An Economic ‘Plan’?

Former president Bill Clinton told the Democratic National Convention that Barack Obama has a plan to rescue the economy, and only the fact that the Republicans stood in his way has stopped him from getting the economy out of the doldrums.

From all this, and much else that is said in the media and on the campaign trail, you might think that the economy requires government intervention to revive and create jobs. It is Beltway dogma that the government has to “do something.”

History tells a different story. For the first 150 years of this country’s existence, the federal government felt no great need to “do something” when the economy turned down. Over that long span of time, the economic downturns were neither as deep nor as long lasting as they have been since the federal government decided that it had to “do something” in the wake of the stock market crash of 1929, which set a new precedent.

One of the last of the “do nothing” presidents was Warren G. Harding. In 1921, under President Harding, unemployment hit 11.7 percent — higher than it has been under President Obama. Harding did nothing to get the economy stimulated.

Far from spending more money to try to “jump start” the economy, President Harding actually reduced government spending, as the tax revenues declined during the economic downturn.

This was not a matter of absent-mindedly neglecting the economy. President Harding deliberately rejected the urging of his own Secretary of Commerce, Herbert Hoover, to intervene.

The 11.7 percent unemployment rate in 1921 fell to 6.7 percent in 1922, and then to 2.4 percent in 1923. It is hard to think of any government intervention in the economy that produced such a sharp and swift reduction in unemployment as was produced by just staying out of the way and letting the economy rebound on its own.

Bill Clinton loudly proclaimed to the delegates to the Democratic National Convention that no president could have gotten us out of the recession in just one term.

But history shows that the economy rebounded out of a worse unemployment situation in just two years under Harding, who simply let the market revive on its own, as it had done before, time and time again for more than a century.

Something similar happened under Ronald Reagan. Unemployment peaked at 9.7 percent early in the Reagan administration. Like Harding and earlier presidents, Reagan did nothing, despite outraged outcries in the media.

The economy once again revived on its own. Three years later, unemployment was down to 7.2 percent — and it kept on falling, as the country experienced twenty years of economic growth with low inflation and low unemployment.

The Obama party line is that all the bad things are due to what he inherited from Bush, and the few signs of recovery are due to Obama's policies beginning to pay off. But, if the economy has been rebounding on its own for more than 150 years, the question is why it has been so slow to recover under the Obama administration.

The endless proliferation of anti-business interventions by government, and the sight of more of the same coming over the horizon from Barack Obama's appointees in the federal bureaucracies, creates the one thing that has long stifled economic activity in countries around the world — uncertainty about what the rules of the game are, and the unpredictability of how specifically those rules will continue to change in a hostile political environment.

Both history and contemporary data show that countries prosper more when there are stable and dependable rules, under which people can make investments without having to fear unpredictable new government interventions before these investments can pay off.

A great myth has grown up that President Franklin D. Roosevelt saved the American economy with his interventions during the Great Depression of the 1930s. But a 2004 economic study concluded that government interventions had prolonged the Great Depression by several years. Obama is repeating policies that failed under FDR.

Despite demands that Mitt Romney spell out his plan for reviving the economy, we can only hope that Governor Romney plans to stop the government from intervening in the economy and gumming up the works, so that the economy can recover on its own.

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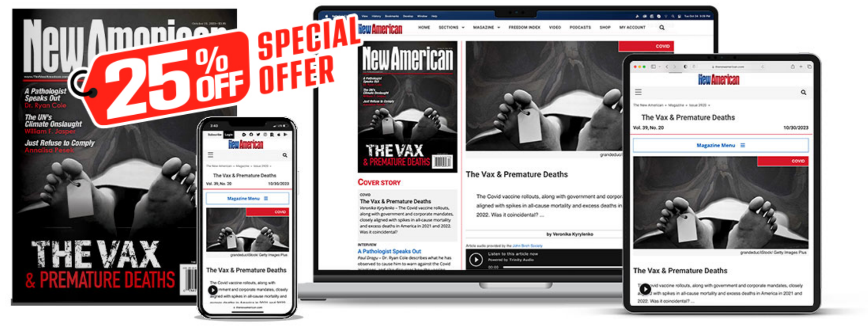

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