



A SPECIAL MEETING

THE MONT PELERIN SOCIETY

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FROM THE PAST TO THE FUTURE: IDEAS AND ACTIONS FOR A FREE SOCIETY

CHAPTER TWENTY-ONE

ECONOMIC FREEDOM: OBJECTIVE, TRANSPARENT MEASUREMENT FRED McMAHON



Economic Freedom: Objective, Transparent Measurement

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What is Economic Freedom



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

James Gwartney et al. 1996

Components of the Economic Freedom of the World Index



- Size of government and taxation
- Private property and the rule of law
- Sound money
- Trade regulation and tariffs
- Regulation of business, labour and capital markets

What is the Economic Freedom of the World Index?



- Originated by Michael Walker and Milton and Rose Friedman over 35 years ago in 1984.
- Decade long research phase involved over 60 top scholars in a variety of fields and produced three volumes of studies.
- An annual compilation of data representing 42 variables which determine the economic freedom of a jurisdiction.
- All data are from third party sources for objectivity.
- Fraser has no political affiliation—the focus is on policy not politics. Thus no conflict of political interest in measuring Canada or other nations.
- Transparent formulas are used to manipulate the data.

What's New



- The index includes a Gender Disparity Adjustment, based on 41 variables from the World Bank's gender discrimination data, to recognize women too often do not have the same freedom as men.
- Authors: James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy.
- Scoring for many nations projected back to 1950.
- In cooperation with the Atlas Network and the Friedrich Naumann Foundation for freedom, we have conducted economic freedom audits in nearly 20 nations.
- Data now includes historic estimates of economic freedom for 111 countries back to 1950, 113 to 1955, 116 to 1960, and 118 to 1965 using a newly available dataset.
- Now a collaboration of Institutes in nearly 100 nations and territories.

Why is Economic Freedom Important?



- Economic rights are fundamental rights in the sense that without them there can be no political freedom or civil freedoms
- They are a prerequisite for growth and development
- They are a prerequisite for broader human development

Importance of objective, transparent measurement



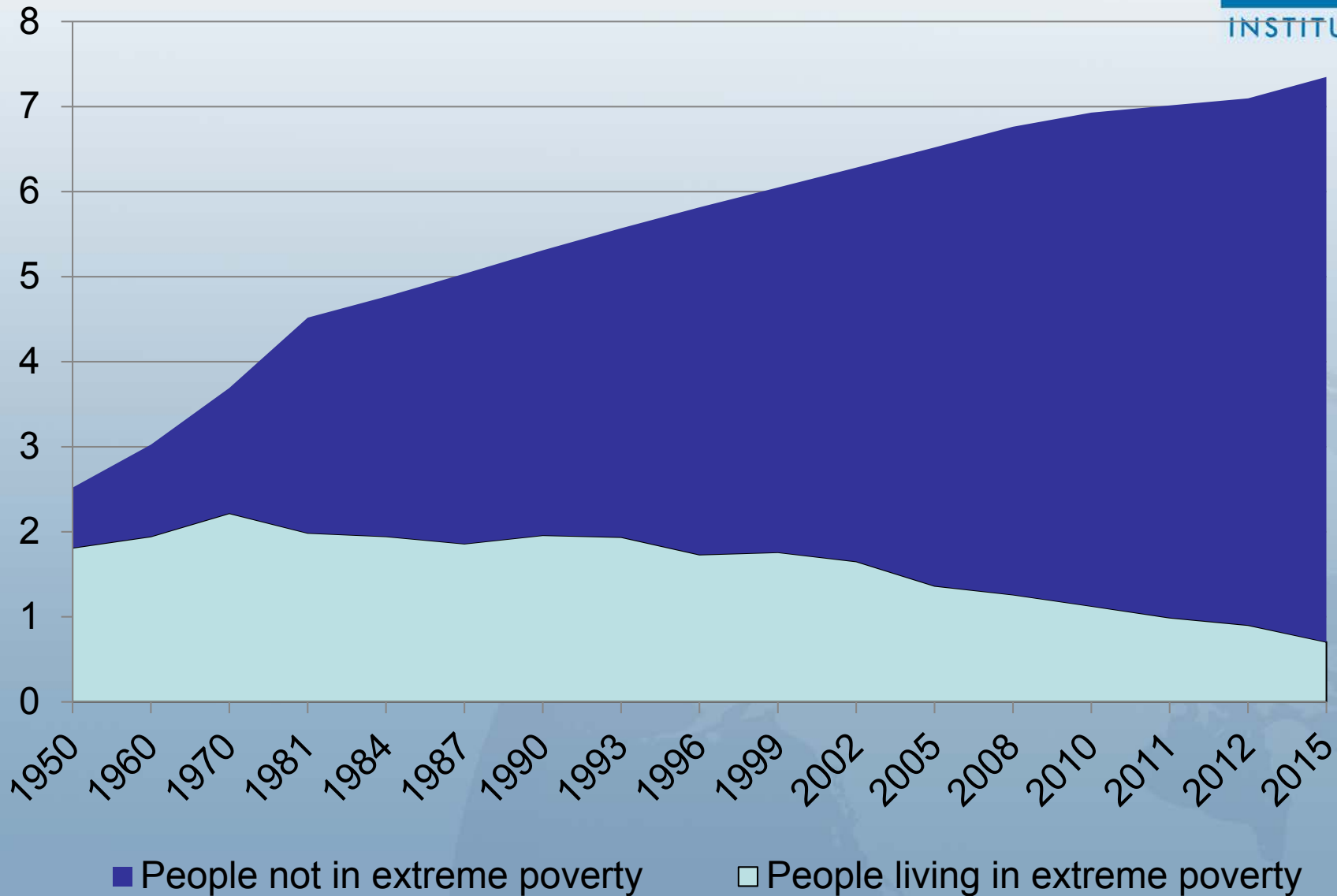
- We have a great story to tell: the advances in human welfare created by economic freedom.
- However, in an era of fake news and lies accepted as truth (and vice versa), it is essential to be as clear cut and honest as possible.
- The slides to follow tell the human story of economic freedom; you will be familiar with many of the statistics, but I hope to add some value added.

The Age of
Global Free Trade,
Free Market Economies, and
Economic Freedom
Have Brought
Huge Benefits to Humankind

Global poverty



Billions

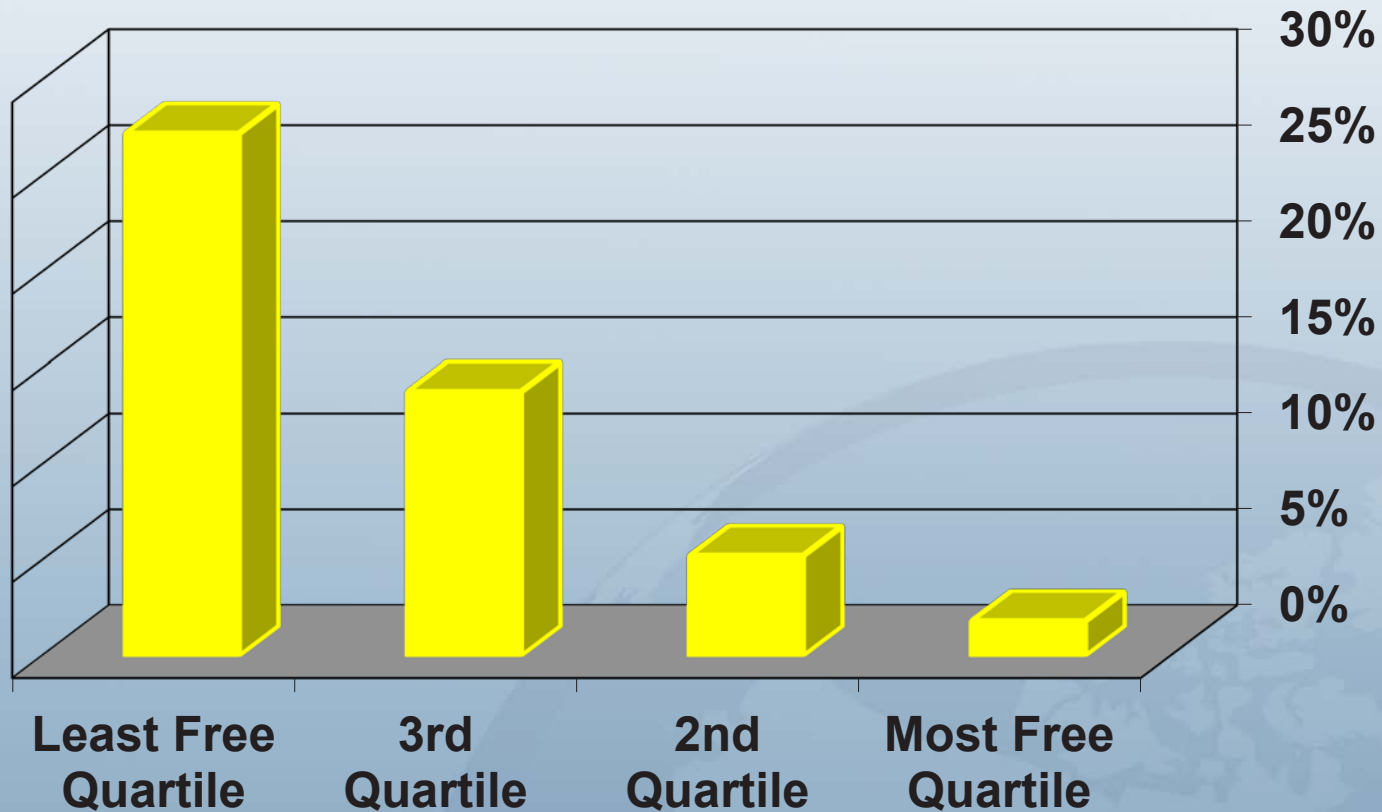


The human condition has improved immensely



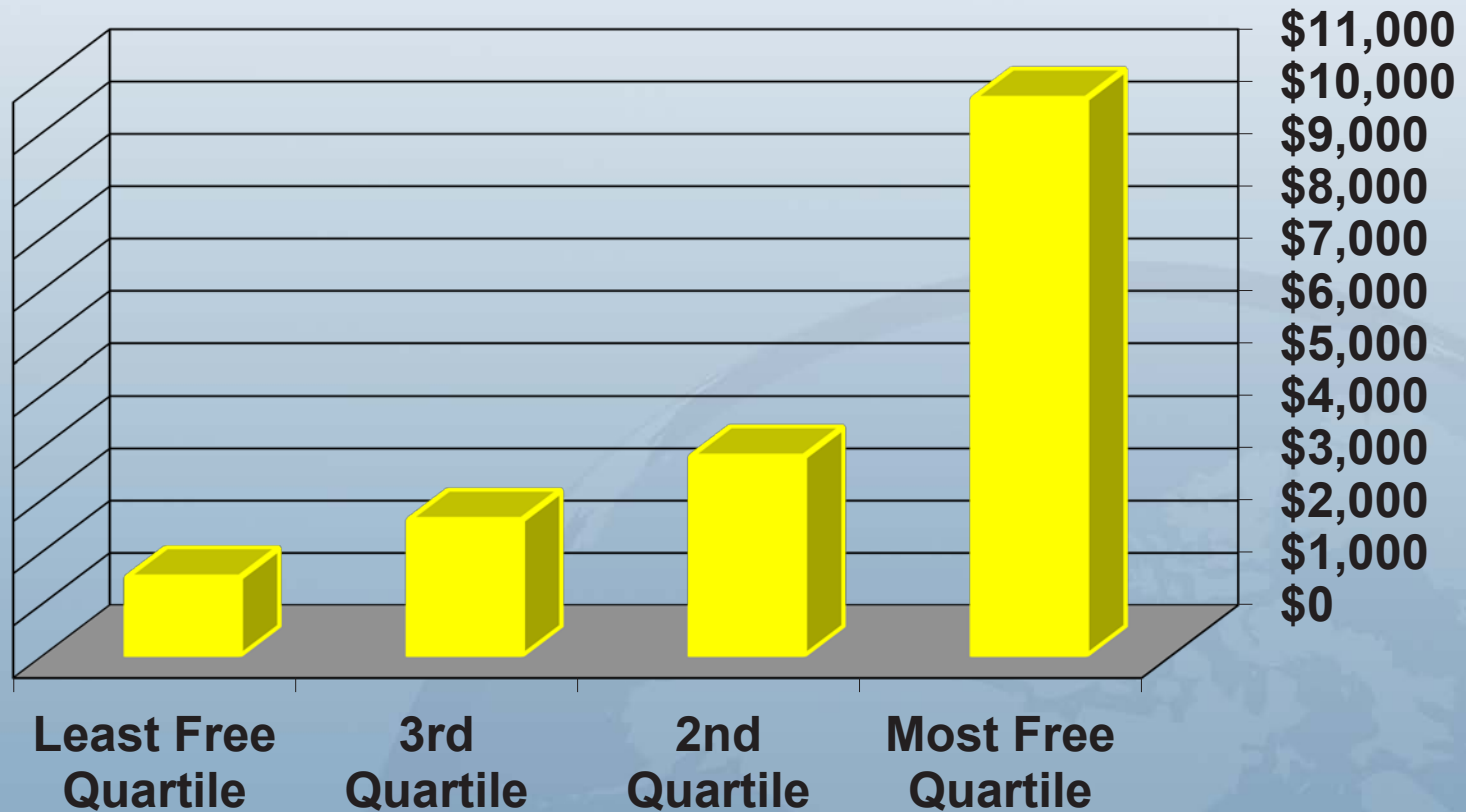
While the human condition has improved immensely—in prosperity, health, education, and any number of other good outcomes—only those that live in nations with high levels of economic freedom have fully benefitted. Those in nations with low levels of economic freedom live in conditions often little changed from the 1950s.

Poverty headcount ratio at \$3.20 a day (PPP, 2016) (% of population)



Least Free Most Free

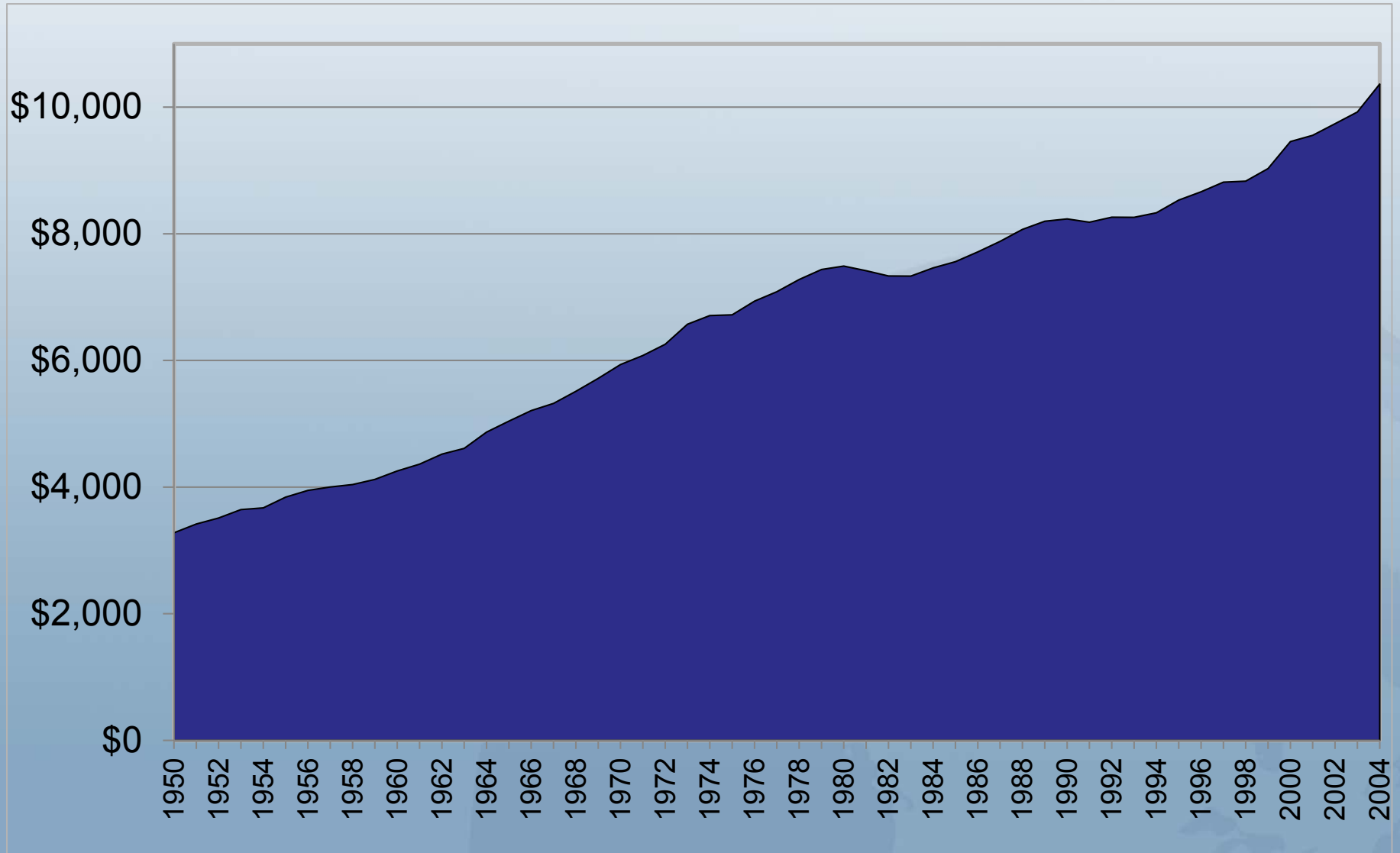
Income of the Poorest 10% and Economic Freedom (PPP, 2016)



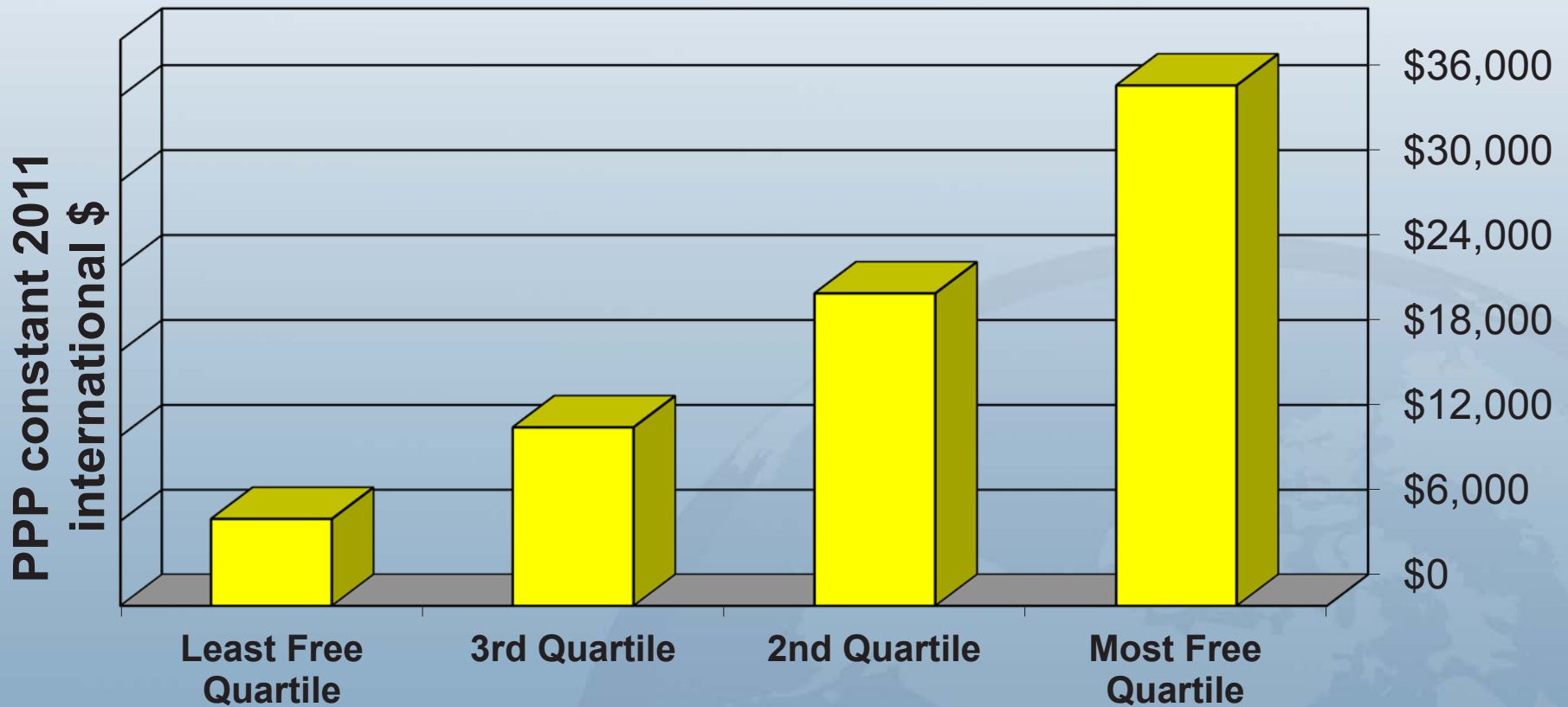
Least Free Most Free

Per capita GDP

Constant US\$



Per Capita Income and Economic Freedom Quartile

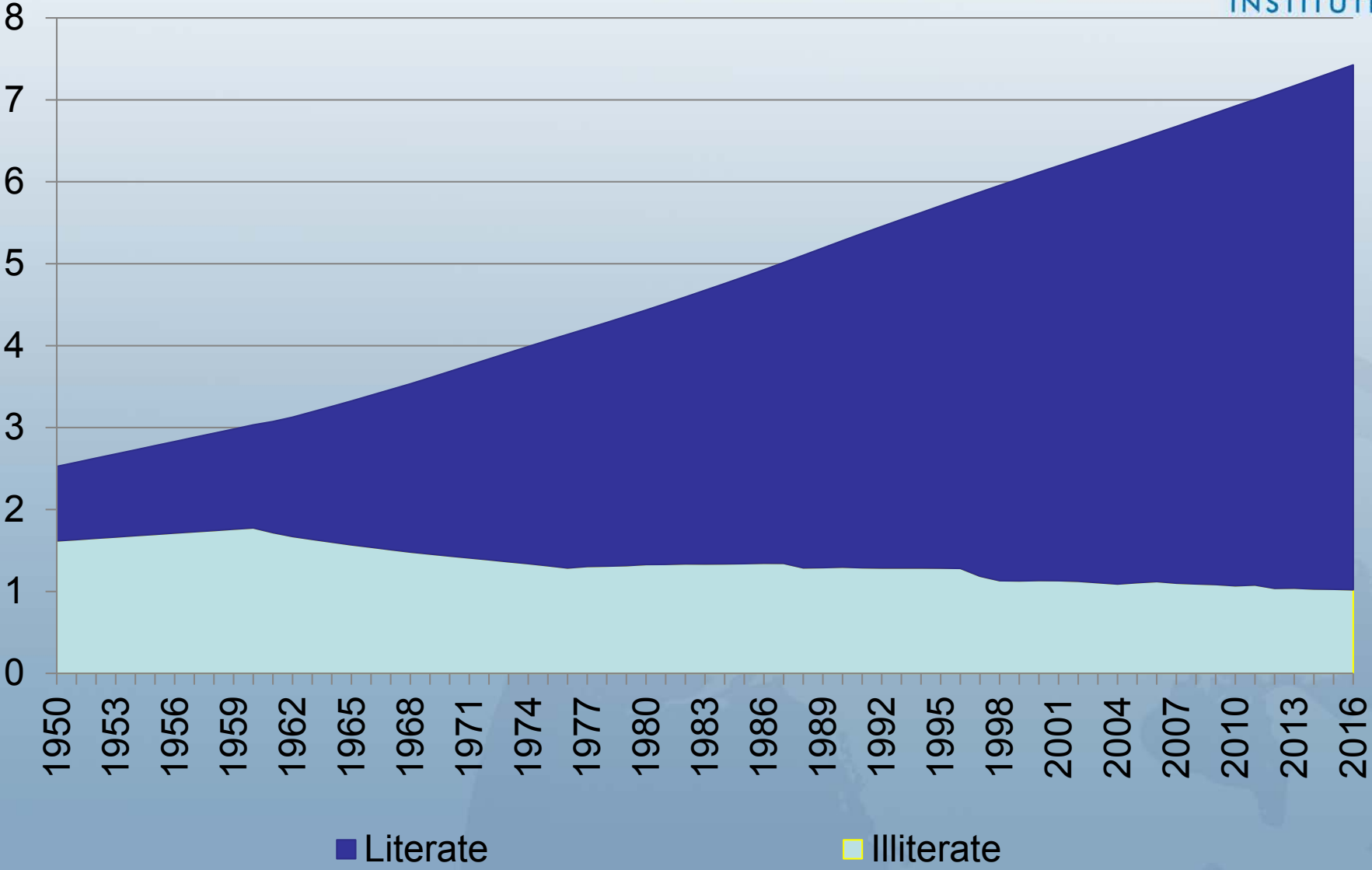


Least Free Most Free

Literacy: Billions



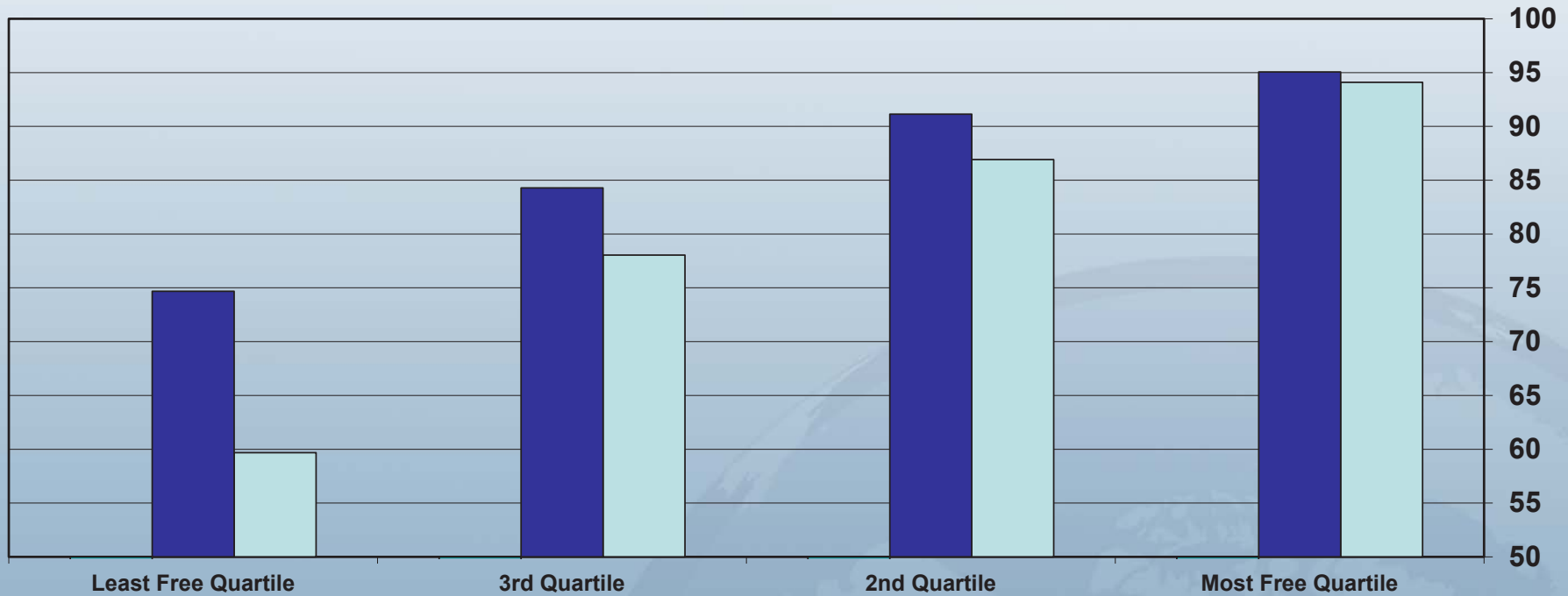
Billions



Literacy (% of population)

Male

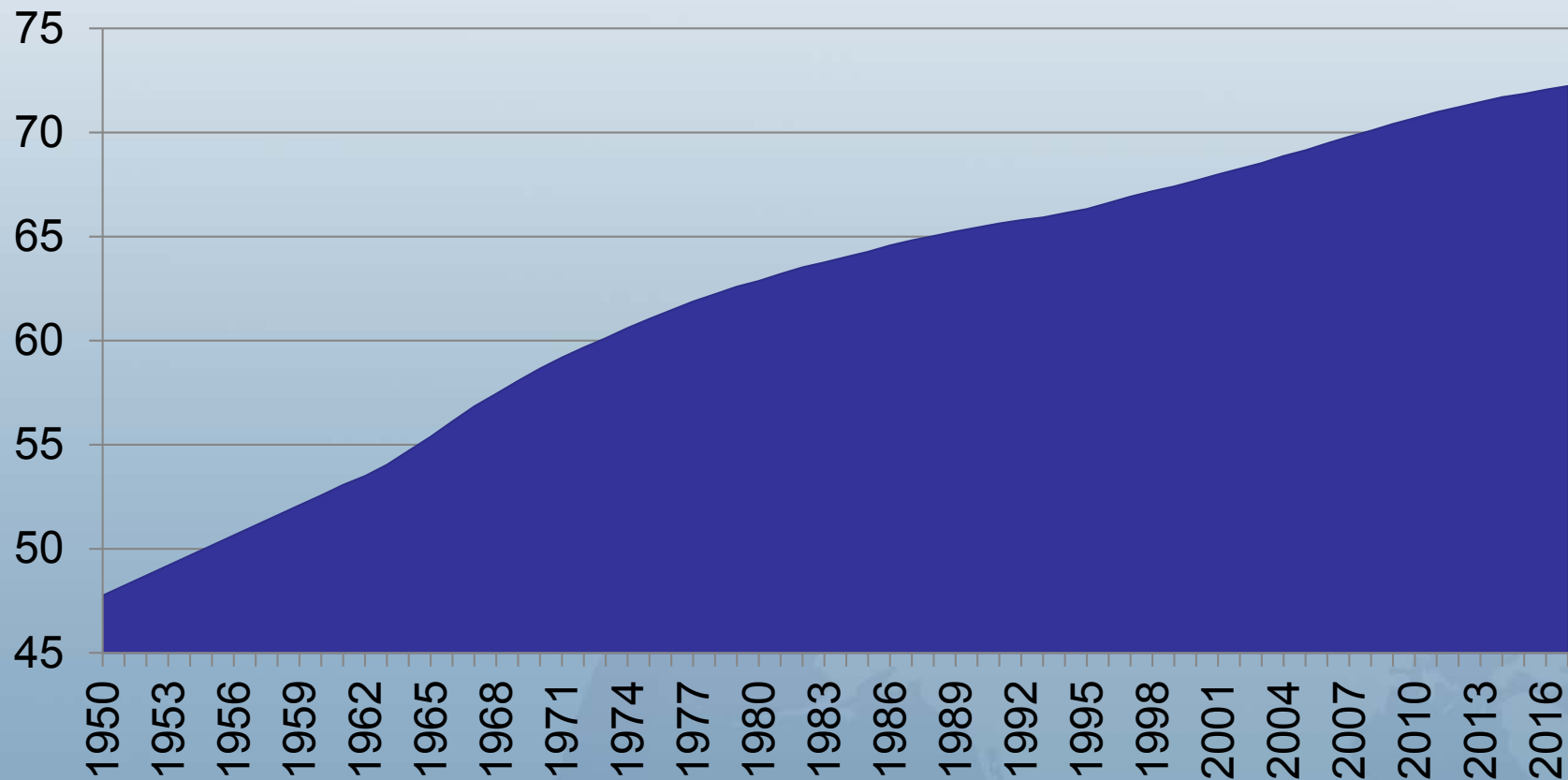
Female



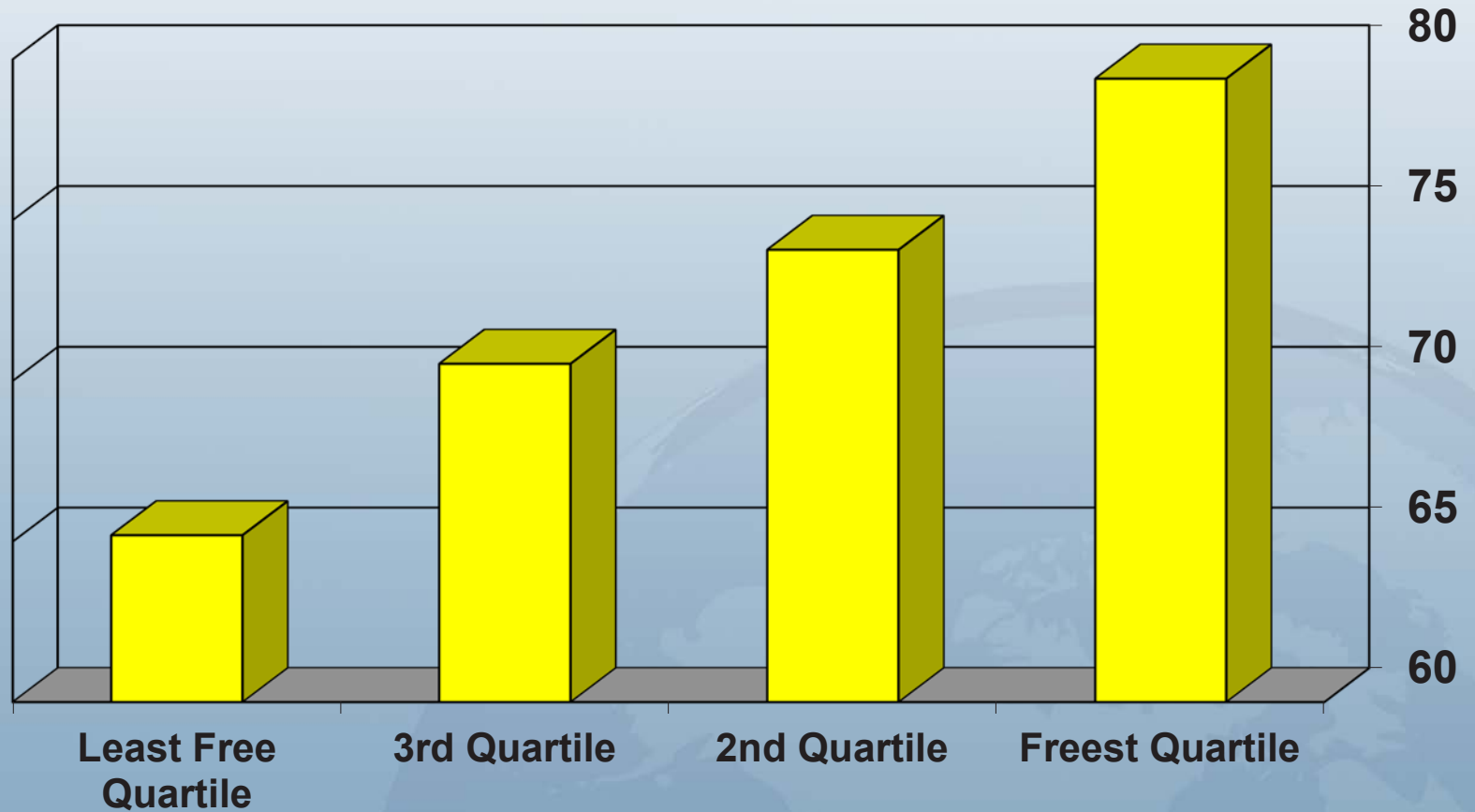
Least Free Most Free

Sources: The Fraser Institute; World Development Indicators 2013

Life Expectancy: Years



Life expectancy at birth



Least Free Most Free

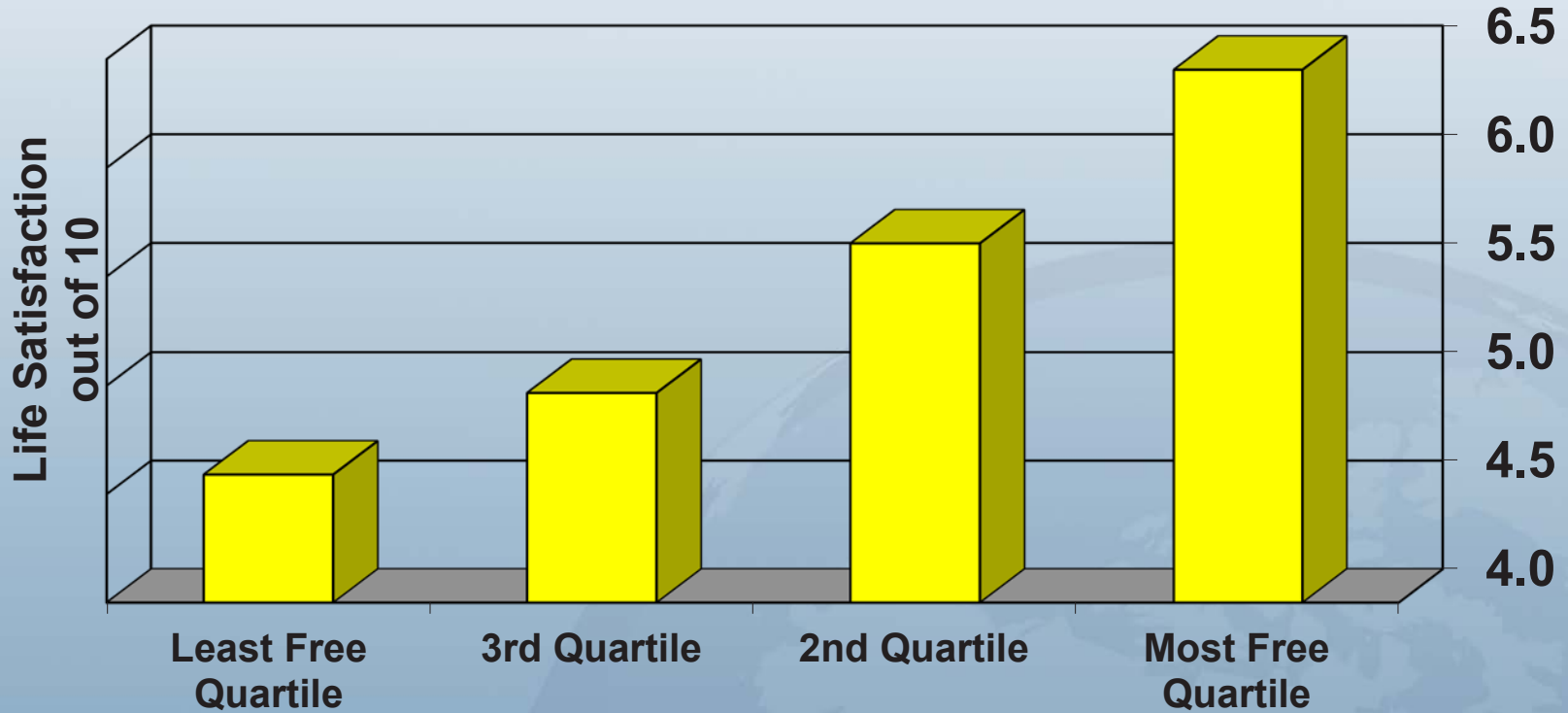
Not just due to time



- In the economically freest nations, the top quarter, only 1.8 percent of the population live in extreme poverty (\$1.90 a day) and 5.1 percent in moderate (\$3.20 a day) poverty compared to 40.5 percent in extreme poverty and 27.2 percent in moderate poverty in the quarter least free nations.
- Life expectancy is 79 years in the freest nations compared to 65 in the least free nations.
- Average per capita GDP in the freest nations is \$36,770 (purchasing power parity adjusted US\$) compared to \$6,140 in the least free nations.
- Literacy is 95.1 percent among men and 94.1 percent among women in the freest nations but only 64.7 percent and 59.7 respectively in the least free nations, with such outcome gaps between men and women typical comparing free to unfree nations.

One last thing

Economic Freedom and Life Satisfaction

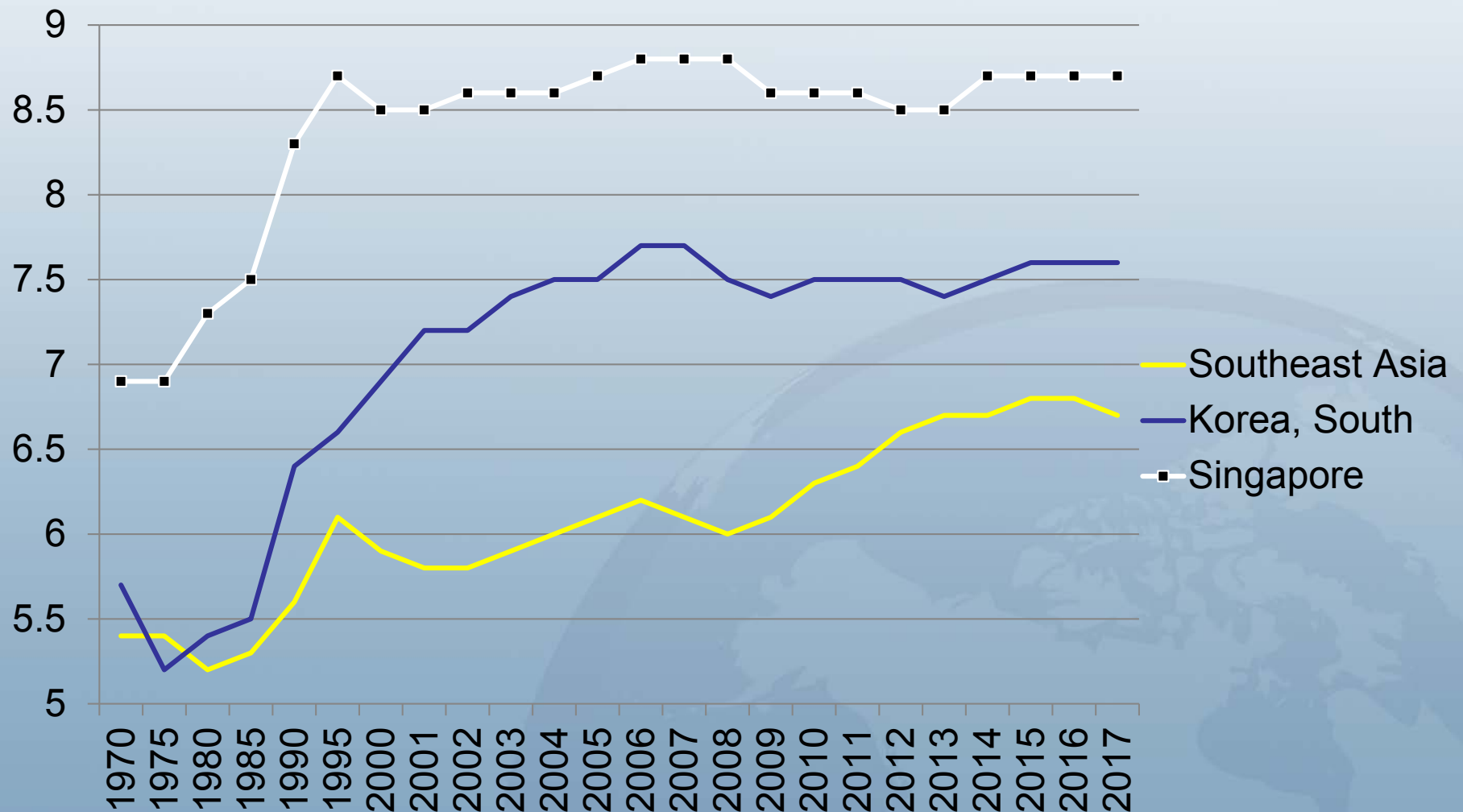


Least Free Most Free

Some of the great longer-term successes

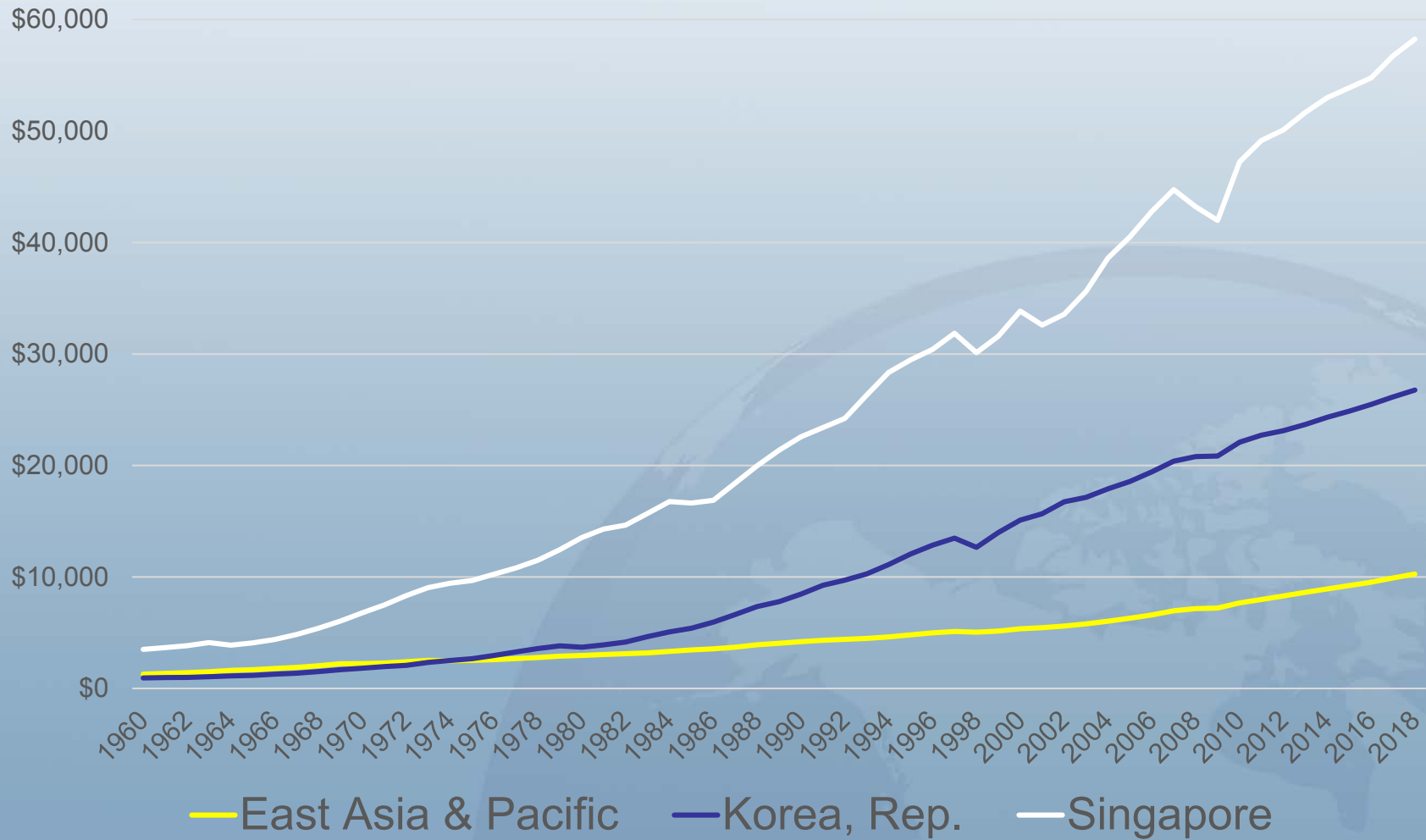
Asia

Economic Freedom Scores



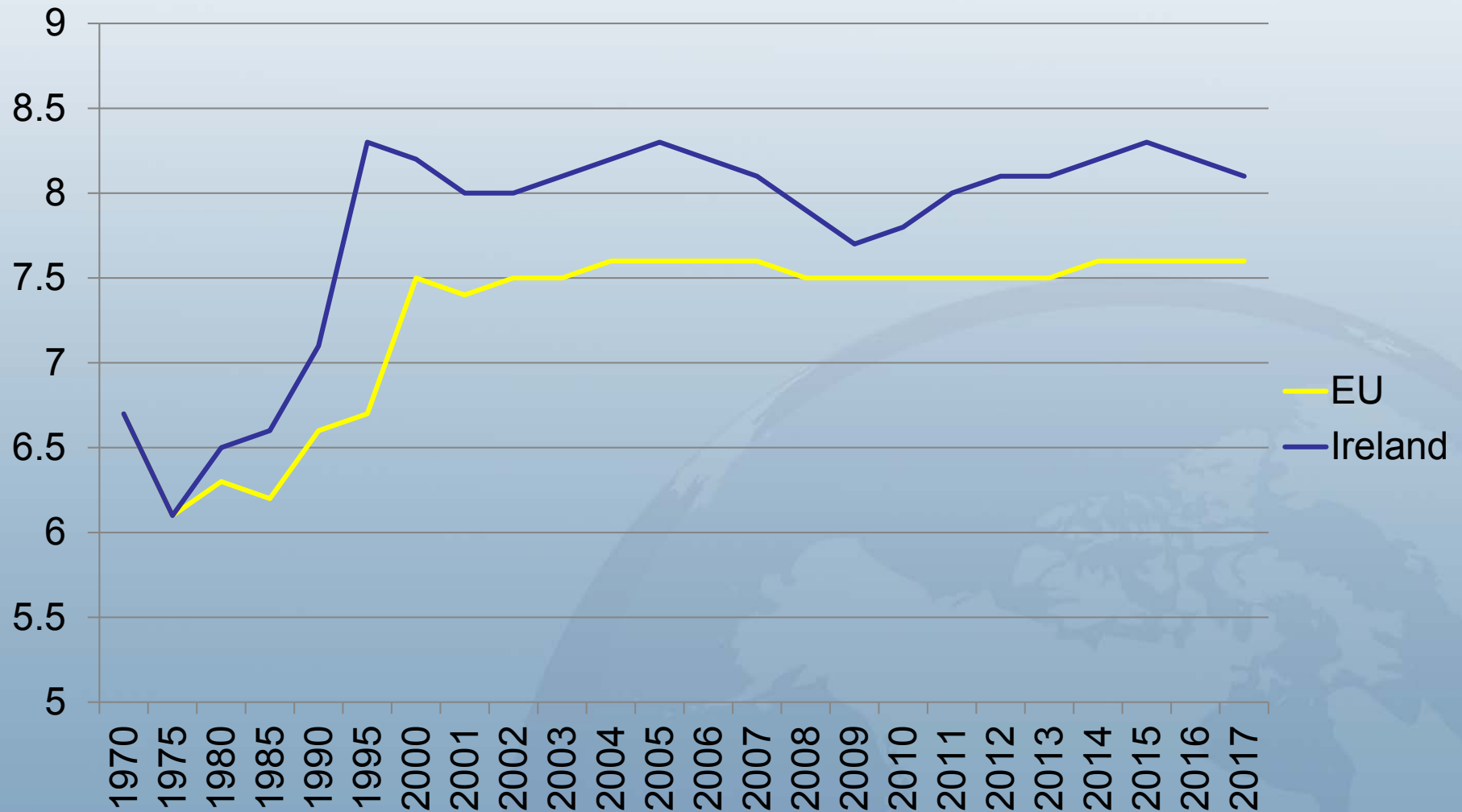
Per Capita GDP

Constant 2010 US\$



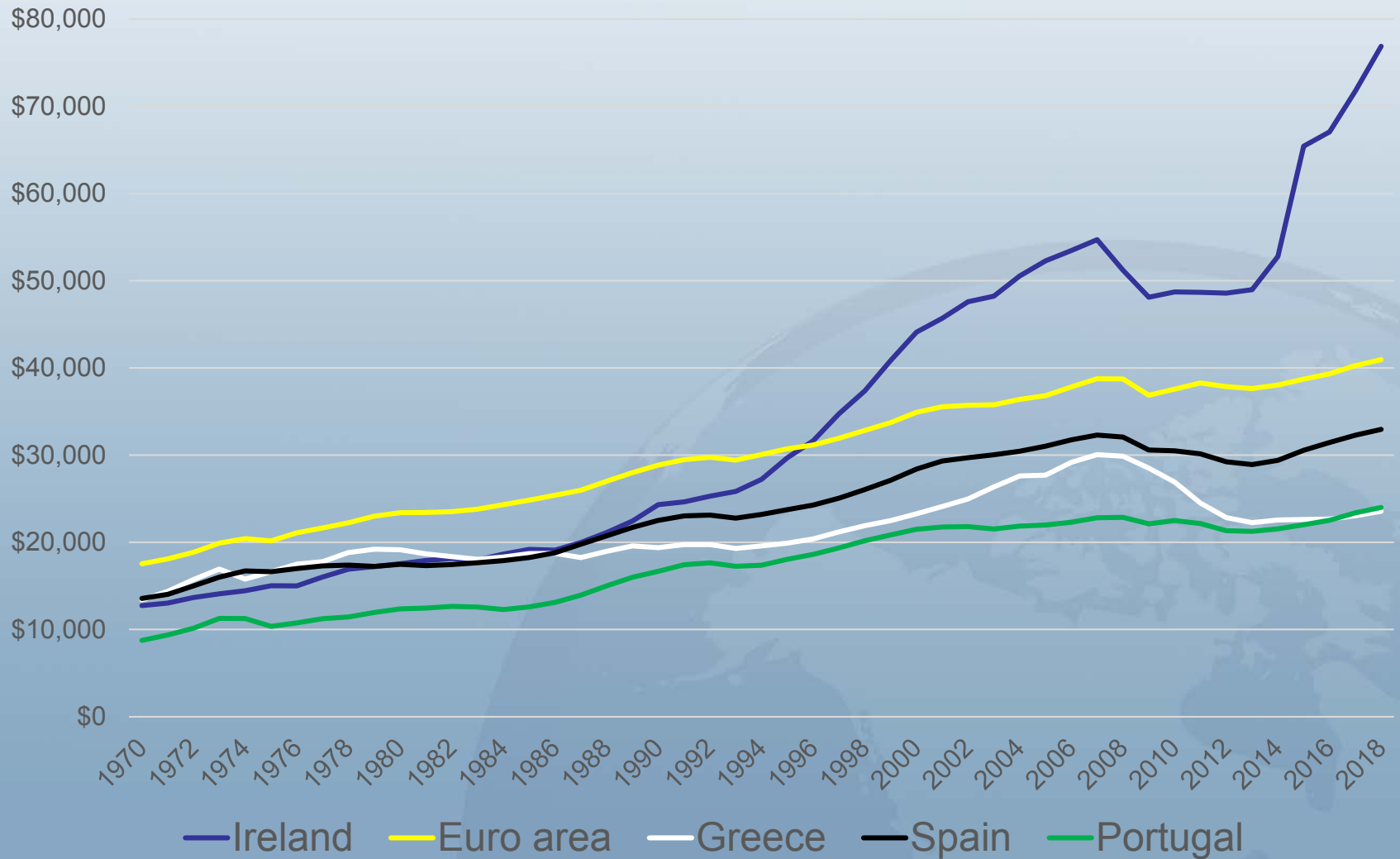
Europe

Economic Freedom Scores



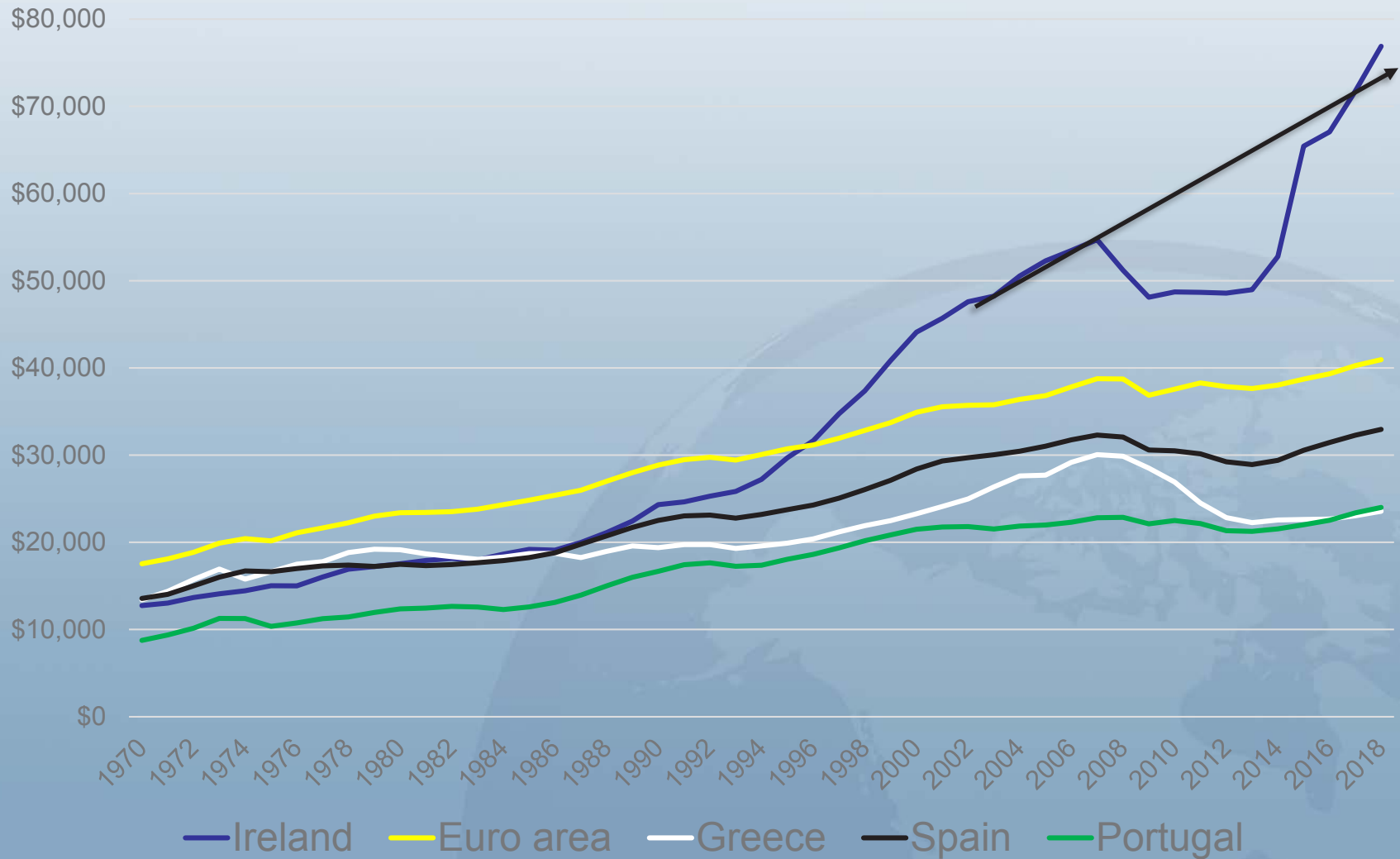
Per Capita GDP

Constant 2010 US\$

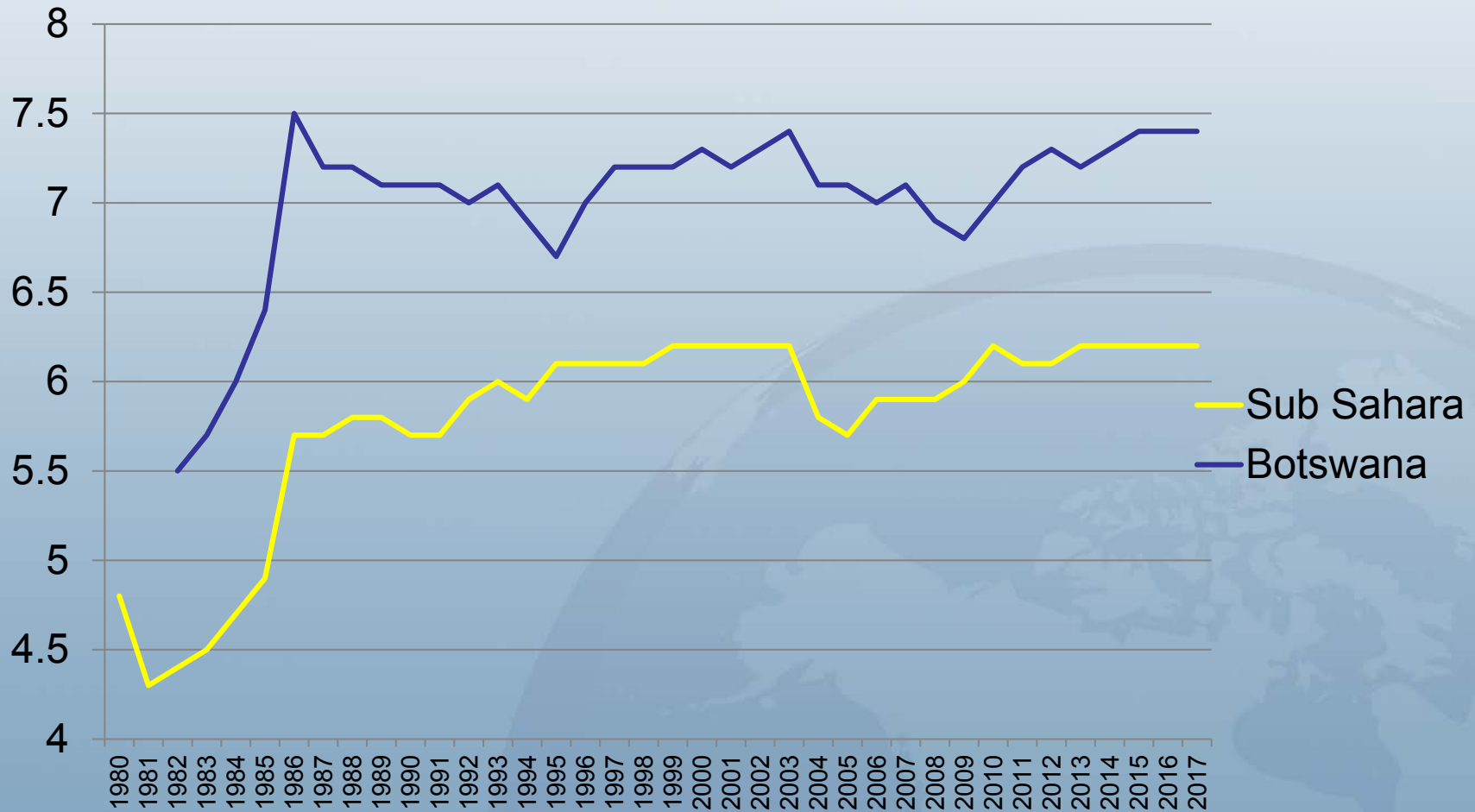


Per Capita GDP

Constant 2010 US\$

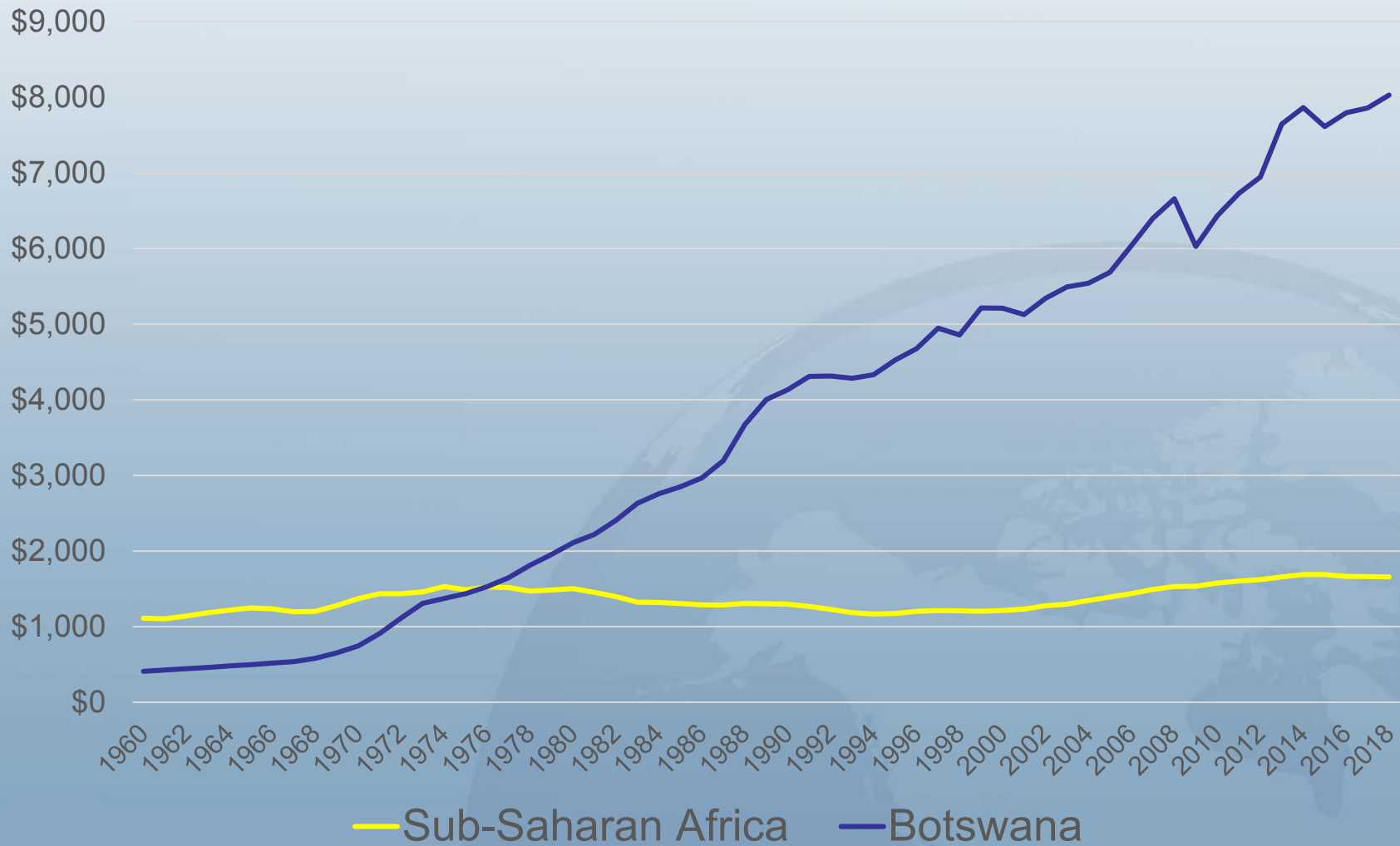


Economic Freedom Score



Per Capita GDP

Constant 2010 US\$



www.freetheworld.com

www.fraserinstitute.org



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McMahon is coauthor of *Economic Freedom of the Arab World* and *Economic Freedom of North America*. He has worked on economic reform programs in more than a dozen nations and has authored several books and many articles on economic reform, both academic and in the popular media. His book *Looking the Gift Horse in the Mouth*, about damaging government intervention and spending, won the Sir Antony Fisher Memorial Award.

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