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Stimulus scam

Richard W. Rahn

Has the economic stimulus program helped or hurt? Administration officials keep saying the stimulus program has been beneficial, but where is the evidence?

There are several ways to see if it is working as advertised. First, what did the proponents say would happen when they were pushing the plan versus what has happened? Second, how has the United States fared compared to other nations that had smaller or no stimulus programs? Third, how have the results to date compared to what pro-stimulus, Keynesian-school economic theorists advocated versus what other theorists (principally Austrian-school) who largely opposed the stimulus plans said?

U.S. unemployment already has reached 9.8 percent, with 15.1 million Americans unemployed, and more than 7.1 million jobs have been eliminated since the beginning of the recession. President Obama's economic advisers said in the beginning of this year that the unemployment rate would rise to 9 percent with no stimulus package and would only rise to a maximum of 7.9 percent with the stimulus bill, peaking during this past summer. Stimulus proponents clearly have failed the first test (despite Vice President Joseph R. Biden Jr.'s revisionist statements) and there is zero evidence for their claims that more jobs would have been lost without the stimulus package.

One might argue that the stimulus had worked if the results in the United States were better than in other countries that had smaller or no stimulus packages. The recession has been global, and every country has been affected negatively. Only Great Britain attempted to put in a stimulus package that was relatively as large as the U.S. package. A crude measure of economic stimulus is the size of the deficit relative to gross domestic product. During recessions, tax revenues decline in all countries, so most will run a deficit whether they intend to or not. A stimulus package normally contains a mix of government spending increases and tax cuts, resulting in a

deliberately larger deficit.

As you can see in the accompanying chart, the United States and Britain have by far and away run the largest deficits as a percentage of GDP (i.e. the most stimulus), yet the U.S. and Britain, along with Italy and Russia, had not bottomed out in second-quarter 2009, while the rest of the 10 largest economies were showing real growth in the second quarter. Russia's poor performance is largely a function of relying very heavily on the export of raw materials rather than developing a broad-based economy as all the others in the Big 10 have done.

The three countries with the smallest deficits (the least stimulus) - Brazil, China and Germany - have all turned the corner rather quickly and are growing. German Chancellor Angela Merkel has just announced she is going to push tax cuts, which should give the German economy an additional shot in the arm.

While the data set is too small with the top 10 countries (which collectively account for a large majority of the world's GDP) to draw definitive conclusions, the existing evidence indicates that a big stimulus package seems to delay recovery, while little stimulus leads to a quick return to economic growth.

Finally, what do the competing economic theorists say? The Keynesians say that if the government increases spending to stimulate demand and create jobs for those who do not have them, this should lead to a less painful downturn and a quicker recovery. The Austrian (aka Hayekians) free-market sorts say recoveries occur on their own once asset and labor prices fall from inflated levels of the previous boom and excess inventories are worked off. This usually happens within 16 months unless government attempts to mitigate these necessary price adjustments, which will delay the recovery. (Apologies to both my Austrian and Keynesian friends for trying to summarize their views in one short paragraph.)

The Keynesians never really get a fair test of their theory because politicians always take the Keynesian notion that it is OK to increase government spending as a license to spend the extra money on themselves and their friends rather than on those who might actually benefit. (This self-dealing process is well explained by the public-choice school of economics.) A few examples from the current stimulus program should suffice. Congress increased spending on itself last year by 10.9 percent and by another 5.8 percent this year for a grand total of \$4.7 billion. (Remember, it was just 15 years ago when the Gingrich Republicans ran against the "billion dollar Congress.") Given that the number of members of Congress remains fixed at 535, why should their budget go up any faster than inflation?

Congress and the administration also have gotten into the venture capital business, which enables them to dump infinite quantities of money into their rich friends' pockets. Bill Frezza, a principled venture capitalist, using Fox News and other venues, has been blowing the whistle on these unsavory and destructive practices. Did you know that Al Gore and friends just received almost \$600 million to develop another expensive (\$88,000) hybrid electric sports car with your tax money? The chances of taxpayers getting their money back are less than of General Motors Corp. and Chrysler paying off all their loans, which is close to zero. Paradise defined: being politically well-connected when stimulus money is around.

The only things one can say for sure about stimulus money is that it will add to the deficit, ultimately driving up interest rates and taxes; and much of it will be wasted and/or stolen, neither of which benefits the unemployed. By any objective measure, the stimulus program has been and will continue to be a failure - but don't expect the Washington politicians ever to admit it.

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