WHY THE AMERICAN ECONOMY LEADS THE WORLD

Despite the shackles of excessive taxation and regulation, the U.S. economy is relatively more free than any other.

by Richard E. Ralston

Many economic commentators now say that the American economy is in almost perfect shape. It is has low inflation, low unemployment, steady economic growth, declining federal deficits, and booming markets. It is, in short, the envy of the world.

Our prosperity is not the result of low taxes—they are too high. Prosperity is not the result of regulatory, health and safety, tax, environmental, anti-trust, racial preference, and miscellaneous paperwork burdens imposed by the federal government. These burdens are, however, relatively lighter than those in other major economies. Greater freedom in the American economy is the main reason for America's prosperity. A brief tour of the condition of other major economic powers illustrates this:

France

France is currently suffering from the highest unemployment rate among the major economies—13 percent. With 55 percent of all spending in France provided by government, the new socialist government of Prime Minister Lionel Jospin has promised 350,000 new government jobs and has just increased taxes on corporations, including a doubling of the tax rate on corporate capital gains. As in most countries of the world the "conservatives" in France are more interested in paternalism and nationalism than in free markets.

The newly elected leader of the Gaullists, Phillipe Seguin, responds to the Socialists with primitive, anti-technological Ludditism. His cure for high unemployment is a proposal to outlaw self-service pumps at gas stations, and electronic ticket-takers on the subway in order to create jobs for human drones. All in the name of *gloire* one may suppose.

Germany

In Germany the heavy regulatory hand of "conservative" governments has a tradition that goes back to Bismarck. Antiquated blue laws prohibit buying or selling a bottle of milk on Sunday. The smallest details of the marketplace are regulated, as typified by a current court case: The American catalog company, Lands' End, has recently launched a sales effort in Germany with great success. However, they have been hauled into court by German trade associations for offering an unconditional guarantee because it is not "customary" in Germany and violates German law by providing "added value" to a product without charging for it.

Russia

Russia's economy is still shrinking. Years after the fall of communism only 3 percent of farm land is in private hands and produces 50 percent of the food.

China

In China the rate of growth of the much heralded "booming" economy is slowing down. Allowing the inmates of a penitentiary to start making goods for sale will briefly increase their economic activity, but only within the limits of what can be done in a prison. Minimal liberalization in this largest prison on earth has allowed labor-intensive and imitative enterprises to increase, but this surge in activity will soon dissipate as it comes up against the "walls" of the system.

Great Britain

The British government spends less of the national wealth (41.9 percent) than most European countries—about the same as before the days of Margaret Thatcher—and has just installed a socialist government with a huge majority.

Japan

The economy in Japan has been flat for several years. The percentage of its population receiving pensions is rapidly escalating to the highest levels in the world. Although its stock market is at a level barely more than half its historic highs it is still badly overvalued. Its government bureaucracies are strangling the economy and, for the first time, is now spending a higher percentage of the GDP (36.2 percent) than government spending in the U.S.

United States

Why is America better off than these foreign economies? Although government regulation is particularly damaging to small business—which are less equipped than large corporations to handle the paperwork—no other economy has the breadth and depth of America's small businesses, which have created more than eight million new jobs in the last 15 years. The government's share of GDP at 33.3 percent is less than that of any other major economy and is at the same level as in 1990—while almost all other economies have seen an increase in their government's share. Although the federal government shows little tendency to shrink, in recent years the governors of many of the larger states have made progress in cutting government programs and taxes. This has boosted economic growth in large economies such as those of Massachusetts, Michigan, New York, New Jersey, Ohio, Pennsylvania, and Wisconsin.

This freedom in the American economy to create new jobs both draws and is enriched by the arrival of immigrants—as it has for centuries. While the welfare state is now drawing those who just want to become leeches of society, tens of thousands of immigrants still come to America each year to enjoy the freedom to earn a better life for themselves. America uniquely benefits from this inflow of energy and productivity.

The American sense of life is also a major reason for American prosperity. Americans generally expect and receive quality products and services for their money. Trust is an implicit element of every transaction, and what little fraud that occurs is driven from the marketplace. In cultures where everyone is trying to cheat each other and where every palm must be crossed, capitalism cannot work efficiently. Ethics and trust are the lubricants which allow capitalism to work in a free society. Americans also are relatively free of jealousy and envy. Unlike their cowardly politicians, they realize that you cannot have a vigorous economy if you do not allow anybody to get rich. Most Americans would still rather get rich than soak the rich.

But freedom itself is the primary factor which makes prosperity possible. More than 30 years ago Ayn Rand noted: ". . . a current catch phrase is the complaint that the nations of the world are divided into the 'haves' and the 'have-nots.' Observe that the 'haves' are those that have freedom, and that it is freedom that the 'have-nots' have not." Americans should be grateful for their present relative prosperity and freedom, and should understand that the only way to preserve and expand it is to fight for more freedom from government in their lives and in the marketplace.

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