

Government Spending

By Drew Jensen

Created 7/24/10

What comes first, demand or supply? This is a very important question as it is currently driving the economic reasoning behind our federal government's fiscal policy. One argument is that the government has to help create demand, only through this increased demand for products and services are producers going to produce. The argument is that recessions and economic downturns are caused by falling demand, and this demand spirals as demand drops, so does production, furthering less employment and thus less demand. The argument decrees that government spending will stop the spiral, by pumping money into the economy the demand will be increased, and producers will produce again. This argument is flawed.

In any economy, the creation of supply must occur before demand can be met. By necessity, all humans need a certain amount of sustenance to survive; we need food, clothing, and shelter. Furthermore, it is assumed by this author, with few exceptions, that individuals in an economy and society are not satisfied by the basic goods needed for survival. Individuals are consistently looking to improve their standard of living and improve their material well being. The constant unquenched desire by individuals to improve their lives is the energy source of the economy. And it is the means in which individuals employ to meet these desires that produce the goods and services that make up this material improvement and increased standard of living. Only when an individual's desires are satisfied, will they stop producing.

The macro argument that the government needs to spur demand, is an argument that the desires of the American people are met to such a level that they are lowering production. If this were really true, why would this be a problem? If Americans' demands and desires are fulfilled by the current level or a lower level of production, we should declare 'mission accomplished, man has found his desired level of attainment'. Of course we all know this is not true. "But consumers have no money for demand" the Keynesians argue, however there is only one way to get money, produce something that someone will buy. It is this production that the Keynesians ignore. They fail to recognize the simple truth that a recession is not caused by a lack in demand! Business cycles are a result of reallocation and restructuring of production. Invariably, a recession is a market correction.

Government stimulus will never stop a recession; it will only distort the market correction. There are three major problems with all government spending. First government demand is not consumer demand; therefore, any spending on the part of the government will take the factors of production away from products the consumers desire making those products less in supply and higher in cost. Capital is invested to meet government spending, however, when that spending stops, the capital becomes worth less and will not be used for its intended production. The government spending results in a poor, politically not market based, allocation of production and resources.

Secondly, government spending distributes money into the hands of some individuals so that they may buy the products and services they need and desire. Remember, the economy is driven by individuals employing the means of production to

fulfill their demands. When the government steps in and gives certain individuals the money to meet their demands without producing anything, there is less production. Less production results in fewer goods and services that the consumers desire. The more the government spends distributing, the less people there are producing. While the government spending may be beneficial to the recipients of the money, as a whole, the distribution only decreases the total production in the economy. Distribution is not stimulating. Demand is innate and insatiable, and any steps by the government to fulfill those desires without production only lessen total production.

Lastly, the argument for government spending ignores where the government is coming up with its funds. The current administration often espouses how many jobs its spending has 'created or saved'. By their logic, our government could put every person that is unemployed on the payroll, and all our problems would be solved. We would have a zero unemployment rate, and all that extra demand. Of course, our debt would go through the roof, the factors of production would be further misallocated away from consumer demands, non market based production would be inefficient, the increased borrowing would siphon more investment and capital out of the private sector, and thus total production would ultimately fall and the standard of living for Americans would go down.

If the government generated its revenues through production and fair competition in the market place, its revenues would not be economically regressive. This would also mean the government would spend its money on the means for production, and the recipients' of government spending would have to produce market value for what they receive. Thus the government would become a business. However, this is obviously not how government generates its revenues.

Government revenues are either borrowed or taxed. Through taxation the government takes money away from the producers (by producers I mean anyone that works) of the economy. Through borrowing the government takes investment out of the economy. Either way, the government is reducing the amount of capital available in the economy to produce the goods and services that the individual consumers desire.

While a moral argument can easily be made about the unfairness of government taking away an individual's means to fulfill their own desires, the economic case against it is irrefutable. Government spending, government taxing, and government borrowing (and don't even get me started on government regulation) all impede the production of goods and services that individuals desire.

The answer as to what is ailing our current economy is not a lack of demand or desires by Americans; rather, it is a government impeding in the relationship between these demands and what is being produced. We are not seeing the failures of Capitalism; we are seeing what happens when the government intervenes in a market correction. We are witnessing the failures of redistribution and stimulus. And unfortunately, if some of our current policies are not redacted, we will witness the failure of Socialism.