

Change You Can Suspend Disbelief In

Contributed by Publius III, Club Orlov
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Dmitry Orlov's blog entry of April 22 has a "guest post by Publius III. I am happy to see that guest posts are becoming a venerable institution here at ClubOrlov. Long live Samizdat!"

Comprehensive tax relief is America's surest route to effective economic stimulus and genuine recovery. Elimination of all US income taxes would offer irresistible incentives to every American to go out and shop,

swiftly restoring hope, confidence, and economic stability. For the US government, this policy shift would produce greater benefits at lower cost than any rescue package that has been tried or even considered.

How I learned to stop worrying and love the deficit

Over the last thirty years, the world has learned that deficits are a boon to any economy that is wise enough to use them appropriately. Indeed, perennial deficits have become a useful predictor of a nation's economic health and growth. It is government deficit spending that has created the jobs that have kept our little home planet glowing so brightly in the darkness of interstellar vacuum. The value of economic growth stimulated by each year's deficit invariably exceeds the nominal cost of the deficit itself. Budget deficits are also desirable on their own merits, because government borrowing provides a risk-free financial safe haven where the world's economic winners can place their winnings. These facts compel us to recognize that a perpetually growing total debt is highly desirable. The Obama administration certainly recognizes this key fact, and has been doing all it can to push public finances into the red as far and as fast as possible. It has also been working hard to "get the banks lending again," in order to promote rapid debt expansion in the private sector as well. Although most of this new debt would never be repaid, the massive wave of defaults will present a perfect opportunity for more government bailouts of insolvent financial institutions, further enhancing the deficit.

American redux

In 1835, the debt of the adolescent American republic was an unimpressive \$34,000. But decade after decade the federal debt continued to expand, along with American power and influence. By the middle of April 2009, America's federal debt stood at \$11.2 trillion. Current projections suggest that the total is on track to make \$13 trillion before the end of the 2009 fiscal year.

Coincidentally, this figure is close to the one Bloomberg gave toward the end of March for the costs of the US government's various rescues, backstops, and guarantees in the current crisis. Bloomberg's tally so far shows the American public with \$12.8 trillion in such spending and promises. Realistically, the odd war here and there will add another \$3 trillion to America's deficit spending in the relatively short term. Neil Barofsky, the Treasury Department's Special Inspector for oversight of the first \$700 billion allocated by Congress to help ease the pain on Wall Street, asserts that an additional \$2.3 trillion will be needed for that purpose, taking the visible banking tranche to about \$3 trillion, for now.

Meanwhile, a different branch of the US Treasury -- the Office of the Comptroller of the Currency -- catalogs \$170 trillion in derivative exposure among five large US banks. A commonly accepted estimate of the failure rate of these derivative instruments is 20%. If the government is to continue to bail out the country's major financial institutions, the American public should expect this exposure to yield at least \$34 trillion in new obligations. America's federal housing lenders Fannie Mae and Freddie Mac will no doubt want to pitch in as well, contributing another \$5 trillion of their own exposure.

Finally, estimates of the present value of the unfunded entitlements of Social Security, Medicare, and Medicaid involve much guesswork but generally tend to fall in the range of \$50 trillion to \$150 trillion. For the sake of this analysis, let us accept the mean value of \$100 trillion as gospel.

And so, in round numbers, we are looking at somewhere around \$180 trillion in total American public debt. No other single parameter could better indicate America's full spectrum dominance in world affairs. Now, contrast this majestic sum with America's net income-tax receipts in 2008: a mere \$1 trillion. The idea that such a paltry sum can defray the nation's public debt is simply laughable, and yet the economic damage it inflicts is no laughing matter at all. Its continued existence is nothing less than an insult to America's hard-working men and women.

Although the notion that income taxes could be eliminated altogether might seem shocking at first glance, the logic for doing so is deeply reassuring. Our \$1 trillion in tax receipts is trivial. It would never be missed by the American government. Yet it remains a drag on consumer behavior. While the tax represents less than 0.6% of America's debt being amassed as you read these words, it represents 217 times America's disposable income. That is, the abolition of the federal income tax has a benefit-to-cost ratio of more than 36,000 to 1. A negligible increase of existing debt would translate promptly into a massive and continuing stimulus as taxable earnings are transformed into disposable income.

Deficit attention disorder

In an environment where \$12.8 trillion can be conjured and deployed in a matter of weeks, and where expressions of dollar-denominated public obligations require fifteen digits, America's income-tax revenue is a mere rounding error in terms of government finance. Furthermore, as Federal Reserve chairman Ben Bernanke revealed in his recent "60 Minutes" interview on CBS television, the money being spent to rescue the American economy costs taxpayers nothing, because "it's much more akin to printing money than it is to borrowing." And so Bernanke should find no problem with printing an extra trillion each year to make up for the loss of federal income tax receipts. Although it may superficially seem like an increase in government obligations, rest assured that it will not cost taxpayers a thing. Banish the thought of eventual repayment! We know full well that deficits just make America stronger! History now demands bold, decisive action from all of us!

Don't take it to the bank

No other program could produce an equivalent psychological or economic impact. For every individual US taxpayer, the abrupt and overwhelming relief of tax absolution would trigger an avalanche of consumer spending dwarfing all previous exuberances, irrational and otherwise. The benefits would extend to every wage earner and to all who are self-employed. Even those who pay no taxes today would indirectly benefit from the inevitable tsunami of prosperity. Stop thinking of it as debt; think of it as free money. Repeat after Chairman Bernanke: "it's much more akin to printing money." And if that money is printed in sufficiently large denominations, then printing a lot of money at once becomes very economical. Let's roll!

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Original source: Change You Can Suspend Disbelief In

Further reading:

Tactics of Pathetic Reformers with No Plan B - Stimulus hope from liberals.

