**[Stimulus 101: The Pelosi-Reid-Obama Debt Plan](http://blog.heritage.org/2009/01/27/stimulus-101-the-pelosi-reid-obama-debt-plan/%22%20%5Co%20%22Permanent%20Link%3A%20Stimulus%20101%3A%20The%20Pelosi-Reid-Obama%20Debt%20Plan)**

* Posted January 27th, 2009 at 8.52am in [Ongoing Priorities](http://blog.heritage.org/category/ongoing-priorities/).

With countless news stories, papers, editorials and experts giving their view of why Congress should or shouldn’t enact the Pelosi-Reid-Obama Debt Plan, we thought it would be helpful to give you a short index of *why spending does not equal stimulus*.

**HIGH COST TO AMERICAN TAXPAYERS**

* After Congress appropriates the FY’09 omnibus bill, they may have spent over $1.4 Trillion in less than one month!
The current “stimulus bill” will be the **LARGEST SPENDING BILL EVER** enacted by Congress, making the New Deal look small, accounting for inflation.
* The “Stimulus” Bills Your Family – $825 Billion is equivalent to [borrowing $10,520](http://www.heritage.org/Research/Economy/wm2242.cfm) from **EVERY FAMILY IN AMERICA**. This money has to be paid back.
* If all families were asked to equally shoulder the burden of $825 Billon, this debt would be equivalent to what they roughly spend on [food, clothing, and health care](http://www.heritage.org/Research/Economy/wm2242.cfm) in an entire year.
* If Government Spending solved recessions, we would never have recessions.

**BAD IDEAS – “THE DEVIL IN DISGUISE”**
The hidden liberal policy agenda inside the ‘stimulus bill’…

* [**Over $142 Billion in Federal education funds**](http://www.heritage.org/Research/Education/bg2233.cfm): Nearly double the total outlays for the Dept. of Education in 2007 – making good on Reid-Pelosi-Obama education promises to the NEA.
* **$87 Billion Medicaid bailout**: Medicaid is funded by a formula that matches state spending levels with federal dollars. If we keep bailing states out, they will have every incentive to continue [irresponsible spending](http://www.heritage.org/Research/HealthCare/wm2235.cfm). Fiscally responsible taxpayers in Indiana are now paying for fiscally irresponsible bureaucrats in Illinois.
* **Expanded Medicaid coverage and SCHIP**: Reid-Pelosi-Obama are enacting a [nationalized health care policy](http://blog.heritage.org/2009/01/26/fast-tracking-government-control-of-health-care/) with no debate. The government will soon be responsible for more health care spending than the private sector, i.e. **socialized medicine**.
* **Green Jobs?**: The myth of [‘green jobs’](http://www.heritage.org/Research/EnergyandEnvironment/wm2245.cfm) merely means replacing one job lost, with a new job that fits the left’s agenda. It is a zero sum game. More than doubling spending, the stimulus also has over $35 billion for the Dept. of Energy. DOE’s current budget is $23.8 billion.
* **Family Planning** and birth control for children, immigrants and the wealthy, which could also be used as a backdoor to allow federal funding of abortions. [How is this stimulus?](http://www.heritage.org/Research/HealthCare/wm2237.cfm)**\*\*UPDATE: Nancy Pelosi agrees this is not stimulus and has removed it from the bill proving these measures are allergic to sunshine.\*\***
* **Redistribution**: [Refundable Tax Credits](http://www.heritage.org/Research/Taxes/wm2240.cfm) for people who don’t pay taxes.
* **Pork Spending**: Digital TV Coupons ($650 Million), Gov’t Cars ($600 Million), Nat’l Endowment for the Arts ($50 Million), Repairs to National Mall ($200 Million, including $21m for sod).

**BAD RESULTS**

* **No Jobs**: While they have not been able to support these claims, Pelosi/Obama promise between 3 & 4 million jobs, yet House Tax Committee staff can’t estimate even ONE job will be created.
* **Ineffective**: The Congressional Budget Office estimates that only 52% of the spending in the ‘stimulus bill’ can even be spent by the end of FY’10.  Well short of the 75% benchmark set by President Obama.

“We have tried spending money. We are spending more than we have ever spent before and it does not work.” – FDR’s Treasury Sec. Henry Morgenthau Jr., architect of the New Deal.

**BETTER IDEAS AND RESULTS**

1. Make the 2001 and 2003 Tax Cuts permanent, instead of raising taxes in 2011; Reduce Marginal Tax Rates for  Individuals and Businesses by 10% creating new jobs. Adopting just this one proposal would create [between 500,000 and 1 million jobs in one year](http://www.heritage.org/Research/Economy/wm2191.cfm).
2. Repeal the Alternative Minimum Tax & reduce the Death Tax to 15% ($5 mil. individual exclusion) Enact long-term reforms and budgets for entitlement spending., putting long-term obligations from Social Security, Medicare and Medicaid, front and center in the budget process.
3. Assess and enforce [long term spending rules](http://www.heritage.org/Research/Budget/wm2199.cfm) in Congress. Get us out of debt!
4. Go to [Heritage.org](http://www.heritage.org/) for more ideas and ways to avoid giving Americans a debt they didn’t create.
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**Talk Back Tuesday: The Four Fallacies of the Domestic Automaker Bailout**

Seems like everyone is an automotive and/or economics expert these days. But I don't mind, as I remember when everyone was an anti-terrorist expert in the fall of 2001; just like everyone was a product-planning/fuel-efficiency expert in the spring and summer of this year.

Anyway, speaking as one who feels as much right to the "automotive expert" claim as the average American watching CSPAN (okay, I admit it, maybe I even feel a tad more justified in that claim), I'd like to run through the Four Fallacies of the Domestic Automaker Bailout I've seen bandied about over the past two weeks. Ready? Here we go:

**Fallacy Number 1: "It's Not a Bailout, It's a Bridge Loan"**

The domestic CEOs keep hammering on this point, so here's my response: Would you go out of business if you didn't get this money? Yes? Than it's a bailout (except possibly in Ford's case because they might not go under without the help).

Even if you pay the money back, on time and with interest, it's a bailout. That's the definition of "bailout" -- you take a business that is ready to sink (fail) and you bail it out (give it money to keep it from failing). Clear? Good.

**Fallacy Number 2: "They're Too Big to Fail"**

Too big to fail without causing major pain to our economy? Sure. Too big to fail because they simply can't fail? Why do I find myself thinking about the description of the Titanic? This idea that we simply can't conceive of letting them fail is troubling. Ultimately the idea of capitalism is you take risks, but if you take prudent risks and you have talent in managing the risks you can be quite successful. If you take bad risks and/or do a bad job of managing them, you fail. Thus a natural incentive to do a good job.

Deciding that any company is "too big to fail" (this goes for financial institutions as well as automakers) removes that incentive and breaks the system. I'm not saying they absolutely shouldn't get government aid, but using this as the primary justification is idiotic. Otherwise, in theory, any company should do whatever it takes to employ as many people as possible. Don't worry about smart business practices or long-term planning. Just do whatever it takes to get "big." Why? Because if you can get "too big to fail" it will no longer matter how poorly you ran the company to get there -- the government will have to save you.

**Fallacy Number 3: The Domestic Automakers are 100% at Fault**

Actually they are only about 25 percent at fault. At least 25 percent goes to the government for such blunders as CAFE (which encouraged the domestics to build trucks and SUVs instead of cars, while it simultaneously did NOTHING to reduce imported oil consumption). Go ahead, insert your own "unintended consequences" and/or "road to hell" reference here.

Another 25 percent goes to the American public for buying said trucks and SUVs, thus furthering the domestics' dependence (addiction?) on the profit available from such vehicles. Lots of you people bought these, and many/most of you could haven gotten by with a (gasp!) station wagon or even (double gasp!) minivan. But you wanted to look cool. Fine, but don't blame the automakers for your own insecurities.

Throw another 25 percent at the labor unions and dealers that make it impossible for a U.S. car company to be efficient in terms of production costs and brand count (if a U.S. carmaker tries to cut costs and be efficient, say through reduced dealers and closed plants, it gets sued...which is very expensive).

Finally, the domestic automakers get a solid 25 percent of the blame. Not for building all those SUVs and trucks (hell, if people wanted to buy millions of them at $10,000-$12,000 profit on each one, I say go for it!). No, they get the incompetence award for HAVING NO BACK UP PLAN when the gravy train screeched to a halt. Here's a brilliant piece of advice Mr. Automaker CEO -- market trends, economic trends and oil price trends are not static. They can, and often do, CHANGE. Try having that in mind next time around.

Why, after a six-month downturn, do these companies need BILLIONS (that's with a B) to stay alive. They were raking it in for over a decade on millions of truck/SUV sales. Where did all that money go? Corporate jets...and the associated maintenance crews...and the associated private pilot teams...don't cost that much, do they?

Aren't we all told to have at least six months pay in an emergency fund? Yeah, most of us don't have that emergency fund, but most of us aren't being paid millions of dollars a year for our coporate genius, either.

And anyone who starts in with, "But they are changing! They do have a plan in place and just need this money to get it executed!" here's my response: TOO LATE! One key element to a successful business plan is that it occurs before bankruptcy is inevitable.

Yes, I know they've made some progress in recent years (except Chrysler). There are some excellent American cars available right now. But having a few models here and there that fully compete with the benchmarks isn't enough. They can't be the rare exceptions, they have to be the backbone of the product line-up. The rare exceptions should be the obvious throw-away models, produced just to technically fill a market segment and/or address rental car contracts. Right now those models still represent the majority of domestic nameplates (if congress wants to use this situation as an excuse to enact more laws, how about one prohibiting platforms over 10 years old).

Also, part of the 25 percent automaker blame revolves around those idiotic labor union contracts that simply didn't reflect reality. But were the labor unions greedy for writing these contracts, or were the automakers short-sighted for signing them? Yes

**Fallacy Number 4: If They Go Out of Business, the World will End**

It will not end. It will be very painful, and a lot of economic and political power will shift around, but automotive life will go on.

I'm still hoping for a sensible and effective solution to the situation. However, it strikes me that, despite a recent history chock full of government interventention and the associated unintended consequences, here we sit convinced we can't let these companies fail because the results would be too horrific to contemplate.

Do I sense a future discussion of unintended consequences in the making...

These are my fab four fallacies of the domestic automaker bailout. Anyone out there have some more?

Posted by

Karl Brauer December 9, 2008, 6:00 AM

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