

Chapter 1: Economic Freedom of the World, 2008

It has been nearly a quarter of a century since Milton Friedman and Michael Walker hosted the initial meeting of a series of conferences that eventually led to the index published in *Economic Freedom of the World* (EFW). These conferences, held from 1986 to 1994, had a single objective: the development of a clearly defined measure of economic freedom for a large set of countries. Moreover, conference participants wanted the measure to be as objective and transparent as possible. The goals of this project have been unchanged during the 25 years of its existence.

There was considerable debate about the nature of economic freedom at those early conferences but a consensus emerged that the core concepts of economic freedom were self-ownership, non-interference, and the protection of people and their property from invasions by others. Self-ownership and non-interference imply that individuals have a right to choose for themselves—to decide how they will use their time, talents, and resources. On the other hand, they do not have a right to the time, talents, and resources of others. Put another way, individuals do not have a right to take things from others or demand that others provide things for them. Economic freedom is present when adults are free to produce, consume, and trade with others as long as their actions do not harm the person or property of others. Use of violence, theft, fraud, and physical invasions are not permissible but, otherwise, individuals who are economically free are free to choose and compete as they see fit.

The index published in *Economic Freedom of the World* (EFW) is designed to measure the consistency of a nation's institutions and policies with this concept of self-ownership. The four cornerstones of economic freedom are

- personal choice
- voluntary exchange coordinated by markets
- freedom to enter and compete in markets
- protection of persons and their property from aggression by others.

These four underpin the EFW index. Put simply, institutions and policies are consistent with economic freedom when they permit individuals to choose for themselves, enter into voluntary agreements with others, and protect individuals and their property from aggressors. In order to achieve a high EFW rating, a country must provide secure protection of privately owned property, evenhanded enforcement of contracts, and a stable monetary environment. It also must keep taxes low, refrain from creating barriers to both domestic and international trade, and rely more fully on markets rather than the political process to allocate goods and resources.

From 1980 to 2008, there was a gradual but steady movement toward economic freedom. Numerous studies have shown that countries with more economic freedom grow more rapidly and achieve higher levels of per capita income than those that are less free. Similarly, there is a positive relationship between changes in economic freedom and the growth of per-capita income. Moreover, as per-capita income has grown, the world's poverty rate has declined and most of this progress has occurred in countries that have made substantial moves toward higher levels of economic freedom. Economic growth is primarily the result of gains from trade, capital investment, and the discovery of improved products, lower-cost production methods, and better ways of doing things. Given these sources of growth and prosperity, it is not surprising that increases in economic freedom and improvements in quality of life are closely related.

As the world confronted financial instability and economic decline in 2008, the mean economic freedom rating fell for the first time in several decades. As we mentioned in last year's report, the world now faces a situation similar to that of the Great Depression. During the 1930s, perverse economic policies transformed a normal cyclical downturn into a decade-long era of hardship and suffering. The length and severity of the Great

Depression were the result of a sharp monetary contraction, imposition of trade restrictions, higher taxes, increases in government spending financed with debt, price controls, and uncertainty created by constant policy changes that were supposed to hasten the end of the crisis. Even though it was caused by perverse policies, the Great Depression led to more government regulation, growth of government spending, and reductions in economic freedom.

While the current economic downturn is far less severe than that of the Great Depression, both the fundamental cause and the policy responses are similar. In the United States, perverse credit expansion and regulatory policies were the primary cause of the current crisis. Seeking to promote more affordable housing, politicians expanded the availability of credit, and imposed regulations that contaminated the quality of mortgages (e.g., loans with little or no down payment, excessively large loans relative to income, and loans to unqualified borrowers with a poor credit history). The result: an unsustainable housing price boom followed by the bust, and eventually increases in the default and foreclosure rates as heavily indebted borrowers were unable to make the payments on the loans the regulators arranged for them. The downturn in the housing industry soon spread to other sectors and the contaminated mortgage-backed securities were marketed throughout the world, leading to a financial crisis. The policy response to the crisis has also been similar to that of the Great Depression: more regulation, growth of government spending financed by debt, and constant policy changes that have created uncertainty and undermine private-sector activity.

Will the perverse policies that caused the current crisis lead to still more government intervention and regulation just as it did during the Great Depression? We are now in the midst of a great debate on this issue. The outcome of this debate is highly important because there is a dramatic difference in the incentive for productive action between a market economy and one that is managed and directed by the political process. With markets, profits and losses will direct people toward productive actions and away from unproductive and counterproductive ones. If a business is going to be successful in a market economy, it must bid resources away from others and use them to supply goods that people value enough to pay prices sufficient to cover their costs. Profits and losses also provide people with a strong incentive to innovate, and discover production methods with lower costs and new products that people value highly relative to cost. This incentive

to use resources productively and discover better ways of doing things is the driving force underlying economic growth and progress.

The incentive structure of the political process is vastly different. There is nothing comparable to profits and losses that will consistently direct resources into productive projects and away from those that are counterproductive. Politicians will allocate resources toward the politically powerful—those who can provide them with the most votes, campaign funds, high paying jobs for political allies and, yes, even bribes. There is no reason to expect that this incentive structure will channel resources into productive, and away from counterproductive, projects. Innovators and entrepreneurs will be disadvantaged by this system because it will not be enough to produce products that consumers value highly relative to cost; one will also have to compete for political favoritism and cater to the views of the political class. The result: more resources will be used to obtain political favors—economists refer to this as rent-seeking—and fewer channeled into productive activities.

As this debate unfolds, it is important to distinguish between market entrepreneurs and crony capitalists. Market entrepreneurs succeed by providing customers with better products, more reliable service, and lower prices than are available elsewhere. They succeed by creating wealth: by producing goods and services that are worth more than the value of the resources required for their production. Crony capitalists are different: they get ahead through subsidies, special tax breaks, regulatory favors, and other forms of political favoritism. Rather than providing consumers with better products at attractive prices, crony capitalists form an alliance with politicians. The crony capitalists provide the politicians with contributions, other political resources, and, in some cases, bribes in exchange for subsidies and regulations that give them an advantage relative to other firms. Rather than create wealth, crony capitalists form a coalition with political officials to plunder wealth from taxpayers and other citizens.

The Great Debate between the proponents of limited government and open markets on the one hand and those favoring collectivism and political direction of the economy on the other highlights the importance of an accurate and objective measure of economic freedom. The index published in *Economic Freedom of the World* provides a measure that will help one track the direction of this debate, which is sure to affect the prosperity of the world in the years immediately ahead.

The Economic Freedom of the World index, 2008

The construction of the index published in *Economic Freedom of the World* (EFW index) is based on three important methodological principles. First, objective components are always preferred to those that involve surveys or value judgments. Given the multidimensional nature of economic freedom and the importance of legal and regulatory elements it is sometimes necessary to use data based on surveys, expert panels, and generic case studies. To the fullest extent possible, however, the index uses objective components. Second, the data used to construct the index ratings are from external sources such as the International Monetary Fund, World Bank, and World Economic Forum that provide data for a large number of countries. Data provided directly from a source within a country are rarely used, and only when the data are unavailable from international sources. Importantly, the value judgments of the authors or others in the Economic Freedom Network are never used to alter the raw data or the rating of any country. Third, transparency is present throughout. The report provides information about the data sources, the methodology used to transform raw data into component ratings, and how the component ratings are used to construct both the area and summary ratings. Complete methodological details can be found in Appendix: Explanatory Notes and Data Sources (page 219). The entire data set used in the construction of the index is freely available to researchers at www.freetheworld.com.

Exhibit 1.1 indicates the structure of the EFW index. The index measures the degree of economic freedom present in five major areas: [1] Size of Government: Expenditures, and Taxes, 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.

Within the five major areas, there are 23 components in this year's index. Many of those components are themselves made up of several sub-components. In total, the index comprises 42 distinct variables. Each component and sub-component is placed on a scale from 0 to 10 that reflects the distribution of the underlying data. The sub-component ratings are averaged to determine each component. The component ratings within each area are then averaged to derive ratings for each of the five areas. In turn, the five area ratings are averaged to derive the summary rating for each country. Following is an overview of the five major areas.

Area 1: Size of Government: Expenditures, Taxes, and Enterprises

The four components of Area 1 indicate the extent to which countries rely on the political process to allocate resources and goods and services. When government spending increases relative to spending by individuals, households and businesses, government decision-making is substituted for personal choice and economic freedom is reduced. The first two components address this issue. Government consumption as a share of total consumption (1A) and transfers and subsidies as a share of GDP (1B) are indicators of the size of government. When government consumption is a larger share of the total, political choice is substituted for personal choice. Similarly, when governments tax some people in order to provide transfers to others, they reduce the freedom of individuals to keep what they earn.

The third component (1C) in this area measures the extent to which countries use private rather than government enterprises to produce goods and services. Government firms play by rules that are different from those to which private enterprises are subject. They are not dependent on consumers for their revenue or on investors for capital. They often operate in protected markets. Thus, economic freedom is reduced as government enterprises produce a larger share of total output.

The fourth component (1D) is based on (Di) the top marginal income tax rate and (Dii) the top marginal income and payroll tax rate and the income threshold at which these rates begin to apply. These two sub-components are averaged to calculate the top marginal tax rate (1D). High marginal tax rates that apply at relatively low income levels are also indicative of reliance upon government. Such rates deny individuals the fruits of their labor. Thus, countries with high marginal tax rates and low income thresholds are rated lower.

Taken together, the four components of Area 1 measure the degree to which a country relies on personal choice and markets rather than government budgets and political decision-making. Therefore, countries with low levels of government spending as a share of the total, a smaller government enterprise sector, and lower marginal tax rates earn the highest ratings in this area.

Area 2: Legal Structure and Security of Property Rights

Protection of persons and their rightfully acquired property is a central element of economic freedom and a civil society. Indeed, it is the most important function of government. Area 2 focuses on this issue. The key ingredients

Exhibit 1.1: The Areas, Components, and Sub-Components of the EFW Index

1 Size of Government: Expenditures, Taxes, and Enterprises

- A General government consumption spending as a percentage of total consumption
- B Transfers and subsidies as a percentage of GDP
- C Government enterprises and investment
- D Top marginal tax rate
 - i Top marginal income tax rate
 - ii Top marginal income and payroll tax rates

2 Legal Structure and Security of Property Rights

- A Judicial independence (GCR)
- B Impartial courts (GCR)
- C Protection of property rights (GCR)
- D Military interference in rule of law and the political process (ICRG)
- E Integrity of the legal system (ICRG)
- F Legal enforcement of contracts (DB)
- G Regulatory restrictions on the sale of real property (DB)

3 Access to Sound Money

- A Money growth
- B Standard deviation of inflation
- C Inflation: Most recent year
- D Freedom to own foreign currency bank accounts

4 Freedom to Trade Internationally

- A Taxes on international trade
 - i Revenues from trade taxes (% of trade sector)
 - ii Mean tariff rate
 - iii Standard deviation of tariff rates

- B Regulatory trade barriers
 - i Non-tariff trade barriers (GCR)
 - ii Compliance cost of importing & exporting (DB)
- C Size of trade sector relative to expected
- D Black-market exchange rates
- E International capital market controls
 - i Foreign ownership/investment restrictions (GCR)
 - ii Capital controls

5 Regulation of Credit, Labor, and Business

- A Credit market regulations
 - i Ownership of banks
 - ii Foreign bank competition
 - iii Private sector credit
 - iv Interest rate controls/negative real interest rates
- B Labor market regulations
 - i Hiring regulations and minimum wage (DB)
 - ii Hiring and firing regulations (GCR)
 - iii Centralized collective bargaining (GCR)
 - iv Hours regulations (DB)
 - v Mandated cost of worker dismissal (DB)
 - vi Conscriptation
- C Business regulations
 - i Price controls
 - ii Administrative requirements (GCR)
 - iii Bureaucracy costs (GCR)
 - iv Starting a business (DB)
 - v Extra payments/bribes (GCR)
 - vi Licensing restrictions (DB)
 - vii Cost of tax compliance (DB)

of a legal system consistent with economic freedom are rule of law, security of property rights, an independent judiciary, and an impartial court system. Components indicating how well the protective function of government is performed were assembled from three primary sources: the *International Country Risk Guide*, the *Global Competitiveness Report*, and the World Bank's *Doing Business* project.

Security of property rights, protected by the rule of law, provides the foundation for both economic freedom and the efficient operation of markets. Freedom to exchange, for example, is meaningless if individuals do not have secure rights to property, including the fruits of their labor. When individuals and businesses lack confidence that contracts will be enforced and the fruits of their productive efforts protected, their incentive to engage in productive activity is eroded. Perhaps more than any other area, this area is essential for the efficient allocation of resources. Countries with major deficiencies in this area are unlikely to prosper regardless of their policies in the other four areas.

Area 3: Access to Sound Money

Money oils the wheels of exchange. An absence of sound money undermines gains from trade. As Milton Friedman informed us long ago, inflation is a monetary phenomenon, caused by too much money chasing too few goods. High rates of monetary growth invariably lead to inflation. Similarly, when the rate of inflation increases, it also tends to become more volatile. High and volatile rates of inflation distort relative prices, alter the fundamental terms of long-term contracts, and make it virtually impossible for individuals and businesses to plan sensibly for the future. Sound money is essential to protect property rights and, thus, economic freedom. Inflation erodes the value of property held in monetary instruments. When governments finance their expenditures by creating money, in effect, they are expropriating the property and violating the economic freedom of their citizens.

The important thing is that individuals have access to sound money: who provides it makes little difference. Thus, in addition to data on a country's inflation and its government's monetary policy, it is important to consider how difficult it is to use alternative, more credible, currencies. If bankers can offer saving and checking accounts in other currencies or if citizens can open foreign bank accounts, then access to sound money is increased and economic freedom expanded.

There are four components to the EFW index in Area 3. All of them are objective and relatively easy to

obtain and all have been included in the earlier editions of the index. The first three are designed to measure the consistency of monetary policy (or institutions) with long-term price stability. Component 3D is designed to measure the ease with which other currencies can be used via domestic and foreign bank accounts. In order to earn a high rating in this area, a country must follow policies and adopt institutions that lead to low (and stable) rates of inflation and avoid regulations that limit the ability to use alternative currencies.

Area 4: Freedom to Trade Internationally

In our modern world of high technology and low costs for communication and transportation, freedom of exchange across national boundaries is a key ingredient of economic freedom. Many goods and services are now either produced abroad or contain resources supplied from abroad. Voluntary exchange is a positive-sum activity: both trading partners gain and the pursuit of the gain provides the motivation for the exchange. Thus, freedom to trade internationally also contributes substantially to our modern living standards.

In response to protectionist critics and special-interest politics, virtually all countries adopt trade restrictions of various types. Tariffs and quotas are obvious examples of roadblocks that limit international trade. Because they reduce the convertibility of currencies, controls on the exchange rate also hinder international trade. The volume of trade is also reduced if the passage of goods through customs is onerous and time consuming. Sometimes these delays are the result of administrative inefficiency while in other instances they reflect the actions of corrupt officials seeking to extract bribes. In both cases, economic freedom is reduced.

The components in this area are designed to measure a wide variety of restraints that affect international exchange: tariffs, quotas, hidden administrative restraints, and exchange rate and capital controls. In order to get a high rating in this area, a country must have low tariffs, a trade sector that is larger than expected, easy clearance and efficient administration of customs, a freely convertible currency, and few controls on the movement of capital.

Area 5: Regulation of Credit, Labor, and Business

When regulations restrict entry into markets and interfere with the freedom to engage in voluntary exchange, they reduce economic freedom. The fifth area of the index focuses on regulatory restraints that limit the freedom of exchange in credit, labor, and product markets. The first component (5A) reflects conditions in the domestic credit

market. The first two sub-components provide evidence on the extent to which the banking industry is dominated by private firms and whether foreign banks are permitted to compete in the market. The final two sub-components indicate the extent to which credit is supplied to the private sector and whether controls on interest rates interfere with the market in credit. Countries that use a private banking system to allocate credit to private parties and refrain from controlling interest rates receive higher ratings for this regulatory component.

Many types of labor-market regulations infringe on the economic freedom of employees and employers. Among the more prominent are minimum wages, dismissal regulations, centralized wage setting, extension of union contracts to nonparticipating parties, and conscription. The labor-market component (5B) is designed to measure the extent to which these restraints upon economic freedom are present. In order to earn high marks in the component rating regulation of the labor market, a country must allow market forces to determine wages and establish the conditions of hiring and firing, and refrain from the use of conscription.

Like the regulation of credit and labor markets, the regulation of business activities (component 5C) inhibits economic freedom. The sub-components of 5C are designed to identify the extent to which regulations and bureaucratic procedures restrain entry and reduce competition. In order to score high in this portion of the index, countries must allow markets to determine prices and refrain from regulatory activities that retard entry into business and increase the cost of producing products. They also must refrain from “playing favorites,” that is, from using their power to extract financial payments and reward some businesses at the expense of others.

Construction of Area and Summary ratings

Theory provides us with direction regarding elements that should be included in the five areas and the summary index, but it does not indicate what weights should be attached to the components within the areas or among the areas in the construction of the summary index. It would be nice if these factors were independent of each other and a weight could be attached to each of them. During the past several years, we have investigated several methods of weighting the various components, including principle component analysis and a survey of economists. We have also invited others to use their own weighting structure if they believe that it is preferable. In the final analysis, the

summary index is not very sensitive to substantial variations in the weights.

Furthermore, there is reason to question whether the areas (and components) are independent or work together like a team. Put another way, they may be linked more like the wheels, motor, transmission, drive shaft, and frame of a car. Just as it is the bundle of these factors that underlies the mobility of an auto, it may be a bundle of factors that underlies the composition of economic freedom. With regard to an automobile, which is more important for mobility: the motor, wheels, or transmission? The question cannot be easily answered because the parts work together. If any of these key parts break down, the car is immobile. Institutional quality may be much the same. If any of the key parts are absent, the overall effectiveness is undermined.

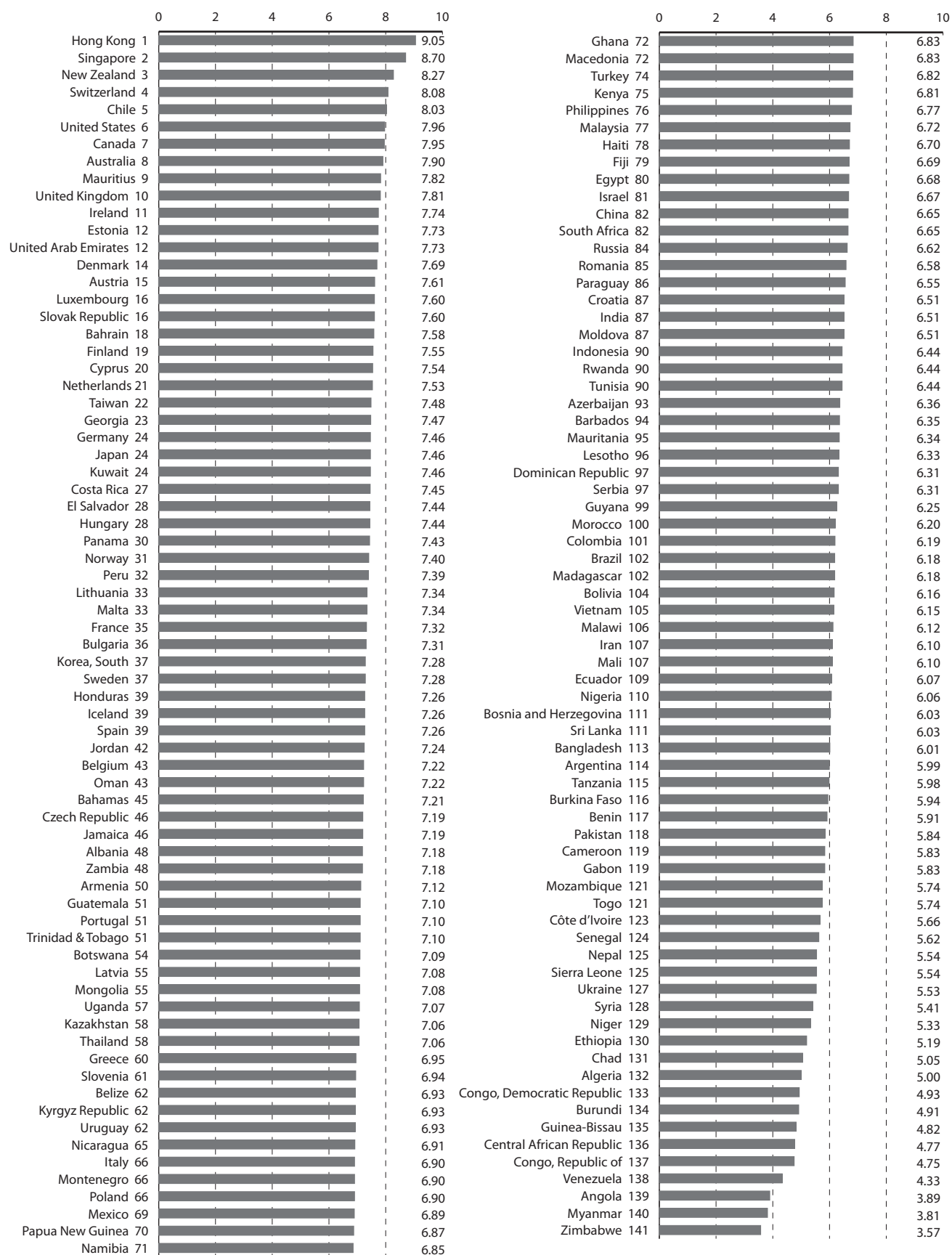
As the result of these two considerations, we organize the elements of the index in a manner that seems sensible to us but we make no attempt to weight the components in any special way when deriving either area or summary ratings. Of course, the component and sub-component data are available to researchers who would like to consider alternative weighting schemes and we encourage them to do so.

Summary Economic Freedom Ratings, 2008

Exhibit 1.2 presents summary economic freedom ratings, sorted from highest to lowest. These ratings are for the year 2008, the most recent year for which comprehensive data are available. Hong Kong and Singapore, once again, occupy the top two positions. The other nations in the top 10 are New Zealand, Switzerland, Chile, United States, Canada, Australia, Mauritius, and the United Kingdom. The rankings of other major countries include German (24th), Japan (24th), France (35th), Korea (37th), Spain (39th), Italy (66th), Mexico (69th), China (82nd), Russia (84th), India (87th), and Brazil (102nd). The ten lowest-rated countries are Algeria, Democratic Republic of Congo, Burundi, Guinea-Bissau, Central African Republic, Republic of Congo, Venezuela, Angola, Myanmar and, again in last place, Zimbabwe.

The EFW index is calculated back to 1970 as the availability of data allows; see the Country Data Tables in chapter 2 or our website, <<http://www.freetheworld.com>>, for information from past years. Because some data for earlier years may have been updated or corrected, researchers are always encouraged to use the data from the most recent annual report to assure the best-quality data.

Exhibit 1.2: Summary Economic Freedom Ratings, 2008



Area Economic Freedom Ratings (and Rankings), 2008

Exhibit 1.3 presents the ratings (and, in parentheses, the rankings) for each of the five areas of the index and for components 5A, 5B, and 5C. A number of interesting patterns emerge from an analysis of these data. High-income industrial economies generally rank quite high for Legal Structure and Security of Property Rights (Area 2), Access to Sound Money (Area 3), and Freedom to Trade Internationally (Area 4). Their ratings were lower, however, for Size of Government: Expenditures, Taxes, and Enterprises (Area 1) and Regulation of Credit, Labor, and Business (Area 5). This was particularly true for western European countries.

On the other hand, a number of developing nations show the opposite pattern. Albania makes an interesting case study. It shows that reasonably sized government alone is not enough to reap the benefits of economic freedom. The institutions of economic freedom, such as the rule of law and property rights, as well as sound money, trade openness, and sensible regulation are required. Albania ranked quite high at 8th in Size of Government: Expenditures, Taxes, and Enterprises (Area 1) and 26th in

Sound Money (Area 3). However, Albania scored poorly in all the other categories: 83rd in Legal Structure and Security of Property Rights (Area 2), 99th in Freedom to Trade Internationally (Area 4), and 86th in Regulation (Area 5). Despite relatively high rankings in a couple of areas, Albania's overall ranking was only 58th.

Weakness in the rule of law and property rights is particularly pronounced in sub-Saharan Africa, among Islamic nations, and for several nations that were part of the former Soviet bloc, though some of these nations have made strides toward improvement. Many Latin American and Southeast Asian nations also score poorly for rule of law and property rights. The nations that rank poorly in this category also tend to score poorly in the trade and regulation categories, even though several have reasonably sized governments and sound money.

The economies most open to foreign trade are Hong Kong, Singapore, and Chile while the most-closed economies were Myanmar and Venezuela. The least regulated countries—those at the top in Regulation of Credit, Labor, and Business (Area 5)—were a diverse lot: Bahamas, Hong Kong, Belize, New Zealand, Fiji, Singapore, Bahrain, Canada, Australia, and Iceland.

Exhibit 1.3: Area Economic Freedom Ratings (Ranks), 2008

	AREAS					COMPONENTS OF AREA 5		
	1 Size of Government	2 Legal System & Property Rights	3 Sound Money	4 Freedom to Trade Internationally	5 Regulation	5A Credit Market Regulation	5b Labor Market Regulation	5C Business Regulations
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Albania	8.24 (8)	5.30 (83)	9.40 (26)	6.29 (99)	6.67 (86)	8.12 (86)	5.79 (86)	6.10 (58)
Algeria	3.14 (140)	4.46 (107)	6.36 (118)	5.82 (111)	5.20 (131)	5.32 (135)	4.93 (115)	5.35 (100)
Angola	0.00 (141)	3.34 (129)	5.03 (136)	6.00 (108)	5.10 (134)	6.45 (126)	2.98 (139)	5.86 (77)
Argentina	6.37 (72)	4.45 (108)	6.90 (101)	6.38 (98)	5.86 (119)	7.94 (95)	5.18 (104)	4.44 (131)
Armenia	7.87 (18)	5.49 (77)	8.88 (45)	6.61 (85)	6.78 (78)	8.95 (60)	6.12 (78)	5.25 (107)
Australia	6.80 (54)	8.31 (11)	9.43 (22)	6.72 (77)	8.24 (9)	9.50 (14)	8.48 (12)	6.74 (24)
Austria	5.14 (119)	8.41 (8)	9.54 (8)	7.56 (29)	7.39 (42)	9.44 (25)	5.92 (84)	6.81 (21)
Azerbaijan	5.76 (98)	6.40 (44)	6.09 (126)	6.66 (82)	6.87 (71)	7.50 (113)	6.89 (57)	6.21 (49)
Bahamas	8.24 (9)	7.13 (27)	6.82 (104)	5.01 (133)	8.85 (1)	9.75 (7)	9.40 (1)	7.40 (9)
Bahrain	6.27 (78)	6.60 (37)	9.09 (37)	7.56 (30)	8.37 (7)	9.50 (14)	8.64 (10)	6.96 (18)
Bangladesh	8.13 (11)	3.07 (134)	6.39 (117)	5.81 (113)	6.67 (85)	8.19 (84)	6.37 (66)	5.45 (93)
Barbados	5.68 (101)	7.83 (18)	6.10 (125)	5.09 (131)	7.06 (60)	8.52 (79)	6.97 (54)	5.69 (89)
Belgium	4.20 (133)	6.92 (30)	9.48 (15)	7.98 (12)	7.54 (35)	9.38 (28)	6.90 (56)	6.35 (41)
Belize	6.56 (64)	5.71 (69)	8.18 (68)	5.45 (123)	8.77 (3)	9.37 (30)	8.89 (7)	8.06 (1)
Benin	7.39 (35)	4.44 (110)	6.11 (123)	5.12 (129)	6.49 (92)	9.33 (31)	5.48 (94)	4.67 (127)
Bolivia	6.36 (73)	3.77 (121)	7.97 (73)	7.17 (51)	5.52 (127)	8.00 (90)	3.62 (134)	4.93 (117)
Bosnia & Herzeg.	5.56 (107)	3.51 (126)	7.98 (72)	6.17 (103)	6.93 (66)	8.87 (65)	6.71 (62)	5.23 (110)

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Ranks), 2008

	AREAS					COMPONENTS OF AREA 5		
	1 Size of Government	2 Legal System & Property Rights	3 Sound Money	4 Freedom to Trade Internationally	5 Regulation	5A Credit Market Regulation	5b Labor Market Regulation	5C Business Regulations
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Botswana	5.29 (115)	6.83 (32)	8.70 (53)	7.00 (64)	7.64 (28)	9.25 (35)	7.01 (50)	6.66 (28)
Brazil	6.39 (71)	5.25 (84)	7.87 (77)	6.39 (96)	5.01 (135)	7.07 (123)	3.91 (130)	4.04 (134)
Bulgaria	7.46 (31)	5.21 (85)	8.74 (52)	7.62 (23)	7.54 (36)	9.50 (14)	7.75 (22)	5.38 (96)
Burkina Faso	6.24 (82)	4.34 (113)	6.64 (110)	5.23 (127)	7.24 (54)	8.57 (76)	7.17 (45)	5.98 (66)
Burundi	3.88 (137)	3.21 (131)	7.29 (95)	4.13 (138)	6.04 (111)	5.81 (132)	7.31 (40)	4.99 (116)
Cameroon	6.67 (61)	3.54 (124)	6.74 (106)	5.81 (112)	6.38 (98)	8.00 (90)	7.41 (37)	3.74 (136)
Canada	6.54 (65)	8.28 (12)	9.54 (9)	7.10 (58)	8.30 (8)	9.48 (24)	8.33 (15)	7.08 (14)
Central Afr. Rep.	6.28 (77)	2.17 (140)	6.63 (111)	3.59 (139)	5.18 (132)	7.10 (122)	4.47 (122)	3.98 (135)
Chad	5.73 (99)	2.18 (139)	5.90 (130)	5.71 (117)	5.71 (121)	6.03 (129)	5.94 (82)	5.17 (112)
Chile	7.79 (23)	7.10 (28)	8.82 (47)	8.61 (3)	7.83 (22)	9.25 (35)	7.26 (44)	6.99 (16)
China	4.51 (131)	6.38 (46)	9.38 (27)	7.38 (37)	5.62 (125)	7.18 (120)	4.82 (118)	4.86 (121)
Colombia	6.18 (85)	4.39 (112)	7.87 (76)	5.69 (118)	6.80 (76)	8.73 (70)	5.48 (95)	6.21 (50)
Congo, Dem. Rep.	5.11 (120)	2.14 (141)	7.63 (86)	5.43 (124)	4.35 (140)	4.78 (138)	4.56 (121)	3.72 (137)
Congo, Rep. of	4.77 (127)	2.85 (136)	4.93 (137)	5.45 (122)	5.75 (120)	6.33 (127)	6.29 (73)	4.62 (129)
Costa Rica	7.66 (27)	6.57 (40)	8.66 (54)	7.55 (31)	6.84 (74)	7.87 (101)	6.36 (67)	6.28 (42)
Côte d'Ivoire	6.34 (74)	3.11 (133)	6.40 (116)	6.39 (95)	6.06 (109)	7.93 (96)	5.11 (109)	5.14 (113)
Croatia	5.32 (113)	5.65 (72)	8.09 (69)	6.55 (88)	6.91 (68)	9.37 (29)	6.31 (69)	5.07 (114)
Cyprus	7.53 (29)	6.84 (31)	9.30 (30)	7.09 (59)	6.94 (65)	9.50 (14)	5.25 (103)	6.08 (59)
Czech Republic	5.02 (124)	6.43 (43)	9.14 (35)	7.84 (15)	7.53 (37)	9.33 (32)	7.67 (25)	5.60 (91)
Denmark	4.50 (132)	8.74 (3)	9.37 (29)	7.72 (17)	8.13 (11)	9.50 (14)	7.47 (35)	7.42 (8)
Dominican Rep.	7.58 (28)	4.79 (93)	5.91 (129)	6.76 (73)	6.53 (89)	7.45 (117)	6.32 (68)	5.83 (79)
Ecuador	8.03 (13)	4.04 (117)	6.10 (124)	6.49 (92)	5.67 (122)	7.95 (94)	3.74 (132)	5.31 (102)
Egypt	7.21 (38)	5.44 (78)	8.26 (64)	6.88 (67)	5.63 (124)	6.33 (128)	4.96 (112)	5.61 (90)
El Salvador	8.96 (3)	4.60 (102)	9.27 (31)	7.27 (44)	7.08 (59)	9.75 (8)	4.95 (113)	6.54 (33)
Estonia	6.79 (55)	7.21 (25)	9.08 (39)	7.95 (13)	7.62 (30)	10.00 (1)	5.56 (93)	7.28 (11)
Ethiopia	5.86 (95)	5.01 (90)	3.87 (140)	5.22 (128)	5.97 (113)	4.43 (139)	7.12 (47)	6.36 (40)
Fiji	6.98 (48)	5.99 (57)	6.42 (115)	5.33 (125)	8.76 (5)	9.75 (8)	9.22 (3)	7.30 (10)
Finland	5.03 (123)	8.66 (4)	9.47 (19)	7.37 (40)	7.23 (55)	9.75 (8)	5.06 (110)	6.88 (19)
France	5.43 (110)	7.31 (24)	9.54 (7)	7.30 (43)	7.01 (62)	9.22 (44)	5.62 (90)	6.19 (53)
Gabon	6.18 (86)	4.31 (114)	6.08 (127)	5.68 (119)	6.90 (69)	7.56 (109)	7.08 (48)	6.06 (60)
Georgia	7.68 (26)	5.07 (88)	9.08 (38)	7.73 (16)	7.81 (23)	8.67 (75)	7.31 (41)	7.46 (6)
Germany	5.64 (103)	8.17 (14)	9.51 (13)	7.70 (18)	6.25 (105)	8.22 (83)	3.94 (129)	6.61 (29)
Ghana	6.12 (89)	5.41 (81)	8.47 (59)	7.58 (24)	6.57 (87)	7.69 (105)	6.15 (77)	5.88 (75)
Greece	6.70 (59)	6.14 (52)	9.60 (4)	6.39 (97)	5.91 (116)	7.57 (108)	4.43 (123)	5.74 (83)
Guatemala	7.99 (14)	4.88 (92)	8.93 (43)	7.36 (41)	6.36 (99)	8.97 (56)	4.17 (126)	5.94 (73)
Guinea-Bissau	3.74 (138)	3.27 (130)	5.74 (132)	5.50 (120)	5.86 (118)	8.95 (61)	3.88 (131)	4.75 (124)
Guyana	4.19 (134)	4.66 (99)	7.75 (79)	7.42 (35)	7.20 (57)	8.08 (87)	7.34 (39)	6.20 (51)
Haiti	8.60 (6)	2.70 (137)	8.22 (67)	6.64 (84)	7.33 (46)	8.56 (78)	8.83 (8)	4.59 (130)
Honduras	8.74 (5)	4.51 (105)	8.88 (46)	7.45 (33)	6.71 (82)	8.72 (71)	4.96 (111)	6.45 (36)
Hong Kong	9.29 (1)	8.10 (16)	9.54 (10)	9.55 (1)	8.78 (2)	9.28 (33)	9.31 (2)	7.76 (4)
Hungary	6.29 (76)	6.28 (49)	9.25 (32)	8.06 (9)	7.30 (47)	8.84 (67)	7.08 (49)	5.98 (65)
Iceland	6.25 (81)	8.43 (7)	7.68 (81)	5.74 (115)	8.21 (10)	9.25 (35)	7.65 (27)	7.72 (5)
India	6.84 (51)	5.93 (63)	6.69 (108)	6.79 (72)	6.31 (101)	6.89 (124)	7.29 (42)	4.75 (123)

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Ranks), 2008

	AREAS					COMPONENTS OF AREA 5		
	1 Size of Government	2 Legal System & Property Rights	3 Sound Money	4 Freedom to Trade Internationally	5 Regulation	5A Credit Market Regulation	5b Labor Market Regulation	5C Business Regulations
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Indonesia	7.11 (45)	4.44 (109)	7.55 (89)	7.04 (62)	6.08 (107)	7.84 (102)	5.11 (108)	5.29 (104)
Iran	6.27 (79)	6.12 (53)	7.73 (80)	4.99 (135)	5.38 (130)	5.67 (133)	4.78 (119)	5.70 (88)
Ireland	5.28 (116)	7.92 (17)	9.48 (14)	8.22 (6)	7.81 (24)	9.00 (47)	7.58 (29)	6.86 (20)
Israel	4.83 (125)	5.90 (64)	9.07 (40)	7.26 (45)	6.27 (103)	7.50 (112)	4.83 (117)	6.48 (35)
Italy	5.71 (100)	5.67 (71)	9.48 (16)	7.11 (57)	6.54 (88)	7.91 (98)	6.30 (70)	5.40 (95)
Jamaica	8.82 (4)	5.52 (75)	7.66 (84)	6.65 (83)	7.28 (49)	8.77 (68)	7.53 (32)	5.55 (92)
Japan	6.18 (84)	7.49 (22)	9.77 (1)	6.10 (105)	7.73 (26)	8.91 (62)	8.19 (16)	6.10 (57)
Jordan	5.83 (97)	6.56 (41)	8.35 (63)	7.67 (20)	7.80 (25)	8.57 (77)	8.38 (13)	6.45 (38)
Kazakhstan	6.83 (52)	6.03 (54)	8.48 (57)	6.51 (90)	7.48 (39)	9.50 (14)	6.87 (58)	6.05 (62)
Kenya	7.80 (22)	4.57 (103)	7.68 (82)	6.73 (76)	7.29 (48)	8.47 (80)	7.67 (26)	5.72 (86)
Korea, South	6.61 (62)	6.76 (34)	9.47 (18)	7.13 (55)	6.44 (93)	9.25 (35)	4.02 (128)	6.06 (61)
Kuwait	6.72 (58)	7.01 (29)	8.80 (49)	6.72 (78)	8.03 (12)	10.00 (1)	7.57 (30)	6.53 (34)
Kyrgyz Republic	7.90 (17)	4.70 (97)	7.40 (93)	7.39 (36)	7.27 (51)	9.24 (41)	6.18 (75)	6.39 (39)
Latvia	5.10 (121)	6.59 (38)	8.90 (44)	7.32 (42)	7.49 (38)	9.20 (45)	7.13 (46)	6.14 (55)
Lesotho	6.11 (90)	4.55 (104)	7.40 (91)	6.23 (100)	7.37 (43)	9.75 (8)	6.93 (55)	5.44 (94)
Lithuania	7.00 (47)	6.58 (39)	8.81 (48)	7.46 (32)	6.85 (73)	9.23 (42)	5.59 (91)	5.72 (87)
Luxembourg	4.79 (126)	8.35 (10)	9.43 (21)	8.12 (8)	7.27 (50)	9.50 (14)	5.29 (102)	7.04 (15)
Macedonia	6.88 (50)	5.08 (87)	7.56 (88)	6.75 (75)	7.88 (19)	9.13 (46)	7.95 (19)	6.55 (32)
Madagascar	7.84 (19)	3.40 (127)	7.67 (83)	6.60 (86)	5.39 (129)	5.61 (134)	4.61 (120)	5.95 (69)
Malawi	6.15 (87)	5.42 (80)	6.89 (102)	5.30 (126)	6.86 (72)	7.67 (106)	6.74 (61)	6.17 (54)
Malaysia	5.95 (92)	6.24 (51)	6.58 (113)	7.26 (46)	7.55 (33)	8.96 (59)	7.57 (31)	6.13 (56)
Mali	7.31 (36)	4.47 (106)	6.28 (120)	6.00 (107)	6.42 (96)	8.00 (92)	5.47 (96)	5.80 (80)
Malta	5.58 (106)	7.55 (20)	9.46 (20)	7.13 (56)	7.01 (61)	9.40 (27)	7.01 (51)	4.62 (128)
Mauritania	6.47 (69)	4.65 (100)	6.59 (112)	6.80 (70)	7.20 (58)	9.22 (43)	6.99 (53)	5.38 (97)
Mauritius	8.37 (7)	6.36 (47)	9.00 (42)	7.38 (38)	7.98 (14)	9.50 (14)	7.70 (24)	6.73 (25)
Mexico	7.17 (41)	5.42 (79)	7.98 (71)	6.89 (66)	6.98 (63)	9.86 (6)	5.81 (85)	5.28 (105)
Moldova	5.87 (94)	6.38 (45)	7.22 (97)	6.82 (69)	6.26 (104)	8.46 (81)	4.95 (114)	5.37 (99)
Mongolia	7.71 (25)	5.71 (70)	7.45 (90)	7.16 (52)	7.37 (44)	9.00 (47)	6.86 (59)	6.26 (45)
Montenegro	5.84 (96)	5.94 (60)	7.91 (74)	7.19 (50)	7.61 (31)	9.59 (13)	7.91 (20)	5.33 (101)
Morocco	6.73 (57)	5.97 (58)	6.72 (107)	6.17 (102)	5.42 (128)	6.75 (125)	3.65 (133)	5.87 (76)
Mozambique	4.66 (128)	4.02 (119)	7.63 (85)	6.44 (93)	5.95 (115)	8.91 (63)	3.19 (137)	5.74 (84)
Myanmar	6.33 (75)	3.19 (132)	4.46 (139)	1.34 (141)	3.73 (141)	3.91 (140)		
Namibia	6.53 (66)	7.58 (19)	6.12 (122)	6.11 (104)	7.88 (18)	10.00 (1)	7.45 (36)	6.20 (52)
Nepal	6.20 (83)	3.96 (120)	6.36 (119)	5.11 (130)	6.07 (108)	7.23 (119)	5.77 (87)	5.20 (111)
Netherlands	4.09 (136)	8.22 (13)	9.53 (12)	8.25 (5)	7.55 (34)	9.50 (14)	6.70 (63)	6.45 (37)
New Zealand	6.14 (88)	8.98 (1)	9.58 (5)	7.91 (14)	8.76 (4)	10.00 (1)	8.48 (11)	7.79 (3)
Nicaragua	7.50 (30)	4.42 (111)	8.03 (70)	7.21 (49)	7.37 (45)	9.25 (35)	7.00 (52)	5.86 (78)
Niger	6.78 (56)	4.18 (116)	6.20 (121)	4.36 (137)	5.15 (133)	7.70 (104)	2.86 (140)	4.88 (120)
Nigeria	5.89 (93)	4.20 (115)	6.04 (128)	6.95 (65)	7.21 (56)	8.97 (57)	8.33 (14)	4.34 (132)
Norway	5.55 (108)	8.80 (2)	9.21 (34)	6.54 (89)	6.92 (67)	9.25 (35)	4.93 (116)	6.60 (31)
Oman	5.63 (104)	7.36 (23)	7.88 (75)	7.38 (39)	7.86 (20)	8.69 (73)	8.12 (17)	6.75 (23)
Pakistan	7.71 (24)	4.04 (118)	5.42 (133)	5.73 (116)	6.29 (102)	8.06 (89)	5.58 (92)	5.24 (109)
Panama	8.05 (12)	5.39 (82)	8.74 (51)	8.18 (7)	6.78 (77)	9.00 (47)	5.39 (98)	5.94 (72)

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Ranks), 2008

	AREAS					COMPONENTS OF AREA 5		
	1 Size of Government	2 Legal System & Property Rights	3 Sound Money	4 Freedom to Trade Internationally	5 Regulation	5A Credit Market Regulation	5b Labor Market Regulation	5C Business Regulations
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Papua New Guinea	7.14 (42)	4.71 (96)	6.65 (109)	7.99 (11)	7.84 (21)	7.93 (97)	8.82 (9)	6.76 (22)
Paraguay	7.45 (32)	3.53 (125)	8.58 (55)	7.57 (25)	5.62 (126)	7.52 (111)	3.59 (135)	5.73 (85)
Peru	7.90 (16)	5.49 (76)	9.02 (41)	7.64 (21)	6.88 (70)	7.50 (113)	7.37 (38)	5.76 (82)
Philippines	7.98 (15)	4.64 (101)	7.83 (78)	6.70 (80)	6.69 (84)	8.91 (64)	5.93 (83)	5.24 (108)
Poland	5.59 (105)	5.94 (62)	9.21 (33)	7.05 (61)	6.72 (81)	8.75 (69)	6.52 (65)	4.89 (119)
Portugal	5.67 (102)	6.81 (33)	9.55 (6)	7.23 (48)	6.24 (106)	7.60 (107)	5.18 (105)	5.93 (74)
Romania	4.64 (129)	5.86 (66)	8.24 (66)	7.43 (34)	6.72 (80)	7.53 (110)	6.69 (64)	5.95 (70)
Russia	7.27 (37)	5.73 (68)	8.43 (61)	5.77 (114)	5.91 (117)	7.50 (113)	6.07 (80)	4.14 (133)
Rwanda	6.69 (60)	5.78 (67)	7.29 (96)	5.03 (132)	7.43 (40)	6.01 (130)	9.12 (5)	7.17 (12)
Senegal	5.32 (114)	3.76 (122)	6.83 (103)	6.22 (101)	5.97 (114)	8.84 (66)	4.16 (127)	4.91 (118)
Serbia	6.40 (70)	4.74 (94)	7.34 (94)	6.68 (81)	6.40 (97)	8.68 (74)	5.72 (88)	4.80 (122)
Sierra Leone	6.52 (67)	3.35 (128)	7.19 (98)	5.00 (134)	5.66 (123)	5.31 (136)	5.68 (89)	6.00 (64)
Singapore	8.17 (10)	8.38 (9)	9.10 (36)	9.34 (2)	8.50 (6)	9.75 (8)	7.74 (23)	8.01 (2)
Slovak Republic	6.57 (63)	6.24 (50)	9.48 (17)	8.05 (10)	7.65 (27)	10.00 (1)	7.65 (28)	5.31 (103)
Slovenia	5.20 (118)	6.02 (55)	9.42 (23)	7.25 (47)	6.81 (75)	8.98 (55)	5.43 (97)	6.01 (63)
South Africa	5.33 (112)	6.33 (48)	7.60 (87)	6.76 (74)	7.25 (52)	9.44 (26)	6.09 (79)	6.23 (46)
Spain	6.48 (68)	6.56 (42)	9.53 (11)	7.02 (63)	6.73 (79)	9.25 (34)	5.14 (106)	5.79 (81)
Sri Lanka	6.81 (53)	5.02 (89)	5.85 (131)	5.97 (110)	6.50 (91)	7.29 (118)	6.82 (60)	5.37 (98)
Sweden	3.61 (139)	8.47 (5)	9.37 (28)	7.69 (19)	7.24 (53)	9.50 (14)	5.13 (107)	7.10 (13)
Switzerland	7.81 (21)	8.44 (6)	9.40 (25)	6.79 (71)	7.95 (15)	9.00 (47)	7.88 (21)	6.97 (17)
Syria	5.43 (111)	4.72 (95)	6.93 (100)	5.48 (121)	4.47 (138)	3.01 (141)	5.37 (99)	5.01 (115)
Taiwan	6.96 (49)	6.69 (35)	9.65 (3)	7.57 (27)	6.53 (90)	9.00 (47)	4.36 (125)	6.23 (47)
Tanzania	4.10 (135)	5.97 (59)	7.40 (92)	6.00 (109)	6.42 (95)	7.96 (93)	6.04 (81)	5.27 (106)
Thailand	7.42 (34)	5.94 (61)	6.98 (99)	7.57 (28)	7.41 (41)	9.00 (47)	7.28 (43)	5.95 (71)
Togo	9.28 (2)	2.61 (138)	6.42 (114)	6.01 (106)	4.36 (139)	4.80 (137)	3.59 (136)	4.70 (125)
Trinidad & Tobago	7.18 (40)	5.19 (86)	8.48 (58)	7.05 (60)	7.58 (32)	9.00 (47)	7.48 (34)	6.26 (44)
Tunisia	5.26 (117)	6.64 (36)	6.77 (105)	6.57 (87)	6.98 (64)	8.17 (85)	6.17 (76)	6.60 (30)
Turkey	7.44 (33)	5.61 (73)	8.57 (56)	6.41 (94)	6.05 (110)	7.47 (116)	4.38 (124)	6.28 (43)
Uganda	7.20 (39)	4.68 (98)	8.77 (50)	6.71 (79)	8.00 (13)	8.70 (72)	9.09 (6)	6.22 (48)
Ukraine	5.50 (109)	5.00 (91)	4.61 (138)	6.51 (91)	6.02 (112)	8.07 (88)	6.30 (71)	3.70 (138)
Unit. Arab Emirates	7.12 (44)	7.19 (26)	8.25 (65)	8.47 (4)	7.63 (29)	7.90 (99)	7.53 (33)	7.45 (7)
United Kingdom	6.02 (91)	8.11 (15)	9.41 (24)	7.63 (22)	7.89 (17)	8.96 (58)	7.98 (18)	6.71 (27)
United States	7.13 (43)	7.50 (21)	9.69 (2)	7.57 (26)	7.89 (16)	7.74 (103)	9.20 (4)	6.73 (26)
Uruguay	7.06 (46)	5.59 (74)	8.45 (60)	7.14 (54)	6.43 (94)	7.13 (121)	6.18 (74)	5.98 (67)
Venezuela	5.09 (122)	2.91 (135)	5.30 (134)	3.52 (140)	4.82 (137)	8.25 (82)	3.14 (138)	3.07 (140)
Vietnam	6.27 (80)	6.01 (56)	5.25 (135)	6.87 (68)	6.34 (100)	8.99 (54)	5.35 (100)	4.68 (126)
Zambia	7.81 (20)	5.88 (65)	8.37 (62)	7.14 (53)	6.71 (83)	7.88 (100)	6.30 (72)	5.96 (68)
Zimbabwe	4.56 (130)	3.72 (123)	0.00 (141)	4.72 (136)	4.85 (136)	5.84 (131)	5.31 (101)	3.40 (139)

The Chain-Linked Summary Index, 1970–2008

The EFW data are available for many countries back to 1970. Through time, the index has become more comprehensive and the available data more complete. As a result, the number and composition of the components for many countries will vary across time. This presents a problem similar to that confronted when calculating GDP or a price index over time when we know that the underlying goods and services are changing from one year to another. In order to correct for this problem and assure comparability across time, we have done the same thing that statisticians analyzing national income do: we have chain-linked the data.

The base year for the chain-link index is 2000, and as a result the chain-link index is not available for any countries added since that year. Changes in a country's chain-linked index through time are based only on changes in components that were present in adjoining years. For example, the 2005 chain-linked rating is based on the 2004 rating but is adjusted based on the changes in the underlying data between 2004 and 2005 for those components that were present in both years. If the common components for a country in 2005 were the same as in 2004, then no adjustment was made to the country's 2005 summary rating. However, if the 2005 components were lower than those for 2004 for the components present in both years, then the country's 2005 summary rating was adjusted downward proportionally to reflect this fact.

Correspondingly, in cases where the ratings for the common components were higher in 2005 than for 2004,

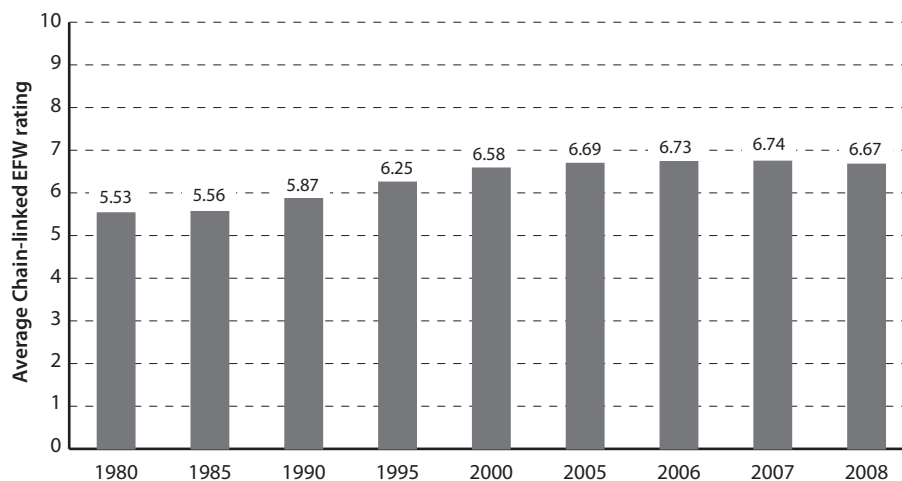
the country's 2005 summary rating was adjusted upward proportionally. The chain-linked ratings were constructed by repeating this procedure backward in time to 1970 and forward in time to 2008. The chain-linked methodology means that a country's rating will change across time periods only when there is a change in ratings for components present during adjacent years. This is precisely what one would want when making comparisons across time periods.

Exhibit 1.4 shows the average chain-linked economic freedom index rating for the 102 countries with ratings since 1980. The average level of economic freedom, as measured by the chain-linked EFW index, has increased to 6.67 in 2008 from 5.53 in 1980; however, the average rating fell marginally in the last year (from 2007 to 2008). Much of the long-term increase was driven by reductions in marginal income-tax rates, if not aggregate taxation; improvements in monetary policy; and global trade liberalization.

The Chain-Linked Summary ratings for all years are found in Exhibit 1.5. Researchers using the data for long-term studies should use these chain-linked data. These longitudinal data make it possible to follow the changes in economic freedom and analyze their impact over a lengthy period of time.

The chain-link methodology was also used to derive area ratings. The ratings (and rankings) for the chain-linked summary and area ratings are presented in the country tables. The country tables also present the unadjusted summary and area ratings, but when tracking ratings across time, the chain-link ratings will present a more accurate picture.

Exhibit 1.4: Average Chain-linked EFW Rating for the 102 countries with ratings since 1980



Big movers

Exhibit 1.5 allows us to track changes for countries over time. Over the longer run, between 1980 and 2008, the following five countries increased the most: Turkey, Israel, Peru, Uganda, Ghana; while the following fell the most: Venezuela, Zimbabwe, Myanmar, Malaysia, Nepal. In the most recent period between 2005 and 2008, the largest improvements occurred in Ghana, Mauritius, Malawi, Turkey, and Rwanda, and the biggest declines were in Algeria, Iceland, Chad, Syria, and Ireland. In the last year, as noted in Exhibit 1.4, the average rating for the world as a whole fell for the first time in a quarter of a century. Of the 123 countries with chain-linked ratings in 2007 and

2008, 88 (71.5%) exhibited rating decreases and only 35 (28.5%) recorded rating increases. Great diversity can now be found among the nations of the former Soviet Union with some countries like Estonia scoring near the top and others like Ukraine scoring near the bottom.

The chain-linked rating of the United States is down about half a point from 8.45 in 2000 to 7.93 in 2008, which has sent the accompanying ranking down to 6th from 3rd in 2000. Lower ratings in Area 2: Legal Structure and Security of Property Rights were primarily responsible for the rating reduction of the United States. In the last data year, the massive increase in government borrowing in the United States also contributed to its rating decline.

Exhibit 1.5: The Chain-Linked Summary Index of Ratings, 1970–2008

	1970	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Albania					4.24	4.87	6.04	6.10	6.40	6.87	6.60	7.06	7.23	7.38	7.38
Algeria			4.30	4.05	3.89	4.28	4.73	4.72	4.64	4.65	4.75	5.58	5.48	5.27	5.02
Angola															
Argentina	5.29	3.35	4.41	3.98	4.78	6.77	7.19	6.49	6.16	5.99	6.20	5.94	6.06	6.27	6.01
Armenia															
Australia	7.24	6.30	7.13	7.35	7.66	7.80	7.88	7.65	7.71	7.84	7.81	7.85	7.91	7.93	7.83
Austria	6.63	6.28	6.76	6.72	7.22	7.04	7.37	7.21	7.22	7.76	7.75	7.70	7.69	7.67	7.59
Azerbaijan															
Bahamas		6.67	6.57	6.51	6.54	6.40	6.63	6.69	6.67	6.78	6.88	7.10	6.95	7.04	7.08
Bahrain			7.46	6.85	6.85	6.93	7.28	7.18	7.16	7.19	7.07	6.92	7.22	7.27	7.23
Bangladesh		3.16	3.63	3.94	4.68	5.45	5.82	5.76	5.93	5.77	5.69	5.88	6.00	5.92	5.95
Barbados		5.69	5.86	6.23	6.14	6.08	6.09	6.08	6.00	6.07	6.16	6.26	6.11	6.21	5.97
Belgium	7.81	7.05	7.27	7.30	7.54	7.26	7.74	7.41	7.34	7.53	7.43	7.23	7.20	7.29	7.14
Belize			5.63	5.48	5.98	6.40	6.41	6.33	6.73	6.82	6.80	6.84	6.77	6.73	6.72
Benin			5.04	4.80	5.06	4.70	5.25	5.28	5.39	5.29	5.23	5.36	5.63	5.55	5.49
Bolivia			4.39	3.55	5.39	6.40	6.79	6.51	6.44	6.36	6.30	6.40	6.43	6.18	6.15
Bosnia & Herzeg.															
Botswana			5.55	5.80	6.04	6.29	7.10	7.05	7.06	6.85	6.86	6.74	6.71	7.14	6.89
Brazil	5.66	4.78	4.45	3.87	4.54	4.58	5.85	5.83	5.98	5.86	5.82	6.25	6.10	6.09	6.18
Bulgaria				5.51	4.23	4.58	5.27	5.79	6.39	6.60	6.54	6.94	7.08	7.17	7.18
Burkina Faso															
Burundi		4.31	4.44	4.74	4.88	4.39	4.78	4.96	4.89	4.38	4.28	4.59	5.13	5.18	4.65
Cameroon			5.74	5.77	5.70	5.58	5.84	6.03	6.04	6.06	6.10	5.94	6.00	5.90	5.86
Canada	8.05	7.13	7.67	7.75	8.07	7.90	8.15	8.03	8.04	8.13	8.11	8.06	8.03	7.98	7.92
Central Afr. Rep.				4.70	5.11	4.68	5.09	5.15	5.01	5.55	5.44	4.96	5.20	5.25	5.16
Chad				5.05	5.05	5.02	5.47	5.95	6.06	5.95	5.83	5.76	5.84	5.44	5.35
Chile	4.31	3.93	5.56	6.18	7.02	7.47	7.28	7.47	7.59	7.75	7.67	7.94	7.97	8.08	7.99
China			4.23	5.15	4.96	5.30	5.73	5.79	5.79	5.85	5.66	6.08	6.13	6.47	6.44
Colombia	5.32	5.01	4.83	5.19	5.12	5.45	5.31	5.52	5.54	5.73	5.73	5.97	6.15	6.19	6.24
Congo, Dem. Rep.	4.47	4.02	3.00	3.87	3.39	3.56	4.10	4.05	4.69	4.56	4.68	4.66	5.27	4.93	4.84
Congo, Rep. of			4.63	4.43	5.12	5.24	4.50	4.83	4.68	4.71	4.73	4.66	4.79	4.61	4.77

Exhibit 1.5 (continued): The Chain-Linked Summary Index of Ratings, 1970–2008

	1970	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Madagascar			4.55	4.79	4.68	4.67	5.94	6.27	5.82	6.07	5.90	5.94	6.00	6.29	6.28
Malawi		5.38	4.94	5.16	5.48	4.69	5.01	5.52	5.58	6.00	5.68	5.46	5.33	5.79	5.95
Malaysia	6.63	6.42	7.07	7.12	7.49	7.55	6.72	6.35	6.55	6.64	6.80	6.89	6.94	6.91	6.71
Mali		5.68	5.78	4.93	5.16	5.26	6.23	6.07	5.73	6.12	5.93	6.03	6.28	6.35	6.15
Malta			5.57	5.23	5.42	6.56	6.45	6.42	6.49	6.18	6.94	7.10	7.10	7.25	7.06
Mauritania															
Mauritius		5.21	5.16	6.25	6.23	7.29	7.39	7.16	7.01	6.89	6.83	7.17	7.16	7.53	7.61
Mexico	6.56	5.83	5.72	4.94	6.31	6.49	6.42	6.26	6.55	6.50	6.63	7.01	6.97	6.93	6.88
Moldova															
Mongolia															
Montenegro															
Morocco	5.76	5.16	4.54	5.25	5.27	6.15	6.12	6.10	6.11	6.28	6.09	6.31	6.29	6.29	6.29
Mozambique															
Myanmar			4.84	4.42	3.46	4.02	4.00	3.77	3.41	3.21	3.54	3.67	3.87	3.36	3.49
Namibia					5.33	6.28	6.47	6.49	6.49	6.59	6.32	6.56	6.51	6.73	6.61
Nepal			5.75	5.31	5.42	5.37	5.75	5.78	5.70	5.21	5.27	5.38	5.42	5.58	5.44
Netherlands	7.64	6.96	7.51	7.65	7.82	7.80	8.05	7.76	7.78	7.71	7.69	7.59	7.51	7.52	7.45
New Zealand	6.72	6.02	6.73	6.57	7.95	8.64	8.35	8.22	8.37	8.38	8.38	8.37	8.26	8.30	8.22
Nicaragua			4.17	2.11	2.96	5.38	6.50	6.30	6.57	6.67	6.57	6.82	6.92	6.98	6.85
Niger			4.69	5.06	5.06	4.43	5.42	5.05	5.02	5.09	5.47	5.40	5.49	5.42	5.35
Nigeria	3.82	3.76	3.76	4.04	3.73	4.20	5.52	5.31	5.77	5.82	5.84	6.01	6.21	6.21	5.93
Norway	6.38	5.90	6.17	6.70	7.26	7.34	7.04	6.84	6.78	7.35	7.32	7.47	7.42	7.45	7.34
Oman				6.70	6.23	6.73	7.03	7.11	7.07	7.30	7.26	7.33	7.37	7.50	7.50
Pakistan	4.57	3.83	4.65	5.09	5.13	5.73	5.55	5.61	5.70	5.49	5.49	5.90	5.92	5.95	5.80
Panama		6.68	5.66	6.22	6.53	7.36	7.41	7.38	7.36	7.40	7.38	7.47	7.53	7.52	7.32
Papua New Guinea				6.16	6.31	6.53	5.96	5.99	5.91	5.89	5.93	6.51	6.51	6.92	6.94
Paraguay			5.76	5.12	5.78	6.50	6.28	6.35	6.23	6.22	6.15	6.46	6.53	6.49	6.62
Peru	4.75	4.03	4.27	3.11	4.13	6.31	7.07	7.05	7.06	7.07	7.09	7.19	7.18	7.24	7.36
Philippines	5.73	5.42	5.42	5.11	5.85	7.24	6.98	6.81	6.91	6.95	6.72	7.09	7.00	6.91	6.76
Poland				4.07	4.00	5.30	6.19	5.97	6.30	6.26	6.71	6.78	6.80	6.85	6.88
Portugal	6.37	4.28	5.99	5.74	6.54	7.32	7.37	7.25	7.41	7.39	7.48	7.11	7.16	7.17	7.08
Romania				4.64	4.54	3.90	4.99	4.95	5.45	5.73	5.71	6.51	6.42	6.65	6.43
Russia						4.49	5.27	5.15	5.57	5.64	5.93	6.37	6.36	6.50	6.57
Rwanda					5.08	3.89	5.45	5.65	5.96	5.49	5.48	5.70	6.00	6.22	6.61
Senegal			4.65	5.31	5.41	4.83	5.90	5.72	5.81	5.70	5.73	5.70	5.61	5.67	5.56
Serbia															
Sierra Leone		5.43	5.51	3.89	4.04	4.47	5.31	5.12	5.42	5.68	5.49	5.35	5.41	5.77	5.37
Singapore	7.89	7.58	7.93	8.13	8.73	8.81	8.53	8.44	8.66	8.57	8.57	8.82	8.75	8.79	8.75
Slovak Republic						5.54	6.16	6.49	6.48	6.82	7.37	7.67	7.56	7.56	7.57
Slovenia						4.76	6.36	6.49	6.47	6.56	6.55	6.41	6.49	6.55	6.61
South Africa	6.69	5.97	6.12	5.78	5.62	6.44	6.96	6.92	6.98	7.10	6.93	6.77	6.75	6.79	6.55
Spain	6.71	6.02	6.19	6.18	6.51	7.04	7.31	7.06	7.10	7.50	7.50	7.36	7.28	7.28	7.19
Sri Lanka			5.10	5.17	5.02	6.02	6.10	6.02	5.95	6.11	5.93	5.97	6.04	6.02	5.89
Sweden	5.77	5.64	5.95	6.66	7.08	7.14	7.44	7.16	7.39	7.53	7.30	7.35	7.31	7.29	7.26
Switzerland	7.95	7.78	8.18	8.28	8.22	7.96	8.39	8.14	8.28	8.26	8.21	8.07	8.07	8.11	7.96
Syria	4.27	4.47	3.67	3.36	3.87	4.53	4.91	5.22	4.96	4.82	5.21	5.46	5.20	5.48	5.07
Taiwan	6.88	6.10	6.92	7.10	7.39	7.33	7.31	7.19	7.38	7.39	7.60	7.69	7.74	7.71	7.56

Exhibit 1.5 (continued): The Chain-Linked Summary Index of Ratings, 1970–2008

	1970	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Tanzania	4.51	4.08	4.06	3.63	4.14	5.43	6.05	6.16	5.99	6.01	6.12	6.07	6.15	6.04	5.94
Thailand	6.09	5.92	6.19	6.21	6.97	7.19	6.66	6.34	6.80	6.79	6.81	6.94	7.05	7.06	7.06
Togo			4.22	5.16	5.65	5.38	5.84	6.07	6.22	5.84	5.67	5.87	6.00	5.70	5.62
Trinidad & Tobago		4.80	5.07	4.92	5.64	6.93	7.18	7.11	6.89	6.77	6.78	6.75	6.80	6.79	6.78
Tunisia	4.80	4.78	5.09	4.80	5.48	5.75	6.03	6.05	5.95	5.93	5.97	6.05	6.03	6.01	6.00
Turkey	4.06	4.19	3.95	5.08	5.14	5.72	5.75	5.25	5.51	6.00	6.12	6.36	6.47	6.53	6.91
Uganda			3.42	3.01	2.99	5.31	6.72	6.65	6.66	6.76	6.75	6.91	7.03	7.21	7.15
Ukraine						3.76	4.74	4.80	5.44	5.32	5.64	5.67	5.75	5.69	5.46
Unit. Arab Emirates			5.92	6.79	7.18	6.77	7.02	6.99	7.07	7.11	6.96	7.22	7.35	7.30	7.45
United Kingdom	6.56	6.29	6.73	7.66	8.14	8.04	8.25	8.11	8.15	8.26	8.11	8.04	7.97	7.84	7.78
United States	7.74	7.83	8.03	8.18	8.43	8.32	8.45	8.23	8.22	8.17	8.15	8.07	8.01	8.08	7.93
Uruguay			5.95	5.86	6.17	6.11	6.68	6.50	6.75	6.63	6.74	6.74	6.67	6.68	6.67
Venezuela	6.81	5.80	6.29	5.95	5.45	4.34	5.61	5.50	4.51	4.07	4.53	4.74	4.82	4.37	4.35
Vietnam															
Zambia		4.60	5.08	3.97	3.52	4.87	6.63	6.58	6.56	6.72	6.76	6.99	7.31	7.33	7.27
Zimbabwe			4.93	4.85	5.05	5.81	4.59	3.62	3.59	3.77	3.32	3.37	3.39	2.96	3.57

Concluding thoughts

This chapter concludes with some graphs illustrating simple relationships between economic freedom and various other indicators of human and political progress (exhibits 1.6–1.13, pp. 17–19). The graphs use the average of the chain-linked EFW index for the period from 1990 to 2008, breaking the data into four quartiles ordered from low to high. Because persistence is important and the impact of economic freedom will be felt over a lengthy time period, it is better to use the average rating over a fairly long time span rather than the current rating to observe the impact of economic freedom on performance.

The graphs begin with the data on the relationship between economic freedom and the growth rate and level of per-capita GDP. In recent years, numerous scholarly studies have analyzed these relationships in detail (e.g., de Haan et al., 2006). Almost without exception, these studies have found that countries with higher and improving economic freedom grow more rapidly and achieve higher levels of per-capita GDP.

Many of the relationships illustrated in the graphs below reflect the impact of economic freedom as it works through increasing economic growth. In other cases, the observed relationships may reflect the fact that some of the variables that influence economic freedom may also influence political factors like trust, honesty in government, and protection of civil liberties. Thus, we are not necessarily arguing that there is a direct causal relation between economic freedom and the variables considered below. In other words, these graphics are no substitute for real, scholarly investigation that controls for other factors. Nonetheless, we believe that the graphs provide some insights about the contrast between the nature and characteristics of market-oriented economies and those dominated by government regulation and planning. At the very least, these figures suggest potential fruitful areas for future research.

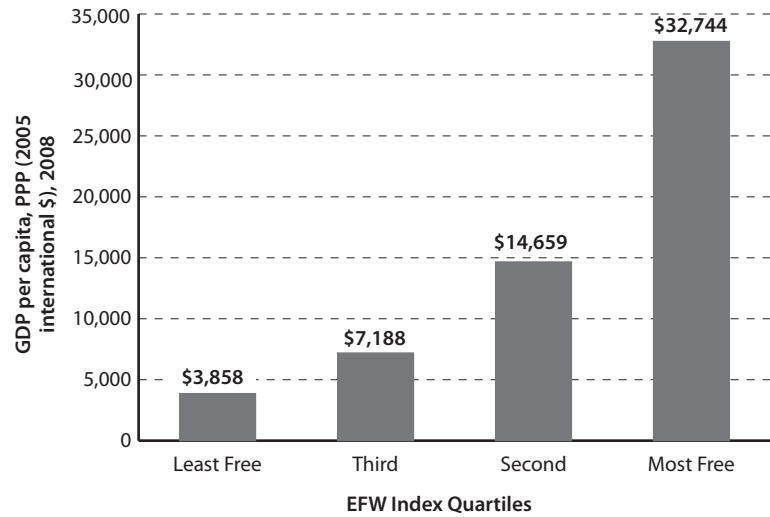
Reference

de Haan, Jakob, et al. (2006). Market-Oriented Institutions and Policies and Economic Growth: A Critical Survey. *Journal of Economic Surveys* 20, 2: 157–35.

Exhibit 1.6: Economic Freedom and Income per Capita

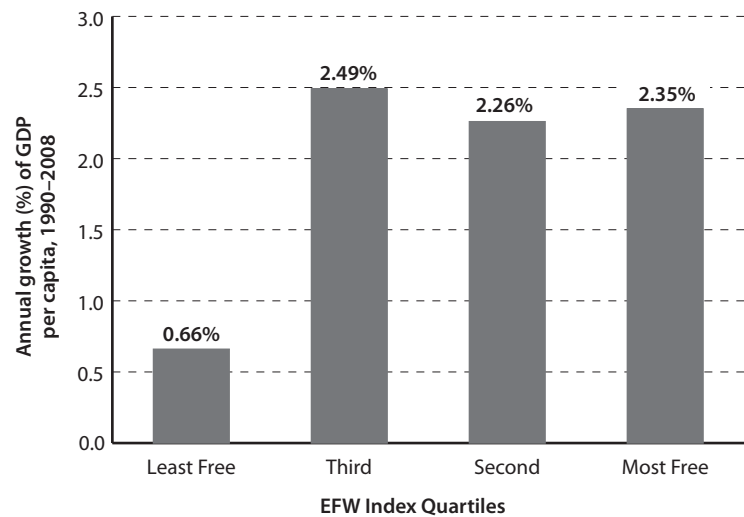
Countries with more economic freedom have substantially higher per-capita incomes.

Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*; World Bank, *World Development Indicators*.

**Exhibit 1.7: Economic Freedom and Economic Growth**

The economies of countries with more economic freedom tend to grow more rapidly.

Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*; World Bank, *World Development Indicators*.

**Exhibit 1.8: Economic Freedom and the Income Share of the Poorest 10%**

The share of income earned by the poorest 10% of the population is unrelated to economic freedom.

Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*; World Bank, *World Development Indicators*.

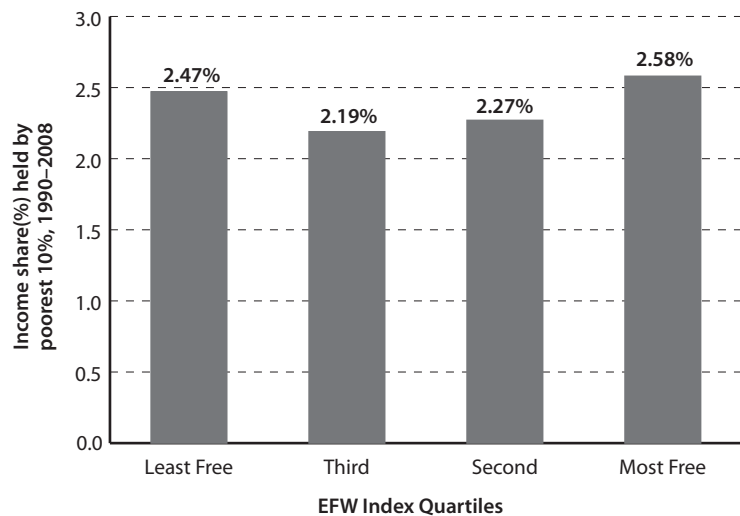
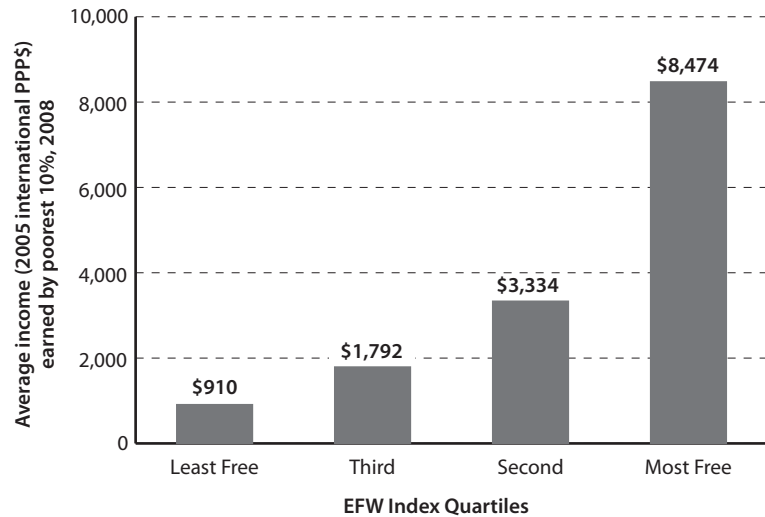


Exhibit 1.9: Economic Freedom and the Income Level of the Poorest 10%

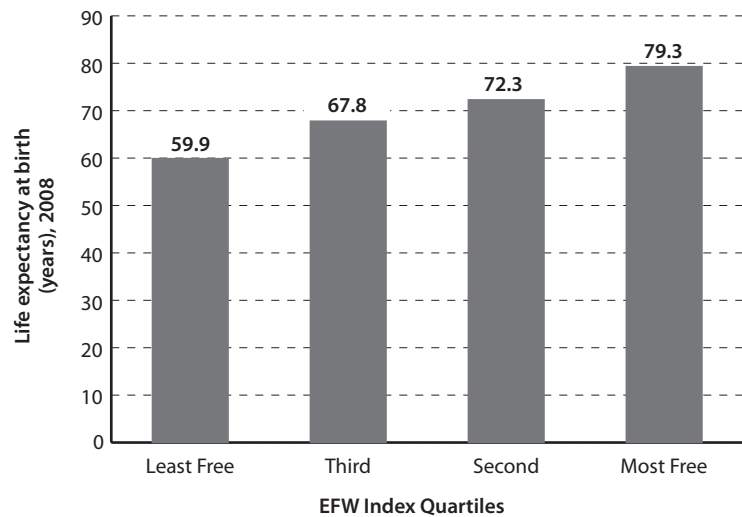
The amount, as opposed to the share, of income earned by the poorest 10% of the population is much higher in countries with greater economic freedom.

Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*; World Bank, *World Development Indicators*.

**Exhibit 1.10: Economic Freedom and Life Expectancy**

Life expectancy is about 20 years longer in countries with the most economic freedom than in countries with the least.

Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*; World Bank, *World Development Indicators*.

**Exhibit 1.11: Economic Freedom and Life Satisfaction**

People living in countries with more economic freedom report more life satisfaction.

The Life Satisfaction Index is based on survey responses to the question: "All things considered, how satisfied are you with your life as a whole these days?" Responses are made on a numeric scales from 0 to 10, where 0 is dissatisfied and 10 is satisfied.

Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*; New Economic Foundation (2009), *The (un)Happy Planet Index 2.0. Why Good Lives Don't Have to Cost the Earth*.

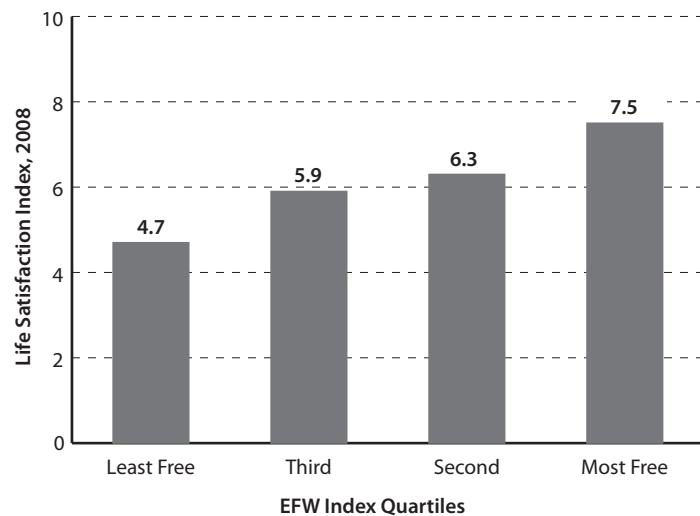
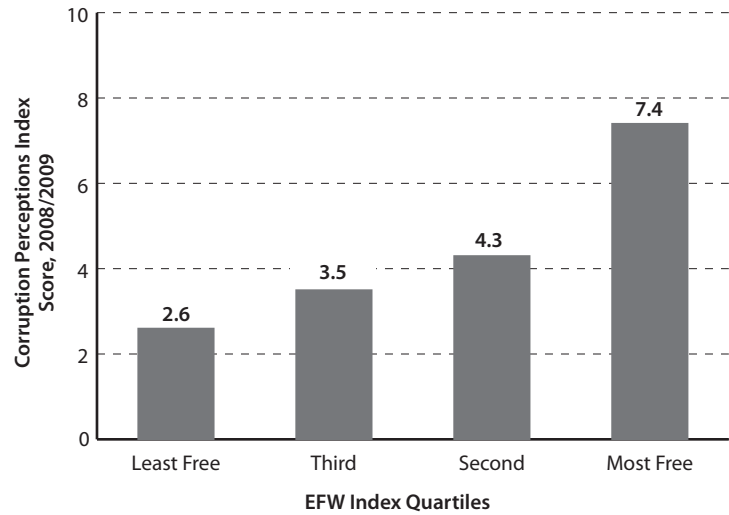


Exhibit 1.12: Economic Freedom and Corruption

With fewer regulations, taxes, and tariffs, economic freedom reduces the degree of corruption.

Note: "CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt)."

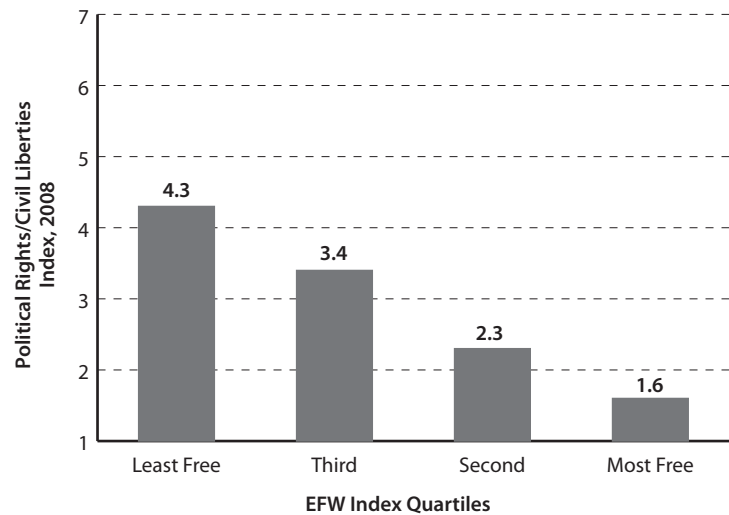
Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*; Transparency International, *Corruption Perceptions Index 2009*.

**Exhibit 1.13: Economic Freedom and Political Rights and Civil Liberties**

Political rights (e.g., free and fair elections) and civil liberties (e.g., freedom of speech) go hand in hand with economic freedom.

Note: Political rights and civil liberties are measured on a scale from 1 to 7, with lower numerical values indicating greater political freedom and civil liberties.

Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*; Freedom House, *Freedom in the World 2009*.



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/release.html>. 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 (e-mail: rlawson@auburn.edu; telephone: +1.334.844.3007) or Joshua Hall (e-mail: joshua.c.hall@gmail.com; telephone: +1.608.363.2376). Please cite the data set as:

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Publisher: Fraser Institute

Year: 2010

URL: <http://www.freetheworld.com/release.html>

Published work using research ratings from *Economic Freedom of the World*

A selected list of published papers that have used the economic freedom ratings from *Economic Freedom of the World* is available on line at <http://www.freetheworld.com/papers.html>. In most cases, a brief abstract of the article is provided. If you know of any other papers current or forthcoming that should be included on this page, or have further information about any of these papers or authors, please write to freetheworld@fraserinstitute.org.