

The Road to *Prosperity*

By Marc Miles

On January 4, The Heritage Foundation and The Wall Street Journal published the 12th annual edition of the Index of Economic Freedom.

The new perspective on economic development no longer artificially divides the world into developed and developing countries. Just as people around the world put their pants on one leg at a time, each country's economy can be explained by the same set of economic rules. Activities that are subsidized tend to expand, and those that are taxed find the going tougher and contract. In the same way, all countries are "developing" in the sense that they are constantly reacting and changing to the evolving world economy.

Similarly, the old economic development poverty solution of transferring income from one government to another is discarded. The new approach is more concerned with the welfare of people and less focused on government actions. Its goal is to make economies hum along by letting people—rather than the government, the World Bank, or any other institution—figure out how best to improve their lives. In other words, let individuals use their wits and abilities to determine how best to put a roof over their families, food on their tables, and shoes on their children's feet.

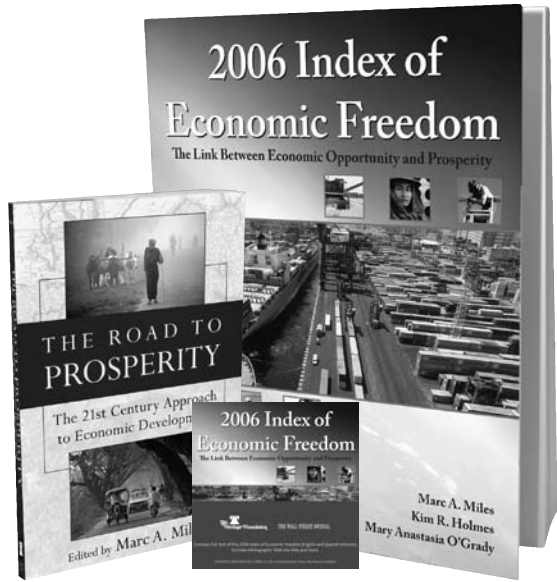
Within this framework, government's role is to cultivate an environment in which people can achieve their potential and thus make the most of their abilities and other resources in the economy. Only in such an environment can we safely assume that the desired shelter, the desired food, the desired clothing, and other essentials will be available to families.

A healthy economic environment may be created and maintained in part by ensuring that contracts are enforced, that individuals retain clear title to the houses and businesses they have acquired or created, that there is a stable currency so that prices can be anticipated and future decisions easily assessed, and that there is a close relationship between effort and reward.

Today, however, governments and international organizations all too often throw up roadblocks that inhibit individuals from reaching their potential. These barriers force individuals from the road to prosperity onto byways full of potholes and obstacles that distract attention from goals, drain energy needed for a sustained journey, and leave them well short of reaching their full economic potential. As a result, far too many people are consigned to making do with less to eat, use, or keep for a rainy day.

Specifically, these roadblocks appear in the form of:

- Tariffs that raise prices and deprive individuals from getting the most for their incomes;
- High tax rates that discourage work and production, thereby taking food from the family table;
- Regulations that prevent individuals from pursuing their natural abilities; and
- A lack of property rights, which leaves people stuck with unequal treatment before the law, unenforceable contracts, and the inability to convert one form of wealth to new, more promising opportunities, such as



starting a new business.

Instructively, The Heritage Foundation's *Index of Economic Freedom* documents that the countries perennially ranked among the world's poorest also tend to have the most and highest roadblocks. This fact should come as no surprise, for poverty merely manifests the impact of government barriers on people's incentives and actions. Where roadblocks deny individual opportunity, workers arise each morning to face the reality that they will be spending their time and efforts in activities that bear little fruit. The same problems appear over and over in a vicious cycle, with no apparent end to the misery and poverty. The nation's people become frustrated.

Unleashing a country's potential requires removing the economic roadblocks that inhibit its people. As the barriers tumble one by one, a country can begin to move down the long, previously elusive road to prosperity.

Marc Miles is the director of the Center for International Trade and Economics at The Heritage Foundation. This article is taken from The Road to Prosperity (Heritage Books, 2004).

