Is Increased Consumer Spending Good for the Economy?
By Patrick Barron

Just about every so-called business periodical touts an increase in consumer spending as "good for the economy". But is this really so? Can we really spend our way out of a recession? Lord Keynes thought so, and his teachings have become the standard narrative just about everywhere in the world.

Probably the most influential economic treatise of all time is Keynes' *General Theory of Employment, Interest and Money*, published in 1936 at the height of the Great Depression. Keynes theorized that the Great Depression was caused by insufficient aggregate demand, otherwise known as spending. A complementary concept is the Paradox of Savings, which theorized that savings is harmful because it causes aggregate demand to fall. Keynes (and others) preached that, although increased savings by an individual may be beneficial, a general increase in savings by most market participants would cause the economy to fall into a deflationary spiral.

The fallacy of the paradox of savings has had many excellent rebuttals. The fundamental problem is that it treats "the economy" as something separate from what each individual experiences for himself. An "economy" is a mental construct; it doesn't exist apart from its billions of individual components. For an excellent debunking of Keynes and his new economics, I suggest Where Keynes Went Wrong, by Hunter Lewis.

Nevertheless, the Keynesian concept of aggregate demand combined with the paradox of savings is fully imbedded in the minds of most economists, financial reporters, and especially government functionaries because it liberated them from their status as a necessary parasite on the economy whose functions were protecting our life, liberty, and property. These necessary functions had to be funded in the most economical way. Now these functionaries' status has been flip-flopped to that of necessary driver of the economy through spending. This was a Godsend to government which has allowed it to confiscate the wealth of the nation, all in the supposed "greater good".

The favorite metric of the acolytes of the Keynesian concept of aggregate demand is Gross Domestic Product (GDP). According to Keynesian theory anything that increases GDP is good. It is represented by the formula C+I+G=GDP, whose components are **C**onsumer spending, plus business **I**nvestment, plus **G**overnment spending. My first essay accepted by the Mises Institute as suitable as a Daily Article was C+I+G=Baloney. I viewed GDP as baloney in 2010 and I view it as baloney today! Therefore, please be skeptical of any report that tries to convince you that all is well in the economy because, **Ta-Da!**, GDP has gone up. It is a fallacious metric that equates spending with economic progress.