EXECUTIVE SUMMARY

FRASER INSTITUTE

What America's Decline

in Economic Freedom Means for Entrepreneurship and Prosperity

edited by Donald J. Boudreaux

There is ongoing interest both inside and outside the United States regarding the nation's tepid and abnormally slow recovery from the pronounced contractions in 2008. A number of scholars have explained components of the slow recovery but almost no analysis exists that provides a larger understanding for the country's dismal economic performance. The collected essays in *What America's Decline in Economic Freedom Means for Entrepreneurship and Prosperity* provide just such a framework, which allows readers to both understand the nature of the problem facing the United States and equally as important the path to recovery and prosperity.

The first essay, by Liya Palagashvili, sets the stage for prosperity by explaining the fundamental, central role played by entrepreneurs in a prosperous economy. Admittedly, this is not that controversial. Most people and even economists recognize the pivotal, even essential role played by entrepreneurs, innovators, and business people more generally in directing investment, creativity, and human effort. Simply put, modern economies require entrepreneurs for prosperity.

Russell Sobel's essay provides a critical link that is too often ignored or misunderstood, which is the relationship between economic freedom and entrepreneurship. Entrepreneurship does not exist or occur in a vacuum and Sobel's work demonstrates the importance of economic institutions such as the rule of law, taxes, and regulations in promoting (or potentially discouraging) entrepreneurship. Sobel finds that, not only does economic freedom increase the quantity of entrepreneurial activity, it also dramatically increases the quality—that is, the productivity—of entrepreneurial activity.

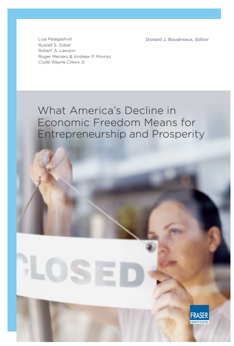
The combination of the essays by Palagashvili and Sobel form the basis for the question answered by Robert Lawson regarding the state of economic freedom in the United States. The index published in *Economic Freedom of the World* is an empirical measurement of economic institutions across 152 countries. Generally speaking, economic freedom has improved since 1970, the first year for which comprehensive data is available. Professor Lawson notes, however, that there has been a slight decline since 2000 in the average level of economic freedom amongst the members of the Organisation for Economic Co-operation and Development (OECD), which encompasses the 34 most industrialized countries in the world.

More importantly for the purposes of this paper, Lawson focuses on the performance of the United States. Readers might be surprised to learn that the United States is today (2012) only the ninth economically freest nation among the OECD countries. New Zealand is the freest, with Canada second. Equally as troubling is the decline in the United States' performance over time. The US has fallen from third place overall in 1980 to twelfth place in the latest rankings. Simply put, the findings from Lawson's analysis of the United States' declining performance in economic freedom combined with the findings from Palagashvili and Sobel's essays more than plausibly explains the nation's sluggish recovery.

The final two essays in the series explore in more detail two of the main reasons for the decline in the economic freedom in the United States: (1) rule of law, and (2) regulations. Roger Meiners and Andrew Morriss first examine the rule of law in the United States including its meaning, importance, and recent changes. The authors pay due attention to the relationship between the rule of law, entrepreneurship, and business startups. Meiners and Morriss demonstrate how the rule of law has been eroded in the United States—an erosion that accelerated over the last decade or so—through a series of legal and other interventions by government. While painting no rosy picture of the current health of the rule of law in the United States, these scholars explain how the rule of law might be better protected and therefore improved through more jurisdictional competition.

The final chapter, by Wayne Crews, probes the legal, political, and economic details of government regulation in the United States. Data are presented showing the massive growth of bureaucratic intervention. Consistent with Meiners's and Morriss's argument, Crews demonstrates that today's long and sweeping regulatory reach is evidence of a breakdown of America's constitutional order—a weakening of the rule of law. Crews also documents the enormous economic burden of regulation. He estimates that regulation costs the average US household US$14,976 annually, or nearly one quarter of its before-tax income.

In summary, the information and arguments presented here demonstrate unmistakably that the growth of government stymies entrepreneurship and threatens prosperity—a demonstration that, it is hoped, will help inspire efforts not just to slow, but to reverse, this growth and return to prosperity.



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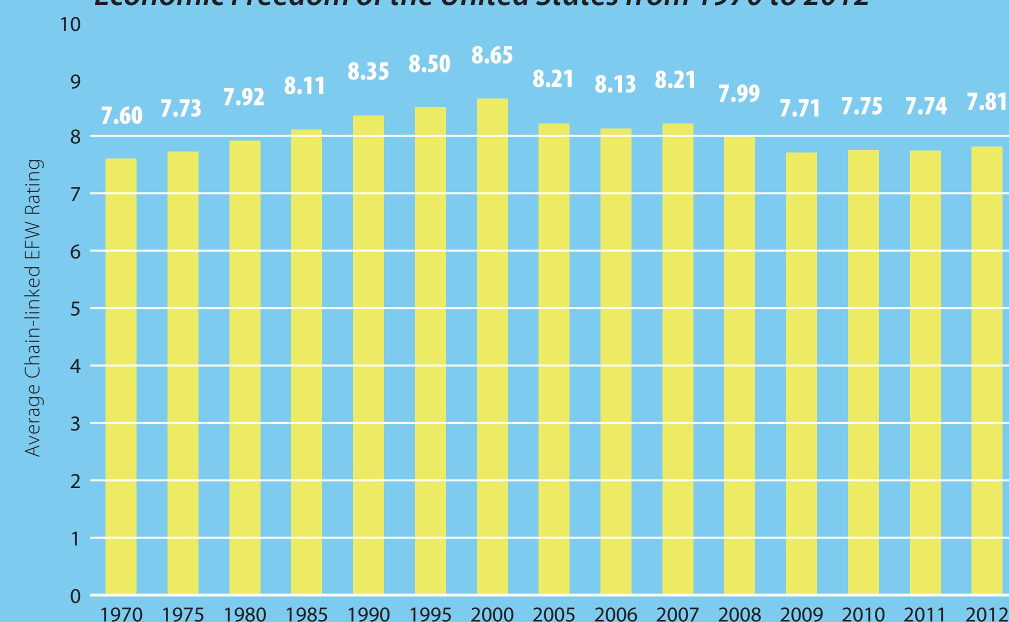
Economic Freedom of the United States from 1970 to 2012



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