Inspired by the *2010 Index of Economic Freedom*

An Economic Freedom Agenda for America

"Mostly Free"

The Startling Decline of America's Economic Freedom and What to Do About It

By Terry Miller and Kim R. Holmes

The Heritage Foundation
LEADERSHIP FOR AMERICA

Center for International Trade and Economics

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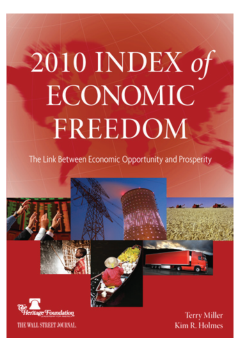

The *2010 Index of Economic Freedom* is available at *heritage.org/index.*

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"Mostly Free" — Not Good Enough!

In 2010, for the first time ever, the United States has fallen from the ranks of the economically "free" as measured by the *Index of Economic Freedom*, published annually by The Heritage Foundation and *The Wall Street Journal*. With a score of only 78.0 on the *Index*'s 0–100 scale, the United States has fallen below the cutoff (an average score of 80 or above) that earns countries the right to call themselves truly "free." The United States' current status? "Mostly free."

How did this happen? What can be done to address the problem and allow Americans to reclaim the economic freedoms they have lost?

This booklet provides a snapshot of American's economic freedom and compares conditions in the United States with those in other countries around the world. A program of straightforward but bold reforms is proposed to put the U.S. back where it belongs: as a world leader in economic freedom.

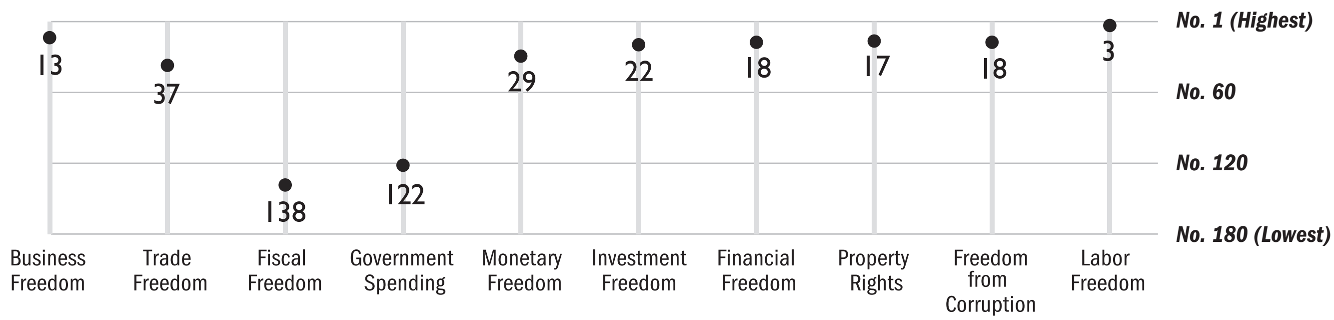
A Startling Decline

The United States is the 8th freest economy in the 2010 *Index of Economic Freedom*. Its score is 2.7 points lower than last year, reflecting notable decreases in financial freedom, monetary freedom, and property rights. Economic freedom has declined in seven of the 10 categories measured in the *Index*. Overall, the U.S. suffered the largest decline in economic freedom among the world's 20 largest economies. The United States has fallen to 2nd place in the North America region, trailing Canada.

The U.S. government's intrusive responses to the financial and economic crisis that began in 2008 have significantly undermined economic freedom and long-term prospects for economic growth. Uncertainties caused by ongoing regulatory changes and politically influenced spending have discouraged entrepreneurship and job creation, slowing recovery. Leadership in free trade has been undercut by "Buy American" provisions in stimulus legislation and failure to pursue previously agreed free trade agreements (FTAs) with Panama, Colombia, and South Korea.

Meanwhile, tax rates are increasingly uncompetitive, and massive stimulus spending is creating unprecedented deficits. Bailouts of financial and automotive firms have generated concerns about property rights. The health care law is adding billions of dollars to the nation's medical bill, as well as federal and state deficits, while fundamentally altering the structure of employment compensation.

U.S. Ranking in 10 Economic Freedoms



The Economic Freedom Agenda

The U.S. Constitution was established, in the words of its Preamble, to "secure the Blessings of Liberty to ourselves and our Posterity." That liberty is under assault today, and the threat, now as at the time of the Declaration of Independence, comes from a government that has become destructive of "Life, Liberty, and the pursuit of Happiness."

Reclaiming their heritage of economic freedom will not be an easy task for Americans. Action is needed in every area to challenge politically powerful special interests. Politics as usual will not suffice. Indeed, it is politics as usual that has gotten us off track, with government encroaching daily into areas that Americans have traditionally regarded as private.

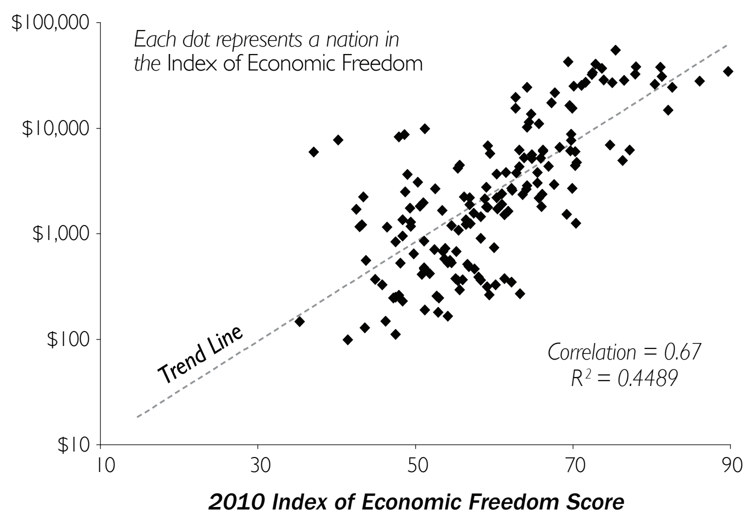
We don't need a revolution, but we do need a restoration of the rights once considered unalienable—by the Founders and by the generations of Americans that followed them. The time to start is now. The actions that we need to take form the Economic Freedom Agenda for America.

The following pages provide a step-by-step guide to putting the U.S. back in the top ranks of the economically "free." The specific recommendations are but one possible strategy to restore our economic freedom. They illustrate clearly the scope of reform that is needed. Other proposals, if honest in actually advancing economic freedom, could serve as well.

The important thing is to act *now* to arrest the decline of freedom and assert our rights as free people to set our own course toward greater prosperity in the future.

Economic Freedom Promotes Greater Prosperity

GDP per Capita, in Constant 2000 U.S. Dollars (Logarithmic Scale)



BUSINESS FREEDOM U.S. Score: 91.3 World Rank: 13th

The U.S. business freedom score of 91.3 is respectable, but 12 countries do a better job. New Zealand, which scores 99.9 in business freedom, sets the world standard. You can start a business there in one day. Some U.S. states can probably match that, but the U.S. average is six days.

The business freedom indicator provides only a partial measure of the overall regulatory burden on business, which is increasing rapidly in the U.S. Over 50 agencies have a hand in federal regulatory policy. The Code of Federal Regulations has grown from 151,000 pages in 2000 to over 163,000 pages now.

In fiscal year 2009, close to $15 billion in new regulatory costs were imposed on Americans. This is the biggest increase in 17 years and the second highest increase ever recorded, and 2010 is likely to be worse, primarily because of the health care bill. New rules adopted during the Obama Administration have ranged from mandatory energy standards for soft drink vending machines to mandatory reporting requirements for greenhouse gas emissions to new limits on credit card terms and conditions. The overall cost for Americans of all the regulations on the books, as estimated in a recent study for the Small Business Administration, is some $1.1 trillion.

Four areas where the regulatory burden on businesses is expanding rapidly are:

- **Health care.** The bill passed in 2010 imposes comprehensive rules on health insurance providers, medical professionals, and consumers.
- **Climate change.** Efforts in Congress to adopt legislation to mandate caps on CO_2 use have stalled, but the Environmental Protection Agency (EPA) is moving ahead with regulations under what it claims is its existing authority. In January, the EPA issued a formal finding that CO_2 endangers public health, and the agency has implemented, planned, or proposed limits on CO_2 emissions from virtually every type of economic and non-economic activity undertaken in society.
- **Financial reform.** Legislation is pending to increase regulation of the financial sector, creating a new consumer regulatory agency and giving regulators increased authority to close down institutions. The changes would not just hinder beneficial innovation, but actually reduce stability and possibly lead to more bailouts.
- **Internet regulation.** The FCC has proposed new regulations on Internet providers, limiting how companies such as Comcast or Verizon operate their networks. These "net neutrality" rules threaten to slow Internet access and limit investment and innovation in the sector.

Countries Ranking Above the U.S. in ***Business Freedom***

New Zealand	99.9
Hong Kong	98.7
Singapore	98.2
Denmark	97.9
Canada	96.5
Sweden	95.5
Finland	95.0
United Kingdom	94.9
Iceland	93.0
Belgium	92.9
Ireland	92.8
South Korea	91.9
United States	**91.3**

The Economic Freedom Agenda: *Business Freedom*

To improve business freedom and forestall further erosion, U.S. policymakers need to:

- **Repeal** stifling regulation of health care, the environment, financial institutions, and the Internet.
- **Create** a nonpartisan Congressional Regulation Office to review new regulations and their alternatives.
- **Include** a "sunset" date for all existing and new regulations, ensuring periodic review and requiring positive action for reauthorization and continuation of any regulation.

Impact on the U.S.'s Business Freedom Score

Controlling the explosive growth of new regulation will only prevent future drops in the U.S. business freedom score. Implementation of sunset clauses, however, could lead to a significant gain in freedom. A reduced regulatory burden that led to a 50 percent improvement in the *Index*'s "doing business" indicators would:

- Add **8.2 points** to the U.S. business freedom score.
- Move the U.S. business freedom ranking from 13th place to **2nd place**.

TRADE FREEDOM

U.S. Score: **86.9** World Rank: **37th**

Thirty-six economies, including Hong Kong, Switzerland, Georgia, and Namibia, outperform the U.S. in trade freedom. Most of these economies have eliminated tariffs almost completely, though each distorts trade somewhat through a variety of non-tariff barriers such as labeling requirements, licensing, and subsidies.

The U.S. weighted average tariff rate, though relatively low at 1.5 percent, is still higher than the rates in every member of the European Union (1.3 percent). And though the U.S.'s relative ranking in trade freedom declined as other countries continued significant liberalization, its trade freedom score at least went up a little because of a slight shift in demand away from higher-tariff items.

Trade has been a mainstay of the U.S. economy, accounting for more than 25 percent of U.S. gross domestic product (GDP) in 2009. The U.S. remains the world's top exporter of goods and services combined. More than 57 million Americans are employed by firms that engage in international trade. The 3 percent of U.S. job losses that can be attributed to foreign trade are more than balanced by the U.S. jobs created because of trade.

One of the best ways in which the U.S. promotes trade and economic prosperity is through free trade agreements. The largest such agreement is NAFTA. Together, Canada and Mexico constitute America's largest trade partner, accounting for over 80 percent of all merchandise trade between the U.S. and our FTA partners and 28 percent of all U.S. merchandise trade in 2009. In the first 13 years of NAFTA, U.S. GDP grew more than 50 percent, the economy created 26 million new jobs, U.S. manufacturing output rose 63 percent, and the unemployment rate fell 2 percentage points.

U.S. Protectionism

The U.S. maintains a number of tariff and non-tariff measures that distort trade. More dispute settlement cases have been filed at the World Trade Organization (WTO) against U.S. protectionist measures than against any other country. While not all of these cases have merit, there are several areas in which the U.S. engages in practices that significantly distort trade. The most significant are:

- **Tariff quotas.** About 2 percent of U.S. tariff lines are subject to tariff quotas (a specified amount of a good—the quota—is charged a low tariff; additional imports pay a much higher tariff).
- **Subsidies.** The U.S. provides significant government subsidies in the areas of agriculture and energy. Government support accounted for 11 percent of gross farm receipts in 2006.
- **Anti-dumping measures.** At the end of 2007, the U.S. maintained 232 anti-dumping measures against 39 trading partners. The average length of "temporary" anti-dumping measures is 11 years.

Countries Ranking Above the U.S. in ***Trade Freedom***

Hong Kong	90.0
Macau	90.0
Singapore	90.0
Switzerland	90.0
Norway	89.2
Georgia	89.1
Canada	88.1
Chile	88.0
Iceland	87.9
Croatia	87.8
Israel	87.8
Namibia	87.8
Romania	87.5
Austria	87.5
Belgium	87.5
Czech Republic	87.5
Denmark	87.5
Estonia	87.5
Finland	87.5
Germany	87.5
Hungary	87.5
Ireland	87.5
Italy	87.5
Latvia	87.5
Lithuania	87.5
Luxembourg	87.5
Malta	87.5
Netherlands	87.5
Poland	87.5
Portugal	87.5
Slovakia	87.5
Slovenia	87.5
Spain	87.5
Sweden	87.5
United Kingdom	87.5
Bulgaria	87.4
United States	**86.9**

The Economic Freedom Agenda: *Trade Freedom*

To improve trade freedom and ensure U.S. competitiveness, U.S. policymakers need to:

- **Eliminate** all remaining U.S. tariffs and import quotas. A scheduled phaseout over a decade would allow orderly adjustment in those sectors, like sugar and dairy, that are heavily subsidized by protectionism.
- **Reform** U.S. trade remedies to bring them into compliance with international trade rules. In particular, end the practice of "zeroing" in calculating dumping margins.
- **End** trade-distorting U.S. agricultural and energy subsidies, including subsidies for ethanol.
- **Implement** pending free trade agreements with South Korea, Colombia, and Panama and energize work to complete the multilateral Doha Round of trade negotiations.

Impact on the U.S.'s Trade Freedom Score

Eliminating tariffs would add 3.1 points to the U.S. trade freedom score, and eliminating subsidies and non-WTO-compliant trade remedies would boost the score another 5 points.

- Together, these reforms would incease the U.S. trade freedom score by a total of **8.1 points**.
- The U.S. would jump from 37th place to **1st place** in the trade freedom rankings.

FISCAL FREEDOM

U.S. Score: **67.5** World Rank: **138th**

The United States ranks a dismal 138th in the world in fiscal freedom. Tax regimes vary enormously around the world. Some countries, typically commodity producers or countries heavily dependent on foreign aid, subsidies, or single industries like tourism, may have no income taxes at all. Among countries that have income taxes, top marginal rates vary widely as does the level of progressivity.

The *Index of Economic Freedom* regards taxation on incomes as economically distorting and harmful from a societal point of view. In taxing incomes, governments in effect are reducing the compensation to individuals for their labor. As a result, the supply of labor (or people's willingness to work) will tend to go down. The alternative—taxes on consumption or spending—is also economically distorting, but tends to raise levels of savings and investment, which increases economic growth and future prosperity.

High Tax Rates and Eroding Competitiveness

U.S. personal and corporate marginal income tax rates (35 percent) are higher than the world averages of 29 percent (personal) and 25 percent (corporate). The U.S. corporate tax rate is the second highest among developed countries. In addition, with about half of the U.S. population paying no personal income tax at all, the U.S. has one of the world's most progressive tax systems. The overall U.S. tax burden (28.3 percent of GDP in 2008) is also above the world average of 23.2 percent.

The U.S. is at a crossroads: It will either have to enact higher taxes to pay for out-of-control spending and eliminate unsustainable deficits or have to cut back dramatically on spending to avoid tax hikes and defend its global competitiveness. With most European countries dramatically lowering their corporate tax rates in recent years, reform is urgently needed if the U.S. is to keep pace.

Countries Ranking Above the U.S. in ***Fiscal Freedom***

Qatar	99.9	Algeria	83.5	Seychelles	76.4
Bahrain	99.9	Mexico	83.5	Vietnam	76.1
Kuwait	99.9	Ghana	83.5	Benin	75.9
United Arab Emirates	99.9	Yemen	83.2	Taiwan	75.9
Saudi Arabia	99.6	Serbia	83.2	Fiji	75.7
Oman	98.5	Bosnia and Herzegovina	83.2	Equatorial Guinea	75.5
Micronesia	97.5	Jordan	83.0	Iceland	75.4
Paraguay	96.6	Tonga	82.8	Mauritania	75.1
Maldives	95.5	Latvia	82.7	Poland	74.9
Bahamas	95.2	Panama	82.6	Jamaica	74.8
Vanuatu	94.9	Costa Rica	82.4	Thailand	74.7
Hong Kong	93.0	Russia	82.3	Tunisia	74.4
Kyrgyz Republic	92.9	Burma	81.9	Colombia	74.3
Albania	92.6	Indonesia	81.9	Botswana	74.1
Mauritius	92.5	Mongolia	81.9	Congo, Democratic Republic of	74.0
Lebanon	91.6	Uruguay	81.7	Venezuela	74.0
Cambodia	91.0	Libya	81.7	Sri Lanka	73.5
Singapore	90.7	Haiti	81.5	India	73.4
Turkmenistan	90.2	Iran	81.1	Saint Lucia	73.2
Montenegro	90.0	Sierra Leone	80.9	Eritrea	73.0
Egypt	89.7	Trinidad and Tobago	80.8	Bangladesh	72.8
Macedonia	89.3	Uganda	80.5	Cyprus	72.7
Armenia	89.3	Pakistan	80.5	Saint Vincent and the Grenadines	72.5
Georgia	89.1	Burkina Faso	80.4	Zambia	72.4
Tajikistan	88.9	Tanzania	80.3	Burundi	72.2
Guinea–Bissau	88.6	Estonia	80.2	Gambia	71.9
Uzbekistan	88.4	Czech Republic	80.1	Cameroon	71.8
Kazakhstan	87.9	Laos	80.1	South Korea	71.1
Madagascar	87.3	Samoa	79.6	Ireland	71.1
São Tomé and Príncipe	87.1	Peru	79.5	Croatia	70.3
Syria	87.0	Azerbaijan	79.5	China	70.2
Nepal	86.6	Guatemala	79.3	Barbados	70.1
Bulgaria	86.3	Ecuador	79.3	Guinea	69.9
Romania	85.8	Malawi	78.9	Argentina	69.5
El Salvador	85.7	Philippines	78.8	South Africa	69.1
Dominican Republic	85.3	Nicaragua	78.4	Hungary	68.6
Belarus	85.2	Côte d'Ivoire	78.3	Morocco	68.5
Moldova	85.1	Djibouti	78.2	Brazil	68.4
Angola	85.1	Turkey	78.1	Belize	68.3
Honduras	84.7	Kenya	78.1	Namibia	68.3
Lithuania	84.6	Ukraine	77.9	Switzerland	68.2
Nigeria	84.4	Macau	77.8	Solomon Islands	67.9
Bolivia	84.3	Ethiopia	77.7	Liberia	67.8
Malaysia	84.3	Mozambique	77.6	Dominica	67.7
Bhutan	84.1	Chile	77.5	**United States**	**67.5**
Slovakia	84.0	Rwanda	77.1		
		Canada	76.7		

The Economic Freedom Agenda: *Fiscal Freedom*

At a minimum, the U.S. needs to reduce its marginal personal and corporate income tax rates to maintain its position as an attractive destination for investment. Setting these rates at the world average levels of 29 percent and 25 percent, respectively, would increase the U.S. fiscal freedom score by 9.8 points.

Bolder reform is required to move the U.S. into the top ranks of fiscally free countries. Such reform might include:

- **Establishment** of a flat tax system at a level of 15 percent for both personal and corporate income.
- **Reduction** of the overall tax burden on Americans to a level consistent with world average tax levels.

Impact on the U.S.'s Fiscal Freedom Score

Establishing a flat tax of 15 percent for personal and corporate income while reducing overall U.S. taxes to world average levels would:

- Increase the U.S. fiscal freedom score by **22.6 points.**
- Improve the U.S. fiscal freedom ranking from 138th place to **20th place**.

GOVERNMENT SPENDING

U.S. Score: **58** World Rank: **122nd**

There is no single standard for optimal government spending levels in countries around the world. Government spending as a share of GDP ranges from 7.2 percent in Burma to over 100 percent in Kiribati (thanks to foreign aid and mining investment income). Countries that would be regarded as stable and successful vary widely in government spending levels.

The best example for the United States may be its own spending levels in earlier decades. As recently as 2000, federal spending stood at 18.4 percent of the economy.

Explosive Spending Growth

The average level of U.S. government spending as a percentage of GDP from the end of World War II to the present is 19.6 percent. In the past two years, that level has exploded, reaching 24.7 percent in 2009 and estimated at 25.4 percent in 2010. The growth of the federal budget deficit has been even more explosive, adding about $1 trillion to the national debt in 2009 and again in 2010. Without urgent action, the U.S. is on course for national bankruptcy.

The composition of U.S. government spending has changed significantly over the years. Non-defense spending has risen from 9.5 percent of the economy in 1962 to 20.1 percent in 2009. Almost all of that surge has occurred in Social Security, Medicare, Medicaid, and antipoverty programs.

Faced with an undeniable need to address the unsustainable growth in these programs, Congress has reacted instead by putting them on autopilot. Without reform, entitlement spending will claim an additional 10 percent of U.S. GDP by 2050.

Countries Ranking Above the U.S. in ***Government Spending***

Burma	98.4	Equatorial Guinea	83.9	Egypt	73.4
Singapore	95.3	Sri Lanka	83.9	Mauritania	73.4
Macau	95.2	Bahamas	83.6	Vietnam	73.4
Turkmenistan	94.7	Mauritius	83.4	Uruguay	72.6
Central African Republic	94.1	Kenya	83.1	Uzbekistan	72.6
Bangladesh	93.9	Ethiopia	82.9	Trinidad and Tobago	72.3
Guatemala	93.9	Turkey	82.9	Saint Lucia	71.4
Hong Kong	93.7	Tanzania	82.6	Tonga	70.8
Guinea	93.1	Zambia	82.6	Namibia	69.5
Cambodia	92.9	Liberia	82.3	Congo, Republic of	69.3
Cameroon	92.7	Kazakhstan	82.1	Switzerland	68.9
Nepal	92.3	Morocco	81.5	Saudi Arabia	68.1
Peru	92.3	Malaysia	81.3	Bolivia	67.5
Paraguay	91.7	Mali	81.1	Samoa	67.5
Haiti	91.3	United Arab Emirates	80.9	Botswana	67.1
Philippines	91.2	Bahrain	80.8	Russia	66.5
Armenia	90.9	Fiji	80.6	Macedonia	65.9
Congo, Democratic Republic of	90.5	Sierra Leone	80.5	Cape Verde	65.3
Taiwan	90.5	Kyrgyz Republic	80.2	Georgia	65.3
Laos	90.3	Syria	80.2	Australia	64.9
Dominican Republic	90.2	Burkina Faso	80.0	Nigeria	64.7
Panama	90.0	Iran	79.6	Slovakia	64.5
Thailand	89.8	Nicaragua	78.5	Saint Vincent and the Grenadines	64.1
Chile	89.6	Tunisia	78.5	Lithuania	63.5
Chad	89.2	Tajikistan	78.0	Papua New Guinea	63.3
El Salvador	89.2	Senegal	77.8	Angola	62.8
Indonesia	89.1	Suriname	77.8	Lebanon	62.8
Madagascar	88.8	Ecuador	77.5	Libya	62.8
Pakistan	88.8	Azerbaijan	77.5	Estonia	62.2
China	88.1	South Africa	76.8	Ireland	61.8
Côte d'Ivoire	87.1	Kuwait	76.6	Jamaica	61.8
Costa Rica	87.0	India	76.1	Venezuela	61.8
Gabon	86.4	Mozambique	76.1	Japan	61.1
Togo	86.0	Argentina	75.6	Romania	59.8
Uganda	85.5	Rwanda	75.6	Djibouti	58.9
Benin	85.2	Gambia	75.3	Ghana	58.9
Mexico	85.2	Belize	74.9	Luxembourg	58.5
Comoros	85.1	South Korea	74.9	Bhutan	58.3
Niger	85.1	Colombia	74.8	**United States**	**58.0**
Vanuatu	84.3	Albania	74.2		
		Qatar	73.7		
		Honduras	73.5		
		Algeria	73.4		

The Economic Freedom Agenda: *Government Spending*

In our democratic political system, special-interest claims for subsidies and income transfers are almost irresistible without some sort of external discipline on the budget authorization process. To address this problem, Congress needs to:

- **Enact** a federal spending cap that limits overall federal spending to no more than 20 percent of U.S. GDP. If Congress refuses to act, the American people could impose such a cap through a constitutional amendment.
- **Take** entitlement spending off of autopilot and subject it to the discipline of the normal budgetary approval process. Entitlement spending must be forced to compete politically with other spending priorities, including spending for defense that has been projected to require no less than 4 percent of GDP.

An additional reform is necessary to improve the efficiency of government spending:

- **Devolve** most federal transportation, antipoverty, economic development, agriculture, education, and criminal justice spending to state and local governments. The ability of state and local governments to tailor programs to needs more efficiently and to experiment with new approaches could reduce the overall combined cost of government while increasing its efficiency and accountability.

Impact on the U.S.'s Government Spending Score

The federal spending cap at 20 percent of GDP plus the increased efficiencies from returning significant spending responsibilities to state and local governments should limit overall government spending to 33 percent of GDP. This would:

- Provide a gain of **9.3 points** in the U.S. government spending score.
- Improve the U.S. government spending ranking from 122nd place to **98th place**.

MONETARY FREEDOM U.S. Score: **78.1** World Rank: **29th**

One of the striking features of the world economy in recent decades has been the improved performance of central banks and monetary authorities in controlling inflation. Many countries seem to have settled on inflation targets in the 2 percent–4 percent range as reflecting the best trade-off between stability and growth.

Japan, the highest scoring country on monetary freedom in the *Index of Economic Freedom*, may in fact be a case of too much of a good thing. Its inflation rate of about 1 percent is among the lowest in the world, but recent bouts of deflation have left the economy stagnant.

Price Distortions in the Marketplace

The main difference in score between the United States and the countries ahead of it in the monetary freedom rankings comes in the other part of the scoring, deductions for price-distorting government interventions. In the U.S., according to the *Index*, "price controls apply to some regulated monopolies; certain states and localities control residential rents; and government influences prices through subsidies, particularly for the agricultural sector, dairy products, and some forms of transportation. Government interventions in housing, automotive, and financial markets have substantially increased price distortions." These policies resulted in a 10 point deduction from the U.S. monetary freedom score, compared to a 5 point deduction for most higher scoring countries, whose price distorting policies are less severe. The health care bill passed in 2010 will create major additional price distortions throughout the U.S. health care system and drive the U.S. score even lower.

Countries Ranking Above the U.S. in ***Monetary Freedom***

Japan	88.8
New Zealand	83.1
Hong Kong	83.1
Cyprus	82.9
Australia	82.7
Peru	81.6
Switzerland	81.3
Netherlands	81.0
Singapore	80.9
Equatorial Guinea	80.9
Saint Lucia	80.1
Dominica	80.0
Germany	79.9
Portugal	79.7
France	79.7
Sweden	79.5
Austria	79.3
Taiwan	79.3
Denmark	79.3
Macedonia	79.0
Ireland	79.0
Italy	79.0
Luxembourg	78.9
Finland	78.9
Albania	78.7
Morocco	78.4
Slovakia	78.2
Israel	78.2
United States	**78.1**

The Economic Freedom Agenda: *Monetary Freedom*

The Federal Reserve has been doing a good job of controlling U.S. inflation in recent years, but greater transparency in its operations would improve market stability and confidence. The Federal Reserve should therefore:

- **Explore** new and innovative ways to communicate to policymakers and the public what it is doing and why, ensuring that its principal decision-making criteria and overall targets are transparent and predictable.

Government interference in economic markets has increased significantly over the past two years. Congress therefore needs to:

- **End** price supports, production quotas, and regulatory interventions in housing, automotive, and financial markets that distort prices among competing producers.

Impact on the U.S.'s Monetary Freedom Score

The end of federal interventions that distort market prices would:

- Result in an increase of **5 points** in the U.S. monetary freedom score.
- Improve the U.S. monetary freedom ranking from 29th place to **2nd place**.

INVESTMENT FREEDOM

U.S. Score: **75** World Rank: **22nd**

Tied with 10 other countries for 22nd place in the investment freedom rankings, the United States falls a distant 20 points behind top performers Ireland and Luxembourg and trails many other developed countries. In the increasingly competitive market for international investment, almost all countries are moving to improve transparency and streamline government approval processes. Many, though not the United States, have removed sectoral restrictions.

Sectoral Restrictions, Reducing Competition

Though the United States attracts more foreign direct investment than any other country in dollar terms, the amount of inward investment as a percentage of GDP falls far short of levels in many other countries. In fact, the U.S. ranked only 152nd in the world by this measure, an indication that regulatory hurdles and restrictions are limiting inward investment flows far below potential levels.

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 sectoral restrictions on foreign investments required by law. Foreign investments may be limited or barred in shipping, air transport, communications, fishing, energy, banking, and defense. Individual states may impose additional restrictions. Land ownership is also subject to some restrictions.

*Countries Ranking Above the U.S. in **Investment Freedom***

Ireland	95.0
Luxembourg	95.0
Denmark	90.0
Estonia	90.0
Hong Kong	90.0
Netherlands	90.0
United Kingdom	90.0
Germany	85.0
Israel	85.0
Jamaica	85.0
Mauritius	85.0
Sweden	85.0
Australia	80.0
Belgium	80.0
Botswana	80.0
Chile	80.0
Latvia	80.0
Macau	80.0
New Zealand	80.0
Spain	80.0
Switzerland	80.0
United States	**75.0**

The Economic Freedom Agenda: *Investment Freedom*

While restrictions on foreign investments that raise legitimate national security concerns are appropriate, many of the sectoral restrictions in areas like communications, banking, energy, and even air transport and shipping 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. commercial interests a competitive 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.

To improve U.S. competitiveness in attracting foreign direct investment, the U.S. government needs to:

- **Remove** all restrictions on foreign investment in banking, communications, and transportation and all restrictions on foreign ownership of land.
- **Review** restrictions in other sectors to ensure that they serve a real purpose in promoting national security and remove those that do not.

Impact on the U.S.'s Investment Freedom Score

Eliminating all anti-competitive non-defense-related restrictions on inward foreign direct investment and land ownership would:

- Raise the U.S. investment freedom score by **15 points**.
- Move the U.S. from 22nd place to **3rd place** in the investment freedom rankings.

FINANCIAL FREEDOM U.S. Score: **70** World Rank: **18th**

Seventeen countries outpace the United States in financial freedom. Top performers like Australia, Denmark, and Hong Kong share an aversion to state ownership of banking institutions, highly competitive credit markets with no discrimination among borrowers, and openness to foreign ownership and trade in banking services.

The U.S. financial freedom score declined 10 points in 2010 as a result of drastic changes in the sector since the beginning of the subprime mortgage crisis in 2007. A number of prominent financial institutions have failed; government bailouts have kept some afloat. The government has intruded on financial firms' management in unprecedented ways (for example, by setting caps on executive compensation) and has taken significant ownership stakes in some firms.

Moral Hazard

Since 2008, the Troubled Asset Relief Program (TARP) and similar programs have bailed out a wide variety of financial firms ranging from insurance giant AIG to most of the major U.S. banks. While the initial rationale for these bailouts was that some firms were so big that their failure would entail risk for the entire financial system, the programs have spread to small banks that cannot pose any systemic risk at all, to automotive companies and their financing arms, and even to homeowner mortgagee bailouts and the complete government takeover of mortgage giants Freddie Mac and Fannie Mae.

On the one hand, the negative effects of such bailouts almost inevitably include government attempts to micromanage the industry on the theory that since the firms have accepted U.S. taxpayers' dollars, they must respond to political control from the government. Such "guidance" has included demands that financial institutions make loans to certain preferred groups, agree to limit the pay and bonuses of their executives, and accept onerous regulatory control of a wide variety of their products and activities.

A more serious negative effect, however, lies in the creation of an expectation among the firms, their investors, and the general public that because the firms in trouble were bailed out by the government this time, they are likely to be bailed out in case of any future trouble. This creates a "moral hazard" that leads economic actors to undervalue the risks of given activities, thereby increasing the likelihood of overinvestment or "bubbles" in the future. To prevent such moral hazard, companies in trouble must be allowed to fail, and laws and regulations must create no expectation of future bailouts.

Countries Ranking Above the U.S. in ***Financial Freedom***

Australia	90.0
Denmark	90.0
Hong Kong	90.0
Bahrain	80.0
Canada	80.0
Czech Republic	80.0
Estonia	80.0
Finland	80.0
Ireland	80.0
Lithuania	80.0
Luxembourg	80.0
Netherlands	80.0
New Zealand	80.0
Spain	80.0
Sweden	80.0
Switzerland	80.0
United Kingdom	80.0
United States	**70.0**

The Economic Freedom Agenda: *Financial Freedom*

Since the U.S. financial freedom score declined in 2010, a good first step in restoring America's financial freedom would be to unwind the specific government interventions that have taken place since 2008. The U.S. government needs to:

- **Abolish** and unwind the TARP program.

A more ambitious agenda that would move the U.S. to the top ranks of financially free countries would include, in addition to the above:

- **Abolition** of Freddie Mac and Fannie Mae and repeal of all U.S. government regulatory measures that interfere with mortgage markets.
- **Repeal** of the Sarbanes–Oxley Act, which discriminates against small firms and reduces competition.

Impact on the U.S.'s Financial Freedom Score

Unwinding the TARP programs and divesting assets acquired by the U.S. government would add 10 points to the U.S. financial freedom score. Abolition of Freddie Mac and Fannie Mae and repeal of the Sarbanes–Oxley Act would add an additional 10 points.

- The total gain in the U.S. financial freedom score would be **20 points.**
- The U.S. financial freedom ranking would improve from 18th place to **1st place**.

PROPERTY RIGHTS U.S. Score: **85** World Rank: **17th**

Sixteen countries have more secure property rights than the United States. Top performers such as New Zealand and Sweden have independent judiciaries that secure private ownership of property and enforcement of contracts. The government operates as an impartial arbiter of disputes and is rarely, if ever, a direct party to a property or contractual conflict.

Creeping Government Entanglement in the Economy

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 governmentalization of economic decisions that finds government ever more involved in what had previously 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 its private use. The Supreme Court ultimately upheld the taking, but four justices dissented, with Justice Sandra Day O'Connor writing that when eminent domain is used for such purposes, "The beneficiaries are likely to be those citizens with disproportionate influence and power in the political process, including large corporations and development firms."

Another recent example of creeping governmental interference in what formerly would have been considered private economic concerns was the federal government's intervention in the 2009 bankruptcy of General Motors and Chrysler to advance the interests of labor unions ahead of other stakeholders. The government's intrusion into ownership and management of major financial firms has also raised concerns about expropriation and violation of the contractual rights of shareholders and bondholders.

Countries Ranking Above the U.S. in ***Property Rights***

New Zealand	95.0
Sweden	95.0
Australia	90.0
Austria	90.0
Canada	90.0
Denmark	90.0
Finland	90.0
Germany	90.0
Hong Kong	90.0
Iceland	90.0
Ireland	90.0
Luxembourg	90.0
Netherlands	90.0
Norway	90.0
Singapore	90.0
Switzerland	90.0
United States	**85.0**

The Economic Freedom Agenda: *Property Rights*

To reverse the increasing governmental undermining of property rights, the federal government needs to:

- **Divest** itself of all assets acquired in connection with the financial crisis and recession.
- **Refrain** from interfering in bankruptcy cases.
- **Overturn** the *Kelo* decision and establish a principle of strict public use for property to be taken by government under eminent domain.

Impact on the U.S.'s Property Rights Score

Divestiture of recently acquired assets and restoration of judicial independence in connection with bankruptcy proceedings would add 5 points to the U.S. property rights score. Overturning the *Kelo* decision would add an additional 5 points to the score. Together, these two changes would:

- Boost the U.S. property rights score by a total of **10 points**.
- Increase the U.S. property rights ranking from 17th place to a **tie for 1st place**.

FREEDOM FROM CORRUPTION U.S. Score: 73 World Rank: 18th

The freedom from corruption score in the *Index of Economic Freedom* is based on the Corruption Perceptions Index (CPI) produced by Transparency International. It provides, rather than an absolute measure of the extent of corruption, an indirect measure based on citizens' perceptions of the level of corruption in society.

One of the CPI's largest components is a series of measurements of the level of trust that people have in their government. Apparently, that level of trust is falling. By 2008, the CPI for the United States was one of the lowest among the world's leading industrial economies. Transparency International's 2008 report noted that the persistence of "corruption allegations at the federal, state and municipal level has…fueled public concern." Unfortunately, that pattern of perceived corruption continued and intensified in the 2009 report in connection with the government's handling of the financial crisis. The U.S. Congress was identified as "the institution most affected by corruption."

Transparent Regulator or Game-Rigger in Chief?

To be successful in its role as honest regulator of various industries, the government must be seen as neutral and disinterested. In 2009, however, the U.S. government became part owner or effective operator of several "too-big-to-fail" companies. The impartiality of subsequent regulatory efforts—for example, the actions by the National Highway Traffic Safety Administration in connection with the recall of some cars produced by Toyota (now a competitor of government-supported General Motors and Chrysler)—was seen by some as compromised.

An extensive debate about Congress's use of earmarks that took place in connection with the 2008 election and the 2009 stimulus bill has further heightened public concern about the level of congressional corruption. As U.S. government 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.

Countries Ranking Above the U.S. in ***Freedom from Corruption***

Denmark	93.0
New Zealand	93.0
Sweden	93.0
Singapore	92.0
Finland	90.0
Switzerland	90.0
Iceland	89.0
Netherlands	89.0
Australia	87.0
Canada	87.0
Luxembourg	83.0
Austria	81.0
Hong Kong	81.0
Germany	79.0
Norway	79.0
Ireland	77.0
United Kingdom	77.0
United States	**73.0**

The Economic Freedom Agenda: *Freedom from Corruption*

The government needs to extract itself as soon as possible from involvement in commercial decision-making and the allocation of financial resources to individual firms. In this regard, the government needs to:

- **Divest** itself of all assets acquired in connection with the financial crisis and recession.
- **Refrain** from interfering in bankruptcy cases.

These, of course, were also recommendations in the property rights agenda, but they would undoubtedly have a positive impact on the corruption perceptions score as well. Many of the economic freedoms examined in the *Index* are complementary and reinforcing.

Full restoration of the public's faith in the even-handedness of our government institutions will require more far-reaching reform. Congress should:

- **Eliminate** all congressional pork-barrel earmarks from legislation.

Impact on the U.S.'s Freedom from Corruption Score

The elimination of congressional pork-barrel earmarks would be estimated to have a very positive impact on the public's perception of Congress and lead to:

- An improvement of **15 points** in the U.S. freedom from corruption score.
- A jump from 18th to **9th place** in the U.S. freedom from corruption ranking.

LABOR FREEDOM

U.S. Score: **94.8** World Rank: **3rd**

America has the third freest labor market in the developed world, trailing only Singapore and Australia. American law places relatively few restrictions on the ability of employers to hire or lay off workers as needed.

Countries Ranking Above the U.S. in ***Labor Freedom***

Singapore	98.9
Australia	94.9
United States	**94.8**

Working Freely

Labor freedom means that the government does not interfere with the choices of employers and employees and allows both parties to freely negotiate the terms under which they work together. Labor freedom matters because labor is a valuable economic resource. As technology and demand shift, labor freedom allows workers to go where they do the most economic good and can earn the most money.

Restrictions on labor freedom discourage job creation. Entrepreneurs hesitate to hire when the government makes hiring a permanent commitment. Laws against layoffs are one of the main reasons that unemployment is usually higher in Europe than in America. The freedom to fire is also the freedom to hire. While layoffs are painful, restricting labor freedom does more harm than good.

Restricting Free Association

The main restraints on labor freedom in America arise in connection with the operations of labor unions. Under the National Labor Relations Act, state laws may make unions the exclusive bargaining representative of a firm's current and prospective workers.

Unions often insist on terms that benefit them institutionally at the expense of individual workers' interests. For example, unions may let a company add new workers only if they get exactly union wages. Nonunion members cannot offer to decline union perks to land the job, and companies cannot offer above-union wages to lure particularly talented individuals.

Unions also make firing poor performers difficult. This discourages employers from hiring in the first place. Many unemployed workers would trade reduced job security for a chance to prove themselves on the job. Unions do not let them make that choice. Mandatory collective bargaining restricts the movement of workers into and out of unionized firms.

Regrettably, the limited availability of worldwide data on unionization makes it impossible to incorporate a measure of unionization in the *Index of Economic Freedom*. The one measurable indicator on which the U.S. falls short of complete labor freedom is the setting of a minimum wage. Minimum wage laws prevent marginally productive workers from selling their labor to potentially willing employers, raising unemployment levels among the least skilled in the workforce.

The Economic Freedom Agenda: *Labor Freedom*

While the American labor market is largely free, unions restrict the movement of workers into and out of organized companies and control wage levels, sometimes to the detriment of more productive workers. America could bring labor freedom to these companies by adopting provisions such as those contained in the Employment Contracts Act to provide freedom of choice regarding bargaining representation and the Rewarding Achievement and Incentivizing Successful Employees (RAISE) act to allow above-union wages for the best employees. Congress needs to:

- **Modify** the National Labor Relations Act to give individual workers the freedom to choose whether or not they want a bargaining representative. If they do, they should have the freedom to choose who they want to represent them. This would allow unionized companies and employees to negotiate individually tailored contracts.

In addition, Congress needs to:

- **Eliminate** the federal minimum wage.

Impact on the U.S.'s Labor Freedom Score

Elimination of the federal minimum wage would leave some state minimum wage laws in effect, but a realistic estimate of its impact on the labor freedom score is:

- A gain of **5 points** in the U.S. labor freedom score.
- An improvement in the U.S. labor freedom ranking from 3rd place to **1st place**.

The Economic Freedom Agenda

The 24 reforms highlighted in this booklet form a comprehensive Economic Freedom Agenda for the United States. If implemented fully, they would raise the U.S. score on the *Index of Economic Freedom* from its current 78.0 to 89.8. The U.S. would rejoin the ranks of the economically "free." Even better, for the first time ever, the U.S. would rank number one among all the economies of the world! This is a worthy goal for the land of the free and fully attainable for a committed and determined citizenry.

The 24 reforms needed to accomplish this goal, to summarize, are as follows:

1. Reject stifling regulation of health care, the environment, financial institutions, and the Internet.
2. Create a nonpartisan Congressional Regulation Office to review new regulations.
3. Sunset all existing and new regulations to require periodic review and reauthorization.
4. Phase out all remaining U.S. tariffs and import quotas.
5. Reform U.S. trade remedies to bring them into compliance with international trade rules.
6. End trade-distorting U.S. agricultural and energy subsidies, including subsidies for ethanol.
7. Implement free trade agreements with South Korea, Colombia, and Panama and energize work to complete the multilateral Doha Round of trade negotiations.
8. Establish a flat tax system at a level of 15 percent for both personal and corporate income.
9. Reduce the overall tax burden on Americans to a level that is consistent with world average tax levels.
10. Cap federal spending at no more than 20 percent of U.S. gross domestic product.
11. Take entitlement spending off of autopilot and subject it to the discipline of the normal budgetary approval process.
12. Devolve most transportation, antipoverty, economic development, agriculture, education, and criminal justice spending to state and local governments.
13. End price supports, production quotas, and regulations that distort prices.
14. Remove all restrictions on foreign investment in banking, communications, and transportation and all restrictions on foreign ownership of land.
15. Review and remove all investment restrictions that do not promote national security.
16. Abolish and unwind the TARP program.
17. Abolish Freddie Mac and Fannie Mae and repeal all U.S. government regulatory measures that interfere with mortgage markets.
18. Repeal the Sarbanes–Oxley Act, which discriminates against small firms and reduces competition.
19. Divest all assets acquired by the U.S. government in connection with the financial crisis and recession.
20. Restore government impartiality in bankruptcy cases.
21. Overturn the *Kelo* decision and establish a principle of strict public use for property to be taken by government under eminent domain.
22. Eliminate all congressional pork-barrel earmarks from legislation.
23. Modify the National Labor Relations Act to give individual workers the freedom to choose whether or not they want a bargaining representative.
24. Eliminate the federal minimum wage.

Now is the time to act!

Leadership *for* America **Ten Transformational Initiatives**

This product is part of the American Leadership Initiative, one of 10 Transformational Initiatives making up The Heritage Foundation's Leadership for America campaign. For more products and information related to this Initiative or to learn more about the Leadership for America campaign, please visit *heritage.org*.

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