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Promoting Economic Freedom at the United Nations

The Honorable Kim R. Holmes

It's great to see you and to be here to speak on economic freedom. I know of no other public policy institution that does more than Heritage to promote the blessings of liberty. I spent many years at Heritage, 17 in all, and I saw up close how much care and passion goes into fulfilling this mission. [President] Ed Feulner and [Executive Vice President] Phil Truluck have created a landmark institution for America, and for that America should be thankful.

I would like to congratulate you on reaching this milestone—the 10th edition of the *Index of Economic Freedom*. It is a most impressive book, and I know how much went into it because I spent many years working on it myself. My hat is off to its editors, Marc Miles, Ed Feulner, and Mary O'Grady.

My only regret is that Robert Bartley is not here to see this edition unveiled. He was a good friend at *The Wall Street Journal*, who had much to do with the initial idea of publishing an index that measured economic freedom.¹ He would be most proud.

I remember very well the first edition of the *Index* in 1995. There were a lot of skeptics who said that it could not—indeed, should not—be done. There were disagreements over methodology. There were doubts about completing such a huge project. But Ed Feulner had faith and persisted, and ended up producing not only the first comprehensive economic freedom index, but one that has continued to grow in importance ever since.

1. Robert Bartley passed away December 10, 2003.

Talking Points

- Economic freedom is a practical program that produces results. It is a highway as essential to economic growth as elections are to democracy.
- Countries with higher levels of economic freedom generally have more vibrant economies, higher per capita income levels, and better living standards. You cannot achieve these without free trade, competitive markets, and the rule of law.
- Where countries demonstrate they have the will to open markets, reduce corruption, regulation, and taxes, and invest in their people wisely, foreign aid can help. Otherwise, it is of little help.
- What really matters are the lives of millions around the world who live in poverty, for whom economic freedom offers the best hope for a healthier, safer, more productive life and the human dignity of self-reliance.

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214 Massachusetts Ave., NE
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(202) 546-4400 heritage.org

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Since then, the *Index* has amassed quite a track record. More than any other study on this issue, it highlights the best path to development—"the one paved with economic freedom."²

I couldn't agree more. Economic freedom is not just a theory. It is a practical program that produces results. If anything, I would say that economic freedom is more than a path; it is a highway as essential to economic growth as elections are to democracy.

It is good to see that economic freedom continues to advance, if slowly, around the world. It is good that economic freedom continues to grow in spite of these difficult and dangerous times. Half of all the countries measured for this edition improved in economic freedom.³ We worry about the other half. Clearly, most of the world *wants* economic freedom and the benefits it brings. Countries in every region are shedding their dependence on failed economic philosophies that have ravaged the dignity and liberty of people for far too long.

Not since the publication of Adam Smith's monumental book, *The Wealth of Nations*, has the time been more ripe for putting economic freedom principles into practice in every region. President Bush says it best: "Freedom honors and unleashes human creativity—and creativity determines the strength and wealth of nations."

I'd like to talk to you today about how the Bush Administration is making sure economic freedom figures in the development work of the United Nations. The U.N. can be a testing ground for the viability of economic freedom as a practical idea of economic development. It is a difficult and sometimes frustrating ground, to be sure, but it is one in which we Americans should and must engage.

Economic Freedom—A Highway to Prosperity

But first, a few statements of principle. It is important to be clear about a few things before I describe our activities in the U.N. And it is also important that you have some background on how this Administration is promoting economic freedom broadly.

I believe that the link between economic freedom and prosperity could not be more clear. Countries with higher levels of economic freedom generally have more vibrant economies, higher per capita income levels, and better living standards. You cannot achieve these without free trade, competitive markets, and the rule of law.

Free trade fosters competition, which spurs innovation, productivity, and consumer choice. In rich and poor nations alike, competitive markets make more efficient use of resources; and they enable the global marketplace to make the best use of comparative advantages.

The rule of law is critical for economic freedom. Corruption not only scares away investment; it undermines respect for public institutions and diverts resources away from development. But where property rights are clear, contracts enforceable, and tax and regulatory regimes transparent and not too burdensome, black markets have little incentive to develop and even less opportunity to thrive.

Unleashing the forces of economic freedom, then, is the most effective antidote to economic stagnation. We have only to compare the experiences of East and West Germany, or North and South Korea, to understand how economic freedom—buttressed by political freedoms and the rule of law—leads to greater prosperity, peace, and higher living standards for all.

The *Index* offers many examples of what economic freedom can do. Take Estonia: Just a dozen years out of Soviet control, and it has already surpassed many of its European neighbors *and* the United States on the *Index*. It did so by liberalizing its economy. And it is not alone. In countries as far apart—and as different in experience—as Jordan and the Slovak Republic, the evidence is in: Reforming policies in favor of economic freedom unleashes forces that enable economic growth and raise living standards.

Even Mozambique can provide lessons for the developing world. Though it is ranked "mostly

2. Mary Anastasia O'Grady, "Free Markets, Free People," *The Wall Street Journal*, January 9, 2004.

3. According to the *Index*, the level of economic freedom increased in 75 countries, decreased in 69 countries, and remained the same in 11 countries.

unfree” in this year’s *Index*, its score is improving. Though much remains to be done, Mozambique has a more open investment climate, and its economy is growing at a fast clip.

How We Promote Economic Freedom Abroad

The Bush Administration firmly supports the principles of economic freedom. These principles guide us in our everyday efforts to expand to others the depth and breadth of the freedom that so invigorates our own economy.

First, of course, is our active pursuit of trade liberalization. Free trade helps spur economic growth. The World Bank estimates that total developing country income, and the welfare of their citizens, could increase by a stunning \$532 billion *per year* by 2015 if all the nations of the world fully liberalize trade.

But trade agreements are not enough. Governments must also take bold steps to reduce corruption, lessen the state burden on the economy, and lower taxes.

This simple truth—that economic development comes from economic freedom—is the principle behind the Millennium Challenge Account Act signed by the President on January 23. This innovative program is designed to channel additional bilateral development assistance to developing nations that govern justly, invest in their people, and promote economic freedom. To Heritage’s credit, one of the 16 indicators of eligibility to be used to identify priority countries for this program is the *Index*’s own trade policy factor.

Promoting Economic Freedom Through the U.N.

We believe so strongly that economic freedom is essential to economic growth that we instruct our delegations, ambassadors, and diplomats at the United Nations to carry the idea into their formal and informal discussions. We do not want the international community to take a step backward when it comes to development—because a step back will mean *more* people mired in poverty, for longer periods of time. And it will mean *less* hope, *less* creativity, *less* entrepreneurship, and *less* truly sustainable development worldwide.

Yet, despite these efforts, and despite what many countries are doing at home to strengthen their own economies, some members and organizations of the United Nations send out mixed signals when it comes to economic development.

Since the launching of the World Trade Organization’s Doha Development Round in 2001, it seemed that the international community had figured out the right way to foster development. In 2002, world leaders came to a new and balanced consensus at the high-level Financing for Development conference in Monterrey, Mexico. They agreed that the formula for economic growth and development was good governance, trade liberalization, and mobilizing resources from both within countries and abroad. Donors and trade partners can play a supportive role, but developing countries bear the greatest responsibility for their own growth.

At the World Summit on Sustainable Development in Johannesburg in 2002, the international community underscored the need for good governance and also private–public partnerships to meet the world’s economic, environmental, and social challenges. These steps were promising. The international community understood that, to enjoy the benefits of economic freedom, to lift societies out of poverty and economic stagnation, governments needed to show a fundamental commitment to economic freedom.

A Step Back for Economic Development?

Yet, since then, we have seen a disappointing retreat from this understanding, particularly in the United Nations General Assembly. Just this past session, for example, a proposed resolution on financing for development started out calling for new resources for aid and new mechanisms to deal with commodity price fluctuations. Yet there was no explicit mention of the responsibilities of developing countries themselves or of measures to reduce corruption or increase property rights. Nor did it focus on how best to mobilize domestic resources or implement the commitments made at Monterrey.

Another example involves the U.N. Millennium Development Goals, which include seven broad objectives, such as reducing poverty, relieving hunger, and providing universal primary education, and all by 2015. These seven objectives, agreed

upon by governments at the highest levels since 2000, have become the organizing principles for U.N. agencies involved in development. Their results-oriented focus is a good idea.

Unfortunately, the U.N. Secretariat and the U.N. Development Program, all on their own, came up with an eighth goal targeting financial resources for development assistance. And it is on goal eight that they focus most of their attention.

At times, indeed, the U.N. seems less a forum for hope-generating discussions and pro-growth economic policies than it is a stage for stale debates about transfers of wealth. In the U.N.'s economic fora, debates often have little to do with the real business of promoting development. Rather than good governance and investment-attracting policies, you hear instead:

- Talk of an international tax to finance development,
- Calls for measures to stabilize commodity prices at artificially high levels,
- New mechanisms to forgive countries' debts,
- Control of the Bretton Woods institutions for borrowing countries and unconditional new lending programs, and
- Proposals for a near doubling of foreign aid.

Our diplomats and negotiators spend huge amounts of time trying to prevent such ideas from gaining international legitimacy through U.N. resolutions or decisions. Added to this is a tangible antipathy, if you will, against the private sector. We hear this in calls for greater regulation, or the extortion of profits thinly disguised as proposals for greater "corporate social responsibility."

How did such ideas come to gain credibility in the United Nations? I think there are two main reasons.

The first is that there are many non-democratic nations in the U.N. Decisions in most U.N. bodies are made on the basis of one country/one vote, with all nations—regardless of size or type of political system—casting a vote equal to that of the United States and other free nations. Non-democratic nations, therefore, get the same vote as democratic ones. All too often, these countries vote together to

block not only sensible ideas of economic development, but also proposals for U.N. reform that would loosen their hold on U.N. decision-making in areas of budget and economic development.

Second, many in the U.N. Secretariat and U.N. specialized agencies seem biased in favor of the ideology of an aid-focused development strategy. The U.N.'s funds and programs are, after all, development funds. Foreign assistance is what they do, so it is not too surprising that they focus their attention there. Many seem truly to believe that aid is a principal determinant of development, and they work (often with international NGOs) to help others to believe the same.

If the only way policymakers at the U.N. think we can promote development is through foreign aid, then obviously, only the donor countries will be held accountable for whether the developing world achieves the Millennium Development Goals by 2015. This blame game, unfortunately, seems to be the main goal of the developing countries' group known as the Group of 77.

But the facts point us in a different direction.

Development aid from all sources to the developing world amounted to \$57 billion in 2002. By contrast, remittances from immigrant workers reached nearly \$80 billion, foreign direct investment was \$115 billion, and developing world trade surpassed \$2 trillion. Resources now lost to corruption could provide additional billions.

Increasing trade and investment would have a far greater effect than increasing foreign aid ever could. That's why increasing such resources was one of the agreed objectives of the Monterrey Consensus and why it is the idea behind the Millennium Challenge Account. Where countries demonstrate they have the will to open markets, reduce corruption, regulation, and taxes, and invest in their people wisely, foreign aid can help. Otherwise, it is of little help.

It is much easier and politically more satisfying to blame poverty on insufficient aid than it is to muster the will to change, to do what's right. But regulatory reform, transparency, the rule of law, trade, and foreign direct investment cannot be ignored in the development equation if economic growth is the goal.

Tough Road Ahead

The United Nations is the right forum to send out this strong message to governments around the world, but it will not be an easy road. There are, in fact, three reasons why it will be difficult to steer the U.N. development agenda back to the sound economic freedom principles agreed upon in Monterrey and Johannesburg.

The first is that a majority of the members of the U.N. are on the receiving end of the aid process. They find it far easier to lobby for more aid funding than to make the hard choices of reform at home.

The second reason is that these countries organize themselves into highly disciplined voting blocs. Inside these blocs, the emphasis is far greater on group solidarity and consensus than on discussing openly and pragmatically what works and what does not work in economic development. The G-77 can easily mobilize majority victories on aid issues in the General Assembly and other U.N. bodies.

We can see this dynamic at work often. Last year, our proposal for organizing the work of the U.N. committee responsible for economic issues around the goals and commitments articulated at Monterrey and Johannesburg was rejected outright by the G-77. Our challenge is to find a way to get the G-77 to reflect the views of its own moderate center rather than the extreme views of ideologues so opposed to freedom, reform, economic growth, and individual responsibility.

A third reason why it is so difficult to effect change is, unfortunately, found among some of our European partners. Many of the countries in the European Union are doing the right things on economic policy at home and enjoy top ranking in the *Index*. Yet, at the U.N., they espouse widely different positions on foreign aid. Some think, or at least pronounce in New York, that only more foreign aid is the key to development. Others that agree with us about the need for a more market-oriented view often remain silent when our ideas are criticized. Europeans certainly could be more proactive, and some could be more intellectually honest, on economic freedom matters at the U.N.

Another challenge we face is bringing the entire U.N. system, including the Secretariat, to a more favorable view of the private sector's role in economic development. U.N. activities to implement

the Monterrey Consensus include private-sector participation, but that effort needs to be extended to other U.N. development work.

In this respect, I think the Secretary-General's decision last year to convene a Commission on Private Sector Development was a positive step. It is encouraging that the commission's mandate is to look at regulatory environments that spur business growth. We look forward to its report next month in hope that its conclusions will talk more about market solutions than market shortcomings.

If we are to help alleviate poverty and starvation, and lead countries out of economic malaise, then we must bring market principles into U.N. deliberations in a vivid way. We need to build consensus for progress, not for the status quo. It's time to end confusing double-talk about development.

Building Partnerships for Prosperity

Clearly, we have our work cut out for us. My staff and I believe that to do this—to advance the proven principles of economic freedom at the U.N.—we need a new strategy. We want to engage countries that believe economic freedom is the best path to development.

Just one glance at this year's *Index* makes clear the many possibilities for close collaboration on these principles with countries from every region, countries such as Singapore, Estonia, Spain, Costa Rica, Norway, Botswana, and Japan, to name just a few. We want to work with countries like Chile and Jordan with whom we have free trade agreements, and others with whom we are pursuing them. Such countries already understand that economic freedom policies and the rule of law reinforce each other and create better lives for their citizens.

We would also work with countries that qualify for the Millennium Challenge Account. If they have met its criteria for increased U.S. aid, then they already are taking the necessary steps to increase economic freedom.

Such a partnering could give developed and developing countries alike a new avenue to promote economic freedom more effectively in the U.N. system. This "economic freedom alliance," if you will, could help developing countries shore up the courage of their convictions so that they aren't always cowed by the Cubas of the world.

In this way, we could ensure that economic freedom is at the forefront of every development debate. We could work together more effectively to focus on programs that put opportunity and prosperity within every person's reach. At meetings like the U.N. trade and development ministerial in June, we could collaborate to focus discussions on the practical steps that open economies and unblock the creative energies of entrepreneurship. We can and will do the same in the U.N. Economic and Social Council, in the U.N. Development Program, and at the General Assembly.

No matter the agency or forum, we will consider every resolution, every plan of action, every statement a vehicle for making our case that economic freedom is essential for economic growth. We will encourage every country to bring policies that work and those that don't to the light of day. We will

encourage developing countries to shed strategies that failed and to take bold steps that could make them the *Index* poster children of promise next year.

The U.N.'s standing, credibility, and effectiveness in reducing poverty and promoting economic development are at stake. That, of course, is a key concern of mine and of our staff.

But what really matters are the lives of millions around the world who live in poverty, for whom economic freedom offers the best hope for a healthier, safer, more productive life and the human dignity of self-reliance. An alliance that promotes that agenda would make the U.N.'s development work much more effective.

—*The Honorable Kim R. Holmes is Assistant Secretary of State for International Organization Affairs and a former Vice President at The Heritage Foundation.*