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## Government Spending Equals Poorer Citizens

*Thursday, January 24, 2002*

*By Richard W. Rahn*

How many times have you heard someone say, "If we increase government spending we can create new jobs?"

For decades, both socialists and some Keynesian economists have been advocating more government spending programs with the promise they would lower unemployment and create economic growth.

If that were true, we could all be living in economic paradise.

The fact is that if the government spends more, others will have less to spend because government can only get the money it spends by taxing someone, borrowing the money from someone or inflating the currency. If the currency is inflated, those who have money will be poorer because their money is worth less than before. However the government finances its spending, the consequence is that an equal amount of money is coerced or sucked out of the pockets of its citizens. For every dollar spent in the public sector there is one less dollar spent in the private sector.

Many people argue that the government should build houses for people. They say this not only gives people homes but also creates jobs because, to build the house, you have to hire masons, carpenters, plumbers, electricians, and so on. They also claim that the people who produce the bricks, lumber, bathroom fixtures, and so forth will benefit.

Yes, we can see that the people involved in building the house will have jobs. But what is unseen?

What is unseen is that the government needed to tax someone else, or many people, to obtain the money to pay the people to build the house. If the house costs 100,000 euros, then the government had to get that 100,000 euros from taxpayers, which means they will have 100,000 euros less to spend on building a house in the private sector, or buying a car, or food for their children, etc.

In the illustration above, it is assumed that there are no extraction costs for the government to get the money from the taxpayer to the builder. But in the real world the extraction costs of getting the taxpayers' money are considerable.

The taxpayer has to spend time learning about the tax law and filling out forms, which takes time away from what could be productive activity. That effort, combined with the loss of income from

the tax, may be so discouraging that the taxpayer works less, thus reducing both his and the nation's income. There is the cost of the bureaucracy to administer the tax collection, and the cost of the bureaucrats to administer the public housing project. After taking these costs into consideration, the best the government can do is replace one more expensive, privately built home for a less expensive, government built one.

That is, for the government to build a 100,000 euro home, it will have to extract perhaps 140,000 euros from taxpayers because of the overhead and bureaucratic costs.

Again, what is seen are the workers who have jobs to build the 100,000 euro home. But what is not seen are all the workers who do not have jobs to build the 140,000 euro home that was not built. The government-spending program has resulted in fewer, not more jobs, the quality of housing is reduced, and the people are poorer.

It is sometimes argued that the government will spend the people's money more wisely than the people will themselves. Illustrations are given where the people waste time and money by buying objects they do not need, such as cars that are "too big," clothing and jewelry that is "too expensive," fast boats, and luxury vacations. We are told the government will spend our money wisely on medical care, housing, transportation, etc. What is the reality?

Many public health care systems are a disgrace from which those who can afford it flee to private providers. Many public housing projects are unsightly and crime-ridden. Most public transportation systems require enormous subsidies to keep operating, and in most countries government offices are overstaffed compared to their private-sector counterparts.

Civil society requires some government for the common defense, public safety, the protection of private property, and the rule of law. But as government grows and takes on other functions, it too often manages them less efficiently than would be done in the private sector, thus making the people poorer and less free than they otherwise would be.

During the last century, the world experimented with almost every form of government and economic system that could be devised by the mind of man. The evidence is in. It is clear that free market democratic systems, which respect private property and the rule of law, with governments of modest size, provide a higher standard of living, a better quality of life and more freedom for their citizens.

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