

Opinion: Obama continues on Bush's road of ruin

By Tom McClintock

Throughout what was supposed to be a "recovery summer," the president has repeated a familiar theme: that Republicans ran us into a ditch and now they want the keys back.

That's an important point, and we need to understand exactly what the Bush administration did to run us into a ditch. In fact, President George W. Bush made two major policy blunders.



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First, he presided over unprecedented regulatory intervention into the housing market that deliberately enticed people who couldn't afford homes to buy them anyway. At the same time, these policies deliberately encouraged lenders to make irresponsible loans by promising them that Fannie Mae and Freddie Mac would cover the risk. This created a massive, artificial housing bubble that ultimately burst with catastrophic impact.

My question of President Obama is: If we know this road leads to ruin -- why does he continue down it at even higher speeds?

Failing to learn from the damage that government intervention does by creating artificial bubbles in the economy, the president has repeated and amplified Bush's blunders not only

in the housing market with mortgage subsidies and home purchase credits, but also in other markets like automobiles and home improvements. Each time, he has squandered billions of dollars merely to borrow from future demand, leaving behind economic craters each time the bubbles burst.

Bush's second blunder was to increase federal spending at an unsustainable rate, transferring economic decisions from the productive sector to the government sector and crowding out the capital market by excessive government borrowing. We should remember the first \$168 billion to stimulate consumer spending was a Bush brain-child -- that's when we all got those \$600 checks. If massive deficits and government spending created prosperity, the final Bush years should have produced a "Golden Age" for the American economy.

Has the president reversed these irresponsible Bush-era policies? On the contrary, he has amplified and expanded them.

In his first 19 months in office, Barack Obama has run up more publicly held debt than all eight years of Bush combined, with the promise this would keep unemployment under 8 percent. Yet all that he has accomplished is to crowd out trillions of dollars of capital that could otherwise have gone to employers seeking to add jobs, to homebuyers seeking to re-enter the housing market, and to consumers seeking to make consumer purchases.

Thus, instead of the sharp, V-shaped recovery that normally follows a recession, America is now entering its third year of economic distress.

The reason these policies have not worked is that they cannot work. They did not work under George W. Bush. And they have not worked when Barack Obama doubled down on them.

The core of Obamanomics is the proposition that if government can inject enough money into the economy, it can stimulate consumer spending and therefore demand for production.

Unfortunately, government cannot inject a single dollar into the economy that it has not first taken out of the same economy. It's true that if government takes a dollar from Peter and gives it to Paul, Paul has an extra dollar to spend. But Peter now has one less dollar to spend in that same economy.

On paper, the economic effect of income transfers always nets to zero. In practice, transfers net to much less than zero, because they shift huge amounts of capital away from decisions that would have been made in the productive sector based on economic return toward decisions made in the government sector based on political return.

We see very clearly the government jobs that are created when government puts that dollar back into the economy; what we don't see as clearly are the productive jobs that were prevented from forming as government first takes that dollar out of the economy. We see those lost jobs reflected in a chronically high unemployment rate and a stagnating economy.

It's time we stopped wrestling for the steering wheel and recognized bad policy for what it is – whether the driver is a Republican or a Democrat. The problem is not the driver but the direction – and the direction hasn't changed.

We know the road to prosperity – we've taken it before. When we have reduced the burdens on productivity, the economy has blossomed. It worked when Ronald Reagan did it. It worked when John F. Kennedy and Harry Truman did it. And it will work again – but we will need leaders with a better sense of direction than what we have today.

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