

What Government Rescue?

By Keith Eubanks

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<http://www.dynamicforecasting.com/>

Response to “Government to the Economic Rescue”

By Alan S. Blinder

WSJ, June 16, 2010

“Try to imagine any government spending a massive sum like \$862 billion without creating or saving millions of jobs.”

Perhaps Professor Blinder should try to imagine any government removing a massive sum like \$862 billion from an economy without destroying millions of jobs. Professor Blinder would have us think that the money for TARP and the various government stimulus packages came from God: dropped on the economy from above without one dollar less in any sector of the economy.

I have no doubt that the beneficiaries of government spending are stimulated. I also have no doubt that the money used for TARP and the various stimulus packages would have been spent by someone else but for the government taking it. All government spending comes from taxes on current income or borrowing of current savings (I guess you can add printing, but printing is a tax by another name). Most of the funds for TARP and the stimulus packages were borrowed. This created a large disruption in the flow of income, specifically the flow of savings and investment. Net Private Investment in the United States moved downward with each dollar borrowed by Uncle Sam.

It is this diversion of private investment funds into government sponsored consumption that has caused our lack luster recovery. To grow our economy we need to accumulate additional capital assets that can support the production of new products and services that people want. Of course, this requires private investment, and private investment requires that savings actually be invested in productive assets. The recovery will remain lackluster until Uncle Sam quits borrowing and spending so much of our nation’s income.