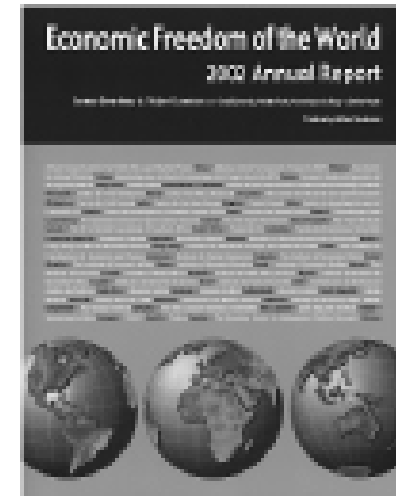


*Economic  
Freedom and  
Human  
Betterment*



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*April 23, 2003*

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**FreeTheWorld**  
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*China seems to have been long stationary, and had probably long ago acquired that full complement of riches which is consistent with the nature of its laws and institutions. But this complement may be much inferior to what, with other laws and institutions, . . . might admit of. A country which neglects or despises foreign commerce . . . cannot transact the same quantity of business which it might do with different laws and institutions. In a country too, where, . . . , [owners of capital are] to be pillaged and plundered at any time by the inferior mandarines, the quantity of stock employed . . . can never be equal to what the nature and extent of that business might admit.*

*Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (I.9.15), 1776.*



# What is Economic Freedom?

## ✍ Personal Choice

- Individuals are permitted to choose for themselves in economic life (as opposed to having such decisions made for them by others).

## ✍ Voluntary Exchange

- People are permitted to exchange goods at mutually agreeable prices.

## ✍ Protection of Persons and Property

- People are secure from intrusion by others.



# What is Economic Freedom? (cont.)

- ✍ Some people object to our conception of freedom as a purely negative “freedom from” instead of a “freedom to” concept.
- ✍ Alternatively, our project can be viewed as a measurement of the consistency (or inconsistency) of a country’s institutions with a classical liberal market economy.



# Economic Freedom of the World (EFW)



- ✍ Why construct an economic freedom index?
  - Economic freedom is a “good”.
    - ✍ EF is a thing that human beings value and one of the jobs of economists is to measure things of value.
  - Economic freedom may be related in an important way to other goods.
    - ✍ Income, economic growth, distribution of income, poverty, life expectancy, environmental quality, etc.



# Economic Freedom of the World (EFW)



## Our Methodology:

- uses quantitative and third party data (WB, IMF, GCR, ICRG, PWC)
- large number of countries (123)
- long time period (since 1970)
- Zero to 10 ratings (10 means more free/less intrusion).
- 5 Areas, 37 Components and/or Sub-Components

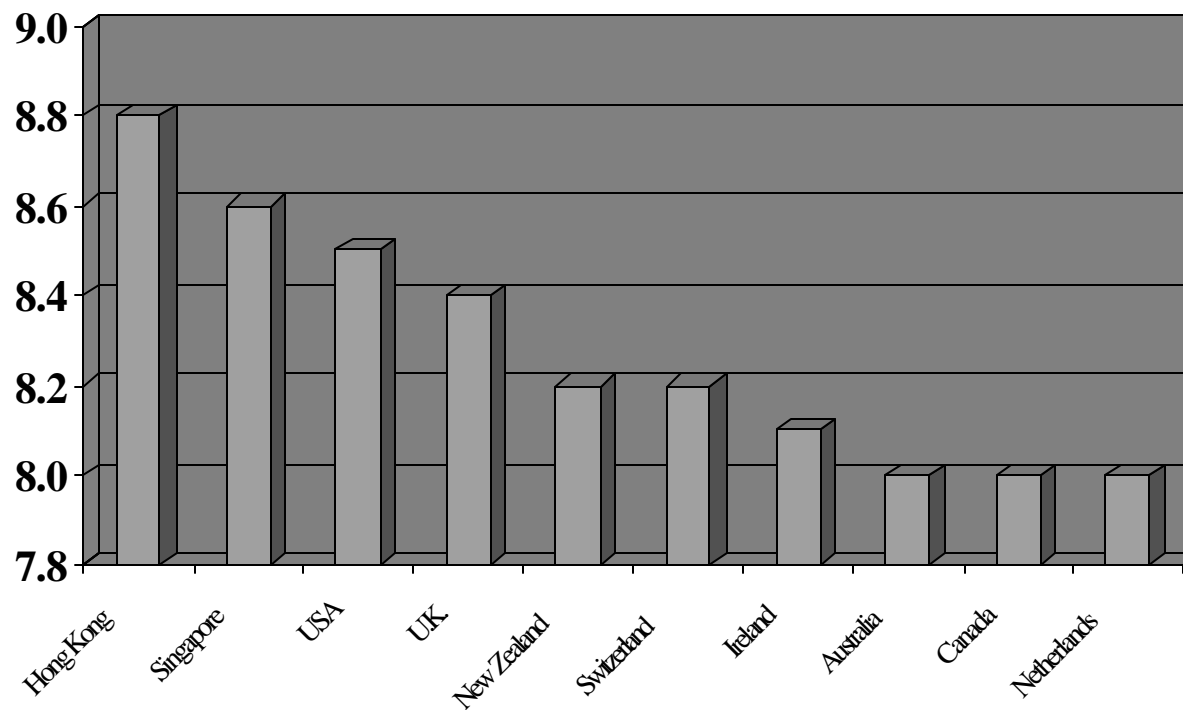


# 5 Areas of EFW Index

- ✍ **Size of Government: Expenditures, Taxes, and Enterprises (4 Components)**
- ✍ **Legal Structure and Security of Property Rights (5 Components)**
- ✍ **Access to Sound Money (4 Components)**
- ✍ **Freedom to Exchange with Foreigners (5 Components, )**
- ✍ **Regulation of Credit, Labor, and Business (3 Components)**



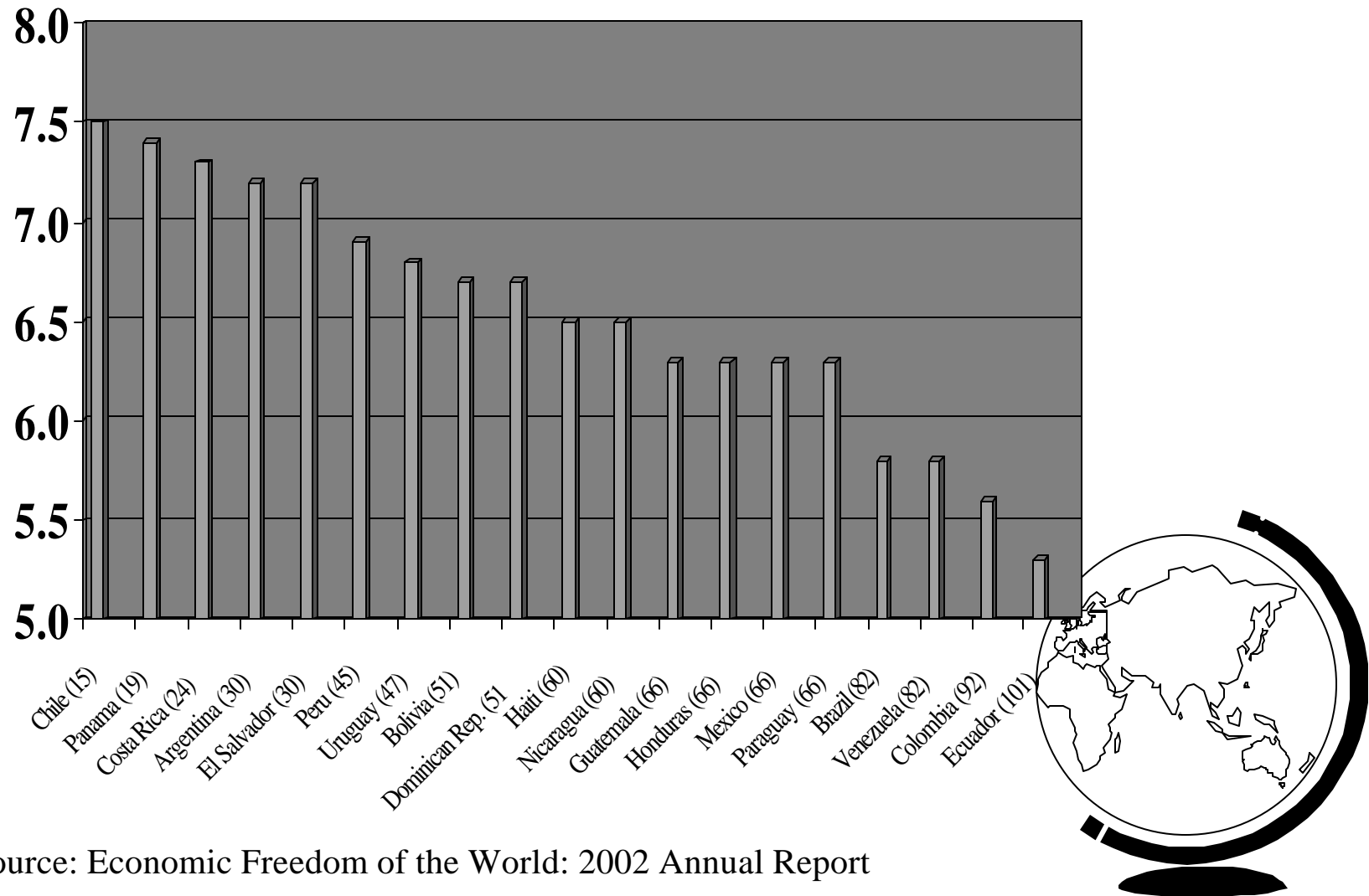
# The Top Ten...



Source: Economic Freedom of the World: 2002 Annual Report

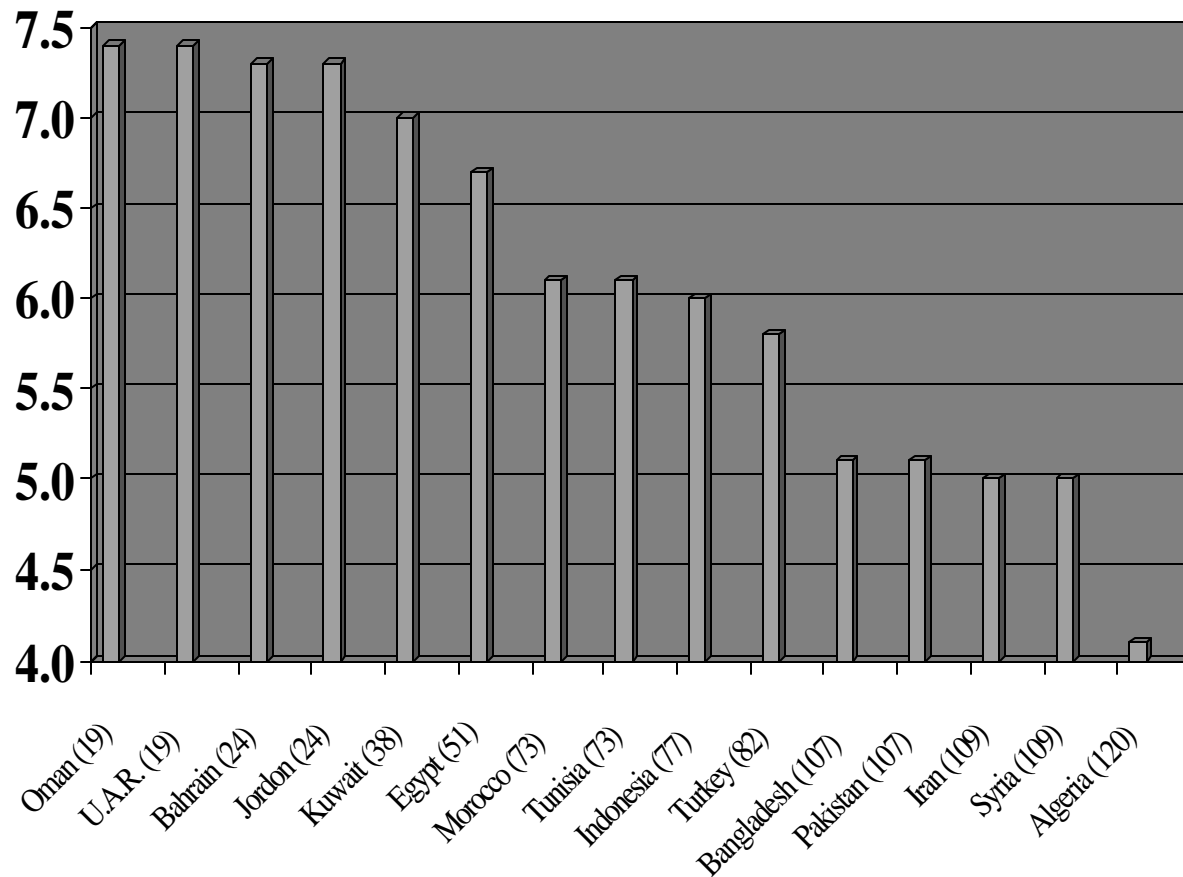


# Latin America...



Source: Economic Freedom of the World: 2002 Annual Report

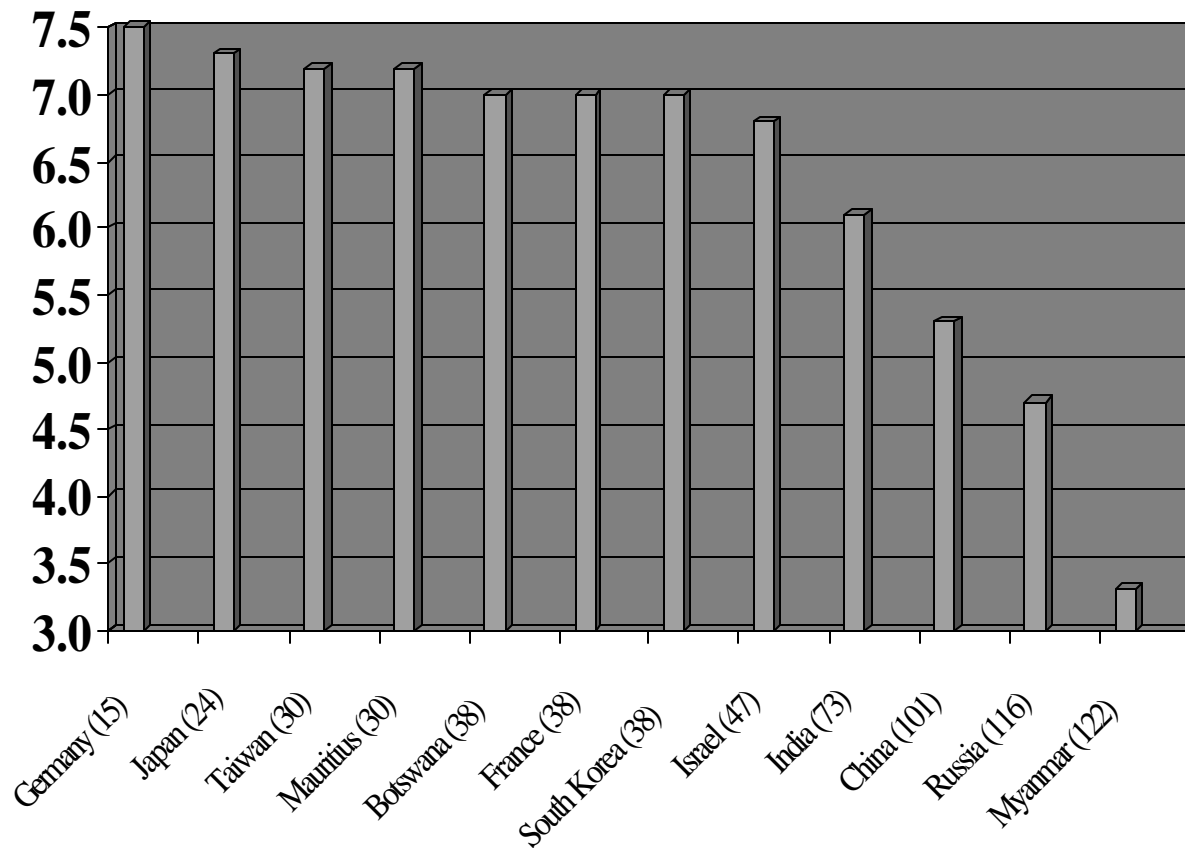
# Islamic Countries...



Source: Economic Freedom of the World: 2002 Annual Report



# Other Countries...



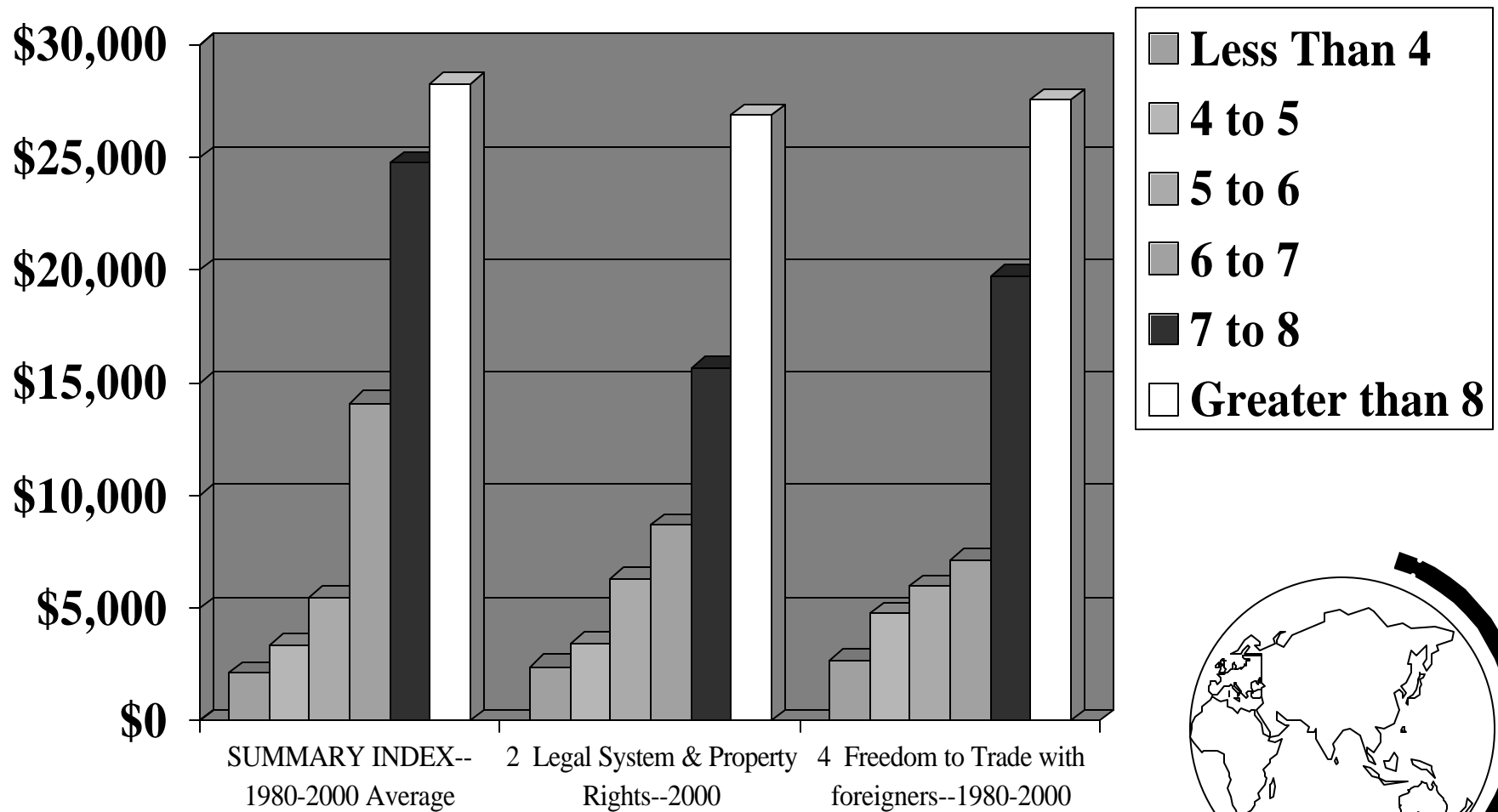
Source: Economic Freedom of the World: 2002 Annual Report

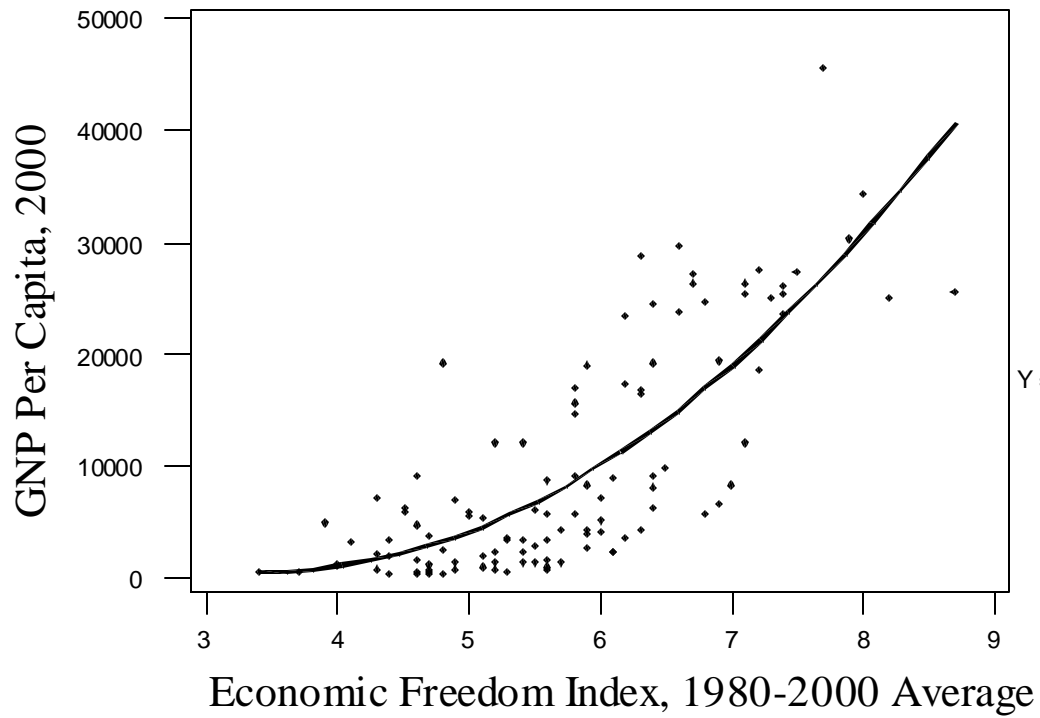


# Economic Freedom and Human Betterment

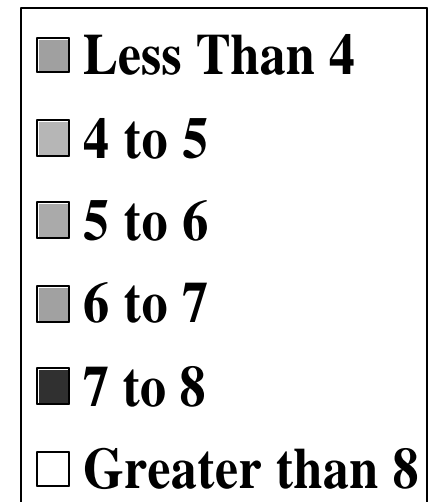
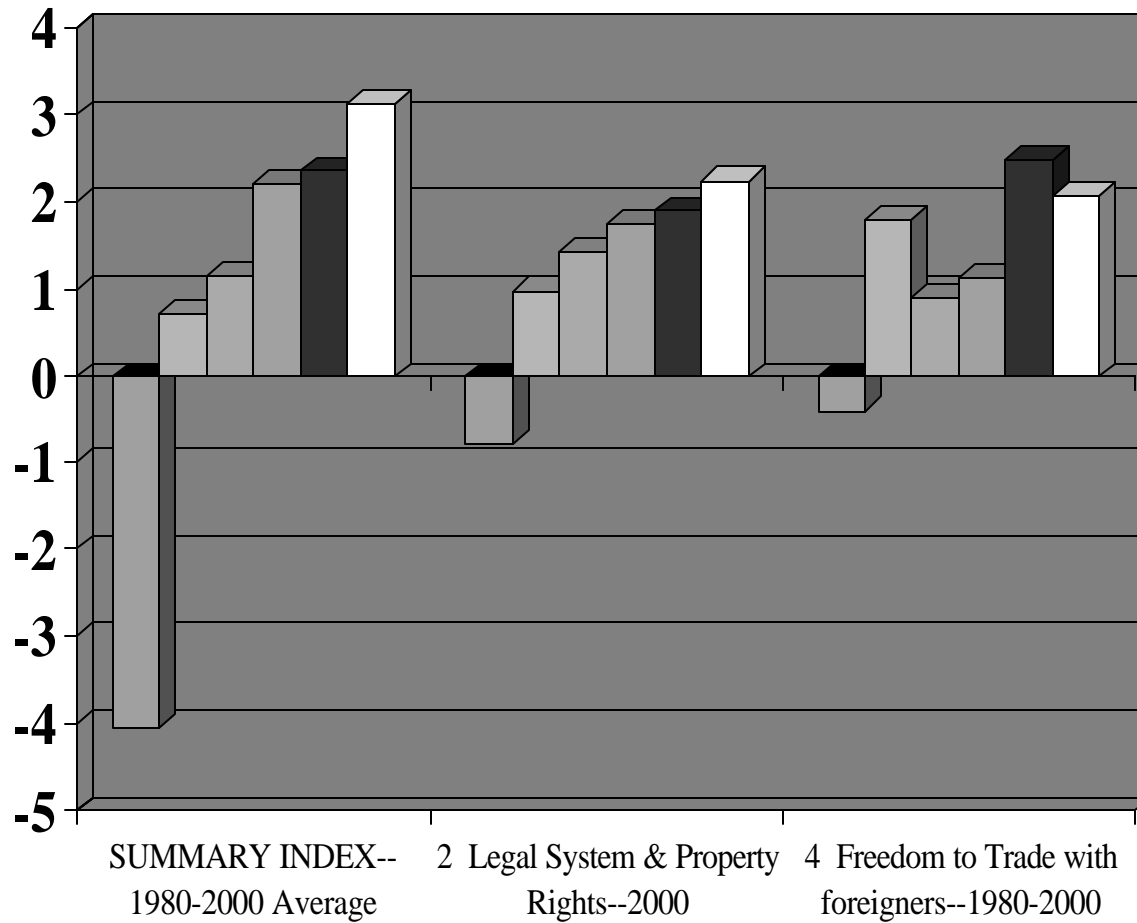


# Per Capita GDP and Economic Freedom

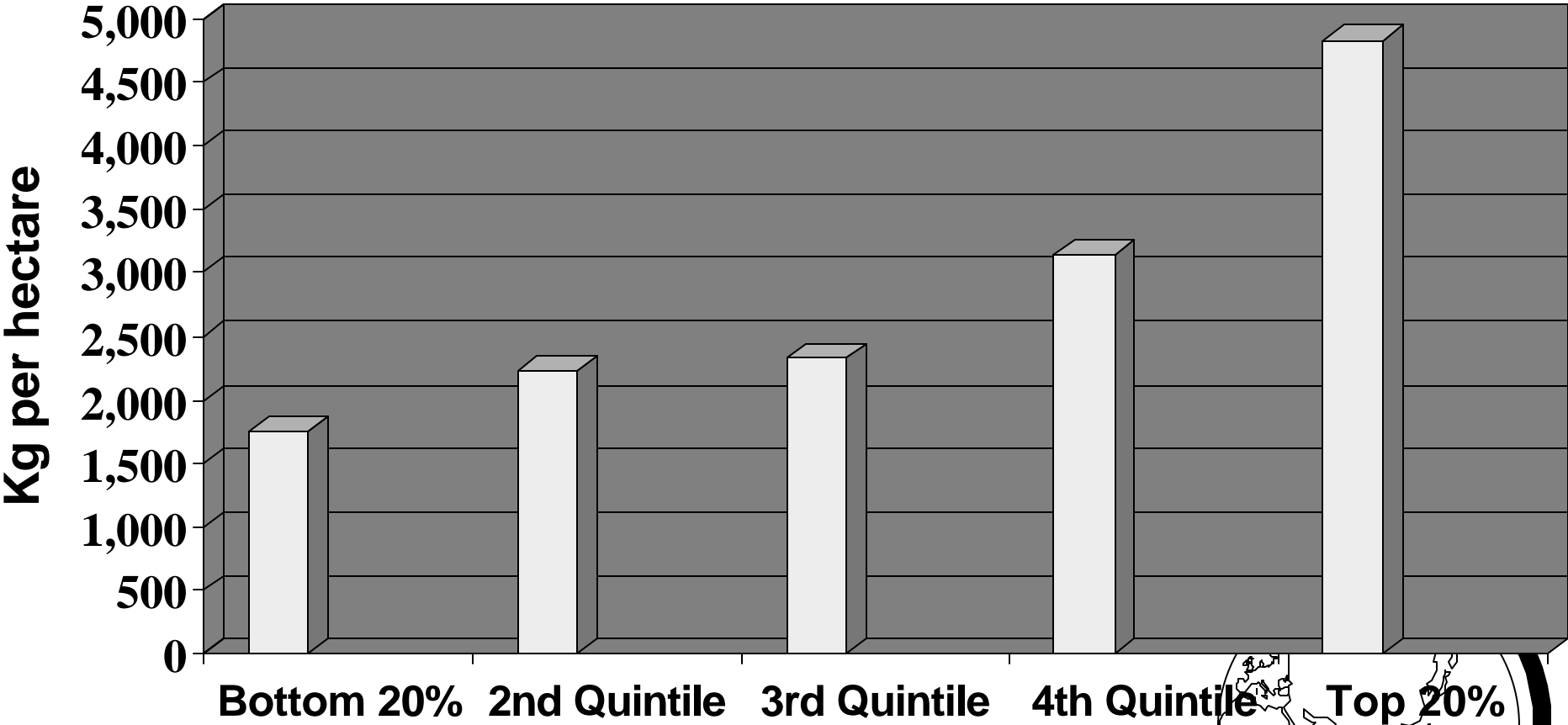




# Economic Growth and Economic Freedom



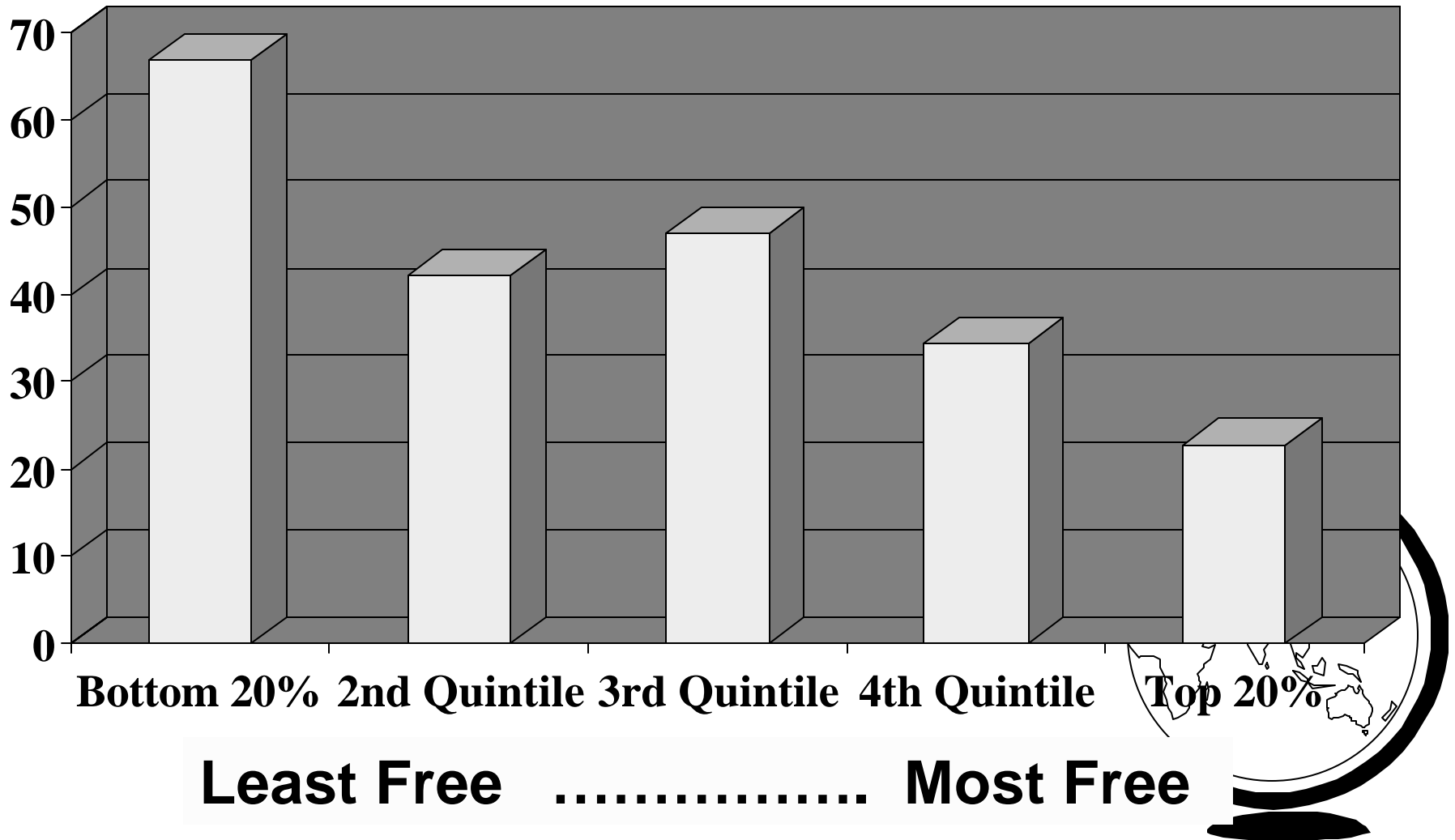
# Economic Freedom and Cereal Yield



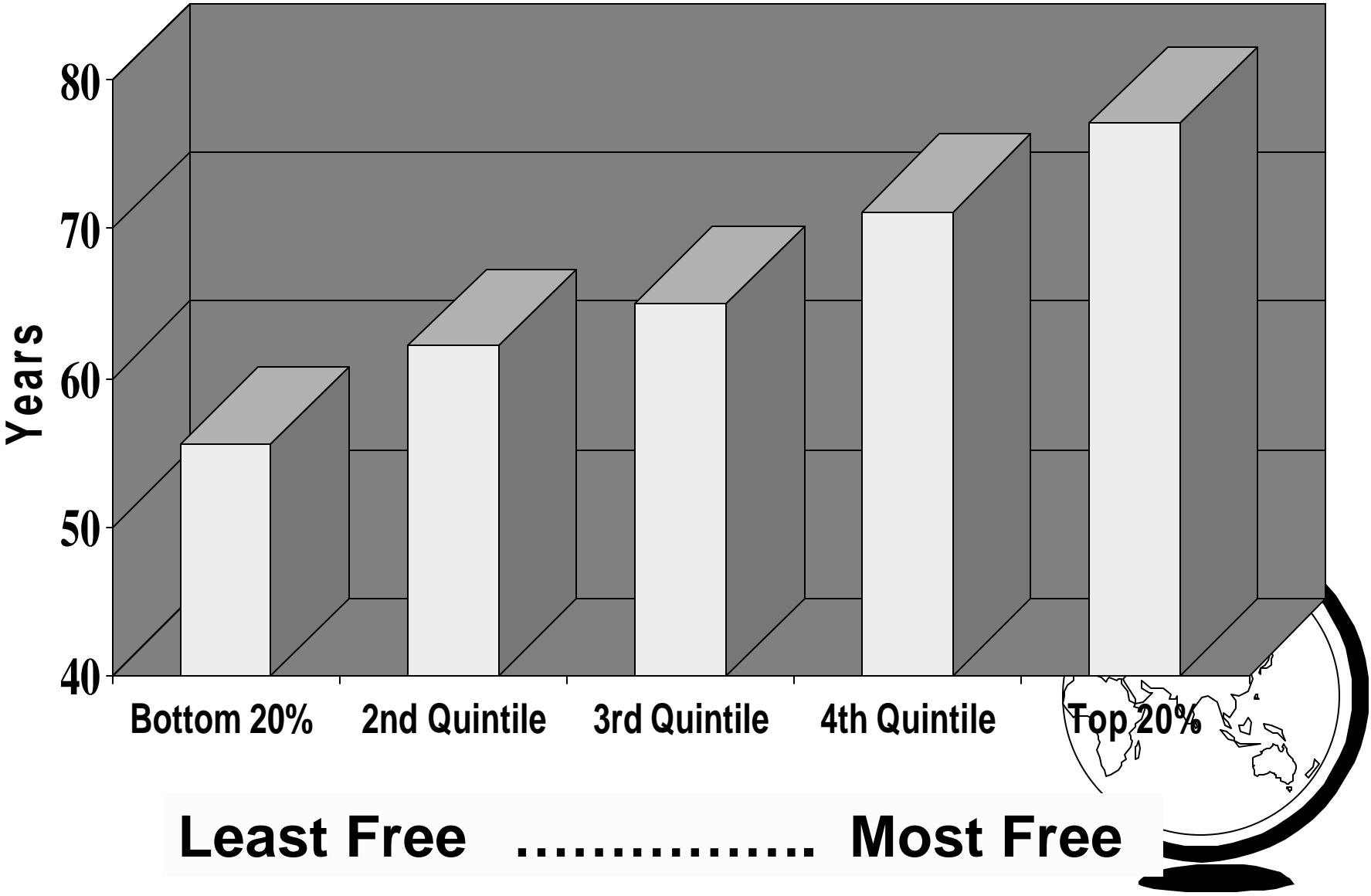
**Least Free ..... Most Free**



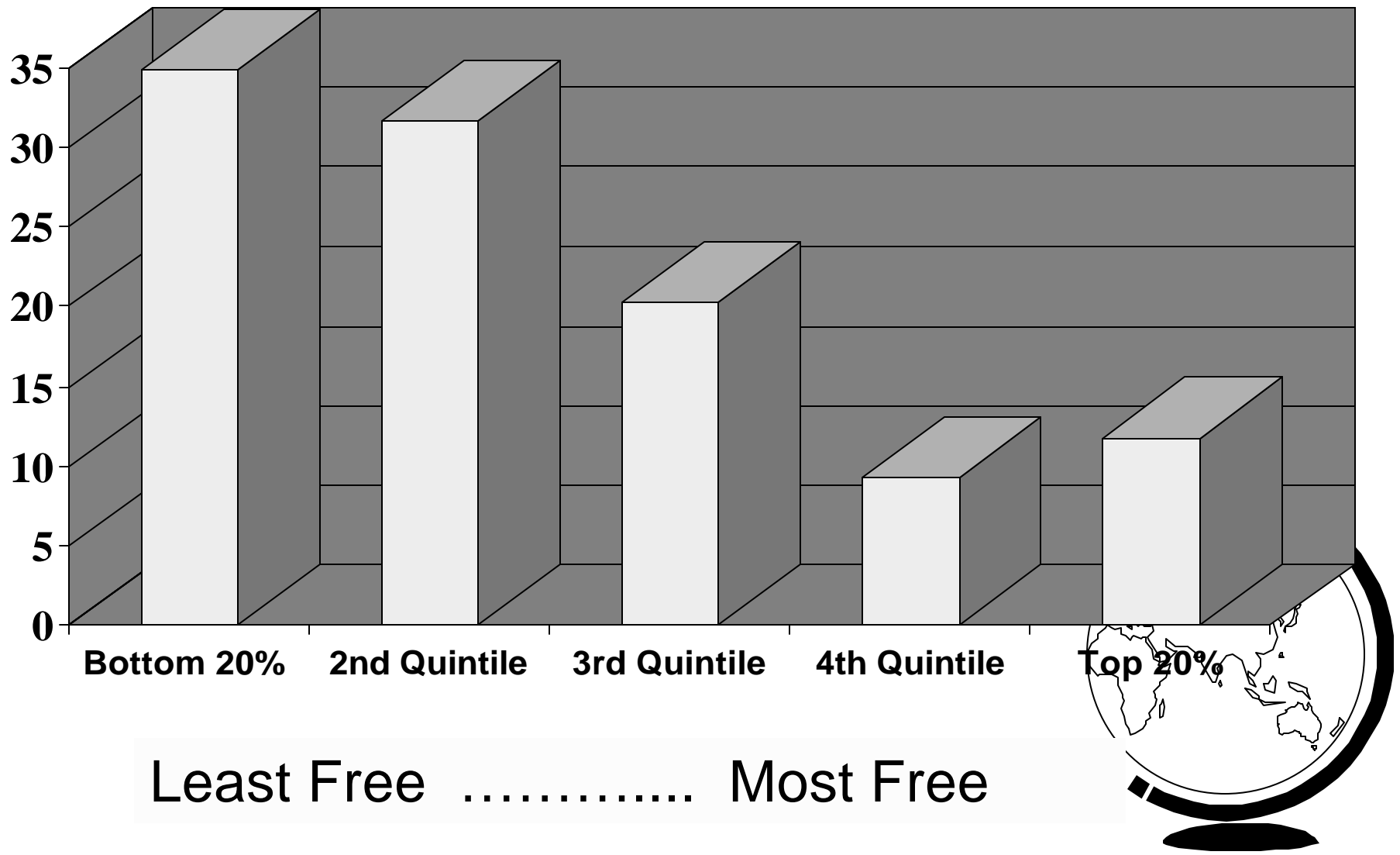
# Economic Freedom and Child Labor (proportion of children 5-14 years of age working, 2000)



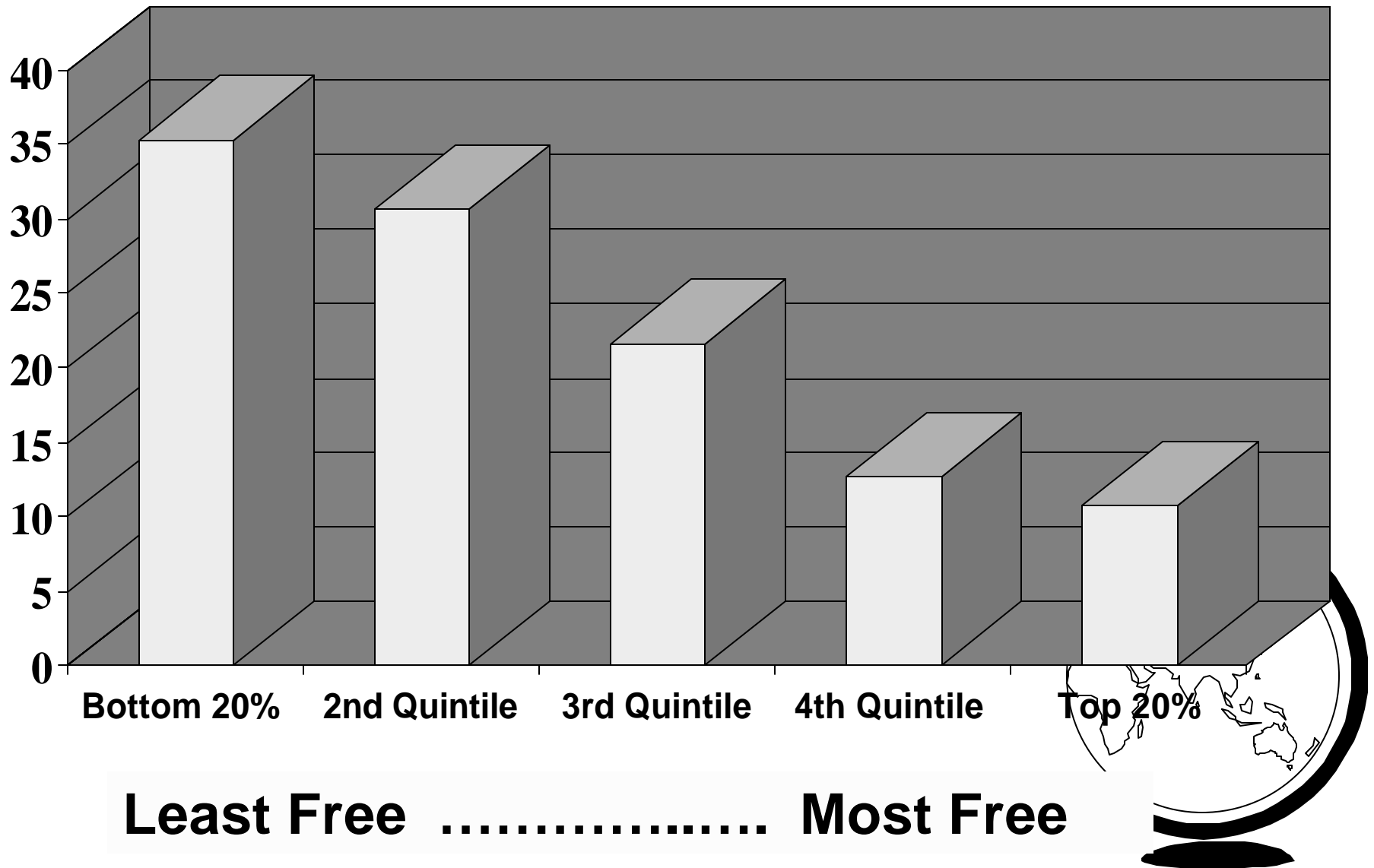
# Life Expectancy at Birth, 1999, and Economic Freedom Quintiles



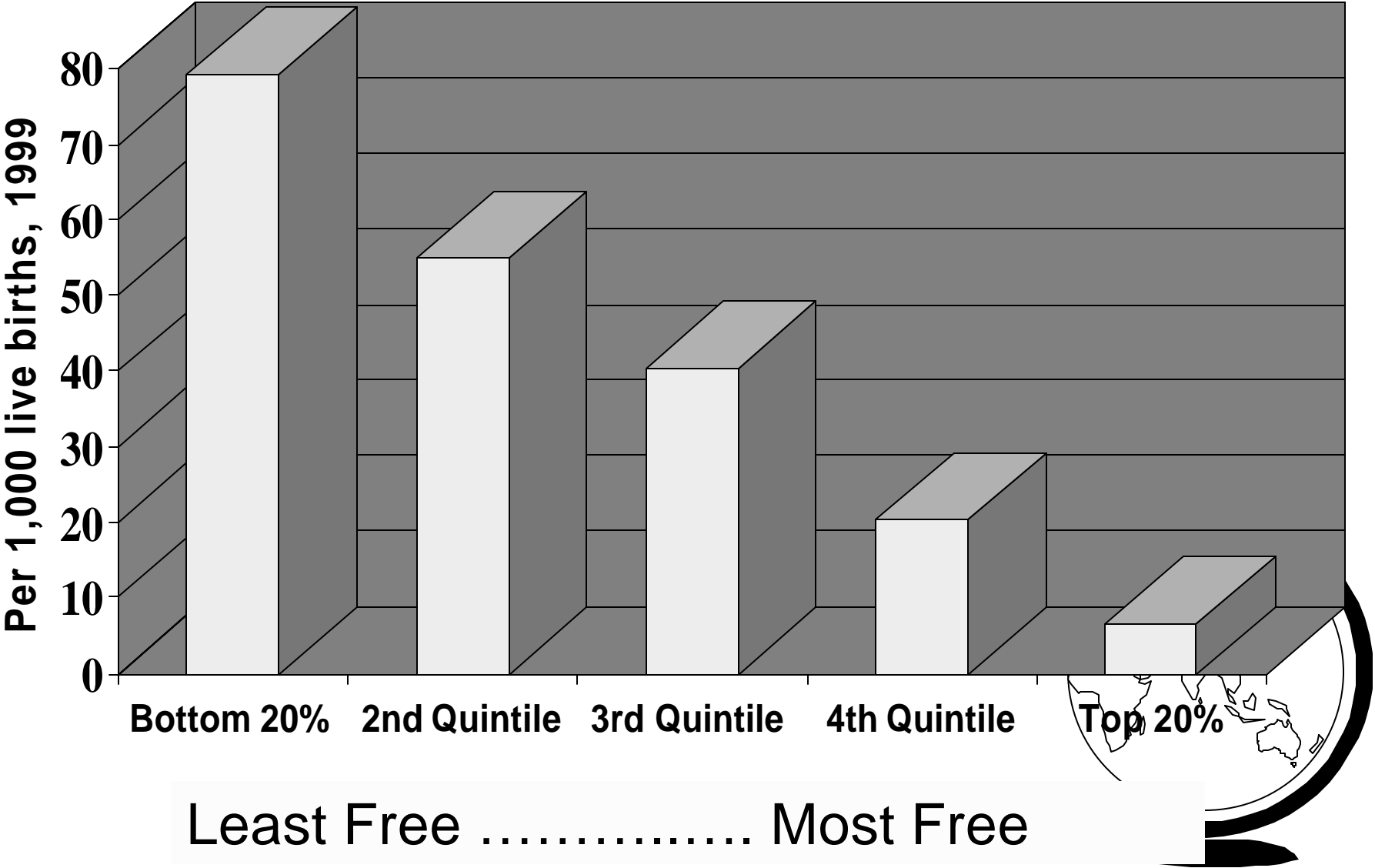
# 1999, Adult Illiteracy rate, (% of population age 15 and above) by Economic Freedom Quintile



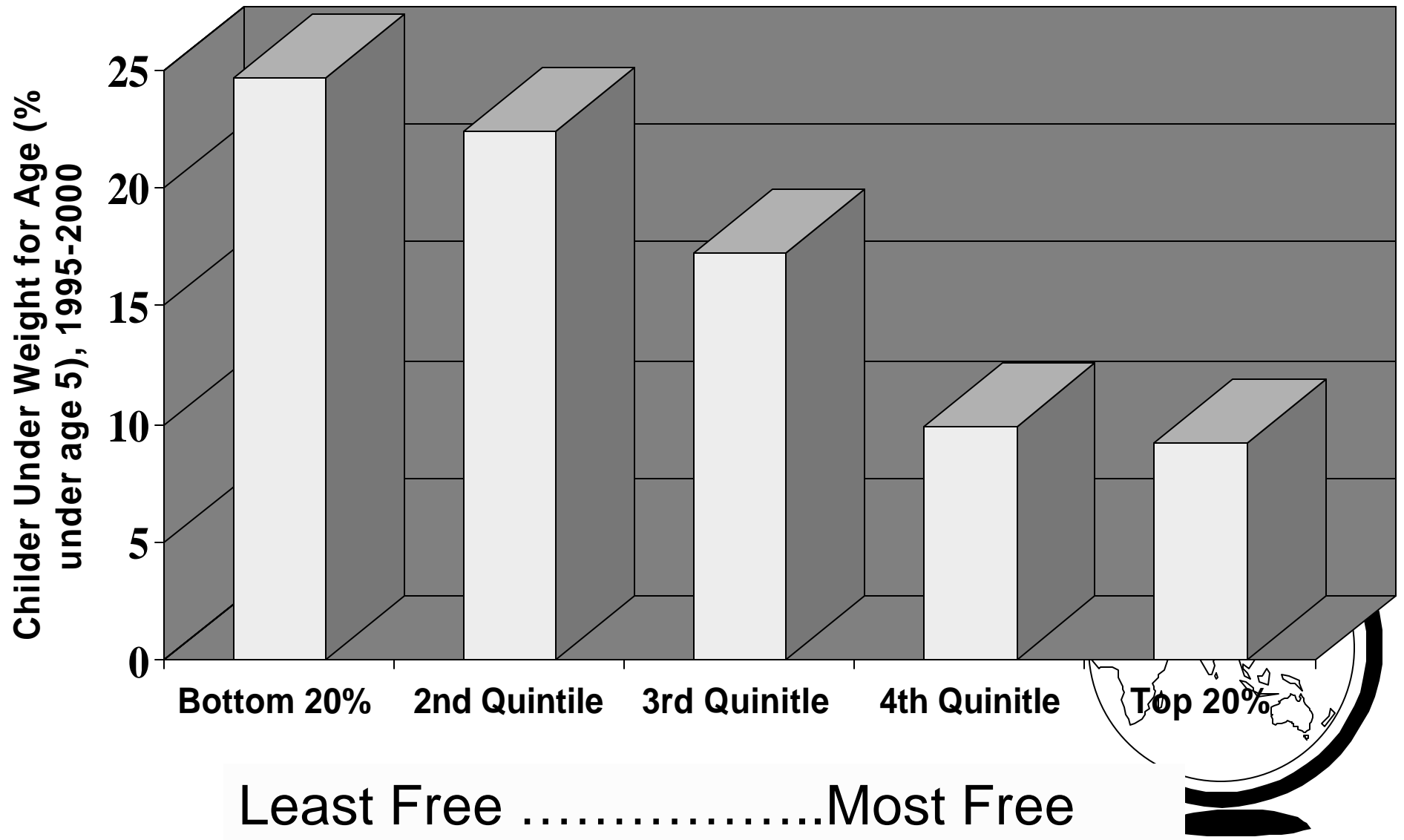
# Human Poverty Index and Economic Freedom Quintile



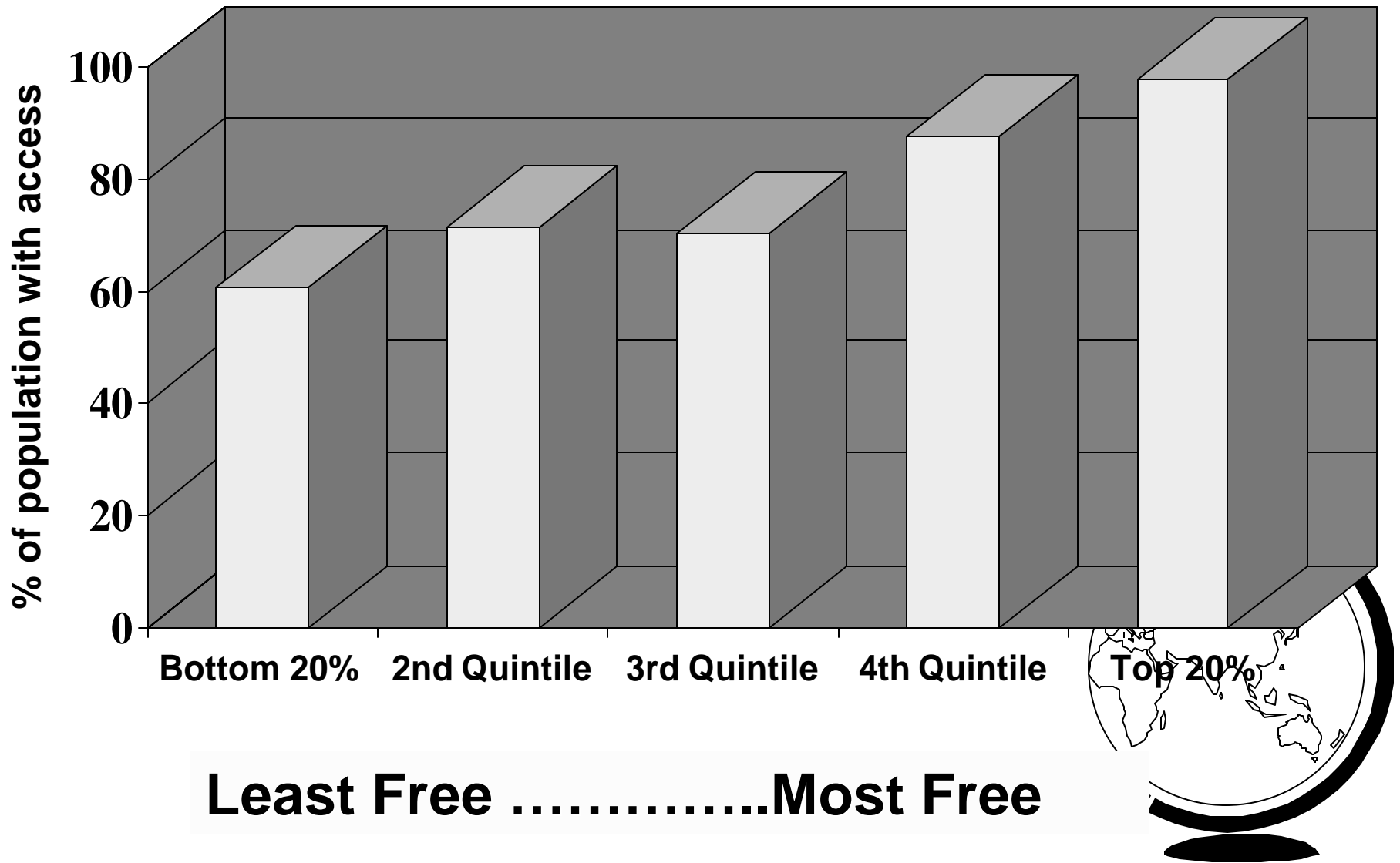
# Infant Mortality and Economic Freedom Quintile



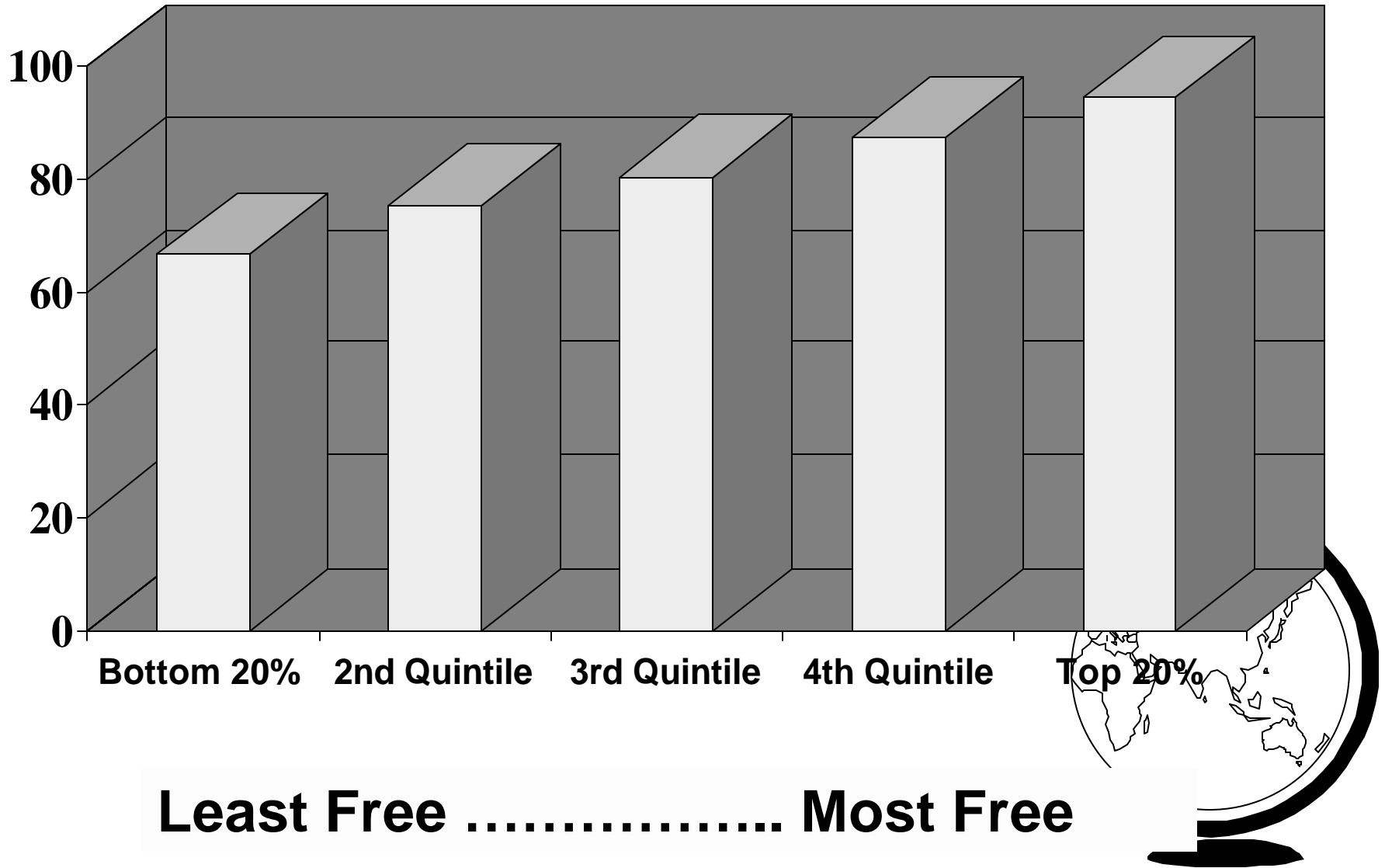
# Child Malnutrition and Economic Freedom Quintile



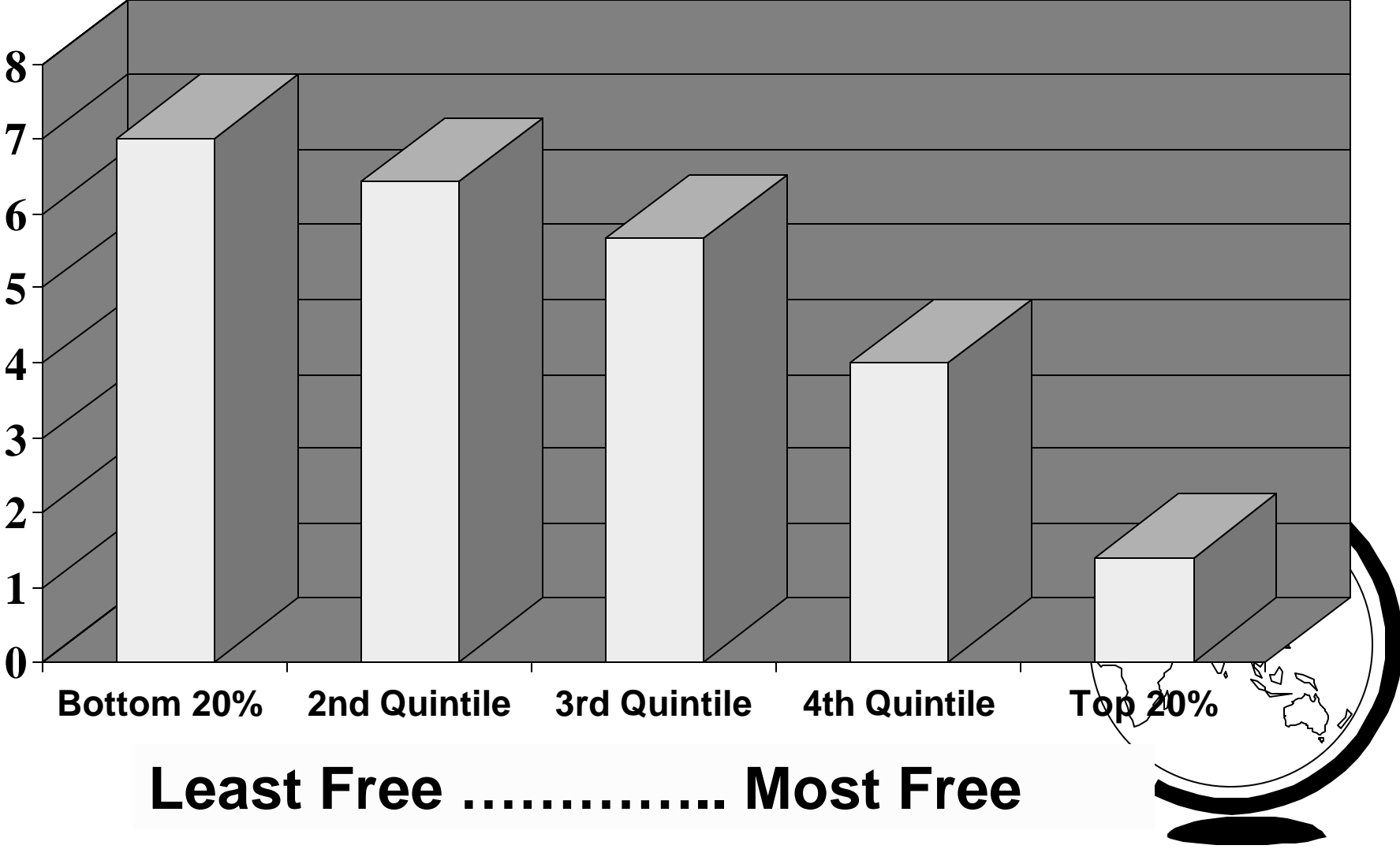
# Access to Essential Drugs, 1999, and Economic Freedom Quintiles



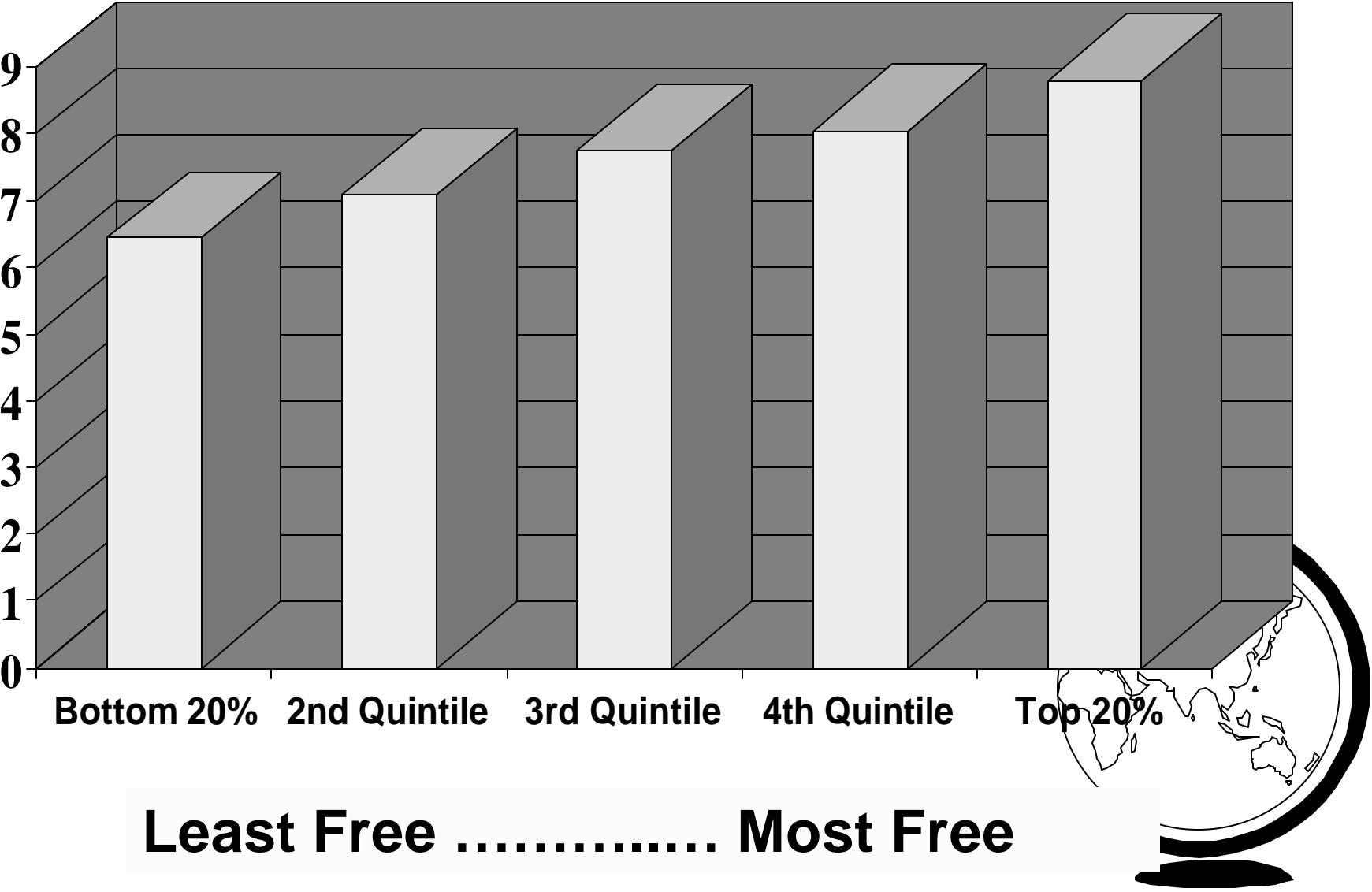
# % of Population Using Improved Water Sources, 1999



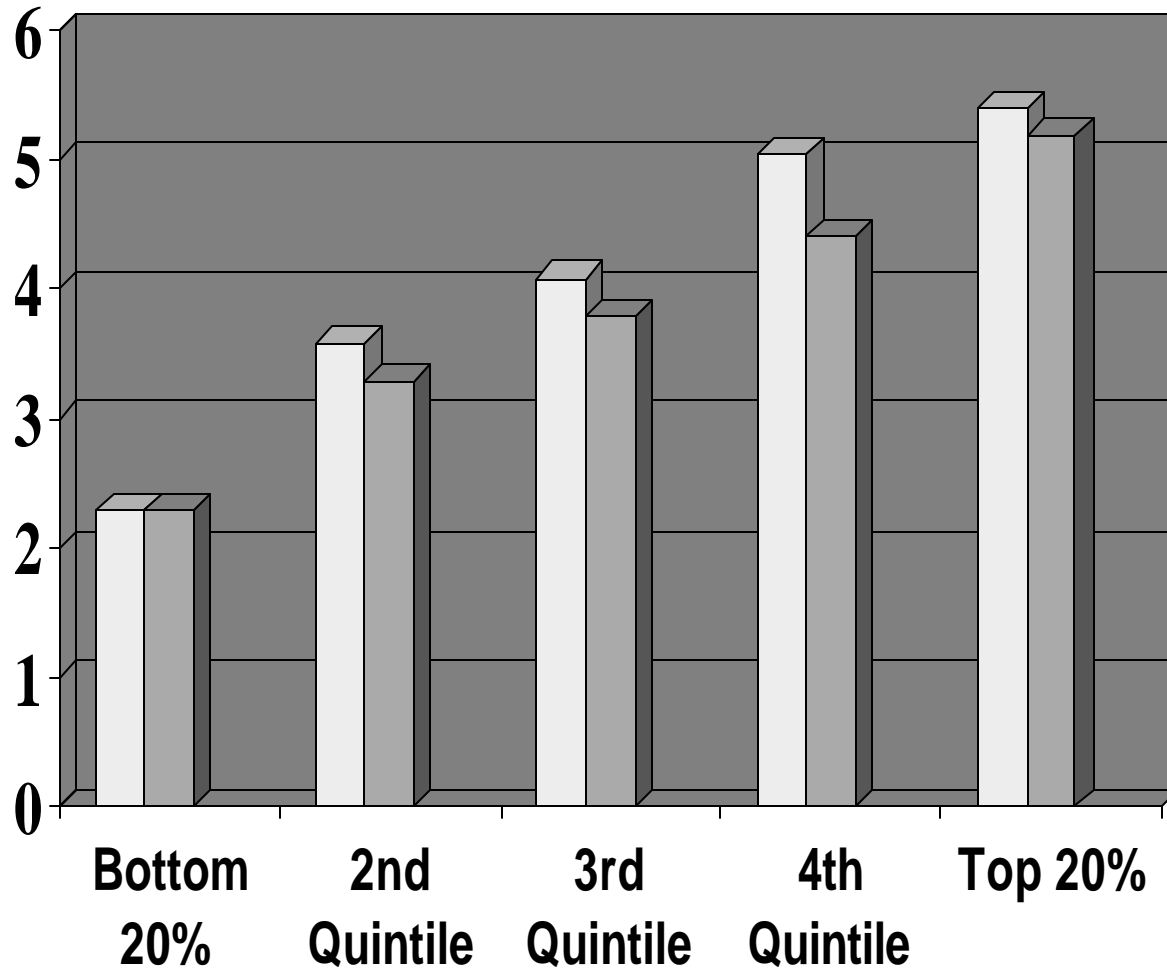
# Economic Freedom Versus Corruption



# Political Stability and Economic Freedom Quintile



# Political Rights & Civil Liberties



Least Free ..... Most Free



*The man of system, on the contrary, is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it . . . He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it.*

Adam Smith, *The Theory of Moral Sentiments* (VI.II.42), 1759.



The end.

