On the Reconciliation of Economic and Political Perspectives on Policy: An Examination of the Relationship between Past Policies and the American Reinvestment and Recovery Act of 2009

Jonathan P. Ellis, *Texas Tech University School of Law*

abstract: *This study examines the impact of incentives and constraints on public policy. The base for this examination is set by Thomas Sowell's argument that, through a preliminary focus on created incentives and constraints, the results of certain types of policies can be more easily and reliably predicted. Additionally, that through recognition of such effects, more effective policy might be formulated. The benefits of this perspective are demonstrated through analysis of two historical policies: ethanol consumption and affordable housing measures. The study then applies this approach to the recent American Reinvestment and Recovery Act (ARRA). In order to divine true incentive and constraints of this stimulative measure the study investigates some original intentions and rationales inherent in stimulative measures in the work of John Maynard Keynes. The true rationales of these types of stimulative measures are identified within each section of the ARRA so that a more comprehensive view of its stimulative and non-stimulative measures might be recognized.*

"You know, doing what is right is easy. The problem is knowing what is right."

—*President Lyndon Baines Johnson*

In *Economics of Social Issues*, the writers put President Johnson's observation another way: "People often expect more of their governments than those governments can provide. And governments often promise more than they are able to deliver." (Sharp, 2008, p. 23) By the very nature of this phenomenon, it is fair to say that we as a society have yet to agree, whether by interpretation of moral obligation, historical record, and so forth, about what exactly the role of government should be, and much less about how best to enact their "responsibilities." One hindrance is a lack of focus. A possible answer to this is a focus on something more static and consistent between models of government that vary in ideology, perceived responsibility, and how they achieve that responsibility, that is, how they reach desired goals.

Consider a personal example. Suppose you see something you want. It is not that desirability which determines if you get that item, but the price, and then your evaluation of its value to you and if that value is great enough to be expressed in the form of currency and payment. The payment represents to others that its value is great enough to warrant the cost. You signify, through your desire to pay the price, your willingness to place the item in a category beyond the reach of others. Thus your cost is the representation of alternative uses which are denied to others. Desirability, then, in that decision-making process plays a relatively small part.

Why then, when seeking desires at a national level, is the focus almost exclusively on desirability rather than all that is inherent, affected, and represented in the procedure of obtaining what is desired? It is little coincidence that when considering government policy formulation the discussion turns to economics. Economist Thomas Sowell points out two reasons for this: "In . . . politics . . . issues can be framed in terms of the desirability of various goals, such as 'affordable housing' . . . The economics . . . can only make us aware of the costs of our goals." (Sowell, 2004, p. 126–127) Notice, just as with the parallel in the individual purchase scenario, the bulk of the decision-making process is determined by what would be lost. Likewise Sowell points to the same situation in policy making: “Economics was christened the ‘dismal science’ because it dealt with inescapable constraints and painful trade-offs, instead of the more pleasant and unbound visions, and their accompanying rhetoric, which many find so attractive.” (p. 127)

In today’s society, where politics and economic impact are more closely related than ever before, one must not consider them separate fields of study but inherently intertwined when discussing policy formulation and evaluation. This interplay of perceptions in the public arena is currently lacking. This has resulted in many shortcomings over the years—not just individual incidences, but larger paradigm shifts. Two aspects discussed in this paper are 1) the phenomenon in policy formulation of catering to ideology and demagoguery over effect and 2) the concerns which arise when there is a weak system of policy evaluation. The theories are applied to two issues: ethanol and housing legislation. Finally this study seeks to apply this perspective to a current policy—the recent stimulus bill—in the hope that incentives and restraints involved therein can be identified. Given its scale and the space permitted here, only the broader picture of the bill will be examined in order to identify incentives and restraints according to underlying alleged ideology—specifically those of Keynesian origin.

Presented above is a series of concerns which occur when one sees something desirable on a personal scale. Why must this process be followed? Why not simply take that which is desirable? Beside the legal ramifications of this attitude, the final issue involves scarcity: a long-time economic tool and subject not frequently or commonly linked to public policy or political science in public or academic discourse. The purpose here is to advocate that, as the perceived roles and responsibilities of government enter new territory, there must be new thinking involved, a creation of a new paradigm and standards of evaluation.

What exactly is scarcity? Sowell defines scarcity as a condition in which

> everyone’s desires cannot be satisfied completely, regardless of which particular economic system or government policy we choose—and regardless of whether an individual or a society is poor or prosperous. Therefore competition among people for these resources is inherent. It is not a question of whether we like or dislike competition. Scarcity means that we do not have the option to choose whether or not to have an economy in which people compete. That is the only kind of economy that is possible—and therefore our only choice is among the particular methods that can be used for this competition. (Sowell, 2007, p. 75)

One of the implications of scarcity in a relatively free and competitive market is that prices are measurements of personal value and value to others. You pay so they cannot use a good or service. Ideally, a consumer’s cost should be at least slightly greater than the value of the item represented to those to whom it was denied. Price as a tool of measurement of value, in a free market rather than control, creates several more implications. This can explain its role as a form of rationing. If a price system is not in place, rationing must occur because of scarcity, Sowell suggests that in some government policies where prices have been removed, rationing might take the form of a lottery or rotation of recipients. The difference is that it is done by someone other than the former buyer or receiver. To a certain extent, their responsibility is removed.

Two things must be recognized regarding scarcity: 1) allowance for quantifiability and 2) recognition that it affects action. Intertwined, these two allow for improved policy evaluation. In the world of policymaking, scarcity and its two key components are one ever-present package of elements which can lend itself to measurement. With this phenomenon, one begins to understand how policy within incentives and constraints, results in a more appropriate viewpoint that leads to an applicable evaluation system. This is in line with Sowell’s thinking.

> The more fundamental point is that we need to know the actual characteristics of the processes set in motion—and the incentives and constraints inherent in such characteristics—rather than judging these processes by their goals. Many of the “unintended consequences” of policies and programs would have been foreseeable from the outset if these processes had been analyzed in terms of the incentives and constraints they created, instead of in terms of the desirability of the goals they proclaimed. Once we start thinking in terms of the chain of events set in motion by particular policies—and following these events beyond stage one—the world begins to look very different. (Sowell, 2004, p. 2)

One important point about policymaking and its relationship to economics is with regard to the scarcity of public resources and their allocation to public demands placed upon government. What are the most appropriate options to balance: demand and supply, or policy with economics? To have one's policy demands met with full economic support must other citizens and their demands be ignored?

Consider that much of the rhetoric at our country's founding regarding rights revolved around protection *from* the government. If rights are often seen as protection from government, where do rights come from? Is a right defined as inalienable, political, economic, social, or some combination of all four? In 2003, Dennis Kucinich called clean drinking-water a right. In 2004, the Texas Clean Energy Congress called clean energy a right. We have heard from many advocates that health care should be called a right. Sowell points out the shift: "Rights in the sense of exemptions from the power of government are very different from rights to things that can be provided only by incurring costs." (Sowell, 2004, p. 26–27) When this type of rhetoric is introduced, it is clear that greater concern lies with image than substance on the part of the policy maker. One does not need to call something a "right" to advocate for meaningful policy changes.

When such claims are made, they are not inherently calling for a cost to be encumbered. Perhaps the impetus is rather that certain things should be made available. For example, is the right to freedom of speech intended to make an action available to oppose laws by the Congress which might stifle speech? When considering goods which some label as rights, what is the opposition to their availability? The obstacles are no longer the powers of the government, but scarcity. Thus the new obstacles concern technological advances, research, policy reform and policy making, recourses, labor, education, training, and manufacturing.

All are elements which incur costs. If it is the will of the people that government take on such responsibilities, even if not in the form of a cost, then citizens should not disregard them outright. Rather, the approach advocated must be evaluated by what is being sought (the goal) and the conditions that are created in crafting the policy and its implementation. This can be accomplished by defining demanded policies in terms of incentives and constraints. Thomas Sowell is not the only observer to call for such change in perception.

Phil Smith and Eric Thurman (2007) argue that good intentions do not translate into good policy. Specifically, they argue that there should be three elements in creating quality policy: 1) have a bottom line, end goal, or mission; 2) a measure of success; and 3) support of what works. In support of such methods, Thomas Dye (2008) argues that the reason for failures in both formulation and evaluation is often because there is no end goal and no accurate and definable measure of progress. It can be argued that these alternative views proposed by Smith, Thurmond, and Dye can be consolidated into Sowell's advocacy of seeing policy in terms of incentives and constraints—thereby focusing on full comprehension of economic elements and results in policymaking. Smith and Thurman note that focus on both a goal and the intent of a policy falls when perceiving incentives. Additionally, the quantifiability found in their second and third points lends itself to Sowell's view.

Having discussed this proposed policy process exclusively in conceptual terms, two examples in particular can be demonstrated. The first is ethanol legislation. In this example and the next, we examine how catering to idealism over effect and poor policy evaluation took place, their results, and how they might have been avoided.

Ethanol legislation between 2003 and 2005 originated primarily in response to environmental concerns, but also public concerns about costs and reliance on foreign sources for energy. In response to this public sentiment—that is, desirability—several provisions were passed through various pieces of legislation. Among these provisions were the requirements that: 1) the states use five billion gallons of ethanol by 2012; 2) 7.5 billion gallons of ethanol be produced; and 3) a federal tax credit of $0.51 be awarded to consumers per gallon of ethanol used as motor fuel. (Ellis, 2009, p. 2–3) As stated, the political climate was accommodating for this type of legislation. Gasoline prices were high at the time the legislation was passed; environmental concerns were taking center stage politically. It could be alleged that when these pieces of ethanol legislation were created, the policy and economic ramifications that would result were not an issue—addressing public demand and desirability was. The consequences of the new artificial market for corn—the preferred American ethanol ingredient—were many: increases in the prices of crops due to decreased supply; poor soil conservation measures in an attempt to squeeze as many seasons of corn out of fields before the price became fluid again; and vast affect on water consumption. According to Michael Webber of the University of Texas: "The entire ethanol production cycle, from growing irrigated crops on a farm to pumping biofuels into a car, can consume 20 or more times as much water for every mile traveled than the production of gasoline." (Wythe, 2009)

Other concerns about the use of corn as ethanol dealt with the resulting net energy output. There are several different methods for creating ethanol, but regarding net energy output—the amount of energy put into the process as compared to the energy that comes out of the process—Mathew Wald stated: "the consensus among the analysts is that even if the net energy value of ethanol is positive the margin is small." (Wald, 2007, p. 47) Indeed, depending upon the method of production and use of by products, the net energy output of ethanol can actually be negative, that is, it requires more energy to make ethanol than to use it. Clearly, if some simple steps had been taken on the part of the policymakers the original concerns could have been addressed rather than resulting in a series of unforeseen consequences, such as ethanol plants closing or filing for bankruptcy due to several realizations, among them: the acknowledgment that once the artificial demand is gone there will be little real demand left. One example of such effects is the Panda Ethanol plant in Hereford, Texas. Construction began in 2006, and was mostly completed in 2008, and now is filing for bankruptcy in 2009. (Panda, 2009) Indeed all over the county ethanol plants are closing their doors. The result of this might be that public support and investor capital, which might have been successfully implemented on efficient ethanol, has been used on one that was asked to deliver more than it was able and too soon. Overall, this might have discouraged support for ethanol in general to the point that once a viable and efficient crop and ethanol production technique is found, the reception might be one of skepticism and doubt, hurting ethanol implementation in the long run.

The second example is that of the recent housing crisis. By most accounts the current economic crisis had its seeds sown in the housing market. There were many reasons for this, but most revolve around unsafe lending practices. Whether these were motivated by greed, government incentive, lack of regulation, something not yet recognized, or some combination is not what this study seeks to investigate. What we should consider is if one item or concern was clearly to blame and if we knew it before hand. If this concern contradicted a policy which smacked of the perceived need and public desirability, would anything be done? Would our policymakers have been willfully negligent in the face of public opinion? On the 25th of September 2003, the last in a series of oversight hearings by the Government Sponsored Enterprise (GSE) subcommittee was held. The hearing dealt with the safety, soundness, and other lending concerns of Freddie Mac and Fannie Mae. The following is an excerpt of an opening remark by Maxine Waters (D-CA) in subcommittee when faced with these concerns and the testimony of the regulator:

> As you know I was a member of this distinguished committee when we enhanced the structure of these GSEs in 1992 to ensure safety and soundness in particularly the housing mission, however I have sat through nearly a dozen hearings where frankly we were trying to fix something that wasn't broke. Housing is the economic engine of our economy. And in no community does this engine need to work more than in mine. . . . we should do no harm to these GSEs we should be enhancing regulation not making fundamental change. Mr. Chairman we do not have a crisis at Freddie Mac and in particular at Freddie Mae under the outstanding leadership of Mr. Frank Raines. Everything in the 1992 Act has worked just fine. In fact the GSEs have exceeded their housing goals. What we need to do today is focus on the regulator and this must be done in a manner so as not to impede their [Freddie and Fannie's] affordable housing mission. A mission that has seen innovation flourish from desktop underwriting to 100% loans. (United States, 2003)

Several things that can be tied to the prior concerns in how policy is perceived present themselves here. Congresswoman Waters mentions several times the goal or the desirability of the policy. In spite of the fact that the reason for the hearings was to investigate issues of risk in lending practices; her focus was not on that at all. She mentions "enhancing" regulation, but what does that mean? Notice that in spite of the concerns voiced, she mentioned the original goal and even personalized the desirability, "in no community does this engine need to work more than in mine." This statement is very descriptive of the mindset of a growing number of policymakers. Before she can be condemned, however, one must ask why she has such perceptions. Is it because "we the people" have made our representatives answerable only to immediate desirability? Has society been unmasked as shallow and easily distracted? The incentive for policymakers is to react to the issue of the day while it is fresh on everyone's mind. They respond in such a way that the effects can be connected to a mindset which may motivate citizens to action at the polls—even though the cost for such immediacy might be policy of a lesser quality. This brings up another issue that must be addressed if we are seeking a change in the way policymakers perceive policy. The citizenry and its representatives must look at the incentives and constraints placed on them. The incentive is to react to popular demand, and to do so quickly because of the shallow and fast paced society. As seen in the ethanol and housing examples, this can lead to hastily crafted and inefficient policies.

There are two solutions to this problem. First, the policymakers must see themselves as representatives. This country is not a direct democracy for a reason. It was made a representative republic with the knowledge that sometimes a small handful of elected representatives would be able to make better policy decisions than the mass of people that make up the citizenry. A smaller group is not as easily led by emotionalism, can receive all the facts easier, and are generally entrusted to do so by their voters. Second, there must be a change in public perception. However this is probably the least likely suggestion to occur. Until the populous shows itself capable of deeper perception of political and policy actions, such policies will continue to appeal to shallow goals and desirability rather than farther reaching ramifications.

Let us attempt to apply these rather simplistic, proscribed, perceptions to an actual and ongoing policy: the recent stimulus measures. One can see some of the more complex concerns that will arise. This process will not be entirely in the spirit of Sowell because the policy has already been created, but it should be faithful in that, through examination, one can see some of the results of the policy, if not the whole picture. First, we must examine what a stimulus is and what it is intended for. John Maynard Keynes, while probably not the first to advocate government intervention during an economic crisis, probably was among the loudest to lobby for it. In *The General Theory of Employment, Interest, and Money,* Keynes discusses several points pertaining to government intervention. He speaks at length about the cyclical nature of a free and competitive market; he expresses concern at down-turns. In later chapters, he discusses how monetary policy cannot always reduce the damage at the downturns of the cycle. He introduces methods which, while not capable of preventing downturns, might reduce the damage at several stages. Most of his discussions revolve around two concepts. The first is manipulating interest rates to avoid the downturn of the cycle by slowing upward growth. "There is, indeed, force in the argument that a high rate of interest is much more effective against a boom than a low rate of interest against a slump," and second, full engagement of an economy. (Keynes, 1964. p. 320) This is quite the opposite of what our own Federal Reserve did preceding this current economic crisis. The term "engagement" is specific to this research and coined in order to incorporate several of Keynes's points. He speaks of the inefficiencies of an economy not operating at full consumption and production, which some might say is an inevitability of a free market, that is, one without planners. However, he does not try to change that aspect universally, but suggests it as a way to reduce damage at the downturn of the economic cycle by engaging the economy to its full potential even though in a downturn that potential to be tapped might be decreased drastically. The policy ramifications come into play where he believes such engagement, to combat under-consumption, should come from:

> When once the recovery has been started, the manner in which it feeds on itself and cumulates is obvious. But during the downward phase, when both fixed capital and stocks of materials are for the time being redundant and working-capital is being reduced, the schedule of the marginal efficiency of capital may fall so low that it can scarcely be corrected, so as to secure a satisfactory rate of new investment, by any practicable reduction in the rate of interest. Thus with markets organized and influenced as they are at present, the market estimation of the marginal efficiency of capital may suffer such enormously wide fluctuations that it cannot be sufficiently offset by corresponding fluctuations in the rate of interest. Moreover, the corresponding movements in the stock-market may . . . depress the propensity to consume just when it is most needed. In conditions of *laissez-faire* the avoidance of wide fluctuations in employment may, therefore prove impossible without a far-reaching change in the psychology of investment markets such as there is no reason to expect. I conclude that the duty of ordering the current volume of investment cannot be left in private hands. (Keynes, 1964, p. 319–320)

That line of reasoning is the basis from which a vast swathe of intervention policy has originated. This of course means that policymakers are not actually making new policy; they are copying or recreating policy. So let us consider the original intent, incentives, and constraints of the policy, and what Keynesianism is and is not. Only when we have a clear picture of the policy can we then seek its possible results through incentives and constraints created. Economist Luigi Zingales recently participated in a debate sponsored by *The Economist* in which he discussed Keynesian principles. He to sought at the very onset of discussion to solidify the concept:

> What does "being Keynesian" mean? Simply believing in the role of demand-side factors in the determination of aggregate output is an insufficient characterization. A true Keynesian differs, in so much as he also believes that: 1) monetary policy is not the most effective tool for stabilizing the economy and it may be completely ineffective

> in some circumstances (liquidity trap); 2) fiscal policy is effective and government spending is the preferred tool; 3) government intervention works and short-run consequences are more important than long-run ones.
>
> (Atkeson, 2009, p. 2)

During the course of discussion, a problem arose which was fairly non-contested by several members—most notably Zingales and Brad DeLong. A similar somewhat "Keynesian" policy had been enacted leading up to the economic crisis: "I do not think that than any economist would dare to say that the current US economic crisis has been caused by under-consumption . . . the Bush administration has run one of the most aggressive Keynesian policies in history." (Atkeson, 2009, p. 2) Two quick notes for our correct perception and application of this policy: 1) consider what is the problem that this Keynesian ideal seeks to solve; 2) what scope should it have? Regarding scope, we are considering less than a continuous policy since to seek constant maximum consumption and employment through government intervention and stimulus is a known fallacy. While elaborating on the first item, DeLong might actually address the second issue satisfactorily. DeLong who played the part of loyal opposition to Zingales in the public debate offered to define the crisis, eliminating the room for misunderstanding or misconception:

> What is the crisis? The crisis comes in six stages: 1) American mortgage originators lose $2 trillion due to their irrational exuberance investing in mortgages. 2) American mortgage securitizes who are supposed to follow an originate-and-distribute model in order to lay off the risk associated with mortgages lending onto the broad pool of savers in the global economy originate but do not distribute. 3) As a result, a large share of the $2 trillion in losses falls onto and must be eaten by Wall Street's largest institutions. 4) In response to these losses, trust in financial intermediaries and thus the risk of tolerance of the private sector collapses—with $2 trillion in mortgage losses inducing a stampede away from risky assets that ultimately lowers the global value of financial assets by $30 trillion and renders nearly all if not all major financial institutions insolvent (at least temporarily insolvent). 5) Businesses that ought to be expanding thus find that they cannot obtain financing on terms that make expansion profitable—while businesses that ought to be contracting still contract. 6) Thus employment collapses.
>
> (Atkeson, 2009, p. 4)

Using these principles as a starting point, this study sought to establish what constituted Keynesian application: analysis of discourse between scholars, the direct teachings of Keynes, and historical application. To this end, one major instance of Keynesian application, the Great Depression, was examined. Amity Shlaes, in *The Forgotten Man,* details a very revealing history of the Great Depression and New Deal. In Shlaes' account, Keynesian policy in America was a great experiment. Shlaes' descriptions support Zingales' assertion that Keynesian philosophy focused on the short term, increasing consumption via government spending. Shlaes offers an interesting side note regarding incentives: "Keynesian provided the intellectual justification [to spend] and the creation of constituencies." (Shlaes, 2008, p. 11) As a stop gap, Shlaes might agree that Keynesian philosophy provided some relief; she cites that in 1936, government consumption increased from 6% of the gross domestic product (GDP) to 9%, and that unemployment increased from 14% from 22%. This was higher than the highest levels of the early 1920s. (Shlaes, 2008, p. 267) So then, one must consider the policy only as a temporary fix to a down-turned economic cycle. After presenting the five issues which led to the collapse, DeLong, an advocate of Keynesian stimulus, made the comment that:

> Professor Zingales says that having the government spend more money and raise less in taxes won't deal with 1-5—that in order to fix the banking system "we need to fix the banking system." He is 100% correct: Keynesian policies won't deal with 1-5, and we desperately need to deal with 1-5. But we can limit the damage. (Atkeson, 2009, p. 2)

The hope is to limit the damage of the cycle. Using all the information gleaned, the stimulus should be targeted at engagement of current capability. It must be outside monetary policy and targeted at an existing, non-engaged, workforce. Before looking at direct application, one must examine why Keynesian philosophy as an enduring policy is undesirable. Again we examine the Depression. In the 1930s, taxes began to be raised by Roosevelt to unprecedented heights to address the new policies of high spending. In a system run by those who respond to interest groups, some negative situations arose:

> the idea of 'reform through taxation' . . . would send businessmen into 'paroxysm of fright.' At Chase, Benjamin Anderson was preparing a bulletin that tried to capture the longer-term economic damage that could result from Morgenthau's undistributed profits tax. The idea that cor-

> porate surpluses were bad, Anderson would write . . . was sheer fallacy. . . . Whatever recoveries the market and the economy were making, both were still behind. How would the Henry Fords of the 1930s succeed if they were not permitted to plow their profits back into the business.
> (Shlaes, 2008, p. 272)

This was a major downfall of Keynesian philosophy as an ongoing policy, and according to Keynes's contemporaries, even as a recovery measure or stimulus. Allan Meltzer, an authority on Keynes, makes important distinctions between Keynes and those that followed after him. One example is how "Keynesians" argue for government directed investing, which has differed from Keynes as far as one of the causes of economies operating at less that maximum consumption. The notion was that "markets charged a risk premium paid by both the lender and the investor. This premium could be eliminated, an externality removed, by letting the state direct investment. A reduced risk premium meant the real rate of interest would fall to the social rate of return." (Atkeson, 2009, p. 3) Mr. Meltzer points out that one of the largest criticisms against Keynesian economics actually comes from the Keynesians themselves.

> Modern political economy departs from Keynes by treating public officials like everyone else. They are rational, maximizing individuals. They may be concerned about the redistributive effect of their policies and decisions. But they are not concerned only with the public's welfare. Politics in a modern state is about who pays and who receives. Would we have the current financial crisis if Congress had not subsidized home ownership and eliminated down payments beyond the point of absurdity?
> (Atkeson, 2009, p. 3)

This is a view that must be considered. Keynes believed that his planning would only be safe if the hearts and minds of those policymakers enacting it were strictly focused on what was best for the whole, not the desirability of a section of society. Consider Keynes opinion of Friedrich Hayek's *The Road to Serfdom*, which some call the most compelling and complete argument for free market enterprise, Keynes wrote that in his "opinion it is a grand book . . . morally and philosophically I find myself in agreement with virtually the whole of it: and not only agreement with it, but in deeply moved agreement." (Hazlett, 1992) In their last conversation, Hayek asked Keynes if he was concerned about the expanded interventionist direction some of his pupils were taking with his ideas. Keynes replied: "Oh they're just fools. These ideas were frightfully important in the 1930's, but if these ideas ever become dangerous you can trust me—I'm going to turn public opinion around." (Hazlett, 1992) This conversation happened about three weeks before Keynes's death. Along with the testimony of Hayek and Dr. Meltzen, this type of situation, and bias in planning, was a natural result of Keynesian philosophy when not put in the hands of devout public servants without the extensive economic training that Keynes had originally planned. Keynes warned Roosevelt of this. "It is a mistake to think that businessmen are more immoral than politicians." (Shlaes, 2008, p. 338) This is something of a detour, but there are two reasons for mentioning this quote in relation to clearly conceptualizing a policy in order to perceive incentive and constraints. First, it prompts one to ask two questions: 1) "Is it ethical to misrepresent, deliberately or not, an ideal which is required as justification when putting forward a motion which is only seen as favorable when it rests on the unambiguous principles of said ideal?" 2) "What might such efforts of unintentional misrepresentation have on the result of the policy in terms of what good might have been done if a policy true to the ideal were enacted?"

With this background let us look at an actual policy implementation in the American Reinvestment and Recovery Act (ARRA) stimulus bill. Here we can look for this type of targeted response that would instigate immediate engagement and consumption. Enacted on February 17, 2009, the ARRA was the latest measure by the American government to try and stimulate the economy from its downward spiral. It followed several measures by the Bush administration that sought the same goal, including the Troubled Assets Relief Program. This is the stage of research where scholarly judgment comes into play. The methodology—using what we have established about Keynesian philosophy, its goals, focuses, and boundaries as a stop-gap measure to prevent damage from an economic down turn—was to go line by line through the ARRA bill and identify which measures were, elements of Keynesian philosophy or not. This is done because we have established that one of the steps in ascertaining incentives and constraints is to establish clearly goals and intent. "To stimulate" is Keynesian, therefore we need to see if the entire bill is clearly Keynesian. As one might probably guess, that is not entirely the case. We must see which items of the bill would constitute Keynesian philosophy and to what extent.

Due to the bill's large size and wording, it was useful to find studies which broke the bill into parts, then judge each part. Five studies from five different sources were examined: *New York Times*, *ProPublica*, The Democratic Policy Committee, the House Committee on Appropriations, and the House Committee on Ways and Means. The methodology was simple: go line by line through the respective studies and identify if each item constituted genuine Keynesian ideology or not.

Several elements were considered with each item. Among them were: 1) whether the item would have clear and direct effect on increasing consumption, and 2) whether the focus was on engaging current capability and therefore current consumption, which was not being fully utilized. This would address concerns of under-consumption. It was here that many distinctions were made between an item that was clearly meant for economic impact and one that was not. It is important that the desirability of an item should have no effect on judgment. There were many worthy programs present in the analysis but they simply did not demonstrate clear Keynesian principles. Another advantage of categorization was the ability to see if the implementation timeframe involved was long term or short term. The rate of implementation might have a considerable economic impact at some undetermined point in the future. These policies are not Keynesian because they do not seek to reduce immediate damage from the economic downturn. Finally, categorizing policies into those with clear Keynesian terms and those which were not, created a third category area of items which were not clearly Keynesian but also not "un-Keynesian,"—a grey category. The bill allocated approximately $787 billion in measures to stimulate the economy.

Each study differed slightly because of differences in how many credits or extensions of programs might utilize funds. Several interesting distinctions were seen when the results of the individual studies were compared. The *New York Times* study broke the bill into 126 items, of these it found that approximately $400 billion of the items clearly constituted Keynesian policy, $317 billion did not, and $58 billion in items comprised a grey area (Hossain, 2009). The *ProPublica* study broke the bill into 377 items across two reports, one for spending the other for tax measures. Of these approximately $364 billion of items clearly constituted Keynesian policy, $391 billion did not, and there was approximately $32 billion in the grey area (Grabell, 2009).

Before addressing the other three studies, one can see a noticeable difference. There is also a greater breakdown in the Propublica study than the *New York Times* study. This allowed for a smaller grey area, $32 billion, in the *ProPublica* study versus a $58 billion grey area in the *Times*. The Democratic Policy Committee study, while insightful, did not apply a line-by-line breakdown; instead, the study broke down the stimulus into effects by state. The bill was divided into approximately 1,940 items across fifty states, and while interesting, the study did a poor job of faithfully assigning exclusive values; some values overlapped. There was still some value in the size and scope of the projects; the breakdown was still useful because it seemed to reach similar conclusions as the *ProPublica* and *New York Times* studies.

The final two studies consulted were put out by the House Ways and Means Committee and the House Committee on Appropriations. The two studies must be considered in concert, as the Appropriations Committee Study took into account only "targeted priority investments" or actual funds spent. The Ways and Means study examined tax measures. Some issues, such as their time periods, made these two studies difficult to reconcile. The Ways and Means study considered every item in terms of how much the item would cost over a 10 year period as tax policy, while the Appropriations breakdown did not give a time line but simply a dollar amount for each item. Overall these two studies reported that far more money was involved than actually released in the bill. This was due to the differences in scope and time considered. These two studies are still of use however, because percentages of pure Keynesian policy items could be compared to the *New York Times* and *ProPublica* studies. The Appropriations study, which broke the bill into approximately 182 parts, found $211 billion constituted clear Keynesian policy, $269 did not, while there was about $92.15 billion in a grey area (United States Appropriations, 2009). The Ways and Mean study, which broke the bill into approximately 72 parts, found that $264 billion constituted clear Keynesian policy, $193 billion did not, and there was approximately $10.038 billion gray zone (United States Ways, 2009).

The interesting thing about these studies is the comparison of percentages. In every study, the parts that clearly constituted Keynesian were approximately 45.67%. This percentage is fairly consistent. In the Propublica study, the percentage of clear Keynesian items was approximately 46.2%. In the *New York Times* study the percentage was approximately 51.9%. This is interesting because approximately half of the provisions are geared towards spurring consumption, and rely on Keynesian ideology, that is, about half is targeted and half is not. Some argue that the recent problem was not one of consumption but of trust. Based on that argument, some might say that the targeting of stimulus is not necessary.

However, one cannot deny that more damage has been done to some industries than others, and therefore, we must target the response of policies as Keynes proscribed. Even if the problem is not under-consumption, Keynesian theory does not allow for simply wanton spending. Policymakers on whole have trouble with this because of the demands of constituencies. This has certainly been evident in the past when considering other measures of stimulus. Consider the $700 Billion stimulus of last fall. When asked where the number came from, a Treasury spokeswoman said: "It's not based on any particular data point . . . we just wanted to choose a really large number" (Wingfield, 2008). Some say, this lack of Keynsian focus is also found in the ARRA bill as well, as reported by the Cato Institute:

> The December unemployment rate was only 2.3% for government workers and 3.8% in education and health. Unemployment rates in manufacturing and construction, by contrast, were 8.3% and 15.2% respectively. Yet 39% of the $550 billion in the bill would go to state and local governments. Another 17.3% would go to health and education—sectors where relatively secure government jobs are also prevalent. (Reynolds, 2009)

The example of Congresswoman Waters demonstrates the danger of perspectives in which idealism blinds one to adverse affects. However, there are some measures (approximately half) targeting the consumption problem—and therefore the public trust problem. What does this mean? More importantly, what does this mean as an incentive for resolving our current economic mess? We have identified this current policy as, at least partly, in the spirit of Keynes. We have reviewed the last viable policy, still true to the intent of Keynes: 1) a bandage policy meant, not to outright avoid downturns but, to reduce damage in the downturn of a cycle; 2) specifically targeted and considered policy—free of political bias; 3) directed by objective experts (Keynes envisioned economists) which seek public good over the ability to extend influence through opinion or sphere of governance; 4) the intent to engage an economy to its fullest capacity. Let's go back to what was discussed in the *Economist* debate. Both sides agreed that the problem was not one of consumption—the past deficits attested to that—but rather trust, trust that the cycle would continue on. It would be safe to say then that the bill will stem some damage. Doing anything visible to solve the problem will have an effect and will raise trust. Similarly, one must consider DeLong's position that the stimulus will not target any of the causes of the crisis satisfactorily. What it can do is stem the damage, according to Keynes, by engaging consumption. This is the sole purpose of his policy during the downward trend of the trade cycle, not to seek the abolishment the cycle altogether. This stance is shared by both Hayek and Keynes and is pointed out by Caldwell of Duke University:

> The dangers both Hayek and Keynes recognize is if the stimulus goes for too long because that sets up that sort of inflationary period so in many peoples' minds the question boils down to this: 'Will Washington have the requisite knowledge and political will to start reducing the stimulus at just the right time?' . . . and I think that is a scary question. (Goodwin, 2009)

Our efforts to divine incentives and effects can go only as far as we have determined their intentions, or what we have been able to deem true Keynesian policy. As an incentive, the 46–51% of this bill deemed Keynesian should have some effect on the consumption issue and therefore, even if it is minor, it should in turn affect issues of trust, if not in terms of public perception, then in terms of the government not having to continue drastic acts and undermine investor confidence. However, the policymakers have used the other half of the bill as a chance to cater to political idealism and constituencies. Since this study does not seek to categorize the remaining items, and therefore the subsequent incentives, intentions, and results in the bill, we can only consider the percentages deemed Keynesian, and hope that the non-Keynesian items do not undermine their stimulative counterparts. Those items' potential benefit, if enacted, should be feasibly attained. Just as Keynes himself had an understanding of the implications of his policy, we too must recognize what is Keynesian and is not, lest the very tempting implications of it grab hold of policy to our detriment. A perception in terms of incentives and constraints allows for this. The desirability talked about by Sowell is of paramount concern when critics of Keynes bring up issues of Keynesian philosophy leading to the creation of constituencies. Keynes also recognized the danger; this was demonstrated in his emphasis on the application of Keynesian policy in the hands of experts who have no other motivation than the societal good.

JONATHAN P. ELLIS *holds an* MA *in political science*

References

Atkeson, A., Cochrane, J., DeLong, B., Gale, W., Lane, P., Meltzer, A., & Zingales, L. (2009). *Keynesian principles: This house believes we are all Keynesians now*. Retrieved from http://www.economist.com/debate/overview/140

Dye, Thomas R. (2008). *Understanding public policy*. Upper Saddle River, New Jersey: Pearson Education, Inc.

Ellis, J. P., (2009). A gorged appetite. *Politic, Bureaucracy, and Justice, 1*(1), 1–6.

Farrell, A. E., Plevin, R. J., Turner B. T., Jones, A. D., O'Hare, M., & Kammen, D. M. (2006). Ethanol can contribute to energy and environmental goals. *Science Magazine*, (311) 506–508.

Goodwin, C., Hoover, K. D., Weintraub, E. R. & Caldwell, B. J. (2009, February 24). John Maynard Keynes of Bloomsbury: Four short talks economic research initiatives at Duke (ERID) Research Paper No. 23. Available at SSRN: http://ssrn.com/abstract=1348679

Grabell, M., & Weaver, C. (2009). The Stimulus Plan: A Detailed list of spending and The stimulus plan: The tax cuts. Retrieved from http://www.propublica.org/special/the-stimulus-plan-a-detailed-list-of-spending and http://www.propublica.org/special/stimulus-plan-taxcut-list

Hazlett, T. W. (1992). *The road from serfdom: Foreseeing the fall*. Retrieved from http://www.reason.com/news/show/33304.html

Hossain, F., Cox, A., McGrath, J., & Weitberg, S. (2009) The stimulus plan: How to spend $787 billion. *The New York Times*. Retrieved from: http://projects.nytimes.com/44th_president/stimulus

Keynes, J. M. (1964). *The general theory of employment, interest, and money*. Orlando, Florida: First Harvest/Harcourt, Inc.

Panda Ethanol Inc. (2009) Panda ethanol's Hereford, Texas subsidiary files voluntary chapter 11. Retrieved from http://www.pandaethanol.com/media/New%20Releases/Panda_Hereford_Files_for_363_Reorg_Release-012309.pdf

Reynolds, A. (2008, January 28) *$646,214 per government Job*. CATO Institute. Retrieved from http://www.cato.org/pub_display.php?pub_id=9913

Sharp, A. M., Register, C. A., & Grimes, P. W. (2008). *Economics of social issues*. New York, N.Y: McGraw-Hill Irwin.

Shlaes, A. (2008). *The forgotten man*. New York, NY: HarperCollins Publishers.

Smith, P. & Thurman, E. (2007). *A billion bootstraps: Microcredit, barefoot banking, and the business solutions for ending poverty*. New York, NY: McGraw-Hill.

Sowell, T. (2004). *Applied economics*. New York, NY: Basic Books.

Sowell, T. (2007). *Basic economics*. New York, NY: Basic Books.

United States. House of Representatives. Appropriations Committee. Summary: American Recovery and Reinvestment: Action and Action Now! Retrieved from http://appropriations.house.gov/pdf/PressSummary01-15-09.pdf

United States. House of Representatives. Subcommittee on Government Sponsored Enterprises. House Committee of the Committee on Financial Services. *Regulation of Fannie Mae and Freddie Mac*. 108th Cong., 2nd Sess, September 25, 2003. Washington: C-SPAN Video Library. Retrieved from http://www.c-spanarchives.org/library/index.php?main_page=product_video_info&products_id=178357-1

United States. House of Representatives. Ways and Means Committee. Report on the American Recovery and Reinvestment Act of 2009 – February 12, 2009. Retrieved from http://waysandmeans.house.gov/media/pdf/111/arra.pdf

United States. White House. The American Reinvestment and Recovery Act of 2009. Retrieved from http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=111_cong_bills&docid=f:h1enr.pdf

Wingfield B. & Zumbrun J. (2008, September 3rd) *The Paulson plan: Bad news for the bailout*. Forbes, September 23, 2008. Retrieved from http://www.forbes.com/2008/09/23/bail-out-paulson-congress-biz-beltway-cx_jz_bw_0923bailout.html

Wald, M. L. (2007). Is ethanol for the long haul? *Scientific American*, 42–49.

Wythe, K. (2009, April 7). *Alternative energy must consider water needs.* Texas Water Resource Institute. Retrieved from http://twri.tamu.edu/news/2009/04/07/alternative-energy-must-consider-water-needs/