

Executive Summary

- ▶ This is the seventh edition of *Economic Freedom of the World*. It rates and ranks 123 nations for 2001, the most recent year for which data are available. The report also updates data in earlier reports in instances where data have been revised.
- ▶ Economic freedom continues to gain ground around the world. Based on the 10-point scale of this index, the average economic freedom rating was 6.35 for 2001, up slightly from 2000's average rating of 6.34. However, this compares well with the average rating of 5.96 in 1995. Economic freedom decreased through the 1970s, falling from 6.07 in 1970 to 5.36 in 1980. It has been on the rise since then.
- ▶ Hong Kong retains the highest rating for economic freedom, 8.6 of 10, closely followed by Singapore at 8.5, the United States at 8.3 and New Zealand and the United Kingdom, both at 8.2. The other top 10 nations are Canada, Switzerland, Ireland, Australia, and the Netherlands. The rankings of other large economies are Japan, 26; Germany, 20; Italy, 35; France, 44; Mexico, 69; China, 100; India, 73; Brazil, 82; and Russia, 112.
- ▶ Most of the lowest-ranking nations are African, Latin American or former communist states. Botswana has the best record among continental sub-Saharan African nations, ranked 26 and tied with 8 other nations, including advanced nations like Japan and Norway. Chile, with the best record in Latin America, was tied with two other nations at 20. The bottom five nations were Guinea-Bissau, Zimbabwe, Algeria, the Democratic Republic of the Congo, and Myanmar. 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 index now contains 38 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 about two thirds of the nations. While statistical adjustments are made to enable comparisons between the nations with and without the survey data, 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 2.27% of total income in their nations; in nations in the fourth quintile, the bottom 10% receive 2.66% of total income; in the third quintile, 2.25%; in the second quintile, 2.83%; and in the top quintile, 2.68%. 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\$873 compared to US\$6,681 for those in the top quintile.
- ▶ The country reports of Chapter 3 provide the detailed information underlying the EFW ratings for 1970, 1975, 1980, 1985, 1990, 1995, 2000, and 2001. All data may be down-loaded from www.freethe world.com.