



Promises and Riots

Economists are the real “party of No.” They keep saying that there is no such thing as a free lunch, and politicians keep on getting elected by promising free lunches.

Such promises may seem to be kept, for a while. There are ways the government can juggle money around to make everything look OK, but it is only a matter of time before that money runs out and the ultimate reality hits, that there is no free lunch.

We are currently seeing what happens, in fierce riots raging in various countries in Europe, when the money runs out and the brutal truth is finally revealed, that there is no free lunch.



You cannot have generous welfare state laws that allow people to retire on government pensions while they are in their 50s, in an era when most people live decades longer.

In the United States, that kind of generosity exists mostly for members of state government employees’ unions — which is why some states are running out of money, and why the Obama administration is bailing them out, in the name of “stimulus.”

Once you buy the idea that the government should be a sort of year-around Santa Claus, you have bought the kinds of consequences that follow.

The results are not pretty, as we can see on TV, in pictures of rioters in the streets, smashing and burning the property of innocent people, who had nothing to do with giving them unrealistic hopes of living off somebody else, or with the inevitable disappointing of those hopes with cutbacks on the giveaways.

Nothing is easier for politicians than to play Santa Claus by promising benefits, without mentioning the costs — or lying about the costs and leaving it to future governments to figure out what to do when the money runs out.

In the United States, the biggest and longest-running scam of this sort is Social Security. Fulfilling all the promises that were made, as commitments in the law, would cost more money than Social Security has ever had.

This particular scam has kept going for generations by the fact that the first generation — a small generation — that paid into Social Security had its pensions paid by the money that the second and much bigger “baby boom” generation paid in.

What the first generation got back in benefits was far greater than what they themselves had paid in. It was something for nothing — apparently.

This is the way a Ponzi scheme works, with the first wave of “investors” getting paid with the money paid in by the second wave. But, like Social Security, a Ponzi scheme creates no wealth but only an



Written by [Thomas Sowell](#) on December 29, 2010

illusion that cannot last. That is why Mr. Ponzi was sent to prison. But politicians get re-elected for doing the same thing.

As the baby boomers begin to retire, and there are now fewer working people per retired person to pay for Social Security pensions, this scam is likewise headed for a rude revelation of reality — and perhaps riots like those in Europe.

All the incentives are for politicians to do what they have done, namely to promise benefits without raising enough taxes to pay for them. That way, it looks like you are getting something for nothing.

When crunch time comes and politicians are either going to have to tell people the truth or raise taxes, the almost inevitable choice is to raise taxes. If the people think they are already taxed too much, then the taxes can be raised only for people designated as “the rich.”

If “the rich” object, then demagogues can denounce them for their selfishness and “greed” for objecting to turning over ever-growing amounts of what they have earned to politicians.

Economists often make stronger objections than the high-income people themselves. That is because history has shown repeatedly that very high rates of taxation lead to all sorts of ways by which those very high rates of taxation do not have to be paid.

No matter how high the tax rates are, they do not bring in more revenue when many of the people subject to those tax rates do not in fact pay them. The scams inherent in welfare states are not only economically counterproductive, they turn group against group, straining the ties that hold a society together.

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