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LAMBRO: A secret Obama doesn’t want you to know

Keynesian economics has failed - again

By Donald Lambro   March 1, 2011

No doubt by now you've heard the story on the nightly news that the Obama economy grew at a weaker pace in the fourth quarter of last year than was expected.

What's that you say? You didn't hear that on the evening news? I wonder why. Maybe the big three networks in New York didn't want you to know that a revised analysis of the last three months of 2010 showed the economy grew at an anemic 2.8 percent - well below the 3.2 percent gross domestic product (GDP) growth rate the Commerce Department had estimated early last month and that the networks had trumpeted with gusto.

According to Commerce Department figures released Friday, economic growth was four-tenths of a percentage point lower than previously reported. And that was in the last three months of the second year of President Obama's nearly $1 trillion stimulus-spending extravaganza to get the economy back on track to robust health.

More than two years into his unprecedented spending binge, GDP growth remains in the 2 percentage point range; unemployment is still stuck between 9 percent and 10 percent; few private-sector jobs are being created; prices for regular gas are climbing toward $4 a gallon; and home mortgage foreclosures are expected to remain high well into 2012.

As if all of this were not disturbing enough, the Obama administration is blaming the weak economic data on Republican efforts to sharply reduce spending among the state governments. And the news media have begun to peddle a rash of stories that claim further efforts in Congress and in the states to cut public payrolls and spending will only lead to deeper job losses and a weaker economy.

The latest decline in GDP growth came as a shock to the White House and economic analysts who in recent weeks have been forecasting exaggerated economic growth rates of anywhere from 3.5 percent to 4 percent in 2011. Now their politically driven, over-the-top growth estimates are being re-evaluated.

"We had every reason to believe the U.S. economy will do extremely well this year," said **Bernard Baumohl,** chief global economist for the Economic Outlook Group, in talking to The Washington Post last week. "Now we have to go back to the drawing boards."

However, the weak growth we saw in the last three months of 2010 was in large part a continuation of the subpar recovery we've seen over the past two years. It is the direct result of Mr. Obama's failed jobs policy, which is based on the misguided Keynesian belief that the government can spend itself into prosperity. It didn't happen. Instead, job layoffs continued and unemployment rose to nearly 10 percent - 17 percent if you count workers forced to take temporary jobs and discouraged workers who have given up looking for jobs.

That reduced the number of people actively looking for work, and that in large measure is why the unemployment rate has fallen. As for the rash of administration-driven news stories that more state and local government payroll cuts will worsen the economy, consider these observations:

c Government cannot be immune from budget and payroll cuts in a time of economic adversity. Indeed, beleaguered taxpayers and businesses are the first to be forced to tighten their belts in a down economy while bearing the heavy tax burdens of government, which further weakens business and household budgets alike.

Government workers have been virtually immune from job losses in times of recession, but that must change and, as we see in states across the country, is changing.

c Payroll downsizing is part of the necessary correction to bring long-uncontrolled, debt-ridden state and local government spending practices in line with sharply reduced tax revenues. Lessen the tax burden on businesses and workers and you strengthen the private sector and hasten its recovery. That's not only good fiscal policy, but sound economics, too.

c America has been through many recessions in its history, but it always has come back stronger than ever. The worst was the Great Depression of the 1930s, when the government's policy was to create temporary jobs until things got better. It took nearly a decade before the economy began to recover, but only as a result of World War II.

Mr. Obama essentially has followed the same policy by thinking that if he spent enough on "shovel-ready jobs" and other federal spending programs, he could quickly turn around our $14 trillion economy. Two years later, the economy is growing again (because of cost-cutting, profit-boosting decisions by businesses) but weakly, and jobs are still in short supply.

In the 1981-82 recession, when unemployment hit 10.8 percent, President Reagan cut taxes across the board for all income levels, and the economy took off. Monthly new job numbers rose to 200,000, 300,000 or more; quarterly GDP rates grew by 4 percent to 5 percent; and Reagan won re-election in a landslide, carrying 49 states in 1984.

Flash forward to the Obama economy this past January: Non-farm employment rose by a pathetic 36,000 jobs, and the minutes of last month's Federal Reserve policy meeting say board members expect high unemployment to continue through 2013.