



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

[fff@fff.org](mailto:fff@fff.org) [www.fff.org](http://www.fff.org)

## **What Is Seen and Not Seen in the Federal Budget Deficits**

**by Richard M. Ebeling**

President Bush's budget director, Mitchell E. Daniels Jr., has now admitted what most people have been expecting — that the era of federal budget deficits has returned for the foreseeable future. In the current fiscal year, the deficit will most probably be greater than \$200 billion and will very likely be more than \$300 billion in the next fiscal year. Daniels also forecast that there would be no end to federal budget deficits for the next 10 years.

But Daniels added that there should be little concern about how much the amount of federal spending exceeds the tax revenues taken in by the U.S. government. After all, the deficits will represent “only” about 2–3 percent of a U.S. Gross Domestic Product (GDP) of around \$10 trillion. Nor should anyone worry that government borrowing will push up interest rates in the financial markets because, according to Daniels, in an increasingly global market lenders from around the world will easily supply the lendable funds needed to cover these deficits, resulting in a relatively negligible rise in U.S. interest rates.

The impression that the Bush administration is trying to create is clearly that these deficits will not matter. The planned increases in spending on domestic and defense programs impose no necessary noticeable burden upon the American public. The deficits will be a drop in the bucket in terms of the overall size of the national economy, and they will have minimal impact on the costs of private-sector borrowing for either investment or consumer purchases.

In spite of the administration's rhetoric and rationales, however, everything has its cost, and this is as true for budget deficits as for anything else. More than 150 years ago, the French economist Frédéric Bastiat wrote an essay entitled “What Is Seen and What Is Not Seen” in which he pointed out that when government taxes or borrows, we all see what the spending produces: new government buildings, increased subsidies for selected groups of farmers, additional government expenditures on health care, or expanded arsenals of the weapons of war.

But what is not seen are all the things that would have been produced, purchased, and used by the multitudes of private individuals in the society if the government had not taxed away a portion of their income or had not siphoned off a portion of the available private savings to

cover the budget deficits. But because of the government's taxing and spending policies, these are "might-have-beens," and people find it more difficult to fully appreciate what it is the government's spending their money forces them to do without.

One way of thinking about the costs of the government's fiscal policy is to consider what these deficits are equal to in terms of private-sector spending today. According to the preliminary (GDP) figures for 2002, a federal budget deficit between \$200 and \$300 billion is equal or almost equal to all purchases by the American consuming public on furniture and household items (\$319.2 billion), clothing and shoes (\$321 billion), or recreation (\$285.9 billion). It is also equal to all spending on single-family residential housing in the United States (\$245.3 billion).

In other words, these are the kinds of things that Americans will have less of when their dollar equivalents are borrowed away by the federal government to cover the expected budget deficits. The scarce resources, labor services, and capital equipment of society will be redirected to produce and supply those things for which the government spends the \$200–\$300 billion, rather than what private consumers and businessmen would have used it to manufacture.

Daniels and others in the Bush administration might try to fool us into thinking that the coming budget deficits are not much different than a "free lunch," but each of us will end up partly paying the bill by having to do without many things that we could have been able to have instead.

Richard Ebeling is Ludwig von Mises Professor of Economics at Hillsdale College and serves as vice president of academic affairs for The Future of Freedom Foundation ([www.fff.org](http://www.fff.org)) in Fairfax, Virginia.