



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

fff@fff.org www.fff.org

A New Stimulus? Washington Never Learns

by Sheldon Richman

In Washington, the rule is: If a little poison doesn't cure the patient, give him more.

This rule is being applied not only to health care, where massive doses of government intervention are being prescribed to treat the toxicity of past government intervention. It's also being used in the attempt to end the recession.

When Barack Obama took power he told the American people that an "economic stimulus" bill was indispensable to fixing the economy. Sensible economists warned against it, but no politician wants to be perceived as doing nothing. So logic and well-reasoned economic theory were once again tossed out in favor of massive government spending: close to \$500 billion for state and local governments and special interests. But even on its own terms, the "stimulus" was no such thing. Most of the spending was far off into the future. The government says that only \$60 billion of \$499 billion has been allocated in the five months since Obama signed the bill. It's hard to believe, but there is a limit to how fast federal, state, and local governments can spend money.

That raises the question: how stimulating can stimulus be? The answer is: not much. The politicians promised it would reduce unemployment, but the jobless rate continues to rise, standing now at 9.5 percent.

The lack of improvement is so acute that even Vice President Joe Biden says the administration underestimated how bad the economy was and congressional leaders are talking about a second stimulus package.

Again, on its own terms, this is just silly. If the bureaucrats can't spend half a trillion quickly enough to goose the economy, what's the point of giving them more money?

Of course, we can only take the stimulus logic on its own terms for the sake of argument. The stimulus logic is wrong, so things are worse than described.

Even if the government could have spent the half trillion in the first 24 hours, it wouldn't have fixed the economy. That's because the problem isn't inadequate spending. The problem is

the distortions in the economy that the government caused through pervasive intervention. Thus more intervention through spending will only make things worse.

First, let's look at what's wrong with the stimulus logic. Government has no money that it hasn't first lifted one way or another out of the private sector. It creates nothing of value. The federal budget is deep in the red, so to increase spending the Treasury has to borrow the money. But borrowed money obviously is already in the economy, and the lenders would have been willing to lend it to finance productive private ventures had the government not borrowed it instead. There can be no net stimulus if government is simply reallocating capital.

Moreover, government reallocation is not merely a neutral substitution of its projects for private ones. Government doesn't have to make a profit or risk going out of business. So its spending is not driven by the need to satisfy consumers who are free to spend their money as they like. In contrast, entrepreneurs invest capital with an eye to satisfying what consumers see as their most important demands.

Government spending is dictated by the political agenda, while private investment is shaped by consumer welfare and efficiency considerations.

Bottom line: government adds nothing, but rather takes resources that already exist and devotes them to inferior purposes.

That is only the beginning of trouble. The government's debt will sooner or later be covered by the Federal Reserve's expansionary monetary policies. While the Fed can create money, it can't create real resources. So the new money will bid up the prices of all kinds of goods and shift purchasing power from the mass of people a favored few. That is as much a tax as one collected by the Internal Revenue Service. The inflation will further distort the structure of the economy and pave the road to the next downturn and next round of unemployment.

The "stimulus" isn't working because it can't work. A new "stimulus" is therefore idiotic. Freeing the economy is the only path to sustainable prosperity.

*Sheldon Richman is senior fellow at The Future of Freedom Foundation, author of **Tethered Citizens: Time to Repeal the Welfare State**, and editor of [The Freeman](#) magazine.*

This article was originally published in July 2009.