Keynesian Economics

vs.

Regular Economics

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Summary

Food stamps and other transfers aren’t necessarily bad ideas, but there’s no evidence they spur growth.

Food stamps

- Agriculture Secretary said recently that food stamps were an "economic stimulus" and that "every dollar of benefits generates $1.84 in the economy in terms of economic activity."
- What few know is that there is no meaningful theoretical or empirical support for the Keynesian position.

Regular economics

- Regular economics prediction: An expansion of transfers, such as food stamps, decreases employment and, hence, gross domestic product (GDP).
- The central ideas involve incentives as the drivers of economic activity.

Reducing the reward

- Additional transfers to people with earnings below designated levels motivate less work effort by reducing the reward from working.
- 某甲所得原為 2 萬元, 加班的話, 可上升至為 2.3 萬
- 政府宣布補貼, 所得 2 萬或以下者, 補貼 3000 元, 則某甲無誘因加班
- 「觀光紓困每名員工僅領 4 萬元」(紓困 4.0, 2021/6/3)

More taxes

- The financing of a transfer program requires more tax—today or in the future in the case of deficit financing
- Deficit financing: finance transfer by borrowing
- These added levies likely further reduce work effort

Trade-off

- Food stamps and other transfers are not necessarily bad ideas
- But there is a trade-off: Greater provision of social insurance and redistribution of income reduces the overall GDP pie.

Keynesian economics

- Keynesian economics argues that recipients of food stamps use their transfers to consume more
- The administration believes that the cumulative effect is a multiplier around two
- Government can improve things just by borrowing money and giving it to people?
- How can this be right?

The market failure

- Where was the market failure that allowed the government to improve things just by borrowing money and giving it to people?
- Keynes (1936) was not so good at explaining why this worked, and subsequent generations of Keynesian economists (including my own youthful efforts) have not been more successful.

Evidence

- There is *zero* evidence that deficit-financed transfers raise GDP and employment—not to mention evidence for a multiplier of two.