

**Economic Freedom of the World
2002 Annual Report**

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2002 Annual Report

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with

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Preface by Milton Friedman

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James Gwartney
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Veronique de Rugy is a Fiscal Policy Analyst at the Cato Institute. Her research interests include tax competition, financial privacy, and fiscal sovereignty issues. She is the co-author of *Action ou Taxation*, published in Switzerland in 1996. Ms de Rugy is currently on the Board of Directors of the Center for Freedom and Prosperity. She holds a Ph.D. from the University of Paris-Sorbonne and previously directed academic programs for the Institute for Humane Studies in Europe.

About the Participating Institutes

Co-publishers of *Economic Freedom of the World*

African Research Center for Public Policy and Market Process, Kenya

The African Research Center for Public Policy and Market Process, Kenya, is the first research centre founded in Africa by the African Educational Foundation for Public Policy and Market Process, an independent educational organization registered in the United States. The primary mission of the Center and the Foundation is to promote ideas about free markets and voluntary associations in Africa. The Center conducts research on all aspects of free markets, voluntary association, and individual liberty, and publishes the results to as wide an audience as possible. The Center also organizes seminars and conferences to examine liberty and enterprise in Africa. (E-mail: kimenyi@kippra.or.ke)

Albanian Center for Economic Research (ACER), Albania

The Albanian Center for Economic Research is a public-policy institute that focuses on research and advocacy activities. In addition to providing policy makers and academics with applied economic research, it works to build public understanding of economic development issues. (E-mail: qshke@ngo.org.al)

Association for Liberal Thinking, Turkey

The Association for Liberal Thinking is a non-profit, non-governmental organization seeking to introduce the liberal democratic tradition into Turkey. The Association promotes the understanding and acceptance of ideas like liberty, justice, peace, human rights, equality, and tolerance. It also encourages academic writing on liberal themes to help the Turkish people assess contemporary domestic and international changes and attempts to find effective solutions to Turkey's problems within liberal thought. The Association for Liberal Thinking is not involved in day-to-day politics and has no direct links to any political party or movement. Instead, as an independent intellectual group, it aims to set broader political agendas so as to contribute to the liberalization of economics and politics in Turkey. (E-mail: liberal@ada.net.tr; website: <http://www.liberal-dt.org.tr>)

Association pour la Liberté Economique et le Progrès Social (ALEPS), France

ALEPS promotes the idea of free markets generating social progress. It connects French liberal intellectuals with the global scientific community. Thanks to its permanent contacts with various prestigious foreign institutes, in 1990 ALEPS published "Manifeste de l'Europe pour les Européens," signed by 600 faculties from 28 countries.

The economic collapse of central planning and the disappearance of totalitarian regimes in Eastern Europe has not solved all social problems. A post-socialist society has still to be set up, both in Eastern Europe as well as in Western countries such as France, where 40 years of the welfare state have led to mass unemployment, fiscal oppression, an explosive expansion of social security, an increase in poverty and inequality, and a loss of moral virtues and spiritual values. ALEPS provides the political and intellectual push towards this necessary revival. (E-mail: jacques.garello@univ.u-3mrs.fr)

Cato Institute, United States of America

Founded in 1977, the Cato Institute is a research foundation dedicated to broadening debate about public policy to include more options consistent with the traditional American principles of limited government, individual liberty, free markets, and peace. To that end, the Institute strives to achieve greater involvement

by the intelligent, concerned lay public in questions of policy and the proper role of government through an extensive program of publications and seminars. (E-mail: ivasquez@cato.org; website: <http://www.cato.org>)

Center for the Dissemination of Economic Knowledge (CEDICE), Venezuela

CEDICE is a non-partisan, non-profit, private association dedicated to the research and promotion of philosophical, economic, political, and social thinking that focuses on individual initiative and a better understanding of the free-market system and free and responsible societies. To this end, CEDICE operates a library and bookstore, publishes the series, *Venezuela Today*, and other studies, provides economic training for journalists, and conducts special events and community programs. (E-mail: cedice@cedice.org.ve; website: <http://www.cedice.org.ve>)

Center for Free Enterprise, Korea

The Center for Free Enterprise (CFE) is a foundation committed to promoting free enterprise, limited government, freedom and individual responsibility, the rule of law and restraint of violence. Funded by the members of the Federation of Korean Industries (FKI), the CFE was founded as a non-profit, independent foundation on April 1, 1997, at a time of economic crisis in Korean society. The CFE has concentrated on championing a free economy through books and reports on public policies, statistics, and analyses. In workshops and policy forums, the CFE has put forward alternatives to policies proposed as solutions for issues facing Korean society. (E-mail: csn@cfe.org; website: <http://www.cfe.org>)

Center for Policy Research, Sri Lanka

The Center for Policy Research (CPR) is a non-partisan advocacy and policy-research institute dedicated to fostering democracy and promoting free enterprise. As part of its philosophy, CPR actively takes positions on the reform of critical policies and aggressively lobbies key decision-makers in the country. (E-mail: mmoragoda@eureka.lk)

The Center for Research and Communication, Philippines

The Center for Research and Communication (CRC) has, since 1967, conducted research and published works on domestic and international economic and political issues that affect the Asia-Pacific region. It provides forums for discussion and debate among academicians, businessmen, civil officials, and representatives of other sectors that shape public opinion and chart the course of policies. CRC is the main research arm of the University of Asia and the Pacific in Metro Manila, Philippines, and currently serves as the Secretariat of the Asia Pacific Economic Cooperation (APEC) Business Advisory Council. (E-mail: hbasilio@info.com.ph)

Centre for Civil Society, India

The Centre for Civil Society is an independent, non-profit, research and educational organization inaugurated on August 15, 1997 and devoted to improving the quality of life for all citizens of India. The CCS maintains that, having earlier attained their political independence from an alien state, the Indian people must now seek economic, social, and cultural independence from the Indian state. This can work from two directions simultaneously: a "mortar" program of building or rebuilding the institutions of civil society and a "hammer" program of readjusting the size and scope of the political society. The CCS conducts monthly dialogues on topical issues to introduce classical liberal philosophy and market-based solutions into public debate. It has published *Agenda for Change*, a volume in 17 chapters that outlines policy reforms for the Indian government, Israel Kirzner's *How Markets Work*, and *Self-Regulation in the Civil Society*, edited by Ashok Desai. It organizes Liberty and Society seminars for college students and journalists. (E-mail: parth@ccsindia.org; website: <http://www.ccsindia.org>)

Centre for the New Europe, Belgium

The Center for the New Europe is a European research institute, based in Brussels, that promotes a market economy, personal liberty, and creativity and responsibility in an ordered society. CNE is founded on the

belief that European integration can work only in a society led by a spirit of democratic capitalism. The Center develops policy alternatives, encourages economic growth and deregulation, seeks new market-based solutions for social and environmental concerns, and promotes individual freedom, choice and responsibility. (E-mail: cne-brussels@cne-network.org; website: <http://cne-network.org>)

Centro Einaudi, Italy

The Centro di Ricerca e Documentazione “Luigi Einaudi” was founded in 1963 in Turin, Italy, as a free association of businessmen and young intellectuals to foster individual freedom and autonomy, economic competition and the free market. The Centro is an independent, non-profit institute financed by contributions from individuals and corporations, by the sale of its publications, and by specific research commissions. The Centro carries on research activities, trains young scholars and researchers, organizes seminars, conferences and lectures, and publishes monographs, books and periodicals, including: the quarterly journal, *Biblioteca della libertà*; *Rapporto sull’economia globale e l’Italia* (Report on the global economy and Italy); *Rapporto sul risparmio e sui risparmiatori in Italia* (Report on the savings and the savers in Italy); and *Rapporto sulla distribuzione in Italia* (Report on the retail trade in Italy—published also in English). (E-mail: giovanni.ronca@geva.fiatgroup.com; website: <http://www.centroeinaudi.it>)

Centro de Investigación para el Desarrollo A.C., Mexico

Centro de Investigación para el Desarrollo A.C. (CIDAC) is an independent, not-for-profit research institution devoted to the study of Mexico’s economy and political system. Its philosophy is that Mexico’s economy can be made viable only through a greater, more efficient, and more competitive private sector. CIDAC was founded in 1980 as an executive training facility for the financial sector at large (public and private, banking and business). It received an endowment from Banamex, then Mexico’s largest private bank. In 1983, immediately after the expropriation of the private banks, CIDAC changed its mandate from teaching to research. Over the last five years, CIDAC has held over 40 conferences for businessmen and its professionals continuously address academic, policy and business forums. CIDAC has also published 19 books on various economic, political and policy issues, 45 monographs, and over 500 op-ed pieces in Mexican, American and European papers and magazines. (E-mail: cidacmx@aol.com; website: <http://www.cidac.org>)

Centro de Investigación y Estudios Legales (CITEL), Peru

CITEL was organized in 1989. Its principal field is the economic analysis of law. To that end, it conducts research on different legal institutions, publishes books, and organizes seminars and colloquia. (E-mail: eghers@tsi.com.pe)

Centro de Investigaciones Económicas Nacionales, Guatemala

CIEN, the Center for Research on the National Economy, was established in Guatemala in 1982. It is a private, non-partisan, not-for-profit public-policy institute, funded by the sale of its books and periodical publications, income from conferences and seminars, and the support it receives from its members and the public. The Center’s program is devoted to the technical study of economic and social problems that impede the stable development of the nation. Its members, staff, research associates, and supporters share the principles of a social order of free and responsible individuals interacting through a market economy functioning within the rule of law. (E-mail: curizarh@cien.org.gt)

Centrum im. Adama Smitha, Poland

The Centrum im. Adama Smitha, Poland (the Adam Smith Research Centre—ASRC) is a private, non-partisan, non-profit, public-policy institute. It was founded in 1989 and was the first such institute in Poland and in Eastern Europe. The ASRC promotes a free and fair market economy, participatory democracy, and a virtuous society. Its activities in research and development, education, and publishing cover almost all important issues within the areas of economy and social life. The ASRC acts as a guardian of economic freedom in Poland. More than 50 experts are associated with the ASRC. (E-mail: adam.smith@adam-smith.pl; website: <http://www.adam-smith.pl>)

The Estonian Institute for Open Society Research, Estonia

The Estonian Institute for Open Society Research was established in 1993 as an independent non-profit public-policy research institute. EIOSR's research and public-communication programs focus on the key issues of Estonian social and political development: building a free-market economy and open civil society; enhancing social stability and integration of minority groups; and promoting Estonia's integration into European and world structures. EIOSR's first effort was the Estonian translation of Milton Friedman's *Capitalism and Freedom* in early 1994. Current EIOSR projects include promoting the idea of philanthropy to local businesses and elaborating future scenarios concerning the integration of the Russian minority into Estonian society. (E-mail: vल्ली@lin2.tpu.ee)

The F.A. Hayek Foundation, Slovak Republic

The F.A. Hayek Foundation is an independent and non-partisan, non-profit organization that provides a forum for the exchange of opinions among scholars, businessmen, and policy makers on the causes of, and solutions to, economic, social, and political problems. It proposes practical reforms of the economy, education, social security, and legislation as the Slovak Republic is transformed into an open society. Education of high-school and university students is a large part of its activities. The F.A. Hayek Foundation promotes classical liberalism, which was virtually absent until 1989: market economy, reduced role of the government, rule of law and individual choice, responsibilities and rights to life, liberty, and property. (E-mail: hayek@changenet.sk; website: <http://www.hayek.sk>)

The Fraser Institute, Canada

The Fraser Institute is an independent Canadian economic and social research and educational organization. It has as its objective the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians. Where markets work, the Institute's interest lies in trying to discover prospects for improvement. Where markets do not work, its interest lies in finding the reasons. Where competitive markets have been replaced by government control, the interest of the Institute lies in documenting objectively the nature of the improvement or deterioration resulting from government intervention. The work of the Institute is assisted by an Editorial Advisory Board of internationally renowned economists. The Fraser Institute is a national, federally chartered, non-profit organization financed by the sale of its publications and the tax-deductible contributions of its members. (E-mail: info@fraserinstitute.ca; website: <http://www.fraserinstitute.ca>)

The Free Market Foundation of Southern Africa, South Africa

The Free Market Foundation of Southern Africa was established in 1975 to promote economic freedom. The FMF sponsors and conducts research, conferences, lectures, training programs and lobbying efforts in support of the free market. Its funding comes from membership subscriptions, project sponsorships, and income from sales and fees. (E-mail: fmf@mweb.co.za)

Fundación DL, Colombia

Fundación DL is a private, non-profit research and educational institution based in Cali, Colombia. Its mission is to help improve the levels of economic, political and human development of Colombia through the promotion of policies based on the principles of economic and political freedom. Fundación DL was created in April 2000 by its General Director Andrés Mejía-Vergnaud. From its very beginning, Fundación DL has been closely associated with Atlas Economic Research Foundation and some of the main free-market-oriented think-tanks around the world. Fundación DL has a special unit devoted to economic affairs (Center for the Analysis of Colombian Economy). This unit, which has been very successful, works in identifying the main trends of the Colombian economy and producing policy recommendations from a free-market point of view. Fundación DL publishes *Política Económica* (Economic Policy), a monthly magazine about economic trends, strategy, and policy recommendations, including the section *War and Peace Watch* that deals with trends of Colombian political situation and economic consequences of internal conflict. It also publishes *Colombian Economic Watch*, a bi-weekly e-commentary by Director General Andrés Mejía-Vergnaud. (E-mail: fdl@fundaciondl.org; website: <http://www.fundaciondl.org>)

Fundación Economía y Desarrollo, Inc., Dominican Republic

The Fundación Economía y Desarrollo, Inc. (FEyD) is a private, non-profit organization dedicated to fostering competitive markets, private enterprise, and strategies that promote economic development. To meet its objectives, FEyD has several regular publications in the most important newspapers in the country. It also produces a one-hour television program called "Triálogo," which is broadcast three times a week and explains studies of the performance of the Dominican economy and its sectors. (E-mail: feyd03@tricom.net)

Fundación Libertad, Argentina

Fundación Libertad is a private, non-profit institution working towards two main goals: the research and distribution of public-policy issues (specifically in socio-economic and business areas) and the promotion of the concept of a free-market society. Founded in Rosario, Argentina in 1988 by a group of businessmen, professionals and intellectuals, the Foundation has developed its activities with the support of more than 200 private companies. Its projects include courses, lectures, seminars, research, studies and publications as well as a strong permanent presence in the media, through columns, and television and radio programs produced by the Foundation. These projects have focused on economic policies, education, regulations, and public spending. Outstanding guest speakers have delivered lectures and conferences for the Fundación Libertad; these include Peruvian writer Mario Vargas Llosa, Nobel prize-winning economists such as Gary Becker, Douglass North, Robert Lucas and James Buchanan, historian Paul Johnson, Nobel Peace Prize Laureate Lech Walessa, and other intellectuals like Jean Francoise Revel. Fundación Libertad has also led the creation of REFUNDAR, a network of Argentine foundations made up of ten organizations, located in the country's major cities. This network has helped us spread our ideas all over the country and is affiliated with similar international organizations. (E-mail: dmaggiolo@libertad.org.ar)

Fundación Libertad, Panama

Fundación Libertad, Panama, is a recently formed, non-profit foundation engaged in the promotion and development of liberty, individual choice, and voluntary cooperation and in the reduction of government. Fundación Libertad was founded by members of professional and business organizations promoting free enterprise and democracy because the existing organizations could not fully address issues affecting the freedom of the common citizen, particularly the increasing discretionary power of the state and the proliferation of legislation fostering discrimination and establishing privileges, all of which are contrary to the spirit of democratic capitalism. Fundación Libertad has drawn initial support from sister organizations such as Centro de Divulgación del Conocimiento Económico (CEDICE) in Caracas, Venezuela, and the Centro de Investigación y Estudios Nacionales (CIEN) in Guatemala. (E-mail: Roberto Brenes: diablo@pty.com; Carlos E. González: cg@pananet.com)

Fundación Libertad, Democracia y Desarrollo, Bolivia

The Fundación Libertad, Democracia y Desarrollo (FULIDED) is a non-profit organization founded by citizens interested in promoting democracy and freedom. The purpose of the Foundation is to investigate and analyze issues that have economic, political, or social impact on the free market and private initiative. Through seminars, debates, and publications, FULIDED seeks to reflect Bolivia's participation in the global economy. (E-mail: fulided@cainco.org.bo; website: <http://www.fulided-.org>)

Hong Kong Centre for Economic Research, Hong Kong

The Hong Kong Centre for Economic Research is an educational, charitable trust established in 1987 to promote the free market in Hong Kong by fostering public understanding of economic affairs and developing alternative policies for government. The Centre publishes authoritative research studies and is widely recognized as the leading free-market think-tank in Asia. It has been influential in persuading public opinion and the government in Hong Kong to liberalize telecommunications, open up air-cargo handling franchises, privatize public housing, adopt a fully funded provident scheme instead of a pay-as-you-go pension scheme, remove the legally sanctioned fixing of deposit interest rates by banks, and adopt market mechanisms for protecting the environment. (E-mail: asiue@econ.hku.hk; website: <http://www.hku.hk/hkcer/>)

Institute for Advanced Strategic and Political Studies, Israel

The mission of the Institute for Advanced Strategic and Political Studies is to develop policies in economics, strategic studies, and politics that will bring about limited government in domestic affairs and the balance of power in strategic planning. The Institute's Division for Economic Policy Research (DEPR) publishes Policy Studies in both English and Hebrew, while the Division for Research in Strategy and Politics produces a series of documents in strategic studies and another in politics. (E-mail: tcoffice@iasps.org; website: <http://www.israeleconomy.org>)

Institute for Market Economics, Bulgaria

Established in 1993, IME is the first independent economic think-tank in Bulgaria. It is a private, registered, non-profit corporation that receives international support and is widely respected for its expertise. IME designs and promotes solutions to the problems that Bulgaria is facing in its transition to a market economy, provides independent assessment and analysis of the government's economic policies, and supports an exchange of views on market economics and relevant policy issues. (E-mail: ime@omega.bg; website: <http://www.ime-bg.org>)

The Institute of Economic Affairs, Ghana

The Institute of Economic Affairs (IEA), Ghana was founded in October 1989 as an independent, non-governmental institution dedicated to the establishment and strengthening of a market economy and a democratic, free, and open society. It considers improvements in the legal, social, and political institutions as necessary conditions for sustained economic growth and human development. The IEA supports research and promotes and publishes studies on important economic, socio-political, and legal issues in order to enhance understanding of public policy. (E-mail: iea@ghana.com; Tel: 233-21-244716/233-21-7010714; Fax: 233-21-222313)

The Institute of Economic Affairs, United Kingdom

The IEA's mission is to improve public understanding of the foundations of a free and harmonious society by expounding and analyzing the role of markets in solving economic and social problems, and bringing the results of that work to the attention of those who influence thinking. The IEA achieves its mission by a high-quality publishing program; conferences, seminars and lectures on a range of subjects; outreach to school and college students; brokering media introductions and appearances; and other related activities. Incorporated in 1955 by the late Sir Antony Fisher, the IEA is an educational charity, limited by guarantee. It is independent of any political party or group, and is financed by sales of publications, conference fees, and voluntary donations. (E-mail: crobinson@iea.org.uk; website: <http://www.iea.org.uk>)

Institute of Economic Analysis, Russia

The Institute of Economic Analysis is a macroeconomic research institute that analyzes the current economic situation and policies and provides expert analysis of acts, programs, and current economic policy. It will offer advice to Russian government bodies, enterprises, and organizations and prepares and publishes scientific, research, and methodological economic literature. It also conducts seminars, conferences, and symposia on economic topics. The Institute is an independent, non-governmental, non-political, non-profit research centre that works closely with leading Russian and international research centres. Its research focuses on macroeconomic, budget, and social policies. (E-mail: iea@iea.ru)

Institute of Economic Studies, Iceland

The Institute of Economic Studies was founded in 1989. It operates within the Department of Economics in the Faculty of Economics and Business Administration at the University of Iceland. From the outset, the Institute has been active in carrying out applied research projects commissioned by private and public clients ranging from small Icelandic interest groups to the Nordic Investment Bank to the governments of Iceland, Denmark, and the Faroe Islands. More recently, funded by research grants, the Institute has taken on large-scale applied research projects with substantial analytical content and economic research. (E-mail: tthh@rhi.hi.is)

The Institute of Economics, Croatia

The Institute of Economics, Zagreb, established in 1939, is a major scientific and research institution for the study of economic processes and the application of contemporary theories in economics. The Institute's objective is the economic and social advance of Croatia. Research encompasses both macro-economics and micro-economics, policy issues (including specialized areas such as business economics), current economic trends, methods of economic analysis, development of human resources, spatial and regional economics, international economics and technological development, and investment project planning. Researchers from both inside and outside the Institute work together on research projects. The Institute employs 40 full-time researchers, the majority of whom have completed specialized training courses in foreign countries. Results of the Institute's research activities are published in books, reports and studies as well as in scientific journals. The Institute maintains close contact with international organizations, professional associations, institutes, and universities. (E-mail: zbaletic@eizg.hr; website: <http://www.eizg.hr?Eizge.htm>)

Institute of Public Affairs, Australia

Established in 1943, the IPA is Australia's oldest and largest private-sector think-tank. Its aim is to foster prosperity and full employment, the rule of law, democratic freedoms, security from crime and invasion, and high standards in education and family life for the Australian people. To identify and promote the best means of securing these values, the IPA undertakes research, organizes seminars, and publishes widely. (E-mail: ipa@ipa.org.au; website: <http://ipa.org.au>)

Institute of Public Policy Analysis, Nigeria

PPA is a private, non-profit organization involved in research, education, and publication on matters affecting the freedom of individuals. Its objective is to provide market-oriented analysis of current and emerging policy issues, with a view to influencing the public debate and the political decision-making process. (E-mail: Thompson@ippanigeria.org; website: <http://www.ippanigeria.org>; mail: P.O. Box 6434 Shomolu, Lagos-Nigeria)

Instituto Ecuatoriano de Economía Política, Ecuador

The Instituto Ecuatoriano de Economía Política (IEEP) is a private, independent, non-profit institution that defends and promotes the classical liberal ideals of individual liberty, free markets, limited government, property rights, and the rule of law. The IEEP achieves its mission through publications, seminars, and workshops that debate socio-economic and political issues. The IEEP's funding comes from voluntary donations, membership subscriptions, and income from sales of its publications. (E-mail: dampuero@ecua.net.ec; website: <http://www.his.com/~ieep/>)

Instituto Liberal do Rio de Janeiro, Brazil

Instituto Liberal was founded to persuade Brazilians of the advantages of a liberal order. It is a non-profit institution supported by donations and the sponsorship of private individuals and corporations. Its by-laws provide for a Board of Trustees and forbid any political or sectarian affiliations. The institute publishes books, organizes seminars, and elaborates policy papers on subjects related to public policy. (E-mail: ilrj@gbl.com.br; website: <http://www.institutoliberal.org.br>)

Instituto Libertad y Desarrollo, Chile

Libertad y Desarrollo is a private think-tank wholly independent of any religious, political, financial, or governmental groups. It is committed to the free market and to political and economic freedom. It publishes studies and analyses of public-policy issues. (E-mail: ega@chilesat.net; website: <http://www.lyd.com>)

Instituto para la Libertad y el Análisis de Políticas, Costa Rica

The Institute for Liberty and Public Policy Analysis (INLAP) is a non-profit, non-partisan organization, created to defend and promote individual liberty through analysis of public policy and educational activities. Its specific objectives are (1) to increase awareness of the moral foundations of liberty and to promote liberty as an

individual right necessary to achieve the highest levels of economic and human development; and (2) to foster changes in social organization and public policies by influencing the thinking of policy makers, community leaders, and citizens.

INLAP produces timely analyses of proposed laws, decrees, and regulations, and its recommendations provide guidance for elected officials who seek to achieve greater individual liberty and creativity and a more productive economy. It also conducts detailed studies of well-meant public policies that may ultimately have unintended adverse effects. The Institute's studies and recommendations are published in books, journals, and newspapers, appear as position papers and bulletins, and are also available via our website. (E-mail: inlap@inlap.org; website: www.inlap.org)

Liberales Institut, Germany

The Liberales Institut (Liberty Institute), based in Potsdam, is the think-tank of the Friedrich-Naumann-Foundation. It spreads free-market ideas through the publication of classical liberal literature, the analysis of current political trends, and the promotion of research. The Institute organizes conferences and workshops to stimulate an intellectual exchange among liberals around the world. (E-mail: LibInst@fnst.org; website: <http://www.fnst.de>)

Liberales Institut, Switzerland

The Liberales Institut is a forum where the basic values and concepts of a free society can be discussed and questioned. The Institute's aim is the establishment of free markets as the best way towards the goals of openness, diversity, and autonomy. The Liberales Institut is not associated with any political party. Through publications, discussion forums, and seminars, the Institute seeks to develop and disseminate classical liberal ideas. (E-mail: libinst@bluewin.ch; website: <http://www.libinst.ch>)

Liberální Institut, Czech Republic

Liberální Institut is an independent, non-profit organization for the development and application of classical liberal ideas: individual rights, private property, rule of law, self-regulating markets, and delineated government functions. It is financed by its various activities and by donations from individuals and private corporations. (E-mail: michal.uryc@libinst.cz; website: <http://www.libinst.cz>)

Lithuanian Free Market Institute, Lithuania

Lithuanian Free Market Institute (LFMI) is an independent, non-profit organization established in 1990 to advance the ideas of individual freedom and responsibility, free markets and limited government. Since its inception, LFMI has been at the forefront of economic thought and reform in Lithuania. Not only has LFMI helped frame policy debates by conducting research and creating reform packages on key issues, it has also conducted extensive educational campaigns and played a key "behind-the-scenes" role in helping to craft and refine legislative proposals. LFMI promoted the idea of a currency board and provided decisive input to the Law on Litas Credibility. LFMI led the creation of the legal and institutional framework for the securities market and contributed significantly to the country's privatization legislation. LFMI initiated and participated in the policy-making process on private, fully-funded pension insurance. LFMI's recommendations were adopted in legislation on commercial banks, the Bank of Lithuania, credit unions, insurance, and foreign investment. LFMI significantly influenced the improvement of company, bankruptcy and competition law.

LFMI has provided a valuable input to tax and budgetary policy. LFMI's influence led to introducing program budgeting, exempting reinvested profits, reducing inheritance and gift taxes, abolishing capital-gains tax, suspending the introduction of real-estate tax, eliminating income tax on interest on loans from foreign banks and international financial organizations as well as revising stamp duties, VAT regulations and other taxes. LFMI initiated a deregulation and de-bureaucratization process aimed at eliminating excessive business regulations and downsizing bureaucracy. An important influence was exerted on the revision of employment, capital market, land purchase, and building regulations. Passage was gained for a deregulation-based approach to the fight against corruption. (E-mail: edita@FreeMa.org; website: <http://www.FreeMa.org>)

Making Our Economy Right (MOER), Bangladesh

MOER (Making Our Economy Right), founded in 1991, is the country's lone free-market institute and continues to struggle to promote free-market capitalism against all odds. The concept of individual freedom and free markets determining the supply of goods, services and capital is little understood in Bangladesh. For the past 50 years or so, Fabian socialism and the doctrines of Karl Marx were the basis of our country's economy. MOER contributes free-market, libertarian articles in English and Bangla newspapers. We also moderate a weekly radio talk show that focuses on liberalization of the economy. MOER also publishes books both in Bangla and in English for free distribution to libraries and others with the support of the International Policy Network of London. MOER's fourth book published this year, *Clamoring for Free Market Freedom in Bangladesh*, has a foreword by Nobel laureate Milton Friedman. The book is a compilation of articles by Nizam Ahmad. MOER contact person: Nizam Ahmad. (E-mail: nizam@bdmail.net; website: <http://www.moer.org>)

The Nassau Institute, Bahamas

The Nassau Institute is an independent, non-political, non-profit institute that promotes economic growth, employment, and entrepreneurial activity. It believes that this can best be achieved with a free-market economy and a decent society—one that embraces the rule of law, the right of private property, the free exchange of property and services, and the individual virtues of self-control, commitment, and good will. (E-mail: joanmt@coralwave.com or info@nassauinstitute.org; website: <http://www.nassauinstitute.org>)

The New Zealand Business Roundtable, New Zealand

The New Zealand Business Roundtable is made up of the chief executives of about 60 of New Zealand's largest businesses. Its aim is to contribute to the development of sound public policies that reflect New Zealand's overall interests. It has been a prominent supporter of the country's economic liberalization. (E-mail: nzbr@nzbr.org.nz; website: <http://www.nzbr.org.nz>)

Open Republic Institute, Ireland

Open Republic Institute proposes open markets, individual freedom, voluntary action, the rule of law and religion as the means to make Ireland and all other countries better places to live and work. It opposes state control of industry and services and believes that state direction of economies and societies is the prime cause of corruption, poverty, and tyranny in the world. Open Republic Institute is Ireland's only source of policy and analysis oriented towards individual rights and open markets. It evaluates public policy and proposes open-market, open-society solutions to Ireland's economic and social problems. (E-mail: pmacdonnell@openrepublic.org; website: www.openrepublic.org)

Szazadveg Policy Research Center, Hungary

The Szazadveg Policy Research Center is a non-profit organization performing political and economic research, advisory and training activities. This think-tank is independent of the government or any political parties and has been operating as a foundation since its establishment in 1990. Szazadveg publishes the results of its research to the public at large and also provides professional services to economic institutions, political and civil organizations, political parties, and the government. (E-mail: gazso@szazadveg.hu; website: www.szazadveg.hu)

TIGRA®, Austria

TIGRA® is the premier Austrian think-tank on governance research. Headquartered in Salzburg, it was founded to study and advance effective and efficient economic policies. TIGRA® organizes workshops, publishes papers and reports. Their mission is "From analysis to action." TIGRA® is a network of experts who provide effective market solutions to policy makers. Special emphasis is put on knowledge management, monitoring the scope and quality of regulations ("cutting red tape"), and setting benchmarks. (E-mail: tigra@tigra.at)

Timbro, Sweden

Timbro is a Swedish think-tank that encourages public opinion to favor free enterprise, a free economy, and a free society. Timbro publishes books, papers, reports, and the magazine, Smedjan. It also arranges seminars and establishes networks among people. Founded in 1978, Timbro is owned by the Swedish Free Enterprise Foundation, which has as its principals a large number of Swedish companies and organizations. (E-mail: mattiasb@timbro.se; website: <http://www.timbro.se>)

The Ukrainian Center for Independent Political Research, Ukraine

The Ukrainian Center for Independent Political Research was established in early 1991 as a non-profit, non-partisan, and non-governmental research institution that would increase awareness of democracy among the Ukrainian people and analyze domestic and international politics and security. The UCIPR is politically independent; it does not accept any funding from either the state or any political party. The UCIPR publishes books and research papers on Ukraine's domestic and foreign policy, the economy in transition, security, relations with neighbouring states, the Crimean dilemma, interethnic relations, and the freedom of the news media. The Center has hosted a number of national and international conferences and workshops. (E-mail: kam@political.kiev.ua)

Other Members of the Economic Freedom Network

D'Letzeburger Land, Luxembourg (e-mail: info@mmp.lu)

The Institute for Development of Economics and Finance, Indonesia (e-mail: Indef@indo.net.id)

Liberty Network (LINE), Denmark (e-mail: palle@line.dk)

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Bureau d'Analyse d'Ingenierie et de Logiciels (BAILO), Ivory Coast (e-mail: bailo@GLOBEACCESS.NET)

Preface: Economic Freedom behind the Scenes

by Milton Friedman

The meeting of the Economic Freedom of the World network late in 2001 in San Francisco re-united the two prime movers of the Economic Freedom project: Milton Friedman and Michael Walker. The meeting, chaired by Dr. Walker, offered network members from around the world the opportunity to put their questions about the economic freedom project directly to Rose and Milton Friedman. What follows is an edited excerpt from the discussion.

Milton Friedman: I am enormously impressed by the cooperation that has been achieved among so many countries in the economic freedom project and by the diligence with which Jim Gwartney and Bob Lawson have managed to put the statistics together into this impressive array of findings [the series, *Economic Freedom of the World*].

In looking to the future, I believe one has to be careful not to over-emphasize the role of economic freedom as a source of economic growth, as compared with the role of economic freedom as a part of freedom, of human freedom.

We've talked about economic and political freedom as if they were wholly separate things, which they are not. I think the next big task facing the economic freedom project will be to try to weld the two together and make a combined index of economic and political freedom, especially where they mesh with one another. Property rights are not only a source of economic freedom. They are also a source of political freedom. That's what really got us interested in economic freedom in the first place. Some of the elements in the Freedom House index¹ seem to me to be inconsistent with some of the elements in our index, and it would seem to be useful to see how to reconcile those two and put them on the same philosophical basis.

Question: *Various concepts of freedom are in play. Could you give us your thoughts?*

MF: I've grown increasingly to think that we need to make three classifications instead of two: economic freedom; social or civil freedom; and political freedom. Hong Kong is the key example of the importance of that distinction. Hong Kong has never had any political freedom as Freedom House would understand it. More recently, it has had a little but, as long as the British were in control, it was essentially a benevolent dictatorship. It was run by officials in the British foreign office and, yet, Hong Kong had a very high degree of civil freedom—freedom of speech and freedom of association. You can have a high degree of social freedom, and a high degree of economic freedom without any political freedom. What's not clear is whether you can have any political freedom if you don't have some of the other freedoms.

Q: *Those inter-relationships relate, in part, to the importance of rule of law and, indeed, to the even-handedness of the legal system in general. If we reflect upon the fall of communism and the transition from the centrally planned economy to a market economy, what have we learned in the last decade of the importance of economic freedom and other institutions that may be necessary to support economic freedom?*

MF: We have learned about the importance of private property and the rule of law as a basis for economic freedom. Just after the Berlin Wall fell and the Soviet Union collapsed, I used to be asked a lot: "What do these ex-communist states have to do in order to become market economies?" And I used to say: "You can describe that in three words: privatize, privatize, privatize." But, I was wrong. That wasn't enough. The example of Russia

shows that. Russia privatized but in a way that created private monopolies—private centralized economic controls that replaced government’s centralized controls. It turns out that the rule of law is probably more basic than privatization. Privatization is meaningless if you don’t have the rule of law. What does it mean to privatize if you do not have security of property, if you can’t use your property as you want to?

We boast in the United States that our nation is a bastion of private enterprise but, in fact, what we can do with our private property is severely limited. To begin with, the government takes a significant proportion, at times as much as nearly 40 percent of it for its purposes and, in that respect, we’re a nearly 40-percent enslaved state.

The road from a centralized government to a truly free, private-enterprise society has three components. First of all, and most important, the rule of law, which extends to the protection of property. Second, widespread private ownership of the means of production. Third, freedom to enter or to leave industries, freedom of competition, freedom of trade. Those are essentially the basic requirements.

We’ve got a very interesting experiment under way. All of a sudden, countries are moving from centralized control in an attempt to achieve a market economy. We’ve had in the past 10 years a wonderful body of data with which to try to analyze what are the essential requirements for success in that venture. The mere elimination of communism does not convert a nation to freedom.

Q: Intellectual property rights are under attack. Could you dwell a little on that?

MF: The question of intellectual property rights is very complicated. Freedom of speech is the opposite of copyright, which means that you can’t get copyright rights. And, intellectual property is different from physical property: in both cases, you have a monopoly but the monopoly on intellectual property is wholly different because duplicating the property comes generally at a very low or zero marginal cost. You are enforcing a monopoly pricing, as it were, that limits output to lower than the optimum social level. You cannot be in favor of infinite copyright. Essentially it’s a problem of practical compromise, whether you have 17 years, 25 years, 10 years, 50 years.

Q: I don’t understand your distinction between political freedom and social freedom.

MF: I was thinking of political freedom as essentially the mode of representation in the political structure, the right to vote, the definition of democracy as the society in which the public servants—the people who determine public policy—are chosen by the votes of the citizens. That’s political freedom. That’s the kind of freedom that Hong Kong does not have. By civil freedom, I mean the freedom to speak, the freedom to assemble, the freedom to express your views—what we call human rights. It seems to me that they are quite obviously different. The most important difference is that you can have economic freedom and civil freedom without political freedom but it seems to me very dubious whether you can have any kind of effective political freedom without having economic freedom, without having some independent source of power as opposed to the vested authority.

Q: How do we measure the “rule of law”? I do not believe that it is just procedures. What really matters is the anchoring in social behavior, honesty, customs, and so on. In China, the formal aspects of the rule of law are pretty atrocious. But, if you work in China, as I frequently have, you realize that there are certain fundamentals dating back maybe 2,000 years, which underpin the rule of law in a much more informal way. You don’t lie to neighbors, for instance. You may lie to the state in China or to outsiders but you are honest and loyal to people within your neighborhood. And, I would like to ask you how we could promote these informal rules and how important they are as a foundation for society, as opposed to the formal procedural protections of the rule of law.

MF: I really don’t know how to answer that. That’s not a subject I can pretend to have done a great deal of work on, but it’s clear that what’s written down on paper is not what matters. What matters is what happens in practice. Many of the Latin American countries copied word for word the American constitution but these constitutions did not have the same effect in those countries as here. Forms alone are not enough. It’s not an

easy topic. It's one of those things where "you know it when you see it," even if you can't define it. You can have two countries that seem to have, on the books, the same law yet the actual results are very different.

Q: The point that was made about economic freedom, civic freedom, and political freedom, has become very, very important, and connected to the issue of the rule of law. I teach a class for the international affairs department at Princeton and this fall our class ended in a stalemate. Which is the best route to reform—political reform as in Russia or economic reform as in China?

MF: Comparing those two measures, it looks as if China has done better but it's very hard to make any long-run predictions because China's system is very unstable. On the whole, it's not desirable to have to depend on a benevolent dictatorship. Most dictatorships aren't benevolent and those that are generally don't last. When you have a transition from one dictatorship to another, it doesn't stay benevolent.

Q: I wonder if we are not coming upon a hard paradox in these three relationships. Consider a country suffering from an absence of political freedom but with economic freedom and certain civil liberties that allow the economic freedoms to flourish. Acquiring political freedom becomes a problem because the government sees that maintaining economic freedom is more important than certain political freedoms.

MF: I don't think the situation can be described as you have described it. In my opinion, the expansion of economic freedom will bring in train greater political freedoms. If you look at what's happening in China, that seems clearly the situation there. You haven't had what Freedom House would call political freedom at the higher levels of government but you are already getting it at some of the lower levels. In the villages and the small towns, you are having more and more elections, more movement toward political freedom in that sense. So, I don't believe the situation is one in which you sacrifice economic freedom for political freedom. I think it's the other way around. The more you can advance economic freedom, the more support there will be, the more *pressure* there will be, for a considerable degree of political freedom.

Q: Do you think that over the years something has changed in our concept of economic freedom?

MF: I don't think the concept of economic freedom is any different. But, I think our understanding of the inter-relationships between economic freedom, and civil and political freedom, is more sophisticated than it was. When *Capitalism and Freedom* was published in 1962, it was straightforward: political freedom versus economic freedom. It was only really the experience of countries like Hong Kong and Singapore that led me to believe that we really ought to have a tripartite distinction, rather than a two-way distinction. But then, the real world is a complicated world. There's a phrase written on the entrance to one of the social sciences buildings at the University of Chicago: "When you cannot measure something, your knowledge is meager and unsatisfying." In the process of measuring, you find that measuring is a form of definition. It isn't just that there's economic freedom out there to be measured. In the process of measuring it, we're going to define what economic freedom is. We don't really know what we have, what economic freedom is, unless we've gotten to the point of trying to measure it and see what variables it consists of, and what each of those means. Over the course of time, we have gotten a much more sophisticated understanding of what we mean when we talk about economic freedom.

Q: It's one thing to be concerned and preoccupied with emerging nations and their efforts to acquire freedom and the rule of law. Of equal concern to me is what's happening in mature nations, where the rule of law is being supplemented by the rule of the regulatory and administrative state. We are losing economic freedoms by virtue of that transformation. My concern is once you acquire the rule of law, retaining it in any meaningful way is tough.

MF: There is no doubt that that is right. There's a strong force always for government to expand. Everybody is in favor, and talks about being in favor, of free markets and private enterprise. But that's talk. If you look at what's happening, in most of the countries of the world—or in many of them anyway—the size of government

is growing, not getting smaller. Here in the United States, we've been through a fortunate period in which we had divided government. As a result, we did not get many new laws. The economy grew and government did not grow, and government went down a little as a fraction of income. But that's a temporary phenomenon. Leviathan government is the basic danger to economic, political, and civil freedom.

Q: Would you agree that there has been some movement towards liberalization, in, for example, international exchange and financial markets, which also promotes liberalization in other areas?

MF: There's been trade liberalization but it's by no means a one-way street. Was the creation of the European common market liberalization of trade? It liberalized internal trade and put greater restrictions on external trade. NAFTA, like all of these trade agreements, has elements of trade diversion as well as of trade creation. World trade has grown more rapidly than world income and that would seem to suggest more international trade. Still, people talk free trade but they don't always support free trade. Mr. Bush is talking about a dumping tax on steel. Absolutely absurd. And it's done in the name of free trade.

I have no doubt that trade liberalizes and that the influence of the West throughout the so-called underdeveloped world has been promoted much more by Coca Cola than by foreign aid and American embassies. So, I don't have any quarrel with the general proposition but I'm troubled by the extent to which you would describe the movement as a one-way movement towards freer trade.

Michael Walker: I have a question about something we've wrestled with right from the beginning: that is, how can we determine the size of government that is compatible with freedom? We recognize that without some framework of government, freedom cannot exist. On the other hand, government quickly grows to the point where you lose freedom.

MF: I think the optimal size of government is government that controls about 10% of national income. That's much lower than the size of government we now have, and we're headed in the opposite direction. There's no objective way to derive the optimal size of government. I do it on the following basis.

Looking back at the period when Britain was ruling the world, at the time of Queen Victoria's jubilee in 1899, government spending in Britain was about 10% of the national income. The church, throughout the centuries, has always favored tithing; that again is 10%. In the United States, before the Great Depression, except in major wars, total government spending (federal, state, and local), never exceeded about 10% of national income. In Hong Kong during its period of real economic freedom, before the Chinese took over, government spending tended to be about 10% to 15% of national income. As a fraction of income, government spending in Hong Kong is tending to creep up, which is going to create real problems.

I also think there is a very real problem in measuring the size of government. The size of government is determined not only by what's recorded as government spending but also by government rules and regulations. In the United States, I would say that half of all spending is controlled by governments at federal, state, and local levels. So we're a long way from that ideal of 10%.

Q: You have been a fellow at the Hoover Institution. My understanding is that when Herbert Hoover started the Hoover Institution, his motivation was deep concern over the relationship between war and totalitarianism. There was the war and the absence of freedom. Do you think that the index would be more instructive if it looked at relationships between economic freedom, or lack thereof, and those societies that are bent on war-making? The growth of government often comes through a series of ratchet effects as a result of national emergencies, real or imagined. And, when these emergencies pass, government remains large.

MF: It certainly is a very important question. War is a friend to government. War leads to an expansion in the role of government. When war ends, government seldom falls back to where it was before. In the United States, government ratcheted up to a slightly higher level through the civil war. World War I did the same thing. World War II did the same thing. We're seeing that phenomenon right now. The talk of war against terrorism has led to a removal of all restrictions on government spending. The budget of the US government is about to explode.

We are spending money in foolish and unfoolish ways. The relationship between war and economic freedom is worthy of further investigation.

MW: At the Fraser Institute, we have investigated the relationship between economic freedom and both civil war and external war. We calculated the probability that a nation would engage in war. The results show that, for any given past history of warfare, the more economic freedom a country subsequently adopts, the less likely it is in the future to engage in either internal or external warfare.

In this context, I want to push Milton a little bit on the idea of the optimal size of government. Milton said we should think about the size of government that is most compatible with freedom—that involves the minimum amount of coercion of the citizenry. Yet, warfare is an opportunity for government to get everybody to agree to an expansion of the size of government because they feel threatened.

MF: The optimal size of government does depend on the military situation. The optimal size of government is not the same for Israel as for many other nations. Israel is in trouble in part because its government is too large. Israel has been a very controlled and regulated state, far from a free market. Part of that involved discrimination against Israel's Arab neighbors. Israel would have done far better if it had had a lot freer trade with its Arab neighbors and made fewer attempts to restrict trade. When Israel first won the 1967 war and gained the additional West Bank territory, the government had generals run the territory and they ran it on a strictly laissez-faire basis. They had very little trouble. I remember being over there and being taken around the West Bank by a general. He pointed out that the civil servants were being allowed to accept both Jordanian pay and Israeli pay. They were allowed to use Jordanian money or Israeli money. There was essentially free trade. Everything was working fine. But partly because of internal pressures for restraint of trade, discriminatory regulations were imposed. In a case like Israel, the existence of a specific problem requires a larger government. But their excessively large government has made that problem worse, not better.

MW: Thank you for sharing your insights with us.

Note

- (1) Freedom House is an international non-profit organization that rates political and civil liberties across nations.

**Economic Freedom of the World
2002 Annual Report**

Executive Summary

- ▶ This is the sixth edition of *Economic Freedom of the World*. It rates and ranks 123 nations for 2000, the most recent year for which data are available. Economic freedom continues to gain ground around the world. Based on the 10-point scale of this index, the average economic freedom rating was 6.39 for 2000, up from 5.99 in 1995. Economic freedom decreased through the 1970s, falling from 5.98 in 1970 to 5.32 in 1980. It has been on the rise since then.

- ▶ Chapter 1 updates and expands data from earlier editions of this report. Hong Kong retains the highest rating for economic freedom, 8.8 of 10, closely followed by Singapore at 8.6, the United States at 8.5 and the United Kingdom at 8.4. The other top 10 nations are New Zealand, Switzerland, Ireland, Australia, Canada, and the Netherlands. The rankings of other large economies are Japan, 24; Germany, 15; Italy, 35; France, 38; Mexico, 66; China, 101; India, 73; Brazil, 82; and Russia, 116.

- ▶ Most of the lowest-ranking nations are African, Latin American or former communist states. Botswana has the best record for an African nation, tied with 6 other nations, including France and South Korea, at 38. Chile, with the best record in Latin America, was tied with three other nations at 15. The bottom five nations were the Democratic Republic of the Congo, Myanmar, Guinea-Bissau, Algeria, and the Ukraine. However, a number of other nations for which data are not available, such as North Korea and Cuba, may have even less economic freedom.

- ▶ The number of variables in this index has been greatly expanded to broaden and deepen the information the report contains. The index now contains 37 variables, including 18 survey-based variables obtained from survey data published in the *International Country Risk Guide* and the *Global Competitiveness Report*. While survey data have weaknesses, they provide insight into the important areas of legal structure and regulation and, to a lesser extent, of international trade. Unfortunately, these data are only available for 74 nations. While statistical adjustments are made to enable comparisons between these nations and the other 49 in the index, such comparisons should be made with caution.

- ▶ Economic freedom is highly correlated with per-capita income, economic growth, and life expectancy. Increased economic freedom does not lead to greater income inequality. The lowest 10% of income earners in nations in the bottom quintile of economic freedom receive 2.43% of total income in their nations; in nations in the fourth quintile, the bottom 10% receive 2.84% of total income; in the third quintile, 2.06%; in the second quintile, 2.90%; and in the top quintile, 2.86%. The actual income of poor people increases as nations gain in economic freedom because of the increased wealth economic freedom generates. The average per-capita income of the poorest 10% of people in nations in the bottom quintile is US\$728 compared to US\$7,017 for those in the top quintile.

- ▶ Chapter 2 presents an index of patent rights, reflecting the protection of intellectual property around the world. The index contains 14 variables in five categories: breadth of coverage, duration of protection, enforcement, treaty membership, and restrictions on patent rights. Of the 63 nations for which these data are available, only the United States receives full scores in each category. Austria, Germany, and Italy also score highly. Mozambique has a score of 0. Ethiopia, Nicaragua and Guatemala also score at the bottom of the index.

- ▶ Chapter 3 reviews the evidence on tax competition and concludes that lower taxes attract investment and skilled workers and help generate economic growth. Although a number of nations have cut top marginal corporate and personal tax rates, the overall tax burden has been increasing, from 32% of the GDP of OECD nations in 1980 to 37% in 1999. The chapter shows how international attempts to stifle tax competition would reduce economic freedom and the economic prospects of many nations, particularly poor nations.

- ▶ The country reports of Chapter 4 provide the detailed information underlying the EFW ratings for 1970, 1975, 1980, 1985, 1990, 1995, and 2000.