

**ECONOMIC FREEDOM AND ECONOMIC GROWTH**

Country	Economic Freedom Rank			Real GDP Per Capita (PPP \$)		
	1995	2015	Change	1995	2015	% Change
Estonia	57	10	+47	11,362	27,329	141%
Lithuania	80	13	+67	9,357	26,971	188
Romania	118	20	+98	10,546	20,538	95
Bulgaria	101	48	+53	8,446	17,000	101
Poland	90	51	+49	11,300	25,299	124
U.S.	4	11	-7	39,476	52,790	34

Sources: Fraser Institute, World Bank

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## Schooling the U.S. on Economic Freedom

by Richard W. Rahn

THE GROWTH OF FORMER COMMUNIST COUNTRIES IS NOW THE ENVY OF THE WORLD

Once again, there is more evidence that economic freedom leads to success. Many of the former communist countries of Central and Eastern Europe and the Soviet Union have made enormous economic progress from the time they became free almost three decades ago. The first few years after the collapse of communism (1989-92) were very difficult as the countries struggled to make the transition to a capitalist free-market economy, which many had largely achieved by 1995. The irony is there are some lessons for the United States from some of the successes of the former communist countries.

Last month, James Gwartney, a highly regarded economist and scholar (and longtime lead author of the annual report of Economic Freedom of the World), presented a comprehensive study of the successes and failures of 25 of the former centrally planned countries of Central and Eastern Europe and the Soviet Union. The results of this and many other studies illustrate that economic policies which lead to more economic freedom and less government intrusion benefit countries in all stages of development.

The accompanying table shows the change in economic freedom and per capita gross domestic product (GDP) for a selected five — all of which I have traveled to a number of times — and which are illustrative of the more successful countries. They all now have two to three times the real per capita income that they had a mere 20 years ago, and the incomes are far higher (when correctly measured) than when they were under the communists.

The Baltic countries — Estonia, Lithuania and Latvia — are the three biggest success stories with all now in the global top 10 for economic freedom, which is remarkable since they had virtually no economic freedom when they were under the foot of the Soviets. Estonia, for instance, had a per capita income that averaged only 33 percent of the 21 high-income countries in 1995. That figure has now risen to 62 percent. Similar increases have occurred in Lithuania and Latvia. Trade and foreign investment have soared, and poverty and corruption have been greatly reduced. Along with the increase in economic freedom, civil liberties and political rights are now at the top level in Estonia and Lithuania, according to the annual Freedom House ranking. Again, 30 years ago, these countries had few civil liberties and no political rights.

Romania got off to a slow start with economic reform but has made stellar progress in the past 15 years, and now ranks No. 20 (out of 159 countries) in economic freedom. The country adopted a 16 percent flat tax in 2005 and greatly reduced tariffs (to an average of 5 percent) and other trade restrictions. Romania reduced corruption, but it is still too high; and even though political rights and civil liberties have improved, they are still not at the top levels.

Bulgaria stagnated until 1997, when it instituted a currency board to bring the hyperinflation to a halt and accelerated economic reform. In 2008, Bulgaria adopted a 10 percent flat-rate income tax on both personal and corporate income. Tariffs were greatly reduced when Bulgaria joined the European Union in 2007. Per capita GDP grew at an average rate of 4.36 percent during the period from 2000-2015, in part, because of an enormous improvement in economic freedom. Bulgaria is now near the top level for

both civil liberties and political rights. The major problems Bulgaria continues to suffer from are corruption, the weaknesses in the legal structure and protection of private property.

Poland is now a middle-income country as a result of an average 4.11 GDP per capita growth from 1995 to 2015 and a steady increase in economic freedom (going from the bottom third to the top third). It joined the EU in 2004 and is now its fifth-largest economy. Poland is also in the top category for both civil liberties and political rights. However, it still has problems with its legal structure and rule of law, including property rights.

The United States has been for more than two centuries the great global success story. But where it used to be in the top three countries in economic freedom, it has now fallen to No. 11, primarily as a result of excessive regulation and decline in the rule of law. The growth of regulation and government has served as a foot on the windpipe of the economy, resulting in much slower economic growth and near stagnation in average real incomes.

The question is, can the United States reform itself as the former centrally planned countries did? There is no mystery about what needs to be done — reduce government spending and taxation as a percentage of GDP, get rid of regulations that are more destructive than beneficial, and clean up the courts. So far, the new administration has been excellent on court appointees, very good on regulation and on proposed tax changes, while lagging on spending reductions, ensuring the impartial rule of law (the Justice Department is still part of the swamp) and just plain wrong on some of its trade proposals.

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