

‘Meltdown’ will change your perception of U.S. economy

If you are tired of hearing the same old explanations of how we got into the current economic conundrum and what we need to do to get out of it, then “Meltdown” by Thomas E. Woods Jr. is a book you need to read.

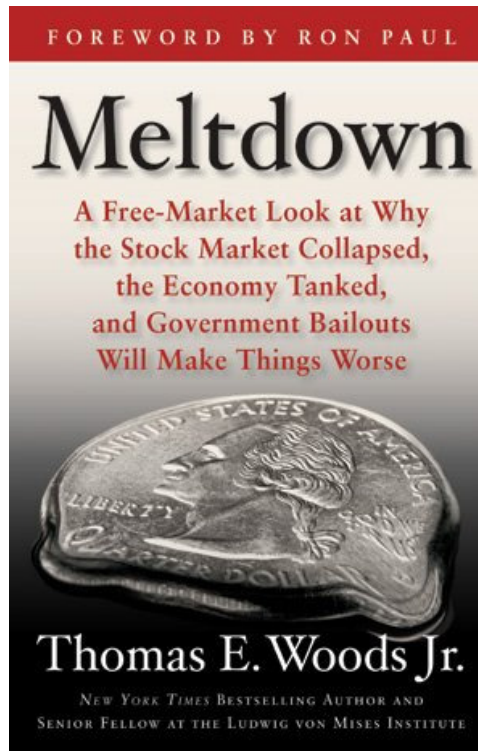
It should be noted up front that Woods is an advocate of the Austrian school of economics – he believes that the free-market approach constitutes the only realistic and viable strategy for stabilizing economies and thus ending the boom-bust cycles that are a direct result of governmental intervention. Accordingly, if the basic premise of “Meltdown” had to be summed up in one excerpt, it would probably be: “The longer we try to prop things up, the worse the inevitable bust will be.”

“Meltdown” is not a difficult book to read or comprehend. Displaying a keen mastery of both language and the subject matter he tackles, Woods makes some relatively complicated concepts readily accessible to anyone with even a rudimentary understanding of basic economic and political theory. Moreover, the book consists of only seven chapters and can be comfortably digested in one sitting.

Woods begins by demystifying the Federal Reserve and explains how it contributed significantly to our current economic woes. “The Fed’s policy of intervening in the economy to push interest rates lower than the market would have set them was the single greatest contributor to the crisis that continues to unfold before us,” Woods asserts. “The current crisis was caused not by the free market but by the government’s intervention in the market.”

As you will recall, when the federal bailouts were first proposed last year, the response from the public was overwhelmingly negative. The fact that Congress eventually passed the legislation, after the House voted down the original bill, says a lot about our current political system, according to Woods. The Senate version subsequently passed primarily because it included funding for a wide variety of largely extraneous and unnecessary projects whose only purpose is to significantly increase the national debt.

The section dealing with the housing bubble is particularly insightful. As Woods notes, “At the center of the collapse were the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation, better known as Fannie Mae and Freddie Mac.” Woods argues persuasively that a lack of appropriate oversight allowed these government



“Meltdown: A Free-Market Look at Why the Stock Market Collapsed, the Economy Tanked, and Government Bailouts Will Make Things Worse” by Thomas E. Woods Jr. Washington, DC: Regnery Publishing, 2009. 194 pages, \$27.95.

entities to build up ever riskier obligations that would not have been tolerated in a free-market system. People, especially minorities, were encouraged to secure mortgages that they could never really afford, through affirmative action programs such as the Community Reinvestment Act.

Moving on, Woods effectively dismantles the “too big to fail” argument that is often championed by the defenders of the governmental intervention. The basic idea is that some companies are simply too large and too interconnected with the general economy to be “allowed” to go under. This logic, according to Woods, is inherently flawed and continues to contribute to our ongoing economic saga.

The fourth chapter, “How Government Causes the Boom-Bust Business Cycle,” is Woods at this best. As he carefully and meticulously points out, when the natural laws of supply and demand (either at the micro or the macro level) are interfered with through

governmental intervention, the net result is always detrimental in the long term, regardless of whether we are talking about goods, services, or capital. In Woods’ view, artificial manipulation of the market, for any reason, inevitably disrupts economic systems.

Woods also recounts the various forces that contributed to the Great Depression and how President Roosevelt’s policies actually prolonged the economic downturn by at least a decade – contrary to the folklore and mythology that has evolved about the man and his actions over the last half century. By contrast, he notes that the “forgotten depression” of 1920-21 should serve as a model for how the economy corrects itself without governmental intervention. Following a year of depression instigated by an artificial inflation of the money supply, the government let the markets readjust naturally and the subsequent recovery, though not without substantive pain, was still swift and solid.

Finally, after discussing the nature of monetary systems, Woods turns his attention to what we should be doing to recover from the current economic slump. Toward this end, he provides a blueprint for getting us out of the current economic crisis, as well as how to avoid becoming entangled in them in the future. After explaining why the “spend if you love America” mantra is counterproductive to the point of being idiotic, Woods lays out a plan for recovery and sustainable economic growth consisting of the following recommendations: 1) let bad companies and banks go bankrupt, 2) abolish the Federal Reserve, as well as Fannie Mae and Freddie Mac, 3) end all governmental bailouts and substantially cut governmental spending, 4) end the governmental manipulation of money, 5) close all special lending windows, 6) move back to the economic system based on commodity money.

Does “Meltdown” provide all the answers to our economic problems? Of course not. Plus, implementing some of his recommendations would admittedly be extremely challenging given current political realities. But fair warning: If you approach the book with an open mind and really take what Woods is saying to heart, there is a good chance that you may never see the world the same way again – the book is that powerful.

-- Reviewed by Aaron W. Hughey, counseling and student affairs, Western Kentucky University.