

Fifteen Years of Advancing Freedom

My name is Phil Truluck, and I am the Chief Operating Officer of The Heritage Foundation, a think tank in Washington, DC.

We are located right on Capitol Hill, just a couple of blocks from the U.S. Capitol and the Supreme Court, and just about two miles from the White House.

For the past 32 years I have devoted my career to building what has become one of the leading think tanks in the U.S. It is my first love.

My second love for many years has been CIPE. It has brought about major changes in how we think about economic development throughout the world. I am proud to be associated with CIPE and with John Sullivan and his merry band of intellectual warriors.

The Heritage Foundation was founded in 1973 to promote free market public policy solutions to national problems.

We are committed to building an America where freedom, opportunity, prosperity, and civil society flourish.

We are supported by over 500,000 private donors, 250 staff, and a \$70 million budget.

And, we take no money from the government.

Members of our Board of Trustees and of our staff have worked for Congress—two are former Members of Congress.

Many have worked for a presidential administration—two are former cabinet secretaries.

Several have served as Ambassadors including Terry Miller, director of our Center for International Trade and Economics, the center that produces the *Index of Economic Freedom*.

Because of this expertise, we know how government actually works, and we know how government really should work.

And all of us are dedicated to encouraging free enterprise, sound economic policies, and a strong, engaged foreign and defense posture.

We believe in increasing individual and economic freedom and decreasing government control of our lives.

Before the Wall came down, we at Heritage were thinking about a way to measure economic freedom.

We wanted to show policy makers in Washington where and how to spend foreign assistance dollars, and we wanted to show investors which countries possessed the necessary elements for economic growth.

Our hope is that by identifying and quantifying what countries actually do, we can give governments and their citizens a way to choose policies that will promote increased well-being for citizens.

So to do this we created the *Index of Economic Freedom*.

We published the first edition in 1995, and have been publishing it in conjunction with the *Wall Street Journal* since 1997.

The *Index* is an attempt to measure those factors that contribute to individual freedom, equal opportunity, and prosperity.

To formulate our analysis, we look at things like Business Freedom: how many days it takes to start a business;

we look at Fiscal Freedom: tax rates on businesses and on individuals;

we look at Government Size: how much does a government spend in relationship to its GDP;

we look at the protections for private property; and so on.

We assign each country a score on a scale of 1 to 100.

In 2009, Hong Kong scored the highest with 90, and North Korea scored the lowest with 2.

Our first edition of the *Index* examined economic freedom in 101 countries, including many that had just shaken off the yoke of Soviet oppression.

This year, we looked at 183 countries.

We have learned many things from publishing the *Index*, but the most important is this: economic freedom and political freedom go hand in hand.

And nowhere is that more clear than in the countries that were trapped in the Soviet sphere of influence.

Of all the former Soviet republics, only Russia itself has lost ground relative to the others, and only Russia has suffered an absolute loss in economic freedom since 1995.

Similarly, the countries of the Warsaw Pact are in better shape than Russia.

None of them are in the bottom “mostly unfree” or “repressed” categories in the *Index*. Russia, however, is.

All the Warsaw Pact countries are economically freer than Russia.

Our *Index* shows that the link between economic freedom and economic growth and development is indeed strong.

Countries that allow their citizens more economic freedom enjoy higher incomes and better standards of life.

People in economically free societies live longer.

They have better health.

They are able to be better stewards of the environment, and they push forward the frontiers of human achievement in science, technology, and culture.

By a great many measures, the 15 years during which the *Index* has been charting the advance of economic freedom have been the most prosperous in the history of the world.

More people have lived better lives than ever before. Some, unfortunately, have not.

That not all of the world's people have participated in our era's explosion of prosperity is a human tragedy—an appalling, *avoidable* human tragedy.

What do we know from 15 years of measuring economic freedom?

We know the economic policies and systems that promote economic growth and well-being.

- We know that those countries that practice some version of free-market capitalism, with economies open to trade and investment, do better than those that are protectionist or that shun economic linkages with others.
- We know that competition promotes greater productivity and a better allocation of resources than central planning.
- We know that private ownership and the protection of individuals and enterprises by the rule of law encourages effort and initiative more than collectivism and socialism.
- We know that governments that dominate their countries' economies impoverish their populations.
- And we know that excessive taxation stifles business activity and entrepreneurship.

The great economic debates of the past two centuries have centered on a profound moral question: the nature of fairness.

The great political revolution of the 18th century that led to the founding of the United States of America was based on a belief in the primacy and freedom of the individual.

The power of the collective, which finds its most forceful expression in actions by governments, was sharply and deliberately restricted by the U.S. Constitution.

Fairness was defined by the U.S. Founding Fathers as equality of opportunity.

The most fundamental right was the pursuit of happiness, not its achievement.

Over two centuries later, the economy built in the United States on equality of opportunity has grown and prospered to a degree unimagined in human history, providing even its poorest citizens with standards of living that exceed those of the world's wealthiest only a few generations before.

By contrast, the Russian Revolution took as its guiding principles the Communist ideology of Karl Marx that extolled collective ownership and the abolition of class or economic distinction and declared that everyone was entitled not to the same opportunity to pursue happiness, but rather to the same degree of happiness, an outcome to be achieved at first through powerful government control and eventually through an enlightened population.

It was a powerful and seductive idea that failed ultimately because of the tendency of the powerful state to grow continuously rather than wither away.

Unfortunately, to the extent that those who have followed this path have created equal societies, it has been an equality of misery rather than prosperity.

Over the past 15 years, the *Index* has witnessed profound advances in economic freedom and prosperity around the globe.

Worldwide economic freedom has increased over 8 percent.

The world economy has grown in that time from about \$30 trillion to well over \$50 trillion, bringing better standards of life to billions of people.

Meaningful gains in a short time and even more impressive in light of the fact that the fall of the Soviet Union and the rejection of Communism by its European satellites was five years in the past when the *Index* was first produced.

The period since 1995 has been one of relative political stability worldwide, and the significant growth in economic freedom has been steady and purposeful rather than revolutionary or convulsive.

Economic freedom has increased in 115 countries and declined in 40.

The country that has gained the most economic freedom over the life of the *Index* is Azerbaijan: Its score has increased an impressive 28 points.

Other big gainers are Armenia, Georgia, Bosnia and Herzegovina, Moldova, Lithuania, and Romania, all up more than 20 points in the *Index*.

Per capita GDP has been growing in these countries over the past decade at an average annual rate of 7.4 percent.

For the citizens of these countries, the gains in economic freedom have translated into real improvements in their lives.

In Azerbaijan, an additional 750,000 people have gained access to clean water, over 2 million have escaped hunger and undernourishment, and 200,000 have learned to read and write.

At the other end of the scale, Zimbabwe, Venezuela, Argentina, and the Central African Republic all lost at least 10 points on the economic freedom scale.

Zimbabwe's drop was over 25 points.

The human costs of the loss of economic freedom can be terrible.

Almost 2 million Venezuelans have lost their access to adequate nourishment.

In the Central African Republic, 15,000 more mothers die in childbirth each year. In Zimbabwe, average life expectancy has dropped by 13 years.

Another way to compare countries over time is to look at changes in countries' rankings relative to each other.

This way, we can see for a particular region, which countries are moving ahead of or falling behind their neighbors.

The most dramatic picture that emerges from this perspective is the amazing progress in economic freedom among the countries that were freed by the breakup of the Soviet Union.

Seven of the 20 countries that most improved their relative position in the rankings are nations that were formerly republics of the Soviet Union.

Armenia, Georgia, Lithuania, Kazakhstan, Azerbaijan, Latvia, and Moldova all moved up at least 30 percentage points—they each leaped over at least 30 percent of the world's countries in economic freedom. Armenia, Georgia, and Lithuania advanced over more than half of the world's countries.

Per capita GDP growth in these former Soviet republics has averaged 8 percent for the last 10 years.

In our first *Index* we analyzed 5 of the 15 former Soviet Republics; one of them ranked higher than Russia (Estonia), and 3 ranked lower than Russia (Belarus, Ukraine, and Moldova).

In 2009, we found 10 of them ranked higher than Russia.

The 15 years of data measured in the *Index of Economic Freedom* should encourage economic reformers everywhere.

It is clear that steps to improve economic performance are available to countries at all stages of development.

It starts with the basics: freedom from corruption and respect for property rights.

The poorest countries score far below the world average in these 2 categories.

The richest countries need to pay particular attention to government size and tax rates; the temptations of utopian socialism kill economic growth.

All countries need to ensure a regulatory environment in which businesses and workers have the right to compete freely on a level playing field.

They need to maintain realistic and stable currency levels and low inflation to preserve the value of assets and income.

They need to keep their economies open to flows of trade and investment to ensure productivity growth and innovation.

Economic freedom is not a plan or an ideology.

Indeed, it is the opposite of centralized planning and government control.

Economic freedom is a threat only to elite privilege and special interests.

It is the revolutionary economic counterpart to democratic political pluralism.

It empowers the poor and builds the middle class.

It is a philosophy that encourages entrepreneurship and disperses economic power and decision-making throughout an economy.

It is not the only way to organize an economy, nor a perfect way, but it is a good way and far better on average than other systems that have been tried.

For 15 years, the *Index of Economic Freedom* has held up a mirror to countries undergoing profound economic and social change.

The data in the *Index* can help countries guide their economic evolution along proven paths of prosperity.

Much has been accomplished. Much remains to be done.

The challenge of economic freedom is the challenge of economic growth and prosperity.

Those countries that have been brave enough to accept the challenge have reaped great rewards and, in doing so, have set a powerful example for others to follow. I am delighted to be here tonight, and I wish you success in your journey and your destination.