

The Washington Times

Squandering economic freedom

Nations that forsake free markets also endanger civil and personal liberties

Richard Rahn

November 2, 2015

There was good news for Argentina last week. It was expected that Daniel Scioli, the Peronist candidate and political heir of Cristina Fernandez de Kirchner, would win the presidential election. Much to most people's surprise, Mauricio Macri, the more free-market-oriented mayor of Buenos Aires, won almost as many votes as Mr. Scioli, forcing a runoff, which Mr. Macri has a good chance to win.

The Peronists (named after former dictator Juan Peron) have had political control much of the last 70 years, and it has been a disaster for the country. In 1900, Argentina was one of the 10 highest-income countries in the world, having an estimated gross domestic product per capita of roughly 80 percent of that in the United States. Successive Argentine governments have squandered much of the wealth and potential of the economy, so now Argentina ranks approximately 57th in per capita income.

The relative economic rankings of countries' rise and fall largely depends on whether they are moving toward more economic freedom or less. The accompanying chart tells the story of what has happened in South America over the last 30 years. Argentina had moved away from economic freedom decades ago, but in 1985 its per capita income was still almost twice that of Chile. Argentina had already fallen behind Venezuela because, up to that time, Venezuela had been much more economically free. But over the last couple of decades, Venezuela has become one of the least-free economies in the world and, as a result, despite having the world's largest oil reserves (latest estimates put them even greater than Saudi Arabia's), real incomes have actually been falling — showing man's infinite ability to destroy good fortune.

In contrast, Chile moved toward enhancing economic freedom, including increasing free trade, the rule of law and protection of private property, and curtailing corruption. The result is that Chile now has the highest per capita income in South America, having surpassed both Venezuela and Argentina. Peru has been learning from the good example of next-door Chile by increasing economic freedom, which has led to much higher growth in the last few years. Given the present course, it is likely that Peru will overtake Venezuela in per capita income in the next few years.

In the Americas, Cuba is the poster child for the destruction of both economic freedom and civil liberties. Back in 1957, before the communist revolution, Cuba had the fourth-highest literacy rates, the lowest infant mortality rate and was one of the richest countries in Latin America. The Cuban government refuses to adopt international economic statistical methodology, so there are no reliable figures about wealth and poverty in Cuba. But what is known is that the average Cuban wage is about \$20 per month, which means that average income is about \$240 per year. Even if all of the food, health and education subsidies are added in, the total comes to less than \$6,000 per year per capita. And according to a United Nations report, Cuba now ranks No. 21 in Latin America, making it almost the poorest country in the region. The Cuban government blames its economic plight on the U.S. embargo, while conveniently ignoring the fact that Cuba has been able to purchase any foreign-made goods it wanted from Europe, Mexico, Canada and China, which neither imposed nor recognized the U.S. embargo. A half-century ago, Cuba was more prosperous than Chile, now at best it has a quarter of the per capita income.

Despite all of the evidence of loss of basic liberties, thousands of political opponents killed and imprisoned, and economic deprivation, there are still many defenders of the Castro regime in the United States and Europe, including members of the media who choose to ignore the facts. Sen. Bernie Sanders and, to a lesser extent, Hillary Clinton are running on platforms to reduce economic freedom, while the overwhelming empirical evidence is that such policies will make everyone — particularly women and minorities — worse off rather than better off. Fifteen years ago, the United States was ranked No. 3 in the world in economic freedom. The U.S. now ranks No. 12, and economic growth is roughly half of what it was when it ranked in the top three.

Economic freedom is highly correlated with human freedom — including civil and personal liberties — and other measures of well-being that include life expectancy and literacy. According to the Cato Institute's Human Freedom Index, the United States now ranks No. 20. Several of the Republican candidates for president have set a target of 4 percent or more growth, which implicitly means more economic freedom. If they all made the case for economic freedom the core of their campaigns, they would have both the empirical evidence and, if well argued, the political appeal.

Richard W. Rahn is a senior fellow at the Cato Institute and chairman of the Institute for Global Economic Growth.