The Washington Times May 29, 2012

Spending Lies Run into Facts

by Richard W. Rahn

CONGRESS LEADS ON SPENDING, AND DEMOCRATS GAINED CONTROL IN 2006

Many in the political class, including President Obama and many members of Congress, have an interest in confusing, rather than enlightening, the public. The effort to misinform about the growth in spending and the impact of government spending on job creation reached a new level last week when the president claimed he was the most restrained spender since President Eisenhower and that spending was up only a little more than 1 percent (over what?).

Presidents do not set spending levels, but they do influence them. Congress has the responsibility under the Constitution to tax and spend, and not one dollar can be spent legally by the government without the permission of Congress. Congress is elected in November of even-numbered years. The members take office in January of the following year. The federal fiscal year runs from Oct. 1 until Sept. 30 of the next year, and therein lies the opportunity for obfuscation.

From-To	Average Annual Economic Growth Rate	Average Annual Change in Government Spending as a % of GDP	Average Annual Change in Employed Labor Force as a % of Population
1983-1989	4.3	-1.6	+1.5
1989-1991	1.8	+2.7	-1.0
1991-2001	3.2	-1.8	+0.3
2001-2008	2.0	+2.0	-0.3
2008-2011	0.2	+5.2	-2.0

Sources: Congressional Budget Office, Bureau of Economic Analysis, Bureau of Labor Statistics

In 2006, the Democrats won control of both houses of Congress. By the time the new Congress was seated in late January 2007, approximately a third of the 2007 fiscal year was already over. For those of you who dislike numbers, just skip the next paragraph, which details who is responsible for the approximately 43 percent increase in federal spending in the past six years.

The last Republican budget, in 2006, was $2.66 trillion (20.1 percent of gross domestic product, or GDP). The first full Democratic budget was $2.98 trillion, in 2008 (20.8 percent of GDP). The last full Democratic budget was $3.6 trillion for 2011 (24.1 percent of GDP). The Republicans took control of the House of Representatives in 2010 and were seated in January 2011, and hence the first budget they needed to approve was the 2012 budget ($3.8 trillion or 24.3 percent of GDP).

Sometimes the Democrats claim the big increase in spending was necessary to revive the economy and create jobs, but at other times they claim that there was no big increase in spending and they were not responsible for the resulting deficits. Sometimes the Republicans claim big spending increases destroy jobs, but at other times they advocate or vote for many specific spending programs.

A quick review of economic policy for the past 30 years, as can be seen in a glance at the accompanying table, provides evidence that big increases in government spending do not create jobs but, in fact, do the opposite. The correct way to measure the impact of government spending is not to look at the nominal numbers, which include population and economic growth and inflation, but rather as a percentage of GDP (national output).

Every president who has run for office since at least Richard Nixon, including even Mr. Obama, has promised to cut government spending when campaigning. And most members of Congress make the same pledge when running for office. Once they're in office, their behavior almost always changes. President Reagan managed, with a partially Democratic Congress, to reduce spending during his last six years, after an increase in his first two years. And President Clinton, with the new Newt Gingrich Republican Congress, was even more successful in cutting spending during his last six years.

It is a myth that increases in government spending create jobs. The correct way to measure job creation is to look at the percentage of the adult population that is employed. The unemployment rate numbers only indicate those who are still looking for work and do not measure those who have become discouraged and dropped out of the workforce. The chart clearly shows increases in government spending are associated with fewer jobs, not more. The data for the past hundred years shows the same negative relationship between the growth in government and the number of jobs. It is no coincidence that European and other countries with larger governments almost always have lower labor-force participation rates.

Most government spending is for transfer payments - other than defense. The transfer payments are funded through higher taxes on productive workers and through borrowing, both of which have a negative impact on economic growth. And many of those who receive the transfers only receive them on the condition of not working, as in the case of certain welfare and unemployment compensations. That, combined with the normal inefficiencies and misallocation of resources found in government, results in lower output and growth and negative job creation.

Those who advocate more government spending to create jobs are almost always those who fail to understand the secondary effects of such policies or are leftist ideologues impervious to reason. The next time you hear someone say the government needs to spend more to create jobs, ask where the money comes from. If they don't look totally perplexed and are bright enough to say from taxes or borrowing, ask them what the costs are to the economy and effects on jobs of those activities. Perhaps it will nudge them to start thinking about such matters.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.

http://www.washingtontimes.com/news/2012/may/28/spending-lies-run-into-facts/