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## Tooth Fairy can't sweeten stimulus plan

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Here is what my George Mason University colleague Professor Richard Wagner wrote, which was published by Office of the House Republican Leader: "Any so-called stimulus program is a ruse. The government can increase its spending only by reducing private spending equivalently. Whether government finances its added spending by increasing taxes, by borrowing, or by inflating the currency, the added spending will be offset by reduced private spending. Furthermore, private spending is generally more efficient than the government spending that would replace it because people act more carefully when they spend their own money than when they spend other people's money."

A short translation of Wagner's comment is: There is no Santa Claus or Tooth Fairy. Let's examine the ruse.



Suppose the value of all that we will produce in 2009, our gross domestic product (GDP), totals \$14 trillion. There cannot be any disagreement that if Congress spends \$4 trillion, of necessity there is only \$10 trillion left over for us to spend privately. In other words, if Congress is going to spend \$4 trillion, it must find a way to get us to spend \$4 trillion less. The most open and aboveboard method to force us to spend less privately is to tax us to the tune of \$4 trillion.

You might say, "Congress doesn't have to tax us \$4 trillion. They could tax us \$3 trillion and run a \$1 trillion budget deficit." You have that wrong. There is no way for Congress to spend \$4 trillion out of our 2009 \$14 trillion GDP by getting us to spend only \$3 trillion less privately. It has to be \$4 trillion less. Another method to force us to spend less privately is to print money and inflate the currency. Rising prices reduce our ability to spend privately since each dollar we hold will not buy as much. Another way is for Congress to borrow, thereby reducing our ability to spend privately.

By the way, all of this means that in any real economic sense the federal budget is always balanced. That is, if Congress spends \$4 trillion we must privately spend \$4 trillion less whether it is accomplished through taxation, inflation or borrowing.

The stimulus package being discussed is politically smart but economically stupid. It's that bedeviling, omnipresent Santa Claus and Tooth Fairy problem again.

Let's say that Congress taxes you \$500 to put toward creating construction jobs building our infrastructure. The beneficiaries will be quite visible, namely men employed building a road. The victims of Congress are invisible and are only revealed by asking what you would have done with the \$500 if it were not taxed away from you. Whatever you would have spent it on would have contributed to someone's employment. That person is invisible. Politicians love it when the victims of their policies are invisible and the beneficiaries

visible. Why? Because the beneficiaries know for whom to vote and the victims do not know who is to blame for their plight.

In stimulus package language, if Congress taxes to hand out money, one person is stimulated at the expense of another, who pays the tax, who is unstimulated. A visual representation of the stimulus package is: Imagine you see a person at work taking buckets of water from the deep end of a swimming pool and dumping them into the shallow end in an attempt to make it deeper. You would deem him stupid. That scenario is equivalent to what Congress and the new president proposes for the economy. A far more important measure that Congress can take toward a healthy economy is to ensure that the 2003 tax cuts don't expire in 2010 as scheduled. If not, there are 15 separate taxes scheduled to rise in 2010, costing Americans \$200 billion a year in increased taxes. In the face of a recession, we don't need that.

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