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Opinion

To Take A Stand -- By Francis M. Varela

In defense of economic freedom

Two weeks ago, the Philippine edition of the 2009 *Economic Freedom of the World Report* was launched. The report, published by the Fraser Institute in cooperation with the Economic Freedom Network, ranks 141 countries in terms of how free their economies are, using an index that is built from 42 indicators in five different areas: (1) size of government; (2) legal structure and security of property rights; (3) access to sound money; (4) freedom to trade internationally; and (5) regulation of credit, labor and business.

The 2009 report is particularly significant as it deals with the issues brought by the current economic and financial crisis. It asks the question: "Will we move toward institutions and policies more consistent with economic freedom? Or will we politicize, micromanage, and expand the size and role of government?"

As the global economy begins to recover from this crisis, the role of free markets in economic development is under serious challenge. In particular, the neo-liberal consensus that upholds free markets and the private sector as the main engines of economic development is under attack from those who equate the excesses in the financial markets with the concept of capitalism itself.

Unfortunately, the headline stories, which tend to overdramatize these issues and developments, have contributed toward reinforcing the notion that capitalism and economic freedom are at the root of this crisis. By dwelling on themes such as the "death of capitalism," media have shaken the belief of many in the primacy of free markets as the best mechanism for the effective allocation and utilization of economic resources to promote the greatest welfare.

In this context, the report is refreshing in its unequivocal defense of economic freedom and its firm belief that free markets still hold the key to sustained economic progress and human development.

Moreover, the report carries a positive tone as it notes the continuing improvement in economic freedom globally. For the 102 countries with available rating since 1980, the average economic freedom index improved from 5.55 in 1980 to 6.7 in 2007.

However, since the available data predates the onset of the current global financial crisis, there could be some deterioration in certain areas of economic freedom when data for 2008 and 2009 become available.

Nevertheless, outside the various fiscal stimulus programs and additional regulations for the financial sector, there have been no major reversals yet in market-friendly policies globally. But the risk of overreaching policy adjustments that can do more harm than good is real, particularly in the coming years as economies contend with the slow and low-growth recovery that remains one of the more likely scenarios out of this crisis.

Closer to home, the Philippines' performance in economic freedom has been relatively dismal, particularly under the current administration. While the country's score has improved from 5.44 in 1980 to 6.65 in 2007, all the gains happened between 1985 and 2000, which corresponded to the aggressive liberalization and privatization policies pursued by the Aquino and Ramos administrations.

After 2000, the country's rating deteriorated from a score of 6.96 in 2000 to 6.65 in 2007. Moreover, our ranking vis-a-vis other countries has fallen even more steeply from number 41 in 2000 down to 74th place in 2007.

In previous columns, I have characterized the current administration as being like the emperor with no clothes as far as economic reforms are concerned. It prides itself on being focused on economic reforms, but it has not really done much and the Economic Freedom Network's data bear this out.

Unfortunately for this administration, the data cannot be influenced by press releases and motherhood statements but only by real policy actions.

Fortunately for this administration, the EFN methodology does not directly include corruption in the computation of the index. Otherwise, the deterioration in our score would have been even more pronounced.

The administration's lack of commitment to economic freedom is demonstrated once again in the recent imposition of price controls on basic commodities including fuel. Fortunately, the price ceiling on oil was lifted before it could create even more serious damage. But it showed the penchant of this administration to resort to politically expedient measures when dealing with economic issues and problems.

Nothing much can be achieved in the remaining life of this administration to pursue further economic reforms.

The imperative, therefore, in the next six months is to prevent it from creating further damage, both in terms of the adoption of wrong policies and the waste of public resources. The best thing that this administration can do for the Filipino people in the next six months is to sit on its hands and do nothing.

Real and meaningful change can only happen after the presidential elections in 2010. The election of the right leaders and a more hospitable political environment will provide the country the opportunity to reverse the negative trend and improve its economic freedom scores in the coming years. As the country deliberates the economic policy agenda after 2010, it would be useful to heed the lessons contained in the *Economic Freedom Report*: "The ingredients of sound institutions and policies in the decades ahead are the same as they have been in decades past: well-defined property rights, rule of law, monetary and price stability, open markets, low taxes, control of government spending, and neutral treatment of both people and enterprises. If we choose this route, the current crisis will be reversed and it will soon fade into history. However, if we learn the wrong lessons, and choose reforms and policies inconsistent with economic freedom, our destiny will be like the generation of 1930; we will face a lost decade of stagnation and decline."

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