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How Many More Greek Tragedies?

BY RICHARD W. RAHN

OTHER WELFARE STATES, INCLUDING THE U.S., COULD ALSO MARCH OFF THE CLIFF

Greece and too many other countries have been trying to defy gravity by living the good life on borrowed money. In 2001, the Greeks entered the eurozone, which gave them access to low-rate loans under the pretense that Greece was richer than it was. The seeds of the destruction that resulted in the closure of the banks this week were planted the day the Greeks adopted the euro. None of this should have been a surprise to anyone. The only thing for certain is that the Greeks will now suffer another major drop in their real incomes.

The open question is will the Europeans, the Americans, the Japanese and others who also have been living on borrowed money, growing at unsustainable rates, learn the lessons from the latest Greek tragedy, or will they too march off the cliff? The United States, Japan, the United Kingdom, France, Spain, Italy, Russia, Brazil and a majority of smaller countries again this year will have lower rates of economic growth than the size of their current deficits as a percentage of gross domestic product (GDP) — causing a continued growth in the real debt burden.

At some point these countries will have no choice but to cut expenditures or increase their real rates of economic growth to avoid becoming a future Greece. It is sad and striking how few countries, including the United States and most of the European countries, have real plans to reignite growth. Japan is in its third decade of little growth. Europe has stagnated for almost a decade, and the United States is only doing marginally better.

Many on the left and so-called establishment economists, including many who work for the International Monetary Fund, World Bank and Organization for Economic Cooperation and Development, and politicians (and, of course, the media) argue that the way to avoid a Greek-style debt crisis is to increase tax rates — while ignoring the basic fact that most tax rates on labor and capital in the major countries are well above the growth-maximizing rate. They argue, because of demographics and politics, that it is not possible to cut government spending despite it also being above the growth-maximizing level in most countries. Or in National Public Radio parlance, spending cannot be cut because there are “too many unmet needs” — which, by definition, are infinite. Switzerland, Hong Kong, Singapore and other places demonstrate how fallacious the argument that more government spending is needed because they have shown that it is possible to have a higher per capita income than the United States while having lower taxes and less government. And they manage to accomplish this without oil and other natural resources that the United States has in abundance.

It is widely and correctly acknowledged that growth in regulations, particularly financial and environmental regulations, is serving as a major impediment to increasing economic growth. Yet, the Obama administration and its administrative agencies continue to crank out costly regulations at a record rate, without bothering in most cases to do serious cost-benefit analysis. The Republicans tend to decry the number and cost of the torrent of regulations, while doing little to stop them. Note that the folks who turn out and enforce all of the regulations are salaried government employees. If the Republicans, who now control Congress, would cut or even eliminate many of the regulatory agencies in government, they could bring a meaningful slowdown or even a halt to these destructive regulations. No employees — no bad regulations.

Question: How many new regulations do we need? Almost all new regulations impose a cost on individuals, the economy and individual liberty. The Greeks and their fellow Europeans do not lack for regulations — so why are the folks in Hong Kong who have the greatest amount of economic freedom in the world so much better off?

There are plenty of examples from around the world of what policies promote economic growth and opportunity. Unfortunately, the ignorance of the voters in most of the major democracies makes them too receptive to politicians who promise a free lunch. More goodies for you to be paid for by someone else — or as Margaret Thatcher put it, “The problem with socialism is that you eventually run out of other people’s money to spend.” She could have substituted the “welfare state” for socialism to better describe today’s Greece, Europe and the United States. Total government spending as a percentage of GDP is 52 percent in Greece, 35 percent in the U.S., 33 percent in Switzerland, and only 18 percent in Hong Kong.

Electing politicians who deliver (not just promise) less but more careful government spending, lower tax rates on labor and capital, fewer regulations whose benefits are unambiguously greater than the costs, and freer trade — along with a strong adherence to the rule of law and protection of private property — is the only way to guarantee not becoming a future Greek-like tragedy.

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

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