Will Dramatic Reforms Cause Recession or Recovery?

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By Jeffrey A. Tucker
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Commentary

I'm already hearing worry about the impact of mass layoffs from the civil service. Perhaps as many as 1–2 million or more people are about to be repositioned, probably with some severance, and that will surely have a disastrous impact on the labor market.

How possibly could all these workers, many of them with some talent but without much experience in labor markets as such, find new ways to be productive in the private sector?

Coupled with that are fears of the implications of suddenly cutting $2 trillion or more from the federal budget, about which Elon Musk has spoken.

Suddenly people are preparing the way to blame the Trump reforms for causing recession. However, consider that the conditions for inflationary recession are already here and have been for three years. None of the data that says otherwise is credible. Inflation is still eating away the value of the dollar domestically. Output never returned to growth following pandemic controls. Debt has soared: government, corporate, and household.

As this becomes more obvious in the coming half-year, anything the Trump administration achieves will be scapegoated by a screaming media ready to blame the new president for any and all troubles.

This will be especially true for any actual cuts in government spending and employment. The truth is that we've never really had them in our lifetimes. Even the Reagan-era cuts were cuts in the rate of growth of spending, and even those fizzled after a few years in an exchange to spend more on the military.

That was truly a missed opportunity, and precisely why my friend David Stockman, director of the Office of Management and Budget, resigned in protest. Let's hope the same thing does not happen again.

For now, the idea of actually purging the civil service and stopping the incredible debt increases seems real. Elon doesn't have power but he might have some major influence simply by virtue of his platform and credibility as a slasher of bloat at Twitter.

We shall see. If they have any success, you can be sure that any and all hard times will be blamed on these cuts. Especially the labor cuts will come under fire, with a press ready to say that the downsizing is putting huge strains on incomes and wages, not just in the Beltway but all around the country.

You should know in advance: this is all nonsense. The economic theory that blames labor shifts from the public to private sector is full of holes. Vibrant markets are perfectly capable of managing even dramatic flows out of government employment into private employment.

We have a beautiful example from history to consider.

The year was 1945 and everyone was looking forward to the war's end and the return of the soldiers in particular. Some 8 million servicemen came back home to the United States from September 1945 until September 1946. This constituted fully 15 percent of the workforce, so there was anxiety in the air.

That is far, far beyond anything being considered now.

In those days, many people were asking the question: What would happen to the labor markets? What would be the impact on wages? How possibly could an economy deeply weakened by war, rationing, and centralized production absorb all these workers?

There was also a deeper memory here. After the Great War, the soldiers returned to awful economic conditions and turned to bread lines and overall depression upon their failure to immediately integrate themselves into the old workforce. It was this period that gave the motif of the "forgotten man," a soldier who fought for his country but returned to a country that could not welcome him with opportunity and prosperity.

Constantly in the press and in academic debate, there was worry about recession from 1945–47. The New York Times ran frequent warnings.

FEARS A RECESSION

President Says Lower Levies Might Bring About a Slump

CALLS PROGRAM 'DUBIOUS'

Cites Foreign Aid, Need to Cut Debt and Stands on Aim of Relief 'at Right Time'

The President's veto message on the tax bill, Page 22.

By FELIX BELAIR Jr.
Special to THE NEW YORK TIMES.

WASHINGTON, June 16—President Truman rejected today the $4,000,000,000 tax reduction bill and told Congress in a veto message that the measure was "likely to induce the very recession we seek to avoid." He called for a thorough revision of the tax structure to meet the nation's economic and financial needs.

SLUMP IN BUSINESS INDICATED IN 1948

Poll of 3,500 of Credit Men's Association Sees Recession in Second Quarter of Year

VARIETY OF REASONS GIVEN

Cover High Prices, Excessive Inventories, Resistance, Lack of Capital, Labor Unrest

A business recession, beginning in the second quarter of 1948, is anticipated by 80 per cent of those responding to a questionnaire poll of the 3,500 members of the New York Credit Men's Association, it was announced yesterday. More than twenty diversified industries and services in and around New York City were represented.

The reasons leading to the conclusion, it was found, include high prices, excessive inventories, purchaser resistance, lack of capital

WATCH FOR SIGNS OF POSSIBLE SLUMP

Some Textile Field Members See a General Recession Shortly After Easter

With a weather eye cocked for possible signs of the current prosperous economic period going into a turbulent tailspin, manufacturers of textile products are keeping a closer check than ever on business trends, it was pointed out last week in the trade.

The spring of 1947 will prove most crucial in the trade, according to textile men who have analyzed the situation, and there will be felt the full impact of the developments that are now building up. The more pessimistic members of the textile fraternity are freely predicting that business in general and soft goods in particular will be in full recession shortly after Easter in 1947.

What happened instead? We saw the most spectacular economic recovery of the 20th century. Merely five years later, America's salad days arrived. New families could live very well with one income, while affording all the newest technology from machine washers to garbage disposals to the great new cars coming onto the market. Two kids in great schools with two cars and a home was not uncommon.

There was no wave of unemployment and despair like we saw after the first World War. Instead, it was boom times for all. The experts were completely wrong. Instead of driving down wages and incomes, they both went up in real terms thanks to huge increases in industrial output.

Indeed, it was during this period that the Great Depression finally ended. All the data from wartime was a mess because it showed dramatic increases in output that were actually traceable to government spending, which is not productive but subtractive of wealth. Once that was dialed back, recovery came finally, after nearly 20 years of suffering.

What is the reason for this? Economists who have studied this identify three general factors.

First, production turned from making war to making cool stuff for consumers. Rationing ended and industry could get back to doing what it is supposed to do. War is expensive and distracting from the cause of rising prosperity. It builds nothing. It only diverts and destroys. The end of war is a marvelous opportunity for any society.

Second, moving labor resources from public employment to private employment is a win in two ways. It relieves taxpayers of the burden of support and it draws new talent and energy into productive uses. What that means is that the conventional wisdom is entirely backwards. Terminating bureaucrats and making them available for creating wealth is good for prosperity.

Third, 20 years of suffering had a remarkable effect on corporate and household savings. The velocity of money had crashed and never recovered from 1930 onward, and savings was going higher and higher. With prosperity on hold and the depression making it ever less available to buy even with those who had money meant two decades of deferred consumption, all poured into savings.

These saved resources came online after 1946 and following, and fueled a boom in manufacturing and investment. It was not inflationary because it was not funded by fake money but rather real savings. This is how economic recovery is supposed to work. This case is unlike, for example, 2008, which was funded entirely by fake liquidity.

Sadly, today, savings is very low, due to a variety of factors. The Trump administration cannot count on that. Instead, it has to bank its hopes in economic recovery on freeing the markets from administrative control and imposition. Along with that, opening labor resources by massive downsizing in the public sector will help boost economic output.

There is really no choice now but to slash public sector spending and employment. The results will be like we saw when Twitter became X: It went from a lackluster social-media app to become the number one news app in the world. We do not know the company valuations because Elon also took the company off the public markets. But it would not surprise me if they are higher than when he bought it.

We have the historical example to prove that moving labor resources from public to private feeds economic growth, not the reverse. Let's try to remember that as a tsunami of propaganda visits us in the first quarter of next year and following.

Views expressed in this article are opinions of the author and do not necessarily reflect the views of The Epoch Times.

Jeffrey A. Tucker
Author

Jeffrey A. Tucker is the founder and president of the Brownstone Institute and the author of many thousands of articles in the scholarly and popular press, as well as 10 books in five languages, most recently "Liberty or Lockdown." He is also the editor of "The Best of Ludwig von Mises." He writes a daily column on economics for The Epoch Times and speaks widely on the topics of economics, technology, social philosophy, and culture.

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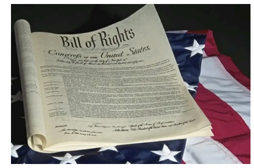

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