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Rich: Are Europe And America Trading Places?

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By ***Howard Rich*** || Tucked away inside a new World Bank report on the flagging European economy is a compelling indictment of big government in the 21st Century – a critique which should send a chill up and down the spine of every American policymaker.

In assessing whether government expansion has served as a “drag on growth in Europe,” the World Bank’s researchers discuss the consequences of centralized bureaucracies becoming too large (and the tax codes required to support them becoming too invasive).

“Workers may work fewer hours, moderate their career plans, or show less interest in acquiring new skills,” the report notes. “Enterprises may scale down production, reduce investments, or turn down opportunities to innovate.”

And that’s before these mega-governments exacerbate the problem by usurping the private sector’s control over speculative investments.

“Over time, big governments can also create sclerotic bureaucracies that crowd out private sector employment and lead to a dependency on public transfers and public wages,” the authors continue. “The larger the group of people reliant on public wages or benefits, the stronger the political demand for public programs and the higher the excess burden of taxes.”

Sound familiar? This is precisely what’s happening right now in the United States – an ongoing descent into pseudo-socialism that’s been aided and abetted by government-funded unions and select special interests (forces which were singled out in the World Bank report for their role in impeding free market growth).
“Large public administrations can also give rise to organized interest groups keener on exploiting their powers for their own benefit rather than facilitating a prosperous private sector,” the report’s authors warn.

This government-induced, government-perpetuated drain on economic expansion is a worldwide phenomenon – although the World Bank isn't the only globalist entity now willing to acknowledge it.

Two months ago an analysis of more than 100 diverse national economies conducted by the European Central Bank (ECB) revealed a "significant negative effect of the size of government on (economic) growth." In fact the ECB report determined that "government consumption is consistently detrimental to output growth irrespective of the country sample considered."

Even the neo-Keynesians at the International Monetary Fund (IMF) admit that government debt reduction – especially cuts to pension and health care entitlements – could be used to free up revenue for long-term tax relief.

"Lower government debt levels reduce real interest rates, which stimulates private investment," IMF researchers recently concluded. "Also, the lower burden of interest payments creates fiscal room for cutting distortionary taxes. Both of these effects raise output in the long term."

All three of these European icons are drawing on recent, diverse data to document something limited government advocates have known for years: There is an inverse correlation between the expansion of government and the expansion of economic prosperity.

Why then does the so-called "leader of the free world" continue rushing headlong in the direction of obscenely large government?

Clearly the expression "leader of the free world" in this instance isn't limited to the current administration in Washington, D.C. Former president George W. Bush also backed deficit spending, Keynesian "stimulus," money-printing, crony capitalism and new health care entitlements – although Barack Obama has dramatically escalated all of these failed policies.

"The burden of government spending has jumped by about 8-percentage points of GDP since Bill Clinton left office, so this could be the explanation for why growth in America is so sluggish," writes Daniel J. Mitchell, a tax policy expert for The Cato Institute.

Absent entitlement reform this burden is expected to climb by another 10 percentage points over the next quarter century, according to projections from the Congressional Budget Office. Add state and local government spending increases to the mix and public sector control of the American economy will grow even larger.
Is such growth sustainable? Of course not – just ask the Europeans. Yet sadly that's not stopping Obama from proposing new tax hikes on job creators and another $1.3 trillion in deficit spending in his 2013 spending plan.

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