The Washington Times

Close Print

Wednesday, January 20, 2010

RAHN: Deaf to deficit warnings

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"So what?" is the implicit expression of much of the Washington political class when it comes to spending and taxing. The consequences of Washington's fiscal irresponsibility are not evident to many in the media and electorate - yet. But the pain will come - and it will hit almost every American. Last week, I explained how government deficits are strangling necessary capital formation. The following describes the impact on job creation and growth, and next week, I will present a way out of the mess.

On Jan. 26, the Congressional Budget Office will release its new estimate of future government spending, tax revenues and the budget deficit. It is a safe bet that the forecasts for the deficit and future size of government will show a very big jump from CBO's previous forecast in August. Private forecasters already are estimating that the ratio of government debt to gross domestic product (GDP) will be greater than 100 percent of GDP before the end of this decade (up from just 37 percent three years ago). If the health care reform bill and the energy (cap-and-trade) bill are passed, the situation will be much worse.

Congress justifies all of this additional spending by claiming it increases jobs. This past week, the White House claimed that the stimulus bill "saved 2 million jobs," but just before the stimulus bill was passed, the administration said the unemployment rate would peak at 8 percent with the stimulus bill and 9 percent without it. Now, we have both the stimulus bill and an unemployment rate of more than 10 percent, which shows that the White House is developmentally challenged when it comes to basic arithmetic.

Suppose you overexercised and tore a muscle. The doctor performs a minor operation to repair it and then charges you $2,000 for the surgery, which you pay out of your own pocket. Now assume that there is a national medical care system in which the doctor is paid directly or indirectly by the government for the surgery. If the doctor is going to receive the

same $2,000 fee, the government will have to tax you (or someone else) an additional $2,000, plus the cost of the paperwork and all the government procedures, which could be as little as another 30 percent, or $600. But the total price of the operation has gone from $2,000 to $2,600. The Washington politicians will say not to worry, because the government is only going to pay the doctor $1,700 and tax you an additional $2,300 (rather than your having to pay the doctor $2,000) and will claim the additional cost of the paperwork creates more (government) jobs.

More government jobs may be created, but both you and your doctor will have less money to spend in the private sector, thus killing at least an equal number of private jobs. If the doctor is paid less per patient, the supply of doctors will decline over time, which will mean either lower-quality medical care for the average patient or some patients not being able to see a doctor as often as they should. At least some patients will be shortchanged, and those being taxed will lose an additional bit of their freedom (because they are spending more time working to pay the tax man) while at the same time having less say about their own medical care.

The only way government can create more jobs is by having workers who produce more and at a lower cost than the private sector. (Note: The total cost of a government job also includes the disincentive effects of the additional taxes required to fund the job and the overhead costs of government.) Do you really think the average postal worker is more efficient than those who work for Fed Ex or UPS?

For the last quarter of a century, many governments around the world have been privatizing former state-owned enterprises. They did this because there was a growing body of evidence that efficiency and quality likely would improve if the operations were in private hands - and in the vast majority of cases, that is precisely what happened. History has shown time and time again that when the government sector gets bigger, economic growth slows, there is less job creation, and people become relatively poorer. Why should we think the outcomes will be different this time?

As the debt burden increases as a percentage of GDP, the total amount of interest payments required to support the additional debt (after adjustment for inflation) will rise, which means more and more tax dollars are being spent on merely paying interest rather than delivering government services. If taxes are increased to pay for the additional interest payments, taxpayers will have less incentive to work, save and invest productively and less money to spend - so economic growth and job creation will slow. This is not a matter of

ideology but a function of basic mathematics.

Finally, given that politicians tend to be reluctant to raise taxes to pay for all of the additional spending and debt service they created, they often resort to printing excess quantities of money (or in modern central-bank-speak, "quantitative easing") to paper over their earlier crimes - which results in the new crime of inflation. When inflation occurs, money buys fewer goods and services - and has many of the same effects as an additional tax - which, as noted above, can only result in slower growth and more unemployment.

It is time to say "goodbye" to those who say "so what."

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Tax Refund Estimator Deficit Spending Stimulus Unemployment Rate National Debt