

## Not All Economic Commentators Believe the Worst Is Behind Us

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A number of economic commentators believe the worst is behind us, but that may not be true, says Richard W. Rahn, a senior fellow at the [Cato](#) Institute.

Rahn bases his prediction upon Mitchell's Golden Rule, which states that the private sector must grow more quickly than the public sector for prosperity to increase.

- In the United States, as in most major nations, debt-to-gross domestic product (GDP) ratios and deficits are increasing.
- Optimistic estimates suggest the economy will grow by 3 percent and the deficit will only total 4 percent of GDP, which will still trigger a slight rise in the debt-to-GDP ratio.
- However, many forecasters predict a dismal 2 percent growth rate while the deficit will balloon to upwards of 7 percent after accounting for new tax increases and regulations.
- This latter scenario, despite being masked by the Federal Reserve's purchases of U.S. debt, results in a significant increase in the debt-to-GDP ratio.

Rahn says that Japan, France, Italy and Spain will continue to experience recessions as their debts grow in proportion to their gross domestic product. Germany, the economic powerhouse of the Eurozone, will struggle to attain growth while surrounded by its struggling neighbors. Of the developing countries, Brazil and India are growing despite their financial problems and only China does not appear to have a major deficit problem, though transparency issues render their status largely unknown.

- Many countries have been responsible in accumulating public debt throughout their periods of economic growth.
- Australia, Chile, South Korea, Sweden and Switzerland all have relatively low levels of debt-to-GDP and each experienced economic growth in 2012.
- The oil rich countries continue to thrive due to oil revenues, though oil funds may not last forever.

Overall, Rahn believes that 2013 will be challenging for the large, developed and ailing nations suffering stagflation and the burdens of enormous public debt. On the other hand, small countries with easier-to-manage economies and great examples of what not to do might have a good year.

Source: Richard Rahn, "Tale of Two Economic Styles," *Washington Times*, January 15, 2013.

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