The Financial Mess in the U.S. and Europe

The first order of business in reaching a solution to the financial mess in Europe and the U.S. must be the recognition that governments have been doing a class of unsustainable things, mostly giving people special privileges and things that they have not earned. It's a matter of not simply what's good or bad for the beneficiaries but what its effect is on society at large and the welfare of a nation.

Take the understandably humane motivation to provide health care services for the medically indigent. If one is concerned about the health needs of a person, why shouldn't the government also provide him with resources for nutrition? Good health is not just medical services and food but a decent place to live. Furthermore, good health is a matter of not just physical well-being but mental well-being as well, so why not have government-sponsored vacations? That's not such a far-fetched idea as one might imagine. Antonio Tajani, the European commissioner for industry and entrepreneurship, has declared vacationing to be a "human right."

Growing social spending in the name of health is just one example of a much larger process affecting the whole of our societies. There's a process that we might call contagion, in which spending automatically and unavoidably breeds more spending. For example, if government provides subsidies for wheat farmers, corn farmers will organize and protest that it's unfair not to grant them subsidies. What case can be made for government's not granting subsidies to all farmers? Then there's contagion across borders. If European farmers get subsidies, American farmers are going to demand subsidies to "even the playing field." How about government bailouts? There's contagion there as well. If Congress bails out General Motors, what's the justification for not also bailing out Chrysler and JPMorgan Chase, Bank of America, Fannie Mae, AIG, Citigroup and other failed enterprises? Bailouts are contagious both in the short and the long run. Bailouts create what's known as a moral hazard, in which people have reduced incentive to mend their ways.

The bottom line is that the sole tendency of the welfare state is for it to grow and consume more and more of a nation's income. According to "Measuring the Unfunded Obligations of European Countries" (January 2009), by the Dallas-based National Center for Policy Analysis, by 2050, the average EU country will need more than 60 percent of its gross domestic product to fulfill its obligations. According to the 2008 Social Security and Medicare trustees reports, the combined unfunded liability of just these two government programs has reached $101.7 trillion in today's dollars.

It turns out that if Congress taxed away our entire $14 trillion 2011 GDP and put it in the bank, it would just barely cover Social Security and Medicare liabilities. That observation suggests that we can't tax our way out of our fiscal mess. In order to avoid permanent stagnation or total economic collapse, governments must start the process of reducing welfare spending. I wouldn't recommend cold turkey for a heroin addict, neither would I recommend cold turkey for all those people who have been addicted and made dependent upon government handouts. We must find a compassionate way to wean people off government.

Walter E. Williams is a professor of economics at George Mason University. To find out more about Walter E. Williams and read features by other Creators Syndicate writers and cartoonists, visit the Creators Syndicate Web page at www.creators.com.