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Who is the freest of all?

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ALPBACH, Austria. -- They claim here that great mountains lead to great thoughts, and they even have a path named "The Thinkers Walk." And indeed some of the greatest economic thinkers of all time did walk and enjoy the Austrian Alps. The Austrian School of thought produced two of the most influential economists of the 20th century, Ludwig von Mises and F.A. Hayek. Through logical rigor and empirical observation, they proved limited government and economic freedom lead to individual and national economic prosperity and to a more civil society.

At the end of August each year, many leading European scholars, businesspeople, policymakers and even some graduate students come to this small village, arguably one of the most scenic on the planet, to discuss the state and future of the world economy and what should be done. As a participant, I have been struck with the number of European opinion leaders who still ignore the obvious: Economic freedom is the key. Though Hayek held conferences in this town before his death 14 years ago, his work has had much more influence in the U.S. and the United Kingdom than in Continental Europe, including Austria.

The 2006 annual Economic Report of the World has just been released, ranking the world's economic entities by their degree of economic freedom. Read on to see the top 10. This report, authored for the last decade by James Gwartney and Robert Lawson, is published by the Fraser Institute in Canada and the Cato Institute in the U.S., and several dozen other economic institutes around the world. The publication has become very influential by providing more empirical evidence to support the arguments of von Mises and Hayek that freedom works. (The Heritage Foundation and the Wall Street Journal also produce an influential annual Index of Economic Freedom. Though it uses somewhat different methodology, its findings tend to be very close to those of Mr. Gwartney and Mr. Lawson.)

The top 10 economic freedom ratings this year go to: Hong Kong, Singapore, New Zealand, Switzerland, the United States, Ireland, the United Kingdom, Canada, Iceland, and Luxembourg. At the other end of the scale, the bottom five go to: Venezuela, the Democratic Republic of the Congo, the neighboring Republic of the Congo, Myanmar (the former Burma), and at the bottom, Zimbabwe. (Note the Economic Report of the World does not include all countries because of the problem of comparable data -- so totally nonfree states, such as Cuba and North Korea, are not in the rankings.)

When one examines the rankings, it becomes obvious economic freedom is highly correlated with economic prosperity and individual liberty. Most economically free entities are democracies, but not all. Hong Kong's citizens have only very limited democratic rights, but the Chinese government has kept in place for the most part the limited government, low tax and regulation model the British left. This model was originally implemented by Sir John Cowperthwaite, the Hong Kong financial secretary, during the 1960s. (He died earlier this year).

The authors of the Economic Report of the World developed their index after a series of conferences in the late 1980s and early 1990s, where they were assisted by many leading economists, including Nobel Prize winner Milton Friedman. Their index measures 21 components with the following five major areas: The size of government, including expenditures, taxes, and enterprises; legal structure and security of property rights; access to sound money; freedom to trade internationally; and regulation of credit, labor and business.

As countries move toward more economic freedom, their growth rates improve, China and India being the best known examples. Neither can yet be characterized as economically free, but both are moving in the right direction. Zimbabwe is probably the best example of a country once relatively free that has gone entirely the other way with the predictable disastrous results.

Most disappointing is the relative drop in rankings of Germany (No. 17), France (No. 24), and Italy (No. 45). The fact their economic freedoms have been eroding is largely responsible for the economic stagnation they have suffered in recent years.

Most European students are taught some version of socialist economics, and few know anything about Hayek or even Adam Smith, the father of the discipline of economics. We now have two generations of Europeans who have been indoctrinated with failed theories, and it shows in their policies.

But there is hope. Free market policy institutes have sprung up across the Continent, much as they did in the U.S. several decades ago. For example, the Hayek Institute in Vienna has as part of its mission to bring Austrian economics (the study of which is alive and well at George Mason and other universities in the U.S.) back to Austria.

There is an answer to the old economic question, "We know it works in theory but does it work in practice?" Well, now we know economic freedom not only works in theory but works just as well in practice.

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