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The Big Spend

When the spigot opens, beware of flooding

Though conventional wisdom dictates that the Obama Administration should spend our way out of recession, we must not forget what got us into this mess and dig our hole deeper. Briefly, if we are going to continue to borrow on our children's future, then the majority of newly created jobs must be in areas of economic activity that provide our children and grandchildren with the means to cover our debt -- namely, public and private goods investment. There is a problem, however.

Large government-subsidized investment projects are time-consuming and unlikely to rescue those in urgent need. Large projects demand a large number of resources that must be amassed at a given location in a timely manner. Moreover, the potential environmental hazards that such projects pose are usually numerous and substantial. Accordingly, the amount of time required for planning and organizing these projects is enormous and will do little to help those who need it most. The pending danger is that many people will fall through the cracks never to find their way back into the mainstream economy. Smaller, less grandiose projects, such as the maintenance and restoration of preexisting physical structures, should be given immediate emphasis.

Assuming that both types of projects are eventually undertaken and the money spigot is opened, there are two additional problems that must not be overlooked -- regulation and financial credit. Let us turn to the problem of regulation. When state and local public officials, and later private government contractors, are suddenly inundated with a large flow of *free money* from the federal government, there will be a big cheer and great celebration. Unfortunately, great celebration implies more consumption, and this is exactly what we must avoid. Pushing the demand curve out should be achieved *firstly* through an increase in investment demand, *and then and only then*, through a subsequent increase in consumptive demand. This said, we should be deeply concerned about those who insure that this investment is carried out. Unfortunately, regulation has not been our recent national *forté*.

The second problem is long term savings and planning. What government can do on behalf of the many, the individual cannot do for himself -- create new money through the issue and sale of bonds. This said, the average consumer sees the profligate spending of his own government and wants to do the same. So, he turns to his credit card. The United States is the world's leader in consumer credit, and there are few nations in the world that can boast the same level of financial sophistication. Our national trade and budget deficits are clear proof of our success in these areas. Indeed, what has been a boon for Wall Street for the past two decades has become the demise of many an American citizen, and will likely ruin many more, if we do not change our financial incentive system.

Rather than saving for our future, we consume our future in our present. This behavior is based on the naïve notion that the future will always be better -- in short, that there will always be sufficient future income to make good on impending future negative cash flows. Indeed, what has happened to many during the current housing crisis is not the result of exceptional behavior; rather, it is the result of exceptional circumstances magnified by what has unfortunately become *normal* behavior!

In the end, there is nothing wrong with

a healthy dose of optimism *vis-à-vis* the future, but the average American must be made to understand that economic growth is rarely monotonic, that the economy is, by its very nature, cyclical, and that all citizens, including government, must save for their future and stop borrowing against it.

For the moment, if we are going to borrow, then let us at least invest, so that we can later save.

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