

Chapter 1: Economic Freedom of the World, 2006

It has now been 22 years since the Economic Freedom of the World (EFW) project was initiated with a series of conferences sponsored by the Fraser Institute and hosted by Milton Friedman and Michael Walker. From the very beginning, the objective was to develop a comprehensive measure of economic freedom for a large number of countries. The EFW index now incorporates 42 different components (or sub-components) and uses them to measure how consistent the institutions and policies of 141 countries are with economic freedom. This report is now published annually by a network of institutes in more than 70 countries.

What Does the EFW Index Measure?

The EFW index is designed to measure the consistency of a nation's institutions and policies with economic freedom. The key ingredients 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 cornerstones underpin the design of the EFW index. In order to achieve a high EFW rating, a country must provide secure protection of privately owned property, even-handed 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.

Institutions and policies are consistent with economic freedom when they provide an infrastructure for voluntary exchange and protect individuals and their

property from aggressors. Personal ownership of self is an underlying postulate of economic freedom. Self ownership means individuals have a right to choose—to decide how they will use their time and talents. On the other hand, they do not have a right to the time, talents, and resources of others. Thus, they do not have a right to take things from others or demand that others provide things for them.

It is important to recognize the difference between economic freedom and democracy. Democracy has to do with how political choices are made, while economic freedom is about the consistency of those choices with voluntary exchange and the protection of people and their property from aggressors. Political democracy is present when all adult citizens are free to participate in the political process (vote, lobby, and choose among candidates), and when political outcomes are determined through fair and open elections. Political restrictions that inhibit personal choice, voluntary exchange, the opportunity to compete, and the right of individuals to keep what they earn are in conflict with economic freedom. This is true, regardless of whether they are adopted by democratic or non-democratic procedures.

Clearly, democratic political decision-making will not guarantee economic freedom. Voters may elect political leaders who substantially restrict economic freedom. In recent years, this has been the case in both Venezuela and Zimbabwe. The experiences of India and Israel during the period from 1960 to 1990 also illustrate the potential conflict between political democracy and economic freedom. Interestingly, it is also possible for a country with very little democracy to nonetheless have a substantial amount of economic freedom. Hong Kong during the last several decades provides an example.

The differences between economic freedom and democracy highlight the importance of measuring economic freedom. Armed with this measure, we will be able to track changes in economic freedom in various countries and investigate how these changes affect growth rates, income levels, and other indicators of performance.

The Economic Freedom of the World Index

The construction of the index published in *Economic Freedom of the World* 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 1: Explanatory Notes and Data Sources (page 183). 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, 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.

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 is comprised of 42 distinct variables. Each component and sub-component is placed on a scale from zero 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. The following section provides an overview of the five major areas.

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 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.

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.

Exhibit 1.1: The Areas and 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 Minimum wage (DB)
- ii Hiring and firing regulations (GCR)
- iii Centralized collective bargaining (GCR)
- iv Mandated cost of hiring (DB)
- v Mandated cost of worker dismissal (DB)
- vi Conscription

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)

Area 2 focuses on this issue. The key ingredients 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.

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 use money creation to finance their expenditures, 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.

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.

Responding to special-interest politics and protectionist critics, 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 larger than expected, easy clearance and efficient administration of customs, a freely convertible currency, and few controls on the movement of capital.

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. Which is more important for the mobility of an automobile: 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.

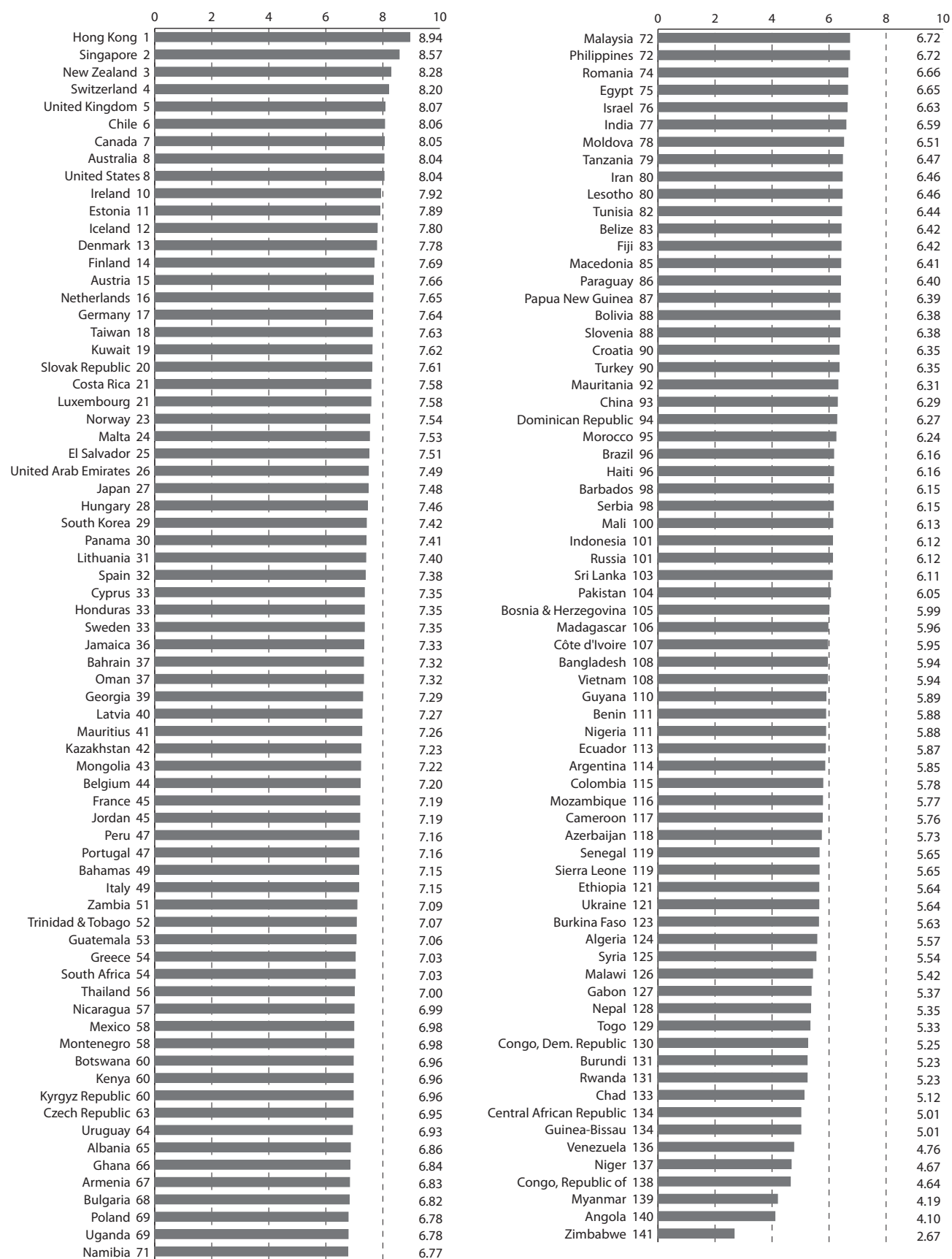
As the result of these two considerations, we organize the elements of the index in a manner that seems sensible to us but we make no attempt to weight the components in any special way when deriving either area or summary ratings. Of course, the component and sub-component data are available to researchers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

Summary Economic Freedom Ratings, 2006

Exhibit 1.2 presents a summary of economic freedom ratings, sorted from highest to lowest. These ratings are for the year 2006, 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, United Kingdom, Chile, Canada, United States, Australia, and Ireland. The ranks of other major countries include Germany (17th), Japan (27th), South Korea (29th), Spain (32nd), France (45th), Italy (49th), Mexico (58th), India (77th), China (93rd), Brazil (96th) and Russia (101st). The lowest-rated countries are Burundi, Rwanda, Chad, Central African Republic, Guinea-Bissau, Venezuela, Niger, Republic of Congo, Myanmar, Angola and, in last place, Zimbabwe. (There are eleven countries because of a tie.)

The EFW index is calculated back to 1970 as the availability of data allows; see the Country Data Tables in Chapter 3 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, 2006



Area Economic Freedom Ratings (and Ranks), 2006

Exhibit 1.3 presents the ratings (and, in parentheses, the ranks) 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 eighth in Size of Government: Expenditures, Taxes, and Enterprises (Area 1) and seventh in Sound Money (Area 3). However, Albania scored

poorly in all the other categories: 92nd in Legal Structure and Security of Property Rights (Area 2), 112th in Freedom to Trade Internationally (Area 4), and 113th in Regulation (Area 5). Despite relatively high ranks in a couple of areas, Albania's overall rank was only 65th.

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 and Singapore, followed by a number of European nations such as Ireland, the Netherlands, and Belgium. Some nations formerly of the Soviet bloc also rank fairly high in openness to trade: Slovak Republic (eighth), Estonia (tenth), and Czech Republic (twelfth). Chile is also highly open to foreign trade, ranking fourth in this area. The least regulated countries—those at the top in Regulation of Credit, Labor, and Business (Area 5)—were Iceland, New Zealand, Hong Kong, and Denmark.

Exhibit 1.3: Area Economic Freedom Ratings (Ranks), 2006

	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 Regulations	5B Labor Market Regulations	5C Business Regulations
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Albania	8.07 (8)	4.94 (92)	9.57 (7)	5.93 (112)	5.80 (113)	7.12 (119)	4.98 (100)	5.31 (92)
Algeria	4.93 (115)	5.15 (86)	6.33 (124)	6.30 (98)	5.15 (127)	5.86 (132)	4.24 (118)	5.36 (89)
Angola	0.85 (141)	3.16 (130)	4.06 (139)	6.97 (62)	5.44 (124)	7.74 (97)	5.07 (98)	3.51 (135)
Argentina	7.48 (26)	4.35 (106)	6.17 (127)	6.32 (97)	4.94 (130)	6.70 (123)	4.06 (122)	4.05 (131)
Armenia	6.26 (76)	5.56 (75)	9.43 (22)	6.53 (86)	6.37 (86)	8.59 (73)	5.65 (78)	4.86 (107)
Australia	6.77 (57)	8.68 (6)	9.46 (21)	7.17 (48)	8.12 (13)	9.50 (15)	7.06 (28)	7.79 (12)
Austria	5.18 (108)	8.67 (7)	9.54 (9)	7.68 (20)	7.22 (41)	9.15 (41)	4.57 (110)	7.96 (11)
Azerbaijan	3.64 (135)	5.67 (69)	7.10 (99)	6.38 (92)	5.86 (110)	7.23 (117)	5.65 (80)	4.69 (111)
Bahamas	7.85 (15)	8.47 (11)	7.04 (102)	4.23 (138)	8.17 (12)	9.56 (13)		
Bahrain	6.52 (68)	6.13 (53)	9.38 (26)	7.30 (40)	7.29 (37)	9.11 (45)	7.35 (20)	5.40 (86)
Bangladesh	8.04 (10)	3.12 (131)	6.60 (116)	5.82 (119)	6.10 (101)	7.42 (107)	6.25 (56)	4.64 (112)
Barbados	5.22 (106)	6.86 (35)	6.23 (126)	5.25 (132)	7.20 (42)	8.57 (75)	7.12 (27)	5.91 (62)
Belgium	4.31 (126)	7.02 (30)	9.51 (15)	8.06 (11)	7.09 (50)	8.65 (68)	5.14 (94)	7.47 (21)
Belize	4.34 (124)	5.84 (61)	8.04 (79)	5.47 (126)	8.43 (5)	9.63 (9)	7.62 (12)	8.05 (8)
Benin	7.20 (39)	4.33 (108)	6.86 (109)	5.25 (132)	5.78 (115)	9.15 (40)	3.89 (125)	4.31 (121)

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Ranks), 2006

	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 Regulations	5B Labor Market Regulations	5C Business Regulations
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Bolivia	6.20 (79)	4.11 (115)	8.66 (61)	7.29 (41)	5.63 (119)	8.08 (86)	4.22 (119)	4.58 (114)
Bosnia & Herzeg.	6.09 (81)	3.46 (125)	7.99 (80)	5.81 (120)	6.61 (73)	9.48 (16)	5.87 (67)	4.47 (116)
Botswana	5.04 (109)	6.80 (38)	8.62 (62)	6.91 (65)	7.45 (27)	9.41 (20)	6.76 (35)	6.17 (53)
Brazil	6.65 (62)	5.19 (85)	7.77 (86)	6.51 (87)	4.69 (138)	5.74 (133)	4.13 (121)	4.20 (128)
Bulgaria	4.95 (113)	5.61 (71)	8.76 (54)	7.64 (22)	7.11 (47)	9.22 (35)	7.03 (29)	5.09 (101)
Burkina Faso	5.52 (99)	4.03 (117)	6.80 (110)	5.36 (129)	6.45 (78)	8.65 (70)	5.21 (92)	5.48 (80)
Burundi	4.68 (118)	3.06 (133)	7.30 (93)	4.31 (137)	6.78 (68)	8.80 (62)	7.57 (13)	3.98 (132)
Cameroon	6.52 (68)	3.69 (121)	7.07 (101)	5.80 (121)	5.71 (117)	7.33 (113)	6.66 (37)	3.14 (138)
Canada	6.88 (53)	8.39 (14)	9.60 (6)	7.14 (52)	8.22 (10)	9.32 (28)	7.22 (23)	8.12 (7)
Central Afr. Rep.	6.32 (75)	2.99 (135)	6.80 (110)	4.03 (139)	4.91 (132)	7.08 (120)	3.51 (130)	4.13 (129)
Chad	6.45 (70)	2.28 (140)	6.12 (128)	5.93 (112)	4.81 (134)	5.38 (136)	4.63 (108)	4.41 (119)
Chile	7.50 (24)	6.99 (31)	9.14 (38)	8.40 (4)	8.24 (9)	9.23 (33)	7.94 (7)	7.56 (19)
China	5.00 (111)	5.93 (59)	8.22 (73)	7.47 (30)	4.83 (133)	7.30 (115)	3.24 (132)	3.96 (133)
Colombia	4.44 (122)	4.49 (105)	7.85 (84)	6.05 (108)	6.05 (103)	8.54 (76)	3.55 (129)	6.07 (56)
Congo, Dem. Rep.	7.24 (36)	2.06 (141)	7.25 (95)	5.43 (128)	4.26 (141)	2.80 (141)	6.54 (43)	3.43 (137)
Congo, Rep. of	3.90 (132)	2.35 (139)	5.71 (133)	6.02 (109)	5.22 (126)	5.71 (134)	5.73 (75)	4.23 (127)
Costa Rica	8.01 (12)	6.79 (39)	8.89 (50)	7.62 (23)	6.59 (74)	7.67 (101)	5.82 (70)	6.27 (50)
Côte d'Ivoire	7.35 (30)	3.36 (127)	6.88 (108)	5.97 (111)	6.21 (96)	7.35 (111)	5.25 (90)	6.02 (58)
Croatia	4.34 (124)	5.74 (65)	8.32 (68)	6.73 (77)	6.64 (72)	8.80 (60)	5.57 (85)	5.55 (76)
Cyprus	7.44 (27)	7.49 (23)	9.19 (36)	6.84 (68)	5.81 (112)	9.19 (38)	2.90 (138)	5.33 (91)
Czech Republic	4.49 (121)	6.16 (52)	9.30 (35)	7.92 (12)	6.88 (57)	8.86 (56)	6.07 (58)	5.72 (71)
Denmark	4.39 (123)	8.96 (2)	9.36 (28)	7.77 (16)	8.44 (4)	9.39 (22)	7.71 (11)	8.23 (5)
Dominican Rep.	7.80 (18)	4.63 (101)	5.58 (135)	6.96 (63)	6.37 (86)	7.83 (92)	5.85 (68)	5.43 (84)
Ecuador	8.03 (11)	4.06 (116)	5.06 (138)	6.58 (83)	5.60 (120)	7.90 (90)	3.82 (126)	5.09 (102)
Egypt	7.29 (34)	5.66 (70)	8.74 (56)	6.63 (80)	4.93 (131)	6.10 (130)	3.67 (127)	5.03 (104)
El Salvador	8.96 (2)	4.83 (96)	9.37 (27)	7.18 (47)	7.23 (40)	9.64 (8)	5.43 (87)	6.62 (38)
Estonia	7.03 (46)	7.35 (26)	9.32 (33)	8.14 (10)	7.59 (21)	9.95 (2)	5.16 (93)	7.67 (17)
Ethiopia	5.86 (89)	4.66 (99)	5.76 (132)	5.67 (122)	6.25 (92)	5.20 (138)	8.05 (6)	5.49 (78)
Fiji	6.08 (83)	5.61 (71)	6.56 (119)	5.45 (127)	8.40 (6)	9.66 (7)	8.12 (4)	7.42 (23)
Finland	5.03 (110)	9.01 (1)	9.52 (13)	7.43 (32)	7.47 (26)	9.62 (10)	4.34 (115)	8.45 (2)
France	4.11 (128)	7.53 (22)	9.51 (15)	7.38 (36)	7.40 (32)	9.13 (43)	5.65 (81)	7.42 (22)
Gabon	4.26 (127)	4.27 (113)	6.03 (130)	5.48 (125)	6.82 (64)	7.45 (106)	7.33 (21)	5.66 (72)
Georgia	7.42 (29)	4.95 (91)	9.07 (41)	7.44 (31)	7.55 (23)	9.40 (21)	6.56 (41)	6.69 (31)
Germany	5.82 (90)	8.59 (9)	9.47 (20)	7.88 (14)	6.47 (77)	7.75 (96)	3.99 (124)	7.68 (15)
Ghana	6.60 (66)	5.74 (65)	8.21 (74)	6.79 (72)	6.85 (61)	7.69 (99)	6.51 (45)	6.34 (47)
Greece	6.82 (55)	6.56 (43)	9.53 (11)	6.21 (101)	6.05 (103)	7.78 (94)	4.32 (116)	6.04 (57)
Guatemala	7.77 (19)	5.22 (83)	9.17 (37)	6.84 (68)	6.27 (90)	8.82 (59)	4.25 (117)	5.75 (70)
Guinea-Bissau	3.09 (136)	3.68 (122)	6.67 (114)	5.67 (122)	5.94 (108)	8.80 (61)	4.56 (111)	4.46 (117)
Guyana	3.06 (137)	4.56 (103)	7.79 (85)	7.67 (21)	6.39 (84)	7.93 (89)	5.79 (72)	5.45 (82)
Haiti	7.26 (35)	2.59 (137)	8.28 (70)	6.49 (88)	6.16 (100)	6.81 (122)	6.95 (33)	4.72 (109)
Honduras	8.94 (3)	4.85 (95)	8.94 (46)	7.23 (44)	6.79 (67)	8.63 (71)	5.84 (69)	5.89 (63)
Hong Kong	9.13 (1)	8.19 (16)	9.36 (28)	9.50 (1)	8.54 (3)	9.22 (34)	8.15 (3)	8.24 (4)
Hungary	5.70 (95)	6.68 (41)	9.48 (19)	8.24 (7)	7.18 (44)	9.01 (50)	5.89 (66)	6.65 (37)

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Ranks), 2006

	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 Regulations	5B Labor Market Regulations	5C Business Regulations
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Iceland	6.94 (51)	8.80 (5)	8.62 (62)	5.90 (116)	8.76 (1)	9.50 (14)	8.10 (5)	8.69 (1)
India	7.14 (41)	6.12 (54)	6.70 (113)	6.82 (71)	6.17 (98)	6.29 (129)	6.37 (51)	5.86 (64)
Indonesia	6.36 (73)	3.93 (120)	7.18 (97)	7.29 (41)	5.83 (111)	7.52 (104)	4.81 (106)	5.16 (98)
Iran	6.79 (56)	6.11 (55)	8.24 (71)	6.42 (91)	4.76 (136)	6.52 (127)	2.52 (139)	5.24 (95)
Ireland	6.38 (72)	7.89 (19)	9.52 (13)	8.31 (6)	7.49 (24)	8.33 (80)	6.45 (47)	7.68 (16)
Israel	3.83 (133)	6.22 (49)	9.14 (38)	7.56 (25)	6.38 (85)	7.50 (105)	4.88 (104)	6.77 (29)
Italy	5.99 (86)	6.26 (48)	9.42 (23)	7.24 (43)	6.84 (63)	8.65 (67)	5.95 (64)	5.91 (61)
Jamaica	8.51 (4)	5.36 (80)	8.86 (52)	7.05 (59)	6.87 (58)	8.72 (65)	6.29 (55)	5.60 (73)
Japan	6.23 (77)	7.90 (18)	9.72 (1)	5.87 (117)	7.69 (18)	8.31 (82)	7.50 (14)	7.27 (26)
Jordan	5.53 (98)	6.40 (46)	8.94 (46)	7.60 (24)	7.45 (27)	9.03 (49)	7.00 (30)	6.32 (49)
Kazakhstan	7.77 (19)	6.21 (50)	8.21 (74)	6.86 (67)	7.11 (47)	9.42 (19)	6.43 (49)	5.49 (79)
Kenya	7.85 (15)	5.07 (87)	8.49 (67)	6.61 (82)	6.80 (66)	8.24 (83)	6.34 (54)	5.80 (66)
Kuwait	6.63 (64)	7.43 (25)	9.51 (15)	6.73 (77)	7.81 (15)	9.59 (11)	7.15 (25)	6.69 (32)
Kyrgyz Republic	8.05 (9)	4.61 (102)	8.69 (58)	6.78 (75)	6.68 (70)	9.03 (48)	5.74 (74)	5.26 (94)
Latvia	5.98 (87)	6.89 (34)	8.74 (56)	7.40 (35)	7.35 (35)	9.67 (6)	5.72 (76)	6.66 (35)
Lesotho	7.10 (45)	4.65 (100)	7.91 (83)	6.19 (102)	6.44 (81)	8.98 (51)	6.05 (60)	4.30 (122)
Lithuania	6.67 (61)	6.82 (37)	8.87 (51)	7.51 (28)	7.11 (47)	9.57 (12)	4.93 (101)	6.84 (28)
Luxembourg	4.93 (115)	8.11 (17)	8.99 (44)	8.16 (9)	7.72 (17)	8.83 (58)	6.63 (38)	7.69 (14)
Macedonia	6.05 (85)	4.35 (106)	8.18 (77)	6.33 (95)	7.14 (46)	8.93 (53)	6.06 (59)	6.43 (42)
Madagascar	6.92 (52)	3.32 (128)	7.33 (92)	6.46 (89)	5.77 (116)	7.75 (95)	4.50 (113)	5.04 (103)
Malawi	5.41 (102)	5.25 (81)	5.31 (137)	4.96 (134)	6.18 (97)	7.69 (98)	5.65 (77)	5.19 (97)
Malaysia	5.50 (101)	6.85 (36)	6.02 (131)	7.55 (26)	7.66 (20)	9.36 (24)	6.96 (32)	6.66 (34)
Mali	7.33 (31)	4.51 (104)	6.47 (121)	6.25 (99)	6.09 (102)	8.49 (77)	4.58 (109)	5.21 (96)
Malta	5.91 (88)	7.75 (20)	9.53 (11)	7.43 (32)	7.02 (54)	9.32 (27)	6.91 (34)	4.82 (108)
Mauritania	5.78 (92)	5.44 (78)	7.09 (100)	6.58 (83)	6.67 (71)	9.22 (36)	6.37 (52)	4.42 (118)
Mauritius	7.16 (40)	5.86 (60)	8.54 (65)	7.38 (36)	7.35 (35)	8.88 (54)	6.55 (42)	6.60 (39)
Mexico	7.33 (31)	5.45 (77)	8.24 (71)	7.14 (52)	6.72 (69)	9.13 (42)	5.65 (79)	5.39 (87)
Moldova	6.84 (54)	5.72 (68)	6.97 (104)	6.79 (72)	6.24 (93)	8.19 (84)	5.10 (97)	5.43 (83)
Mongolia	7.52 (21)	5.80 (64)	8.67 (60)	7.01 (60)	7.09 (50)	9.34 (25)	5.92 (65)	6.00 (59)
Montenegro	7.01 (48)	5.44 (78)	7.92 (82)	7.12 (55)	7.41 (31)	9.70 (4)	6.62 (39)	5.93 (60)
Morocco	6.68 (60)	6.10 (56)	6.89 (107)	5.87 (117)	5.64 (118)	6.07 (131)	5.02 (99)	5.83 (65)
Mozambique	4.67 (119)	4.13 (114)	7.51 (88)	6.58 (83)	5.96 (107)	8.40 (78)	4.49 (114)	4.99 (105)
Myanmar	5.77 (93)	2.60 (136)	4.05 (140)	2.30 (141)	6.22 (94)	5.28 (137)		
Namibia	6.09 (81)	7.32 (27)	6.24 (125)	6.45 (90)	7.75 (16)	9.67 (5)	7.79 (8)	5.78 (67)
Nepal	5.26 (105)	3.96 (119)	6.58 (118)	5.49 (124)	5.46 (123)	6.65 (125)	5.12 (96)	4.60 (113)
Netherlands	4.06 (129)	8.49 (10)	9.69 (3)	8.33 (5)	7.69 (18)	9.21 (37)	6.37 (53)	7.48 (20)
New Zealand	6.70 (58)	8.90 (4)	9.35 (30)	7.79 (15)	8.65 (2)	9.98 (1)	7.75 (9)	8.23 (6)
Nicaragua	7.52 (21)	4.32 (109)	9.06 (42)	7.09 (58)	6.98 (55)	9.12 (44)	6.40 (50)	5.41 (85)
Niger	3.04 (138)	4.32 (109)	6.55 (120)	4.46 (135)	4.98 (129)	7.68 (100)	2.99 (136)	4.28 (125)
Nigeria	3.97 (131)	3.98 (118)	7.38 (91)	7.22 (46)	6.86 (59)	8.57 (74)	7.72 (10)	4.29 (124)
Norway	5.80 (91)	8.91 (3)	8.90 (49)	6.62 (81)	7.48 (25)	9.42 (18)	5.22 (91)	7.79 (13)
Oman	5.51 (100)	7.05 (29)	9.33 (32)	7.13 (54)	7.56 (22)	8.78 (63)	7.39 (18)	6.52 (41)
Pakistan	7.01 (48)	4.31 (111)	6.45 (122)	5.91 (115)	6.56 (76)	8.61 (72)	6.11 (57)	4.97 (106)

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Ranks), 2006

	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 Regulations	5B Labor Market Regulations	5C Business Regulations
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Panama	8.37 (5)	5.21 (84)	9.11 (40)	7.41 (34)	6.98 (55)	9.16 (39)	6.02 (62)	5.76 (69)
Papua New Guinea	6.55 (67)	4.71 (98)	7.51 (88)	6.14 (104)	7.06 (53)	7.15 (118)	7.32 (22)	6.70 (30)
Paraguay	7.50 (24)	3.43 (126)	8.20 (76)	7.72 (18)	5.14 (128)	7.33 (114)	2.95 (137)	5.14 (99)
Peru	8.27 (6)	5.00 (90)	8.76 (54)	7.31 (39)	6.44 (81)	7.29 (116)	6.47 (46)	5.57 (74)
Philippines	7.12 (44)	4.90 (94)	8.13 (78)	7.17 (48)	6.28 (89)	8.12 (85)	5.35 (89)	5.36 (88)
Poland	5.34 (103)	5.83 (62)	9.54 (9)	6.84 (68)	6.36 (88)	8.35 (79)	5.61 (83)	5.14 (100)
Portugal	5.71 (94)	7.21 (28)	9.32 (33)	7.33 (38)	6.22 (94)	7.40 (110)	4.89 (103)	6.37 (45)
Romania	5.54 (97)	5.51 (76)	8.69 (58)	7.12 (55)	6.45 (78)	7.34 (112)	6.43 (48)	5.57 (75)
Russia	5.64 (96)	5.73 (67)	7.46 (90)	6.00 (110)	5.79 (114)	7.99 (88)	5.44 (86)	3.93 (134)
Rwanda	4.87 (117)	3.04 (134)	6.79 (112)	4.39 (136)	7.08 (52)	7.41 (109)	7.45 (16)	6.38 (44)
Senegal	6.07 (84)	3.55 (124)	6.94 (105)	6.13 (107)	5.57 (121)	8.95 (52)	3.50 (131)	4.26 (126)
Serbia	6.20 (79)	4.74 (97)	7.11 (98)	6.25 (99)	6.45 (78)	9.09 (46)	5.96 (63)	4.30 (123)
Sierra Leone	7.13 (42)	3.17 (129)	7.24 (96)	5.26 (131)	5.43 (125)	5.19 (139)	5.59 (84)	5.53 (77)
Singapore	7.86 (14)	8.43 (12)	8.99 (44)	9.35 (2)	8.22 (10)	9.24 (32)	6.99 (31)	8.42 (3)
Slovak Republic	6.44 (71)	6.56 (43)	9.40 (24)	8.22 (8)	7.44 (30)	9.29 (31)	6.69 (36)	6.34 (46)
Slovenia	2.48 (140)	6.05 (57)	8.94 (46)	7.23 (44)	7.20 (42)	8.65 (69)	6.53 (44)	6.41 (43)
South Africa	6.97 (50)	6.55 (45)	7.76 (87)	6.70 (79)	7.15 (45)	9.32 (29)	5.81 (71)	6.33 (48)
South Korea	6.62 (65)	7.45 (24)	9.34 (31)	6.89 (66)	6.81 (65)	9.08 (47)	4.68 (107)	6.66 (33)
Spain	6.69 (59)	6.71 (40)	9.49 (18)	7.16 (50)	6.86 (59)	9.33 (26)	5.13 (95)	6.12 (54)
Sri Lanka	7.03 (46)	4.92 (93)	6.10 (129)	6.35 (94)	6.17 (98)	7.42 (108)	5.62 (82)	5.48 (81)
Sweden	3.73 (134)	8.41 (13)	9.61 (5)	7.72 (18)	7.26 (39)	9.31 (30)	4.51 (112)	7.97 (10)
Switzerland	7.89 (13)	8.66 (8)	9.56 (8)	6.79 (72)	8.12 (13)	8.84 (57)	7.50 (15)	8.01 (9)
Syria	4.95 (113)	5.01 (89)	7.26 (94)	6.14 (104)	4.34 (140)	4.79 (140)	3.67 (128)	4.56 (115)
Taiwan	7.44 (27)	6.66 (42)	9.71 (2)	7.92 (12)	6.43 (83)	7.85 (91)	4.90 (102)	6.53 (40)
Tanzania	5.20 (107)	5.94 (58)	9.01 (43)	5.93 (112)	6.26 (91)	7.66 (103)	5.79 (73)	5.34 (90)
Thailand	7.33 (31)	6.20 (51)	6.61 (115)	7.51 (28)	7.37 (34)	8.72 (64)	7.20 (24)	6.17 (51)
Togo	6.36 (73)	2.46 (138)	6.90 (106)	6.17 (103)	4.77 (135)	6.42 (128)	3.18 (133)	4.71 (110)
Trinidad & Tobago	7.24 (36)	5.04 (88)	8.53 (66)	7.16 (50)	7.38 (33)	8.66 (66)	7.38 (19)	6.10 (55)
Tunisia	5.31 (104)	6.90 (33)	6.98 (103)	6.14 (104)	6.85 (61)	8.02 (87)	5.42 (88)	7.10 (27)
Turkey	7.82 (17)	6.29 (47)	5.42 (136)	6.77 (76)	5.47 (122)	6.64 (126)	3.13 (134)	6.66 (36)
Uganda	7.23 (38)	4.28 (112)	8.80 (53)	6.33 (95)	7.29 (37)	7.67 (102)	8.41 (1)	5.78 (68)
Ukraine	4.06 (129)	5.25 (81)	6.60 (116)	6.38 (92)	5.92 (109)	8.87 (55)	4.82 (105)	4.07 (130)
United Arab Emir.	6.21 (78)	6.96 (32)	8.32 (68)	8.51 (3)	7.45 (27)	7.79 (93)	7.15 (26)	7.40 (24)
United Kingdom	6.64 (63)	8.33 (15)	9.40 (24)	7.76 (17)	8.25 (8)	9.76 (3)	7.42 (17)	7.57 (18)
United States	7.13 (42)	7.58 (21)	9.66 (4)	7.53 (27)	8.31 (7)	9.37 (23)	8.29 (2)	7.27 (25)
Uruguay	7.52 (21)	5.57 (74)	7.98 (81)	6.99 (61)	6.58 (75)	6.96 (121)	6.61 (40)	6.17 (52)
Venezuela	4.99 (112)	3.08 (132)	5.64 (134)	5.35 (130)	4.75 (137)	8.31 (81)	3.06 (135)	2.89 (139)
Vietnam	4.58 (120)	5.82 (63)	6.37 (123)	6.95 (64)	6.00 (105)	9.47 (17)	4.21 (120)	4.33 (120)
Zambia	8.19 (7)	5.58 (73)	8.57 (64)	7.11 (57)	6.00 (105)	6.66 (124)	6.03 (61)	5.30 (93)
Zimbabwe	2.66 (139)	3.61 (123)	0.00 (141)	2.73 (140)	4.35 (139)	5.60 (135)	4.02 (123)	3.44 (136)

The Chain-Linked Summary Index, 1970–2006

The EFW data are available for many countries back to 1970: 53 countries have ratings in 1970; 70 in 1975; 102 in 1980, 109 in 1985, 113 in 1990, 123 for the period from 1995 to 2002, 127 in 2003, 130 for 2004 to 2006. These longitudinal data make it possible to follow the changes in economic freedom and analyze their impact over a lengthy period of time.

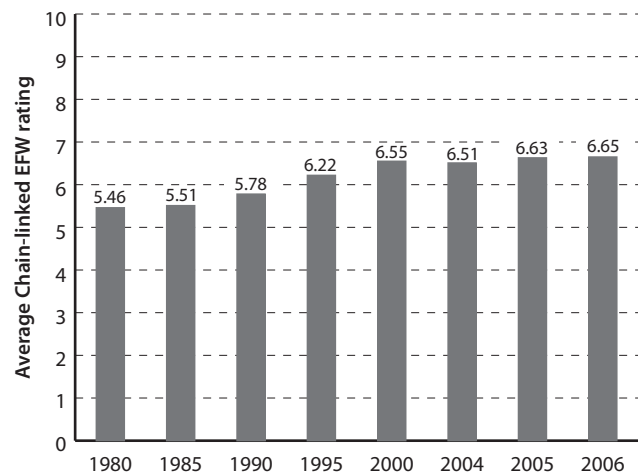
Through time, the index has become more comprehensive and the available data more complete. As a result, the number and composition of the components for many countries will vary across time. This presents a problem similar to that confronted when calculating GDP or a price index over time when we know 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 2004 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 2006. 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

Exhibit 1.4: Average Chain-linked EFW Rating for the 102 Countries with Ratings since 1980



measured by the chain-linked EFW index, has increased to 6.65 in 2006 from 5.46 in 1980. Much of this 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. The chain-link methodology was also used to derive area ratings. The chain-linked summary and area ratings (and ranks) are presented in the country tables of chapter 3. The country tables also present the unadjusted summary and area ratings but, for those tracking ratings across time, the chain-link ratings will present a more accurate picture.

Big Movers

Several countries have substantially increased their ratings and become relatively free during the past decade. Exhibit 1.5 allows us to track these changes. The chain-linked rating of Estonia has increased by 2.27 units since 1995 and it is now one of the freest economies in the world. Lithuania and Latvia have increased their ratings by at least 2 units since 1995 and their 2006 ratings are greater than 7.0. The ratings of Cyprus, Hungary, Kuwait, and South Korea have also improved substantially and their ratings are now 7.3 or more. Two African economies, Ghana and Zambia, have become substantially freer and their chain-linked ratings are now 7.04 and 7.13, respectively.

But not all of the news is good. Economic freedom is regressing in several other countries. The rating of Zimbabwe has fallen by 2.75 units and that of Argentina by

0.96 units since 1995. During the same period, the ratings of Malaysia and the Philippines have fallen by about seven-tenths of a point. Since 2000, the rating of Venezuela has declined by over a point, down to 4.48. During the same period, Nepal's chain-linked rating has fallen by two-thirds of a unit from 5.62 to 4.97. While Botswana's 2006 chain-linked rating is 6.77, this is more than six-

tenths of a point lower than 2000. The chain-linked rating of the United States is down almost seven-tenths of a point from 8.55 in 2000 to 7.86 in 2006, which has sent the accompanying rank down to tenth from second in 2000. Lower ratings in the legal structure area and for the administrative costs of clearing customs were primarily responsible for the rating reduction of the United States.

Exhibit 1.5: The Chain-Linked Summary Index of Ratings, 1970–2006

	1970	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
Albania					4.12	4.49	5.97	6.07	6.31	6.72	6.46	6.81	6.99
Algeria			3.97	4.03	3.63	3.72	4.52	4.61	4.66	4.68	4.74	5.48	5.56
Argentina	5.06	3.25	4.28	3.86	4.89	6.68	7.19	6.49	5.96	5.73	5.96	5.62	5.72
Armenia											6.46	6.55	6.59
Australia	7.31	6.40	7.12	7.45	7.64	7.80	8.02	7.91	7.87	7.80	7.83	7.86	7.96
Austria	6.46	6.16	6.65	6.64	7.20	7.04	7.76	7.59	7.48	7.63	7.67	7.64	7.75
Azerbaijan											5.65	5.66	5.78
Bahamas		6.73	6.47	6.37	6.34	6.42	6.60	6.70	6.69	6.80	6.88	7.16	7.13
Bahrain			7.43	6.94	6.91	7.03	7.33	7.23	7.22	7.25	7.13	6.80	7.32
Bangladesh		3.39	3.61	3.92	4.68	5.47	5.83	5.75	5.84	5.69	5.64	5.91	5.77
Barbados		6.05	6.11	6.43	6.48	6.50	6.19	6.23	6.29	6.31	6.42	6.55	6.38
Belgium	7.66	6.96	7.22	7.25	7.52	7.21	7.68	7.35	7.15	7.32	7.26	7.19	7.13
Belize			5.36	5.21	5.57	6.06	5.92	5.87	6.26	6.34	6.33	6.62	6.59
Benin			5.37	5.01	5.42	4.99	5.63	5.74	5.76	5.72	5.79	5.99	5.99
Bolivia			4.51	3.57	5.26	6.52	6.79	6.52	6.51	6.39	6.32	6.44	6.33
Botswana			5.60	5.76	5.85	6.47	7.38	7.34	7.34	7.13	7.19	7.04	6.77
Brazil	5.43	4.52	4.20	3.70	4.47	4.47	5.99	5.93	6.08	5.95	5.89	6.03	6.15
Bulgaria				5.17	4.08	4.48	5.06	5.66	5.97	6.24	6.25	6.37	6.54
Burundi		4.24	4.27	4.68	4.84	4.47	4.96	5.10	5.03	4.53	4.42	4.80	5.05
Cameroon			5.39	5.60	5.62	5.18	5.63	5.86	5.87	5.90	5.92	5.72	5.77
Canada	7.97	7.14	7.58	7.65	7.97	7.80	8.12	8.06	7.91	8.00	8.05	8.06	7.98
Central Afr. Rep.				3.99	4.60	4.38	4.72	4.81	4.68	5.18	5.08	4.49	4.92
Chad				4.59	4.69	4.65	5.12	5.52	5.66	5.57	5.35	5.06	4.99
Chile	4.08	3.91	5.56	6.16	6.93	7.48	7.28	7.47	7.45	7.61	7.62	7.93	7.98
China			4.42	5.33	5.13	5.52	5.98	6.04	5.96	6.03	5.94	6.17	6.17
Colombia	5.31	5.00	4.77	5.16	4.94	5.45	5.28	5.46	5.33	5.45	5.46	5.44	5.55
Congo, Dem. Rep.	4.41	4.03	2.92	3.58	3.28	3.54	3.72	3.86	4.73	4.51	4.51	4.54	5.14
Congo, Rep. of			4.43	4.42	4.66	4.68	4.32	4.55	4.40	4.40	4.37	4.76	4.66
Costa Rica		6.22	5.53	5.23	6.66	6.76	7.35	7.22	7.08	7.34	7.21	7.34	7.49
Côte d'Ivoire			5.35	5.91	5.65	5.57	5.89	6.00	5.64	5.76	5.71	5.79	6.00
Croatia						4.28	6.05	6.17	6.08	6.01	6.16	6.31	6.41
Cyprus		5.74	5.65	5.57	6.11	6.28	6.34	6.43	6.85	6.83	7.45	7.56	7.53
Czech Republic						5.81	6.69	6.80	6.70	6.83	6.92	6.87	6.84
Denmark	7.08	6.31	6.52	6.66	7.34	7.46	7.78	7.58	7.54	7.61	7.63	7.77	7.85
Dominican Rep.			5.38	5.01	4.49	6.01	6.57	6.54	6.46	6.08	5.36	6.25	6.12
Ecuador	3.96	4.96	5.32	4.50	5.27	5.97	5.69	5.47	5.86	5.80	5.22	5.59	5.62
Egypt		4.02	4.72	5.28	5.03	5.87	6.57	6.40	6.03	5.94	6.09	6.70	6.79

Exhibit 1.5 (continued): The Chain-Linked Summary Index of Ratings, 1970–2006

	1970	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
El Salvador			4.65	4.47	4.75	6.96	7.26	7.24	7.17	7.17	7.25	7.43	7.40
Estonia						5.55	7.45	7.58	7.63	7.71	7.70	7.85	7.82
Fiji		5.35	5.64	5.81	5.86	6.02	6.22	6.03	5.98	5.91	5.94	6.39	6.54
Finland	7.12	6.25	6.90	7.06	7.37	7.56	7.80	7.67	7.66	7.61	7.58	7.75	7.71
France	6.58	5.79	6.06	6.06	7.06	6.80	7.04	6.72	6.81	7.04	7.17	6.98	7.07
Gabon			3.93	4.58	4.82	4.79	5.46	5.32	5.26	5.26	5.29	5.42	5.44
Georgia										6.21	6.11	6.52	7.18
Germany	7.70	7.17	7.42	7.43	7.66	7.50	7.49	7.29	7.29	7.61	7.58	7.69	7.70
Ghana		3.74	2.92	3.12	4.98	5.56	5.89	5.86	6.26	6.57	6.36	6.51	7.04
Greece	6.37	5.86	5.83	5.34	6.00	6.29	6.84	6.76	6.84	6.98	6.92	6.96	6.99
Guatemala	6.10	6.61	6.08	5.03	5.58	6.65	6.28	6.37	6.38	6.53	6.67	7.09	7.18
Guinea-Bissau					3.21	3.77	4.29	4.93	5.02	4.87	4.88	4.94	5.04
Guyana						4.68	6.08	6.02	5.83	5.80	5.59	5.80	5.61
Haiti			6.14	6.39	6.09	6.06	5.70	5.60	5.56	5.72	5.74	5.94	5.78
Honduras			5.98	5.82	5.62	6.28	6.56	6.39	6.63	6.67	6.69	6.64	7.00
Hong Kong	8.98	8.98	9.23	8.94	8.78	9.14	8.85	8.78	8.72	8.77	8.71	8.92	8.93
Hungary			4.61	5.23	5.35	6.36	6.74	7.02	7.01	7.38	7.52	7.37	7.41
Iceland	6.57	4.72	5.36	5.56	6.95	7.38	7.75	7.67	7.61	7.73	7.81	7.82	7.76
India	5.35	4.44	5.28	4.97	5.00	5.63	6.31	6.16	6.31	6.37	6.37	6.59	6.64
Indonesia	4.88	5.33	5.19	6.13	6.51	6.57	5.80	5.51	5.69	6.03	5.93	6.27	6.21
Iran	5.90	5.74	3.82	4.14	4.68	4.57	5.86	6.27	6.11	6.03	6.15	6.49	6.69
Ireland	7.16	6.36	6.76	6.81	7.39	8.28	8.20	8.01	7.90	7.82	7.93	8.02	7.93
Israel	4.92	4.29	3.68	4.23	4.49	5.81	6.51	6.47	6.74	6.69	6.75	7.12	6.94
Italy	6.06	5.29	5.38	5.66	6.57	6.50	7.08	6.95	6.94	6.71	6.94	6.90	7.01
Jamaica			4.37	4.78	5.54	6.49	7.34	7.21	7.09	7.09	7.19	7.34	7.26
Japan	6.85	6.48	7.01	7.06	7.47	7.07	7.42	7.08	6.97	7.34	7.28	7.38	7.33
Jordan		5.47	5.29	5.77	5.56	6.06	7.14	6.97	7.06	7.01	7.05	7.21	7.10
Kenya	4.82	4.56	4.73	5.07	5.10	5.44	6.21	6.33	6.31	6.53	6.44	6.65	6.70
Kuwait			5.13	7.07	5.07	6.38	6.64	6.90	6.96	7.09	7.16	7.28	7.58
Latvia						4.91	6.67	6.80	6.91	6.76	6.84	7.15	7.20
Lithuania						4.89	6.25	6.27	6.63	6.62	6.98	7.27	7.23
Luxembourg	7.79	7.75	7.66	8.05	7.95	7.81	7.88	7.81	7.68	7.66	7.66	7.40	7.48
Macedonia										5.78	5.76	6.15	6.20
Madagascar			4.36	4.56	4.46	4.50	5.72	6.12	5.72	5.90	5.73	5.68	5.80
Malawi		5.13	4.64	4.81	4.89	4.48	4.70	5.40	5.43	6.01	5.74	5.64	5.40
Malaysia	6.62	6.43	7.04	7.13	7.49	7.43	6.63	6.18	6.29	6.38	6.49	6.65	6.70
Mali		5.28	5.33	4.97	5.06	5.16	5.90	5.88	5.49	6.02	5.80	5.82	6.00
Malta			5.60	5.38	5.62	6.80	6.69	6.62	6.65	6.49	7.22	7.39	7.44
Mauritania													
Mauritius		5.03	5.16	6.29	6.14	7.26	7.26	7.24	6.99	6.74	6.77	7.42	7.33
Mexico	6.47	5.76	5.60	4.71	6.02	6.32	6.28	6.30	6.43	6.34	6.51	6.92	6.93
Mongolia											6.32	6.68	6.67
Morocco	5.64	5.01	4.41	4.93	4.92	5.77	5.96	5.90	5.93	6.25	6.01	6.13	6.17
Mozambique										5.37	5.46	5.49	5.50
Myanmar			5.31	4.87	3.78	4.48	4.31	4.31	3.95	3.75	4.08	4.22	4.15
Namibia					5.51	6.52	6.62	6.66	6.46	6.86	6.44	6.65	6.73
Nepal			5.57	5.16	5.25	5.25	5.62	5.54	5.53	5.06	5.12	5.16	4.97

Exhibit 1.5 (continued): The Chain-Linked Summary Index of Ratings, 1970–2006

	1970	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004	2005	2006
Netherlands	7.54	6.85	7.31	7.47	7.80	7.82	8.03	7.75	7.65	7.57	7.58	7.67	7.64
New Zealand	6.72	6.00	6.72	6.54	7.71	8.64	8.35	8.23	8.20	8.19	8.24	8.26	8.12
Nicaragua			4.10	2.10	3.05	5.36	6.59	6.49	6.57	6.64	6.65	6.69	6.66
Niger			4.56	4.91	4.58	4.37	4.79	4.47	4.42	4.43	4.39	4.11	4.06
Nigeria	3.73	3.81	3.74	3.98	3.80	4.01	5.54	5.57	5.90	5.48	5.26	5.37	5.90
Norway	6.32	5.83	6.13	6.61	7.25	7.44	7.37	6.98	6.83	7.10	7.21	7.51	7.45
Oman				6.63	6.18	6.87	6.91	6.93	6.95	7.18	7.21	7.29	7.54
Pakistan	4.44	3.80	4.59	5.09	4.97	5.62	5.45	5.57	5.64	5.44	5.56	5.92	5.89
Panama		6.78	5.54	6.06	6.33	7.17	7.26	7.22	7.09	7.15	7.11	7.14	7.01
Papua New Guinea				6.05	6.18	6.28	5.64	5.69	5.66	5.60	5.65	6.22	6.32
Paraguay			5.69	5.11	5.60	6.46	6.21	6.30	6.14	6.18	6.08	6.17	6.16
Peru	4.75	4.05	4.03	3.08	4.16	6.32	7.06	7.02	7.01	7.00	6.98	6.87	6.95
Philippines	5.73	5.30	5.35	5.17	5.53	7.22	6.96	6.64	6.64	6.60	6.37	6.57	6.54
Poland				3.94	4.00	5.30	6.19	5.95	6.11	6.11	6.65	6.72	6.77
Portugal	6.32	4.10	5.87	5.64	6.36	7.27	7.33	7.22	7.32	7.31	7.43	7.16	7.21
Romania				4.62	4.73	3.98	4.98	5.08	5.50	5.81	5.87	6.47	6.58
Russia						4.09	4.93	5.11	5.39	5.44	5.77	5.99	5.91
Rwanda					4.12	3.34	4.21	4.07	4.34	3.89	3.84	4.14	4.19
Senegal			4.69	5.01	5.38	4.76	5.91	5.77	5.70	5.65	5.65	5.85	5.53
Sierra Leone		5.60	5.39	3.60	3.87	4.31	5.02	5.12	5.69	5.84	5.65	5.98	5.68
Singapore	7.88	7.63	7.92	8.27	8.69	8.79	8.51	8.14	8.24	8.20	8.29	8.48	8.54
Slovak Republic						5.54	6.16	6.52	6.42	6.83	7.41	7.59	7.52
Slovenia						4.96	6.00	6.23	6.19	6.19	6.27	6.29	6.40
South Africa	6.68	5.95	5.87	5.46	5.46	6.34	6.97	6.91	6.86	6.99	6.89	6.93	6.91
South Korea	5.40	5.33	5.63	5.67	6.10	6.42	6.62	6.88	6.91	6.95	7.08	7.15	7.32
Spain	6.55	5.87	6.04	6.16	6.46	7.03	7.29	7.03	7.05	7.44	7.50	7.35	7.22
Sri Lanka			5.27	5.41	5.10	6.21	6.20	6.16	5.97	6.12	5.99	5.97	5.95
Sweden	5.75	5.62	6.05	6.63	6.93	7.18	7.43	7.05	7.26	7.41	7.19	7.30	7.28
Switzerland	8.02	7.79	8.19	8.32	8.30	8.04	8.43	8.18	8.22	8.30	8.31	8.33	8.18
Syria	4.49	4.68	3.83	3.52	3.86	4.57	5.02	5.53	5.26	5.09	5.40	5.53	5.59
Taiwan	6.86	6.06	6.90	7.13	7.29	7.31	7.28	7.07	7.34	7.35	7.58	7.67	7.66
Tanzania	4.37	3.79	3.91	3.50	3.93	4.80	6.16	6.39	6.38	6.47	6.61	6.46	6.41
Thailand	5.99	5.86	6.16	6.20	6.88	7.19	6.66	6.67	6.77	6.65	6.79	6.80	6.83
Togo			4.01	5.17	4.93	4.63	4.84	4.93	5.01	4.82	4.83	4.75	4.67
Trinidad & Tobago		4.88	5.09	4.98	5.79	6.85	7.34	7.17	7.01	6.87	6.94	6.92	6.96
Tunisia	4.99	5.00	5.38	5.15	5.63	6.21	6.34	6.40	6.29	6.27	6.31	6.46	6.37
Turkey	4.00	4.12	3.83	4.93	5.04	5.73	5.77	5.18	5.51	5.94	6.12	6.25	6.36
Uganda			3.21	2.80	3.00	5.05	6.53	6.45	6.48	6.59	6.58	6.59	6.58
Ukraine						3.90	4.70	4.82	5.23	5.14	5.53	5.50	5.51
United Arab Emir.			5.83	6.72	7.10	7.09	7.34	7.31	7.38	7.45	7.28	7.48	7.76
United Kingdom	6.48	6.21	6.53	7.45	7.83	8.08	8.35	8.11	8.11	8.12	8.08	8.10	8.06
United States	7.61	7.74	7.99	8.14	8.41	8.33	8.55	8.32	8.09	8.03	8.07	7.90	7.86
Uruguay			5.82	5.88	6.12	6.10	6.95	6.76	6.83	6.75	6.90	6.91	6.86
Venezuela	6.85	5.80	6.31	5.98	5.35	4.26	5.51	5.49	4.44	3.99	4.46	4.56	4.48
Zambia		4.53	5.00	3.93	3.30	4.74	6.53	6.62	6.47	6.56	6.77	7.10	7.13
Zimbabwe			4.28	4.20	4.44	5.10	3.92	3.13	3.09	3.19	2.82	2.54	2.35

Concluding Thoughts

This chapter concludes with some graphs illustrating simple relationships between economic freedom by quartile and various other indicators of human and political progress (exhibits 1.6–1.16, pp. 18–21). The graphs use the average of the chain-linked EFW index for the period from 1990 to 2006. 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. Almost without exception, these studies have found that countries with more economic freedom grow more rapidly and achieve higher levels of per capita GDP. Chapter 2 (p. 23) presents data for various measures of poverty across time

periods and analyzes the relationship between economic freedom and poverty. Additional graphics on that topic are presented there.

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 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 information 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.

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 freely downloaded at <<http://www.freetheworld.com>>. If you are using the data across time periods, it would be better, for reasons outlined on p.13, to use the chain-link series presented in exhibit 1.5 and available at the website. If you have any difficulties downloading the data, please feel free to contact us via e-mail to freetheworld@fraserinstitute.org or via telephone at +1.604.714.4563.

Exhibit 1.6: Economic Freedom and Income per Capita

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

Sources: Fraser Institute; World Bank, *World Development Indicators 2008*.

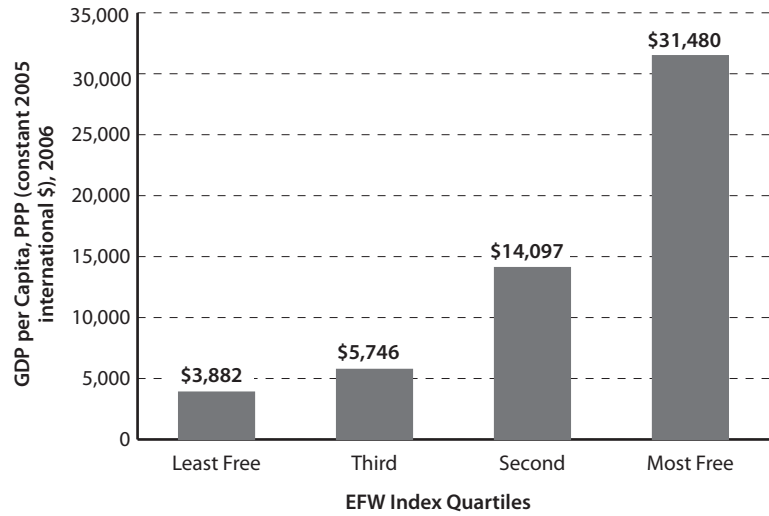


Exhibit 1.7: Economic Freedom and Economic Growth

Countries with more economic freedom have higher growth rates.

Sources: Fraser Institute; World Bank, *World Development Indicators 2008*.

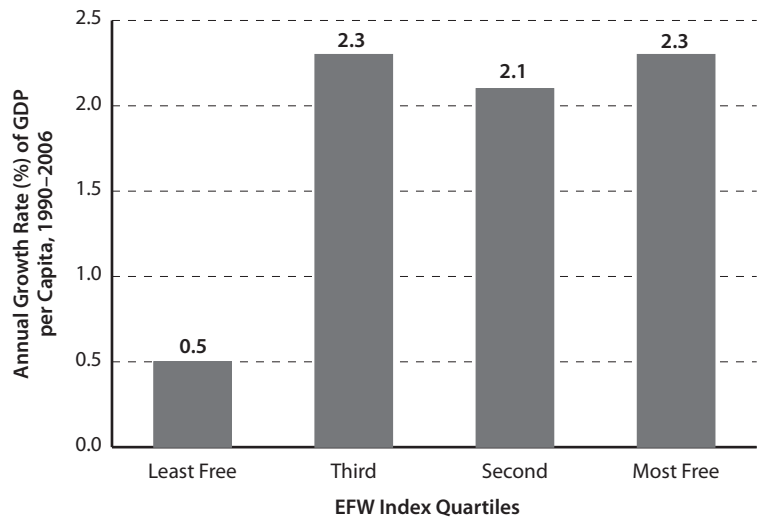


Exhibit 1.8: Economic Freedom and Foreign Direct Investment

Countries with more economic freedom attract more foreign investment.

Sources: Fraser Institute; World Bank, *World Development Indicators 2008*.

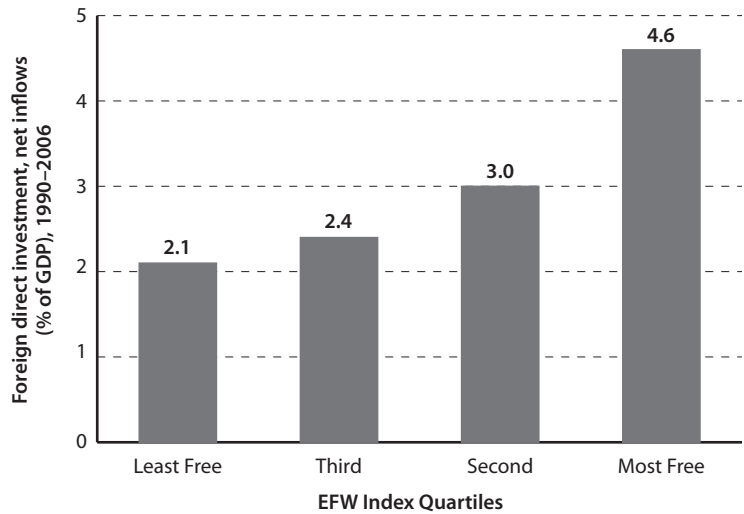
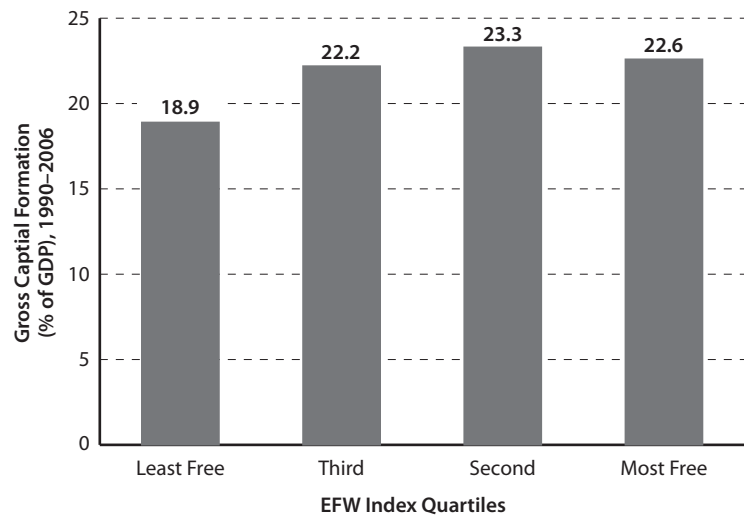


Exhibit 1.9: Gross Capital Formation

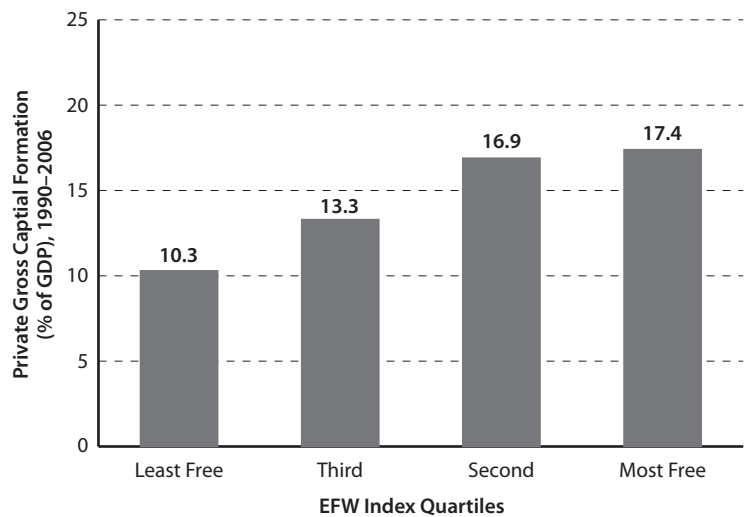
Total investment is slightly higher in countries with more economic freedom.

Sources: Fraser Institute; World Bank, *World Development Indicators 2008*.

**Exhibit 1.10: Private Gross Capital Formation**

Private investment spending is much higher in countries with more economic freedom

Sources: Fraser Institute; World Bank, *World Development Indicators 2008*.

**Exhibit 1.11: 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 the degree of economic freedom in a nation.

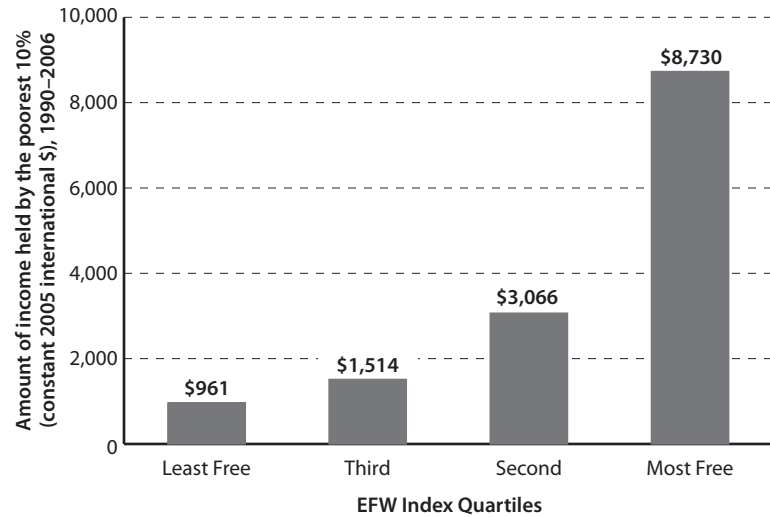
Sources: Fraser Institute; World Bank, *World Development Indicators 2008*.



Exhibit 1.12: Economic Freedom and the Income Level of the Poorest 10%

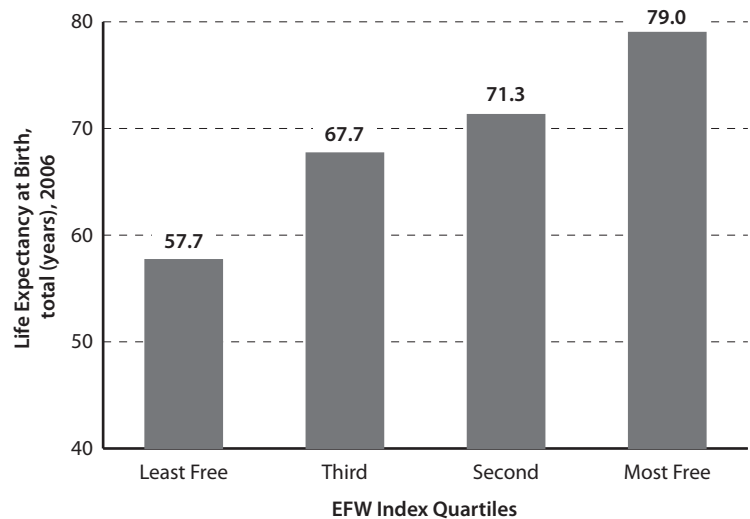
The amount per capita, as opposed to the share, of income going to the poorest 10% of the population is much greater in nations with the most economic freedom than it is in those with the least.

Sources: Fraser Institute; World Bank, *World Development Indicators 2008*.

**Exhibit 1.13: Economic Freedom and Life Expectancy**

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

Sources: Fraser Institute; World Bank, *World Development Indicators 2008*.

**Exhibit 1.14: Economic Freedom and Corruption**

With fewer regulations, taxes, and tariffs, economic freedom reduces the opportunities for corruption on the part of public officials.

Note: "The scores in the 2005 *Corruption Perceptions Index* (CPI) are derived from the 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; Transparency International, *Corruption Perceptions Index 2007*, <http://www.transparency.org/policy_research/surveys_indices/cpi/2007/>.

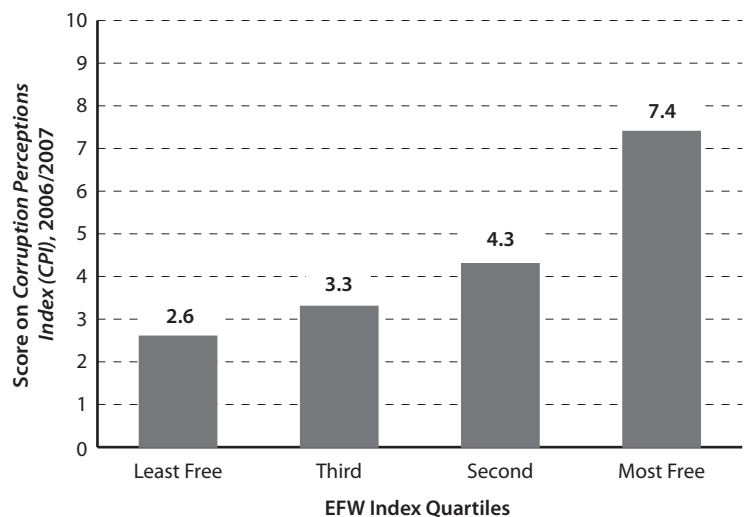


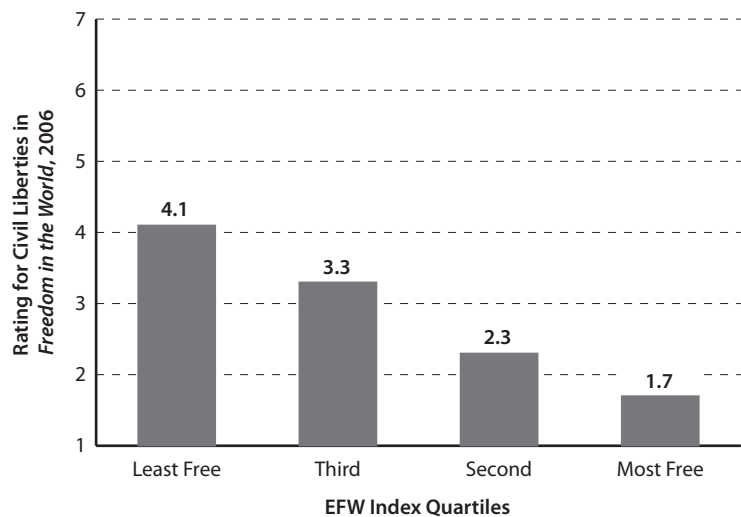
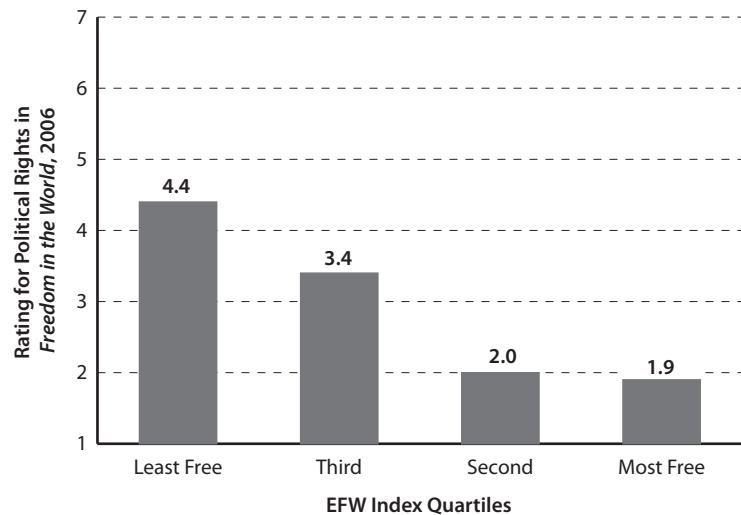
Exhibit 1.15: Economic Freedom and Political Rights and Civil Liberties

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: 1 = the highest degree of political rights and civil liberties; 7 = the lowest.

"The Freedom in the World survey provides an annual evaluation of the state of global freedom as experienced by individuals. The survey measures freedom—the opportunity to act spontaneously in a variety of fields outside the control of the government and other centers of potential domination—according to two broad categories: political rights and civil liberties. Political rights enable people to participate freely in the political process, including the right to vote freely for distinct alternatives in legitimate elections, compete for public office, join political parties and organizations, and elect representatives who have a decisive impact on public policies and are accountable to the electorate. Civil liberties allow for the freedoms of expression and belief, associational and organizational rights, rule of law, and personal autonomy without interference from the state." <<http://www.freedomhouse.org/template.cfm?page=35&year=2006>>

Sources: The Fraser Institute; Freedom House, *Freedom in the World 2006*, <<http://www.freedomhouse.org/template.cfm?page=15&year=2006>>.

**Exhibit 1.16: Economic Freedom and Environmental Performance**

Environmental stresses on human health are lower and ecosystem vitality is greater in countries with more economic freedom.

Note: Higher index values (out of 100) indicate greater environmental performance.

Sources: The Fraser Institute; Yale Center for Environmental Law and Policy (YCELP) and Center for International Earth Science Information Network (CIESIN), Columbia University, with the World Economic Forum, and Joint Research Centre (JRC) of the European Commission, *2008 Environmental Performance Index*, <<http://sedac.ciesin.columbia.edu/es/epi/>>.

