

[James Gwartney, Robert Lawson and Joshua Hall](#)

Economic Freedom of the World: Lessons for the U.S.

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Economic freedom in the United States is on the wane. Historically a standard bearer for freer markets, the United States has seen its economic freedom rating fall in the last decade according to the [latest](#) Economic Freedom of the World index, published by a world-wide network of institutes. In 2000, the U.S. was ranked 3rd in the world behind only Hong Kong and Singapore, but in the most recent report, the U.S. is ranked 10th behind countries like Canada, Chile, Australia, and the United Kingdom.

The index measures the degree to which people in a nation are free to pursue their own economic objectives without government taxes and regulations, as well as the extent to which government protects property rights and provides a sound monetary environment. The decline of the U.S. is the result of massively higher government spending and borrowing, increased regulation, and especially less secure property rights. Ballooning budget deficits are crowding out private credit causing the rating in this component to fall to 0.0 from 9.3 (out of 10) since 2000. Asset forfeiture laws, eminent domain abuse, the wars on drugs and terrorism, TSA, and warrantless wiretaps have apparently taken their toll on the security of property rights.

The so-called Washington Consensus of the 1990s -- free trade, stable money, and privatization -- appears dead. The housing bubbles, financial crises, bankruptcies, bailouts, stimulus, debt crises, and erratic markets of the past few years seem to have led to a new consensus. Policymakers now tell us that markets have failed, and government stimulus, subsidies and new regulations are needed to set things right.

When evaluating such claims, it is important to remember the fundamental truth of economic life: Markets work. When people are free to buy, sell, produce, trade, and move they do a pretty good job of bettering themselves and others in the process. This is not just common sense or idle theory -- there is tons of evidence.

Nations that score higher on the index tend to be richer, grow faster, have less poverty, live longer, be more educated, and on and on. On virtually every measure of the good life, we find that more economic freedom yields better results. Other research finds economic freedom corresponds with less warfare, greater human rights, more gender equity, less unemployment, improved democracy, more trust, and less corruption. The results of the

Economic Freedom of the World project and the scholarly analysis it has facilitated are simply overwhelming. Economic freedom works.

Over the past decade, the rating of the United States has fallen almost a full point on the economic freedom scale. Prior research indicates that a decline of this magnitude will reduce a country's long-term growth rate by at least a full percentage point. In the case of the United States, this will mean future average annual growth of real GDP of 2 percent rather than our 3 percent historical average.

While economic freedom has fallen in the United States, there is good news in the former communist world. A number of formerly centrally planned economies have made remarkable progress toward freer markets during the past decade. Eight of them, Slovakia, Estonia, Hungary, Lithuania, Bulgaria, Albania, Mongolia, and Georgia, now rank in the top 40. By way of comparison, only three Latin American countries, Chile, Panama, and Peru, place in the top 40. All of these countries now rank higher than Sweden and France, for example.

With economic freedom, profits and losses direct resources toward socially beneficial activities. When too many resources are allocated by politics, a system of crony capitalism emerges where politicians can reward the politically powerful. Unlike true entrepreneurs, crony capitalists do not create wealth; instead they plunder wealth from taxpayers and other citizens.

America has prospered historically because we have chosen economic freedom rather than political allocation and crony capitalism. To the extent we move away from economic freedom, our future prosperity will be diminished.

James Gwartney is a professor at Florida State University. Robert Lawson is a professor at Southern Methodist University. Joshua Hall is a professor at Beloit College. They are co-authors of the Economic Freedom of the World report, which can be found at www.freetheworld.com, and is co-published by the Cato Institute.