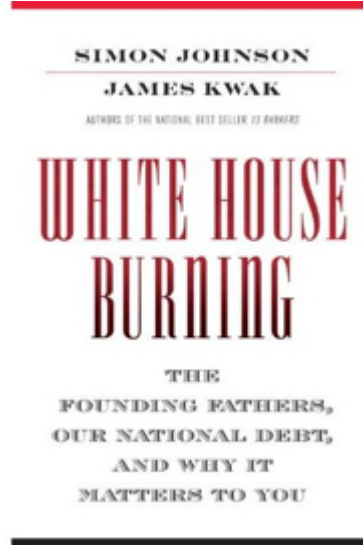




Written by [Bob Adelman](#) on March 26, 2012

New Book Reprises Old Keynesian Canards

According to the book store Barnes and Noble, which is discounting the \$26.95 hardcover book to \$17.96, though the national debt amounts to \$30,000 for every individual in the country, the solution is easy: Stop treating debt as a moral issue and raise taxes. Says B and N, the authors “account for the debasement of our political system in the 1980’s and 1990’s (read: Reaganomics and the Laffer Curve), which produced today’s dysfunctional and impotent Congress.” But if something isn’t done soon,



The national debt will harm ordinary Americans by reducing the number of jobs, lowering living standards, increasing inequality, and forcing a sudden and drastic reduction in the government services we now take for granted....

They debunk the myth that such crucial programs as Social Security and Medicare must be slashed to the bone. *White House Burning* looks squarely at the burgeoning national debt and proposes to defuse the threat to our well-being without forcing struggling middle-class families and the elderly into poverty.

The authors, Simon Johnson (formerly the chief economist for the International Monetary Fund and now a professor at MIT) and James Kwak (associate law professor at the University of Connecticut and a fellow at Harvard Law), have based their book on a set of statist foundational principles about the role of government in a free society: More is better.

They explained in their introduction that when Alexander Hamilton, as Treasury Secretary, urged Congress to declare war on Great Britain in 1812, he put the responsibility for paying for it onto a reluctant Congress. Congress refused to raise taxes and the Treasury had to go begging to a private individual, Philadelphia banker Stephen Girard, to loan the money to pay for the war. This set the stage for the end of Hamilton’s Federalists (according to the authors) and the rise of Jefferson and Madison’s Democratic-Republican party. The authors then drew the parallels to today’s “dysfunctional” government, which is engaged in the same discussion: how to pay for government programs, including wars, without raising the taxes to fund them.

The authors state that the “central debate” today is over the increasing governmental spending on Social Security, Medicare, and Medicaid, “which threatens to outstrip growth in tax revenues.” And continued haggling over how to keep them solvent without cutting benefits or raising taxes “could cause a true fiscal crisis.”

The problem, say the authors, doesn’t rest with the political class who sold these programs to a greedy and ignorant populace but with the populace itself. When quizzed about their concerns about



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government, nearly two-thirds of those polled (cited by the authors) are worried about federal spending and the budget deficit. But when asked about where to cut the spending, two-thirds opposed any cuts to Medicare or Medicaid or military spending.

And so the wrangle has become politicized, say the authors:

The politics are quite simple: oppose any effort to expand popular government programs on the grounds that they are fiscally unsustainable, while simultaneously attacking any effort to make them sustainable by calling [for] a cut in benefits or an increase in taxes.

If something isn't done, and soon, the problem will get out of hand, say the authors. With interest payments on the national debt approaching \$400 billion a year, that money goes abroad, often to parties antipathetic to the United States. And as interest rates rise, as inevitably they will have to, then tax revenues committed just to make those interest payments could approach 30 or 40 or 50 percent of government income. Then the cuts to those social welfare programs will become inevitable.

The "something" the authors have in mind, first, is to debunk some supposed myths about the national debt. First, it must not be equated to the finances and debts of an individual family. While it may be immoral for an individual family to spend more than it makes, it's acceptable for a government to do so. Second, as long as lenders find the American dollar "the definition of ultimate safety," all that is needed is to make sure tax revenues are raised by enough to cover the interest payments. In other words, say the authors, "the national debt is a major problem only if it is perceived as a problem." Besides, government spending here in the United States isn't out of control when compared to spending in other "advanced economies" around the world.

Third, more government spending doesn't automatically equate to more government controls and loss of freedom, according to the authors, stating flatly that government influence over the private sector doesn't increase with increases in government spending. In true Keynesian (Big Government) fashion, the authors defended federal social-welfare spending, "Freedom from want is an important kind of freedom," while furthering the notion that government safety nets "allow individuals the additional freedom that arrives with improved health and adequate retirement income."

Finally, they claimed that shifting those responsibilities from the government to private entities is so [19th century](#):

Shifting responsibility from government to the private sector to reduce the federal budget is not always beneficial. If a government agency that predicts tornadoes and alerts communities in the path of the tornado is eliminated because of budget cuts, what happens when no private-sector company enters the business? Or perhaps a private company tries to fill the void, but performs poorly with no recourse for individuals who reside in tornado alleys.

Of course, the answer to their question is that a new company with a better track record will take over and do the job the former company didn't do. Failings don't go away in the private sector, but there is a quick and efficient way to remediate any problems — cut off funding from the failing entity. But what happens when government, as now, performs its job poorly, "with no recourse for individuals"?

The enthusiasm from the Left in support of the book is entirely predictable: "It's a must-read," says Mohamed El-Erian, CEO of Pimco, the world's largest dealer in U.S. government securities. "Only when citizens understand ... will politicians take the necessary steps," says Bill Bradley, former liberal Senator from New Jersey. "Our problems are not insoluble," according to MIT professor Daron Acemoglu.



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White House Burning neatly and deliberately avoids the real issue: the role of government in a free society. Instead, the authors say in essence to the taxpayer, “We got you into this mess: now you get us out.”



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