OPINION

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# There's No Pain-Free Cure for Recession

*Belt-tightening is required by all, including government.*

**By PETER SCHIFF**

As recession fears cause the nation to embrace greater state control of the economy and unimaginable federal deficits, one searches in vain for debate worthy of the moment. Where there should be an historic clash of ideas, there is only blind resignation and an amorphous queasiness that we are simply sweeping the slouching beast under the rug.

With faith in the free markets now taking a back seat to fear and expediency, nearly the entire political spectrum agrees that the federal government must spend whatever amount is necessary to stabilize the housing market, bail out financial firms, liquefy the credit markets, create jobs and make the recession as shallow and brief as possible. The few who maintain free-market views have been largely marginalized.

Taking the theories of economist John Maynard Keynes as gospel, our most highly respected contemporary economists imagine a complex world in which economics at the personal, corporate and municipal levels are governed by laws far different from those in effect at the national level.

Individuals, companies or cities with heavy debt and shrinking revenues instinctively know that they must reduce spending, tighten their belts, pay down debt and live within their means. But it is axiomatic in Keynesianism that national governments can create and sustain economic activity by injecting printed money into the financial system. In their view, absent the stimuli of the New Deal and World War II, the Depression would never have ended.

On a gut level, we have a hard time with this concept. There is a vague sense of smoke and mirrors, of something being magically created out of nothing. But economics, we are told, is complicated.

It would be irresponsible in the extreme for an individual to forestall a personal recession by taking out newer, bigger loans when the old loans can't be repaid. However, this is precisely what we are planning on a national level.

I believe these ideas hold sway largely because they promise happy, pain-free solutions. They are the economic equivalent of miracle weight-loss programs that require no dieting or exercise. The theories permit economists to claim mystic wisdom, governments to pretend that they have the power to dispel hardship with the whir of a printing press, and voters to believe that they can have recovery without sacrifice.

As a follower of the Austrian School of economics I believe that market forces apply equally to people and nations. The problems we face collectively are no different from those we face individually. Belt tightening is required by all, including government.

Governments cannot create but merely redirect. When the government spends, the money has to come from somewhere. If the government doesn't have a surplus, then it must come from taxes. If taxes don't go up, then it must come from increased borrowing. If lenders won't lend, then it must come from the printing press, which is where all these bailouts are headed. But each additional dollar printed diminishes the value those already in circulation. Something cannot be effortlessly created from nothing.

Similarly, any jobs or other economic activity created by public-sector expansion merely comes at the expense of jobs lost in the private sector. And if the government chooses to save inefficient jobs in select private industries, more efficient jobs will be lost in others. As more factors of production come under government control, the more inefficient our entire economy becomes. Inefficiency lowers productivity, stifles competitiveness and lowers living standards.

If we look at government market interventions through this pragmatic lens, what can we expect from the coming avalanche of federal activism?

By borrowing more than it can ever pay back, the government will guarantee higher inflation for years to come, thereby diminishing the value of all that Americans have saved and acquired. For now the inflationary tide is being held back by the countervailing pressures of bursting asset bubbles in real estate and stocks, forced liquidations in commodities, and troubled retailers slashing prices to unload excess inventory. But when the dust settles, trillions of new dollars will remain, chasing a diminished supply of goods. We will be left with 1970s-style stagflation, only with a much sharper contraction and significantly higher inflation.

The good news is that economics is not all that complicated. The bad news is that our economy is broken and there is nothing the government can do to fix it. However, the free market does have a cure: it's called a recession, and it's not fun, easy or quick. But if we put our faith in the power of government to make the pain go away, we will live with the consequences for generations.

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