Obama Needs to Learn "Opportunity Cost"

When the $787 billion ARRA "stimulus" package was sailing through Congress back in February, Obama's economic experts promised that unemployment rates wouldn't pass eight percent if the "stimulus" package was passed, while it would reach nine percent if it didn't pass.

In a June 23 presidential press conference, a reporter recalled the administration's earlier promising forecast for unemployment and then asked the president about his recent admission of what's now obvious: that unemployment with his bailout would likely reach 10 percent. Obama responded:

> At that point nobody understood what the depths of this recession were going to look like. If you recall, it was only significantly later that we suddenly get a report that the economy had tanked. And so it's not surprising then that we missed the mark in terms of our estimates of where unemployment would go.

Of course, it's not true that "nobody understood the depths of this recession" at that time. Congressman Ron Paul (R-Texas) predicted it throughout the 2008 election debates, and financiers Peter Schiff and Jim Rogers predicted it in great detail on a variety of national financial talk shows long before that. So did hundreds of other economists influenced by the Austrian school of economics, a school called "Austrian" because its two major economists came from Austria in the first half of the 20th century: Ludwig von Mises and Friedrich von Hayek.

Obama's falsehood aside, the reporter subsequently pressed him for a new upper-limit prognostication on unemployment. Obama deferred by stating the obvious: "Well, I'm not suggesting that I have a crystal ball. Since you just threw back at us our last prognosis, let's not — let's not engage in another one."

Obama did, however, offer his own economic assessment of the impact of his "stimulus" spending bill: "In the absence of the stimulus, I think our recession would be much worse. It would have declined — without the Recovery Act — we know for a fact that states, for example, would have laid off a lot more teachers, a lot more police officers, a lot more firefighters, every single one of those individuals whose jobs were saved. As a consequence, they are still making their mortgage payments, they are still shopping. So we know that the Recovery Act has had an impact."

That economic assessment means not only that Obama doesn't possess a "crystal ball," but that he also doesn't understand basic economic concepts such as "opportunity cost." Opportunity cost is defined as the cost paid when something is given up to get something else. The federal government can't spend money on "stimulus" projects without siphoning the money out of the economy as a whole. This is true even when the federal government creates money out of thin air via the Federal Reserve to pay for "stimulus" and other federal programs. When that is done, the resulting inflation of the money supply dimishes the purchasing power of every dollar already in circulation.

But what if the $787 billion stimulus program were never enacted? How would money otherwise be allocated or invested if the money for the "stimulus" remained in the economy in the first place? The obvious answer is that the taxpayers would likely spend or invest nearly all of that money taken from them in a recovery anyway. Individuals possessing dollars with more value would be able to buy more consumer goods, or (better still) save the money and invest it in business growth. Taxpaying businesses would be able to invest more in their company, or pay higher dividends to investors. At best, nothing is gained by the federal government borrowing that fantastic sum of $787 billion — which amounts about $7,000 per household across the nation.

Keeping teachers, police officers, and firefighters on state and municipal payrolls doesn't stimulate the national economy, but instead always hurts the economy. Government jobs cannot perpetuate self-sustaining job growth because they do not make a profit. (In fact, even if the government-created jobs were self-sustaining, those new jobs would be offset by the loss of jobs elsewhere in the economy.) Governments use their money to hire employees and build overpriced buildings and roads, and then the money is gone. Then government is forced to go repeatedly back to the debt-and-tax well for more money to keep employing the same number of people.

One need look no further than Boston's "Big Dig" highway project, which is 800 percent over budget and counting, to realize that putting more funds into the hands of government is not efficient. "Government waste" is a redundant phrase.

By way of contrast, businesses employ people for a profit, and can reinvest those profits in the manufacture of new goods, jobs, and more efficient factories. Although it is true that sometimes government entities subsidize inefficient private corporations in order keep them in business when they should be allowed to fail, in a free market inefficient businesses are always allowed to fail and are replaced with more efficient businesses. That process never happens with inefficient governments, which lumber on perpetually regardless of their lack of efficiency.

Because government jobs require constant transfusions of taxes in order to keep a static number of people employed while the private sector grows best without any outside support, the private sector is the only area of the economy that can lead to self-sustaining job growth and economic recovery. Obama's ARRA "stimulus" bill simply took hundreds of billions from the sector that produces jobs and transferred it to an inefficient sector where jobs are on perpetual life-support.

If the best thing that Obama can say about his "stimulus" bill is that government jobs were saved, the ARRA was 100-percent wasted money in terms of economic recovery. He should know that opportunity costs under ARRA demonstrate that the "stimulus" bill tipped the unemployment figures higher and worsened the economic recession.