Dan Mitchell: Deficits are Bad, but the Real Problem is Spending

Jan 12th, 2010
by Jonathan Finegold Catalán.

Daniel Mitchell, from the Cato Institute, offers this new educational video on government deficits and spending. I had the pleasure of listening to Dan Mitchell speak at Cato University 2009, focusing on the existence and justification of tax havens, and the damaging effects of government taxes on entrepreneurship, investment and economic growth. In this new video, he provides us with a valuable and all-important lesson:

The only disagreement I have is with one of the introductory statements. The video makes a distinction between spending which funds long-term benefits (i.e. investment) and spending which is wasteful and only brings about short-term satisfaction (i.e. consumption), and applies it to government spending. It later provides an analogy by applying these two distinctions to household deficit; borrowing for a business which will generate revenue over the long-term, and therefore make the interest rate (price of borrowed capital) bearable, compared to borrowing for consumption spending, which will not lead to long-term revenue, and will make paying the interest less bearable (or unbearable). I think that Dan Mitchell would agree that government generally does a poor job in investing and therefore all government expenditure can usually be lumped under consumption.

My disagreement specifically deals with the lesson's caveat that government spending is OK while it brings about long-term benefits. There is no clear distinction on what type of government spending is justified, and so by adding the aforementioned caveat it seems to open the door to a wide possibility of justifications for different government programs which are definitely not beneficial over the long-term (such as, let us say, social security). While I think that the distinction should have been made clearer (with less room for interpretation), as I said before the video was made for a mainstream crowd.

My disagreement is an unfair distraction. The point of the video is: while government deficits and *temporary* government spending can be dealt with if productivity increases to such a degree to which it makes paying the interest on the debt bearable, this relationship fails to hold true if government spending continues indefinitely and productivity falls. So, while paying for the Second World War caused no major harm to the American economy, *because high spending ceased after the war*, today we are burdened with ever increasing government spending which shows no signs of receding. This is due to the unfunded liabilities created through government welfare programs. Indefinite spending will have to be paid for by higher taxes, which will take a toll on productivity.

When it comes to the actual argument of the lesson, Daniel Mitchell (as usual) hits the nail *right* on the head. The key is reducing government spending to a bare minimum. Realistically, in today's world, this means reducing government spending to that which covers only "bare essentials" (such as security). Ideally, this means abolishing government spending altogether.

Posted in: Videos.
Tagged: borrowing · Cato · Dan · deficit · Government · Hyperinflation · inflation · Mitchell · spending

← Football, Human Action and Economic Planning

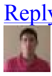
2 Comments

1.  *Daniel Kuehn* says:
   January 12, 2010 at 2:56 am

   Wait a minute – since when is consumption spending "wasteful" simply because it is short term? Why is satisfying short term needs "wasteful".

   I'm also not so sure about this: "This is due to the unfunded liabilities created through government welfare programs."

   It's not the welfare programs that are the problem – it's the social insurance programs (Social Security and Medicare – although mostly Medicare). There's nothing "welfare" about these programs. I'm concerned that by mislabeling these as "welfare" you're giving the impression that actual welfare (food stamps, TANF, Medicaid, SSI, etc.) is unsustainable. Despite an uptick in usage during the recession, these programs are actually becoming less significant as a part of the budget – they're becoming more sustainable, not less. It's the social insurance that's the problem.

   Reply
2.  *Jonathan Finegold Catalán* says:
   January 12, 2010 at 8:53 am

   Daniel,

   Wasteful and beneficial is used, in this case, only in the sense of whether or not spending "creates wealth". For an individual, consumption provides present-term utility, but over the long-run it does not create wealth. This isn't an argument against consumption per sé, it's an argument against government consumption. An individual has the right to do as he pleases with his money, and so whether wealth is destroyed or created is inconsequential. The government does not have this right when using other people's money (i.e. taxpayer's money).

   In regards to welfare, social insurance is lumped under the "welfare" umbrella for all intents and purposes. It is a product of the "welfare state".

   Reply

Leave a Reply

Name (required)

Email (will not be published) (required)

Website (optional)

Submit

Spam Protection by WP-SpamFree

- Subscribe to our Feed via RSS
- ## Search

  Type in and hit enter to se

  Economic Thought on Facebook

  Become a Fan

  Economic Thought

  Dan Mitchell: Deficits are Bad, but the Real Problem is Spending – Economic Thought
  www.economicthought.net
  Daniel Mitchell, from the Cato Institute, offers this new educational video on government deficits and spending. I had the pleasure of listening to Dan Mitchell speak at Cato University 2009, focusing ...

  11 minutes ago

  Economic Thought

  Football, Human Action and Economic Planning – Economic Thought
  www.economicthought.net
  Over at the Ludwig von Mises Institutes' blog, Christopher Westley

  Economic Thought has 53 Fans

- Economic Thought on Facebook
- ## Meta
  - Log in
  - Entries RSS
  - Comments RSS
  - WordPress.org
- ## Categories
  - Books
  - Comments
  - Current Events
  - History
  - Humorous
  - Miscellaneous
  - Politics

- Property
- San Diego State University
- Theory
- Uncategorized
- Videos

Other Economics Sites

- Café Hayek
- Café Libertaria
- Conservative Compendium
- Coordination Problem
- Economics
- International Liberty
- Irish Libertarian
- Le Blog de Matthieu
- Libertad Digital
- Ludwig von Mises Institute
- Procesos de aprendizaje
- Stephan Kinsella
- The Beacon