



The Long-Run Solution to an Economic Mess

BY RICHARD W. RAHN

FIRST, DOWNSIZE THE EXCESSIVELY LARGE GOVERNMENT SECTORS

Yes, the world is a mess — but there is a long-run solution. The solution is a world of modest-size governmental units — like Virginia and Switzerland, with no larger entity to bail them out if they make bad decisions.

Most countries, including those with the biggest economies, are plagued with slow growth and rising, unsustainable debt burdens. The slow growth is in large part a result of excessively large government sectors — with taxes, regulations and spending far beyond the optimal. And the rise in debt increases the pressure for more taxes, which slows growth even further and thus fuels the demand for even more government spending to take care of the growing numbers of those "left behind" (because of the lack of growth). This is an economic death spiral.

For most countries, getting out of the death spiral is not going to be pretty. Some will be responsible and sharply cut spending. Others will inflate away their debt or just default. The question is "Then what?"

Citizens in many countries, including the United States, feel they have lost control of their own governments — because

they have. They no longer think they are masters of their destinies. Large centralized government, by its nature, becomes uncaring at best, and brutal and oppressive at worst. The movement for secession in Scotland was a cry to regain control.

There are secession moments all through Europe, as well as the rest of the world. A few examples: Spain could break up with the Catalonians pressing for a vote to create an independent Catalonia. Belgium, an unnatural country, has been plagued by demands from many in Flemish-speaking Flanders for separation from the French-speaking Walloons in Brussels. In 1919, South Tyrol, which had been part of Austria-Hungary, was annexed by Italy. Many of the residents are demanding a referendum about returning to the "Austrian homeland." India and China each have movements in various parts of their countries demanding secession. Many westerners view China and India as homogeneous countries, when, in fact, they both contain many distinct subsets of peoples, languages, religions, etc., who wish to go their own way. Many of those in French-speaking Quebec would prefer to be out of English-speaking Canada. A poll released last week showed that approximately a quarter of the people in the United States would like for their state to secede from the federal government (an issue that was last settled in 1865).

What would the world look like if the peoples of the world could re-establish themselves in the political units where they would feel most comfortable in terms of language, ethnicity, shared history, ideals, religion, etc.? There are many success stories that can be used as models. There are the largely homogeneous Scandinavian countries, which are prosperous, peaceful, have the rule of law and a very high protection of civil liberties. There are the super city-states of Hong Kong and Singapore, which are rich with very high degrees of economic freedom, the rule of law and most civil liberties. And there is Switzerland with its decentralized direct democracy that has allowed each of its political subunits to choose its own tax rates, size of government and language — which has worked extremely well to provide a very high level

of protection for civil liberties, the rule of law and widely shared prosperity.

The world has been becoming more centralized, with rise of the superstates like the United States, the European Union and a unified China and India. Yet most basic functions of government — courts, schools, police and fire protection — are often best provided by relatively small governmental units. Smaller states would need to develop military alliances in order to adequately protect themselves, but this does not require an all-intrusive superstate. People have increasingly expressed their displeasure at their lives being controlled (unnecessarily) by a relatively few in Washington, London, Paris, Brussels, Berlin, Madrid, Rome, Moscow, Beijing, New Delhi, etc. — leading to less liberty and more bureaucracy.

In the United States, the states compete with each other to attract business and jobs — which is a discipline on excessive regulation, taxation and spending at the state level. Most states have some sort of balanced-budget requirements that limit the amount of debt they can incur (with a few noticeable exceptions). If the federal government devolved many of its functions and activities, including the so-called "entitlements," back to the states, it is unlikely that the country would have the depressed economy and runaway government debt that is now occurring.

There will always be some irresponsible countries, states and localities, but if there is no possibility of a federal or International Monetary Fund bailout, occasional occurrences of fiscal meltdowns in smaller political units (like Detroit or Greece) would both be more manageable (as are company bankruptcies), and not a threat to the global economy.

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