before-seen levels of consensus on a measure once regarded un-American, not to mention unconstitutional.

Of course, the federal government has already nationalized much of the mortgage industry in seizing Fannie Mae and Freddie Mac last year, and bailout activities begun by President Bush — coercing banks to sell preferred stock shares to the Feds in exchange for bailout money — amounted to partial nationalization by any name.

But what is now being proposed is nothing less than the arbitrary seizure of an entire sector of the American economy by the federal government. The Orwellian ramifications of such a move cannot be overstated: imagine armies of federal agents sweeping into banks across the land, removing executives from their offices and seizing control of bank records. Visualize legions of government accountants and lawyers digging into financial records to ferret out so-called "toxic assets," snooping around in any bank account they wish, even as tellers and customer service reps try to reassure the public that business will go on as usual. It’s not too far-fetched to anticipate that such activities might trigger runs on banks as customers try to get their money out before the Feds have a chance to pry into their financial affairs. Nor is it hard to imagine bank holidays and long lines at every teller window, as inefficient government lackeys with little training try to substitute for the efficiency of the private sector (not that banks are by any means fully private enterprises, but under full nationalization, they would be expected to operate as smoothly as, say, the post office).

Far from being a temporary measure, nationalization of banks would likely lead to similar actions in other economic sectors (the auto industry comes to mind as a likely candidate). As the economy continues to disintegrate under the weight of all the misbegotten efforts by the federal government to stave off the day of reckoning, the political pretext for nationalization would strengthen, not weaken.

The Road Ahead

All indicators point to a long depression ahead, with the wholesale destruction of America’s remaining economic freedoms into the bargain. Lest we forget, by the time the Great Depression and World War II were over, America had become an almost completely regimented economy and society. Only the war’s end brought about political circumstances where the architects of the New Deal and wartime emergency measures could be ushered out of office, and some semblance of liberty and free-market capitalism restored.

But what if fate this time is not so forgiving? What if, as many economists are forecasting, this depression turns out to be worse than the last one? Is there a real possibility that America will never again practice free-market capitalism?

Certainly many commentators hope so. "We Are All Socialists Now. Bring on the Era of Big Government," proclaimed *Newsweek* on February 16. *Newsweek's* Michael Freedman praised America's "steady drift toward what could be called a European model of governance, regulation, and paternalism." In the same issue, Fareed Zakaria suggested the United States would do well to emulate the Canadian example. Everywhere in the media the economic crisis is blamed on the failure of free-market capitalism, and tut-tutting commentators lecture us on the need to accept a much larger role for government in our economic affairs and a permanent lower standard of living henceforth.

As for President Obama himself, despite denying any belief in "bigger government" in his recent address to Congress, the rest of his words belied that statement. Pouring money into healthcare and educational reform and the development of alternative energy sources — to name just three of the president's pet projects — will inevitably increase the federal government's already overweening profile in all of these sectors.

But the truth, as usual, is at variance with the pronouncements of the elites. The economic crisis was caused in the first place by government interference in the free market: by manipulating the money supply, by creating a credit bubble with artificially low interest rates, by stifling market activity through heavy taxes and onerous regulations, and by encouraging moral hazard — irresponsible risk-taking — through a long-standing willingness to bail out improvident corporations, as long as they are large enough and well-connected enough to get preferential treatment. America has not had anything resembling laissez-faire capitalism in several generations, and each new wave of government intervention has, in creating new economic problems, also provided a handy pretext for more intervention in the future.

Now we are reaping the whirlwind: a perfect economic storm providing cover for a gang of true believers in the White House and in Congress to significantly build upon the socialist and Keynesian edifice begun by Hoover, FDR, Johnson, and many other presidents across several generations. If blame is to be assigned for our predicament, surely it is to be parceled out as generously to generations past, both of elected leaders and of complacent voters, who permitted the federal government to reach such a pass that such a thing as nationalization and indiscriminate bailouts can be contemplated with scarcely a whisper of protest.

Where we will end up is not difficult to forecast, unless we change our course in a hurry. The America that President Obama and an overwhelming majority of congressmen of both parties would like to bring us is an America that has essentially cast off her constitutional and laissez-faire moorings and, as *Newsweek* gleefully pointed out, meekly followed the European example. That way will lead to serfdom in the end, with our leaders assuring us every step of the way that we have nowhere to go but down, that the heedless days of freedom are over. Our Founders, who had the courage to cast off the ways of the Old World, in the face of sustained ridicule from the perfumed princes of Europe, would be aghast that we are now permitting our leaders to erect on our shores the same stifling authoritarianism that our ancestors sought to escape.

The only solution, both for our immediate economic problems and for our longer-term viability as a free republic, is for Americans to demand that our leaders honor constitutional limits on their power and stop wasting our money trying to re-inflate an economic bubble that never should have been encouraged in the first place. But for that to happen, Americans must also rekindle their love affair with liberty.

Photo: AP Images