Wisconsin Is Only the Beginning

The recall election of Wisconsin Governor Scott Walker (pictured after winning the Republican gubernatorial primary in 2010) and the government union controversy that provoked it is over. Or is it?

Walker won the June 5 recall election by a wider margin of victory than his 2010 election in the midst of the Tea Party ferment. On the surface, one would think that this confirms that the Tea Party movement was not just a flash in the pan, and that advocates of responsible spending policies have the solid backing of the voters. And in some sense this is true.

But the Wisconsin controversy is also part of a global phenomenon that is inevitably coming to America in every state and the federal government. The entitlement crisis is a problem facing every governmental unit in the United States, and the entitlement crisis is the reason Greece is in bankruptcy and facing political chaos.

The United States is facing ever-greater social welfare commitments while at the same time higher interest payments on the mounting national debt. Last year, the federal government paid more than $450 billion dollars for interest on the national debt. This interest on the debt didn't feed any children, pay for any roads, or get anyone health care. It did nothing but hold the nation's creditors at bay.

That's about $4,000 from every taxpayer in America — thrown in the dumpster. Sadly, this is the good news. The federal government has been able to finance its more than $15 trillion in debt at a very low interest rate, less than three and a quarter percent overall. Once creditors start to balk at our perpetual deficits that add more than $1 trillion to the pile of debt every year, the interest rate could very well skyrocket to six or seven percent. This has already happened in much of the Eurozone. Not just with Greece, but Ireland, Spain, Italy, and Portugal as well. In just a two or three years, it could be $10,000 or more from every taxpayer, every year, that will do nothing to improve the economy, feed the hungry, educate children, or house the homeless.

At that point, the U.S. government will have to cut programs such as Social Security and Medicare, because they won't be able to raise taxes quickly enough to keep up with escalating costs. Social Security is already running an annual deficit, and digging into the paper "trust fund" surplus that Congress spent decades ago. This means more borrowing and more national debt.

Which brings us back to Wisconsin. Governor Walker stood up to the teachers' union in his state by saying that he wouldn't back automatic pay increases for teachers and other public workers that had increased state costs. Walker did not call for cuts, but only limits on future increases. But the way the nation's finances are going, we will soon be facing Greek-style choices where cuts are not only necessary, they aren't even enough to cover for the losses in national debt. This will happen not just in Wisconsin, but in all 50 states.

The political establishment on most television networks claims that cuts in spending — austerity — will not lead to a turnaround in the economy. Establishment mouthpieces actually claim that we've got to continue deficit spending for a few more years to get the economy moving and grow our way out of the deficit. But the establishment is pointing the United States toward an economic disaster, as there's a correlation between economic growth and having a high national debt to service. Consider this chart of the 30 most developed nations and their economic growth compared with their national debt as a percentage of Gross Domestic Product. There's no truth to this establishment myth that more debt is that path to growth. To the contrary, it's the path to destruction of growth, and the prime reason this has been one of the most anemic economic recoveries in U.S. history. The only times the United States pulled out of major depressions have been through major cuts in spending — to the point of not just a balanced budget, but a budget surplus.

One of the most cherished myths of the Left is that Roosevelt's spending got the United States out of the depression. But that line is a lie. Unemployment under Roosevelt never fell below 14.3 percent — far worse than our recession ever got — until they started drafting men into the armed forces for the Second World War.

Faced with this hard data, from official U.S. government sources, the Left sometimes has two fall-back positions. Neither of these has any basis in fact, however.

The first fall-back position of the Left is that the Great Depression continued into World War Two because of an austerity bout in 1936, where major budget cuts left the government spending so much less money that it created the "Recession of 1937." But the federal government had only minor spending cuts in 1937, and they didn't take effect until 1938. In other words, it was impossible for budget cuts that hadn't happened yet to crash an economy.

The other fall-back position of the hard-core Left is that massive government spending in World War Two ended the Great Depression. Government, according to this thesis, "saved" the economy. But that didn't happen either. The economy went back into recession after World War Two, just as it had after World War One. And the Congress followed the same path back to prosperity — massive spending cuts and a budget surplus to start paying off the debt, combined with some small tax cuts when the national balance sheet made it prudent. After World War One, President Harding and a Republican Congress cut World War One spending levels by more than two-thirds — that's billions in contemporary dollars in red columns on the chart here — despite a recession and rising unemployment levels. Unemployment rate is measured in blue. The result was a budget surplus and a short recession where unemployment levels quickly returned to normal. The same thing happened after World War Two. Federal spending, again represented in billions of nominal dollars in red, was cut, and unemployment — in blue — was also cut.

Only during the Great Depression, when deficits, federal spending and debts rose at record levels, did the unemployment rate stay high.

That's the verdict of history. No nation that has piled up huge national debts has ever prospered. Ever.

Americans have a choice of spending cuts now, when they will hurt some, or later, when they will hurt much more. The Wisconsin controversy is only a taste of what is to come, especially if this nation continues to pile on debt and pay ever-more in interest on that debt. Greece is in riots against their politicians. Sadly, few in Greece realize that it was the big-spending politicians who brought them to their current level of deprivation. Americans — who have the example of Greece's profligacy — cannot say that no one warned them.