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STIMULUS II (BY ANY OTHER NAME): THE DEFINITION OF INSANITY

By *Rossputin* on **Feb 24, 2010**

Albert Einstein is frequently quoted as saying that the definition of insanity is doing the same thing over and over again and expecting different results. Americans would do well to remember this appropriate aphorism when you hear President Obama, Harry Reid, and Nancy Pelosi push for more government "stimulus", whether in the form of "Stimulus II" or with government spending borrowed money in a "jobs" bill, "transportation" bill, or any of the other usual pork-fests which enrich the politician's contributors at the expense of the rest of America.

A new study by Harvard Professor of Economics Robert Barro, who has been [a consistent critic of the stimulus](#), shows just how poorly conceived the original stimulus was. The results, published in the [Wall Street Journal](#) on Tuesday, include an explanation of Barro's choices of "multipliers", defined essentially as how much true economic impact is created by a \$1 change in government spending or taxation.

For example, Barro says:

I estimate a spending multiplier of around 0.4 within the same year and about 0.6 over two years. Thus, if the government spends an extra \$300 billion in each of 2009 and 2010, GDP would be higher than otherwise by \$120 billion in 2009 and \$180 billion in 2010. These results apply for given taxes and, therefore, when spending is deficit-financed, as in 2009 and 2010. Since the multipliers are less than one, the heightened government outlays reduce other parts of GDP such as personal consumer expenditure, private domestic investment and net exports.

Since taxes are not changing for the first two years, the "stimulus" can appear like a good deal in the short run "because we 'buy' the added government outlays by paying 60 cents on the dollar in 2009 (losing 180 in private spending to get 300 in government spending) and 40 cents on the dollar in 2010." It turns out, however, that the stimulus doesn't even appear like a good deal because employment has cratered further and faster than he promised the country would happen if only he could have his trillion-dollar pork-filled boondoggle.

The real problem, however, is what Bastiat might have called "That Which is Unseen", namely the additional national debt which will have to be paid back by higher taxes eventually. Barrow estimates "eventually" to mean 2012 and 2013, and assumes a tax multiplier of *negative* 1.1, meaning that every \$1 of tax increase reduces GDP by \$1.10. (You can read more on Barro's multiplier analysis [HERE](#).)

From this, we reach Barro's important conclusions:

We can now put the elements together to form a "five-year plan" from 2009 to 2013. The path of incremental government outlays over the five years in billions of dollars is +300, +300, 0, 0, 0, which adds up to +600. The path for GDP is +120, +180, +60, minus 330, minus 330, adding up to minus 300. GDP falls overall because the famous "balanced-budget multiplier"—the response of GDP when government spending and taxes rise together—is negative. This result accords with the familiar pattern whereby countries with larger public sectors tend to grow slower over the long term.

The projected effect on other parts of GDP (consumer expenditure, private investment, net exports) is minus 180, minus 120, +60, minus 330, minus 330, which adds up to minus 900. Thus, viewed over five years, the fiscal stimulus package is a way to get an extra \$600 billion of public spending at the cost of \$900 billion in private expenditure. This is a bad deal.

The fiscal stimulus package of 2009 was a mistake. It follows that an additional stimulus package in 2010 would be another mistake.

If you're still inclined to believe Obama's message that his stimulus has created jobs despite the freedomworks.org/.../stimulus-ii-by-an...

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evidence that the few jobs created have been either in government (representing a semi-permanent increase in burden on taxpayers), temporary, or even overseas, remember that all the "stimulus" has done is move some demand from the future to the present -- at a cost of even more future demand. It's the economic equivalent of a party with too much alcohol. It seems fun at the time, but the brutal hangover makes you realize it wasn't worth it.

The Cato Institute's Dan Mitchell calls the idea of Stimulus II a sequel to a horror movie, and, mixing metaphors, how calling it a "jobs bill" will be the equivalent of putting perfume on a hog. He decimates the first "stimulus" and explains why we must not fall for this "free lunch" again.

<http://www.youtube.com/watch?v=985C0uh1HKA>

If the Congress is able to pass a second "stimulus", they will be -- at least by Einstein's definition -- insane.

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