WHY IS THE MARKET ECONOMY SO STRONG?

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Introduction

In recent decades there has been a sea change in the world economic scene. The new economic orthodoxy of the market economy and entrepreneurship has been sweeping the globe. Governments are selling off state-owned companies to the private sector and the economy is being deregulated and liberalized and globalized, and the number of stock exchanges is exploding. Since the fall of the Berlin Wall in 1989, this trend toward the market economy has been accelerating around the globe. Former Socialist countries of Eastern Europe, Vietnam, and China have embraced the market economy, and Wal-Marts and McDonalds and Starbucks have sprouted from Beijing to Hanoi to Moscow. Many have finally realized that governments can no longer afford the expensive welfare state, and government planners are no longer considered wiser than the free market in allocating scare investment resources to achieve a rapid economic growth.

One of the most vivid examples of this trend can be seen in the new city of Shenzen just north of Hong Kong. Twenty years ago, it used to be a sleepy and dreary town of about 2,000 residents toiling in the peoples' communes, but now it has exploded into a dynamic metropolis of over 7 million people working and living in ultra modern office buildings and sleek apartments and it has attracted numerous high tech and trading companies from all over the world. Not only its population has exceeded that of Hong Kong' six million but also its buildings and apartments are newer and more modern than those of Hong Kong. The transformation of Shenzen is the direct result of China's adoption of the market economy since late 1970s. Every day, tens of thousands of Hong Kong residents stream north to Shenzen to shop and eat and be entertained where prices of everything from merchandises to services and rents are much cheaper than in Hong Kong.

After several decades of preoccupation with the dirigistic and interventionistic role of the government in promoting economic growth, an increasing number of developing and developed countries have shifted their economic growth focus to market signals guiding the allocation of resources in which the role of prices is being emphasized, profits are becoming a measure of economic success for enterprises, and financial markets are being promoted to allocate resources to profitable activities within a competitive environment. Deregulation and liberalization in the economic and financial system are carried out in order to nurture competition among various market participants and to enhance allocative efficiency of the economy. While the post-WWII economic development model was inward-oriented in many countries, relying upon government intervention to set pricing signals and promoting a strong participation of the state in the production of goods and services, the new approach is outward-oriented through a free market mechanism where the market prices play the dominant allocative role. The role of the government in the new outward-oriented development model is to provide a level playing field for all market participants through deregulation and liberalization. Here the existence of a substantial private sector is a necessary but not a sufficient condition for economic development, which also requires open competition free of oligopolistic and privileged practices perpetuated by protective barriers and subsidized public sectors.

At the same time, the shift to the market economy has also engendered for many new anxieties and insecurities. They fear that governments will no longer protect them as their economy becomes liberalized and privatized and increasingly intertwined with the global economy that ignores national borders. And they express unease about the price that the free market demands of its participants. Many have been alarmed by a series of recent shocks and turbulences in international financial markets such as the Mexican peso crisis of 1995, the Asian financial crisis of 1997-98, the Russian defaults of 1998 and the subsequent Long Term Capital Management (LTCM) debacle, and the current Argentine and Brazilian crisis. The collapse of the dot com bubble in the U.S. stock market since early 2000 still reverberates among investors around the world, and the recent financial scandals that arose from the collapse of Enron and WorldCom and other former corporate high flyers exposed the widespread conflicts of interests among Wall Street bankers, consultants and accountants. Thus, while the market economy has been the global trend in recent decades, it has also faced its share of challenges in recent years. Nevertheless, the recent financial crises highlight the importance of thorough economic reforms to derive the benefits of a market economy, while half-hearted reforms and government's heavy hands are actually one of the root causes of an economic crisis, as can be witnessed in the Asian crisis.

Detrimental Effects of Governments and the IMF in the Asian Financial Crisis

The Asian economic and financial crisis was caused by many factors, some domestic and others external. Domestically, one has to mention first of all the excessive government regulation of their economy that has led to the inefficiency and high costs of doing business in these Asian countries, thus making their economies less competitive in the past decade, especially since the early 1990s. In Korea, for example, a study showed that it took on average 925 days and 44 government permits and licenses to build a factory in mid 1990s, with receiving each permit and license usually requiring payment of bribes. The so-called "four highs" (high land/factory site cost, high transport cost, high wages, and high interest rates) as compared to those of Korea's major competitor countries had been due mainly to the excessive government regulation that choked the economy through burdensome and inflexible rules and procedures.

Furthermore, the inefficient and backward Asian banking and financial system has misallocated the scarce financial resources, favoring large and politically well-connected firms at the expense of small and medium-sized companies. Credit allocation was manipulated through the symbiotic collusion among influential politicians, top bureaucrats, and well-connected businessmen, with bribery providing the glue in this iron triangle. Some would defend this Asian way of doing business as part of "Asian values." Asian bankers were cavalier in their lending decisions, which were based more on personal and political connections than on rational credit appraisals. Excessive reliance on the collaterals for lending decision also stunted the credit evaluation capability of local Asian bankers.

In Asia, there was a strong suspicion that the IMF was also used by the U.S. government in its efforts to pursue its own agenda. Even in the American press, the IMF was characterized as "an extension of American policy" by The New York Times and as "a subsidiary of the U.S. Treasury Department" by The Wall Street Journal. Furthermore, the heavy policy intervention by the IMF further exacerbated the Asian economies precisely when they were most vulnerable. The key ingredients of the IMF program to deal with the Asian financial crisis were a tight macroeconomic policy and structural adjustment. High interest rates and tight monetary policies, mandated by the IMF program, were claimed to be necessary or inevitable at least in the short run for the stabilization of the exchange rates of those Asian crisis countries.

High interest rates were supposed to help not only stabilize the exchange rate by discouraging capital outflows (and equally, encouraging capital inflows) but also facilitate much needed corporate sector restructuring. Nevertheless, this textbook prescription was highly damaging during a financial panic situation when high interest rates were not effective to reverse massive capital outflows from Asia. Given the heavy reliance in Asia on corporate debt, high interest rates mandated by the IMF imposed high financial costs on firms, and hence, significantly increased the risk of corporate bankruptcies and unemployment. Additional bankruptcies and subsequent increase in non-performing loans on the books of the banking sector further discouraged capital inflows, offsetting any possible positive effects on capital inflows of high interest rate differentials between home and abroad. Excessive government regulation and the high-handed IMF policies exacerbated the Asian financial crisis.

From Keynes to Hayek

The widespread adoption of the market economy principle in recent decades reflects a fundamental shift in ideas. The dramatic redefinition of state and marketplace over the past two decades or so demonstrates anew the overwhelming power of ideas. When Friedrich von Hayek published "The Road to Serfdom" in 1944, the market economy was not a very popular or powerful concept. Especially after the end of the Second World War, the Communist countries in Eastern Europe firmly believed in the primacy of the state in every phase of economic activities, and even in the Western Europe the role of government in reviving the war-torn economies was widely accepted. John Maynard Keynes dominated economic theory at that time, and Western Europe adopted the mixed economy consensus wherein the role of the government was considered essential to provide a steady hand to guide an economy. And the New Deal and the Great Society policies prevailed in the United States wherein the government intervened in the economy in the name of pursuing some worthy national goals more effectively than the market economy to create America's regulatory capitalism, thus making Hayek's ideas seem quite distant indeed.[1]

Especially after the end of the Second World War, European nations saw it natural for their governments to take the leadership role in the reconstruction of economies devastated by the war. Even when the period of reconstruction came to an end and the first signs of prosperity began to appear in the early 1960s, the idea of the mixed economy survived on the intellectual foundation of a new economics. It was derived not from socialism but from the work of a reformer of capitalism, John Maynard Keynes, who reigned as the most influential economist of the twentieth century. His ideas originated from his efforts to make sense of the disruptions and crises that began with the First World War and continued through the Great Depression. Keynes thought that the economy left alone was chronically unstable and subject to fluctuations due to the tendency toward over-saving and inadequate investment rooted in the psychology of uncertainty. As the solution to this conundrum, he advocated replacing the missing private investment with public investment financed by deliberate government budget deficits. The government would borrow money to spend on such things as public works and the deficit spending in turn would create jobs and increase the purchasing power of the private sector.

Thus, Keynes intended the government to play a much large role in the economy. He provided both a specific rationale for government's taking a bigger role in the economy and a more general confidence in the ability of government to intervene and manage the economy effectively. This idea was based on his belief that government knowledge and action was superior to that of the marketplace. In fact, as one of his biographers mentioned, Keynes' unstated message in its most extreme form was that the state is wise and the market is stupid.[2]

In the 1970s, however, Western industrialized countries such as Britain and the United States suffered from severe inflation problems and the economic malaise. The British economy was especially hard hit by the two oil crises of 1973 and 1979 along

[1] Fortunately, Hayek lived until 1992, dying at the old age of 92. Thus, he was able to witness the fall of the Berlin Wall in 1989 and also professionally he was finally recognized by his peers with a Nobel Prize in economics in 1974.

[2] Robert Skidelsky, *John Maynard Keynes*, 3 volumes, London: Macmillan, 1983-1994.

with continuing labor strikes by militant unions such as coal miners and public-sector employees. When Margaret Thatcher became the prime minister of Britain in 1979, she was already well familiar with Hayek's *The Road to Serfdom*, having read the book carefully while she was the vice chairman of the Institute of Economic Affairs, a famous British think tank led by Keith Joseph. The book was the seminal work of Hayek for the compelling critique of the welfare state, the mixed economy, and collectivism. The birth of Thatcherism to cure the "sick economy of Europe" was thus rooted in Hayek's ideas. The election of Ronald Reagan in 1980 as the president of the United States also gave birth to Reaganomics, again based on Hayek's basic tenets. Both Thatcherism and Reaganomics de-emphasized the role of government in the economy while promoting the dynamic and entrepreneurial spirit of a free market economy. The two new leaders on both sides of the Atlantic embarked upon an ambitious drive in 1980s to privatize and deregulate and liberalize their respective economy.

Evolution in Development Thinking

The principal goal of development policy is to create sustainable improvements in the quality of life for all people. The last half-century has been marked by a gradual shift in the orthodoxy of economic development thinking. When the World Bank and the IMF were created during the Bretton Woods Conference in 1944, Keynesianism was dominant.[3] The positive and leading role of government in economic development was almost universally accepted and the private sector economy was almost non-existent in many newly independent developing countries. Thus, it was natural in a sense that the government was expected to play the leading role for economic development. Development models popular in the 1950s and 1960s focused on the constraints imposed by limited capital accumulation and the inefficiency of resource allocation. This attention made increasing investment as a major objective, and since the private sector was not ready or able to engage in massive new investments deemed crucial to an economy's takeoff, naturally the government took over as the leading player in raising and allocating resources into certain prioritized sectors of the economy. Consequently,

[3] In fact, Lord Keynes was a key player at the conference as part of the British delegation.

the public sector and the state-owned enterprises increased their share of the economy drastically in the world.

Development theorists of the 1950s and 1960s also offered a wide variety of rationales explaining why open and free economies would not suffice to spur growth. Many development experts focused on economic planning as a solution to the prevailing problem of low investment and slow industrialization, especially as memories of the Great Depression made many policymakers skeptical about the virtues of unconstrained market forces. Two other factors seemed to argue for an aggressive government role in development: the U.S. government's close management of production during the Second World War, and the high investment and rising GDP levels of the Soviet Union, which was then surging forward under communism despite enormous human costs.

Over time, however, it became clear that while governments have a vital role in the economic development process, few governments have run state enterprises efficiently. Returns on investments in the Soviet Union fell almost to zero by the 1980s. Politicians and bureaucratic mandarins padded public payrolls and the consequent overstaffing, combined with inefficiency, produced large deficits that imposed a fiscal burden and diverted needed revenues. Widespread corruption and lack of transparency led to massive frauds and misallocation of resources through over-investments and underutilization of the capacity in many state-sponsored projects, and governments of developing countries were making poor decisions in both the macro and micro economic management, leading to inflation, inefficiency and frequent economic crises.

By the 1980s, the intellectual climate had thus shifted again. Confidence in government planning and micro-management of the economy had diminished dramatically. Instead, there was an increasing concern over government-induced price distortions and inefficiencies arising from the existence of large state-owned enterprises. As a response to public sector inefficiency, policy discussions were refocused on market-conforming solutions: elimination of government-imposed distortions associated with protectionism, subsidies, and state ownership. The important role of the private sector and vigorous competition in a free market environment was belatedly recognized, though still reluctantly by traditional development economists more familiar with the dirigistic economic development model of the past.

From Economic Planning to the Market Economy

From the Bolshevik revolution of Russia in 1917 to the fall of China into the communist hands in 1949, countries containing one-third of the world's population seceded from the market economy and launched an experiment in constructing an alternative economic system. First in the former Russian Empire and Mongolia, then in Central and Eastern Europe after World War II, and subsequently in China, North Korea and Vietnam, a massive effort was made to centralize control of production and distribution and to allocate all resources through state planning. This vast experiment in state-run economies transformed the political map of the world and set the course of much of the twentieth century. Since the fall of the Berlin Wall in 1989, however, its failure has set in motion just as radical a transformation, as these same countries changed course, seeking to rebuild markets and reintegrate themselves into the world economy.

Despite Karl Marx's prediction that socialism would replace capitalism, the intrinsic inefficiency of state planning and state control of most economic activities exposed the colossal failure of socialism in improving the economic welfare of people. State planners could not get enough information to substitute for that supplied by market signals in a free society. In the end, state planning degenerated largely into a personalized bargaining process, with connections playing an important element. This proved bad for industry and worse for agriculture. Also the state control of the economy suppressed individual incentives and creativity as well as entrepreneurial spirit. Innovations in technology, products and services stunted, and the efficiency and productivity increases disappeared. Government controls replaced market incentives, and the system frequently degenerated into cults of personality and abuses of position by political and government elites. The planned economies focused on raising output through quantitative production targets, with little regard for costs and with unreasonably mis-priced natural resources and capital.

The deep inefficiencies of planning became increasingly evident with time. Heavy industries such as machine building and metallurgy were emphasized, while development of consumer goods and services industries lagged. After posting high annual growth rates in the 1950s averaging 10 percent according to official data, the

Soviet economy decelerated to 7 percent in the 1960s, 5 percent in the 1970s, and barely 2 percent in the 1980s, and in 1990 its economic growth rate was actually negative. This deceleration occurred despite high investment rates, as returns to capital formation began a steady and rapid descent from the mid-1950s. Thus, the state-controlled socialist economy experienced a steady decay in efficiency not due to any lack of new investments but more due to the waste and inefficiency in resource allocation. A similar stagnation infected Eastern Europe. Social indicators began to worsen as well, confirming the troubled state of planned economies. After the Second World War, health indicators in Russia improved rapidly and began to approach levels in the industrial market economies. In the mid-1960s, however, they began to stagnate, and later even to reverse: life expectancy fell by two years between 1966 and 1980.

Similarly, living standards in China's planned economy also stagnated. Overall (total factor) productivity declined from 1955 to 1978 despite, or perhaps because of, very high investment in heavy industry. The famines of the Great Leap Forward (1958-60) and the chaotic decade from the start of the Cultural Revolution in 1966 until the death of Mao Zedong in 1976 left the Chinese economy in tatters. Only with the return to power of Deng Xiaoping in 1978, China initiated various economic reforms and started to move away from strict state planning to a market economy. Similarly, most of the formerly socialist countries have rejected all or much of central planning and have embarked on a passage toward decentralized market mechanisms.

Inherent Strengths of the Market Economy

It is no accident that a country with the market economy has consistently outperformed the socialist countries with central planning and state control of their economy. The market economy possesses many advantages over a planned economy. First, the market economy assures more efficient resource allocation as new investment resources are channeled to those sectors and project that generate the highest economic returns possible. On the other hand, in a planned economy the scarce investment resources are allocated based upon various political and non-economic factors that may be tied to the preferences of the planners and government leaders, thereby leading to lower investment returns than in the market economy. While some of the non-economic factors might be derived from the central planners' desire to achieve socially desirable goals, oftentimes the planners' special interests and hidden motives and personal relationship would sway the final allocation decisions. Furthermore, in the free market economy the investors are directly responsible for the risks and returns of a project since their own capital and resources are involved, leading them to be extra careful and thorough in ccalculating the expected returns from their investments and to pursue only those investments that are likely to result in optimum results. On the contrary, in a planned economy, the decision makers are not utilizing their own resources but the state's funds. It is quite natural in this latter case, therefore, that the investment decisions involving state resources would be less disciplined and more politically motivated.

Second, in the market economy most resources are raised by the private sector, and the government is not active in raising funds for its own public investment operations. On the other hand, in a planned economy the needed public funds for investments are often collected through government financing activities such as new taxes and/or public borrowings, which crowd out private investors from the capital market and raise interest rates in general for non-public fund raisers. Thus, the cost of capital for private sector investors in a planned economy would be higher and tend to discourage new investments by the private sector, which often results in chronic shortages and market distortions. In the market economy, less government means less taxes and more funds for private investors at less cost, which increases the returns to investors in general.

Third, less government implies in general less waste of taxpayer's money and less corruption and more transparency. The free market economy implies more private sector initiatives and individual responsibilities and less government intervention in the private life of its people. The welfare roll will be limited to only those who truly deserve public assistance due to physical or mental handicaps, and welfare recipients are expected to follow certain social norms of responsible behavior in return for the public assistance. Since all able-bodied persons are expected to make their fare share of social contribution through hard work and discipline, there is less room for waste and abuse of taxpayers' money. Smaller government in the market economy means less regulation and less bureaucratic control. Since more working people will be available in a free market economy, the overall production volume of goods and services in a country will be also higher than a planned economy country with a comparable population base.

Fourth, the market economy frees up the creativity and innovative spirits among people who can expect to benefit from their own creative ventures. A pervasive problem in socialist countries was the lack of motivation on the part of economic participants, as they are protected for their life time by the government's "iron bowl". Risks and rewards for one's own efforts are not properly shared in a planned economy where the government elites determine the rewards for members of the society based on their own politically motivated criteria. The result is often a complete abdication of one's own initiative and hard work, since there are often no rewards for their extra efforts and instead some risks of being penalized for disturbing the accepted norms of social behaviors and work patterns. Many workers and farm hands may go through the motion of following the government's instructions but their hearts are often not in it. Instead, they learn rather quickly that their rewards can be more assured and bigger if they behave in such manners as to satisfy the whims and wishes of government leaders and central planners rather than responding to market signals and market incentives.

Fifth, in the market economy the private sector generally provides more attractive opportunities for reaping financial rewards than in public service. Thus, more gifted and talented persons tend to congregate toward private ventures and initiatives rather than being attracted to public service careers. Of course, there are exceptions as always where talented persons may opt for careers such as a religious calling, teaching profession, or a public service job, mainly because of their noble objectives. In general, though, most people tend to value their material well being highly for them and their families. Since the market economy provides the private sector with most opportunities for the advancement of one's material well being through hard work and creativity, more talented people tend to engage in private economic ventures producing those goods and services demanded by the market than in a planned economy where the route for advancement and financial security is mostly found in the public service career either as a party apparatchik or government official. It is no wonder then that the economic performance in a market economy is much higher than that of a planned economy.

Finally, a planned economy cannot adequately cope with today's globalized world, which is ever more closely inter-connected through digitalized communication networks and modern transportation links. A planned economy might have fared better in an earlier industrial era when the main economic activities revolved around heavy machinery industries and measured by annual coal and steel production volumes. Today's 21st century economy is more service oriented in a post-industrial era and therefore the critical economic signals are more complicated and cannot be easily digested and processed by bureaucrats of a planned economy. Only a free market economy possesses the required flexibility and dexterity to understand and respond to the complex modern economic signals emanating from all corners of the globe. It takes an unusual degree of vision and insight as well foresight to collect diverse market signals and to organize the most appropriate economic schemes and business ventures to exploit the current and emerging opportunities out there. No government, however disciplined and dedicated one might be, can be expected to play the role of an efficient intermediary and controller in a modern globalized and digitalized service economy.

The Proper Role of a Government

There has been a profound shift in thinking about the proper role of a government over the past 50 years. Most developing countries in Asia, the Middle East, and Africa came out of the colonial period with a strong belief in state-dominated economic development. The state would mobilize resources and people and direct them toward rapid growth and eradication of poverty and social injustice. State control of the economy, following the example of the Soviet Union, was central to this strategy. Many Asian, Latin American, Middle Eastern, and African countries also followed this postwar pattern of state-dominated, import-substituting industrialization. This belief was reinforced by the popularity of state activism worldwide in the immediate post WWII era. The Great Depression was seen as a failure of capitalism and the market economy, while state interventions such as the Marshall Plan, Keynesian demand management and the welfare state seemed to record one success after another. Thus, the early development strategy was based on the credo that emphasized the prevalence of market failures and accorded the government a central role in correcting them. Centralized planning, corrective interventions in resource allocation, and a heavy state hand in infant-industry development were part and parcel of this strategy. Economic nationalism was added to the mix, to be promoted through state enterprises and encouragement of the indigenous private sector. By the 1960s states had become involved in virtually every aspect of the economy, administering prices and increasingly regulating labor, foreign exchange, and financial markets.

By the 1970s the costs of this strategy were coming home to roost. The oil price shocks required massive petrodollar recycling on a global scale and it resulted in heavy foreign bank borrowings by state sectors of developing countries in orders to stay afloat and keep investing. However, the costs of this development strategy were suddenly exposed when the world debt crisis hit most developing countries in the 1980s. The fall of the Berlin Wall in 1989 and the collapse of the Soviet Union in 1991 sounded the death knell for a state-controlled economic model. Suddenly, government failure, including the failure of state-owned enterprises, seemed everywhere glaringly evident. Thus, governments began to adopt policies designed to reduce the scope of the state's intervention in the economy. States curb their involvement in production, prices, credit flows, and trade. Market-friendly strategies took hold in large parts of the developing world. The pendulum had swung from the state-dominated development model of the 1960s and 1970s to the minimalist state of the 1980s and 1990s.

In recent years, the debate of state versus market has been shifted to a more fundamental issue of state effectiveness. State-dominated development model has failed, but is development without an effective state possible? The lesson of a half-century's thinking and rethinking of the government's role in development is more nuanced and a serious search is on for a proper role of the government in the 21st century's globalized economy. In general, one can summarize some of the tentative answers to this important emerging question. First of all, as the supremacy of the market economy over a planned economy is well established by both historical reality and economic theory, the proper role of a government is to provide an optimum enabling environment for the market economy to function and to prosper. The market economy, despite its obvious flexibility and dynamism, is at the same time fairly fragile against concerted state-sponsored interventionist policies and programs. A strong market economy requires a bold and courageous leadership by enlightened political leaders convinced of the market economy's inherent virtues and contribution. It also requires the proper legislative and political initiatives in such areas as the rule of law, property rights, sanctity of contracts, transparency, control of corruption, fair trade, prudential and effective regulation of the financial system and markets, and labor market flexibility. Abolition of needless regulations and government controls existing simply for the sake of controls should be boldly carried out, and vigilant efforts towards economic reforms are needed to achieve comprehensive (and not half-hearted) deregulation, liberalization, privatization and globalization of the economy. When the government provides such an enabling environment, the market economy can flourish and benefit the whole country.

Conclusions

Since Friedrich von Hayek published "The Road to Serfdom" in 1944, the market economy has been subjected to severe tests and under attack from various corners. But eventually Hayek's ideas earned a resounding victory and most economists now agree on the need for decentralized market decisions in lieu of the guidance of central economic planners. Today, socialism is forgotten and instead the market economy in China and economic reforms in Russia draw the world's attention. Even the only remaining Stalinist regime of North Korea has embarked, however tentative by, upon a series of market reforms starting in July 2002. During the past two decades when the free market reforms were undertaken seriously, many developing countries have experienced some profound improvements in economic performance and quality of life. From 1980 to 2000, the number of extreme poor (those with inflation-adjusted income under $1.50 a day) dropped by 727 million in China and 207 million in India. As a whole, Asia's rate of extreme poverty has declined from 54 percent in 1980 to 7 percent in 2000. On a global scale, the extreme poverty rate declined to 13 percent from 44 percent during the same period.

Despite the impressive gains of the market economy, it is still vulnerable to attacks from many corners. The landslide victory of the leftist candidate, Luiz Lula de Silva, in the recent Brazilian presidential election represents a serious challenge to the so-called Washington consensus advocating the market economy. The continuing economic crisis of Argentina as symbolized by this month's default of its World Bank loans is a further irony in that Argentina was touted throughout the early and mid 1990s as the model for a free market economy in the developing world. Of course, the current economic problems faced by Argentina and Brazil have been in no small measure due to the continuation of reckless public spending that had been financed by the proceeds of privatization and public borrowings. The market economy cannot be a panacea unless the state is truly committed to small and efficient government operating under strict fiscal discipline.

Nevertheless, there is no doubt that the market economy and economic freedom lead to higher economic growth and prosperity around the globe. The 2003 Index of Economic Freedom, compiled by the Heritage Foundation and The Wall Street Journal demonstrate that higher economic growth and greater economic prosperity are closely correlated with economic freedom. Economically free countries tend to have higher per capita income than less free countries. For instance, the top 15 "free" countries had an average per capita income of $26,855 in 2000, while the next 56 "mostly free" countries had per capita income slightly less than half that. The least free country among the 158 countries surveyed, North Korea, has suffered from severe malnutrition and starvation of millions of its people in recent years. It is no wonder that even North Korea started from this year to introduce many of the market reform measures adopted in China to impressive results during the past two decades.

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