

For Prosperity, Embrace Economic Freedom

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The recently ended economic sanctions against Iran are not the primary source of Iran's economic problems; the real cause of Iran's economic woes is a lack of economic freedom within its borders. As with individuals, societies are born into different circumstances. Some are endowed with more resources than others. Some are simply luckier. Some experience constant friction with their neighbors, while others live in relative peace. But across differences in resources, history, and environment, economic freedom is nearly universally present among more successful societies, and absent among the less successful. People who are concerned with Iran's well-being should be cognizant of this simple fact as they plot the nation's course into the future.

Each year, the Fraser Institute publishes its Economic Freedom of the World report - a detailed examination of economic freedom within all the countries on earth. For each year since 2000, Fraser has ranked countries on their economic freedom as reflected in measures of government spending, transfers, and subsidies, top marginal tax rates, property rights protections, sound money, trade restrictions, and credit and labor market restrictions. As of 2013, the last year for which data is available, Iran earned a score of 5.4 on Fraser's 10-point economic freedom scale. By that measure, Iran is the 11th least economically free country on the planet (followed by, among others, Algeria, Argentina, Syria, Libya, and Venezuela). This is a significant decline from its position as 45th least economically free in 2004. Unfortunately, Iran is not alone in experiencing declining economic freedom. Almost half of the 130 countries Fraser examined have exhibited declines in their economic freedom indices over the past decade.

Why does this matter? Economic freedom - the freedom to engage in transactions and contracts free of government interference - is correlated with measures people associate with healthy societies. While correlation isn't causation, the correlation between economic freedom and well-being is so ubiquitous that it simply cannot be due to random chance. The correlation appears across countries, across states and provinces, across cities, across time, and across a wide variety of different measures of well-being.

Comparing Fraser's economic freedom measures to government and United Nations quality-of-life measures yields this fascinating and consistent pattern. What's noteworthy is that Fraser does not consider quality-of-life measures when assigning its economic freedom index, and governments do not consider economic freedom when measuring quality-of-life. The two data sets are wholly independent.

Yet, across countries, provinces, cities, and time, societies that are more economically free also enjoy higher incomes, less unemployment, less poverty, less income inequality, less gender inequality, less child labor, less pollution, and less violence. In short, these independent data sets tell a remarkably clear and consistent story.

All these outcomes that people associate with healthy societies are also associated with economic freedom. Why? Because economic freedom means that people make decisions for themselves and, importantly, must live with the consequences of those economic decisions. When members of society are forced to live with the consequences of their own choices, they ultimately, and sometimes unknowingly, make the world a better place.

We know this because, in more economically free countries, poverty is becoming an aberration. Last year, for the first time in human history, the extreme poverty rate fell to less than 10 percent worldwide. Since 1990, the number of humans living in extreme poverty has fallen by 1.2 billion, even while the total number of humans has grown by two billion. In many developed countries, poverty has already become such an aberration that people have largely lost sight of what poverty truly means. The threshold for attaining "middle income" globally is generally taken to be \$10 per person per day. For a family of four, that's \$14,600, or almost exactly what a full-time minimum-wage U.S. worker earns in a year. Poverty has become such an aberration in the U.S. that what the U.S. considers a "poor" household is what the rest of the world considers a "middle income" household.

Cross-referencing Fraser's economic freedom data with the United Nations Human Development Report yields another interesting correlation. In countries that are (according to Fraser) more economically free, women have achieved (according to the United Nations) greater equality. In the half of countries that are less economically free, such as India and Algeria, the UN's gender inequality index is 75 percent higher than in the half of countries that are more economically free.

As compared with men, women in more economically free countries hold more elected seats in government, have longer life expectancies, achieve higher education levels, and earn higher incomes than do women in less economically free countries.

Of course, people in rich countries not only have better standards of living, but also have the leisure to be concerned with economic freedom. So, perhaps the correlation is simply the result of rich countries being coincidentally free. But, if we look only at the poorest countries, we find the same patterns in the data. Poor but economically free countries experience less poverty, have lower child labor rates, less unemployment, higher incomes, and less inequality than do poor but economically unfree countries.

So while economic sanctions are, in the end, a problem that has caused Iran a good deal of misery, they are part of the larger problem of diminished economic freedom. This larger problem clearly remains, and it will continue to remain until Iran summons the political will to address it.

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