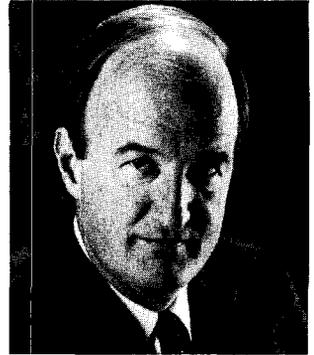


One Graph Says It All



“But the free market is not primarily a device to procure growth. It is a device to secure the most efficient use of resources.”

—Henry C. Wallich¹

In celebrating fifty years of service by the Foundation for Economic Education, we observe one overriding lesson of history: Freedom is, on balance, a great blessing to all mankind.

Now, this may seem to be obvious; today we all nod our heads in agreement with this conclusion. But not everyone concurred during the post-war era. In fact, for much of the past fifty years, supporters of economic liberty were on the defensive. After World War II, *laissez faire* was an unwelcome phrase in the halls of government and on college campuses. Governments both here and abroad nationalized industry after industry, raised taxes, inflated the money supply, imposed price and exchange controls, created the welfare state, and engaged in all kinds of interventionist mischief. In academia, Keynesianism and Marxism became all the rage, and many free-market economists had a hard time obtaining full-time positions on college campuses.

The big-government economy was viewed by the establishment as an automatic stabilizer and growth stimulator. Many top

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economists argued that central planning, the welfare state, and industrial policy lead to higher growth rates. Incredibly, as late as 1985, Paul Samuelson (MIT) and William D. Nordhaus (Yale) still declared, “The planned Soviet economy since 1928 . . . has outpaced the long-term growth of the major market economies.”² Mancur Olson, a Swedish economist, also stated, “In the 1950s, there was, if anything, a faint tendency for the countries with larger welfare states to grow faster.”³

Henry C. Wallich, a Yale economics professor and recent member of the Federal Reserve Board, wrote a whole book arguing that freedom means lower economic growth, greater income inequality, and less competition. In *The Cost of Freedom*, he concluded, “The ultimate value of a free economy is not production, but freedom, and freedom comes not at a profit, but at a cost.”⁴ And he was considered a conservative economist!

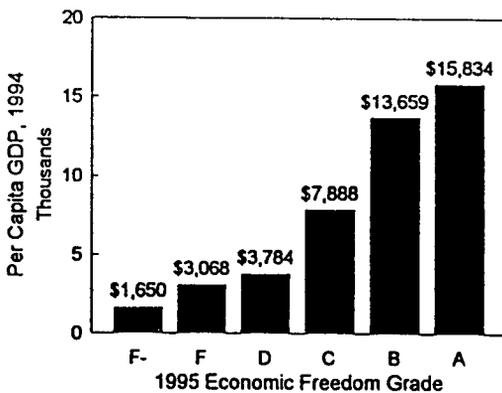
The New Enlightenment

Fortunately, the attitudes of the establishment have gradually changed for the better. In recent years the defenders of the free market have gained ground and, since the collapse of the Berlin Wall and Soviet central planning, have claimed victory over the dark forces of Marxism and socialism. Today, governments around the world are denationalizing, privatizing, cutting taxes, controlling inflation, and engaging in all

kinds of market reforms. And free-market economists can now be found in most economics departments. In fact, almost all of the most recent Nobel Prize winners in economics have been pro-free market.

Furthermore, new evidence demonstrates forcefully that economic freedom comes as a benefit, not a cost. Looking at the data of the 1980s, Mancur Olson now concludes, "it appears that the countries with larger public sectors have tended to grow more slowly than those with smaller public sectors."⁵ Contrast that with his statement about the 1950s.

Now comes the *coup de grace* from a new exhaustive study by James Gwartney, economics professor at Florida State University, and two other researchers. They painstakingly constructed an index measuring the degree of economic freedom for more than 100 countries and then compared the level of economic freedom with their growth rates over the past twenty years. Their conclusion is documented in the following remarkable graph:



If ever a picture was worth a thousand words, this graph is it.

Clearly, the greater the degree of freedom, the higher the standard of living (as measured by per capita real GDP growth).

Nations with the highest level of freedom (e.g., United States, New Zealand, Hong Kong) grew faster than nations with moderate degrees of freedom (e.g., United Kingdom, Canada, Germany) and even more rapidly than nations with little economic freedom (e.g., Venezuela, Iran, Congo). The authors conclude, "No country with a persistently high economic freedom rating during the two decades failed to achieve a high level of income."

What about those countries whose policies changed during the past twenty years? The authors state: "All 17 of the countries in the most improved category experienced positive growth rates. . . . In contrast, the growth rates of the countries where economic freedom declined during 1975-95 were persistently negative."⁶

If all this is true, what of the data that seemed to demonstrate a positive correlation between big government and economic growth in the 1950s and later? In the case of the Soviet Union, most economists now agree that the data were faulty and misleading. In the case of Europe, perhaps the economic incentives of rebuilding after the war overshadowed the growth of the welfare state. In other words, Europe grew in spite of, not because of, government. Once rebuilding was complete by the late 1950s, the weight of government began to be felt.

After fifty years of hard work, it is high time for FEE and the other free-market think-tanks to celebrate their untiring efforts to educate the world about the virtues of liberty. Their work is finally paying off. Let me be one of the first to say congratulations—a job well done! □

1. Henry C. Wallich, *The Cost of Freedom* (New York: Collier Books, 1960), p. 146.

2. Paul A. Samuelson and William D. Nordhaus, *Economics*, 12th ed. (New York: McGraw-Hill, 1985), p. 776.

3. Mancur Olson, *How Bright Are the Northern Lights?* (Lund University, 1990), p. 10.

4. Wallich, *The Cost of Freedom*, p. 9.

5. Olson, *How Bright Are the Northern Lights?*, p. 88.

6. James D. Gwartney, Robert A. Lawson, and Walter E. Block, *Economic Freedom of the World: 1975-1995* (Washington, D.C.: Cato Institute, 1996), p. xvii.

Rose Wilder Lane, Isabel Paterson, and Ayn Rand:

Three Women Who Inspired the Modern Libertarian Movement

by Jim Powell

Liberty was in full retreat in the early 1940s. Tyrants oppressed or threatened people on every continent. Western intellectuals whitewashed mass murderers like Joseph Stalin, and Western governments expanded their power with Soviet-style central planning. Fifty million people were killed in the war that raged in Europe, Africa, and Asia. The United States, seemingly the last hope for liberty, was drawn into it.

Established American authors who defended liberty were a dying breed. H.L. Mencken had turned away from bitter politics to write his memoirs, while others like Albert Jay Nock and Garet Garrett were mired in pessimism.

Amidst the worst of times, three bold women banished fear. They dared to declare that collectivism was evil. They stood up for natural rights, the only philosophy which provided a moral basis for opposing tyranny everywhere. They celebrated old-fashioned rugged individualism. They envisioned a future when people could again be free. They expressed a buoyant optimism which was to inspire millions.

All were outsiders who transcended difficult beginnings. Two were immigrants. One was born in frontier territory not yet part of the United States. They struggled to earn money as writers in commercial markets dominated by ideological adversaries. All were broke at one time or another. They endured heartaches with men—one stayed in a marriage which became sterile, and two became divorced and never remarried.

These women who had such humble beginnings—Rose Wilder Lane, Isabel Paterson, and Ayn Rand—published major books during the same year, 1943: *The Discovery of Freedom*, *The God of the Machine*, and *The Fountainhead*, respectively. The women, recalled journalist John Chamberlain, “with scornful side glances at the male business community, had decided to rekindle a faith in an older American philosophy. There wasn’t an economist among them. And none of them was a Ph.D.” Albert Jay Nock declared that, “They make all of us male writers look like Confederate money. They don’t fumble and fiddle around—every shot goes straight to the centre.”

Rose Wilder Lane

Like her compatriots, Rose Wilder Lane surprised people. She once described herself by saying “I’m a plump, middle western, middle class, middle-aged woman.”

Mr. Powell is editor of Laissez-Faire Books and a Senior Fellow at the Cato Institute. He has written for the New York Times, the Wall Street Journal, Barron's, American Heritage, and more than three dozen other publications. Copyright © 1996 by Jim Powell.