# Foreword

A fashionable theory these days is that economic recoveries after financial crises are always slower and take longer than recoveries after conventional recessions. While there is some evidence for this claim, I think it has become more of a political excuse than a definitive explanation for slow global growth. But there's no doubting the corollary that political recoveries after financial panics are long and costly to the cause of economic freedom. We are still living with the damage to liberty from the financial mania and panic of the past decade, and at this moment it's hard to see when the damage will stop.

Across the world and with few exceptions, governments are back at the commanding heights of the economy. This is clear from the overall trend in the 2013 *Index of Economic Freedom*, which is essentially flat from a year ago and still down from its peak in the middle part of the past decade. A few nations have risen in the freedom ranks, notably in Eastern Europe (Poland, among others); Colombia; and in the Middle East (Jordan and the United Arab Emirates). These are welcome changes, and the benefits in growth have helped millions of people, but these nations represent a fraction of the world economy.

The biggest setbacks have come in the developed countries that have led the world economy for most of the past 60 years. Japan is entering its third decade of stagnation with no evidence that its political leaders have a clue about how to end it. The Democratic Party in power in Tokyo wants to raise the value-added tax, while the Liberal Democrats, who are favored to win the January election, want another Keynesian spending binge. Presumably they'll raise the VAT later. Nowhere can one see a reform or growth agenda.

Europe is in a similar slow-growth trap, with overspending leading to tax increases followed by bailouts. Then do it again. *The Wall Street Journal* supported the euro currency in part because we hoped that nations would have to reform once they couldn't use a central bank to inflate their way out of overspending. That isn't how it has turned out. The European Central Bank (ECB) is increasingly engaged in political and monetary interventions that let political leaders avoid serious fiscal or labor reforms.

Europe's fiscal debate is between those who want to cut spending in the name of austerity and those who want to increase government spending in the name of growth. Few voices speak for unleashing private investment as an engine of growth. A U.S. money manager with wide European contacts recently predicted that the overall euro zone might not grow much at all over the next decade. He shared that forecast with some

ECB officials who essentially agreed. Think about the implications of that for a country like Spain, where youth unemployment is already 50 percent.

In previous decades, the world could count on America to pick up the slack, but that is no longer true. The political left and neo-Keynesians have run U.S. economic policy since the last year of the George W. Bush presidency. Their theory is that government spending, temporary tax cuts, regulatory interventions, and easy money will reignite growth. They haven't done so. Growth (2 percent) in 2012 has been barely faster than in 2011 (1.8 percent), which was slower than in 2010 (2.4 percent).

Yet Mr. Obama was able to persuade American voters that his policies had less to do with this slow recovery than did Mr. Bush's. And Mr. Obama has emerged from his victory pushing for more "stimulus" spending and higher taxes, while the Federal Reserve stands poised to undertake round four of its "quantitative easing" policy. Most important, ObamaCare will begin to be implemented, starting with higher taxes in 2013 and subsidies in 2014, putting government in de facto control of the health-care industry. The higher costs will roll through private industry and state and local governments. The entitlement state will dig deeper roots, à la Europe.

Republicans kept control of the U.S. House of Representatives, but the best they can probably do in the near term is mitigate some of this policy damage. The U.S. economy will surely find a way to grow thanks to private investment and innovation, such as the shale gas and digital revolutions, but it will be despite the extra burdens imposed by government.

The larger cost of all this has been the decline of the credibility of the U.S. as an economic model. It wasn't long ago that people around the world spoke of the "Washington consensus," by which they meant a generally free-market policy mix. Now foreign governments deride U.S. slow growth and policy failures. Chinese leaders in particular look with disdain on American policy advice, notwithstanding their own need for another wave of economic reform.

This is our current reality, and there is no use denying it, but it is also important to understand that it is neither a statement of fate nor a forecast. The future is still ours to fashion. More than winning an election or two, crafting a better economic future will require a return to better ideas. The job of those who believe in freedom is to make classically liberal economic ideas relevant to our current problems. We need to rebuild our policy arsenal while exposing the failures of statist dominance that are sure to accumulate.

When governments fail to produce the prosperity they promise, then electorates will come looking for other answers. Our job is to have them ready.

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*The Wall Street Journal*
December 2012