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Derek Thompson is a blogger at TheAtlantic.com and staff editor for the Business Channel, where he writes about economic policy, technology, and the media industry. His writing may include trace amounts of romantic comedy allusions. Derek graduated from the Medill School of Journalism at Northwestern University with a triple major in journalism, political science, and legal studies, but he doesn't plan on doing anything with that last bit. He has also written for *Slate*, *BusinessWeek* and *The Daily Beast*. He has appeared as a guest on radio and television networks, including CBS News Radio, the BBC, and CNBC. If you, too, understand the world primarily through sports metaphors, you might want to follow him on Twitter.

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The Case Against More Stimulus

Jun 7 2010, 12:30 PM ET | Comment

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This week Congress will try to pass (or kill) a stimulus bill designed to extend benefits to the unemployed and send money to states to keep them laying off hundreds of thousands of public sector workers. Republicans and conservative Democrats are dragging their heels and raising concerns about adding to another trillion-dollar deficit.

As readers of this blog know, I'm a regular defender of more stimulus spending in the short term followed by higher taxes and entitlement reform in the medium and long term. But I wanted to hear, and present, the case *against* additional stimulus. So here I concede the floor to libertarian, and stimulus-hatin', Dan Mitchell from the Cato Institute. A lightly edited transcript of our conversation from this morning follows:

Derek: **Hi Dan. First why don't you explain the big picture argument against the government spending more money than it makes during an economic downturn.**

Mitchell: The Keynesian theory is just completely wrong. It didn't work for Hoover, for FDR, for Japan in the 1990s, for Bush in 2008 or for Obama. Taking money out of your right pocket and putting it in your left pocket doesn't make sense. We're wasting money on astoundingly bad ideas, especially by bailing out profligate state governments. It's better to let the economy run its course than to shovel money at the problem.

Experts note that job creation is on weak footing and the economy is at risk of a double-dip recession. What do you think we should do in the short term?

Well I guess the first thing I should say is I'm not a big believer that government can do much to offer short-term economic conditions. In the long run, reducing government spending, lowering marginal tax rates, deregulating, lower tax barriers -- those are all good things. In some sense, recessions are the economy adjusting to previous bad policies. There's not much you can do. Our economy got way out of whack because of bad policy, and that includes bad monetary policy like easy money from the Federal Reserve.

It's like a hangover. And the best thing after a hangover position is to not compound the mistake with more drinking. I don't believe in the hair of the dog theory for getting the economy back on track.

There are some folks close to your side who make an exception for "stimulus" measures like unemployment benefits and insurance for the jobless. Do you think those are bad ideas, too?

Unemployment benefits do either nothing to help the economy, or worse. If you extend unemployment benefits, you are subsidizing people to be unemployed. If you'd talked to [Obama economic adviser] Larry Summers before he was in office, he'd say that extending unemployment benefits extends people's unemployment. COBRA's not as bad, but I don't think [providing health benefits] is the proper role of government in that situation.

I'm going to push back a bit. Economists like Summers and Paul Krugman did argue that especially generous or lasting jobless benefits extended unemployment in European economies during good economic times. But in a recession where job creation is very low and jobless numbers are very high, they would probably argue there is a much lower risk that you're discouraging people from seeking jobs. The idea is that there aren't a lot of jobs to seek in the first place.

I'll confess that I've never dug deep enough into that economic literature. It would make sense that when the economy is weak, somebody who is gaming the system might be less likely to play that game. But I'm certainly not aware of any research saying it's different. Maybe in that case it wouldn't be quite as bad.

You're a fan of lower tax rates. So what do you think about stimulus plans that emphasize tax cuts and

similarly increase the deficit, because the government is keeping money in the economy that it would otherwise collect?

Well no, because the underlying Keynesian theory is just wrong. Anything along those lines I would just reject. I would like to see lower taxes, but I'm embarrassed when they're presented, even by Republicans, as stimulus. So if they would say, "lower the income and corporate tax rate," I would agree with it in theory because we have one of the highest corporate tax rates in the world, but I would be embarrassed by the argument.

What's your least favorite part of the stimulus bills grinding through Congress now?

I have to say bailing out profligate states, which creates local moral hazard.

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Chucklepants 13 minutes ago

The problem with such bills is that they tie two or three rather unrelated things together.

Extending unemployment insurance in a time of awful unemployment makes sense. We're far different from European countries in that such benefits here are low and do not provide the means to live a modest but comfortable life. The benefits only provide SOME money to help get by. Only a tiny fraction of people collecting unemployment insurance here do so out of sloth. Europe is too generous, even in good times, allowing people to coast.

Extension of such benefits should not be tied to bailing out profligate states. Such a bailout is simply political payoff. Unlike some company that saw its business drop off the cliff, profligate states squandered money and gave their employees unsustainable wage-benefit packages during the good times. Even during the last couple of years, union employees in many of the worst run states have continued to get raises of 4 to 9 percent, and continue to get them now. Bailing out such states only compounds the problem. In many cases, these states would not have to lay off employees it the employees would accept wage-benefit packages in line with the private sector. So far I've seen little evidence that the unions will accept any haircuts at all.

Bailing out profligate states also sends a negative message to better run states. If a state can get bailed out after running itself into the ground, why shouldn't the other states follow the same model and piss away money? There would be no downside to poor management of states.

Extensions of unemployment insurance, and other aid for those who lost their jobs, should not be tied to political payoffs for powerful special interests in the states.

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  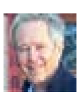

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  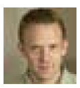

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