

# The Trouble With Trillions

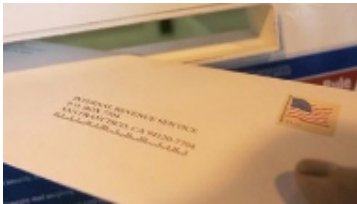
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John Lott

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Last year, President Obama campaigned against budget deficits. Yet, now we have the newly announced figures from the Obama administration stating that the deficits numbers over the next decade will add up to over \$9 trillion-- \$2 trillion more than had been forecast as recently as March. Even this likely underestimates the deficit [by at least another \\$1 trillion](#). Looking back, it is hard to believe that the deficits during the Bush administration totaled only [about \\$3 trillion](#) over eight years.

Candidate Obama promised to rein in the budget deficit. When CBS's Bob Schieffer asked Obama, during the third presidential debate, what he was going to do about the deficit, he promised to cut it: "But there is no doubt that we've been living beyond our means and we're going to have to make some adjustments. Now, what I've done throughout this campaign is to propose a net spending cut."

When Larry Summers, Obama's chief economic advisor, was asked about the Bush deficits last fall, he warned they would "reduce investments and slow growth, compromise financial stability, and increase America's vulnerability and reduce its influence in the world."

Summers' claim back then was that higher deficits will drive up interest rates and discourage investments. But higher deficits actually do not drive up interest rates by any noticeable amount. And the reason is simple. A trillion plus dollar deficit might be large relative to the \$14 trillion United States economy but it is small relative to the world economy. We live in a world capital market, and if interest rates started to rise in the United States, capital would flood in from every place else. While different inflationary expectations, risk of default, and tax rates can make the "nominal" interest rates somewhat different across countries, investment capital flows easily across national boundaries. So this should not be the main worry.

But there is indeed a problem from these deficits. Ten trillion dollars simply is a lot of money. Whether it is an individual going into debt or a country, spending the money now means that we have less to spend on other things. In the case of ten trillion dollars of national debt, it comes to over \$33,000 per person-- \$130,000 for a family of four. The \$130,000 is the amount of taxes that a family is going to have to pay back, somehow, and people have to ask what their family could have gotten for that much money. Is the benefit they get from the government spending all this money greater than what they could have gotten if they had spent that money themselves?

We have all heard about the various nutty items, such as \$221,000 in stimulus money spent on studying "barriers to correct condom use" at Indiana University, the \$219,000 spent studying "hookups" among adolescents at Syracuse University, or the National Endowment for the Arts funding performances such as "Perverts Put Out!" But the really crazy projects are seldom the big ticket items. There are very many half-way reasonable projects that just would not cut it according to normal investment criteria. Take the \$11 million to build a bridge connecting two adjacent portions of Microsoft's headquarters in Redmond, Washington. If Microsoft, with its vast financial resources, had figured that the bridge was worth \$11 million dollars, wouldn't they already have been planning to build it themselves, without any stimulus money? Since they didn't do it themselves, all we really know is that they valued the bridge at less than \$11 million. In other words, taxpayers spent \$11 million and turned it into something less valuable.

The bottom line here is this: the biggest problem with the dramatic increase in deficits is the large increase in government *spending* that is causing them. In May, Obama [admitted](#) that "we are out of money now." Since then his own budget deficit estimates have increased by \$2 trillion.

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<http://www.foxnews.com/opinion/2009/08/25/john-lott-trillion-deficit-obama/>