**Government Debt Is Not Like Private Debt**

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As the Labour Party fights with Tories over the need to slightly rein in government spending in the UK, opponents of even the slightest bit of austerity have turned out to claim that there is no virtue in “living within your means.”

In a [recent article](http://www.theguardian.com/commentisfree/2015/oct/13/living-within-means-economic-labour-john-mcdonnell) in The Guardian, Ha-Joon Chang, attacked even the Tory government’s timid claim that it wasn’t a great idea to spend more than the government collects in tax revenues. But for the new radical left Labour Party on whose behalf Chang’s article was written, this notion is as quaint as it is “simply wrong.”

For Chang, whether it derives from political expedience or a deeper philosophical current, a claim that one should live “within your means” is wrong because it assumes that our means are and always will be a fixed quantity. In fact, we can determine what our future means will be with actions we take in the present. Chang writes,

If you borrow money to do a degree or get a technical qualification, you will be spending beyond your means today. But your new qualification will increase your future earning power. Your future means will be greater than they would have been if you hadn’t taken out the loan. In this case, living beyond your means is the right thing to do.

Well, that’s that then. In one fell swoop, Chang thinks he demolishes the “homespun philosophies” of fiscal conservatism and “austerity” politics. Of course borrowing is good, Chang tells us. What economic illiteracy it is to suggest otherwise!

The problem for Chang here, however, is that he is really attacking a straw man.

#### Borrowing Is Not Inherently Good or Bad

All he has stated is the obvious truth that investing in the present is likely to yield greater returns in the future — and this is good.

However, the source of an investment could just as well come from saving as from borrowing. The student in Chang’s example could, instead of taking out a loan, restrict his consumption (undergoing his own “mini recession”) in the years prior to study and pay his college fees outright so he can enjoy increased future returns all without the burden of interest. Wouldn’t this prove the inherent virtue of saving over borrowing?

In reality, neither borrowing nor saving is inherently good or bad. At least in the private sector. Whether one chooses to save or borrow to finance a project depends upon a subjective assessment of the relative trade-offs.

#### Is It Voluntary?

It’s another matter entirely, though, when we’re talking about the government sector. Chang attempts to dismiss arguments for living within one’s means by comparing private-sector borrowing to government borrowing. But, the two are not comparable.

For example, when Lenin requisitioned grain from the peasants in the Russian countryside to feed workers in the cities, he too was “living beyond his means” in the present to create an industrial base that would provide for greater means in the future. We could say that Lenin was borrowing or maybe “bailing in” the peasants or we could say that the requisitions were a tax forming the “savings” necessary to realize the future socialist paradise.

The problem here is not that wealth was transferred from farmers to city dwellers. Farmers could have, of course, voluntarily lent their wealth to city dwellers had they wanted to. The problem is that their wealth was transferred against their will and without their consent. Lenin was living beyond his means, and others paid the price.

It is unlikely that Chang sees himself as advocating violent transfers of property, however. When he encourages governments to live beyond their means, he may just think he means creating something from nothing, and “borrowing” from the central bank by creating money that will be spent into the economy. According to Chang, this is a recipe for success:

If enough businesses and consumers form positive expectations as a result, they will invest and spend more. Increased investment and consumption then generate higher incomes and higher tax revenues. If the tax take increases sufficiently, the government deficit may be eliminated, which means that the government had the money that it spent after all.

Sadly the difference between Leninist primitive accumulation and modern Keynesianism easy-money policies are only one of degree. Credit expansion deflates the value of the currency, imposing a hidden tax on all to who hold it. It also confers an unparalleled privilege upon all those nearest to where the credit enters the economy (the state, the banking system, and connected business elites). Of course one can always justify this, like Lenin, to the individuals affected by telling them they will be compensated in the form of a boost to economic growth resulting in improved standards of living in the future.

#### With Government, “Living Beyond Your Means” Is a Moral Problem

The problem is when you throw out morality, you also throw out economy. When the Soviets abolished private property, they removed the ability of individuals to exchange property at a price of their choosing, measure profits, or make economic calculations as to where productive resources should be allocated. With price signals gone, the soviets had to rely on guess work leading to large vanity projects being built which didn’t serve anyone.

The same is true of Keynesian-style money printing and borrowing. Government spending takes resources serving individual’s ends and diverts them to government-chosen ends, thus creating an artificial demand in those sectors of the economy where the money is spent. Without a market in public goods to indicate which are most valuable to consumers, governments essentially are driving blind, trying to pick winners and hoping for the best. You might not get empty missile silos, but you will get chronic debt and a squandering of resources that could otherwise have been more efficiently used by individuals.

Contra Chang, to not “live beyond your means" where government is concerned, is no mere mantra. It is a moral injunction to refrain from violence.