

Foreword

When *Wall Street Journal* Editor Bob Bartley wrote the foreword to this *Index* a decade ago, he pointed to the “happy task of recording success.” The cause of global economic freedom had advanced over two decades, and in its wake had come an unprecedented global prosperity. While Bob admitted to some foreboding, especially in the wake of the dot.com crash, I doubt he would have imagined that a mere decade later the cause of economic liberty would have regressed as quickly as it has.

The financial panic and Great Recession have sent the march of freedom in reverse, and the policy responses to both events have done little to arrest the retreat. As the 2012 *Index* records, governments across the world have put themselves back at the commanding heights of economic decision-making. The result is another dip in the overall global freedom *Index*, following a one-year rebound, back down to its second lowest level in a decade. The world economy is recovering, but it faces more government-policy headwinds than it has in decades.

Here and there is some good news. The case of Mauritius shows once again that good policies don't take long to yield good results. A decade ago, Mauritius ranked 72nd. This year, it ranks eighth, two spots ahead of the land of the free, the United States. Mauritius leads what for two

years in a row has been a rare bright spot in these rankings, which is the improvement in parts of sub-Saharan Africa. Long trailing Asia and Latin America in economic reforms, a few African nations are bidding to join the ranks of growth economies. This is good news for the continent's long-suffering poor, who missed the freedom boom of the 1980s and 1990s, but their small economies are still hostage to decisions made in the developed world.

And this is where the news has been the worst. Europe has so far not responded to its sovereign debt crisis with the kind of reforms that rescued Britain in the 1980s. Instead, it has imposed austerity in the form of higher taxes when the continent needs faster growth. Instead of letting Greece default and requiring its creditors to take a loss, the euro zone is beating up the European Central Bank to buy up sovereign debt. This may ease the immediate panic, but the lesson of the past year is that it won't solve the fundamental problems of overspending, cradle-to-grave entitlements, and slow growth. For the record, Greece ranks 119th in economic freedom—just below Nigeria, Mali, and Benin but (silver-lining department) above Senegal.

In the U.S., voters in the 2010 elections pulled Barack Obama's credit card, and I noted in last year's foreword that much would depend on

whether the President accommodated this public mood or turned left. After a few bows to compromise, Mr. Obama seems to have decided on a re-election strategy built on a populist defense of current entitlements and tax increases on “millionaires and billionaires” who make more than \$200,000 a year. The immediate result has been policy gridlock, no significant spending reform, and a historic downgrade in America’s formerly AAA credit rating. The U.S. economy is growing but at a subpar rate that is too slow to reduce unemployment or to raise living standards.

The stage is thus set for a 2012 election showdown over the course of U.S. economic policy. Mr. Obama will say he inherited a mess (which he did), that his policies averted disaster and set the base for recovery, and that the U.S. debt burden will start to fall again if Congress raises taxes. The Republican nominee will have to make the case that Mr. Obama’s policies have prevented

a strong recovery and that reforming entitlements, cutting spending, and unleashing private enterprise are crucial to an economic revival. Whether any of the Republicans likely to win the GOP nomination is capable of making that argument remains to be seen. If he or she doesn’t, Mr. Obama may well win a second term and the U.S. will find itself set more durably on a European social welfare path.

The stakes for free markets are as high as they’ve been at any time since the late 1970s, when Margaret Thatcher and Ronald Reagan rose to the challenges of the day with policies rooted in expanding economic freedom. We need similar leaders to emerge today.

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