



## Stupidity and the State, Part II

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Washington can be counted on to create a crisis -- usually by sheer incompetence. Then it rushes to the rescue, often doing more harm than good. Late last year, with an impending recession, Congress rushed forward to spend more money. The plan was to send \$106 billion of Economic Stimulus Payments -- typically between \$1,200 and \$1,800 -- to millions of American families.

The planners predicted people would immediately spend the money on additional consumption and that increased demand, especially for consumer durables, would stimulate production, boost the economy, and forestall recession. In January, House Speaker Nancy Pelosi declared that 500,000 jobs would be created.

By the end of June, \$86 billion was in the hands of 105 million households. By October, the remaining \$20 billion will have been shoveled out the door. But people have not gone on a spending spree. Recent Commerce Department data indicate that less than 10% of the stimulus money is being spent on new consumption.

In a classic case of government working against itself, other more powerful government actions, including the Fed's extraordinarily loose monetary policy, have boosted inflation and caused families to restrict purchases, especially in the case of higher-priced consumer durables. Overall, compared to last year, the quantity of consumer durables purchased has declined by 1.5%. Retail sales are sluggish. Contrary to Ms. Pelosi's confident prediction, the economy has shed 460,000 jobs since December.

Thanks to an increased rate of inflation compared to last year, the basic CPI market basket is now 1.6% higher than it otherwise would be. As a result, even before receiving its \$1,200 stimulus check, a typical two-earner family with income of \$75,000 will have already experienced a \$1,200 decline in its purchasing power since last year. So much for the stimulus plan; it's been wiped out by extra inflation. Worse, the hole in the family's budget from inflation is permanent. It will be there next year and thereafter, even if the rate of increase in future inflation slows -- although many economists predict higher, not lower, rates of inflation.

On net, members of Congress seem to be the only beneficiaries of the stimulus. They got to posture and pose, and send out to voters untold millions of press releases and mailings extolling themselves and the stimulus checks.

None mentioned the government's low interest rates which touched off the housing bubble that's led to the economic turndown, or the inflation that's undermined the very expensive remedy that hasn't worked as planned. But that didn't stop Ms. Pelosi from proposing another \$50 billion "stimulus" package on Thursday.

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