

In an earlier work I described the difference between Free Market Capitalism, which is beneficial, and Political Capitalism, which usually is not and which often causes people to disparage true free market capitalism as a result. My earlier paper has appeared as a statement on my old website , www.chippeterson.com. It also appears in: www.theconstitutionalistsociety.com, the Constitutionalist Society website, under member contributions. It is titled, “Political Capitalism.”

In this paper we provide more details on two particular forms of political capitalism, that often are at odds with one another, yet have many similar characteristics. In both cases, government entities seek to control the “means of production,” i.e., capital resources, in a country to serve governmental objectives. In fact, the Noble prize winning economist, Friedrich Hayek tends to treat both socialist (and related, communist) economies similarly to the way he treats Fascist economies. He characterizes both types of economies as being controlled by “Central Planners” who try to ensure that the capital resources of the “state” are used to service the needs of the state as determined by the political elite.

At present, most Socialists and their Communist brethren vilify fascism and claim that all capitalists are fascists. The “antifa” movement is staffed with many socialist and even communist sympathizers. The movement name stands for “anti-fascist” and its members often demonstrate against various capitalistic organizations and vilify Nazi's. Nazi's, of course, take their name from Hitler's political party, which certainly deserves to be vilified due to its horrible repression of others and warfaring nature. However, what many people do not know is that Nazi is an acronym that stands for Germany's “National SOCIALIST workers party” -- emphasis added by the author.

A short history of “fascism” shows why Nazi's included “socialist” in its acronym. Fascism was first developed in Italy under Mussolini. Mussolini was initially enchanted by the Communist's Socialist philosophy, but disliked the fact that it was Internationalist in nature and sought to convert the entire world to its philosophy. He wanted something that could be tailored more closely to the interests of the national state. In his view all parts of the national state should be unified under its elite leaders to achieve the objectives of the state—many of which were nominally socialistic in nature—as they claimed they would improve the welfare of the working classes. In the fascists' view, it was allowable for private interests to own capital as long as they used it to further the interests of the “state.” Thus, under Hitler, armament makers and steelmakers were owned by private interests but produced what the leaders wanted. In short, regardless of the nominal ownership of productive resources, it had to be employed as the “central planners” directed.

Socialism, in contrast, dislikes private ownership of the means of production, i.e. capital. Its close relative, Communism., believes that all productive resources should be owned and used by the collectivist state to further the public's interests. In the “short run” Communists believe there needs to be a “dictatorship of the proletariat (ordinary working people)” to determine how all productive resources, i.e. capital and people, should be employed in the public interest. In the long run, Communists theoretically believe that the dictatorship will wither away and all productive resources will automatically be used to further the public interest. In practice, Communist dictatorships have never withered away. Communist dictatorships have persisted until the public has become so disgusted with poverty and inequality that it supports the overthrow of the ruling communist elite.

Not all Socialists support Communism, of course. However, they all support government control of “the means of production” to a greater or lesser extent. Many Western European countries have adopted socialistic policies that have varied over time. In many cases the policies take the form of government ownership and control of various “key” industries. Such industries often include public utilities, communications, finance, steel, energy, healthcare, shipbuilding or other industries considered

to be of vital national importance. Socialists also tend to follow policies based upon the slogan, “From each according to their ability, to each according to their need.” It is an idealistic philosophy that usually leads to a highly progressive tax system, often accompanied by an extensive welfare or income maintenance system.

The problem with socialistic control of economies is that they tend to promote economic inefficiency. Considering just the effect of a progressive tax and welfare system. If people expect to receive essentially the same returns whether they work or not, work effort will tend to diminish. At the low end of the income spectrum, people may decide not to work because they can do as well or better economically by depending upon welfare payments, and will have more free time and fewer commuting hassles as well. At the high end of the income distribution, people may decide to take less risk since they will bear the losses and the state will tax away many of the gains. In addition, people may decide to take more leisure and work less, or work in non-taxable endeavors, rather than earn more taxable income. Thus, visible work effort and risk taking will decline, and that will harm the economy. This was aptly demonstrated in Britain when the {“Socialistic”) Labor party controlled its politics in the early 1970s. Britain had a substantial “Brain Drain” as highly educated people emigrated to lower tax countries. As another example, high taxes in Norway caused people to do work at home, such as butchering their own meat, even though that could have been done more efficiently by specialists in a free market environment. The problems caused by the Labor Party's Socialist policies in Britain included strikes and work stoppages in key socialized industries, inflation, slow economic growth and general stagnation. Finally, the British people elected Margaret Thatcher who tried to reverse Britain's socialist policies and restore free market capitalism insofar as possible.

The litany of countries who have suffered under socialistic capitalism is extensive. It is most obvious with countries that have formally declared themselves to be “Communist.” However, it is also apparent in less severe cases. Studies have shown that European countries that have the highest proportion of government spending in their Gross Domestic Product tend to have slower growth rates than countries with less government involvement in the economy. Government control of industries and the allocation of a country's capital resources often results in featherbedding as the socialized industries hire political apparatchiks or others who seek jobs in a government enterprise. Such people may not be particularly hard workers since they feel their job only marginally depends upon their work performance. In addition, such people may avoid innovations that might involve risk since their jobs are secure if they don't make great mistakes. The government always stands willing to invest more funds if needed, as government entities are not usually required to achieve profit objectives and most cannot fail—as that would be embarrassing to the politicians who created and staffed the enterprise. Socialized industries in otherwise non-socialistic nations tend to underperform their private counterparts. A prime example is PEMEX in Mexico. It dominates Mexico's oil industry by fiat. As a result, it has been used as a locus for political appointments and as a source of funds for government politicians. Unfortunately, its employment registers have become bloated and its willingness to take risks and innovate has stagnated. Consequently, it has been slow to get involved in technical innovations such as fracking and the development of previously marginal oil resources so its production levels have stagnated or declined relative to their potential over the years. The accompanying table illustrates some of the experiences that Communist and Socialistic nations and enterprises have experienced over the years as a consequence of using political motives to allocate a nation's capital resources.

COUNTRY	POLICY	OUTCOME FOR LEADERS	OUTCOME FOR PUBLIC/ECONOMY
Yugoslavia	Communism	New Class Leaders lived well	Ordinary People did not
USSR	Socialist Communism	Leaders Lived Well Had Dachs &Perks	People Faced Queues, Limited Choice Poor Consumer Goods, Gulags, Purges &Suicides High
North Korea	Communism	Hereditary Leaders Thrived Leaders Lived Well	Ordinary People in Poverty Many Starved at Times
Cuba	Communism	Leaders Lived Well	People were very poor Many fled &thrived in US
Venezuela	Bolivarian Socialism	Leaders Lived well	Economy Devastated People Now Desperate
UK in 1970s	Labor Gov't Socialism	Leaders Had Power	Strikes, Low Productivity High Inflation, Brain Drain

In all cases where a country has pursued communist and socialist policies, the leaders have done well while the ordinary people have not done well economically. The ordinary people have experienced inflation, limited choices and poor quality goods in the marketplace, and, often, personal repression. In his book, The Road to Serfdom, Friedrich Hayek points out that in a central planning system such as communism, socialism, and fascism, there is a tendency for the worst people to rise to the top. Thus, it is not surprising to see that once a country starts down the path toward a statist system of economic organization (central planning), that the leaders tend to do well while the ordinary people do not.

In contrast to countries that have adopted socialist or communist economic policies that emphasize government (statist) control of economic means of production, other countries have adopted free market oriented policies where personal freedoms exist, property rights exist, and the rule of law exists so people can reallocate their work effort and economic assets in any way that they feel will improve their welfare (or profits). The US initially thrived because our founders were aware of Adam Smith's work and adopted many policies, including the British common law traditions, that facilitated the operation of free markets and, as a result, led to rapid economic growth.. In addition, many countries learned from observation that free market economics led to beneficial outcomes so they adopted free market policies after the devastation caused by WWII. Some countries were, in fact, divided and one part adopted free market economic policies while the other part, with similar people and cultures, became socialistic or communistic.

The following table lists some of the most prominent examples.

COUNTRY	POLICY	OUTCOME
North Korea	Communist	Dismal for people, strong military, well-off leaders
South Korea	Free Markets	Rapid Growth, Well off people
East Germany	Communist	Languishing Economy, Personal Repression, People Fled
West Germany	Free Markets	Rapid Growth, Wealthy People
Taiwan	Free Markets	Rapid Growth, Wealthier People

China (Maos)	Communist	Great Leap Forward Stagnated, many starved
China (Dengs)	Communist with Free Markets	Rapid Economic Growth with restricted freedoms
Hong Kong	Free Markets	Rapid Economic Growth, went from poverty to wealthy country
Singapore	Free Markets	Rapid Economic Growth, went from poverty to wealthy country

In addition, recall that the European countries that had the greatest government control of their economies (statist policies) also generally experienced the slowest economic growth. Thus, it is clear that when free market incentives allow people to apply their work effort and their economic assets in the ways that will be most helpful and profitable for them, their economic welfare and personal freedoms will both tend to prosper.

The question then arises, “Why do political leaders continue to advocate and adopt socialistic policies for their countries, in spite of their proven economic inferiority?” A clue is given in the tables above that shows that in most cases where a country adopts socialistic or communistic policies, the leaders have thrived relative to the common people who have often suffered. In addition, James Buchanan won the Noble Prize in Economics for his work on Public Choice Economics. That work points out that public servants, in contrast to the myth, do not become saints when they are appointed or win their positions. In fact, they mind their own interests in addition to those of the public whom they are charged to represent. While they may wrap themselves in the moral superiority cloak of being “public servants,” in many cases their personal self-interest may dominate their public service interests.

I personally became aware of politicians putting their self-interest over the public interest when I read an article by Gordon Tulloch in the Western Economic Journal in November 1970. Tulloch worked in the area of public choice economics along with Buchanan. His article was entitled “The Charity of the Uncharitable.” In that article he thoroughly traced the money needed to fund one of President Johnson's welfare programs. He found that of the money appropriated to service and fund the program, well under 10% handed up in the hands of the poor who were supposed to benefit from the program. The rest went to program administrators and bureaucrats, to academics who studied and helped design the program, and to the fund raising and administration process. As an aside, it appears to me that one reason so many academics support statist government policies (such as Johnson's great society programs and “global warming” alarmist policies) is that they may anticipate that the academic community, including themselves directly or indirectly, will benefit from such policies.

In recent years, because formal socialistic policies have been unsuccessful and often are discredited and because fascist polities were discredited by the Nazis during and before WWII, political leaders who wish to pursue “statist” economic policies characterized by strong central control and central planning (including “progressives”) have often adopted an approach that I call “the New Socialism.” Those policies are advocated by people who believe in government control of the means of production, but they allow for nominal private ownership of those productive resources. Private people are allowed to own productive resources but government regulations will tell them what they can or cannot do with those resources and how they must behave in their production process. The private owners will still be liable for tax payments on those resources, however. Because private ownership can still exist even though productive resources must be used as the central planners direct, this version of the new socialism has many characteristics of fascism—which is ironic since socialists are often the first to condemn “fascists.”

Examples of the new socialism include the EPA which establishes regulations governing land use, waters of the US regulations which prevent people from exploiting waters on their land as they wish, tenants’ rights laws that impose many restrictions upon landlords, even if tenants have failed to pay their rents, and labor force regulations that provide minute details about safety railings and other required workplace safety requirements, In addition, worker's rights protections and anti-discrimination

requirements may severely limit the ability of private employers to hire or fire workers. In short, while individuals may own the means of production, under the new socialism, much like under fascism, they must use their productive resources in the manner required by their governmental overloads via the regulatory process.

Given the fact that economic welfare advances more rapidly under free markets and also under situations (as in Europe) where government intervention in the economy is restrained, then one must ask why political leaders who claim that they want to improve the welfare of people in their society so often advocate socialistic policies. The answer in part is that they hope to personally benefit if they are elected and the government adopts such policies (as can be seen when we consider how the leaders of socialistic and communistic states have fared relative to their ordinary people). Their motives can also be explained via Public Choice Economics theories. Nonetheless, the question arises, "When the observed performance of centrally planned societies is so dismal (see Hayek as well as our earlier table), why do people continue to vote for leaders who espouse such policies?"

The answer lies in the cognitive and emotional deficiencies of the majority of voters. That is one reason that the founding fathers of the US created a Republic with divided powers and representative government rather than a pure democracy. As James Madison, who wrote much of their US Constitution noted in Federalist Paper #10, under a pure democracy, "such democracies, have ever been spectacles of turbulence and contention, have ever been found incompatible with personal security or the rights of property, and have in general been as short in their lives as they have been violent in their deaths."

The US founding fathers were well aware of human deficiencies that caused pure democracies to ignore the interests of minorities and dissolve in contention. Many of the US founders were religious and believed in the concept of "original sin." They also were aware of previous literature, such as Dante's Inferno in which the 7 deadly sins were mentioned. It appears that Dante listed the following as deadly sins: pride, greed, envy, malice, lust, gluttony, and sloth. Many people are still subject to those "sinful" impulses today, and many politicians play upon those sentiments in order to attract votes.

Most peoples' decisions are dominated by emotional considerations rather than rational considerations. This is demonstrated in Daniel Kahneman's book, Thinking Fast and Slow which points out that fast thinking requires less mental effort and may have survival values in a threatening environment. Kahneman (along with Tversky) won the Noble Prize in Economics for some of his groundbreaking work on the way that human psychology affected economic decisions.

Other works that demonstrate the large emotional component of human decision making are those associated with the Marshmallow experiments conducted at Stanford University and replicated many times and ways since. Those experiments showed that over two thirds of the preschool children who were told they would receive an extra marshmallow if they could restrain themselves from eating the one in front of them for the 15 minutes they were in the room with the marshmallow alone were unable to restrain themselves. In a follow-up many years later, the principal investigator found that those children did less well on SAT tests, less well in staying away from drugs, and less well at staying out of trouble than the children who had exercised self-restraint. Along similar lines, I observed that over 2/3 of the people who used credit cards some years ago, when their rates were much higher than most credit alternatives, did not pay off their credit card loans in full. Obviously, they had valued the immediate delights available from the use of high cost credit over the fact that they could have saved money by financing their purchases in other ways. In short, many people are not able to restrain themselves from making impulsive, emotionally driven, decisions, even though the propensity to make such decisions may cost them in the long run.

The tendency of most people to make emotionally driven decisions is complicated by the fact that many people do not understand economics well. Economics, especially free market economics, is rarely taught in public schools. In addition, public schools often do not emphasize teaching chains of

reasoning that would allow students to analyze proposed economic policies so that they could see beyond the obvious intent of the policies, i.e., that which can be “seen” in Bastiat’s terms, and see the additional implications of the proposed policies “the unseen.” It is not clear that the deficiencies in public economics education is purely accidental. Part of the goals listed in Marx’s Communist Manifesto are to dominate the media as well as the educational system that influences members of society. Leaders in US educational philosophy studied the Soviet system of education in the early 1900s. How much of that philosophy was incorporated in our schools is unknown. However, the fact exists that free market economic principles are rarely taught while statist solutions to economic issues are often proposed. In addition, the press often vilifies “profits” and profit makers.

The bottom line, then, is that many people make emotional economic decisions and few are prepared to analyze economic issues adequately. Thus, many are subject to the blandishments of demagogues who advocate statist economic policies with themselves in charge. Such demagogues are often quite skilled at making emotionally based arguments that appeal to potential voters’ baser instincts. In particular, they may promise to give voters things that they may desire (satisfying “greed”) so they will have what others who have more have (satisfying “envy”), by taking what they wealthier people have through taxation, confiscation, or force, if necessary (satisfying “malice”).

Seemingly, some of the Demagogues must know better, but they may disguise that fact by wrapping themselves in a cloak of morality and claiming that they are acting in the public interest. A few may be, but many are acting in a way consistent with “Public Choice Economics.” They realize, deep down that they may gain if people vote for them and support the policies they propose. Because they may profit personally by advocating such policies, they may do so even if they know that the “unseen” effects of such policies may be harmful for the economy in general.

The following table notes many of the ways that politicians and/or their bureaucratic spawn can gain by ignoring free market principles.

WAYS IN WHICH POLITICIANS AND RELATED BUREAUCRATS AND ASSOCIATES CAN GAIN BY IMPEDING THE OPERATION OF FREE MARKETS

I. By obtaining direct payments in salaries or perquisites

In the US government employees earn approximately 2 times the average income of all workers. In addition, federal politicians have greater job security and access to medical care insurance options that far exceed options available to the public at large. In other countries, as noted in the table on socialism and communism, political leaders usually live well even if their population suffers.

II. By receiving current perquisites or payments, or future payment prospects, from entities who receive government contracts.

Examples include high level bureaucrats who may have allocated contracts or other benefits to a company who later resign from the government to either go to work for the company or obtain profitable consulting work with the company (this may occur with drug approvals or various government purchase contracts, such as defense contracts). In addition, political leaders who devote national resources and concerns toward a supposed problem may later profit greatly by working for companies who claim they can solve the problem with government support. An example is Al Gore with his “global warming” alarmism, who later went to work helping “green” companies sell stocks in the anticipation of gaining from various government regulatory policies that would support “green” companies. Those companies often produced products that would not have been economically viable to produce without government subsidies and support. In fact, even with government support some green companies, such as Solyndra, went bankrupt.

III. By Creating Monopoly Rents for Themselves from people or companies who benefited from

governmental restrictions upon unlimited market entry or government policies that created monopolistic profit opportunities.

Examples include:

- a. Restrictions on entry into various professions or industries via licensing requirements
- b. Restrictions on foreign competition to domestic industry via tariffs, quotas, regulations, etc.
- c. Limiting entry of non-approved competitors into favored markets—FCC.
- d. Allowing favored firms to merge and dominate particular markets
- e. Writing specifications in government purchase contracts that favor only one bidder
- f. Approving only one potential supplier of a product in high demand---example FDA

IV. Through Various Forms of “Extortion” -- by threatening to pass onerous regulations or taxes

WHY ARE SOCIALISTIC POLICIES POPULAR WITH VOTERS?

Given the fact that many politicians and related bureaucrats may find ways to profit from their positions, the question then arises, why do voters not try to prevent such behavior. Part of the explanation revolves around the limited economic knowledge and cognitive biases of the general population. Those cognitive biases, while problematic in themselves, are often exploited by politicians for their own benefit. A second reason is that the existence of easy credit, debt, and fiat money can be used to exploit those biases—particularly since people can “see” the initial intent of economic policies more easily than they can foresee the implications of the growing debt used to finance many of those policies. The following summarizes some of the most trenchant biases in human cognition, notes how politicians often exploit those biases, and notes the role that fiat money and debt plays in facilitating that exploitation.

Cognitive Biases of the Public that Influence Political Preferences

Emotional Decision Making Dominates Rational Thought for Many

The Noble Prize winning author, Daniel Kahneman, has written a book titled: Thinking Fast and Slow. He notes that people are predisposed to make quick emotionally based decisions unless they see a need to engage in more detailed, complex, and onerous “slow” deliberative thinking. This means that many people stop their economic analysis with the “seen” effects, especially if those effects have emotional appeal, rather than proceeding to the more difficult assessment of the “unseen” effects.

Evidence in the Stanford Marshmallow experiments indicates that over 2/3 of young people have difficulty exercising self-restraint in the face of an emotional temptation. Follow up analysis indicated that such young people were less likely to do well academically, were more likely to get in trouble, and were more likely to take drugs later on. The Marshmallow experiments have been confirmed by subsequent investigators in various groups and cultures.

Additional evidence that many people let short-term temptations overwhelm longer-term analysis lies in the fact that many people are heavily indebted, often with high-cost debt. This is most evident with credit card debt which generally carries much higher interest rates than other consumer debt. Yet, when I worked at the Federal Reserve, I noted that less than 2/3 of the people completely paid off their credit card debt each month.

Physiological studies show that the judgment center of the brain, the prefrontal cortex, is not fully formed in many people until their mid=20s. The prefrontal cortex is the part of the brain that can assess situations and decide to consider alternative possible outcomes rather than to respond immediately and emotionally. Teenagers, who typically have underdeveloped prefrontal cortexes, tend to make emotional, impulsive decisions. The slow development of the prefrontal cortex may be one reason that auto insurance companies charge higher rates for people under 25 and why the US formerly

did not draft soldiers over the age of 25. The operation of the prefrontal cortex can also be diminished by degenerative effects caused by some recreational drugs. In particular, methamphetamines, which cause heavy meth users to have bad gums and teeth, also degrade the prefrontal cortex part of the brain that lies above the upper gum line. Interestingly, crystal meth was originally developed by the Germans to give to their soldiers in WWII. Also, interestingly, recent studies of journalists have shown that many are predisposed to making short-term, emotional decisions—which makes sense in a news environment that strives to stir up people's emotional interest. Unfortunately, journalistic biases may also affect the public discourse.

EDUCATIONAL DEFICIENCIES OF THE PUBLIC⁷

People could more readily perceive the “unseen” effects of proposed economic policies if they were better educated on economics. They also would be better able to perceive those effects if they were better trained in engaging in critical thinking and in making logical judgments. Neither type of educational training is a strong point of present public schooling. It is not clear whether these educational deficiencies are solely accidental. Public education in the US has been strongly influenced by John Dewey. He, in turn, previously visited the Soviet Union to study their educational system. Unfortunately, the Soviet Union followed Marxist principles designed to produce well-suited workers for a Marxist-oriented society. Two of the principles enunciated in Marx's Communist Manifesto were that the state should control both public education and the media.

Regarding economic education, many groups in the US are trying to remedy deficiencies in the economic training of young people. Those groups include The Foundation for Economic Education and the American Institute for Economic Research. The latter institution also has connections with “The Bastiat Society.” However, it is difficult to get widespread adoption of materials that educate students in free market economic principles. It is not clear if statist oriented economic policies are easier to teach because they have more emotional appeal to immature students, or because academic administrators have preferences for teaching statist oriented economics. Educational administrators may favor teaching statist economic policies in part, possibly, because they work for statist governments and in part because that is the only type of economics that they have learned. In addition, statist policies may be easier to teach because they only focus on the “seen” effects of proposed policies. Such policies may be appealing for teachers because they may be more popular with students who have limited “slow-thinking” skills and minimal predispositions to do the work necessary to analyze the likely “unseen” effects.

The public media generally reinforces the “fast” thinking, emotional approach of much of the public toward proposed economic policies. In part that may result from the innate biases of journalists who tend to be emotional short-term thinkers themselves. It also could be the result of journalistic training that emphasizes a short-term emotional focus over longer term thinking and may, in some journalism schools, result from a conscious emphasis upon statist economic policies in preference to free market economic policies.

Certain Politicians May Gain from Proposing Short-term Policies and by Making Emotional Appeals

Unfortunately, many politicians have learned that they can gain by appealing to the baser, more emotional aspects of human thought processes. If they can raise fear in people (such as fear of other countries, fear of foreigners, fear of job loss, fear of disease, homelessness, or poverty, etc.) voters are likely to engage in emotional thinking and favor the politician's proposed policies without doing additional analysis to analyze its potential “unseen” effects. Such politicians may also favor policies such as low voting age, motor voter, no ID and felony voting policies that make it easier for short-sighted, emotionally oriented voters to cast a vote. Additionally, such politicians may also make

emotional appeals to spark the “sinful” nature of humans. For example, they may appeal to “greed” (i.e., “I will give you what you need and want if you elect me”), envy: (“some people have too much, and that's not” fair”), or malice (“those who have too much don't deserve it, it is only fair if we take what they have”). Unfortunately, many journalists amplify various emotionally based appeals and policies of various “statist” politicians.

Politicians who wish to make emotional appeals to the electorate often also support policies that will enable emotionally oriented voters to enter the political voting booth. Such policies include lowering voting ages, enabling felons (who have previously demonstrated an inability to control their short-term thinking) to vote, supporting: motor voter (last minute voting) registration rules in lieu of advance voting registration that would emphasize voting by people who think ahead. They also tend to oppose photo ID requirements (as those might discourage both illegal voting and voters who must think ahead to get a suitable ID). Again, they are likely to be supported in such policies by sympathetic journalists.

The Role of Debt and Fiat Money

When Bastiat wrote in the early half of the 1800s, the use of hard money was common. Thus, in the case of the “broken window fallacy,” if a person used his money to pay a glazier to replace the window, he would no longer have that money to make other purchases. Similarly, if the government collected tax money from one person, that person would no longer have the funds necessary to make other purchases. Even if the government were to borrow funds, the lender would no longer have the funds necessary to make a loan to someone else who might have a productive need for them. Thus, it often was possible to determine the “unseen” effects of possible government policies by following the flow of funds and determining what their “opportunity costs” would be.

In today's world, the situation has changed. Governments frequently finance their desired expenditures by creating fiat money. Often the money is created by a central bank that either can directly issue money to the government or can indirectly do so by buying government debt. To the extent that a government is better able to bid for domestic resources by using money created by “the stroke of a pen” by a central bank, there may be more purchasing pressure on domestic resource supplies that ultimately results in domestic inflation. The public will not be pleased if the resulting inflation is excessive. However, if the government obtains money to spend by taxing the public or by issuing debt to domestic buyers, others in the economy may be able to spend less or lend less to others so the domestic inflationary pressures may be muted. That approach may still generate the “unseen” effects described by Bastiat, but it may generate less resistance than the blatantly inflationary policies of direct “money printing.” Still, governments who want to spend without causing immediate countervailing effects may pursue alternative policies—to wit, they may market their debt to foreigners. If foreigners buy government debts, it is their citizens who will have less money to spend rather than domestic citizens. Consequently, the opportunity costs of debt financed government spending will not be seen as quickly. It is only when the foreign debt must be repaid that citizens will realize that there was an “unseen” cost to their government's previous debt financed domestic spending == since they now will have fewer domestic resources available to spend once the debt is repaid. That is the “unseen” effect of foreign debt financed domestic government deficits, but the debt repayment burden is likely to be borne by their children and grandchildren at some point in the future.

Two caveats exist that must be noted. First, the domestic debt owned by foreigners may never come due, on balance, if the foreigners are content to hold that debt—but, of course, interest must be paid on that debt unless it is converted to a fiat money obligation. People may be willing to hold the fiat money of the country that issued the debt if it is widely accepted in international trade—but such preferences may not last forever. Second, foreigners generally will only have the domestic currency

needed to invest in US domestic debts if they sell more to the US than the US purchases from them on current account (i.e., the US runs a trade deficit on current account). Thus, a larger US trade deficit will enable foreigners to buy more US domestic debt if they are so inclined.

In spite of the potential future “unseen” costs of domestic debt financed increases in government spending and/or reductions in domestic taxes, domestic deficits may still be popular since the “seen” effects appeal more to the majority of domestic voters than their unseen future consequences. Because of debt issuance and fiat money issuance, it may be easier for the majority of the electorate to ignore the potential “unseen” effects of “statist” government economic policies than when Bastiat wrote.