The Washington Times October 15, 2013

Government Waste Stifling Growth Worldwide

by Richard W. Rahn

BIG BUREAUCRACIES HAVEN'T BOOSTED EMPLOYMENT OR PERSONAL WEALTH

The International Monetary Fund announced this past week that it expects world GDP growth to be only 2.9 percent this year. This is below the 3.2 percent in 2012, which was below the 30-year average of about 3.6 percent, and far below the one-of-the-best recent four-year periods, from 2004 to 2007, when it averaged 5.1 percent. The differences may seem small, but the rate of GDP growth determines how quickly global poverty declines and real incomes rise.

From the end of the recession in 2009, real economic growth in the United States has averaged less than 2 percent, which means that it will take around 35 years for real income to double. Contrast this performance with the last four years of President Clinton's administration and the four years under President Reagan after the end of the 1981-82 recession, when growth averaged more than 4 percent per year. If those rates had been sustained, real incomes would have doubled in a mere 17 years. The Chinese have been doubling real incomes about every seven years because their growth rates have been ranging between 7 percent and 12 percent per year.

Global economic growth was negative in 2009 because of the almost worldwide recession. It quickly bounced back to 5.2 percent in 2010 as would be expected — but the sharp decline in the past two years is disturbing. Coming off a recession, growth rates normally are higher than average for several years, but not this time.

In America, and now in most of the rest of world, people naturally assume that they are going to live better than their parents; but until the beginning of the Industrial Revolution less than 250 years ago; this was not true for most of mankind. The only way one could expect to get richer was if someone else got poorer — and so deep was that mindset we still see the remnants in those who have socialist leanings today. It was not until the later part of the 19th century that the average European city dweller lived better than those who lived in Rome 1800 years earlier. It has only been a few decades since much of Asia has enjoyed sustained real economic growth, and less than two decades since much of Africa has been on a growth path. So, looking into the reasons for the current slowdown in economic growth is much more than an academic curiosity, because slower growth means more people with inadequate food and shelter and with lack of real opportunity.

Real global growth has declined owing to government spending growing faster than the private sector in much of the world, mounting environmental and financial regulation whose costs far exceed the benefits, and monetary policies forcing misallocation of capital in the major economies.

Almost all of the developed countries are members of the Organization for Economic Cooperation and Development (OECD), and with the exception of China, they account for most of the world's GDP. Government expenditures as a share of GDP declined in all but three OECD countries between 1995 and 2006. This period was associated with an increase in growth in most of the developed and developing countries. After 2007, average real government spending as a percentage of real GDP rose sharply in the OECD countries; and even though it has dropped back some, it is still well above the earlier level.

Bigger government has not led to higher growth and more employment as those of the left continue to preach. In fact, just the opposite has occurred, because all too much of government spending wastes resources and discourages productive economic activity.

Extreme environmental regulation in Europe has led to a sharp increase in energy prices, causing Europeans to pay two to three times as much for electricity as Americans. High energy prices have led to lower growth, more unemployment and virtually no environmental benefit. The Obama administration, having learned nothing from the European experience, is pushing these same destructive environmental policies in the U.S. The new financial regulations spewing from the U.S. and Europe have reduced cross-border investment, thus misallocating capital from its highest and best use. Most of these regulations have not even met elementary cost-benefit tests.

The majority of the world's currencies are tied directly or indirectly to the U.S. dollar, the euro or the Japanese yen. During the past five years, all three central banks that manage these currencies have engaged in policies that keep interest rates at artificially low levels, which become, in effect, a tax on savers. The central banks are engaged in capital allocation where governments and large businesses get cheap money, which encourages them to misspend. At the same time, small and entrepreneurial businesses, which are major job creators, are starved for capital.

The reasons for the global economic slowdown are not hard to understand, and the solutions are obvious. The tragedy of our time is that most of the global political leaders have a narrow and short-term outlook, where they seek to maximize their own power at the expense of the governed. The solution to that problem is not so obvious.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.

http://www.washingtontimes.com/news/2013/oct/14/rahn-charting-decline-of-global-growth/