

# **Economic Freedom of the World**

## **2005 Annual Report**

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with

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Editing and design by Lindsey Thomas Martin

Cover design by Brian Creswick @ GoggleBox

Printed and bound in Canada

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**National Library of Canada Cataloguing in Publication Data**

Gwartney, James D.

Economic freedom of the world ... annual report / James D. Gwartney.

Annual.

2005 issue by James D. Gwartney and Robert Lawson with Eric Gartzke.

Issued also online.

ISSN 1482-471X

ISBN 0-88975-222-2 (2005 issue)

1. Economic history--1990- --Periodicals. 2. Economic indicators--Periodicals.

I. Fraser Institute (Vancouver, B.C.) II. Title

HB95.G93

330.9'005

C97-302072-5

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## Acknowledgments

As always, we are grateful for the continued intellectual and financial assistance of Michael Walker, Executive Director of the Fraser Institute. In addition, Milton Friedman's continuing support for this project is a source of great pride. Without the assistance and guidance of both Mike Walker and Milton Friedman, this project would never have gotten off the ground.

The members of the Economic Freedom Network again provided valuable support for this report. Our thanks also go to Kathy Makinen at the DeVoe L. Moore Center of Florida State University; Fred McMahon and Amela Karabegović at the Fraser Institute who continue to provide tremendous support in managing the overall project and in keeping us on top of our deadlines; and Lindsey Thomas Martin who does such great work on the design and editing of the book. We are grateful for their hard work on the project.

James Gwartney  
Robert Lawson

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## About the Contributor

**Erik Gartzke** is Associate Professor of Political Science at Columbia University, and a member of the Saltzman Institute of War and Peace Studies. His research explores the determinants of international conflict and peace. Topics addressed in published academic papers include globalization, economic interdependence, the democratic peace, alliance and deterrence theory, enduring rivalry, and international institutions. He is currently working on a book titled *Perpetuating Peace*, which lays out the potential, and possible pitfalls, of a capitalist peace. Professor Gartzke received a PhD in Political Science at the University of Iowa in 1997. He taught for three years at the Pennsylvania State University before moving to Columbia University. Professor Gartzke is also a former infantry officer and combat engineer (USAR).

## About the Participating Institutes

Co-publishers of *Economic Freedom of the World*

### **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 conducts research on all aspects of free markets, voluntary association, and individual liberty, and publishes the results to as wide an audience as possible. The Center also organizes seminars and conferences to examine liberty and enterprise in Africa. ♦ E-mail: [kimenyi@kippra.or.ke](mailto:kimenyi@kippra.or.ke).

### **Albanian Center for Economic Research (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: [zpreci@interalb.net](mailto:zpreci@interalb.net); website: [www.acer.org.al](http://www.acer.org.al).

### **Alternate Solutions Institute, Pakistan**

Alternate Solutions Institute, founded in 2003, is the first free-market think tank in Pakistan. Its mission is (1) to seek solutions to challenges pertaining to the economy, law, education, and health in accordance with the principles of classical liberalism and (2) to promote the implementation of these solutions. The Institute aims to promote the concept of a limited, responsible government in Pakistan under the rule of law protecting life, liberty, and property of all of its citizens without any discrimination. The Institute conducts research and holds seminars, workshops, and conferences to educate interested students, teachers, and journalists about the principles of classical liberalism. ♦ E-mail: [info@asinstitute.org](mailto:info@asinstitute.org); website: [asinstitute.org](http://asinstitute.org).

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

The Association for Liberal Thinking is a non-profit, non-governmental organization seeking to introduce the liberal democratic tradition into Turkey. The Association promotes the understanding and acceptance of ideas like liberty, justice, peace, human rights, equality, and tolerance. It also encourages academic writing on liberal themes to help the Turkish people 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 broader political agendas so as to contribute to the liberalization of economics and politics in Turkey. ♦ E-mail: [liberal@ada.net.tr](mailto:liberal@ada.net.tr); website: [www.liberal-dt.org.tr](http://www.liberal-dt.org.tr).

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

ALEPS promotes the idea of free markets generating social progress. It connects French liberal intellectuals with the global 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. A post-socialist society has still to be set up, both in Eastern Europe as well as in Western countries such as France, where 40 years of the welfare state have led to mass unemployment,

fiscal oppression, an explosive expansion of social security, an increase in poverty and inequality, and a loss of moral virtues and spiritual values. ALEPS provides the political and intellectual push towards this necessary revival. ♦ E-mail: jacques.garello@univ.u-3mrs.fr.

#### **Cato Institute, United States of America**

Founded in 1977, the Cato Institute is a research foundation dedicated to broadening debate about public policy to include 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; website: www.cato.org.

#### **Causa Liberal, Portugal**

Causa Liberal is an independent, non-partisan, non-profit organization of Portuguese individuals who share the principles of the classical liberal tradition and wish to further its application in modern-day Portugal. Its mission is to defend the principles of the free society and its building blocks: individual rights, the rule of law, free markets, and private property. Its primary goals are to establish and consolidate a network of individuals with an interest in the study, discussion, and promotion of the classical liberal tradition, and to advance free-market ideas and policies in Portugal. ♦ E-mail: causaliberal@yahoo.com; website: www.causaliberal.net.

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

CEDICE is a non-partisan, non-profit, private association dedicated to the research and promotion of philosophical, economic, political, and social thinking that focuses on individual initiative and a better understanding of the free-market system and free and responsible societies. To this end, CEDICE operates a library and bookstore, publishes the series, *Venezuela Today*, and other studies, provides economic training for journalists, and conducts special events and community programs. ♦ E-mail: cedice@cedice.org.ve; website: www.cedice.org.ve.

#### **The Center for Economic and Political Research, Azerbaijan**

The Center for Economic and Political Research, Azerbaijan, is a non-profit, non-governmental, research institute founded in 1994. Its mission is to facilitate the country's democratization and economic liberalization and to increase the role of civil society. The main objectives of the Center's activities are analyzing the economic situation and progress of market reforms, political processes, foreign political relations, and regional economic and political tendencies. The Center also conducts sociological surveys and holds conferences, round-tables, and seminars on different aspects of economic and political reforms in the country. ♦ E-mail: sb@azerin.com.

#### **Center for Entrepreneurship and Economic Development (CEED), Montenegro**

The Center for Entrepreneurship and Economic Development is the first non-governmental, non-partisan free-market centre established in Montenegro. Its mission is to educate entrepreneurs about private ownership, democratic society, free markets, and the rule of law through a number of programs, initiatives, publications, and events. The Center was established to meet the demand for business knowledge by pioneering entrepreneurs who needed training to operate in a new environment after the break-up of the former Yugoslavia. ♦ E-mail: cfepg@cg.yu; website: www.visit-ceed.org.

#### **Center for Free Enterprise, Korea**

The Center for Free Enterprise (CFE) is a foundation committed to promoting free enterprise, limited government, freedom and individual responsibility, the rule of law and restraint of violence. Funded by the members of the Federation of Korean Industries (FKI), the CFE was founded as a non-profit, independent foundation on April 1, 1997, at a time of economic crisis in Korean society. The CFE has concentrated on championing a free economy through books and reports on public policies, statistics, and analyses. In workshops and policy forums, the CFE has put forward alternatives to policies proposed as solutions for issues facing Korean society. ♦ E-mail: csn@cfe.org; website: www.cfe.org.

### **Center for Politiske Studier, Denmark**

The Center for Politiske Studier (Center for Political Studies, CEPOS) was founded in 2004 as an independent, non-profit think-tank based in Copenhagen. It seeks to promote a free and prosperous society by conducting research that will foster the policies, institutions, and culture that will best support a market economy, rule of law, and a civil society consisting of free and responsible individuals. It does so by producing academic studies and policy analyses aimed partly at general political debate and partly at the political process in areas such as welfare, taxation, regulation, education, entrepreneurship, health care, the environment, and the organization of the public sector. ♦ E-mail: [info@cepos.dk](mailto:info@cepos.dk); website: [www.cepos.dk](http://www.cepos.dk).

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

The Center for Research and Communication (CRC) has, since 1967, conducted research and published works on domestic and international economic and political issues that affect the Asia-Pacific region. It provides forums for discussion and debate among academicians, businessmen, civil officials, and representatives of other sectors that shape public opinion and chart the course of policies. CRC is the main research arm of the University of Asia and the Pacific in Metro Manila, Philippines, and 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 inaugurated on August 15, 1997 and devoted to improving the quality of life for all citizens of India. The CCS maintains that, having earlier attained their political independence from an alien state, the Indian people must now seek economic, social, and cultural independence from the Indian state. This can work from two directions simultaneously: 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. The CCS 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. ♦ E-mail: [parth@ccsindia.org](mailto:parth@ccsindia.org); website: [www.ccsindia.org](http://www.ccsindia.org).

### **Centre for the New Europe, Belgium**

The Centre for the New Europe is a European research institute, based in Brussels, that promotes a market 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 Centre develops policy alternatives, encourages economic growth and deregulation, seeks new market-based solutions for social and environmental concerns, and promotes individual freedom, choice and responsibility. ♦ E-mail: [info@cne.org](mailto:info@cne.org); website: [www.cne.org](http://www.cne.org).

### **Centro Einaudi, Italy**

The Centro di Ricerca e Documentazione “Luigi Einaudi” was founded in 1963 in Turin, Italy, as a free association of businessmen and young intellectuals to foster individual freedom and autonomy, economic competition and the free market. The Centro is an independent, non-profit institute financed by contributions from individuals and corporations, by the sale of its publications, and by specific research commissions. The Centro carries on research activities, trains young scholars and researchers, organizes seminars, conferences and lectures, and publishes monographs, books and periodicals, including: the quarterly journal, *Biblioteca della libertà*; *Rapporto sull’economia globale e l’Italia* (Report on the global economy and Italy); *Rapporto sul risparmio e sui risparmiatori in Italia* (Report on savings and savers in Italy); and *Rapporto sulla distribuzione in Italia* (Report on the retail trade in Italy—published also in English). ♦ E-mail: [giovanni.ronca@geva.fiatgroup.com](mailto:giovanni.ronca@geva.fiatgroup.com); website: [www.centroeinaudi.it](http://www.centroeinaudi.it).

### **Centro de Investigación para el Desarrollo A.C., Mexico**

Centro de Investigación para el Desarrollo A.C. (CIDAC) is an independent, not-for-profit research institution devoted to the study of Mexico's economy and political system. Its philosophy is that Mexico's economy can be made viable only through a greater, more efficient, and more competitive private sector. CIDAC was founded in 1980 as an executive training facility for the financial sector at large (public and private, banking and business). It received an endowment from Banamex, then Mexico's largest private bank. In 1983, immediately after the expropriation of the private banks, CIDAC changed its mandate from teaching to research. Over the last five years, CIDAC has held over 40 conferences for businessmen and its professionals continuously address academic, policy, and business forums. CIDAC has also published 19 books on various economic, political, and policy issues, 45 monographs, and over 500 op-ed pieces in Mexican, American, and European papers and magazines. ♦ E-mail: cidacmx@aol.com; website: www.cidac.org.

### **Centro de Investigación 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@tsi.com.pe.

### **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 impede 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; website: www.cien.org.gt.

### **Centrum im. Adama Smitha, Poland**

The Centrum im. Adama Smitha, Poland (the Adam Smith Research Centre—ASRC) 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 promotes a free and fair market economy, participatory democracy, and a 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: www.adam-smith.pl.

### **Economic Policy Institute "Bishkek Consensus" (EPI), Kyrgyzstan**

The Economic Policy Institute "Bishkek Consensus" (EPI), Kyrgyzstan, was created in December of 2003 as a non-profit, non-partisan, independent institute with developed partnerships and cooperative relationships with government, business, international community, civil society, and Media. EPI's mission is to promote economic, social, and governance reforms in Kyrgyzstan, involving institutions of civil society to elaborate and execute the reforms, developing local potential and using best international experience. Its strategic position is to be an independent and highly objective source of information and research on public-policy issues, as well as an unbiased forum for collaboration of diverse interest groups in the reform of public policy. ♦ E-mail: office@epi.kg; website: www.epi.kg.

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

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 *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 and non-partisan, non-profit organization that provides a forum for the exchange of opinions among scholars, businessmen, and policy-makers on the causes of, and solutions to, economic, social, and political problems. It proposes practical reforms of the economy, education, social security, and legislation as the Slovak Republic is transformed into an open society. Education of high-school and university students is a large part of its activities. The F.A. Hayek Foundation promotes classical liberalism, which was virtually absent until 1989: market economy, reduced role of the government, rule of law and individual choice, responsibilities and rights to life, liberty, and property. ♦ E-mail: hayek@changenet.sk; website: www.hayek.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 Institute enjoys registered charitable status in both Canada and the United States, and is funded entirely by the tax-deductible contributions of its supporters, sales of its publications, and revenue from events. ♦ E-mail: info@fraserinstitute.ca; website: www.fraserinstitute.ca.

#### **Free Market Center, Serbia**

Free Market Center (FMC) is a non-profit, non-governmental organization founded in 2001. It is the only free-market think-tank in Serbia. The Center promotes the understanding and acceptance of ideas like individual liberty, the free-market economy, limited government, and peaceful cooperation. To that end, the FMC strives to achieve greater involvement in redirecting the attention not only of leading thinkers but also of members of the public, entrepreneurs, policy-makers, and students to the role of free markets and the proper role of government. Through publications, discussion forums, and conferences, the Center seeks to disseminate classical liberal ideas. ♦ E-mail: fmc@yubc.net; website: www.fmc.org.yu.

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

The Free Market Foundation is an independent policy research and education organization founded in 1975 to promote the principles of limited government, economic freedom and individual liberty in Southern Africa. Funding is received from members (corporate, organizational and individual), sponsorships, and the sale of publications. ♦ E-mail: fmf@mweb.co.za; website: www.freemarketfoundation.com.

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

The Fundación Economía y Desarrollo, Inc. (FEyD) is a private, non-profit organization dedicated to fostering competitive markets, private enterprise, and 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 one-hour television program called "Triálogo," which is broadcast three times a week and explains studies of the performance of the Dominican economy and its sectors. ♦ E-mail: feyd01@tricom.net; website: www.lafundacion.org.

**Fundación Libertad, Argentina**

Fundación Libertad is a private, non-profit institution working towards two main goals: the research and distribution of public-policy issues (specifically in socio-economic and business areas) and the promotion of the concept of a free-market society. Founded in Rosario, Argentina in 1988 by a group of businessmen, professionals, and intellectuals, the Foundation has developed its activities with the support of more than 200 private companies. Its projects include courses, lectures, seminars, research, studies, and publications as well as a strong permanent presence in the media, through columns, and television and radio programs produced by the Foundation. These projects have focused on economic policies, education, regulations, and public spending. Outstanding guest speakers have delivered lectures and conferences for the Fundación Libertad; these include Peruvian writer Mario Vargas Llosa, Nobel prize-winning economists such as Gary Becker, Douglass North, Robert Lucas, and James Buchanan, historian Paul Johnson, Nobel Peace Prize Laureate Lech Walessa, and other intellectuals like Jean Francoise Revel. Fundación Libertad has also led the creation of REFUNDAR, a network of Argentine foundations made up of ten organizations, located in the country's major cities. This network has helped us spread our ideas all over the country and is affiliated with similar international organizations. ♦ E-mail: [dmaggiolo@libertad.org.ar](mailto:dmaggiolo@libertad.org.ar).

**Fundación Libertad, Panamá**

Fundación Libertad, Panamá is a non-profit foundation engaged in the promotion and development of liberty, individual choice, and voluntary cooperation and in the reduction of the size of government. Fundación Libertad was founded in 2001 by members of professional and business organizations to promote free enterprise and democracy and to address issues affecting the freedom of the common citizen including the increasing discretionary power of the state and the proliferation of legislation fostering discrimination and establishing privileges, all of which are contrary to the spirit of democratic capitalism. Fundación Libertad has drawn initial support from sister organizations such as Centro de Divulgación del Conocimiento Económico (CEDICE) in Caracas, Venezuela, and the Centro de Investigación y Estudios Nacionales (CIEN) in Guatemala. ♦ Email: Roberto Brenes: [diablo@pty.com](mailto:diablo@pty.com); Carlos E. González: [cg@pananet.com](mailto:cg@pananet.com); website: [www.fundacionlibertad.org.pa](http://www.fundacionlibertad.org.pa).

**Fundación Libertad, Democracia y Desarrollo, Bolivia**

The Fundación Libertad, Democracia y Desarrollo (FULIDED) is a non-profit organization founded by citizens interested in promoting democracy and freedom. The purpose of the Foundation is to investigate and analyze issues that have economic, political, or social impact on the free market and private initiative. Through seminars, debates, and publications, FULIDED seeks to reflect Bolivia's participation in the global economy. ♦ E-mail: [fulided@cainco.org.bo](mailto:fulided@cainco.org.bo); website: [www.fulided.org](http://www.fulided.org).

**Hong Kong Centre for Economic Research, Hong Kong**

The Hong Kong Centre for Economic Research is an educational, charitable trust established in 1987 to promote the free market in Hong Kong by fostering public understanding of economic affairs and developing alternative policies for government. The Centre publishes authoritative research studies and is widely recognized as the leading free-market think-tank in Asia. It has been influential in persuading public opinion and the government in Hong Kong 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 the legally sanctioned fixing of deposit interest rates by banks, and adopt market mechanisms for protecting the environment. ♦ E-mail: [asiu@econ.hku.hk](mailto:asiu@econ.hku.hk); website: [www.hku.hk/hkcer/](http://www.hku.hk/hkcer/).

**Institut de Recherche pour la Liberté Économique et la Prospérité (IRLEP), Haiti**

L'Institut de Recherche pour la Liberté Économique et la Prospérité (IRLEP), Haiti, was founded in 2004. It is a non-partisan, non-profit, research and educational organization devoted to improving the quality of life in Haiti through economic growth and development. Through publications and conferences, IRLEP promotes the principles and concepts of individual rights, limited government, competition, free trade, and physical and intellectual property rights. IRLEP does not accept funding and subsidies from public institutions and political parties. ♦ E-mail: [irlephaiti@yahoo.com](mailto:irlephaiti@yahoo.com).

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

The mission of the Institute for Advanced Strategic and Political Studies is to develop policies in economics, strategic studies, and politics that will bring about limited government in domestic affairs and the balance of power in strategic planning. The Institute's Division for Economic Policy Research (DEPR) publishes Policy Studies in both English and Hebrew, while the Division for Research in Strategy and Politics produces a series of documents in strategic studies and another in politics. ♦ E-mail: [rjl@iasps.org](mailto:rjl@iasps.org); website: [www.israeleconomy.org](http://www.israeleconomy.org).

### **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 that receives international support and is widely respected for its expertise. IME designs and promotes solutions to the problems that Bulgaria is facing in its transition to a market economy, provides independent assessment and analysis of the government's economic policies, and supports an exchange of views on market economics and relevant policy issues. ♦ E-mail: [ime@omega.bg](mailto:ime@omega.bg); website: [www.ime-bg.org](http://www.ime-bg.org).

### **Institute of Business, Trinidad and Tobago**

The Institute of Business (The University of West Indies) was created in 1989 as a channel partner for developing managerial talent for the business community in Trinidad and Tobago. Its mission is to empower people and organizations in developing nations to optimize their performance capabilities and international competitiveness through development and deployment of consulting; education, research, and training resources. One of the Institute's core services are business and academic research in areas of real concern to business managers, enabling them to improve their ability to manage successfully in the face of increasingly complex markets. ♦ E-mail: [rbalgobin@uwi-iob.org](mailto:rbalgobin@uwi-iob.org); website: [www.uwi-iob.org](http://www.uwi-iob.org).

### **The Institute of Economic Affairs, Ghana**

The Institute of Economic Affairs (IEA), Ghana was founded in October 1989 as an independent, non-governmental institution dedicated to the establishment and strengthening of a market economy and a democratic, free, and open society. 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](mailto:iea@ghana.com); Tel: 233-21-244716/233-21-7010714; Fax: 233-21-222313.

### **The Institute of Economic Affairs, United Kingdom**

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: [pbooth@iea.org.uk](mailto:pbooth@iea.org.uk); website: [www.iea.org.uk](http://www.iea.org.uk).

### **Institute of Economic Analysis, Russia**

The Institute of Economic Analysis is a macroeconomic research institute that analyzes the current economic situation and policies and provides expert analysis of acts, programs, and current economic policy. It will offer advice to Russian government bodies, enterprises, and organizations and prepares and publishes scientific, research, and methodological economic literature. It also conducts 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 policies. ♦ E-mail: [iea@iea.ru](mailto:iea@iea.ru); website: [www.iea.org.uk](http://www.iea.org.uk).

### **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 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 taken on large-scale applied research projects with substantial analytical content and economic research. ♦ E-mail: [tthh@hi.is](mailto:tthh@hi.is); website: [www.ioes.hi.is](http://www.ioes.hi.is).

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

The Institute of Economics, Zagreb, established in 1939, is a major scientific and research institution for the study of economic processes and the application of contemporary theories 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 specialized areas such as business economics), current economic trends, methods of economic analysis, development of human resources, spatial and regional economics, international economics and technological development, and investment project planning. Researchers from both inside and outside the Institute 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 books, reports and studies as well as in scientific journals. The Institute maintains close contact with international organizations, professional associations, institutes, and universities. ♦ E-mail: [zbaletic@eizg.hr](mailto:zbaletic@eizg.hr); website: [www.eizg.hr/?Eizge.htm](http://www.eizg.hr/?Eizge.htm).

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

Established in 1943, the IPA is Australia's oldest and largest private-sector think-tank. Its aim is to foster prosperity and full employment, the rule of law, democratic freedoms, security from crime and invasion, and high standards in education and family life for the Australian people. 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](mailto:ipa@ipa.org.au); website: [ipa.org.au](http://ipa.org.au).

### **Institute of Public Policy Analysis, Nigeria**

PPA is a private, non-profit organization involved in research, education, and publication on matters affecting the freedom of individuals. Its objective is to provide market-oriented analysis of current and emerging policy issues, with a view to influencing the public debate and the political decision-making process. ♦ E-mail: [info@ippanigeria.org](mailto:info@ippanigeria.org); website: [www.ippanigeria.org](http://www.ippanigeria.org); mail: P.O. Box 6434 Shomolu, Lagos-Nigeria.

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

The Instituto Ecuatoriano de Economía Política (IEEP) is a private, independent, non-profit institution that defends and promotes 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 socioeconomic 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](mailto:dampuero@ecua.net.ec); website: [www.his.com/~ieep/](http://www.his.com/~ieep/).

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

Instituto Liberal was founded to persuade Brazilians of the advantages of a liberal order. It 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 and forbid any political or sectarian affiliations. 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); website: [www.institutoliberal.org.br](http://www.institutoliberal.org.br).

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

Libertad y Desarrollo is a private think-tank wholly independent of any religious, political, financial, or governmental groups. It is committed to the free market and to political and economic freedom. It publishes studies and analyses of public-policy issues. ♦ E-mail: [ega@chilesat.net](mailto:ega@chilesat.net); website: [www.lyd.com](http://www.lyd.com).

### **Instituto Libertad y Progreso (ILP), Colombia**

Instituto Libertad y Progreso (ILP) is a research and educational institution based in Bogota and focused on institutional topics, both in Colombia and internationally. ILP is focused on constitutional reform, constitutional law, economic institutions, and political thought. ♦ E-mail: [andresmejia@cable.net.co](mailto:andresmejia@cable.net.co); website: [www.ilyp.net](http://www.ilyp.net), [www.libertadyprogreso.net](http://www.libertadyprogreso.net).

### **Instituto para la Libertad y el Análisis de Políticas, Costa Rica**

The Institute for Liberty and Public Policy Analysis (INLAP) is a non-profit, non-partisan organization created to defend and promote individual liberty through analysis of public policy and educational activities. Its specific objectives are to increase awareness of the moral foundations of liberty and to promote liberty as an individual right necessary to achieve the highest levels of economic and human development; and to foster changes in social organization and public policies by influencing the thinking of policy makers, community leaders, and citizens.

INLAP produces timely analyses of proposed laws, decrees, and regulations, and its recommendations provide guidance for elected officials who seek to achieve greater individual liberty and creativity and a more productive economy. It also conducts detailed studies of well-meant public policies that may ultimately have unintended adverse effects. The Institute's studies and recommendations are published in books, journals, and newspapers, appear as position papers and bulletins, and are also available via our website. ♦ E-mail: [inlap@inlap.org](mailto:inlap@inlap.org); website: [www.inlap.org](http://www.inlap.org).

### **Liberales Institut, Germany**

The Liberales Institut (Liberty Institute), based in Potsdam, is the think-tank of the Friedrich-Naumann-Foundation. It spreads free-market ideas through the publication of classical liberal literature, the analysis of current political trends, and the promotion of research. The Institute organizes conferences and workshops to stimulate an intellectual exchange among liberals around the world. ♦ E-mail: [Liblnst@fnst.org](mailto:Liblnst@fnst.org); website: [www.fnst.de](http://www.fnst.de).

### **Liberales Institut, Switzerland**

The Liberales Institut is a forum 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 as the best way towards the goals of openness, diversity, and autonomy. The Liberales Institut is not associated with any political party. Through publications, discussion forums, and seminars, the Institute seeks to develop and disseminate classical liberal ideas. ♦ E-mail: [libinst@bluewin.ch](mailto:libinst@bluewin.ch); website: [www.libinst.ch](http://www.libinst.ch).

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

Liberální Institut is an independent, non-profit organization for the development and application of classical liberal ideas: individual rights, private property, rule of law, self-regulating markets, and delineated government functions. It is financed by its various activities and by donations from individuals and private corporations. ♦ E-mail: [michal.uryc@libinst.cz](mailto:michal.uryc@libinst.cz); website: [www.libinst.cz](http://www.libinst.cz).

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

Lithuanian Free Market Institute (LFMI) is an independent, non-profit organization established in 1990 to advance the ideas of individual freedom and responsibility, free markets, and limited government. Since its inception, LFMI has been at the forefront of economic thought and reform in Lithuania. Not only has LFMI helped frame policy debates by conducting research and creating reform packages on key issues, it has also conducted extensive educational campaigns and played a key "behind-the-scenes" role in helping to craft and refine legislative proposals. LFMI promoted the idea of a currency board and provided decisive input to the Law

on Litas Credibility. LFMI led the creation of the legal and institutional framework for the securities market and contributed significantly to the country's privatization legislation. LFMI initiated and participated in the policy-making process on private, fully funded pension insurance. LFMI's recommendations were adopted in legislation on commercial banks, the Bank of Lithuania, credit unions, insurance, and foreign investment. LFMI significantly influenced the improvement of company, bankruptcy and competition law.

LFMI has provided a valuable input to tax and budgetary policy. LFMI's influence led to introducing program budgeting, exempting reinvested profits, reducing inheritance and gift taxes, abolishing capital-gains tax, suspending the introduction of real-estate tax, eliminating income tax on interest on loans from foreign banks and international financial organizations as well as revising stamp duties, VAT regulations, and other taxes. LFMI initiated a deregulation and debureaucratization process aimed at eliminating excessive business regulations and downsizing bureaucracy. An important influence was exerted on the revision of employment, capital market, land purchase, and building regulations. Passage was gained for a deregulation-based approach to the fight against corruption. ♦ E-mail: LFMI@FreeMa.Org; website: www.FreeMa.org.

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

MOER (Making Our Economy Right), founded in 1991, is the country's lone free-market institute and continues to struggle to promote free-market capitalism against all odds. The concept of individual freedom and free markets determining the supply of goods, services, and capital is little understood in Bangladesh. For the past 50 years or so, Fabian socialism and the doctrines of Karl Marx were the basis of our country's economy. MOER contributes free-market, libertarian articles in English and Bangla newspapers. We also moderate a weekly radio talk show that focuses on liberalization of the economy. MOER also publishes books both in Bangla and in English for free distribution to libraries and others with the support of the International Policy Network of London. MOER's fourth book, published this year, *Clamoring for Free Market Freedom in Bangladesh*, has a foreword by Nobel laureate Milton Friedman. The book is a compilation of articles by Nizam Ahmad. ♦ E-mail: drmanzur@citechco.net; website: <http://www.moer.org>.

### **The Nassau Institute, Bahamas**

The Nassau Institute is an independent, non-political, non-profit 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@coralwave.com or info@nassauinstitute.org; website: [www.nassauinstitute.org](http://www.nassauinstitute.org).

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

The New Zealand Business Roundtable is made up of the chief executives of about 60 of New Zealand's largest businesses. 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. ♦ E-mail: nzbr@nzbr.org.nz; website: [www.nzbr.org.nz](http://www.nzbr.org.nz).

### **Open Republic Institute, Ireland**

The Open Republic Institute (ORI) is Ireland's only platform for public-policy discussion that is specifically interested in individual rights within the context of open society and open market ideas. The ORI works within a non-political framework to provide public-policy analysis and new policy ideas to government, public representatives, civil servants, academics, students, and citizens. ♦ E-mail: pmacdonnell@openrepublic.org; website: [www.openrepublic.org](http://www.openrepublic.org).

### **Open Society Forum, Mongolia**

The Open Society Forum is an independent, non-governmental, organization founded in 2004. The Forum's goals are to provide quality policy research and analysis and broad public access to information resources pertaining to governance, economic, and social policies. Specifically, the Forum focuses on economic freedom, land

reform, rule of law, freedom of media, campaign financing, nomadic pastoralism, privatization, shadow economy, and education policy. The Forum conducts research and holds conferences to encourage public participation in policy formulation on above mentioned public policies. ♦ E-mail: [osf@soros.org.mn](mailto:osf@soros.org.mn); [djargal@yahoo.com](mailto:djargal@yahoo.com); [syoloo@soros.org.mn](mailto:syoloo@soros.org.mn); website: [www.forum.mn](http://www.forum.mn).

#### **The Pathfinder Foundation, Sri Lanka**

The Pathfinder Foundation has replaced the Center for Policy Research. Through informed and well-researched information, it seeks to challenge old ideas and the conventional wisdom, stimulate debate, change public attitudes, and seek new and innovative solutions to the economic and social problems of Sri Lanka. ♦ E-mail: [amm@pathfinder.mmbgroup.com](mailto:amm@pathfinder.mmbgroup.com).

#### **Research Center for Entrepreneurship and Development Policies, Vietnam**

The Center, founded in 2004, is a non-government research and educational organization devoted to entrepreneurial development of private sector in Vietnam. Its mission is to study the development of policies that create the most favorable institutional and policy environment for entrepreneurial development of the private sector in Vietnam. Through publications, discussion forums, and conferences, the Center seeks to disseminate and encourage appropriate policies and entrepreneurial development. ♦ E-mail: [manhcuongiss@yahoo.com](mailto:manhcuongiss@yahoo.com); website: [www.rcedp.org](http://www.rcedp.org).

#### **Romania Think Tank, Romania**

Romania Think Tank is an independent research institute founded in 2003. The Think Tank is funded entirely by its founding members. Its objective is to promote the development of free market, low taxation, reduction of bureaucracy, free trade, and the stimulation of foreign investment. To this end, the Romania Think Tank publishes numerous articles in the Romanian and international media, and studies and analyzes issues relevant to the development of a free-market economy in Romania. ♦ E-mail: [mark@thinktankromania.com](mailto:mark@thinktankromania.com); website: [www.rtt.ro](http://www.rtt.ro).

#### **Scientific Research Mises Center, Belarus**

Scientific Research Mises Center was founded in 2001. Its mission is to advance ideas and ideals of free-market democratic society based on individual choice and personal responsibility and to create an open community of people who share those ideas. The centre promotes the original ideas of limited government, individual liberty, and private property through publications and discussion forums and conferences. The goal of the Center is to demonstrate the power of private institutions, both for-profit and non-profit, to create a good society and to foster the understanding that free choice of a fully informed individual is the foundation for a just, prosperous, and open society. ♦ E-mail: [liberty@belsonet.net](mailto:liberty@belsonet.net); website: [www.liberty-belarus.org](http://www.liberty-belarus.org).

#### **Society for Disseminating Economic Knowledge: "New Economic School—Georgia," Georgia**

The Society was founded in 2001. The goal of the Society is to disseminate and promote free-market ideas and to create a resource center promoting free-market economics for students, young scientists, teachers, and other interested parties. Through publications, conferences, seminars, lectures, panel workshops, summer and winter schools, scientific Olympiads, and competitions, the Society seeks to disseminate classical liberal ideas. ♦ E-mail: [nesgeorgia@yahoo.com](mailto:nesgeorgia@yahoo.com); website: [www.economics.ge](http://www.economics.ge).

#### **Szazadveg Policy Research Center, Hungary**

The Szazadveg Policy Research Center is a non-profit organization performing political and economic research, and 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 publishes the results of its research to the public at large and also provides professional services to economic institutions, political and civil organizations, political parties, and the government. ♦ E-mail: [gazso@szazadveg.hu](mailto:gazso@szazadveg.hu); website: [www.szazadveg.hu](http://www.szazadveg.hu).

**TIGRA®, Austria**

TIGRA® is the premier Austrian think-tank on governance research. Headquartered in Salzburg, it was founded to study and advance effective and efficient economic policies. TIGRA® organizes workshops and publishes papers and reports. Their mission is “From analysis to action.” TIGRA® is a network of experts who provide effective market solutions to policy-makers. Special emphasis is put on knowledge management, monitoring the scope and quality of regulations (“cutting red tape”), and setting benchmarks. ♦ E-mail: [bendl@erwin.tc](mailto:bendl@erwin.tc); website: [www.tigra.at](http://www.tigra.at).

**Timbro, Sweden**

Timbro is a Swedish think-tank that encourages public opinion to favour free enterprise, a free economy, and a free society. Timbro publishes books, papers, reports, and the magazine, *Smedjan*. It also arranges seminars and establishes networks among people. 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](mailto:mattiasb@timbro.se); website: [www.timbro.se](http://www.timbro.se).

**The Ukrainian Center for Independent Political Research, Ukraine**

The Ukrainian Center for Independent Political Research (UCIPR) was established in early 1991 as a non-profit, non-partisan, and non-governmental research institution that would increase awareness of democracy among the Ukrainian people and analyze 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, the economy in transition, security, relations with neighbouring states, the Crimean dilemma, interethnic relations, and the freedom of the news media. The Center has hosted a number of national and international conferences and workshops. ♦ E-mail: [kam@political.kiev.ua](mailto:kam@political.kiev.ua); website: [www.ucipr.kiev.ua](http://www.ucipr.kiev.ua).

**The Zambia Institute for Public Policy Analysis (ZIPPA), Zambia**

The mission of the Zambia Institute for Public Policy Analysis (ZIPPA) is to promote wider appreciation of the key role of free markets and competition in economic development. Zambia, though peaceful and stable, is currently mired in a combination of protracted poverty, the HIV/AIDS pandemic, political animosities following a disputed election, and scepticism about economic liberalization. In this depressing environment, ZIPPA wants to play a constructive role by promoting realistic economic policies and by suggesting solutions that have been successfully applied in other countries to similar economic problems. ♦ E-mail: [mwanalum@zamnet.zm](mailto:mwanalum@zamnet.zm).

**D’Letzeburger Land, Luxembourg**E-mail: [info@mmp.lu](mailto:info@mmp.lu)**The Institute for Development of Economics and Finance, Indonesia**E-mail: [Indef@indo.net.id](mailto:Indef@indo.net.id)**Bureau d’Analyse d’Ingenierie et de Logiciels (BAILO), Ivory Coast**E-mail: [bailo@globeaccess.net](mailto:bailo@globeaccess.net)

## Other Measures Related to Economic Freedom

### ***Economic Freedom of North America***

*Economic Freedom of North America*, an intellectual offshoot of the *Economic Freedom of the World*, measures economic freedom in the Canadian provinces and US states. The index attempts to gauge the extent of restrictions on economic freedom imposed by governments in North America. The study employs two indexes: the first is the subnational index, which measures the impact of provincial/state and local governments, whereas the second index measures the restrictions of all levels of government—federal, provincial/state and local. All 10 provinces and 50 states are included in both indexes. The third annual report was published in the summer of 2005.

For more information see Amela Karabegović & Fred McMahon with Glenn Mitchell, *Economic Freedom of North America: 2005 Annual Report* (Vancouver, BC: The Fraser Institute, 2005). Available at <[www.freetheworld.com](http://www.freetheworld.com)> and <[www.fraserinstitute.ca](http://www.fraserinstitute.ca)>.

### ***NERI Index of Marketization of China's Provinces***

The *NERI Index of Marketization of Chinese Provinces* uses the methodology of *Economic Freedom of the World* to rank Chinese provinces according to their level of market development. The *Index of Marketization* provides valuable information on institutions and other variables of central importance to economic freedom but its primary purpose is to measure the development of competitive markets in China's provinces. In other words, the index measures how far provinces have moved along the path to a market economy. The index has five areas:

- 1 Relation between government and the market
- 2 The non-state sector
- 3 Manufactured goods market
- 4 The factor market
- 5 Intermediary institutions and legal environment.

For more information, see Gang Fan and Xiaolu Wang, *NERI Index of Marketization of China's Provinces 2004 Report* (Beijing: National Economic Research Institute and China Reform Foundation, 2005).

### ***Economic Freedom of the Arab World***

*Economic Freedom of the Arab World* is modeled on the EFW index and measures economic freedom in the same five areas: Size of Government: Expenditures, Taxes, and Enterprises; Legal Structure and Security of Property Rights; Access to Sound Money; Freedom to Trade Internationally; and Regulation of Credit, Labor, and Business. The underlying data for some of the EFW components were unavailable for some of the Arab countries; therefore, in some cases, similar variables were used instead of these components. The index measures the restrictions on economic freedom imposed by governments in 16 of the 22 Arab League Countries.

The first preliminary edition of the Arab index was published by World Economic Forum in the *Arab World Competitiveness Report 2005*. The second edition of the index will be published in November of 2005 by The Fraser Institute. For more information, see Salem Al Ismaily, Amela Karabegović, and Fred McMahon, "Economic Freedom of the Arab World," in Augusto Lopez-Claros and Klaus Schwab, *Arab World Competitiveness Report 2005* (Geneva: World Economic Forum, 2005): 129–41.

**Economic Freedom of the World  
2005 Annual Report**



# Executive Summary

## Economic Freedom of the World

The index published in *Economic Freedom of the World* measures the degree to which the policies and institutions of countries are supportive of economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to compete, and security of privately owned property. Thirty-eight components and sub-components are used to construct a summary index and to measure the degree of economic freedom in five areas: (1) size of government; (2) legal structure and protection of property rights; (3) access to sound money; (4) international exchange; and (5) regulation.

### Economic freedom has grown considerably in recent decades

- ◆ The chain-linked summary index (exhibit 1.4) permits comparison over time. The average economic freedom score rose from 5.17 (out of 10) in 1985 to 6.4 in the most recent year for which data are available. Of the 109 nations with scores in 1985 and in the most recent index, 96 recorded improvement in their economic freedom score, seven saw a decline, and six registered changes of under 0.1 points.
- ◆ Among those nations that have made substantial gains in economic freedom since 1985 are Bolivia, Brazil, El Salvador, Ghana, Iceland, Jamaica, Nicaragua, Peru, Poland, Tanzania, Uganda, and Zambia, though some of these began at very low levels or have experienced ups and downs over the period. Among those nations that have registered significant losses in economic freedom since 1985 are Myanmar, Venezuela, and Zimbabwe.
- ◆ In this year's index (exhibit 1.2), Hong Kong retains the highest rating for economic freedom, 8.7 of 10, closely followed by Singapore at 8.5. New Zealand, Switzerland, and the United States tied for third with ratings of 8.2. The United Kingdom, Canada, and Ireland ranked 6<sup>th</sup>, 7<sup>th</sup>, and 8<sup>th</sup>, respectively. Australia, Estonia, Luxembourg, and the United Arab Emirates tied for 9<sup>th</sup>. The rankings of other large economies are Germany, 19; Japan, 30; France, 38; Italy, 54; Mexico, 59; India, 66; China, 86; Brazil, 88; and Russia, 115.
- ◆ Most of the lowest-ranking nations are African, Latin American, or former communist states. Botswana's ranking of 30 is the best among continental sub-Saharan African nations. Chile and Costa Rica, tied at 20, have the best record in Latin America. The bottom nations were Burundi, Guinea-Bissau, the Democratic Republic of Congo, Venezuela, Zimbabwe, and Myanmar. However, a number of other nations for which data are not available, such as North Korea and Cuba, may have even less economic freedom.

### Nations that are economically free out-perform non-free nations in indicators of well-being

- ◆ Nations in the top quintile in economic freedom have an average per-capita GDP of US\$25,062, compared to US\$2,409 for those nations in the bottom quintile. (Exhibit 1.5)
- ◆ The top quintile has an average per-capita economic growth rate of 2.5%, compared to 0.6% for the bottom quintile. (Exhibit 1.6)
- ◆ Unemployment in the top quintile averages 5.2%, compared to 13.0% in the bottom quintile. (Exhibit 1.8)

- ◆ Life expectancy is 77.7 years in the top quintile compared to 52.5 years in the bottom quintile. (Exhibit 1.9)
- ◆ In nations of the top quintile, the average income of the poorest 10% of the population is US\$6,451, compared to \$1,185 for those in the bottom quintile. (Exhibit 1.11)
- ◆ In nations of the top quintile, only 0.1% of children are in the labor force, compared to 22.6% in the least economically free nations. (Exhibit 1.15)
- ◆ Nations in the top quintile of economic freedom, have an average score of 1.7 for political rights on a scale of 1 to 7, where 1 marks the highest level of freedom and 7, the lowest level. The bottom quintile has an average score of 5.0. (Exhibit 1.21)

## **Economic Freedom and Peace**

In chapter 2, Erik Gartzke, a political scientist from Columbia University, shows that economic freedom reduces violent conflict. As well, he compares the impact of economic freedom on peace to that of democracy on peace. Researchers have long known democracies go to war about as often as other nations but tend not to go to war with each other. However, stable democracies typically have strong levels of economic freedom, leading to the question of whether it is democracy or economic freedom that affects the probability of violent conflict.

### **Economic freedom creates a substantial peace dividend**

- ◆ When measures of both economic freedom and democracy are included in a statistical study, economic freedom is about 50 times more effective than democracy in diminishing violent conflict.
- ◆ The impact of economic freedom on whether states fight or have a military dispute is highly significant (at the 1% level) while democracy is not a statistically significant predictor of conflict.
- ◆ Nations with a low score for economic freedom (below 2 out of 10) are 14 times more prone to conflict than states with a high score (over 8) (figure 2.1).
- ◆ The overall pattern of results does not shift when additional variables, such as membership in the European Union, nuclear capability, and regional factors, are added (tables 2.2, 2.3, 2.4).

### **Economic freedom and competitive markets promote peaceful co-existence by altering incentives**

- ◆ Wealth and power are created by markets and the efficient production that arises from them, not by conquest of land or raw materials.
- ◆ Changes in the nature of production in modern capitalist states make conquest unprofitable.
- ◆ Wealth created by market economies through efficient production, unlike wealth derived from land or resources, is difficult for nations to “steal” by violent action since efficient production requires property rights and free decisions by market participants that are difficult or impossible to coordinate to the victor’s advantage.
- ◆ Markets provide political leaders with more accurate signals and make it more costly for them to use threats to mislead potential opponents. This improves the effectiveness of bargaining, expands the area of mutual gain, and thereby reduces the likelihood of military conflict.