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26. "Government must 'prime the pump' by stimulating demand through increased public spending."



Some urge that when the economy slows, and people are not spending or investing as much, government should step in with projects of its own to boost demand with public spending. In fact when government does this it destroys private sector jobs by taking away the resources which would have sustained them. Taxes are higher than they might otherwise be, leaving less to be invested in private business and to spend on its products.

Moreover, government uses those resources inefficiently. The administrative costs of sustaining each job are higher in the public sector, and the funds themselves are used less effectively. "Priming the pump" often means spending on infrastructure and civil engineering projects, all capital-intensive and less productive of jobs.

Even in labour-intensive areas, such as the public services, most of the extra money it puts in is swallowed up by increases in the public sector rate of inflation. It simply puts in more cash for public employees to bid for. This happened with the huge sums pumped into UK public services in the post-2000 budgets. All of the money was swallowed, but service improvements were not remotely commensurate with the enormous increases in spending. Indeed, some things became worse.

Private money goes where economic factors signal it should, but government cash follows political demands which are not as commercially viable or as sensible.

It takes a lot of money to sustain each public sector job. The private sector employs more people for the money. "Priming the pump" is a now discredited notion from Keynesian days. It creates a temporary and artificially high demand in certain sectors at the expense of others, followed thereafter by massive dislocation and unemployment when that artificial demand ceases. It tempts government to create artificial short-term 'booms' ahead of elections, with the consequences coming after they have been safely re-elected.

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