



Analytics

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RE: Stimulus Smoke and Mirrors

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Administration economists and officials keep touting the multiplier effects from additional government spending. Extended unemployment benefits generate more than a dollar's worth of activity in the economy. More agricultural subsidies will pump up economic growth.

This is macroeconomic smoke and mirrors. Why?

First, many industries have a higher output multiplier than government. For example, according to the U.S. Bureau of Economic Analysis, the multiplier impact of a dollar spending on manufactured goods has a one-third greater impact on total output than a dollar of spending on government. Efficiency is enhanced by allowing markets to determine the distribution of spending.

Second, and more important, a dollar spent on government has to come from somewhere else in the economy. If it comes from household consumption then total personal spending in the economy falls, offsetting the impact of increased government spending. If it comes from savings, then investment drops and offsets the impact of increased government spending.

If it comes from pumping up government debt, the depressing effect on consumption and investment is simply delayed until a later date.

One way or the other, the piper must be paid. Either current growth in the private economy is curbed or future growth is curbed. There is no free lunch. It is that simple.

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