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CONTINUING DOWNFALL

		France	Britain	U.S.
Debt as % of GDP, net	2012	83.7	83.8	83.8
	2013	85.9	88.2	87.7
Deficit as % of GDP, 2012		-4.5	-7.9	-7.0
Government spending as % of GDP, 2012		56.2	45.5	40.6
Economic growth, %, last quarter		-1.1	-1.2	-0.1
Unemployment rate, %		10.6	7.7	7.9
Inflation rate, %, 2012		1.9	2.7	2.0

Sources: IMF, The Economist magazine

THE WASHINGTON TIMES

More Government Control Equals Poorer Nations

by Richard W. Rahn

A FREE-MARKET TUTORIAL FROM, OF ALL PLACES, MOSCOW

London, U.K.

An upside down world. Here I am, in my London hotel room, watching an English-language financial program being broadcast from Moscow on RT (Russian TV). The program host is correctly berating the heads of the major Western central banks for acting like socialists in setting interest rates and ignoring the fact that free markets will do a better job. He notes that both China and Russia are on a gold-buying spree in order to strengthen their currencies, while the Europeans, Japan and the United States are in a race to weaken theirs. Finally, he goes on a rant against the Western governments for their continuing fiscal irresponsibility.

The fact is that big capitalist economies are rapidly becoming less capitalist and more government-controlled. In the accompanying chart you can see how the United Kingdom, France and the United States are all rapidly moving downward. They all have fiscal deficits that will push their debt-to-GDP ratios into critical territory (more than 90 percent) within a matter of months. Economic growth has come to a virtual halt in the three listed countries.

The United Kingdom, France and the United States do not have a credible plan to bring their deficits down to a level below realistic expected growth rates, which is what is needed to avoid a financial meltdown. The three governments have what they politely call a “moving target” for spending, deficits and economic growth. The moving target is one that never gets any closer.

The Bank of Japan, the European Central Bank (ECB), the Bank of England, the U.S. Federal Reserve and others have been engaged in a currency war in which they try to reduce the value of their currency relative to the others. This past weekend at the G20 Finance Ministers and Central Bank Governors meeting, the above-mentioned nations and others denied they were in a currency war and then pledged not to do more of what they said they were not doing. Don’t bet your life on that.

Many of the central banks are trying to do the impossible: To increase inflation while keeping interest rates very low. They want to raise inflation to erode the real value of the debts their governments have been creating, but they are fearful that raising interest rates will make the costs of servicing both private and public debt unmanageable.

Where will all of this lead? Argentina provides an interesting case study. When its fiscal imbalances started to pinch a decade ago, the government stopped servicing its foreign debt, and it has been in international courts ever since. The country was still spending too much and was unable to sell its bonds at what it considered a reasonable rate of interest. So a few years ago it nationalized the private retirement funds of its citizens, giving them government bonds as a replacement. The Argentine government has been cooking the books when it comes to the inflation numbers. By greatly understating the rate of inflation, it has been able to cut the costs of servicing the pension and welfare programs by, in effect, only partially indexing them for inflation. This has caused great hardship to the recipients. The situation has become so bad that the International Monetary Fund just censored the Argentine government for producing phony statistics.

If you are a citizen of the United Kingdom, France or the United States, you might be thinking that this could not happen in your country. Really? Argentina is a democracy, rich in natural resources, with a relatively well-educated population largely of European descent. A century ago, it had one of the highest per capita incomes in the world. Now it ranks around the middle or lower, all due to bad economic management.

What do you think President Obama will do if the Chinese, Japanese and others suddenly stop buying U.S. bonds and private buyers start demanding far higher interest rates? Do you think he will accept the responsibility for his own economic mismanagement, or will he find some group to demonize and then try to take their assets?

None of this has to be this way. Reasonable modifications in the government transfer payments and real cuts in government spending to bring it back to the level as a percentage of GDP that it averaged in the two decades before 2007 would quickly lead to a boom and full employment. In fact, with all of the new, low-cost energy that is available in the United States, the country should be able to quickly regain its manufacturing prowess. The same goes for Britain. Recent discoveries in the United Kingdom indicate it has decades of gas if only those in government will let it be developed.

Rich countries do not naturally become poor. They only become poor when they have poor leadership.

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http://www.washingtontimes.com/news/2012/jun/11/wrong-tools-for-the-job/