

## FISCAL DISCIPLINE = SPENDING RESTRAINT

December 11, 2002

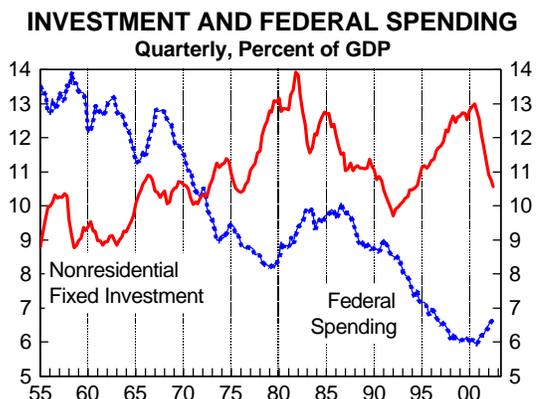
“More money spent in Washington means less money in the hands of American families and entrepreneurs, less money in the hands of risk-takers and job creators. And if the Congress won't show spending restraint, I intend to enforce spending restraint.”

President George W. Bush

The Federal government is responsible for providing its citizens with a finite set of essential services. Nonetheless, the temptation for government spending to grow infinitely in size and scope is ever-present. Fiscal discipline requires policymakers to keep Federal spending under control, to minimize the drain of resources from the private sector to the public sector.

Not only is spending restraint crucial for the fiscal health of the Federal government, but it is essential for the economic health of the nation as a whole.

- As the following chart shows, periods of high Federal spending on goods and services were, on balance, associated with periods of relatively lower private investment.
- This relationship is particularly keen for the last decade or so, when Federal spending declined as a share of the gross domestic product until about 2000 and then rose, while private investment did the opposite.
- This suggests that undisciplined Federal spending has a deleterious effect on private investment and the economy.



Limited Federal spending is the only true measure of fiscal discipline. As Milton Friedman, Nobel Laureate in economics teaches: “The whole of what government spends is extracted from the community’s resources, not solely that part financed by what are called taxes.” **A tax increase — regarded by many as the ultimate act of fiscal discipline — merely substitutes one method of extracting resources from the private sector for another.**

- Extracting resources from the private sector dampens private investment, and this translates into lower productivity and fewer jobs.

Taking money out of America’s hands and putting it into Washington’s is not fiscal discipline — and acting as if it were threatens the future of the nation’s economy.