PolicyMic

We’ve Had Enough Government ‘Stimulation’

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After three years and $4 trillion in combined deficit spending, unemployment remains stubbornly high and the economy sluggish. That people are *still* asking what the government can do to stimulate the economy is mind-boggling.

That the Keynesian-inspired deficit spending binge did create jobs isn't in question. The real question is whether it created any net jobs after all the negative effects of the spending and debt are taken into account. How many private-sector jobs were lost or not created in the first place because of the resources diverted to the government for its job creation? How many jobs are being lost or not created because of increased uncertainty in the business community over future tax increases and other detrimental government policies?

Don't expect the disciples of interventionist government to attempt an answer to those questions any time soon. It has simply become gospel in some quarters that massive deficit spending is necessary to get the economy back on its feet.

The idea that government spending can “make up for” a slow-down in private economic activity has already been discredited by the historical record – including the Great Depression and Japan's recent "lost decade."

Our own history offers evidence that reducing the government's footprint on the private sector is the better way to get the economy going.

Take for example, the "Not-So-Great Depression" of 1920-21. Cato Institute scholar Jim Powell notes that President Warren G. Harding inherited from his predecessor Woodrow Wilson “a post-World War I depression that was almost as severe, from peak to trough, as the Great Contraction from 1929 to 1933 that FDR would later inherit.” Instead of resorting to deficit spending to "stimulate" the economy, taxes and government spending were cut. The economy took off.

Similarly, fears at the end of World War II that demobilization would result in double-digit unemployment when the troops returned home were unrealized. Instead, spending was dramatically reduced, economic controls were lifted, and the returning troops were successfully reintegrated into the economy.

Therefore, the focus of policymakers in Washington should be on fostering long-term economic growth instead of futilely trying to jump-start the economy with costly short-term government spending sprees. In order to reignite economic growth and job creation, the federal government should enact dramatic cuts in government spending, eliminate burdensome regulations, and scuttle restrictions on foreign trade.

The budgetary reality is that policymakers today have no choice but to drastically reduce spending if we are to head off the looming fiscal train wreck. Stimulus proponents generally recognize that our fiscal path is unsustainable, but they argue that the current debt binge is nonetheless critical to an economic recovery.

There’s no more evidence for this belief than there is for the existence of the tooth fairy.

Not only has Washington's profligacy left us worse off, our children now face the prospect of reduced living standards and crushing debt.