



The Economic Freedom of the World Project

Economic freedom means that people are free to trade with others, compete in markets, buy what they want, earn a living in a job that they choose, keep what they earn, and own things privately.

It has been over 20 years since the Economic Freedom of the World (EFW) project was initiated by the Fraser Institute. From the very beginning, the objective was to develop a comprehensive measure of economic freedom for a large number of countries. The first Economic Freedom of the World report was released in 1996, following a series of conferences beginning in 1986, which involved 60 of the world's top scholars, including Nobel Laureates Milton Friedman, Douglass North, and Gary Becker.

Today, the Institute collaborates on this project with various institutes in 76 nations and territories. The annual EFW report uses 42 different measures to create an index that ranks 141 countries, representing 95% of the world's population, based on policies that encourage economic freedom. The EFW index, which is based on objective data and independent surveys, measures five areas of economic freedom:

1 Size of government: expenditures, taxes, and enterprises

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

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. 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. Sound money is essential to protect property rights and, thus, economic freedom. 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

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, labour, and business

The fifth area of the index focuses on regulatory restraints that limit the freedom of exchange in credit, labour, and product markets. 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 favourites," that is, from using their power to extract financial payments and reward some businesses at the expense of others.

To read the complete 2008 report, visit www.freetheworld.com.

