



Obama's Choice: FDR or Reagan

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Barack Obama, it is said, will inherit the worst times since the Great Depression. Not to minimize the crisis we are in, but we need a little perspective here.

The Great Depression began with the Great Crash of 1929. By 1931, unemployment had reached 16 percent.

By 1933, 89 percent of stock value had been wiped out, the economy had shrunk by one-third, thousands of banks had closed, a third of the money supply had vanished, and unemployment had reached 25 percent -- among heads of households. And in those days, there was no unemployment insurance, no Medicare, no Medicaid, no Social Security, no welfare.

FDR's answer: vast federal spending, tough new regulations on business and higher taxes -- like Herbert Hoover before him, only more so.

The Depression lasted until war orders from the Allies brought U.S. industry back to life. Before 1940, not once did unemployment fall below 14 percent. In May 1939, Treasury Secretary Henry Morgenthau testified:

"We are spending more money than we have ever spent before, and it does not work. ... I want to see this country prosperous. I want to see people get a job. I want to see people get enough to eat. We have never made good on our promises. ... I say after eight years of this administration we have just as much unemployment as when we started ... and an enormous debt, to boot."

Politically, the New Deal was a smashing success, with FDR's landslides in 1932, 1934 and 1936 virtually wiping out the GOP.

Yet, economically, the New Deal was a bust, failing utterly to restore prosperity. Despite the indoctrination of generations of schoolchildren in New Deal propaganda, that is the hard truth.

Consider, now, how Ronald Reagan responded to the economic crisis of 1980, the worst since the Depression. In the "stagflation" of that Jimmy Carter era, interest rates had reached 21 percent and inflation 13 percent.

Reagan's answer was the tight money policy of Fed Chairman Paul Volcker and across-the-board tax cuts of 25 percent, while slashing the highest rates from 70 percent to 28 percent.

While unemployment hit 10 percent in 1982 and Reagan lost 26 House seats, in 1983 the tax cuts kicked in.

From there on out, it was boom times until Reagan rode off into the sunset, having created 20 million

new jobs. "The Seven Fat Years," author Robert Bartley called them.

Reagan had followed the lead of Warren Harding and Cal Coolidge, who had cut Woodrow Wilson's wartime tax rates of near 70 percent to 25 percent, resulting in "The Roaring '20s," a time of unrivaled prosperity.

The JFK tax cuts of the 1960s, also a Reagan model, were equally successful.

Harding, Coolidge, JFK and Reagan all bet on the private sector as the engine of prosperity. All succeeded. Franklin Roosevelt bet on government. And the New Deal failed. It was World War II that pulled the United States out of the Depression ditch of the 1930s.

Comes now the financial collapse and economic crisis of 2008, inherited by Obama, with 40 percent of all stock values wiped out in a year, foreclosures pandemic, and unemployment near 7 percent and surging.

In crafting his solutions, Obama seems to be brushing aside the Reagan, JFK and Harding-Coolidge models, and channeling FDR and the New Deal Democrats.

Already staring at a \$1.2 trillion dollar deficit for the year ending Sept. 30, about 8 percent of the entire U.S. economy, Obama intends to add a stimulus package of \$700 billion to \$1 trillion, yet another 5 percent to 7 percent of gross domestic product. The resulting deficit would be twice as large as Reagan's largest, 6 percent of GDP, which was the largest since World War II.

And how is this Niagara of money to be spent?

Hundreds of billions will go out in checks of \$500 to \$1,000 to wage-earners and individuals who do not even pay taxes. This is much like the George McGovern "demogrant" program of 1972, where every man, woman and child, if memory serves, was to get a \$1,000 check from the U.S. government.

Other hundreds of billions will go to shore up state and municipal spending. Other hundreds of billions will go for "infrastructure" projects, another name for earmarks, which is a synonym for pork.

Now, as Obama does not intend to raise taxes, at least now, he is going to have to borrow this near \$2 trillion from foreigners or U.S. taxpayers, or the Fed will have to create the money. Undeniably, this will have an impact upon the economy. But what will that impact be?

Where in history, other than World War II, is there evidence that such a mass infusion of spending restored prosperity?

Obama and the Democrats are taking a historic gamble, not only with their careers but with the country. If this monstrous stimulus package, plus the trillions in hot money, do not work; if the two ignite rampant inflation, rather than real growth, we are all out of options. The toolbox is empty.

And what will follow may truly resemble the 1930s.

