ECONOMIC FREEDOM and the wealth and health of nations



Freedom of the World

The key ingristients of economic freedomars choice.

voluntary exchange, freedom to compete, and protection. of persons and property. The index published in Economic Freedom of the World provides the most comprehensive measure of economic freedom available.

Economic freedom shrinks and new threats appear

Average economic freedom rose from 5.53 (aut of 10) in 1300 to 5.74 in 2007. It then fell for two consecutive years. resulting in a score of 6.64 in 2009, the most recent year of data available. It appears that responses to the economic crisis have reduced economic freedom in the short term. and perhaps presperity over the long term.

Benefits of economic freedom.

Nations in the tap awaitile of economic freedom had an average per-capita GDP of \$31,501 in 2009, compared to \$1,949 for bottom quartile nations (in constant 3008 international dollars). In the top quartile, the average income of the poorest 12/a was 58,735 compared to \$1,061 in the bottom.

Theme chapters

What Matters for Development: Freedom or Entitlement?

Jean-Pietre Chauffour, Lead Economie, Middle East and North Mines Region, World Bank, examines policies that promote "headon" compared to 'entitlement 'Chauffour's empirical. findingssuggest that funds merial freedoms are paramount. it explaining long-team growth. Countries that favor free chaice whileveiligher sustainable economic growth and the disting the presentate shape terroics of success identified by the Commission on Growth and Development, in contrast, pursuinc entitlement rights through greater coercion by the state is likely to be self-defeating in the long run.

Does Economic Freedom Promote Women's Well-being?

Michael D. Stroop, Stephen F. Austin State University. examines the impact of economic freedom on women's wellbeing. He finds, among other lavorable outcomes, that a onepoint increase in the average EFW index is associated with:

- a decline in the UNOP Gender Inequality (GI) incex of 0.03;
- a decline in the maternal ceath rate by 131 women per 100,000 births:
- an increase in female representation within the national legislative branch by over two parliamentary seats:
- an increase of almost five percentage points in the percentage of women with a secondary education

The index published in Economic Freedom of the World uses reproducible measures appropriate for peer-reviewed. research. It has been cited in over 350 academic articles and 100 books. The datase; and other material is available at freetheworld.com.

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Afgnanistan - Afghanistan Economic and Legal Studies Organization (ABLSO)

Albania - Albanian Center for Economic Research (ACER) Amentina - Fundación Libertad

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Australia - Institute of Public Affairs

Austria - TIGRA*

Azerbaijan - Center for Economic and Political Research

Dohomos - The Nineau Institute

Bangladesh - Making Our Economy Right (MCER)

Bolgium - Centro for the NewEurope

Bolisia - POFULL

Brazil - Institute Liberal de Rio de Janeiro

Bulgaria - Institute for Market Economics

Risking Fass - Le Costre des Affaires Humaines/CFD&H. Cambodia - The Cambodia Institute of Development Study.

Canada - the Fraser Institute

Chile - Instituto Libertad y Desarrollo

China - Center for China & Globalization Columbia - Instituto de Cienca Política

Costa Rica - Instituto para la Libertad y el Análisis de Políticas Côte d'Ivoire - Audace Institu: Afrique

Croatia - The Institute of Economics

Czech Republic - Liberální Institut

Dermark - Center for Politiske Studier (CEPOS)

Dominican Republic- Fundación Economía y Desarrolle Inc.

Ecuador - Instituto Ecuatoriano de Economía Política.

France - Institut Economique Molinan

Georgia - Society for Disseminating Economic (nowledge: New Economic School - Georgia

Freedom

Germany - Liberales institut

Ghana - The Institute of Economic Affairs

Guaremala «Centro de Investigaciones Económicas Hationales

Guipea - Ina Econ-Institute of African Economics

Halif - Institut de Bechershergere la Liberte Erwoonique et la Prospectie (RLEF)

Honduras - Cordeo de Investigaciones Boo comicas y Sociales (CES)

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Ireland - Open Republic Institute

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Kazak Isstan - Central Asian Free Market Institute

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Korsa - Center for Free Enterprise

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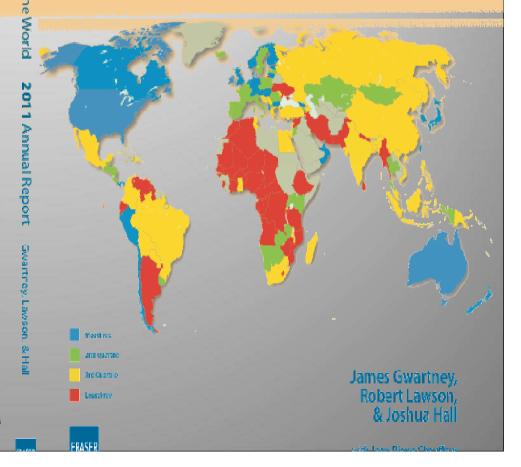
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Economic Freedom of the World

2011

Annual Report













The Great Debate: Smith v. Marx



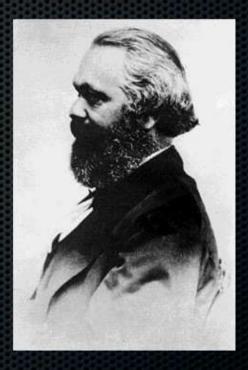
Adam Smith (1723-1790)

ADVOCATED A
SYSTEM OF
"NATURAL
LIBERTY":

Individual pursuit of self interest in markets (not selfishness), free trade and limited government involvement.

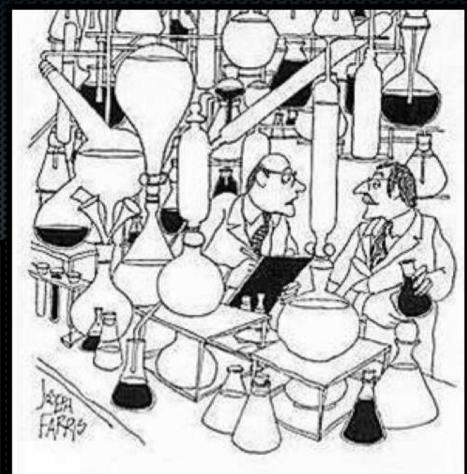
ADVOCATED SOCIALISM/COMMUNISM:

Collective/ government ownership/ control of resources, central planning.



Karl Marx (1818-1883)





Measuring Economic Freedom

Economic freedom is complex and multidimensional, but it can be measured.

- Personal Choice
- Freedom to trade, domestically and abroad
- Freedom to enter and compete in markets
- Security of Property/ Rule of Law

Methodology

- We collect data on 141 countries using 42 different components (grouped into five broad areas).
- O-10 ratings are constructed to measure the degree to which the country conforms to the free-market ideal.
- Third-Party data from World Bank, IMF, Global Competitiveness Report, IMD, etc.
 - Objective data
 - Survey data
- Transparency is a highly valued part of the project

5 Areas of Economic Freedom of the World (EFW) Index



Size of Government: Expenditures, Taxes, and Enterprises



Legal Structure and Security of Property Rights



Access to Sound Money

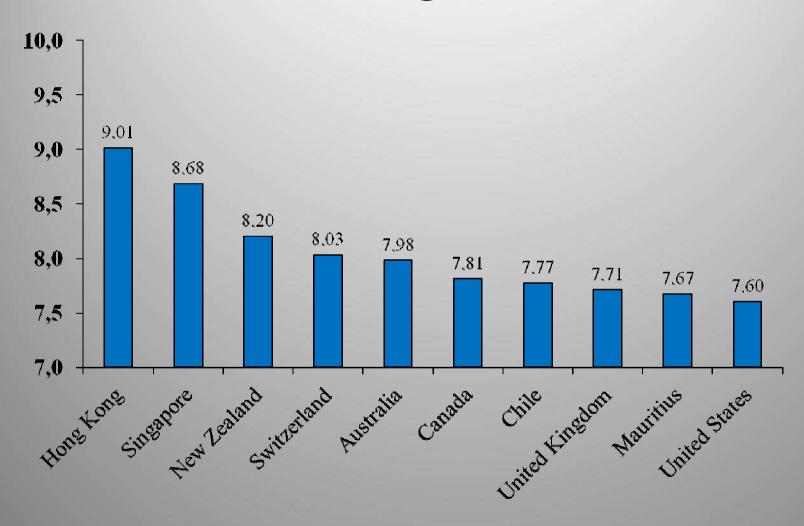


Freedom to Trade Internationally



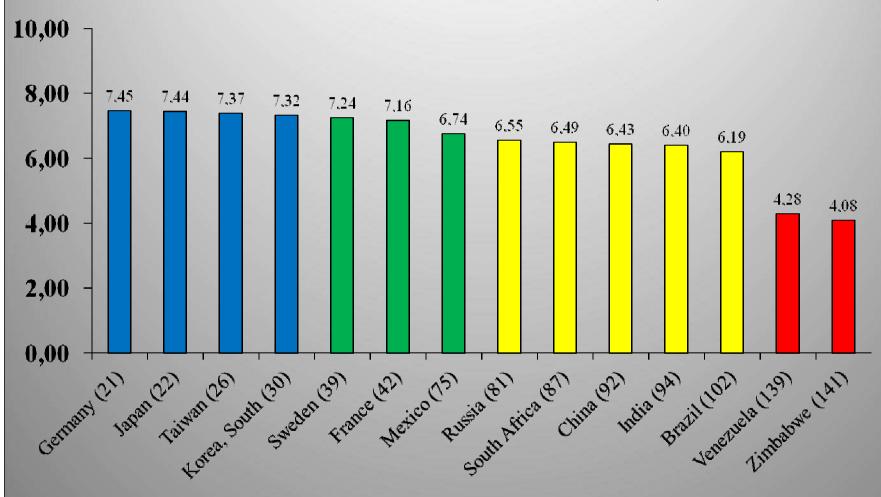
Regulation of Credit, Labor, and Business

Highest Economic Freedom Ratings, 2009



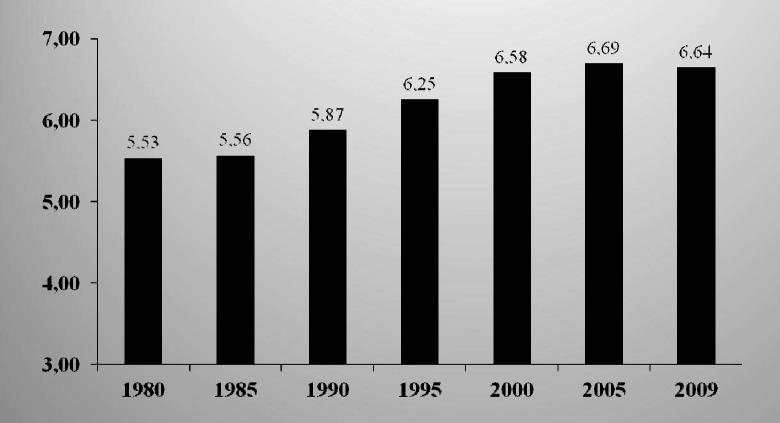
Source: EFW 2011, Exhibit 1.3.

Economic Freedom Ratings of Selected Countries, 2009



Source: EFW 2011, Exhibit 1.3.

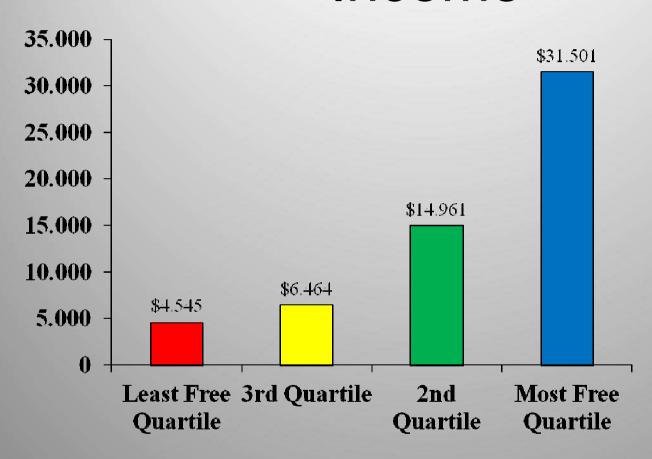
Average Economic Freedom Rating, 1980-2009*



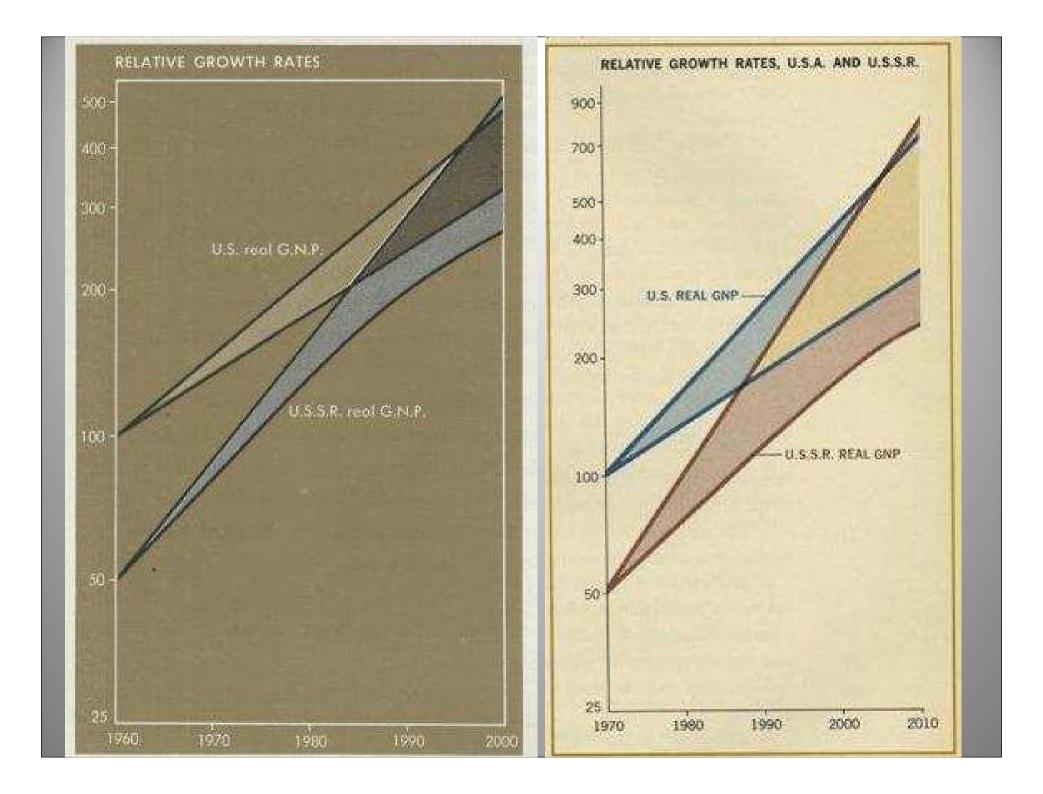
*Chain-linked index.

Source: EFW 2011, Exhibit 1.5.

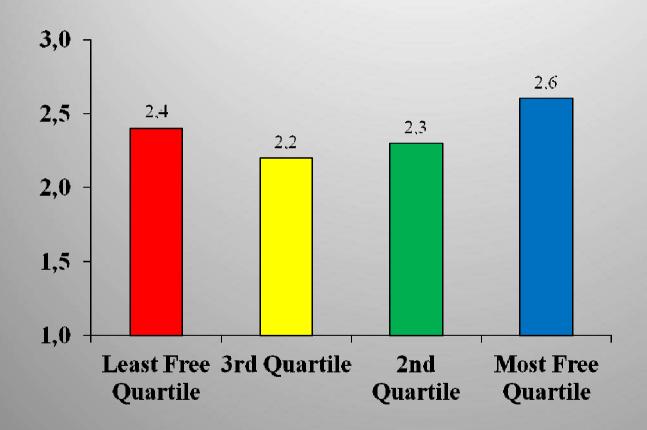
Economic Freedom and Income



Source: EFW 2011, Exhibit 1.9.



Economic Freedom and Income Share of Poorest 10%



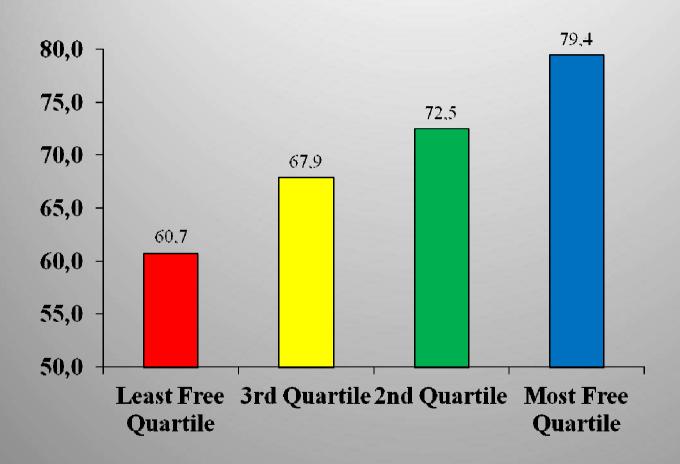
Source: EFW 2011, Exhibit 1.11.

Economic Freedom and Income Level of Poorest 10%



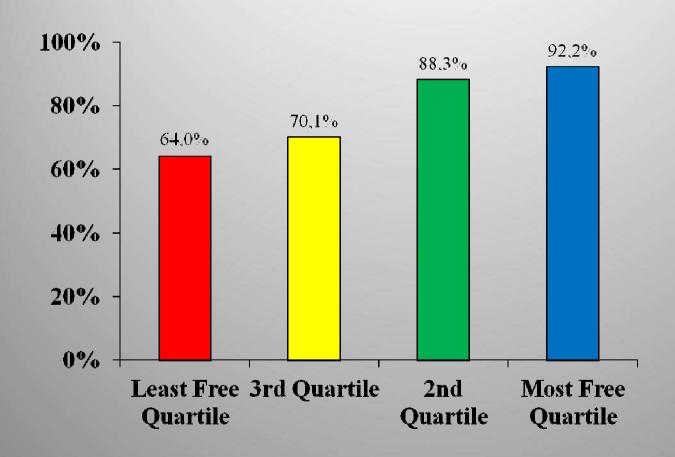
Source: EFW 2011, Exhibit 1.12.

Economic Freedom and Life Expectancy



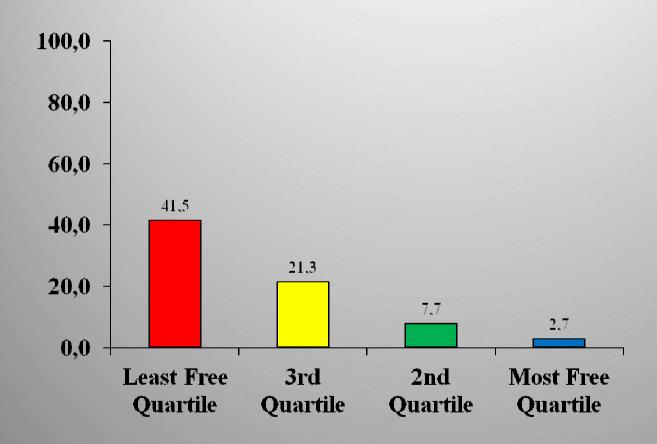
Source: EFW 2011, Exhibit 1.13.

Economic Freedom and Female Literacy



Source: EFW 2011, Exhibit 1.14.

Economic Freedom and Extreme Poverty Rate



Source: EFW 2011, Exhibit 1.17.



Changes to EFW 2012?

- Components to add?
- Components to delete?
- Countries to add?
- Other issues?

Component to add in Area 1

- 1E Public Employment
 - Sources: IMD World Competitiveness
 Yearbook, ILO and ERBD
 - Big disadvantage: only about 80 countries covered.

Components to add in Area 2

2H Reliability of Police

- Source: WEF Global Competitiveness Yearbook
- To what extent can police services be relied upon to enforce law and order in your country? 1 = Cannot be relied upon at all, 7 = Can always be relied upon

2I Cost of crime

- Source: WEF Global Competitiveness Yearbook
- To what extent does the incidence of crime and violence impose costs on businesses in your country? 1 = Significant costs, 7 = No costs

Component to add in Area 4

- 4F Freedom to Travel
 - 4Fi Freedom to travel to foreign country
 - 4Fii Freedom of foreigners to travel to this country
- This is based on simple tourist visa requirements. Countries requiring more visas or citizens facing more visa requirements score lower.
- Source: Lawson, R. and J. Lemke. Forthcoming.
 "Travel Visas." Public Choice.
 - Would need to be updated every couple years

Component to delete in Area 5

- 5Aii Foreign bank competition
 - Currently based on foreign bank assets (% of total) and foreign bank application denials.
- Very erratic. Not really working as planned.
- Do plan to retain 5Ai component on public bank ownership (% of total) from same source (Barth, Caprio, et al.)

Countries to add

- Because of heavy reliance on WEF's
 Global Competitiveness Report and WB's
 Doing Business report, we are going to
 look to add only countries that are in both
 reports. These include:
 - Brunei Darussalam, Cambodia, Cape Verde,
 Gambia, The Lebanon, Qatar, Saudi Arabia,
 Swaziland, Tajikistan, Timor-Leste.
- Would still need to be evaluated for quality of other data.