The Burden of Federal Spending

These days, the federal government spends a lot of your money. Around the turn of the 20^{th} century, the highest level of American government spent about $125 per person, in current dollars. They now spend roughly that much per week. And the federal government has grown relative to other levels of government as well; in 1900, federal spending as a percentage of all public expenditure was just 35%, compared to 55% currently.

Given its sheer magnitude—over two and a half *trillion* dollars—the possibility for federal spending having a tangible economic impact seems extremely likely. The key is realizing exactly how harmful additional federal spending really is.

Many economists would agree that, at certain levels, government spending could have a positive effect on an economy. Government operations, after all, are not costless. Defending and protecting property is an important role given to the American government, as is providing a fair and impartial judicial system and national defense. This isn't to say that market-based innovations couldn't improve upon the provision of these traditional public goods, but if we were to imagine that the public sector could provide these goods effectively (and that may take a vivid imagination), then an extremely limited public sector could conceivably assist a thriving economy.

Problems arise, however, when the public sector extends beyond this limited role. The federal government massively oversteps these boundaries and provides a whole host of programs and services that restrict the ability of the economy to generate wealth. The Congressional Pig Book, put out annually by Citizens Against Government Waste, is a humorous-if-depressing look at this aspect of the legislative process. For example, the federal government shoveled nearly $200,000 into West Virginia for mussel recovery. I'm not sure that the founders had "mussel overseer" in mind as a role of government in 1787. As the government further infiltrates our economy, a host of bad scenarios develop.

Immediately apparent is the ability of federal spending to crowd out private sector activity. Consider the United States Postal Service, in the news recently for adding a penny to the cost of send a first-class letter. The Post Office has a monopoly on being able to deliver first-class mail; no other company can legally perform this function. However, should the Post Office halt operations tomorrow, it would not be difficult for a slate of companies—UPS, FedEx and the like—to immediately begin to provide this service. It is the existence of the Post Office that prevents the private sector competition within this market; given the ability of the public sector to centrally provide goods and services, there are gains from competition to be had that every single American can not realize due to an overbearing government. It is difficult to imagine the potential gains from privatization since we have all lived our lives with the United States Postal Service—but so too was it difficult to imagine exactly the immense gains from deregulating the airline industry in the 1970s.

As companies are crowded out via federal spending or regulation, entrepreneurs must find ways to secure profitable opportunities for themselves. Within a capitalist economy, entrepreneurs provide goods and services that are of value to society and, by doing so, increase the well-being of every member of society. But when innovators operate in poor policy environments, activity shifts from "good" entrepreneurship to "bad" entrepreneurship. Instead of generating wealth for themselves by making others better off, individuals look to improve their position at the expense of others through uneven policies and legal takings—activities that reduce society's wealth. The bottom line is that individuals will act to improve themselves regardless of the policy environment in which they live; capitalism simply allows for self-interest to make society better off as well. Increased federal spending pushes us away from capitalism, and converts more "good" entrepreneurship into "bad" entrepreneurship.

As a percentage of per capita state income, West Virginia consistently receives some of the highest levels of federal spending in the U.S. In 2004, federal spending attributable to West Virginia was 30.6% of state income per capita, trailing only New Mexico at 33.2% and well above the national average of 19.7%. Predictably, West Virginia is plagued by much of the "bad" entrepreneurship that is inherent in high levels of government interaction within an economy—frivolous takings through the judicial system and political favoritism.

Yet, it is attracting more federal spending that oftentimes keeps U.S. Congressmen in office. In particular, Senator Byrd has made a living of directing federal funds away from other states and into West Virginia. Though impossible to accurately estimate, it is worth pondering: Exactly how much better off would West Virginia be if Robert Byrd had never taken office? Moreover, what if West Virginia voters rewarded economic growth instead of economic stagnation through ever-higher levels of federal spending?

Given the tradeoff between a larger federal presence in West Virginia and a stronger economy, it is something to consider the next time you head to the polls.

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