Trillion Wrongs and the Great Depression

By Lawrence W. Reed
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Introduction

The "fiscal stimulus" mantra continues to infect and corrupt the minds not only the current politicians and fiscal officials of many governments around the world, but also the public, the taxpayers themselves who will ultimately pay for those huge government spending and borrowings.

There is a need to constantly remind the public, therefore, of the dangers of such mentality and public policies. One of such great minds that never tires of doing this job is a good friend in America, Mr. **Lawrence W. Reed**. Larry is now the President of the Foundation for Economic Education (www.fee.org) in Irvington, New York, USA. Prior to his stint in FEE, he was the President for many years of the Mackinac Center for Public Policy (www.mackinac.org) in Midland, Michigan.

I have met Larry and his team at Mackinac Center for the first time in April 2004, when I attended the "Mackinac Leadership Seminar", along with other participants from Asia and the US, people who were starting or continuing their free market-oriented think tanks or independent public policy institutes. I was given an International Fellowship by the Atlas Economic Research Foundation (www.atlasnetwork.org) then, as we were just starting **Minimal Government** then in Manila, that's why I was able to attend the Mackinac seminar and the succeeding conferences in Chicago on the same month.

Larry's mind is very subversive, very dangerous to those who always think that the solution to most if not all problems in society, is more government intervention, more government regulations and taxation, more "government responsibilities". It was obvious when I first heard him during the seminar.

Since then, I have maintained communication with Larry and the Mackinac Center, and they would send us plenty of their educational materials. I would also meet Larry in other occasions, the last time was during the 8th Atlas Liberty Forum in Atlanta, Georgia, last April 2008.

In this paper, I compiled 3 of Larry's recent papers on the current global financial turmoil. Thes sharpness and frankness of his analysis remains through the years.

I am truly lucky to have met this guy (picture below, also the FEE logo), and equally grateful to Atlas for that great opportunity they gave me way back in April 2004, for introducing me to some of the great minds of the free market network in Asia, US, Europe, Africa and Latin America.

Bienvenido "Nonoy" Oplas, Jr.
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(1) Not So Fast!

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"Thank God we had the federal government last week to bail out the private sector!"

That's what a rather statist friend of mine declared, almost gleeful that the financial crisis seemed to be proving how much we all need a massive federal establishment to both regulate and rescue us.

Never mind the federal government's own indispensable role as an enabler in the crisis, from its reckless monetary policy to its jawboning banks to make dubious mortgage loans. Never mind the long-term danger of its assumption of colossal new obligations and the moral hazard in the message its intervention sends. My response to my friend was of a more narrow focus. *"Thank God we have the private sector to bail out the federal government not just last week, but every week!"* I exclaimed.

Think about it. Taxes on the private sector pay a majority of the federal government's bills. For most of the rest, the government borrows by selling its debt obligations mostly to private sector entities - including banks, insurance companies and individuals.

The federal government is the world's biggest taxer and the world's biggest debtor. If those of us in the private sector didn't pay our taxes or didn't buy Washington's paper, the feds would have gone belly-up decades ago. We've rescued Washington to the tune of about $10 trillion and rising. A big difference between Washington bailing out the private sector and the private sector bailing out Washington is that the private sector has to work, invest, employ people and produce goods to come up with the cash. It can't print it like Ben Bernanke can.

Our friends in Washington have blessed us with future burdens almost too astronomical to comprehend. In the name of taking care of us in our old age, we are saddled with no less than $6 trillion in Social Security payouts over the next 75 years *for which there are no presently-earmarked funding streams*. According to Brian Riedl of the Heritage Foundation, the unfunded obligations for the new federal prescription drug program, enacted under President Bush total another $8 trillion. On and on it goes. The private sector has an awful lot of bailing out to do in coming decades.

If you have any doubts about the role played in the present crisis by the very federal government now posturing as our rescuer, take a look at this article from the Sept. 30, 1999 edition of The New York Times: http://tinyurl.com/3jdn9e. And then contemplate how deeply we taxpayers will have to dig in the not-too-distant future to pay the bills of our benevolent, compassionate and forward-thinking government.

(2) A Trillion Wrongs Don't Make a Right

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The pork-laden national disgrace being sold as a "stimulus" bill may say more about the country that swallows it than it does the fools who passed it. If Americans can be suckered into shackling themselves and future generations with trillions in new debt, shame on us.

The turpitude of the subsidy-seekers and handout con artists in Washington should rattle Americans of conscience to their very core. At the most basic level, it's simply and inexcusably wrong to rip off a dollar from the innocent or the responsible and pass it on to the guilty or the irresponsible. Does it somehow become right if we do it a trillion times? Quite the contrary. It simply becomes a trillion times more wrong if not worse because the sheer magnitude means we can't dismiss it with the palliative that "it's only pocket change."

This is a sign of neither strong character nor a sustainable economy. It reeks of the same moral cowardice and fiscal insanity that doomed great civilizations of the past.

The bread and circuses that helped mightily to bankrupt ancient Rome come to mind. Where are the men and women of courage and integrity who will keep their hands in their own pockets?

As the fiscal alarm bells are going off, even state governments that once jealously guarded their financial independence are hearing dinner bells instead. Governor Mark Sanford of South Carolina is virtually alone in resisting the "come and get it" mentality.

Consider House Concurrent Resolution No. 2 of the 85th General Assembly of the State of Indiana, passed by that state's House and Senate in January 1947. Written in the quaint, commonsense vernacular of the day, its sentiments probably couldn't muster more than a handful of votes in the state legislatures of 2009. It begins thus:

Indiana needs no guardian and intends to have none. We Hoosiers—like the people of our sister states—were fooled for quite a spell with the magician's trick that a dollar taxed out of our pockets and sent to Washington will be bigger when it comes back to us. We have taken a good look at said dollar. We find that it lost weight in its journey to Washington and back. The political brokerage of the bureaucrats has been deducted. We have decided that there is no such thing as 'federal' aid. We know that there is no wealth to tax that is not already within the boundaries of the 48 states.

So we propose henceforward to tax ourselves and take care of ourselves. We are fed up with subsidies, doles and paternalism. We are no one's stepchild. We have grown up. We serve notice that we will resist Washington, D.C. adopting us.

The resolution urged the legislatures and citizens of all the states to "restore the American Republic and our 48 states to the foundations built by our fathers."

If we had listened to the Indiana legislature in 1947, we might be several trillion dollars freer today.

(3) Rome and the Great Depression

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Commentators on the present financial crisis have noted some interesting parallels to the Great Depression of the 1930s. Even if we survive Washington's spending spree, Congress and the Obama administration could still tip us into catastrophe if they sharply raise taxes or tariffs as Congress did in 1930 and '32. But more ominous parallels to an earlier age should not escape our notice.

Monumental sums for bailouts. Staggering increases in public debt. Concentration of power in the central government. A mad scramble by interest groups with endless claims on the treasury. Demagogic class warfare appeals. These things ring familiar in the ninth year of 21st century America just as surely as they dominated the ill-fated Roman welfare state of two millennia ago.

In the waning years of the Roman republic, a rogue named Clodius ran for the office of tribune. He bribed the electorate with promises of free grain at taxpayer expense and won. Thereafter, Romans in growing numbers embraced the notion that voting for a living could be more lucrative than working for one. This set into motion Kershner's First Law, named for the late economist Howard E. Kershner: "When a self-governing people confer upon their government the power to take from some and give to others, the process will not stop until the last bone of the last taxpayer is picked bare."

Candidates for Roman office spent huge sums to win public favor, then plundered the population afterwards to make good on their promises to the rent-seekers that elected them. As the republic gave way to dictatorship, a succession of emperors built their power on the huge handouts they controlled. Nearly a third of the city of Rome itself received public relief payments by the time of the birth of Christ.

In response to a severe money and credit crisis in 33 A.D., the central government extended credit at zero interest on a massive scale. Government spending in the wake of the crisis soared.

In 91 A.D., the government became deeply involved in agriculture. Emperor Domitian, to reduce the production and raise the price of wine, ordered the destruction of half the provincial vineyards.

Following the lead of Rome, many cities within the empire spent themselves deeply into debt. Beginning with Emperor Hadrian early in the Second Century, municipalities in financial difficulty received aid from Rome and lost a substantial measure of their political independence in the bargain.

The central government also assumed the responsibility of providing the people with entertainment. Elaborate circuses and gladiator duels were staged to keep the people happy. The equivalent of a hundred million dollars per year in the city of Rome alone is one modern historian's estimate of what was poured out on the games.

Under Emperor Antoninus Pius, who ruled from 138 to 161 A.D., the Roman bureaucracy reached mammoth proportions. Eventually, according to the historian Albert Trever, "the relentless system of taxation, requisition, and compulsory labor was administered by an army of military bureaucrats. . . .Everywhere were the ubiquitous personal agents of the emperors" employed to crush tax evaders.

There were plenty of taxes to evade. Emperor Nero is said by Roman historian Gaius Suetonius in De Vitae Caesarum to have once rubbed his hands together and declared, "Let us tax and tax again! Let us see to it that no one owns anything!" Taxation ultimately destroyed the wealthy first, followed by the middle and lower classes. "What the soldiers or the barbarians spared, the emperors took in taxes," according to historian W. G. Hardy.

Late in the Third Century, Emperor Aurelian declared government relief payments to be a hereditary right. He provided recipients government-baked bread (instead of the old practice of giving them wheat and letting them bake their own bread) and added free salt, pork, and olive oil.

Rome suffered from the bane of all welfare states, inflation. The massive demands on the government to spend and subsidize created pressures for the multiplication of money. Roman coinage was debased by one emperor after another to pay for expensive programs. Once almost pure silver, the denarius by the year 300 was little more than a piece of junk containing less than five percent silver.

Prices skyrocketed and savings vanished. Businessmen were vilified even as government continued its spendthrift ways. Price controls further ravaged a battered and shrinking private economy. By 476 A.D. when barbarians wiped the empire from the map, Rome had committed moral and economic suicide.

Another Great Depression should indeed concern us. The one that followed the Roman welfare state is known as the Dark Ages and it lasted for several hundred years.