

Does Keynesian Government “Job Creation” Help an Economy?

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Absolutely NOT! There may be a VERY short-term *perceived* job creation effect. Unfortunately, the concept of government “creating jobs” actually accomplishes just the opposite. Worse yet, it leads people to believe the immediate burst of job creation moves us in a positive direction for the economy, and they can relax and not change their imbalanced spending/saving behavior. In reality, government efforts in “creating jobs” ensure a TRIPLE WHAMMY of unintended consequences!

Let’s view the “Real Economy” in a model island context. Imagine an island with 11 people including three distinct groups:

1. **Government** employees or contractors engaged in delivering services, performing maintenance, or rebuilding or replacing government common goods (e.g. roads, bridges).
2. **Production** of consumption and investment goods and services
3. **Non-Workers** (unemployed, retired, or ill/disabled)

The Setting:

ALL people on the island consume all goods and services produced by the “Production” group. Hence, in the first illustration below 4 people support 11. The island has risen to this level of productivity and consumption over many generations and is enjoying economically balanced and contented lives. There are no government budget deficits or financial bubbles. The groups are as follows:

Government composed of:

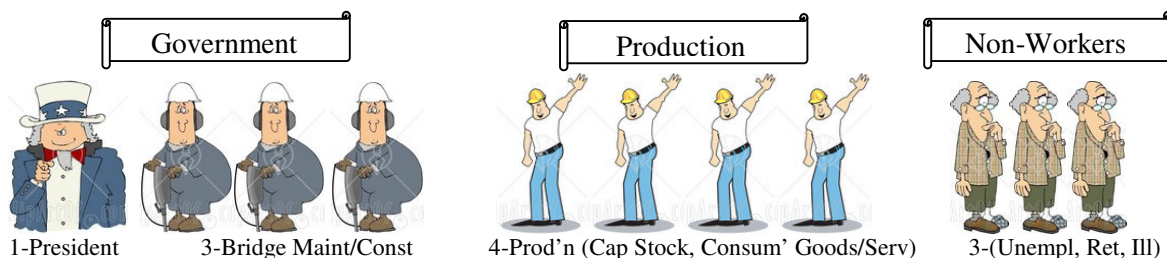
- 1-President (Popular, inspirational, & produces nothing)
- 3-Government contractors rebuilding and maintaining Bridges & Pathways

Production composed of:

- 4-workers producing Capital Stock (e.g. equipment), Consumption Goods & Services

Non-Workers composed of:

- 1-Unemployed looking for a Job
- 1-Retired enjoying government and investment benefits
- 1-Ill or disabled; unable to work supported by government and investment benefits



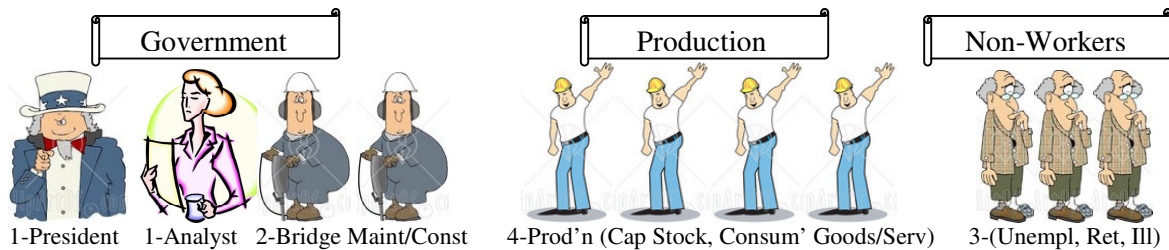
Assumptions:

- Humans ultimately seek “Real Wealth” (Goods, Services, and Human Capital) within an economic context. (i.e. NOT debt securities or fiat currency)
- “Real Wealth” can ONLY be created by work.

- Inventory of “Real Wealth” is maintained in a “Just-In-Time” environment.
- Once labor has “worked”, that time spent can NEVER be recovered.
- The “Real Tax” is the direct or indirect allocation of private labor and natural resources to a government purpose. In the example above, let’s say approx. half of the Production output (from half of the labor expended) is “taxed” and transferred to all 4 in government and half of the Non-Workers who receive government benefits.
- An “evenly rotating economy” exists where the population size, age profile, cognitive ability, and etc., remain constant.

FIRST:

The President was elected on the promise of creating a new Department of Education and Energy that will study the efficiency and performance of those activities on the island. He promised there would be NO TAX INCREASE as a result of the new “EnerCation” Department. Resources would come from the bridge and road maintenance crew, which was quietly performing satisfactorily at election time.

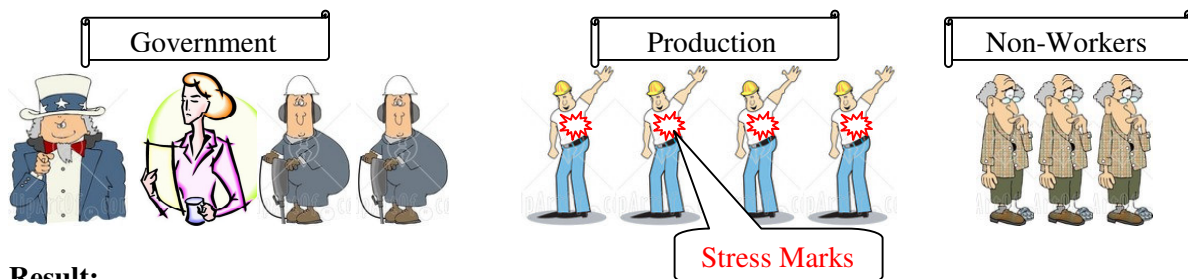


Result:

Education and energy analyses are completed. The bridges and roads deteriorate and begin to irritate the island inhabitants.

SECOND:

A supply shock of water in the form of drought occurs. Water is a critical commodity to the islanders upon which all are directly or indirectly dependent. Less water with the same labor spent results in lower Production Output, hence, less consumption for all on the island. The Production entrepreneur and his group are stressed from adjusting to the shock because income and pay were reduced.

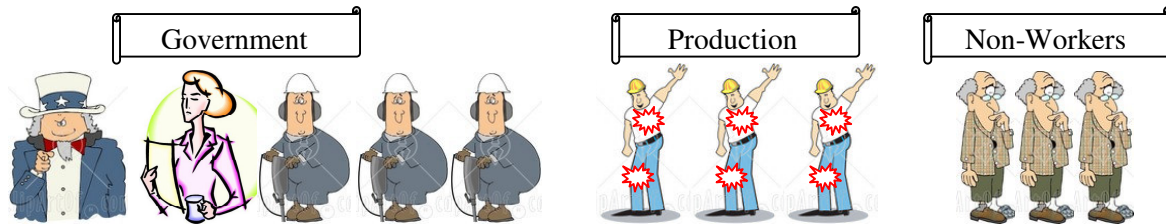


Result:

Production and consumption are down. All islanders are consuming less. Stress is high. **CHANGE** is in order.

THIRD:

A new President is elected on the promise of CHANGE. A *new job* would be “**created**” to catch up on the road and bridge disrepair. “Tax Cuts?” would be implemented to spur consumption.

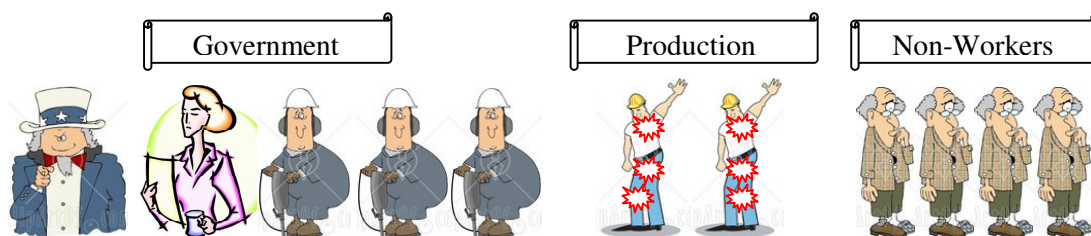


Results (*The “Triple Whammy”*):

- The “New Job Created” and filled by an existing Production worker (the Unemployed person did not have the necessary skill sets) now increases the Government crew to 5, and reduces the Production crew to 3 (*1st whammy; fewer people producing*).
- People have been led to believe new jobs have actually been created, because the “new jobs” are visible, and any Production jobs lost are blamed upon the opposing political party due to their past inept policies.
- The smaller Production crew of 3 now has to support the 11 inhabitants on the island (*2nd whammy; more people to support who are not in Production*).
- The smaller Production crew must also supply the added government employee with a shovel, road grader, and fuel (*3rd whammy*).
- The Production crew stress is elevated further.
- The President assured the islanders there was “No Tax Increase” to “create” the job because he was able to sell Treasury bonds or print new money. However, the “Real Tax” has increased significantly per Production worker from half to more than two-thirds of their Output! All on the island are living on less consumption and confused!

FINALLY:

Talk of recession and depression are common. The newly issued Treasury bonds and printed money are restricting the credit availability and buying power of all island inhabitants. Hence, demand for goods and services slacken. The Production crew becomes unprofitable and must **lay off an employee** to remain solvent.



Results:

- The now smaller crew of 2 now has to support the 11 inhabitants on the island.
- The Production crew is now in stress overload!
- A self-perpetuating downward spiral is now in motion
- Economic Depression
- Blame is fixed upon the *greedy entrepreneur* who reduced his work force attempting to remain solvent.

CONCLUSION:

The Keynesian concept of government “jump starting” the economy by the “creation” of “new” jobs to perform “needed & neglected” tasks is precisely the opposite of what must be carried out to enable the entrepreneurs and their production crews to regain strength and ultimately empower them to support the additional government common goods needs such as bridge rebuilding and road repair. It is the equivalent of tasking a patient to finally clean up some old basement mess when he is fighting to recover from a major operation. The FIRST priority is to get the patient healthy!

To recover from depression the entrepreneurs and their businesses **MUST BECOME HEALTHY and PROFITABLE**. Governments must do **nothing** to attract labor away from its return to the “Production” businesses. Government’s efforts to “create” jobs or increase unemployment benefits are the “attractions” we must resist. Unfortunately, labor must generally be priced downward to enable unprofitable enterprises to normalize and return to a balanced investment/production ratio, and then pursue productivity improvements, which will legitimately enable real wage increases again. That is one of the prices we must pay to recover from the mess created by our Central Bank and government due to their destructive monetary and fiscal policies. Simultaneously, bubbles or illusions of wealth in all areas including stock markets, real estate, bonds, and commodities must correct before the markets can function rationally and allocate resources to legitimate businesses.

Finally, recognize that recessions are expected and healthy to cleanse and correct excessive speculation, malinvestment, and supply or demand shocks. Imbalances of malinvestment and asset overvaluation are exacerbated by government intervention attempting to prevent recession.

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