

Experiment to Get Best Stimulus Results

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Abstract

What will work best to stimulate the nation out of recession? Look to the states, says Len Burman in a commentary for public radio's *Marketplace* program.

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Here's a dirty secret about economic stimulus: We're making a lot of this stuff up. It's based on a combination of often inconsistent theory and ambiguous empirical evidence.

And we don't have a lot of practice doing it. In recessions past, monetary policy was the main tool to boost the economy. Because it worked. This time, though, that line is tapped out -- federal interest rates are basically zero and the economy is still sinking.

Now we're relying on tax cuts and government spending to do the trick, but we don't know a lot about fiscal policy either. So there's huge disagreement about what works best and how much stimulus to apply.

What do we do in the face of our ignorance? At the national level, we probably should try lots of different things -- kind of a diversification strategy. We're doing that. But we should also encourage the states to experiment so we can learn what works, rather than mandate a one-size-fits-all approach.

The ideal "experiment" would assign different "treatments" to different states. States that begin with A-E: tax credits, F-K: infrastructure, and so on. We could even have a control group that would get nothing. Sorry, Wyoming.

OK, that's not going to happen. But suppose we used part of the economic stimulus package to give states grants of, say, \$500 per resident, with more for states with especially high unemployment.

States could use the money to cut taxes, subsidize employment, build roads, drop money from helicopters. Some might even come up with good ideas not on the Obama whiz-kids' list.

The feds would collect data from States on how they spent the money, and measure how households and firms responded. This treasure trove of data would fuel research on what works and what doesn't.

This isn't a perfect experiment. States' choices won't be random, but there are statistical techniques to deal with that. And, we'd end up with a lot more information to assess policy options -- 50 data points instead of one, from a uniform, national policy.

States are the laboratories of democracy. We can learn from them how to cure our next recession. With our democracy facing the greatest economic threat since the Great Depression, it's time to fire up the Bunsen burners.

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