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## The Crone or the Elegant Lady?

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By Kerry Pechter     Sun, Oct 6, 2013

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People are entitled to their own opinions but not to their own sets of facts, the scholar-politician Daniel Moynihan famously said. Yet opinions often morph into beliefs, and beliefs can harden into perceptions and perceptions can become “facts.”

A collision of two versions of the “facts” about the government’s finances is part of what lies behind the current stare-down in Washington. (Let’s assume for the moment that the “fact” purveyors in D.C. believe what they say, and don’t say it just for effect.)

The competing realities are:

### **Reality I. The federal government is, and always has been, parasitic.**

It is a cancer on the states, crippling them with unfunded mandates. It criminally sucks tribute from the private sector—the makers, not the takers—in two ways.

It confiscates honestly earned wealth from its owners through taxation. It crowds out private investment through excessive borrowing.

It then sends these dollars to poor people, addicting them to dependency, after which the money vanishes, as if into a dumpster. The government feeds them because it wants their votes. But charity only extends their dependence.

Always spending, never investing, the federal government falls farther and farther into debt... the interest and principal of which its citizens or their children or grandchildren will repay through higher taxes or the steady, stealthy dilution and debasement of their savings and income through inflation.

If we could only take the spendthrift’s checkbook away, pay down the debt and balance the budget, the private economy would boom.

### **Reality II. The federal government (including the central bank) is our deep-pocketed friend.**

It has been the states’ rich Uncle Sam since the birth of the country, covering the bills and debts they can’t.

Its various purchases, subsidies and “tax expenditures”—of weaponry or infrastructure or of the costs of retirement savings, health care and mortgages—disproportionately enrich those who are already well-off or

avored.

By selling bonds to the public, it a) Puts excess savings to work, b) Recaptures dollars from our trading partners, c) Keeps taxes low and d) Gets the cash it needs to execute its lawful responsibilities. The Federal Reserve, through the banks, makes sure the private sector has enough cash and credit to operate smoothly. If the government runs a deficit, the private sector runs a surplus.

In return for campaign contributions, it tends to under-tax the wealthy. It subsidizes the poor only enough so they can afford to work for low private-sector wages and still subsist. There has been persistent, intentional inflation, which drives up asset prices and, to a lesser extent, eases the burden of debt. Inflation is regrettable but preferable to deflation.

### **The standoff**

This is a fascinating contrast in worldviews. Looking from one set of “facts” to the other and back again is like studying one of those etchings where first you see the hook-nosed crone, then the elegant young lady.

Is one of them accurate? Both? Neither?

Beats me. But I wasn't born yesterday. As far as I can tell, the price of almost everything—a copy of the *Times*, a cup of coffee, a gallon of gas, a semester at college, a single-family home—has risen about tenfold since I graduated from high school. (The official CPI has risen only six-fold, interestingly. I suppose clothes and televisions are cheaper. And computers, by a large margin.)

During that time, the assets of the Federal Reserve rose by about 40 times and the average price of large-cap stocks ([35% of stocks are owned by one percent of the U.S. population](#)) rose by a factor of 15 to 20 (depending on whether you start with the 1969 spike or the 1970 trough).

Over the same period, the average nominal income rose only about seven-fold. It has risen a mere five- or six-fold for the middle- and low-income groups but more than tenfold (and from a much higher base) for the top 5%.

So how do these facts jive with the two sets of “facts” above? That's hard to say. It may depend on how you've dealt with inflation. If you've stayed ahead of inflation (by owning assets and/or earning top dollar), you should probably call the free-spending government your friend, as much as it might hurt to do so. If you've fallen behind inflation, you're pretty much out of luck.

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