Introduction

Economic growth is not a mysterious force that strikes unpredictably or whose absence is inexplicable.

On the contrary, growth is the fruit of two forces: the ability of people to recognise opportunities, on the one hand, and the creation by government of a legal, fiscal, and regulatory framework in which it is worthwhile for people to exploit those opportunities. And since there is no shortage of energetic and entrepreneurial people wherever human beings are to be found, one of the most important factors explaining differences in economic performance will be public policy.

This book is about how a disparate platoon of economies – Ireland, the Netherlands, Georgia, Massachusetts, and Michigan – went from being laggards to economic stars. Their circumstances are all quite different. Ireland, for instance, was a perennial under-performer in a Europe full of sclerotic economies, and the Irish diaspora is eloquent testimony to the inability of generations of Irish to make a decent living at home. Massachusetts and Michigan, by contrast, were powerful economies laid low by vast changes in the structure of the U.S. economy. Holland became a victim of its own success when it allowed offshore natural-gas revenues to fund a huge expansion of the welfare state, destroying incentives to work in the process. And Georgia harnessed itself to social change (in the form of desegregation) and technological change (in the form of air-conditioning) to begin the long march out of economic stagnation that had characterised most of the American South for generations.

As different as their circumstances were, however, a certain number of common factors unite their happy experience with significant economic progress. They saw that trying to prop up dying industries was a mug's game. Public debt needed to be brought under control, taxes lowered, and excellent value offered in public services when measured against the taxes paid. Politics needed to be banished from decisions about where and how to invest, whether in public infrastructure or private industry. Work incentives needed to be improved by reforming social welfare. Profitability in the private sector needed to be improved. And costs, including labour costs, needed to be kept keenly competitive. The sum of these measures was a policy environment in which business had every reason to invest and build productive capacity, while workers had every reason to work hard and build their job skills. As the capital investment grew and workers became more skillful, real wages rose along with tax revenues, and a virtuous circle was created. Growth bred more growth, success bred more success.

In other words, what the examples Fred McMahon has gathered here show is what public-policy analysts have been saying for years: incentives and public policy matter. That should be comforting news for lagging regions, like Atlantic Canada, that are still searching for the key to success. That key is simply to put sensible policies in place, and then let the intelligence, industriousness, and ingenuity of people do the rest.

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