

Economic freedom delivers results

Alan Moran

The Institute of Public Affairs participates in an annual assessment of economies compiled by Canada's Fraser Institute. Called the *Economic Freedom of the World*, the compilation assesses 141 countries against 42 criteria to determine how open they are to private enterprise. These criteria include:

- Size of Government;
- Legal Structure and Security of Property Rights;
- Access to Sound Money;
- Freedom to Trade Internationally; and
- Various labour market, credit and other business regulations.

The assessment, which commenced in 1975, owes much to the late Milton Friedman, who is easily the most outstanding economist of the latter half of the twentieth century. Friedman assigned tasks for the first assessment and personally collated the ratings.

Unremarkably, the best performers in the index are the open market free enterprise economies led by Hong Kong and Singapore, but including the US, western European countries, New Zealand and Canada, as well as Australia. Also, since the fall of Communism, we have seen a steady increase in economic freedom in almost every country.

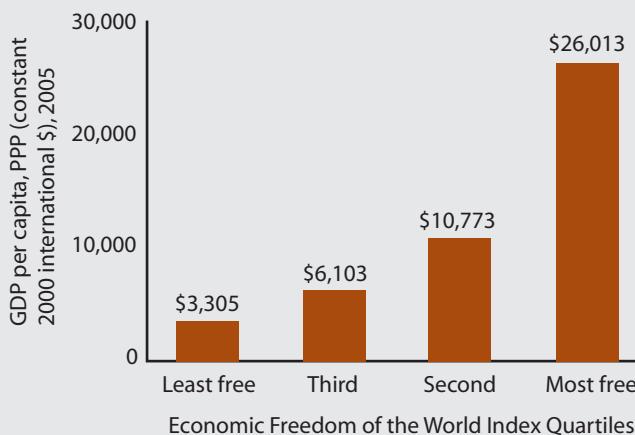
The Eastern European economies have progressed particularly strongly this past 20 years. Indeed, Estonia, Latvia, Kazakhstan (yes, Borat truly is a myth!) and Slovakia are now up with the leaders. China has seen a rapid improvement, as has India which has emerged from a long period when its economy was mired by state planning and controls.

In Africa, Botswana, the one country which started early on the free market, small government path, has been the stand-out achiever. More recent reforms in countries such as Ghana, Kenya and Tanzania have yet to be translated into solid sustained income dividends.

Alan Moran is Director, Deregulation Unit at the Institute of Public Affairs.

The Economic Freedom of the World Report is available at www.freetheworld.com

Countries with the greatest degree of freedom also experience the highest GDP per capita



Source: Economic Freedom of the World Index, 2007

Those going backwards are the basket-case failing economies such as Myanmar and Zimbabwe, soon to be joined by Venezuela where retrograde assaults upon property rights are still masked by oil wealth. (Some countries, such as North Korea and Cuba, which would fall squarely within this category, are not rated in the compilation.)

In aggregate terms, economic freedom is heavily associated with prosperity, longer life expectancy, faster economic growth and even lower levels of poverty. In fact, the income share of the poorest 10 per cent tends to be remarkably similar at a little over 2 per cent of total GDP in all categories of economies. Average levels of per capita income are illustrated below

Australia comes in at ninth in the world, above Japan and most of Western Europe as well as the Usual Suspects.

This rating may be mildly flattering, since the assessment criteria are of necessity somewhat rigid. They may therefore fail to detect some of the deficiencies in property rights with which we are familiar in Australia—matters such as the diminished certainty resulting from Native Title, and the fact that, unlike the Federal Government, the States are not obliged to provide ‘just terms’ compensation for property seizures.

IPA