A REAL Stimulus Package

As usual, the Democrats assume they know how to spend taxpayer money better than the taxpayers. Obama, the current top Democrat, demonstrated he is the self-proclaimed winner of the "I know best" group when he announced on January 8 that the recession could "linger for years" unless Congress approves his "economic stimulus" package. That statement was a clear threat to Congress to give him whatever the heck he wants, and because he knows best, no one should waste time doubting the economic skills he honed during his many years running successful businesses in the private sector. What? He never ran a successful - or even an unsuccessful - business? Never mind, just consider him the smartest guy in the room. (Don't tell Bill Clinton he's been moved to second place.)

The more cynical observers may also posit that Obama's threat to pass his stimulus package now or risk a lingering recession allows him an excuse should his plan not work (which it won't). That is, after he has spent hundreds of billions of dollars the federal government doesn't have and the economy is still in the tank, he can argue, "It's not my fault. Had Congress approved my package three weeks sooner, we wouldn't be in this mess! Remember, I warned you about the consequences of a delay!"

The nation is currently in a "recession." A recession is not an inevitable part of the "business cycle" caused by any inherent flaw in capitalism. A recession is simply an economy's logical reaction to a government's ill-advised interference in the private sector. When the government interferes with the operations of the economy, it causes individuals and businesses to do things they would not ordinarily do without the government intervention. When the government stops or redirects its interference, individuals and businesses also react - by returning to their "normal" mode of operations.

Raising a tax on a product, for example, causes a lessened demand for that product. Imposing expensive regulations on a business prompts that business to raise prices to recover the federally-forced expenses. Giving taxpayers generous tax breaks for home mortgage deductions encourages renters to buy houses. A drastic reduction in interest rates by the Federal Reserve Board promotes investments where investments would not ordinarily be made.

The actions of the federal government (through the Federal Reserve Board) after the September 11 terrorist attacks expanded credit dramatically. (The European Central Bank did the same a year or two later.) While that action may have prevented the U.S. economy from collapsing (which was no doubt one of al-Qaeda's goals in planning the attacks), the policy was allowed to continue far too long. The large amounts of credit encouraged consumers to buy homes they could not afford if interest rates were "normal." At the same time, businesses engaged in leveraged buy-outs with the "easy money." These investments would not have been made if credit were not so readily available.

The higher amount of available credit meant more people went shopping for homes than would otherwise have been the case. Because the supply of homes wasn't growing as quickly as the credit, there weren't enough homes to keep up with the increasing number of buyers. The sellers therefore were able to raise the asking price more than would normally be justified. (Home prices rose about 40 per cent during 2002-2006.) The same happened with the stock market. With easy credit, money had to go somewhere. While much went into homes (and cars and refrigerators and washing machines to put inside them), a lot also went into stock purchases. Stock prices went up for the same reason that house prices went up – more buyers bid up the prices of the available product.

The artificial stimulus of "easy money" (blame Andrea Mitchell's husband, Alan Greenspan) prompted construction companies to build more homes and businesses to buy out other businesses. The number of mergers increased. In order to build more cars and homes and appliances, businesses hired more workers. Everyone was getting fat and happy, because banks were lending money left and right, and getting more of that money from the Federal Reserve's easy-money policies.

Eventually, the government slowed down its expansion of credit. (This happened in both the United States and in Europe.) Interest rates went up. Lenders became less generous with loans. Risky loans that might have been made a few years earlier were denied. Stock prices started declining. Home-buying slowed. Home prices fell, as fewer buyers entered in the market.

Common sense started to take over. Buyers refused to pay $400,000 for a home that would have been only $300,000 a few years earlier. Investors refused to pay $300 for a stock that was only $200 a few months earlier. Businesses saw the hand-writing on the wall and stopped expanding. Home construction slowed. Lay-offs began. Banks stopped making frivolous loans.

In other words, things got back to normal. The economy contracted – not in defiance of growth that should inexorably continue, but back to where it would have been had the credit not been expanded in the first place.

A recession is nothing more than an economy restoring itself to its normal levels. A recession is not something that needs to be "fixed," because the recession is, in itself, the fix.

But politicians are, by tradition, ignorant of basic economics. Politicians are also, by nature, reluctant to "keep their hands off things." Doing nothing is not an option for a politician, because the politician can survive only if the voters believe he is a necessary source of all the good and happiness in the world. "Vote for me and I will do nothing" is not a way to win elections, even though it is a good way to end a recession. Democrats in general, and Obama in particular, feel obligated to "save the nation" from a recession which, if left to run its course, would last perhaps a year. At the recession's end, individuals and businesses will have learned to better live within their means. That is not acceptable to Obama, who needs to "solve" the problem in order to justify the levels of greatness awarded him by an adoring media.

Obama's solution to the recession is to spend hundreds of billions of dollars on massive public works programs, such as bridges and roads, as well as income tax cuts for people who pay little or no income taxes. Obama's stimulus package started out in the $300-$400 billion range, and is now approaching an astounding one trillion dollars. (Everett Dirksen is rolling over in his grave.) Regardless of the actual final amount, the approach is that Obama and his fellow Democrats will turn on the printing presses, pump out hundreds of billions of dollars, and decide where to spend that cold cash. They know best, after all.

Not surprisingly, much of the money will be spent on pay-back to Obama campaign donors. Unions will be the initial recipients, because bridges and roads are built by union construction workers. (Not that they can't be built by non-union companies, but it's the unions who gave tens of millions of dollars to Obama and the Democrat National Committee.) Massive amounts will also be spent on upgrading schools, no doubt pleasing the members of the National Education Association - who were also main supporters of Obama and the DNC.

Regardless of the merits of a particular bridge, road, or school upgrade, Obama and his fellow politicians will be deciding where the money from the stimulus package will be spent. But it is your money… taxpayer money (whether it comes from higher taxes now, higher taxes when bonds are paid off in the future, or the inflationary effects of printing money to fund the stimulus.) Why do Obama and the Democrats (or Republicans) know best how to spend taxpayer money? Why not let the taxpayers decide?

How does one do that? Should taxpayers telephone Obama and say, "Can you please re-surface the bridge on Maple Street?" No, that's not practical. Why not simply give the taxpayers the money that would be spent on the stimulus package? Assume the "stimulus package" is $700 billion. By coincidence, that represents approximately six months of income taxes collected by the federal government. (About $1.4 trillion dollars per year is collected in income taxes.) As long as Obama is willing to spend $700 billion the federal government doesn't have, why not just skip deducting income taxes from paychecks for six months? That would put $700 billion of cold cash into the economy, spent as the taxpayers – and not the politicians – see fit, and it wouldn't cost any more than the "stimulus package."

With a six-month reprieve from paying income taxes, some taxpayers would pay off debt (always a good thing), some would invest in the stock market (a good thing for business expansion, job growth, and retirement savings), some would buy cars (good for Detroit's "Big Three"), some would buy consumer goods (good for those who make appliances, etc.), and some would simply save it for a rainy day (making it available to banks to lend to others). Everybody wins.

Granted, after six months things would return to normal. But, in the mean time, consumers would have paid off a darn large amount of personal debt - which most would argue is preferable to installing espresso machines in NEA teachers' lounges. Of course, Obama owes the NEA more than he owes you. Enjoy your espresso machine, if you're a teacher. Enjoy your hyper-inflation, if you are not.

Don Fredrick
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