



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

fff@fff.org www.fff.org

Hope for Economic Wisdom **by Sheldon Richman**

Should people who disagree with Barack Obama hope he succeeds in his presidency? Conservatives are caught in this question because their leading radio star, Rush Limbaugh, said he hopes Obama fails. Radio stars need regular public controversy to keep their listeners tuned in, so there's no point in analyzing what the Republican partisan might have meant. But the question may lead us to other insights.

Everything hinges on the underlying question: succeed or fail at what? If we assume Obama wants to use the power of government — the power of the gun, really — to redesign society, as some of his supporters would like, then advocates of individual liberty would hope he fails. The idea at the heart of the American Revolution was that society runs itself without a central plan. Government is already too involved in configuring the political economy, so a more comprehensive effort would only make things worse.

But if we define Obama's goal sufficiently abstractly, our answer would be different. Assuming that Obama wants a free, prosperous, and peaceful America, any proponent of a free society would certainly hope for success. The crucial questions are about means.

The best chance for freedom, prosperity, and peace is through a radical retrenchment of government at all levels and a full flowering of the free market — without political privileges and burdens.

We know that Obama is not planning to free the economy. On the contrary, he is embarking on a major Keynesian program of government spending financed by borrowing and central-bank expansion of money and credit. Based on sound economic theory and experience, we know this approach cannot create sustainable economic growth. We also know that the program will violate individual liberty because inflation is an implicit tax that transfers wealth from those who have earned it to those who have not.

Given this knowledge, it is moot whether or not we should hope it succeeds. In the nature of things, success isn't possible.

On the other hand, we can hope Obama succeeds in this sense: that he ignores his Keynesian advisers and discovers sound economics.

I'm not holding my breath, of course. The political breed finds it irresistible to not *do something* during a crisis. Unfortunately, *undoing* something doesn't count. So I suspect that even a president who realized that Keynesian prescriptions are self-defeating would find it hard not to increase deficit spending, monetary expansion, and regulation. The incentives, perverse as they are, would be too strong to ignore.

In our modern society we pride ourselves on being free of superstition, yet many people fall for the hoary and groundless belief that prosperity can come from government's borrowing and creating money. The Treasury and Federal Reserve System last year embarked on such a policy to "inject liquidity" into the financial system rocked by the failure of the mortgaged-based securities market. But how much thought does it take to see that government-created money is not wealth.

Money is a medium of exchange. A unit of money is recognized as an economic claim on some quantity of goods or services. In the normal course of events, people produce useful things and trade them for money. Thus a unit of money signifies that the holder had previously produced something of value. Thus indirectly goods trade for goods.

Now see what happens when government creates money. There is an increase in *claims* to goods and services *without any increase in the goods and services*. No general improvement can arise from this situation — quite the opposite. Prices will rise.

Worse, since the created money reaches some people before others, inflation is a subtle way for the government to transfer resources, with many victims being low-income people. And by tampering with interest rates, it also creates the conditions for recession.

The upshot is that inflation cannot make society better off.

One hopes Obama succeeds in ushering in an era of freedom, peace, and prosperity. But hope is idle. He will have to discover sound economic theory and a reservoir of courage to make it happen.

*Sheldon Richman is senior fellow at The Future of Freedom Foundation, author of **Tethered Citizens: Time to Repeal the Welfare State**, and editor of [The Freeman](#) magazine. Visit his blog "Free Association" at www.sheldonrichman.com.*

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