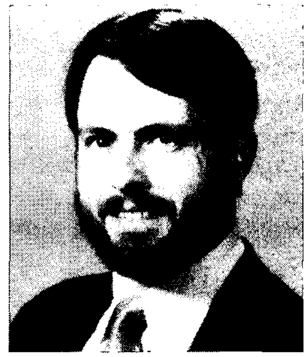
IDEAS ON LIBERTY
JULY 2000



Economic Freedom or Foreign Aid?

In a world of plenty want abounds. To blame are big corporations, international trade, and open markets, according to demonstrators who have been attacking the World Trade Organization. In fact, they couldn't get it more wrong. Economic liberty and exchange offer the world's poor the best hope of a better future.

For most of the post-World War II period, developing nations shared the protesters' aversion to free markets. Countries throughout Africa, Asia, and Latin America chose state-run development strategies in an attempt to quickly bridge the yawning economic divide between rich and poor. The result was disaster.

Economies collapsed. Societies dissolved. Countries imploded. Small, wealthy elites emerged, while the mass of people languished. So foreign aid became the mantra. The United States alone contributed more than $1 trillion (in current dollars) to a variety of aid programs.

But, alas, that turned into another dead end. In 1996 the United Nations declared that 70 countries were poorer than they were in 1980; an astounding 43 were worse off than they had been in 1970. All were on the aid dole. Many of the biggest recipients of assistance—India, Sudan, Tanzania—were among the worst performers.

Indeed, there were few positive results to cite. The U.S. Agency for International Development admitted: "much of the investment financed by U.S. AID and other donors between 1960 and 1980 has disappeared without a trace." Similar has been the more recent experience with Bosnia, the Palestinian Authority, and Russia.

With the collapse of the argument that development depends on First World charity, Third World analysts looked elsewhere for answers. Resource endowments, population densities, and cultural attitudes all have impacts in particular cases, but none correlate with overall growth levels. Economic freedom does, however. The results of the latest volume of *Economic Freedom of the World*, written by James Gwartney, Robert Lawson, and Dexter Samida, could not be clearer.

The average income of people in the top fifth of economically free countries is nine times as high as that of those in the bottom fifth. The countries with greater economic liberty grew an average 2.27 percent annually last decade; those with the least economic freedom shrunk by 1.32 percent a year. People in the most free nations live 20 years longer than those in the least free states.

Hong Kong and Singapore tie as the most liberal economic systems. Both are particularly impressive examples.

Neither possesses natural resources. Both are relatively crowded urban areas. Neither collected endless streams of foreign aid. Instead, they opened their economies to domestic and foreign competition alike.

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Hong Kong has consistently topped the economic freedom list. Its government is small, its economy is relatively unregulated, and its currency and financial markets are free. Where Hong Kong lags—and fell significantly from 1995—is in the rule of law and enforcement of contracts. Nevertheless, despite China's takeover, the economy remains the envy of the world.

Singapore bests Hong Kong in the rule of law, and matches it in open currency and financial markets. However, its government is bigger and its regulations are more intrusive. Number two to Hong Kong throughout the 1990s, Singapore gained a share of the number one spot by holding its rating steady while Hong Kong slipped.

New Zealand, ranked number 32 in 1985, zoomed to number 3 a decade later and continues to hold that position. It has reduced government spending, dramatically deregulated its economy, and freed its currency and financial markets. There may be no better example of the way policy reform can transform economies than New Zealand.

The fact that the Asia-Pacific hosts the top three nations helps explain the region's remarkable growth. In a sense, Asians have conducted a dramatic experiment on the impact of economic liberty. The successes include Australia, which scores 7–8 (indicating a tie), and Japan and Thailand, which land in the top 21.

The region also shows what not to do. Some of the high-flyers that have suffered economic turbulence of late would benefit from an extra dose of economic liberty. For instance, Malaysia hits 37–39, South Korea ranks 47–48, Indonesia is at 49–50, and China comes in at 75–77.

Then there are the three leading powers in South Asia, Bangladesh, India, and Pakistan, which are abysmal, ranging between 86 and 96. Myanmar comes in at the very bottom, at 123 (insufficient information was available to rate all nations).

The United States ranks number four. America does well regarding freedom of currency and financial markets. Its standing on economic regulation is anemic, however, and government spending and subsidies are higher than those of Hong Kong, Singapore, and New Zealand.

Obviously, such market imperfections have not prevented the United States from growing dramatically and steadily. But America would get an extra spurt—and solidify past gains—if it addressed its policy shortcomings, mild though they are compared to those of so many other nations.

Europe, like Asia, provides an interesting mix. Great Britain, transformed two decades ago by Margaret Thatcher, runs fifth. It was 33 in 1975 and 16 in 1980. The government is still too large, but the economic role of state enterprises has shrunk dramatically. Marginal tax rates are lower, monetary policy is more stable, and trade barriers are down.

An economic tiger of more recent vintage is Ireland. A decade ago Dublin ranked 28. By 1995 it was up to six, its present position. Ireland has freed up its economy, cut taxes, deregulated its financial markets, and opened access to the international economy.

Also in the top dozen are Luxembourg, Netherlands, and Switzerland. Following closely are Denmark, Belgium, and Spain.

But then the reason for Europe's ongoing economic problems become evident. Its poorer performers lag in their protection of economic liberty. Germany comes in at 22–24. Austria, France, and Sweden follow at 25–30. Italy runs 31–34.

Greece comes in at an anemic 42–46, along with Hungary, the first former communist state to appear. The Czech Republic follows, with Estonia, Latvia, and Lithuania limping behind. The first Balkans nation, Slovenia, appears at 70–74.

Every other former East Bloc state trails even Haiti. Latin America tends more toward the middle, but still exhibits some range of ratings.

The bottom half of the rankings is filled with African states. Until the African people protect economic liberty, they are likely to remain poor.

Economic Freedom of the World offers an important lesson: The path to prosperity is simple—liberty. □

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Sweatshops: Look for the INS Label

by Wendy McElroy

The nineteenth-century phenomenon of sweatshops is re-emerging as an important 21st-century issue for American labor and business. For example, the United Students Against Sweatshops has called on its 180 campus affiliates to organize and force universities to deal only with manufacturers who abide by fair labor practices. In February, students from the University of Pennsylvania staged a much publicized sit-in in front of the president's office to ensure that the logo apparel sold by the university was not produced by sweatshop labor.

Although the students admitted that they had no evidence that any apparel had been produced by sweatshops, they thought it was "a safe assumption." The university agreed to withdraw from the Fair Labor Association, which students called "an industry-controlled monitoring system that only serves to cover up sweatshop abuses" and "a public-relations operation designed to improve the image of its members, like Kathie Lee Gifford and Nike." Instead, the university agreed to join the Worker Rights Consortium—a human rights and labor organization that advocates the "rights" to a living wage and to unionize in the Third World. But labor activists quickly point out that sweatshops exist in America too. Indeed, they seem to be a growing trend. A "Garment Enforcement Report" (April-June 1999) from the U.S. Labor Department reported that 205 sweatshop investigations resulted in the discovery of 109 violations.*

In the Austin *American-Statesman* (February 27), journalist Martha Irvine offers a typical account. Irvine begins by focusing on the harsh labor conditions of a tortilla factory on Chicago's South Side, then goes on to report the wider findings of the Center for Impact Research. "More than a third of the 800 workers questioned—many of them immigrants—described conditions in factories, restaurants and other workplaces that the federal government would deem sweatshops." As a result of this report and ensuing publicity, the U.S. Department of Labor announced its intention to work with ethnic community groups in order to uncover abusive employers.

This is a common pattern in anti-sweatshop activism—stories of personal exploitation are coupled with thin statistical analysis, which collectively result in a superficial governmental response. Often, the abuse is real. Sometimes, it is hideous. Unscrupulous employers are always blamed—and with cause. Government is always the proposed solution, with disastrous results.

Few people seem to question one of the fundamental reasons that nineteenth-century sweatshop conditions exist in 21st-century America. Free-market advocates correctly point out that low wages are appropriate to untrained, unskilled workers and that many of the sweatshop conditions are no more than

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*See http://www.dol.gov/dol/esa/public/nosweat/garment15.htm.