Forbes: Rich Nations Go Broke by Overpromising and Overspending

The Roman Empire was on a gold standard, minting and using the aureus from the 3rd century B.C. until the 4th century A.D. The aureus initially contained 10.9 grams of gold, which was worth about 25 denarii, or about a month's wages. As the empire devolved into promising more and more services (grain subsidies, public entertainment, and a huge bureaucracy and military establishment) it soon exceeded revenues generated through taxation. To make up for the difference, the aureus was steadily debased so that by 50 B.C. it contained 9.09 grams of gold, 8.18 grams by 46 B.C., 7.27 grams by 60 A.D., 6.55 grams by 214 A.D., 5.45 grams by the year 292, 4.54 grams in 312, and 3.29 grams by 367.

Paper money was more easily debased, as the Chinese discovered. Powell noted that seven different Chinese dynasties issued paper money to pay their bills and all of them eventually collapsed or were defeated by others that issued their own paper currency. Between 1260 and 1390, the money supply increased by more than 3,200-fold, causing the collapse of the Song and Yuan dynasties. The Ming dynasty's currency lost 99 percent of its value by 1425, and the following Ch'ing dynasty destroyed its currency altogether within 11 years. It tried again with a new paper currency which lasted only eight years.

In England the penny contained 1,438 milligrams of silver in 1299, but by 1526 it had been debased to 687 milligrams, falling further to 518 milligrams by the year 1552 under King Edward VI.

But Powell noted that the worst debasements occurred with the establishment of central banks around the year 1900. Central banks served two primary purposes: to allow governments to spend more than they could raise in taxes or borrowing, and to protect the banking cartel when its members were threatened with insolvency.

Powell noted that the most famous runaway inflation was between June 1921 and July 1924 under the Weimar Republic in Germany. Though widely considered the result of heavy reparations demanded after World War I, Powell disagrees:

> Before the war, Germany had established a big welfare state, and during the war it expanded dramatically. It wasn't dismantled after the war. Germany had a financially troubled government-run pension system like our Social Security. The German government provided health insurance for millions of people. There were German government programs for 1.5 million disabled veterans. The German government bailed out municipalities. The government lavished subsidies on the arts. There were government-run theaters and opera houses. Government-owned railroads

> lost money. Government-run enterprises couldn't even make money producing margarine and sausages.

Greece's problems today are the same as Germany's were — a welfare state run wild: Unionized workers get paid for 14 months' work every 12 months, while nearly one out of four Greeks work for the government. Exceedingly generous pension and health insurance benefits begin at age 50 in many industries.

Argentina provides another example of how politicians' promises and overspending will destroy even the most advanced and wealthy country. From 1870 to 1913 its industrial growth exceeded even that of the United States with its Gross Domestic Product reaching 72 percent of the U.S. level by 1913. But that was the high point. In 1916, a new President was elected, leading the Radical party, and promising "fundamental change." A federal pension plan was installed along with mandatory health insurance and "investment" in low-income housing. By the time Juan Peron was elected in 1946, Argentina's welfare state had significantly reduced the country's output to half of that of the United States, and his expansion of bureaucracy, labor unions, and social spending sounded its death knell. The country was forced to borrow and depreciate its currency through inflation, resulting finally in hyperinflation in 1989. Its default on $93 billion of its debt in 2002 is still the largest default in history.

Today Argentina remains a skeleton of its former glory, with its GDP per capita ranking 52nd in the world. In 1913, it was second. As noted by Charles Scaliger, who lived in Argentina in his teen years,

> All of Argentina's woes have their roots in misbegotten policies inaugurated decades ago by Juan Peron and his fellow "social reformers." Peron, like Franklin D. Roosevelt, never saw a social problem that he did not believe could be fixed by the creative application of government power — financed, of course, by taxation [and inflation]. Much of the socialist legislation he and his successors enacted continues to eat away Argentina's remaining wealth, transforming a country that a century ago had one of the world's strongest economies into a basket case rivaling Zimbabwe or any other of the long, sad parade of nations whose rulers have spent them into bankruptcy.

What about the rich United States? Powell is pessimistic, claiming that "as long as there is money in the lockbox, political pressure will be overwhelming to spend it [and] the tens of millions of voters who receive government benefits … are likely to demonize courageous politicians who suggest the government can no longer afford to pay for everything." The opportunity to rein in spending will come with the default, which will become immediately and painfully obvious when government benefit checks are late, prices at the grocery store are being raised every week, and the stock market tanks. Only then, says Powell, will it be "likely to break the iron grip of pro-spending lobbyists and [begin to] make serious reforms possible."