

Media Release

Canada's position weakens in annual economic freedom rankings

For Immediate Release

VANCOUVER, BC, 15 JULY 2004—Canada's economic freedom has begun to suffer due to deterioration in our legal structure and rising business regulations, according to the **Economic Freedom of the World: 2004 Annual Report**, released today by The Fraser Institute.

"Canada scores well in most areas," said Fred McMahon, Director of Trade Studies at The Fraser Institute, "but worsening trends in the legal area and in the burden of business regulations could cause real economic difficulties in the future. Research in the world's top academic journals shows that economic freedom is the key driver of future prosperity."

The report ranks nations on 38 different factors, each out of a score of 10. Overall, Canada ranks 7th (with a score of 7.9) in this year's report, having dropped slightly from 6th place last year (with a score of 8.1). Canada's score in the soundness of the nation's legal structure has fallen a full point, from 9.3 in 2000 to 8.3 in 2002, the most recent year for which data are available. That has dropped Canada's rank from the 8th best legal structure among rich OECD nations in 2000 to 14th in 2002.

- Canada's score for judicial independence fell from 9.2 in 2000 to 7.5 in 2002.
- Canada's score for impartial courts fell from 9.2 in 2000 to 6.5 in 2002.
- Canada's score for irregular payments to government officials fell from 9.1 in 2000 to 7.7 in 2002.
- Canada's score for business regulations fell from 8.0 in 2000 to 6.4 in 2002 (Falling scores mean increasing business regulation).

The report's authors are James Gwartney, Professor of Economics at Florida State University, and Robert Lawson, Professor of Economics at Capital University, Ohio. The key ingredients of economic freedom are personal choice, voluntary exchange, freedom to compete, and the protection of person and property.

Increased Economic Freedom Leads to Increased Prosperity

New research in the 2004 report examines the connections between economic freedom, investment, and prosperity growth. Highlights include:

- In nations in the top fifth of economic freedom, the average income of the poorest 10 percent of the population was \$6,877 compared to just \$823 in the least free nations.

- Nations in the top fifth of economic freedom have an average per capita income of \$26,100 compared to \$2,800 in nations in the bottom fifth of economic freedom.
- Free economies attract \$3,117 of foreign direct investment per worker, compared to \$444 for the middling group and only \$68 for the least free nations. (Figures in constant 1995 US\$).
- Economically free nations experienced 3.4 percent average annual growth from 1980 to 2000, compared to 1.7 percent for countries with middling economic freedom and just 0.4 percent for unfree nations.

“Economic freedom is a powerful magnet for investment,” said Institute Executive Director, Michael Walker. “When people are free to make their own choices, they invest in the future. So will foreign investors because they understand the opportunities economic freedom creates. That leads to greater prosperity and opportunity for everyone.”

Global Economic Freedom Rankings

Hong Kong retains the highest rating for economic freedom (8.7 of 10) closely followed by Singapore at 8.6. New Zealand, Switzerland, United Kingdom, and United States tied for third with ratings of 8.2 out of 10. The other top 10 nations are Australia, Canada, Ireland, and Luxembourg. The rankings of other large economies are Germany, 22; Japan and Italy, 36; France, 44; Mexico, 58; India, 68; Brazil, 74; China, 90; and Russia, 114.

The bottom five nations ranked are Venezuela, Central African Republic, the Democratic Republic of Congo, Zimbabwe, and Myanmar. Botswana’s ranking of 18 is by far the best among continental sub-Saharan African nations. Chile, with the best record in Latin America, was tied with four other nations at 22.

About the Economic Freedom Index

The first **Economic Freedom of the World Report**, published in 1996, was the result of a decade of research by a team led by Michael Walker and Nobel Laureate Milton Friedman. It included several Nobel Laureates and leading scholars in a broad range of fields, from economics to political science and from law to philosophy. The report is published annually in conjunction with independent research and educational institutes in over 60 nations.

This, the 8th edition of Economic Freedom of the World, rates and ranks 123 nations (using 38 variables) for 2002, the most recent year for which data are available. The report also updates data in earlier reports in instances where data have been revised. In addition, Global Economic Software has developed commercial software for analysis of Economic Freedom in relation to key socio-economic indicators.

–30–

CONTACTS: Michael Walker, Executive Director
Tel. (604) 714-4545, Email michaelw@fraserinstitute.ca

Fred McMahon, Director of Trade Studies
Tel. (604) 714-4569 or mobile (604) 618-0243, Email fredm@fraserinstitute.ca