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Lessons Washington Could Stand to Learn

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North Carolina is currently in the midst of what economists and social scientists would call a natural experiment. Last year, the state embarked on a sweeping program of economic, regulatory, and budget reforms aimed at shrinking the size and scope of government. Taxes were cut across the board, regulations simplified, and the growth of state spending has slowed significantly in the last two years.

These reforms are hardly unique. States like Texas have long had similar pro-growth, limited government policies that have met with great success. Still, North Carolina is notable for how rapidly and comprehensively it has changed its approach.

After the 2013 election, Gov. Pat McCrory and the Republican legislature he joined had quite a mandate for reform. The state's economy had been growing at an anemic 0.3 percent (well below the national rate of 1.6 percent).

As the Cato Institute noted in our 2014 Fiscal Policy Report Card on America's Governors, within two years, McCrory and the state legislature, led by House Speaker Thom Tillis, delivered one of the most impressive tax reforms of any state in recent memory. Three individual income tax rates were replaced with just a single, lower rate. The personal exemption was eliminated and the standard deduction was expanded, benefitting nearly all taxpayers. (For these efforts, North Carolina tied for the highest score on Cato's report card.)

These reforms represent a departure for the state that has not been without criticism. Campaign ads have derided tax and regulatory reforms as giveaways to big corporations and the wealthy. Slowing the growth of the state's budget, critics argue, will starve the state's economy of vital government "investments" that would cost jobs. In a fit of hyperbole, *New York Times* columnist Paul Krugman called the state's decision to exit the federal extended unemployment assistance program, rather than hike payroll taxes to fund it, a "war on the unemployed."

Now is a good time to step back and evaluate whether these reactions to the act of reining in government are justified.

In public policy, what matters – or what should matter – is what works. What approach creates the most jobs and ensures the prosperity and well being of the most people? North Carolina's program of reforms is testing the premise that a smaller government that lives within its means and depends on the private sector to do the heavy lifting on social welfare is the correct answer to this question.

This week, the latest Bureau of Labor Statistics report showed North Carolina's unemployment rate fell to 6.7 percent with 14,000 jobs created. Since North Carolina's reform program began, 152,000 new jobs have been created, with a growth rate of 4.6 percent -- well above the national average. The state's unemployment rate has fallen too, from 8.8 percent in January 2013 to the current 6.6 percent. Finally, the state's economy was among the fastest growing in the nation in 2013. At 2.3 percent North Carolina's economic growth outpaced the 1.8 percent growth of the nation as a whole. While there is certainly more to do, North Carolina is on the right track.

Relying on the private sector rather than the government has always been the most powerful way to improve people's lives. When government regulations are pragmatic and their benefits weighed against the burdens and economic costs they impose, businesses will come and jobs will flourish. When we empower small businesses, entrepreneurs, and innovators to do what they do best, prosperity is shared more broadly. When success is encouraged and celebrated rather than derided and taxed and when government lives within its means everyone ends up better off. It's a lesson that Washington could stand to learn.

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