

Another “Stimulus”?

The term “stimulus” has become politically [toxic](#). Americans are fed up with Washington’s overspending and, by and large, [do not think](#) the American Recovery and Reinvestment Act (popularly known as the “stimulus”) succeeded in creating jobs or boosting economic growth. Most believe that it only made the country’s problems [worse](#) by adding to an [already-dismal](#) fiscal outlook.

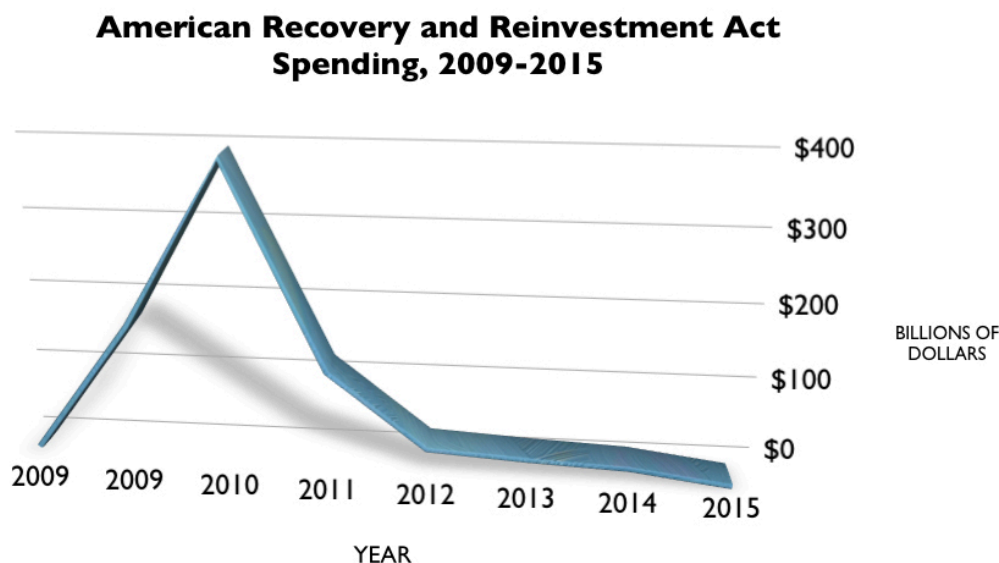
Thus, as new economic initiatives are being proposed, it is worth asking: Is this more of the same? If so, why should we believe it will work this time?

The term “stimulus” has become largely synonymous with the monstrous spending package enacted last year. However, “stimulus” is a term used by economists to describe any policy measure, usually a combination of government spending and tax cuts, aimed at combating a recession. In this regard, there is no doubt that what is being touted this week can be called another stimulus.

Here is a [breakdown](#) of what was included in the \$814-billion “stimulus” passed in February 2009 to be spent over several years:

1. Tax credits for working families (\$247 billion)
2. Tax credits for small businesses (\$21 billion)
3. Infrastructure and science spending (\$165 billion)
4. Spending on healthcare (\$153 billion)
5. Spending on education and training (\$138 billion)
6. Spending on energy (\$82 billion)
7. Law enforcement, oversight, and other programs (\$10 billion)

As the chart below shows, much of the \$814 billion ([35%](#) to be exact) has yet to be spent:



And here is what's included in the new proposal:

Permanently extending the research and development tax credit

8. Automatic expensing of business investment
9. \$50 billion in infrastructure spending

As you can see, there are many similarities between the two packages.

Regarding the newer proposal, the first two components are not wholly bad ideas (though, there is a debate to be had about their effectiveness, as Harvard economist Greg Mankiw recently [highlighted](#)). The \$50 billion in new spending on infrastructure projects, however, is very questionable. There are [many experts](#) who doubt the ability of this type of spending to aid economic growth and job creation.

Even for those who believe this spending is a good idea, there are other problems, such as how to spend the money. Funds from last year's "stimulus" dedicated to infrastructure projects took much longer-than-expected to get spent. For [instance](#), six months after the stimulus was passed, "The Federal Transit Administration [had] spent about \$500 million of the \$8.4 billion it received."

Last year, an official [claimed](#) the stimulus was "doing more, faster, more efficiently, and more effectively than most expected." If this remains the case, why are new, similar, measures necessary?

This would be the *fourth* major spending package passed to combat the current economic slump. There was the [\\$168 billion](#) in rebate checks mailed out in 2008, the [\\$814 billion](#) package last year, the [\\$26 billion](#) in aid to states passed in August, and now [this](#). The country is in a deep [fiscal hole](#), when will Washington stop digging?

For Japan, the 1990s are considered to be a ["lost decade"](#) of economic growth. This resulted from the government piling stimulus on top of stimulus, creating a vicious cycle of ineffective government spending and mounting debt.

Last month, Michael Darda, the chief economist at MKM partners [explained](#), "One problem that dogged Japan during its lost decade was a stop-and-go fiscal policy in which stimulus packages were administered in an 'on again, off again' fashion and taxes were lowered and then raised." Does this sound familiar?