GLENWOOD SPRINGS
POST INDEPENDENT

Whiting column: Spending and its impacts on fiscal policy

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Last of two parts.

In the first part of this series, we discussed fiscal policy as an economic tool, and more specifically the use of tax rate component. Today we will examine the second tool: spending and its role for fiscal policy.

With expenditures of $3.76 trillion, the spending component of fiscal policy is dominated by federal spending. It is all-encompassing: products (office equipment, Air Force planes), services (national defense), people (governmental employees), research (grants), science (NASA), infrastructure (roads, buildings), human services (unemployment, welfare, food stamps) and anything else included in the budget.

Expansionary fiscal policy strategy would involve increased spending in any or all of the above categories. The one constant is spending. Any money budgeted is spent, not saved. If economic contraction was the goal, the expense side of the budget would be lowered with the consequent reduction in spending.

It should be remembered, however, that spending is spending regardless of who is doing it. The positive effect occurs whether it be the federal, state, county or city government; or an individual or business. All spending is of consequence, but the spending must occur in our country. Anytime money leaves the country, whether through buying a product of a foreign business, a foreign vacation or sending money to someone in a foreign country, our dollars are being generated here and spent there. Given the economic multiplier effect, each dollar leaving is actually $3-5.

If the goal is expansionary, fiscal policy would involve strategies designed to keep our dollars in and attract dollars from outside our country. Examples would be tariffs and quotas on imports, tax breaks on exports, taxes on or laws limiting money transfers outside the country, and travel or business restrictions on foreign countries (our previous policies regarding Cuba).

Fiscal policy isn't confined to the federal government. Encouraging someone to buy a car locally instead of out of town would be fiscal policy strategy for a community; promoting tourists from Nebraska would be a fiscal policy strategy for Colorado.

To be fair, some economists feel governmental spending is self-defeating as an economic strategy. Two reasons: 1. The taxes required to pay for the spending negatively affect the economy at a greater level than the boost the spending provides. 2. If governmental spending necessitates deficit spending, the interest cost incurred necessitates higher taxes and reduces future spending, both negating the economic boost. They are not judging the need for or value of the governmental spending, just its existence.

Ideally, regional fiscal and monetary policy would be most efficient. At any given moment, all regions of the country are not in the same place economically, whether one looks at unemployment rate, business startups and growth, business and individual income levels, housing costs, educational levels or any other economic criteria one may choose.

Not only do economic environments vary from state to state (Louisiana and New Mexico's nearly 7 percent unemployment versus Colorado's 2 percent) but within states (the Western Slope compared to the Front Range), as well as individual localities (Glenwood compared to Parachute, Fort Collins to La Junta or Pueblo). It would be best to tailor fiscal and monetary policy to meet individual situations, but this is politically difficult to legislate and more difficult to implement. Consequently, national policy dominates.

Fiscal and monetary policy can also be used to affect other economic components. Economic theory postulates that minimum wage can be raised through fiscal and monetary policy rather than legislation. If the economy grows to the point where unemployment is virtually zero, employers will not have a choice but to raise pay in order to attract employees, increasing the effective minimum wage. The effectiveness of this strategy is derailed if the workforce population is increasing at a rate not commensurate with births and deaths.

Fiscal policy can be used to reduce unemployment beyond that resulting from economic growth by increasing the distance between the effective minimum wage and unemployment benefits. Some economists argue that when the distance is small, there are those who would rather receive governmental benefits than work.

The FACT Checker and the Cato Institute both independently determined the total benefits an unemployed couple could receive from all sources. The average was $29,500 with a low of $17,000 (Mississippi) and high of $49,000 (Hawaii). For 11 states, the amount was higher than the salary of a first year teacher. If the benefits were reduced, more would be motivated to make the personally responsible decision to work.

Fiscal policy is composed of a variety of strategies within taxes and spending, which makes it very complex, as evidenced by the proposed budget's 1,665 pages. It is our personal responsibility to understand our economic system, its components, how they function and their intended effect if we are to function well within it and work to improve it.