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Consensus Collapsing for the Senate's \$838 Billion "Stimulus"

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Advocates of fiscal responsibility should restrain any excitement over the \$83 billion in spending Senators have eliminated from the "stimulus" bill. Indeed, the Senate's \$838 billion price tag is still \$19 billion larger than the House version. Although there are some differences between the two, the House and Senate versions of the bill both:

- Spend approximately \$223,000 per job created, using the President's own figures;
- Contribute to a \$3.5 trillion expansion of federal debt in 2009 and 2010—a staggering \$30,000 in new debt per household, dumped into the laps of our children and grandchildren;¹
- Begin subsidizing health insurance for unemployed Americans regardless of income;
- Spend \$650 million on digital television converter box subsidies;
- Create more than 30 new federal programs; and
- Radically expand antipoverty spending and weaken the hugely successful 1996 welfare reforms.²

"Stimulus" Keeps Growing. The Senate improved on the House version in a few areas. Most notably, Senators included a \$70 billion patch to prevent the Alternative Minimum Tax from raising taxes for 20 million taxpayers. Congress must enact this patch at some point in 2009 anyway, and including it in the "stimulus" replaced what would likely have been \$70 billion in additional spending.

The Senate bill also refuses to match the House's provision of \$14 billion for public school construc-

tion. Federalization of this traditionally local government activity would likely become permanent, creating a long-term federal obligation without any plan to pay for it. It would also accelerate the federalization of K-12 education policy and thus weaken the role of local school boards and parents.

The Senate bill also halves the House's \$79 billion bailout of profligate state governments. Washington already grants \$467 billion to state and local governments annually, and a large federal bailout would merely encourage free-spending states to continue spending well beyond their means.³ Without access to a federal ATM, states would have to begin trimming bloated budgets.

But this seemingly good news is overshadowed by the typical Washington shell game of cutting in one place and adding new spending in another. In addition to rubber-stamping hundreds of billions worth of House spending that will not create economic growth, the Senate also worsens the House bill in several areas. The \$15,000 tax credit for homebuyers—double the size of the House version—would slow the housing market's necessary movement to a more stable equilibrium and reward those who behaved irresponsibly.⁴ The Senate also

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more than doubles the House bill's \$3.2 billion in broadband subsidies that have no short-term economic stimulus. Finally, the Senate bill contains a \$2 billion earmark for a coal-fired plant in Illinois. Despite the rhetoric, this bill is bigger and just as flawed as the House bill.

Worse, there is every indication that the conference committee will return a bill approaching \$1 trillion—even before net interest costs are added in. President Obama reportedly supports restoring at least \$60 billion of the \$83 billion reduced from the Senate bill.⁵ And conference committees typically resolve differences by including *both* the House- and Senate-passed provisions, thereby driving up the total cost of the bill.

Economists Critical Across the Spectrum. The Obama Administration has claimed that virtually all economists support their approach to “stimulus” spending.⁶ This is patently untrue. Nobel Laureates Ed Prescott, James Buchanan, and Vernon Smith recently joined 200 other economists signing a letter opposing the legislation.⁷ Other notable economists critical of the stimulus package include Nobel Laureate Gary Becker, Robert Barro, Greg Mankiw, Arthur Laffer, and Larry Lindsey. More liberal economists such as Alice Rivlin and Alan Blinder have

also strongly criticized certain aspects of the spending bill.

Even President Obama's own economic advisors—who are leading the fight for the “stimulus” bill—previously criticized the bill's economic underpinnings. Before becoming chairwoman of the Council of Economic Advisors, Christina Romer wrote that “countercyclical fiscal policy is not achieving its intended purpose.” Why? “[I]t is difficult for fiscal policy to respond quickly to economic developments.”⁸ Presidential economic advisor Jason Furman has also criticized infrastructure “stimulus,” having written that “[I]n the past, infrastructure projects that were initiated as the economy started to weaken did not involve substantial amounts of spending until after the economy had recovered.”⁹

White House's National Economic Council Director Larry Summers joined in, writing a year ago that “[P]oorly provided fiscal stimulus can have worse side effects than the disease that is to be cured.... [F]iscal stimulus, to be maximally effective, must be clearly and credibly temporary—with no significant adverse impact on the deficit for more than a year or so after implementation. Otherwise it risks being counterproductive by raising the spectre

1. The 2009 and 2010 baseline deficits are \$1.2 trillion and \$800 billion. The financial bailout required \$700 billion in borrowing, and the stimulus cost is currently over \$800 billion.
2. Robert E. Rector, “Welfare Spendathon: House Stimulus Bill Will Cost Taxpayers \$787 Billion in New Welfare Spending,” Heritage Foundation *WebMemo* No. 2276, February 6, 2009, at <http://www.heritage.org/Research/Economy/wm2276.cfm>.
3. Brian M. Riedl, “Stimulus Bill Should Not Bail Out Irresponsible States,” Heritage Foundation *WebMemo* No. 2266, February 4, 2009, at <http://www.heritage.org/Research/Economy/wm2266.cfm>.
4. David C. John, “The Isakson Tax Credit: Another Approach that Won't Fix the Mortgage Mess,” Heritage Foundation *WebMemo* No. 1873, March 31, 2008, at <http://www.heritage.org/Research/economy/wm1873.cfm>.
5. David Cho and Michael Fletcher, “Stimulus Pitch Absorbs Agenda,” *The Washington Post*, February 9, 2009, at <http://www.washingtonpost.com/wp-dyn/content/article/2009/02/08/AR2009020801086.html> (February 10, 2009). The President reportedly wants the state aid and school construction funds restored.
6. Greg Mankiw, “Is Joe Biden Disingenuous or Misinformed?” Greg Mankiw's Blog, January 23, 2009, at <http://gregmankiw.blogspot.com/2009/01/is-joe-biden-disingenuous-or.html> (February 10, 2009).
7. Cato Institute, “With All Due Respect Mr. President, That Is Not True,” at http://www.cato.org/special/stimulus09/cato_stimulus.pdf (February 10, 2009).
8. David Henderson, “Will the Real Christina Romer Please Stand Up?” *Forbes.com*, January 7, 2009, at http://www.forbes.com/2009/01/07/romer-obama-stimulus-oped-cx_dh_0107henderson.html (February 10, 2009).
9. Lori Montgomery, “Critics Say Roads Projects Won't Jump-Start Economy,” *The Washington Post*, October 30, 2008, at <http://www.washingtonpost.com/wp-dyn/content/article/2008/10/29/AR2008102904125.html> (February 10, 2009).

of enlarged future deficits pushing up longer-term interest rates and undermining confidence and longer-term growth prospects.”¹⁰

Not to be outdone, the President’s budget director, Peter Orszag—who was previously head of the Congressional Budget Office (CBO)—oversaw a 2008 CBO report stating, “Large-scale construction projects of any type require years of planning and preparation. Even those that are ‘on the shelf’ generally cannot be undertaken quickly enough to provide timely stimulus to the economy.”¹¹

That same CBO has joined the chorus of critics by recently releasing a report projecting that the “stimulus” will *worsen* the long-run performance of the economy.¹²

The simple reality is that Congress does not have a vault of money to distribute into the economy. Therefore, every dollar lawmakers “inject” into the economy must first be taxed or borrowed *out* of the economy, leaving total demand unchanged. If government borrows the money from American investors, investment spending drops accordingly. If it is borrowed from foreigners, net exports drop accord-

ingly. Even money redistributed from “savers” to “spenders” ignores the fact that savings circulate through the investment spending side of the economy—which counts just as much as consumer spending in the Gross Domestic Product.¹³

Time to Reject 1933 Economics. In the early 1930s, Washington responded to a severe recession by rapidly expanding government, and the economy fell into a depression. More recently, Japan responded to a 1990 recession by passing 10 “stimulus” bills over eight years—building the largest national debt in the industrialized world—and their economy remained stagnant. If deficit spending were truly stimulative, then the current \$1.2 trillion budget deficit would already be overheating the economy. It clearly is not. Thus, Senators should reject a “stimulus” bill that is based on 1933 economics and ignores 75 years of research and evidence about how growth is created.

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10. Lawrence Summers, “Why America Must Have a Fiscal Stimulus,” *Financial Times*, January 6, 2008, at http://belfercenter.ksg.harvard.edu/publication/17845/why_america_must_have_a_fiscal_stimulus.html (February 10, 2009).

11. Congressional Budget Office, “Options for Responding to Short-Term Economic Weakness,” January 2008, p. 19, at http://www.cbo.gov/ftpdocs/89xx/doc8916/01-15-Econ_Stimulus.pdf (February 10, 2009).

12. Congressional Budget Office, letter to Senator Judd Gregg, February 4, 2009, at <http://cbo.gov/ftpdocs/96xx/doc9619/Gregg.pdf> (February 10, 2009).

13. Brian M. Riedl, “Why Government Spending Does Not Stimulate Economic Growth,” Heritage Foundation *Backgrounder* No. 2208, November 12, 2008, at <http://www.heritage.org/Research/Budget/bg2208.cfm>.