



Why Care about Economic Freedom

by Richard W. Rahn

Montreal, Canada

Good news — the United States is becoming a bit more economically free. The “Economic Freedom of the World 2018 Annual Report,” published by the Fraser Institute of Vancouver, Canada, and co-operating think tanks around the world, is released today. Last year, the United States and Canada were tied at number 11, but now the United States has moved up to number six.

Back in 1990, the United States ranked number three and Canada number six. If the Trump administration can continue with its tax rate and regulation reduction policies and actually achieve freer trade (despite its risky trade war brinksmanship), the United States should continue to move up on the economic freedom index.

Canadians are viewed as nicer people than Americans — and it does appear to be true in that they have a less aggressive culture. The three largest Canadian cities — Toronto, Vancouver, and Montreal — all score high in international “livability” indices. The downside is that Canadians are about 20 percent poorer than Americans, on average, and currently their economy is growing more slowly than the American economy.

The reason people should care about economic freedom is because there is a strong positive relationship between economic freedom and average real per capita income and liberty. “The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to enter markets and compete, and security of personal and privately owned property.” The Economic Freedom of the World index uses 42 data points to measure the size of government, legal system and property rights, sound money, freedom to trade internationally, and regulation.

Perhaps, the most important factors in both economic freedom and economic growth are the rule of law and protection of private property. There is a close relationship with a well-functioning legal system, protection of private property, and economic prosperity, as can be seen in the enclosed table.

Countries with lower tariffs and fewer barriers to trade tend to have higher per capita incomes than more protectionist countries. In recent decades, most countries have reduced their tariff rates and other protectionist measures, so relatively few products now face significant trade restrictions. Agricultural products are usually the most protected because of the strength of the farmers’ lobby in many countries. It is ironic that, despite President Trump’s protests about Canadian dairy product tariffs, on average, Canada has slightly lower tariffs than the United States.

Large government sectors in relation to GDP are significant drags on economic growth — and freedom. China has enjoyed several decades of rapid growth and now has reached the status of a middle-income country. The empirical evidence from around the world is, as countries get richer, growth stalls out, unless the country frees up its economy. Singapore, Taiwan, South Korea, and Chile are examples of countries that have prospered by having chosen economic growth over government control. Which direction will China now choose — state control, or freedom and prosperity?

There is perhaps no better example than Venezuela as to how the policies countries choose to pursue determine their level of prosperity. Back in 1970, the Fraser Institute ranked Venezuela as having the 10th freest economy in the world, and it was the richest country in Latin America. Despite having the world’s largest oil reserves, Venezuela is now the least free of the ranked countries and is becoming poorer and poorer year by year — all because of incompetent and corrupt political leadership.

ECONOMIC FREEDOM RANKINGS					
	Ratings			GDP per Capita on Purchasing Power Parity Basis (\$)	Average Tariff Rates (%)
	Summary Economic Freedom (Rank)	Size of Government (Rank)	Legal System & Property Rights (Rank)		
Hong Kong	1	4	11	54,101	0.00
Singapore	2	18	7	82,622	0.00
New Zealand	3	85	2	35,122	2.10
Switzerland	4	41	4	55,974	0.00
Ireland	5	90	16	64,211	1.92
United States	6	86	20	53,372	2.79
Canada	10	108	13	43,215	2.44
France	57	155	24	39,285	1.92
Russia	87	73	86	24,971	5.36
China	108	141	59	14,277	7.76
Venezuela	162	149	161	12,996	11.2

Sources: Fraser Institute’s “Economic Freedom of the World 2018 Annual Report”; IMF; Index Mundy

In sum, “nations in the top quartile of economic freedom had an average per-capita GDP of \$40,376 in 2016, compared to \$5,649 for the bottom quartile of nations.” “Life expectancy is 79.5 years in the top quartile compared to 60.4 years in the bottom quartile.” And, “happiness levels are higher in economically free nations.”

Despite decades of evidence from the Annual Economic Freedom of the World Report, and other reports, many still advocate socialism. One cannot help thinking that such people must be either ignorant, mentally impaired, or hate their fellow man. One secret to being healthy, prosperous, and happy is to live in a free-market country.

Richard W. Rahn is chairman of Improbable Success Productions and on the board of the American Council for Capital Formation

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