Blind(er) Faith in the Government

Alan Blinder was at it again in [Monday’s WSJ](http://online.wsj.com/article/SB10001424052702304459804577281233569546496.html?mod=WSJ_Opinion_LEADTop), as he warned against a 2013 fiscal cliff. One wonders if he is not too blind to tell the difference between a cliff and a mountain. The cliff Professor Blinder worries about involves programmed tax increases and spending cuts set to take effect in January 2013. His die hard Keynesian beliefs lead him to assume that if the government ever lowers government spending, the economy is doomed. Never mind the mountain of debt the US government has accumulated, and continues to accumulate, at record pace.

At last look, the US was headed for another trillion dollar deficit this fiscal year. Its budget deficit is 7.8% of GDP, and its debt/GDP ratio iss over 100%. Yet Professor Blinder worries that fiscal restraint will harm the economy? This is the best Princeton economists can do? No wonder politicians engage is so much bad policy. The vast majority of official economic advisors are Ivy League knob twisters. They believe themselves to be so smart that they know which knobs to turn when to maximize economic health. The truth is they know little about the economy or the human action from which it materializes.

In Professor Blinder’s world, any cut in government spending, regardless of current debt levels, is bad for the economy. It’s this kind of advice that caused Greece to think it could borrow and spend its way out of a debt crisis. The reality is that the larger percentage of the economy that is controlled by the government, the slower economic growth will be. Free individuals know more about making trades that make themselves better off than do government bureaucrats. Government spending goes to the politically connected, not the economically efficient projects. Cuts in government spending free up resources to be used by private firms for true economic wealth creation.

Should the temporary reduction in the payroll tax be allowed to expire? Yes, by all means. Temporary tax cuts don’t speed up the economy. Furthermore, Social Security and Medicare, which are funded by the payroll tax, are both bankrupt. They face trillions of dollars in unfunded liability. That unfunded liability grows when the payroll tax is cut. Making promises to people you knowingly can’t follow through on is deceitful. It is also theft. Taking money from people with a pledge to give it back when you know you can’t is robbing from Peter to give it to Paul. Increasing Medicare and Social Security unfunded liability is not only immoral, it is bad long run economic growth policy. This, of course, goes unnoticed by Professor Blinder.

Professor Blinder is stuck in a world where he believes that people can spend their way to wealth. Governments and consumers just need to buy more and all will be well. The truth is that saving and investment is the key to economic growth. Large government debts compounded by even larger government backed unfunded liabilities suck saving out of the private sector and crowd out private investment. Inflationary monetary policy caused by the need of the government to reduce the burden of their debt further lowers long term investment in the economy.

I do agree with Professor Blinder’s lack of confidence in politicians’ ability or desire to tackle serious problems in a serious manner. He notes that Congress and the President keep kicking important decisions down the road and that each time they kick the can the can gets bigger and harder to kick. Unfortunately, the can that Professor Blinder advocates opening, rather than kicking, is only full of worms. It would be nice if politicians acted like responsible adults, however, if the alternative to kicking decisions down the road is the permanent implementation of economic policies that will destroy the long run health of the US economy, kick away.