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Yes, the Stimulus Really Did Fail

Mon, 07/11/2011 - 2:20pm | posted by Jeremy Kolassa

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I have to disagree with Dave Weigel here. He wrote on Friday in *Slate* that the stimulus bill really didn't fail, although everyone is saying it is:

> *Veterans of the stimulus wars talk about it that way—as a war. They lost. The implication of the loss is that Keynesian economics are, arguably, as discredited with voters as neoconservative theories were discredited when the invasion of Iraq failed to turn its neighbors into vibrant democracies, highways clogged with female drivers.*
>
> *This week, we got a concrete example of what it meant to lose. The Weekly Standard published a back-of-the-cocktail-napkin analysis of the seventh quarterly report on the stimulus, stipulating that every job created by its spending has cost $278,000. Republicans, who'd previously said the stimulus created no jobs, immediately started repeating the $278,000 figure. They kept doing it even after the magazine followed up, suggesting that the cost-per-job could have been as low as $185,000. $278,000, $185,000. $0.00? It didn't really matter, because the White House and liberal response was perfunctory. As the stimulus winds down, with most of the money spent, everyone knows that it failed.*
>
> *This is a little strange. Yes, the economy is rotten, so voters can be excused when they pan the government's response to unemployment. But there's a lot of data that isn't terribly hard to read suggesting that the stimulus did create jobs. The analysis that the Weekly Standard tore apart found that the stimulus increased employment by about 400,000 jobs in the first quarter after it went into effect, and increased it by about 2.7 million at its peak. If you're deriding the price tag for those jobs, you're acknowledging that the jobs exist.*

Actually, Weigel, those "jobs" don't really exist. They're phoney.

They're not phoney in the literal sense—someone does show up to (purportedly) do some sort of labor—but they are phoney in a more "truer" sense. (I hate to put it that way, but I'm not sure how else to write it.) In a free market, a job is opened up because someone wants it to fill some need for them. An accountant to take care of their financial statements. A babysitter to take care of their kids. A PR guy to sell their story. There is real, concrete, consumer demand. But where is the demand for these stimulus job? Answer: in the halls of power, in downtown Washington, where politicians can use the changing numbers to push their agenda, whatever it may be. When the stimulus eventually ends—and it *will* end, as it cannot go on indefinitely (no matter what people like Krugman may think)—the jobs "created" by the stimulus are going to have to pass the demand test. If there is a real private sector demand for the position, it will survive, and we can call it legitimate. But if not, it will shrivel up and fade, and we will know it was never really a job at all. Dependent on funds drawn from the taxpayer via political force, it was a sinecure, nothing more.

Weigel doesn't acknowledge this, as well as the simple matter that any money that goes into "creating jobs" will have to be paid back by the taxpayer. It is a curious affliction of the progressive* mind that they forgot about this part. I mean, we are talking about the *debt* right now, right? We are taking money out of people's pockets and putting them in other people's pockets. That is not growth, that is merely shuffling numbers around. And the "multiplier effect" I hear bandied about? That if we give money to people, they spend it, and then companies spend it, and it propagates throughout the economy? Clearly, that has not worked. Most are probably saving their dollars, while banks are using it to shore up their atrocious balance sheets. So, we can't fall back on the stimulus boosting GDP. That's a

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fantasy.

He does acknowledge the truth behind the following graph, taken from Daniel J. Mitchell's personal blog. (He's a senior fellow at the Cato Institute.) The graph is a comparison of President Obama's predictions on how well the stimulus package would dent unemployment...and the actual impact it had.

And if we need any more proof that stimulus failed, let's examine this graph from the Calculated Risk Blog, which compares the length and depth of every recession since World War II. That big red line at the very bottom? That's us, right now. That long brown line at the top that goes all the way over to the right? That was the recession we had under Bush 2.0. And that yellow line you see in the upper left, with the purple line snaking below and around it, were the recessions under Reagan. As you can see, far, far less damaging. (Not that I'm a fan of either president; just pointing out that the recessions under their watch didn't give us the continual Falcon Punch this one is.) Unless we have an incredibly dramatic gain in jobs over the next four months—the kind of gain that would take divine intervention to accomplish—the recession that began in 2007 is going to go down as the worst recession in post-World War II history, not only for its intensity but also for its longevity.

And the "stimulus" has not done anything to fix that. If it has done anything, it has merely piled more straws onto the back of that young camel, our next generation, and made us financially worse off than we were before.

So yes, the stimulus did fail. It is not a matter of branding or messaging. It's been a disaster. Whatever jobs it created will be fleeting and ephemeral, their foundation only in the whims of the political elites rather than the true demand of the market. Whatever "multiplier effect" some may claim it had—or would have—on boosting spending has not appeared.

Keynesian economics simply cannot work. The war was lost, and rightfully so.

*Not that I'm saying Weigel is a progressive.

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Since leaving Reason and working for WaPo, then Slate, Dave Weigel has sadly drifted leftwards.

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