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RAHN: Wasting taxpayers' money is silly

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Assume you had just won $100 million in a lottery, but it came with a catch. You were required to spend (not save or invest) the entire $100 million on goods or services in just six months. Now assume you won the same $100 million but had two years to spend all of the money. Do you think your spending decisions would be wiser if you had two years to make them rather than six months?

Only about a third of the "stimulus" money voted last year has been paid out, despite all of the rhetoric about "shovel-ready projects" - and that is a good thing. The reason is simple, as in your own personal case; if you are forced to spend money quickly, you are less likely to spend it well. The Obama administration put huge pressure on government bureaucrats to spend the stimulus money rapidly, but spending - particularly responsible spending - is a hard thing to do. Many in the media and the political class have been very critical of the administration for not spending the money faster. We should be glad it has been slow - and in the ideal world, slower yet - or better, not at all.

In the real world, as contrasted with the fantasy world of Washington, most of the stimulus spending costs jobs rather than creates them. Remember that every stimulus dollar spent has to be collected in taxes now or in the future, including the inflation tax. There is a large, nonproductive cost in collecting the tax, including the disincentive effects on those who pay it; and there is a large, nonproductive cost to pay for those who devise and oversee the government spending programs.

Stimulus money was used to pay some researcher $28,900 to study how methamphetamine affects the sex lives of rats. You may laugh, but remember it is not the government, but taxpayers with individual names who end up paying for everything. Tax payments go into the common pot, but when government spends from that common pot, it is the contributions of specific taxpayers that makes the spending possible.

Assume that the tax-collection costs and the government administration costs for the rat-sex study are an additional $11,000 (there are many studies that show the tax-and-spending administration costs to be much higher for every dollar of revenue raised). The study and administrative costs together represent a $39,900 hit to the American economy. Do we have any reason to believe that the taxpaying American family that now has $28,900 less to spend for its necessities and even luxuries will spend that money less wisely than the rat-sex researcher? Well, no, but we do know that the family has lost a degree of freedom about how to spend its hard-earned money to some government bureaucrat.

Somewhere there is a small business that paid about $250,000 in tax to the government last year. Because it had to pay the tax, it was not able to hire as many productive workers - perhaps research-and-development workers for a new medical device that would save lives. This money instead became part of the stimulus spending - precisely $219,000 "to study the sex lives of college freshmen to find out if college girls are more likely to have sex after drinking alcohol." Odd, I was under the impression that many guys in college have been running this same experiment for generations - at no cost to the taxpayers.

Despite the president's silly (and totally unsupportable) rhetoric about jobs being saved, the fact is that the U.S. economy has continued to lose private-sector jobs since the passage of the stimulus spending package. What if that same $780 billion had been used for tax cuts for businesses and individuals - do you think more or fewer jobs would have been created? (The answer is so obvious that even most - but not all - economists can get it right.)

The president announced last week that he was creating a "bipartisan" commission to study how to get the federal deficit under control. There is a very bright, clear-thinking young congressman from Wisconsin by the name of Paul Ryan who already has done this in a most thoughtful, realistic and responsible manner. Mr. Ryan calls his proposal "the Roadmap," and the entire hundred-page proposal may be found on his office Web site (http://www.roadmap .republicans.budget.house.gov).

The nonpartisan Congressional Budget Office (CBO) has just completed an analysis of Mr. Ryan's proposal (check www.CBO.gov). In part, the CBO concluded in its report to him: "Under the proposal, federal outlays excluding interest (so-called primary spending) would decline, from 26 percent of [gross domestic product] in 2009 to 19 percent in 2020, 16 percent in 2060, and 14 percent in 2080. Revenues under the Roadmap would initially correspond to revenues under the alternative fiscal scenario [i.e., current law] and then remain at 19 percent of GDP after 2030. ... The lower budget deficits under your proposal would result in much less federal debt than under the alternative fiscal scenario and thereby a much more favorable macroeconomic outlook."

The Ryan Roadmap involves tough love but would leave virtually every American in a much better financial position over the long run. The president referred to Mr. Ryan as a "sincere guy" and to his proposal as "serious," but after that, the administration and its allies started attacking it without offering any alternative. Mr. Ryan has a solid grasp of economics and politics and a small but talented staff. If he can put together a sound and politically doable fiscal plan without tax-rate increases, why can't the administration do so with its millions of employees?

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