

THE FREEMAN

IDEAS ON LIBERTY

Published by

The Foundation for Economic Education
Irvington-on-Hudson, NY 10533
Phone: (914) 591-7230; E-mail: freeman@fee.org
www.fee.org

President	Richard M. Ebeling
Editor	Sheldon Richman
Managing Editor	Beth A. Hoffman
Assistant Managing Editor	A.J. Gardner
Book Review Editor	George C. Leef

Columnists

Charles Baird	David R. Henderson
Donald J. Boudreaux	Robert Higgs
Stephen Davies	Lawrence W. Reed
Richard M. Ebeling	John Stossel
Burton W. Folsom, Jr.	Thomas Szasz
Walter E. Williams	

Contributing Editors

Norman Barry	Dwight R. Lee
Peter J. Boettke	Wendy McElroy
James Bovard	Tibor Machan
Thomas J. DiLorenzo	Andrew P. Morriss
Joseph S. Fulda	James L. Payne
Bettina Bien Greaves	William H. Peterson
John Hospers	Jane S. Shaw
Raymond J. Keating	Richard H. Timberlake
Daniel B. Klein	Lawrence H. White

Foundation for Economic Education

Board of Trustees, 2007–2008

Dan Grossman, Chairman	
Sally von Behren	Frayda Levy
Lloyd Buchanan	Paige K. Moore
Jeff Giesea	Wayne Olson
Edward M. Kopko	Roger Ream
Walter LeCroy	Donald Smith



The Foundation for Economic Education (FEE) is a non-political, non-profit educational champion of individual liberty, private property, the free market, and constitutionally limited government.

The Freeman is published monthly, except for combined January-February and July-August issues. Views expressed by the authors do not necessarily reflect those of FEE's officers and trustees. To receive a sample copy, or to have *The Freeman* come regularly to your door, call 800-960-4333, or e-mail bhoffman@fee.org.

The Freeman is available on microfilm from University Microfilm International, 300 North Zeeb Road, Ann Arbor, MI 48106.

Copyright © 2008 Foundation for Economic Education, except for graphics material licensed under Creative Commons Agreement. Permission granted to reprint any article from this issue, with appropriate credit, except for articles by Ridgway K. Foley, Jr. and John Stossel.

Cover photo copyright Joni Valkila

Perspective

An Unstimulating Idea

“It’s like taking a bucket of water from the deep end of a pool and dumping it into the shallow end.”

That’s how George Mason University economist Russell Roberts describes the logic—rather, *illogic*—of the economic “stimulus” proposals that everyone and his uncle have been proposing.

If we needed further demonstration of the folly that is the American political-economic system, there it is. The leaders of the interventionist state and the candidates who aspire to command it will continue to produce this inanity until people see it for the balderdash it is and resoundingly reject it.

The problem is that most people don’t see it for what it is. When told economic activity is slowing down, they demand that their “leaders” and candidates assure them there is a Plan to keep them safe. The politicians are more than happy to oblige. Details don’t matter much.

The economic-stimulus theory is plainly incoherent. Besides the swimming-pool analogy already quoted, Russell Roberts showed the futility of what’s being proposed in another vivid way. Noting that politicians love to talk about “injecting” money into the economy, like a doctor giving a patient a transfusion, Roberts writes, “But where does the economic injection come from? It has to come from inside the system. It’s not an outside stimulus like . . . the transfusion. It means taking money from someone or somewhere inside the system and giving it to someone else.”

If the government uses fiscal means to goose the economy, the money has to come from somewhere. The politicians do not propose to cut spending—quite the contrary. So, since the budget is already in deficit, any tax “rebates” and new government spending will have to come from borrowing. But government debt doesn’t create wealth; it only transfers it. The lenders won’t be able to spend or invest the money. And the new debt will have to be repaid with interest through taxation in the future, suppressing economic activity then. Likewise, if taxes are raised to provide the stimulus—well, you can finish the thought.

If the government increases some people's ability to spend by decreasing other people's ability to spend, where's the stimulus? Maybe these measures aren't really intended to stimulate anything but a candidate's popularity with appropriate constituencies.

The underlying rationale for stimulus is that consumption is insufficient. While the purpose of production is indeed consumption, it doesn't follow that the government can create economic growth by stimulating consumption. You can't consume what hasn't been produced.

Thus giving people money and urging them to spend it won't improve their economic prospects. As usual, what looks like a political favor to low-income people is just a cruel hoax. Their well-being depends on genuine and sustained economic growth, which would maximize job opportunities and lower prices. But that requires a radical freeing of the economy—which politicians are not wont to favor.

The most objectionable side of the stimulus frenzy is the assumption that government can and should run the economy. The reports of the death of Keynesianism were apparently exaggerated. Most people still believe the economy is a vehicle and the government the driver, precisely adjusting the gas pedal and brake as needed. But really there is no "economy." There are only people pursuing ends and the property they use and exchange in the process. If the government tries to "run the economy" it has to run us. It is a dangerous mistake to think the would-be driver can know what he's doing. He can't possibly know. The system is too complex, the necessary information—much of which is never articulated—scattered too far and wide. In contrast, the market process solves the problem of how to coordinate the productive activities of countless people in order to satisfy consumers.

Those who are biased against freedom will proclaim that our economic problems show that the free market has failed. What free market? Do they mean the "free" market that for ages and in myriad ways the government has straitjacketed and skewed on behalf of favored interests?

We are in our present position because government has burdened us with taxes, spending, debt, regulations, subsidies, guarantees (to banks, for example), trade restrictions, fiat money, and other impositions. Between

the endless domestic schemes and war, we are being crushed by the weight of the state. We don't need a stimulus. We need the weight lifted. We need freedom.

We've all seen those signs in stores bragging that only "fair trade" coffee is sold or served on the premises. Is this a worthy cause for advocates of freedom? Gene Callahan has the scoop.

It's now uncomfortably common to see reports about abuse of innocent people by police forces resembling military units. Steven Greenhut examines this ominous development.

Condemnation of the profit motive is routine. But as Steven Horwitz explains, the profit motive is ubiquitous. What makes it beneficial or harmful is the institutional setting.

When a government official harms someone and the victim wins a lawsuit, it's usually the taxpayers, not the offender, who pay the price. Is that justice? Ridgway Foley says no.

Some environmentalists think outer space should be preserved in its pristine state, free from human pollution. Are they kidding? J. H. Huebert and Walter Block ask.

The word "efficiency" is thrown around far too casually in discussions of government policy. It might be good to know what the word means. Gary Galles takes a look.

Here's what our columnists are serving up this issue: Richard Ebeling dissects the "new happiness economics." Lawrence Reed tells why a Continental was worth so little. Thomas Szasz points out that being drugged against one's will is not treatment. Robert Higgs assays the effect of the New Deal on local government. John Stossel is glad that Third World nations are getting richer. Charles Baird documents how the government helps union leaders to plunder. And David Henderson, stunned by the assertion that medical care in the United States is worse than in other places, responds, "It Just Ain't So!"

Books on democracy, market-based management, pharmaceutical regulation, and wealth-creation come under review.

—*Sheldon Richman*
srichman@fee.org