Northwood University's
Monthly Economic Outlook

February 2015

Introduction

U.S. fourth quarter 2014 GDP came out last week with a disappointing growth rate of 2.6% which is down from the expected 3.2% growth rate many economics were predicting and dramatically lower than the 5.0% U.S. growth rate realized in the third quarter. The initial U.S. GDP growth rate for all of 2014 is 2.4%, slightly higher than the average U.S. growth rate of 2.2% from 2010-2013. It is important to note that the U.S. economy grew at an annual rate of 3.4% during the 1990s and averaged 3.3% growth from the end of World War II thru 2008.

Key December/January Data

Positive and Negative Signs

Fourth quarter 2014 consumer spending came in at nine-year high from October thru December. U.S. job growth averaged more than 200,000 new jobs created per month for 2014 while falling oil and gasoline prices added to increasing consumer confidence, especially in November and December 2014 and into January 2015.

Private investment, government spending and U.S. exports all declined in December with early data indicating that the trend will continue into 2015. With more than 25% of U.S. GDP being exported, slowing growth in Asia and slow growth in Europe will not bode well for additional U.S. growth in 2015.

Current Issues

For the past 21 years, The Heritage Foundation and *The Wall Street Journal* have published the "Index of Economic Freedom." This annual study analyzes the economic condition of 186 countries relative to hundreds of economic variables that drive economic success of a nation. The "Index of Economic Freedom" is comprised of ten broad categories with numerous variables per category. The Index measures economic freedom by category (with a perfect score or maximum freedom worth 100 points) and overall (which is determined by adding the total of all categories and dividing the total by ten). The Heritage Foundation/Wall Street Journal then ordinally ranks the world economies 1 being the best performer to 186 being the worst performer. The following are the ten major categories as briefly defined by The Heritage Foundation and *The Wall Street Journal* with the 2015 world and U.S. average for each category in brackets:

1. Investment Freedom: In an economically free country, there would be no constraints on the flow of investment capital. Individuals and firms would be allowed to move their resources into and out of specific activities, both internally and across the country's borders, without restriction (World average 54.8; U.S. average 70).

2. Government Spending: This component considers the level of government expenditures as a percentage of GDP. Government expenditures, including consumption and transfers, account for the entire score (World average 61.7; U.S. average 51.8).

3. Property Rights: The property rights component is an assessment of the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state. It measures the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws. It also assesses the likelihood that private property will be expropriated and analyzes the independence of the judiciary, the existence of corruption within the judiciary, and the ability of individuals and businesses to enforce contracts (World average 42.2; U.S. average 80).

4. Freedom from Corruption: Corruption erodes economic freedom by introducing insecurity and uncertainty into economic relationships. The score for this component is derived primarily from Transparency

International's Corruption Perceptions Index (CPI), which measures the level of corruption in 178 countries (World average 41.9; U.S. average 73).

5. Trade Freedom: Trade freedom is a composite measure of the absence of tariff and non-tariff barriers that affect imports and exports of goods and services (World average 75.4; U.S. average 87).

6. Financial Freedom: Financial freedom is a measure of banking efficiency as well as a measure of independence from government control and interference in the financial sector. State ownership of banks and other financial institutions such as insurers and capital markets reduces competition and generally lowers the level of available services (World average 48.5; U.S. average 70).

7. Business Freedom: Business freedom is a quantitative measure of the ability to start, operate, and close a business that represents the overall burden of regulation as well as the efficiency of government in the regulatory process (World average 64.1; U.S. average 88.8).

8. Fiscal Freedom: Fiscal freedom is a measure of the tax burden imposed by government. It includes both the direct tax burden in terms of the top tax rates on individual and corporate incomes and the overall amount of tax revenue as a percentage of GDP (World average 77.4; U.S. average is 66.2).

9. Monetary Freedom: Monetary freedom combines a measure of price stability with an assessment of price controls. Both inflation and price controls distort market activity. Price stability without microeconomic intervention is the ideal state for the free market (World average 75; U.S. average is 76.6).

10. Labor Freedom: The labor freedom component is a quantitative measure that looks into various aspects of the legal and regulatory framework of a country's labor market. It provides cross-country data on regulations concerning minimum wages; laws inhibiting layoffs; severance requirements; and measurable regulatory burdens on hiring, hours, and so on (World average 61.3; U.S. average 98.5).

The study also places each country into one of five classifications based on their score and the range of freedom in which it falls. The classifications range from free to repress. The following chart lists the five classifications, score, and number of countries per classification and percent of countries per classification:

CLASSIFICATION	SCORE	#	PERCENT
Free	80.0-100	5	2.69%
Mostly Free	70.0-79.9	30	16.13%
Moderately Free	60.0-69.9	55	29.57%
Mostly Unfree	50.0-59.9	62	33.33%
Repressed	0-49.9	26	13.98%
Unranked n/a		8	4.3%

Conclusion

In 2009, the United States was ranked the 6th freest economy in the world with an overall score of 80.7. In 2015, the United States has dropped to 12th with an overall score of 76.2. Not only has the United States dropped 6 places, but it has fallen from the classification of free to mostly free. To make matters worse, in 2015 the categories of government spending and fiscal freedom for the United States fall below the world average for both. We believe this data serves as additional validation for our call for pro-business tax reform and the adoption of a balanced budget amendment in the United States.

Contact Us

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