Editor’s Note

The following four editorial articles are reprinted with permission from *The Kansas City Aurora* ([www.kcaurora.com](http://www.kcaurora.com)), an independent student newspaper serving UMKC and the Greater Kansas City community. The articles report on events co-sponsored by the UMKC Economics Department and the Center for Full Employment and Price Stability (CFEPS).

Fadhel Kaboub, Editor

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**How do Firms and the Economy Benefit from Parents?**

*Nancy Folbre talks about parenthood as a part of the production process*

*By Zdravka K. Todorova*

Feminist Economist Nancy Folbre gave a talk at UMKC on November 7, entitled "The Great Imaginary Strike of Parents and other Care Workers: An Economic Scenario."

Folbre used the concept of parents’ strike as a metaphor. "I don't think that parents actually will ever go on strike if they are not paid to take care of their children - the nature of parenthood as an altruistic commitment would not allow this to happen." Dr. Folbre said.

The main thread in the talk was that parenthood contributes to the production process by assuming the cost of raising the labor force.

"Imagine that corporations are not hiring workers but are purchasing androids, and that an android takes 18 years to produce, not unlike a worker. What if somebody (families) are willing to produce androids for free, because they love androids and the process of producing androids ?!"

Folbre used the android analogy to illustrate the value that parenthood contributes to the economy.

"Imagine further", Folbre said, "that androids require new batteries every week. You can think of batteries as worker’s wages. Given that families produce androids for free, employers utilizing androids do not have to do anything else except replacing the batteries (paying wages) - the android itself will be provided at zero cost."

Using this metaphor Folbre illustrated that the altruistic nature of families and child
bearing lowers the cost for firms in acquiring workers (androids), and contributes to the economy as a whole.

"Classical political economy takes labor as the most important input into the production process. It looks at the difference between the value of the wages (batteries) and the value of what workers (androids) produce," Folbre explained.

"Feminist economists," Folbre added, "are looking at the difference of how much does it cost to produce the android (worker), and how does this cost change over time."

Randal Wray, UMKC Economics Professor, pointed out that "wages are reduced far below what is necessary to reproduce the family unit."

Folbre reminded the audience that "right now in economics most of the work on the family is done within the framework of Neoclassical economics, based on individual utility maximization," and not within classical political economy or feminist economics.

Neoclassical economic theory models child-bearing decisions in terms of personal calculus of pleasure and pain. "By having a child, according to Neoclassical economics, you simply are revealing a preference for this particular expenditure," explained Folbre.

In this framework of reasoning, children are raised for "personal consumption," and utility maximization, hence the public should not be concerned with the child bearing process and cost.

On the other hand, if you look at parenthood as a part of the production process, which brings about the "production" of labor force, there is place for public concern about child and parent provisioning.

Nancy Folbre emphasized that she is interested in illustrating what firms and the economy as a whole would have to pay if parents stop providing child bearing "service."

Although the process of producing and reproducing the workforce is an essential part of the economy, "it tends to be excluded from consideration because it is not priced," said Folbre. "Such work seems to be invisible. One way to make it visible for public policy makers is to put a number (a dollar value) on it."

However, putting a monetary value on the cost of child bearing is not only technically difficult, but also raises philosophical and ethical concerns.

UMKC Economics Professor Fred Lee, questions this enterprise. He argues that since child bearing is non-market activity, there is no notion of "cost" in providing for children. "I have a problem," Dr. Lee said, "when somebody says that child bearing cost so much, I always thought that people who decide if they would have children on the basis of how much it will cost them, would need a psychological care."
Folbre argued that in the world we live in, "constructing estimates provide an important political tool." It would have not been necessary to put a price value on parenthood, "if we lived in a world, where children were well provided for, and in which there was enough public provisioning."

Wray pointed out that putting a monetary value on child bearing is "helpful for public policy formulation."

"We perceive child bearing as a gift of nature – an altruistic motivation that underlies that parents are going to provide for. I do not quarrel over the motivation of parenthood - I value an altruistic motivation," said Folbre.

However, "The notion that we cannot put a price on that has been used as a way of concealing the tremendous lack of public support of children."

"The process of rearing children cannot be simply assigned to the individual parents. There has to be some mechanism for designing and enforcing social responsibility for child bearing," Folbre emphasized.

She argued that we cannot design a system like that unless we know how much parenthood contributes to the production process by assuming the cost of raising the labor force. "We cannot just sit back because this is not an economic issue," stated Folbre.

In her empirical work, Dr. Folbre combines the estimates of monetary value of parental time with estimates of expenditures on child rearing. "If parents put that money and invest it, and obtain a return of 5%, eighteen years later that money would be equal to $272 643."

Thus, Folbre estimates the actual capitalized value of the expenditures on children by the average U.S. family, that individual parents assume. Hence, she estimates parents’ contribution in monetary terms to firms and the economy as a whole.

James Sturgeon, Economics Professor at UMKC, pointed out that "it is almost amusing to think about the $272 643 that we would have at the end of our life, if all of us choose not to have children. There will be nobody to produce the stuff for us to buy with that ‘saved’ money!"

"That is right. I think child rearing is a good example of coordination problems that individual rationality cannot solve," said Folbre in agreement with Sturgeon.

Jane Wood, Director of the UMKC Women's Center told the KC Aurora that "Nancy Folbre's discussion, becomes even more significant given the current healthcare crisis in our nation."

Nancy Folbre is a Professor of Economics at the University of Massachusetts-Amherst,
and is an Associate Editor of the journal Feminist Economics. Folbre authored the book The Invisible Heart: Economics and Family Value, which deals with the non-monetized aspects of caring labor and its relation to free markets and the pursuit of self-interest.

Folbre’s talk at UMKC was sponsored and organized by The Women’s Center, the Department of Sociology, Criminology & Criminal Justice, Women’s and Gender Studies Program, and the Department of Economics at UMKC.

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**Got Buckaroos?**

*Program highlights government deficits and job creation*

By Jonathan Watkins

Warren Mosler was the morning keynote speaker in his talk entitled "UMKC's 'Buckaroo' Community Service Program" at the Center for Full Employment and Price Stability (CFEPS) all-day workshop, "Is Uncle Same Going Broke? A Workshop on government deficits," on Monday, November 17, 2003.

The 'Buckaroo' program is not only a way to get UMKC students involved in the community, but it is also a learning tool to replicate the US monetary system. Mosler explains that the UMKC monetary system has started through "UMKC's desire for public service. They want students to do community service."

Mosler explains that "Buckaroo economics replicates the essence of the US monetary system" by highlighting the difference between the issuer of a currency and user of someone else's currency.

The value of the Buckaroos is defined by the issuer (UMKC) and they have value by enforcing a student tax payable only in Buckaroos. The value is determined by the issuer and "UMKC levies a tax payable only in Buckaroos." Currently, the value is set at one buckaroo per one hour of community service.

According to Mosler, UMKC has chosen to use this program to demonstrate that "anyone willing and able to work can go to these community service places and earn buckaroos."

"Economics students have provided some 2800 hours of service to the community through the Buckaroo program," said Randall Wray, Professor of Economics at UMKC.

The US government issues money in exchange for goods and services, whereas UMKC issues Buckaroos in exchange for community service. Mosler states that this

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demonstration of the monetary systems shows that this "policy option (of full employment) is a viable option."

According to Mosler, "UMKC fully expects that the matter of course is to spend more Buckaroos than it collects." This is exactly the same way the US government operates. Neither UMKC, nor the US government, needs to receive the money from the tax other than to help make their currency desirable and to give value to the currency.

Discussing the issue of trade, Mosler states that "exports are always a cost, and imports are always a benefit." The country running the surplus balance of trade finds it desirable to hold our currency in exchange for their goods and services.

Mosler hopes that through the program highlighting how a nation's monetary system operates will bring up "student awareness to levels where we can think and act intelligently about" government deficits and policy formation.

Warren Mosler is a founder and a Principal of AVM, L.P., and a founder and principal of III Associates and III Offshore Advisors. He is also the co-founder of C-FEPS and UMKC's Buckaroo Community Service Program. His economics writings may be viewed at www.warrenmosler.com

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**Debunking the Myth of the Social Security Crisis**

*Social security faces a real problem, not a financial one*

*By Udomdej Leesengheng*

On Monday (Nov.17), the Center for Full Employment and Price Stability (CFEPS) and the Department of Economics at UMKC held an all-day workshop on government deficits entitled "Is Uncle Sam Going Broke?"

Stephanie Bell, Assistant Professor of Economics at UMKC, and Research Associate at CFEPS, addressed some of the "myths" about the social security crisis, and how they relates to the debate about government deficits and national debt.

Dr. Bell claimed that many people do not understand how the trust fund really operates. "Popular reform proposals are designed to deal with a financial problem that does not exist," said Stephanie Bell.

Social security is not a pension plan, rather it is a social insurance program provided by the government. "It is the most popular and successful program that the U.S. government has ever implemented," Bell explained. However, there is now a widespread belief that

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the social security trust fund is going bankrupt and that "social security is ticking bomb," said Bell

Hence the various proposals to save social security such as devoting some portion of the federal budget surplus to "shore up" the trust fund, to privatize (all or part of) the trust fund, and to reduce the cost of running the program (raising the retirement age, cutting benefits, means-testing).

According to Bell, the social security financial insolvency or bankruptcy is impossible to occur since "a government can not become insolvent with respect to obligations in its own currency."

So what are the major misconceptions about the social security trust fund?

Firstly, we must realize that "there are no pennies in the trust fund. Trust funds are merely accounting identities, and the ability to pay out benefits does not depend upon the balance in the trust fund," said Bell. "What really happens is a simple debit and credit operation in the T- balance account (assets and liabilities)."

Secondly, many social security reform proposals to save the program are designed to deal with a financial problem that does not exist. Bell explained that there is no financial constrain, hence "the real dilemma is not a financial one."

Instead, there is a real constrain of a shrinking labor force due to the baby-boomers who will be retiring and will begin to receive benefits. The real problem then is that "there will not be enough goods and services provided for the retiring population," said Bell.

Professor Bell concluded her presentation by providing some alternative recommendations for the social security program:

- Old Age Survivors and Disability Insurance (OASDI) Trust Funds should be returned to a pay-as-you-go system.
- Reconsider labor and employment policies.
- General fiscal policy should be biased to encourage faster growth, greater employment and higher labor force participation due to the real constrain of shrinking labor force as baby-boomers reach retirement.

For more information about this CFEPS workshop and the social security debate, visit www.cfeps.org
Who is going broke - Uncle Sam or you?*


Government Deficits Improve the Private Sector's Balance Sheet

By Zdravka K. Todorova

Rather than crowding out private spending, government deficits improve balance sheets in the private sector, while government surpluses worsen them. This was the main message of the C-FEPS workshop "Is Uncle Sam Going Broke?" held at UMKC on November 17, 2003.

Presenters demonstrated that there is a close relationship between public deficits (government injects more money into the economy than it collects in taxes) and the private sector surplus (firms and households revenues are less than their spending).

Source: Scott Fullwiler, Wartburg College

Warren Mosler, C-FEPS co-founder and distinguished research associate, argued that when the government receives more income (taxes) than it spends (government expenditures), another sector such as the private sector, is spending more than it is earning. In this case the private sector is net borrowing (running a deficit), while the government sector is running a surplus.

"Every past successful attempt at significantly reducing the national debt has coincided with the onset of economic depression," said Scott Fullwiler, James A. Leach Chair in Monetary Economics at Wartburg College.

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Zdravka K. Todorova

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<tr>
<th>Years</th>
<th>% of debt paid off</th>
<th>Year Depression began</th>
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<tr>
<td>1817-1821</td>
<td>29%</td>
<td>1819</td>
</tr>
<tr>
<td>1823-1836</td>
<td>100%</td>
<td>1837</td>
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<td>1852-1857</td>
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<td>1920-1930</td>
<td>33%</td>
<td>1929</td>
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<tr>
<td>1998-2001</td>
<td>13.6%</td>
<td>2001</td>
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Source: Scott Fullwiler, Wartburg College

"During the post war era, the private sector surplus as a percent of GDP had almost never been below zero. However, during the 1990s expansion, record public sector surpluses and trade deficits meant that-by definition-the private surplus reached a record low," stated Fullwiler.

"Researchers from the Levy Economics Institute predicted that these public sector surpluses were not sustainable."

"The ensuing recession led to a reversal in the fiscal stance while record low interest rates failed to stimulate a private sector buried under record debt burdens and reduced income flows," argued Fullwiler.

The private sector balance equals the government sector balance minus the external sector balance. Thus, if the government sector runs a surplus (collects more taxes than it spends), and the external sector runs a deficit (imports more than exports), the private sector will have to run a deficit.

Dimitri Papadimitriou, President of the Levy Economics Institute, showed that currently the U.S. private sector balance is -1% of GDP (deficit), whereas the government balance is -5% of GDP (deficit), and the external sector's balance is -6% of GDP (deficit).

Presenters at the C-FEPS workshop emphasized that firms and households are users of the government currency, while the state is the monopoly issuer of the currency. Hence, the state cannot go "bankrupt" if it spends more than it receives in taxes. On the other hand, private sector can go bankrupt.

"Deficits incurred by a government issuing its own fiat currency do not threaten the government's solvency," said Randall Wray, UMKC Economics Professor. However, "continuously increasing debt burdens in the private sector are not sustainable," pointed out Fullwiler.

Workshop presenters explained that budget surpluses contribute to financial instability,
while deficits improve private sector financial positions. A declining private sector financial position is an indicator of possible financial fragility in the economy.

"What is necessary are models to guide policy that recognize the unsustainability of a continuous negative financial position in the private sector. Such models do not currently exist," said Scott Fullwiler.

Current macroeconomic models used in policymaking, however, assume exactly the opposite: that a negative private sector balance can be sustained indefinitely.

For more information about government deficits, money, and national debt, visit:
www.cfeps.org
www.levy.org
www.mosler.org