Executive Summary

Economic Freedom of the World

The index published in *Economic Freedom of the World* measures the degree to which the policies and institutions of countries are supportive of economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to compete, and security of privately owned property. Forty-two data points are used to construct a summary index and to measure the degree of economic freedom in five broad areas:

1 Size of Government: Expenditures, Taxes, and Enterprises;
2 Legal Structure and Security of Property Rights;
3 Access to Sound Money;
4 Freedom to Trade Internationally;
5 Regulation of Credit, Labor, and Business.

Economic freedom has grown considerably in recent decades

- The chain-linked summary index (exhibit 1.4) permits comparison over time. The average economic freedom score rose from 5.55 (out of 10) in 1980 to 6.70 in 2007, the most recent year for which data are available.

- Of the 103 nations with chain-linked scores going back to 1980, 92 saw an improved score and 11 saw a decrease.

- 12 nations increased their score by more than 2.50 points since 1980, though most started from a very low base. With the increase noted in parentheses, they are: Ghana (3.69), Uganda (3.31), Israel (3.24), Jamaica (2.80), Peru (2.78), Hungary (2.66), El Salvador (2.54), Mauritius (2.52), Nigeria (2.52), Iran (2.51), Nicaragua (2.51), and Chile (2.50).

- Only three nations decreased their score by more than one point, Zimbabwe (–2.33), Venezuela (–2.26), and Myanmar (–1.58).

- In this year's index, Hong Kong retains the highest rating for economic freedom, 8.97 out of 10. The other top 10 nations are: Singapore (8.66), New Zealand (8.30), Switzerland (8.19), Chile (8.14), the United States (8.06), Ireland (7.98), Canada (7.91), Australia (7.89), and the United Kingdom (7.89)

- The rankings of other large economies are Germany, 27 (7.50), Japan 30 (7.46), France 33 (7.43), Italy 61 (6.95), Mexico 68 (6.85), Russia 83 (6.50), China 82 (6.54), India 86 (6.45), and Brazil 111 (6.00),

- Eight of the nations in the bottom 10 are African. The other two nations are Venezuela and Myanmar. The ten nations are: Zimbabwe (2.89), Myanmar (3.69), Angola (4.04), Venezuela (4.33), Republic of the Congo (4.44), Central African Republic (4.79), Guinea-Bissau (4.84), Democratic Republic of the Congo (5.00), Chad (5.09), and Niger (5.11).

Nations that are economically free out-perform non-free nations in indicators of well-being

- Nations in the top quartile of economic freedom had an average per-capita GDP of $32,443 in 2007, compared to $3,802 for those nations in the bottom quartile in constant 2005 international dollars. (Exhibit 1.6)
- The top quartile has an average per-capita economic growth rate of 2.4%, compared to 0.9% for the bottom quartile. (Exhibit 1.7)
- In the top quartile, the average income of the poorest 10% of the population was $9,105, compared to $896 for those in the bottom quartile, in constant 2005 international dollars. (Exhibit 1.11)
- Life expectancy is 79 years in the top quartile compared to 59 years in the bottom quartile. (Exhibit 1.12)
- Nations in the top quartile, have an average score of 84.8 out of 100 for environmental performance while those in the bottom quartile have an average score of 64.5. (Exhibit 1.13)
- Nations in the top quartile have an average score of 7.5 for corruption on a scale of 1 to 10, where 10 marks the lowest level, while those in the bottom quartile have an average score of 2.6. (Exhibit 1.14)
- Nations in the top quartile have an average score of 1.6 for political rights on a scale of 1 to 7, where 1 marks the highest level, while those in the bottom quartile have an average score of 4.4. (Exhibit 1.15)
- Nations in the top quartile have an average score of 1.6 for civil liberties on a scale of 1 to 7, where 1 marks the highest level, while those in the bottom quartile have an average score of 4.1. (Exhibit 1.15)

Economic Freedom of the World, 2007

Chapter 1 provides an overview of the economic freedom of the world project and the results of this report. It also reviews some causes of the current economic crisis and looks back at the Great Depression, examining briefly some of the policy responses—monetary contraction, trade restrictions, and increased government spending and taxation—that, perversely, prolonged that economic downturn. It warns against repeating similar mistakes.

The Impact of Financial and Economic Crises on Economic Freedom

Chapter 3 reviews the impact of banking crises, and their negative economic impact, on economic freedom. While the study finds that economic freedom may decline in the short term in response to crises, the results also indicate that, over a longer time, economic freedom had a tendency to increase after a banking crisis. As this case study shows, in Norway and Sweden the banking crisis did not distract these countries from continuing with their market-based reform policies.

The econometric results for changes in the level of economic freedom based on observations at 5-year intervals from 1970 to 2005 suggest that countries that had a banking crisis in the previous period increased their level of economic freedom. This result stands in sharp contrast to the chapter's findings for the sample of annual observations over the period from 2001 to 2006 that suggest that in the short term a banking crisis lowers economic freedom.

However, the authors warn that, due to the global nature of the current crisis, their results may underestimate the impact of the crisis on economic freedom. In other words, evidence based on previous crises may not capture the impact of the current crisis fully. As most countries in the world are in a serious economic downturn at the same time, the authors caution that it will be much harder to get out of this recession.

The Effects of American Recession-Fighting Policies on Economic Freedom

The third chapter examines the recession-fighting policies of the US government and concludes that many policy responses will reduce the country's overall level of economic freedom in, at least, the short-term, through the following mechanisms.

- Monetary policy will likely cause inflation.
- The fiscal-stimulus package will likely result in unprecedented levels of deficits and interest payments that reduce the amount of credit going to the private sector.
- Federal spending on infrastructure, social programs, and transfers to the states will increase government consumption and transfers, lead to more regulation and, in some cases, encroach on state responsibilities, damaging the integrity of the legal system.
- Bailout policies involve changes in existing rules, damaging property rights, the integrity of the legal system, and the legal enforcement of contracts.
- Other measures, or proposed measures, that will reduce economic freedom include higher marginal income-tax rates, increased regulation of the financial and manufacturing industries, and increased regulation related to the cap-and-trade system.

The policy implications of these findings are simple, the author argues. Since reductions in economic freedom lower economic growth and the overall well-being of Americans, the policies should be evaluated in the light of these costs when they are undergoing detailed design, are implemented, and when they are reviewed in the future.

Data available to researchers

The full data set, including all of the data published in this report as well as data omitted due to limited space, can be downloaded for free at <http://www.freetheworld.com>. The data file available there contains the most up-to-date and accurate data for the Economic Freedom of the World index. Some variable names and data sources have evolved over the years since the first publication in 1996; users should consult earlier editions of the *Economic Freedom of the World* annual reports for details regarding sources and descriptions for those years. All editions of the report are available in PDF and can be downloaded for free at <http://www.freetheworld.com>. However, users are always strongly encouraged to use the data from this most recent data file as updates and corrections, even to earlier years' data, do occur. Users doing long term or longitudinal studies are encouraged to use the chain-linked index as it is the most consistent through time. If you have problems downloading the data, please contact Jean-François Minardi via e-mail to <freetheworld@fraserinstitute.org> or via telephone +1.514.281.9550 ext. 306. If you have technical questions about the data itself, please contact Robert Lawson via e-mail to <rlawson@auburn.edu> or via telephone at +1.334.844.3007. Please cite the data set as:

Authors: James Gwartney and Robert Lawson
Title: 2009 Economic Freedom Dataset, published in *Economic Freedom of the World: 2009 Annual Report*
Publisher: Economic Freedom Network
Year: 2009
URL: <http://www.freetheworld.com/2009/2009Dataset.xls>.

Economic Freedom of the World
2009 Annual Report