Government Gone Wild

Back in February, the government said that its $787 billion stimulus bill would create 3.5 million new jobs. This was at the very highest end of the Congressional Budget Office’s (CBO) estimate of 1.2 to 3.6 million new jobs.

But even this high-end estimate of US job creation is penny-ante, when compared to a leaked memo from Gordon Brown, the prime minister of the United Kingdom. He proposed a $2 trillion European stimulus plan that was supposedly going to create 19 million jobs. In other words, Europe can create a new job with just $105,000 of government spending, while the US needs $219,000.

But all of this is just a pipe dream. Government spending does not cause a net increase in jobs over the long run; it costs jobs. Every dollar the government spends is either taxed or borrowed from the private sector, which means it “crowds out” private sector job creation. And because government spending is less efficient than private sector spending the economy actually grows more slowly in the long run as the government gets bigger.

What’s interesting is how all these numbers are being bandied about with very little pushback from the press. In recent years, the press has complained loudly about “$200 billion deficits as far as the eye can see.” And almost all the press argued that budget deficits lifted interest rates and hurt the economy. But in recent weeks, the press seems to have forgotten its old argument.

This is especially frightening when the US now faces $1 trillion deficits. President Obama says that this is all OK, and that he is cutting the deficit in half (to $533 billion using administration math, or $672 billion according to the CBO) in just four years. What he doesn’t say, and what no one seems willing to say, is that without his new budget the deficit would have been cut by 75% in four years to about $250 billion. The budget deficit and the size of the government are exploding and no one seems to care.

But it doesn’t end there. Americans are the most generous people on the face of the earth (when measured in dollars donated to charities). At the same time, private charity does a great deal of good and often does it more effectively than government. But now the government wants to limit deductions for charitable contributions.

Some conservatives have argued that this might be a good trade off if marginal tax rates were lowered. They argue that the benefits of higher GDP (resulting from lower tax rates) would outweigh the losses from slimmer donations (as a share of income). That is an economic argument that reasonable people can disagree about.

But this time around, the government wants to limit the charitable deduction and raise tax rates to make way for more spending. What government is really saying is that it doesn’t like the competition from private charities. It wants more people to depend on government.