George Will, whom I consider to be one of the most articulate and stimulating political columnists, recently wrote a commentary for the Washington Post entitled "Beware another New Deal." Inasmuch as the word "Beware" always attracts my attention, I thought it worth a read. I was not disappointed. Mr. Will once again has captured economic history in proper perspective, and so it is that his article is reprinted below.

Beware another New Deal

George Will

Early in what became the Great Depression, John Maynard Keynes was asked if anything similar had ever happened.

"Yes," he replied, "it was called the Dark Ages and it lasted 400 years." It did take 25 years, until November 1954, for the Dow to return to the peak it reached in September 1929. So caution is sensible concerning calls for a new New Deal.

The assumption is that the New Deal vanquished the Depression.

Intelligent, informed people differ about why the Depression lasted so long. But people whose recipe for recovery today is another New Deal should remember that America's biggest industrial collapse occurred in 1937, eight years after the 1929 stock market crash and nearly five years into the New Deal. In 1939, after a decade of frantic federal spending — President Herbert Hoover increased it more than 50 percent between 1929 and the inauguration of Franklin Roosevelt — unemployment was 17.2 percent.

"I say after eight years of this administration we have just as much unemployment as when we started," lamented Henry Morgenthau, FDR's Treasury secretary. Unemployment declined when America began selling materials to nations engaged in a war America would soon join.

In *The Forgotten Man: A New History of the Great Depression,* Amity Shlaes of the Council on Foreign Relations and Bloomberg News argues that government policies, beyond the Federal Reserve's tight money, deepened and prolonged the Depression. The policies included encouraging strong unions and wages higher than lagging productivity justified, on the theory that workers' spending would be stimulative.

Instead, corporate profits — prerequisites for job-creating investments — were excessively drained into labor expenses that left many workers priced out of the market.

In a 2004 paper, Harold L. Cole of UCLA and Lee E. Ohanian of UCLA and the Federal Reserve Bank of Minneapolis argued that the Depression would have ended in 1936, rather than in 1943, were it not for policies that magnified the power of labor and encouraged the cartelization of industries. These policies expressed the New Deal premise that the Depression was caused by excessive competition that first reduced prices and wages, and then employment and consumer demand. In a forthcoming paper, Ohanian argues that "much of the depth of the Depression" is explained by Hoover's policy — a precursor of the New Deal mentality — of pressuring businesses to keep nominal wages fixed.

Furthermore, Hoover's 1932 increase in the top income tax rate, from 25 percent to 63 percent, was unhelpful. And FDR's hyperkinetic New Deal created uncertainties that paralyzed private-sector decision-making. Which sounds familiar.

Writes Russell Roberts of George Mason University: "By acting without rhyme or reason, politicians have destroyed the rules of the game. There is no reason to invest, no reason to take risk, no reason to be prudent, no reason to look for buyers if your firm is failing. Everything is up in the air and, as a result, the only prudent policy is to wait and see what the government will do next. The frenetic efforts of FDR had the same impact: Net investment was negative through much of the 1930s."

Barack Obama says the next stimulus should deliver a "jolt." His adviser Austan Goolsbee says it must be big enough to "startle the thing into submission." Their theory is that the crisis is largely psychological, requiring shock treatment. But shocks from government have been plentiful.

Obama's "rescue plan for the middle class" includes a tax credit for businesses "for each new employee they hire" in America over the next two years. The assumption is that businesses will create jobs that would not have been created without the subsidy. If so, the subsidy will suffuse the economy with inefficiencies — labor costs not justified by value added.

Here we go again? A new New Deal would vindicate pessimists who say that history is not one damn thing after another, it is the same damn thing over and over.

The Washington Post

On a separate matter, I wandered across some interesting data which takes the pulse of the citizens from all 50 states. For the first time, the Gallup-Healthways Well-Being Index has released what it calls the Thriving-Struggling-Suffering Index for Americans. While the name may conjure up something out of a Charles Dickens novel, in fact it reveals some information about demographics in our country.

In the first two weeks of November 2008, right in the midst of the national election, the average number of struggling Americans hit 60%, a rise of 14% from the beginning of the year. At the same time, the weekly average of Americans thriving hit a new low of 36%. The Index attempts to reflect both how individuals view their lives up to now and their prospects over the next five years.

Among some of the revelations, the Index found that Washington, D.C., has the highest percentage of residents thriving (55.6%). I suppose this is not surprising given the nature that government is getting larger and will continue to do so over the next five years. It also found that Hawaii has the highest percent of people satisfied with their standard of living (82.4%). Again, this should not come as a startling observation. With moderate weather, dependable global tourist traffic, and a five hour time differential separating the Aloha State from the mania of Wall Street and the politics of Washington, Hawaiian's enjoy a laissez-faire detachment from the mainland.

What may be bewildering is the finding that Rhode Island residents are most worried about their financial situation and the least satisfied with their standard of living. Rhode Islanders lead all states in the belief their standard of living is becoming worse (50.2%). Can this be? Is it possible the Ocean State is more financially insecure than the Great Lakes State (Michigan)? Michiganders, in fact, are ranked only 11th in belief the economy is getting worse, right behind West Virginia.

In perusing the table (attached), a demographic characteristic emerges. Northeast and New England states, for the most part, are most dour about future economic prospects. Second behind Rhode Island in pessimism stands Massachusetts, followed by (3) Washington, D.C., (4) Maine, (5) Vermont, and (6) Delaware.

A conundrum to me is that residents of the Deep South seem most upbeat about future economic conditions. Alabama (50), Louisiana (49), Mississippi (48), and Georgia (47) lead all states in economic optimism.

Are you worried about money problems? Again, Rhode Islanders sure are. So are citizens of the Granite State (Connecticut), which has the highest per capita household income. At the other extreme are two sparsely-populated states, Wyoming (51) and North Dakota (50), and two Deep South states, Louisiana (49) and Alabama (48). The only conclusion I draw from this is that residents from higher per capita income states are more insecure about losing what they have than are residents from lower per capita income states.

Rather than provide a litany of demographic patterns, check out for yourself how Americans feel. For example, is there a pattern between Red States and Blue States? I don't know. I'm too busy working on a bail-out package for states "too big to fail."