Review article


Popeye economics

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Cartoon aficionados will remember Wimpy, the friend of Popeye who was always fond of saying, “I will gladly pay you Tuesday for a hamburger today.” This also could be an apt description of the United States Congress. Politicians have a quaint little habit of spending money while expecting future generations to pick up the tab. This behavior – and its impact on the economy – is the topic of a two-volume book, *The Economics of Budget Deficits*, edited by Charles K. Rowley, William E. Shughart II, and Robert D. Tollison.

Budget deficit issues are very frustrating for Washington-based policy economists. Both political parties routinely engage in pious rhetoric about deficit finance, but the vast majority of them are completely insincere. Republicans wax poetic about deficits when they are trying to block Democratic spending programs, and Democrats are born-again deficit-hawks when it is time to fight tax cuts.

But the rhetoric of both parties is a political smoke screen. Republicans feel that they look “heartless” when they oppose new spending programs, so they use the deficit as an excuse. Democrats fear the “tax-n-spend” label, so they use the deficit as an excuse. The number of genuine “deficit hawks” is miniscule, perhaps best measured by the number of lawmakers – virtually
zero – willing to oppose the creation of a new prescription drug entitlement for the Medicare program.

*The Economics of Budget Deficits* will not eliminate the frustration of someone who must deal with hypocritical lawmakers, but it is a valuable resource for anyone interested in public finance issues. The editors have pulled together the most important and influential articles in the field. From Adam Smith to the present, the two-volume set is a comprehensive guide to the budget deficit debate.

**What is the deficit?**

The first volume begins with a section that attempts to define the deficit. Economists generally have defined the deficit as the extent to which government spending exceeds government revenue. This makes sense, since the difference between these two numbers is a measure of how much government will borrow from private credit markets – which presumably is the best gauge of whether government borrowing will “crowd-out” private investment and/or increase interest rates.

But this “cash-flow” measure does not capture the extent to which government policy is imposing a burden on future generations. The official national debt (“debt held by the public”) is less than $4 trillion. This is a substantial figure – about 35% of gross domestic product, but it pales in comparison with the unfunded liabilities of government entitlement programs. Over the next 75 years, for instance, promised Social Security benefits exceed projected revenues by more than $20 trillion.

Social Security debt, to be sure, is not a legally binding obligation. Lawmakers have the option to eliminate that projected deficit by reducing benefits or raising taxes, whereas the only escape from the national debt is the unthinkable option of default. But this does not mean that there are not economic parallels between the “unofficial” Social Security debt and the “official” national debt. After all, reducing spending and raising taxes are exactly the unpleasant options that lawmakers must choose from to service and/or pay off the “official” debt.

Social Security is just the tip of the iceberg. Health care programs like Medicare and Medicaid have large unfunded liabilities, as do government employee retirement programs. And there also are government-sponsored enterprises, entities like Freddie Mac, Fannie Mae, and Farmer Mac. As the Savings and Loan bailout demonstrated, these “off-the-books” obligations can become very real in the right (or should we say wrong?) circumstances.

*The Economics of Budget Deficits* seeks to address these issues. Articles by Blejer and Cheasty (1991) and Kotlikoff and Raffelhueschen (1999) dis-