

# Why Government Surpluses Are Bad

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**W**hat does government do with the money it extracts from society? Most of the time the government spends it, of course. And make no mistake; both parties in Congress like to spend tax money. The Congressional Budget Office reports that legislation enacted just since July, 2000, will push up spending by \$561 billion over the next ten years. Congress can always find a “need” such as a farm program, child-care subsidies, prescription drug benefits, or a grant or two.

It is interesting and instructive to analyze the effects of government spending. First of all, when the government spends money there is no question that jobs are produced as the spending finds its way into wages. But the big difference between government spending and private spending is that with government spending *no wealth is produced*. Remember, wealth is defined as the salable goods and services a nation produces. When the spending ends, the wages end: look what happened to the defense industry when the defense budget was cut so drastically. After the defense monies were spent the country (society) had consumed the very important service provided (defense) but that was the end of that procurement. The same is true of all government-funded programs.

To diverge for a moment, consider the irony of calling government spending “public” funding verses “private” funding done by individuals in the free market. Wouldn’t it be more accurate to label the government funding “government” funding and funding by private people “public” funding? Because of the aura associated with anything “public,” by accepting the designation “public” for what is “government” funding, society has helped to strengthen the seemingly prevalent assumption that government spending is better than private spending.

What we have in America today are two economies: The one created by government and the other a market economy created by private capital. People keep the free market viable when they purchase the goods and services they consume. Costs and prices in the government economy are indeterminate because they are often established by political considerations while the prices in the market economy are set by supply and demand.

To get back to government surpluses, does anyone believe that if those surpluses are left in Washington they won’t be spent? What would happen if the surplus were given back to the people who paid it? Some of it would be spent of

course. But some would be saved and saved money is money banks have to invest—representing the big difference between the government economy and the private one. Growth in the private economy depends on capital and that means investment. Labor cannot go to work until capital is expended to set up the facilities, tools and business structure. The money staying in Washington means less investment made in the U.S. economy. The more money the government takes, the less available for savings and investment.

Of course a large portion of the government money is spent in the free market side of the economy in the form of wages, but the pricing system and the success/failure rules for the government are nowhere near as stringent as those for the market economy. National defense funds, for example, purchase products for which there is no open market. These expenditures do put defense workers to work and the products those workers produce are used or consumed by our armed forces. And of course the defense workers use the money they receive largely in the free market side, purchasing goods and services they require or desire. But note: All government funding puts targeted workers to work on targeted products or services for a narrow band of consumers and at prices determined by government bureaucrats.

What the government does when it spends is to direct and target that much money's worth of production and consumption. While much if not most of this spending is necessary and can be a good thing, when it gets to be too large a part of the economy, it isn't good; look at what happened to the Soviet Union. The points that need to be debated in this country are: who should determine how the country's productive efforts and wealth are to be allocated, what products or services are produced and who should produce them. The question is, should these points be determined by a free market or by government politicians?

What happens when the government becomes too large a part of the economy? Right now the federal government is spending about twenty-one percent of the national wealth (the most since World War II) but is taking more than that out of the economy and thus generating a surplus. When the government extracts more tax money from society than it spends, the bigger the government gets and the more it shorts the free market economy.

In the Government economy there exists little or no true competition or accountability in how the money is spent. Yes, most government contracts are "bid out," but how much does political influence (bribery, or cronyism) have on who gets the contract or the grant? And how much follow-through is exerted on making sure the government is receiving the value for which it contracted? In the market economy there may be potentially all of the same risks but the consequences are much more severe if irregularities are discovered or if mistakes are made (look what happened to Montgomery Ward, or Xerox, or LTV). When was the last time a government program took such a hit as that taken by Montgomery Ward?

The problem is that there is little incentive for governmental efficiencies because no one has to pay the penalty for error, whereas the market economy sorts out the efficient producer very quickly and rewards it by popularizing its product

or service. The government, on the other hand, often builds freeways to nowhere or as in the case of the FAA's new Air Traffic Control System, spends billions on a program and then quietly drops it when it is discovered it is going down the wrong path. Of course the workers who work on these failed programs turn their money over in the free market economy but society gets nothing in return from the government expenditure.

The more money the government has to spend, the more controversial ways there will be to spend it. Look at some of the art funding, or analyze some of the grants the government awards. Not many people would agree that these are essential or even desired. Foreign aid is another area where it is often difficult to see the value. Surplus tax revenues mean that the government has more opportunity to expand its share of the economy and get into more aspects of our lives. The record when that happens is not good.  $\Omega$