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Why Government Spending Does Not Stimulate Economic Growth: Answering the Critics

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Abstract: *Despite decades of repeated failure, President Obama and Congress continue to promote the myth that government can spend its way out of recession. Heritage Foundation economic policy expert Brian Riedl dispels the stimulus myth, lays out the evidence that government spending does not end recessions—and presents the evidence for what does end recessions. Hint: It's not another "stimulus package."*

Proponents of President Barack Obama's $787 billion stimulus bill continue to insist that the massive government bailout played a decisive role in moving the economy out of the recession. Yet assuming no destructive government actions, the economy's self-correction mechanism was widely expected to move the economy out of recession in 2009 anyway. With a parade of "stimulus" bills the past two years (going back to President George W. Bush's tax rebate in early 2008), it was entirely predictable that some would link the expected end of the recession to whichever stimulus bill happened to come last.

Indeed, President Obama's stimulus bill failed by its own standards. In a January 2009 report, White House economists predicted that the stimulus bill would create (not merely save) 3.3 million net jobs by 2010. Since then, 3.5 million more net jobs have been lost, pushing the unemployment rate above 10 percent.[1] The fact that government failed to spend its way to prosperity is not an isolated incident:

Talking Points

- The idea that government spending stimulates the economy has a long history of failure.
- If deficit spending represented "new" dollars injected in the economy, last year's $1.2 trillion budget deficit would have already overheated the economy even before the stimulus bill added an additional $200 billion to the deficit.
- Spending-stimulus advocates claim that Congress can "inject" new money into the economy, increasing demand and therefore production. Yet every dollar Congress injects *into* the economy must first be taxed or borrowed *out of* the economy. No new spending power is created. It is merely redistributed from one group of people to another.
- Even money transferred from "savers" to "spenders" does not create new spending in an economy. The financial system already converts one person's savings into another person's spending.
- The only way to increase economic growth is by increasing productivity and the labor supply.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/bg2354.cfm

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- During the 1930s, New Deal lawmakers doubled federal spending—yet unemployment remained above 20 percent until World War II.
- Japan responded to a 1990 recession by passing 10 stimulus spending bills over 8 years (building the largest national debt in the industrialized world)—yet its economy remained stagnant.
- In 2001, President Bush responded to a recession by "injecting" tax rebates into the economy. The economy did not respond until two years later, when tax rate reductions were implemented.
- In 2008, President Bush tried to head off the current recession with another round of tax rebates. The recession continued to worsen.
- Now, the most recent $787 billion stimulus bill was intended to keep the unemployment rate from exceeding 8 percent. In November, it topped 10 percent.[2]

Undeterred by these repeated stimulus failures, President Obama is calling for yet another stimulus bill.[3] There is every reason to expect another round to fail as miserably as the past ones, and it would bury the nation deeper in debt.

The Stimulus Myth

The economic theory behind the stimulus builds on the work of John Maynard Keynes eight decades ago. It begins with the idea that an economic shock has left demand persistently and significantly below potential supply. As people stop spending money, businesses pull back production, and the ensuing vicious circle of falling demand and production shrinks the economy.

Keynesians believe that government spending can make up this shortfall in private demand. Their models assume that—in an underperforming economy—government spending adds money to the economy, taxes remove money from the economy, and so the increase in the budget deficit represents net new dollars injected. Therefore, it scarcely matters how the dollars are spent. Keynes is said to have famously asserted that a government program that pays people to dig and refill ditches would provide new income for those workers to spend and circulate through the economy, creating even more jobs and income.

Undeterred by the repeated stimulus failures, President Obama is calling for yet another stimulus bill.

The Keynesian argument also assumes that consumption spending adds to immediate economic growth while savings do not. By this reasoning, unemployment benefits, food stamps, and low-income tax rebates are among the most effective stimulus policies because of their likelihood to be consumed rather than saved.

Taking this analysis to its logical extreme, Mark Zandi of Economy.com has boiled down the government's influence on America's broad and diverse

1. While the Obama Administration rhetorically emphasizes that it will "save or create" 3.5 million jobs, a January 2009 report by its economic team assumed creation of 3.3 million new jobs. The report projected that, through fall 2010, the baseline economy would lose 0.4 million net jobs (from 134.3 million to 133.9 million), while the economy with the stimulus would instead add 3.3 million net jobs (from 134.3 million to 137.6). See Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 9, 2009, p. 4, at *http://otrans.3cdn.net/45593e8ecbd339d074_l3m6bt1te.pdf* (December 7, 2009). Despite enactment of the stimulus, the number of jobs had fallen to 130.8 million through October 2009.
2. For more on the New Deal, see William W. Beach and Ken McIntyre, "Get Over It: New Deal Didn't Do the Job," Heritage Foundation *Commentary*, January 21, 2009, at *http://www.heritage.org/Press/Commentary/ed012109f.cfm*. For more on Japan's failed stimulus experiment, see Derek Scissors and J. D. Foster, "Two Lost Decades? Why Japan's Economy Is Still Stumbling and How the U.S. Can Stay Upright," Heritage Foundation *WebMemo* No. 2307, February 23, 2009, at *http://www.heritage.org/Research/AsiaandthePacific/wm2307.cfm*, and Ronald D. Utt, "Learning from Japan: Infrastructure Spending Won't Boost the Economy," Heritage Foundation *Backgrounder* No. 2222, December 16, 2008, at *http://www.heritage.org/Research/Economy/bg2222.cfm*.
3. Press release, "Remarks by the President on Job Creation and Economic Growth," The White House, December 8, 2009, at *http://www.whitehouse.gov/the-press-office/remarks-president-job-creation-and-economic-growth* (December 18, 2009).

$14 trillion economy into a simple menu of stimulus policy options, whereby Congress can decide how much economic growth it wants and then pull the appropriate levers. Zandi asserts that for each dollar of new government spending: temporary food stamps adds $1.73 to the economy, extended unemployment benefits adds $1.63, increased infrastructure spending adds $1.59, and aid to state and local governments adds $1.38.[4] Jointly, these figures imply that, in a recession, a typical dollar in new deficit spending expands the economy by roughly $1.50. Over the past 40 years, this idea of government spending as stimulus has fallen out of favor among many economists. As this paper shows, it is contradicted both by empirical data and economic logic.

The Evidence is In

Economic data contradict Keynesian stimulus theory. If deficits represented "new dollars" in the economy, the record $1.2 trillion in FY 2009 deficit spending that began in October 2008—well before the stimulus added $200 billion more[5]—would have already overheated the economy. Yet despite the historic 7 percent increase in GDP deficit spending over the previous year, the economy shrank by 2.3 percent in FY 2009.[6] To argue that deficits represent new money injected into the economy is to argue that the economy would have contracted by 9.3 percent without this "infusion" of added deficit spending (or even more, given the Keynesian multiplier effect that was supposed to further boost the impact). That is simply not plausible, and few if any economists have claimed otherwise.

And if the original $1.2 trillion in deficit spending failed to slow the economy's slide, there was no reason to believe that adding $200 billion more in 2009 deficit spending from the stimulus bill would suddenly do the trick. Proponents of yet another stimulus should answer the following questions: (1) If nearly $1.4 trillion budget deficits are not enough stimulus, how much is enough? (2) If Keynesian stimulus repeatedly fails, why still rely on the theory?

This is no longer a theoretical exercise. The idea that increased deficit spending can cure recessions has been tested repeatedly, and it has failed repeatedly. The economic models that assert that every $1 of deficit spending grows the economy by $1.50 cannot explain why $1.4 trillion in deficit spending did not create a $2.1 trillion explosion of new economic activity.

Why Government Spending Does Not End Recessions

Moving forward, the important question is *why* government spending fails to end recessions. Spending-stimulus advocates claim that Congress can "inject" new money into the economy, increasing demand and therefore production. This raises the obvious question: From where does the government acquire the money it pumps into the economy? Congress does not have a vault of money waiting to be distributed. Every dollar Congress injects *into* the economy must first be taxed or borrowed *out of* the economy. No new spending power is created. It is merely redistributed from one group of people to another.[7]

Congress cannot create new purchasing power out of thin air. If it funds new spending with taxes, it is simply redistributing existing purchasing power (while decreasing incentives to produce income and output). If Congress instead borrows the money from domestic investors, those investors will have that much less to invest or to spend in the private economy. If they borrow the money from foreigners, the balance of payments will adjust by equally raising net imports, leaving total demand and out-

4. Mark Zandi, "The Economic Outlook and Stimulus Options," Moody's Economy.com, testimony before the U.S. Senate Budget Committee, November 19, 2008, Table 1, p. 10, at *http://www.economy.com/mark-zandi/documents/Senate_Budget_Committee_11_19_08.pdf* (December 7, 2009).
5. The $200 billion figure is the amount of the $787 billion stimulus bill scheduled to be spent in 2009.
6. For quarterly economic growth rates, see Press release, "Gross Domestic Product: Third Quarter 2009 (Advance Estimate)," Department of Commerce, Bureau of Economic Analysis, October 29, 2009, Table 1, at *http://www.bea.gov/newsreleases/national/gdp/2009/pdf/gdp3q09_adv.pdf* (December 7, 2009).

put unchanged. Every dollar Congress spends must first come from somewhere else.

For example, many lawmakers claim that every $1 billion in highway stimulus can create 47,576 new construction jobs. But Congress must first borrow that $1 billion from the private economy, which will then *lose at least as many jobs*.[8] Highway spending simply transfers jobs and income from one part of the economy to another. As Heritage Foundation economist Ronald Utt has explained, "The only way that $1 billion of new highway spending can create 47,576 new jobs is if the $1 billion appears out of nowhere as if it were manna from heaven."[9] This statement has been confirmed by the Department of Transportation[10] and the General Accounting Office (since renamed the Government Accountability Office),[11] yet lawmakers continue to base policy on this economic fallacy.

Removing water from one end of a swimming pool and pouring it in the other end will not raise the overall water level. Similarly, taking dollars from one part of the economy and distributing it to another part of the economy will not expand the economy.

University of Chicago economist John Cochrane adds that:

> First, if money is not going to be printed, it has to come from somewhere. If the government borrows a dollar from you, that is a dollar that you do not spend, or that you do not lend to a company to spend on new investment. Every dollar of increased government spending must correspond to one less dollar of private spending. Jobs created by stimulus spending are offset by jobs lost from the decline in private spending. We can build roads instead of factories, but fiscal stimulus can't help us to build more of both. This form of "crowding out" is just accounting, and doesn't rest on any perceptions or behavioral assumptions.
>
> Second, investment is "spending" every bit as much as is consumption. Keynesian fiscal stimulus advocates want money spent on consumption, not saved. They evaluate past stimulus programs by whether people who got stimulus money spent it on consumption goods rather than save it. But the economy overall does not care if you buy a car, or if you lend money to a company that buys a forklift.[12]

Government spending can affect long-term economic growth, both up and down. Economic growth is based on the growth of labor productivity and labor supply, which can be affected by how governments directly and indirectly influence the use of

7. The Federal Reserve could fund new spending by printing new money. Printing money could create temporary economic growth if the Federal Reserve convinced market participants that it would respond appropriately to any increase in inflation. Financial markets and businesses would then respond to the dollars pouring into businesses as though this represented new demand for their products (rather than inflation), and induce them to increase production. Note, however, that in this case it is the monetary policy, not the deficit spending, that is stimulating the economy, and that at some point the Federal Reserve would have to withdraw the excess printed money to make good on its pledge to prevent resurgent inflation.
8. The total job loss is likely to be greater because highway construction is relatively capital-intensive and its jobs pay higher wages, leading to fewer numbers of workers being hired.
9. Ronald D. Utt, "More Transportation Spending: False Promises of Prosperity and Job Creation," Heritage Foundation *Backgrounder* No. 2121, April 2, 2008, at *http://www.heritage.org/Research/budget/bg2121.cfm*.
10. "Employment Impacts of Highway Infrastructure Investment," Department of Transportation, Federal Highway Administration, April 7, 2008. Report no longer appears on DOT Web site. Contact author for the original PDF file.
11. U.S. General Accounting Office, *Emergency Jobs Act of 1983: Funds Spent Slowly, Few Jobs Created*, GAO/HRD–87–1, December 1986, at *http://archive.gao.gov/f0102/132063.pdf* (December 9, 2009).
12. John H. Cochrane, "Fiscal Stimulus, Fiscal Inflation, or Fiscal Fallacies?" University of Chicago Booth School of Business, February 27 2009, at *http://faculty.chicagobooth.edu/john.cochrane/research/Papers/fiscal2.htm* (December 21, 2009). Also see J. D. Foster, "Keynesian Fiscal Stimulus Policies Stimulate Debt—Not the Economy," Heritage Foundation *Backgrounder* No. 2302, July 27, 2009, at *http://www.heritage.org/Research/Economy/bg2302.cfm*.

an economy's resources. However, increasing the economy's productivity rate—which often requires the application of new technology and resources—can take many years or even decades to materialize. It is not short-term stimulus.[13]

In fact, large stimulus bills often reduce long-term productivity by transferring resources from the more productive private sector to the less productive government. The government rarely receives good value for the dollars it spends. However, stimulus bills provide politicians with the political justification to grant tax dollars to favored constituencies. By increasing the budget deficit, large stimulus bills eventually contribute to higher interest rates while dropping even more debt on future generations.

Answering the Critics

Despite the foregoing evidence, some analysts maintain that governments can spend their way out of recession. Their common objections are addressed below:

Critics' Objection No. 1: People Are Saving Instead of Spending, and Banks Are Not Lending. By Borrowing and Spending these "Idle Savings," Government Can Circulate More Money Through the Economy. This is the most common defense of government stimulus cited by policymakers. Indeed, among proponents of government spending there is a strong focus on whether people are spending or saving, with the implication that spending circulates through the economy while savings effectively drop out.

But savings do not drop out of the economy. Nearly all people put their savings in: (1) banks, which quickly lend the money to others to spend; (2) investments in stocks and bonds; or (3) personal debt reduction. In each of these situations, the financial system transfers one person's savings to someone else who can spend it. So all money is quickly spent regardless of whether it was initially consumed or saved. The only savings that drop out of the economy are those hoarded in mattresses and safes.

Some contend that recession-weary banks are hoarding savings well beyond the legal minimum reserves. Yet even when banks hesitate to lend their deposits, they invest them in Treasury bills to keep them circulating through the economy and earning interest.[14] In fact, the federal funds market—where banks lend each other any excess cash at the end of the day—exists because banks refuse to sit on unused cash even overnight. Thus, even in recessions, one person's savings quickly finances another person's spending.[15]

Advocates of the "idle savings" theory fail to specify the location of all these newly hoarded piles of dollar bills they believe have been shielded from spending in the financial system. Even more telling, they also fail to explain—even if there were massive amounts of idle savings—how the federal government is supposed to acquire them for injection as new spending. After all, even if individuals, businesses, and banks *were* hoarding dollar bills in mattresses and safes, why would they suddenly lend them to the government to finance a stimulus bill? The very idea of hoarding dollars suggests these people and businesses would not trust the financial system, and would be quite unlikely to attend the next Treasury bill auction.[16]

Stimulus spending advocates must be able to show that nearly all money lent to Washington

13. This paper has much in common with what has been called the "Treasury View" of the economy, which asserts that government spending displaces private-sector spending dollar-for-dollar. However, because this paper argues that government spending can eventually affect productivity rates and, therefore, long-term economic growth, it may be better described as offering a "soft" Treasury View.

14. Banks can buy existing Treasury bills in the secondary market. They do not need government to issue new debt through a stimulus bill. Furthermore, if there was no government debt to buy, banks would surely find other safe bonds.

15. Thus, credit markets clear quickly. Interest rates may fluctuate, but financial markets will not hoard dollars. Even the last resort of Treasury bills keeps the dollars circulating.

16. Cash set aside for required bank reserves and basic business/household transactions may not circulate through the economy as quickly. However, this comprises a small and relatively fixed percentage of dollars.

would have otherwise sat idle in mattresses and bank safes. Otherwise, Washington is merely a middleman transferring purchasing power from one part of the economy to another—and the justification for government spending as stimulus collapses.

Critics' Objection No. 2: Borrowing from Foreign Nations Can Provide "New" Money for the Economy. Accepting that domestic borrowing is no free lunch, some analysts have asserted that foreign borrowing can inject new dollars into the economy. However, these nations must acquire American dollars before they can lend them back to Washington. Foreign countries can acquire American dollars by either:

1. Attracting American investments in their country. In that instance, the dollars leaving America match the dollars lent back to America. The net flow of saving circulating through the U.S. economy does not increase.
2. Selling goods and services to Americans and receiving American dollars in return. For the United States, these imports raise the trade deficit and thus reduce domestic demand. The government's subsequent borrowing back and spending of these dollars merely offsets the increased trade deficit.

In either situation, American dollars must first leave the country before they can be lent back into the U.S. economy. The balance of payments between America and other nations must net zero. Consequently, government spending funded from foreign borrowing does not provide stimulus.

Critics' Objection No. 3: Government Spending Has a Multiplier Effect That Allows the Money to Re-circulate Through the Economy Multiple Times. This point is correct but irrelevant to the question of stimulus. Yes, $100 in unemployment benefits can be spent at a grocery store, which, in turn, can use that $100 to pay salaries and support other jobs. The total amount of additional economic activity will be well above $100; but because government borrows the $100, that same money is now unavailable to the private sector—which would have spent the same $100 with the same multiplier effect.

Consider a more comprehensive example. A family might normally put its $10,000 savings in a CD at the local bank. The bank would then lend that $10,000 to the local hardware store, which would then recycle that spending around the town, supporting local jobs. Suppose that the family instead buys a $10,000 government bond that funds the stimulus bill. Washington spends that $10,000 in a different town, supporting jobs there instead. The stimulus has not created new spending, jobs, or a multiplier effect. It has merely moved them to a new town.

When Washington is merely a middleman, transferring purchasing power from one part of the economy to another, the justification for government spending as stimulus collapses.

The mistaken view of fiscal stimulus persists because people can easily observe the factories and people put to work with government funds. By contrast, people cannot easily observe the jobs that would have been created or factories used elsewhere in the economy with those same dollars had they not been lent to Washington.

In his 1848 essay, "What Is Seen and What Is Not Seen," French economist Frederic Bastiat termed this the "broken-window fallacy," a reference to a local myth that breaking windows would stimulate the economy by creating window-repair jobs. In reality, the window-repair spending comes out of funds that otherwise would have been spent (and created jobs) elsewhere in town. Today, the broken-windows fallacy explains why thousands of new stimulus jobs are not improving the total employment picture.

Critics' Objection No. 4: During a Recession, Government Spending Can Put Unused Resources to Work. This restates the overall spending fallacy. Yes, government spending can put underutilized factories and individuals to work—but only by idling other resources in whatever part of the economy supplied the funds. If adding $1 billion would create 40,000 jobs in one depressed part of the economy, then losing $1 billion will cost roughly the same number of jobs in whatever part of the economy supplied Washington with the funds. It is a zero-sum transfer regardless of whether the unemployment rate is 5 percent or 50 percent.

Critics' Objection No. 5: Government Reports Show That the Stimulus Has Already Created or Saved 640,000 New Jobs.

According to a White House survey, businesses have used much of the $200 billion in stimulus dollars distributed thus far to hire or retain 640,000 workers. These figures have been ridiculed for their absurdity, such as reporting $6.4 billion spent in congressional districts that do not exist, and the survey's assertion that a single lawnmower purchase in Arkansas saved or created 50 jobs.[17]

Setting aside these inaccuracies, this jobs figure is not surprising. Businesses that receive large government grants would be expected to expand and hire more workers. However, this ignores half of the equation. If injecting $200 billion into the economy supports 640,000 jobs, how many jobs were first lost by borrowing that $200 billion from the economy?

The White House says zero. The White House job numbers assume that all $200 billion is new and supports jobs that would not otherwise exist. But that could be true only if the private sector would have otherwise hoarded the entire $200 billion in safes and mattresses, where it could not be consumed, invested, or deposited in banks for investment spending—but instead turned the entire $200 billion over to the government.

When dollars are transferred from one part of the economy to another, jobs will transfer accordingly. The White House's single-entry bookkeeping ignores the part of the economy that financed all these jobs. Not surprisingly, the nation's overall unemployment rate has continued to rise.

Critics' Objection No. 6: Government Should Subsidize Consumption, Which Represents 60 Percent of the Economy. This confuses the creation of income with its application. All income is applied somewhere in the economy: most on private consumption, some on private investment (converted from savings via the financial system), and some by government (taxed or borrowed out of consumption and investment). In the short run, the distribution of spending does not affect the total amount spent.[18] The only way to increase consumption spending immediately is to take it from investment or government spending.

Declining consumption means that either: (A) more income is diverted into investment or government spending (which is zero-sum in the short run); or (B) less income is created overall, which typically leads to less spending across all categories. For the latter situation, the solution is to create incentives for productivity that create more wealth and income for people to spend across all categories.

What Government Policies Do Affect Growth?

While government spending merely displaces private spending dollar-for-dollar in the short run, it can have a long-term impact on productivity. Similarly, tax policy can also affect productivity and growth.

Government Spending Can Have a *Long-Term* Impact. Although it cannot immediately increase economic growth, government spending can have a long-term impact. Economic growth results from producing more goods and services (not from redistributing existing income), and that requires productivity growth and growth in the labor supply. Productivity growth requires some combination

17. Bill McMorris, "$6.4 Billion Stimulus Goes to Phantom Districts," Franklin Center for Government and Public Integrity, November 17, 2009, at *http://www.franklincenterhq.org/2009/11/17/6-4-billion-stimulus-goes-to-phantom-districts/* (December 9, 2009), and Michael Cooper and Ron Nixon, "Reports Show Conflicting Number of Jobs Attributed to Stimulus Money," *The New York Times*, November 5, 2009, at *http://www.nytimes.com/2009/11/05/us/05stimulus.html* (December 9, 2009).
18. In the short run, $1 spent on consumption, investment, or government will each raise GDP by the same $1. In the long run, however, a dollar spent on investment is likely to increase labor productivity and help the economy create more income and wealth in the future. By altering the composition of an economy's spending either toward or away from investment (and affecting the quality of those investments), governments can affect long-term productivity rates and economic growth.

of: (1) a more educated and efficient workforce; (2) more private physical capital, such as factories and tools; (3) increased use of new technology; (4) more public infrastructure like roads and other utilities; and (5) markets to set prices and rule of law to enforce contracts. Government's effect on economic growth is determined by its effect on productivity and labor supply.

Only in the rare instances where the private sector fails to provide those inputs in adequate amounts is government spending necessary. Government spending on education, physical infrastructure, and research and development, for instance, could increase long-term productivity rates—but only if government invests more competently than businesses, nonprofit organizations, and private citizens would have if those investment dollars had stayed in the private sector. Historically, governments have rarely outperformed the private sector in generating productivity growth. Thus, mountains of academic studies show that government spending typically *reduces* long-term economic growth.[19]

Even most programs that could increase productivity would take too long to be considered stimulus. Education spending will not affect productivity until the student has graduated and entered the workforce (and it is not clear that additional spending improves productivity anyway). New roads, highways, and bridges can take more than a decade to complete before they can transport people and goods. These policies should not be considered short-term stimulus spending.

Tax Policy's Strong Effect on Economic Growth. Taxes can affect growth, although not for the reason many people believe. Many tax cutters commit the same fallacy as do government spenders when asserting that tax cuts spur economic growth by "putting spending money in people's pockets." Similar to government spending, the tax-cut cash does not fall from the sky. It comes from reduced investment and a higher trade deficit (if financed by budget deficits) or from government spending (if offset by spending cuts).

However, certain tax cuts can add substantially to productivity. As stated above, economic growth requires that businesses produce increasing amounts of goods and services, and that requires consistent business investment and a growing, productive workforce. Yet high marginal tax rates—defined as the tax on the next dollar earned—create a disincentive to engage in those activities. Reducing marginal tax rates on businesses and workers will increase incentives to work, save, and invest. These incentives encourage more business investment, a more productive workforce by raising the after-tax returns to education, and more work effort, all of which add to the economy's long-term capacity for growth.

Not all tax cuts are created equal.

Thus, not all tax cuts are created equal. The economic impact of a tax cut depends on how much it alters behavior to encourage labor supply or productivity. This productivity standard is the same as the one applied to government spending in the previous section.

Tax rebates fail to increase economic growth because they are not associated with productivity or work effort. No new income is created because no one is required to work, save, or invest more in order to receive a rebate. In that sense, rebates that write each American a check are economically indistinguishable from government spending programs. In fact, the federal government treats rebate checks as a "social benefit payment to persons."[20] They represent another feeble attempt at creating new purchasing power out of thin air rather than focusing on productivity.

Tax rebates in 1975, 2001, and 2008 all failed to create economic growth. By contrast, large reduc-

19. Dozens of these studies are summarized in Daniel J. Mitchell, "The Impact of Government Spending on Economic Growth," Heritage Foundation *Backgrounder* No. 1831, March 15, 2005, at *http://www.heritage.org/Research/Budget/bg1831.cfm.*

20. "Frequently Asked Questions," Bureau of Economic Analysis, U.S. Department of Commerce, at *http://faq.bea.gov/cgi-bin/bea.cfg/php/enduser/std_adp.php?p_faqid=490* (December 9 2009).

tions in marginal tax rates in the 1920s, 1960s, and 1980s were each followed by large surges in economic growth.[21] More recently, the 2003 tax-rate reductions immediately reversed the job losses, sinking stock market, declining business investment, and sluggish economic growth rates that had followed the 2000 recession.[22] These gains continued until unrelated economic developments brought the most recent recession in December 2007.[23]

Conclusion

All recessions eventually end. The U.S. economy has proved resilient enough to eventually overcome even the most misguided economic policies of the past. Yet it would be fallacious to credit the stimulus bill for any economic recovery that inevitably occurs in the future. According to Keynesian theory, a $1.4 trillion budget deficit should have immediately overheated the economy. According to the White House, the stimulus should have created 3.3 million net jobs. Instead, the economy remained in recession and 3.5 million more net jobs were lost. By every reasonable standard, the stimulus failed.

H. L. Mencken once wrote that "complex problems have simple, easy to understand, wrong answers." He may as well have been referring to the idea that Congress can foster economic growth simply by "injecting" money into the economy. Government stimulus spending is not a magic wand that creates jobs and income. Repeated failed attempts in America and abroad have shown that governments cannot spend their way out of recessions. Focusing on productivity growth builds a stronger economy over the long term—and leaves America better prepared to handle future economic downturns.

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21. Daniel J. Mitchell, "Lowering Marginal Tax Rates: The Key to Pro-Growth Tax Relief," Heritage Foundation *Backgrounder* No. 1443, May 22, 2001, at *http;//www.heritage.org/Research/Taxes/bg1443.cfm*.
22. For more on the Bush tax cuts, see Brian M. Riedl, "Ten Myths About the Bush Tax Cuts," Heritage Foundation *Backgrounder* No. 2001, January 29, 2007, at *http://www.heritage.org/Research/Taxes/bg2001.cfm*.
23. For causes of the current recession, see J. D. Foster, "Understanding the Great Global Contagion and Recession," Heritage Foundation *Backgrounder* No. 2331, October 22, 2009, at *http://www.heritage.org/Research/Economy/bg2331.cfm*.