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A Refutation of Mosler Economics and Mosler's 7DIF, Part IV

The following is Part IV in a seven part series, "A Refutation of Mosler Economics and Mosler's 7DIF", which seeks to critically examine the fiscal and monetary policy solutions offered by Warren Mosler [PDF], a former candidate for the US Senate in Connecticut in the 2010 election.

Warren Mosler:

> Deadly Innocent Fraud #4:
> Social Security is broken.
> Fact:
> Federal Government Checks Don't Bounce.

Here's how he fleshes it out a bit.

Mosler:

> As we've already discussed, the government never has or doesn't have any of its own money. It spends by changing numbers in our bank accounts. This includes Social Security. There is no operational constraint on the government's ability to meet all Social Security payments in a timely manner. It doesn't matter what the numbers are in the Social Security Trust Fund account, because the trust fund is nothing more than record-keeping, as are all accounts at the Fed. When it comes time to make Social Security payments, all the government has to do is change numbers up in the beneficiary's accounts, and then change numbers down in the trust fund accounts to keep track of what it did. If the trust fund number goes negative, so be it. That just reflects the numbers that are changed up as payments to beneficiaries are made.

So far, just an "operational" description of the mechanics of government accounting. Nothing controversial.

Ludwig von Mises: "Understan always based on incomplete knowledge." - Human Action

Mosler explains the "functional similarity" between Social Security and buying government bonds.

Mosler:

> To understand what's fundamentally wrong at the macro (big picture, top down) level, you first have to understand that participating in Social Security is functionally the same as buying a government bond. Let me explain. With the current Social Security program, you give the government your dollars now, and it gives you back dollars later. This is exactly what happens when you buy a government bond (or put your money in a savings account). You give the government your dollars now and you get dollars back later plus any interest. Yes, one might turn out to be a better investment and give you a higher return, but apart from the rate of return, they are very much the same. (Now that you know this, you are way ahead of Congress, by the way.)

A technicality to take note of-- whereas in his previous discussions of the market for government debt Mosler manages to twist out an explanation that such exchanges are "voluntary" because the buyers and sellers of government debt are not being forced to make these exchanges, this condition no longer holds true when considering Social Security. This is an exchange which is entirely involuntary. Individuals are forced to contribute to Social Security via payroll taxes.

The "function" might be the same (government takes money now and gives money back later) but the motivation for such an exchange is different (force, versus voluntary decision-making).

Mosler then explains the errors of a particular Social Security privatization scheme advanced by Stephen Moore of the Cato Institute:

> And it gets worse! The 'intergenerational' story continues something like this: "The problem is that 30 years from now there will be a lot more retired people and proportionately fewer workers (which is true), and the Social Security trust fund will run out of money (as if a number in a trust fund is an actual constraint on the government's ability to spend…silly, but they believe it). So to solve the problem, we need to figure out a way to be able to provide seniors with enough money to pay for the goods and services they will need." With this last statement it all goes bad. They assume that the real problem of fewer workers and more retirees, which is also known as the "dependency ratio," can be solved by making sure the retirees have sufficient funds to buy what they need.
> Let's look at it this way: 50 years from now when there is one person left working and 300 million retired people (I exaggerate to make the point), that guy is going to be pretty busy since he'll have to grow all the food, build and maintain all the buildings, do the laundry, take care of all medical needs, produce the TV shows, etc. etc. etc. What we need to do is make sure that those 300 million retired people have the funds to pay him??? I don't think so! This problem obviously isn't about money.
> What we need to do is make sure that the one guy working is smart enough and productive enough and has enough capital goods and software to be able to get it all done, or else those retirees are in serious trouble, no matter how much money they might have. So the real problem is, if the remaining workers aren't sufficiently productive, there will be a general shortage of goods and services. More "money to spend" will only drive up prices and not somehow create more goods and services. The mainstream story deteriorates further as it continues: "Therefore, government needs to cut spending or

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> increase taxes today, to accumulate the funds for tomorrow's expenditures." By now I trust you know this is ridiculous and evident that the deadly innocent frauds are hard at work to undermine our well-being and the next generation's standard of living as well.

Mosler then admits that the Social Security problem is fundamentally one of allocating scarce resources:

> Should our policy makers ever actually get a handle on how the monetary system functions, they would realize that the issue is social equity, and possibly inflation, but never government solvency. They would realize that if they want seniors to have more income at any time, it's a simple matter of raising benefits, and that the real question is, what level of real resource consumption do we want to provide for our seniors? How much food do we want to allocate to them? How much housing? Clothing? Electricity? Gasoline? Medical services? These are the real issues, and yes, giving seniors more of those goods and services means less for us. The amount of goods and services we allocate to seniors is the real cost to us, not the actual payments, which are nothing more than numbers in bank accounts.

Mosler's solution? Education:

> And if our leaders were concerned about the future, they would support the types of education they thought would be most valuable for that purpose.

This is another example of Mosler relying on an unstated economic theory, whose premise is that higher spending on education by government necessarily translates into higher future productivity and therefore a more prosperous economic future for everybody compared to what it otherwise might be. He presents his conclusions based off of this unstated economic theory as if they are obvious simply from observing the problems of resource allocation related to Social Security, without notifying his readers that he is in fact employing a particular theory which is not offered for consideration and scrutiny.

As Mosler correctly identifies, the "problem" of Social Security is the allocation of scarce resources and the future production thereof, and this problem can not be solved by the issuance of new money (even though this seems hypocritical because in some of Mosler's other proposals he insists that the issuance of new money can be a catalyst to drive individuals to produce more than they otherwise would). However, he is wrong to assume that inadequate government spending on education now is the root problem of future scarcity.

The government's decision to spend more or less on "education" or to spend money on this type of education versus that type, does not offer any guarantee that the total costs of such decisions now will be more than made up for by the total benefits of future productivity gains. The government faces two problems in making its spending decisions, neither of which it has any way to overcome:

1.) The government has no method of predicting what pattern of production will be voluntarily preferred by consumers in the future, leaving it with no information as to what type or level of education spending it should commit to now in support of those future patterns
2.) The government, once committed to a decision to spend a particular amount on a particular type of education, has no way to calculate if the results of its decision were successful, ie, resulted in a net benefit (benefits accrued greater than costs incurred). The government does not operate according to entrepreneurial profit and loss and it has no DIRECT market prices to rely upon for any of its decision-making.

For example, the government may choose to pay a teacher $40,000 per year, and it may come to this decision by trying to examine the pay for "comparable" work (say, an accountant's annual salary, or a store manager's annual salary, which, for whatever reason, the government may determine to

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be "comparable"). But this doesn't represent an actual, market price for what a teacher's labor is "worth" annually because it was not a price arrived at through the voluntary buying and selling of the market. It doesn't represent any meaningful price signal about actual economic scarcity related to private supply and demand.

Furthermore, the government has no way to judge if it generates a "return" of greater than or equal to $40,000 worth of benefits from the expenditure on the teacher's salary. The government may try to simulate a "social return" statistic by looking at rates of graduation, rates of college attendance, rates of crime, rates of poverty, rates of health and wellness or rates of business creation or even economic expansion, etc., but none of these things represent a monetary rate of return that can be used for economic comparison via a common denominator.

All the government can do is guess. They just have to have faith in the righteousness of their own decision-making. Mosler has to do the same. This is not an economic theory but a political theory and it rests not on any economic truth but on the force of the opinion of Warren Mosler and anyone else who advocates such measures.

It's an opinion masquerading as a fact. It's a fraud.

Posted by Taylor Conant at 11:52 AM
Labels: calculating socialists, fallacies, fiscal policy, Galbraith, monetary policy, Mosler Economics, pseudo-economists, real prices, socialism, Warren Mosler

2 comments:

Anonymous said...

Education spending is actually negatively correlated with educational results. The most expensive school districts are always the most run down, inner city ones.

November 28, 2010 1:00 PM

Taylor Conant said...

Hi Anon,

You have missed the point. This isn't about statistical or empirical correlations. It is about economic calculation, which the government is unable to do because it is not a voluntary market participant making decisions about its own, voluntarily-produced resources.

It steals (taxes) things from the rightful owners/producers and then tries to guess at what might be the best use of those resources according to the opinions of the people who control the government at the time. And that's generously interpreting the "calculation" methodology of government and not questioning the sincerity of it. There are some who question whether government agents are always concerned with doing right for the "community" versus making decisions about the allocation of resources in ways that will personally enrich themselves or their associates.

November 28, 2010 1:11 PM

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