The Collectivized Train Wreck in Europe

"Civilizations die from suicide, not by murder," said British historian Arnold Toynbee. We're seeing exactly that today in Greece, Italy, Portugal, and Ireland. In all those cases, the ineptness of government and the mismanagement of domestic economic policy have turned once-great nations into beggar states.

In Italy, bloated levels of government spending, rising levels of red ink, political opposition to any meaningful austerity package, and the prospect of a debt default have spooked investors, ignited a capital flight from Italian bonds and raised borrowing costs.

In August, Italy paid buyers of a new 10-year bond a yield of 5.22 percent. By October, the rate was 6.06 percent. In early November, the price of borrowing to Italy via the same 10-year bond rose to 6.73 percent, an escalation in costs that only added to the red ink and deepened the debt crisis.

Economist Mario Monti, a former European Union Commissioner, was named "senator for life" by Italian President Giorgio Napolitano on November 9, followed several days later by the appointment of Monti as Italian prime minister after Silvo Berlusconi stepped down.

Echoing Toynbee's aforementioned comment on suicide, Monti has described the growing debt crisis in the Italian economy as a case of "self-inflicted strangulation."

Government debt in Italy is now 120 percent of the GDP — 120 percent of the total annual value of all goods and services produced in the country. In Greece, Ireland, and Portugal, government debt as a percentage of GDP has now reached, respectively, 158 percent, 112 percent and 102 percent.

Seeing Italy as unable to control itself from within, the super-poobahs at the recent G-20 meeting in Cannes, a select fraternity that controls the green light to bailouts for collapsing entities, made a decision to dispatch the central planners from the International Monetary Fund to Italy to oversee reforms in Italy's anti-productivity labor laws and extravagant entitlement programs, and to jump start privatization efforts and the sale of government properties.

In the United States, we're heading around the same track, just a few laps behind and still pressing the gas pedal to the floor.

According to an analysis by the Peter G. Peterson Foundation, the Budget Control Act that put in place a plan to cut U.S. deficits by $900 billion over the next 10 years via caps on discretionary spending and charged the "Supercommittee" with identifying $1.5 trillion in additional deficit reducing measures "would make only a small improvement in our nation's long-term fiscal outlook."

Prior to the Budget Control Act being enacted into law, U.S. "federal debt was projected to soar to 187 percent of GDP by 2035, according to the Congressional Budget Office current base line," reports the

Peterson Foundation. “After the enactment of the Budget Control Act, the foundation projects that federal debt will reach 164 percent by 2035 and climb to 186 percent of GDP by 2038.”

If we keep going this way (and we are, with annual projected deficits of $1 trillion-plus stretched out as far the cash-rich Chinese agree to lend), we just might end up having some central planners from the IMF coming our way to tell us that we can’t get a Social Security check if we have any money in the bank, or telling our kids they won’t get any tuition help unless they agree to major in non-profit management.

A recent *Wall Street Journal* editorial, “Europe’s Entitlement Reckoning,” summarizes the growing crisis: “In Italy, as in Greece, Spain and Portugal, and eventually France, the welfare-entitlement state has hit a wall. Successive governments on the Continent, right and left, have financed generous entitlements with high taxes and towering piles of debt. Their economies have failed to grow fast enough to keep up, and last year the money started to run out. The reckoning has arrived.”

Former British Prime Minister Margaret Thatcher said it more succinctly: “The problem with socialism is that you eventually run out of other people’s money.”

Ralph R. Reiland *is an associate professor of economics and the B. Kenneth Simon professor of free enterprise at Robert Morris University in Pittsburgh.*