Stimulus Has Been a Washington Job Killer

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Temporary, targeted tax reductions and increases in government spending are not good economics. They have repeatedly failed to increase economic growth on a sustainable basis. What may come as a surprise is that such policies are not good politics either. Their inability to deliver promised economic benefits has invariably led disappointed voters to turn against those politicians, Democratic and Republican, who have supported them.

> The political graveyards are full of politicians who thought that temporary, targeted economic policies would get them re-elected.

Consider the evidence. When President Gerald Ford entered office, the economy was in the midst of the serious 1974-75 recession. Responding to the popular clamor to "do something," he proposed a short-term stimulus plan in early 1975. The centerpiece was a temporary income-tax rebate. Congress added a one-time, $50 increase in Social Security benefits and, to bolster the sagging housing market, a one-time tax credit for new home buyers.

The rebate caused only a temporary blip in consumer spending. Economic growth rose to 9% in the first quarter of 1976 but then dropped to only 2% in the third quarter, and unemployment started rising.

Congress enacted a second stimulus plan in July 1976 over Ford's veto. It authorized grants to state and local governments designed to prevent layoffs of public employees or tax increases. This plan also failed to produce the promised stimulus. The economic pause of 1976 was enough to swing the election to Jimmy Carter and cause more incumbent senators to lose their seats than in any election in nearly 20 years.

President Carter took office and by the end of his first month proposed another stimulus plan, which he said would "restore consumer confidence and consumer purchasing power." His plan called for another round of one-time tax rebates and Social Security bonus payments, federal public infrastructure grants and countercyclical aid to state and local governments.

He also added a tax credit for small and medium-size employers hiring new workers. The fine-tuned plan, according to the chairman of Mr. Carter's Council of Economic Advisers, Charles Shultze, was "designed to tread prudently between the twin risks of over and under-stimulation."

In May 1977, Congress enacted the president's proposals in modified form. Although the pace of economic activity quickened for a while, subsequent studies by senior Carter administration Treasury official Emil Sunley and noted economist Ned Gramlich showed that the government-provided stimulus had little effect. The recovery was not sustained and the economy fell into recession in January 1980. The failing economy combined with rapidly rising inflation doomed Mr. Carter's re-election chances, along with the Democratic Party's control of the Senate and 33 Democratic seats in the House.

President Reagan rejected temporary stimulus measures and instead proposed permanent income-tax rate reductions. His tax program, in conjunction with steady monetary policy begun by Paul Volcker, produced the promised results.

By late 1982 the recession was over and in early 1983 employment and investment began to rise rapidly. In 1984, it was "Morning in America" and Reagan was overwhelmingly re-elected. Nearly two decades of strong, steady, noninflationary economic growth ensued.

The success of Reagan's permanent tax-rate reductions, juxtaposed against the clear failure of his predecessors' temporary Keynesian stimulus measures, put the Keynesian approach on the back burner. The extent to which temporary stimulus measures fell into disfavor is evident from President Bill Clinton's first year in office. That year he proposed a minuscule $16 billion stimulus plan. Congress rejected it and turned its attention instead to reducing the federal budget deficit by cutting the growth in spending and raising taxes.

When President George W. Bush took office in 2001, his first priority was to put a broad-based, permanent reduction in tax rates into effect. But when the signs that the economy was weakening became apparent early that year, temporary stimulus measures were added to the president's plan. The final tax-reduction law included a temporary tax rebate and phased in the tax-rate reductions at a slower pace than he originally proposed. As with previous stimulus efforts, the rebates had little or no effect.

A combination of the economic impact of 9/11 and the failure of the 2001 Keynesian stimulus measure to have any lasting economic effect led Congress in 2003 to enact additional tax relief. In May of that year, at the urging of Mr. Bush, Congress sharply reduced tax rates on capital gains and dividends and put the 2001 income-tax rate reductions in place immediately.

Within four months, employment began to rise and the unemployment rate began to fall. By 2004, the economic recovery was in full swing. President Bush was re-elected, along with Republican majorities in both the House and Senate.

In response to the recession that began in late 2007, both Presidents Bush and Obama chose to rely on Keynesian stimulus policies. President Bush's temporary tax rebate in 2008 had no discernible effect on the economy. The declining economy partially contributed to John McCain's defeat and played a crucial role in the Republicans' loss of seats in both the House and Senate.

Mr. Obama's $800 billion temporary, targeted stimulus plan took the same approach as Mr. Carter's more than three decades earlier. The February 2009 bill included temporary tax rebates, additional spending on federal programs, and one-time grants to state and local governments.

It had the same negligible economic impact as Mr. Carter's and, thus far, eerily similar political consequences. The plan's failure preceded a historic Republican electoral sweep in the 2010 House elections and significant Republican gains in the Senate. The continuing economic discontent has placed Mr. Obama's re-election in serious jeopardy.

That temporary tax reductions and increases in government spending can jump-start the economy and sustainably boost employment and personal income may seem like a politician's dream policy. But the repeated failure of these short-term interventionist policies to deliver the promised economic benefits should make politicians think twice. Reliance on them has already cost dozens of members of Congress their jobs and two postwar presidents a second term.

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