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Krugman: Bad faith economics

By Paul Krugman

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As the debate over President Barack Obama's economic stimulus plan gets under way, one thing is certain: Many of the plan's opponents aren't arguing in good faith. Conservatives really, really don't want to see a second New Deal, and they certainly don't want to see government activism vindicated. So they are reaching for any stick they can find with which to beat proposals for increased government spending.

Some of these arguments are obvious cheap shots. John Boehner, the House minority leader, has already made headlines with one such shot: Looking at an \$800 billion plan to rebuild infrastructure, sustain essential services and more, he derided a minor provision that would expand Medicaid family-planning services - and called it a plan to "spend hundreds of millions of dollars on contraceptives."

But the obvious cheap shots don't pose as much danger to the Obama administration's efforts to get a plan through as arguments and assertions that are equally fraudulent but can seem superficially plausible to those who don't know their way around economic concepts and numbers. So as a public service, let me try to debunk some of the major anti-stimulus arguments that have already surfaced. Any time you hear someone reciting one of these arguments, write him or her off as a dishonest flack.

First, there's the bogus talking point that the Obama plan will cost \$275,000 per job created. Why is it bogus? Because it involves taking the cost of a plan that will extend over several years, creating millions of jobs each year, and dividing it by the jobs created in just one of those years.

It's as if an opponent of the school lunch program were to take an estimate of the cost of that program over the next five years, then divide it by the number of lunches provided in just one of those years, and assert that the program was hugely wasteful, because it cost \$13 per lunch. (The actual cost of a free school lunch, by the way, is \$2.57.)

The true cost per job of the Obama plan will probably be closer to \$100,000 than \$275,000 - and the net cost will be as little as \$60,000 once you take into account the fact that a stronger economy means higher tax receipts.

Next, write off anyone who asserts that it's always better to cut taxes than to increase government spending, because taxpayers, not bureaucrats, are the best judges of how to spend their money.

Here's how to think about this argument: It implies that we should shut down the air traffic control system. After all, that system is paid for with fees on air tickets - and surely it would be better to let the flying public keep its money rather than hand it over to government bureaucrats. If that would mean lots of midair collisions, hey, stuff happens.

The point is that nobody really believes that a dollar of tax cuts is always better than a dollar of public spending. Meanwhile, it's clear that when it comes to economic stimulus, public spending provides much more bang for the buck than tax cuts - and therefore costs less per job created (see the previous fraudulent argument) - because a large fraction of any tax cut will simply be saved.

This suggests that public spending rather than tax cuts should be the core of any stimulus plan. But rather than accept that implication, conservatives take refuge in a nonsensical argument against public spending in general.

Finally, ignore anyone who tries to make something of the fact that the new administration's chief

economic adviser has in the past favored monetary policy over fiscal policy as a response to recessions.

It's true that the normal response to recessions is interest-rate cuts from the Fed, not government spending. And that might be the best option right now, if it were available. But it isn't, because we're in a situation not seen since the 1930s: The interest rates the Fed controls are already effectively at zero.

That's why we're talking about large-scale fiscal stimulus: It's what's left in the policy arsenal now that the Fed has shot its bolt. Anyone who cites old arguments against fiscal stimulus without mentioning that either doesn't know much about the subject - and therefore has no business weighing in on the debate - or is being deliberately obtuse.

These are only some of the fundamentally fraudulent anti-stimulus arguments out there. Basically, conservatives are throwing any objection they can think of against the Obama plan, hoping that something will stick.

But here's the thing: Most Americans aren't listening. The most encouraging thing I've heard lately is Obama's reported response to Republican objections to a spending-oriented economic plan: "I won." Indeed he did - and he should disregard the huffing and puffing of those who lost.

Correction:

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