Cash for Clunkers

Item: The National Public Radio news blog, "The Two-Way," reported on August 7: "The relatively good news that the unemployment rate dropped slightly to 9.4 percent in July had President Barack Obama claiming credit for his administration for stabilizing the economy." The president was quoted saying, in part: "Today, we're pointed in the right direction.… We've rescued our economy from catastrophe."

Item: *Writing in the London-based* Financial Times *for August 11, Harvard Professor Niall Ferguson declared that President Obama's "stimulus bill has clearly made a significant contribution to stabilising the US economy since its passage in February." Said Ferguson: "Without the jump in government spending, GDP would still be in a nosedive."*

Item: *Paul Krugman in his August 10 column in the* New York Times *proclaimed that "Big Government" has "saved us from a full replay of the Great Depression." Acknowledging that he had contended that the $787 billion stimulus program was too small, Krugman said it nonetheless "has played a significant role in pulling the economy of its free fall." Krugman also opined that "budget deficits — which are a bad thing in normal times — are actually a good thing right now."*

Item: Newsweek *in its cover story for August 3 declared the recession to be over. The article by Daniel Gross did say there would be no instant recovery. Gross also asserted that the country is "witnessing an immense and aggressive substitution of public capital for private capital — and it is probably a good thing."*

Item: *Alan Blinder's piece in the* Washington Post *for August 11, entitled "Stay the Stimulus Course," praised the outpouring of public spending, including the "Cash for Clunkers" program and, in particular, the "stimulus measures in the American Recovery and Reinvestment Act." Saying that "even the voracious U.S. cannot spend $787 billion quickly," Blinder argued that the spending pace was not behind schedule. The Princeton economist observed that "we won't see photos of public servants not being fired."*

Correction: Self-congratulations over the alleged positive effects of pushing government spending to stratospheric levels are probably to be expected by its perpetrators. Many counterfeiters no doubt are also proud of their work. However, all too many in the mainstream media seem to have misplaced their skeptical tendencies or even minimal reasoning powers in touting the so-called economic stimulus.

Is it really that difficult to understand that government spending, whether by taxing or borrowing, has to come from someone who now has less to spend as he sees fit? The more the government spends, the less the taxpayers have. Moreover, there is a negative effect on capital and labor as the government diverts assets from the private sector.

Professor Blinder, a former member of President Clinton's Council of Economic Advisers, hints at the fact that not everything is readily apparent, in a photo-op sense, in a government scheme such as the "Clunkers" program. True enough. (The program, keep in mind, was one of his brainstorms.) But what the economist ignores is what else is happening beyond the cameras that are joyously recording the forced marriage of dubious environmentalism and Keynesian economics.

Valuable economic assets are being destroyed, with taxpayers being bribed with their own money to turn in their cars so the vehicles can be scrapped. This is another bailout to auto companies, some of which are now run by the government. To be sure, the program demonstrates that people will pick up a check or a discount handed out by the feds. If Washington dropped hundred-dollar bills from airplanes, folks would also grab that money as well, but that wouldn't make it a sound (or constitutional) policy.

Those who are not shown on the evening news are the would-be buyers of used cars, many of which are now not available for purchase, or those whose livelihoods depend on keeping those older cars running.

Several commentators have pointed out, tongue firmly in cheek, how these very techniques could be used to save the housing industry — promoting the sale of new homes by destroying old ones. Why not give homebuyers a lucrative credit for trading in existing homes that might not be suitably "green"? Then those energy-inefficient houses could be burned down in favor of new green homes with government-approved appliances? There would be "new" jobs and whatever homes were built would be more environmentally friendly.

Idiotic? Sure. But it would make as much sense as a government program that subsidizes the destruction of functioning automobiles and pretending that it is adding to the nation's wealth and well-being.

The misleading notion in such ploys involves the "broken-windows" fallacy elucidated long ago by French economist Frederic Bastiat. He famously rebutted the contention that it was good for the economy when a boy broke a window, for example, because it provided work for the glazier. The work for the glazier was seen. But, as Bastiat pointed out in 1850 (emphasis in original): "*It is not seen* that, since our citizen has spent six francs for one thing, he will not be able to spend them for another. It is not seen that if he had not had a windowpane to replace, he would have replaced, for example, his worn-out shoes or added another book to his library. In brief, he would have put his six francs to some use or other for which he will not now have them."

Appearances to the contrary, all folly was not invented in Washington, D.C. Spurious schemes have a long inglorious history. In his pamphlet, Bastiat singled out the disciples of a state councillor, the "estimable M. de Saint-Chamans, who has calculated with such precision what industry would gain from the burning of Paris, because of the houses that would have to be rebuilt."

Sounds like a winner for a French version of HUD: Caisse pour Maladroit Maisons.

If something is unnecessarily ruined, its value is lost. As Bastiat's aphorism has it: "To break, to destroy, to dissipate is not to encourage national employment." Or, more briefly, as he said, "Destruction is not profitable."

The Obama administration and those in its media echo chamber also find themselves falling back on the argument that the economy would have plunged even further and the overall situation would have been worse if the government didn't spend as if there would be no tomorrow. That's impossible to prove, making it a perfect argument for an unprincipled politician.

Mere months ago, the administration argued that, if the stimulus bill was *not* passed immediately, the unemployment rate might jump to 8 percent. After it was rushed through, the rate jumped to 9.5 percent. Now we are told that since that statistic slipped a bit, to 9.4 percent, that the economy has been saved. (Administration officials quietly acknowledge off camera that the jobless rate is still likely to pass 10 percent.) Yet, as the *Washington Post* noted, that minor blip occurred "largely because more than 400,000 people dropped out of the labor force and therefore were not counted as unemployed." Kudos notwithstanding, the ranks of the unemployed still grew by about 247,000 jobs in July, according to the U.S. Labor Department.

But if we believe the Obama administration that the economy is much-improved and we have been saved already, when about 90 percent of the stimulus package is unspent, argued University of Chicago economist Casey Mulligan, don't spend the rest of it. Mulligan wrote in the *New York Post*:

Even if the Obama Administration were right that the stimulus law would "create or save" three to four million jobs, that means each job costs the Treasury $215,000! The best case scenario for the stimulus law gives us results that are minuscule compared with the costs. In the worst case scenario, we actually pay money to further harm an already struggling economy….

It would have been designed better if money had stayed with the taxpayers instead of funneling through dozens of federal agencies — an option that is still available. Otherwise, we are looking at heavy taxes — and further economic damage — down the road to pay for all the borrowing.

Meanwhile, the government continues to grow — to the cheers of the alleged intelligentsia (see above) who push deficit spending and the alleged boosting of the economy by having the government borrow money and then spend it. Of course, there are political benefits to having about $800 billion to play with, especially when it is money extracted from the taxpayers. There will be elections before long, and the "largest slush fund ever amassed in history" can be helpful to "buy subservience and punish resistance," observes Dan Kennedy of the Business & Media Institute. Obama, he writes,

has our money with which to manipulate any local economy or any segment of the national economy up or down or sideways to any desired effect, to create the illusion of progress wherever needed — a bridge project here but none there, stimulus to this business while starving another, creating customers for one favored employer while spiking lay-offs elsewhere.

Sometimes the spending is so wasteful it even catches the eye of a government inspector, though these stories are likely to be buried. One wire-service account did take note of an inspector general's report in the Transportation Department, which found $1.1 billion had been spent for 50 airport projects that didn't meet grant criteria and that the department had approved projects at four airports that had a history of mismanaging federal grants. Oh well, at least they spent the money. To a Keynesian economist, that's the important part.

More government debt isn't the answer; it's part of the problem. Consider the ominous trend. In 2008, federal spending was at an already onerous level of 41 percent of GDP. Yet, according to the Congressional Budget Office, federal debt is expected to grow to 60 percent of GDP by 2010, and to an astonishing 200 percent of GDP by 2038. Spending money you don't have, hitting bottom, then increasing the rate of spending, is not a prudent recipe for economic success, despite the contentions of some vaunted experts who maintain that we can squander our way to prosperity.

The Obama administration has done the seemingly impossible, making its spendthrift predecessors appear almost frugal. The federal government this year ballooned expenditures over a short six-month period, driving the federal budget to nearly $4 trillion, and more than quadrupling the deficit.

If we want to prolong and deepen our current recession, we're on the right track. If we want lower living standards and higher unemployment rates, the way to guarantee that is though more taxes, mandates on overburdened businesses, and skyrocketing federal spending.

Each year, the Americans for Tax Reform Foundation and the Center for Fiscal Accountability calculate what they call Cost of Government Day — the day on which the average American has earned enough gross income to pay off his share of the spending and regulatory burdens that are imposed by government at the federal, state, and local levels. This year that day was August 12, a stunning 26 days longer than in 2008.

Still, the president insists he's rescued our economy from catastrophe.

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