

International Debt Relief: Feeding the Dead Hand of Socialism
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Did socialism die with the fall of the Berlin Wall and the dissolution of the Soviet Union? It would be good if it did, but it did not. It is alive, even if it is less hearty than it once was. Socialist energies and arguments have been redirected. Few people argue any longer for complete socialization of economic activity. Some measure of free markets and private property is almost universally accepted.

The central concern throughout the history of economics has been to explain why private property and free markets are economically superior to politically restricted property and controlled markets. Since 1995, the Heritage Foundation <<http://www.heritage.org>> has published an *Index of Economic Freedom*. This Index seeks to rank nations throughout the world according to the economic freedom their citizens possess, and to relate those rankings to actual economic performance.

The wealthiest nations in the world are those that have possessed a good deal of economic liberty for quite some time. The most rapidly growing nations are those that currently have the greatest extent of economic liberty. A wealthy nation may come increasingly to restrict economic liberty. The more it does so, the slower will be its rate of economic growth. A wealthy nation can endure a fair period of poor economic performance and remain among the world's elite, even if its position is slipping. A poor nation that embraces economic liberty may remain poor for some time, despite its having a high rate of economic growth.

The amount of time required to make a significant difference is not all that long. A generation can make a large difference. The difference in growth between

the most free and least free nations is about four percentage points a year.

Consider the impact of just half that difference, the difference between growing at one percent and three percent. Current per capita income in the United States is about \$25,000. If \$25,000 grows for 30 years, it would become \$60,700 after 30 years at 3 percent, but only \$33,700 at 1 percent. Moreover, \$15,000 growing at 3 percent would become \$36,400 after 30 years. A fast growing underdeveloped nation could catch up with a slow growing advanced nation within a generation. Alternatively, a slow growing developed nation could become relatively underdeveloped after a generation. If you doubt the arithmetic, just look at what happened to Argentina during the early 1900s.

Argentina is, of course, in the news once again. This time it is over the possibility of debt default, along with possible austerity measures that Argentina might impose to prevent that default. Where Argentina is today, Mexico, Thailand, and Indonesia, among others, were in the news a few years ago. And other nations will surely be in similar positions in the coming years.

What is going on here? Why is one government talking about maintaining the solvency of another government? Why are governments concerned about solvency and debt anyway? If there are commercial enterprises in other nations that want to borrow from American banks, and if those American banks are willing to lend, by all means let them do so. But this is business as usual, and has nothing to do with government. Or shouldn't, anyway.

Actually, it often has much to do with government. Governments may guarantee loans, or even undertake the borrowing themselves. Such international

agencies as the World Bank and the International Monetary Fund are nothing but consortiums of governments playing at the banking business with other people's money. In either case, we are witnessing the economic inefficiencies of semi-socialistic regimes. Collectively sponsored financial institutions will never work as well as do privately sponsored institutions. Defaults will be higher; returns on investment will be lower.

Adam Smith is widely regarded as the founder of modern economics for his 1776 book *The Wealth of Nations*. In another book, *Lectures on Jurisprudence*, Smith noted that "little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments which thwart this natural course arrest the progress of society." Smith's three requisites seem easy enough to accomplish. The problem is that they require political officials to occupy the background and not the foreground of economic attention and admiration. Those officials would not fly around the globe to deal with financial crises. There would be no such crises to deal with. While debt default is always a misfortune for creditors, what is even more misfortunate is the prominent role that governments play in these financial matters. The world needs more economic freedom, and not a continued expansion of the restrictions on that freedom that modern governments push.