The Corner

Milbank Should Stick to Politics

By Veronique de Rugy

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Dana Milbank had a very bad piece in Saturday's *Washington Post* arguing that Republicans are being unfair to Lord Keynes. For instance, he claims that the GOP has unfairly portrayed the economist as a Marxist, but none of the many quotes that follow this point illustrate it. Instead, the quotes — from Senator McCain, congressmen Eric Cantor and Paul Ryan, and the Cato Institute's Chris Edwards — all say the same thing: The stimulus bill passed by the president is in essence a Keynesian bill, and it is not working.

Milbank laments:

> Together, they've managed to turn the Keynesian notion of economic "stimulus" into such a dirty word that President Obama and his aides are afraid to let it escape their lips.

This is very, very wrong. The stimulus's bad reputation isn't attributable to attacks on Keynesian economics. The stimulus's bad reputation is attributable to the stimulus bill itself — and the failed promises made by the Obama administration about what the bill would achieve. Eighteen months into the "experiment," everyone can see that it is not working: Unemployment remains high; the jobs created aren't permanent and are mainly in the public sector; the economy remains slow; and people are worried, not least because they know that their taxes will have to go up to pay for all this spending. *That's* what gave stimulus a bad reputation.

He continues:

> Perhaps these Republicans don't realize that some of their tax-cut proposals are as "Keynesian" as Obama's program. There's a fierce dispute about how best to respond to the economic crisis — Tax cuts? Deficit spending? Monetary intervention? — but the argument is largely premised on the Keynesian view that government should somehow boost demand in a recession.

That parts of the Bush tax cuts were Keynesian in nature (we are talking about the tax credits and the rebates, not the reduction in marginal rates) is hardly an argument for why Republicans today can't legitimately argue that Keynesian economics doesn't work. Free-market economists have consistently explained, even during the Bush years, that tax cuts help the economy *only* if they change the price of productive behaviors — i.e., reduction in marginal tax rates and/or reduction of the double taxation of savings and investment. In other words, the goal is to encourage more income — even if it ends up being saved — rather than shift the use of income from savings to consumption. Spending disguised as tax cuts, tax credits, and rebates, or any other Keynesian-type tax cuts, don’t increase the pie; they just reallocate the pieces of the pie.

Based on this description, the 2003 tax cuts were predominantly supply side, while the 2001 tax cuts were predominantly Keynesian. But again, the fact that President Bush passed some Keynesian tax cuts or that his chairman of the Council of Economic Advisers starting in 2003, Greg Mankiw (who is quoted in the Milbank piece), calls himself a neo-Keynesian and describes the 2001 tax cuts as inspired by Keynesian economics, is not an argument for the flawed theory.

For a good explanation of why Keynesian economics is wrong, check out this piece by economist Dan Mitchell.

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