# Foreword

There's no avoiding the truth: The year 2009 will go down as the worst for global economic freedom since the inflation and wage and price controls of the 1970s, and maybe since the industrial policy and monetary chaos of the 1930s. Many governments and their political agents have used the financial panic and recession as an opportunity to reassert control across the private economy. As I write this in November 2009, the damage is still unfolding, though there are some signs that a backlash on behalf of liberty may be building.

The political assault began with the Panic of '08 that frightened voters and created a clamor for governments to do something. Many have responded around the world with a reflation binge, both monetary and fiscal, among other interventions. The monetary stimulus in particular has helped to stem the financial panic and encouraged an incipient recovery. But the very magnitude of the stimulus, and its eventual cost in higher taxes or perhaps inflation, raises doubts about whether the current recovery can become a durable expansion.

The most striking fact of this year is how many governments are repeating policy mistakes from previous eras. The spending spree is rooted in the so-called Keynesian multiplier, which asserts that one dollar of government outlays stimulates 1.5 times that amount in greater output. Harvard's Robert Barro, among others, demolished this claim a generation ago, but here we go again. Britain's Labour government has little growth to show for its historic reflation campaign, and with a jobless rate of 10.2 percent amid a tepid U.S. recovery, so far Mr. Barro seems more right than the Keynesians.

Meanwhile, the Federal Reserve's extraordinary and continuing monetary stimulus is causing commodity prices to climb and is giving heartburn to world finance ministers who see their currencies rising sharply against the dollar. A whiff of "beggar thy neighbor" competitive devaluation is in the air, the kind of policy the U.S. last tried in the 1970s to destructive effect. The danger is that the entire U.S. establishment, from the Treasury Secretary to

Wall Street, appears to want a weaker dollar in the name of boosting exports. But if a nation could devalue its way to prosperity, Argentina would be paradise. The Fed will eventually have to defend the dollar.

The U.S. is also tempting slower growth with its policies across the microeconomy: a de facto government takeover of health care, a gigantic new tax on carbon energy, the political allocation of capital in energy and autos and so much else, new rules to expand union membership, nationalization of the mortgage market, a hostility to freer trade, and much higher taxes to pay for it all. All of these either had already occurred or were possible at year end, and all impose burdens on private risk-taking and investment that will reduce U.S. prosperity over time.

Amid all of this, it is surprising that the U.S. has fallen only two places in this year's *Index of Economic Freedom*. This reflects the fact that other nations have made similar policy mistakes and perhaps is testimony to the residual strength of U.S. law and institutions. But another lesson of Argentina is that a nation's prosperity must be continually earned and that the rest of the world may not join America if it insists on weakening itself. As columnist Charles Krauthammer has put it, "Decline is a choice."

In this sense, the very global free-market revolution that America did so much to promote over the past 30 years may be a barrier against a repeat of the 1930s or 1970s. The Chinese can't afford stagnation, and they have seen the fruits of greater economic freedom. India continues to shake off its socialist past and wants no part of Western Europe's malaise. The world's investors can move at the flip of an electronic switch. The reality of global competition and instant capital flows means that wise policy decisions will be rewarded faster than ever before.

The larger lesson of this painful year is that old economic lessons must be retaught to a new generation. Milton Friedman must be reread, and Margaret Thatcher's gift for explaining economic liberty to the common man must be relearned by new political leaders. My guess is that this reeducation will become easier as the consequences of the current wave of government intervention become clearer to voters around the world.

Already in the U.S., a populist reaction is forming against the willy-nilly expansion of state power. It is too soon to know how this will play out, but a recurring theme of American history has been resilience and revival. The *Index of Economic Freedom* exists to provide a map for that revival, and its purpose has never been more vital.

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