

# Foreword

A benefit of watching the ebb and flow of economic freedom over a long career in journalism is that you earn some standing to draw conclusions. One lesson I've learned is that prosperity is not a national birthright. It must be earned by each new generation in every country on Earth, even those that have long been prosperous. Another lesson is that the right policy choices are not self-replicating but must be relearned and fought for again and again. There are no permanent victories in the war of ideas, but the saving grace is that there are also no permanent defeats.

Those lessons shine brightly through the 2014 *Index of Economic Freedom*, perhaps even more now than in any previous year since *The Wall Street Journal* embarked with The Heritage Foundation on this scorecard of economic liberty. Some of the biggest gainers this year, as in recent years, were thought to be hopeless cases a generation ago.

One such group is the former nations of the Soviet Union, which had only recently broken apart in 1995, the *Index's* first year. The Baltic States have tried to follow the Hong Kong and Singapore example of small nations opening themselves to capital and competition, and they have largely prospered because of it. Estonia now ranks 11th in the *Index*, one spot ahead of

the United States. Lithuania is 21st and Latvia is 42nd, despite having endured brutal recessions in the past decade. They reformed their economies, shrank the size of their governments, and let the talents of their people emerge. The French and Italians could learn from their examples.

Chile, which was once close to following the lawless statism of Argentina, now ranks 7th. It is on the cusp of being considered a developed country, which is a just reward for good policy but carries the risk that its people may forget what made them prosperous. In its recent presidential election, Chile's electorate rejected its center-right ruling party and tilted to the populist left. Next year's policy trend in Santiago will be worth watching.

The electorate in Malaysia, meanwhile, rewarded its ruling party with another term after it made a priority of easing some political and economic controls and inviting foreign investment. The reforms arguably helped the UMNO coalition beat back a strong challenge from a rising middle class that also wants more freedom to express itself politically. Malaysia ranks 37th in the *Index* compared to 87th in 2004, and it too is reaching toward developed-country status.

On the other hand, countries can quickly descend in the ranks, even nations with a proud history of free markets. The U.S. is the most

dispiriting example, given its history and its continued importance to global growth. America's freedom score has declined for seven years in a row and now ranks 12th, just ahead of Bahrain and four spots behind Mauritius.

The U.S. is the classic case of having forgotten the hard-earned lessons of the recent past. America pulled itself out of the despond of the 1970s with policies of lower taxes, less regulation, steady monetary policy, and spending restraint. A two-decade boom followed with little interruption. Then a kind of collective amnesia set in during the 2000s that led to major policy errors and a credit mania, followed by a panic and crash that created a new political opening for those who wanted to expand state control of finance, health care, and energy markets. The last two years of the Bush presidency and first two Obama years marked the largest expansion of state power in the U.S. since the 1930s.

A political reaction in 2010 slowed government's rise, but the economic damage has been extensive and continues to be felt in subpar growth, mediocre business investment, and fewer job prospects for the poor and less skilled.

This dismal record, combined with the failed launch of Obamacare, may create a new opening for the forces of freedom. That will also require a new political champion who can make the arguments for liberty that a younger generation has never learned and hasn't heard from a Republican presidential nominee since Reagan.

Though it pains this American a little to write it, another lesson of 20 years of this *Index* is that the spread of good economic ideas doesn't depend as much as it once did on America. The diffusion of ideas and experience through modern communication and the Internet means that there are followers of Hayek in Shanghai and admirers of Milton Friedman in Mexico. Perhaps other nations will now take the global lead in showing the way toward rising incomes for all, especially the poor, as America tries to find its way back to the principles of liberty that made it great.

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