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Is our economic freedom eroding?

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Are you more or less free in your economic life than you were 20 years ago? The question is not trivial because economic freedom is highly correlated with real per capita income and is a necessary component of fundamental liberty. The question was one of the topics debated among a group of the world's leading economists last week at a meeting of the Mont Pelerin Society.

Government taxing, spending and regulating erode economic freedom. There are those who argue that, at least in the United States, total government taxing and spending has not grown as a share of gross domestic product (GDP) over the last 40 years (it has fluctuated between approximately 28 percent and 33 percent of GDP), and so we need not worry.

In most countries, government taxing and spending as a share of GDP has risen, but in others, like Ireland, it has dropped sharply (giving the Irish the highest real growth in the European Union). Unfortunately, governments in almost all countries are taxing and spending well above the growth and general welfare maximizing rates.

Even more disturbing is the fact government regulation is growing rapidly in virtually every country. A recent study by the Mercatus Institute of George Mason University and the Weidenbaum Center at the Washington University in St. Louis found direct federal government regulatory spending had grown to \$30.1 billion in 2002, but the total cost of regulations on the economy is estimated to be \$843 billion (or almost a third of direct federal outlays).

If we go back a hundred years, federal government taxing and spending was less than 21/2 percent of GDP, or roughly 10 percent of what it is today, and regulations were few. Money and people could move easily across national borders with virtually no restrictions. However, women and minorities, because of both custom and law, were precluded from many types of employment and other economic opportunities. Compared to today, white males clearly had more economic freedom, and many women and minorities did also, depending on their positions.

During the last decade, two standard publications have evolved to annually measure economic freedom in most countries. One is the "Index of Economic Freedom" published by the Heritage Foundation and the Wall Street Journal, and other is the "Economic Freedom of the World" published by the Fraser Institute of Canada and a consortium of economic public policy institutes around the world. Both publications use similar, but not identical, measures and provide similar results, clearly showing more economic freedom results in more prosperity.

In addition to size of government and regulations, the indices also measure such things as monetary policy, property rights' protections, and freedom to trade and invest with foreigners. Both publications have reported that many countries have become freer in recent years as high marginal tax rates have been reduced, and there has been a global liberalization of exchange and price controls, and an unsteady movement toward freer trade.

The end of the Soviet Union resulted in a big increase in global economic freedom, as the former communist countries moved to market economies and privatized many state-owned industries. Even in the non-communist countries, socialism lost credibility and there was a global movement towards privatization.

Defense spending has been sharply reduced in most countries, which was viewed as economically desirable, since it reduced taxpayer burdens and hence, provided more economic liberty. However, too little spending on defense increases the risk to both person and property, thus decreasing economic freedom. The U.S., in particular, is still struggling to find the optimum level of defense spending.

Despite some very encouraging signs toward economic freedom noted above, the U.S. and most of Europe are becoming less free. As Robert Higgs noted in a paper presented at the recent Mont Pelerin meeting, " ... all sorts of economic, environmental, health and safety, and social regulations continue to spew out of Washington and Brussels, among other places. In addition, however, the U.S. government especially requires ever more uncompensated information collection and reporting by its subjects in order to slake the Surveillance State's insatiable craving for the most minute details of everyone's conduct. ... Simultaneously, the state and local governments, as well as various international bodies, continue to pour out endless streams of their own regulations, all of which entail resource costs and sacrifices of citizens' liberties."

Unfortunately, this trend toward less economic freedom is likely to continue until citizens insist their legislators get serious about demanding real cost-benefit analysis for all government spending and regulations (both existing and proposed) and the courts are forced to go back to protecting fundamental liberties, in particular privacy and property rights.

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