



## Former Reagan aide Bruce Bartlett: Why Republicans are such massive hypocrites on stimulus

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In 2009, when Barack Obama proposed a relatively modest economic stimulus — one that Paul Krugman, among others, warned was roughly half the size that was needed — Republican politicians and economists screamed bloody murder. Now, with COVID-19 panic gripping the world, and a Republican in the White House, it's a totally different story. Surprise, surprise. As David Dayen noted Wednesday, the stimulus package the U.S. Senate may have passed by the time you read this is "not a \$2 trillion bill, [but] closer to \$6 trillion, since bailout money helps capitalize \$4.25 trillion in leveraged lending by the Federal Reserve.

Just because this ideological switchback is so predictable doesn't mean we should shrug it off. Becoming habituated to GOP hypocrisy is a crucial part of how and why they continue to get away with it. Normalizing bad-faith politics, to put it another way, is a central goal of bad-faith politics.

One person who's not habituated is Bruce Bartlett, who was a domestic policy adviser in the Reagan administration and then a top Treasury official under George H.W. Bush. He was one of the first establishment Republicans, along with John Dean, to break ranks with the party during the George W. Bush years. When he called out the current GOP's hypocrisy on Twitter, I stood up and took notice.

Bartlett highlighted writings from a number of prominent Republican-aligned economists back in 2009, making all sorts of arguments against an economic stimulus to combat the Great Recession. There was a collection of such views in the Chicago Tribune. His point was that all that stands in stark contrast to what we're hearing today, which is basically crickets. But we all know that those arguments will return with a vengeance as soon as a Democrat is in the White House. What better time to take a critical look at these arguments than right now, when no one else is willing to make them?

I reached out to Bartlett, who agreed to conduct an extensive interview by email. What follows has been edited for clarity and length.

**Before asking about specific arguments and those who advanced them, I'd like to ask if there are any broad observations you'd like to make, regarding both the substance and the certainty of these economic arguments in 2009, and why — at least for the moment — we're hearing so little of that in the face of this pandemic.**

First you have to understand that for 80 years before the 2008 crisis there had been a long-running debate about the Great Depression. Conservatives argued that FDR's stimulus was wrong and that his economic guru [John Maynard] Keynes was completely wrong. But they couldn't really explain why. The implicit conservative position was to do nothing, let the recession run its course, allow the market to force down wages by whatever amount was necessary to achieve full employment. Those in the "Austrian school" today continue to argue that all stimulus is per se bad because it prevents the necessary economic readjustment and sows the seed of future recessions. Implicitly, they think there would be no recessions in a pure free market, which is nonsense.

There were many recessions, often called panics, in the era of small to nonexistent government. Moreover, the Austrian view implies that workers and businessmen were responsible for the recession and must bear all the cost of adjustment through layoffs and bankruptcies. Government bears no responsibility to help. I mention this because many Republicans still believe government should do nothing or it will just make matters worse.

Obviously, the do-nothing policy was impossible politically. That was a big problem for Republicans because they had no positive anti-recession program to advocate for many years.

**Eventually that changed, right?**

In the 1960s, Milton Friedman and Anna Schwartz published research that finally gave conservatives a way out — it was all the [Federal Reserve's] fault, and the Fed alone could have stopped the Depression in its tracks if it had done its job properly.

The Friedman-Schwartz theory was that deflation (a falling price level) lay at the heart of the depression. This resulted because the money supply fell by a third, which was caused by the closure of many banks. Lacking deposit insurance or a lender of last resort, when a bank went under its deposits disappeared — depositors lost everything.

This was true, as far as it went. But Friedman thought that all the Fed had to do was pump up the money supply — just buy as many Treasury securities as necessary to keep the money supply from falling. This would have helped, but not enough. The problem was that banks are the transmission mechanism to distribute money from the Fed to the economy in the form of loans. If banks won't lend, the money just sits there, immobilized, without any economic effect.

Another problem is something called the liquidity trap — an unknown concept in the early 1930s. Normally, the Fed creates liquidity by creating money, the most liquid of all assets, in

exchange for bonds, which are much less liquid, especially those with long maturities. But in a deflationary depression, interest rates fall very low because there is no lending and the inflation premium falls to zero. Since money is essentially just a bond that pays no interest, a bond with close to zero percent interest rate is virtual money. Therefore, there is no net increase in liquidity when the Fed buys a bond with a minuscule interest rate. Monetary policy is effectively impotent, and cannot pull the economy out of recession.

**That's what happened in 2008 and 2009, when you argued for a more muscular, multifaceted approach, right?**

Yes. This is where Keynes comes in. In such conditions, fiscal policy must become active. The government must be a locomotive to pull the economy out of the hole by substituting active public spending for immobilized private spending. The important word here is "spending," whether for consumption or investment. The important thing is that it involves the purchase of goods and services — in other words, "stuff." Transfers are of no value unless they stimulate net additional spending. That's why tax cuts are mostly useless in these circumstances. Public works spending is the best because it adds to the nation's capital stock and will improve future productivity.

FDR was more constrained than people think, in terms of applying the Keynesian medicine in large enough doses to get the economy off a dead stop. Think of a car up against a curb. Pushing it over is very difficult when it is at a dead stop. But with a little bit of momentum, it will go over the curb easily. The economy is the same way. If there is momentum, a small amount of stimulus goes a long way. Without momentum, it takes a lot more stimulus to get it moving again.

As late as 1940, Keynes lamented that his policies had yet to be tried on the scale necessary. There was too much fear of deficits, inflation and big government for even liberal politicians to act with necessary boldness.

**War changed that, though, did it not?**

World War II came along and suddenly all the restraints were gone. The government started buying massive amounts of munitions, paid for with the largest deficits in history, freely financed by the Fed, which pegged interest rates throughout the war. Price controls kept inflation under control.

As we know, the war finally ended the depression and Keynes got credit for being a genius. Conservatives hated this, and Friedman spent most of his professional career undermining Keynesian theory any way he could. By the 1970s, he was successful in convincing a large percentage of economists that fiscal policy was bad because it led to higher debts and that only monetary policy mattered. The Fed, which heretofore had been considered a passive economic bystander, became the primary economic policymaking institution in the country.

Thus, when the recession hit in late 2008, Friedman devotees like Anna Schwartz and Robert Lucas insisted that an aggressive Fed policy was all that was needed to right the economy, just as

in 1929. There was no need for fiscal stimulus, which was bad because it led to big government. Fed policy would be easily reversed when the crisis was over without enlarging government.

What happened then was somewhat subtle, wasn't it? It wasn't just Keynesian vs. Friedmanite policy.

Fed chairman Ben Bernanke was probably more familiar with Friedman's work than any other policymaker and he pretty much did what I think Friedman would have advocated.

Even though the policies were Friedmanite and even though Bernanke was a Republican appointed by Bush, conservatives were very uncomfortable with his policies. First, I think many wanted them to fail for callous political reasons because they wanted Obama to fail. Second, the do-nothing Austrian school had gained influence over the years owing to large infusions of money to Austrian organizations from the Kochs, gold nuts and others, and it had articulate spokesmen in Ron Paul and others.

These neo-Austrians convinced many conservatives that an aggressive monetary policy was just as bad as an aggressive fiscal policy — and it would lead inevitably to hyperinflation. By 2010, there was a letter from prominent conservative economists attacking Ben Bernanke as a crude inflationist whose policies must be reversed ASAP. So we were basically back to the [Herbert] Hoover do-nothing policy.

So where are we now — and why?

The reason why things are different now is mainly because of rank partisan hypocrisy. Libertarians, Austrians and other far-right groups love Trump because he is destroying government before their eyes. They even give him a pass on easy money, although he has nominated a crank Austrian gold-standard nut, Judy Shelton, to the Federal Reserve Board. The second a Democrat is elected they will go back to the scorched-earth policy they followed under Obama, hope he fails, and they can go back to grifting and being assholes.

There's a lot of overlap or synergy between the arguments that GOP-aligned economists made, but there seem to be a few main themes that stand out. I'd like to ask you about each of them, and the figures you noted who expressed them. First, you noted James Glassman, who made the argument that fiscal stimulus doesn't work as a matter of history. What does he represent, and what's wrong with his argument?

James Glassman is an influential financial writer and editor who was writing in Commentary, an important publication for what remains of the neoconservative, "intellectual" right. His history is not entirely wrong. I've made some of the same arguments he makes. The problem is, he is a rank hypocrite who only opposes stimulus under Democratic administrations. I can find no evidence he has said anything in opposition to the Trump bailout.

Then you noted Eugene Fama, who made the argument that fiscal stimulus doesn't work as a matter of "now-well-established economic knowledge," as did John Cochrane. Who is Fama and what's wrong with his argument?

Fama is a very famous expert on finance and winner of the Nobel Prize in economics. His and Cochrane's views echo the old knee-jerk anti-Keynesianism that the University of Chicago has held since the 1930s. By arguing that fiscal policy is a wash they are putting the burden of adjustment on monetary policy, just as Friedman did. They conveniently focus on government spending as if it is homogeneous. But as I explained, the Keynesian medicine only works when deficits are used to buy stuff. Transfers are economically worthless because you are just shuffling money around.

I should mention that an inevitable and necessary aspect of the proper Keynesian medicine is that inflation and interest rates will rise. This is good and a necessary part of stimulating growth, up to a point, of course. It means money is being mobilized and monetary policy is becoming effective, which is the whole point of the policy. But Chicago types immediately go apeshit at the first sign of inflation, and see hyperinflation right around the corner.

Such concerns are not unprecedented. In 1937, FDR became alarmed when inflation and interest rates started to rise. He immediately slashed government spending, balanced the budget and pressured the Fed to tighten monetary policy, leading to a sharp recession. This shows why Chicago policy is misguided. It was only because of the war that Keynesian policy was allowed to continue after 1940.

You noted Anna Schwartz, who made the argument that *monetary* stimulus could work, instead. So what position does she represent? And what's wrong with her argument?

Schwartz is important because she co-authored Friedman's key book, "A Monetary History of the United States," which laid out the theory that monetary policy caused the Great Depression and could have cured it with no help from fiscal policy. She is important because she was still alive in 2009 and was the closest person alive to Friedman. In effect, she spoke for him and told us exactly what Friedman would have said. Unfortunately, partly because she was a woman, her pronouncements only got a small fraction of the attention Friedman would have gotten, so they disappeared into the ether.

In any case, a Fed-only response to the 2008-2009 recession would not have worked, for the same reason Friedman's approach would have been inadequate in the 1930s. The Fed would have been pushing on a string, absent an active fiscal policy to mobilize and raise aggregate spending in the economy.

You also noted Niall Ferguson, who argued that reducing government debt, not increasing it, was the key to raising growth. What does he represent, and what's wrong with his argument?

He's a very right-wing Brit who was teaching at Harvard in 2009. His position gave him undeserved attention and prestige when he spouted the same-old/same-old anti-Keynesian, Hooveresque policy. In the right-wing view, big government is the root of all evil, and slashing government is always the appropriate response to every economic problem. It's obvious that cutting government spending and reducing the deficit would only make matters worse. The test case was 1937-38, when that is exactly what was done.

All right, and then you noted Martin Feldstein, who supported the *idea* of stimulus, but argued for a delay. Who is he as a representative? And what's wrong with his argument?

After Friedman retired from Chicago, Feldstein became the most important Republican academic economist in the United States. Very, very influential, especially on fiscal policy. Known for obsessing about the budget deficit. The point about delay is simply to contrast with today's Republican economists like Larry Kudlow who say, "Damn the torpedoes, full speed ahead."

Of course, the 2009 stimulus ballooned the debt. But under the circumstances, that is like worrying about water damage on your furniture while your house is on fire and people are trying to put it out. Anyway, the reason why conservatives are concerned about the debt, historically, is because they believe it is inflationary and puts pressure on the Fed to run a monetary policy that is too easy.

All of the history after 2009 shows that the deficits did not raise inflation or interest rates. The critics were 100% wrong and they have never admitted it. That is why they deserve no credibility when they get around to recycling the same-old/same-old arguments next year. Plus they are rank hypocrites for staying silent now.

How did the different anti-stimulus arguments described above serve to reinforce one another or work together?

You have to understand that right-wingers are operational anarchists. They always want government slashed, to do as little as possible. They are opportunistic about achieving their goal of shrinking government under any and all circumstances.

When I worked at the Cato Institute and the Heritage Foundation, the conclusion of every single paper was that the problem was caused by government and the solution was to slash government. Both organizations simply ignored problems caused by corporate screw-ups or greed, and ignored those that necessarily required government intervention. Those problems simply didn't exist in their world, or it was somebody else's problem. Their only problem was big government.

Parenthetically, I should mention two policies that always motivate right-wingers, in good times and bad. First is starve-the-beast, which I explain in detail [here](#).

STB says that the best way to destroy government is to decimate its revenue-raising ability. That is why Republicans are so obsessive about tax cuts. They know they will lead to deficits and it will be near-impossible to ever raise rates back to where they were once they've been cut. The deficit always offers a convenient excuse to slash spending that would be impossible to cut except under conditions of a dire fiscal emergency.

Second is something I call the Lofgren Corollary. It goes like this: Republicans assert, on the basis of lies or nothing at all, that some government program or agency is loaded with fat or not working properly. Thus they cut the budget, maybe only a little at first. If nothing happens, they will claim success and enact more cuts. Eventually the cuts diminish effectiveness and Republicans will claim it is inherent in the nature of the program and demand more cuts to

punish the lazy worthless staff. The effectiveness declines further. Republicans demand more cuts and so on, until the program or agency can be abolished.

In other words, it is intentional Republican strategy to make government work poorly to justify budget cuts. The problem is that once in a while — like now — we suffer badly because essential programs and agencies are unable to do their jobs because they are unprepared due to past budget cuts. Eventually, Republicans will claim that CDC, NIH, etc., fucked up, not Trump.

You didn't focus so much on politicians, but you did point to a New York Times [article from 2009](#) about their opposition and a recent Politico article, "[Republicans suddenly find a bailout they can back](#)." What shifts in attitude are particularly worth noting? And why? What do they tell us about what Republican politicians actually believe?

Again, it's just the hypocrisy. Republicans strenuously opposed corporate bailouts in 2009 and continually blamed Obama even for those enacted by Bush, such as TARP. The idea is to give a gloss of principle and consistency to their hatred of government. The current situation shows it is all a double standard.

Of course, racism as well as partisanship played a role. Obama being black simply made it easier to oppose whatever he was doing, which is not to say he was entirely blameless. But his big error was thinking that Republicans were honest and simply misread the economic problem. In fact, they were doing whatever they could to make sure he failed. The tragedy is that the media gave them the benefit of the doubt and continue to do so.

You also draw attention to Donald Trump, who was only flirting with being a politician at the time. In August 2011, he tweeted, "We don't need another stimulus. The first one was a complete failure. Why repeat the same mistake?" A year later he tweeted, "The Fed should not do another 'stimulus.' We can't keep spending our children's future away on waste." So, he was expressing very conventional GOP views at the time. Now he's singing a very different tune — though not entirely, since his proposal to eliminate payroll taxes is a direct attack on Social Security and Medicare. So, what would you say about him?

Trump is a moron who has no clue what he is talking about. He simply gloms onto whatever he heard on Fox News and repeats it while garbling it in the process so that even his staff have no idea what he is talking about. The Fox philosophy is that owning the libs is the be-all and end-all of politics. They have no positive philosophy. Every day they look to see what progressives and Democrats are for and they oppose it or support the opposite. To try and understand Trump's gibberish is a fool's errand.

The New Deal was not just about stimulus spending. There was much more to it. It restructured the economy in multiple ways — financial regulation, home mortgages, rural electrification, labor law, Social Security, etc. — and much of the infrastructure it built is still in use today. What's the right way to think about the kinds of government action that's needed now, in which stimulus is just one facet?

The coronavirus is a once-in-a-lifetime opportunity to explain to people why we need government. Unfortunately, Democrats seem loath to use the opportunity to make a larger philosophical point. They are so overjoyed to see Republicans support activist government and throw a few bones to their priorities that they are just enjoying the ride. They don't seem to understand that Republicans will switch on a dime — like the communists did after Hitler attacked the Soviet Union in 1941 — and immediately begin ranting about the deficit, the Fed and all the other shit they always rant about when a Democrat is in power.

What's the most important question I didn't ask? And what's the answer?

There is an important concept which underlies much of the analysis above, and that is velocity. Velocity is the speed at which money turns over, how quickly it is spent. When people stop spending out of fear, then velocity falls and it has the exact same effect as a fall in the money supply. It creates deflationary conditions. This was the root cause of the 2008-2009 recession. I explain this in an [essay for the Baffler](#). Velocity will soon nosedive from a high level as economic activity dries up and the money supply expands.