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RAHN: Democracy's spending curse

Buying voter support with taxpayer funds inevitably ends in ruin

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Many a democracy has been upended by excessive government spending - and, unfortunately, America, despite the latest budget agreement, is well on its way to fiscal and, perhaps, democratic collapse. The American Founding Fathers well understood that democracy could destroy liberty through both excessive spending and oppressive actions by democratic majorities. This is why the U.S. Constitution creates a federal republic and not a parliamentary democracy.

The Founding Fathers set about to create a government that first of all would ensure liberty and then protect person and property. To ensure against the momentary passions of a democratic majority, including spending others' money, they deliberately designed a governmental system in which most things cannot be done in a hurry and there are many checks and balances on what can be accomplished. Even so, Benjamin Franklin and other Founders thought it was unlikely the American experiment would last very long. John Adams wrote, "Democracy never lasts very long. It soon wastes, exhausts and murders itself. There was never a democracy that did not commit suicide."

As one way of restraining excessive taxing and spending, the voting franchise was limited originally to male property owners because the Founders wanted the voters to have a vested interest in stability and property rights. Over time, the voting franchise was extended to virtually all men and then to women with the 19th Amendment in 1920. Finally, with the passage of the 26th amendment in 1971, anyone 18 years or older received the right to vote.

Even though there were many good reasons to extend the voting franchise to all Americans, there was a downside in that many of the new voters were not property owners. Voters who are not property owners tend to be more receptive to politicians who promise them benefits to be paid by others (i.e., property owners and others of means).

As long as those receiving government benefits are much smaller in number than those paying for the benefits, politicians are more dependent on the taxpayers than on the beneficiaries. But the United States has reached the point at which there are more people receiving government checks than paying income taxes. As the political balance shifts away from taxpayers to recipients, the pressures to increase government spending accelerate until finally the golden goose is fully plucked and the economy collapses.

President Obama is the agent and spokesperson for the check receivers and not the taxpayers, which is why he keeps arguing for tax increases and saying it is only "fair" that the rich pay more. Increasing tax rates on the "rich" will not bring in much, if any, additional revenue because many of them already face high marginal rates - above 50 percent in some high-tax states - and thus are likely to modify their activities to avoid a further tax burden.

A spending problem can only be solved by increasing economic growth and reducing spending. Revenues now cover less than two-thirds of every dollar spent. Tax increases, particularly on capital as the president keeps proposing, will slow growth, which is almost nonexistent at the moment, even further. The top 1 percent of the taxpayers already pay almost 40 percent of income taxes - more than double their share of income. It would be useful if the media would ask the president to tell us how much is "fair," what he thinks the maximum tax rate ought to be on any American and how he came up with that number. The president and other politicians get away with sloppy speech because many in the media do not require them to define terms like "fair" or check to see if their numbers add up.

When many of us argued against the big increase in government spending, based both on economic theory and the empirical evidence over the past century, we were told that "spending multipliers" would result in lower unemployment and higher growth. Studies by serious economists of those "multipliers" show them to be negative or largely nonexistent in developed economies, yet the administration ignored those studies - some even done by members of its own economic team. The results are in now. After two years of "recovery," economic growth and job creation are a fraction of what they were in the first two years of the Reagan recovery and far lower than Team Obama predicted. But the team refuses to admit it was wrong and is resisting changing course.

If George Washington had thought no more clearly than Team Obama, he never would have won the Revolutionary War. The fact is that Washington was no more of a trained general than Mr. Obama is a trained economist. But Washington, unlike Mr. Obama, quickly learned from his mistakes and changed both strategies and tactics until he found what worked. He was not a mental prisoner of a destructive ideology.

Politicians like Mr. Obama who feed off the growing government-dependent class, have little interest in attempting corrective measures like a balanced-budget amendment - which is why they and their media allies are fighting it so fiercely. But without some sort of corrective action at the constitutional level to offset the expansion of the voter franchise, such as a tax-and-spend limitation amendment or an amendment requiring supermajorities for all tax and spending measures - it is only a matter of time before irresponsible political leaders will cause an economic collapse. That time is upon us.

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