

Celebrating economic freedom

FRED McMAHON

Individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others. An index of economic freedom should measure the extent to which rightly acquired property is protected and individuals are engaged in voluntary transactions. —Gwartney, Lawson, and Block, 1996



Above is the classic definition of economic freedom, which is not only the focus of this issue of *Fraser Forum*, but it is also a top priority at the Fraser Institute, and we work continuously to promote and deepen economic freedom throughout the world. Below are some examples of the Fraser Institute's efforts:

In August 2010, the Institute released *The Economic Freedom of North America: 2010 Annual Report*. Nathan Ashby of the University of Texas at El Paso was the lead author on this project with Amela Karabegović, and myself as his co-authors. This important study measures the economic freedom of the Canadian provinces and the American states. Nathan has also made terrific progress in measuring the freedom of the Mexican states, though the consistency and availability of data continue to be challenges.

Subsequently, *The Economic Freedom of the World: 2010 Annual Report*, prepared by James Gwartney of Florida State University; Robert Lawson of Auburn University; and Joshua Hall of Beloit College, was released in September. This project was started 25 years ago, initiated and led by Michael Walker, then the executive director of the Fraser Institute, and the late Nobel Laureate Milton Friedman and his wife Rose. The research phase involved 60 of the world's top scholars, including 3 other Nobel Laureates. *The Economic Freedom of the World Annual Report* has become one of the most important intellectual products in the world, as more than 400 academic and policy articles and books have used or tested it.

In October, the Fraser Institute held a joint meeting of the World and Asian Economic Freedom Networks in Jakarta, Indonesia, in conjunction

with the Asian office of the Friedrich Naumann Foundation for Liberty (the Foundation), as well as three partners from Indonesia: the Institute for Economic and Social Research Faculty of Economics at the University of Indonesia (LPEM FEUI); the Freedom Institute, and the Indonesian Institute. The world network has members in 80 nations and territories, all of whom are dedicated to advancing economic liberty whatever their background—whether in the Gaza Strip or Israel, Russia, Georgia, Colombia, or Venezuela.

Early this month, the Arab Economic Freedom network met in Cairo for the release of the *Economic Freedom of the Arab World: 2010 Annual Report* written by Salem Al Ismaily of the International Research Foundation (IRF) of Oman and member of the Fraser Institute's

board of trustees, alongside Amela Karabegović, Miguel Cervantes, and myself. The Foundation's Cairo office is printing and distributing the report, and is sponsoring the meeting in Cairo in cooperation with the IRF and the Fraser Institute. These meetings enable organizations dedicated to advancing liberty to review the most

recent research, develop new research ideas, compare situations across nations, and discuss strategies for improving policy while also getting acquainted.

Finally, at the end of November, the Atlas Economic Research Foundation is sponsoring an economic freedom audit in Morocco. The team will be led by Nouh El Harmouzi, Atlas

Institute, and Atlas Vice President of International Programs Tom Palmer. A booklet has been prepared to highlight Morocco's score in each of the 42 variables that the report uses to measure economic freedom. (See Table 1 for a list of these variables.) These data provide both a comprehensive description of an economy, and a prescription for improvement. The booklet will compare Morocco with the world average, the Arab average, and the world top 10 nations in each area. That allows participants to understand Morocco's policy situation relative to others, and provides "best practices" examples.

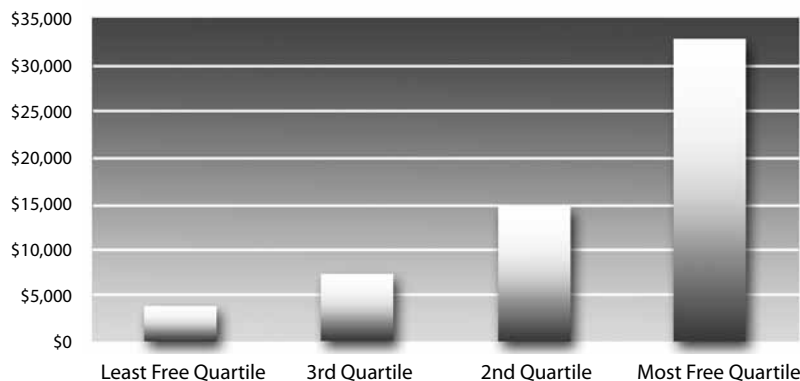
Such audits, including ones also in Jordan and Oman, draw top government officials—cabinet ministers, business leaders, academics—and generate considerable media attention, which helps inform the public alongside the members of the elite in attendance.

So why do we put all this effort into promoting economic freedom? We do so for several reasons: first, economic freedom propels growth and prosperity. Any transaction freely entered into must benefit both parties. This has consequences throughout the economy: producers must either constantly improve the price and quality of existing productions, or innovate new ones. Without this, customers will not freely enter into transactions with the producer. Many billions of mutually beneficial transactions occur every day, powering the dynamic that spurs increased productivity and wealth throughout the economy.

Economic freedom also liberates people from dependence on government, and that in turn allows for other freedoms and democracy. To see this, we need only look around the world. With the partial exceptions of Hong Kong and Singapore, places with high levels of economic freedom also have high levels of other freedoms and democracy. Similarly, other than the partial exception of Venezuela, no nation with weak levels of economic freedom also has high levels of other freedoms and a vibrant democracy.

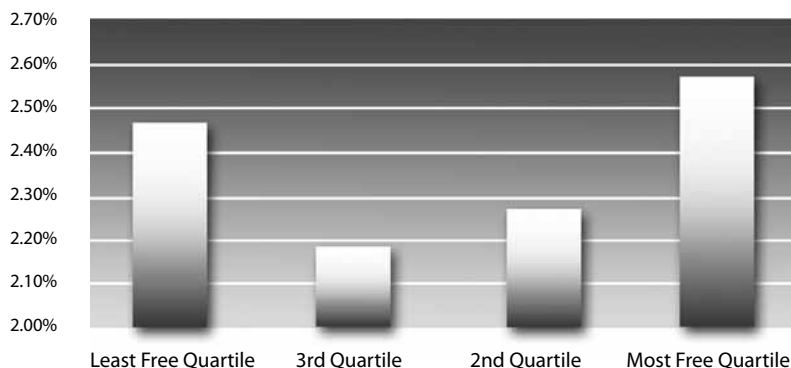
Figure 1 shows the prosperity effect of economic freedom. Figures

Figure 1: GDP Per Capita (Purchasing Power Parity)



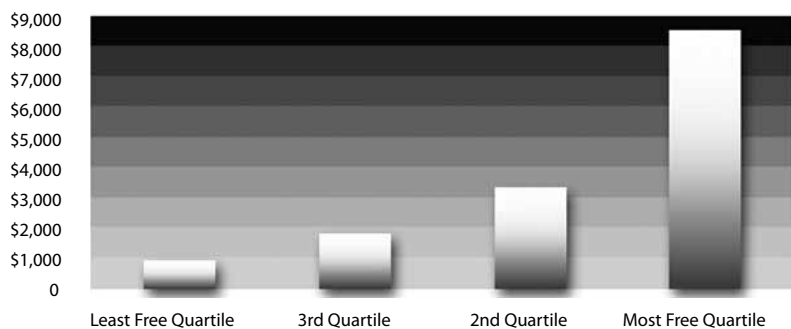
Sources: Gwartney, Lawson, and Hall, 2010: The World Bank, World Development Indicators, 2010.

Figure 2a: Income Share Held by Lowest 10%, 1990-2008



Sources: Fraser Institute, *Economic Freedom of the World: 2010 Annual Report*; World Bank, World Development Indicators.

Figure 2b: Average Income Earned by Lowest 10%, 2008



Sources: Gwartney, Lawson, and Hall, 2010: The World Bank, World Development Indicators, 2010. Purchasing power parity, 2007 dollars.

2a and 2b disprove the claim made by some that economic freedom increases inequality, while illustrating how it does decrease poverty. The columns represent economic freedom quartiles, from least free to most free. Figure 3 shows the relation, discussed above, between economic freedom and other freedoms, while Figure 4 illustrates the reduction in corruption economic freedom brings—when you are free to make economic decisions, you need not bribe anyone to open a business, or navigate crushing regulation.

Similarly, Figure 5 depicts the relationship between economic freedom and life satisfaction. When you and your family are free to make your own decisions, you can take control of your life and do what brings you the most happiness. Finally, Figure 6 shows the prosperity effect of economic freedom among Canadian provinces and the American states.

These are the reasons why the Fraser Institute focuses so much effort on economic freedom—it promotes prosperity and other positive outcomes. Those of us in Canada and the United States should care not only about their own economic freedom, but that of others as well. We will benefit as the world as a whole becomes more prosperous and democratic. Richer trading partners mean richer trading opportunities and greater global stability (Gartzke, 2005).

References

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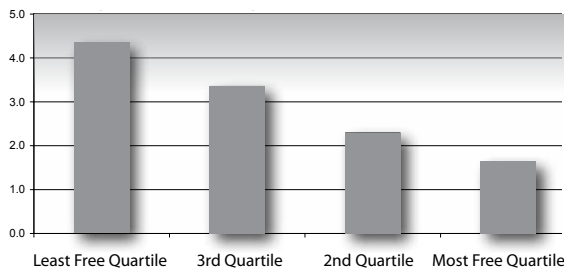
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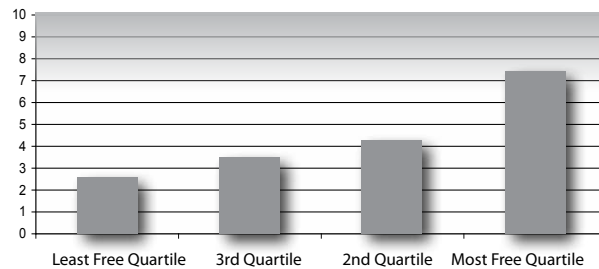
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Figure 3: Political Rights/Civil Liberties Index, 2008



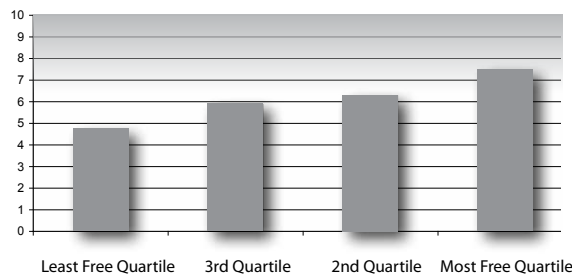
Sources: Gwartney, Lawson, and Hall, 2010; Freedom House, *Freedom in the World Country Ratings*, 2008, available at <http://www.freedomhouse.org/>. Scale of 7, with low scores indicating greater levels of freedom.

Figure 4: Corruption Perceptions Index Score, 2008/2009



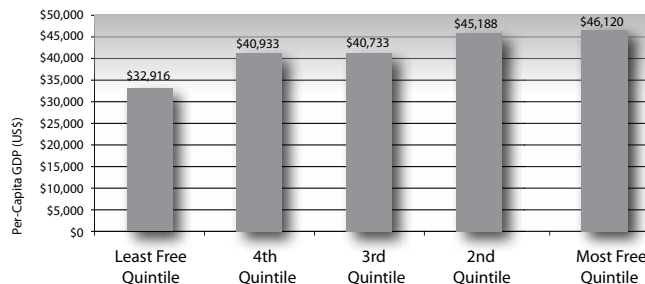
Sources: Gwartney, Lawson, and Hall, 2010; Transparency International, *Corruption Perceptions Index*, 2008/2009, available at <http://www.transparency.org>. 0-10 scale with 10 indicating no corruption and 0 indicating high corruption.

Figure 5: Life Satisfaction Index, 2008



Sources: Gwartney, Lawson, and Hall, 2010; Freedom House, *The (un)Happy Planet Index 2.0. Why good lives don't have to cost the Earth*. 2009. 0-10 scale, with 10 indicating high satisfaction and 0 indicating low satisfaction.

Figure 6: GDP Per Capita, US Dollars



Sources: Ashby, Karabegović, McMahon, and Cervantes; Statistics Canada, *Provincial Economic Accounts*, 2007; US Department of Commerce, Bureau of Economic Analysis, <<http://www.bea.gov>>.