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Hellenic Handbasket

The United States is, in some ways, in worse shape than Greece.

Pop quiz: Which country is in worse fiscal condition — Greece or the United States?

Greece, struggling to avoid default on its massive national debt, obviously is in bad shape. This year it will run a budget deficit equal to 9.5 percent of its GDP. That actually is a significant improvement over last year, when its deficit topped 15 percent of GDP, though it remains well above its target of 7.4 percent. Greece's overall national debt will be slightly higher than 150 percent of GDP by the end of the year.

And the worst is yet to come. If Greece fully accounted for all of its future unfunded pension liabilities, its real debt would exceed 875 percent of GDP, nearly nine times the value of everything produced in the country over the course of a year.

Greece also provides an object lesson to those who believe that budget deficits are the result of low taxes. Greek taxes run as high as 40 percent on incomes above €70,000 per year. There is also a 19 percent value-added tax (VAT) on all goods and services sold in the country. Corporate tax rates, as is the case with most countries, are lower than those in the United States, but still high at 24 percent. Capital gains are taxed at rates ranging from 5 percent to 20 percent or included in corporate income. Dividends are taxed at 10 percent and are subject to corporate taxes. By far the largest tax, however, is the payroll tax. Employers must contribute 28 percent of wages to the government's social-insurance schemes, and workers contribute another 16 percent directly, making the total payroll-tax burden 44 percent of wages. Overall, the Greek government takes in more than 38 percent of GDP in taxes.

It's not low taxes that caused the Greek crisis, but high spending. (Sound familiar?) The Greek government consumes more than half of the country's GDP. It is difficult for any government to collect enough taxes to support spending at that level.

But what about the United States? Our budget deficit this year is estimated to be roughly 10.8 percent of GDP. That's nearly one and a half percentage points higher than Greece's. We are slightly better off, however, in terms of national debt. Our official $14.3 trillion debt is only about 98 percent of GDP. Our debt won't hit Greek percentages of GDP until 2020 or so. On the other hand, if the unfunded liabilities of Medicare and Social Security are included, then our real total indebtedness tops 900 percent of GDP, putting us in worse long-term shape than Greece.

The spending numbers are even more frightening. Currently, the federal government spends slightly less than 25 percent of GDP. State and local governments spend an additional 10 percent to 15 percent. Therefore, total U.S. government spending runs between 35 and 40 percent, only slightly better than the Greeks'.

But once our entitlement programs — Medicare, Medicaid, and Social Security, as well as Obamacare — really kick in, U.S. government spending will skyrocket. Unless those programs are dramatically reformed, by 2050 federal spending will top 43 percent of GDP. Throw in state and local governments, and total government spending will be closing in on 60 percent of GDP. That would be considerably higher than in Greece today.

The United States could impose Greek levels of punitive taxation and still not come close to being able to pay for it all.

Obviously, the U.S. economy has advantages that the Greek economy does not. And as bad as our current fiscal situation is, we have not yet reached the point of no return. On the other hand, the Greeks have at least begun, however tentatively and reluctantly, to cut back government spending. The United States remains in deep denial.

This country really has reached a moment of decision. Unless we face up to the need to radically reduce the size and cost of government, and to reform our entitlement programs, we are headed down the same road to ruin as the welfare states of Europe.

And the Greeks aren't going to bail us out.

— *Michael Tanner is a senior fellow at the Cato Institute and author of* Leviathan on the Right: How Big-Government Conservatism Brought Down the Republican Revolution.