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## **Don't "Compromise" on the Bogus Stimulus Bill** **by Sheldon Richman**

As the misnamed "stimulus" bill works its way through Congress, we once again see compromise equated with responsibility. The political "leadership" and establishment media seemed to have a vested interest in portraying anyone who refuses to compromise as recklessly unconcerned with the well-being of the country.

The problem with this outlook is that basic principles can't be compromised. If you catch a burglar in your home, you don't negotiate over how much silverware he may take. That wouldn't be a compromise.

The same with the "stimulus" bill. The Obama administration wants a bill to authorize the executive branch to borrow \$827 billion, ostensibly to create jobs through a variety of spending programs intended to compensate for our lack of private consumption spending.

If you know nothing about economics, you may see this as something to compromise about. Perhaps the total cost could be lowered or some of the program modified. Unfortunately, this is the official Republican position.

But that wouldn't be a compromise. That would be a capitulation to folly. You need to know some economics to understand this.

The word "stimulus" is a propaganda word. It doesn't describe the bill. Rather, it lies about what will really happen in order to make it more palatable to the electorate. Legislation is often titled in that manner.

Backers of the bill want us to believe that the economy is like a car with a dead battery. What do you do in that case? You jump-start the car by running cables from a good battery to the bad one and injecting energy into the stalled car. If you've done it right, the car will start.

A little thought reveals that this analogy does not fit the economy. For one thing, an economy is not a vehicle. It's people who interact with one another for various purposes. Their lack of spending today is a sign of an underlying problem that cannot be solved by politically pumping up consumption. It may mean they are anxious about the future and want to hold on to

their money. Why are they anxious? A good part of their anxiety can be traced to the rippling effects of the debacle in the financial industry.

That debacle has its roots in demand-side government policies that pushed too many resources into house construction and mortgage lending. Since it was politically fueled, the expansion of those industries and the demand for their products were unsustainable, hence the description “bubble.” When the bubble burst, the consequences went far beyond the initially affected industries. The only real solution is to let the market reallocate resources in harmony with the economic reality those policies have masked for years. That requires saving and investment, not consumption. It also requires abstaining from what the government seems intent on doing: re-expanding the very industries that are badly in need of contracting.

The second reason the jump-start analogy is a bad one is that the government spending would not inject real resources into the economy. This is easy to see when you realize that the government will first have to borrow from elsewhere in the global economy any money it spends. How can it be a stimulus if the money is already inside the economy? Resources are always scarce, so any money the government borrows and spends is money that would have been invested by private businesses some other way. The resources the economy needs to readjust to reality won't be available because the politicians have hogged it for their own glory.

Moreover, the government will cover at least some of its debt through inflation, that is, the creation of money out of thin air. That might create another bubble waiting to burst, and it will surely rob everyone of purchasing power as prices rise.

So the “stimulus” bill is anything but that. It is a highly destructive piece of legislation that should never have seen the light of day. For those who realize this, no compromise was possible. A bill even half its size would still do damage.

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**This article was originally published in February 2009.**