"TIMELY, TARGETED, AND TEMPORARY?"
An Analysis of Government Expansions over the Past Century

"By measure after measure, it is clear that the Keynesian idea that expansions of government size and scope during times of crisis are timely, targeted, and temporary is operating under a false premise."
— Jason E. Taylor and Andrea Castillo

John Maynard Keynes suggested that government should undertake a temporary surge in deficit-financed spending when the economy is in recession. According to proponents of Keynesian theory, stimulus policies need to be "timely, targeted, and temporary" in order to be successful. History has shown, however, that fiscal stimulus policies have a dismal record with respect to these "three Ts."

A new study published by the Mercatus Center at George Mason University examines the use of expansionary fiscal policy to stimulate a contracting economy. The study concludes that attempts to use fiscal policy to solve broader economic troubles have failed even by the theory proponents' own standards. In addition to being poorly timed and targeted, stimulus spending has led to permanent increases in the size and scope of government.

To read the study in its entirety and learn more about its authors, economist Jason E. Taylor and Mercatus research associate Andrea Castillo, please see "'Timely, Targeted, and Temporary?' An Analysis of Government Expansions over the Past Century."

SUMMARY

Much of the debate over proposals to use fiscal policy to stimulate the economy revolves around policymakers's ability to adequately fulfill the requirements of each of the three Ts according to the theory's rationale:

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- *Timely*. Stimulus spending should be properly timed to take effect while the economy is operating short of its capacity. An ill-timed stimulus program will not only be too late to help—it runs the risk of overheating an already-recovering economy, and it will waste taxpayers' dollars.
- *Targeted*. While the general goal of stimulus is to boost aggregate demand, stimulus spending is supposed to target those sectors and industries that will produce the largest impact on the economy. A failure to do so wastes taxpayer money and distorts economic activity, which can lead to further instability.
- *Temporary*. Once the economy has sufficiently recovered, the government should remove the stimulus and pay down the debt. Excessive government spending and debt can "crowd out" private investment and undermine economic growth. Excessive government debt can also spark high interest rates and inflation.

Fiscal stimulus efforts going back to the 1930s consistently fail to meet the three Ts objective:

- *Improper timing*. Policymakers have consistently struggled to properly time fiscal stimulus spending. In every postwar recession in the 20th century where stimulus spending was attempted, government spending peaked well after the economy was already in recovery. Policy lags—recognition, decision-making, implementation, and impact—are largely responsible for this fact.
- *Inefficient targeting*. Going back to the New Deal, policymakers have targeted stimulus funds on the basis of politics rather than what delivers the most bang for the taxpayer buck. Further, individual policymakers cannot possess all the collective knowledge required to allocate and direct economic resources in the most efficient and effective manner, as markets do.
- *Permanent expansion of government*. Stimulus funding has almost always led to permanent expansion in the size and scope of government. Indeed, the alleged need for immediate stimulus opens the door for expansions in government that might not have occurred under normal circumstances. On the rare occasions that the increased spending has been temporary, the costs have generally outweighed the benefits.

CONCLUSION

The underlying assumption that Keynesian-style stimulus policies will be "timely, targeted, and temporary" has proven much harder to achieve than the textbook theory suggests. By the time policymakers recognize a problem, settle the debate over what to do about it, pass legislation, and implement it, often the economy is in recovery. Even if policymakers could manage to get the timing right, they still fail to target the funds to the most economically rewarding uses because they lack the knowledge to do so and they tend to allocate stimulus funds on the basis of political considerations. New government spending is seldom temporary; once government spending ramps upward or the scope of government expands into new territory, history suggests that a retreat back to prior levels is unlikely.