APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Dr. Daryll E. Ray

Expensive stimulus bill is a bargain if it helps prevent a full-blown depression

The $787 billion stimulus bill approved in mid-February 2009 has been justified in terms of being an essential element in preventing a downturn that could be as serious as the Great Depression. In pushing for the legislation's approval, President Obama argued that while the stimulus package by itself would not prevent a serious collapse of the economy, it would provide a needed 3.5 million jobs.

Opponents argued that the bill was too expensive, did not include their preferred policy elements, and was loaded with too much pork.

All of this got us to thinking. By what measure could one decide whether or not it was too expensive? For instance, how big a hole would we be in if we experienced a repeat of the Great Depression? How many people would be unemployed? What would be the loss in the value of production? What would be the impact of a new depression on agriculture?

Former Secretary of Agriculture Henry A. Wallace-philosopher of the New Deal and architect of traditional farm programs-wrote a book, Sixty Million Jobs, as he finished up four years as Vice President and settled into his new position as Secretary of Commerce.

Wallace wrote the book out of concern that the nation not fall back into a depression following the end of WWII. Wallace wanted to make sure that the country was ready to provide an economy with 60 million jobs, the number Wallace estimated would be needed to provide full employment for the returning veterans as well as the population at home, hence the book's name.

In part, Wallace wanted to prevent a repeat of the 1932 march of the Bonus Army, consisting of some 43,000 marchers including 17,000 WWI veterans. They marched, petitioning the government for the payment of a war-time military bonus that was granted the veterans in 1924 with payment deferred until 1945. With unemployment growing, they argued that they needed the money immediately.

To press their point they established a Hooverville in Washington, DC to the dismay and embarrassment of the President Hoover. It took a military engagement and the deaths of several WWI veterans and family members to move the veterans out of the capital.

In 1945, Wallace felt that the country could and should do better than that. It could make sure the economy had a sufficient number of jobs for returning veterans and their families. He argued that the cost of failure was too great.

To back up his argument he looked at the Great Depression and its impact on employment, loss of production, and above all the human cost: "Men with broken spirits, women waiting at home in endless anguish, children neglected and undernourished."

According to Wallace's calculations, the Depression resulted in 88 million worker-years of lost employment, an average of 6.8 million persons per year for 13 years. That represented 5.3 percent of the population at the time. A comparable unemployment figure today would be 16 million persons per year for the length of the economic crisis.

Those worker-years of unemployment represent a resource that was permanently lost to society.

Similarly, he calculated that the loss in Gross National Product was $365 billion. Using the nominal GDP per capita to convert that number into 2009 dollars the result is $25 trillion or $2 trillion per year.

If the stimulus bill, the bank bailout, a future mortgage restructuring, and follow-up legislation work to prevent a reoccurrence of the Great Depression, it seems to us that not trying to stop such a possibility would be penny wise and pound foolish.

Future generations will pay the cost of the deregulated economy run-amuck one way or another. They will pay it through an increased national debt or through lost wages, lost pension accumulations, lost Social Security and Medicare contributions to the national treasury, the early retirement of baby boomers who otherwise would continue to work adding to the Gross Domestic Product, the continued aging of the infrastructure that has given this country an economic edge-the list could go on.

As for farmers, in the Depression farmers were hurt as hard or harder than other sectors of society. Corn prices were so low that it was cheaper to burn corn to heat the farmhouse than it was to haul it to town and buy coal.

You say it couldn't happen today? We wouldn't want to bet the farm on it. Even farmers with a low debt-to-equity ratio could face stressful times as the result of decisions made on the other side of the farm gate.

Yes, nearly $800 billion is a lot of money and there is no assurance that spending it will single-handily pull the US out of recession.

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But if the stimulus package will help keep the US economy from falling into a depression, it would save trillions of dollars worth of economic disruption and untold human hardship.

The stimulus legislation has its flaws and it is very expensive but it could be a bargain.

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