

# reason

## The U.S. Economy Is More Free Than It's Been in Years

John D. Tuccille

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In a country that seems determined to reenact the 1850s, or the Weimar years, or maybe Italy's years of lead, good news about politics and the economy can seem exceedingly rare. But brace yourself for a shock, because this country around you that looks poised to tear itself apart has quietly broken a decades-long retreat from economic freedom, becoming a place more supportive of private business and the ability of individuals to make a living.

This good news comes courtesy of the latest report on the "Economic Freedom of the World," published last week by Canada's Fraser Institute and the Cato Institute and using data up through 2016. "The foundations of economic freedom are personal choice, voluntary exchange, and open markets," write authors James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy—though there's rather a lot more behind the numbers, as you might expect.

Readers of Reason will take it as a given that freedom—the ability to order your own affairs and make consensual arrangements with willing people—is a good thing in itself. But the report notes that "countries with greater economic freedom have substantially higher per-capita incomes." In fact, those in the least-free quartile of countries have the lowest per-capita income at \$5,649, rising to \$11,465 in the third quartile, \$18,510 in the second quartile, and \$40,376 in the quartile containing the most economically free countries.

Life expectancy also rises and "is about 20 years longer in countries with the most economic freedom than in countries with the least."

And freedom appears to be indivisible, with the rights to run your business and use your property closely linked to the rights to criticize leaders and change the government. "Greater economic freedom is associated with more political rights and civil liberties," the report notes.

So economic freedom is good—whether in itself or because of the longevity, prosperity, and associated liberty it brings.

All of this should be important to Americans because the U.S. has been sliding in the rankings for many, many years. The 2012 report mourned that "[f]rom 1980 to 2000, the United States was generally rated the third freest economy in the world, ranking behind only Hong Kong and

Singapore," but that it "has experienced a substantial decline in economic freedom during the past decade."

That year, the U.S. came in at number 18. If you're American and concerned about longevity, prosperity, and associated liberty, that wasn't a good sign.

But now, "the United States returned to the top 10 in 2016 after an absence of several years." While not back to its high-water mark, the U.S. is now ranked in sixth place. And if you're wondering, the U.S. ranking didn't improve because everybody else is going down the drain more quickly than us; our score actually rose, meaning the country became more free in economic terms.

If we can avoid tanking the world's economy in a trade war, we have some friends who might want to join the celebration.

"Worldwide, economic freedom has increased during the past three decades," the report points out. "Moreover, the increase in economic freedom of developing economies since 1990 has been more rapid than the increase of high-income industrial countries. The institutions and policies of developing countries today are substantially more consistent with economic freedom than was the case in the 1980s."

Remember that link between economic freedom and per capita income mentioned above? Now take that and apply that to the entire planet. Then wrap your mind around a report recently published by the World Bank finding that "the number of extremely poor people—those who live on \$1.90 a day or less—has fallen from 1.9 billion in 1990 to about 736 million in 2015."

It's worth noting that the other major measure of economic freedom, the Heritage Foundation's Index of Economic Freedom, still has the United States at an unimpressive eighteenth place—but that's despite real improvements in the country's performance. Heritage found an all-time high in global economic freedom; the U.S.'s improvements got swamped in that overall rising tide.

"The increase in its overall score would seem to indicate that the decade-long decline in America's economic freedom may have been arrested. There are signs of renewed labor market dynamism and increased growth, and major regulatory and tax reforms are spurring business confidence and investment," the Index's editors wrote.

That's not to say you should stop worrying; we're humans and we're perfectly capable of flushing away the good times. President Trump's protectionist instincts—his view of trade as a zero-sum game in which the U.S. is necessarily pitted against its partners—is brewing up a nasty conflict.

In May, more than 1,100 economists signed a letter deliberately echoing the one sent to Congress in 1930 urging rejection of the Smoot-Hawley Tariff Act, which subsequently contributed to the devastation wrought by the Great Depression. "Congress did not take economists' advice in 1930," the modern letter warns, "and Americans across the country paid the price. The undersigned economists and teachers of economics strongly urge you not to repeat that mistake."

Also disturbing, is that "global support for free markets seems to have been falling continuously since the 1990s," as described by Pál Czeglédi and Carlos Newland for the Economic Freedom of the World report. They examine several possible reasons before citing Nobel Prize winning economist James Buchanan to the effect that people seem to favor some sort of "parentalistic" protection. This role has been played in the past by religion, but in increasingly secular societies the state has stepped in with all of its coercive power.

It's an interesting theory that's worth exploring elsewhere. But, for whatever reason, surveys find increasingly wealthy populations voicing decreasing support for the economic freedom that made them prosperous. It's quite possible that anti-market fervor has slowed or even halted progress toward economic freedom in much of the world, Czeglédi and Newland add. They speculate that as governments substitute the preferences of politicians for the outcomes of voluntary exchange with inevitably unpleasant results, sentiment will shift again.

For the moment, though, the United States is an economically freer place in an economically freer world. That means improved prospects for long, free, and prosperous lives for all of us—if we don't mess it up.