Published Work Using Economic Freedom of the World Research

Peer-Reviewed Papers (published in academic journals 1994 - 2011)

1994


This paper empirically investigates whether certain constitutional enumerations matter for economic growth. We find that negative (positive) rights tend to have a positive (negative) effect on economic growth, and that structural constraints have a more significant and larger effect than procedural constraints.

Uses the 'Scully and Slottje' Index as an independent variable. (See: Scully, GW and Slottje, D, (1991) "Ranking Economic Liberty Across Countries" Public Choice 69, pp. 151-2). The model estimates the steady-state solution of an (institutionally) augmented Solow growth model. The dependent variable is the logarithm of per-capita income. This is a cross-section analysis covering 100 countries.

1996


Abstract: This paper explores empirically whether constitutional enumerations and economic freedom indexes affect economic convergence. Some constitutional features and economic freedom do affect convergence, though economic freedom is by far the more influential.

Uses the 'Scully and Slottje' Index as an independent variable. (See: Scully, GW and Slottje, D, (1991) "Ranking Economic Liberty Across Countries" Public Choice 69, pp. 151-2). The dependent variable is the average annual per capita growth rate. This is a cross-section analysis covering 109 countries.


Examines the effect of economic freedom on income and growth in high-, middle-, and low-income country sets and finds that economic freedom is significant for a sample of all countries but only in some subsets.


Petersmann, E.U. (June 1996). International competition rules for governments and for private business - The case for linking future WTO negotiations on investment, competition and

**1997**


This paper takes advantage of newly constructed measures of economic freedom to show the importance of economic freedom on growth. I find that economic freedom is a more robust determinant of growth than political freedom and civil liberty.

Uses summary ratings from *Economic Freedom of the World: 1975-1995* as one variable in a comparison of a number of institutional variables.


Finds that economic freedom is an important explanatory variable for steady-state levels of income. The addition of a variable for economic freedom is also shown to increase the explanatory power of a neo-classical growth model.


The paper finds that developing countries that score better in protecting economic rights also tend to grow faster and to score higher in human development. In addition [the paper finds that] economic rights are associated with democratic government and with higher levels of average national income.

Uses summary ratings from *Economic Freedom of the World: 1975-1995* as one of a number of institutional variables.


freedom is positively correlated with per-capita GNP.

*Economic Freedom of the World: 1975-1995* is used as one variable in a comparison of a number of institutional variables.


Argues that employment-creating initiatives or job-creation policies hinder the creation of new technology and the process of "creative destruction." Also argues that the role of government monetary intervention in the economy should be limited to creating stable monetary policy.


The authors have compiled an index of intellectual property rights, and examine its effects on growth and the factors of production (investment, schooling, and R&D). The paper finds that IPRs affect economic growth indirectly by stimulating the accumulation of factor inputs like R&D and physical capital.


**1998**


The paper uses regression analysis to examine the effect of the components of economic freedom on growth, output and investment and finds that "economic freedom enhances growth both via increasing total factor productivity and via enhancing capital accumulation." It also identifies components that have the highest statistical effects on these variables, with the aim of informing policy makers.


Find that corruption is negatively related to economic freedom.


This paper outlines the alternative channels through which institutions affect growth, and studies the empirical relationship between institutions, investment, and growth. The empirical results indicate that (i) free-market institutions have a positive effect on growth; (ii) economic freedom affects growth through both a direct effect on total factor productivity and an indirect effect on investment; (iii) political and civil liberties may stimulate investment; (iv) an important interaction exists between freedom and human capital investment; (v) Milton Friedman's conjectures on the relation between political and economic freedom are correct; (vi) promoting economic freedom is an effective policy toward facilitating growth and other types of freedom.


Primarily investigates the robustness of the index of economic freedom devised by Gerald Scully and D.J. Slotije and determines that the robustness of results depends heavily on how freedom is measured. Finds that some specifications are robust predictors of the growth rate of real per-capita GDP (1980-1992) but few are robust for investment share of GDP.

Empirical analysis on *Economic Freedom of the World: 1975-1995* is limited to correlation with the Scully and Slotije's index. Suggests further empirical work be done on *Economic Freedom of the World*.


The paper uses Granger causality analysis to demonstrate that economic freedom "causes" economic well-being and economic well-being "causes" economic freedom. Additionally, the authors argue that economic well-being causes political freedom but that there is no causation flowing from political freedom to economic well-being. The paper also finds no evidence of a casual relationship in either direction between economic freedom and political freedom. Indirectly economic freedom causes political freedom through its effect on economic well-being.

*Economic Freedom of the World: 1975-1995* and the Freedom House index of political rights and civil liberties are the main data sources for institutional variables.

The study examines the link between economic freedom (a measure of government intervention) and the penetration of three durable goods (televisions, radios and automobiles) across countries.


The paper compares economic freedom to income, growth, unemployment in the OECD, the UN Human Development Index, life expectancy, literacy, poverty, and income distribution. It finds that economic freedom does not have a cost in terms of income levels, income growth, unemployment rates, and human development.


The paper examines the effect of the size of government in OECD countries upon economic growth. This paper draws on the authors’ Joint Economic Committee Study, *The Size and Functions of Government and Economic Growth*.


A comprehensive review of the trends in economic liberalism in the last century. The book covers economic liberalism in thought and practice as well as discussing how the climate of political and popular opinion has both helped and constrained the development of liberal policy. One section uses the Economic Freedom of the World to discuss the progress made by countries engaging in economic reform and the appendix discusses the derivation, benefits, and limitations of the Economic Freedom of the World.

*Economic Freedom of the World: 1975-1995* is the only quantitative source for institutional variables.


The paper discusses which cultural values are associated with economic freedom, drawing on two international quantitative cultural indexes.

Uses the summary ratings from *Economic Freedom of the World: 1975-1995* as one of a number of...
in institutional variables.


Empirically studies the effect of institutional quality on the share of the unofficial economy in GDP.


The paper examines the conflicting interpretations of the role of governments and economic freedom in the success and subsequent crises in Asia.


Discusses the constitutional guarantees necessary to secure economic freedom and why such guarantees are important. Focuses specifically on Africa.


Discusses how differences in property rights and corporate governance systems arise within differing institutional frameworks.

Uses the Property Rights component of *Economic Freedom of the World: 1975-1995* as one of a number of institutional variables in case-study analysis.


The study examines the effect of democracy on economic growth after controlling for a number of variables for the size of government and institutions. The study finds that it is not the redistributive policies of democratic governments that hinder development in developing countries but the lack of economic freedom.

Economic Freedom (Vancouver: The Fraser Institute, 1992). The summary ratings of Measuring Economic Freedom are used as one variable in a comparison of a number of variables for institutions and the size of government.


The paper compares property rights to indicators of development and determines that the well-being of the world's poorest inhabitants [is] sensitive to the cross-national specification of property rights. The paper shows that well-specified property rights enhance the well-being of the world's most impoverished.


Investigates whether countries with better property rights have better performance on environmental measures.

Uses the summary ratings of Economic Freedom of the World: 1975-1995 as one of four measures used as proxies for property rights.


Makes reference to the general conclusions of Economic Freedom of the World: 1997 Annual Report regarding economic freedom and income and growth and argues that foreign aid is propping up countries that are not economically free. Mr Vásquez also tests the notion that aid agencies target pro-growth policies. He finds that for the countries where economic freedom declines or does not improve, foreign aid actually increases (19 of 20 cases). As well, in over one-half of these countries GDP per capita declines.


Makes reference to the general conclusions of Economic Freedom of the World: 1975-1995 regarding economic freedom and income and growth and discusses conditions under which the rule of law can be maintained.

1999
This paper describes a theoretical model of the relationship between economic freedom and income distribution, and investigates empirical results. The results indicate that "sustained and gradual increases in economic freedom influence equality measures positively... [but] the absolute level of economic freedom appears to be negatively related to equality in some cases."


Abstract: Previous empirical research on the social and economic impact of freedom has tended to focus on the link between freedom and economic growth rates. Only a few studies have looked at freedom's effect on the quality of life, and these generally focused on the effect of political freedom. Here, we attempt to bridge this gap by analyzing the effect of economic freedom on the quality of life. Taking advantage of newly developed measures of economic freedom, we analyze the impact of economic freedom on life expectancy and literacy rates. We find that greater economic freedom enhances the quality of life both across nations and increases the improvements in the quality of life over time.


This study examines the relationship between economic freedom and economic growth. The authors find that economic freedom is a "significant determinant of economic growth, even when human and physical capital, and demographics are taken into account." The authors also test for causality. They find that increases in economic freedom lead to higher economic growth but not that higher economic growth leads to higher economic freedom.

Uses summary ratings from *Economic Freedom of the World: 1997 Annual Report* as one of a number of institutional variables.


Chapter 6, A Balance Sheet of Structural Adjustment in Africa: Towards a Sustainable Development Agenda
John Mukum Mbaku and chapter 12, Making the State Relevant to African Societies (John Mukum Mbaku) 
emphasize the constitutional guarantee of economic freedoms as the single most important way both to 
generate the wealth that Africans need to meet the challenges of the new century and to deal more effectively 
with the continent's colossal debt.

economic freedom and income and growth.

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The main results are: given economic freedom, the rate of economic growth is independent of political 
freedom and the level of income; given the level of income, political freedom is independent of economic 
freedom and the growth rate. The analysis suggests the fundamental effects of economic freedom in fostering 
economic growth and a high level of income as the condition of a high degree of political freedom." The article 
also uses principle component analysis to weight the results published in Economic Freedom of the World.

right and civil liberties are the main data sources for institutional variables.

subsets of developing and developed nations.


The paper focuses on the institutional structures that are involved in capital flows, globalization, and financial crisis. *The Global Capital Access Index* is presented as a means of comparing the financial markets of different countries.


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Abstract: It is often maintained that economic freedom underlies high levels of economic growth. This paper compares various indicators for economic freedom. We conclude that, although these measures differ somewhat in their coverage, they show similar rankings for the countries covered. Some elements in these measures are, however, questionable. Our main conclusion is that greater economic freedom fosters economic growth. The level of economic freedom is, however, not related to growth.


Factor Analysis is the method used in this paper to extract from a pool of components that describe freedom two main factors, namely the appropriateness of the framework in which the market operates, and the degree of political intervention in the market place. It is shown that these two factors have great influence on the prosperity of nations.

Uses the *Economic Freedom of the World: 1998* index as the main data source for institutional variables. Also contains extensive analysis of the Fraser index and its components.


Investigates the effects of exchange-rate volatility and currency unions on international trade. The author uses the summary ratings to test the sensitivity of his model of trade between nations. Finds a statistically significant relationship between trade among nations and economic freedom.

Uses the summary ratings from *Economic Freedom of the World: 1997 Annual Report* as one of a number of variables.


2001


Abstract: Recent finance scholarship finds that countries with legal systems based on the common law have more developed financial markets than civil-law countries. The present paper argues that finance is not the sole, or principal, channel through which legal origin affects growth. Instead, following Hayek, I focus on the common law's association with limited government. I present evidence that common-law countries experienced faster economic growth than civil-law countries during the period 1960-92 and then present instrumental variables results that suggest that the common law produces faster growth through greater security of property and contract rights.


Abstract: Using various indicators for economic freedom, it is shown that increases in economic freedom are robustly related to economic growth. This conclusion holds even if the impact of outlying observations is taken into account. The level of economic freedom is not related to growth.


2002

The authors cite the Economic Freedom of the World 1975-1995 report and use the data from the Economic Freedom of the World: 2001 Annual Report. The authors conclude that increases in economic freedom are associated with improved economic performance in that increases in economic freedom move countries closer to the production frontier.


This paper examines the robustness of economic freedom as a predictor of growth and investment compared to political rights and civil liberties. It also examines the relation between economic freedom and input price distortions and institutional quality.

Uses summary ratings from Economic Freedom of the World: 1975-1995 as one of a number of institutional variables.
Most studies of the relation between economic freedom and growth of GDP have found a positive relation. In this paper we investigate what specific types of economic freedom measures that are important for growth. The results show that economic freedom does matter for growth. This does not mean that increasing economic freedom, defined in general terms, is good for economic growth since some of the categories in the index are insignificant and some of the significant variables have negative effects.


While several cross-sectional studies (La Porta et. al. 2002, Norton 2002) examine institutional and cultural determinants of economic freedom, changes in economic freedom remain unexamined. I find changes in voter preferences for economic freedom to be a significant determinant of changes in economic freedom in a panel of 25 OECD countries. The voter preference measure is robust to several alternative specifications, including the addition of institutional variables.


Freytag, Andreas (2002). Success and Failure in Monetary Reform: Monetary Commitment and the Role of Institutions, Cheltenham and Northampton: Edward Elgar.


Abstract: Benhabib and Spiegel (1996) argue that human capital increases technological diffusion and, as a result, has a positive effect on economic growth. When human capital is accounted for in this way they find that other institutional variables do not affect growth. Their findings are re-examined by considering the effects of economic freedom on technology spillovers, hence on growth, and it is found that the greater the economic freedom in a country, the greater the amount of technological diffusion. More generally, this research suggests that institutional variables which are captured by economic freedom do indeed have an impact on growth, but only through technological diffusion. However, after accounting for the effects of economic freedom on technological diffusion, there is only weak evidence that human capital has a positive effect on technological diffusion.


Abstract: This study investigates the role that economic freedom plays in economic growth and in the distribution of market income, the role of government policy in advancing economic progress and in promoting income equality, and the effect that the rate of economic progress has on the distribution of market income. Structural and reduced form models are estimated that reveal that economic freedom promotes both economic growth and equity, and that there is a positive but relatively small trade-off between growth and income inequality.


The effects of de jure constitution enumerations and the number of de facto veto players in a polity on economic freedom are empirically explored with the result that only a few constitutional characteristics, such as a bicameral legislature, religious freedom and the de facto veto players, seem to matter.

Uses Freedom Indexes from Economic Freedom of the World 2000 as the dependent variable. This is a cross-section analysis covering 97 countries.


Abstract: Standard indicators of human capital endowment-like literacy, school enrolment ratios or years of schooling-suffer from a number of defects. They are crude. Mostly, they refer to input rather than output measures of human capital formation. Occasionally, they produce implausible effects. They are not robustly significant determinants of growth. Here, they are replaced by average intelligence. This variable consistently outperforms the other human capital indicators in spite of suffering from severe defects of its own. The immediate impact of institutional improvements, i.e., more government tolerance of private enterprise or economic freedom, on growth is in the same order of magnitude as intelligence effects are.

2003

Abstract: Until very recently most of the studies investigating the determinants of growth fail to incorporate the importance of institutions into their empirical analysis. This paper highlights the importance of institutions on growth and development, and evaluates the empirical results on the effect of institutions on growth and investment. It provides ample evidence that the institutional environment in which an economic activity takes place is an important determinant of economic growth. This paper uses alternative measures of institutional quality to capture the role of institutions in explaining growth differences across countries. When these institutional variables are incorporated into the core regression equations as additional explanatory variables in two different sample periods; both samples yield similar results. The empirical results reveal that countries with high levels of economic growth are characterized by high levels of economic freedom and judicial efficiency; low levels of corruption, effective bureaucracy and protected private property.


In this paper, the authors looked at what factors determine the level of corruption across nations. They used education, judicial efficiency, the size of government, political and economic freedom, foreign aid, ethnicity, and the type of the political regime to explain cross-country differences in corruption. They concluded that "[c]orruption is found to be negatively and significantly correlated with the level of education, judicial efficiency, and economic freedom. It is positively and significantly correlated with foreign aid and the size of government" (p. 461).


Abstract: This paper explores the interplay between economic freedom, foreign direct investment (FDI) and economic growth using panel data analysis for a sample of 18 Latin American countries for 1970-1999. We find that economic freedom in the host country is a positive determinant of FDI inflows. Our results also suggest that foreign direct investment is positively correlated with economic growth in the host countries. The host country requires, however, adequate human capital, economic stability and liberalized markets to benefit from long-term capital flows.


Abstract: We analyse the effect of IMF and World Bank policies on the composite index of economic freedom by Gwartney et al. (2000) as well as its sub-indexes, using a panel of 85 countries observed between 1970 and 1997. With respect to the Bank, we find that the number of projects has a positive impact on overall economic freedom, while the effect of the amount of World Bank credits appears to be negative. These effects are stronger during the 1990s than in earlier periods. There is no clear relationship between credits and programmes of the IMF and economic freedom as measured by the index.

Chen, Jun and Peter Hobbs (September 2003). Global Real Estate Risk Index. *Journal of Portfolio Management*


Abstract: The purpose of this study is not to compare different theories of economic growth, but to evaluate the impact of economic freedom on economic growth under alternative theoretical frameworks. The particular measure of economic freedom employed --the EFW index-- was found to be quite robust and with respect to major changes in the model specifications. We conclude that economic freedom is significant factor in economic growth, regardless of the basic theoretical framework.


Abstract: This paper examines the relationship between economic and political freedom, focusing on developing countries. We conclude that increases in economic freedom between 1975 and 1990 are to some extent caused by the level of political freedom. This result shows up for all measures of political freedom that we employ.


Abstract: This paper investigates the impact of various components of economic freedom on corruption. Some aspects of economic freedom appear to deter corruption while others do not. We identify a stable pattern of aspects of economic freedom influencing corruption that differs depending on whether countries are rich or poor. This implies that there is a strong relation between economic freedom and corruption. This relation depends on a country's level of development. Contrary to expectations, we find that some types of regulation reduce corruption.


Li, Quan and Adam Resnick (Winter 2003). Reversal of Fortunes: Democratic Institutions and Foreign Direct Investment Inflows to Developing Countries. *International Organization*. Vol. 57, 175-211.


Abstract: This article examines the historical records of poor economic performance of Latin America compared to East Asia's relative success in the 1970s and 1980s. This study shows that the respective socio-political and institutional environment of the two regions was also an important factor contributing to their economic outcomes. Using data for selected countries in both regions, the results confirm the hypothesis of a negative direct (efficiency) effect of socio-political instability on growth, with an additional indirect (accumulation) effect through investment, irrespective of a country's location. Policies adopted by governments, particularly to control inflation and foreign indebtedness and to enhance economic freedom and human capital accumulation, appear crucial for stability. Such policies influenced economic performance through both the direct and the indirect channels.


Abstract: Economic institutions are widely thought to be important in enhancing human well-being. Other scholars emphasize geography in determining economic deprivation and development. This paper examines both types of factors and finds that property rights and economic freedom substantially reduce poverty and enhance economic development.


Abstract: The term 'tigers' refers to a group of four to five East Asian countries that joined the rich Western countries after less than 50 years of "miraculous" growth. Controversies surround the attempt to ex-plain how the successes were achieved. This paper surveys the discussion and uses the index published in Economic Freedom of the World to address the main controversy, which is the role of the state in the rapid growth that took place. After a discussion of likely biases, the data are considered. Three of the five countries have a level of regulation much like other rich countries while two have been as close to laissez faire as any country in the world. All are much more "market-friendly" than the LDCs that they left behind. The extent of laissez faire can, however, be only one aspect of the miracle.


This paper examines the impact of economic freedom on the reduction of conflict. The author concluded that "[t]he major lesson from our study is that economic freedom promotes peace. Consequently, the more a government erodes economic liberties, the greater the likelihood that a severe crisis or war will erupt" (p.

Abstract: The dynamic relationships estimated strongly suggest that economic freedom fosters economic growth. The impact of political freedoms on economic growth is much less clear. However, based on the evidence, it is plausible to say that political freedoms do not have to be postponed. Furthermore, the dynamic relationships estimated with the Kiviet method indicate that intensified democracy may result in faster growth and greater economic freedom. They also indicate that economic prosperity makes democratization easier. Our findings, therefore, are closer to Friedman’s belief than to Lipset’s: freedom is a key component in any attempt to improve economic and social well-being.


Abstract: While studies of the relationship between economic freedom and economic growth have shown it to be positive, significant and robust, it has rightly been argued that different areas of economic freedom may have quite different effects on growth. Along that line, Carlsson and Lundström (2002) present the surprising result that "International exchange: Freedom to trade with foreigners" is detrimental for growth. We find that "Taxes on international trade" seems to drive this result. However, using newer data and a more extensive sensitivity analysis, we find that it is not robust. Least Trimmed Squares-based estimation in fact renders the coefficient positive.


This paper was also published in Spanish, see


Abstract: Using time-series cross-section analysis, we provide additional empirical validation for the principal-agent model developed by Adserà et al. (2003). In our innovation, efficient economic policy is proxied by "economic freedom" from the Fraser Institute database and constitutional "political institutions" are proxied by variables from the Database of Political Institutions. Our results suggest that the more credible the threat of removal from office, the more government officials will pursue efficient economic policies.


Abstract. Hayek's theory of cultural evolution has been harshly criticized by many scholars. According to the critics, the scope of applicability of the theory is very narrow; Hayek's methodological individualism contradicts his evolutionary approach; his concept of rule following is naturalistic; the theory fails to explain important aspects of cultural evolution; it is teleological and cannot be falsified; the preciseness of its hypotheses is low; Hayek's concept of group selection contradicts methodological individualism and does not solve the problem of opportunistic behavior; the theory contradicts empirical facts; and Hayek committed the naturalistic fallacy. This paper analyzes each of these charges and finds all of them to be unfounded. Using data for 105 countries, the paper finds that higher levels of economic freedom are associated with both higher income per capita and higher GDP growth rates, corroborating Hayek's theory.


Market-oriented economic policies—reflected in limited economic activity by government, protection of private property rights, a sound monetary policy, outward orientation regarding trade and efficient tax and regulatory policy—have been strongly linked to faster rates of economic growth. Foreign aid is often provided in the belief that it encourages liberalizing reforms in these areas. This paper analyzes the impact of aid on market-liberalizing policy reform, correcting for the possible endogeneity of aid. Results indicate that higher aid slowed reform over the period from 1980 to 2000, as measured by a broad index of policies. Disaggregating policy into five areas, aid is significantly linked to slower re-form in some policy areas but not in others. Disaggregating by decade, aid's adverse impact on policy reform is much more pronounced for the 1980s
This article reviews existing research on economic freedom and investigates the relationship between equity returns and economic freedom. Results show that cross-country equity returns are directly related to increases in economic freedom. For investors seeking superior investment returns, countries likely to experience an increase in economic freedom should be selected for investment.

Abstract: We present new evidence on how generalized trust is formed. Unlike previous studies, we look at the explanatory power of economic institutions, use newer data, incorporate more countries, and use instrumental variables in an attempt to handle the causality problem. A central result is that legal structure and security of property rights (area 2 of the Economic Freedom Index) increase trust. The idea is that a market economy, building on voluntary transactions and interactions with both friends and strangers within the predictability provided by the rule of law, entails both incentives and mechanisms for trust to emerge between people.

The study analyzes the literature investigating the impact of economic freedom on economic growth. The authors analyzed the results of 45 different studies published over the last decade on economic freedom and economic growth and concluded that, "regardless of the sample of countries, the measure of economic freedom and the level of aggregation, there is a solid finding of a direct positive association between economic freedom and growth". (p. 19) Furthermore, they note that economic growth studies that fail to include a measure of economic freedom in their analysis will produce bias results. The authors also highlight the importance of including a measure of physical investment when estimating the impact of economic freedom on economic growth. They found that the exclusion of the measure of investment in physical capital increased the estimated effect economic freedom has on economic growth.

Abstract: Using data from 74 industrial, developing and transition countries for the years 2000 to 2003, this
paper empirically analyzes whether and to what extent credit market regulations affect the performance of the labor market. According to the regression results, anti-competitive credit market regulations have an adverse, though generally modest, impact on the labor market. Specifically, restrictions on credit extended to the private sector, on the private ownership of banks, on competition from foreign banks, and on the free determination of interest rates appear to lower the level of employment and increase unemployment, particularly among young people.


Abstract: Using data from 19 industrial countries for the period 1985 to 2002, this paper analyzes how the size of the government sector affects unemployment. Controlling for the impact of the business cycle as well as for the impact of all major labor market institutions and unobserved country effects, we find that a large government sector is likely to increase unemployment. It appears to have a particularly detrimental effect on women and the low skilled and to substantially increase long-term unemployment. It seems that dominant state-owned enterprises, a large share of public investment in total investment as well as high top marginal income tax rates and low income threshold levels at which they apply are particularly detrimental.


This paper investigates the effects of institutions on economic growth through the impact of economic institutions on both the levels and productivity of investment. That is, the authors looked at both the indirect and direct effects of economic freedom on economic growth. They found, using data for 94 countries from 1980 to 2000, that countries that have high quality institutions, as measured by The Fraser Institute's report, Economic Freedom of the World, have not only higher levels of private investment, but also higher productivity with that investment. Specifically, it was found that the productivity of private investment, measured as the impact of investment on growth, was 74% greater in countries with high-quality institutions. In addition, the authors found that a one-unit increase in institutional quality, i.e., economic freedom, increases the long-term economic growth by about 1.5 percentage points when both direct and indirect effects are included, compared to 1.0 percentage point when only the direct affect of institutions are included.


The focus of this paper is on capital flows from developed to less developed countries and in particular on the question of why such flows are not much larger. I first outline the theoretical arguments with regard to such flows and then go on to review the historical evidence on international financial integration more generally. I then turn to the related literature on economic development, which over the past decade has shifted its emphasis from technology and capital accumulation to the underlying institutional factors that affect investment. I present evidence that such factors also affect to rich-to-poor country capital flows. Good policies in pursuit of price stability, fewer direct interventions and sound institutional structures are accompanied by
higher capital flows and bad policies by lower capital flows.


This study examines whether economic policies and their outcomes have an effect on people's self-perceived level of well-being. The authors used two different measures of well being, happiness and life satisfaction, both of which come from survey database managed by the Erasmus University in The Netherlands. Using data for 68 countries during the 1990s, the authors found that economic freedom, as measured by The Fraser Institute, and health, as measured by life expectancy, have consistently turned out to be statistically significant in determining people's level of well-being. That is, both longer life expectancy and the freedom to make choices that are consistent with personal preferences increases one's self-perceived level of well being and happiness.

2007


Abstract: The purpose of this research is to investigate whether access to information can affect the level of corruption within a country, while controlling for several variables to prevent model misspecification. The major empirical finding of this research shows that greater access to information significantly lowers corruption levels across nations. This is an important finding, as bridging the digital disparity across countries can serve to lessen national corruption levels and improve the conduct of international business by lowering global transaction costs. This study also affirms previous research that countries that have lower levels of masculinity and high levels of economic development and freedom exhibit lower corruption levels.


Abstract: We analyze the impact of International Monetary Fund (IMF) programs on market-oriented reforms [as measured by economic freedom]. Employing panel data for 116 countries over the period 1970-2000 we find that the net effect of IMF programs on reforms is negative.


It is widely accepted that democracies are less conflict prone, if only with other democracies. Debate persists, however, about the causes underlying liberal peace. This article offers a contrarian account based on liberal political economy. Economic development, free markets, and similar interstate interests all anticipate a lessening of militarized disputes or wars. This "capitalist peace" also accounts for the effect commonly attributed to regime type in standard statistical tests of the democratic peace.


Using data from 87 countries and the years 1980-2003, this paper empirically analyzes whether and to what extent economic freedom affects unemployment. According to the regression results, economic freedom is likely to substantially reduce unemployment, especially among women and young people. A small government
sector and a legal system characterized by an independent judiciary, impartial courts, and an effective protection of property rights most clearly seem to have beneficial effects. In addition, there are indications that freedom to trade across national boundaries and a light regulatory burden may also lower unemployment, though apparently in the long term only.


Abstract: Government expenditure as a share of GDP in the OECD rose at an annual growth rate of 1.02% in the period between 1970 and 1997. Government spending has increased most on functions particularly demanded by elderly population: social welfare, health and defence. Ageing is the main driving force of the growth of government spending, followed by relative prices and population. However, we also find that the other age groups react to ageing, thereby preventing increases in benefits per retired persons and that institutional reforms have been successful at reducing the impact of ageing on pensions in recent years.


Abstract: Many empirical studies indicate that economic freedom in society is positively correlated with prosperity and growth, while democracy exhibits mixed correlations. However, these studies do not control for the possible interaction of these two types of freedoms or their respective influences on social welfare. This empirical analysis examines the interaction of economic freedom and democracy on measures of health, education, and disease prevention in society. The results imply that greater economic freedom consistently enhances these welfare measures, even among more democratic countries. Democracy has a smaller positive influence that disappears for many welfare measures in countries with more economic freedoms.


Our approach focuses explicitly on information networks and the effect they have on business transactions costs, information dissemination and organizational efficiency. Using a stochastic-frontier production function approach, we separate the factors responsible for determining frontier production for subsets of countries
while simultaneously exploring the impact of communication networks and economic reform on economies below the frontier. We find institutional reforms and the growth in information networks appear to benefit the world as a whole, but particularly its poorest nations, by improving the efficiency of how these and other resources are used. Finally, only in Asia we find that education is an important factor in shifting the production frontier out. Our findings suggest that expanded communication networks work in conjunction with economic reforms to improve business and government relations.


Abstract: While much attention has been devoted to analyzing how the institutional framework and entrepreneurship impact growth, how economic policy and institutional design affect entrepreneurship appears to be much less analyzed. We try to explain cross-country differences in the level of entrepreneurship by differences in economic policy and institutional design. Specifically, we use the Economic Freedom Index from the Fraser Institute to ask which elements of economic policy making and the institutional framework are conducive to the supply of entrepreneurship, measured by data on entrepreneurship from the Global Entrepreneurship Monitor. We find that the size of government is negatively correlated and sound money is positively correlated with entrepreneurial activity. Other measures of economic freedom are not significantly correlated with entrepreneurship.


Abstract: Using data from 74 industrial, developing and transition countries for the years 2000 to 2003, this paper analyzes empirically whether and to what extent anticompetitive business regulations affect the performance of the labor market. According to the regression results, they appear to increase unemployment rates and lower employment rates. It seems that they particularly worsen the employment situation of young people. Our results are robust to variations in specification.


Does economic freedom cause economic growth or does causality run in the reverse direction? And do all the constituent parts of economic freedom exert a causal impact on economic growth or do some freedoms matter more than others? In order to answer these questions, this paper conducts a series of Granger causality tests using panel data for the period 1970-1999. In addition, the paper discusses a number of model specification issues, e.g. lag-length selection and the importance of intervening variables. The results suggest that some (but not all) aspects economic freedom affect economic growth and investment. On the other hand, there is only weak evidence that growth affects economic freedom.

Abstract: This paper examines stock market returns of firms located in various states of the United States in relation to the Economic Freedom of North America (EFNA) index. Using two different estimation methods, we find evidence that firms located primarily in states with increasing economic freedom experience higher stock market returns. However, consistent with the efficient markets hypothesis, we do not find evidence that this is useful as an investment strategy.


Abstract: This paper provides new evidence on the determinants of entrepreneurship across countries. The paper investigates the relationship between the institutional setting, in terms of economic freedom, and entrepreneurship, measured by self-employment, in a panel data setting covering 23 OECD countries for the period 1972-2002. The measure of economic freedom includes five aspects: size of government, legal structure, and security of property rights, access to sound money, freedom to trade internationally, and the regulation of credit, labour, and business. The empirical findings show that a smaller government sector, better legal structure and security of property rights, as well as less regulation of credit, labour, and business tend to increase entrepreneurship.


Abstract: In the literature, theory and empirical evidence on the nexus of political freedom, economic freedom, and economic growth are mixed. In this paper, we test the hypothesis that the effect of political freedom on promoting economic growth is realized and detectable at later stages of social and economic development. Using panel data for a sample of 104 countries between 1970 and 2003, we find strong support for our hypothesis. While economic freedom has greater effects on income convergence in the OECD countries, political freedom clearly promotes the convergence among those OECD countries.


Abstract: We use time-series cross-section analysis to provide an empirical validation for the existence of a specific American and a European ethos with respect to economic policy. In our innovation, economic policy is proxied by "economic freedom" from the Fraser Institute database and constitutional "political institutions" are proxied by variables from the Database of Political Institutions (from the World Bank). Our results suggest that, once we control for political and institutional differences, the United States and Europe will still pursue different economic policies.


Abstract: Several empirical studies have established the relationship between economic freedom, civil liberties, and political rights, and economic growth. Nevertheless, few studies analyze the directions of causality. This paper studies the causality relations between the institutional dimensions mentioned above and
economic growth, as well as the interrelations between them, using the Granger methodology with panel data for 187 countries and five-yearly observations for the period 1976-2000. In addition, the relations between these freedoms and investment in physical and human capital are examined, to be able to isolate the direct and indirect effects on growth.


Abstract: Some report that human rights are likely to be violated when poor countries sign up to structural adjustment programmes (SAPs). These violations apparently occur because ordinary people revolt against the neo-liberal policies that SAPs push. This study examines the effect of the actual flow of finances from the World Bank and the IMF, holding constant all other bank-based financial flows, on government respect for human rights. The authors find that pay-in periods are beneficial for human rights, whereas loan dry-ups correlate with violations. Loan dry-ups are likely to occur because of noncompliance with SAPs rather than implementation, since the international financial institutions (IFIs) release loans in tranches to solve the time inconsistency problem. The overall level of indebtedness is robustly related to human rights abuses, but the higher the stock of debt owed to IFIs relative to total debt, the lower the human rights violations. Accumulating debt to IFIs, thus, seems to improve the level of human rights. Additionally, a higher government consumption to GDP ratio reduces human rights, a result that does not suggest that governments that are capable of commanding a higher share of the country’s wealth are less likely to face threatening social dissent. Moreover, a proxy for neo-liberal policies, the index of economic freedom, correlates strongly with better human rights. These results do not square well with the view that neo-liberal policy reforms and the attendant austerity measures drive dangerous dissent.


Abstract: A positive and statistical and economic significant relation between growth, income level and the Economic Freedom of the World (EFW) index has been amply documented. Most analyses however use OLS methods which in the presence of endogenous variables do not establish causality and produce biased and inconsistent estimates. This paper uncovers the exogenous component of EFW using IV methods and finds a robust association between economic freedom and prosperity. The findings, including OIR tests, support the institutions view of development and warrants policy advice aimed at increasing economic freedom to foster prosperity.


Abstract: Using data from 75 industrial, developing and transition countries for the period 1995 to 2003, this paper empirically analyzes whether and to what extent the structural features of the legal system affect the performance of the labor market. According to the regression results, a legal system characterized by a dependent judiciary, biased courts, a lack of intellectual property protection and a lack of integrity increases unemployment and lowers the employment level. The magnitude of the effect seems to be substantial, particularly among young people.

Abstract: Using data from 58 countries and the period 1980 to 2003, this paper analyzes how the size of government affects unemployment in developing countries. According to the regression results, a large government sector is likely to increase unemployment. A large share of government consumption in total consumption and a large share of transfers and subsidies in GDP most clearly appear to have a detrimental effect. By contrast, we do not find evidence that dominant state-owned enterprises and a large share of public investment in total investment affect unemployment, neither for bad nor for good. The results are robust to variations in specification and estimation method.


Abstract: Using data on 73 economies for the years 2000 to 2003, this paper empirically analyzes the effects of labor regulation on unemployment around the globe. According to the regression results, stricter regulation generally appears to increase unemployment. Tight hiring and firing rules and military conscription most clearly seem to have adverse effects. More centralized collective bargaining seems to increase female unemployment. The size of most effects appears to be substantial, particularly among young people. However, we do not find statistically significant effects of minimum wages or unemployment benefits. Our results are robust to variations in specification.


Abstract: Using data from 19 industrial countries for five years in the period 1990 to 2002, this paper analyzes to what extent anticompetitive business regulations, like price controls and administrative obstacles to start a new business, affect labor force participation and employment rates. According to the regression results, they appear to lower both. Corruption, which is one result of strict business regulation, is also found to lower labor force participation and employment rates. While most effects on the general population seem to be modest, the effects on the low-skilled are likely to be substantial. The results are robust to variations in specification.


Abstract: This address describes the history of the Economic Freedom of the World (EFW) project and the development of the EFW index. This index is a measure of the extent to which the institutions and policies of various countries are coordinated by personal choice, voluntary exchange, open markets, and clearly defined and enforced property rights. The index contains 42 different components and is currently available for 141 countries. Data for approximately 100 countries are available back to 1980. The EFW index incorporates many of the elements that new institutional economists argue are important sources of growth. Thus, it facilitates empirical investigation of the institutional theory of growth and cross-country comparisons of economic performance. In this regard, the paper considers 10 propositions that have been addressed with the index, and what has been learned from this analysis.

Abstract: A well-developed body of literature has detected positive effects of technology investments on economic growth. We contribute to this literature by studying the joint effects of technology and economic freedom on economic growth. Using two different time points, 1990 and 2000, and a sample of over 100 countries, we find that economic freedom enhances the effect of technology on economic growth. In fact, we find that the standalone effect of freedom is not as large as its interactive effect with technology.


Abstract: Between 1980 and 2005, as the world embraced free market policies, living standards rose sharply, while life expectancy, educational attainment, and democracy improved and absolute poverty declined. Is this a coincidence? A collection of essays edited by Balcerowicz and Fischer argues that indeed reliance on free market forces is key to economic growth. A book by Stiglitz and others disagrees. I review and compare the two arguments.


Abstract: This paper presents a comparative study of economic freedom in five groups of countries: free, mostly free, Islamic, Latin American, and a subset of EU member countries. The study includes 103 countries, and uses data from the 2007 Index of Economic Freedom. The paper tests for the statistical significance of the difference between group means for each of ten measures of economic freedom and for the overall freedom score. The empirical evidence shows that the Islamic countries have significantly less economic freedom than the other groups, and that they are the only group with declining economic freedom in the last 13 years.

2010


This study examines the relationship between government size and economic growth for a sample of "rich" countries over the period 1970 to 2005. Two measures of government size are used: total tax revenue and total expenditures as a share of GDP. The study examines the above relationship in a novel manner by accounting for a country's institutional quality as measured by the Fraser Institute's Economic Freedom Index. The study finds that government size (measured both by taxes and spending relative to GDP) is negatively related to economic growth while freedom to trade (measured by the Economic Freedom Index) is positively related to economic growth. The study also finds support for the notion that countries with big government can use economic openness to mitigate the negative growth effects of a large public sector, since openness "allows welfare states to specialize in high value-added services."


Abstract: this paper has two main goals. The first is to provide empirical evidence that differences in labour
market institutions across countries and, specifically, in how they provide protection to workers, can be
attributed to underlying differences in culturally-based prior beliefs: in particular, people's fatalism and trust
in others. The second goal is to single out the socio-economic factors associated with these beliefs and the
role of education in this regard.

Uses the EFW 2009 index, Area 2, to measure quality of legal systems

**De Soysa, Indra, Hanne Fjelde. (2010) Is the hidden hand an iron fist? Capitalism and civil peace,

Abstract: There is surprisingly little empirical scholarship on the spread of capitalistic economic policies under
the rubric of 'globalization' and domestic peace. While the classical liberals saw free markets leading to social
harmony because of self-interest of individuals, who cooperate for profit, Marxists and others viewed markets
as anarchical, requiring state intervention for obtaining justice and peace. The authors argue from an
opportunity-cost perspective that the payoffs to rebellion are structured by how an economy is governed.
Closed economies are likelier than more open ones to accumulate 'rebellion specific capital' because of high
payoffs to organization in the shadows. Using an index of economic freedom that measures how free people
are to transact in an economy, the authors find that countries more favorable to free enterprise have a
reduced risk of civil war onsets, a result that is robust to the inclusion of institutional quality, per capita
wealth, and sundry controls. The results hold up despite a battery of specification changes, alternative data,
and testing methods. The findings do not suggest that states under conditions of capitalism lose their
autonomy to provide the public good of peace, as skeptics of globalization claim. Peacemakers will do well to
build institutions that reward productive investment over rent-seeking, alongside democratic institutions that
ultimately gain their legitimacy on the back of good economic performance and well-functioning markets.

**Dreher, Axel, Noel Gaston and Pim Martens, 2010, "2010 update"; (to Measuring Globalization -
Gauging its Consequence, New York: Springer).**

Abstract: the KOF Index of Globalization was introduced in 2002. The overall index covers the economic,
social and political dimensions of globalization. It defines globalization to be the process of creating networks
of connections among actors at multi-continental distances, mediated through a variety of flows including
people, information and ideas, capital and goods. Globalization is conceptualized as a process that erodes
national boundaries, integrates national economies, cultures, technologies and governance and produces
complex relations of mutual interdependence.

Uses the EFW 2009 index to measure trade and capital openness

Economics Letters 17, 3: 289-292.**

Abstract: Using data from 52 developing countries, this paper analyzes how the size of government affects
unemployment. It tackles the reverse causality issue by instrumenting for the government size variable.
According to the regression results, a large government sector is likely to increase the unemployment rate.
The magnitude of the effect appears to be substantial, both among the total labor force as well as among
women and young people. Furthermore, the estimates indicate that a large government sector is likely to
substantially increase the share of long-term unemployed in the total number of unemployed. The results are
robust to variations in specification.

**Ferguson, Shon, and Sara Formai. December 2009. "Institution-driven comparative advantage, complex goods and organizational choice". (Stockholm School of Economics) for a seminar at the Gothenburg Centre of Globalization and Development, University of Gothenburg.**

Abstract: The theory of the firm suggests that firms can respond to poor contract enforcement by vertically integrating their production process. The purpose of this paper is to examine whether firms' integration opportunities affect the way institutions determine international trade patterns. We find that vertical integration lessens the impact of a country's ability to enforce contract on the comparative advantage of complex goods. We also find that countries with good financial institutions export disproportionately more in sectors that produce complex goods and that have a high propensity to vertical integration. In doing so we use a new outcome-based measure of vertical integration propensity and we employ several empirical strategies: cross section, panel and event study analysis. Our results confirm the role of institutions as source of comparative advantage and suggest that this depends not only on the technological characteristics of the goods produced but also on the way firms are capable to organize the production process.

Uses the EFW 2009 index, Area 2, to measure quality of legal systems


Abstract: The international development community has encouraged investment in physical and human capital as a precursor to economic progress. Recent evidence shows, however, that increases in capital do not always lead to increases in output. We develop a growth model where the allocation and productivity of capital depends on a country's institutions. We find that increases in physical and human capital lead to output growth only in countries with good institutions. In countries with bad institutions, increases in capital lead to negative growth rates because additions to the capital stock tend to be employed in rent-seeking and other socially unproductive activities.


Abstract: The Economic Freedom Index (EFI) is a measure of a country's institutional characteristics that promote economic activity, including the security of private property, openness to international trade, stability of the monetary system and lack of credit market manipulation. We use this index as a proxy for the degree of market segmentation and test the hypothesis that closed-end country fund premiums can be partially explained by a country's EFI value. Using panel data analysis, we find that EFI is significant in explaining observed variability in country fund premiums.


Abstract: This paper examines empirically the hypothesis made famous by Nobel Laureates Friedrich A. Hayek and Milton Friedman that societies with high levels of political freedom must also have high levels of economic freedom. In our judgment, the Hayek-Friedman hypothesis holds up fairly well to historical scrutiny. Using
data on economic and political freedom for a sample of up to 123 nations back as far as 1970, we find relatively few instances of societies combining relatively high political freedom without relatively high levels of economic freedom. In addition, we find that these cases are diminishing over time. Finally, we examine several cases of countries on different economic and political freedom journeys.

**Pitlik, Hans, 19-02-2010, "Are financial crises drivers of market oriented reforms or of a setback of liberalization" Submission to American Public Choice Society Meeting 2010, Monterey, CA, Austrian Institute of Economic Research (WIFO).**

Abstract: supported by empirical studies, the conventional "crisis hypothesis" claims that a severe economic deterioration can lead to a liberalization of policies. The direction of policy responses may however depend on the institutional environment and on the initial liberalization of initial policies. The paper investigates empirically the role of financial crises and initial status of economic policy liberalization on reforms since the 1970s. We find evidence that banking crises enhance market-oriented reforms only if crises occur in a less liberalized environment. If banking crises take place in an economically free institutional environment, a setback of market-friendly reforms is more likely. While currency crises appear to have no impact at all, debt crises seem to have adverse effects on economic freedom when they occur in an initially already restricted policy environment.

Uses the EFW 2009 index as its measure of economic freedom


Abstract: We account for the worldwide advance of political freedom and economic liberalization which has reversed the dominant trend of the twentieth century's first seventy years, away from markets and democracy. The ubiquitous nature of this turnaround means that no special, national, or sectoral circumstance can explain the phenomenon. We suggest, in a Coase-Demsetz perspective, that increases in freedom are due to a recent increase in the social demand for individual rights - whether civil, political or economic- derived from, and complementary to, the downsizing of all hierarchical organizations. We argue that this decentralization process itself is the result of the information revolution.


Abstract: The purpose of this paper is to show that economic policy impacts sovereign debt risk in addition to economic performance.

Design/methodology/approach - Regression analysis was employed to determine the factors that contribute to sovereign bond ratings and bond spreads for a sample of 93 countries from 2000 to 2006.

Findings - After controlling for common factors like per capita gross domestic production, growth, and political regime, the results suggest that a two unit (or a 2.4 standard deviation) drop in the economic freedom index represents approximately a 50 percent higher cost of borrowing for a country.

Originality/value - The paper contributes to the empirical literature on sovereign credit risk by identifying
factors found to be the most significant in determining sovereign credit ratings and bond spreads.

2011


Using data from 117 countries over the period 1981 to 2006 (the Fraser Institute’s Economic Freedom Index was used as a measure of market reforms), the authors found that reforms toward more competitive markets lead to fewer human rights violations and increase government’s respect for human rights.

**Other Papers related to Economic Freedom**


Relates differences in investment as a share of GDP within the West African Economic and Monetary Union to differences in economic freedom using fixed and random-effects models across time.


This paper from the USAID mission in Cairo, Egypt, compares the economic freedom indices of the Fraser Institute and the Heritage Foundation and concludes that, while neither indices are sufficiently contemporary to serve as up to date mission evaluators, the Fraser index is preferable on methodological grounds.


The recent east Asian crisis has lead to calls for a new international financial architecture. This paper investigates the crisis in terms of a "grabbing hand" theory of the state. Results indicate that those economies that chose not to have floating exchange rates and chose to have inconsistencies between economic freedom and political and civil freedoms were most affected by the crisis. This finding undermines any contagion arguments and consequently there is no basis for restructuring the financial architecture.


