The Washington Times
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Washingtonomics

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Published February 12, 2008

How much money would the government have to give you and every other American to avoid a recession? You cannot answer because the question contains a false conclusion, and when political arguments are about false conclusions, the wrong policies are pursued.

To try to reverse the current economic slowdown, one first must understand the real causes and then try to correct those causes. Many in Congress, the administration, and the Fed have misdiagnosed the problem and then given the wrong medicine — a k a "the stimulus package."

The first problem, which resulted in the subprime mortgage mess, was caused by the Fed. After the 2001 recession (in turn caused by the Fed withdrawing too much credit from the economy based on the false turn-of-the-century computer clock scare), the Greenspan Fed overreacted and basically gave the banking sector loans at a rate lower than inflation — which is known as "free money." Borrowers flocked to get the low-cost loans the banks were providing with the Fed's "free money." As would be expected under such a situation, credit standards fell.

The second problem was a run-up in raw material and energy prices, in part, caused by artificial supply restrictions imposed by the bureaucrats and politicians. For years, the politicians have been saying the United States needs energy independence. Yet these same politicians have been political lackeys of a know-nothing environmental movement.

The result is that oil companies are allowed neither to build new refineries, nor to drill in the Arctic National Wildlife Reserve section of Alaska and in most offshore areas. Dam builders are not allowed to build new dams. Coal companies are restricted in opening new mines, and the power companies that burn coal are limited. Nuclear power companies have been unable to build new plants. Surprise, surprise — energy prices have soared, the United States has become more dependent on foreign sources, and U.S. companies that use U.S. oil and gas as raw materials or for fuel have become less globally competitive.

The third problem is that financial regulation in the U.S. has become excessive and destructive. The Sarbanes-Oxley Bill, a gross overreaction to the Enron scandal, along with a series of damaging Securities and Exchange Regulation rules, has caused massive accounting cost increases for business, being particularly damaging to small enterprises. These extra costs and regulations have forced companies to move their initial public offerings (IPOs) to London and elsewhere, and motivated many public companies to go private or move their headquarters outside the U.S.

Companies in the U.S. are now forced to load up their boards with "outside" directors who may know nothing about the business, while there is no evidence they improve business performance. The SEC is requiring companies to "expense" stock options even though no expense occurs. This measure has been opposed by many leading financial scholars, Nobel laureates, and other world-class experts, but the SEC continues to keep its head in the sand because it doesn't want to make the effort to explain to Congress and the media what a dumb idea it has imposed on business.

The result is that far fewer stock options are now granted, which will hurt innovation, and securities analysts find it is increasingly difficult to figure out the real financial shape of companies.

Last week, for example, the folks in the anti-trust division of the Justice Department again proved how brain-dead they are on economics. They proposed to prevent commodity and stock exchanges from owning clearing houses — which just happens to be a core function of an exchange. It would be like telling automobile firms that they cannot sell the engine with the car, and requiring consumers to go find an engine from competing manufacturers. This kind of ignorant and costly nonsense by bureaucrats and politicians is eating away at the American economy.

The fourth problem is that government spending has been rising as a percentage of gross domestic product. As is well known, most government programs are poorly managed, and many of the programs, even if well-managed, are counterproductive. In sum, much of the money is wasted (literally thousands of government and nongovernment studies support this assertion). In addition, every dollar the government spends must be coerced out of the private sector by taxation or borrowing, both of which are damaging. The U.S. government is well above its welfare maximizing size, and thus every additional dollar spent injures the U.S. economy.

To revive the economy, Congress and the administration should reverse the policies that caused the problems and cease doing things to make it worse. Undoing the above would not require the government to spend money— just the opposite. Unfortunately, Washington economic policymaking will continue to be "stuck on stupid" as long as the media lauds lawmakers and policymakers for doing the wrong things and interest groups, including business people who should know better, continue contributing to the campaigns of those who vote for increasing impediments on productive activities and people.

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