# Keynesian Economists Rip Obama for Failed Keynesian Policies

The survey included explanations for why his performance was so poor even though he has surrounded himself with Keynesians. Some said he didn't do enough: The stimulus wasn't big enough. William Cheney, chief economist at John Hancock Financial Services, said Obama's administration "generally tried to take the right kinds of measures but [has] often failed to lead with enough vigor to overcome political obstacles."

Some said he tried to do too much and got distracted by hammering Congress into voting for his healthcare takeover. Joel Naroff, president of Naroff Economics, said, "Health care wasn't necessarily the most important thing to be dealing with when you're in the midst of the worst recession since the Great Depression."

Others said he picked the wrong types of projects to fund, relying too much on public works that took too long to get going. Still others said the President just did the very best he could under the circumstances, noting that the Great Recession was well under way when he took office, and offering the bromide that even if his Keynesian policies didn't perform as expected, at least he did something. Maury Harris, chief economist at UBS Securities, said, "You have to look at where you would have been if he hadn't gotten the stimulus package through. We might be a lot worse off."

And then maybe not. The Recession of 1920-21 was one of the sharpest in U.S. history with GDP dropping by nearly seven percent and prices declining by nearly 18 percent. Unemployment rose to nearly 12 percent from pre-recession levels of five percent. When Warren Harding was inaugurated in March of 1920, the recession was well underway.

That's where any parallel with President Obama and his Keynesian cohorts ends. In his acceptance speech for the Republican Party nomination, Harding said:

> We will attempt intelligent and courageous deflation, and strike at government borrowing which enlarges the evil, and we will attack high cost of government with every energy and facility which attend Republican capacity. We promise that relief which will attend the halting of waste and extravagance, and the renewal of the practice of public economy, not alone because it will relieve tax burdens but because it will be an example to stimulate thrift and economy in private life.

Included in his policies was a determination to cut income taxes. Starting in 1921, the top marginal tax rate was cut from 73 percent to 25 percent, while those in lower brackets also enjoyed lower tax rates. And he cut government spending with a vengeance. According to historian Thomas Woods, "Harding cut the government's budget nearly in half between 1920 and 1922.… The national debt was reduced by one-third. The Federal Reserve's activity, moreover, was hardly noticeable," and the economy began to rebound by the summer of 1921. By 1923, unemployment was down to just 2.4 percent. According to other economists who have studied that recession, Harding's policies "produced the most vibrant eight year burst of manufacturing and innovation in the nation's history." And the combined declines in inflation and unemployment were also the sharpest in U.S. history.

A Keynesian historian, Robert Gordon, admitted that despite Harding's hands-off approach, "recovery was not long delayed." Another Keynesian economist, Kenneth Weiher, also agreed that "despite the severity of the contraction, the Fed did not move to use its powers to turn the money supply around and fight the contraction … [but] the economy rebounded quickly … and entered a period of quite vigorous growth."

Woods supplied the answer to what should be done now to reverse the Keynesian course being forced on the economy by the Fed and the White House:

> If the Austrian [economic] view is correct — and I believe the theoretical and empirical evidence strongly indicates that it is — then the best approach to recovery would be close to the opposite of these Keynesian strategies. The government budget should be cut, not increased, thereby releasing resources that private actors can use to realign the capital structure. The money supply should not be increased. Bailouts merely freeze entrepreneurial error in place, instead of allowing the redistribution of resources into the hands of parties better able to provide for consumer demands in light of entrepreneurs' new understanding of real conditions. Emergency lending to troubled firms perpetuates the misallocation of resources and extends favoritism to firms engaged in unsustainable activities at the expense of sound firms prepared to put those resources to more appropriate use.

The real question isn't what should (or shouldn't) be done, but how to change the mindsets of those Keynesian apologists who refuse to believe that their policies don't work in spite of all the evidence to the contrary. Economist Gary North is pessimistic that any such change will take place, short of default and bankruptcy resulting from such policies:

> Keynesianism rests on a grand deception. It argues that government spending can get the market rolling, whereas spending by private citizens cannot. This makes no sense. Spending is spending.
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> The deficits will not end, because the politicians do not want to cut spending. The Keynesians have built their careers and their self-confidence on the assumption that any reduction of government spending in a recession will make the recession worse.…
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> The deficits are permanent. High unemployment is also permanent. The Keynesian prescription will not make the patient well. It will make him sicker.
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> There will come a day when Keynesians will no longer be able to sell their patent medicine.… There will be a Great Reversal of opinion. I think this will come in the aftermath of the Great Default by national governments. That default is coming.

Keynesianism is not a theory, but an ideology. And ideologies will die only when their falsehoods become obvious to everyone, including the Keynesians themselves. Until then, Keynesians will continue to criticize the President for failure to follow their destructive prescriptions closely enough rather than question the prescriptions themselves.