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To Re-Invigorate the Economy

by Richard W. Rahn

"It's the economy, stupid." This cry of the 1992 Clinton campaign now appears to be appropriate as we enter 2001. Recent data from the United States, and from the rest of the world as well, strongly indicates that global economic growth is rapidly declining. The economic situation requires quick action not only in the United States but also constructive action by other countries.

The new Bush administration has the challenge of not only implementing the proper economic policies for the United States but also encouraging other countries to do so in order to ensure peace and prosperity.

Rich democracies do not make war on each other. A peaceful world requires that countries not only be democratic but have a reasonable level of prosperity. Thus, the primary goal of international economic policy ought to be to encourage other countries to follow policies that will lead to rapid economic growth. For an administration to succeed in conveying that message, it is not enough for a few senior policy-makers in Washington to understand the goal and the policies. All senior embassy personnel must also have a good grasp of those policy changes that are necessary in the countries in which they operate. This will not occur unless the State Department and the other U.S. agencies that have foreign responsibilities significantly improve their economic policy training.

The proper policies are essentially the same for high-growth rich economies and slow-growth poor economies. Adhering to the following guidelines would bring benefits to everyone:

1. Strengthen the rule of law and insure that the courts are staffed with highly competent and non-corrupt officials.
2. Stabilize the value of the currency and remove impediments to its free exchange.
3. Strengthen free markets by removing impediments, such as price controls.
4. Privatize property and provide strong government protections.
5. Reduce impediments to free trade.
6. Reduce high marginal tax rates, particularly on labor and capital.
7. Ensure that government-spending programs are cost effective, and do not significantly distort competing free markets or provide incentives for nonproductive activities.
8. Make sure that regulations are cost effective and do not unduly interfere with basic civil liberties.

As obvious as these eight points may seem, they are consistently under attack by special interests in both prosperous and less prosperous countries. During periods of prosperity, erosion in the above policy areas tends to occur, and thus the plaque that grows in economic arteries must occasionally be purged.

Changes in government are natural times for such constructive purges to take place. Twenty years ago, the new Reagan and Thatcher administrations, in the United States and the United Kingdom respectively, provided such cleansing of the economic arteries to great benefit.

President-elect George W. Bush must make such changes here and encourage other countries to do the same. To do this, Mr. Bush must quickly staff key policy posts in the Treasury, State and Commerce departments with highly competent pro-growth economists, and just as importantly, develop a depth of policy staff in the key agencies to widely educate both U.S. and foreign government officials.

He needs to avoid the mistake his father made, who allowed some officials who did not support the economic policy on which he campaigned to undermine policy implementation.

Even though communism, socialism, and Keynesianism have lost their respectability, the fact is that the statist type of thinking such philosophies encouraged is alive and well and continues to have a destructive impact on world economic well-being.

As an example, almost all respectable economists support free trade, and the empirical evidence is overwhelming that free trade works and that trade restrictions are almost always destructive. The staff of the Joint Economic Committee of Congress just released a study showing that countries with the greatest trade openness have higher economic growth rates and higher incomes. According to the study, the 12 countries with the most restrictive policies had an average economic growth rate of only .3 percent for the period from 1980-1988, and only an average per capita gross domestic product (GDP) of $3,250 per year. On the other hand, the 12 countries with the most open trade policies had an average economic growth rate of 2.5 percent for the same period with an average per capita GDP of $23,387. Yet the United States has become slightly more protectionist in the last several years, and the pressures are growing here and abroad for more protectionism.

Many similar studies can be cited for each of the other policy issues listed above. Public economic literacy must be encouraged if the vestiges of statist thinking are to be overcome.

As the world economy has become increasingly integrated, every citizen of the world has a vested interested in pro-growth economic policies everywhere. Such policies are not going to occur unless the level of economic literacy is increased, particularly among the political and media classes. Thus, for Mr. Bush to succeed, he must create a small army of pro-growth economic policy-makers, communicators and educators throughout the government.

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