



John Locke
(1632-1704)

Seeking “not to let a crisis go to waste,” left-leaning politicians and old-style Keynesian economists want to remedy the alleged failure of capitalism with a rising tide of big government. Let the budget deficits rip, empower the unions, socialize healthcare, increase trade protection, go green, and socialize the financial and industrial base. The irony, as Charles Rowley and Nathanael Smith show in this timely monograph, is that the Keynesian policy prescriptions that are serving as the pretext for this program have already been tried. Expansionary fiscal and monetary policies by the Bush administration and the Greenspan Fed were implemented to deal with the recession of 2001, and are precisely what caused the current crisis.

Applying sound economic reasoning and cutting-edge public choice theory, Rowley and Smith show that both the Great Depression and the current economic contraction were caused by failures not of capitalism, but of government. While monetary policy was the primary culprit in the 1930s, the interventionist policies of the Hoover and Roosevelt administrations exacerbated the downturn and stifled recovery. Fortunately, the monetary policy of the independent Fed is much better now (though the Fed has unduly widened its role), but elected politicians are pursuing policies of intervention and re-regulation similar to those pursued in the 1930s. If these adverse trends are not reversed, the dynamic *laissez-faire* capitalism of the United States will be assimilated to the *state* capitalism and economic stagnation of Western Europe.

By ending an era of big government, America in the late 1990s achieved the longest economic boom in its history, with unemployment falling lower than economists had thought possible, and an acceleration in the growth of productivity. Prosperity and full employment can only be restored by the same means. The authors outline a radical free-market approach to policy reform designed to restore the United States economy to its stellar performance during the final fifteen years of the 20th century.

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Charles K. Rowley and Nathanael Smith



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This work by Charles Rowley and Nathanael Smith is remindful of Robert Frost's poem, "The Road Not Taken". As President Obama and his minions seek to use a financial crisis to change our economic and governmental institutions in a manner that is profoundly adverse to growth, prosperity, freedom, and human achievement, no one has carefully considered the other way, the way not taken. Rowley and Smith carefully lay out the alternative path that stresses a public choice approach, including an emphasis on better rules, balanced budgets, free trade, and limited government. Their approach is in sharp contrast to the statist politics of the Obamanites, who, like the Luddites, seem hell bent on destroying the economic and social institutions which undergird our well being. As Rowley and Smith stress, the way out is not more government, but less. The genesis of this crisis was governmental regulation of the housing market; the genesis of recovery may well be the publication of this book.

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Rowley and Smith remind us of something forgotten at great peril: the only system that can possibly provide enough growth to feed hungry billions, and enough liberty to provide those billions with any sense of human fulfillment, is the market. They remind us also that the market depends on the aggregate consequences of millions of individual plans, responses to outside signals about what to do, based on private knowledge of what to do it with. No bureaucracy could possibly coordinate these plans, or be aware of these resources. Yet, all the nations of the world are turning toward the siren's song of the "plan". The problem, as Hayek said long ago in *The Road to Serfdom*, is that "the more the state 'plans', the more difficult planning becomes for the individual." I would hope that Rowley and Smith's effort will be widely read and acted on. I would expect that many will regret not having done so.

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