

# WebMemo



Published by The Heritage Foundation

No. 2372  
March 31, 2009

## The G-20 Summit: Time to Renew Commitment to Economic Freedom

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In his recent op-ed on the upcoming G-20 meeting in London, President Obama stated that “now is the time to work together to restore the sustained growth that can only come from open and stable markets that harness innovation, support entrepreneurship and advance opportunity.”<sup>1</sup>

In light of the ongoing worldwide economic turmoil, there may be no distinct formula through which to quickly reinstate the unrelenting growth. However, President Obama and other leaders of the G-20 should be reminded that as a fundamental linking element between economic opportunity and lasting prosperity, economic freedom is indispensable in amplifying and cascading the benefits of any plans that may come out of the summit.

**The Continuing Struggle between the State and the Free Market.** As G-20 leaders prepare to meet in London on April 2, they face an unprecedented challenge: The global economy is likely to shrink this year for the first time since the Second World War. The World Bank predicts that during 2009 world trade is likely to record its largest decline since the Great Depression.<sup>2</sup>

In light of this challenge, the current state of the world economy is a vivid reminder of the continuing struggle between the state and the free market. There is little global demand for a shift to central planning or extensive state ownership of private businesses in the name of recovery and stability. Rather, states’ interventionist measures have been inching up at an increasing pace, thereby eroding economic freedom—the backbone of the world economy.

In a time of economic calamity, it is expected that people look to their governments for answers. However, plausible solutions to the current economic crisis do not lie in more direct government intervention, which will prolong the crisis by adding more risk and uncertainty. Furthermore, governments’ stimulus packages should not be based on handing out cash or shortsighted populism. Nor they should target one group or industry: Such packages should benefit the whole economy. To achieve maximum impact, the state should guarantee market rules and reassure market confidence.

In doing so, as President of the European Central Bank Jean-Claude Trichet pointed out, governments will have to “reassure [their] own people that [they] have an exit strategy, to reassure households that [they] are not putting in jeopardy the situation of the children, and to reassure businesses that what is done today is not done to the detriment of their own taxation in the years to come.”<sup>3</sup>

**No More Lip Service.** For many decades, the world has reaped the economic benefits of gradual liberalization in trade and investment. Today, however, the place of free trade in policymaking is far from secure. Despite repeated pledges by world leaders not to disrupt the international flow of

This paper, in its entirety, can be found at:  
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Produced by the Center for International  
Trade and Economics (CITE)

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

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goods and services with more barriers, protectionism is on the march, undermining efforts to lay out a coordinated and credible response to the current global economic downturn. As in all trade wars, the collateral damage is too costly.

The Declaration of the Summit on Financial Markets and the World Economy issued by the G-20 in November 2008, stated that within the next 12 months, “we will refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organization inconsistent measures to stimulate exports.”<sup>4</sup> However, this pledge has been broken. According to a recent study by the World Bank, since G-20 leaders signed the declaration to avoid protectionism, 17 of them have implemented measures that restrict trade at the expense of other countries.<sup>5</sup>

**Cynicism Driving Protectionism: A Perilous Recipe for the World Economy.** A key driver of economic prosperity is a high level of flexibility and resilience founded on economic freedom. This has been continuously protected by keeping levels of regulation and government intervention low while emphasizing great transparency and strongly protected property rights. The powerful force of economic freedom has fostered the spirit of entrepreneurship and innovation that creates new products and more jobs, spreading the benefits of a dynamic economy around the globe.

Indeed, today’s economic development and lasting prosperity depend on maintaining and improving an environment in which entrepreneurial activities and innovation can flourish. Investment capital and entrepreneurial talent flow toward economies with lower taxes, secure property rights, sound money, and

sensible regulatory policies. Countries with higher degrees of openness and flexibility benefit from the free exchange of commerce and ideas—and, consequently, citizens of those countries—enjoy more opportunities and greater prosperity.

Yet economic freedom, like other freedoms, is always vulnerable. History demonstrates that this is never more so than when politicians espouse populist rhetoric, playing to people’s fears and calling for more government interventions that promise a quick fix to whatever is deemed faulty in a complex economy. Politicians and leaders increasingly disparage free markets and push for counterproductive regulatory rules, increase costs on investment, or, worse, pursue protectionist policies that curtail global economic growth.

**Sustaining Economic Freedom: Key to Economic Recovery.** Today’s cynicism and doubts about the benefits of globalization and free market system should not abruptly halt America’s long-standing commitment to openness and economic freedom.<sup>6</sup> Economic freedom is not a dogmatic ideology. It is not the only way—nor a perfect way—to put an economy in order. However, it is a far better way than other systems that have been tested. As the direct opposite of government interference and control, economic freedom is a threat only to those who want special privileges by pressuring societies to expand the size and weight of government intervention.

The world must not be discouraged from pursuing greater economic freedom. The G-20 should take this week’s summit as an opportunity to renew their commitment to economic freedom.

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2. CNN, “World Bank: Economy Worst Since Depression,” March 9, 2009, at [http://money.cnn.com/2009/03/09/news/international/global\\_economy\\_world\\_bank](http://money.cnn.com/2009/03/09/news/international/global_economy_world_bank) (March 30, 2009).
3. Jean-Claude Trichet, interview with Wall Street Journal, March 23, 2009, at <http://www.ecb.europa.eu/press/key/date/2009/html/sp090323.en.html> (March 30, 2009).
4. Press release, “Declaration of Summit on Financial Markets and the World Economy,” The White House, November 17, 2008, at <http://www.america.gov/st/texttrans-english/2008/November/20081117173241xjsnommis0.4479639.html> (March 30, 2009).
5. Elisa Gamberoni and Richard Newfarmer, “Trade Protection: Incipient but Worrisome Trends,” The World Bank, March 2, 2009, at [http://siteresources.worldbank.org/NEWS/Resources/Trade\\_Note\\_37.pdf](http://siteresources.worldbank.org/NEWS/Resources/Trade_Note_37.pdf) (March 30, 2009).
6. See Terry Miller, “Freedom Is Still the Winning Formula,” *The Wall Street Journal*, January 13, 2009, at <http://online.wsj.com/article/SB123180425194675361.html> (March 30, 2009).