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What Have the Politicians Given Us?

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So far Occupy Wall Street and its imitators across the country have directed their rage at Wall Street and the rich in general. But they would be better served if they aimed their criticism at the true authors of this country's problems: the politicians in Washington.

Obviously there are unscrupulous businessmen, and some on Wall Street behaved unethically, if not dishonestly taking advantage of lax oversight and bailouts to make fortunes while the rest of the economy suffered. But, if you look at the one percent that OWS is denouncing, most of them got rich by giving us things that makes us better off, or at least things that we want. Of the top one percent of earners, roughly a third are entrepreneurs or managers of nonfinancial businesses. Nearly 16 percent are doctors or other medical professionals. Lawyers, engineers, scientists, and computer professionals make up another 15 percent. In fact, fewer than 14 percent are involved in the financial industry at all. And even those much reviled bankers provide valuable services, including generating the capital that enables businesses to start, expand, and hire workers. At the same time, the rich are paying a disproportionate share of the taxes and contributing more than $150 billion annually to charity.

On the other hand, what have the politicians in Washington given us?

Many of the students taking part in the OWS protests are reportedly concerned about the cost of their student loans. Since the average student who graduates this year will do so with a debt of more than $25,000, that concern is understandable, though there is ample reason to believe that government is more responsible for that debt than the rich or even the banks. But, as bad as that debt is, worse is the $48,000 that each of those students owes because the politicians in Washington can't stop spending. That's each student's share of our $15 trillion national debt.

And that doesn't even take into account the unfunded liabilities of Social Security and Medicare. If one counted the full indebtedness of the U.S. government, each of those students owes more than $196,000.

And, if they are worried about jobs, well the blame for that can also be laid at the feet of big-spending politicians in Washington. The International Monetary Fund looked at the relationship between federal debt levels and economic growth and concluded that from 1890-2000, those countries with high debt levels consistently experienced slower economic growth than those with low debt levels. Similarly, Carmen Reinhardt of the University of Maryland and Kenneth Rogoff of Harvard concluded that countries with a debt totaling more than 90 percent of GDP have median growth rates 1 percent lower than countries with a lower debt, and average growth rates nearly 4 percent lower.

And, it's not just debt; it is also the size of government. Numerous academic studies show that when government grows too large, costly, and intrusive, it acts as an economic anchor. For example, a pair of studies by Harvard's Robert Barro found that "public consumption spending is systematically inversely related to economic growth" and that there is a "significantly negative relation between the growth of real GDP and the growth of the government share of GDP." Similarly, an empirical analysis of 23 OECD countries by Florida State University economist James Gwartney and his colleagues found that a ten percentage point increase in government consumption as a share of GDP reduced the growth rate of real GDP by one percent. In other words, as government spending goes up, economic growth goes down.

In fact, even the current economic crisis has its roots in Washington. The housing bubble and the crash which followed were driven in large part by government policies that discouraged old-fashioned lending criteria such as down payments, as well as government-run institutions such as Fannie Mae and Freddie Mac, whose implicit government guarantee encouraged speculation on mortgage-backed securities. Meanwhile, other government policies deliberately targeted housing loans to low-income buyers who were far more likely to default.

There are certainly more than a few bad apples on Wall Street. But for all their faults, we are generally better off with the rich than without them. Can anyone say the same for big government?