Bankruptcy (a.k.a. Stimulus) Bill Clears Congress

Republicans tried to mount a feeble opposition, trotting out a provocative list of line items that, they claimed, would do nothing to provide the promised stimulus. But the total amount of the allegedly objectionable programs totaled just $19 billion — a formidable sum, but insignificant compared with the overall bill.

Eventually, Republican opposition forced a "compromise" bill that will end up costing $787 billion. A jubilant President Obama called the stimulus legislation a "major milestone on our road to recovery."

But behind the triumphalism of President Obama and his Democratic allies in Congress lurks the sobering reality that the nearly $800 billion price tag will do nothing to stimulate the economy. Far more likely is that this monstrosity, in conjunction with the $700 billion Bush bailout bill and hundreds of billions of additional taxpayer dollars already thrown at failing and failed corporations, will devastate the American economy.

"Stimulus package" indeed; what the president is now about to sign into law may well be remembered in history as the "bankruptcy bill."

Washington's Free-spending Ways

America's journey into the financial abyss started long before the current financial and economic crisis arose. Even in the boom times of the '80s and '90s, a prescient few warned of the long-term consequences of burgeoning government debt. As long as the economy grew and the markets soared, however, tax revenues rose with them.

The temptation to live far, far beyond our means became business as usual in Washington, as year after year saw economic growth beyond anything the United States had ever experienced before. The few downturns were brief and shallow, encouraging the conceit that the money mandarins at the Fed and in the Treasury Department had finally tamed the business cycle.

Now, of course, the happy talk of decades past is exposed for the fatuous illusion that it was — but the free-spending ways of Washington have not changed, if this stimulus bill is any evidence. Instead of being chastened by events, lawmakers seem determined to continue racking up the tab and to leave the bill for posterity. Consider that the original Obama proposal, roundly condemned by his political enemies, debuted at around $750 billion. By the time the House had had its way with it, the price tag had risen by $70 billion. And the Senate version started bidding at close to $70 billion more than the bill that had been passed by the House — to which senators, Republican and Democratic alike, tacked on tens of billions more. Only a flickering of fiscal conscience reduced the price of the final bill to below the $800 billion threshold — still a gargantuan sum by any standard.

Some of the cost, to be sure, is actually reckoned in tax cuts, not appropriations. But the rest — still an astronomical sum — is appropriations for spending programs new and old, money that will need to be

spent outright, and which will become encrusted on the already almost inconceivably large national debt.

And how will these hundreds of billions be spent? A couple of the most objectionable items, including billions for family-planning programs, were theatrically stricken from the House version of the stimulus bill before passage and omitted from the Senate version. But a very large proportion of the remaining billions will be spent directly on government jobs and contracts. The aforementioned $19 billion laundry list of wasteful spending items trotted out by the Republican opposition and targeted for elimination, listed these gems, among many others:

• $88 million for the Coast Guard to design a new polar icebreaker (arctic ship).

• $448 million for constructing the Department of Homeland Security headquarters.

• $248 million for furniture at the new Homeland Security headquarters.

• $600 million to buy hybrid vehicles for federal employees.

• $400 million for the Centers for Disease Control to screen and prevent STDs.

• $125 million for the Washington sewer system.

• $150 million for Smithsonian museum facilities.

• $1 billion for the 2010 Census, which has a projected cost overrun of $3 billion.

• $75 million for salaries of employees at the FBI.

• $88 million for renovating the headquarters of the Public Health Service.

• $412 million for CDC buildings and property.

• $500 million for building and repairing National Institutes of Health facilities in Bethesda, Maryland.

• $200 million in funding for the lease of alternative energy vehicles for use on military installations.

While some of these items were dropped from the final stimulus bill, they give a fair perspective on the ways the federal government will spend money on itself under the guise of "economic stimulus." Private-sector corporations are being forced to lay off employees, cut pay, and impose other austerity measures, but not the federal government: this spending package guarantees that government jobs and the agencies providing them will continue to flourish and proliferate — at the expense of everything else.

That Which Must Not Be Questioned

How have we come to such a pass? Capitol Hill Republicans and Democrats alike have long embraced the twin fallacies of socialism, that the free market does not work without benign government management and oversight, and that the creative application of government can solve any problem. The ideological divide between Republicans and Democrats questions neither of these articles of faith.

Senator Dianne Feinstein (D-Calif.), criticized an early Senate version of the bill as "tax-cut heavy." President Obama weighed in with withering criticism of those who believe "that tax cuts alone will solve all our problems." Meanwhile, Arizona Senator John McCain, lately the Republican standard-bearer, opined that "the American people are beginning to figure out what this package is, that it’s not a stimulus package — it’s a spending package." At one point during Senate consideration, McCain and a number of fellow Republicans produced a stimulus proposal of their own that would cost "only" $445

billion, most of it garnered through cuts in payroll, income, and corporate tax rates. They also proposed spending $65 billion for road repairs and $11 billion to prevent home foreclosures, however.

In general, Republicans like McCain and his fellows profess belief in cutting taxes (without correspondingly cutting spending) to provide stimulus, while Democrats, as Senator Feinstein implied, dislike cutting taxes and prefer to create more government programs to solve our problems. Neither side is willing to acknowledge the hard truth, that *no* positive action taken by government can possibly provide any beneficial economic "stimulus." The only helpful course the federal government can take is negative: get out of the way of the markets and allow the economic correction to run its course.

Cutting taxes to provide an economic stimulus has long been a popular recourse, but not out of solicitude for the American taxpayer. The so-called "Laffer curve," which demonstrated the paradox that tax cuts often produce higher tax revenues because lower taxes engender more economic productivity, has been in vogue since the Reagan era. The tax cuts carried out during the Reagan presidency and subsequent Republican administrations have typically been justified, not on the grounds that lower taxes are beneficial to the citizenry, but that they will furnish more revenues for the government to spend. Arthur Laffer's prediction turned out to be at least partly right, and the increased volume of tax revenues during the eighties and nineties allowed the federal government to grow exponentially. Now it appears that some Democrats, including President Obama, have grasped the idea behind the Laffer curve and the potential for more revenue by lowering tax rates.

But the real motive behind such tax cuts is utterly self-serving; neither political party would be willing to lower tax rates if they believed that the cuts would reduce government spending, because both parties favor Big Government above all else. It so happens that, if the Laffer effect fails to kick in (as it very well may this time around, owing to the severity of the economic crisis), the buccaneers running the federal government have another way of securing the loot to fund themselves: they can print it. The boom that validated the Laffer effect was made possible by the Treasury Department and the Federal Reserve, which printed money and ran up huge deficits to fund any government shortfalls occasioned by tax cuts.

But expanding the money supply (inflation) eventually causes prices to rise — demonstrating that one way or another, through taxes or inflation — the piper will be paid. Put simply, the way to reduce the government's burden on the economy is not simply to cut taxes but to cut spending as well. This, however, is the part of the story that neocons and supply-siders like Arthur Laffer do not acknowledge.

This tax-spend-inflate formula remains in force today; any costs associated with tax cuts in the forthcoming stimulus bill will be papered over — literally — with funny money from the Fed. In this way, deficits will rise, inflation will wreak havoc, and tax rates may rise or fall, but the federal government will continue to grow and grow.

Hidden Alternative

The hidden alternative, ignored by Republicans and Democrats alike, is to shrink the government itself. If the federal government were reduced to something approaching constitutionally authorized contours, taxes could be lowered without deficit spending, inflation, and crippling debts for our children and grandchildren to confront. But this, absent a massive display of taxpayer resolve, is the one thing our government will never do.

The sad truth is that the pork in this stimulus package is not merely wasteful and counterproductive; it is patently and blatantly unconstitutional. As the Tenth Amendment — the last and most neglected part

of the Bill of Rights — makes crystal clear, the federal government is not authorized to do anything not explicitly delegated to it in the U.S. Constitution. In the case of Congress, that means the 20 or so powers delegated to it in Article 1, and a couple of others mentioned elsewhere. No reading of the Constitution can possibly disclose any writ of authority for Congress to spend money on education, family planning, housing, unemployment, food stamps, infrastructure projects, scientific research, or any of the host of other programs contemplated in the stimulus package. Every representative and senator who votes for such nonsense is in flagrant violation of his oath of office, as President Obama will be when he signs the measure into law.

Continental Shift Required

What would the Founders have done had they been confronted with such an economic crisis? In point of fact, they were. The continental, a paper currency issued by the Continental Congress to fund the Revolutionary War, had by the war's end depreciated to a fraction of its original value; in 1781, $100 in gold or silver could purchase $16,800 in paper continentals. Hundreds of millions in savings were wiped out by the inflation, prompting the framers of the Constitution to prohibit the states from printing paper money ("emitting bills of credit" was the terminology of the day) or allowing anything but gold and silver to function as legal tender. Congress, meanwhile, was authorized to "coin money," not to print it, a distinction the Founders understood only too well. The foundation of sound money and non-interference on the workings of the market allowed the early American economy to prosper mightily, shrugging off the effects of calamitous wars in Europe and other uncertainties. When the first bona fide economic crisis arose — the Panic of 1819 — the federal and state governments did virtually nothing. Although relief measures were debated in some state legislatures, few of them even came to a vote. Spared from unwelcome government medicine, the economic influenza ran its course in about two years. By the early 1820s, the American economy returned to robust expansion.

The federal government first assumed the role of economic paramedic during the Hoover administration, when the first economic stimulus bill was passed. Every president and Congress since the Hoover administration has taken for granted its supposed responsibility to forcibly medicate the U.S. economy at regular intervals. The Obama stimulus is merely the latest (and withal the costliest) such venture yet attempted.

Americans are thus being offered two false alternatives by a bipartisan establishment utterly inimical to reducing the size, cost, or power of the federal government: tax cuts without spending cuts and the higher deficits they engender, or more government programs at crippling cost. Constitutional restraints, which once held sway over at least a portion of the body politic, are utterly disregarded.

Moreover, almost no one in government nowadays (except for Congressman Ron Paul) gives anything but lip service to free markets and laissez-faire capitalism. As a group of state governors, including Massachusetts' Deval Patrick (D) and Florida's Charlie Crist (R), told President Obama in a recent letter urging passing of the stimulus bill, "While we all believe in the importance of free markets, we believe that the markets today need stimulating."

Nor is there any refuge to be found in the superficial rhetorical divide between Republican and Democrat. Both parties believe in bigger government and, as the recent Bush bailouts have demonstrated, there isn't a continental's worth of difference between them.

Photo: AP Images