
About Real-World Economics

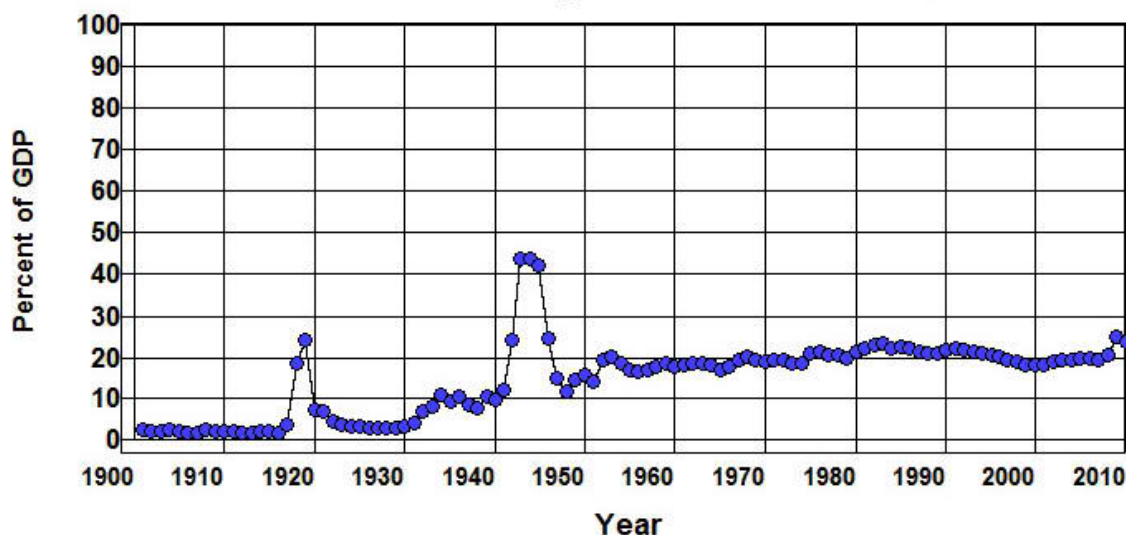
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We live in a country in which the vast majority of the people hold a set of beliefs about our government and economic system that are demonstrably inconsistent with facts that exist in the real world. The extent to which this is so is easily seen by considering how many people would be surprised to discover that the size of the federal government as a fraction of our economy—that is, as a percent of gross domestic product—was *smaller* in 2000 and 2001 (18.2%) than it was in 1961 through 1964 (18.4%-18.8%). This is just a simple fact, and yet most people would find it almost impossible to believe given the deluge of antigovernment rhetoric out there that suggests the opposite is true.

This story is told quite clearly in **Figure 1**, which is constructed from data given in the [OMB's Table 1.1—Summary of Receipts, Outlays, and Surpluses or Deficits](#) and [Table 10.1—Gross Domestic Product and Deflators Used in the Historical Tables](#) and in the [Historical Statistics of the U. S., Table Ca9-19 Gross domestic product: 1790–2002](#). The graph in this figure plots total federal government outlays as a percent of GDP from 1901 through 2010.

Figure 1: Total Federal Government Outlays, 1901-2010.



Source: [Office of Management and Budget \(1.1 10.1\)](#), [Historical Statistics \(Ca9-19\)](#).

This plot makes clear that in spite of what people think:

1. The most significant increases in the federal government's role in the economy took place in the 1930s, 1940s, and 1950s.
2. The federal budget has barely increased as a fraction of the economic system since the 1960s.
3. During the 2000s, the federal budget was approximately where it was in the 1970s and significantly below the 1980s in terms of its relationship to the total economy.

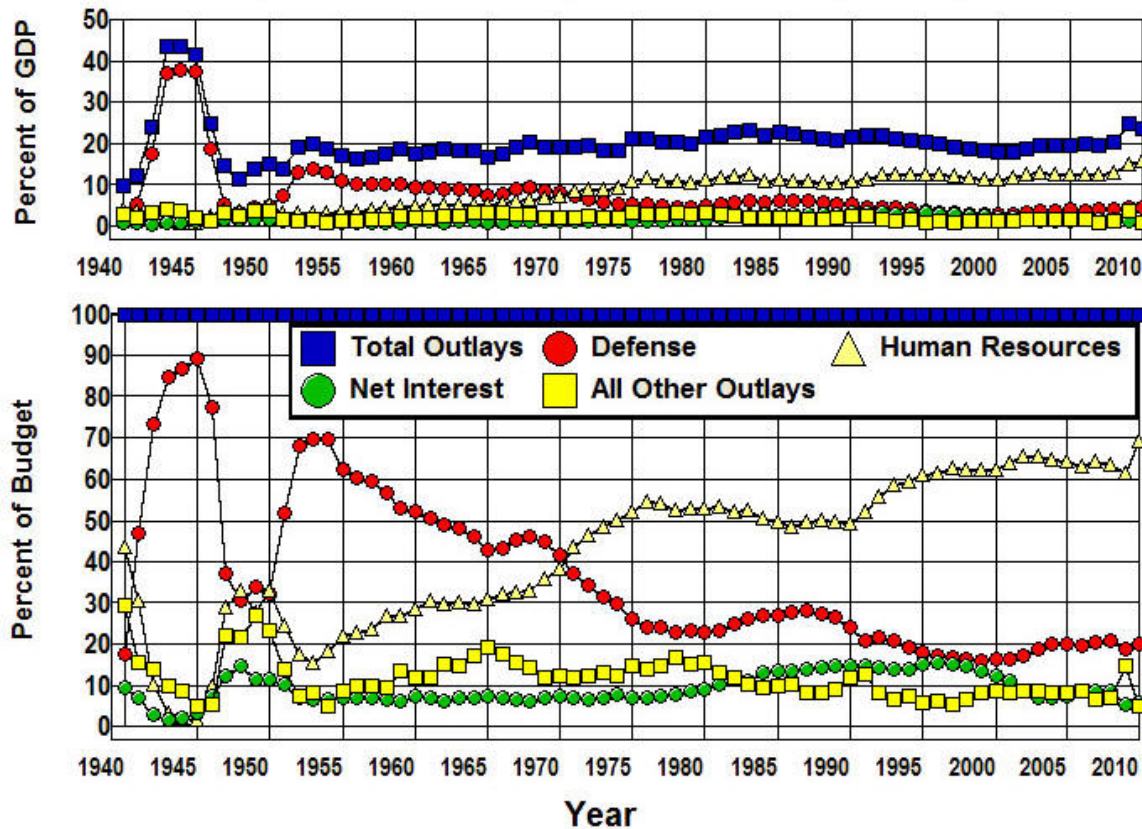
This is the situation that actually exists in the real world, and this is what Real-World Economics is about. It's about cutting through the rhetoric, the spin, the propaganda, and all of the other nonsense that exists in the [imaginary world](#) many, if not most people have come to believe in, and looking at the facts as they actually exist in the real world, the world in which we actually live. It is hoped that looking at the facts in this way will introduce a degree of rationality into the otherwise hopelessly irrational debate we have been subjected to over the past forty years. After all, facts do matter, or at least they should.

For example, not only do most people believe the federal budget has grown totally out of control over the past forty years, many, if not most, also believe that somehow we can cut the budget dramatically without cutting defense or Social Security or Medicare, and without causing a great deal of hardship and misery by decimating those programs that make up our social safety net, simply by cutting the rest of the government. At the same time, there are those at the other end of the political spectrum who believe that all we have to do to solve our fiscal problems is cut defense. What do we find when we look at the actual numbers that exist in the real world?

Breakdown of the Federal Budget

Figure 2 is plotted from the [OMB's Table 3.1—Outlays by Superfunction and Function](#). This figure plots a breakdown of the actual, real-world expenditures of the federal government in terms of its three largest categories (Superfunctions) from 1940 through

Figure 2: Defense, Human Resources, and Net Interest, 1940-2010.



Source: [Office of Management and Budget](#). (3.1)

2010: Defense, Human Resources, and Net Interest.

The first thing we see when we look at the graphs in this figure is that even though the size of the budget has changed very little relative to the economy since the 1950s, the **Human Resources** component of the budget—those programs that make up our social insurance system including Social Security, Medicare, and our social safety net—has grown dramatically. It has gone from less than 20% of the budget in the early 1950s to more than 60% in the 2000s. At the same time, **Defense** has decreased just as dramatically, going from over 60% of the budget to around 20%. Meanwhile the third largest category in the budget, **Net Interest**, has gone from a high of 14.6% of the budget in 1948 to a low of 5.2% in 2010, and it stood at 8.7% of the budget in 2007 (the year before the federal budget was distorted by the financial panic in 2008 and the economic crisis that followed). What is most relevant to the point at hand, however, is what has happened to **All Other Outlays** and **Defense** in this graph.

All Other Outlays

All Other Outlays is constructed by subtracting the sum of **Defense**, **Human Resources**, and **Net Interest** from **Total Outlays** in [OMB's Table 3.1](#). It shows us how much the federal government spent on everything other than **Defense**, **Human Resources**, and **Net Interest**. **All Other Outlays** consists of such things as expenditures on [Energy](#), [Natural Resources and Environment](#), [Transportation](#), [Community and Regional Development](#), [International Affairs](#), [General Science](#), [Space](#), [Technology](#), [Agriculture](#), [Administration of Justice](#), [General Government](#), and [everything else the federal government does](#). This residual has gone from a high of 14.6% of the budget in 1948 to a low of 5.2% in 2010, and it stood at 6.7% in 2007.

It is obvious—or at least it should be obvious to anyone who looks at the actual, real-world expenditures of the federal government plotted in **Figure 2**—that there is no reason to believe we can save a substantial amount of money by cutting the **All Other Outlays** category in **Figure 2**. The expenditures on programs represented by this category have already been cut by over 50% since 1980, and even if we were to eliminate all of these expenditures completely—which, of course, we can't and still have a functioning government—we would succeed in reducing the size of the federal budget by less than 7%.

What do we find when we look at **Defense**?

Defense

It is fairly obvious from **Figure 2** that there is probably room to make additional cuts in the area of **Defense**. After all, **Defense** today is barely below where it stood in 1980 when we were still waging the Cold War against the Soviet Union. Just the same, there is no reason to think we can solve all of our fiscal problems simply by cutting **Defense**. Even if we were to cut the defense budget in half, which few people would be willing to do, it would only reduce the total federal budget by about 10%.

Thus, if we are serious about making substantial cuts in the federal budget we must look to **Human Resources** even if we are willing to cut **Defense**. That's where the

money is, and that's also where Social Security and Medicare are as well as the social insurance programs that make up our social safety net. The question is:

Does it really make sense in the real world to think we can save a lot of money by cutting **Human Resources** without cutting Social Security or Medicare and without cutting those programs that make up our social safety net?

What do we find when we look at the actual numbers that exist in the real world as to how the money allocated to **Human Resources** is spent?

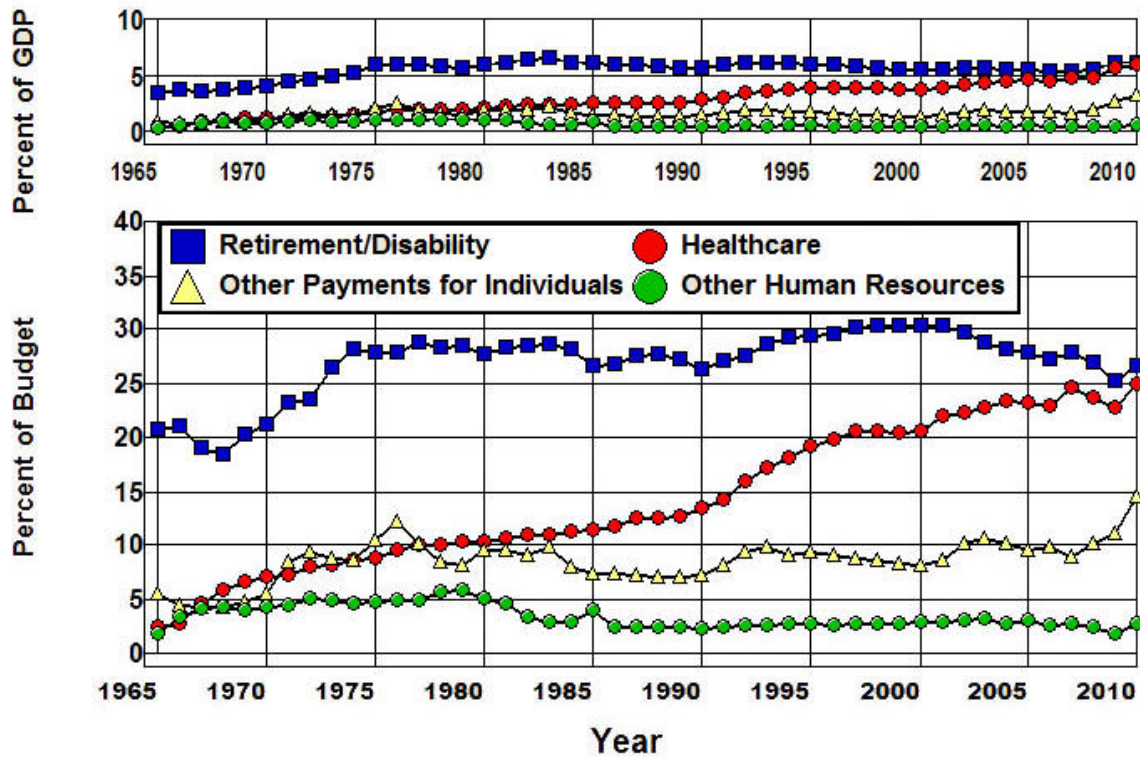
Human Resources

Figure 3 is constructed from the [OMB's Table 11.3—Outlays for Payments for Individuals](#). This figure breaks down **Human Resources** into four components. The first, **Retirement/Disability**, is the sum of all federal expenditures on retirement and disability programs. The second, **Healthcare**, is the sum of all federal expenditures on healthcare. The third, **Other Payments for Individuals**, is the sum of all federal expenditures on all payments-for-individual programs that are not medical or retirement/disability programs. The final component, **Other Human Resources**, is the total of all government expenditures on all other **Human Resources** programs. Each of these categories is explained in detail below.

The first thing we see when we look at the breakdown in **Human Resources** in **Figure 3** is that expenditures on **Retirement/Disability** are the largest component of **Human Resources** since 1965. The second is that while there were significant increases in all four of the graphs in this figure from 1965 through 1975, only **Healthcare** continued to rise after 1975 and this component of the federal budget has grown almost continuously from virtually nothing in 1965 to the point where it rivaled **Retirement/Disability** as the largest component of **Human Resources** in 2010.

Retirement/Disability and **Healthcare** combined dominate **Human Resources** and accounted for some 84% of all **Human Resources** expenditures in 2007. This would suggest that if we are to find ways to make substantial cuts in **Human Resources** we should begin by looking at **Retirement/Disability** and **Healthcare**. Before we do this,

Figure 3: Breakdown of Human Resources, 1965-2010.



Source: [Office of Management and Budget](#). (11.3 3.1 10.1)

however, it is worth emphasizing the following observation:

When we examine **Figure 2** and **Figure 3** together it becomes obvious that *the only part of the federal government that has grown dramatically since 1975 is expenditures on **Healthcare**.*

Retirement/Disability

Table 1 shows all of the federal programs listed in [Table 11.3](#) that are included in **Retirement/Disability** in **Figure 2** along with the amount spent on each program in 2007, the percent of GDP it consumed in that year, and the percent of the federal budget it consumed as well.

It is clear from this table that **Retirement/Disability** is dominated by Social Security in that fully 76% of the total in 2007 went to Social Security; only 20% went to civil service, military, and railroad retirement/disability programs, and only 4% went to the [Supplemental Security Income](#) (SSI) program. It is equally clear from this table that

Table 1: Expenditures Included in Retirement/Disability.

Program (2007)	Billions of Dollars	Percent of GDP	Percent of Budget
Social security and railroad retirement:			
<u>Social security: old age and survivors insurance</u>	483.32	3.48	17.71
<u>Social security: disability insurance</u>	97.50	0.70	3.57
<u>Railroad retirement (excl. social security)</u>	5.83	0.04	0.21
<u>Total, Social security and railroad retirement</u>	586.65	4.22	21.50
Federal employees retirement and insurance:			
<u>Military retirement</u>	43.51	0.31	1.59
<u>Civil service retirement</u>	60.86	0.44	2.23
<u>Veterans service-connected compensation</u>	31.06	0.22	1.14
<u>Other</u>	2.61	0.02	0.10
<u>Total, Federal employees retirement and insurance</u>	138.04	0.99	5.06
Public assistance and related programs:			
<u>Supplemental security income program</u>	32.80	0.24	1.20
<u>Veterans non-service connected pensions</u>	3.38	0.02	0.12
<u>Total Public Assistance Retirement/Disability</u>	36.18	0.26	1.32
<u>Total Retirement/Disability</u>	760.87	5.47	27.87

Source: Office of Management and Budget. (11.3 3.1 10.1)

there is no way to make substantial cuts in this portion of the **Human Resources** budget without cutting Social Security. After all, military, civil servants, railroad employees, and other government employees are just as entitled to their retirement/disability benefits as are Social Security recipients.

This leaves the SSI program which was only 4% of **Human Resource** expenditures in 2007 and 1.2% of the entire federal budget. Aside from the fact that SSI was only 1.2% of the budget in 2007 and 0.24% of our gross income, SSI is the primary social safety-net program that provides for indigent disabled and indigent elderly individuals who are either not eligible for Social Security or whose benefits fall below a subsistence level. Substantial cuts in this program would not only save virtually nothing, it would also tear a hole in our social safety net.

What about **Healthcare**?

Healthcare

Table 2 shows all of the federal programs listed in Table 11.3 that are included in **Healthcare** along with the amount spent on each in 2007, the percent of GDP it

Table 2: Expenditures Included in Healthcare.

Program (2007)	Billions of Dollars	Percent of GDP	Percent of Budget
<u>Medical care:</u>			
<u>Medicare: hospital insurance</u>	204.87	1.47	7.51
<u>Medicare: supplementary medical insurance</u>	230.12	1.66	8.43
<u>Children's health insurance</u>	6.00	0.04	0.22
<u>Medicaid</u>	190.62	1.37	6.99
<u>Indian health</u>	3.27	0.02	0.12
<u>Hospital and medical care for veterans</u>	30.54	0.22	1.12
<u>Health resources and services</u>	5.89	0.04	0.22
<u>Substance abuse and mental health services</u>	3.18	0.02	0.12
<u>Uniformed Services retiree health care fund</u>	7.60	0.05	0.28
<u>Center for Medicare and Medicaid Innovation</u>	0.00	0.00	0.00
<u>Reduced cost sharing for individuals in QHPs</u>	0.00	0.00	0.00
<u>Refundable premium assistance tax credit</u>	0.00	0.00	0.00
<u>Temporary high risk insurance pool program</u>	0.00	0.00	0.00
<u>Temporary reinsurance program</u>	0.00	0.00	0.00
<u>Other</u>	0.27	0.00	0.01
<u>Total Healthcare</u>	682.35	4.91	25.01

Source: Office of Management and Budget. (11.3 3.1 10.1)

consumed in that year, and the percent of the federal budget it consumed. Here we are looking at 25% of the budget, and it is clear from this table that Medicare and Medicaid dominate **Healthcare** in that these two programs accounted for over 90% of **Healthcare** expenditures in 2007 with Medicare accounting for 70% of this 90%. What about the 20% of this 90% that went to Medicaid?

This program represented 7% of the federal budget and 1.4% of our gross income in 2007 and lies at the very core of our social safety net. According to the Census Bureau's Table 151. Medicaid—Beneficiaries and Payments: 2000 to 2009, some 75% of its beneficiaries were either poor Children, indigent Blind/Disabled individuals, or indigent elderly adults age 65 and over, and over 85% of Medicaid's expenditures went to these individuals. It would appear that there is very little room to cut here without causing a great deal of hardship and misery through the denial of medical services to poor children or indigent disabled and indigent elderly adults.

That leaves the remaining 10% of the **Human Resources** budget that went to the other **Healthcare** programs in **Table 2**. Here we are talking about 2% of the entire federal

budget and 0.5% of our gross income. Of that 10%, 67.2% went to veterans ([Hospital and medical care for veterans](#) and [Uniformed Services retiree health care fund](#)), 10.6% to [Children's health insurance](#), and 5.8% went to [Indian health](#). Of the remaining 16.6%, 63.1% went to [Health resources and services](#) (a program that is designed to meet the healthcare needs in underserved areas), 34.0% went to [Substance abuse and mental health services](#) (a program that is severely underfunded given the extent of the substance abuse problem in our country), and 2.9% went to Other federal healthcare programs.

Veterans certainly have as much right to their medical benefits as Medicare recipients, and the rest of these programs play an important role in our social safety net. In addition, since the rest of these programs took up only 0.69% of the entire federal budget in 2007 and 0.12% of our gross income there is virtually nothing to be saved by eliminating these programs.

The leaves but two categories in **Figure 3** to examine: **Other Payments for Individuals** and **Other Human Resources**.

Other Payments for Individuals

Other Payments for Individuals includes the expenditures on all of the federal programs in [Table 11.3](#) that are not medical or retirement/disability programs. The items included in this category along with the amount spent on each in 2007, the percent of GDP it consumed in that year, and the percent of the federal budget it consumed are given in **Table 3**.

The first thing that jumps out from this table is that in spite of the abundance of programs, we are talking about only slightly more than 9% of the entire federal budget here and less than 2% of our gross income. While there were no programs that dominated this category, the ten largest items in **Table 3** are arranged from largest to smallest and listed in **Table 4**. These ten items accounted for 93% of the total expenditures in the **Other Payments for Individuals** category in 2007.

The ten programs listed in **Table 4** are the backbone of our social safety net. We're

Table 3: Expenditures Included in Other Payments for Individuals.

Program (2007)	Billions of Dollars	Percent of GDP	Percent of Budget
Unemployment Assistance	33.21	0.24	1.22
Assistance to students:			
Veterans education benefits	3.43	0.02	0.13
Student assistance—Department of Education and other	27.53	0.20	1.01
Total, Assistance to students	30.96	0.22	1.13
Housing assistance	32.97	0.24	1.21
Food and nutrition assistance:			
SNAP (formerly Food stamps) (including Puerto Rico)	34.89	0.25	1.28
Child nutrition and special milk programs	13.05	0.09	0.48
Supplemental feeding programs (WIC and CSFP)	5.31	0.04	0.19
Commodity donations and other	1.08	0.01	0.04
Total, Food and nutrition assistance	54.32	0.39	1.99
Public assistance and related programs:			
Family support payments to States and TANF	21.11	0.15	0.77
Low income home energy assistance	2.50	0.02	0.09
Earned income tax credit	38.27	0.28	1.40
Payments to States for daycare assistance	5.13	0.04	0.19
Payments to States—Foster Care/Adoption Assist.	6.56	0.05	0.24
Payment where child credit exceeds tax liability	16.16	0.12	0.59
Refundable AMT credit	0.00	0.00	0.00
Other public assistance	0.41	0.00	0.01
Total, Non-Medical/Retirement/Disability Public assistance	90.14	0.65	3.30
All other payments for individuals:			
Coal miners and black lung benefits	0.64	0.00	0.02
Veterans insurance and burial benefits	1.35	0.01	0.05
Payments to Japanese American WWII internees	0.00	0.00	0.00
Aging services programs	1.36	0.01	0.05
Energy employees compensation fund	0.95	0.01	0.03
September 11th victim compensation	0.00	0.00	0.00
Refugee assistance and other	1.30	0.01	0.05
Total, All other payments for individuals	5.60	0.04	0.21
Total, Non-Medical/Retirement/Disability Programs	247.20	1.78	9.06

Source: [Office of Management and Budget](#). (11.3 3.1 10.1)

talking about the Earned Income and Child Tax Credits (22% of the total of **Other Payments for Individuals**) that are designed to encourage work and assist the working poor who pay over 14% of their [earned income](#) in payroll taxes—a larger percentage than Romney paid in total taxes on tens of millions in [unearned income](#). About food stamps, school lunch and milk programs, and feeding programs for women, infants, and children (22%) that assist the poor in feeding themselves and their children. About student aid (13%) and unemployment compensation (26%). About foster care and adoption assistance (2.6%). And we're talking about only 9% of the federal budget in all

Table 4: Ten Largest Items in Other Payments for Individuals.

Program (2007)	Billions of Dollars	Percent of GDP	Percent of Budget
<u>Earned income tax credit</u>	38.3	0.28	1.40
<u>SNAP (formerly Food stamps) (including Puerto Rico)</u>	34.9	0.25	1.28
<u>Unemployment Assistance</u>	33.2	0.24	1.22
<u>Housing assistance</u>	33.0	0.24	1.21
<u>Student assistance—Department of Education and other</u>	27.5	0.20	1.01
<u>Family support payments to States and TANF</u>	21.1	0.15	0.77
<u>Payment where child credit exceeds tax liability</u>	16.2	0.12	0.59
<u>Child nutrition and special milk programs</u>	13.0	0.09	0.48
<u>Payments to States—Foster Care/Adoption Assist.</u>	6.6	0.05	0.24
<u>Supplemental feeding programs (WIC and CSFP)</u>	5.3	0.04	0.19

of the programs in **Other Payments for Individuals** combined and less than 2% of our gross income.

There is no reason to think that we can obtain a great deal of savings by making substantial cuts in this portion of the budget without dismantling our social safety net and causing a great deal of hardship and misery. The money just isn't in these programs, and it's through these programs—combined with Medicaid and SSI—that our war against hardship and misery is waged.

Other Human Resources

This leaves only **Other Human Resources** in which to find those elusive programs on which the government is supposedly squandering our federal tax dollars. **Other Human Resources** is the total of government expenditures on all **Human Resources** programs that are not included in the other categories in **Figure 3**. It is calculated by subtracting the sum of **Retirement/Disability**, **Healthcare**, and **Other Payments for Individuals** in **Figure 3** from the total of **Human Resources** given in **Figure 2**. This residual can be disposed of rather quickly. It represented only 2.8% of the budget in 2007 and less than 1% of our gross income, and aside from the fact that 2.8% of the budget is insignificant in the grand scheme of things, as is shown in **Figure 3**, the programs represented by **Other Human Resources** have already been cut by almost 50% since 1980. There is no reason to believe that substantial additional cuts can be found here.

Waste, Fraud, and Abuse

When it comes to waste, fraud, and abuse, there is obviously much room for improvement in the federal budget. As was noted above, **Defense** in **Figure 2** is barely below where it stood in 1980s when we were still waging the Cold War against the Soviet Union. Even though substantial progress was made in the 1990s in dismantling those parts of our defense system put in place during the cold war, it is apparent from **Figure 2** that this process is far from complete.

And then there's Healthcare. According to the [Organization for Economic Cooperation and Development](#) (OECD) and [Central Intelligence Agency World Factbook](#), we not only spent more per person and as a percent of GDP on healthcare in 2010 than any other country in the world, we spent more than twice the amount per person than the average of the OECD countries ([\\$8,233 compared to \\$3,329](#)) and almost twice as much as a percent of our gross income ([16.2% compared to 8.5%](#)). And, yet, we ranked [25th](#) among the 34 OECD countries in terms of life expectancy ([51st](#) among all countries) and [28th](#) among these 34 countries in terms of infant mortality ([50th](#) among all countries).

In other words, even though we spend more on healthcare than any other country in the world, and spend, on average, twice what the OECD countries spend, we benefit less from our expenditures than most of the OECD countries benefit from theirs in that their people live longer than we do and the rate at which their children die in infancy is less than the rate at which our children die in infancy. There is obviously something wrong here!

Both private and public healthcare costs in the United States have [increased dramatically over the past twenty years](#), and even though the [Affordable Care Act](#) promises to increase the availability of healthcare to the population, there is little reason to believe this act will lead to substantial savings in the federal budget in the absence of a [public option](#). It is either a public option or some other kind of [single-payer](#) mechanism that makes it possible for healthcare costs to be controlled in those countries that have better health statistics than we do, and there is little reason to

believe we will be able to control our healthcare costs until we implement a similar system at home.

Defense and **Healthcare** made up 45% of the federal budget in 2007, and it is apparent that there is room for significant reductions in waste, fraud, and abuse in these areas through dismantling those parts of our defense system that we put in place during the Cold War and reorganize healthcare toward a single-payer system. As for the rest of the budget, while there are undoubtedly some potential savings in the elimination of specific instances of waste, fraud, and abuse, there is no reason to believe that doing so will result in substantial savings.

Retirement/Disability made up 28% of the budget in 2007, but the great bulk of expenditures in these programs consist of benefit payments. While there may be some inefficiencies in the administration of these payments, administrative costs are relatively insignificant compared to the total payments involved. (Social Security's administrative costs, for example, are equal to only 1% of the benefits it pays out.) As a result, even if we were to completely eliminate all of the inefficiencies that may exist in the administration of this 28% of the budget, there is no reason to believe that doing so would make a substantial difference in the size of the total budget.

As for the remaining 27% of the budget, the 8.7% that consists of **Net Interest** in **Figure 2** must be paid when it comes due, so there is nothing that can be saved here, and, as we have seen, by 2007 the 6.7% of the budget that made up **All Other Outlays** had already been cut by over 50% since 1980 so there is no reason to believe that substantial savings can be found in this portion of the budget either.

That leaves only **Other Payments for Individuals** and **Other Human Resources** in **Figure 3**. As was noted above, **Other Human Resources** amounted to only 2.8% of the budget in 2007 and had already been cut by almost 50% since 1980. At the same time, **Other Payments for Individuals** has remained fairly stable since the 1970s, but, as was also noted above, this part of the budget amounted to less than 10% of the total in 2007. While there may be some benefit to be had from targeting specific instances of waste, fraud, and abuse in this part of the budget, there is no reason to believe it is

comparable to the benefits to be found in targeting the 45% of the budget that **Defense** and **Healthcare** take up. Even if we were to completely eliminate the waste, fraud, and abuse that may exist in **Other Payments for Individuals**, there is no reason to believe that there is enough potential savings here to make a substantial difference in the total budget.

Thus, when we look at the federal budget as it actually exists in the real world, we find that, contrary to what most people seem to believe, the only place we can reasonably expect to find substantial savings through the reduction of waste, fraud, and abuse are in the areas of **Defense** and **Healthcare**. While their undoubtedly are some benefits to be found in targeting specific instances of waste, fraud, and abuse in the rest of the system, there is no reason to believe there is enough waste, fraud, and abuse in the rest of the system to make a substantial difference in the size of the total budget.

Finally, I would note that dismantling those parts of our defense system put in place during the Cold War, reorganizing healthcare toward a single-payer system, and targeting specific instances of waste, fraud, and abuse within the system is the most efficient, least harmful, and only sensible way to address the problem of waste, fraud, and abuse in the federal budget. Waging this war by simply cutting the budget—which is what we have been trying to do over the past thirty years—is a recipe for disaster.

When we dismantle those parts of our defense system that we put in place during the Cold War, reorganize healthcare toward a single-payer system, and target specific instances of waste, fraud, and abuse in the system we are affecting the lives of relatively well off or undeserving individuals who can, more or less, take care of themselves. As a result, we don't have to worry about increasing malnutrition and death rates among poor children, indigent disabled or indigent elderly adults, or about forcing people who can't find work—for whatever reason—to become desperate as happens when we simply cut the funds to those programs in **Figure 3** that make up our social safety net. We also don't have to worry about impairing the government's ability to protect the public from poisonous food, dangerous drugs, harmful consumer products, fraud and predatory practices in our financial system, unsafe work environments,

potential environmental catastrophes or to maintain our transportation systems and educate our population which is what happens when we arbitrarily cut funds to those programs contained in **All Other Outlays** in **Figure 2**.

Looking at the Numbers

As was noted above, it is the purpose of this website to cut through the rhetoric, the spin, the propaganda, and all of the other nonsense and look at the facts as they actually exist in the real world. Many of the papers on this website, including this introduction, have numbers in them. I realize that many people have an aversion to numbers, but I make no apology for including them here. For the past forty years we have lived in a world in which one end of the political spectrum has insisted that two plus two is six and demonized anyone who argued otherwise. Those who argued that two plus two is four have been ignored while the vast majority of the population, including our political leadership, has come to the conclusion that this sum must be five. Our nation's economic policies have been guided accordingly with results that are totally consistent with the logic involved. This is the kind of math that got us into the mess we are in today, and it is not going to get us out. The time has come for people to look at the numbers and learn how to add.

This is particularly so when it comes to trying to understand our economic system because it is impossible to understand the economy without looking at the numbers in the real world. The reason is, no one can actually see the economy. The economy is made up of some 315 million people, 114 million households, 27 million business firms, 89 thousand governments, innumerable goods and services, and it is spread throughout the land and has tentacles that stretch all over the world. All we can actually experience of the economy is the very tiny part we personally interact with, and our personal experiences tell us virtually nothing about the whole.

The only way we can come to grips with the whole is to look at the numbers. Output numbers. Employment numbers. Government numbers. Production numbers. Price numbers. Money supply numbers. Income numbers. International numbers. Debt numbers. Numbers! Numbers! Numbers! All we can actually know about the economy

as a whole is the numbers. Everything we think we know about the economy is just speculation unless it is supported by numbers, and everything we think we know about the economy that is contradicted by the numbers is just hot air.

When we look at the numbers in the real world we find that much of what many, if not most people think they know about the federal government and the economy today falls into the latter category. In particular, we find that the federal government has not grown excessively over the past forty years, and it is not possible to cut the federal budget dramatically without cutting defense or Social Security or Medicare or without causing a great deal of hardship and misery by decimating those programs that make up our social safety net. At the same time, we find that it is not possible to solve our fiscal problems simply by cutting defense—that even if we are willing to cut defense, we must still reorganize our healthcare system to include a [public option](#) if we are to obtain substantial savings and, at the same time, maintain our social safety net without cutting Social Security or Medicare. We also find that while there is reason to believe there is substantial savings to be made in eliminating waste, fraud, and abuse in the defense and healthcare portions of the federal budget, there is no reason to believe there is enough waste, fraud, and abuse in the rest of the system to make a substantial difference in the size of the total budget.

A fundamental, real-world truth that has been almost completely ignored in the otherwise hopelessly irrational debate we have been subjected to over the past thirty years is that [there are certain things that only the government can do](#). One is provide a system of national defense. Another is provide a legal/law enforcement system that sets and enforces the rules in a fair, efficient, and effective way. Another is provide the public infrastructure that makes possible such things as an educated labor force and an efficient transportation system. Yet another is to provide a social insurance system that makes possible such things as unemployment compensation, efficient healthcare and retirement systems, and a welfare system, all of which provide ordinary people some insurance against the devastation caused by the vagaries of our economic system.

It seems to me quite clear that these are all things that the vast majority of the people

want the government to provide for them. This does not mean the vast majority of the people are moochers who expect the government to take care of their every need. It means the vast majority of the people realize that, in the real world, only the government can provide these kinds of economic goods in a fair, efficient, and effective way. These are not the kinds of economic goods that can be provided fairly, efficiently, or effectively by the private sector of the economy.

The response from those who are waging their own private war against the federal government is that 1) reorganizing our healthcare system to include a public option is socialism, 2) the world is too dangerous to cut **Defense**, and 3) we can't afford not to cut the rest of the budget, especially our social insurance programs, because deficits and the national debt are out of control.

But in the real world, solving our deficit and debt problems is not that complicated, even if we are not willing to cut defense or reorganize our healthcare system. All we have to do to balance the budget without cutting Social Security, Medicare, or Defense and without destroying our social safety net is *increase taxes*. It's no secret that in the real world we had a surplus equal to 2.4% of GDP in 2000 before the 2001-2003 tax cuts. Does it really make sense to dismantle the federal government rather than rescind those cuts? If we want the government to provide the essential services that only government can provide we have to pay for them, and the way we pay for them is by paying taxes. It's just that simple. (Well, not quite. There's the economic crisis to deal with, but since I have dealt with that in excruciating detail in Where Did All the Money Go?, I won't get into it here.)

Finally, I must admit that there is no reason anyone should agree with everything I have to say in the essays on this website, and constructive criticism is more than welcome. If you find a mistake, I will fix it immediately and will be ever so grateful when you point it out to me. If you can convince me I am wrong, I will change my mind. If not, we can agree to disagree. What's important is that we establish the facts as they exist in the real world, not that we agree on the interpretation or meaning of those facts.

I am convinced that it is what people "know for sure that just ain't so" that has brought

us to where we are today. I also believe that if we are to find solutions to the seemingly insurmountable political, social, and economic problems we face today, we must begin by leaving the imaginary world that is created by rhetoric, spin, propaganda, and all of the other nonsense and face the facts that exist in the real world, the world in which we actually live. Real-World Economics is my contribution toward the effort to make this possible.