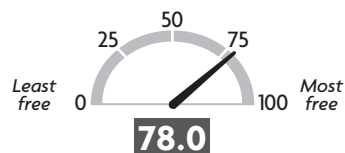


UNITED STATES

World Rank: **8**

Regional Rank: **2**

Economic Freedom Score



The United States' economic freedom score is 78.0, making its economy the 8th freest in the 2010 *Index*. Its score is 2.7 points lower than last year, reflecting notable decreases in financial freedom, monetary freedom, and property rights. The United States has fallen to 2nd place out of three countries in the North America region.

The U.S. government's interventionist responses to the financial and economic crisis that began in 2008 have significantly undermined economic freedom and long-term prospects for economic growth. Economic freedom has declined in seven of the 10 categories measured in the *Index*.

Uncertainties caused by ongoing regulatory changes and politically influenced stimulus spending have discouraged entrepreneurship and job creation, slowing recovery. Leadership in free trade has been undercut by "Buy American" provisions in stimulus legislation and failure to pursue previously agreed free trade agreements with Panama, Colombia, and South Korea. Tax rates are increasingly uncompetitive, and massive stimulus spending is creating unprecedented deficits. Bailouts of financial and automotive firms have generated concerns about property rights.

BACKGROUND: The U.S. economy is the world's largest. Services account for more than 70 percent of economic activity, but the U.S. is also the world's largest producer of manufactured goods and fourth-largest producer of agricultural products. A federal form of government that reserves significant powers to states and localities has encouraged diverse economic policies and strategies. The national government's role in the economy, already expanding under President George W. Bush, has grown sharply under the Administration of President Barack Obama, who took office in January 2009. Economic growth, which collapsed in 2008, had resumed by the second half of 2009, but legislative proposals for large and expensive new government programs on health care and energy use (climate change) have increased prospects for significant economic disruptions and raised concerns about the long-term health of the economy.

Country's Score Over Time



Quick Facts

Population: 304.1 million

GDP (PPP): \$14.2 trillion
 1.1% growth in 2008
 2.2% 5-year compound annual growth
 \$46,716 per capita

Unemployment: 9.4% (as of May 2009)

Inflation (CPI): 3.8%

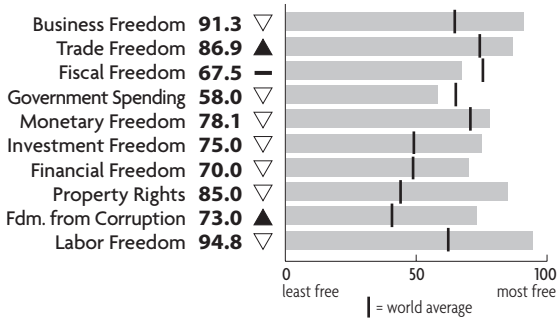
FDI Inflow: \$316.1 billion

2008 data unless otherwise noted
 Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

UNITED STATES' TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 91.3

The overall freedom to start, operate, and close a business, regulated primarily at the state level, is still strongly protected. Starting a business takes six days, compared to the world average of 35 days. Obtaining a business license takes less than the world average of 218 days. Bankruptcy proceedings are very easy and straightforward.

TRADE FREEDOM — 86.9

The weighted average U.S. tariff rate was 1.5 percent in 2008. Anti-dumping and countervailing duties, domestic preferences in government procurement, high out-of-quota tariffs, services market access restrictions, import licensing, restrictive labeling and standards, and export-promotion programs and subsidies add to the cost of trade. Ten points were deducted from the U.S. trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 67.5

U.S. tax rates are burdensome. The top income and corporate tax rates are 35 percent. Other taxes include an estate tax and excise taxes. Additional income, sales, and property taxes are assessed at the state and local levels. In the most recent year, overall tax revenue as a percentage of GDP was 28.3 percent.

GOVERNMENT SPENDING — 58

Total government expenditures, including consumption and transfer payments, are relatively high and rising rapidly. In the most recent year, government spending equaled 37.4 percent of GDP. Spending increases totaled well over \$1 trillion in 2009 alone, an increase of more than 20 percent over 2008. Stimulus spending set for the next three years is estimated to equal 5 percent of 2009 GDP.

MONETARY FREEDOM — 78.1

Inflation has been relatively low, averaging 3.5 percent between 2006 and 2008. The Federal Reserve cut the interest rate on federal funds to near zero in December 2008, with low rates persisting through 2009. Price controls apply to some regulated monopolies; certain states and localities control residential rents; and the government influences prices through subsidies, particularly for the agricultural sector, dairy products, and some forms of transportation. Government interventions in housing, automotive, and financial markets have substantially increased price distortions. Ten

points were deducted from the U.S. monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 75

Foreign and domestic enterprises are legally equal, and foreign investments face federal screening only if perceived as a potential threat to national security. Foreign investment in banking, mining, defense contracting, certain energy-related industries, fishing, shipping, communications, and aviation is restricted. Regulations are generally transparent; individual states may impose additional restrictions. There are few controls on currency transfers, access to foreign exchange, or repatriation of profits. Foreign investors may own most land, subject to some restrictions.

FINANCIAL FREEDOM — 70

The U.S. financial sector has undergone drastic changes since the sub-prime mortgage crisis began in mid-2007, substantially reducing economic freedom. Mortgage guarantors Fannie Mae and Freddie Mac were placed in conservatorship. A number of prominent financial firms or banks have failed; government bailouts have kept others afloat; and the government has intruded on firms' management in unprecedented ways (for example, by setting caps on executive compensation). Despite the turmoil, the U.S. still has one of the world's most dynamic and developed financial markets. Foreign financial institutions and domestic banks are subject to the same restrictions. Foreign participation in equities and insurance is substantial. Concerns continue over the intrusive nature and cost of the 2002 Sarbanes-Oxley Act, which increased disclosure and internal control requirements to the detriment particularly of small firms.

PROPERTY RIGHTS — 85

Property rights are guaranteed. Contracts are secure, and the judiciary is independent and of high quality. A well-developed licensing system protects patents, trademarks, and copyrights, and laws protecting intellectual property rights are strictly enforced. Government interventions in financial markets and the automotive sector have raised concerns about expropriation and violation of the contractual rights of shareholders and bondholders.

FREEDOM FROM CORRUPTION — 73

Corruption is perceived as minimal. The U.S. ranks 18th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. The absence of transparency and accountability in the operations of the Troubled Asset Relief Program (TARP) and in other "bail-out" programs managed by the Treasury and the Federal Reserve has increased concerns about the potential for government corruption.

LABOR FREEDOM — 94.8

The United States' labor regulations are highly flexible. The non-salary cost of employing a worker is low, and dismissing an employee is not burdensome.