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**ECONOMIC FREEDOM AND INCOME EQUALITY:
NO NEED TO SACRIFICE ONE TO ACHIEVE THE OTHER**

Revised

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Two social values – freedom and equality – have been essential elements of the American experiment from the very beginning. Both are affirmed in the Declaration of Independence: “We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain inalienable Rights, that among them are Life, Liberty, and the pursuit of Happiness.”

These two social values run through not just our political affairs but our economic affairs as well. Notice, for example, that equality in economic affairs is affirmed through the practice of equal pay for equal work and equal opportunity in hiring and promotion. Notice as well that producers are free to penetrate new markets with innovative goods and services and workers are free to quit their jobs when better opportunities are available elsewhere.

Neither freedom nor equality, however, is an absolute value. Both necessarily are constrained in order to prevent abuses. Merchants, for instance, are not free to sell liquor or cigarettes to minors. Disgruntled workers are not free to assault their supervisors. For the disabled, equality means special physical arrangements to afford them the same access to facilities that others enjoy. Equal pay does not mean the same take-home pay for a single parent with dependents as a co-worker who does the same work but is single with no dependents.

The history of a country's economic development is in part revealed through the choices made in that country as to which of these two social values is more widely embraced. Under President Franklin Roosevelt equality took on a larger role in economic affairs. In President Reagan's administration freedom was more highly valued. So, today, how well is the United States doing with regard to freedom and equality compared to other countries engaged in global economic affairs?

To address that question, Mayo Research Institute constructed an index which ranks countries along those two social values.¹ This hybrid freedom-equality index is based on the sum of a country's rank on economic freedom and its rank on income equality, thereby weighting the two equally. This index is no mere merger of two data sets. Rather, it joins into a single statistical measure two social values that serve as the foundations of a market economy.

¹ The economic freedom index is a joint product of the Heritage Foundation and the *Wall Street Journal*, incorporating ten freedoms including trade freedom, investment freedom, and property rights. The income equality index is based on CIA data on the Gini coefficient that measures family income distribution.

The freedom-equality index includes all 27 countries in the European Union, the United States and its two neighbors Canada and Mexico, three of the Asian Tigers (Japan, South Korea, and Singapore), plus ten countries of special interest – Australia, Brazil, Israel, Haiti, New Zealand, India, Switzerland, Norway, China, and Russia. In large measure we selected developed countries in order to avoid the bias implicit in any comparison between rich and poor countries due to the fact that income equality in a poor country means something different than in a rich country. Hong Kong which ranked number one on economic freedom and Taiwan were left out because the source we used for income equality provided no data for either one.

The United States ranked eighth in the world on the economic freedom index in 2010, down two places from 2009. Denmark ranked first on the freedom-equality index and even though the United States outranked Denmark on economic freedom it dropped far below Denmark on income equality (twenty-seventh place vs. second place). The northern European countries of Denmark, Sweden, Norway, and Finland all placed in the upper half of the rank orderings largely because of their high placement on the income equality index. The southern European countries of Spain, Portugal, Italy, and Greece all placed in the lower half mainly because of their poor performance on the freedom index. Leaving aside Haiti, the so-called BRIC countries -- Brazil, Russia, India, and China -- are the poorest performing countries of the 43 countries included in the freedom-equality index. All four did poorly on both source indices.

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| 1. Denmark | 17. Slovenia & South Korea |
| 2. Australia | 18. <i>United States</i> |
| 3. Luxembourg | 19. Hungary |
| 4. Sweden | 20. Japan & Spain |
| 5. Ireland | 21. Lithuania |
| 6. Austria & Canada | 22. Romania |
| 7. Finland | 23. France & Bulgaria |
| 8. Germany & Netherlands & Switzerland | 24. Italy & Latvia |
| 9. New Zealand | 25. Greece & Israel |
| 10. Cyprus | 26. Poland & Mexico |
| 11. Belgium & Czech Republic | 27. Portugal |
| 12. United Kingdom & Slovakia | 28. India |
| 13. Norway | 29. Russia |
| 14. Estonia | 30. China |
| 15. Singapore | 31. Brazil |
| 16. Malta | 32. Haiti |

Because the United States performed poorly on income equality it ranked below the other five English speaking countries -- Australia, Ireland, Canada, New Zealand, and the United Kingdom -- on the freedom-equality index. Thirteen of the top seventeen countries on that index are members of the European Union, principally because they performed well on income equality. Even so, five of countries with high-performance rankings on the freedom-equality index -- Australia, Ireland, Canada, New Zealand, Switzerland -- outperformed the United States on the *freedom* index.

Americans pride themselves on the opportunities that freedom affords them to achieve a higher standard of living through hard work even though some of their fellow Americans are not so fortunate. These data on economic freedom and income equality for the other

English speaking countries prove that it is not necessary to sacrifice the one in order to achieve the other.

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