The Daily Dish

Revisiting Stimulus and the Great Recession

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Eakinomics: Revisiting Stimulus and the Great Recession

There has been a steady drumbeat of calls for additional "stimulus" to counter the fallout of the COVID-19 recession. I want to stipulate that I think the case can be made for an appropriately structured fiscal bill, but the case is not being made in a compelling fashion. A key part of the argument has been that stimulus got cut off after the 2008-09 recession and doomed the economy to slow growth. A *New York Times* article, entitled " Why the U.S. Risks Repeating 2009's Economic Stimulus Mistakes," is typical. "'The initial response was good, but we need more,' said Karen Dynan, who was chief economist at the Treasury Department in the Obama administration and now teaches at Harvard. The decision to pull back on spending a decade ago, she said, 'really prolonged the period of weakness after the great recession.'" (This argument is most often made by former Obama Administration officials.)

Maybe. But maybe there is another lesson from that era. The first is that if you are going to do fiscal stimulus, do fiscal stimulus. The American Recovery and Reinvestment Act (ARRA) contained some tax cuts and social safety net transfers of the typical stimulus ilk. But it contained a slew of provisions – e.g., health services information technologies and green investments – that were transformative in nature and core parts of the Obama domestic agenda. Transformation is not stimulus, which is just putting back in place what was previously there. Transformation is costly, requires workers and capital to move across sectors of the economy, and slows the return to full employment. In short, perhaps the mistake was the design of the original fiscal stimulus.

Second, if you are going to do fiscal stimulus, do not overwhelm it with anti-growth policies. ARRA was signed in 2009 but was followed in 2010 with the Patient Protection and Affordable Care Act (ACA) and the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). These were accompanied by the Waxman-Markey bill, one of the most regulatory efforts in legislative history that blessedly did not get taken up in the Senate. Let us just stipulate that a top-down re-engineering of one-fifth of the economy (ACA) and putting a regulatory vise on the financial plumbing (Dodd-Frank) is not fiscal stimulus. And it was accompanied by a steady attempt to re-regulate the labor market (minimum wages, overtime rules, union election regulations, the joint-employer rule…) and a tax increase at the "fiscal cliff" in 2012. Throughout, the Obama Administration was in non-stop regulation mode, racking up over $100 billion in burden costs on average each year.

If you are going to torture the patient, stimulus won't work. After too much damage, even Red Bull can't give it wings. Instead of blaming Congress for an error of omission in cutting off the stimulus spigot, it might make sense to reflect on the vast errors of commission by the Obama Administration. Sadly, the Biden campaign seems to have mistaken these errors in policy design as a textbook, but it is not too late for the lesson to be learned.