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Lessons from Down Under

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Americans can find parallels in Australia's history

SYDNEY, Australia

Unlike most of the world, Australia did not have a recession during the last two years. In fact, it has not had a recession in the last 19 years. Its economic growth rate is higher than in the United States, and the unemployment rate there is only 5.1 percent. From the middle 1800s until the early 1900s, Australia enjoyed a higher per-capita income than the United States. It then fell behind, but in the last couple of decades, it has gone through an economic revival. There are positive and negative lessons for the U.S. and the rest of the world from Australia.

Sydney is a beautiful city by the sea, where approximately one out of every five Australians lives. Despite having a land mass almost as large as the United States, Australia's population is only about 1/14th (22 million people) that of the U.S. Because of the distance from Europe, significant immigration by Europeans lagged the U.S. by almost 200 years. Both the United States and Australia are English-speaking countries that have benefited from abundant natural resources, many educated immigrants, the rule of law and the heritage of English common law, which have helped enable them to be successful democracies.

Australia and neighboring New Zealand have become economically freer over the last 30 years. The United States improved its Index of Economic Freedom ranking during the Reagan and Clinton years, but reversed course in recent years. When the new rankings are published for 2009 and 2010, a much larger drop in the U.S. ranking in economic freedom is almost a certainty.

Index of Economic Freedom

| | | 1980 | 1990 | 2000 | 2008 |
|-------------|--------------------------|------|------|------|------|
| Australia | Economic Freedom Ranking | 11 | 11 | 10 | 8 |
| Hong Kong | Economic Freedom Ranking | 1 | 1 | 1 | 1 |
| New Zealand | Economic Freedom Ranking | 19 | 7 | 5 | 3 |
| United | Economic Freedom | 3 | 3 | 3 | 6 |

| | | | | | |
|--------|---------|--|--|--|--|
| States | Ranking | | | | |
|--------|---------|--|--|--|--|

Source: Fraser Institute

In 1900, Australians enjoyed the highest per-capita income in the world. But then they retreated behind high tariff walls in a misguided attempt to protect manufacturing industries, created a judicial-based wage-determination system as a way to redistribute income in the name of fairness and engaged in excessive economic regulation. All of those measures slowed economic growth and reduced Australia's global per-capita income standing from No. 1 to No. 14. Reform began in the 1980s and early 1990s, as tariffs were gradually reduced and capital markets were liberalized. These had some beneficial effects, but it was not until labor markets were liberalized and public finances were reformed that the economy took off. From 1996 to 2007, average incomes rose by one-third. Australian professor Wolfgang Kasper of the University of New South Wales summed it up: "Our less-regulated, open economy weathered the Asian financial crisis and the 2008-09 global recession rather well, because the new, supply-side flexibility allowed Australian producers to respond with new-found energy to the growing demand for natural resources from an ascendant China."

Mankind seems to be programmed not to remember the reasons for economic success and failure - and these lessons seem to need to be relearned every few years. The normal course of events is for free and prosperous economies (particularly under democracies) to move toward less freedom - more government spending, taxation and regulation - until the burden of government brings growth to a halt or near-halt.

If the country is fortunate to have a politician (or two) who recognizes the problem, offers the correct solution, and is also able to be elected (like Margaret Thatcher or Ronald Reagan), a reversal to free markets and limited government can take place, which historically results in rapid growth and increasing economic opportunity. After years of prosperity, Australia moved left in 2007, with the election of a Labor government. As one would expect, the previous, hard-won labor reforms began unraveling. Government spending, taxes and regulations are all growing. If the trend is not stopped, Australia's economic performance, as in the United States, will decline as it did during the previous period of big government. The recent election ended in almost a draw, with Labor being able to (barely) form a government. Australia (like the United States if the Republicans win the election in November) is facing political stalemate, which is better than an activist left that can impose new programs.

Will Australians regain their economic footing before they allow themselves to fully re-embrace statism and end up with the disastrous policies of the Obama administration? The jury is out. But, President Obama is perhaps useful to the extent that his policies serve as a bad example for the rest of the world.

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