FDR Economist Says Obama Should Put Stimulus First

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April 2 (Bloomberg) -- When John Maynard Keynes came to Washington in 1934 to persuade President Franklin Roosevelt to spend more to revive the U.S. economy, Roosevelt didn't pay the British economist much attention, Thomas Worsley recalls. He hopes President Barack Obama won't repeat Roosevelt's mistake.

Worsley, then a 23-year-old economist about to take a job in the Treasury Department, says Roosevelt balked at too much economic stimulus, and even allowed conservative Democrats to talk him into reining in federal outlays in 1937.

Now, at 97, Worsley is watching as Obama wrestles with the deepest economic slump since the Great Depression and is coming under fire from critics at home and abroad over his spending plans. Ultimately, Worsley said, only World War II delivered the U.S. from its hard economic times, and he advises Obama to keep pumping money into the economy.

"That vindicated Keynes's argument," Worsley said during an interview at his brick townhouse in Alexandria, Virginia, where his framed economics degrees from the University of Virginia, including a doctorate, are displayed. "You have to get enough spending going to get private enterprise interested in taking chances on investing."

The similarities between the current crisis and the Depression are clear, said Worsley. Speculation and a failing banking system stoked both disasters. The two presidents confronted competing pressures over whether to spend more money or cut taxes. A lack of regulation contributed to the mess.

And neither president had an obvious path to success.

Rare Perch

Worsley's is only one view, though from a rare perch. He worked in the government during the greatest economic meltdown and lived to see federal officials try to staunch another one.

His counsel for Obama is straightforward: Keep spending until it has an effect -- then start paying attention to the deficit. Long-term, "it's unsustainable," he warns.

It's a warning that Obama's administration is heeding so far. Christina Romer, chairman of the White House Council of Economic Advisers, told a congressional panel this week that a lesson of the Great Depression is to "beware of cutting back on stimulus too soon."

As an economist contracted by then-Treasury Secretary Henry Morgenthau, Worsley conducted a farm-income study and surveyed bank conditions in Cleveland in 1935. Then he served in other government jobs during the New Deal before becoming an academic.

Now, when he comments on the parallels of the two economic emergencies, he quotes from Keynes to draw comparisons.

‘Profit Inflation’

“The people that had lost a lot of money in the speculation that led up to the Great Depression, the Roaring Twenties, had made out like bandits; they had what John Maynard Keynes called ‘profit inflation,’” said Worsley, who sported a navy cardigan that a professor might wear and a collared shirt. “Those at the bottom were ‘the forgotten man.’ Obama is dealing with much the same situation now.”

During his Treasury stint, Worsley interviewed bankers and borrowers to determine how to remedy the credit crunch. He recalled that bankers -- “very unpopular with the general public” -- were eager to explain why they weren’t lending.

Worsley remembers the bold action Roosevelt took, including shutting the banks shortly after he was sworn in.

“All of the VIPs who came to the inauguration couldn’t cash checks at the hotels they were staying in,” he said. The government solved the credit problem by lending money to private businesses and creating the Federal Deposit Insurance Corp., which made the banks feel secure in lending again.

A New World

Still, Worsley said changes in the national economy might complicate Obama’s efforts to right the situation quickly.

Public debt is higher as a percentage of the economy. The failing banks are global institutions, not the smaller local lenders that went bust during the Depression. And the root causes of this crisis -- complex financial instruments such as derivatives -- didn’t exist in the 1930s.

It’s also unlikely Obama can rely on what Keynes called a “massive external shock” like a war, Worsley said. “The question is, can we spend enough with peacetime spending to get us out?”

Another lesson from the Depression is that the nation’s mental state is almost as important as its policies, he said.

Roosevelt’s ability to boost morale was among his greatest contributions, he said. And Obama is “doing an excellent job of explaining things.”

“He’s not having fireside chats with the radio. He’s using the TV, a little bit better instrument.”

Watching the Babe

A native of Columbus, Georgia, Worsley spent much of his youth on his grandfather's cotton plantation, where his favorite toy was a goat cart. He arrived at the University of Virginia in 1929, a month before the stock market crashed. His memories of the era are vivid -- watching Babe Ruth play in Yankee Stadium in 1927, driving a Model T, listening to Glenn Miller perform at his university.

Another parallel with Obama is Roosevelt's draw with young people. Worsley was part of an army of youth who flocked to Washington because they were inspired. "Everybody felt sort of close to him," said Worsley, who had listened to Roosevelt's fireside chats at his college fraternity house.

'Have a Blast'

Now an amateur historian, he collects presidential biographies and Civil War histories. At 94, he published a memoir.

He retired in 1973 and, since then, has served as a consultant and sat on numerous civic boards, including the Northern Virginia Association for History.

Today Worsley, who enjoyed ballroom dance until he was 94, keeps busy. He's trying to get a national monument to James Madison and recently sent a letter to Obama asking for support. It's part of his prescription for longevity.

On the final page of his memoir, Worsley sports a T-shirt reading: "Have a blast while you last."

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