The effect of government spending on jobs
Can government spending increase employment? The answers to these questions would all need to be known before you could tell:

- Will higher government spending lead to more overall spending?
- first basic question: Where does the government get the money for the increased spending? Does it come from taxing, borrowing, or printing?
- I: If the government gets the money from taxes, will less spending by taxpayers offset some or all of the higher government spending? Two effects:
  - IA: Will less disposable income mean less spending by taxpayers?
  - IB: Will investment and work decisions be affected by higher tax rates?
    - IB1: what is the effect of tax rates on work effort (particularly for two-earner families)?
    - IB2: what is the effect on the expected rate of return on investments and how will that effect the level of investment?
    - IB3: will raising taxes lead to a perception that future tax rates are less predictable, thereby increasing the perceived risk of investment decisions?
    - IB4: will tax rates have an effect on tax avoidance and tax sheltering behavior?
- II: If the government borrows the money, how will that borrowing affect other borrowing?
  - IIA: Will government borrowing increase interest rates, decreasing the amount borrowed and spent by other potential borrowers?
  - IIB: Will higher government borrowing increase interest rates, leading to more saving and less private spending, offsetting the government spending?
  - IIC: How does government borrowing today constrain government decisions tomorrow?
– IID: Does the money saved in the Social Security trust fund count as real savings?
– IIE: How much is borrowed from other countries? How will that affect exchange rates and trade balances?
– IIF: Will we eventually hit the ultimate borrowing limit where there are no more willing lenders?

• III. What is the effect of printing money to pay for government spending?
  – IIIA. If the government prints a lot of money, will it be hoarded, or will it increase the money in circulation?
  – IIIB. Will an increase in the money supply lead to more wealth being held, or more being spent?
  – IIIC. If more wealth is held, will it be held in the form of money or in another form?

• second basic question: Will increasing spending increase production and employment, or will it increase prices?
  – I. Where will new spending go?
  – IA: Is there extra capacity at factories and other production facilities?
  – IB: If there is extra capacity, are there unemployed workers?
  – IC: Will more total spending lead to more employment?