
Let's
Create

THE MYTH OF GOVERNMENT JOB CREATION

Brennan Sorge,
Regular High School Contributor

When the government promises to "stimulate" the economy in order to create jobs through government spending, can it deliver? I argue that it cannot, simply due to the reality of the way government funds must be raised, which includes taxes on privately employed citizens and private enterprises that pay for all government spending, including government jobs or employees. The taxes paid by public employees do not raise government revenue per se, but rather reduce government costs, including the government employee's wage. This is because the government is taxing the very wages that it is paying.

In other words, the government uses funds that are not raised through the private production and sale of

goods or services. Governments rarely create an asset which is to be sold in order to raise revenue, and are, in theory, primarily tasked with supplying necessary services that cannot be provided and financed privately. This includes, for example, a functional military to maintain national security. In some cases the government is better placed to provide certain services than the private sector. But in the framework of "government job creation", government suffers from both bureaucratic displacement (when unnecessary bureaucracy grows over time, and decreases the efficiency of the affected institution), and the fact that it is moving resources from where the market has determined them to be most efficient, to where the government has decided they would be better used. Government suffers most from bureaucratic displacement as government programs are not held to the same income constraints as private organizations. Government programs can afford to be inefficient as they are publicly funded and face no competition. Because government raises revenue by taking money out of the private economy, it necessarily imposes a tax cost on the very people that will also generate future government revenue.

By turning a potential private sector employee into a public one, the government has imposed a cost on itself (the wage it pays), while simultaneously eliminating the potential additional income of a private taxpayer.

As government job creation imposes costs on the private economy, these costs often take the form of lost jobs in the private sector. If, in creating government jobs, private jobs are lost, then "government job creation" is really just a transfer of jobs from the private to the public sector. Here is the sticking point: by turning a potential private employee into a public one, the government has imposed a cost on itself (the wage it pays), while simultaneously eliminating the potential additional income of a private taxpayer.

The issue is not just about losing existing jobs; it is also about not having created new jobs where the market has determined them to be most efficient.

This kind of approach to job creation is damaging to economic growth, damaging to taxpayers, and even damaging to government revenue. Indeed, when government increases the size of the public workforce, some private sector jobs that otherwise may have been created will not be created. The issue is not just about losing existing jobs, which is bad enough. It is also about not having created new jobs where the market has determined them to be most efficient. We cannot know what jobs, innovations, and businesses will not be created because of this distortion in the private market.

In addition, we are often told that this approach is to be temporary and is intended to relieve the effects of a recession. It is worth remembering Milton Friedman's words: "Nothing is so permanent as a temporary government program." But even if the program is truly temporary, there would be a cost over and above that of bureaucratic displacement and government inefficiency, as the new government job may now have to be financed through debt. This spending would result in a long-term cost for government, to be paid over time and into the future. Such a situation makes it even harder for the economy to grow, as future growth has been spent in an attempt to avert present short-term pain. It is essential that we not spend the prosperity of the future to dull the economic pains of the present. After all, recessions happen because parts of the economy need to restructure, and that process of restructuring is not something we should spend our future growth hindering.

Brennan Sorge is a grade 10 student at the Discovery Centre for Balanced Education in Sun Peaks. Having taken an interest in politics, and economic policy, he hopes to earn a degree in economics as well as law, and then continue into the political arena