

Q7: “I don’t care whether government spending is to build and maintain new and efficient transportation and communication networks, to hire more teachers, or to increase payments to unemployed people. Increased government spending lowers the standard of living in the long run.”

This argument is stating that increased government spending will always lower the standard of living in the long run ($\uparrow G \Rightarrow \downarrow \frac{Y}{L}$ in LR).

Standard of living is determined by $\frac{Y}{L}$ (output per worker), which is dependent on capital (K), labor (L), and efficiency (E).

One explicit assumption this argument relies on is that it does not matter what the government spends this money on. This assumption is invalid. For example, if this the government is increasing financial investments towards education, this is a condition under which the premise is true ($\uparrow G$) but the conclusion is false (standard of living would increase, not decrease, in the long run). Therefore the argument would be false.

If the government increases spending and this spending is dedicated towards education, then in the long run the standard of living will rise in America. An increase in education would give workers new or better skills, which could raise efficiency (E) in the long run. In addition, investing in education will lead to new ideas and inventions which speed up the development of technology, therefore also increasing efficiency. Economic growth relies heavily on increases in efficiency.

Education is a powerful booster of economic growth. This is supported by empirical evidence. In the twentieth century, the United States led globally in technological development; one primary reason was the US’s commitment to education -- even in rural parts of America, a high school diploma became an expected achievement rather than an exception. In addition, Figure 5.10 in the textbook shows that countries with a higher number of average years of schooling are correlated with an overall higher output per worker. Therefore, this argument should take into consideration where the increased government spending is going towards.

Works Cited

DeLong, Bradford J., and Martha L Olney. *Macroeconomics*. 2nd ed., McGraw-Hill, Inc., 2006.