You know governments need to cut their budgets when the [anarchists start protesting against budget cuts](http://www.bbc.co.uk/news/uk-12876705). After all, anarchism is [“a political philosophy which considers the state undesirable, unnecessary, and harmful, and instead promotes a stateless society, or anarchy”.](http://en.wikipedia.org/wiki/Anarchism) Those whose philosophy it is for the state to fail are protesting against government spending cuts. That should tell you something.

The [WSJ this morning](http://online.wsj.com/article/SB10001424052748703712504576232823900459098.html?mod=WSJ_Opinion_LEADTop) points out that advocates of liberal spending priorities in California are now even beginning to figure out that large, unfunded pension payments to unionized government employees threatens to take money from other public services.

When examining government spending there are three important things to look at. One is the gross amount as a percentage of GDP. The second is whether or not that spending is paid for. The third, equally important, is what is the government actually spending the money on?

As government spending as a percentage of GDP increases, government officials direct a larger share of our nation’s resources for ends that they choose by means which they approve. As you remove economic decision making from Hayek’s “man on the street”, and place it in the centralized hands of bureaucrats, you lose a huge amount of information and therefore efficiency. The more economic decisions the government makes relative to the private sector, the slower economic growth is over time. The Soviet Union didn’t collapse because communist party officials grew tired of telling others how to live; the Soviet Union collapsed because they ran out of money.

When government spending isn’t paid for as it happens, money has to be borrowed. This increased government borrowing crowds out private investment. When the US government borrows a dollar, it means that businesses large and small now have to fight for a smaller amount of loanable funds to expand their capital. This drives up interest rates and chokes off private investment. The reverse is also true. When the US ran massive budget surpluses following the US Civil War, private investment was crowded in. That is, people invested heavily in private capital and the industrial revolution took hold is a serious way in the US.

All too often fiscal hawks look only at the first two aspects of government spending and neglect the third. Keynes himself neglected the third as he proposed that fiscal stimulus could be generated by hiring 100 people to dig a ditch and hiring another 100 to fill it in. As a result, politicians often call for “across the board cuts” in government spending. The problem is that some government spending programs my increase economic efficiency while others decrease that efficiency. Cutting both “good” and “bad” (efficient and inefficient) government spending by equal percentages is intellectually infantile.

Governments play an important role in defining and enforcing property rights. Government expenditures for the military (when it plays defense), police, and courts are critical to a well functioning market economy. Governments can also improve economic growth by improving the infrastructure and human capital of its citizens. A better educated country will see their incomes rise faster than an economy whose citizens don’t have the skills demanded by the market. [Only 28% of Portugal’s adults have graduated from high school](http://online.wsj.com/article/SB10001424052748704076804576180522989644198.html?mod=ITP_pageone_0) and so they are the poorest (and one of the most indebted) countries in Western Europe.

The intellectually lazy still are prone to measure the value of educational spending or infrastructure spending in money spent rather than by output obtained. It isn’t the amount of money spent on education that determines whether it was worthwhile, but how it is spent. Are students better able to read, write, do math, and critically examine ideas than they were before, or are they worse off? Is the money going to pay pensions of retired teachers, to hire more bureaucrats, or is it actually put into the classroom?

Prevailing wage laws mean that governments get less actual infrastructure per dollar spent on infrastructure. Unionized teachers mean you have to pay more for worse teaching where it is nearly impossible to fire incompetent employees. Advocates of government programs who believe that spending on certain programs could help society have just as much reason to distrust public sector unions as do those who want government spending to fall. Diverting existing government spending to the hands of government employees (both current and retired) will come at the expense of that same money being spent on actual improvements.

The US economy would benefit if federal government spending would decrease in size, be paid for when it occurs, and be targeted to programs that actually increase human an physical capital in the economy. We are in need of all three reforms, not just one or two. Maybe someday we will elect adults to Congress who will engage in the needed reforms. Watching Congress work through a continuing budget resolution I fear that our current Congress has more in common with anarchists than with adults.