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More Arguments Against the Stimulus

Jeffrey Miron, of the Cato Institute, has done a nice hatchet job on the role the so-called stimulus played in the economy's positive third quarter GDP growth. The short piece is absolutely worth your time, but here are the highlights:

> 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.
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> 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.
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> …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.
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> 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.

To add insult to injury, as our own Kavon Nikrad has wisely observed, Pres. Obama and the other Dems have only damaged themselves politically in the long run with the technical end to the Great Recession. After all, when quarterly GDP growth ceases (which will almost inevitably occur without passage of more short-sighted "stimulus" packages, something the public opposes) a new recession – the Obama Recession – will rear its ugly head.

And we haven't even discussed the negative implications of the aforementioned monetary expansion by the Fed. In addition to delaying the reunion of supply with demand in the economy (by encouraging capital projects and malinvestment that would not have occurred without the Fed manipulating interest rates and revving up the dollar printing press) and consequently making the eventual return to reality more painful, the central bank now faces the insurmountable task of balancing inflation with the political pressure to prevent GDP growth from reverting back into negative territory. Bernanke and his associates will likely err on the side of GDP growth, creating the very real possibility of massive inflation – a dangerous additional political risk for the Dems – in the near future. These people will reap what they sow, but unfortunately, the American people will end up with the shortest end of the stick.

by Anthony Dalke @ 5:26 pm. Filed under Barack Obama, Issues, R4'12 Essential Reads
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