

Economic Freedom in America

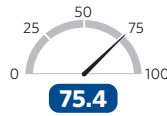
A supplement to the 2016 *Index of Economic Freedom*



INSTITUTE FOR ECONOMIC
FREEDOM AND OPPORTUNITY

Terry Miller
Anthony B. Kim

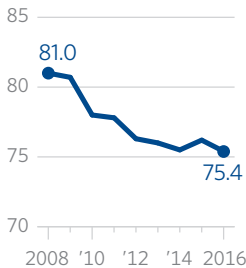
U.S. Economy: “Mostly Free”



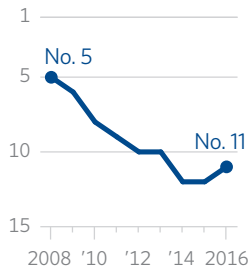
The United States’ declining score in the *Index of Economic Freedom* is closely related to rapidly rising government spending, subsidies, and bailouts. Since early 2009:

- » Government spending has exploded, amounting to \$29,867 per household in 2015.
- » The national debt has risen to \$125,000 for every tax-filing household in America—a total over \$18 trillion.
- » The government takeover of health care is raising prices and disrupting markets.
- » Bailouts and new government regulations have increased uncertainty, stifling investment and job creation.

SCORE SINCE 2008



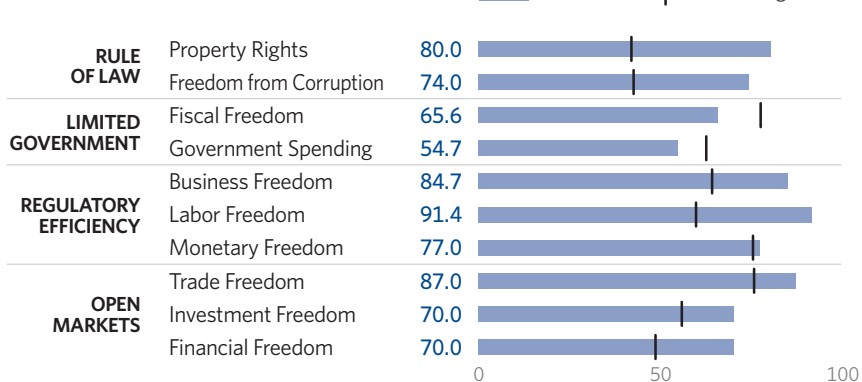
RANK SINCE 2008



U.S. NOT IN TOP TEN IN ECONOMIC FREEDOM

- 1 Hong Kong 88.6
- 2 Singapore 87.8
- 3 New Zealand 81.6
- 4 Switzerland 81.0
- 5 Australia 80.3
- 6 Canada 78.0
- 7 Chile 77.7
- 8 Ireland 77.3
- 9 Estonia 77.0
- 10 United Kingdom 76.4
- 11 United States 75.4

COMPONENTS OF ECONOMIC FREEDOM

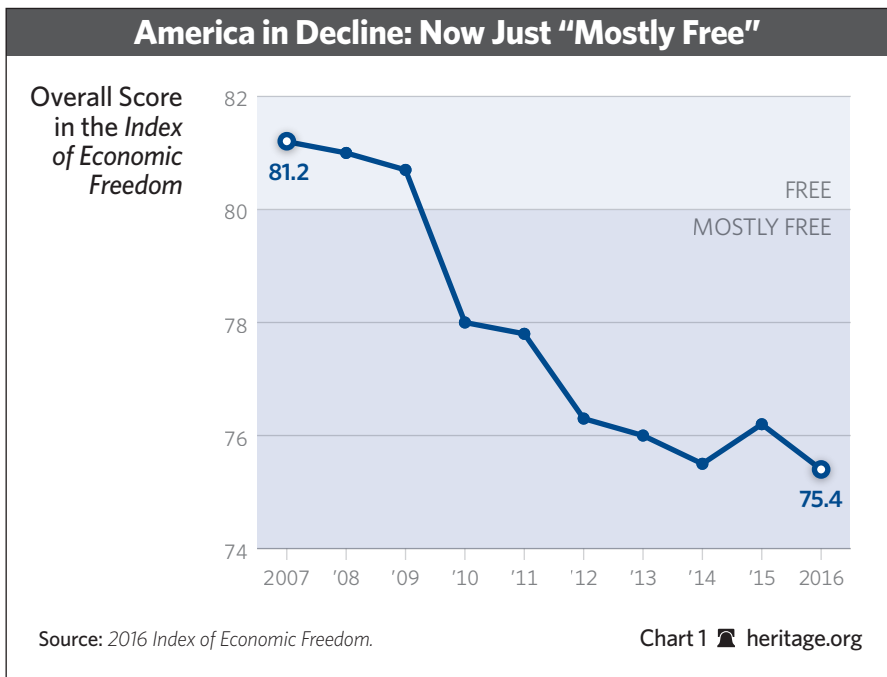


Eroding Economic Freedom Threatens U.S. Prosperity

Global economic freedom has reached record levels, but America is moving in the opposite direction. With losses of economic freedom in eight of the past nine years, the U.S. in 2016 has tied its worst score ever in the *Index of Economic Freedom*, wiping out a decade of progress that had seen the U.S. rise as high as fourth place in the annual rankings for 2007.

In 2016, U.S. ratings for labor freedom, business freedom, and fiscal freedom have flagged notably, and the regulatory burden is increasingly costly. Worse, government favoritism toward entrenched interests has hurt innovation and contributed to a lackluster recovery and sub-par income growth.

As a result, the United States is only the 11th freest economy in the 2016 *Index*, trailing comparable advanced economies such as Australia, Switzerland,



New Zealand, Canada, and even the United Kingdom. The U.S. remains mired in the ranks of the “mostly free,” the second-tier economic freedom status into which it dropped in 2010.

AMERICA'S ECONOMIC FREEDOM IN UNPRECEDENTED DECLINE

The U.S. is the only country to have recorded such a sustained loss of economic freedom in recent years, and the causes of the decline are clear. The overall U.S. score decline over the past decade is 5.8 points on the *Index's* 100-point scale.

Substantial expansion in the size and scope of government under the Obama Administration, including through new and costly regulations in areas like finance, health care, and the environment, has hit wide swaths of the economy, affecting almost every American in some way and reducing opportunities for non-governmental production and investment. The growth of government has been accompanied by increasing cronyism that has undermined the rule of law and perceptions of fairness.

NOW IS THE TIME TO ACT

The reduction in America's economic freedom has been accompanied by stagnant growth of the U.S. economy and persistently low labor participation rates. Decisive adoption of policies to revitalize economic freedom is essential to regenerate economic dynamism and innovation.

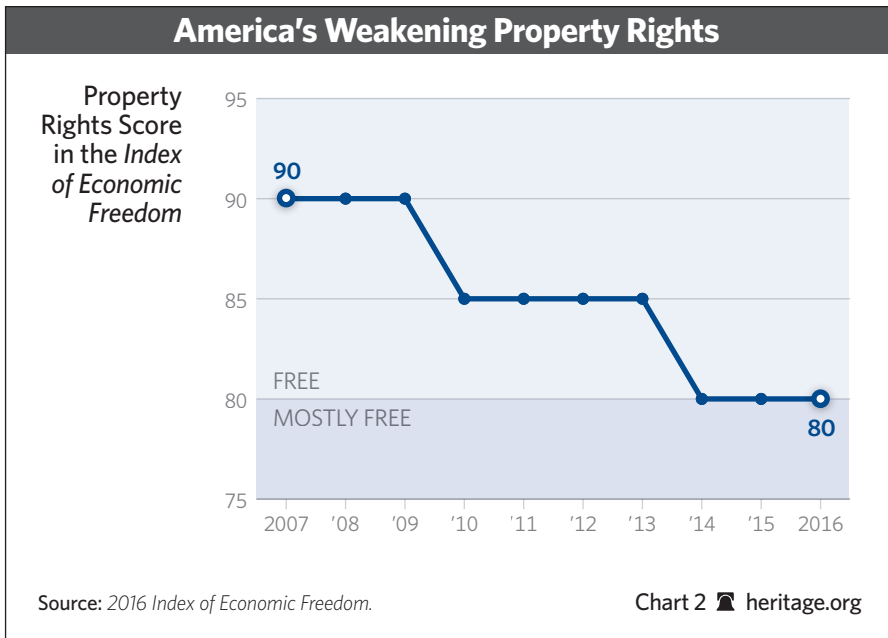
Restoring the U.S. economy to the status of a “free” economy will require significant changes in key policy areas. As described by this report, freedom-enhancing and forward-looking policies in the 10 specific measurements of economic freedom are the best hope for rebuilding an America where opportunity and prosperity flourish.

RULE OF LAW

PROPERTY RIGHTS: The American people's trust in their government is the lowest it has been in the past 10 years, according to three Gallup polls released in 2015, with 75 percent of respondents saying they believe corruption is widespread in the government and in government regulation of business. Although property rights are guaranteed and the judiciary generally functions independently and predictably, protection of those rights in practice has been uneven, raising charges of favoritism.

According to the 2016 *Index*, 19 countries have more secure property rights than the United States.

Though the United States has a long history of respect for property rights and the rule of law, the past several years have seen a disturbing trend of creeping politicization of economic decisions.



The U.S. government has become ever more involved in what had been regarded as the private sphere of economic activity. One notorious case involving land use in Connecticut (*Kelo v. City of New London*) pitted homeowners against a developer who had enlisted the city to use its power of eminent domain to transfer the homeowners' property to the developer for the developer's private use. Today, the property lies vacant, the government having been an agent of destruction rather than development.

The expansive use of government regulatory agencies to manage economic activity, particularly in the financial, health care, and energy sectors, has opened the door to increased cronyism.

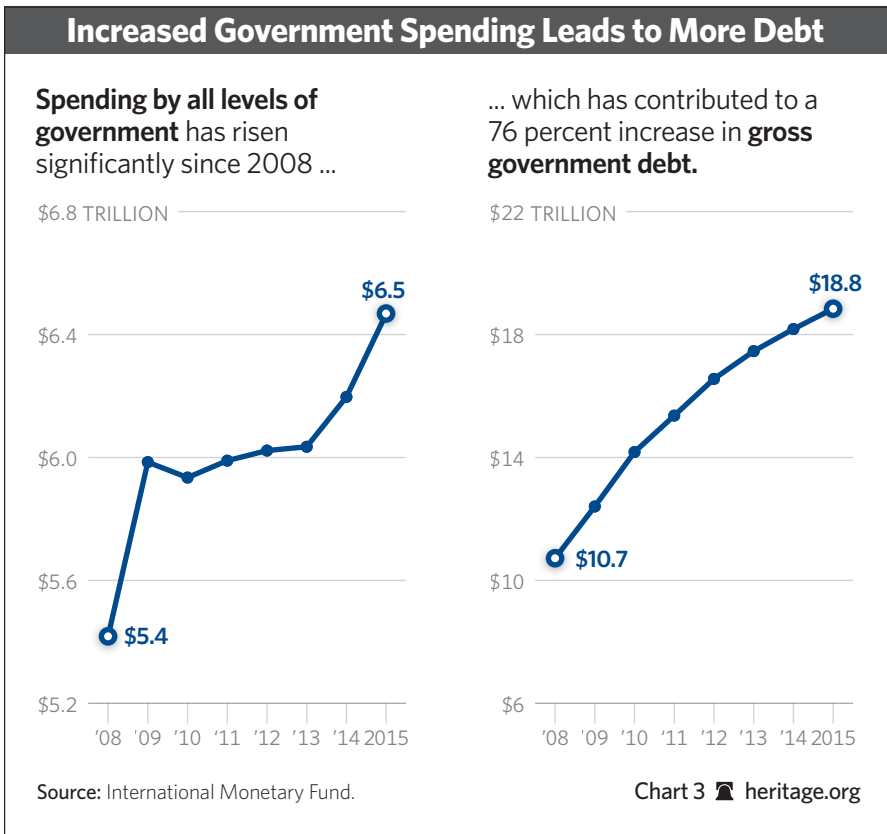
CORRUPTION: The freedom from corruption score in the *Index of Economic Freedom* is a measure of citizens' perceptions of the level of corruption in society.

As the U.S. government's involvement in economic decision-making grows, so too does the impression that political influence is increasingly an ingredient in economic success. This perception has been exacerbated by the sporadic and non-transparent nature of U.S. government bailouts in the financial sector, where some firms were rescued while others were allowed to go under.

This disturbing trend of political favoritism is increasingly encroaching on America's free-market system. Crony capitalism comes in many more forms and shapes than bailouts and loan guarantees. Free enterprise, limited government, and individual freedom form the bedrock of America's greatness. They allow America's economy to flourish and its people to prosper. To strengthen these principles, we must root out crony capitalism by attacking its source: big government.

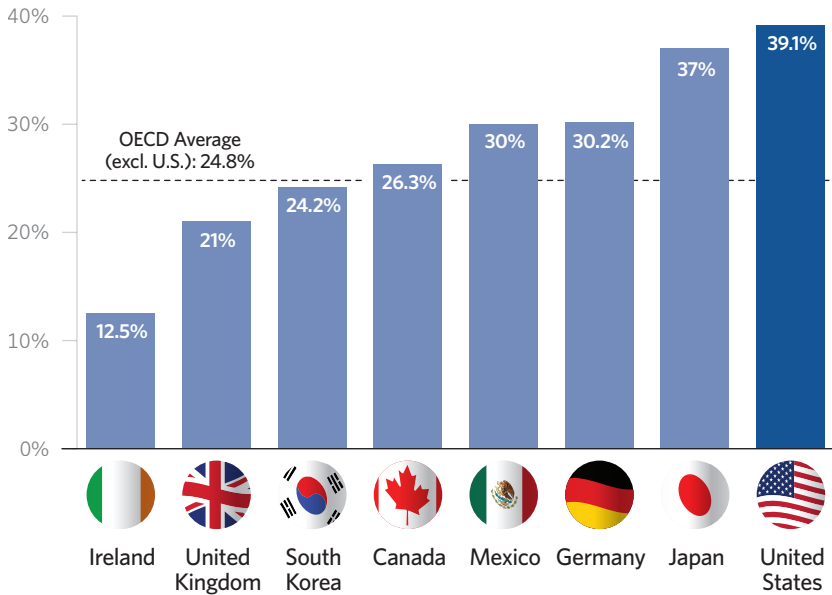
GROWTH OF GOVERNMENT

GOVERNMENT SPENDING: The size and scope of government have been increasing measurably. Public spending has grown steadily over the past decade and will hit record levels in the absence of immediate restraint. Total government spending amounts to about 39 percent of GDP. Frontloading spending increases, the Bipartisan Budget Act of 2015 has not reduced either the size or the scope of government.



U.S. Corporate Tax Rates Are Highest in Developed World

Combined Corporate Tax Rates (2014)



Source: Organization for Economic Co-operation and Development.

Chart 4  heritage.org

FISCAL FREEDOM: A burdensome tax code that stifles entrepreneurship has kept U.S. economic growth far below its potential following the recent recession. Though tax receipts were below average in recent years, this was due largely to high unemployment and an anemic recovery from recession.

The top individual income tax rate is 39.6 percent, and the top corporate tax rate remains among the world's highest at 35 percent. The overall tax burden equals 25.4 percent of total domestic income.

At a time when other industrialized nations have reformed their tax codes to reduce taxation of corporate income, the continuing high U.S. tax rate undermines U.S. business competitiveness in the international marketplace. The unique practice of taxing the foreign earnings of U.S. businesses adds an additional burden. It is no surprise that U.S. businesses are choosing to restructure or relocate overseas in order to escape excessive corporate taxation.

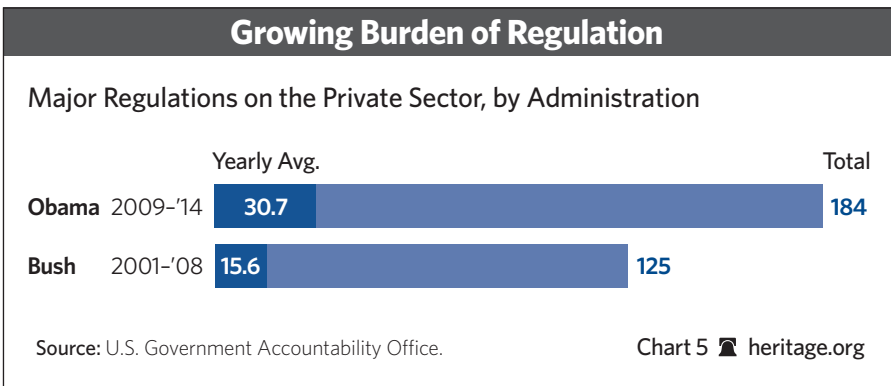
The burdensome tax code discourages the very behaviors, such as working, investing, taking risk, and entrepreneurship, that spur economic growth. Tax reform is essential both to lower rates and to revive these dormant economic activities.

REGULATORY INEFFICIENCY

BUSINESS FREEDOM: The excessive intrusion of government into wide spheres of economic activity comes with a high cost to society as a whole. Regulation, even when well intended or beneficial, can lead to a loss of economic efficiency, lower productivity, and declining growth. Over the past decade, the expansion of Uncle Sam’s regulatory control has been one of the prime culprits in America’s startling decline in economic freedom and overall competitiveness.

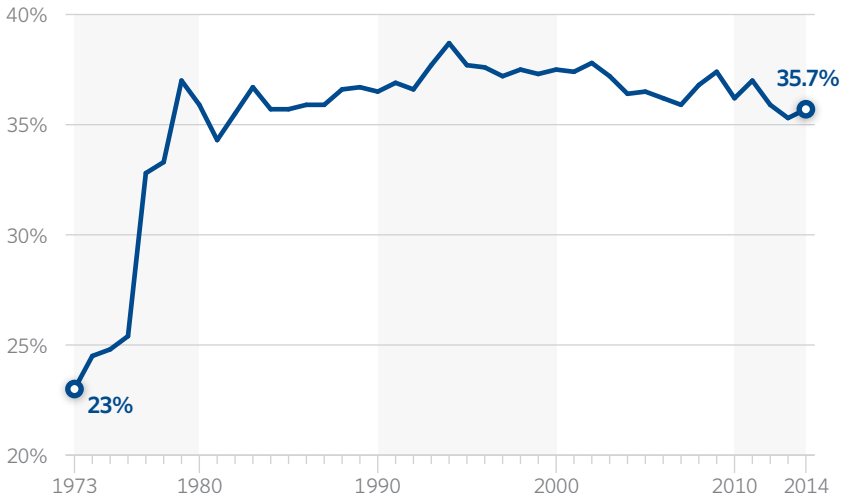
America has become the land of overregulation, with its entrepreneurial vitality increasingly drained by the massive expansion of the administrative state. The scope and cost of escalating red tape has been a major factor in lackluster job creation in recent years and holds back innovations that could increase productivity. Since early 2009, more than 180 new major federal regulations have been imposed on business operations at an estimated annual cost of nearly \$80 billion. Each new edict has meant new government bureaucracy that entrepreneurs and producers must navigate.

LABOR FREEDOM: The ability of individuals to find employment opportunities and work is a key component of economic freedom. By the same token, the ability of businesses to contract freely for labor and dismiss redundant workers when they are no longer needed is essential to enhancing productivity and



Union Membership Common in Government Sector

Percentage of Government Workers Belonging to a Union



Source: Unionstats.com.

Chart 6  heritage.org

sustaining overall economic growth. The main restraints on labor freedom in America arise in connection with the operations of labor unions and the setting of a minimum wage.

Unions often insist on terms that benefit them institutionally at the expense of individual workers' interests. It is notable that union membership has fallen sharply in the U.S. private sector over the past generation, from over a fifth of employees to less than 7 percent. However, unions maintain significant influence in the government: Half of all U.S. union members now work for the government.

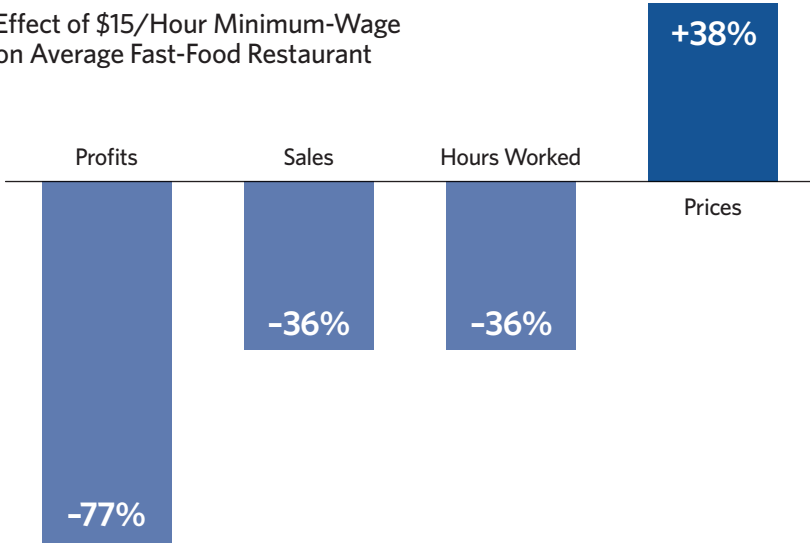
Another notable area in which the U.S. falls short of complete labor freedom is the setting of a minimum wage. Minimum wage laws prevent marginally skilled workers from selling their labor to potentially willing employers, raising unemployment levels among the least skilled in the workforce.

MONETARY FREEDOM: Monetary freedom requires a stable currency and market-determined prices. Whether acting as entrepreneurs or as consumers, free people need a steady and reliable currency as a medium of exchange, unit of account, and store of value. Without monetary freedom, it is difficult to create long-term value or amass capital.

The aggressive, experimental monetary policy pursued by the U.S. Federal Reserve since 2008, which has held interest rates at record lows while massively expanding the Fed's asset ownership, has failed to produce growth

Minimum-Wage Hike Would Hurt Fast-Food Restaurants

Effect of \$15/Hour Minimum-Wage on Average Fast-Food Restaurant



Sources: Heritage Foundation calculations.

Chart 7 heritage.org

America's Monetary Freedom: Mostly Free



Source: 2016 Index of Economic Freedom.

Chart 8 heritage.org

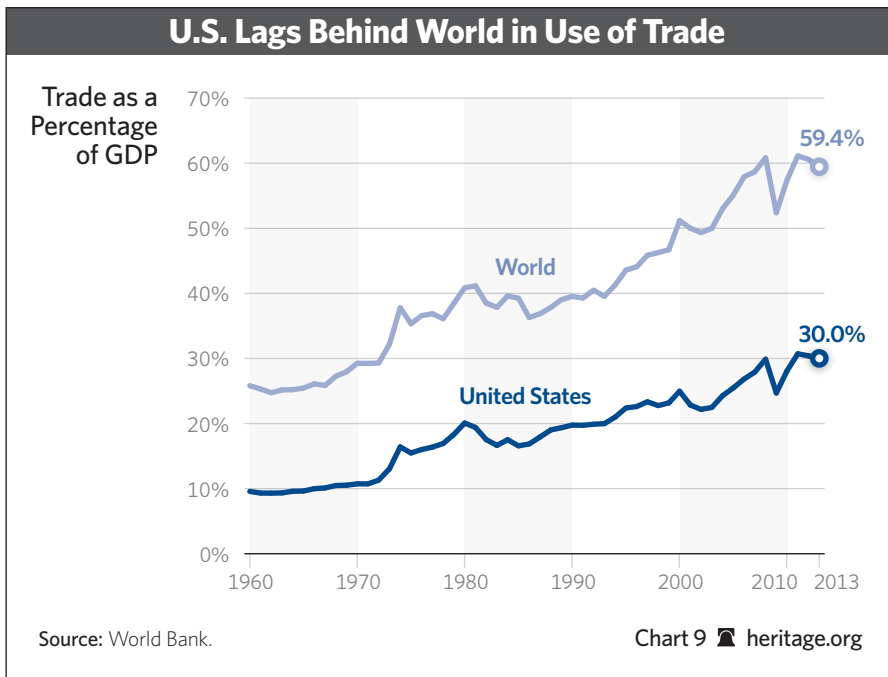
while distorting the allocation of capital. Fed purchases, known as “quantitative easing,” have created economic uncertainty with a negative impact on the recovery of the U.S. economy. The Fed has also expanded its role in fiscal and regulatory policies, adding to uncertainty in private markets.

The Fed’s interventions with guidance and even bailouts for specific financial corporations show an unwelcome willingness to go beyond traditional roles. Ideally, the Fed should be boring: quietly adjusting the money supply to keep liquidity high enough that Americans can do business, but not so high that inflation takes over. A good central bank serves and follows the private sector rather than attempting to lead it.

OPEN MARKETS

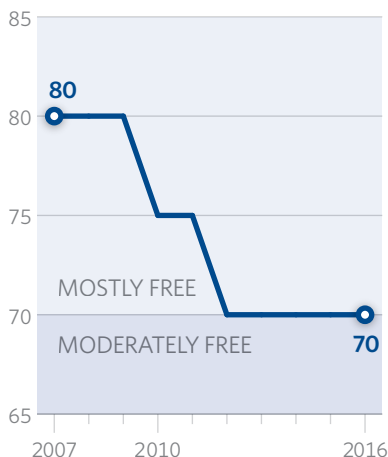
TRADE FREEDOM: The U.S. economy has benefited from a relatively high degree of trade freedom. Trade volume topped \$5 trillion in 2014 for the first time ever. Since 2002, U.S. trade in goods and services has grown at a fast pace, increasing from 23 percent of gross domestic product (GDP) to 30 percent of GDP.

Still, the dynamic impact of free trade on America is regularly the subject of contentious debate both on Capitol Hill and in the media. Efforts by individual industries or firms to obtain special protection against foreign competition through tariffs or quotas, if successful, impose higher costs on consumers and U.S. firms that rely on intermediate goods imports in their own production processes. The “safeguards” or other retaliatory actions



America's Dwindling Investment and Financial Freedom

Investment Freedom Score in the *Index of Economic Freedom*



Source: 2016 *Index of Economic Freedom*.

Financial Freedom Score in the *Index of Economic Freedom*

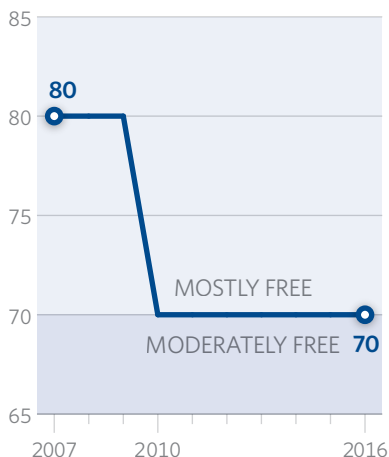


Chart 10  heritage.org

permitted in trade agreements can impose costs on completely unrelated activities.

Fundamentally, free trade is about rejecting favoritism and expanding economic opportunity for all. It is essential that policymakers separate hype from fact and assess upcoming trade initiatives objectively. Armed with the facts, they can then help to promote dynamic economic growth and lasting prosperity in the U.S.

INVESTMENT FREEDOM: With an investment freedom score of 70, the United States falls a distant 25 points behind top performer Luxembourg and trails dozens of other developed countries. In the increasingly competitive market for international investment, almost all countries are moving to improve transparency and streamline government approval processes, most having already removed sectoral restrictions.

Any foreign investment in the U.S. may be restricted by a review under the Committee on Foreign Investment in the U.S. (CFIUS) process. More restrictive in practice, however, are the legally required sectoral restrictions on foreign investments. Foreign investments may be limited or barred in shipping, air transport, communications, fishing, energy, banking, and defense. Land ownership is also subject to some restrictions.

While some of these restrictions on foreign investments may involve legitimate national security issues, many of the sectoral restrictions reflect concerns that have been overtaken by technological and market change. Their

primary effect today is not to improve U.S. security but rather to restrain trade and give U.S. economic interests an advantage. Like other government interventions in favor of special interests, these investment restrictions reduce overall economic freedom and favor a few Americans at the expense of the general population.

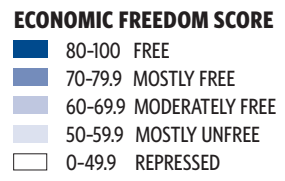
FINANCIAL FREEDOM: Since the financial crisis in 2008, America’s financial freedom score has dropped 10 points to the “moderately free” category. Congress set a dangerous precedent at the onset of the recession that some firms were so important to the financial system that the government had to intervene rather than let such large institutions go through bankruptcy.

Years after the financial turmoil, the policy failures that it revealed still have not been resolved. The Dodd–Frank Wall Street Reform and Consumer Protection Act, hurriedly enacted in 2010, does little to address these failures and in many ways actually makes things worse. Dodd–Frank’s 2,300 pages call for 243 rulemakings and 67 reports by federal agencies, according to a report by the Davis–Polk law firm, which regularly tracks the progress of Dodd–Frank’s implementation. Many parts of the law, ranging from price controls on debit cards to the creation of a new bureaucracy for consumer financial “protection,” have little to do with the financial crisis.

Perhaps Dodd–Frank’s greatest weakness is that it completely neglected to address Fannie Mae and Freddie Mac, the two government-created mortgage finance giants whose activities helped to create and exacerbate the 2008 financial crisis.

RANKING THE WORLD BY ECONOMIC FREEDOM

Rank	Country	Overall Score	Rank	Country	Overall Score	Rank	Country	Overall Score
1	Hong Kong	88.6	66	Panama	64.8	132	Maldives	53.9
2	Singapore	87.8	67	Thailand	63.9	133	Burundi	53.9
3	New Zealand	81.6	68	Kazakhstan	63.6	134	Suriname	53.8
4	Switzerland	81.0	69	Samoa	63.5	135	Togo	53.6
5	Australia	80.3	70	Philippines	63.1	136	Guinea	53.3
6	Canada	78.0	71	Rwanda	63.1	137	Bangladesh	53.3
7	Chile	77.7	72	Ghana	63.0	138	Greece	53.2
8	Ireland	77.3	73	Trinidad and Tobago	62.9	139	Mozambique	53.2
9	Estonia	77.2	74	Kuwait	62.7	140	Papua New Guinea	53.2
10	United Kingdom	76.4	75	France	62.3	141	Comoros	52.4
11	United States	75.4	76	Seychelles	62.2	142	Sierra Leone	52.3
12	Denmark	75.3	77	Serbia	62.1	143	Liberia	52.2
13	Lithuania	75.2	78	Saudi Arabia	62.1	144	China	52.0
14	Taiwan	74.7	79	Turkey	62.1	145	Guinea-Bissau	51.8
15	Mauritius	74.7	80	South Africa	61.9	146	Malawi	51.8
16	Netherlands	74.6	81	Namibia	61.9	147	Micronesia	51.8
17	Germany	74.4	82	Guatemala	61.8	148	Ethiopia	51.5
18	Bahrain	74.3	83	Paraguay	61.5	149	Tajikistan	51.3
19	Luxembourg	73.9	84	Kosovo	61.4	150	Haiti	51.3
20	Iceland	73.3	85	Morocco	61.3	151	Nepal	50.9
21	Czech Republic	73.2	86	Italy	61.2	152	Lesotho	50.6
22	Japan	73.1	87	Madagascar	61.1	153	Russia	50.6
23	Georgia	72.6	88	Dominican Republic	61.0	154	Algeria	50.1
24	Finland	72.6	89	Vanuatu	60.8	155	Laos	49.8
25	United Arab Emirates	72.6	90	Slovenia	60.6	156	Angola	48.9
26	Sweden	72.0	91	Azerbaijan	60.2	157	Belarus	48.8
27	South Korea	71.7	92	Côte d'Ivoire	60.0	158	Burma	48.7
28	Austria	71.7	93	Sri Lanka	59.9	159	Ecuador	48.6
29	Malaysia	71.5	94	Swaziland	59.7	160	Bolivia	47.4
30	Botswana	71.1	95	Tonga	59.6	161	Solomon Islands	47.0
31	Bahamas	70.9	96	Kyrgyz Republic	59.6	162	Ukraine	46.8
32	Norway	70.8	97	Bhutan	59.5	163	Congo, Dem. Rep. of	46.4
33	Colombia	70.8	98	Lebanon	59.5	164	Chad	46.3
34	Qatar	70.7	99	Indonesia	59.4	165	Kiribati	46.2
35	Israel	70.7	100	Mongolia	59.4	166	Uzbekistan	46.0
36	Latvia	70.4	101	Benin	59.3	167	Timor-Leste	45.8
37	Macau	70.1	102	Uganda	59.3	168	Central African Republic	45.2
38	Saint Lucia	70.0	103	Croatia	59.1	169	Argentina	43.8
39	Poland	69.3	104	Burkina Faso	59.1	170	Equatorial Guinea	43.7
40	Saint Vincent and the Grenadines	68.8	105	Gabon	59.0	171	Iran	43.5
41	Uruguay	68.8	106	Zambia	58.8	172	Congo, Rep. of	42.8
42	Cyprus	68.7	107	Fiji	58.8	173	Eritrea	42.7
43	Spain	68.5	108	Bosnia and Herzegovina	58.6	174	Turkmenistan	41.9
44	Belgium	68.4	109	Nicaragua	58.6	175	Zimbabwe	38.2
45	Barbados	68.3	110	Tanzania	58.5	176	Venezuela	33.7
46	Jordan	68.3	111	Senegal	58.1	177	Cuba	29.8
47	Macedonia	67.5	112	Cambodia	57.9	178	North Korea	2.3
48	Jamaica	67.5	113	Honduras	57.7	N/A	Afghanistan	N/A
49	Peru	67.4	114	Tunisia	57.6	N/A	Iraq	N/A
50	Costa Rica	67.4	115	Kenya	57.5	N/A	Libya	N/A
51	Brunei Darussalam	67.3	116	Nigeria	57.5	N/A	Liechtenstein	N/A
52	Oman	67.1	117	Moldova	57.4	N/A	Somalia	N/A
53	Dominica	67.0	118	Belize	57.4	N/A	Sudan	N/A
54	Armenia	67.0	119	Gambia	57.1	N/A	Syria	N/A
55	Malta	66.7	120	São Tomé and Príncipe	56.7	N/A	Yemen	N/A
56	Slovakia	66.6	121	Mali	56.5			
57	Cabo Verde	66.5	122	Brazil	56.5			
58	Hungary	66.0	123	India	56.2			
59	Albania	65.9	124	Djibouti	56.0			
60	Bulgaria	65.9	125	Egypt	56.0			
61	Romania	65.6	126	Pakistan	55.9			
62	Mexico	65.2	127	Guyana	55.4			
63	El Salvador	65.1	128	Mauritania	54.8			
64	Portugal	65.1	129	Niger	54.3			
65	Montenegro	64.9	130	Cameroon	54.2			
			131	Vietnam	54.0			



Why Economic Freedom Matters

Free markets, given a chance, can do better for all Americans—the rich and poor, young and old, workers and business owners alike.

In the caricature of American capitalism presented by the left, the forces of the free market exploit hardworking Americans. The truth is that Americans have become shackled by a government that has forgotten its proper place in American life, intervening in decisions that historically were within the purview of individuals and families.

The cause of economic freedom must be to reempower individual Americans, increasing their opportunity to succeed. In the 21st century, that means upsetting the status quo—the all-too-comfortable arrangements between government and its powerful clients in the private sphere who profit from its worst excesses. It means reemphasizing our commitment to the ideals on which our Republic was founded.

Once the gold standard that other nations aspired to emulate, America's position today serves as a cautionary tale. From bailouts and stimulus spending to heavy regulation and tax treatments that manipulate the market, America's leaders have implemented government-centric policies that have undermined America's economic freedom at an alarming pace.

Our mission is to build an America where freedom, opportunity, prosperity, and civil society flourish. We want neither to go back in time nor to go slower than liberalism. We want to go elsewhere: not back, not left, but forward. Our task, like the task of every generation of Americans, is a constructive one. It is to distinguish what should be conserved from what should be reformed, abolished, or overturned and to implement principled reforms that protect rights, expand opportunity, strengthen civil society, and eliminate favoritism.

With that in mind, specific policy recommendations based on conservative principles on how to restore America's economic freedom can be found in The Heritage Foundation's *Solutions 2016*.



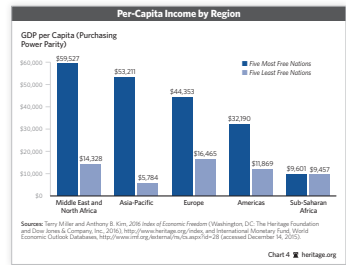
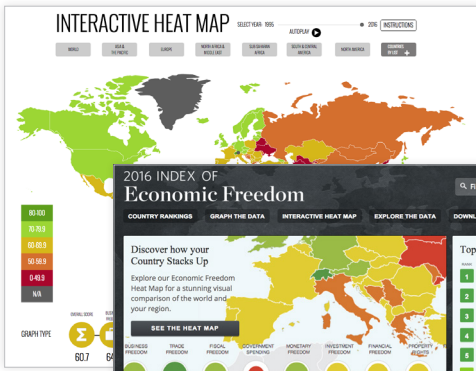
Founded in 1973, The Heritage Foundation is a research and educational institution—a think tank—whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense.

We believe the principles and ideas of the American Founding are worth conserving and renewing. As policy entrepreneurs, we believe the most effective solutions are consistent with those ideas and principles. Our vision is to build an America where freedom, opportunity, prosperity, and civil society flourish.

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Economic Freedom: Opportunity and Empowerment

The positive impact of economic freedom in building prosperity and reducing poverty has never been clearer. For over two decades, the *Index of Economic Freedom* has measured the impact of liberty and free markets around the globe, and the 2016 *Index* confirms the formidable positive relationship between economic freedom and progress.

Through comprehensive analysis of diverse economies ranging from Hong Kong to North Korea, the *Index* provides compelling evidence that freer economies are richer, cleaner, and healthier; less prone to violence; and more politically stable. In every region of the world, opportunities for innovation, progress, and human development are provided more easily when governments respect and promote the principles of economic freedom.

The 2016 *Index*—the 22nd edition—includes:

- Updated economic freedom scores and macroeconomic data for **186 economies**.
- Easy-to-read **cross-country comparisons that highlight why economic freedom matters**.
- Three informative chapters that explore topics of particular relevance to today’s policy debates, including the harm of anti-competitive regulatory policies and protectionism, an in-depth look at work in the shadow economy, and a fresh approach to improving the targeting and effectiveness of development programs.
- Online tools like **customized comparison charts** and an **interactive heat map**.

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214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400
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