Stimulating Whining

The prospect of bigger government sets some in the business press howling.

> **"Bridges to Everywhere: Making Ted Stevens jealous"** (12/26/08)
>
> **"Feel Like a Trillion Bucks: Only WWII was pricier than Obama's stimulus plans"** (1/5/09)
>
> **"States of Distress: Our local politicians want $200 billion without any shaping up"** (1/26/09)
>
> **"A 40-Year Wish List: You won't believe what's in that stimulus bill"** (1/28/09)
>
> **"The Entitlement Stimulus: More giant steps toward government health care"** (1/29/09)
>
> **"The Real Stimulus Burden: We'll be paying for this in many ways, for many years"** (2/12/09)
>
> —recent *Wall Street Journal* editorials opposing the Obama stimulus package

By John Miller

If former Senator Phil Gramm had been talking about the editors of the *Wall Street Journal*, he might have had a point when he dismissed those complaining about the recession as whiners.

To be fair, it is not the recession proper, but the prospect of a massive economic stimulus package that has set the *Journal*'s editors to whining in editorial after editorial, some seventeen and counting since December.

This two-month-long crying jag seems to boil down to two central claims. First, that the package will expand public spending too much and leave us too deep in debt. Second, that government spending, inevitably wasteful, will also be ineffectual as economic stimulus when compared to tax cuts. Both these claims are misleading and at some points just plain wrong.

Too Big and Too Much in Debt?

At $789 billion, the final economic stimulus bill *is* big. But it's smaller than the $1.3 trillion Bush tax cut of 2001, wholeheartedly endorsed at the time by the *Journal* and other business publications. And making the Bush 2001 and 2003 tax cuts permanent, a *Journal* editorial-page mantra if there is one, would open a far larger hole in the federal budget than the stimulus package: it would cost the federal government $889 billion in lost tax revenues from 2010 to 2014, and $2.4 trillion by 2020.

If anything, the Obama stimulus package is too small. With over 3.6 million jobs already lost during the recession and more job losses sure to follow—and with over a million new entrants into the job market each year—the plan will need to provide more than its promised 3.5 million jobs.

The editors are also wringing their hands over the record federal budget deficit. Without the stimulus package, the Congressional Budget Office was already projecting the 2009 deficit to reach $1.2 trillion, or 8.4% of GDP. With the stimulus package, the deficit could reach 11% of GDP. Those are indeed record numbers for "peacetime" deficits. The Reagan deficits in their worst year reached 6% of GDP. Only World War II spending pushed the federal deficit to qualitatively different levels—30.3% of GDP in the midst of the war.

But those numbers must be viewed in context. A do-nothing strategy would saddle the federal budget with yet larger deficits as the economy and federal tax revenues fell through the floor. "Without fast action," worries Allen Sinai, chief economist at Decision Economics, "federal debt levels could soon reach 100% of GDP." And unlike World War II spending, which sparked a quarter-century boom that helped pay down that debt, a do-nothing strategy today would be followed by a depression that would impose costs far more serious than a rise in government debt.

Pork, Stimulus, and Multipliers

What is really bugging the *Journal* editors is the *content* of the stimulus package, which they describe as a 40-year Democratic Party pork wish list. Of course, pork is in the eye of the beholder. Replacing the current fleet of government vehicles with more energy-efficient ones may look to some like pure pork, as one *Journal* editorial labeled it, but to others it's worthwhile spending.

More important, these editorials claim, the spending side of the package will just not provide a stimulus. Government spending, or so the argument goes, cannot result in net economic growth because the money the government spends has to come from somewhere and that somewhere is the private sector: "For every $1 the government 'injects,' it must take $1 away from someone else—either in taxes or by issuing a bond. In either case this leaves $1 less available for private investment or consumption."

The truth of the matter is far different. Government spending, pork or otherwise, *is* stimulus.

Now, the editors are correct that the money for such spending comes from the private sector. And, private spending could provide much-needed stimulus in today's economy. What they fail to mention is that in a period of economic distress, especially one accompanied by a financial crisis, that private

Fiscal Bang for the Buck

These multiplier figures give the estimated one-year change in real GDP per dollar of federal stimulus (tax revenue loss or spending increase) for items in the recently passed stimulus package.

Temporary Tax Cuts	
Nonrefundable Lump-Sum Tax Rebate	1.02
Refundable Lump-Sum Tax Rebate	1.26
Payroll Tax Holiday	1.29
Accelerated Depreciation for Businesses	0.27
Permanent Tax Cuts	
Extend Alternative Minimum Tax Patch	0.48
Make Bush Income Tax Cuts Permanent	0.29
Make Dividend and Capital Gains Tax Cuts Permanent	0.37
Cut Corporate Tax Rate	0.30
Spending Increases	
Extend Unemployment Insurance Benefits	1.64
Temporarily Increase Food Stamps	1.73
Issue General Aid to State Governments	1.36
Increase Infrastructure Spending	1.59

Source: Moody's Economy.com

spending is seldom forthcoming. Workers are unemployed but so too is capital. Factories, stores, and businesses of all kinds are cutting back or shutting their doors. With the economy in dire straits, the financial system teetering, and economic anxiety widespread, businesses balk at investing, and consumers are so cautious they are retiring debt for the first time in decades.

With capital and labor standing idle, government taxing or borrowing will not create a drag on private spending. On the contrary, government spending compensates for the lack of private spending and provides the jolt necessary to bring the coding economy back to life. The real issues are how much stimulus any spending program (or tax cut) provides and how quickly it kicks in.

The amount of stimulus is exactly what is measured by Keynesian multipliers, which estimate the bang for each buck of government spending or tax cuts in terms of what it will add to GDP within a year. The multipliers above were submitted to Congress last summer by Mark Zandi, chief economist at Moody's Economy.com and an informal advisor to the McCain campaign—hardly a "tax-and-spend liberal."

Zandi's figures show that the very items championed by the *Journal*, such as making the Bush tax cuts permanent or reducing the corporate income tax, would do the least to stimulate economic growth. It's a tall order to get a corporation to invest in a crumbling economy. And personal income tax cuts, especially the Bush ones, go overwhelmingly to wealthy families who can and likely will save, rather than spend, the extra cash.

It is the programs the editors inveigh against, such as aid to state and local governments, that have the highest multipliers. These programs have the additional advantage of quick start-up and can immediately stem job losses. Sadly, it is this timely and effective spending, including on health care for the unemployed and on education, that the "centrist" Senators demanded be cut from the stimulus package, with the result that 35% of the final version is tax cuts rather than actual spending.

In addition to their disastrous social consequences, these cuts fly in the face of the lessons from Japan's prolonged economic stagnation in the 1990s. There, every dollar spent on social services like elder care and pension payments added $1.64 in additional output and every dollar of financing for schools and education delivered an even bigger $1.74 boost in output, according to a 1998 Japanese think-tank report.

The evidence is clear: Doing good—expanding health care spending, improving schools, and reducing the payroll tax burden on workers—is good for a flagging economy.

Much more needs to be done to stimulate economic justice and not just economic growth. But that surely would be life-threatening for the *Journal* editors and their ilk, whose blood pressure is already spiking from the few important but ultimately disappointing steps in that direction included in the stimulus package. D&S

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SOURCES: Mark Zandi, "A Second Quick Boost From Government Could Spark Recovery," testimony before the U.S. House Committee on Small Business, July 24, 2008; Martin Fackler, "Japan offers lessons on stimulus spending," *New York Times*, Feb. 6, 2009; "Budget and Economic Outlook," Congressional Budget Office, Jan. 9, 2009; "Preliminary Analysis of Obama's Stimulus Tax Cuts: Could Be Worse, Could Be a Lot Better," Citizens For Tax Justice, Jan. 9, 2009.