

# **Economic Freedom of the World**

## **2000 Annual Report**

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*Florida State University*                      *Capital University*

with Dexter Samida  
*The Fraser Institute*

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The institutes of the Economic Freedom Network provided invaluable support for this report. They helped verify information and supplied us with missing data. We look forward to a continuing working relationship with them.

We would also like to express our appreciation to the DeVoe L. Moore Center of Florida State University for providing the research and computer support that made the project feasible. Kathy Makinen and Harold White assisted with data gathering and calculations. Dexter Samida, Research Economist at The Fraser Institute did an excellent job of coordinating the design and publication of the book. Robert Copeland and Liwen Zhang assisted by checking data in the country tables. Peter Kloepping assisted by checking data and by performing a number of other tasks helpful to the completion of this volume. Thanks to Phaedra Kaptein-Russell for helping with the bibliography of articles that have used *Economic Freedom of the World*.

James Gwartney

Robert Lawson

## ABOUT THE AUTHORS

**James Gwartney** is a Professor of Economics at the DeVoe L. Moore Center, Florida State University. He is currently serving a two-year term as Chief Economist with the Joint Economic Committee (JEC) of the United States Congress. He has a doctoral degree in economics from the University of Washington. Along with Richard Stroup and Russell Sobel, he is the author of *Economics: Private and Public Choice* (Harcourt Brace). This text, now in its ninth edition, has been used by more than 1 million students during the last two decades. A member of the Mont Pelerin Society, Professor Gwartney taught at the Central European University in Prague, Czech Republic during 1993/1994. He has published in the leading journals of professional economics, including the *American Economic Review*, *Journal of Political Economy*, *Industrial and Labor Relations Review*, *Cato Journal*, and *Southern Economic Journal*.

Professor Gwartney has been involved in this project since the early 1990s. Most of his work on this publication was prior to his appointment to the JEC. The views expressed in this publication represent those of the authors. They do not necessarily represent those of the JEC, its Chairman, Vice-Chairman, or any member of the Committee.

**Robert Lawson** is an Associate Professor of Economics at Capital University in Columbus, Ohio; he taught previously at Shawnee State University. He earned his B.S. from the Honors Tutorial College at Ohio University in 1988 and his M.S. (1991) and Ph.D. (1992) from Florida State University. He has published articles in several journals, including *Public Choice*, the *Journal of Labor Research*, and the *Journal of Public Finance and Public Choice*. Professor Lawson has written extensively on public policy issues such as welfare reform, Medicaid, tax policy, and prevailing wage regulations. He also serves as the Director of Fiscal Policy Studies for the Buckeye Institute for Public Policy Solutions in Dayton, Ohio.

**Dexter Samida** is a Research Economist at The Fraser Institute. He majored in economics at the University of Saskatchewan, from which he received his B.Comm. (high honours) with Great Distinction in 1997. He obtained his M.A. in Economics from the University of Toronto in 1998. In the summer of 1997, he worked as an intern at The Fraser Institute, where he did research on taxation in Canada. He recently published *A Hand Out Instead of a Hand Up: Where Foreign Aid Fails* (Public Policy Sources 30, The Fraser Institute) and was co-author of *Provincial Economic Freedom in Canada 1981–1998* (Fraser Institute Critical Issues Bulletin). He has written articles on economic freedom and poverty, provincial economic freedom, foreign aid, international trade, and consumerism. Some of his work has appeared in national newspapers such as the *National Post*, as well as in regional papers, such as the *Vancouver Province*. Mr Samida is a native of rural Saskatchewan.

## ABOUT THE PARTICIPATING INSTITUTES

### CO-PUBLISHERS OF *ECONOMIC FREEDOM OF THE WORLD*

#### **ACER, Albania**

The Albanian Center for Economic Research is a public-policy institute that focuses on research and advocacy activities. In addition to providing policy makers and academics with applied economic research, it works to build public understanding of economic development issues. (E-mail: zefi@qske.tirana.al)

#### **African Research Center for Public Policy and Market Process, Kenya**

The African Research Center for Public Policy and Market Process, Kenya, is the first research centre founded in Africa by the African Educational Foundation for Public Policy and Market Process, an independent educational organization registered in the United States. The primary mission of the Center and the Foundation is to promote ideas about free markets and voluntary associations in Africa. The Center seeks to conduct research on all aspects of free markets, voluntary association, and individual liberty, and to disseminate the results to as wide an audience as possible. The Center also organizes seminars and conferences to examine issues related to liberty and enterprise in Africa. (E-mail: kimenyi@kippra.or.ke)

#### **Association for Liberal Thinking, Turkey**

The Association for Liberal Thinking is a non-profit, non-governmental organization seeking to introduce the liberal democratic tradition to the Turkish public. It engages in activities that promote the understanding and acceptance of ideas like liberty, justice, peace, human rights, equality, and tolerance. It encourages development of academic writing on liberal themes that will improve the ability of the Turkish people to assess contemporary domestic and international changes and attempts to find effective solutions to Turkey's problems within liberal thought. The Association for Liberal Thinking is not involved in day-to-day politics and has no direct links to any political party or movement. Instead, as an independent intellectual group, it aims to set and influence broader political agendas so as to contribute to the liberalization of Turkey in economics and politics. (E-mail: liberal@ada.net.tr)

#### **Association pour la Liberté Economique et le Progrès Social (ALEPS), France**

The objective of ALEPS is to promote the idea of free markets generating social progress. It connects French liberal intellectuals with the world scientific community. Thanks to its permanent contacts with various prestigious foreign institutes, in 1990 ALEPS published "Manifeste de l'Europe pour les Européens," signed by 600 faculties from 28 countries.

The economic collapse of central planning and the disappearance of totalitarian regimes in Eastern Europe has not solved all social problems. The post-socialist society remains to be set up. This requirement in Eastern Europe is also needed in Western countries, such as France, where 40 years of the welfare state have led to mass unemployment, fiscal oppression, a social security explosion, an increase in poverty and inequality, and a loss of moral virtues and spiritual values. ALEPS provides the political and intellectual push for this necessary revival.

**Cato Institute, United States of America**

Founded in 1977, the Cato Institute is a public policy research foundation dedicated to broadening the parameters of policy debate to allow consideration of more options consistent with the traditional American principles of limited government, individual liberty, free markets, and peace. To that end, the Institute strives to achieve greater involvement by the intelligent, concerned lay public in questions of policy and the proper role of government through an extensive program of publications and seminars. (E-mail: [ivasquez@cato.org](mailto:ivasquez@cato.org))

**Center for the Dissemination of Economic Knowledge (CEDICE), Venezuela**

CEDICE is a non-partisan, non-profit, private association dedicated to the dissemination, research, and promotion of philosophical, economic, political, and social thinking that focuses on individual initiative and activities conducive to a better understanding of the free market system and free and responsible societies. CEDICE carries out a variety of activities and programs to meet its objectives, including operating a library and bookstore, researching and writing the *Venezuela Today* series and other studies, conducting economic training for journalists, and offering special events and community programs. (E-mail: [hfarria@newton.iesa.edu.ve](mailto:hfarria@newton.iesa.edu.ve))

**Center for the New Europe, Belgium**

The Center for the New Europe is a European research institute based in Brussels. It aims to promote the advancement of a market-oriented economy, personal liberty, and creativity and responsibility in an ordered society. CNE is founded on the belief that European integration can work only in a society led by a spirit of democratic capitalism. The Center focuses on developing policy alternatives; encouraging economic growth and deregulation; seeking new market-based solutions for social and environmental concerns; and promoting individual freedom, choice and responsibility.

**Center for Policy Research, Sri Lanka**

The Center for Policy Research (CPR) is a non-partisan advocacy and policy research institute dedicated to fostering democracy and promoting free enterprise. As part of its philosophy, CPR actively takes positions on critical policy reform issues and aggressively lobbies key decision-makers in the country. (E-mail: [mmoragoda@eureka.lk](mailto:mmoragoda@eureka.lk))

**The Center for Research and Communication, Philippines**

The Center for Research and Communication (CRC), which started operations in 1967, conducts research and publishes works on domestic and international economic and political issues, focusing on the Asia-Pacific region. It provides fora for discussion and debate among academicians, businessmen, civil officials, and representatives of other sectors that help shape public opinion and chart the course of policies. CRC, which is the main research arm of the University of Asia and the Pacific in Metro Manila, Philippines, also currently serves as the Secretariat of the Asia Pacific Economic Cooperation (APEC) Business Advisory Council. (E-mail: [hbasilio@info.com.ph](mailto:hbasilio@info.com.ph))

**Centre for Civil Society, India**

The Centre for Civil Society is an independent, non-profit, research and educational organization devoted to improving the quality of life for all citizens of India by reviving and re-invigorating civil society. The focus on civil society enables one to work from both directions; it provides a “mortar” program of building or rebuilding the institutions of civil society and a “hammer” program of readjusting the size and scope of the political society. Both programs are equally critical and must be pursued simultaneously. Weeds of the political society must be uprooted and seeds of a civil society must be sown. The Centre was inaugurated on August 15, 1997, signifying the necessity of achieving economic, social, and cultural independence from the Indian state after attaining political independence from an alien state.

The Centre conducts Monthly Dialogues on topical issues to introduce classical liberal philosophy and market-based solutions into public debate. It has published *Agenda for Change*, a volume in 17 chapters that outlines policy reforms for the Indian government, Israel Kirzner's *How Markets Work*, and *Self-Regulation in the Civil Society*, edited by Ashok Desai. It organizes Liberty and Society seminars for college students and journalists. (Email: parth@ccsindia.org; website: www.siliconindia.com/civil)

**Centro de Investigacion y Estudios Legales (CITEL), Peru**

CITEL was organized in 1989. Its principal field is the economic analysis of law. To that end, it conducts research on different legal institutions, publishes books, and organizes seminars and colloquia. (E-mail: eghersi@computextos.com.pe)

**Centro de Investigaciones Académicas (CIVILIZAR), Colombia**

The Centro de Investigaciones Académicas is a private, non-profit economic and social research organization. Established in 1996, the Centro is affiliated with the Sergio Arboleda University of Bogota. It is dedicated to the scientific study of economic and social topics. It defends individual liberty, which it recognizes as a basic principle to guide programs of research and education. The Centro supports research and publishes studies on economic, social, and legal issues in order to promote Colombian economic growth and human development. (E-mail: usa5008@latino.net.co)

**Centro de Investigaciones Económicas Nacionales, Guatemala**

CIEN, the Center for Research on the National Economy, was established in Guatemala in 1982. It is a private, non-partisan, not-for-profit public policy institute, funded by the sale of its books and periodical publications, income from conferences and seminars, and the support it receives from its members and the public. The Center's program is devoted to the technical study of economic and social problems that need to be resolved to promote the stable development of the nation. Its members, staff, research associates and supporters share the principles of a social order of free and responsible individuals interacting through a market economy functioning within the rule of law. (E-mail: curizarh@cien.org.gt)

**Centro de Investigaciones sobre la Libre Empresa, A.C., Mexico**

The Centro de Investigaciones Sobre la Libre Empresa (CISLE) is a non-profit, educational and public policy organization founded in 1984. Its aim is to defend and promote the ideals of free trade and free enterprise in all areas of society, and it maintains that the fundamental source of well-being and the wealth of nations is a sound institutional order that guarantees competition, private ownership, and open markets. CISLE's activities are financed by a select group of generous donors. (E-mail: Ceninves@mail.infolatina.com.mx)

**Centrum im. Adama Smitha, Poland**

The Centrum im. Adama Smitha, Poland (the Adam Smith Research Centre) is a private, non-partisan, non-profit public-policy institute. It was founded in 1989 and was the first such institute in Poland and in Eastern Europe. The ASRC is devoted to the furtherance of a free and fair market economy, participatory democracy, and virtuous society. Its activities in research and development, education, and publishing cover almost all important issues within the areas of economy and social life. The ASRC acts as a guardian of economic freedom in Poland. More than 50 experts are associated with the ASRC. (E-mail: adam.smith@adam-smith.pl; website: <http://www.adam-smith.pl>)

**The Edmund Burke Institute, Ireland**

The Edmund Burke Institute is a non-profit and non-political organization that believes that Ireland's political, academic, and cultural leaders have failed to draw the natural conclusions from the collapse of state



socialism and the growth of free-market ideas across the industrialized and developing world. It believes that these ideas are directly relevant to Ireland, and that hostility towards free markets and individual freedom needs to be challenged by an institution that promotes debate and discussion about the role of the state in our lives. (E-mail: Paul.MacDonnell@msc.ie; internet: www.his.com/~chyden/ebi)

### **The Estonian Institute for Open Society Research**

The Estonian Institute for Open Society Research was established in 1993 as an independent non-profit public policy research institute. EIOSR's research and public communication programs focus on the key issues of Estonian social and political development: building a free-market economy and open civil society; enhancing social stability and integration of minority groups; and promoting Estonia's integration into European and world structures. EIOSR's first effort was the Estonian translation of Milton Friedman's book, *Capitalism and Freedom*, in early 1994. Current EIOSR projects include promoting the idea of philanthropy to local businesses and elaborating future scenarios concerning the integration of the Russian minority into Estonian society. (E-mail: volli@lin2.tpu.ee)

### **The F.A. Hayek Foundation, Slovak Republic**

The F.A. Hayek Foundation is an independent, non-profit organization that brings together social scientists, business people, and policy makers to exchange their ideas on economic, social, political, and other issues. It provides practical reform proposals for the transition of economics, health, education, social welfare, retirement and legislative systems. The F.A. Hayek Foundation established a tradition that was virtually absent in Slovakia until 1989—the tradition of liberal thinking and its further cultivation in order to demonstrate market-economy solutions as alternatives to collectivist policies. The Foundation promotes the following liberal ideals: limited government, a free-market economy, and an open society based on the concept of individual choice and personal responsibility. (E-mail: oravec@cenezu.sk)

### **The Fraser Institute, Canada**

The Fraser Institute is an independent Canadian economic and social research and educational organization. It has as its objective the redirection of public attention to the role of competitive markets in providing for the well-being of Canadians. Where markets work, the Institute's interest lies in trying to discover prospects for improvement. Where markets do not work, its interest lies in finding the reasons. Where competitive markets have been replaced by government control, the interest of the Institute lies in documenting objectively the nature of the improvement or deterioration resulting from government intervention. The work of the Institute is assisted by an Editorial Advisory Board of internationally renowned economists. The Fraser Institute is a national, federally chartered, non-profit organization financed by the sale of its publications and the tax-deductible contributions of its members. (Email: info@fraserinstitute.ca; website: www.fraserinstitute.ca)

### **The Free Enterprise Commission, Panama**

The Free Enterprise Commission is a working group within the Panamanian Association of Executives (APEDE). APEDE is a non-partisan, non-profit association dedicated to the improvement of entrepreneurship, management, and the development of the individual in a free society. As such, APEDE invests a good part of its efforts in education and individual liberties. (E-mail: diabolito@pty.com)

### **The Free Market Foundation of Southern Africa**

The Free Market Foundation of Southern Africa was established in 1975 to promote economic freedom. The FMF sponsors and conducts research, conferences, lectures, training programs and lobbying efforts in support of the free market. Its funding comes from membership subscriptions, project sponsorships, and income from sales and fees. (E-mail: fmf@jhb.lia.net)

### **Fundación Economía y Desarrollo, Inc., Dominican Republic**

The Fundación Economía y Desarrollo, Inc. (FEyD) is a private non-profit organization dedicated to fostering the principles of competitive markets, private enterprise, strategies that promote economic development. To meet its objectives, FEyD has several regular publications in the most important newspapers in the country. It also produces a weekly television program called “Triálogo,” a one-hour program that is broadcast three times a week, and elaborates numerous studies related to the performance of the Dominican economy and its sectors. (E-mail: feyd03@tricom.net)

### **Fundacion Libertad, Democracia y Desarrollo, Bolivia**

The Fundacion Libertad, Democracia y Desarrollo (FULIDED), is a non-profit organization founded by a group of citizens interested in promoting democracy and freedom. The Foundation has the purpose of investigating, analyzing, and disseminating issues of national priority, keeping in mind that economic, political, and social topics are of great importance in strengthening the free market and private initiative, within the ideal of an open, pluralist, and honest society. Through seminars, debates, and publications, FULIDED seeks to create a climate of opinion reflecting Bolivia’s participation in the global economy. (E-mail: fulided@cainco.org.bo)

### **Gruppo Giovani Imprenditori and Centro Luigi Einaudi, Italy**

The Gruppo Giovani Imprenditori dell’Unione Industriale di Torino was founded in 1959. It is composed of 300 entrepreneurs and managers under the age of 40. A member of the Confederation of Italian Industry, it has always been on the forefront of the liberalization of the Italian economy.

Established in 1963, the Centro di Ricerca e Documentazione “Luigi Einaudi” is one of Italy’s most influential independent think tanks. Its aim is to further free-market policies and personal freedom, to promote leaner government, and to enhance political pluralism. (E-mail: grusso@iol.it)

### **Hong Kong Centre for Economic Research**

The Hong Kong Centre for Economic Research is an educational, charitable trust established in 1987 to promote public understanding of economic affairs and to develop alternative policy choices for government with the aim to promote the free market in Hong Kong. The Centre publishes and promotes authoritative research studies to achieve its goals. It is widely recognized as the leading free-market think-tank in Asia and has been influential in persuading public opinion and the government to liberalize telecommunications, open up air-cargo handling franchises, privatize public housing, adopt a fully funded provident scheme instead of a pay-as-you-go pension scheme, remove legally sanctioned, deposit interest-rate fixing among banks, adopt market mechanisms for protecting the environment, and other public-policy measures in Hong Kong. (E-mail: asiu@econ.hku.hk)

### **Institute for Advanced Strategic and Political Studies, Israel**

The mission of the Institute for Advanced Strategic and Political Studies is the development of policies in economics, strategic studies, and politics, directed toward the understanding and realization of limited government in domestic affairs and the balance of power in strategic planning. The Institute’s Division for Economic Policy Research (DEPR) produces *Policy Studies* in both English and Hebrew, while the Division for Research in Strategy and Politics produces one series of documents in strategic studies, and another series in politics. (E-mail: iaspsdc@aol.com)

### **The Institute for Economic Freedom, Bahamas**

The Institute for Economic Freedom is an independent non-political, non-profit Bahamian institute that promotes economic growth, employment and entrepreneurial activity. It believes that this can best be achieved with a free market economy and a decent society—one that embraces the rule of law, the right

of private property, the free exchange of property and services, and the individual virtues of self-control, commitment, and good will. (E-mail: joanmt@bahamas.net.bs)

**Institute for Economy and Politics (IWIP), Austria**

IWIP is an affiliate institute of the Federation of Austrian Industry. Its duty is to give objective information to the general public about the economy, politics, and culture. It supports a social free market economy and protection of the environment. IWIP organizes meetings, workshops, symposiums, and lectures, and is editor of *Conturen*, a quarterly magazine aimed at the liberal and critical reader who is interested in diverse discussions about the economy, politics, and culture. (E-mail: e.bendl@iv-net.at)

**Institute for Market Economics, Bulgaria**

Established in 1993, IME is the first independent economic think tank in Bulgaria. It is a private, registered, non-profit corporation with a mission to elaborate and advocate market approaches to the problems Bulgaria is facing in its transition to a market economy, thus supporting market reforms. IME's objectives are to provide the following: independent assessment and analysis of the government's economic policies; a focal point for an exchange of views on market economics and relevant policy issues; and an internationally supported Bulgarian think-tank that is widely respected for its expertise. (E-mail: svetla@ime.bg)

**The Institute of Economic Affairs, England**

The IEA's mission is to improve public understanding of the foundations of a free and harmonious society by expounding and analyzing the role of markets in solving economic and social problems, and bringing the results of that work to the attention of those who influence thinking. The IEA achieves its mission by a high quality publishing program; conferences, seminars and lectures on a range of subjects; outreach to school and college students; brokering media introductions and appearances; and other related activities. Incorporated in 1955 by the late Sir Antony Fisher, the IEA is an educational charity, limited by guarantee. It is independent of any political party or group, and is financed by sales of publications, conference fees, and voluntary donations. (E-mail: editor@iea.org.uk)

**The Institute of Economic Affairs, Ghana**

The Institute of Economic Affairs (IEA) Ghana is an independent, non-governmental institution dedicated to the establishment and strengthening of a market economy and a democratic, free, and open society. The IEA was founded in October 1989. It considers improvements in the legal, social, and political institutions as necessary conditions for sustained economic growth and human development. The IEA supports research, and promotes and publishes studies on important economic socio-political and legal issues in order to enhance understanding of public policy. (E-mail: iea@ghana.com)

**Institute of Economic Analysis, Russia**

The Institute of Economic Analysis is a macroeconomic research institute designed to: analyze the current economic situation and policies; provide expert analysis of acts, programs, and current economic policy; consult Russian government bodies, enterprises, and organizations; prepare and publish scientific, research and methodological economic literature; and conduct seminars, conferences, and symposia on economic topics. The Institute is an independent, non-governmental, non-political, non-profit research centre that works closely with leading Russian and international research centres. Its research focuses on macroeconomic, budget, and social policy. (E-mail: ieamos@glasnet.ru)

**Institute of Economic Studies, Iceland**

The Institute of Economic Studies was founded in 1989. It operates within the Department of Economics in the Faculty of Economics and Business Administration at the University of Iceland. From the outset, the Institute has been active in carrying out applied research projects commissioned by a great

variety of private and public clients ranging from small Icelandic interest groups to the Nordic Investment Bank to the governments of Iceland, Denmark, and the Faroe Islands. More recently, funded by research grants, the Institute has put greater emphasis on large-scale applied research projects with substantial analytical content and economic research. (E-mail: tthh@rhi.hi.is)

### **The Institute of Economics, Croatia**

The Institute of Economics, Zagreb, established in 1939, is a major scientific and research institution devoted to the study of economic processes and the application of contemporary achievements in economics. The Institute's objective is the economic and social advance of Croatia. Research encompasses both macro-economics and micro-economics, policy issues, including more specialized areas such as business economics; current economic trends, and policies; methods of economic analysis, development of human resources; spatial and regional economics, international economics and technological development, and investment project planning. The Institute engages researchers from both inside and outside the Institute, who work together on research projects. The Institute employs 40 full-time researchers, the majority of whom have completed specialized training courses in foreign countries. Results of the Institute's research activities are published in a considerable number of books, separate reports and studies, and in scientific journals. Close ties are maintained with various specialized international organizations and professional associations and with a number of institutes and universities. (E-mail: zbaletic@eizg.hr)

### **Institute of Macroeconomic Analysis and Development, Slovenia**

The Institute of Macroeconomic Analysis and Development (IMAD) is a part of the Ministry of Economic Relations and Development. It plays the key analytical role in preparation of annual memoranda on economic policy and it coordinated the preparation of the Strategy of Economic Development of Slovenia and its Strategy for Accession to the European Union. Its activities also include current analyses of macroeconomic trends and of social, regional, and institutional development; simulations and evaluations of economic and developmental measures; development of methodological tools and information systems. In order to fulfill its tasks, the Institute has around 50 employees, two-thirds of whom are specialists. Its publications, *Slovenian Economic Mirror* and its Spring and Autumn Reports are translated into English and distributed to a large international audience. IMAD also publishes the international *Journal for Institutional Innovation, Development, and Transition* (IB Review) and organizes an annual conference on the general topic of Institutions in Transition. (E-mail: rotija.kmet@gov.si)

### **Institute of Public Affairs, Australia**

Established in 1943, the IPA is Australia's oldest and largest private-sector think-tank. Its aim is to advance the interests of the Australian people. Those interests include prosperity and full employment, the rule of law, democratic freedoms, security from crime and invasion, high standards in education and family life. To identify and promote the best means of securing these values, the IPA undertakes research, organizes seminars, and publishes widely. (E-mail: ipa@ipa.org.au)

### **Instituto Ecuatoriano de Economía Política, Ecuador**

The Instituto Ecuatoriano de Economía Política (IEEP) is a private, independent, non-profit institution. Its mission is to defend and promote the classical liberal ideals of individual liberty, free markets, limited government, property rights, and the rule of law. The IEEP achieves its mission through publications, seminars, and workshops that debate socio-economic and political issues. The IEEP's funding comes from voluntary donations, membership subscriptions, and income from sales of its publications. (E-mail: dampuero@ecua.net.ec)

### **Instituto Liberal do Rio de Janeiro, Brazil**

Instituto Liberal is a non-profit institution supported by donations and the sponsorship of private individuals and corporations. Its by-laws provide for a Board of Trustees as its supreme body, and forbid

any political or sectarian affiliations. Its principal objective is to *persuade Brazilian society of the advantages of a liberal order*. To attain this goal the institute publishes books, organizes seminars, and elaborates policy papers on subjects related to public policy. (E-mail: [ilrj@gbl.com.br](mailto:ilrj@gbl.com.br))

### **Instituto Libertad y Desarrollo, Chile**

Libertad y Desarrollo is a private think-tank committed to free market ideas and devoted to research, study, and analysis of public policy issues inspired by political and economic freedom. Libertad y Desarrollo is wholly independent of any religious, political, financial, or governmental groups. (E-mail: [ega@chilesat.net](mailto:ega@chilesat.net))

### **Instituto para la Libertad y el Analisis de Politicas, Costa Rica**

The Institute for Liberty Public Policy Analysis (INLAP) is a non-profit, non-partisan organization, created to defend and promote all aspects of individual liberty through public-policy analysis and educational activities. Its specific objectives are (1) to increase awareness of the moral foundations of liberty and to promote liberty as an individual right without which it is impossible to achieve the highest levels of economic and human development and (2) to foster changes in social organization and public policies by influencing the thinking of policy makers, community leaders and citizens at large.

INLAP produces timely analyses of proposed laws, decrees, and regulations, and its specific recommendations provide insight and guidance for elected officials who seek to achieve the goals of greater individual liberty and creativity and a more productive economy. Detailed studies of public policies that have adverse moral or economic effects are published as study materials for academics and others interested in learning the effects of well-meaning but harmful public policies. These studies and recommendations are published in books and technical journals, as position papers and bulletins, as articles in newspapers and magazines, and via the Internet. (E-mail: [riggo@attglobal.net](mailto:riggo@attglobal.net))

### **The Korea Center for Free Enterprise**

The Center for Free Enterprise (CFE) is a foundation committed to advancing guiding principles such as free enterprise, limited government, freedom and individual responsibilities, the rule of law and restraint of violence. The CFE was inaugurated as a non-profit, independent foundation funded by the members of the Federation of Korean Industries (FKI) on April 1, 1997, when woes over an economic crisis began seriously to plague Korean society. The CFE has concentrated its efforts on championing the principles of a free economy through books and reports on related ideas, philosophies, public policies, statistics and analyses. By holding occasional workshops and policy forums, the CFE has striven to put forward policy alternatives to proposed solutions for pending issues facing the Korean society. (E-mail: [yooys@cfe.org](mailto:yooys@cfe.org))

### **Liberales Institut, Germany**

The Liberales Institut (Liberty Institute) is the think-tank of the Friedrich-Naumann-Foundation. Based in Berlin and Königswinter, the Institute devotes itself to spreading classical liberal and free-market ideas through the publication of classical liberal literature, the analysis of current political trends, and the promotion of research. By organizing conferences and workshops, the Institute tries to stimulate an intellectual exchange among liberals around the world. (E-mail: [LibInst@aol.com](mailto:LibInst@aol.com))

### **Liberales Institut, Switzerland**

The Liberales Institut provides a platform where the basic values and concepts of a free society can be discussed and questioned. The Institute's aim is the establishment of free markets, not simply for the sake of having free markets but because they are the best way towards our real goals: openness, diversity, and autonomy. The Liberales Institut is not associated with any political party. Through publications, discussion fora, and seminars, the Institute seeks to foster the development and dissemination of classical liberal ideas. (E-mail: [libinst@bluewin.ch](mailto:libinst@bluewin.ch))

### **Liberální Institut, Czech Republic**

The Liberal Institute is an independent, non-profit organization for the development and application of liberal ideas and programs based on the principles of classical liberalism. The Liberal Institute's activities are based on the recognition of the following: each individual has inalienable rights, and the individual's life is valuable; the principle of voluntary action applies in all human activity; the institutions of private property, contract, and the rule of law are essential in the protection of human rights; self-regulating markets, free trade, and a clearly defined government sphere are crucial factors for the development of any society. The Liberal Institute is financed by funds realized from its various activities and by donations from individuals and private corporations. (E-mail: [michal.uryc@libinst.cz](mailto:michal.uryc@libinst.cz))

### **Lithuanian Free Market Institute, Lithuania**

The Lithuanian Free Market Institute (LFMI) is an independent, non-profit, organization founded in 1990 to promote the ideas of economic liberalism based on the principles of individual freedom and responsibility, free markets, and limited government. The LFMI's staff pursues this mission by exploring key issues of economic policy, developing conceptual reform packages, drafting and evaluating legislation, and submitting policy recommendations at the legislative and executive levels, and launching public educational campaigns. LFMI's activities also include sociological surveys, publications, conferences, workshops, and lectures. Since its inception, LFMI has addressed a variety of core issues confronting the economic reform process: it promoted the idea of a currency board and provided decisive input to the Law on Litas Credibility, led the creation of the legal and institutional framework for the securities market, and initiated the policy-making process on private pension insurance through pension funds. LFMI's recommendations were adopted in legislation on commercial banks, the Bank of Lithuania, privatization, credit unions, insurance, and foreign investment. LFMI influenced strongly the improvement of company and bankruptcy law. The Institute has also developed a conceptual proposal for tax and budget reform and proposals from LFMI were adopted in policy debates on income taxation, real estate tax, and inheritance and gift taxes. Recently, LFMI has initiated a business deregulation process. (E-mail: [vaida@lrinka.lt](mailto:vaida@lrinka.lt))

### **Making Our Economy Right (MOER), Bangladesh**

MOER champions free-market concepts and the freedom of the individual. MOER was founded in 1991, a period that saw the downfall of the communist empire across the globe as well as the fall of Bangladesh's own nine-year military dictatorship. Bangladesh is still a fully statist society where politicians promise jobs and economic development but are unaware that the function of the state and the government is merely to protect individual freedom, liberty, life, property, and the national geographic boundary. Today, in 1998, there are no dramatic changes towards free-market individualism in Bangladesh but MOER continues its work, writing in the national newspapers and translating free-market literature into Bangla. MOER solicits international support and cooperation in its efforts to liberalize Bangladesh's economy fully and thereby to democratize Bangladesh society. The use of the Internet has been tremendously helpful in our work and we are thankful for the support of the Atlas Economic Research Foundation. (E-mail: [nizam@moer.org](mailto:nizam@moer.org); website: <http://www.atlas-fdn.org/moer>)

### **The New Zealand Business Roundtable**

The New Zealand Business Roundtable is an organization of chief executives of about 60 of New Zealand's largest business organizations. Its aim is to contribute to the development of sound public policies that reflect New Zealand's overall interests. It has been a prominent supporter of the country's economic liberalization reforms. (E-mail: [100405.1547@compuserve.com](mailto:100405.1547@compuserve.com))

### **Szazadveg Institute, Hungary**

The Szazadveg Institute is a non-profit organization performing political and economic research, advisory and training activities. This think-tank is independent of the government or any political parties

and has been operating as a foundation since its establishment in 1990. Szazadveg endeavours to publish its research results in specific professional and academic areas to the public at large as well as to render professional services in order to support the preparation of decisions by economic institutions, political and civil organizations, political parties, and the government. (E-mail: stumpf@bsp.mtapti.hu)

### **Timbro, Sweden**

Timbro is a Swedish free-enterprise think-tank. Its goal is to mould public opinion favourably toward free enterprise, a free economy, and a free society. Timbro publishes books, papers, reports, and the magazine *Smedjan*. It also arranges seminars and builds human networks. Founded in 1978, Timbro is owned by the Swedish Free Enterprise Foundation, which has as its principals a large number of Swedish companies and organizations. (E-mail: mattiasb@timbro.se)

### **The Ukrainian Center for Independent Political Research**

The Ukrainian Center for Independent Political Research was established in early 1991 as a non-profit, non-partisan, and non-governmental research institution. Its purpose is to enhance the awareness of the Ukrainian people of democracy and to further the analytic research of Ukrainian domestic and international politics and security. The UCIPR is politically independent; it does not accept any funding from either the state or any political party. The UCIPR publishes books and research papers on Ukraine's domestic and foreign policy issues, economy in transition, security doctrine, relations with neighbouring states, the Crimean dilemma, inter-ethnic relations, and media freedom, and so on. The Center has hosted a number of national and international conferences and workshops on the above issues. (E-mail: kam@political.kiev.ua)

**D'Letzeburger Land, Luxembourg** (letzlan@pt.lu); **Fundación del Orden Social de la Libertad, Argentina** (E-mail: libertad@twoer.com.ar); **The Institute for Development of Economics and Finance, Indonesia** (E-mail: indef@indo.net.id); **Liberty Network (LINE), Denmark** (E-mail: psj@line.dk); and **Bureau d'Analyse d'Ingenierie et de Logiciels (BAILLO), Ivory Coast** (e-mail: bailo@globeaccess.net) are also members of the Economic Freedom Network; descriptions of their activities will be included in the next issue of *Economic Freedom of the World*.





**Economic Freedom of the World  
2000 Annual Report**



## EXECUTIVE SUMMARY

- The index presented in this report represents a continuation of our efforts to develop an objective measure of economic freedom. Ratings are presented for 57 nations in 1970, 83 in 1975, 107 in 1980, 111 in 1985, 115 in 1990, 122 in 1995, and 123 in 1997. This is the first publication to present ratings for 1970. Although more recent data are available for some components, we present 1997 data mainly because the data for that year are virtually complete.
- The summary index is based on 23 components designed to identify the consistency of institutional arrangements and policies with economic freedom in seven major areas. The seven areas covered by the index are: (I) size of government, (II) economic structure and use of markets, (III) monetary policy and price stability, (IV) freedom to use alternative currencies, (V) legal structure and security of private ownership, (VI) freedom to trade with foreigners, and (VII) freedom of exchange in capital markets. Principal component analysis was used to combine the component ratings into area ratings and the area ratings into a summary rating. See Exhibit 1 for a list of the components that make up the index. Appendix 2 contains explanatory notes and data sources for all the components used in the calculation of the index.
- In 1997, the most recent year for which we had complete data, Hong Kong and Singapore shared the top ranking with an economic freedom rating of 9.4 on a scale of 10. New Zealand, the United States, and the United Kingdom were next on the list; these were the five freest economies in the world. Other countries ranking near the top of the list were Ireland, Canada, Australia, Netherlands, Luxembourg, and Switzerland.
- The least free economies in 1997 were (in order from the bottom of the list) Myanmar, Democratic Republic of Congo, Sierra Leone, Rwanda, Madagascar, Guinea-Bissau, Algeria, Burundi, Republic of Congo, Central African Republic, and Albania. See Exhibit 2 for the complete presentation of the summary ratings for 1997 ranked from highest to lowest. Exhibit 3 presents the summary ratings from 1970 to 1997 alphabetically. Appendix 1 reports the Area ratings for the period from 1970 to 1997.
- A number of Latin American countries have achieved dramatic improvements in both ratings and rankings during the 1990s. Peru, Nicaragua, Argentina, El Salvador, and Dominican Republic all improved their ratings by at least 2 points. The improvement in rankings was even more dramatic. For instance, Argentina went from 71<sup>st</sup> to 12<sup>th</sup> place.
- Among eastern European nations, Russia, Hungary and Poland have made measured improvements in economic freedom. The Czech Republic, however, has seen its rating stagnate since the mid-1990s.
- This report also presents several bar charts linking the economic freedom summary rating with various measures of economic and social welfare. For instance, Exhibit 4 shows that the nations in the top quintile of the ranking for

economic freedom produce a per-capita income of over \$18,000; those in the bottom quintile produce a per-capita income under \$2000. Exhibit 7 shows a 20-year difference in life expectancy between the top and bottom quintiles. See Exhibits 4 through 8 for more details.

- Country Reports have been written for 65 countries. These reports present a bar chart with the country's summary economic-freedom rating and ranking, a bar chart with total government expenditures as a share of GDP, and a written summary of the country's economic freedom performance and prospects.
- Country Data Tables have been constructed that show, for years 1970, 1975, 1980, 1985, 1990, 1995, and 1997, the component ratings (and often also the raw data), the area ratings, and the summary ratings and rankings of all countries evaluated. These data are also available to researchers upon request or can be retrieved from the website [www.freetheworld.com](http://www.freetheworld.com).
- Appendix 3 lists some of the many academic books, articles, and studies that have used the various editions of *Economic Freedom of the World* as source material.

## INTRODUCTION

*Economic Freedom of the World: 2000 Annual Report* is our latest, most detailed attempt to construct a useful indicator of economic freedom for the nations of the world. More than a decade ago, Michael Walker, the Executive Director of The Fraser Institute of Vancouver, British Columbia, and Nobel laureate Milton Friedman organized a series of conferences with the objective of clearly defining and measuring economic freedom. They were able to attract some of the world's leading economists including Gary Becker, Douglass North, Peter Bauer, and Assar Lindbeck to participate in the series and provide input for the study. These conferences eventually led to the publication of *Economic Freedom of the World: 1975–1995* (James Gwartney, Robert Lawson, and Walter Block, eds.) and the organization of the Economic Freedom Network, a collection of over 50 institutes in as many countries. Collectively these institutes assist in the production of each edition of *Economic Freedom of the World* and share our goal of developing the best possible measure of economic freedom. In 1997, we published *Economic Freedom of the World: 1997 Annual Report*, and last year *Economic Freedom of the World: 1998/1999 Interim Report*.<sup>1</sup>

In his foreword to *Economic Freedom of the World: 1975–1995*, Milton Friedman indicated that the indexes presented in that publication had brought the quest for an objective measure of economic freedom to a “temporary conclusion.” Amplifying this statement, Professor Friedman indicated that subsequent studies would “surely make revised editions necessary, both to bring the indexes of economic freedom up-to-date and to incorporate the additional understanding that will be generated.” The measures developed in this publication are indicative of this evolutionary process. They reflect improved knowledge about how to measure economic freedom and the

development of a more complete data set for the achievement of that purpose. They represent movement to a new level.

The core ingredients of economic freedom are personal choice, protection of private property, and freedom of exchange. Individuals have economic freedom when: (a) their property acquired without the use of force, fraud, or theft is protected from physical invasions by others and (b) they are free to use, exchange, or give their property to another as long as their actions do not violate the identical rights of others. Like a compass, this concept of economic freedom has directed our work.

## METHODOLOGY OF THE INDEX

From the very beginning, our goal was the development of an objective measure of economic freedom rather than an index based on subjective assessments and “judgment calls.” Therefore, the foundation of our index is a range of objective components that reflect the presence (or absence) of economic freedom. These components can be derived for a large number of countries from regularly published sources. This will make it possible both to calculate the index for earlier time periods and to update it regularly. We also wanted to combine the components into a summary index in a sound, objective manner. The measures presented in this report are an additional step in this direction. They are more comprehensive and based on more complete data than any prior measure of economic freedom; and they use value-free statistical procedures. Still, they are transparent. It is easy to see precisely how the various indexes are constructed, what data they reflect, and which factors produce rating differences across countries and time periods.

As Exhibit 1 illustrates, the index comprises 23 components designed to identify how consistent institutional arrangements and policies in seven major areas are with economic freedom. The seven areas covered by the index are: (I) size of government, (II) economic structure and use of markets, (III) monetary policy and price stability, (IV) freedom to use alternative currencies, (V) legal structure and security of private ownership, (VI) freedom to trade with foreigners, and (VII) freedom of exchange in capital markets.

Areas I and II are indicators of reliance on markets rather than the political process (large government expenditures, state-operated enterprises, price controls, and discriminatory taxes) to allocate resources and determine the distribution of income. Areas III and IV reflect the availability of sound money. Area V focuses on the legal security of property rights and the enforcement of contracts. Area VI indicates the consistency of policies with free trade. Area VII is a measure of the degree to which markets are used to allocate capital. Reliance on markets, sound money, legal protection of property rights, free trade, and market allocation of capital are important elements of economic freedom captured by the index. Of course, we recognize that economic freedom is heterogeneous and highly complex. No single statistic will be able to capture fully and accurately its many facets. However, the index outlined in Exhibit 1 does encompass key ingredients of the concept.

Our work on the measurement of economic freedom is an ongoing project. This publication represents an update and refinement of *Economic Freedom of the World: 1998/1999 Interim Report*, in which we altered the structure of the index and added (and in some cases deleted) components. We also changed the methodology for converting raw data to the zero-to-10 index ratings and for generating weights for the summary ratings to a more value-neutral procedure. The *1998/1999 Interim Report* was the subject of the annual meeting of the Economic Freedom Network in Manila, Philippines, in November 1998. We were able to listen to, and reflect upon, many comments made by the representatives of the participating institutes of the Economic Freedom Network and, as a

result, several minor changes were made to this edition of *Economic Freedom of the World*.<sup>2</sup>

We had hoped—and, indeed, still hope—to add an area to this index that measures regulation of the labour market but we have not yet found satisfactory data available on a scale that is wide enough, both geographically and over time, to do so. We have, however, constructed this index back to 1970 to aid in the long-term study of economic freedom. Obviously, the data are less complete in the earlier years than the later years but, nevertheless, we believe this index can become a useful tool in analyzing the impact of economic freedom (or lack thereof) in the longer run.

There are 125 nations included in this study. However, as the result of incomplete data or other factors (e.g., the split up of Czechoslovakia), we were only able to derive summary ratings for 123 countries in 1997, 122 in 1995, 115 in 1990, 111 in 1985, 109 in 1980, 83 in 1975, and 57 in 1970. Data were assembled for each of the 23 components of the index. Since we wanted the ratings to be easily comparable across countries and time periods, they were placed on a scale from zero to 10. Higher ratings are indicative of institutions and policies more consistent with economic freedom.

How were the ratings derived? The ratings for 11 of the 23 components in the index reflect various categorical characteristics; those for the remaining 12 are based on continuous data. Countries with categorical characteristics more consistent with economic freedom are given higher ratings. For example, countries with few government enterprises are given higher ratings than those with widespread use of such enterprises. Similarly, countries where price controls are absent (or apply in only a few markets) are given higher ratings than countries where these controls are extensively applied.

Depending upon whether higher values are indicative of more or less economic freedom, alternative formulas are used to transform the 12 continuous variables into a zero-to-10 scale. When higher values are indicative of more economic freedom, the formula used to derive the zero-to-10

**EXHIBIT 1: COMPONENTS OF INDEX OF ECONOMIC FREEDOM**

<b>I</b>	<b>Size of Government: Consumption, Transfers, and Subsidies</b>	<b>[11.0%]</b>
	A General Government Consumption Expenditures as a Percent of Total Consumption	(50%)
	B Transfers and Subsidies as a Percent of GDP	(50%)
<b>II</b>	<b>Structure of the Economy and Use of Markets</b> ( <i>Production and allocation via governmental and political mandates rather than private enterprises and markets</i> )	<b>[14.2%]</b>
	A Government Enterprises and Investment as a Share of the Economy	(32.7%)
	B Price Controls: Extent to which Businesses Are Free to Set Their Own Prices	(33.5%)
	C Top Marginal Tax Rate ( <i>and income threshold at which it applies</i> )	(25.0%)
	D The Use of Conscripts to Obtain Military Personnel	(8.8%)
<b>III</b>	<b>Monetary Policy and Price Stability</b> ( <i>Protection of money as a store of value and medium of exchange</i> )	<b>[9.2%]</b>
	A Average Annual Growth Rate of the Money Supply during the Last Five Years minus the Growth Rate of Real GDP during the Last Ten Years	(34.9%)
	B Standard Deviation of the Annual Inflation Rate during the Last Five Years	(32.6%)
	C Annual Inflation Rate during the Most Recent Year	(32.5%)
<b>IV</b>	<b>Freedom to Use Alternative Currencies</b> ( <i>Freedom of access to alternative currencies</i> )	<b>[14.6%]</b>
	A Freedom of Citizens to Own Foreign Currency Bank Accounts Domestically and Abroad	(50%)
	B Difference between the Official Exchange Rate and the Black Market Rate	(50%)
<b>V</b>	<b>Legal Structure and Property Rights</b> ( <i>Security of property rights and viability of contracts</i> )	<b>[16.6%]</b>
	A Legal Security of Private Ownership Rights ( <i>Risk of confiscation</i> )	(34.5%)
	B Viability of Contracts ( <i>Risk of contract repudiation by the government</i> )	(33.9%)
	C Rule of Law: Legal Institutions Supportive of the Principles of Rule of Law and Access to a Nondiscriminatory Judiciary	(31.7%)
<b>VI</b>	<b>International Exchange: Freedom to Trade with Foreigners</b>	<b>[17.1%]</b>
	A Taxes on International Trade	
	i Revenue from Taxes on International Trade as a Percent of Exports plus Imports	(23.3%)
	ii Mean Tariff Rate	(24.6%)
	iii Standard Deviation of Tariff Rates	(23.6%)
	B Non-tariff Regulatory Trade Barriers	
	i Percent of International Trade Covered by Non-tariff Trade Restraints	(19.4%)
	ii Actual Size of Trade Sector Compared to the Expected Size	(9.1%)
<b>VII</b>	<b>Freedom of Exchange in Capital and Financial Markets</b>	<b>[17.2%]</b>
	A Ownership of Banks: Percent of Deposits Held in Privately Owned Banks	(27.1%)
	B Extension of Credit: Percent of Credit Extended to Private Sector	(21.2%)
	C Interest Rate Controls and Regulations that Lead to Negative Interest Rates	(24.7%)
	D Restrictions on the Freedom of Citizens to Engage in Capital Transactions with Foreigners	(27.1%)

Note: The numbers in parentheses, *e.g.* (27.1%), indicate the weights used to derive the area rating. The numbers in the brackets, *e.g.* [17.2%], indicate the percentage weight allocated to each area when the summary rating was derived. These weights are derived by principal component analysis.<sup>3</sup>

ratings is:  $(V_i - V_{\min}) / (V_{\max} - V_{\min})$  multiplied by 10.  $V_i$  is the country's actual value for the component,  $V_{\max}$  the maximum value for a country during the 1990 base year, and  $V_{\min}$  the minimum base-year value for the component. This formula is used to derive the ratings for all years. A country's rating will be close to 10 when its value for the component is near the base-year maximum. In contrast, the rating will be near zero when the observation for a country is near the base-year minimum. As the actual values exceed the base-year minimum by larger and larger amounts, ratings will rise from zero toward 10. Whenever the actual value for the component is equal to, or greater than, the base-year maximum, a rating of 10 is assigned. When the actual value is equal to, or less than, the base-year minimum, the rating is zero.

Often times, higher actual values are indicative of less economic freedom. Inflation and size of the transfer sector provide examples. Increases in these variables reflect reductions in economic freedom. When higher values for a component are indicative of less economic freedom, the formula used to derive the zero-to-10 ratings is:  $(V_{\max} - V_i) / (V_{\max} - V_{\min})$  multiplied by 10. This formula will assign higher ratings to countries with actual values closer to the base-year minimum. In some cases, component values of zero represent an ideal—a benchmark that should be required for a rating of 10. For example, a zero mean tariff rate and a zero rate of inflation (perfect price stability) are benchmark outcomes representing maximum economic freedom. When zero represents an ideal benchmark value, this value was included as  $V_{\min}$  in the formula even if no country actually achieved this ideal during the base year. In some cases where extreme component values are present (for example, a 10,000 percent rate of inflation),  $V_{\max}$  is constrained at a level clearly warranting a rating of zero even if this was not the maximum observed value during the base year. If this had not been done, extreme observations would have created such a large range that the ratings would have been concen-

trated near 10. The precise formula used to derive the zero-to-10 ratings for each component is presented in Appendix 2, Explanatory Notes and Data Sources, page 231.

The procedures used to convert the continuous component values to the zero-to-10 ratings have two important characteristics. First, if all (or almost all) countries improve (or regress) with the passage of time, the ratings will reflect the change. Second, the distribution of the country ratings along the zero-to-10 scale reflects the distribution of the actual values among the countries.

Principal-component analysis was used to determine the weight given to each component in the construction of the area index. This procedure partitions the variance of a set of variables and uses it to determine the linear combination—the weights—of these variables that maximizes the variation of the newly constructed principal component. In effect, the newly constructed principal component—an area rating, for example—is the variable that most fully captures the variation of the underlying components. It is an objective method of combining a set of variables into a single variable that best reflects the original data. The procedure is particularly appropriate when several sub-components measure different elements of a principal component. This is precisely the case with our index. Economic theory is a road map indicating components that are likely to capture various elements of a broader area (a principal component). In turn, principal-component analysis indicates the permissibility of grouping components together and the weights most appropriate to combine a set of sub-components into a principal component. In Exhibit 1, the component weights derived by this procedure are shown in parentheses; e.g. (50%). The same procedure was also used to derive the weights for the area components in the construction of what we will refer to as the summary index. In Exhibit 1, the weights for each of the seven areas are shown in bold-face type and enclosed within brackets: e.g. [11.0%].



## ECONOMIC FREEDOM OF THE WORLD, 1970–1997 RATINGS

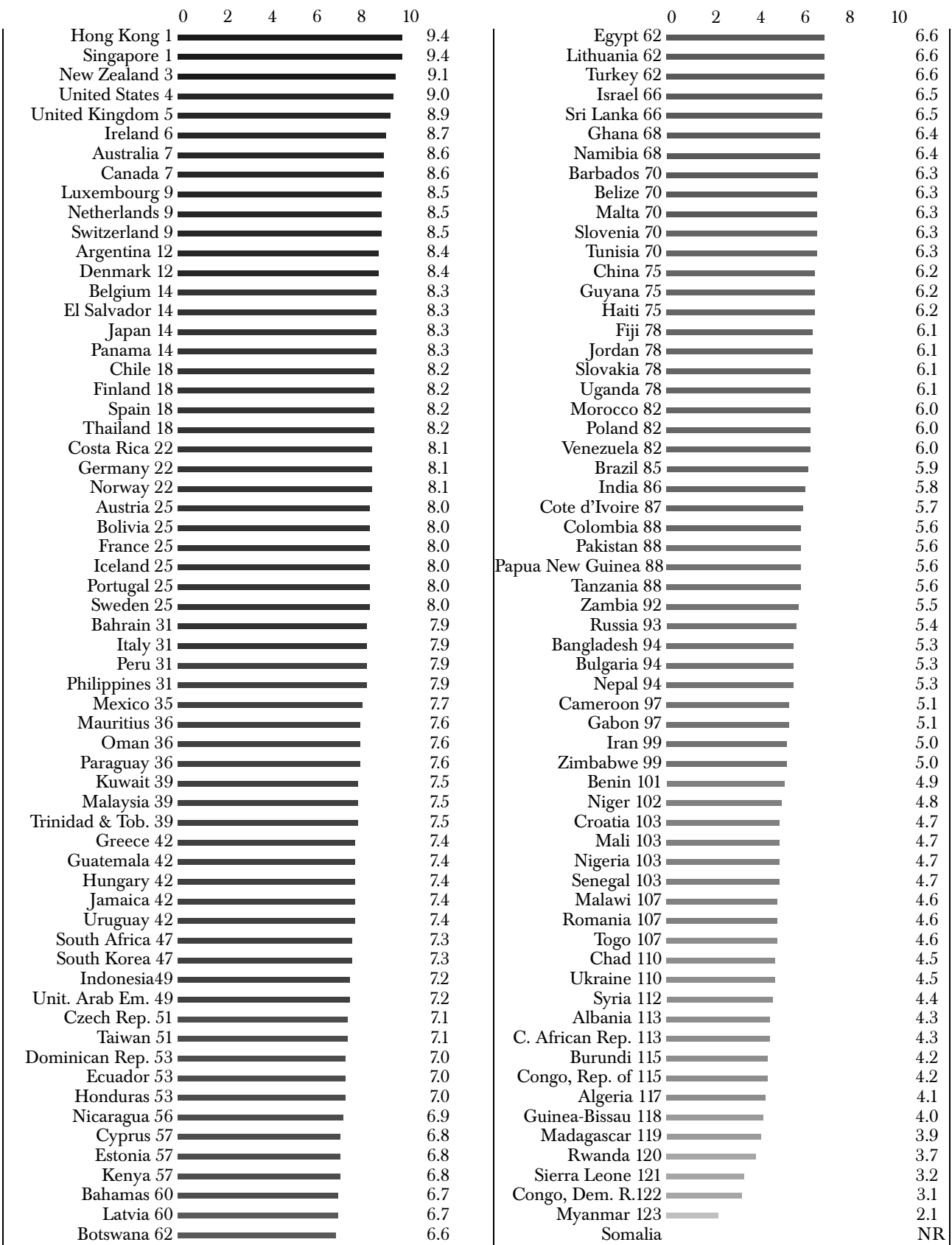
Exhibit 2 shows the area and summary economic freedom ratings for 1997, sorted from highest to lowest.<sup>4</sup> Consistently high-ranking Hong Kong shares the title of freest economy this year with Singapore. Hong Kong has been the top-ranked economy in our study for almost every measurement period (except 1980 when it ranked second). The top five after Hong Kong and Singapore are New Zealand, the United States, and the United Kingdom. Other notable countries (ranks) are: Canada (7), Ireland (6), Chile (18), Japan (14), Sweden (25), South Korea (47), Czech Republic (51), Israel (66), China (75), and Russia (93). Myanmar (formerly Burma) ranks last with a rating of just 2.1

Exhibit 3 shows the summary ratings from 1970 to 1997 as well as the change in summary ratings in the 1990s where data are available. The economic freedom index suggests that economic freedom has been on the increase in almost all countries around the world in the 1990s.

For more information about specific countries please turn to the country report and country data-table sections of this volume. For selected countries, country reports have been written. These reports give a commentary on background information regarding the level of economic freedom in that country and, in some cases, prospects for future changes in economic freedom. The country data-tables contain the underlying component ratings used to calculate the summary ratings for all of the countries.

Appendix 1 shows the ratings for each of the seven areas that combine to form the overall summary ratings for the period from 1970 to 1997. Appendix 2 reports the details of each component's rating methodology and source. Appendix 3 is a listing of selected publications that have utilized the summary ratings from various editions of *Economic Freedom of the World*.

## EXHIBIT 2: ECONOMIC FREEDOM RATINGS, 1997/1998



**EXHIBIT 3: SUMMARY ECONOMIC FREEDOM RATINGS, 1970 TO 1997**

	1970	1975	1980	1985	1990	1995	1997	Change during 1990s
<b>Albania</b>	NR	NR	NR	NR	2.9	5.0	4.3	1.3
<b>Algeria</b>	NR	NR	4.7	4.2	2.7	3.6	4.1	1.4
<b>Argentina</b>	6.6	3.2	4.8	3.8	4.9	7.9	8.4	3.5
<b>Australia</b>	8.1	6.9	7.4	7.8	8.1	8.6	8.6	0.5
<b>Austria</b>	7.2	6.2	6.8	6.9	7.6	7.8	8.0	0.3
<b>Bahamas</b>	NR	6.4	6.0	6.4	6.0	6.2	6.7	0.7
<b>Bahrain</b>	NR	NR	7.6	7.4	7.4	7.9	7.9	0.6
<b>Bangladesh</b>	NR	2.9	2.9	3.3	3.7	4.1	5.3	1.6
<b>Barbados</b>	NR	5.5	5.7	6.2	6.2	6.4	6.3	0.1
<b>Belgium</b>	9.3	7.8	8.0	8.1	8.1	8.2	8.3	0.3
<b>Belize</b>	NR	NR	5.5	5.1	5.3	6.1	6.3	1.0
<b>Benin</b>	NR	5.1	4.9	4.8	5.7	4.7	4.9	-0.8
<b>Bolivia</b>	NR	NR	4.0	4.0	6.5	7.9	8.0	1.5
<b>Botswana</b>	NR	3.9	4.7	5.6	6.0	6.8	6.6	0.7
<b>Brazil</b>	5.6	4.5	4.1	3.2	4.4	5.4	5.9	1.5
<b>Bulgaria</b>	NR	NR	NR	NR	3.8	5.2	5.3	1.5
<b>Burundi</b>	NR	3.2	3.2	4.1	3.9	3.5	4.2	0.4
<b>Cameroon</b>	NR	NR	5.1	5.2	5.5	5.2	5.1	-0.4
<b>Canada</b>	8.1	7.7	8.0	8.2	8.5	8.4	8.6	0.2
<b>Central African Rep.</b>	NR	NR	5.2	4.6	4.4	4.4	4.3	-0.1
<b>Chad</b>	NR	NR	NR	5.2	5.2	5.1	4.5	-0.6
<b>Chile</b>	3.7	3.7	5.9	6.0	7.4	8.2	8.2	0.8
<b>China</b>	NR	NR	3.5	4.4	4.2	5.6	6.2	2.0
<b>Colombia</b>	5.1	4.7	4.6	5.2	5.1	6.4	5.6	0.5
<b>Congo, Dem. Rep.</b>	4.6	3.2	2.7	3.7	3.2	3.2	3.1	-0.1
<b>Congo, Rep. of</b>	NR	NR	5.1	4.4	4.4	4.8	4.2	-0.2
<b>Costa Rica</b>	8.3	7.0	5.6	5.6	7.3	7.8	8.1	0.8
<b>Cote d'Ivoire</b>	NR	NR	4.9	5.4	4.9	5.2	5.7	0.8
<b>Croatia</b>	NR	NR	NR	NR	NR	4.3	4.7	
<b>Cyprus</b>	NR	6.3	5.8	5.8	5.9	6.6	6.8	0.8

	1970	1975	1980	1985	1990	1995	1997	Change during 1990s
<b>Czech Rep.</b>	NR	NR	NR	NR	3.9	6.8	7.1	3.3
<b>Denmark</b>	7.6	6.7	6.8	6.9	7.7	8.1	8.4	0.6
<b>Dominican Rep.</b>	NR	3.9	5.3	5.2	4.1	6.3	7.0	2.9
<b>Ecuador</b>	3.9	5.8	6.0	4.5	5.3	6.7	7.0	1.7
<b>Egypt</b>	NR	4.2	4.1	4.6	4.3	6.0	6.6	2.3
<b>El Salvador</b>	NR	NR	3.7	4.3	5.0	8.0	8.3	3.3
<b>Estonia</b>	NR	NR	NR	NR	NR	6.1	6.8	
<b>Fiji</b>	NR	5.0	5.3	5.4	5.7	6.1	6.1	0.4
<b>Finland</b>	8.1	6.7	7.1	7.4	7.7	8.1	8.2	0.5
<b>France</b>	7.3	6.3	6.3	6.4	7.8	8.1	8.0	0.2
<b>Gabon</b>	NR	NR	3.8	5.2	5.2	5.7	5.1	-0.1
<b>Germany</b>	8.2	7.7	7.8	7.9	8.3	8.2	8.1	-0.1
<b>Ghana</b>	3.3	2.5	2.1	2.6	4.8	6.1	6.4	1.5
<b>Greece</b>	6.3	5.8	5.7	5.2	6.1	6.8	7.4	1.3
<b>Guatemala</b>	6.4	7.3	6.5	5.6	6.5	7.7	7.4	0.9
<b>Guinea-Bissau</b>	NR	NR	NR	NR	3.8	4.1	4.0	0.2
<b>Guyana</b>	NR	NR	NR	4.1	NR	5.9	6.2	
<b>Haiti</b>	NR	NR	5.4	5.7	4.7	4.6	6.2	1.5
<b>Honduras</b>	NR	8.1	5.5	5.5	6.2	6.9	7.0	0.8
<b>Hong Kong</b>	9.4	9.3	9.6	9.3	9.3	9.8	9.4	0.1
<b>Hungary</b>	NR	NR	4.8	4.8	4.9	6.8	7.4	2.5
<b>Iceland</b>	6.4	4.4	5.5	5.7	7.5	8.1	8.0	0.6
<b>India</b>	4.0	3.6	4.3	4.1	4.1	5.0	5.8	1.8
<b>Indonesia</b>	4.8	5.0	5.2	5.9	6.8	7.3	7.2	0.4
<b>Iran</b>	6.2	6.2	3.4	3.4	4.3	3.9	5.0	0.8
<b>Ireland</b>	6.8	6.2	6.6	6.7	7.3	8.6	8.7	1.4
<b>Israel</b>	4.8	4.4	4.0	4.4	4.8	6.3	6.5	1.7
<b>Italy</b>	6.8	5.5	5.5	6.0	7.4	7.5	7.9	0.5
<b>Jamaica</b>	NR	5.0	4.1	5.1	5.7	7.3	7.4	1.7
<b>Japan</b>	7.3	7.0	7.4	7.7	8.3	8.2	8.3	0.0
<b>Jordan</b>	NR	5.6	5.6	6.1	4.9	6.1	6.1	1.2
<b>Kenya</b>	5.0	4.8	4.8	5.1	5.1	6.2	6.8	1.7

	1970	1975	1980	1985	1990	1995	1997	Change during 1990s
<b>Kuwait</b>	NR	NR	5.1	7.1	5.8	7.1	7.5	1.7
<b>Latvia</b>	NR	NR	NR	NR	NR	5.7	6.7	
<b>Lithuania</b>	NR	NR	NR	NR	NR	5.7	6.6	
<b>Luxembourg</b>	9.1	8.8	9.0	9.4	8.3	8.4	8.5	0.2
<b>Madagascar</b>	5.6	4.1	4.1	4.4	3.8	3.9	3.9	0.0
<b>Malawi</b>	NR	5.0	3.9	4.4	4.7	4.1	4.6	-0.1
<b>Malaysia</b>	6.5	6.4	7.1	7.3	7.7	7.6	7.5	-0.2
<b>Mali</b>	NR	4.8	5.3	5.3	5.0	5.1	4.7	-0.2
<b>Malta</b>	6.2	5.6	5.2	5.1	5.2	6.5	6.3	1.1
<b>Mauritius</b>	NR	4.6	4.7	6.4	6.0	7.9	7.6	1.6
<b>Mexico</b>	7.0	5.7	4.9	4.5	6.4	7.4	7.7	1.3
<b>Morocco</b>	5.5	4.9	4.0	4.8	4.6	5.9	6.0	1.4
<b>Myanmar</b>	NR	NR	2.4	2.1	1.3	1.6	2.1	0.9
<b>Namibia</b>	NR	NR	NR	NR	5.2	5.3	6.4	1.2
<b>Nepal</b>	NR	NR	5.4	5.4	4.9	5.2	5.3	0.4
<b>Netherlands</b>	8.6	7.4	7.8	7.8	8.1	8.4	8.5	0.5
<b>New Zealand</b>	7.0	6.0	6.4	6.2	8.1	9.1	9.1	1.0
<b>Nicaragua</b>	NR	7.6	3.7	2.0	2.9	5.7	6.9	4.1
<b>Niger</b>	NR	5.5	5.1	5.0	4.4	4.6	4.8	0.4
<b>Nigeria</b>	4.0	3.8	3.1	3.6	3.6	3.4	4.7	1.0
<b>Norway</b>	7.0	6.1	6.2	6.8	7.7	8.1	8.1	0.4
<b>Oman</b>	NR	NR	6.6	7.5	6.8	7.7	7.6	0.8
<b>Pakistan</b>	3.6	2.9	3.5	4.2	4.4	5.6	5.6	1.2
<b>Panama</b>	NR	7.7	6.7	7.0	6.9	8.1	8.3	1.5
<b>Papua New Guinea</b>	NR	4.6	4.9	6.3	6.0	5.9	5.6	-0.4
<b>Paraguay</b>	NR	NR	6.2	6.0	6.3	7.8	7.6	1.3
<b>Peru</b>	4.7	3.5	3.4	2.3	3.7	7.5	7.9	4.2
<b>Philippines</b>	5.1	4.9	5.1	4.9	5.6	7.7	7.9	2.3
<b>Poland</b>	NR	NR	NR	3.5	4.0	6.4	6.0	1.9
<b>Portugal</b>	5.6	3.4	5.6	5.7	6.4	7.8	8.0	1.7
<b>Romania</b>	NR	NR	NR	3.5	4.2	4.5	4.6	0.5
<b>Russia</b>	NR	1.8	1.8	1.8	1.7	5.0	5.4	3.7

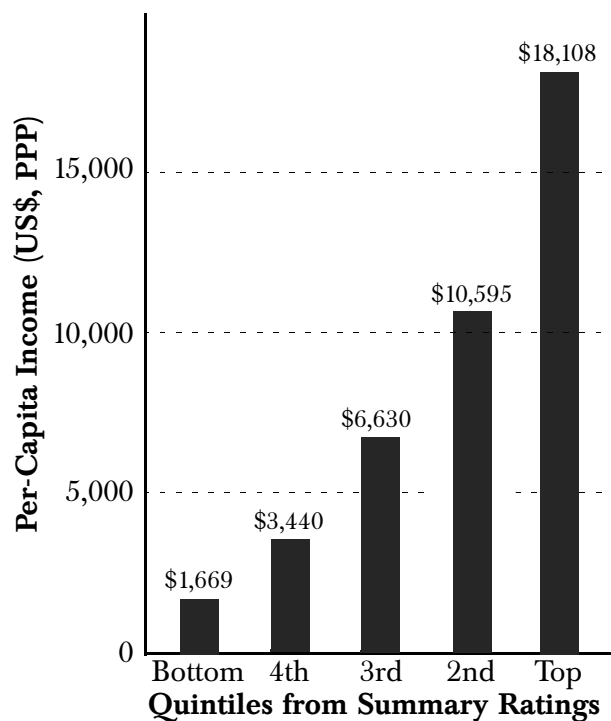
	1970	1975	1980	1985	1990	1995	1997	Change during 1990s
<b>Rwanda</b>	NR	2.1	3.7	NR	3.9	3.9	3.7	-0.1
<b>Senegal</b>	NR	NR	5.0	4.9	5.0	4.2	4.7	-0.3
<b>Sierra Leone</b>	NR	3.9	4.1	3.0	2.9	3.7	3.2	0.3
<b>Singapore</b>	7.7	7.6	8.0	8.4	9.1	9.4	9.4	0.3
<b>Slovakia</b>	NR	NR	NR	NR	3.9	6.2	6.1	2.2
<b>Slovenia</b>	NR	NR	NR	NR	NR	5.6	6.3	
<b>Somalia</b>	NR	NR	NR	3.3	NR	NR	NR	
<b>South Africa</b>	7.6	6.2	6.0	5.6	5.9	6.6	7.3	1.5
<b>South Korea</b>	6.3	5.6	5.7	6.0	6.6	7.7	7.3	0.7
<b>Spain</b>	6.5	5.9	6.2	6.3	7.0	7.9	8.2	1.3
<b>Sri Lanka</b>	NR	NR	4.2	4.8	4.5	6.3	6.5	2.0
<b>Sweden</b>	6.2	6.2	6.3	7.0	7.5	7.9	8.0	0.4
<b>Switzerland</b>	8.9	8.0	8.4	8.7	8.6	8.5	8.5	-0.1
<b>Syria</b>	4.3	5.4	3.5	2.9	2.8	3.9	4.4	1.6
<b>Taiwan</b>	6.6	6.1	6.8	7.1	7.6	7.8	7.1	-0.5
<b>Tanzania</b>	4.3	3.2	4.1	3.0	3.5	5.0	5.6	2.0
<b>Thailand</b>	6.4	5.6	5.8	6.1	6.8	7.6	8.2	1.4
<b>Togo</b>	NR	NR	4.4	5.9	4.9	4.7	4.6	-0.3
<b>Trinidad &amp; Tobago</b>	NR	4.7	5.0	4.8	5.4	7.2	7.5	2.1
<b>Tunisia</b>	4.3	4.5	4.4	4.1	5.0	6.1	6.3	1.3
<b>Turkey</b>	3.0	3.3	3.3	4.5	5.1	6.3	6.6	1.5
<b>Uganda</b>	NR	NR	2.8	2.7	2.7	4.6	6.1	3.5
<b>Ukraine</b>	NR	NR	NR	NR	NR	3.1	4.5	
<b>United Arab Emirates</b>	NR	NR	6.1	6.9	7.6	NR	7.2	-0.5
<b>United Kingdom</b>	6.6	5.9	6.8	8.2	8.6	8.8	8.9	0.3
<b>United States</b>	8.0	8.1	8.5	8.6	8.8	8.9	9.0	0.1
<b>Uruguay</b>	NR	6.5	6.3	6.8	6.9	7.2	7.4	0.6
<b>Venezuela</b>	7.8	6.5	6.9	5.8	5.8	4.5	6.0	0.2
<b>Zambia</b>	NR	4.3	4.7	3.1	2.5	4.5	5.5	2.9
<b>Zimbabwe</b>	NR	NR	4.1	4.0	4.5	5.4	5.0	0.4

## ECONOMIC FREEDOM AND ECONOMIC PERFORMANCE

Although the economic freedom index has been designed as a measurement of economic freedom in its own right, we recognize the interest in how the index correlates with other measures of human well-being. Exhibit 4 shows the relationship between the 1997 Summary Rating and the level of GDP per capita (measured in purchasing power parity US dollars). The countries were grouped

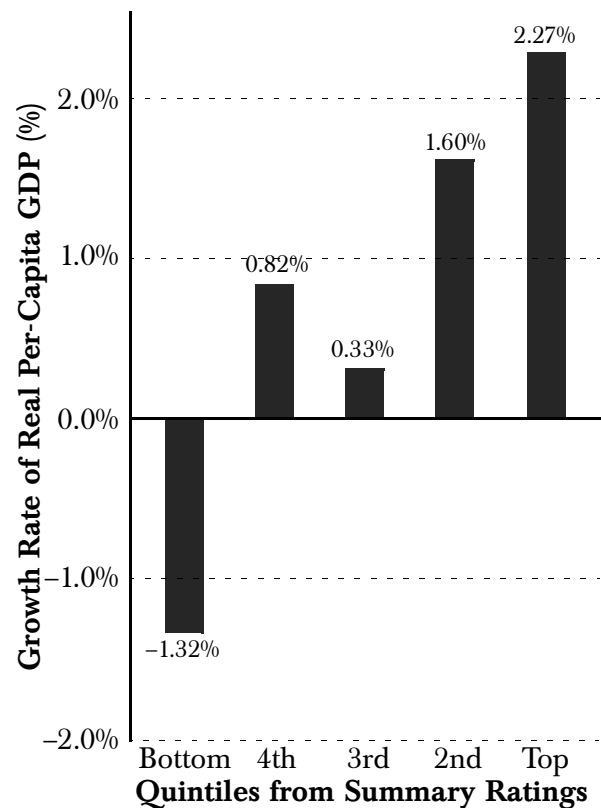
into quintile groups for easy comparison. The relationship between the economic freedom rating and income is quite striking. Greater economic freedom is strongly related with higher levels of income. Exhibit 5 shows the same economic freedom quintiles with the rate of economic growth in the 1990s. The general pattern repeats itself when looking at economic growth.

**Exhibit 4 Economic Freedom and Income, 1995–1997**



Source: 1999 *World Development Indicators* (Washington, DC: The World Bank, 1999).

**Exhibit 5 Economic Freedom and Economic Growth during the 1990s**



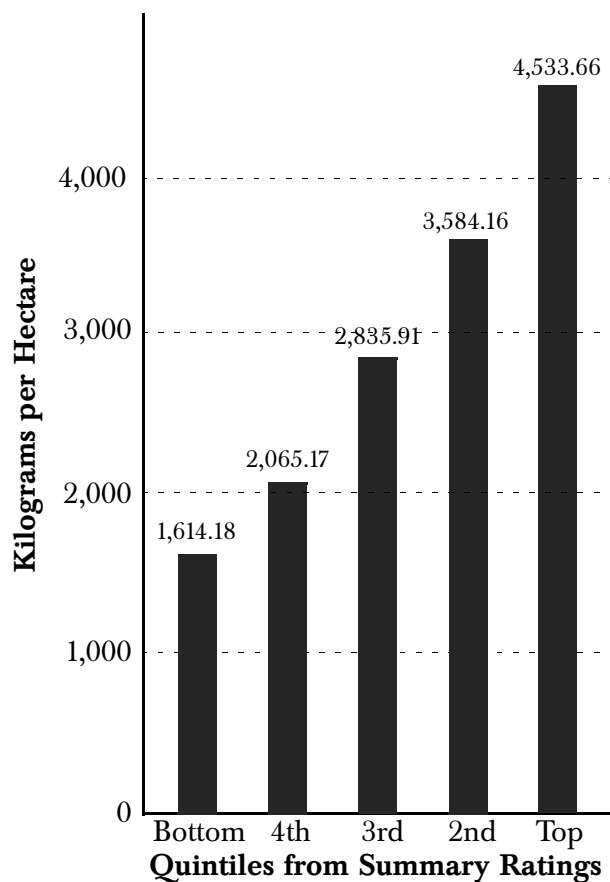
Source: 1999 *World Development Indicators* (Washington, DC: The World Bank, 1999).

## ECONOMIC FREEDOM AND SOCIAL WELFARE

Economists have been criticized, perhaps justifiably, for considering only the material side of things. This section presents some simple charts that relate the economic freedom ratings to non-monetary aspects of human well-being. Exhibit 6 shows the relationship between the five economic freedom quintiles and cereal production per hectare. Again we see a clear positive rela-

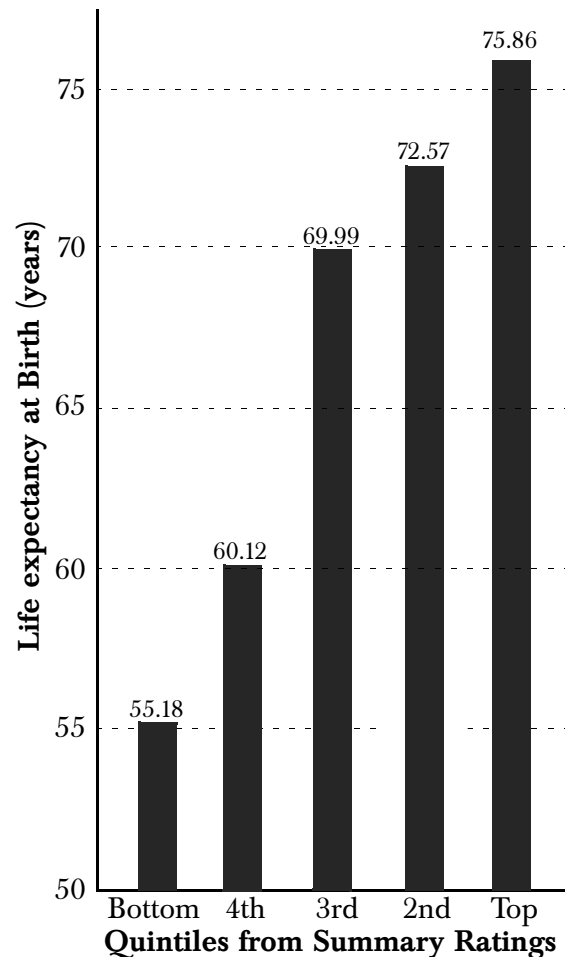
tionship. Exhibit 7 looks at life expectancy, which is, in many ways, a summary statistic of the overall well-being of a group of people. Exhibit 7 shows the strong positive correlation between economic freedom and life expectancy. People living in the top economic-freedom quintile live 20 years longer, on average, than do those living in the bottom quintile. It should also be noted

**Exhibit 6 Economic Freedom and Cereal Yields (1997)**



Source: *1999 World Development Indicators* (Washington, DC: The World Bank, 1999).

**Exhibit 7 Economic Freedom and Life Expectancy (1997)**



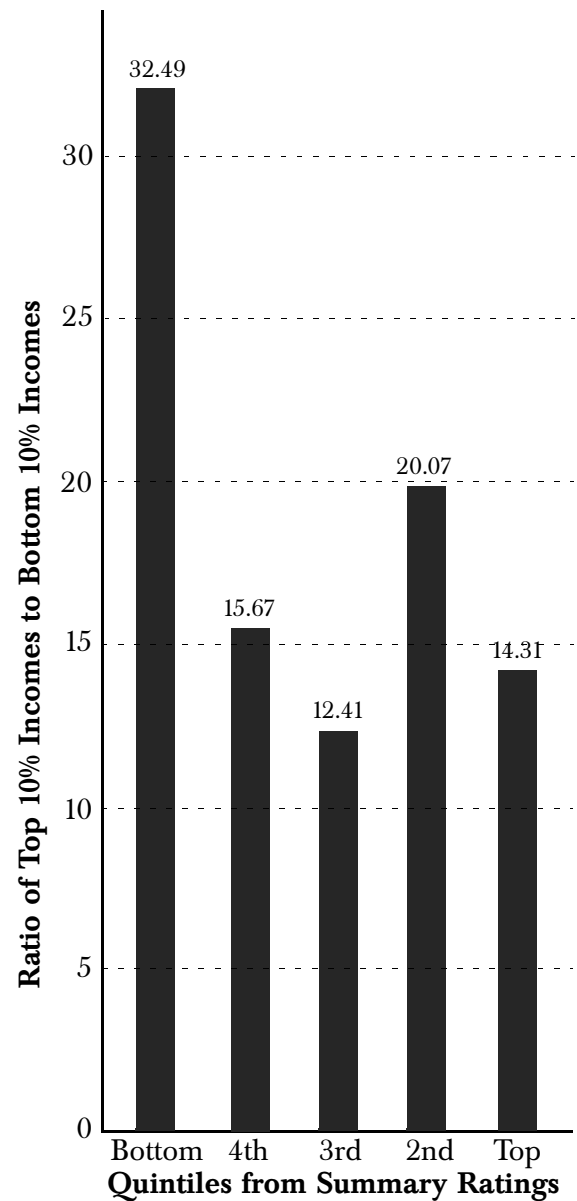
Source: *1999 World Development Indicators* (Washington, DC: The World Bank, 1999).



that these are not the only social statistics that are positively correlated with economic freedom. Other work has looked at infant mortality, literacy, access to safe drinking water, and corruption, all of which show better outcomes with higher levels of economic freedom.<sup>5</sup>

Without question, the most persistent criticism of the market economy is its supposed failure to achieve a “fair” distribution of income. Although the question of what a “fair” distribution of income actually means is not simple to answer, many people find apparent income inequality disturbing. The empirical question, however, is this: Do market-oriented economies actually show a more unequal distribution of income than other types of economies? Exhibit 8 is an attempt to answer that question. This exhibit shows the economic freedom quintiles related to a measure of income inequality. The measure used is the ratio of the income of the top 10 percent (decile) of income earners to the bottom 10 percent. A ratio of 1, for instance, would indicate perfect equality, as the top and bottom deciles would have the same amount of income. The further this ratio moves away from 1, the more unequal the distribution of income. Exhibit 8 clearly shows that the distribution of income is not closely related to economic freedom. It appears that non-market (i.e., less economically free) countries have a distribution of income just as unequal as the market-oriented nations or, in some cases, even more unequal. If anything, it seems that market-oriented economies have slightly more equal distributions of income.

### Exhibit 8: Economic Freedom and Income Inequality



Source: 1999 *World Development Indicators* (Washington, DC: The World Bank, 1999).

## NOTES

- (1) See Michael Walker (ed.), *Freedom, Democracy, and Economic Welfare* (Vancouver: The Fraser Institute, 1988); Walter Block (ed.), *Economic Freedom: Toward a Theory of Measurement* (Vancouver: The Fraser Institute, 1991); Stephen Easton and Michael Walker (eds.), *Rating Global Economic Freedom* (Vancouver: The Fraser Institute, 1992); James Gwartney, Robert Lawson and Walter Block, *Economic Freedom of the World: 1975–1995* (Vancouver: The Fraser Institute, 1996); James Gwartney and Robert Lawson, *Economic Freedom of the World: 1997 Report* (Vancouver: The Fraser Institute, 1997); and James Gwartney and Robert Lawson, *Economic Freedom of the World: 1998/1999 Interim Report* (Vancouver: The Fraser Institute, 1998). These publications provide the foundation for this work.
- (2) One component (freedom to convert domestic currency to foreign currencies in order to engage in current and capital account transactions) was dropped from the index because the representatives from the network expressed concern about its reliability. The black-market exchange rate variable was moved from Area VI to Area IV. Also, two variables (freedom to hold foreign currency bank accounts abroad and domestically) were combined into one component. Area V has been rescaled for all years in order to control for an upward drift in the data that did not reflect real changes in the institutional arrangements.
- (3) These weights, with the exception of those used in Area VI, have not changed from what they were in *Economic Freedom of the World: 1998/1999 Interim Report*. Weights used in Area VI had to be recalculated because the black-market exchange rate variable was moved from Area VI to Area IV. Area IV was left with two components after the currency-convertibility component was dropped, the two foreign-currency bank account components were combined, and the black-market exchange rate component was added. Principal component analysis assigns equal weights (e.g., 50%) when there are just two components.
- (4) The data for the latest year are primarily 1997. In some cases, 1998 data were used and, in a few cases, 1996 data.
- (5) For more information about these correlations, please visit our website: [www.freetheworld.com](http://www.freetheworld.com).