

Chapter 1: Economic Freedom of the World, 2004

The roots of the index published in *Economic Freedom of the World* (EFW) go back to a series of conferences hosted by Michael Walker of The Fraser Institute and Nobel Laureate Milton Friedman from 1986 to 1994. These conferences focused on measuring how consistent a nation's institutions and policies were with economic freedom. Approximately 60 of the world's leading scholars, including Nobel Prize winners Gary Becker and Douglass North, also participated in the series.¹ Eventually the conferences led to the publication, in 1996, of *Economic Freedom of the World: 1975–1995*.

Ten years have now passed since the publication of the initial report but the objective remains the same: the measurement of economic freedom in an accurate and comprehensive manner. Compared to the initial index, the current version is more comprehensive, ratings are available for more countries, and the chain-link version of the index provides for more accurate comparisons across time periods. In recent years, there has been an outburst of scholarly articles analyzing the impact of institutions and policies on topics ranging from economic growth to the environment for peace. More than 200 of these scholarly articles have used the data from *Economic Freedom of the World* in their analyses. This highlights the importance of the EFW measure and challenges us to continue with efforts to make it even better.

What is economic freedom?

The key ingredients of economic freedom are

- ◆ personal choice,
- ◆ voluntary exchange coordinated by markets,

- ◆ freedom to enter and compete in markets, and
- ◆ protection of persons and their property from aggression by others.

Personal ownership of self is an underlying postulate of economic freedom. Because of this self ownership, individuals have a right to choose—to decide how they will use their time and talents. On the other hand, they do not have a right to the time, talents, and resources of others. Thus, they have no right to demand that others provide things for them.

In order to achieve a high EFW rating, governments must do some things, but refrain from others. Governments promote economic freedom when they establish a legal structure that provides for the even-handed enforcement of contracts and the protection of individuals and their property from aggressors seeking to use violence, coercion, and fraud to seize things that do not belong to them. Governments also enhance economic freedom when they allow citizens access to sound money. However, if a government is going to receive a high economic freedom rating, it must also refrain from many activities. It must refrain from actions that interfere with personal choice, voluntary exchange, and the freedom of individuals and businesses to compete. When taxes, government expenditures, and regulations are substituted for personal choice, voluntary exchange, and market coordination, economic freedom is reduced. Similarly, restrictions that limit entry into occupations and business activities also retard economic freedom.

When the government of a country protects people and their property from the actions of aggressors, enforces contracts in an unbiased manner, and provides a limited set of "public goods" like roads, flood control, and money of stable value, but leaves the allocation of other goods and services to the market, the country's EFW rating will be high. In essence, the EFW rating is a measure of the extent to which countries rely on private ownership and markets rather than the political process to allocate goods, services, and resources. Countries that rely more extensively on markets will earn higher EFW ratings.

¹ For additional information on these conferences, see Michael A. Walker, ed., *Freedom, Democracy, and Economic Welfare* (The Fraser Institute, 1988); Walter Block, ed., *Economic Freedom: Toward a Theory of Measurement* (The Fraser Institute, 1991); and Stephen T. Easton and Michael A. Walker, eds., *Rating Global Economic Freedom* (The Fraser Institute, 1992).

The EFW index reflects the concept of protective rights—that is, rights that provide individuals with a shield against others who would invade or take what does not belong to them. Because these are nonaggression or “negative” rights, all citizens can simultaneously possess them. Some argue that individuals have invasive rights or what some call “positive rights” to things like food, housing, medical services, or a minimal income level. Such rights imply that some individuals have the right to impose on others. If A has a positive right to housing, for example, this logically implies that A has a right to force B to provide the housing. But in a protective rights context, A has no right to the labor of B or any other individual since B owns himself. Because they imply that some have the right to invade and seize the labor and possessions of others, such invasive rights are in conflict with economic freedom.

Economic, Political, and Civil Liberties

Economic freedom covers a different sphere of human interaction than political freedom and civil liberties. Political freedom concerns the procedures that are used to elect government officials and decide political issues. Political liberty is present when all adult citizens are free to participate in the political process (vote, lobby, and choose among candidates), and elections are democratic, fair, and competitive. Civil liberty encompasses the freedom of the press and the rights of individuals to assemble, hold alternative religious views, receive a fair trial, and express their views without fear of retaliation.

As in the case of economic freedom, personal choice, competition, voluntary interaction with others, and evenhandedness among citizens provide the foundation for political and civil liberties. Consider political liberty. The freedom of voters to support candidates and parties of their choice is grounded in the personal-choice postulate. Similarly, the presence of competition among alternative candidates and parties merely reflects the importance of voluntary interaction and free entry (freedom to compete). Voluntary association and freedom to compete also provide the foundation for civil liberties, including the right to assemble, freedom of religion, and freedom of the press. The right to a fair trial reflects the importance of an evenhanded legal system and protection of person and property against aggression. Thus economic, political, and civil liberties reflect the same fundamental values.

Yet, it is possible for a country to have a substantial amount of political freedom and, at the same time, follow

policies that severely limit economic freedom. Historically, India has exemplified this path. It is also possible for a country to have a substantial amount of economic freedom even though citizen participation in the political process is highly limited. Hong Kong during the last several decades provides an example of this case.

Economic Freedom and Democracy

It is important to distinguish between economic freedom and democracy. Mutual agreement provides the basis for economically free activities. Unless both parties to an exchange agree, the transaction will not occur. On the other hand, “majority rule” provides the basis for democratic political action. In the case of direct democracy, the majority of those voting on the issue will be decisive. For representative democracy, legislative majorities will decide the issue.

It makes a huge difference whether mutual agreement or majority rule underpins economic activities. When mutual agreement forms the basis for economic activity, there will be a strong tendency for resources to be used in ways that increase their value. The agreement of buyer and seller to an exchange provides strong evidence that the transaction increases the well-being of both as well as that of society. In contrast, there is no such tendency under majority rule. The political process generates both “winners” and “losers” and there is no assurance that the gains of the winners will exceed the cost imposed on the losers. As the public-choice literature highlights, there are several circumstances under which there is good reason to expect that the cost imposed on the majority will be greater than the benefits derived by the political minority.

The political process tends to be shortsighted. It is biased toward the adoption of programs that provide immediate, highly visible benefits at the expense of future costs that are difficult to identify. This is true even when such programs are counterproductive. Furthermore, when the government is heavily involved in activities that provide favors to some at the expense of others, people will be encouraged to divert resources away from productive activities and toward lobbying, campaign contributions, and other forms of political favor seeking. Predictably, the shift of resources away from production and toward plunder will generate economic inefficiency.

But, perhaps, it is the “special interest effect” that provides the most important explanation for why the majoritarian political process will often go awry—why it will often lead to policies that do more harm than good.

Elected political officials will often find it attractive to support the positions of well-organized interest groups at the expense of consumers and taxpayers. This will be true even when the gains derived by an interest group are substantially less than the cost imposed on other voters. Well-organized interest groups provide politicians with a readily available source of campaign contributions and other political resources that will help them win subsequent elections. In contrast, those harmed by special-interest policies are unlikely to provide much political assistance because they are largely unorganized and frequently poorly informed.

Thus, the democratic political process is often characterized by politicians who “trade” programs that benefit special-interest groups at the expense of the general populace in exchange for political contributions that will help them win the next election. In contrast with market actions based on mutual agreement, there is no assurance that political action will be productive, that it will expand output and enhance the income levels of the citizenry.²

Unconstrained majoritarian democracy is not the political system that is most complementary with economic freedom; limited constitutional government is. Constitutional restraints, structural procedures designed to promote agreement and reduce the ability of interest groups to exploit consumers and taxpayers, and competition among governmental units (federalism) can help restrain the impulses of the majority and promote political action more consistent with economic freedom. It is widely recognized that protection of civil liberties involves political constraints capable of controlling the excesses of the majority. Thus, we do not count on majority rule to protect civil liberties such as the right to free speech, freedom of the press, the right to assembly, and religious freedom. Rather, it is recognized that constitutional and structural protections are needed to secure these liberties. The same thing is true of economic freedom. Basic economic freedoms such as (a) the right to trade with others, including foreigners, at mutually agreeable terms, (b) the right to enter and compete in the business or occupation of your choice, (c) the right to keep what you earn, and (d) protection of your property from confiscation by others, including the government, are too important to be left to the “rule of the major-

ity.” Like other basic liberties, they deserve constitutional, procedural, and structural protection.

The Economic Freedom of the World Index

The Economic Freedom of the World (EFW) index has been constructed with a number of methodological goals in mind. First, the index needs to cover a relatively large number of countries over as lengthy a period of time as possible. As a result, many idiosyncratic and country- or time-specific interferences in economic freedom cannot be included in the index. Second, all data used to construct index ratings are from third-party international sources such as the IMF, World Bank, World Economic Forum and so on. Data provided directly from a source within a country are used only rarely. Importantly, the authors of the index do not generate any data and are not in a position to change the underlying data unless a clear error can be documented. While much of the data is of the “objective” statistical sort, much is also “subjective,” coming from surveys, case analyses, or expert panels. Third, the report aims to be as transparent as possible about the data sources, the methodology for transforming raw data into index ratings and for constructing area and summary ratings, and so on. Complete methodological details are found in Appendix 1: Explanatory Notes and Data Sources (page 175). In the final analysis, we are confident that the EFW index is the best measure of economic freedom available and that it provides a reliable measure of cross-country differences in economic freedom.

Exhibit 1.1 indicates the structure of the EFW index. The index measures the degree of economic freedom present in five major areas:

- 1 Size of Government: Expenditures, Taxes, and Enterprises
- 2 Legal Structure and Security of Property Rights
- 3 Access to Sound Money
- 4 Freedom to Trade Internationally
- 5 Regulation of Credit, Labor, and Business.

Within the five major areas, 21 components are incorporated into the index, but many of those components are themselves made up of several sub-components. Counting the various sub-components, the EFW index

² For additional analysis of why democratic political decision making will often lead to counterproductive economic activities, see Chapter 6 of James Gwartney, Richard Stroup, Russell Sobel, and David Macpherson, *Economics: Private and Public Choice* (11th edition), (Thomson South-Western, 2006).

Exhibit 1.1: The Areas and Components of the EFW Index

1 Size of Government: Expenditures, Taxes, and Enterprises

- A General government consumption spending as a percentage of total consumption
- B Transfers and subsidies as a percentage of GDP
- C Government enterprises and investment as a share of total investment
- D Top marginal tax rate (and income threshold at which it applies)
 - i Top marginal income tax rate (and income threshold at which it applies)
 - ii Top marginal income and payroll tax rate (and income threshold at which the top marginal income-tax rate applies)

2 Legal Structure and Security of Property Rights

- A Judicial independence—the judiciary is independent and not subject to interference by the government or parties in disputes
- B Impartial courts—a trusted legal framework exists for private businesses to challenge the legality of government actions or regulation
- C Protection of intellectual property
- D Military interference in rule of law and the political process
- E Integrity of the legal system

3 Access to Sound Money

- A Average annual growth of the money supply in the last five years minus average annual growth of real GDP in the last ten years
- B Standard inflation variability in the last five years
- C Recent inflation rate
- D Freedom to own foreign currency bank accounts domestically and abroad

4 Freedom to Trade Internationally

- A Taxes on international trade
 - i Revenue from taxes on international trade as a percentage of exports plus imports
 - ii Mean tariff rate
 - iii Standard deviation of tariff rates
- B Regulatory trade barriers
 - i Non-tariff trade barriers
 - ii Compliance cost of importing and exporting
- C Actual size of trade sector compared to expected size

Exhibit 1.1 continued: The Areas and Components of the EFW Index

- D Difference between official exchange rate and black-market rate
- E International capital market controls
 - i Foreign ownership / investment restrictions
 - ii Restrictions on the freedom of citizens to engage in capital market exchange with foreigners—index of capital controls among 13 IMF categories

5 Regulation of Credit, Labor, and Business

- A Credit market regulations
 - i Ownership of banks—percentage of deposits held in privately owned banks
 - ii Competition—domestic banks face competition from foreign banks
 - iii Extension of credit—percentage of credit extended to private sector
 - iv Avoidance of interest rate controls and regulations that lead to negative real interest rates
 - v Interest rate controls—interest rate controls on bank deposits and/or loans are freely determined by the market
- B Labor market regulations
 - i Impact of minimum wage
 - ii Hiring and firing practices—hiring and firing practices of companies are determined by private contract
 - iii Share of labor force whose wages are set by centralized collective bargaining
 - iv Unemployment benefits—the unemployment benefits system preserves the incentive to work
 - v Use of conscripts to obtain military personnel
- C Business regulations
 - i Price controls—extent to which businesses are free to set their own prices
 - ii Burden of regulation
 - iii Time with government bureaucracy—senior management spends a substantial amount of time dealing with government bureaucracy
 - iv Starting a new business—starting a new business is generally easy
 - v Irregular payments—irregular, additional payments connected with import and export permits, business licenses, exchange controls, tax assessments, police protection, or loan applications are very rare

comprises 38 distinct pieces of data.³ Each component and sub-component is placed on a scale from 0 to 10 that reflects the distribution of the underlying data. The component ratings within each area are averaged to derive ratings for each of the five areas. In turn, the summary rating is the average of the five area ratings.⁴

1 Size of Government: Expenditures, Taxes and Enterprises

The four components of Area 1 indicate the extent to which countries rely on the political process to allocate resources and goods and services. When government spending increases relative to spending by individuals, households, and businesses, government decision-making is substituted for personal choice and economic freedom is reduced. The first two components address this issue. Government consumption as a share of total consumption (1A) and transfers and subsidies as a share of GDP (1B) are

3 Some data from the various business surveys (18 sub-components in total) are not available for all of the countries covered by the EFW index. Two of the areas, Size of Government: Expenditures, Taxes, and Enterprises (Area 1) and Access to Sound Money (Area 3), are unaffected by the omitted variables. The omissions, however, could be important in Legal Structure and Security of Property Rights (Area 2) and Regulation of Credit, Labor, and Business (Area 5) and, to a lesser extent, in Freedom to Trade Internationally (Area 4). In these three areas, we ran a regression among the countries for which we had complete data. The dependent variable was the area rating with the survey data and the independent variable was the area rating excluding the survey data. The regression relationship indicates how the omission of the survey data affects the area rating. The regression estimates were used to adjust the area ratings for the countries without survey data and, thereby, make them more comparable with the ratings of the countries for which the survey data were available. The same adjustments were performed in all years. While these statistical adjustments enhance the overall comparability among the countries, comparisons between the nations that have the survey data and the nations that do not should be made with a degree of caution.

4 Over the years, a number of different weighting methods ranging from the subjective views of “experts” to principal component analysis have been tried. In most cases, the choice of weighting method exerts little impact on the rating and ranking of countries. So, in an effort to keep the procedure simple and transparent, a simple average is used to combine the components into area ratings and the area ratings into summary ratings. This does not mean to imply that all components and areas of economic freedom are equally important. For some purposes, clearly some of the components are more important than others. Readers who want to weight the components and areas to suit themselves are invited to do so.

indicators of the size of government. When government consumption is a larger share of the total, political choice is substituted for private choice. Similarly, when governments tax some people in order to provide transfers to others, they reduce the freedom of individuals to keep what they earn. Thus, the greater the share of transfers and subsidies in an economy, the less economic freedom.

The third component (1C) in this area measures the extent to which countries use private rather than government enterprises to produce goods and services. Government firms play by rules that are different from those to which private enterprises are subject. They are not dependent on consumers for their revenue or on investors for risk capital. They often operate in protected markets. Thus, economic freedom is reduced as government enterprises produce a larger share of total output.

The fourth component (1D) is based on (Di) the top marginal income tax rate and (Dii) the top marginal income and payroll tax rate and the income threshold at which the top marginal income-tax rate applies. These two sub-components are averaged to calculate 1D. High marginal tax rates that apply at relatively low income levels are also indicative of reliance upon government. Such rates deny individuals the fruits of their labor. Thus, countries with high marginal tax rates and low income thresholds are rated lower.

Taken together, the four components of Area 1 measure the degree to which a country relies on personal choice and markets rather than government budgets and political decision-making. Therefore, countries with low levels of government spending as a share of the total, a smaller government enterprise sector, and lower marginal tax rates earn the highest ratings in this area.

2 Legal Structure and Security of Property Rights

Protection of persons and their rightfully acquired property is a central element of both economic freedom and a civil society. Indeed, it is the most important function of government. Area 2 focuses on this issue. The key ingredients of a legal system consistent with economic freedom are rule of law, security of property rights, an independent judiciary, and an impartial court system. Components indicating how well the protective function of government is performed were assembled from two primary sources: the *International Country Risk Guide* and the *Global Competitiveness Report*.⁵

5 The data in the PRS Group’s *International Country Risk Guide* are computed by an in-house panel of experts whereas data in the World Economic Forum’s *Global Competitiveness Report* are based on a survey of business decision-makers.

Security of property rights, protected by the rule of law, is essential to economic freedom. Freedom to exchange, for example, is meaningless if individuals do not have secure rights to property, including the fruits of their labor. Failure of a country's legal system to provide for the security of property rights, enforcement of contracts, and the mutually agreeable settlement of disputes will undermine the operation of a market-exchange system. If individuals and businesses lack confidence that contracts will be enforced and the fruits of their productive efforts protected, their incentive to engage in productive activity will be eroded. Furthermore, poor performance in this area is sure to deter investment. Therefore, it is highly unlikely that countries with low ratings in this area will be able to achieve and sustain high rates of growth.

3 Access to Sound Money

Money oils the wheels of exchange. An absence of sound money undermines gains from trade. As Milton Friedman informed us long ago, inflation is a monetary phenomenon, caused by too much money chasing too few goods. High rates of monetary growth invariably lead to inflation. Similarly, when the rate of inflation increases, it also tends to become more volatile. High and volatile rates of inflation distort relative prices, alter the fundamental terms of long-term contracts, and make it virtually impossible for individuals and businesses to plan sensibly for the future. Sound money is essential to protect property rights and, thus, economic freedom. Inflation erodes the value of property held in monetary instruments. When governments use money creation to finance their expenditures, in effect, they are expropriating the property and violating the economic freedom of their citizens.

It makes little difference who provides sound money. The important thing is that individuals have access to it. Thus, in addition to data on a country's inflation and its government's monetary policy, it is important to consider how difficult it is to use alternative, more credible, currencies. If bankers can offer saving and checking accounts in other currencies or if citizens can open foreign bank accounts, then access to sound money is increased and economic freedom expanded.

There are four components to the EFW index in Area 3. All of them are objective and relatively easy to obtain and all have been included in the earlier editions of the index. The first three are designed to measure the consistency of monetary policy (or institutions) with long-term price stability. Component 3D is designed to measure the ease with which other currencies can be used via domestic and foreign bank accounts. In order to earn

a high rating in this area, a country must follow policies and adopt institutions that lead to low (and stable) rates of inflation and avoid regulations that limit the use of alternative currencies should citizens want to use them.

4 Freedom to Trade Internationally

In our modern world of high technology and low costs for communication and transportation, freedom of exchange across national boundaries is a key ingredient of economic freedom. Many goods and services are now either produced abroad or contain resources supplied from abroad. Of course, voluntary exchange is a positive-sum activity: both trading partners gain and the pursuit of the gain provides the motivation for the exchange. Thus, freedom to trade internationally also contributes substantially to our modern living standards.

Responding to protectionist critics and special-interest politics, virtually all countries adopt trade restrictions of various types. Tariffs and quotas are obvious examples of roadblocks that limit international trade. Because they reduce the convertibility of currencies, controls on the exchange rate also retard international trade. The volume of trade is also reduced if the passage of goods through customs is delayed. Sometimes these delays are the result of administrative inefficiency while in other instances they reflect the actions of corrupt officials seeking to extract bribes.

The components in this area are designed to measure a wide variety of restraints that affect international exchange: tariffs, quotas, hidden administrative restraints, and exchange rate and capital controls. In order to get a high rating in this area, a country must have low tariffs, a trade sector larger than expected, efficient administration of customs, a freely convertible currency, and few controls on the movement of capital.

5 Regulation of Credit, Labor, and Business

When regulations restrict entry into markets and interfere with the freedom to engage in voluntary exchange, they reduce economic freedom. The fifth area of the index focuses on this topic. Because of the difficulties involved in developing objective measures of regulatory restraints, a substantial number (10 of 15) of the sub-components in this area are based on survey data.

Regulatory restraints that limit the freedom of exchange in credit, labor, and product markets are included in the index. The first component (5A) reflects conditions in the domestic credit market. The first two sub-components provide evidence on the extent to which the banking industry is dominated by private firms and

whether foreign banks are permitted to compete in the market. The final three sub-components indicate the extent to which credit is supplied to the private sector and whether controls on interest rates interfere with the market in credit. Countries that used a private banking system to allocate credit to private parties and refrained from controlling interest rates received higher ratings for this component of the regulatory area.

Many types of labor-market regulations infringe on the economic freedom of employees and employers. Among the more prominent are minimum wages, dismissal regulations, centralized wage setting, extensions of union contracts to nonparticipating parties, unemployment benefits that undermine the incentive to accept employment, and conscription. The labor-market component (5B) is designed to measure the extent to which these restraints upon economic freedom are present across countries. In order to earn high marks in the component rating regulation of the labor market, a country must allow market forces to determine wages and establish the conditions of dismissal, avoid excessive unemployment benefits that undermine work incentives, and refrain from the use of conscription.

Like the regulation of credit and labor markets, the regulation of business activities (component 5C) inhibits economic freedom. The sub-components of 5C are designed to identify the extent to which regulatory restraints and bureaucratic procedures limit competition and the operation of markets. In order to score high in this portion of the index, countries must allow markets to determine prices and refrain from regulatory activities that retard entry into business and increase the cost of producing products. They also must refrain from “playing favorites,” that is, from using their power to extract financial payments and reward some businesses at the expense of others.

Economic Freedom Wall Map Available

The economic freedom wall map is a laminated, poster-sized (24 × 36 in; 61 × 91 cm), wall map that is color-coded to show economic freedom in countries around the world. The map is based on the summary economic freedom ratings published in *Economic Freedom of the World: 2006 Annual Report*. For information about ordering the map, visit <<http://www.freetheworld.com>>, send an e-mail to sales@fraserinstitute.ca, or call (604) 688-0221 ext. 580.

Summary Economic Freedom Ratings, 2004

Exhibit 1.2 presents summary economic freedom ratings, sorted from highest to lowest. These ratings are for the year 2004, the most recent year for which comprehensive data are available. Hong Kong and Singapore, once again, occupy the top two positions. The other nations in the top 10 are New Zealand, Switzerland, United States, Ireland, United Kingdom, Canada, Iceland, and Luxembourg. At the other end of the spectrum, the lowest-rated countries are the Central African Republic, Rwanda, Burundi, Algeria, Guinea-Bissau, Venezuela, the Democratic Republic of Congo, the Republic of Congo, Myanmar, and in last place, Zimbabwe.

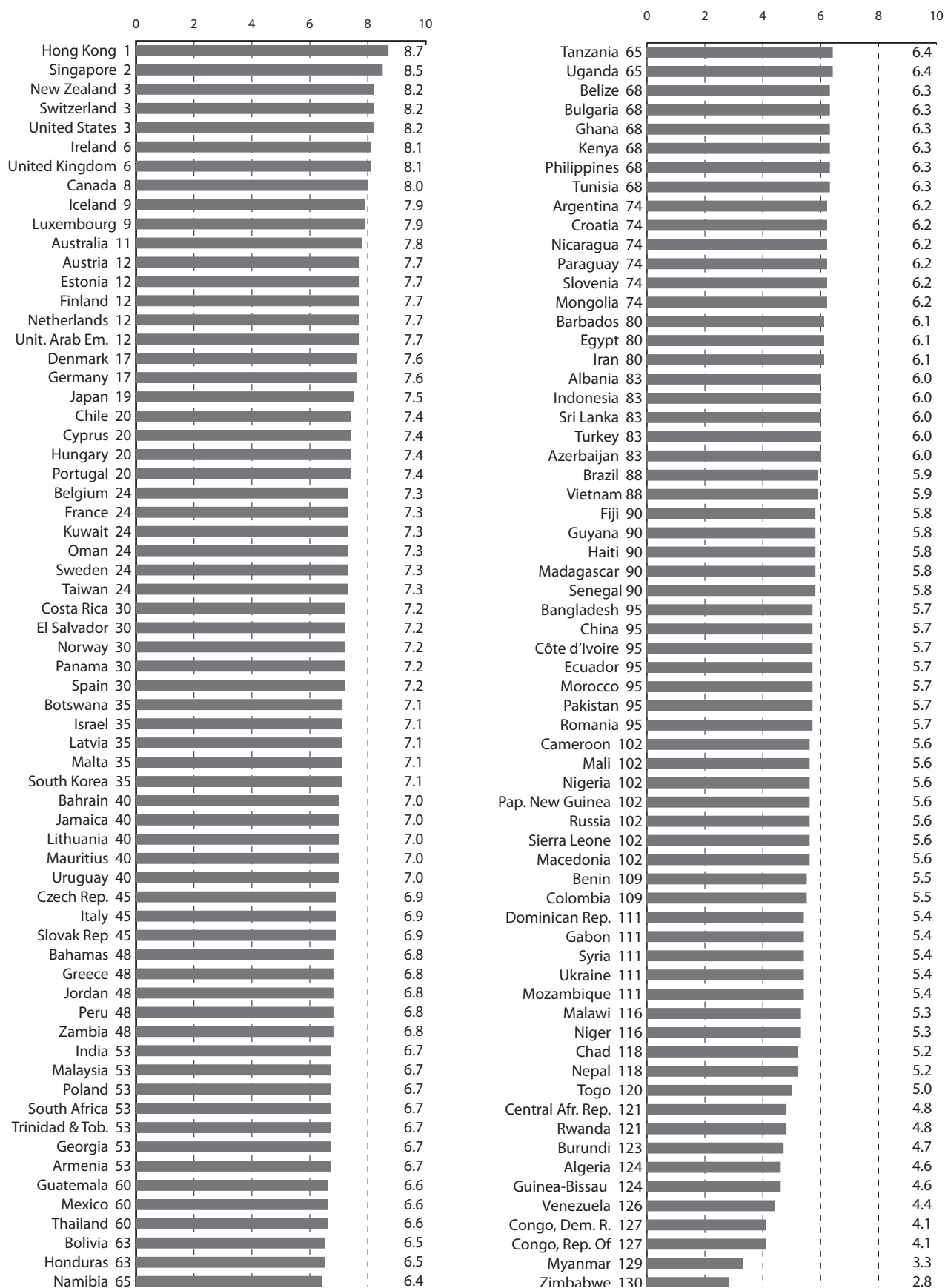
India and China continue to attract a lot of attention as both have implemented market-oriented reforms and have reported rapid economic growth. The EFW index however indicates that the reforms in India have been deeper than those in China where formal economic liberalization has been restricted to just a few zones. India now has a rating of 6.7 and ranks 53rd in the world compared with China’s rating of 5.7 and rank of 95.

This year three additional countries—Armenia (6.7 rating and 53 rank), Azerbaijan (6.0 rating and 83 rank), and Mongolia (6.2 rating and 74 rank)—have been included in the index; they join last year’s additions: Georgia, Macedonia, Mozambique, and Vietnam. All are examples of countries attempting to make the transition from socialist central planning to a more market-oriented economy. This brings the total number of countries rated to 130.

The criteria for adding new countries are fairly strict and the decision is dictated by the availability of the requisite data. In particular, countries that are not reported in the standard IMF statistical reports or covered by the *Global Competitiveness Report* are unlikely to be included in the EFW index. Nevertheless, the expectation is that a number of countries will be added in the years to come.

The EFW index is calculated back to 1970 as the availability of data allows; see the Country Data Tables (Chapter 3, page 43ff) or our website, <<http://www.freetheworld.com>>, for information from past years. Because some data for earlier years may have been updated or corrected, readers are always encouraged to use the data from the most recent annual report to assure the best-quality data.

Exhibit 1.2: Summary Economic Freedom Ratings, 2004



Area Economic Freedom Ratings (and Rankings), 2004

Exhibit 1.3 presents the ratings (and, in parentheses, the rankings) for each of the five areas of the index and for components 5A, 5B, and 5C. A number of interesting patterns emerge from an analysis of these data. The high-income industrial economies generally rank quite high for Legal Structure and Security of Property Rights (Area 2), Access to Sound Money (Area 3), and Freedom to Trade Internationally (Area 4). Their ratings were lower, however, for Size of Government: Expenditures, Taxes, and Enterprises (Area 1) and Regulation of Credit, Labor, and Business (Area 5). This was particularly true for western European countries.

On the other hand, a number of developing nations show the opposite pattern. Bolivia makes an interesting case study. It shows that reasonably sized government alone is not enough to reap the benefits of economic freedom. The institutions of economic freedom, such as the rule of law and property rights, as well as sound money, trade openness, and sensible regulation are required. Bolivia was ranked 29th in Size of Government: Expenditures, Taxes, and Enterprises (Area 1) and 39th for Access to Sound Money (Area 3). However, Bolivia scored poorly

in all the other categories, especially Legal Structure and Security of Property Rights (Area 2), where it placed 106th. In Freedom to Trade Internationally (Area 4), Bolivia ranked 57th, while in Regulation (Area 5), Bolivia ranked 72nd. Despite high rankings in a couple of areas, Bolivia's overall ranking is only 63rd.

Weakness in the rule of law and property rights is particularly pronounced in sub-Saharan Africa, among Islamic nations, and for several nations that were part of the former Soviet bloc, though some of these nations have made strides toward improvement. Many Latin American and Southeast Asian nations also score poorly for rule of law and property rights. The nations that rank poorly in this category also tend to score poorly in the trade and regulation categories, even though several have reasonably sized governments and sound money.

The economies most open to foreign trade were Hong Kong and Singapore, followed by a number of European nations such as Luxembourg, Ireland, and Belgium. Some former Soviet bloc nations also rank fairly high in openness to trade: Estonia is 7th, Slovak Republic, 8th and Hungary, 11th. Chile is also highly open to foreign trade, ranking 9th in this area. The least regulated countries—those at the top in Regulation of Credit, Labor, and Business (Area 5)—were Iceland, Hong Kong, the United States, and New Zealand.

Economic Freedom in Montenegro

Because the EFW index relies primarily on published data from international sources, it is not possible to rate some countries because data are not available. Montenegro is a case in point. As of 2004, Montenegro was part of a loose federation with Serbia and was not represented as a distinct unit in the standard sources. Montenegro became an independent country as a result of the referendum on May 21, 2006 and, thus, we hope to include it in our formal rankings in the near future.

The Center for Entrepreneurship and Economic Development (CEED), a non-partisan research center in Montenegro, has collected data and conducted the requisite surveys in order to produce an economic freedom rating using the same methodology as the EFW index. Because the sources are different, care should be taken in comparing Montenegro's rating with those of the nations included in the EFW index.

The CEED computed an overall summary rating for Montenegro of 6.4, which would place it in a tie with Namibia, Tanzania, and Uganda for 65th in the EFW index. The area ratings were as follows:

1. Size of Government	6.0
2. Legal Structure	4.6
3. Sound Money	8.7
4. International Trade	6.9
5. Regulation	5.6

For more information, contact the Center for Entrepreneurship and Economic Development via e-mail to cfepg@cg.yu or visit its website at www.visit-ceed.org.

Exhibit 1.3: Area Economic Freedom Ratings (and Rankings), 2004

	AREAS					COMPONENTS OF AREA 5				
	1 Size of Government	2 Legal Structure & Security of Property Rights	3 Access to Sound Money	4 Freedom to Trade Internationally	5 Regulation of Credit, Labor, & Business	5A Credit Market Regulations	5B Labor Market Regulations	5C Business Regulations		
Albania	5.9 (68)	3.8 (93)	9.2 (40)	5.3 (122)	5.7 (87)	6.6 (94)	5.7 (49)	4.6 (74)		
Algeria	3.6 (126)	3.1 (108)	6.7 (110)	5.5 (116)	4.3 (124)	4.7 (125)	3.7 (100)	4.4 (81)		
Argentina	8.2 (9)	3.8 (91)	7.4 (88)	6.2 (92)	5.3 (107)	6.8 (90)	5.1 (69)	3.9 (97)		
Armenia	7.9 (14)	3.5 (99)	9.1 (46)	6.9 (69)	6.1 (62)	7.6 (60)	5.2 (68)	5.5 (37)		
Australia	6.1 (60)	8.8 (9)	9.3 (36)	7.3 (44)	7.7 (7)	9.2 (10)	6.6 (27)	7.1 (12)		
Austria	5.2 (90)	8.7 (11)	9.6 (14)	8.3 (12)	6.7 (33)	8.4 (37)	4.4 (87)	7.2 (10)		
Azerbaijan	6.2 (58)	4.6 (73)	7.6 (84)	6.2 (95)	5.6 (91)	7.3 (77)	5.4 (63)	4.0 (92)		
Bahamas	7.5 (20)	7.8 (19)	6.9 (107)	4.7 (126)	7.0 (23)	9.5 (5)				
Bahrain	6.7 (40)	5.5 (59)	8.3 (68)	7.7 (27)	7.0 (19)	8.8 (25)	7.4 (12)	4.9 (60)		
Bangladesh	8.1 (11)	2.7 (115)	7.0 (99)	5.4 (121)	5.4 (100)	5.7 (116)	6.7 (25)	3.7 (101)		
Barbados	3.8 (123)	8.3 (15)	6.9 (106)	5.0 (124)	6.7 (29)	8.2 (41)				
Belgium	4.3 (115)	7.6 (21)	9.6 (16)	8.5 (6)	6.5 (41)	8.4 (36)	5.0 (77)	6.0 (28)		
Belize	4.6 (108)	6.5 (38)	8.2 (69)	5.5 (117)	6.9 (25)	8.6 (31)				
Benin	5.9 (69)	3.5 (100)	6.8 (108)	5.5 (118)	5.9 (70)	9.1 (13)	4.1 (96)	4.6 (73)		
Bolivia	7.3 (29)	3.2 (106)	9.2 (39)	7.1 (57)	5.9 (72)	8.1 (49)	4.8 (84)	4.8 (61)		
Botswana	5.0 (98)	6.8 (30)	9.4 (35)	7.2 (51)	7.0 (18)	9.9 (1)	6.5 (34)	4.7 (67)		
Brazil	6.3 (54)	4.2 (83)	7.7 (80)	6.4 (85)	4.8 (115)	5.6 (117)	5.0 (73)	3.9 (96)		
Bulgaria	4.5 (111)	4.6 (76)	8.7 (62)	7.4 (41)	6.2 (61)	8.2 (42)	6.0 (40)	4.3 (86)		
Burundi	5.7 (73)	1.6 (128)	7.6 (83)	2.8 (129)	5.7 (79)	6.0 (112)				
Cameroon	5.5 (79)	3.9 (90)	6.9 (105)	5.7 (109)	5.7 (81)	6.9 (88)	6.6 (30)	3.7 (102)		
Canada	6.6 (43)	8.4 (14)	9.6 (20)	7.8 (23)	7.8 (5)	9.0 (20)	7.1 (18)	7.3 (9)		
Central Afr. Rep.	4.2 (119)	3.5 (98)	7.1 (93)	4.5 (127)	4.7 (120)	7.3 (75)				
Chad	6.8 (36)	2.8 (114)	6.2 (120)	5.9 (102)	4.5 (123)	5.8 (115)	3.7 (99)	3.9 (95)		
Chile	6.3 (53)	6.1 (47)	9.5 (28)	8.4 (9)	6.9 (24)	8.1 (50)	5.3 (65)	7.3 (7)		
China	3.8 (124)	4.9 (68)	8.0 (75)	7.4 (37)	4.2 (127)	4.5 (128)	4.7 (86)	3.5 (106)		
Colombia	4.7 (105)	3.4 (101)	7.7 (81)	5.9 (103)	5.6 (89)	7.1 (84)	4.3 (91)	5.5 (40)		
Congo, Dem. R.	5.3 (84)	1.1 (129)	4.8 (126)	5.9 (101)	3.6 (130)	2.3 (130)				
Congo, Rep. of	4.2 (116)	1.9 (124)	4.4 (127)	5.5 (115)	4.7 (121)	5.0 (124)				
Costa Rica	7.3 (27)	6.7 (34)	8.9 (53)	7.4 (40)	5.8 (75)	6.5 (98)	6.1 (38)	4.9 (58)		
Côte d'Ivoire	7.8 (15)	2.6 (116)	7.1 (97)	5.8 (107)	5.3 (103)	7.4 (73)				
Croatia	4.0 (120)	5.4 (62)	8.1 (74)	6.7 (73)	6.6 (35)	9.3 (8)	5.5 (56)	5.1 (53)		
Cyprus	7.0 (34)	7.2 (26)	9.6 (18)	7.0 (60)	6.1 (63)	9.1 (16)	3.1 (106)	6.2 (26)		
Czech Rep.	4.4 (112)	6.6 (36)	9.0 (50)	8.3 (13)	6.4 (46)	8.2 (43)	5.0 (78)	6.0 (29)		
Denmark	4.2 (118)	9.2 (1)	9.6 (10)	7.9 (20)	7.2 (15)	9.4 (6)	5.1 (72)	7.2 (11)		
Dominican Rep.	8.2 (6)	3.2 (105)	3.7 (129)	6.3 (91)	5.7 (85)	6.4 (99)	6.0 (41)	4.6 (71)		
Ecuador	8.1 (12)	2.4 (121)	6.7 (109)	6.6 (76)	4.9 (114)	6.8 (92)	4.2 (93)	3.8 (99)		
Egypt	6.1 (61)	4.4 (79)	8.7 (61)	6.4 (83)	4.9 (113)	5.2 (120)	5.3 (66)	4.3 (85)		
El Salvador	9.2 (1)	4.1 (84)	9.6 (11)	7.1 (58)	6.2 (57)	7.2 (79)	5.5 (57)	5.9 (30)		
Estonia	6.7 (42)	6.5 (39)	9.6 (9)	8.5 (7)	7.3 (14)	9.0 (19)	6.1 (39)	6.7 (19)		
Fiji	4.7 (107)	5.4 (60)	6.9 (104)	6.3 (90)	5.5 (93)	6.3 (102)				
Finland	4.9 (100)	8.8 (6)	9.7 (5)	7.9 (21)	7.2 (16)	9.3 (7)	3.9 (98)	8.4 (2)		
France	4.7 (106)	7.7 (20)	9.6 (17)	7.8 (24)	6.7 (31)	8.2 (46)	5.7 (52)	6.3 (24)		
Gabon	4.2 (117)	3.9 (87)	6.9 (101)	5.9 (104)	6.0 (69)	7.3 (76)				
Georgia	8.3 (4)	2.5 (120)	9.2 (42)	7.1 (54)	6.4 (43)	7.5 (68)	6.5 (33)	5.1 (51)		

Exhibit 1.3 (continued): Area Economic Freedom Ratings (and Rankings), 2004

	AREAS					COMPONENTS OF AREA 5					
	1 Size of Government	2 Legal Structure & Security of Property Rights	3 Access to Sound Money	4 Freedom to Trade Internationally	5 Regulation of Credit, Labor, & Business	5A Credit Market Regulations		5B Labor Market Regulations		5C Business Regulations	
Germany	5.8 (72)	8.8 (7)	9.6 (25)	8.2 (14)	5.8 (77)	7.9 (56)	3.3 (104)	6.1 (27)			
Ghana	5.6 (76)	5.1 (66)	7.5 (86)	7.2 (46)	6.1 (66)	7.6 (64)	6.2 (37)	4.5 (76)			
Greece	6.0 (64)	5.6 (56)	9.7 (7)	7.2 (52)	5.7 (84)	7.9 (54)	4.0 (97)	5.2 (48)			
Guatemala	8.6 (3)	3.3 (103)	9.2 (38)	6.5 (77)	5.6 (90)	7.6 (62)	4.2 (94)	4.9 (56)			
Guinea-Bissau	3.3 (129)	2.9 (112)	5.9 (122)	5.5 (113)	5.3 (106)	6.3 (103)					
Guyana	3.6 (125)	3.4 (102)	8.1 (72)	7.5 (32)	6.4 (47)	6.4 (100)	8.2 (6)	4.6 (75)			
Haiti	7.2 (31)	1.6 (127)	7.5 (87)	6.3 (89)	6.2 (60)	9.0 (21)	7.3 (14)	2.3 (108)			
Honduras	7.4 (23)	3.1 (107)	9.1 (45)	6.9 (66)	5.7 (78)	8.2 (40)	4.9 (80)	4.1 (89)			
Hong Kong	9.1 (2)	7.5 (24)	9.2 (41)	9.5 (1)	8.3 (2)	8.9 (23)	8.6 (2)	7.4 (5)			
Hungary	5.3 (86)	6.4 (40)	9.5 (30)	8.3 (11)	7.3 (12)	8.2 (45)	7.1 (17)	6.6 (20)			
Iceland	6.7 (38)	8.9 (4)	9.0 (51)	6.4 (84)	8.5 (1)	9.1 (15)	8.0 (7)	8.4 (1)			
India	8.2 (7)	6.3 (44)	7.0 (98)	6.4 (82)	5.4 (97)	5.9 (114)	5.7 (48)	4.7 (69)			
Indonesia	6.4 (51)	3.9 (88)	7.9 (77)	7.2 (49)	4.7 (117)	5.5 (118)	5.0 (75)	3.8 (100)			
Iran	6.5 (48)	5.9 (50)	8.0 (76)	5.4 (120)	4.7 (118)	6.5 (97)					
Ireland	6.4 (52)	8.8 (8)	9.7 (3)	8.6 (4)	7.0 (20)	8.1 (48)	5.8 (45)	7.1 (13)			
Israel	5.8 (71)	6.7 (32)	9.4 (34)	7.9 (19)	5.9 (71)	7.2 (81)	4.8 (83)	5.8 (33)			
Italy	5.6 (77)	5.8 (51)	9.6 (21)	7.5 (33)	6.2 (58)	7.5 (67)	5.5 (59)	5.7 (34)			
Jamaica	7.7 (16)	5.4 (61)	8.7 (60)	7.0 (62)	6.2 (55)	6.6 (96)	6.6 (28)	5.5 (39)			
Japan	6.6 (44)	7.5 (23)	9.6 (22)	6.7 (74)	7.0 (22)	7.1 (83)	7.0 (19)	6.8 (18)			
Jordan	4.8 (103)	6.5 (37)	9.4 (33)	7.4 (39)	6.0 (68)	6.3 (101)	6.6 (31)	5.0 (54)			
Kenya	7.1 (32)	3.9 (89)	8.7 (59)	6.4 (81)	5.4 (96)	6.1 (107)	5.8 (44)	4.4 (79)			
Kuwait	6.1 (63)	6.8 (31)	9.3 (37)	6.7 (75)	7.6 (10)	9.1 (17)	8.6 (5)	5.1 (50)			
Latvia	6.5 (49)	5.8 (55)	9.0 (52)	7.4 (38)	6.7 (32)	8.5 (34)	5.8 (47)	5.9 (32)			
Lithuania	6.6 (45)	5.0 (67)	9.2 (43)	7.6 (30)	6.4 (44)	8.1 (47)	5.4 (62)	5.6 (35)			
Luxembourg	5.0 (99)	8.7 (13)	9.6 (15)	8.8 (3)	7.3 (13)	9.1 (18)	5.7 (51)	7.0 (14)			
Macedonia	5.2 (92)	2.6 (117)	8.2 (70)	5.9 (100)	6.2 (56)	8.5 (35)	5.8 (46)	4.4 (78)			
Madagascar	6.9 (35)	3.1 (109)	7.1 (96)	6.5 (79)	5.2 (109)	8.2 (44)	3.1 (105)	4.4 (80)			
Malawi	4.0 (121)	4.8 (71)	6.6 (111)	6.2 (93)	5.2 (110)	5.2 (122)	5.7 (50)	4.8 (62)			
Malaysia	5.3 (85)	7.2 (27)	6.9 (102)	7.5 (36)	6.4 (45)	6.0 (111)	7.9 (8)	5.2 (45)			
Mali	5.1 (97)	4.7 (72)	6.5 (114)	6.1 (96)	5.3 (105)	7.6 (63)	3.6 (101)	4.7 (65)			
Malta	5.7 (74)	7.0 (28)	8.8 (55)	7.3 (43)	6.9 (26)	8.5 (32)	6.8 (24)	5.4 (42)			
Mauritius	7.5 (21)	6.0 (48)	9.5 (29)	6.1 (99)	6.1 (65)	7.2 (78)	6.7 (26)	4.4 (84)			
Mexico	8.1 (13)	4.5 (77)	7.9 (78)	7.2 (47)	5.5 (95)	7.3 (74)	5.5 (55)	3.6 (104)			
Mongolia	6.5 (47)	2.2 (123)	8.8 (56)	7.1 (53)	6.3 (49)	8.7 (29)	5.4 (60)	4.9 (59)			
Morocco	5.2 (89)	5.3 (63)	7.1 (95)	5.5 (114)	5.5 (94)	7.8 (59)	4.1 (95)	4.7 (70)			
Mozambique	5.2 (87)	3.3 (104)	8.7 (63)	6.1 (98)	3.7 (129)	4.6 (127)	2.5 (109)	4.1 (90)			
Myanmar	3.5 (128)	2.2 (122)	3.9 (128)	1.9 (130)	5.0 (111)	5.2 (121)					
Namibia	5.1 (96)	6.9 (29)	6.6 (112)	6.4 (88)	7.1 (17)	9.6 (4)	7.2 (15)	4.5 (77)			
Nepal	5.2 (93)	2.5 (118)	6.9 (103)	5.4 (119)	5.7 (83)	6.8 (91)					
Netherlands	4.8 (104)	9.0 (2)	9.6 (23)	8.4 (10)	7.0 (21)	9.1 (14)	5.4 (61)	6.4 (23)			
New Zealand	6.7 (39)	8.9 (3)	9.6 (24)	8.0 (16)	7.9 (4)	9.8 (3)	6.5 (32)	7.4 (4)			
Nicaragua	6.1 (59)	2.9 (113)	8.8 (57)	7.3 (45)	6.1 (64)	7.2 (82)	6.8 (23)	4.4 (82)			
Niger	5.2 (94)	3.7 (96)	7.2 (91)	5.6 (111)	4.7 (119)	7.0 (86)					
Nigeria	6.2 (56)	3.5 (97)	6.4 (118)	6.4 (80)	5.7 (88)	7.6 (65)	5.5 (58)	3.9 (94)			

Exhibit 1.3 (continued): Area Economic Freedom Ratings (and Rankings), 2004

	AREAS					COMPONENTS OF AREA 5				
	1 Size of Government	2 Legal Structure & Security of Property Rights	3 Access to Sound Money	4 Freedom to Trade Internationally	5 Regulation of Credit, Labor, & Business	5A Credit Market Regulations	5B Labor Market Regulations	5C Business Regulations		
Norway	4.6 (110)	8.7 (12)	9.0 (48)	7.1 (56)	6.7 (28)	8.8 (26)	4.2 (92)	7.3 (8)		
Oman	5.9 (67)	7.5 (25)	8.6 (65)	7.8 (25)	6.6 (36)	8.9 (22)				
Pakistan	7.2 (30)	2.5 (119)	6.4 (117)	5.8 (106)	6.5 (38)	7.6 (61)	7.8 (10)	4.2 (88)		
Panama	8.3 (5)	4.6 (74)	9.7 (6)	6.9 (63)	6.3 (50)	8.7 (28)	5.6 (54)	4.7 (68)		
Pap. New Guinea	6.1 (62)	3.7 (94)	6.5 (113)	6.4 (86)	5.4 (99)	6.2 (105)				
Paraguay	8.1 (10)	1.9 (125)	8.9 (54)	7.6 (31)	4.5 (122)	6.1 (110)	2.9 (107)	4.6 (72)		
Peru	7.6 (19)	4.0 (85)	9.6 (12)	7.2 (50)	5.7 (80)	8.5 (33)	4.3 (88)	4.4 (83)		
Philippines	7.0 (33)	3.7 (95)	8.1 (73)	7.5 (34)	5.4 (102)	7.4 (70)	5.0 (76)	3.6 (103)		
Poland	5.8 (70)	5.8 (54)	9.2 (44)	7.0 (59)	5.9 (74)	8.1 (51)	4.8 (85)	4.8 (64)		
Portugal	6.0 (65)	7.6 (22)	9.5 (26)	7.7 (28)	6.5 (39)	8.4 (39)	5.9 (42)	5.3 (44)		
Romania	4.3 (114)	4.8 (70)	6.5 (116)	6.9 (68)	5.9 (73)	7.5 (66)	5.0 (74)	5.2 (49)		
Russia	5.6 (75)	4.3 (81)	6.0 (121)	6.7 (72)	5.3 (104)	6.7 (93)	5.8 (43)	3.5 (105)		
Rwanda	5.5 (80)	1.0 (130)	7.1 (94)	4.8 (125)	5.7 (86)	6.1 (108)				
Senegal	6.2 (57)	4.3 (80)	7.1 (92)	6.1 (97)	5.0 (112)	8.4 (38)	2.8 (108)	3.8 (98)		
Sierra Leone	5.5 (81)	4.0 (86)	7.7 (82)	5.6 (112)	5.4 (98)	5.3 (119)				
Singapore	8.2 (8)	8.1 (16)	9.6 (19)	9.3 (2)	7.6 (11)	7.9 (57)	6.9 (22)	7.9 (3)		
Slovak Rep	4.9 (101)	5.8 (52)	8.8 (58)	8.4 (8)	6.8 (27)	7.9 (55)	6.6 (29)	5.9 (31)		
Slovenia	2.5 (130)	6.2 (45)	8.5 (66)	7.3 (42)	6.3 (54)	8.0 (52)	5.6 (53)	5.2 (47)		
South Africa	5.5 (82)	6.6 (35)	8.2 (71)	6.9 (67)	6.3 (48)	8.8 (27)	5.1 (70)	5.2 (46)		
South Korea	6.5 (50)	6.3 (43)	9.5 (27)	7.2 (48)	5.8 (76)	7.4 (72)	4.9 (79)	5.1 (52)		
Spain	5.2 (88)	6.4 (42)	9.6 (13)	8.0 (18)	6.7 (30)	8.6 (30)	6.2 (36)	5.4 (41)		
Sri Lanka	7.4 (24)	3.8 (92)	6.5 (115)	6.5 (78)	5.7 (82)	6.9 (89)	6.4 (35)	3.9 (93)		
Sweden	4.0 (122)	8.1 (17)	9.8 (1)	8.0 (17)	6.7 (34)	9.2 (11)	3.5 (103)	7.4 (6)		
Switzerland	7.4 (26)	8.7 (10)	9.7 (8)	7.7 (26)	7.7 (6)	8.9 (24)	7.4 (11)	7.0 (15)		
Syria	4.9 (102)	5.1 (65)	7.7 (79)	5.2 (123)	4.2 (126)	4.2 (129)				
Taiwan	6.2 (55)	6.4 (41)	9.7 (4)	8.0 (15)	6.0 (67)	6.3 (104)	5.3 (64)	6.5 (22)		
Tanzania	5.1 (95)	5.9 (49)	9.4 (31)	5.7 (108)	5.5 (92)	6.2 (106)	5.1 (71)	5.3 (43)		
Thailand	6.8 (37)	5.5 (58)	7.0 (100)	7.5 (35)	6.3 (51)	7.0 (85)	7.0 (20)	4.8 (63)		
Togo	4.3 (113)	3.1 (111)	7.2 (90)	5.7 (110)	4.7 (116)	6.6 (95)				
Trinidad & Tobago	6.6 (46)	4.8 (69)	9.0 (49)	6.8 (70)	6.5 (40)	7.4 (71)	7.1 (16)	4.9 (57)		
Tunisia	5.2 (91)	6.7 (33)	7.3 (89)	6.2 (94)	6.3 (53)	8.0 (53)	4.3 (90)	6.5 (21)		
Turkey	7.3 (28)	5.2 (64)	5.1 (124)	7.0 (61)	5.3 (108)	5.9 (113)	4.3 (89)	5.5 (38)		
Uganda	6.0 (66)	4.2 (82)	9.1 (47)	6.4 (87)	6.2 (59)	5.0 (123)	8.6 (3)	5.0 (55)		
Ukraine	4.6 (109)	4.6 (75)	5.5 (123)	7.1 (55)	5.4 (101)	7.2 (80)	4.8 (81)	4.1 (91)		
Unit. Arab Em.	7.6 (18)	6.2 (46)	8.6 (64)	8.5 (5)	7.7 (8)	7.8 (58)	8.9 (1)	6.3 (25)		
United Kingdom	6.7 (41)	8.9 (5)	9.4 (32)	7.9 (22)	7.6 (9)	9.2 (12)	6.9 (21)	6.8 (17)		
United States	7.6 (17)	7.8 (18)	9.7 (2)	7.6 (29)	8.0 (3)	9.3 (9)	7.9 (9)	6.9 (16)		
Uruguay	7.5 (22)	5.8 (53)	8.4 (67)	6.9 (65)	6.6 (37)	7.0 (87)	7.3 (13)	5.5 (36)		
Venezuela	5.5 (83)	1.8 (126)	4.9 (125)	5.8 (105)	4.3 (125)	7.5 (69)	3.5 (102)	1.8 (109)		
Vietnam	5.6 (78)	4.4 (78)	6.4 (119)	6.7 (71)	6.3 (52)	9.8 (2)	4.8 (82)	4.2 (87)		
Zambia	7.4 (25)	5.5 (57)	7.5 (85)	6.9 (64)	6.5 (42)	6.1 (109)	8.6 (4)	4.7 (66)		
Zimbabwe	3.5 (127)	3.1 (110)	0.0 (130)	3.1 (128)	4.1 (128)	4.7 (126)	5.2 (67)	2.4 (107)		

The Chain-Linked Summary Index, 1970–2004

One of the most valuable aspects of this index of economic freedom is that, for many countries, it can be calculated back to 1970: 53 countries have ratings in 1970; 70 in 1975; 102 in 1980, 109 in 1985, 113 in 1990, 123 for 1995 through 2001, 127 in 2003, and 130 in 2004. These longitudinal data are useful for examining the impact of economic freedom over time.

One problem that arises, however, is that the underlying data are more complete in recent years than in earlier years. As a result, changes in the index ratings over time may reflect the fact that some components are missing in some years but not in others. This is similar to comparing GDP or a price index over time when we know that the underlying goods and services used to calculate these statistics are constantly changing. The problem of missing components threatens the comparability of the index ratings over time.

In order to correct for this problem, we have constructed a chain-linked summary economic freedom index that is based on the 2000 rating as a base year. Changes to the index going backward (and forward) in time are then based only on changes in components that were present in adjacent years. For instance, the 1995 chain-linked rating is based on the 2000 rating but is adjusted based on the changes in the underlying data between 1995 and 2000 for those components that were present in both years. If the common components in 1995 were the same as in 2000,

then no adjustment was made to the 1995 summary rating. However, if the 1995 components were lower than those for 2000 for the over-lapping components between the two years, then the 1995 summary rating was adjusted downward proportionally to reflect this fact. Correspondingly, in cases where the rating for the common components was higher in 1995 than for 2000, the 1995 summary rating was adjusted upward proportionally. The chain-linked ratings were constructed by repeating this procedure backward in time to 1970 and forward through 2004. The chain-linked methodology means that a country's rating will change across time periods only when there is a change in ratings for components present during both of the over-lapping years. This is precisely what one would want when making comparisons across time periods.

Exhibit 1.4 shows the average chain-linked economic freedom index rating for the 102 countries with ratings since 1980. The average level of economic freedom, as measured by the EFW index, has increased. The index average has improved to 6.5 in 2004 from 5.1 in 1980. Much of this increase was driven by reductions in marginal income-tax rates, if not aggregate taxation; improvements in monetary policy; and global trade liberalization.

The full Chain-Linked Summary Index for the years 1970, 1975, 1980, 1985, 1990, 1995, 2000, 2001, 2002, 2003, and 2004 is found in Exhibit 1.5 (pages 19–21). Researchers using the data for long-term studies should use these chain-linked data. The chain-link summary index is computed only for the 123 countries receiving ratings in the year 2000.

Exhibit 1.4: Average Chain-linked EFW Rating

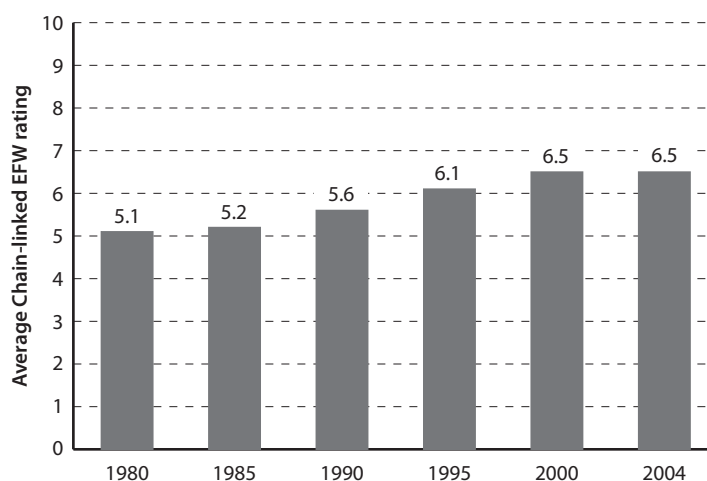


Exhibit 1.5: The Chain-Linked Summary Index, 1970–2004

	1970	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004
Albania					3.3	4.1	5.7	5.8	6.0	6.1	6.1
Algeria			3.8	3.8	3.4	3.5	4.3	4.7	4.5	4.4	4.6
Argentina	4.4	2.8	3.9	3.5	4.4	6.7	7.2	6.5	5.9	5.7	6.2
Australia	6.6	5.8	6.4	6.8	7.3	7.8	8.0	7.9	7.9	7.8	7.8
Austria	6.0	5.7	6.2	6.2	6.9	7.0	7.5	7.6	7.4	7.7	7.7
Bahamas		6.1	5.8	5.8	6.2	6.3	6.5	6.5	6.4	6.5	6.8
Bahrain			7.0	6.5	6.8	6.9	7.2	7.1	7.1	7.0	7.0
Bangladesh		2.8	3.0	3.3	4.2	5.0	5.7	5.7	5.9	5.7	5.7
Barbados		5.0	5.1	5.4	5.7	5.8	5.6	5.5	5.8	5.8	6.2
Belgium	7.3	6.6	6.8	6.9	7.2	7.2	7.5	7.4	7.3	7.3	7.3
Belize			5.0	4.8	5.7	6.3	6.2	6.2	6.6	6.6	6.7
Benin			5.0	4.7	5.1	4.7	5.4	5.6	5.4	5.5	5.5
Bolivia			4.4	3.5	5.2	6.4	6.7	6.5	6.5	6.5	6.5
Botswana			4.9	5.1	5.4	6.0	7.2	7.2	7.3	7.1	7.1
Brazil	4.8	3.9	3.7	3.2	3.9	4.1	5.9	5.9	6.1	5.9	5.9
Bulgaria				4.7	3.7	4.5	5.1	5.7	6.0	6.3	6.3
Burundi		3.9	4.0	4.5	4.7	4.3	5.1	5.3	5.0	4.9	4.8
Cameroon			5.4	5.6	5.7	5.2	5.5	5.9	5.7	5.6	5.6
Canada	7.4	6.6	7.0	7.0	7.7	7.8	8.1	8.1	7.9	8.0	8.0
Central Afr. Rep.				4.5	5.0	4.7	4.9	5.1	5.0	5.2	5.0
Chad				4.8	4.6	4.5	5.4	5.7	5.7	5.4	5.3
Chile	3.6	3.6	5.3	5.8	6.7	7.5	7.5	7.3	7.2	7.4	7.4
China			3.8	4.8	4.2	4.9	5.8	5.9	5.8	5.9	5.7
Colombia	5.4	5.0	4.8	5.2	5.0	5.6	5.4	5.5	5.3	5.4	5.5
Congo, Dem. R.	4.8	4.3	3.1	4.0	3.8	4.2	3.4	3.6	5.1	4.7	4.4
Congo, Rep. of			5.0	5.0	5.5	5.5	4.4	4.7	4.4	4.7	4.4
Costa Rica		5.6	5.0	4.7	6.5	6.7	7.3	7.2	7.1	7.3	7.2
Côte d'Ivoire			5.0	5.6	5.4	5.4	5.7	5.8	5.8	5.6	5.8
Croatia						3.8	5.8	6.2	5.9	6.0	6.1
Cyprus		5.3	5.2	5.2	5.9	6.1	6.2	6.3	6.8	6.6	7.4
Czech Rep.						5.9	6.7	6.8	6.7	6.8	6.9
Denmark	6.6	5.8	6.0	6.2	7.0	7.4	7.7	7.6	7.5	7.6	7.6
Dominican Rep.			4.8	4.6	4.4	6.2	6.5	6.5	6.6	6.2	5.4
Ecuador	3.4	4.5	4.8	4.0	4.8	5.7	5.6	5.5	5.9	5.8	5.7
Egypt		3.9	4.6	5.0	4.8	5.9	6.7	6.5	6.2	6.1	6.3
El Salvador			4.3	4.0	4.4	6.8	7.3	7.3	7.2	7.2	7.2
Estonia						5.3	7.1	7.4	7.6	7.7	7.7
Fiji		5.1	5.4	5.6	5.8	6.0	6.1	6.0	6.1	6.0	6.1
Finland	6.6	5.8	6.4	6.5	7.0	7.5	7.7	7.7	7.7	7.6	7.7
France	6.2	5.4	5.7	5.7	6.8	6.8	7.0	6.7	6.8	6.9	7.3
Gabon			4.0	4.7	5.0	5.0	5.0	5.4	5.1	5.2	5.4
Germany	7.3	6.8	7.1	7.1	7.4	7.5	7.6	7.3	7.3	7.4	7.6
Ghana		3.0	2.3	2.5	4.3	5.1	5.9	5.6	6.3	6.2	6.3
Greece	6.1	5.6	5.6	5.1	5.7	6.2	6.9	6.8	6.9	6.8	6.8
Guatemala	5.8	6.4	5.9	4.7	5.5	6.7	6.4	6.4	6.4	6.5	6.6

Exhibit 1.5 (continued): The Chain-Linked Summary Index, 1970–2004

	1970	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004
Guinea-Bissau					2.7	3.5	4.4	5.2	4.8	4.9	4.4
Guyana						4.7	6.8	6.8	6.5	6.3	6.2
Haiti			5.6	5.8	5.5	5.4	6.4	5.9	6.0	5.9	5.9
Honduras			5.5	5.3	5.2	6.0	6.4	6.3	6.4	6.5	6.5
Hong Kong	8.2	8.3	8.5	8.2	8.5	9.1	8.8	8.7	8.7	8.7	8.7
Hungary			4.2	4.9	4.8	6.2	6.7	7.1	7.1	7.2	7.4
Iceland	6.1	4.2	4.9	5.1	6.6	7.3	7.7	7.7	7.6	7.7	7.9
India	4.9	4.1	4.9	4.6	4.8	5.5	6.2	6.2	6.3	6.4	6.7
Indonesia	4.8	5.3	5.2	6.2	6.6	6.6	5.9	5.5	5.7	6.1	6.0
Iran	5.8	5.7	3.5	3.7	4.1	4.0	5.6	6.2	6.1	5.9	6.2
Ireland	6.5	5.8	6.2	6.2	7.0	8.2	8.1	7.9	7.8	7.8	8.0
Israel	4.9	4.2	3.7	4.3	4.4	6.0	6.5	6.5	6.7	6.7	7.1
Italy	5.8	5.1	5.2	5.4	6.4	6.5	7.1	7.0	7.0	6.7	6.9
Jamaica			3.9	4.3	5.3	6.3	7.0	6.9	6.9	6.9	7.0
Japan	6.2	5.9	6.4	6.5	7.1	6.9	7.3	7.0	6.9	7.4	7.5
Jordan		5.2	5.0	5.5	5.6	6.2	7.0	6.8	7.0	6.9	6.8
Kenya	4.7	4.5	4.7	5.0	5.3	5.7	6.5	6.6	6.6	6.5	6.4
Kuwait			5.8	8.0	5.1	6.6	6.7	7.2	7.0	6.9	7.4
Latvia						4.6	6.6	6.8	7.0	6.8	7.1
Lithuania						4.7	6.3	6.3	6.8	6.7	7.0
Luxembourg	6.9	6.9	6.8	7.2	7.4	7.6	7.8	7.7	7.6	7.7	7.9
Madagascar			3.8	4.1	3.9	4.0	5.8	6.3	5.8	5.9	5.8
Malawi		4.8	4.3	4.4	4.7	4.4	4.7	5.4	5.5	5.6	5.4
Malaysia	6.0	5.9	6.4	6.5	7.1	7.2	6.8	6.4	6.5	6.5	6.7
Mali		4.9	5.0	4.7	4.8	4.9	6.0	5.8	5.6	5.5	5.5
Malta			5.0	4.8	5.2	6.4	6.5	6.6	6.6	6.5	7.1
Mauritius		4.6	4.7	5.9	6.1	7.3	7.3	7.3	7.2	7.0	7.0
Mexico	6.0	5.3	5.1	4.3	5.7	6.2	6.3	6.3	6.5	6.4	6.6
Morocco	5.5	4.9	4.3	4.9	4.8	5.8	6.0	5.9	5.9	6.0	5.8
Myanmar			4.5	4.1	2.8	3.5	3.6	3.5	3.1	3.4	3.3
Namibia					5.3	6.6	6.2	6.4	6.3	6.7	6.3
Nepal			5.3	4.8	5.1	5.2	5.8	5.9	5.7	5.4	5.3
Netherlands	7.0	6.4	6.8	7.0	7.4	7.8	8.0	7.7	7.7	7.7	7.7
New Zealand	6.0	5.4	6.1	5.9	7.3	8.5	8.4	8.2	8.2	8.2	8.2
Nicaragua			3.8	1.7	2.4	5.5	6.4	6.2	6.2	6.3	6.2
Niger			4.9	5.3	4.7	4.6	5.8	5.6	5.4	5.4	5.3
Nigeria	3.4	3.6	3.5	3.7	3.6	3.8	5.3	5.4	5.6	5.8	5.6
Norway	6.0	5.5	5.8	6.3	7.0	7.5	7.2	7.1	7.0	7.3	7.2
Oman				6.4	6.3	7.0	7.1	7.2	7.1	7.2	7.4
Pakistan	4.3	3.7	4.5	5.1	5.0	5.7	5.4	5.6	5.9	5.6	5.7
Panama		6.4	5.2	5.7	6.3	7.2	7.1	7.2	7.2	7.2	7.2
Pap. New Guinea				6.1	6.5	6.5	5.8	5.8	5.7	5.8	5.7
Paraguay			5.5	4.9	5.5	6.6	6.4	6.4	6.2	6.2	6.2
Peru	4.6	3.8	3.9	2.9	3.6	6.2	6.9	6.9	6.8	6.8	6.8
Philippines	5.2	4.8	4.9	4.8	5.4	7.2	7.1	6.7	6.6	6.6	6.3

Exhibit 1.5 (continued): The Chain-Linked Summary Index, 1970–2004

	1970	1975	1980	1985	1990	1995	2000	2001	2002	2003	2004
Poland				3.4	3.3	4.9	6.3	6.1	6.3	6.2	6.7
Portugal	6.0	3.7	5.5	5.3	6.0	7.2	7.3	7.2	7.3	7.3	7.4
Romania				4.5	4.0	3.6	4.9	5.0	5.5	5.7	5.7
Russia						3.7	4.9	4.9	5.1	5.2	5.6
Rwanda					4.6	3.6	5.1	5.4	5.5	5.3	5.1
Senegal			4.6	4.9	5.2	4.6	5.9	5.8	5.9	5.7	5.8
Sierra Leone		5.6	5.4	3.5	3.8	4.4	5.1	5.2	5.6	5.6	5.7
Singapore	7.5	7.3	7.5	7.9	8.5	8.9	8.5	8.5	8.5	8.5	8.5
Slovak Rep						5.1	6.3	6.3	6.3	6.4	6.9
Slovenia						4.7	5.9	6.0	6.1	6.1	6.2
South Africa	5.9	5.5	5.4	5.0	5.2	6.3	6.8	6.7	6.7	6.9	6.7
South Korea	5.4	5.4	5.7	5.7	6.3	6.7	6.6	7.0	6.9	6.9	7.1
Spain	6.1	5.5	5.7	5.8	6.2	7.0	7.4	7.0	7.1	7.1	7.2
Sri Lanka			4.9	5.0	4.9	6.1	6.1	6.0	6.0	6.1	6.0
Sweden	5.3	5.2	5.6	6.2	6.6	7.1	7.4	7.2	7.3	7.5	7.3
Switzerland	7.3	7.1	7.6	7.7	7.8	7.8	8.4	8.2	8.3	8.2	8.2
Syria	4.7	5.0	4.0	3.6	3.5	4.3	4.8	5.6	5.0	5.4	5.6
Taiwan	6.6	5.8	6.7	6.9	7.1	7.3	7.2	7.1	7.2	7.2	7.3
Tanzania	4.4	3.7	3.9	3.4	3.7	4.8	5.8	6.7	6.3	6.3	6.5
Thailand	5.7	5.6	5.9	5.9	6.8	7.2	6.7	6.7	6.6	6.6	6.6
Togo			4.2	5.4	5.1	4.9	5.0	5.3	5.2	5.2	5.0
Trinidad & Tob.		4.3	4.6	4.4	5.5	6.7	7.0	6.9	6.8	6.7	6.7
Tunisia	4.5	4.6	4.9	4.7	5.3	5.9	6.1	6.2	6.2	6.3	6.3
Turkey	3.6	3.8	3.5	4.7	4.8	5.8	5.8	5.3	5.5	5.8	6.0
Uganda			3.0	2.5	2.7	5.0	6.6	6.6	6.5	6.4	6.4
Ukraine						3.7	4.7	4.8	5.3	5.4	5.4
Unit. Arab Em.			5.8	6.7	7.3	7.3	7.4	7.4	7.4	7.3	7.6
United Kingdom	5.9	5.8	6.1	7.0	7.7	8.2	8.2	8.2	8.1	8.1	8.1
United States	7.0	7.1	7.4	7.5	8.1	8.3	8.6	8.3	8.2	8.2	8.2
Uruguay			5.3	5.4	5.8	5.8	6.6	6.6	6.9	6.7	7.0
Venezuela	7.6	6.4	7.0	6.5	5.8	4.5	5.5	5.5	4.4	4.0	4.4
Zambia		3.9	4.4	3.4	2.8	4.4	6.7	6.9	6.8	6.7	6.7
Zimbabwe			4.7	4.6	5.0	6.1	4.3	3.4	3.3	3.3	3.0

Concluding Thoughts

This chapter concludes with some graphics illustrating simple relationships between economic freedom by quartile and various other indicators of human and political progress (exhibits 1.6–1.19).

The graphics begin with the data on the relationship between economic freedom and the growth rate and level of per-capita GDP. In recent years, numerous scholarly studies have analyzed this relationship in detail. Almost without exception, these studies have found that countries with more economic freedom grow more rapidly and achieve higher levels of per-capita GDP. We believe that the incentive structure confronted by decision-makers in a market economy explains why this is the case. Economic activity involves interaction among (1) consumers, (2) entrepreneurs and other suppliers of goods, and (3) suppliers of resources. Consider the incentive structure confronted by each when economic freedom is present and activities are organized through markets. Consumers have a strong incentive to spend their money wisely and to allocate it in a manner that will provide them with the most value. Similarly, entrepreneurs have a strong incentive to cater to the desires of consumers, produce goods and services at a low cost, and constantly search for better ways of doing things. Finally, resource suppliers have a strong incentive to develop their resources in a manner that businesses and entrepreneurs will value highly and to supply their services

to those who are willing to compensate them most handsomely. All of these factors will help people get more out of their resources and achieve higher levels of income. Furthermore, this incentive structure is largely absent when economic freedom is absent and economic activities are organized by the political process and government planning.

The graphs use the average of the chain-linked EFW index for the years 1990, 1995, 2000, and 2004. Because persistence is important and the impact of economic freedom will be felt over a lengthy time period, it is better to use the average rating over a fairly long time span rather than the current rating if you want to observe the impact of economic freedom on performance. Many of the relationships illustrated in these graphics reflect the impact of economic freedom as it works through increasing economic growth. In other cases, the observed relationships may reflect the fact that some of the variables that influence economic freedom may also influence political factors like corruption and protection of civil liberties. Thus, we are not necessarily arguing that there is a direct causal relation between economic freedom and the variables considered below. In other words, these graphics are no substitute for real scholarly investigation that controls for other factors. Nonetheless, we believe that the graphics provide some information about the contrast between the nature and characteristics of market-oriented economies and those of controlled economies. At the very least, these figures suggest potential fruitful areas for future research.

Nota bene In previous editions, exhibits illustrating relationships between economic freedom and other indicators of human and political progress were shown using quintiles. This year, we have switched to quartiles to increase the sample size in each category.

Exhibit 1.6: Economic Freedom and Income per Capita

Countries with more economic freedom have substantially higher per-capita incomes.

Sources: The Fraser Institute; The World Bank, World Development Indicators CD-ROM, 2005.

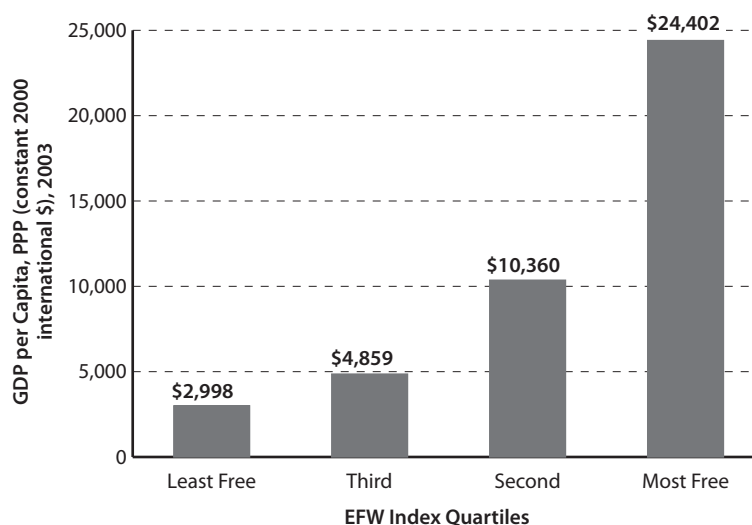
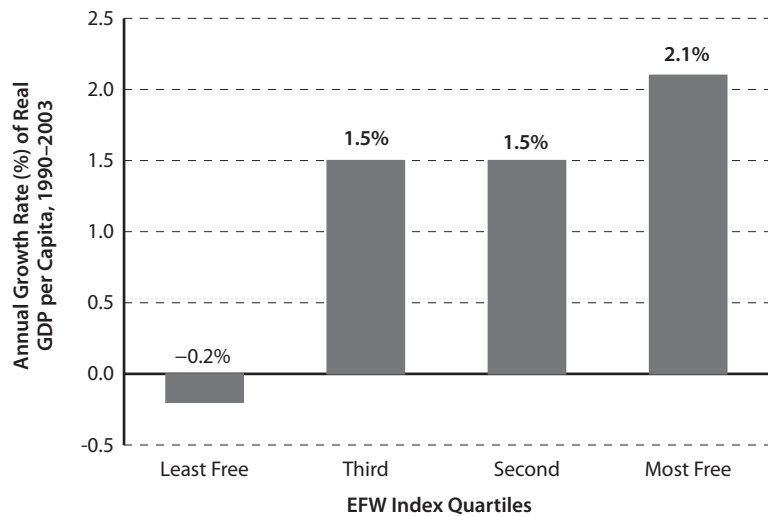


Exhibit 1.7: Economic Freedom and Economic Growth

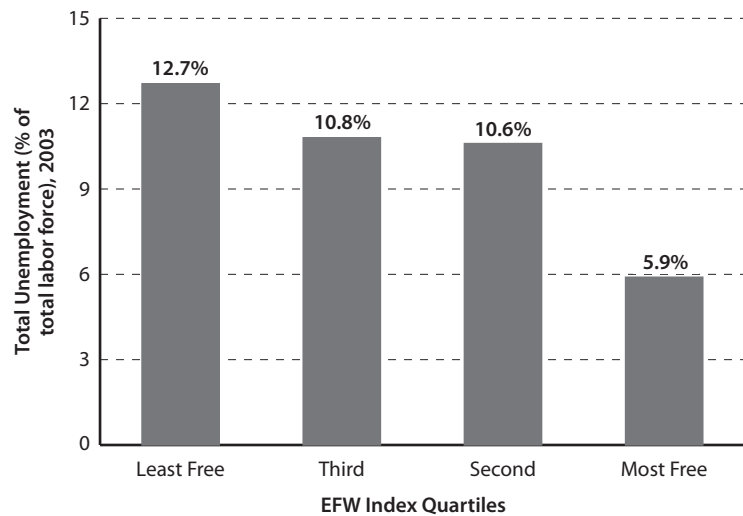
Countries with more economic freedom have higher growth rates.

Sources: The Fraser Institute; The World Bank, *World Development Indicators CD-ROM*, 2005.

**Exhibit 1.8: Economic Freedom and Unemployment**

Countries with more economic freedom have lower levels of unemployment.

Sources: The Fraser Institute; The World Bank, *World Development Indicators CD-ROM*, 2005.

**Exhibit 1.9: Economic Freedom and Life Expectancy**

Life expectancy is over 20 years longer in countries with the most economic freedom than it is in those with the least.

Sources: The Fraser Institute; The World Bank, *World Development Indicators CD-ROM*, 2005.

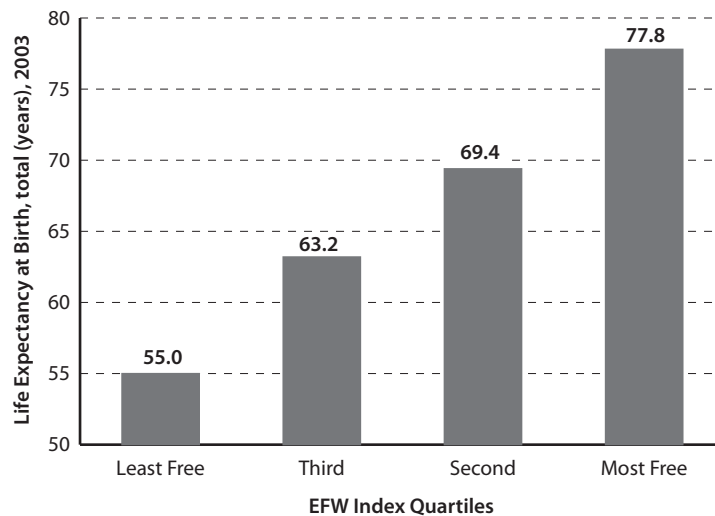
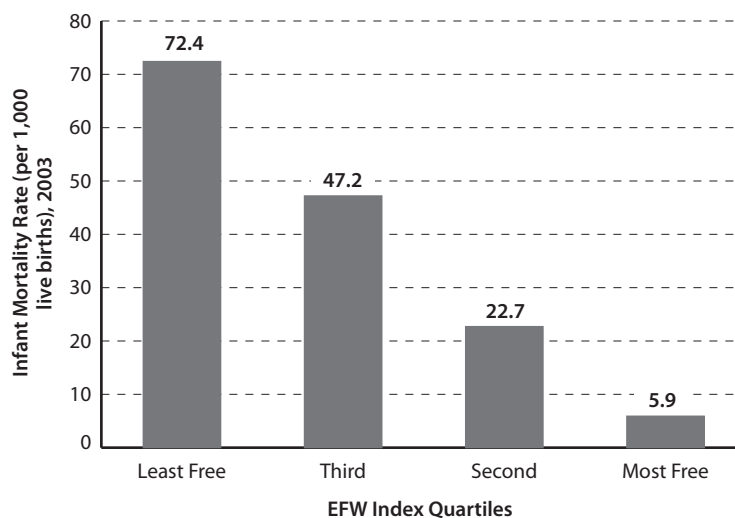


Exhibit 1.10: Economic Freedom and Infant Mortality

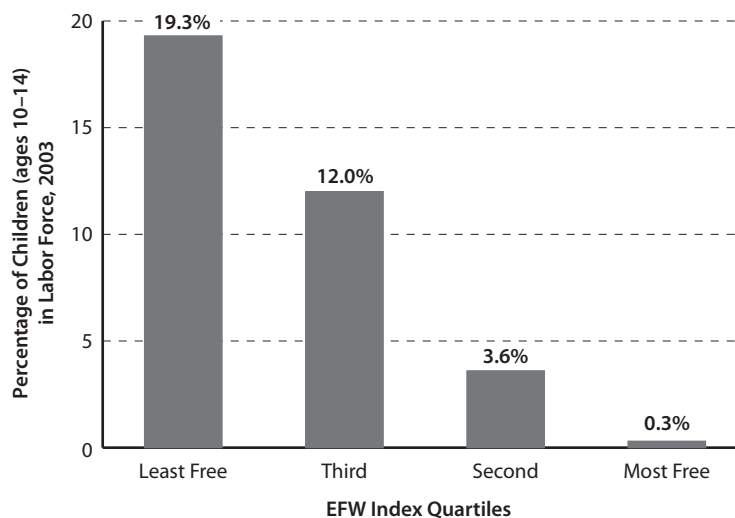
Infant mortality is much lower in countries with high levels of economic freedom.

Sources: The Fraser Institute; The World Bank, *World Development Indicators CD-ROM*, 2005.

**Exhibit 1.11: Economic Freedom and the Percentage of Children in the Labor Force**

The incidence of child labor declines as economic freedom increases.

Sources: The Fraser Institute; The World Bank, *World Development Indicators CD-ROM*, 2005.

**Exhibit 1.12: Economic Freedom and Access to Improved Water Sources**

Access to improved water increases with economic freedom.

Sources: The Fraser Institute; The World Bank, *World Development Indicators CD-ROM*, 2005.

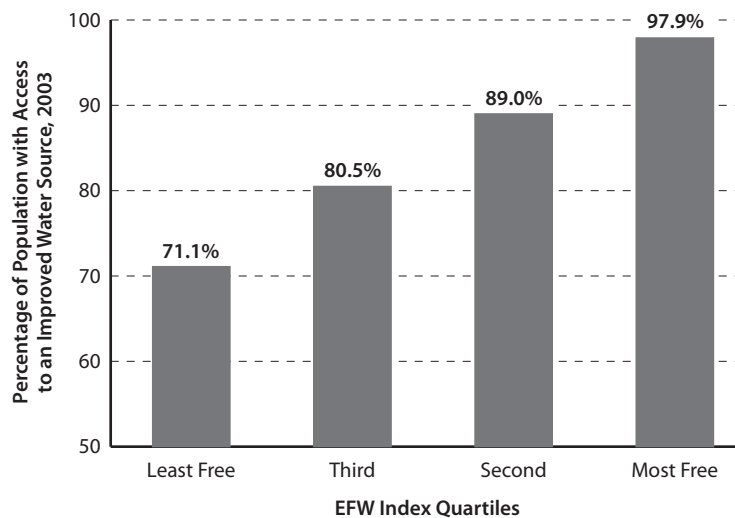
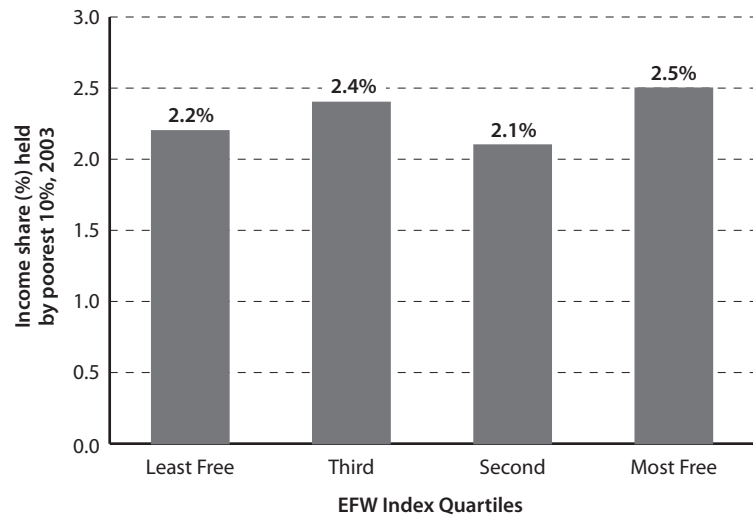


Exhibit 1.13: Economic Freedom and the Income Share of the Poorest 10%

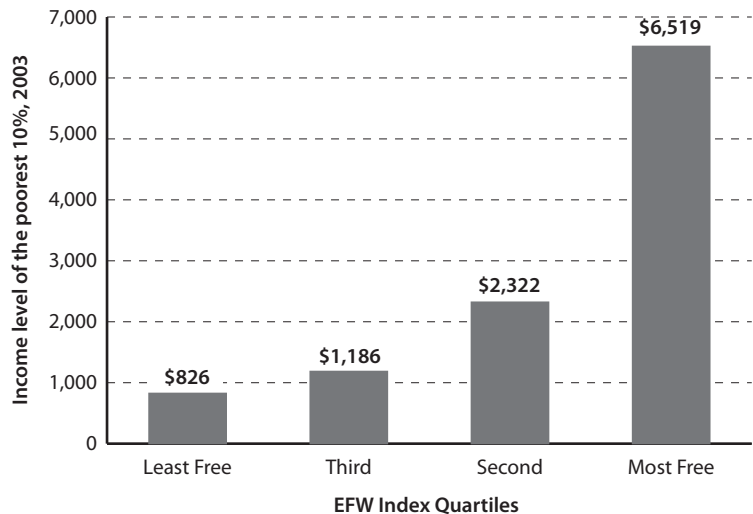
The share of income earned by the poorest 10% of the population is unrelated to the degree of economic freedom in a nation.

Sources: The Fraser Institute; The World Bank, World Development Indicators CD-ROM, 2005.

**Exhibit 1.14: Economic Freedom and the Income Level of the Poorest 10%**

The amount, as opposed to the share, of income going to the poorest 10% of the population is much greater in nations with the most economic freedom than it is in those with the least.

Sources: The Fraser Institute; The World Bank, World Development Indicators CD-ROM, 2005.

**Exhibit 1.15: Economic Freedom and "Human Development"**

More economic freedom is related to greater "human development" as measured by the United Nations.

Note: The United Nations' Human Development Index (HDI) is measured on a scale from zero to one: zero = least developed; one = most developed.

Sources: The Fraser Institute; United Nations Development Programme, *Human Development Indicators 2005* <<http://hdr.undp.org/statistics/data/>>.

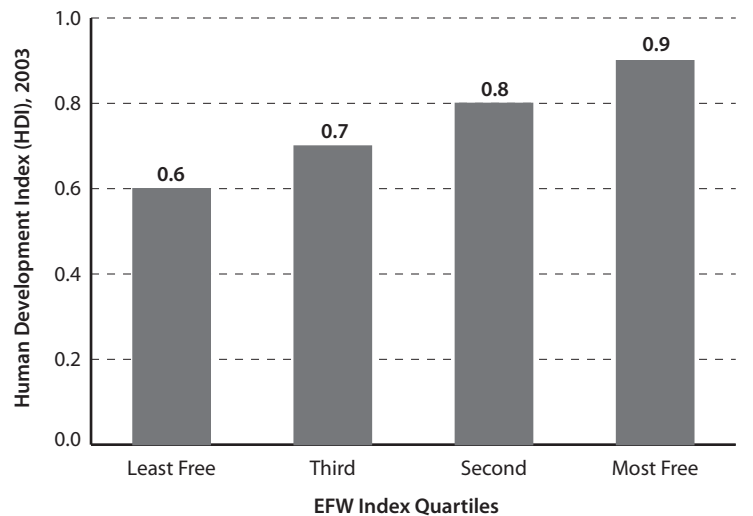


Exhibit 1.16: Economic Freedom and Political Rights and Civil Liberties

Political rights (e.g., free and fair elections) and civil liberties (e.g., freedom of speech) go hand in hand with economic freedom.

Note: Political rights and civil liberties are measured on a scale from one to seven: one = the highest degree of political rights/civil liberties; seven = the lowest.

Sources: The Fraser Institute; Freedom House, *Freedom in the World Country Ratings* (2005) <<http://www.freedomhouse.org/uploads/FIWrank7305.xls>>.

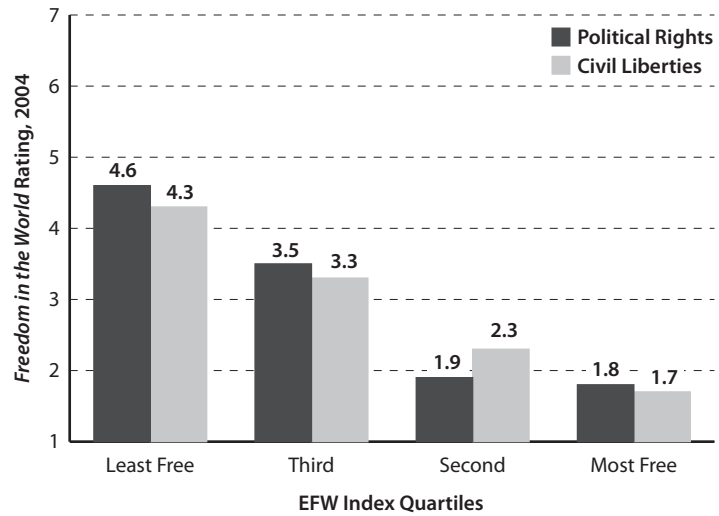


Exhibit 1.17: Economic Freedom and Corruption

With fewer regulations, taxes, and tariffs, economic freedom reduces the opportunities for corruption on the part of public officials.

Note: Corruption is measured on a scale from zero to 10: 10 = little or no corruption; zero = highly corrupt.

Sources: The Fraser Institute; Transparency International, *2005 Corruption Perceptions Index* <<http://www1.transparency.org/cpi/2005/cpi2005.sources.en.html>>.

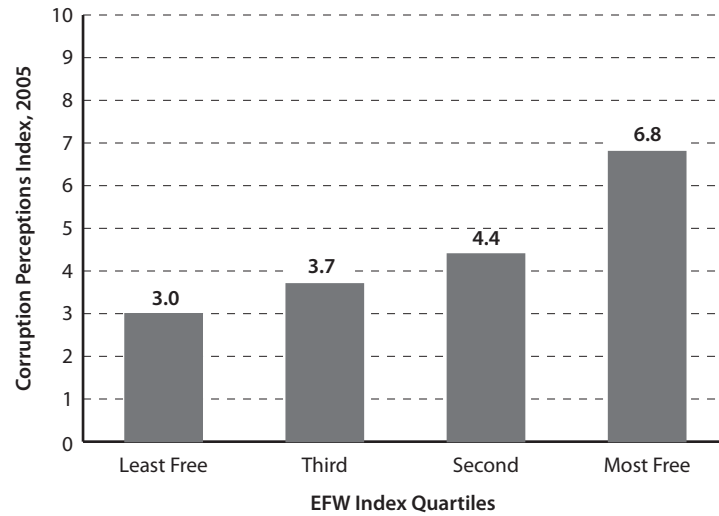


Exhibit 1.18: Economic Freedom and Globalization

Economically free countries are more integrated with the economies and cultures of other countries.

Note: Lower rankings indicate more globalization.

Sources: The Fraser Institute; A.T. Kearney/FOREIGN POLICY *Globalization Index* (2005) <http://www.atkearney.com/shared_res/pdf/2005G-index.pdf>.

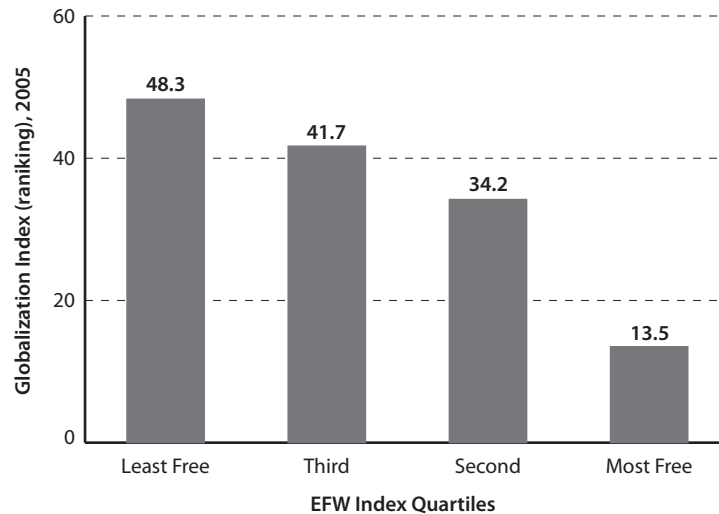
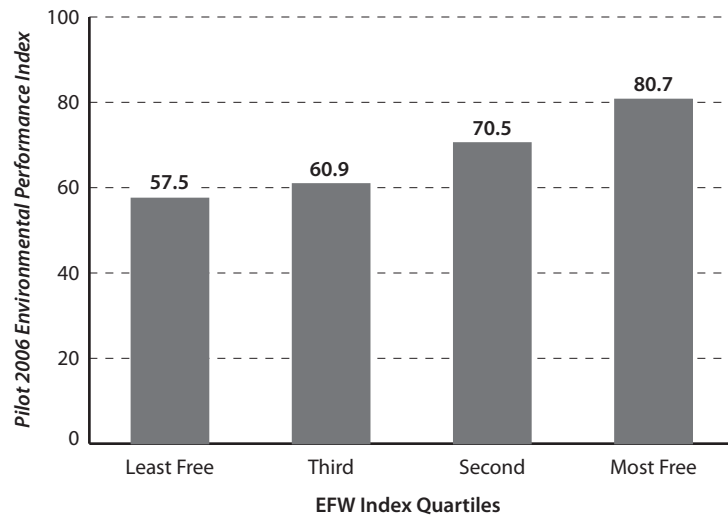


Exhibit 1.19: Economic Freedom and Environmental Performance

Environmental stresses on human health are lower and ecosystem vitality is greater in countries with more economic freedom.

Note: Higher index values indicate greater environmental performance.

Sources: The Fraser Institute; the Center for Environmental Law & Policy, Yale University and the Center for International Earth Science Information Network (CIESIN), Columbia University, *Pilot 2006 Environmental Performance Index*, <<http://www.yale.edu/epi/>>.



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 fourth annual report was published in the fall of 2006.

For more information, see Amela Karabegović & Fred McMahon with Christy Black, *Economic Freedom of North America: 2006 Annual Report* (The Fraser Institute, 2006). Available at <www.freetheworld.com> and <www.fraserinstitute.ca>.

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 was published in November of 2005 by The Fraser Institute and the International Research Foundation (IRF) of Oman. The third edition will be released in the fall of 2006.

For more information, see Salem Al Ismaily, Amela Karabegović, and Fred McMahon (2005), *Economic Freedom of the Arab World (Report & Index—2005)* (The Fraser Institute & International Research Foundation).