

Is the Stimulus Working?

So, is the stimulus working?

Think back to 11 months ago. Lehman Bros. had just gone bankrupt. The stock market was plummeting. The banking system, worldwide, was frozen, with banks unwilling to lend even to each other, and certainly not to the businesses that rely on credit to keep running. We were teetering on the brink of a depression.

Fast forward to today. Unemployment is approaching the 10% level we last hit in 1983 – certainly bad, but not the 25% rate of 1933. The economy is still shrinking, but the March to June decline was only about one fourth as bad as the rate it had been dropping over the previous 6 months. The stock market has begun to recover, and the Index of Leading Economic Indicators – the economic measure that signals how the economy is likely to perform in the near future – has risen for 3 consecutive months.

So we are showing all the usual signs of a recession coming to an end. Which doesn't mean the employment picture is going to get any better any time soon – jobs are always the last thing to recover. But we may in fact start experiencing economic growth again in the next 3 to 6 months, and employment may begin to recover perhaps as soon as May or June next year.

So, how would I grade the government's stimulus efforts? First of all, I'd have to give Ben Bernanke and the Federal Reserve an A+. They did everything they could to flood the banking system with money, to unfreeze the credit markets and bring our banking system back from the brink of catastrophe. It wasn't always pretty, especially the arm twisting of Bank of America, and it's left the Fed in a heavily overexposed position that Bernanke will have to work his way out of over the next year or so. But it worked. We're in a recession, not a depression. And if you think Ron Paul and the other Fed critics in Congress could have done one tenth as good a job, then you are sadly delusional.

TARP I would give a C/D. It too helped liquefy the credit system, but it has left the government more tangled up in private bank ownership than any of us want, and a goodly part of it, the "buying toxic assets" part, never worked at all. But it probably did enough more good than harm to have been worth the cost, whatever that cost may turn out to be.

The auto bailouts I'd give a B-. Again, that government ownership thing is a major problem, but the industry restructuring is creeping forward, and the economies of Michigan, Ohio, and Indiana did not totally collapse. Ten years from now, we may look back and change the grade to an A. Or an F. we'll see.

And last January's stimulus spending bill gets an I, for incomplete. Only about 20% of the money has been spent, and its impact has been mostly to reduce job losses, not to stimulate job gains. But a policeman not becoming unemployed is as much a victory as a factory worker getting hired. To the extent that the unemployment rate is only about 10% now, it has been a partial success.

But to really grade the stimulus bill, we'll have to see how it plays out over the next year or so, how soon it starts putting construction crews and then factory workers and soon shop attendants and then everyone else back to work. In the 2001 recession, unemployment took two years to drop halfway back to its original level. So if we drop below 8% by August next year, I'd have to call the stimulus bill a success.