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Forgetting what 'good' looks like

By Antony Davies

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The unemployment rate is falling (but only if you don't count people who have given up trying to find jobs). Inflation is low (but only if you ignore the prices of food and energy). The federal debt is manageable (but only if you assume that the government will default on its Social Security and Medicare obligations).

Economic news has been so bad for so long that we now regard mediocre news as good. When employment figures showed that the economy created 120,000 jobs in March, the chairman of the Council of Economic Advisers claimed that this was "further evidence that the economy is continuing to recover."

Right.

We need 110,000 jobs a month just to keep pace with population growth. At March's rate of "recovery," it will take 50 years for us to get back to 2008's unemployment rate. The reason we've been in the economic doldrums for so long is that few people in Washington appear to have actually studied economics.

Contrary to a wide swath of economic theory as well as ever-mounting evidence, our political leaders continue to claim that government is the key to economic growth. Fortunately, we have a solid body of evidence that distinguishes policies that work from those that don't. Data from the Fraser Institute confirm that economic growth can't be orchestrated because growth comes from leaving people alone to make their own decisions.

The Fraser Institute's Economic Freedom of North America (EFNA) index looks at the 50 U.S. states over the past 30 years and ranks each according to the economic freedom its people enjoy. EFNA gauges each state's economic freedom by measuring government spending, taxation and labor-market flexibility. Comparing the states' economic performances with their economic freedom reveals a clear picture: States that are more economically free are more prosperous.

Over the past 20 years, states with the least government intervention saw their economies grow 5.5 percent per year, while states with the most government intervention saw their economies grow only 4.6 percent per year.

The 25 states with the most labor-market freedom have unemployment rates averaging 7.8 percent as compared with 8.5 percent for the 25 states with the least labor-market freedom. The 25 states with the most tax freedom -- lower and flatter tax rates -- are carrying debts that average 16 percent of their economies. The 25 states with the least tax freedom are carrying debts that average 20 percent of their economies.

Throughout history, across countries and across cultures, economists see a repeated theme: When governments intervene, economies stagnate and people suffer. Each generation brings new politicians who think that they are smarter, more benevolent or more informed than the previous generation's politicians. They believe that, this time, they'll figure out how to manage the economy for the benefit of all. In the end, each new batch of politicians is proved wrong as the people suffer through another failed economic experiment.

Our future prosperity will not come from Washington. As surely as the sun rises and gravity pulls the planets through their courses, economies will only grow when people are free.

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