**Banishing the Myth of Wasteful Government Spending:**

**The Capitalist Argument for Investment in the People**

I have lived much of my life not quite able to shirk the notion that it is the bane of government to spend too much, thus digging for itself a debt hole from which it can not climb out. The things trotted out as the most egregious cases of this kind of government waste were “social programs’, “entitlements”, and “welfare programs” for immigrants and for the needy. It was argued further that we should not invest in “undocumented aliens” at all because they had broken the law in coming to this country in the first place. According to this line of thinking, fiscal responsibility entails cutting back on all such wasteful expenditure in order to lower the national debt, focusing government spending on the military to keep the world peaceful and prosperous while doing what we can when necessary to stimulate the economy by cutting taxes on the wealthy. The argument for this was that the wealthy are the main job producers of the economy, so giving them tax breaks will leave them with more money to invest in the economy, thus creating more jobs.

This, roughly, jibes with the position known as “economic liberalism” in most of the rest of the world, but more commonly known as capitalist conservatism here in the U.S. This vision was the motivation behind much of our public policy from Eisenhower on, Democratic presidents included. It was the reason behind our massive efforts at welfare reform, our animosity toward immigrant services, most notably bilingual education, which was made illegal in some states, our rush to bail out businesses and banks in the wake of the Great Recession of 2008 while allowing large segments of the American people to flounder in bankruptcy and mortgage default, and our longstanding policy since the Clinton era of not allowing people to declare bankruptcy on their student loans.

While it is an undeniable fact that we do have an exponentially growing national debt, it is not hard to see, for anyone who wants to look, that the causes of that debt are not mainly any of the things listed above. Besides the major culprits: natural disasters - such as the recent pandemic - , over which we have but limited control, and war, for which to a larger extent we may be faulted on account of failed diplomacy; the real causes are unemployment, tax cuts, and other stimulus programs. This suggests that our response to our national debt growing out of control has been over the years unrealistic, if not bordering on insanity, since we have been responding mostly in ways that actually serve to increase the national debt.

Here I argue that the main problem with our economic vision has been our failure to see that the same capitalist principles counseling us in the private sector not to sit on our money but to invest it wisely and productively apply also to the public sector. The government runs up a greater and greater debt not by overspending, but by failing to invest wisely. In fact, it is government’s failure in its primary mandate to invest in its own people that leads to its own fiscal demise. Perhaps this sounds socialist, but it’s really quite more of a capitalist principle: whether in the private sector or the public sector, prosper by wise investment. Instead of just investing in the rich by cutting taxes and hoping that in so doing we will boost our economic production enough to offset the loss in tax revenues, which it usually does not do, we should be focusing our investment on the people at large, especially the poor, to boost our economy.

Why it may be more profitable to invest in the people at large and especially the poor than just to focus on tax break and incentives to the wealthy comes down in large part to analysis based on the distinction between *actual* investment and *desired*  investment. According to economist Michael Pettis, (“Does Cutting Taxes on the Wealthy Lead to Greater Growth?”, In: Carnegie Endowment for International Peace”, 2017, <https://carnegieendowment.org/chinafinancialmarkets/71359>):

“Actual investment, as its name implies, consists simply of the current investment level, that is, all the investment projects that are being funded. By contrast, desired investment consists of investment projects that have not been funded because capital is not available to fund them. The key here is the availability of funding, and whether or not savings are scarce. There are many potential projects in the world for which injections of investment capital would benefit these economies. This would raise productivity levels by more than the cost of funding such investment, in which case these projects would be wealth-creating and net positive ventures for these economies.”

Now, from a collective perspective, a developed country, such as ours, has by definition a higher ratio of active investment to desired investment, whereas poorer countries have a lower one. This means that in a developed country, putting more money into the pockets of would-be investors causes less growth, since there is much less of a residual of nonactive but desired investment. In contrast, *ceteris paribus, ­*investment in a less developed country would bring about more investment, since by definition, their residual of desired investment to actual is greater.

I say “*ceteris paribus”,* because in order for investment to happen, there must be a supply of potential entrepreneurs with the social capital to make it happen, given the funds. But people only gain social capital by being invested in. Since, as should be clear by now, we cannot rely on the private sector to accomplish this kind of social investment, it is incumbent on the public sector, that is, government, to do so, for its own good and the good of economic prosperity, and in so doing produce new entrepreneurs.

Dedicating ourselves more decidedly to this pathway rather than remain on the one we have been taking for so long would lead to a reduction of three of the main contributors to national debt: unemployment and tax cuts and incentives for the wealthy; thereby reducing poverty and bringing more workers and entrepreneurs into the economy.

Following this investment strategy in the world at large would lead to a kind of development that might justify the economic philosophy of globalism, which now, sadly, is mired in the contradiction of underdevelopment, a form of neo-colonialism, whether intended or not, in which less developed countries have their economic development stunted by being outcompeted by more developed countries in unprotected settings, making them more vulnerable even to political exploitation. Consider an island nation which following globalist principles opens up its food and water markets to international competition. Without the protection of tariffs, which are derided as anti-globalist, the local markets are liable to being outcompeted by larger countries with greater resources and less overhead per item. The result may be the collapse of the local food production economy, after which this island nation is over the barrel for the food it used to produce for itself. Moreover, its economy has become less diverse and more prone to recession or worse. Many countries like this end up depending largely on tourism, and may in fact do well enough that way until the next hurricane or tsunami hits.

As cases in point, some of us may be delighted at the offering of Fiji water in our markets without realizing that this enterprise has caused a water shortage in that country. In the meantime, many those who live in Brazil where the açai berry grows can no longer afford to have that item in their diet, while their children risk life and limb climbing the tall trees to harvest them for a profit their families never see.

In short, it should not only be the private sector that lives and dies by the principle of sound investment, but the public sector as well. The difference between the two lies in the fact that whereas investment in the private sector tends to be performance-oriented, focusing on the “winners”: enterprises ready to produce or already producing and seeking to grow; public sector investment needs to be enablement-oriented: creating the infrastructure and growing the entrepreneurialism that will keep the economy flourishing far into the future.

For those still living within the milieu of a past economic polemic based on the false choice between capitalism and socialism, it’s time finally to notice that no successful economy was ever just one or the other, and that if anything, the greatest socialist institution in human history resides in this country: the United States military. In fact, capitalism: economy in the private sector - and socialism: economy in the public sector, go hand in hand and the success of both depends on the same principle of sound investment. The return on investment in the private sector goes mainly to the entrepreneurs and we hope will trickle down to the rest of us. The return on investment in the public sector, on the other hand, goes straight back into the economy, with infrastructural costs being repaid many times over by its enablement of new commerce, while investment in new entrepreneurialism will yield new generations of entrepreneurs even without further investment.