Obama's Stimulating Package…

The word on the street is that the incoming Obama administration will end up proposing an economic "stimulus package" in the neighborhood of $1 *trillion* dollars. Yes, *trillion*, as in one thousand times one billion. Even for Washington, D.C., that's a lot of money. Illinois Governor Rod Blagojevich could get you all 50 Senate seats for that kind of dough. (The late Illinois Senator Everett Dirksen is rolling over in his grave right about now. Dirksen is famous for his deep-voice oratory, and for criticizing federal spending with the remark, "A billion here, a billion there, pretty soon, you're talking real money" – or words to that effect.)

The gross domestic product of the United States is currently estimated to be roughly $14.5 trillion dollars. No one knows the real number, because it is essentially impossible to calculate the annual value of all production, manufacturing, goods and services in the nation. You can certainly find web sites that give you a more exact number (like $14,497.7 trillion), but those are as meaningless as counts of potholes in the city of Chicago after a spring thaw. You could perhaps trust an estimate of 50,000 potholes, but when the "estimate" is 48,831 potholes, you know it's phony – someone either counted them or guessed, and no one is dumb enough to go around counting them. (Then again, pot-hole counting might be one of Obama's planned "green jobs.")

At any rate, let's assume the $14.5 trillion estimate for the GDP is reasonable. Obama wants to "stimulate" the economy by spending $1 trillion. If I remember elementary school math, that means new federal spending equal to about 6.89655 per cent of the economy's normal output. (Those of you who attended a big city public schools in the last two decades will have to take my word for it.) Let's round that up to seven per cent – just to make life easier (especially for the group just mentioned). Of course, you can't pump an additional one trillion dollars into the economy unless you first have that trillion dollars. Inasmuch as Congress doesn't know how to balance a budget, let alone generate a surplus, Obama will not find an extra trillion lying around when he moves into the White House on January 20. So where does he get the greenbacks?

Obama has only two choices. He can raise taxes by one trillion, taking the money from some people in order to spend it on his "stimulus" programs. Or he can print money. (Yes, astute readers know there is a third option – a combination of options one and two, but that complicates things far too much for those who were educated by teachers who support the NEA more than they support knowledge.)

If Obama raises taxes by one trillion dollars and then distributes it for his "pet projects," what does that do for the economy? Won't it "stimulate" the economy? No, of course not. It will stimulate a small segment of the economy – wherever he chooses to spend the money – but that growth will be *offset* by a shrinking of the economy elsewhere. An example will prove the point.

For a moment, change the trillion dollar amount to a mere $50 million. (Rest easy for a moment, Everett.) Obama wants $50 million to repair bridges in the Cleveland area. To get the $50 million, he raises taxes on the wealthy by $50 million. Hasn't Obama "stimulated" the Cleveland economy by infusing it with money for bridge repairs? Won't bridge repairing jobs be created? Won't the news media broadcast video of the Cleveland bridges being repaired? Yes.

The media will show the smiling faces of employed bridge repair workers, to be sure. But will it present any stories about the wealthy Americans who have been hit with the $50 million increase in taxes? Of course not – who cares about them? The people who care, of course, will be the ones who lose their jobs because of that tax increase. Assume for a moment that the wealthy all decide that, having $50 million less in their bank accounts, they will all cancel the new pleasure boats they had ordered (before election day) from a Virginia shipyard. Virginia boat builders will most certainly lose their jobs, as a direct result of Obama's stimulus package.

Will the media present stories about the many Virginia boat builders who lost their jobs? Of course not. The media won't even be aware of them, because they won't bother to look – believing as they do that raising taxes causes no harm to the economy. The media will be so busy interviewing grateful pro-Obama bridge workers in Cleveland that it wouldn't head to Virginia unless it was hit by a hurricane they can blame on George W. Bush.

Some would argue that this scenario is ridiculous, because the wealthy won't all be canceling boat orders; that $50 million will come from cancellations of many different types of purchases. That is true, which is why it is difficult to observe those job losses and pin them directly to Obama's $50 million tax increase – but those job losses will happen nevertheless. It is an inescapable fact that raising taxes causes unemployment. If it's not boat builders who lose their jobs, it will be someone else. The wealthy will *not* be spending $50 million on *something*, because they won't have that $50 million. Wherever they would have spent that $50 million on will now be without that $50 million.

Now change that amount to one trillion. The result will be the same, but there will be a lot more of it.

Obviously Obama can't raise taxes by one trillion dollars - there simply aren't enough wealthy Americans to do so. He cannot get an amount equal to seven per cent of the Gross Domestic Product by taxing a small group of people. That leaves option two: print money. Can't the federal government just print money to fund his trillion dollar spending spree? Yes, and that's exactly what he will do.

Printing money is just a simpler way of saying "deficit spending." Raise the national debt ceiling, and start mailing those checks to bridge repair companies. Won't that stimulate the economy without having to raise taxes on the wealthy? Won't that be a good thing? Just start printing those Ben franklins as fast as paper and ink can be fed into the presses.

The problem with that process lies in the fact that passing out money doesn't contribute to the nation's overall wealth. That's why someone who today makes $50,000 per year is not necessarily twice as well off as when he made $25,000 per year; inflation has reduced the value of the dollar. Printing money doesn't make factories more efficient. It doesn't make lazy people work harder. It doesn't make stupid people smarter. It simply adds money to the economy – essentially leaving the amount of goods and services unchanged.

Getting back to the Gross Domestic Product, if the value of goods and services in the economy is $14.5 trillion and an additional trillion in cash is added to the mix, $15.5 trillion will now be chasing $14.5 trillion in goods and services. What does that do? It causes prices to increase.

If a farmer has 15 bags of apples to sell to 15 customers who each have $1.00 to spend, he can charge $1.00 per bag. Now give that group of people an additional dollar to spend. (Give each of them an extra $0.06.) There is now $16 available – *but there are still only 15 bags of apples*. If those 15 people still each want to buy a bag of apples, the farmer can now charge $1.06 per bag. *That* is the meaning of inflation – increasing the money supply without doing anything to increase the amount of goods and services available in the economy.

Granted, some people may not want to pay the increased price of $1.06 for a bag of apples, but they nevertheless now have $1.06, instead of $1.00, to spend on whatever it is they do want. The price of other products will go up as well. Replace the 15 apples with the $14.5 trillion economy, and toss an extra trillion into the economy instead of an extra dollar, and the results are the same. More money chases the same amount of goods and services. Prices go up.

How much will prices go up? In general, expect seven per cent inflation. Why? Because Obama will be adding an amount of money equal to approximately seven per cent of the nation's Gross Domestic Product. (And you thought you'd never need math.)

But won't the nation get something out of that trillion dollars? Won't there be bridge repairs and school repairs? Yes, but those repairs will be paid for by nailing everyone in the country with seven per cent inflation. Those repairs won't be free, because they will be paid for with an average seven per cent increase in the price of all goods and services. (Granted, the federal government can raise the trillion by selling government bonds to foreign nations, but interest will have to be paid to those purchasers, and the interest would itself be part of additional deficit-spending; the financial day of reckoning is merely delayed, not avoided.)

Don't forget to pay attention to where Obama plans on spending that trillion dollars: bridge repairs, road construction, school repairs, school equipment. What is the common thread? Unions that supported Obama's candidacy with millions of dollars in contributions and volunteer work registering new Democrat voters. Don't expect any part of the "stimulus package" to be spent wisely; it will be spent on high-paid union workers, projects with enormous cost overruns, and projects that aren't that valuable or necessary in the first place. (If they were so critical, they would have been done already.)

If Obama releases an additional trillion dollars into the economy, it won't stimulate anything except prices. Americans will get screwed… which is what one might expect from Obama's stimulating package.

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