

# Report on Business

COMMENTARY

Neil Reynolds

## U.S. undermines claim to 'land of the free'

The authoritarian U.S. approach to the global economic crisis will almost certainly knock it from the top 10 countries that have the best record of protecting economic freedoms



Neil Reynolds

Wednesday, Apr. 01, 2009 10:00AM EDT

The Wall Street Journal and the Washington-based Heritage Foundation think tank publish an Index of Economic Freedom based on 10 benchmarks: business freedom, financial freedom, trade freedom, fiscal freedom, investment freedom, monetary freedom, labour freedom, size of government, property rights and freedom from corruption.

This year, using 2007 data, the index calculates a comprehensive score for 183 countries. The highest possible score is 100. North Korea, to cite the lowest grade, scores two - mostly getting on the scoreboard at all for accommodating the odd foreign investor. India, the democracy, finishes in 123rd place with a score of 54.4. China, the dictatorship, finishes in 132nd place with 53.2. Russia, the kleptocracy, finishes in 146th place with 50.8.

In the top 10, Hong Kong finishes first, for the 15th consecutive year, with a score of 90.0. Singapore comes second, with 87.1. The next eight countries are tightly bunched: Australia (82.6), Ireland (82.2), New Zealand (82.0); United States, 80.7, Canada (80.5), Denmark (79.6), Switzerland (79.4) and the United Kingdom (79.0). Canada and the United States thus finish close to a tie - though U.S. momentum is downward (fiscal excess) and Canadian momentum upward (a trade agreement with Peru).

In the 2009 index, the United States dropped fractionally below its 2008 score, by 0.3 points. Canada gained fractionally, by 0.3 points. This divergence will increase. The 2010 index will capture data from the beginning of the global meltdown; the 2011 one will capture the radical interventions of U.S. President Barack Obama. The economists and editors of the index warn that the turbulent events of these years "could severely undermine economic freedoms [in the U.S.] in the future."

In another international ranking of the same kind, the Washington-based Cato Institute's Economic Freedom of the World 2009 report used different benchmarks: personal choice, voluntary exchange, freedom to compete, security of property and sound money. (Seventy think tanks from around the world participate in Cato's annual exercise, including the Vancouver-based Fraser Institute.) In this ranking, the highest possible score is 10. In 1980, the global average for 141 countries was 5.1; in 2009, 6.6 - a 30-per-cent improvement.

The Cato top 10 list comes with two notable differences. Hong Kong (8.94), Singapore (8.8) and New Zealand (8.5) take the three top places. Switzerland (8.3) finishes fourth and the United Kingdom comes fifth. Chile, however, takes sixth, becoming the first South American country to finish in the Top 10. And Canada finishes seventh - the first time that Canada (8.05) has finished ahead of the United States, which tied with Australia (8.04) for eighth place. Ireland (7.92) finishes 10th.

In 2000, the Cato index put the United States in second place, trailing Hong Kong. In 2008, it placed the United States toward the bottom of the pack. The authoritarian U.S. approach to the global economic crisis will almost certainly knock it from the top 10 countries that have the best record of protecting economic freedoms.

In placing Canada ahead of the United States, the Cato index anticipated the latter country's downward slide - memorably noted last month by three economists who compared the performance of the two economies against six benchmarks. In their commentary, published in The Washington Post, Fraser Institute senior economists Jason Clemens and Niels Veldhuis and Cato Institute economist Chris Edwards noted that Canada - long dismissed by American conservatives as a country of banana republic socialists - has "cast off the stereotypes." In essence, the economists suggested, Canada has replaced the United States as the pace-setting North American economy.

**Spending:** Government spending in Canada hit its highest level, at 53 per cent of GDP, in the early 1990s. It has since fallen to 40 per cent. In the United States, on the other hand, government spending has risen, reaching 39 per cent in 2008 - a number, the three economist say, which is now likely to jump higher.

**Debt:** Canada cut its debt from 71 per cent of GDP in 1995 to 32 per cent in 2008. U.S. federal debt will rise from 41 per cent of GDP in 2008 to 60 per cent in 2010.

**Social Security:** The Canada Pension Plan is solvent. The U.S. program is vastly underfinanced.

**Federalism:** Canada has ceded power to the provinces. The United States is becoming more centralized.

**Corporate taxes:** Canada has cut its corporate tax rate from 28 per cent to 15 per cent and the provinces are moving to cut theirs. The United States is increasing corporate taxes.

**Individual taxes:** Canadian personal rates have moved down. U.S. rates will move higher (when the George W. Bush tax cuts expire in 2010).

Messrs. Clemens, Veldhuis and Edwards suggest that the Democrats, who now control Congress, would do well to copy the "socialists" to the north. If so, the legislators might avert the embarrassment (among other consequences) that goes with a banana republic economy. In the 2009 Index of Economic Freedom, the United States runs 10 points behind the leader (Hong Kong). If it fell a further 10 points, it would tie with Armenia in 30th place. This is no proper place for the United States, for so long - however imperfect - the land of the free.

[reynolds.globe@gmail.com](mailto:reynolds.globe@gmail.com)

Settlement of Canadian Copyright Class Action: [Download PDF](#)

© Copyright 2009 CTVglobemedia Publishing Inc. All Rights Reserved.  
The Globe and Mail is a division of CTVglobemedia Publishing Inc., 444 Front St. W., Toronto,  
ON Canada M5V 2S9  
Phillip Crawley, Publisher

