



USAID
FROM THE AMERICAN PEOPLE

EG Technical Briefings
Volume III No. 5 July 2006

Briefing on the Fraser Economic Freedom of the World 2005 Annual Report

BACKGROUND

The *Economic Freedom of the World Annual Report* is produced and published by the Fraser Institute, located in Canada, in conjunction with independent research and educational institutions in more than 60 countries. Its goal is to measure “the degree to which the policies and institutions of countries are supportive of economic freedom.”ⁱ

The Fraser Economic Freedom of the World (EFW) index grew out of a series of economic conferences in the late 1980s and early 90s focused on developing a definition and measurement of economic freedom.

The *Economic Freedom of the World 2005 Annual Report*, released in September of 2005, covers 127 countries and includes ratings and rankings from 1970ⁱⁱ to 2000 in five-year intervals and annual data from 2000 to 2003.

SUMMARY OF THE REPORT

The Fraser EFW index is built up from 21 components grouped into five major areas. The five major areas are: 1) size of government; 2) legal structure and security of property rights; 3) access to sound money; 4) freedom to trade internationally; and 5) regulation of credit, labor and business. A country's rating is calculated by averaging the numerical ratings on 21 components

Each component result, for example, government consumption, is rated on a scale from 0 to 10, with the score of 10 representing the least government intervention

MAIN FINDINGS

The main conclusion of the 2005 report is that economic freedom has grown considerably in recent decades, with the average rating rising from 5.2 in 1985 to 6.4 for the most recent year (generally 2003) for which data are available. This is an increase of 20.7 percent, or about 1.1 percent per annum.

Among the countries with the largest improvements over the last two decades: Bolivia, Brazil, El Salvador, Ghana, Jamaica, Nicaragua, Peru, Poland, Tanzania, Uganda, and Zambia. Over the same period significant declines occurred in economic freedom for Myanmar, Venezuela, and Zimbabwe.

High-income countries tend to be the highest ranking countries in economic freedom with Hong Kong, Singapore, New Zealand, Switzerland, and the United States leading in 2003.

REGIONAL FINDINGS

Most North American and West European countries are ranked among the 50 highest scoring countries with a few exceptions, such as Italy (assigned 54th rank.).

Technical Briefings is published by USAID/EGAT Office of Economic Growth in Washington, DC. This publication aims to share technical and analytical information with USAID field missions, especially with economic, private sector, and agricultural development officers. Any views, interpretations, and conclusions expressed in *Technical Briefings* are those of the author (s) alone and do not represent any official views of USAID or the U.S. Government. If you have feedback, suggestions or ideas about Technical Briefings, please contact Jim Elliott (jelliott@usaid.gov) Suggestions for subjects are always welcome. This Technical Brief was authored by Barbara Rippel while in EGAT/EG with the DIS project.

While some Latin American and Caribbean countries have high rankings others are near the bottom . Most Sub-Saharan African countries receive relatively low ratings and rank in the lower half of the list. There are a few notable exceptions: Botswana (30th), Mauritius (35th), and South Africa (38th).

Asian and Pacific countries are quite diverse in their economic freedom rankings. While Hong Kong and Singapore, respectively ranked as 1st and 2nd, are at the top of the list, the rankings of Vietnam (103rd place) and Nepal (112th) place them among the lowest ranked countries.

DIFFERENCES WITH HERITAGE INDEX OF ECONOMIC FREEDOM

The Heritage Foundation in cooperation with the Wall Street Journal publishes a similar index called the Index of Economic Freedom (IEF) (see, *EG Technical Briefings*, Vol. II, No. 5, January 2005).

Individual countries might rank differently depending on the index used. Depending on the reader's need for coverage, concern with particular aspects of economic freedom and how they are measured, and timeliness of data, readers may choose to rely on one or the other, or on both, using one as a crosscheck to the other. In the interesting and not infrequent cases in which a country is covered by both indexes and is ranked very differently by one than by the other, the reader is faced with a clear example of the technical limitations of this kind of analysis.

HOW TO ACCESS THIS REPORT AND THAT OF THE HERITAGE FOUNDATION

The Fraser *Economic Freedom of the World 2005 Annual Report* can be accessed at <http://www.freetheworld.com/release.html>, and the Heritage report, *Index of Economic Freedom 2006* can be accessed at <http://www.heritage.org/research/features/index/index.cfm>.

ⁱ James D. Gwartney, Robert Lawson, Eric Gartzke, "Economic Freedom of the World: 2005 Annual Report," Fraser Institute, 2005, p. 3.

ⁱⁱ To allow over time comparisons, the authors calculate a chain-linked index based on the 2000 ratings. These longitudinal data are available for 53 countries going back to 1970.