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Musings

#45: Where does all of the Money come from?

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I enjoying hearing from folks. Send me your reactions or your own musings. I will be starting a “guest musings” feature next week. Go to <https://gilesrichard.com/> for old musings and feedback.

The government continues to dole out money in response to the Covid-19 crisis. I am not saying it is wrong but you have to ask “where is all of the money coming from?”

Basically, the federal government is putting it on the “credit card” by borrowing. Since 2000, the federal government has run a deficit every year where cash outflows exceed inflows. In 2019, it is estimated that deficit was \$984 billion, a 26% increase over 2018 (\$3.46 trillion *in* and \$4.45 trillion *out*). Those annual deficits are financed by borrowing money and the total debt owed by the federal government is now \$22 trillion. That is \$22,000,000,000,000. It was just announced that the government is going to borrow another \$2.99 trillion *just this quarter*! The government issues IOUs to raise that debt which is heavily purchased by foreign countries. It is estimated that China and Japan own \$6.2 trillion in U.S. Government debt.

These numbers are all so crazy large that lets put them in perspective by drawing an analogy to a US household. If the household earned \$100k in *after-tax* income, it would spend \$129k. These are not payments on a mortgage where there is an asset. This is simply spending everything you make and putting another \$29k on the credit card. The problem is the credit card balance is already \$635k (\$22 trillion adjusted to the household income)! Taxpayers are going to have to pay this bill. Last year, 58 million federal tax returns were filed, so the \$22 trillion in federal debt is \$380k for every federal tax filer. Congress is spending taxpayer money and running up bills that will have to be paid by our future generations. It is crazy. For those interested, attached is detail.

It is true that the government can borrow at very low rates but that will not always be the case. We can’t keep running up the debt. Now, states are borrowing from the federal government (which is borrowing from China) to pay state unemployment benefits. California just borrowed \$350mm from the federal government to pay unemployment.

I am not against deficit spending during a recession like the current situation which we all learned from Keynes. The problem is we also deficit spend in times of prosperity. Our elected officials have no reason to not keep handing out goodies until the voters hold them accountable.

There used to be tension between “raise taxes and redistribute wealth by increasing government programs for the poor” democrats and “lower taxes and reduce government spending” republicans. Trump has brought in a new era and now both parties load up legislation with things they want spending more money (“if I get my wall, you can have your increase in Medicaid”). Makes me miss Bill Clinton and 2000/2001 when we actually only spent what we brought in. A friend of mine who

works on budget issues in Washington was lamenting that no one pays attention to budget scoring at all anymore.

The other problem is the general ineptitude of the government. Witness the PPP mess. Now, our 15 year old daughter, who is claimed as a dependent and has never worked, gets a \$1200 stimulus check yesterday! So much waste.

Our two party system is broken and leading down a bad path. Famed Harvard Business School professor Michael Porter and a childhood friend of Heather's and successful business executive, Katherine Gehl, have teamed up on some interesting work applying antitrust, business-like thinking to the two political parties. You can see more here: <https://gehlporter.com/>

We need to reestablish the middle.

Be safe.

Jml

Second Thoughts

I think we are starting to have the right "balance" conversations on health outcomes Covid-19 and economic destruction. Interesting article in WSJ on "risk-based social distancing" which makes point that schools should probably be open while churches closed. https://www.wsj.com/articles/risk-based-social-distancing-is-key-to-reopening-11588672800?tesla=y&mod=article_inline

WSJ also had a good editorial. [targeted-lockdowns-are-better](#)