

[Matt Yglesias](#)

Dec 13th, 2010 at 11:29 am

[Production, Consumption, and Prosperity](#)



David Boaz at the Cato Institute [uncritically endorses](#) an extremely foolish [Steven Horwitz take](#) on consumption versus production in recession-fighting:

One of the most pernicious and widespread economic fallacies is the belief that consumption is the key to a healthy economy. We hear this idea all the time in the popular press and casual conversation, particularly during economic downturns. People say things like, “Well, if folks would just start buying things again, the economy would pick up” or “If we could only get more money in the hands of consumers, we’d get out of this recession.” This belief in the power of consumption is also what has guided

much of economic policy in the last couple of years, with its endless stream of stimulus packages.

This belief is an inheritance of misguided Keynesian thinking. **Production, not consumption, is the source of wealth. If we want a healthy economy, we need to create the conditions under which producers can get on with the process of creating wealth for others to consume, and under which households and firms can engage in the saving necessary to finance that production.**

I think people find this sort of logic compelling because it has the combination of sounding virtuous and tough-minded, but also aligns you politically with the interests of rich people and powerful business executives. It's a hard to beat combination.

But ask yourself, why does the focus on consumption become prominent during economic downturns? Well it's because in a modern economy downturns often occur absent any kind of negative shock to our productive capacity. It's possible for such shocks to occur. The US military reduced most of Japan's cities to rubble in 1944-45 precisely in order to cripple Japan's ability to produce things. Increasing Japanese prosperity over the next ten years was about re-creating that capacity. But the year 2008 wasn't in the distant past, we can remember what happened and didn't happen. No American cities were destroyed by nuclear weapons. No draught crippled our agriculture. People didn't suddenly forget job skills they'd had. What happened was a large negative shock to *demand* not an earthquake or a flood or a plague. I was there and so were you.

People talk about demand during downturns because in a downturn you have an unusually large number of unemployed people. That's people producing nothing who the year before were producing something. If there were more demand, they'd produce something.

Now if you look around the world, you can find lots of examples of countries with lower unemployment rates than the United States that are nonetheless poorer than the United States. How does that happen? That happens because when you're *not* in a downturn, the only way for a country to improve its living standards is to actually get better at producing stuff. When almost everyone who wants a job has one, the only way to get richer is for people to start being more productive. Productive capacity matters—a lot. But when lots of people who want jobs aren't doing hobs, you've got a different problem. A failure to mobilize the productive people you already have. In the scheme of things, that's a good problem to have since it's much easier to solve. But it's also a much more frustrating problem to solve precisely because there's no good reason it should be lingering like this.

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halfkidding Yesterday 11:42 AM

You know when Progressives can't find any answer to the problems of our political economy but more consumption, often wasteful, mindless, environmentally destructive and energy hogging conspicuous consumption of stuff, you know you have reached a dead end.

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DMonteith Yesterday 11:46 AM [in reply to halfkidding](#)

So the unemployed should just start making stuff that doesn't get consumed? Or not, because people who've been unemployed and impoverished for a long time are such great stewards of the environment, right?

1 person liked this.

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Stephen Eldridge Yesterday 12:22 PM [in reply to halfkidding](#)

Actually, the progressive solutions I hear to the current consumption deficit usually involve vast investment in green energy and more efficient infrastructure...