

## A Vote for Obama Is a Vote for Recession

by Richard W. Rahn

### BIGGER GOVERNMENT WEIGHTS ECONOMY

Many in the mainstream media appear to be in the bag for the re-election of President Obama. They also appear to not have thought through the consequences of their wishes, both to the nation and their own careers.

The Congressional Budget Office (CBO) and many leading economic forecasters have predicted that we are likely to go into another recession by the first quarter of 2013 if the administration and Congress allow the economy to go off the "fiscal cliff" at the end of this year.

Unfortunately, it now seems to be almost a certainty that this will happen if President Obama is re-elected. Here is why: The president and many of his congressional allies have indicated that they will not extend the current tax rates (the so-called Bush tax cuts) unless the Republicans agree to increasing tax rates on those making \$250,000 or more per year. The Republicans will control the House during the lame-duck session and are likely to continue to do so after the election, and they will vote for bills extending the current tax rates for everyone. The Democrat-controlled Senate will not vote for keeping the current rates for everyone, resulting in a stalemate.

If Mr. Obama is re-elected and even if the Republicans happen to win the Senate and vote to keep the present tax rates, the president says he would veto it. The result would be a large tax rate increase on Jan. 1. This tax increase, combined with the expiration of the current lower rate on payroll taxes (which almost no one is fighting to keep), combined with massive new regulations, are almost certain to throw the weak U.S. economy back into a long and deep recession.

Mr. Obama and many in the media seem to be clueless when it comes to the consequences of the administration's economic policies. The president recently said on David Letterman's TV show that the "deficit is not a problem now but will be in the future." He does not seem to understand that the Federal

Reserve's response to the growth in spending and the deficit has had the same effect as a massive tax increase on savers, who tend to be the most responsible citizens. The Fed has held down interest rates by buying massive amounts of government bonds, which has destroyed the return on savings for most Americans, causing great hardship on those who have relied on their past savings to generate interest income for retirement or other purposes. Funding the deficit has also been a massive misallocation of what should be productive capital, causing much of the current stagnation.

The president keeps claiming, "We have created four-and-a-half million jobs." Assume you have been trying to lose weight for the last four years and during that time, you have had months when you lost weight totaling 40 pounds, but you have also had months when you gained 50 pounds. To tell people you have lost 40 pounds without mentioning the 50 pounds you have gained is an incomplete story to say the least -- but this is the way the president tells the jobs story.

As can be seen in the accompanying chart, the United States has a smaller portion of its adult population at work than it did four years ago, and the total number of people now at work (out of a larger population) has not grown since January 2009 -- and this after three years of "recovery."

SELECTED ECONOMIC INDICATORS			
	January 2009	August 2012	Percent Change
Federal Government Employees	2,793,000	2,804,000	+0.4%
State and Local Government Employees	19,747,000	19,096,000	-3.3%
Private Sector Employees	119,559,000	120,201,000	+0.5%
Employment/Population ratio	60.5%	58.3%	-3.6%
Federal Debt Held by Public (in millions USD)	6,307,311	11,253,066*	+78.4%
Total Federal Debt (in millions USD)	10,626,877	16,017,841*	+50.7%

Sources: U.S. Treasury, Bureau of Labor Statistics \*as of Sept. 24, 2012

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After increasing government spending by 22.4 percent from President Bush's last budget request and raising the national debt by more than 50 percent in less than four years, the Keynesian theory that Mr. Obama professes

says the United States should have reached nearly full employment (5.3 percent, according to administration projections). Austrian school economists like Friedrich Hayek and Chicago school economists like Milton Friedman all wrote persuasive critiques of the Keynesian model, which never works in practice. In the late 1980s, I testified before Congress using empirical data with which I showed (in a curve) how, as governments get larger as a percentage of gross domestic product (as ours has under President Obama), economic growth and employment slow -- not rise. My argument has been replicated and updated by many other economists in the years since, with similar results.

The simple fact is Mr. Obama seems wedded to a theory that has not worked and never can. Thus, it is almost a certainty if he is re-elected, unemployment will not fall, many more businesses will downsize or go bankrupt, the economy will stagnate and the continuing rise in the deficit will be very costly for all. Some of the most vulnerable industries are newspapers that employ many left-leaning journalists, who seem to be oblivious to the fact that the policies they are pushing will destroy their own jobs.

Many of the Republicans in Congress, including some Tea Party Republicans, still do not seem to get it and continue to vote to fund government activities that need to be cut or abolished. I cannot say whether Mitt Romney and Paul Ryan (who personally gets it) will be sufficiently bold in pushing necessary policies and be successful in getting them through Congress

Thus, dear voter, you are left with a choice of voting for a team whose economic policies are almost certain to fail or for a team who might be able to install the correct policies that will lead to higher growth.

*Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.*

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