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Grasping Reality with the Invisible Hand
Fair, Balanced, and Reality-Based

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THE CATO INSTITUTE IS DOWN TO ~~ZERO~~ **TWO**...

~~Unless~~ I have miscounted, the Cato Institute's latest ad has ~~zero~~ **only two** signers who were ever members of the President's Council of Economic Advisers. They could not get ~~a single one~~ **any more** on board:

> http://cato.org/special/stimulus09/cato_stimulus.pdf: Notwithstanding reports that all economists are now Keynesians and that we all support a big increase in the burden of government, we the undersigned do not believe that more government spending is a way to improve economic performance. More government spending by Hoover and Roosevelt did not pull the United States economy out of the Great Depression in the 1930s. More government spending did not solve Japan's "lost decade" in the 1990s. As such, it is a triumph of hope over experience to believe that more government spending will help the U.S. today. To improve the economy, policymakers should focus on reforms that remove impediments to work, saving, investment and production. Lower tax rates and a reduction in the burden of government are the best ways of using fiscal policy to boost growth.

And they are cowards.

They cannot even nerve themselves up to say what they really believe--that what we need is lowered tax rates and slashed government spending.

One does wonder what Milton Friedman would have made of all of this: He is, after all, the man who said: "In one sense, we are all Keynesians now; in another, nobody is any longer a Keynesian.... We all use the Keynesian language and apparatus; none of us any longer accepts the initial Keynesian conclusions..." One thing that the Keynesian apparatus tells us is that the velocity of money is indeterminate when safe short nominal interest rates are zero--that when that occurs belief that monetary policy can ensure full employment is also a triumph of hope over experience.

A much, much better argument against the Obama fiscal boost is made by Kevin Murphy and Gary Becker:

> Becker and Murphy Say the Short-Term Benefit of the Stimulus Package Will Be Less Than Expected: How much will the stimulus package moving in Congress really stimulate the economy?... In the present environment, however, with growing unemployment of both labor and capital, the net stimulus would be larger [than zero] since the additional government spending would put some unemployed resources to work. For example, if the government spent money to build new homes with unemployed labor, the stimulus to GDP might be close to, even larger than, the amount spent.... In fact, much of the proposed spending would be in sectors and on programs where the government would mainly have to draw resources away from other uses. This type of spending includes adding broadband to rural areas, spending more on health coverage, encouraging scientific innovations, developing renewable energy, as well as many other things....

Some economists have assumed that every $1 billion spent by the government through the stimulus package would raise short-term GDP by $1.5 billion. Or, in economics jargon, that the multiplier is 1.5. That seems too optimistic given the nature of the spending programs being proposed. We believe a multiplier well below one seems much more likely.

The increased government spending in the stimulus package is supposed to be only temporary... but [it] probably won't be.... Once created [government programs] tend to survive and grow over time.... [S]pending programs in the stimulus package will continue to some extent after the economy has returned to full employment. The multiplier at that time will surely be much closer to zero....

The effects on consumers and businesses of the stimulus package depend not only on the stimulus to short-term GDP, but also on how valuable the spending is.... [T]he spending in this package is likely to have less value. A very large amount of money will be spent quickly.... [V]arious components of the package are unlikely to pass any reasonably stringent cost-benefit test.

There are no free lunches in spending, public or private. The increased federal debt caused by this stimulus package has to be paid for eventually by higher taxes.... The burden from higher taxes down the road has to be deducted both from any short-term stimulus provided by the spending program, and from its long-run effects on the economy.

We believe that it is incumbent on both supporters and opponents of the bill to thoughtfully evaluate each of these four factors. We recognize that how individuals will come out in their own evaluation of these factors will determine their attitude toward the stimulus package, and that there is considerable ground for reasonable differences of opinion...