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Michael Tanner: Enough already with stimulus spending

By MICHAEL D. TANNER
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When it comes to government spending, "stimulus" apparently means never having to say "enough."

You may not realize it to listen to, say, Paul Krugman, but Congress has already passed three separate stimulus bills, at a total cost of roughly $1 trillion.

The first of these came back in February 2008 under the Bush administration: a $152 billion measure, featuring a $600 tax rebate, several incentives for businesses, and loan guarantees for the housing industry. At the time the economic downturn was just beginning and unemployment was 4.9 percent.

Then, as the recession picked up steam in September 2008, Congress passed the $61 billion "Job Creation and Unemployment Relief Act of 2008." This bill pumped money into federal "infrastructure projects" and extended unemployment insurance. One month later, unemployment reached 6.5 percent.

And of course, last year President Obama pushed through the giant $787 billion stimulus bill that was the hallmark of his first year in office. When the bill passed, the unemployment rate was 8.1 percent.

Today, unemployment is 9.5 percent and Congress is again debating a stimulus bill, this time a $34 billion measure in the Senate (The House-passed version cost $60 billion) to provide grants for state and local governments, extend unemployment benefits again, and provide for more targeted business tax breaks.

All of this does not even include TARP I or II, or last year's budget which hiked spending for all sorts of "job creating" programs.

Clearly, all this government spending hasn't done much to reduce unemployment or spur economic growth. But it has spurred the growth of government. Federal government spending last year topped 24.7 percent of gross domestic product, the highest peacetime percentage in history. That compares to a historical average of roughly 21 percent. Throw in state and local spending, and government at all levels consumes more than 36 percent of everything that the U.S. economy produces.

Perhaps that has something to do with the reason why our economy is not growing or producing jobs. Or perhaps businesses are anticipating the tax increases to come next year when the Bush tax cuts expire. Some may even be looking a bit further ahead to the mandates, taxes, and regulations that will eventually be imposed as a result of the recently enacted health care legislation. The new taxes from that bill alone will total more than $669 billion, many penalizing investment income, and while most won't hit for a couple years, many businesses are already considering the trade-offs. And, of course, higher energy taxes also remain on the table.

For Krugman and others, the answer always lies in still more government spending. America faces a "third depression," Krugman warns, unless the government spends more – a lot more, perhaps up to $10 trillion. The Democratic leadership in Congress concurs, with the direction at least if not the amount. Senate Majority Leader Harry Reid, who has seen unemployment in his home state of Nevada rise from 5.3 percent to 14 percent (highest in the nation) since the first stimulus bill passed, says that we need a new stimulus to "create jobs and get our economy on track."

But what advocates of increased government spending fail to realize is that government has no money of its own. Every dollar that the government spends must ultimately come from somewhere else. Every dollar that government spends is a dollar that is siphoned from American workers regardless of whether it is raised through debt or taxes. Taxes simply redistribute purchasing power, and do so in a particularly inefficient manner, reducing the incentives to produce or hire. Borrowing simply forces businesses and investors to anticipate higher taxes down the road.

As John Cochrane of the University of Chicago explains, "Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can't help us to build more of both. This form of 'crowding out' is just accounting."

Other countries are beginning to understand that there are limits to how long government can rob Peter to pay Paul. From Greece to Germany, from Great Britain to Spain, from Ireland to France, governments are beginning to scale back the welfare state, reduce budget deficits, and put their reliance in the private sector. Meanwhile, the U.S. plows ahead with more "stimulus" spending.

Albert Einstein famously defined insanity as "doing the same thing over and over again and expecting different results." As Congresses rushes ahead with more spending, more regulation, more taxes, and more "stimulus," it is a lesson they might want to consider.

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