

Executive Summary

Economic Freedom of the World

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

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

Economic freedom has suffered another setback

- The chain-linked summary index (exhibit 1.4) permits comparisons over time. The average economic freedom score rose from 5.53 (out of 10) in 1980 to 6.74 in 2007, but fell back to 6.67 in 2008, and to 6.64 in 2009, the most recent year for which data are available. (See chapter 1 for a discussion.)
- In this year's index, Hong Kong retains the highest rating for economic freedom, 9.01 out of 10. The other nations among the top 10 are: Singapore (8.68); New Zealand (8.20); Switzerland (8.03); Australia (7.98); Canada (7.81); Chile (7.77); United Kingdom (7.71); Mauritius (7.67); and the United States (7.60).
- The rankings (and scores) of other large economies are Germany, 21 (7.45); Japan, 22 (7.44); France, 42 (7.16); Italy, 70 (6.81); Mexico, 75 (6.74); Russia, 81 (6.55); China, 92 (6.43); India, 94 (6.40); and Brazil, 102 (6.19).
- The bottom 10 nations are: Zimbabwe (4.08); Myanmar (4.16); Venezuela (4.28); Angola (4.76); Democratic Republic of Congo (4.84); Central African Republic (4.88); Guinea-Bissau (5.03); Republic of Congo (5.04); Burundi (5.12); and Chad (5.32).

The world's largest economy, the United States, has suffered one of the largest declines in economic freedom over the last 10 years, pushing it into tenth place. Much of this decline is a result of higher government spending and borrowing and lower scores for the legal structure and property rights components. Over the longer term, the summary chain-linked ratings of Venezuela, Zimbabwe, United States, and Malaysia fell by eight-tenths of a point or more between 1990 and 2009, causing their rankings to slip.

The chain-linked summary ratings of Uganda, Zambia, Nicaragua, Albania, and Peru have increased by three or more points since 1990. The summary ratings of eight other countries—Bulgaria, Poland, El Salvador, Romania, Ghana, Nigeria, Hungary, and Guinea-Bissau—increased by between two and three points during this same period.

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

- Nations in the top quartile of economic freedom had an average per-capita GDP of \$31,501 in 2009, compared to \$4,545 for those nations in the bottom quartile, in constant 2005 international dollars (exhibit 1.9).
- Nations in the top quartile of economic freedom had an average growth in per-capita GDP between 1990 and 2009 of 3.07%, compared to 1.18% for those nations in the bottom quartile, in constant 2005 international dollars (exhibit 1.10).
- In the top quartile, the average income of the poorest 10% of the population was \$8,735, compared to \$1,061 for those in the bottom quartile, in constant 2005 international dollars (exhibit 1.12). Interestingly, the average income of the poorest 10% in the top quartile is almost double the overall income per capita in the bottom quartile (\$4,545, exhibit 1.9): the poorest people in the most economically free countries are nearly twice as rich as the average people in the least free countries.
- Life expectancy is 79.4 years in the top quartile compared to 60.7 years in the bottom quartile (exhibit 1.13).
- The \$1.25-per-day poverty rate is 2.7% in the top quartile compared to 41.5% in the bottom quartile (exhibit 1.17).

Chapter 1: Economic Freedom of the World

The principal authors of the report, James Gwartney (Florida State University), Robert Lawson (Southern Methodist University), and Joshua Hall (Beloit College), provide an overview of the report and discuss why economic freedom is important.

Chapter 2: Country Data Tables

Detailed historical data is provided for each of the 141 countries and territories in the index. For many countries, this covers years 1980, 1985, 1990, 1995, 2000, 2005, 2008, and 2009.

Chapter 3: What Matters for Development: Freedom or Entitlement?

Jean-Pierre Chauffour, Lead Economist, Middle East and North Africa Region, World Bank, examines policies that promote “freedom” compared to “entitlement” in relation to economic development. He notes that, depending on the balance between free choices and more coerced decisions, individual opportunities to learn, own, work, save, invest, trade, protect, and so forth could vary greatly across countries and over time. Chauffour’s empirical findings suggest that fundamental freedoms are paramount in explaining long-term economic growth. For a given set of exogenous conditions, countries that favor free choice—economic freedom and civil and political liberties—over entitlement rights are likely to achieve higher sustainable economic growth and to achieve many of the distinctive proximate characteristics of success identified by the Commission on Growth and Development (World Bank, 2008). In contrast, pursuing entitlement rights through greater coercion by the state is likely to be self-defeating in the long run.

These findings provide potentially important policy lessons for all countries. For developed countries, they suggest that prioritizing economic freedom over social entitlements could be an effective way to reform the welfare state and make it more sustainable and equitable in the long run. For middle-income countries (such as countries in the midst of the Arab Spring and countries in Asia and Latin America), they indicate that the quest for civil and political rights and for economic freedom could create the conditions for new social contracts. For low-income countries, they provide an opportunity to reflect on the achievements under the Millennium Development Goals (MDG) and the potential role that economic freedom and other fundamental freedoms that could play in a post-2015 MDG development agenda.

Chapter 4: Does Economic Freedom Promote Women's Wellbeing?

Michael D. Stroup, Stephen F. Austin State University, examined the impact of economic freedom on women's wellbeing based on a recent United Nations Development Project (UNDP) report. He finds that a one-point increase in the average EFW index, controlling for other relevant factors, was found to be associated with:

- a decline in the UNDP Gender Inequality (GI) index of 0.03 with the sample average at 0.53;
- a decline in the maternal death rate by 131 women per 100,000 births with the sample average at 300;
- a reduction of over six births per 1,000 births to females age 15–19 when the sample average is 53;
- an increase of almost five percentage points in the percentage of women with a secondary education when the sample average is 52%;
- an increase of two percentage points in the number of women holding seats in parliament in the legislative branch of a national government when the sample average is 18%.

Data available to researchers

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

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