Part 1: Obama's $ 450 Million Job Strategy and Keynes

Business Panelists Divided about Why Stock Market Plunged after Obamas $ 450 Million Job Plan Announced;

Emerging Belief that Keynesianism Can't Work Because Spending Plans Arouse Fear of Future Taxes and Inflation

Weekly CEO/Business Leader Poll by COMPAS in *Canadian Business*
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1.0 Introduction

Stock markets plunged after the announcement of Barack Obama's $ 450 million job plan. CEOs and business leaders on the COMPAS business panel are divided about why. Many believe that the plunge was unrelated to the job plan, as shown in table 2.1. Many others believe that market reaction reflected investors' view that the White House doesn't understand that businesses do not make long-term decisions because of one year of tax forgiveness.

The Obama job plan was driven in part by a White House view, drawn from Keynesian economics, that spending can prime the economy for recovery. But there is an emerging belief among business panelists that Keynesian policy can't work because spending announcements arouse fear of future taxes and inflation, as shown in table 2.1

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine.

2.0 Details

Table 2.1: President Obama just announced a new stimulus package of $ 450 billion. On a 7 point agreement scale where 1 means strongly disagree and 7, strongly agree, how much do you agree with each of the following explanations for the stock market's subsequent plunge of 300 points.
NO RANDOMIZATION.

	MEAN	7	6	5	4	3	2	1	DNK
The package was seen as worsening the economy.	3.6	9	8	9	23	13	17	15	6

	MEAN	7	6	5	4	3	2	1	DNK
The package showed the White House doesn't understand business, which does not make long-term decisions because of one year of tax forgiveness.	4.2	15	20	16	9	12	10	15	3
Obama announced a plan to encourage further unionization of employees.	3.4	6	9	12	12	16	15	19	11
The plunge had absolutely nothing to do with Obama's latest announcement.	4.1	14	17	16	13	8	13	16	5

Table 2.2: The pre-WWII economist John Maynard Keynes is known for his belief that governments can lessen recessions by low interest rates and heavy public sector spending. On a 7 point agreement scale where 1 means strongly disagree and 7, strongly agree, how much do you agree with each of the following opinions. RANDOMIZATION.

	MEAN	7	6	5	4	3	2	1	DNK
Keynesian theory doesn't work because investors are now long-term thinkers, worrying about heavy government spending as forerunners of high taxes and high inflation in the future.	4.5	17	23	19	8	11	9	11	3
The failure of heavy government spending programs to prevent current downturns shows that Keynes was mistaken.	3.7	10	13	9	11	23	18	11	4
Government spending programs have not been large enough to test Keynes' theory.	3.5	8	10	12	10	24	16	14	6

The following verbatim comments provide a nuanced sense of respondent opinion:

> As I understand it, Keynes suggested that government policy could be effective in managing the economy and that government should use counter-cyclical fiscal policies. In other words increase taxes and reduce government spending when times are good and when we go into recession to spend heavily and take on debt. Unfortunately, the U.S. government didn't increase taxes and reduce spending in the years before the downturn and now it doesn't have the financial strength to spend their way out of the recession. The problem is that for Keynesian Economics to work you have to have politicians that stick to it in both halves of the cycle and nobody in politics seems to want to do that.

> Keynes theory is two-fold; government is to spend to stimulate the economy during times of recession AND pay down debt during times of expansion of the economy. Governments are quick to do the first and forget to do the second! Therefore the theory does not work!

> Keynes assumed that there would be money to spend in a downturn. It is dishonest for governments to claim his theory is necessarily justified in current circumstances in the U.S.

> Obama has lost sight of the fact that stimulus in bad times has to be supported by stable fiscal position. The U.S. government is in no shape to be offering massive stimulus as this point.

> Einstein's theory of insanity is to do the same thing over and over and expect different results. By that theory Obama is insane. Stay away from stimulus packages otherwise you saddle future generations with crushing debt. Government never has and never will 'create' jobs that are needed, add value to society and are sustainable. Government needs to level the playing field, set the rules and get the hell out of the

way while private sector operates. Governments should absolutely stay away from picking winners and losers as they never get it right.

Keynesian economics is still valid, but never did Keynes foresee the effects of large scale globalization on economies. This is the issue in the U.S. and many other Western economies - large scale structural changes in their economic make-up which is fundamentally altering their comparative advantage set. It will take a generation or maybe two to work out.

The U.S. has misspent the opportunities of the past 2 years. Obama is trying to create an economic environment that is 180 degrees to that of the Republicans. How much will the U.S. voter trust him?

Keynesian theory also included stopping spending during strong economic times. Using only half of the theory doesn't work.

Bailing out the financial institutions, the trigger for this recession, to the degree that the Obama's government did, coupled with the lack of accountability by these institutions for the funds they received, has resulted in a lack of confidence, within the U.S. and abroad. The fundamental problems have not been addressed; hence the U.S. could still slide right back into a deeper recession. At best, it is going to be a slow recovery and, even then, could flounder again if the fundamental issues are not addressed. The monies thus far injected would have been better directed at infrastructure such as roads, bridges, and so on.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted September 10 – 13, 2011. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=91 are deemed accurate to within approximate 10.3 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.