

ISSUES IN PERSPECTIVE

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Is America Going the Way of Europe?

There is a resistance in some parts of our culture to the idea of American exceptionalism: The conviction that America has developed differently than say Western Europe. Our political and our economic system is different than Europe—and intentionally so. Because America rejected the idea of a state church, the prolific religious pluralism of America has also influenced how it has developed as a civilization. [Although I do not embrace this idea, there is an underlying premise that because we are different than Europe, we are thereby morally superior to Europe. That is a dangerous idea that I reject because it is not true.] America is different from Western Europe and much of this difference results from choices we have made as a civilization. The columnist David Brooks summarizes some of those choices: “When Europeans nationalized their religions, we decentralized and produced a great flowering of entrepreneurial denominations. When Europe organized state universities, our diverse communities organized private universities. When Europeans invested in national welfare states, American localities invested in human capital. America’s greatest innovations and commercial blessings were unforeseen by those at the national headquarters. They emerged, bottom up, from tinkerers and business outsiders who could never have attracted the attention of a president or some public-private investment commission. . . [But we are different now and] reinvigorating a mature nation means using government to give people the tools to compete, but then opening up a wide field so they do so raucously and creatively. It means spending more here but deregulating more there. It means facing the fact that we do have to choose between the current benefits to seniors and investments in our future, and that to pretend we don’t face that choice, as Obama [has done] is effectively to sacrifice the future to the past.” Is there indeed evidence that America is sacrificing its future? Is there enough evidence to conclude that the US has so leveraged its future (via crippling debt) that it is indeed becoming just like Europe? For the following reasons, I believe we are.

- First is the matter of our national debt. Broadly speaking, the national debt covers all debts for which the federal government assumes final responsibility. The economist Robert Samuelson has cataloged our national debt into five categories:
 1. Treasury debt held by the public: \$11.3 trillion, 73% of GDP for fiscal 2012. This is the amount that must be borrowed through the sale of Treasury bills, notes and bonds.
 2. Gross federal debt: \$16 trillion for 2012, 103% of GDP. This figure adds to #1 the Treasury securities issued by the government trust funds, the largest being Social Security.

3. Federal loans and loan-guarantees: \$2.9 trillion in 2011, 19% of GDP. These are the loans the government makes to college students, farmers, veterans, small businesses, etc. If these loans default, the federal government must pay them.
4. Fannie and Freddie: \$5.1 trillion, 33% of GDP. With this category, the total federal debt rises to 155% of GDP.
5. The Federal Deposit Insurance Corporation: \$7.3 trillion, 47% of GDP. Add this to the total and you have 202% of GDP.

This makes the total federal debt at \$31 trillion, three times the conventional estimate of \$11 trillion.

- Second, America has created an entitlement culture—a social-welfare culture—that is gradually becoming more like that of Europe. Nicholas Eberstadt of the American Enterprise Institute has shown quite compellingly that America has indeed created a nation of “takers” where there is increasing dependency on the state. Here is Eberstadt’s evidence:
 1. Since 1960, according to the Bureau of Economic Analysis (BEA), entitlement transfers—government payments of cash, goods and services to citizens—have been growing twice as fast as overall personal income. Government transfers now account for nearly 18% of all personal income in America. (In 1960 it was 6%.)
 2. According to the BEA, America’s myriad of social-welfare programs currently dispense entitlement benefits of more than \$2.3 trillion annually. Since this must be covered either by taxes or by borrowing, the burden of entitlement spending now amounts to over \$7,400 per American man, woman and child.
 3. In 1960, according to the Office of Management and Budget, social-welfare programs accounted for less than a third of all federal spending. Today, entitlement programs account for nearly two-thirds of federal spending—nearly twice as much as defense, justice and everything else Washington does.
 4. According to the latest data from the US Census Bureau, nearly 49% of Americans today live in homes receiving one or more government transfer benefits, up 20 points from the 1980s. Contrary to many assumptions, only about one-tenth of the increase is due to increase in old-age pensions and health-care programs for seniors. Today, the overwhelming majority of people in America on entitlement programs are receiving money, goods or services from government programs such as Medicaid and food stamps. Only a third of all Americans receiving government entitlement transfers are seniors on Social Security and Medicare.
 5. Quite surprisingly, one of the fastest growing programs in America is the Social Security’s disability program. In December 2012, more than 8.8 million working-age men and women took such disability payments from the government—nearly three times

as many as in December 1990. For every 17 people in the labor force, there is now one recipient of Social Security disability payments.

6. President Obama and others have referred to Social Security and Medicare as “social insurance” programs rather than transfer programs. People do indeed contribute payroll taxes into trust funds supposedly to cover the cost of the programs when they retire. That is a myth! The fact is that Social Security and Medicare have already made tens of trillions of dollars in future promises that are not covered by their expected funding schemes. When these programs are required to honor these promises, these entitlements become transfer programs funded either by more taxes or more borrowing. These are indeed now entitlement transfer programs.

As Eberstadt concludes, “The moral hazard embedded in the explosion of social-welfare programs is plain. Transfers funded by other people’s money tend to foster a pernicious ‘something for nothing’ mentality—especially when those transfers seem to be progressively and relentlessly growing, year by year. This ‘taker’ mentality can only weaken civil society—even if it places ever-heavier burdens on taxpayers.”

America is tragically becoming more and more like Western Europe. Our social-welfare state has created a haunting dependency on that state, which does not have the will or the seeming ability to pay for this dependency, which it created!! As Samuelson has shown, we have funded the growth of this social-welfare state through debt, which has fostered a “something for nothing” mentality among nearly half of our population. Sensible people would hardly regard that as a positive situation for America. We lament what we are seeing in Greece, Spain and Italy; but if we continue on this path, America will not be far behind.

See David Brooks in the *New York Times* (22 January 2013); Robert J. Samuelson in the *Washington Post* (24 February 2013); and Nicholas Eberstadt in the *Wall Street Journal* (25 January 2013).