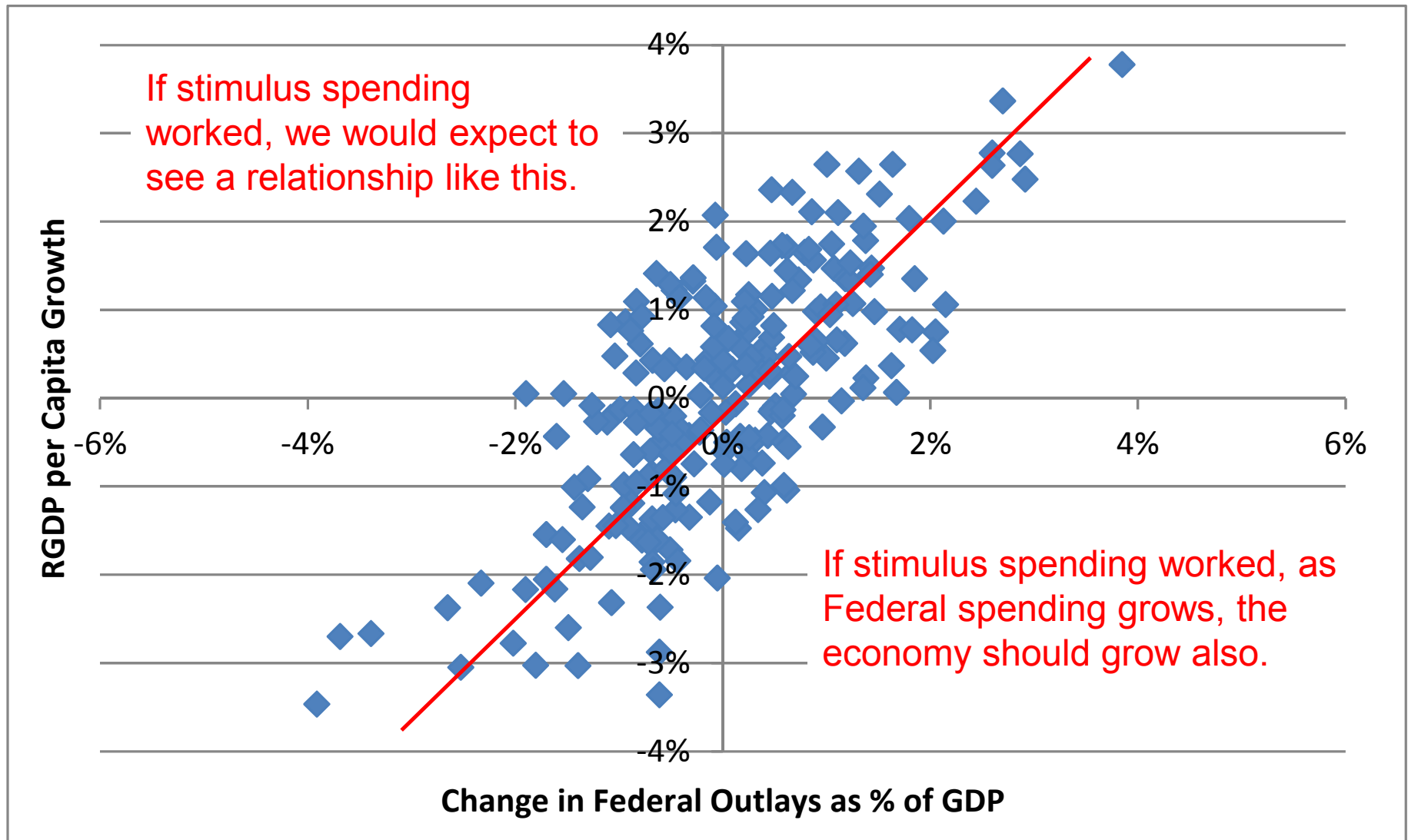


The Keynesian approach to economic policy says to increase government spending during recessions so as to stimulate the economy.

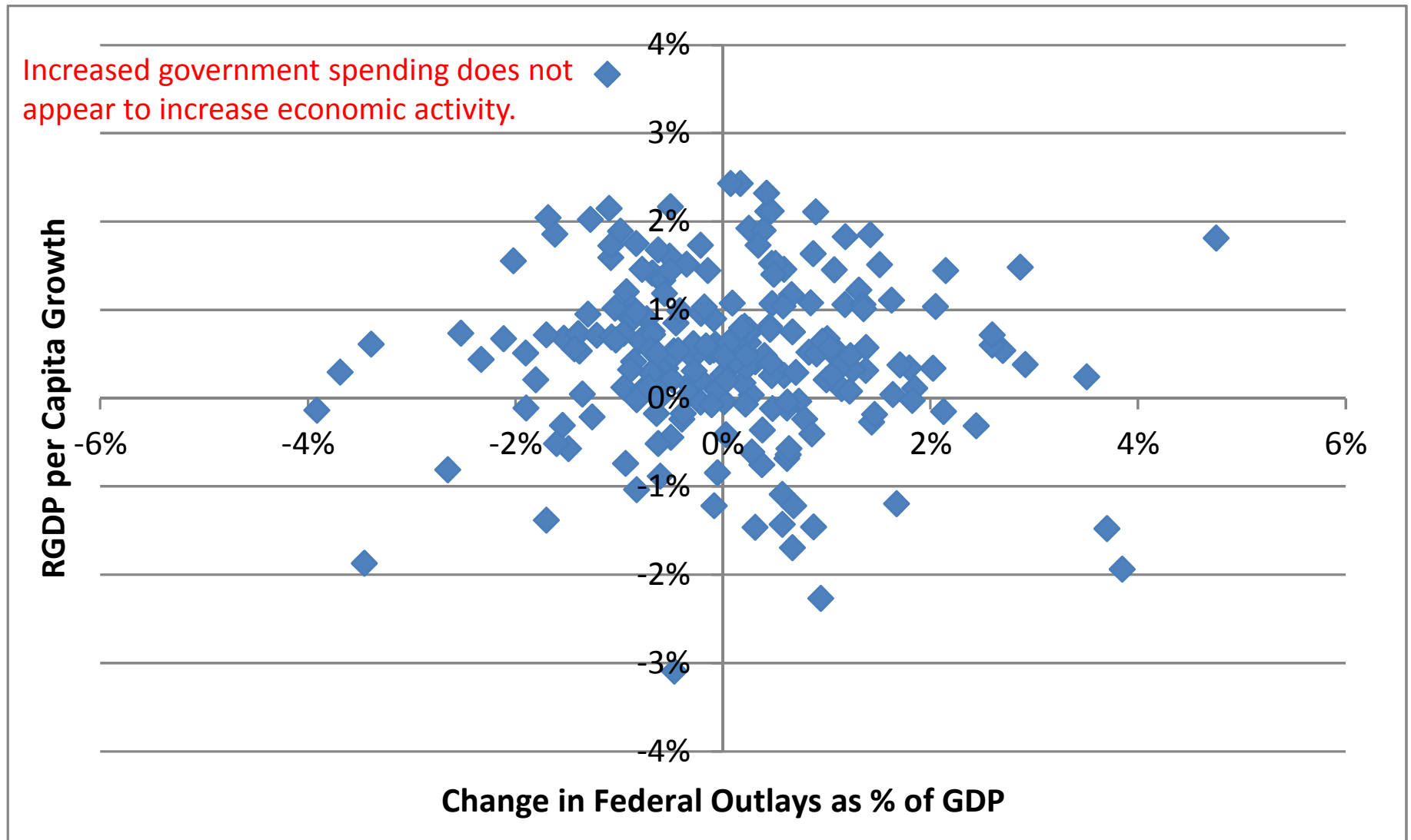
Historically, how has the economy performed at different levels of government spending?

Stimulus Spending and Economic Growth



What does the historical data look like?

Stimulus Spending and Economic Growth (1954.1 to 2011.1)

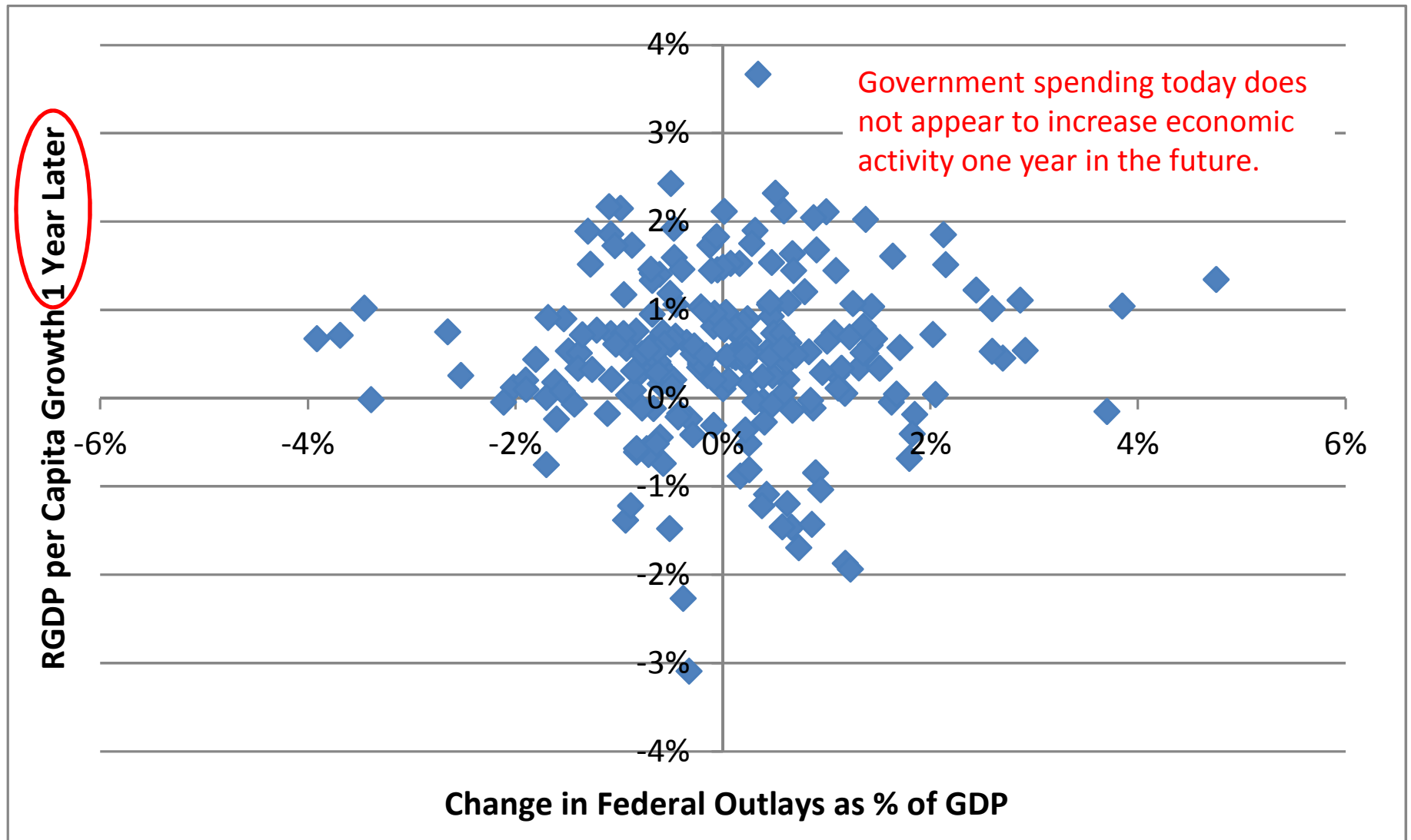


Data source: Bureau of Economic Analysis, National Income and Product Accounts

Maybe government spending takes time to impact the economy.

How does government spending this year affect economic growth next year?

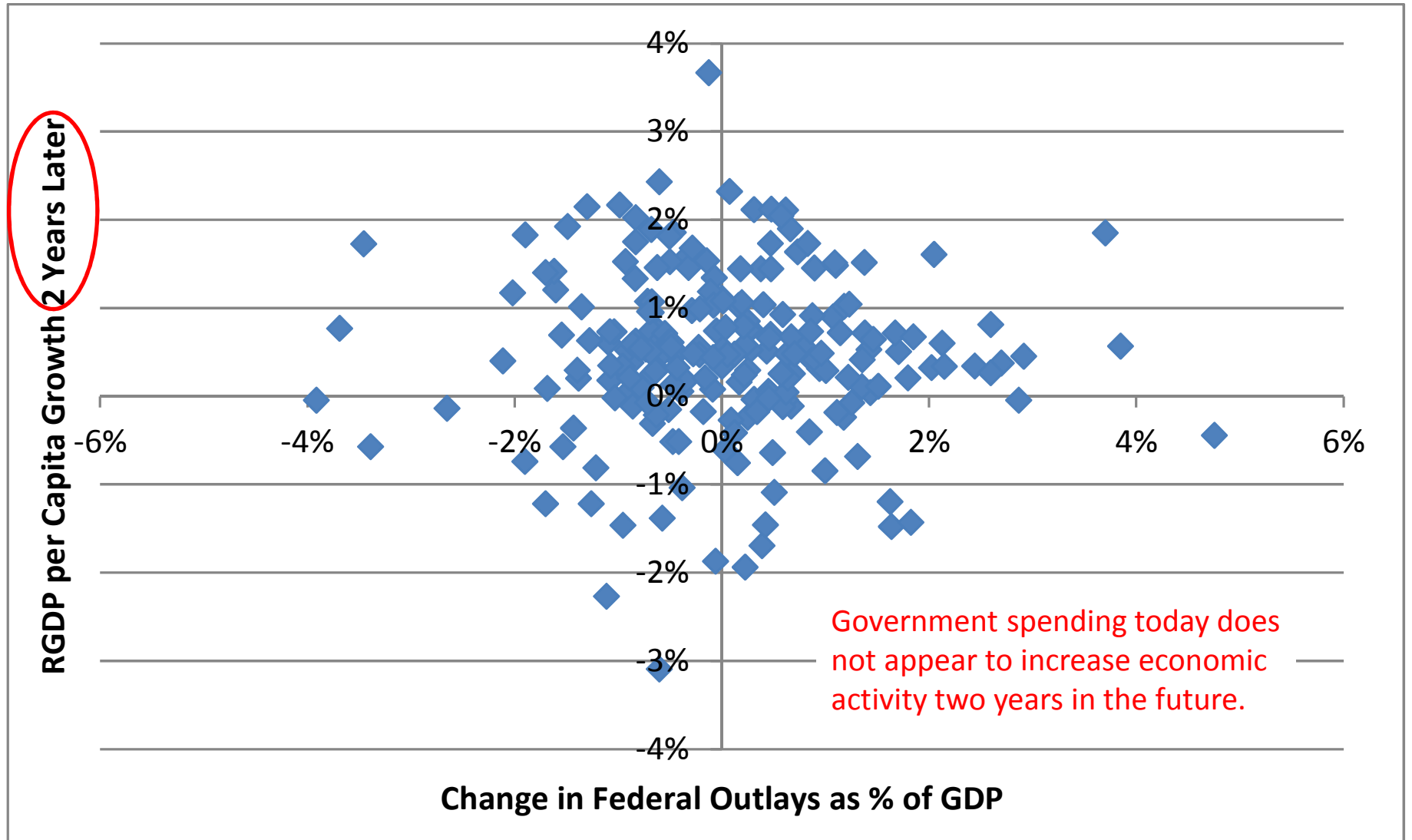
Stimulus Spending and Economic Growth (1954.1 to 2011.1)



Data source: Bureau of Economic Analysis, National Income and Product Accounts

What about the effect of government spending on economic growth two years in the future?

Stimulus Spending and Economic Growth (1954.1 to 2011.1)

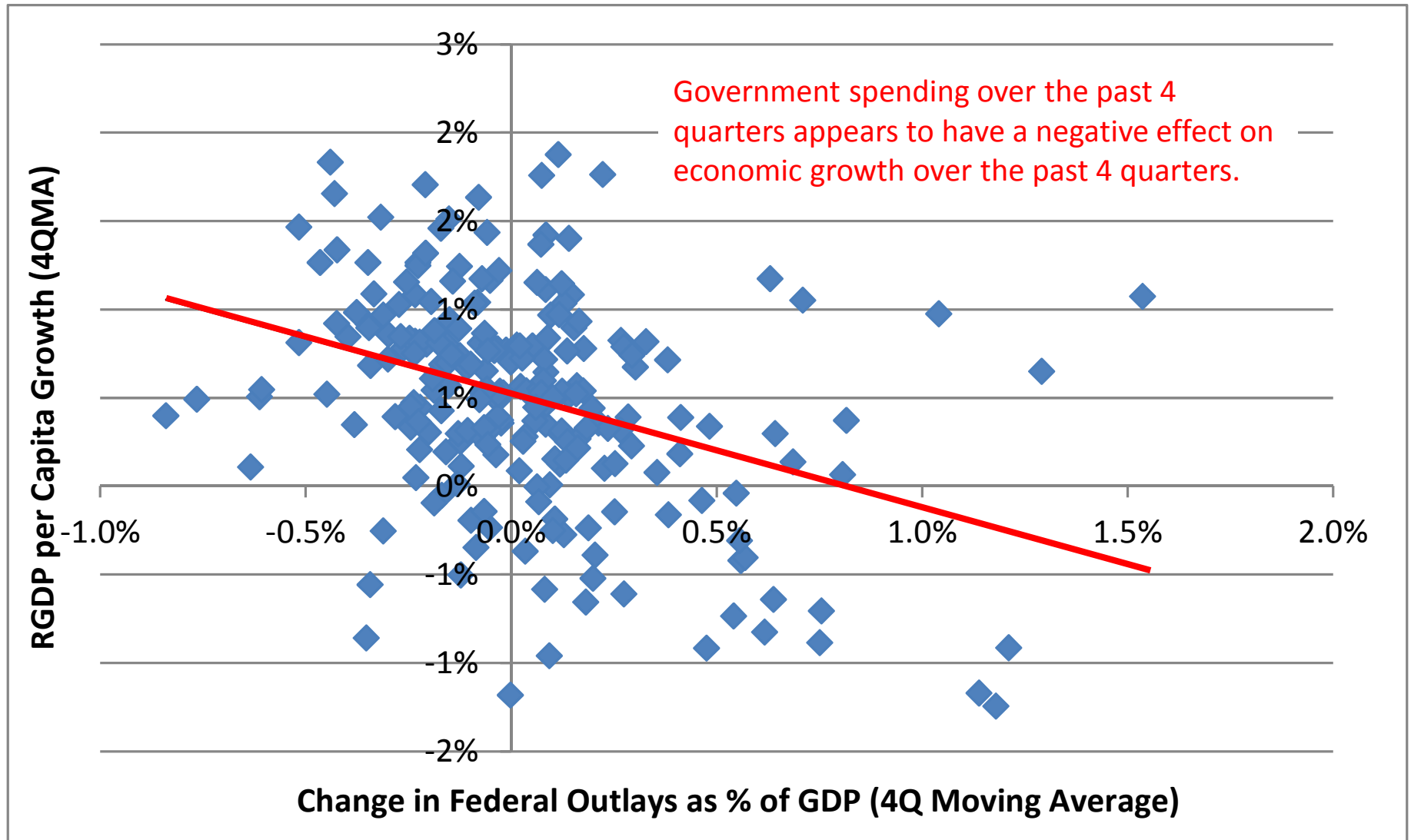


Data source: Bureau of Economic Analysis, National Income and Product Accounts

Maybe the effect of stimulus spending is cumulative.

What is the effect of cumulative government spending on cumulative economic growth?

Stimulus Spending and Economic Growth (1954.1 to 2011.1)

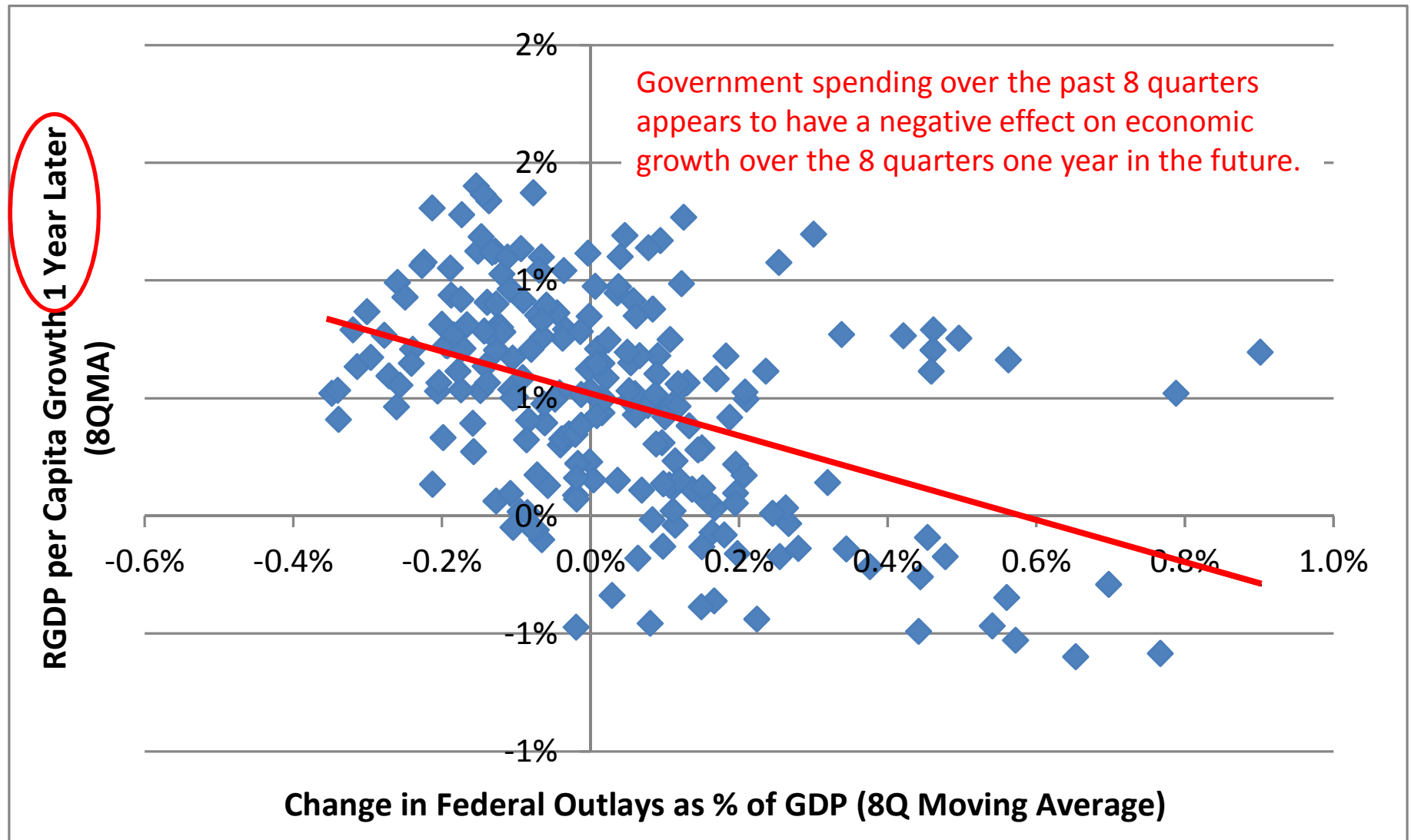


Data source: Bureau of Economic Analysis, National Income and Product Accounts

Maybe the negative relationship is due to the fact that the government spends more during recessions.

What is the effect of cumulative government spending on cumulative economic growth one year later?

Stimulus Spending and Economic Growth (1954.1 to 2011.1)



Data source: Bureau of Economic Analysis, National Income and Product Accounts

How can this be?

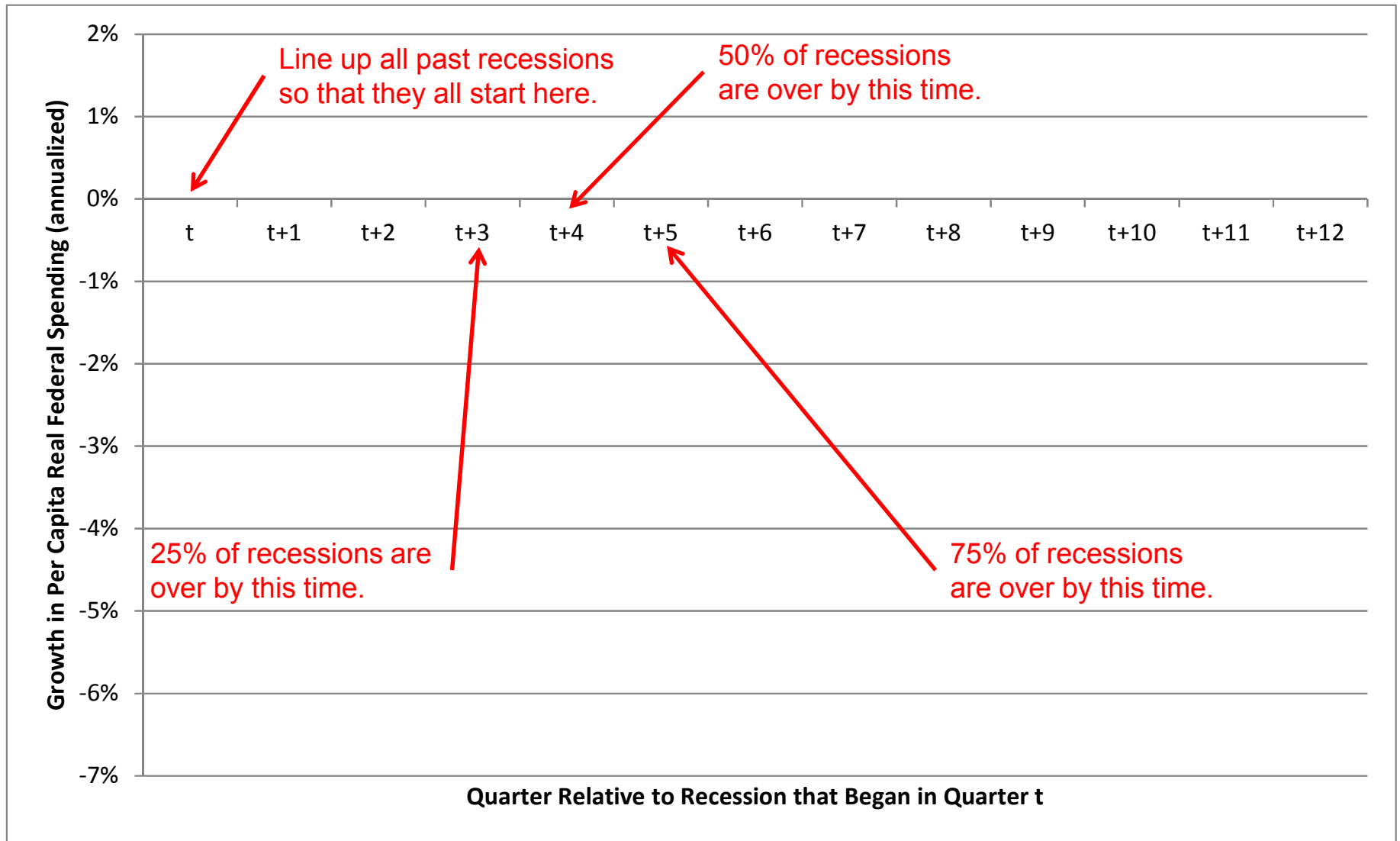
Government spending doesn't create wealth, it moves wealth from one part of the economy to another.

To pay for its spending, the government has to borrow, raise taxes, or print money. These activities tend to destroy more jobs than the subsequent spending creates.

Stimulus spending is like trying to fill a pool by drawing water from one end of the pool and pouring it into the other.

Even if stimulus spending did work, it would still be useless as a policy tool because the government can't get its timing right.

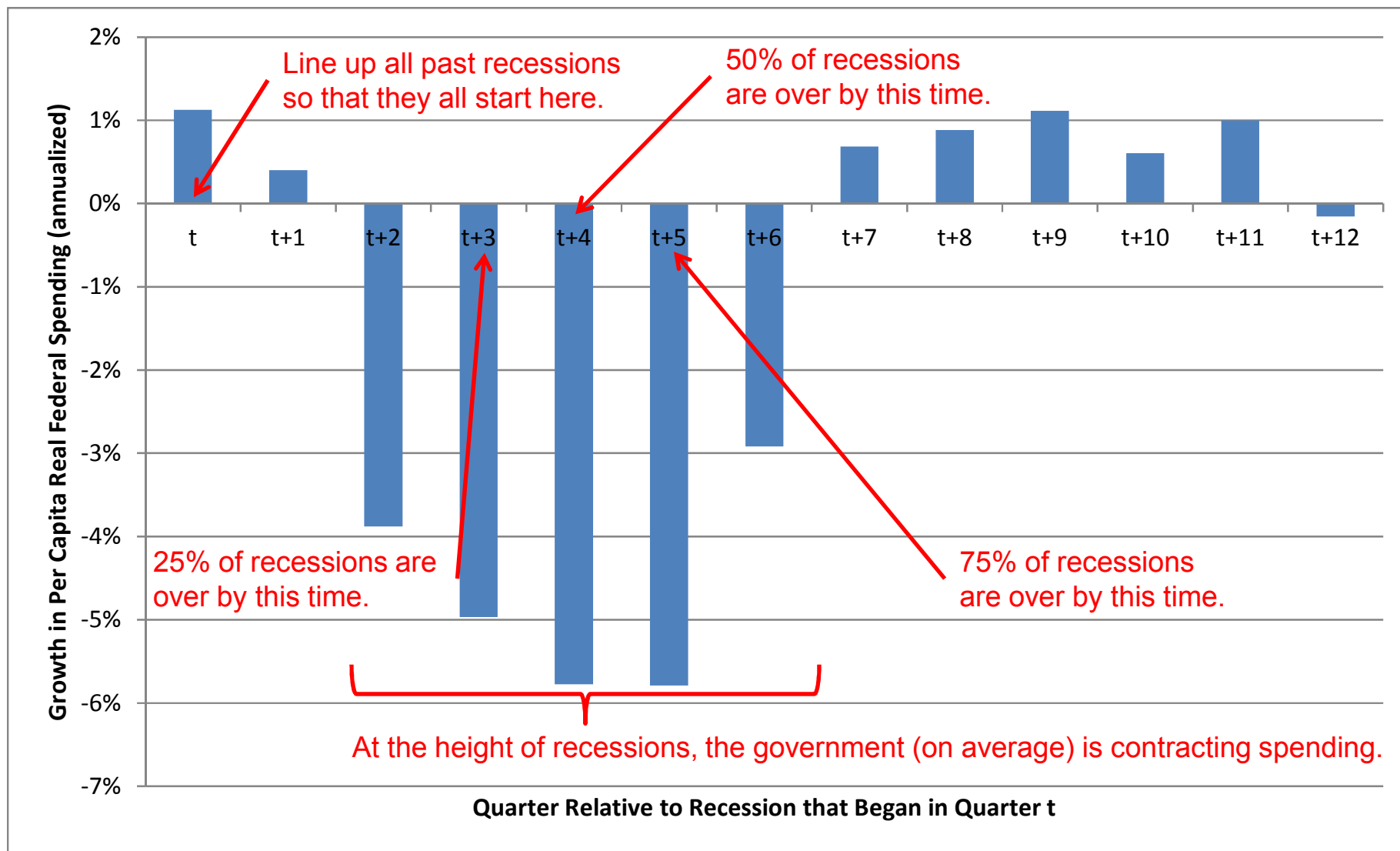
Line up all the past recessions and note when they end.



Data sources: Bureau of Economic Analysis, National Bureau of Economic Research. Quarterly data, 1947 through 2009.

Now, compare when the recessions start and end to changes in government spending that was occurring at the same time.

The Government Can't Get Its Timing Right



Data sources: Bureau of Economic Analysis, National Bureau of Economic Research. Quarterly data, 1947 through 2009.