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SELECTED ECONOMIC INDICATORS

Economic performance in the U.K. and the U.S.

(Five-year periods percent change)

	Real GDP per capita U.K.	Real GDP per capita U.S.	Unemployment rate U.K.	Unemployment rate U.S.	Government spending, as a % of GDP U.K.	Government spending, as a % of GDP U.S.
from 1982 to 1987	+20.7	+19.1	+0.2	-36.4	-10.5	-6.7
from 1987 to 1992	+7.8	+7.1	-7.5	+21.3	+4.8	+2.5
from 1992 to 1997	+17.6	+11.9	-27.5	-34.0	-10.2	-11.9
from 1997 to 2002	+15.3	+11.1	-27.1	+17.0	+0.5	-2.2
from 2002 to 2007	+13.6	+9.1	+3.9	-20.2	+4.4	+3.2
from 2007 to 2012	-6.1	-1.2	+50.5	+78.2	+13.2	+15.6

Sources: International Monetary Fund, Bureau of Economic Analysis and Congressional Budget Office

THE WASHINGTON TIMES

From Stagnation To Prosperity To Stagnation

by Richard W. Rahn

THE SUCCESS OF THE REAGAN-THATCHER ERA HAS BEEN QUICKLY ERASED

The great tragedy of our time is that so few know economic history; thus we have been doomed to repeat the mistakes of a generation ago, and millions suffer.

By the late 1970s, many viewed Britain and the United States as in terminal decline. The United Kingdom had been rotting for decades. The empire had been lost, and Britain began to look more and more like a Third World country as incomes stagnated and inflation soared. Then, along came a remarkable lady, Margaret Thatcher, who said "no" to the status quo and through incredible toughness, ability and just plain smarts turned around Britain.

On this side of the Atlantic, the United States was also in despair. Real incomes had stagnated, inflation seemed to be out of control, and the establishment political class had little idea of what to do. President Carter referred to the country as being in a "malaise." Out of the American West, a savior, Ronald Reagan, rode into Washington and turned around the nation.

Long before taking office, Thatcher and Reagan studied economics seriously. In fact, Reagan is the only U.S. president to have had a degree in economics. Thatcher was impressed with the writings of F.A. Hayek, arguably the best economist of the 20th century. She spent time absorbing lessons and insights from him, in person, before and after she was elected. Reagan, also a fan of Hayek and of Milton Friedman, had the remarkable ability (because his thought process was so logical and clear) to explain economics so that anyone could understand the basic principles and concepts. Reagan was advised by Friedman, and many of Friedman's associates and students had important roles in the Reagan administration.

Reagan and Thatcher understood that high tax rates, excessive government, undisciplined government regulation and inflation were the curses that were killing the economies of the United Kingdom and the United States, and to reverse course would take at least a couple of years and a degree of pain. They knew that their political opponents and many members of the press would portray them as heartless for applying the necessary medicine. Fortunately, both had the fortitude to do what had to be done and it worked, as can be seen in the accompanying chart.

Thatcher, British prime minister from 1979 to 1990, and Reagan, U.S. president from 1981 to 1989, were followed by weaker successors, Prime Minister John Major (1990-1997) and President George H.W. Bush (1989-1993), who indulged in a modest tax increase but largely left the economic policies of their mentors in place. Mr. Major and Mr. Bush were followed by men from the party of the left in their respective countries, Tony Blair (1997-2007) and Bill Clinton (1993-2001). Mr. Blair and Mr. Clinton were practical and smart, and they understood that limited government and free markets work. Mr. Blair oversaw a small rise in government spending as a percentage of gross domestic product, but Mr. Clinton, along with the Republican-led Congress, continued to reduce the relative size of government.

The big reversal in policy in the United Kingdom took place under Gordon Brown (2007-2010), a throwback to the old Labor Party, who succeeded Mr. Blair. Mr. Brown was succeeded by the Conservative Party's David Cameron, who has headed a coalition government that has not reversed course from Mr. Brown's big tax-and-spend policies. In the United States, President George W. Bush (2001-2009) allowed spending to rise as a percentage of gross domestic product under his watch, but he did obtain a modest tax rate reduction. President Obama has been unrepentant in pushing for higher taxes and more spending.

A quarter-century of economic success (1982-2007) was squandered in six short years. Even though Reagan and Thatcher are held in high esteem by most people, their lessons have been forgotten or ignored. These leaders understood that the combination of living within your means and working hard most often leads to individual and national success. Unfortunately, this is not a message many people want to hear.

A perfect illustration of the squandering of the Thatcher-Reagan legacy is the budget that Mr. Obama released last week. It increases government spending at a faster rate than inflation and population growth, and will lead to a higher ratio of debt to gross domestic product. Mr. Obama's budget proposal contains roughly $1 trillion of tax increases, most of which will fall on those who work hard and save. It is precisely the opposite of what should be done to stimulate economic growth. It appears as if the budget had been drafted by someone who lacks any knowledge of economic history going back as little as 30 years or sound theory.

The bigger government versus smaller government experiment has been run perhaps a hundred times around the world over the past couple of centuries, and the outcome is always the same. Perhaps a new Reagan or Thatcher will reappear and save us once again, or perhaps not.

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