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Critics of Economic Stimulus Need Better Arguments

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One of my deepest anxieties as a conservative lately is rooted in the sense that many of my cohorts are over-reliant on platitudes. Pick a problem or crisis—the '08 crash, persistent unemployment, deficits, you name it—and you'll find readymade rubber-stamp solutions.

The gnaw-factor of this anxiety skyrocketed when I read this *Corner* post by Heritage Foundation economist J.D. Foster, in response to Ezra Klein's defense of Keynesian stimulus theory.

Foster:

> Economies are subject to a "convulsive downturn" sufficient to overwhelm the markets' self-correcting mechanisms and instead cause downward forces to feed on themselves, what Klein calls a "destructive feedback loop." This leads to the policy prescription as Klein describes it: In that situation, the role of government is to break the cycle. Because businesses and consumers have stopped spending, the government breaks the cycle by spending.Simple enough, what can be wrong with that? Answer: It only appears to work, because the theory is incomplete. Keynesian stimulus theory ignores a simple question: Where'd the money come from? Government borrows it. If government borrowing goes up, somebody somewhere in the economy who would have spent it on something, can't. Total spending doesn't change, only the label on the spending.

Argh!

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Is it not contradictory to say "businesses and consumers have stopped spending," and then, just moments later, assert that "somebody somewhere in the economy who would have spent it on something, can't"? Who is this "somebody somewhere" when you've just conceded that spending has stopped?

Keynesian economists are well-acquainted with the "crowding-out" phenomenon and the "Treasury View" critique of fiscal stimulus theory. (If you're interested in a long-ish paper on the subject, see liberal economist Brad DeLong here; basically, the rejoinder is that "crowding out" can occur, but only when the economy is running at full employment.)

Maybe I shouldn't be, but I'm kind of shocked to see such warmed-over, hackneyed rhetoric over and over again. Here's the Cato Institute's Michael Cannon, for instance: "The only way Congress can spend money is to extract it from the private sector—either by taxing it, borrowing, or seignorage." And the University of Chicago's John Cochrane put it like this: "First, if money is not going to be printed, it has to come from somewhere. If the government borrows a dollar from you, that is a dollar that you do not spend, or that you do not lend to a company to spend on new investment." [Check out a slide show of the 10 best cities to find a job.]

Blah, blah, blah: I get the concept. Is this the best we can do? Don't tell me fiscal stimulus will screw up spending and lending decision-making, when it's precisely due to a lack of spending and lending that fiscal stimulus occurs. And don't give me a potted history of "stagflation," either: We're not burdened with double-digit inflation and interest rates like we were in the '70s.

Come on, conservative economists. Pat me on the head; slowly and patronizingly explain things to me, if you must. But give me something I can work with here!

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