Government: No Costs, All Benefits

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Government has no costs — only benefits — according to several professors in economics at the University of Missouri–Kansas City, which is well known for its heterodox (i.e., usually very anti-market) economics department, [writing at The Huffington Post]() about deficit "myths." I hesitate to actually use the label "economist" to describe any of these people, because they do not seem to accept the very basic economic concept of [opportunity cost]() — at least not when it comes to government spending. (For what it's worth, I hold no degree in economics, and do not claim to be an economist myself, but I at least like to think that I understand the basics of the subject.)

Opportunity cost is what a person or group gives up when they choose between two or more alternatives. This may be a strong limitation on the actions of mere mortals, but these UMKC professors imply that the government is capable of magic that can free us from the burden of trade-offs. There are enough fallacies and half-truths in the article that it would take a whole book to respond in full ([a book]() that someone actually wrote more than 60 years ago), so I will confine myself to some of the more glaring ones.

Arguing that there is no fiscal crisis in Social Security and Medicare, UMKC Associate Professor Stephanie Kelton writes:

> the government's ability to pay benefits does not in any way depend on the balance in the Social Security or Medicare Trust Funds. Benefit checks come

> directly from the Treasury, and, as Alan Greenspan has admitted, "[A] government cannot become insolvent with respect to obligations in its own currency."

There is definitely some truth here; Social Security and Medicare are both paid out of general revenues, which is going to be even more necessary now that [Social Security is itself running a deficit]. Kelton tries to claim that we face no "tough choices" with these programs, but if no cuts are made to Medicare or Social Security, we will have to cut spending on other government programs, raise taxes, increase the deficit, or (as Kelton alludes with the Greenspan quote) trigger substantial inflation. I admit that I don't know exactly what Kelton means by a "tough choice," but none of those options are politically popular, so they all seem pretty tough to me.

Next, Professor Randall Wray takes a shot at showing that current deficits won't get passed on to the next generation because government debt is really just an accounting trick:

> There are about 13 trillion dollars in Treasury securities at the Fed. Collectively, these savings accounts are known as the national debt. The national debt represents a portion of the combined savings of US residents, corporations, banks, and foreign governments. And most folks probably don't know that when a person buys them, the Fed simply transfers the dollars from her checking account to a savings account at the Fed called a "Treasury security."
>
> Tens of billions of dollars of these Treasury securities come due every week. When that happens, the Fed pays off that "debt" simply by transferring the dollars, plus interest, out of these savings accounts and back to the holders' checking accounts.
>
> In the future, when our grandkids make payments on Treasury securities, they will simply credit accounts at the Fed-just as we do today, and as our grandparents did before us. It is a simple matter of data entry, and not a financial burden.

Again, this has some truth to it, but what Wray does not discuss is that running deficits of upwards of 10 percent of GDP will eventually cause the interest rate the government pays on those bonds to skyrocket. Take a look at the second graph in [this article], which shows the Congressional Budget Office's projection of costs for Medicare, Social Security, and interest on the debt. Unless we rein in deficits, by the early 2030s we will be paying 5 percent of our GDP just for the privilege of borrowing more, and the number only rises from there. Furthermore, government debt is not merely an accounting trick. Those dollars command real resources in the economy, and when the government spends those dollars, there are fewer resources for private use. If the debt continues to grow, we will have to devote more resources every year to paying off those loans, which again entails either higher taxes, decreased government spending on other items, inflation, or some combination thereof.

Although the first two examples are bad enough, I have saved the worst for last (there are plenty of other absurdities in the article, but this post is long enough as it is). After giving us the single most asinine sentence in the article ("Taxes, then, are what give value to money."), doctoral candidate Yeva Nersisyan gives a full-throated defense to the government-as-magic view of the world:

> Any and all financial constraints on government spending such as issuing government bonds dollar for dollar against deficit spending, debt ceilings, and restrictions on the Fed's ability to buy treasury securities are purely political and necessarily self imposed, because they are imposed on us by our chosen institutional arrangements and not by something inherent in our economic system.

No doubt that in purely dollar terms the government can spend as much as it wants. It could print us all checks for a million-kajillion dollars if it so pleased, but it still operates within a world with real constraints. There are only so many resources available in the country at any given time, and it is impossible for the government to create more out of thin air. Any attempt by the government to raise more revenue through taxation or inflation will be met at the margin with more and greater attempts by individuals and businesses to avoid those taxes and hedge against rising prices. In short, government cannot mandate prosperity.

I'm sure it's comforting to believe that there is some omnipotent organization that can solve all our problems for us, but that is a childish view of the world, and as adults we must put away childish things.

About the Author

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John Payne is a native of Poplar Bluff.

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