

The State of Economic Freedom

By [Robert Lawson and James Gwartney](#)

In the intellectual battle between state control of resources and free markets, some argue that the market economy now reigns supreme. The Berlin Wall has fallen. Maoism has given way to joint ventures in China. In the U.S. and England, New Democrats and New Labour both claim to support the basics of free markets. The hegemony of free markets appears so complete that noted author Francis Fukuyama has declared that we have arrived at the "End of History."

Ideology is one thing, reality is another. Much of the world's population still experiences insecure property rights, corrupt courts, and arbitrary bureaucracies. Thugs and petty tyrants are only slowly changing their ways. Just how much progress has been made to liberate people from the yoke of government control?

For the last decade and a half, we have been involved with more than 100 other researchers in a project to measure economic freedom in the world. Our publication *Economic Freedom of the World: 2000 Annual Report* is the fourth in a series that rates 123 countries in terms of the consistency of their institutions and policies with free market principles. The report is published by a network of institutes in 55 countries headed by Canada's Fraser Institute.

The economic freedom ratings in the report are based on 23 indicators in seven areas: size of government, economic structure and use of markets, monetary policy and price stability, freedom to use alternative currencies, legal structure and security of private ownership, freedom to trade with foreigners, and freedom of exchange in capital markets.

In the 2000 Report, Hong Kong and Singapore shared the top rating of 9.4 on a scale of 10. New Zealand, the United States, and the United Kingdom were next on the list of the five freest economies in the world. The five least free economies (in order from the bottom) were Myanmar (formerly Burma), Democratic Republic of Congo (formerly Zaire), Sierra Leone, Rwanda, and Madagascar.

Changes in Economic Freedom Since 1980

We were able to calculate economic freedom ratings of many countries every five years since 1970. This makes it possible to examine changes in economic freedom over long periods.

The average economic freedom rating was 6.6 in 1997, up from 5.3 in 1980. Changes in the components of the index pinpoint the major respects in which the world is now freer. Monetary policy has been reined in, and fewer people suffer the devastating effects of excessive inflation. The median inflation rate of the countries in our study fell from 14.5 percent in 1980 to 5.8 percent in 1997. Correspondingly, the number of countries with an annual inflation rate less than 5 percent rose from ten to fifty-five.

Freedom to engage in international trade has also increased. The mean tariff rate imposed by the countries in the study fell from 27 percent in 1980 to less than 12 percent in 1997. On average, the volume of trade relative to GDP increased by 43 percent during the last three decades. Exchange and interest rate controls are now much less common than in 1980.

Although transfer payments and subsidies continue to rise--averaging 11.3% of GDP in 1997--government consumption of goods and services has leveled off. Top marginal tax rates, the rates imposed on a country's most productive citizens, have fallen sharply. In 1980, the average top marginal tax rate was 58%; in 1997 it was 37%. The U.S., which led the tax cutting wave in the 1980s, now boasts top marginal tax rates of 40 to 47 percent (depending on the state), making us less competitive with the rest of the world in terms of taxes.

Economic Freedom and Quality of Life

There are astounding differences in economic and social outcomes between nations that are more economically free than those that are less free. Life expectancy is 20 years longer for people in the 24 most free countries (the top fifth) than in the 24 least free countries (the bottom fifth). Average income per person in the top fifth was \$18,000 in 1997, compared to less than \$2000 for the bottom fifth.

Several countries have improved remarkably in economic freedom, with corresponding benefits for their people. On our 10-point scale, Chile's rating rose from 3.7 in 1975 to 6.0 in 1985 to 8.2 in 1997. Chile now ranks 18th, up from 54th in 1975. Between 1985 and 1997, Ireland's rating rose from 6.7 to 8.7, and its ranking jumped from 26th to 6th. New Zealand's rating rose from 6.2 in 1985 to 9.1 in 1997; this makes it the 3rd freest economy in the world, up from 32nd in 1985. Between 1990 and 1997, El Salvador's rating rose from 5.0 to 8.3, and its ranking jumped from 67th to 14th.

The *Economic Freedom of the World: 2000 Annual Report* provides researchers and policy makers with the empirical support needed to document objectively the impact of greater or lesser reliance on freely operating markets. Although the data show that many people still face governments that are hostile to private property, personal choice, and freedom of exchange, economic freedom is advancing across the world, and the prospects for freedom and prosperity look brighter than ever.

Economic Freedom Rankings, 1997/98					
1	Hong Kong	42	Guatemala	82	Morocco
	Singapore		Uruguay		Venezuela
3	New Zealand		Hungary		Poland
4	United States		Jamaica	85	Brazil
5	United Kingdom		Greece	86	India
6	Ireland	47	South Africa	87	Cote d'Ivoire
7	Canada		South Korea	88	Colombia
	Australia	49	Indonesia		Pap. New Guinea
9	Netherlands		Unit. Arab Em.		Pakistan
	Luxembourg	51	Taiwan		Tanzania
	Switzerland		Czech Rep.	92	Zambia
12	Argentina	53	Ecuador	93	Russia
	Denmark		Dominican Rep.	94	Bangladesh
14	Belgium		Honduras		Bulgaria
	Japan	56	Nicaragua		Nepal
	Panama	57	Kenya	97	Cameroon
	El Salvador		Estonia		Gabon
18	Spain		Cyprus	99	Iran
	Finland	60	Latvia		Zimbabwe
	Thailand		Bahamas	101	Benin
	Chile	62	Lithuania	102	Niger
22	Germany		Turkey	103	Mali
	Norway		Botswana		Nigeria
	Costa Rica		Egypt		Croatia
25	Portugal	66	Sri Lanka		Senegal
	Bolivia		Israel	107	Romania
	Iceland	68	Namibia		Malawi

	France		Ghana		Togo
	Sweden	70	Belize	110	Ukraine
	Austria		Slovenia		Chad
31	Bahrain		Malta	112	Syria
	Italy		Tunisia	113	Cent
	Philippines		Barbados		Albania
	Peru	75	Haiti	115	Congo, Rep. Of
35	Mexico		China		Burundi
36	Oman		Guyana	117	Algeria
	Mauritius	78	Fiji	118	Guinea-Bissau
	Paraguay		Jordan	119	Madagascar
39	Malaysia		Uganda	120	Rwanda
	Trinidad & Tob.		Slovakia	121	Sierra Leone
	Kuwait			122	Congo, Dem. R.
				123	Myanmar

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