A Harvard Professor's Goofs, Gaffes, and Blind Spots

Harvard Professor Gregory Mankiw (picture, left), in writing a hypothetical speech in the New York Times for the President in the year 2026, thinks politicians can kick the entitlements can down the road for another 15 years. His opening could come from any politician's current teleprompter:

My fellow Americans, I come to you today with a heavy heart. We have a crisis on our hands. It is one of our own making. And it is one that leaves us with no good choices.

> For many years, our nation's government has lived beyond its means. We have promised ourselves both low taxes and a generous social safety net. But we have not faced the hard reality of budget arithmetic.

Note the first thing the good professor does is avoid placing the blame on the guilty parties: politicians, bankers, corporate cronies, and the Federal Reserve. He makes it sound as if each citizen is personally responsible for outrageous government deficits, out-of-control spending, and welfare programs that never came close to being properly funded (even if they were constitutional, which they were not).

But, he claims, the citizens did it for all the right reasons: compassion for the plight of their fellow man. The professor waxes positively eloquent:

> The seeds of this crisis were planted long ago, by previous generations. Our parents and grandparents had noble aims. They saw poverty among the elderly and created Social Security. They saw sickness and created Medicare and Medicaid. They saw Americans struggle to afford health insurance and embraced health care reform with subsidies for middle-class families.

Historical facts show a different picture. Social Security was sold to the American people as an insurance program to be fully funded from the beginning with modest "premiums" to be paid out of wages, and split between employer and employee. It was even named the "Federal Insurance Contributions Act" or FICA, in order to trade on the good name of the insurance industry which had largely managed to survive the Great Depression intact.

When the act was challenged in the courts (if all the citizens favored the program as suggested by the good professor, why were any lawsuits filed in the first place?), it was determined to be nothing more than a Ponzi scheme, with early "participants" enjoying outrageous returns compared to their "investments," while later beneficiaries would be left holding the bag. The courts also ruled that those beneficiaries had no vested interest or property rights in their "accounts" because the government could modify or terminate the program at any time.

Medicare certainly never had the support of the American people, just the support of the American Medical Association. Medicaid was known by the citizens to be fundamentally financially flawed from the start. Neither program was ever offered as anything but a government handout, with "adjustments" to "contributions" to be made over time in a failing attempt to keep these welfare schemes solvent. And the prescription drug benefit passed under the Bush administration was feared at the time to become the biggest financial time bomb of all.

The professor notes that by 2026 most of the Baby Boom generation (those born between 1946 and 1964) will have retired and have begun enjoying their benefits. He has the President say:

> Our efforts to control health care costs have failed. We must now acknowledge that rising costs are driven largely by technological advances in saving lives. These advances are welcome, but they are expensive….

Surely the good professor was paying attention when ObamaCare was being hotly debated (with overwhelming majorities of the citizenry opposed) and had to know that health care costs would have to rise enormously in order to forcibly cover those millions of citizens who weren't covered by health insurance. And to blame rising health care costs on advances in technology (rather than government interference and severance of the essential doctor-patient relationship over actual costs of providing the care) is simply amazing. Does not the good professor enjoy owning the latest technology (iPads, cell phones, plasma TV, etc.) with such technology *declining in cost* as the technologies themselves advance?

So the professor has the President explain that when tax revenues were insufficient to meet government expenditures, the government had to borrow. But the lenders weren't going to lend anymore:

> This morning, the Treasury Department released a detailed report about the nature of the problem. To put it most simply, the bond market not longer trusts us.
>
> Over the last several years … investors started getting nervous. They demanded higher interest rates to compensate for the perceived risk [of not getting their money back]. Higher interest rates increased the cost of servicing our debt, adding to the upward pressure on spending. We found ourselves in a vicious circle of rising budget deficits and falling investor confidence.

Praise be, the good professor got this part right, about 30 years too late. In 1995, Harry Figgie wrote *Bankruptcy 1995* and ended his epilogue with these eerily prescient words:

> Our debts and debt are simply tools that our ever-eager-to-please politicians use to provide their constituents with what we say we want. By piling borrowing upon borrowing, we've been able to spend money that we don't have…
>
> The good news and the bad is that neither we nor any other nation can continue the sin of deficit spending indefinitely. The laws of economics eventually exact their punishment, and we are dangerously close to getting ours.

Remember that this was written in 1995, more than 15 years ago. Perhaps the good professor could be excused for not knowing about these problems because of his age. But it should be remembered that the good professor was chairman of President George W. Bush's Council of Economic Advisors from 2003 to 2005, precisely at the moment in history when the prescription drug benefit program was enacted over howls of protest from taxpayers who knew it would soon bankrupt the country.

The good professor then puts these words into the President's mouth, promoting the solution: a bank loan from the IMF!

> Yesterday I returned from a meeting at the International Monetary Fund in its new headquarters in Beijing. I am pleased to report some good news. I have managed to secure from the IMF a temporary line of credit to help us through this crisis.
>
> This loan comes with some conditions. As your president, I have to be frank: I don't like them, and neither will you. But, under the circumstances, accepting these conditions is our only choice.

We have to cut Social Security immediately…

We have to limit Medicare and Medicaid…

We have to cut health insurance subsidies to middle-income families. Health insurance will be less a right of citizenship and more a personal responsibility.

Mankiw's goofs, gaffes, and blind spots are on full display in the President's hypothetical speech, but none more blindingly apparent than his lack of having the President say anything about the "enabler" of all this economic difficulty and crisis: The Federal Reserve. As the purchaser of government debt when no one else wants it, the Fed has enabled the federal government to continue to spend beyond its means for years. The Fed is the "lender of last resort," not the IMF. To ignore any mention of the Fed when having the President inform the citizenry about solutions is beyond comprehension.

But this whole speech is strictly hypothetical, anyway. As noted by the National Inflation Association, "What Mankiw predicts will happen 15 years from now is already happening today right under his nose. …"

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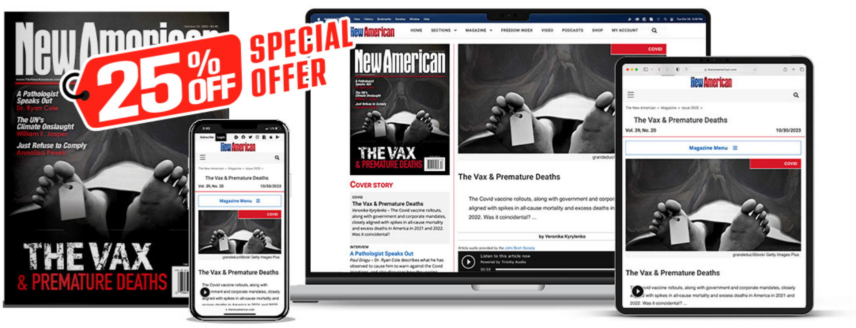

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