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## Economic Freedom Promotes Upward Income Mobility

*Comment by Fred McMahon and Beppe Russo*

If you are poor and live in a place lacking free markets and personal economic freedom, then you're out of luck compared to those in economically free places, who make their own economic, work, and business decisions free from domineering government or crony elites.

This means greater opportunity to escape poverty and climb to prosperity. That is the crucial message of a just released study, "Economic Freedom Promotes Upward Income Mobility", published by Canada's Fraser Institute and prepared by Justin Callais, Texas Tech University, and Vincent Geloso, George Mason University. This is very important, especially taking into account what is happening in these last two years, affected by the global Covid-19 pandemic which is going to have an undeniable negative effect on social and economic opportunities on most countries.

Income inequality is perhaps the sharpest economic issue of the day, with opponents of freedom aiming the pointy end of the stick at free market economies. They falsely claim that free markets promote inequality. Yet, income inequality is no more prevalent in economically free nations than nations economically dominated by government or crony elites.

But, there is an important difference between economically free and other nations, one at the heart of fairness and equity. *And that is opportunity.* As the new research shows income and social mobility are significantly stronger in free than in unfree nations.

In other words, opportunity is greater. Even those from the poorest backgrounds are able to climb the income and social ladder. The study looks at 82 nations, utilizing income and social mobility data from the World Bank and World Economic Forum, and freedom data from the Fraser Institute's "Economic Freedom of the World Index."

This matches other evidence. The average per person output in the top-quarter economically free nation is over US\$50,000 (purchasing power adjusted) a year, compared to under US\$6,000 in the quarter least free nations. The income of the poorest 10 percent in the freest nations is over US\$14,000 but under US\$1,600 in the least free nations.

The Fraser index includes a number of factors necessary for economic freedom but the two most important for income mobility are the rule of law and reasonable regulation. It is easy to see why.

In uneconomically free nations, domineering government and crony elites use the rule of law, not to protect the freedom of all but to entrench the privilege of their cliques while undermining the rights of everyone else.

Similarly, regulations are too often used to exclude people from work and opportunity, even in nations with a relatively robust rule of law. Government regulation may require workers to purchase occupational licenses or train to acquire credentials before they can work.

This takes time and money, which low-income people may not possess, creating a barrier that prevents them from fully participating and advancing in the labor market. Such regulations slow wage growth for low-income workers. But that's not all. Onerous business and hiring regulations can slam the door shut on poor entrepreneurs who simply don't have the resources to satisfy the regulator.

Yet, many seem to believe that free markets victimize people. This is curious on the surface since it is obviously false. Just look around the world at quality of life. Where would you rather live—even if you were poor—economically free nations like Canada, Denmark, the United States, Taiwan, and Switzerland or unfree nations like Russia, Egypt, and Brazil, or those one-time darlings of free-market critics, Venezuela and Cuba. You pretty much have to have a Berlin Wall in your mind to isolate facts from ideology to believe the free market critics.

You may have been surprised to see Denmark in the list of free nations but in fact Nordic nations are among the freest on the planet. While they have overly large governments that weaken their economies, in every other aspect of economic freedom they are top of class, including rule of law, protection of property rights, and reasonable regulation.

Free markets face different challenges: a part the COVID pandemic above-mentioned, exceptional uncertainty, the rise of populists (often crony capitalists in disguise), climate changes and the evidence-free imaginings of free-market critics. Hopefully the facts will win out—you are more prosperous, less poor, and are blessed with opportunity where economic freedom prevails.

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