

Economic Freedom

The overall U.S. score in the *Index of Economic Freedom* fell by 6.1 points from 2007 to 2017.

SOURCE: The Heritage Foundation and Wall Street Journal, *2017 Index of Economic Freedom*.

U.S. OVERALL SCORE FROM THE HERITAGE FOUNDATION'S INDEX OF ECONOMIC FREEDOM



Freedom From or Freedom For?

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The United States continues to decline in economic freedom as defined by The Heritage Foundation's annual *Index of Economic Freedom*,¹ even as the world as a whole improves ever so slightly. How can it be that the "leader of the free world" is no longer leading in freedom? Perhaps because policymakers have lost sight of how to encourage and incentivize the kind of economic activity that best contributes to both prosperity and human freedom.

The decline of small and medium-sized corporations (SMEs) tells the tale. SMEs are the engines of any economy. They account for 99.7 percent of our total number of companies.² Since 1990, big business has eliminated 4 million jobs, but small businesses have added 8 million.³ More than 50 percent of the working population (120 million individuals) works in small businesses.⁴ SMEs are responsible for 46

percent of our GDP⁵ and produce 16 times as many patents per employee as large patenting firms produce.⁶

Unfortunately, when government imposes hundreds of new regulations each year, SMEs disproportionately take the "hit." Whereas large corporations can readily absorb the costs of new regulation (and indeed often welcome unnecessary regulations as barriers to competition), SMEs cannot. Thus, the prudence and justice of regulatory action must be measured against the obstacles to entry that it creates for young people or innovators just starting in the field.

Our policy of subsidizing the "too big to fail" economic giants has had a depressive effect on the SMEs that are the engines of prosperity. In the immediate aftermath of the 2008 economic crash, the SMEs' death rate outnumbered

their birth rate for the first time in our history.⁷ Nearly a decade later, their recovery is only marginal.⁸

To take a simpler example, the mere act of paying one's taxes has become so complicated that "Mom-and-Pop" companies that used to do their own taxes now routinely hire CPAs rather than risk the costly fines that result from running afoul of multiple minor regulations. That is the sort of policy that eats away at margins, forces many enterprises to fold, and prevents countless others from entering the market in the first place.

If freedom consisted in being protected by regulation from anything that might go wrong, we might be on the right path, but if we measure our freedom by how easily the young, the poor, and the innovative can participate in and enter the economy, then the path we are on appears to be a dead end.

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