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America's economic liberty deficit

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Our So-Called Recovery

If you've been wondering why the nation's so-called economic recovery seems so weak, here's one partial explanation: The United States has been moving in the wrong direction on measures of economic freedom.

The Cato Institute, a Washington think tank, produces an annual report examining economic liberty around the globe. Over the past three decades, average economic liberty has increased, at least slightly. But America — which used to rank second in the world — no longer even makes the top 10.

The annual report examines a host of factors — such as tax rates and regulation, the freedom to trade internationally and the ease with which aspiring companies can enter the marketplace. Although the Cato Institute is libertarian in its political philosophy, it does not advocate unregulated anarchy. Genuine economic freedom requires strong governmental guarantees for property rights, for instance.

As the late great Milton Friedman once put it, “The organization of economic activity through voluntary exchange presumes that we have provided, through government, for the maintenance of law and order to prevent coercion of one individual by another.” It also requires government to provide for a monetary framework, and so forth.

Why care about economic liberty at all? There are two good reasons. The first is an ethical argument based on personal autonomy: If two people freely and voluntarily agree to engage in some form of trade, then a third party — someone who is not involved in the transaction — has no right to stop them unless his or her own rights are somehow violated.

People will argue about whose rights are violated by which transactions. For instance, does an American have a “right” to a job that otherwise might be taken by an immigrant? Or does the job really belong to the employer — who has the right to choose who will fill it? Still, the general principle of noninterference is based on both moral considerations and simple common sense: If

Smith doesn't have the right to dispose of his own property as he wishes, then how on Earth does someone else acquire a right to dispose of it for him?

Not everybody buys the moral argument for free markets: Collectivists, communitarians and religious fundamentalists often reject the idea of individual autonomy outright. But there is also a strong practical argument for economic freedom: It makes people better off.

On the micro level, as (again) Friedman once put it: "The most important single central fact about a free market is that no exchange takes place unless both parties benefit." Even if, for example, you grudgingly pay a taxi driver what seems like an exorbitant sum to drive you across town, you don't do so unless you think you're better off taking the taxi than not taking it. The taxi driver can't force you to get in the cab, any more than Apple can force you buy an iPhone. You only do those things if you think you'll be better off.

On the macro level, abundant experience has shown that economic liberty tends to provide for the general welfare far better than any economic system imposed from on high. Even passionate redistributionists must concede you can't redistribute wealth until the wealth has first been created. And as Cato notes, "nations in the top quartile of economic freedom had an average per-capita GDP of \$39,899 in 2012" — the latest year for which data are available — "compared to \$6,253 for bottom-quartile nations."

The poor in economically free countries also are better off: "In the top quartile (of nations), the average income of the poorest 10 percent was \$11,610, compared with \$1,358 in the bottom quartile."

In fact, Cato notes, the average income of the poorest 10 percent of residents in the most-free economies is almost twice the average income for all residents of the least-free economies. You're better off being poor in a free country than middle-class in a country where the economy is unfree.

Environmentalists might object that this pragmatic argument ignores the effects of economic activity on the environment — and there's something to that. But the simple fact is that environmentalism is a luxury of the (relatively) rich. Nobody cares about protecting the planet when they spend all their time fending off starvation and disease. (For that matter, capitalist democracies tend to take better care of the ecosystem than command-and-control states.)

All of this helps explain why we should be worried when the U.S. moves backward in economic liberty — as it has been doing for more than a decade now.

From around 1980 through roughly 2000, Cato points out, "the United States ranked as the world's third-freest economy, behind Hong Kong and Singapore." By 2011, it had sunk to 16th (and has rebounded slightly since then). The reason for the decline is principally threefold: less

freedom to trade internationally, more regulation and substantially less protection for private property.

The fault for these trends is bipartisan. The Obama administration ushered in a substantially tighter regulatory regime, but (political attacks notwithstanding) the Bush administration was no slouch in that regard either. Republicans have blocked the free movement of labor by perpetuating rigid limits on immigration and, occasionally, by signing off on occupational-licensing restrictions that create market-entry barriers.

“Non-tariff trade barriers **and** — restrictions on foreign investment,” Cato notes, also have “grown substantially” in the past decade. And it blames other factors such as eminent domain and “the violation of the property rights of bondholders in the auto-bailout case” for eroding economic liberty in other ways.

This doesn't mean the U.S. should scrap all regulations and close down the federal government. The right to earn a living does not confer a right to poison your neighbor's pond with toxic runoff. But there comes a point when government rules and regulations do far more harm than good. Judging by Cato's last report, the U.S. passed that point a decade ago. The sooner it starts to reverse the slide, the better off we'll be.