

Most U.S. Governments: Broke – and Broken

by Bob Bowman

Governing magazine, January 2010, describes current U.S. state governments as "broke and broken." It claims that almost all are out of money, and politically dysfunctional (regarding the latter, it focuses on Wisconsin). Is life truly that dismal for U.S. governments, and if so, how did it happen?

For one thing, is the nation really fiscally bankrupt? Sadly, it appears that we are, and a case can be made that a major reason goes back to the 1930s Roosevelt administration, when the President took the nation off the gold standard (he did it by executive order [!]; years later, congress explicitly approved it). When the money system is no longer backed by gold, or by any other commodity, one has a so-called "fiat" currency. By our federal constitution, the central government mints and prints the money, and when it adopts a fiat currency, it can simply print as much money as it chooses.

After FDR, the federal government did not have to keep a fort full of commodities (e.g., gold and silver) to back up its currency. It could declare the value of its paper currency to be whatever it chose; the ultimate backing for such currency then becomes the worth of the nation and its holdings. Now we see why it is crucial to the government to maintain its hoard of natural resources. That becomes a "Fort Worth" (akin to Fort Knox for gold) that backs our fiat currency.

How useful to that end that our federal government has set aside vast tracts of land as off-limits for development. Think about it. That assures the nations that hold our debt (e.g., China and India) that we are holding the commodities (resources) to pay off that debt. It also makes environmentalists happy, who vote for office holders who "preserve" the land, and never ask, preserve it for whom? It's not for perpetuity. It's for our grandchildren to pay off the huge multi-trillion dollar debt the Democrats now in control of our nation are amassing. Maybe it will pay for Obama's socialistic policies. Or, maybe our grandchildren will erase that debt by repudiating it and daring our creditors to use force to collect it. Will the resulting war (or wars) be our future?

Abuse of our fiat currency may explain the popularity of the economic theories of John Keynes. Ironically, his last name rhymes with "canes," for his theory indeed is a crippled one. He touted the notion that via a fiat currency, a nation could **spend** its way out of poverty. It could **borrow** the money by which to be prosperous. Borrow it from whom? Why, borrow it from our children, and our grandchildren, of course.

Ironically enough, our present elderly were the children and grandchildren at the beginnings of that debt, by which our elderly now join the ranks of those who have to help pay back the debt our nation has amassed. At last, a significant part of our **voting** public is now joining those being gored by our past 80 years of **panhandling** as a national fiscal policy. We have mortgaged away our retirement years.

Here's another way by which our national debt may be repudiated. *We might follow the example of the infamous U.S.S.R.* We might simply dissolve the federal government called the United States of America, which is the party that borrowed the money. The individual states will then go their fiscally unincumbered ways. That movement has already begun. A number of states have enacted laws affirming their sovereignty via the ninth and tenth amendments to our present federal constitution. The pendulum is at last swinging back from an all-powerful national government to the limited federal government of our original constitution; i.e., the states are declaring their original independence.

Maybe that is another future war being created by our reckless and feckless national fiscal policy. Maybe we are creating a new "civil war" in our future. How else are we going to repay a national debt that may already have passed the point of no return, beyond which it becomes realistically impossible to repay it? Our debt has already surpassed the level beyond which other nations have disowned their debt rather than destroy themselves by trying to repay it. Our own ballyhooed nation may already have mortgaged itself to the point of losing the U.S.A. as our national identity.

This is not mere fantasizing. In addition to the example of the U.S.S.R., cited above, the European Union, not quite fully born, may already be falling apart. They are faced with the PIGS dilemma. Portugal, Italy, Greece and Spain, the "PIGS", are on the point of national bankruptcy as failed welfare states, and may drag the euro down with them. It could die before it can become the new international dollar.

The welfare state, which depends on a fiat currency to finance it, may be unsustainable. Scholarly work that points that way has been put forth by an economist, F. A. Hayek. His book, *The Road to Serfdom*, is a popular account of the reasons why this may be. He lays out the science that supports those reasons in a later collection of his essays titled *The Fatal Conceit: the Errors of Socialism*. The latter book may best be understood by those who have the equivalent of a liberal arts college degree. Its analysis is devastating. The tribal altruism which motivates the communistic ideal of equal sharing of resources is fatal if applied to the economic structure which can sustain a highly organized social structure. Hayek points out that the two systems operate by different natural laws. Altruism by central decree cannot allocate finite physical resources in a sustainable way. So, if sustainability is our goal, we must temper the altruistic aims of socialism with mechanisms such as the free market, which is the purest expression we have of viable economic process.

Unless we heed the lessons cited by Hayek, our present social directions may be doomed. Our bankruptcy is not one of physical resources. Our nation, and the world, has a plenty of those. It is instead a bankruptcy of knowledge, and of the ways to instill that knowledge in ourselves and our children. We cannot live by emotion alone. Nor, Hayek says, can reason sustain us, either alone or as tempered by emotion. It is indispensable that we use history as our guide.

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