A road not paved by freedom: America's economic decline

BY ANTONY DAVIES AND JAMES R. HARRIGAN - 09/21/15 12:00 PM EDT

Just In...

Congress should support bill to grant temporary visas to Syrian refugee children
CONGRESS BLOG — 0S AGO

Retiring FCC chairman trades shots with GOP senator
POLICY — 4M 45S AGO

Roof found guilty of murder in SC church shooting
BLOG BRIEFING ROOM
— 14M 3S AGO

Kudlow in the running for Trump economic adviser: report
POLICY — 17M 47S AGO

America shouldn't follow German lead in tackling fake news problem
CONTRIBUTORS — 19M 49S AGO

Ex-Transportation chief: tax writers key to Trump's infrastructure plan
POLICY — 22M 52S AGO

Electoral College must delay, or else Putin picks the next US president
CONTRIBUTORS — 39M 48S AGO

Prosperity has a price; but everyone ultimately wins

This month, the economic think-tank Fraser Institute published its annual Economic Freedom of the World Report. Anyone interested in finding solutions to the problems of poverty, child labor, gender and income inequality, and the environment should take a long look.

Fraser ranks countries based on the size of their governments' economic footprints. Countries score low for economic freedom where government spending is greater (relative to the size of the economy), where taxes are more progressive, where there is greater forced wealth redistribution, and where regulations restrict labor markets. Countries score higher for economic freedom where government takes more of a back seat to the private sector. In assigning its economic freedom indices, Fraser does not consider per-capita income, unemployment, equality, poverty, or any other socioeconomic outcome. Fraser simply measures the degree of government intervention in economies.

But cross-referencing Fraser's economic freedom measures with socioeconomic outcome data provided by governments and the United Nations reveals a fascinating pattern. Societies whose governments interfere less in their economies have, on average, higher per-capita incomes, less unemployment, less poverty, less income inequality, less gender inequality, and cleaner environments. In short, all of the outcomes with which progressives are rightly concerned are associated with *less* government. And this isn't because rich countries tend to be both free and rich. Poor economically free countries similarly have better socioeconomic outcomes than do poor economically unfree countries. For example, splitting all countries into two groups by economic freedom – those with freedom indices above the median and those below – we find that average per-capita GDP among the more free countries is $23,000 versus $3,000 for the less free countries. Taking only the poorest 25 percent of countries and splitting those into two groups, we find that average per-capita GDP among the more-free-but-poor countries is almost 30 percent higher than among the less-free-but-poor countries. People in more free countries suffer poverty rates 13 percentage points lower than in less free countries. People in more-free-but-poor countries suffer poverty rates 8 percentage points lower than in less-free-but-poor countries.

How can this be? We rely on government to reign in the excesses of markets and to spread wealth in the name of social justice. How can more government be correlated with worse outcomes? The answer lies in what economists call *regulatory capture*. In short, when government intervenes in markets, it creates a feedback loop in which markets come to interfere in government.

Profit seekers will seek profit regardless of the environment in which they find themselves. When voluntary exchange is the only way to make money, profit seekers will invent things that people want more than they want their dollars. What results? Uber, iPhones, and eBay. But when governments intrude into markets, profit seekers will discover ways to enlist government's help in forcing people to hand over their money. What results then? Comcast, Solyndra, and Tesla.

This is not to say that free markets are free of poverty and inequality. They aren't. But the data clearly show that the poverty and inequality that accompany more free markets are markedly lower than the poverty and inequality that accompany less free markets.

And don't go looking for tweaks to improve government. Like the misguided inventor who is always just one tweak away from building a perpetual motion machine, social engineers are always just one tweak away from a government that can outperform the free market. And for the same reason. Perpetual motion violates the laws of physics. It just isn't possible, no matter how much you tweak it.

A government that can outperform the free market is also impossible, no matter how much "experts" tweak the laws. Government is composed of the same self-interested, fallible, limited humans that comprise the free market. The difference isn't in the people. It is in the systems.

The free market employs hundreds of millions of people, each constantly making small adjustments by buying this product instead of that one, by saving a dollar here instead of spending it there, by taking one job instead of another. Each choice that each of these hundreds of millions of people makes diverts society's scarce resources and energies toward outcomes that those same people judge to be better.

The Fraser Institute's report clearly shows that free people's judgments achieve better outcomes than do government regulators. If government regulators were truly concerned with outcomes, they would be striving toward a more free market every time.

Davies is an associate professor of Economics at Duquesne University in Pittsburgh. Harrigan is the director of Academic Programs at Strata in Logan, Utah.