

# Marketplace

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## Economy needs more stimulus money

With unemployment above 9.5% and companies continuing to shed jobs, debate is increasing over whether another stimulus package would help. Commentator and economist Justin Wolfers says there's no question -- the economy needs a further boost.

*TEXT OF COMMENTARY*

**KAI RYSSDAL:** Here's the quote of the day, courtesy of Warren Buffet on Good Morning America this morning. Talking about the prospects for a second economic stimulus plan, the legendary investor said, and I quote: "Our first stimulus bill was sort of like taking half a tablet of Viagra and having also a bunch of candy mixed in." More than you wanted to imagine about the economy, perhaps. But a lot of people, many of them in Congress, are opposed to the idea of more stimulus. Commentator and economist Justin Wolfers says the naysayers couldn't be more wrong.



Justin Wolfers (Wharton School, Univ. of Pennsylvania)

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**JUSTIN WOLFERS:** You'll hear plenty of arguments against another round of fiscal stimulus. But they are all wrong.

First, some say that we should let the current stimulus run its course. But if a pretty bad economy called for a pretty big stimulus, then a really bad economy calls for a really big stimulus. And we now have a really bad economy.

Even if the first stimulus package works exactly as planned, unemployment will probably rise above 10%. If we knew in January what we know now, we would have done more. And we still can.

Second, some forecasters argue that we are close to the turning point. I'm not convinced. But even if these sunny projections are right, they still suggest the economy will underperform for another three or four years. Fiscal policy can help close that gap.

Third, some argue that the original stimulus didn't work, and so we shouldn't try more. But it's way too early to tell. And we don't know how much worse it would have been without the stimulus. A disappointing couple of months can't overturn decades of evidence that government spending stimulates the economy.

Fourth, there are very real concerns about the deficit. But a well-designed stimulus means more government investment today and less tomorrow. It may even be cheaper for the government to invest today, when the economy has some slack and wages are low.

Our biggest economic risk isn't the deficit, but the risk of doing too little to kick start the economy. There remains the risk of deflation, which could further stall economic growth. There's also the possibility that if unemployment remains high enough for long enough, it may become institutionalized.

If a generation comes to think of unemployment insurance as an alternative to work, or if they lose skills, hope, and connections, unemployment could remain high for a generation. Sound familiar? Europe spent the past 30 years recovering from just this outcome. The United States can't afford that risk.

The best argument for another fiscal stimulus is that doing too little may be far worse than doing too much.

**RYSSDAL:** Justin Wolfers teaches business and public policy at The Wharton School at the University of Pennsylvania.

#### COMMENTS

By Daryl Reece  
From Atlanta, GA, 07/10/2009

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Dr. Wolfers arguments all ring hollow. We didn't spend enough on round #1? Prove it. The Keynesian nonsense has very little evidence to show it is true.

Then he argues that "we don't know how much worse things would have been without the stimulus." Who says it would be any worse. Maybe it would even be better. We've spent \$787B to save how many jobs 1.5M? It looks like poor payback to me. Instead of waving your hands with questionable assertions, why don't you try presenting some facts and data to back up your opinions.

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By Shags Shags  
07/10/2009

The stimulus was spent in the wrong way. The large, insolvent banks should have been seized by the FDIC and had their assets auctioned off to the highest bidders; that is the law of the land, after all. The stimulus money should have been distributed as small and medium business loans, and it should have created a trust that would be used to clothe, shelter, and feed the large number of temporarily unemployed. The stimulus will only prolong the depression. Let the failing businesses fail so that the successful businesses can succeed and the new businesses can grow. The New Deal didn't end the Great Depression; World War II did.

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