ROOM FOR DEBATE A Running Commentary on the News

November 1, 2009, *7:00 pm*

Did the Stimulus Work?

By The Editors

Gabriel Bouys/Agence-France Presse/Getty Images A car dealer in Marina del Rey, Calif., offered the "cash for clunkers" in August 2009.

Many economists attribute the rise in the gross domestic product in the third quarter to the $787 billion federal stimulus package approved in February. But skeptics say the growth may be short-lived because government efforts to encourage consumer spending like the "cash for clunkers" program are expiring. At the same time, unemployment is still rising, though the Obama administration says 650,000 jobs have been created or saved by the stimulus funds.

How sustainable is this growth? Is there less need of government intervention going forward?

- Jeffrey A. Miron, economist, Harvard University
- Simon Johnson, economist, M.I.T.
- Mark Thoma, economist, University of Oregon
- Russell Roberts, economist, George Mason University

Spending Wasn't the Cure

Jeffrey A. Miron *is a senior lecturer on economics at Harvard University and a senior fellow at the Cato Institute. He writes about economics and government* *on his blog*.

The Obama administration and many economists believe the fiscal stimulus package caused the positive G.D.P. growth, but this conclusion is not warranted. For starters, monetary policy has been highly expansionary over the past year, with short-term interest rates near zero, so the Fed may have played the major role in turning the economy around.

Why the G.D.P. growth may have had little to do with government monetary or fiscal policy.

Research finds more evidence for the efficacy of monetary as opposed to fiscal policy in ending recessions. And the studies on fiscal stimulus have shown more impact from tax cuts than from spending increases.

We also do not know whether the positive G.D.P. growth resulted partially or mainly from natural equilibrating mechanisms, rather than from monetary or fiscal policy. Much discussion of the recession presumes it will end only because government comes to the rescue.

Close

In fact, the U.S. economy recovered from significant recessions before 1914, when monetary and fiscal policy had not even been invented. Economies can and do recover on their own, and intervention might make things worse by generating uncertainty and distorting the economy's allocation of resources.

A further caveat is that two elements of the fiscal stimulus — cash-for-clunkers and the $8,000 tax credit for first-time home buyers — probably shifted significant activity from the fourth quarter and beyond to the third quarter because consumers knew these provisions would expire soon. Thus the stimulus plausibly shifted the timing of economic activity without necessarily improving the long-term path.

The case for additional stimulus is weak. If further stimulus occurs, it should focus on changes in policy that make sense independent of the recession. This means reductions in tax rates rather than increases in expenditure. Repeal of the corporate income tax would be ideal.

Why the Stimulus Worked

Simon Johnson *was chief economist of the International Monetary Fund from March 2007 through August 2008. He is a professor at the M.I.T. Sloan School of Management, a senior fellow at the Peterson Institute for International Economics and a regular contributor to the Times's* *Economix blog*. *He* *testified before the Joint Economic Committee on Congress* *on the stimulus; testimony and broadcast of the hearing can be found* *here*.

The fiscal stimulus played a decisive role in reducing the depth and pain of the recession and is now helping to get a recovery under way.

The stimulus plan enabled Obama to push for a global response to the crisis.

Much of the debate about the stimulus misses the critical global context — remember that our fiscal stimulus enabled President Obama to play a decisive leadership role at the G20 summit in April, bringing along both appropriate stimulus in other countries and timely support for the International Monetary Fund.

Most other industrialized countries have substantially stronger "automatic stabilizers" than does the United States so that, when they slip into recession, tax revenues fall and government spending rises (e.g., on unemployment benefits) without any need for special legislation.

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A Shaky Start

Mark Thoma *is an economics professor at the University of Oregon and blogs at Economist's View.*

It appears we may finally be seeing the green shoots that mark the start of a recovery. But what is driving the growth in output, what will it take to sustain that growth, and how long will it take to make up for the lost output and employment we experienced during the crisis?

> The stimulus programs now in place are probably too small.

A look beneath the growth numbers announced on Thursday answers the first question. Increased consumer spending accounted for 2.4 percent of the 3.5 percent increase in output growth, and much of the increase in consumption was driven by the "cash for clunkers" and other government stimulus programs.

Friday's announcement that consumer spending fell by .5 percent in September now that the car-purchase program has ended raises serious questions about the sustainability of output growth. Without further help from the government, which has clearly aided the economy despite what the critics are saying, will the private sector be able to sustain growth on its own?

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Consumers Aren't Confident, Yet

Russell Roberts *is a research fellow at Stanford University's Hoover Institution and professor of economics at George Mason University. He is the host of EconTalk, a weekly podcast.*

I once thought that spending money was the government's strong suit. But as of October 20, only $120 billion of the $290 billion available so far from the stimulus package has been spent. Despite the early rhetorical emphasis on shovel-ready projects, the Department of Health and Human Services, the Department of Labor, and the Department of Education accounted for two-thirds of the total spent.

> The impact of the "cash for clunkers" program on employment was probably minimal.

The Department of Transportation, a source of spending that is likely to be rich in shovels, has $30 billion available but has only managed to spend $4 billion. So perhaps it is not surprising that construction workers and manufacturing workers (who make up half of the job losses since the beginning of the recession) are struggling to find jobs.

The good news is that third quarter G.D.P. is up. But has government spending (or the tax cuts in the stimulus package) caused the growth or would it have occurred anyway?

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U
NY
November 2nd, 2009
9:29 am
It worked only for Wall Street while Main Street is suffering from job losses. Stimulus only works in a short-term and when a credit is not maxed out. We, as a nation, are tapped out where there are no savings to fall back on like Japan did during their lost decade.
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2 .
n smith
nh
November 2nd, 2009
9:29 am
Thi s stimulus was akin to an alcoholics dose of " hair of the dog ". I borrowed that from Peter Schiff and it is appropriate.

A time will come when real numbers must add us to a scenario of loss. All that the government has done is to prop up present failures , like most of our large bankers, with future taxpayer's earnings.

The bankers, and other groups, have political connections; so they have been issued protection from their own failure. But, this can't continue forever. One day our creditors will demand to be paid with real money -- hard money. Unless our citizenry is completely brain-dead, a lot of politicians and their friends will be better off in hiding, when that day of reckoning arrives.
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PF
California
November 2nd, 2009
9:29 am
What a waste of money.

The Salt Lake Tribune reported on the job saving effects of the stimulus program, and came to the conclusion that the number of jobs reported as saved in Utah were vastly overstated due to inconsistent procedures and double counting of subcontractors by contractors.

Even if ignore overreporting, assume job savings were reported correctly (650k) and use the administration's "guess" that another 350k unreported jobs were saved, we still spent $800bn to save 1m jobs, or $800k per job. Just give me the money already and forget the job!

The administration forecast unemployment to be 7% without the stimulus, 5% with, and it turned out to be 9% after $800bn. Non farm payroll is 130m. If they though they were going to save 2% of employment they would have to save 2.6m jobs, nowhere near even their inflated million jobs saved, let alone the reported 650k. They have no idea what they are talking about.
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Jerrett from NYC
DC
November 2nd, 2009
9:29 am
*** Tip of Iceberg ***
General Electric agreed to pay a $50 million fine to the Securities and Exchange Commission, ending an investigation into accounting shenanigans that severely tarnished the company's reputation and helped set the stage for last year's collapse in its stock price.
Like a professional baseball player revealed to have been dabbling in steroids, GE prolonged a nearly decade-long record of meeting or exceeding analyst expectations by resorting to tricks including "selling" locomotives to financial institutions in transactions that looked a lot like loans, and fiddling with the accounting for interest-rate hedges.
The charges, which include loaded terms like "fraud" and "materially false statements," likely reflect the SEC's efforts to look tough as it fights to protect its regulatory turf in Washington after having missed major scandals including the Bernard Madoff swindle. The focus on seemingly arcane accounting rules governing the treatment of interest-rate hedges shows just how important those rules are in preventing earnings manipulation which became Silver bullets for Wall Street since early 1980s.
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Z4Macro
Northeast
November 2nd, 2009
9:29 am
Cash for clunkers was a “broken windows” stimulus plan.
It increased the currently measured activity while destroying useful assets.
This was a net loss of wealth for the economy.

The increase in car sales was much like what we should expect from any car sales incentive.
It did cause an increase in current sales, but it will be offset by a loss of future sales.
Sale ends, volume tanks. Nothing new.

The stimulus programs have mitigated the pain of the decline through transfer payments and support of local government budgets.

But the "shovel ready" fiscal stimulus has been absent – so little of the money has been spent. How can the fiscal stimulus help if we don't spend the money?

The most significant current stimulus program is the Fed's super cheap money policy. However, considering the housing bubble caused by the Fed's previous stimulus policy, and bust that followed upon the removal of that stimulus, the current Fed policy seems very risky.

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Edmond
Texas
November 2nd, 2009
9:29 am
Any stimulus must be directed in the creation--and paid training of--new elements into the market place. A double effect could be attained using stimulus money to bring true health care reform; for example, government could encourage students to go into the Medical field, paying them their way through medical school (no loans at all), as long as they sign a contract to work for the government for fixed rates once they graduate. Stimulus money could go into the creation of medical clinics under government control that also will bring up some competition inside the medical business establishment.
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Bob Sallamack
New Jersey
November 2nd, 2009
9:29 am
How to stage manage the appearance of recovery?

On Tuesday have the Secretary of the Treasury present to Congress a set of convoluted proposals that will not fix the house of cards financial system, but will allow the pretense that the financial system is now safe.

On Wednesday have the President announce his full support of these proposals.

On Thursday have the government announce that the recession is over on the basis of GNP.

On Friday have the government announce that jobs were created by the Stimulus package.

On Sunday have the Secretary of the Treasury announce on TV that the economy is rebounding.

In less than a week the President and his administration has used stage management to create the illusion that the house of cards financial system, the recession, and unemployment are no longer problems.

More compressed use of stage craft than the previous campaign of sporadic claims of "green shoots".

At one point the President may wake up with the realization that the stage craft and photo opportunities are not fooling anyone except the President.
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LAS

Redmond, WA
November 2nd, 2009
9:29 am
How can anyone ask whether the stimulus worked when so much of the money still hasn't been awarded or disbursed?
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Lynn
New York
November 2nd, 2009
9:29 am
The stimulus would have worked better with more investment in American infrastructure, an investment that was weakened in an attempt to get a few Republican votes in the Senate.
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Lafayette
Paris
November 2nd, 2009
9:29 am
Oh, how we love to delve in such a debate. Oh, how we exult at comparing the future with the past. Oh, how we forget that everything has changed ...

The present predictions are of the past -- and the past has changed fundamentally. We are in the midst of a paradigm shift, from the Industrial Age to the Information Age. Already, more than two-thirds of our GDP is concentrated in the Services Industries, heavily Information-Age orientated in terms of its principle service-products.

So, what is happening? Two movements are concurrent and contradictory. The first is continued seepage of high un- and semi-skilled labor-input jobs to the Far East – a trend that is ineluctable. Those un- and semi-skilled jobs that remain are intrinsically localized, like cutting your lawn or coiffing your hair. Generally, these jobs are lower-paying – though admittedly electricians and plumbers probably don’t feel the pinch as much as assembly-line employees.

The second is that the crawl of jobs shifting to other, softer cost-climates are creeping up the skills ladder. It is now far more important to speak proper English than to know how to drive a truck, if you want durable employment. Just look at the news that is sent to India for re-editing …

What is the consequence? It is also twofold. First, we need to kicks start localized employment industries, like heavy- and other personal-services industries – which remain “non-delocalizeable”. Which means construction (preferably green) in the first instance and lower-wage less-skilled assistance-to-the-elderly (for instance) and other “out-of-the-home” local services. Not all of this is goodness, since much of the non delocatable business is restaurants; which, given the pandemic of obesity, does not result in goodness.

Secondly, we must get started, now, an enhancement of the generalized labor skill-sets – if only not to be left behind. Health Care will need skilled professionals for decades to come, regardless of new technologies. Education needs to be tasked to bring children up to a basic standard for a HS-diploma and measured on its success in transmitting them into tertiary vocational or college education.

And all that is necessary just to remain in place. Regardless of the cost, since our future well-being is linked to both Health Care and Education. All the rest will sort itself out by market forces, if properly supervised by less-than-benign regulatory oversight agencies.

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11 .
Peter Melzer
Nashville, TN
November 2nd, 2009
9:29 am
The government's economic stimulus should be understood more as a long-term investment in the future of this country than an instant make-work program.

Although the government's programs immediately created jobs for those working on infrastructure construction, their greatest benefit will arise when the new infrastructure is in place to help generate enduring jobs, providing the revenue stream the country will need to repay the enormous debt piling up.

No program, however, can be large enough to substitute the wealth Americans lost when the housing bubble burst.

The oversupply of residential real estate will take two years to clear the market. Commercial real estate will take even longer. The economic crisis will eventually be over, when homes and offices are traded at fair value again.

Read more here:
http://brainmindinst.blogspot.com...
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michael jones
nv
November 2nd, 2009
9:29 am
The stimulus money all went to subsidize the pay and benefits package of government workers. We are borrowing from the future to pay for government pay packages of today.

This situation will ultimately be remedied in an unpleasant manner
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Gene
New York, New York
November 2nd, 2009
9:29 am
I appreciate the various views on the stimulus. Yet I can't help wondering whether those views might be different if we obtained them from unemployed economists and academics.
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14 .
Hillishager
Florida
November 2nd, 2009
9:30 am
Did the Stimulus Work?

Yes, if to work means creating another BUBBLE, which will happen when the 'stimulus' is gone.

The government can't keep printing paper money as if it has some intrinsic value. .

When the rest of the world sees (and admits) that the emperor has no clothes, the house of cards will collapse.

All that will keep it from happening is if the Fed raises interest rates before the collapse and the government raises taxes to wipe out the annual deficits.

Of course, raising taxes will kill job growth as will increases in the price of oil which is on the way.

Have a nice day.

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Mark C
San Francisco
November 2nd, 2009
9:30 am
With unemployment near 10% nationally, and much higher in some other states, the idiotic, mean spirited worthless Republicans in the Senate, have been obstructing the passage of the legislation to extend unemployment benefits...the action of the Senate Republicans is criminally insane. This issue is dire for many unemployed Americans who have been losing their benefits since July...yet there is very little in the main stream media about what the shameless Republicans are doing, so they, as usual, behave with impunity. The Republican asinine behavior is hurting thousands of Americans, and predictably they don't give a fig. Pick up your phones and call these Republican perpetrators of this crime: Mitch McConnell Kentucky, Jon Kyl Arizona, David Vitter Louisiana, Johny Isakson Georgia, Mike Johans Nebraska, John Thune South Dakota, Bob Corker Tennessee, Jeff Sessions Alabama, and tell them to stop playing games and obstructing this crucial legislation. Remember they work for us.
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John C
Portugal
November 2nd, 2009
9:30 am
None of these economists address the fundamental problems of the American economy. The U.S. consumes too much and produces too little. Even at the bottom of the Great Recession the U.S. is borrowing one billion dollars a day from abroad.

“consumer spending accounted for 2.4 percent of the 3.5 percent increase in output growth” And how much of that consumer spending was for imported goods?

Then there is the monster in the room that no economists, not even the self proclaimed liberal Krugman wants to talk about. The U.S. spends vastly too much money on defense. Eight years of war whose cost must exceed a trillion dollars with no increase in taxes and no end in sight. The U.S. spends more on defense than the rest of the world combined, much of that spending with borrowed money.

Of course the Asians continue to buy U.S. Treasury debt. In that manner they keep their currencies undervalued and are thus able to continue to hollow out and destroy what remains of U.S. industrial capacity.

Russell Roberts says,

“consumers lack confidence. The crucial question is whether a large increase in government spending financed with borrowed money that swells the deficit to $1.4 trillion is good for confidence or bad for it. No one knows the answer.”

Mr Roberts, you might not know the answer but I am sure that most Americans do.
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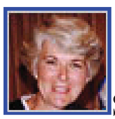Should society separate the work of artists from the artists themselves and their moral failings?

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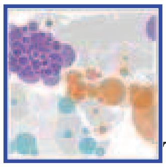The United States has experienced the greatest surge in immigration since the early 20th century. This series examines how American institutions are being pressed to adjust.

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