UNITED LIBERTY

Economic freedom falling in the United States

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The Cato Institute, in partnership with the Fraser Institute in Canada, has released the annual report, Economic Freedom of the World. The report shows where each nation across the globe ranks on various economic factors, such as the size of government, the legal system, respect for private property rights, sound money, free trade, and regulation.

Here is a brief summary of the report from Cato:

> Global economic freedom bounced back slightly in this year's report. After falling for two consecutive years following a long trend of increases, the average score rose from 6.79 in 2009 to 6.83 in 2010, the most recent year for which data is available. In this year's index, Hong Kong retains the highest rating for economic freedom, 8.90 out of 10 (down slightly from 9.01 last year). The rest of this year's top scores are Singapore, 8.69; New Zealand, 8.36; Switzerland, 8.24; Australia, 7.97; Canada, 7.97; Bahrain, 7.94; Mauritius, 7.90. Finland, 7.88; and Chile, 7.84. Bahrain and Finland are new to the top 10 — replacing, notably, the United Kingdom (fell to 12th) and the United States (a sizable drop to 18th).
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> The United States, long considered the standard bearer for economic freedom among large industrial nations, has experienced a substantial decline in economic freedom during the past decade. From 1980 to 2000, the United States was generally rated the third freest economy in the world, ranking behind only Hong Kong and Singapore. After increasing steadily during the period from 1980 to 2000, the chain linked EFW rating of the United States fell from 8.65 in 2000 to 8.21 in 2005 and 7.70 in 2010. The chain-linked ranking of the United States has fallen precipitously from second in 2000 to eighth in 2005 and 19th in 2010 (unadjusted ranking of 18th).

> The rankings (and scores) of other large economies in this year's index are Japan, 20th (7.64); Germany, 31st (7.52); France, 47th (7.32); Italy, 83rd (6.77); Mexico, 91st, (6.66); Russia, 95th (6.56); Brazil, 105th (6.37); China, 107th (6.35); and India, 111th (6.26).
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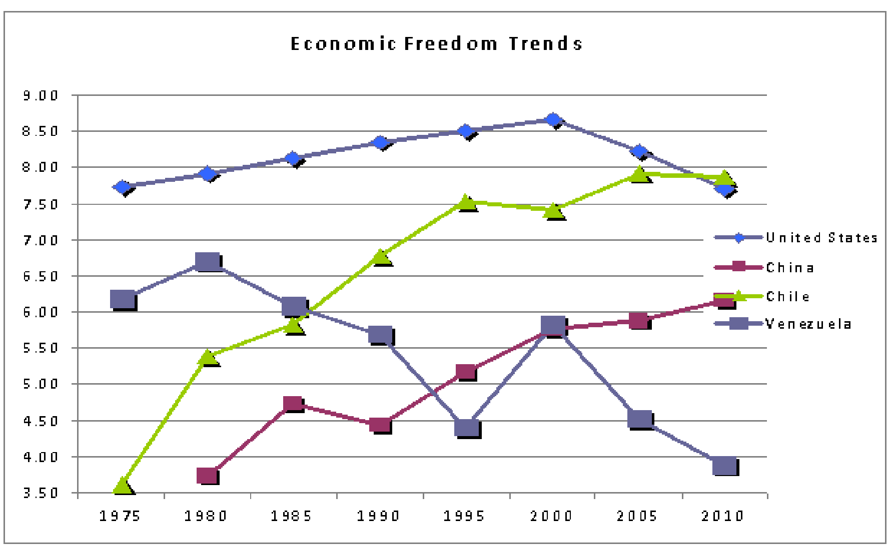
> Nations in the top quartile of economic freedom had an average per-capita GDP of $37,691 in 2010, compared to $5,188 for bottom quartile nations in 2010 current international dollars. In the top quartile, the average income of the poorest 10% was $11,382, compared to $1,209 in the bottom in 2010 current international dollars. Interestingly, the average income of the poorest 10% in the most economically free nations is more than twice the overall average income in the least free nations. Life expectancy is 79.5 years in the top quartile compared to 61.6 years in the bottom quartile, and political and civil liberties are considerably higher in economically free nations than in unfree nations.

That's right, folks, Canada now has more economic freedom than the United States, which again has dropped to 18th in the rankings; down from 10th just a year ago and down from being the 3rd freest econony in 2000.

At Cato @ Liberty, Ian Vasquez explains the drop in economic liberty in the United States, comparing our decline along side of some other nations (click on the image below to see detail):

> Virtually every U.S. indicator has seen a deterioration. Government spending and regulations have grown, the rule of law and protection of property rights have weakened, and foreign investment and non-tariff barriers have increased. Authors James Gwartney, Robert Lawson, and Josh Hall note some of the reasons for the decline, including the war on terror and the growth of crony capitalism.

As the graph below shows, the United States now has a lower economic freedom rating than it did in the 1970s.



The United States’ fall is alarming not only because it’s the most important economy in the world, long associated with market-liberal policies, but also because Economic freedom is strongly correlated with prosperity, higher growth, and improvements in the entire range of standard-of-living indicators, so a decline negatively affects those outcomes. The authors calculate, for example, that the loss of economic freedom will cut long-term U.S. growth by half to about 1.5 percent per year.

This is a startling development, but with all that damage that has been done through out of control spending, regulation, and seemingly endless debt monetization, this is the reality that faces the United States.