ECONOMIC MYTHS DEBUNKED

The Deadly Innocent Frauds

Most people who ever managed their personal household finances, or those of a business, believe they understand how a national economy works. Most people are wrong.

It's not too surprising that people assume that the big system is just like the little one, only bigger. It seems logical, and we constantly hear politicians telling us that's what we ought to think.

Some of them actually believe that. Others know better, but it suits their political agenda if they can make us believe the lies, or they think we wouldn't believe the truth, and it would cost them votes if they told it. That's why we hear the same story, with slight variations, from those of both parties. Mosler calls them "Deadly Innocent Frauds" -- innocent because many who repeat them think they are true, but deadly in the result of acting according to them.

Here is a list of the economic myths, and the actual facts. You can read a full explanation at the link.

[1] Deadly Innocent Fraud #1: *The federal government must raise funds through taxation or borrowing in order to spend.*
Fact: Federal government spending is not limited by revenues. There is no "solvency risk."

The federal government doesn't ever "have" or "not have" any dollars.

The government must FIRST spend, or we wouldn't have any money with which to pay taxes. The only reason to limit spending is if it puts too much money into the economy, it can cause excess inflation. This can be adjusted by a tax increase.

[2] Deadly Innocent Fraud #2:
With government deficits, we are leaving our debt burden to our children.
Fact:
Collectively, in real terms, there is no such burden possible. Debt or no debt, our children get to consume whatever they can produce
There will be no need to increase taxes in the future because of a national debt. However, if we invest more today in education, infrastructure, and research, our children will benefit from that spending..

[3] Deadly Innocent Fraud #3:
Federal Government budget deficits take away savings.
Fact:
Federal Government budget deficits ADD to savings.

The budget deficit will exactly equal the increase in assets of everyone else combined.

[4] Deadly Innocent Fraud #4:
Social Security is broken.
Fact:
Federal Government Checks Don’t Bounce.
We already knew this was a lie by anyone's definition. Social security is the least broken of any government program, with enough surplus for another 20+ years, and easily adjustable to go on indefinitely. But the additional point is, even if the surplus were allowed to run out, the checks would still be paid

[5] Deadly Innocent Fraud #5:
The trade deficit is an unsustainable imbalance that takes away jobs and output.
Facts:
Imports are real benefits and exports are real costs. Trade deficits directly improve our standard of living. Jobs are lost because taxes are too high for a given level of government spending, not because of imports.

The point here is that it is the goods traded that have value, and getting more than we give is a good thing. That doesn't mean that trade shouldn't be regulated to prevent harming our industries and work force. It doesn't mean that all "free trade agreements" are desirable.

If government spending is too low, putting too little money in circulation, or taxes are taking too much out, then consumer demand is too low, resulting in fewer jobs. Either or both can be adjusted to add more jobs.
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[6] Deadly Innocent Fraud #6:
We need savings to provide the funds for investment.
Fact:
Investment adds to savings

Getting this backwards actually hurts the economy.
The paradox of thrift: spending must equal all income, including profits, for the output to be sold. Saving slows the economy by leaving unsold output. It's a mistake to encourage saving for its own sake.

Cutting taxes to expand the economy should be done in the sector likely to spend the extra income, not those who will merely save it. Cuts that are conditional on new investment would also work.

[7] Deadly Innocent Fraud #7:
It's a bad thing that higher deficits today mean higher taxes tomorrow.
Fact:
It is not bad thing, it's a good thing!

The higher deficits speed up the economy and reduce unemployment. If this begins to create inflation, higher taxes are needed to slow it down. Used properly, the need for higher taxes is a sign of success.

Essentially, macro-economics and mini-economics work differently, much like quantum physics and Newtonian physics apply to different levels of activity.

Beyond the commonly believed myths, theories have grown, like mushrooms in the dark. Some claim that we should return to a gold-backed currency. That is actually the worst thing we could do, and of course it will not happen. Tying currency to a particular commodity was abandoned for a good reason. An economy based on gold could actually become bankrupt. It lacks flexibility and interoperability with other currencies.

Gold and silver standards were a phase of the development of money when it was attempted to make it a "real" thing. Money itself is not real. It only stands for what we agree it can be exchanged for. Whether it is cash or numbers on a spreadsheet in a bank account, it only keeps track of what total of goods and services one could own or use.

SEVEN DEADLY INNOCENT FRAUDS OF ECONOMIC POLICY

Read the whole article; save the PDF and study it. You may not find economics interesting, but we need to know when we're being misinformed by those who want our votes.

And, they need to know that we know.

--*cosmicrat July 3 2015*