

Good News for the New Year

by Richard W. Rahn

OF COURSE, BETTER THAN 2011 DOESN'T MEAN MUCH

Even though some are predicting the end of the world in 2012, there is a possibility it could turn out better than 2011 (a low bar). Many people who are not part of the political class continue to advance civilization and make things better for us - like the late Steve Jobs.

Dr. Ito Briones, who is a biochemist research scientist, a medical doctor and something of a Renaissance man, recently wrote to me that he thinks the greatest discovery in medical science was the creation of iPS (induced pluripotent stem cells, or stem cells from reprogrammed skin cells) by Drs. Shinya Yamanaka and Kazutoshi Takahashi. According to Dr. Briones, "Even though the clinical application of iPS cells remains untested, the theories about aging and stem cells and the fountain of youth principles are groundbreaking and extremely fascinating. IPS science continues to move very fast. ... The promise for cures to cancer and other diseases appears plausible now with iPS science. What this discovery has also done is to open scientists' minds to the concept that nothing is indeed impossible in biology."

Other potential good news is that not all members of the political class are unprincipled, self-serving, ignorant and shortsighted. We are seeing a growing band of smart, responsible and knowledgeable people being elected to Congress and other political bodies. One example is Rep. Paul Ryan, Wisconsin Republican, who is chairman of the House Budget Committee. Mr. Ryan, a fine economist, put together an economically sound and politically realistic budget that passed the House of Representatives but, not unexpectedly, died in the Democrat-controlled Senate. There is a real possibility that a sufficient number of the American people will be rational enough to elect new members to the House and Senate (and the presidency) to pass a Ryan-type budget before the United States goes off the fiscal cliff, like Greece.

In democratic countries, many politicians get themselves elected by making promises for spending programs that the citizens cannot or are unwilling to pay for. The result is persistent deficit

spending that ultimately spirals out of control. The good news is that some democratic countries have learned how to avoid the spending/deficit trap, and those countries can serve as examples for the less prudent majority. (See accompanying chart.)

The best example is Switzerland. The Swiss have managed to be fiscally responsible for many decades, in part because they have a highly decentralized, direct democracy. Most governmental functions take place at the local level rather than the federal level in Switzerland, and as a result, the local governments must compete with each other on taxes, regulations, etc., which tends to hold down the growth in government and promotes liberty. Where government is close to the people, and where the democratic process is direct, the people can more directly hold elected officials responsible for misspending and mismanagement.

The United States was designed by its founders to have a small and relatively weak central government, in which most of the government functions and power were supposed to be at the state and local level. The 10th Amendment to the U.S. Constitution is very explicit: "The powers not delegated to the United States by the Constitution nor prohibited by it to the States, are reserved to the States respectively or to the people." The potential good news is that as a result of the presidential debates, more people are becoming aware of the 10th Amendment and are beginning to understand that if Congress and the courts stopped ignoring this amendment, the U.S. likely would have a smaller, more effective and more fiscally sound government.

Sweden and Canada provide role models for how highly developed democracies that have created unsustainable welfare states can find peaceful and constructive ways out of the dilemma. In the mid-1990s, both countries were stagnating and headed toward a Greek-style credit default because of the drag of bloated government spending, taxing and regulation. In both countries, the parties of the left and right came together to reverse course by reducing tax rates, spending and destructive regulation and privatizing much of what had been nationalized. Real growth has been revived in both Canada and Sweden, and they both have very manageable debt-to-gross-domestic-product ratios. Because Sweden is a small, homogenous country, it is able to maintain a larger

government as a percentage of GDP and still obtain normal rates of economic growth than can more heterogeneous countries like the U.S. and Switzerland.

Country	Economic growth rate (%)	Budget surplus as % of GDP
Chile	6.3	0.2
Singapore	5.1	0.6
South Korea	3.8	2.4
Sweden	4.1	0.0
Switzerland	1.8	0.8

Source: The Economist magazine
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The good news is that it is well-known what economic reforms are necessary to revive growth and fiscal sanity in the major European countries and America. But it also takes leaders who can explain what needs to be done and persuade the people to endure the pain of the necessary transitional hardship in the way British Prime Minister Margaret Thatcher and President Reagan did.

As a reality check on the potential good news, my friend Jim Stewart, a neurologist, asked: "While the medical community is indeed making great strides in extending our lives, who ... wants to live longer if the politicians keep making things worse?"

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