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Tell The Government to Stay Out Of The Markets

In lieu of the recent buying out of Bear Stearns for $2 per share (yikes), and the Fed rate cut of 25 basis points, probably to be followed by more aggressive cuts this week and beyond as confidence and liquidity continues to fall in the Financials sector, I found it particularly timely that during my reading of Murray Rothbard's "America's Great Depression," I came across this little passage, which I wish Ben Bernanke and all of the other people ruining our dollar and by extension our economy right now would read:

> "If government wishes to see a depression ended as quickly as possible, and the economy returned to normal prosperity, what course should it adopt? The first and clearest injunction is: *don't interfere with the market's adjustment process*. The more the government intervenes to delay the market's adjustment, the longer and more grueling the depression will be, and the more difficult will be the road to complete recovery. Government hampering aggravates and perpetuates the depression. Yet, government depression policy has always (and would have even more today) aggravated the very evils it has loudly tried to cure. If, in fact, we list logically the various ways that government could *hamper* market adjustment, we will find that we have precisely listed the favorite "anti-depression" arsenal of government policy. Thus, here are the ways the adjustment process can be hobbled:
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> (1) *Prevent or delay liquidation*. Lend money to shaky businesses, call on banks to lend further, etc.
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> (2) *Inflate further*. Further inflation blocks the necessary fall in prices, thus delaying adjustment and prolonging depression. Further credit expansion creates more malinvestments, which, in their turn, will have money to be liquidated in some later depression. A government "easy money" policy prevents the market's return to the necessary higher interest rates.
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> (3) *Keep wage rates up*. Artificial maintenance of wage rates in a depression insures permanent mass unemployment. Furthermore, in a deflation, when prices are falling, keeping the same rate of money

wages means that *real* wage rates have been pushed higher. In the face of falling business demand, this greatly aggravates the unemployment problem.

(4) *Keep prices up*. Keeping prices above their free-market levels will create unsalable surpluses, and prevent a return to prosperity.

(5) *Stimulate consumption and discourage saving*. We have seen that more saving and less consumption would speed recovery; more consumption and less saving aggravate the shortage of saved-capital even further. Government can encourage consumption by “food stamp plans” and relief payments. It can discourage savings and investments by higher taxes, particularly on the wealthy and on corporations and estates. As a matter of fact, any increase of taxes-and-government spending will discourage saving and investment and stimulate consumption, since government spending *is all consumption*. *Some* of the private funds would have been saved and invested; all of the government funds are consumed. Any increase in the relative size of government in the economy, therefore, shifts the societal consumption/investment ration in favor of consumption, and prolongs the depression.

(6) *Subsidize unemployment*. Any subsidization of unemployment (via unemployment “insurance,” relief, etc.) will prolong unemployment indefinitely, and delay the shift of workers to the fields where jobs are available.

These, then, are the measures which will delay the recovery process and aggravate the depression. Yet, they are the time-honored favorites of government policy, and, as we shall see, they were the policies adopted in the 1929-1933 depression, by a government known to many historians as a “laissez-faire” Administration" (Rothbard, 25-27).

Later, Rothbard goes on to say regarding the role of fiscal policy that,

“There is one thing the government can do positively, however: it can drastically *lower* its relative role in the economy slashing its own expenditures and taxes, particularly taxes that interfere with saving and investment. Reducing its tax-spending level will automatically shift the societal saving-investment/consumption ratio in favor of saving and investment,

> thus greatly lowering the time required for returning to a prosperous economy. Reducing taxes that bear most heavily on savings and investment will further lower social time-preferences. Furthermore, depression is a time of economic strain. Any reduction of taxes, or of any regulations interfering with the free-market will stimulate healthy economic activity; any increase in taxes or other intervention will depress the economy further.

In sum, the proper governmental policy in a depression is strict *laissez-faire*, including stringent budget-slashing and coupled perhaps with a positive encouragement for credit contraction" (Rothbard, 28)."

Rothbard's analysis as to the predictable government strategy in dealing with an economic downturn is unbelievable. If we take it point-by-point, point 1 = every bailout plan (notably the recent Short Term Lending facility buy-out of crap debt, and now of course the bailout of Bear); point 2 = the government policy ever since the fed has been created, and especially during this easy credit boom since the end of the last recession; point 3 hasn't been fully implemented, but the minimum wage itself is a destructive means of wage controls which screws up the market's attempt at equilibrium; point 4 = any subsidies, period; point 5 = the government's absolutely moronic "economic stimulus" plan; point 6 = much of the legacy of the New Deal, whose negative affects will be felt all the more strongly as the unemployment rate increases as the market falls lower and lower.

When we look at the actions that the government ostensibly can take to aid in the speeding up of recovery, we see almost zero politicians (with the exception of Ron Paul) who have argued for *any* of these stances, and actually backed it up with their records, with the exception of perhaps lowering taxes. If we are to be forward-thinking however, it is questionable whether or not Mr. McCain would do anything more than urge President Bush's tax cuts to remain in place (even though he still says the cuts should have been aimed toward the middle class, and still agrees with his decisions to vote against the tax cuts in the first place), and on the left it is clear both Barack and Hilldog would never support tax cuts or a decrease in government spending.

These facts are discouraging when one considers that this economy is going to be struggling mightily when any of these candidates enter; just as disconcerting is the fact that most of the people in finance, academia and politics are totally and utterly ignorant of all of this.

Ben Bernanke supposedly spent the bulk of his time in academia studying the Great Depression. Has he learned nothing? I tend to think that part of it is that he really is a Keynesian like most of the world these days, but the other part is that political interests play a major role (particularly in an election year) - the government doesn't want to let banks fail because it will scare the public and confidence will plummet. People like to see the government do something because it makes people think the government is doing it's best to protect its citizens. Of course when their taxes spike to pay for all of this intervention (both directly and indirectly through inflation which is a tax in its own right), people might start to realize that the government is not in fact the solution but the cause of these problems. At least one can only hope that that is the case.

The saddest thing about all of this is that the government is trying to combat the effects of the expansion of credit by expanding credit even more! This is a downward spiral in which the monopoly that the Fed has to pump out our fiat dollar is leading us to financial meltdown. With all of these economists and analysts out there, for all of their analytics and complex philosophies on how to get out of an economic rut, it is unbelievable how simple the solution to all of these problems is: tell the government to STAY OUT OF THE MARKETS!

While they're at it, our leaders should abolish the Fed and get on the gold standard too. But alas, given the current path we're on, it looks like we'll see the government nationalize industries (Great Britain anyone) before it lets capitalism work its mystical magic.