

Media Release

Economic freedom promotes growth while foreign aid fails developing countries

For Immediate Release

TORONTO, ON, 07 SEPTEMBER 2006—Economic freedom has a greater impact than foreign aid in helping people in poor nations escape poverty, according to the **Economic Freedom of the World: 2006 Annual Report**, released today by The Fraser Institute.

In new research published in this year's report economist William Easterly of New York University compares the impact of economic freedom and foreign aid on economic growth in the poorest nations.

"The demand for foreign aid is typically made in the absence of any empirical evidence that it leads to benefits for recipient nations and without asking whether there are better approaches to poverty reduction for the international community to support," said co-author of the report, James Gwartney, Professor of Economics at Florida State University. "What the research in this edition of Economic Freedom of the World suggests is that economic freedom, rather than foreign aid, does have a powerful positive impact and is a better approach."

Easterly demonstrates that foreign aid has no positive impact on economic growth in the poorest nations. His research shows that economic freedom has a strong and positive impact on prosperity in general and on helping lift nations out of poverty.

Once economic freedom is taken into account, poor nations, far from being caught in a perpetual cycle of poverty, grow faster than rich nations.

"A key component of the success created by economic freedom is the ability to experiment, find economically successful areas of production, and prune those that do not succeed so that resources may be transferred to where they are most productive," said Fred McMahon, The Fraser Institute's director of trade and globalization studies.

Canada's Ranking

In this edition of the Index, Canada received a score of 8.0 out of a possible 10 and ranked 8th. In last year's edition, Canada had the same score but it ranked 7th. The reason for this is that Ireland, Canada's economic peer, improved its score while Canada's score remained the same.

Canada's scores in key components of economic freedom:

- Size of government: Canada's score for size of government stayed the same at 6.6.

- Rule of law: Canada's score on the rule of law declined slightly from 8.7 in last year's edition to 8.4.
- Sound money: Canada's score improved from 9.5 last year to 9.6 in this year's edition.
- Freedom to Trade: Our score slightly declined from 8.0 to 7.8.
- Regulation: Our score increased from 7.3 to 7.8 but this is mainly due to changes in the data sources rather than actual changes in economic freedom in this area.

International rankings

In this year's index, Hong Kong retains the highest rating for economic freedom, 8.7 out of 10, closely followed by Singapore at 8.5. New Zealand, Switzerland, and the United States tied for third with ratings of 8.2.

The United Kingdom and Ireland are tied for the 6th place. Canada receives a score of 8.0 and ranks 8th. Iceland and Luxembourg are tied for 9th place.

The rankings of other large economies are Germany, 17; Japan, 19; France, 24; Italy, 45; Mexico, 60; India, 53; China, 95; Brazil, 88; and Russia, 102.

Among those nations that have made substantial gains in economic freedom since 1985 are Hungary, Iceland, El Salvador, Zambia, Poland, Bolivia, Israel, Ghana, Uganda, Peru, and Nicaragua—though some of these began at very low levels or have experienced ups and downs over the period. Among those nations that have registered significant losses in economic freedom since 1985 are Myanmar, Venezuela, and Zimbabwe.

Most of the lowest-ranking nations are African, Latin American, or former communist states. Botswana's ranking of 35 is the best among continental sub-Saharan African nations. Chile, ranked at 20, has the best record in Latin America.

The bottom nations were the Central African Republic, Rwanda, Burundi, Algeria, Guinea-Bissau, Venezuela, Democratic Republic of Congo, Republic of Congo, Myanmar, and Zimbabwe. However, a number of other nations for which data are not available, such as North Korea and Cuba, may have even less economic freedom.

Economic freedom on the rise

The report reveals that economic freedom levels have been rising around the world over the last quarter century, and that's good news for people, particularly for the poorest of the poor.

Among the key findings:

- Nations in the top quartile (one-fourth) in economic freedom have an average per capita GDP of US\$24,402, compared to US\$2,998 for those nations in the bottom quartile.
- The top quartile has an average per capita economic growth rate of 2.1 percent, compared to negative 0.2 percent for the bottom quartile.

- In nations of the top quartile, the average income of the poorest 10 percent of the population is US\$6,519, compared to \$826 for those in the bottom quartile.
- Unemployment in the top quartile averages 5.9 percent, compared to 12.7 percent in the bottom quartile.
- Life expectancy is 77.8 years in the top quartile compared to 55.0 years in the bottom quartile.
- In nations of the top quartile, only 0.3 percent of children are in the labor force, compared to 19.3 percent in the least economically free nations.
- Nations in the top quartile of economic freedom have an average score of 1.8 for political rights on a scale of 1 to 7, where 1 marks the highest level of freedom, and 7 the lowest level. The bottom quartile has an average score of 4.6.

About the Economic Freedom Index

Economic Freedom of the World measures the degree to which the policies and institutions of countries are supportive of economic freedom.

The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to compete, and security of privately owned property.

This is the 10th edition of *Economic Freedom of the World*. This year's publication ranks 130 nations for 2004, the most recent year for which data are available. The report also updates data in earlier reports in instances where data have been revised.

Thirty-eight components and sub-components are used to construct a summary index and to measure the degree of economic freedom in five areas: (1) size of government; (2) legal structure and protection of property rights; (3) access to sound money; (4) international exchange; and (5) regulation.

The annual report is published in conjunction with the Economic Freedom Network, a group of independent research and educational institutes in over 70 nations.

For more information on the Economic Freedom Network, data sets, and previous Economic Freedom of the World reports, visit www.freetheworld.com.

–30–

CONTACT: Fred McMahon, Director of Trade and Globalization Studies
Telephone (416) 363-6575, ext. 226, Email fredm@fraserinstitute.ca.

Established in 1974, The Fraser Institute is an independent public policy organization with offices in Vancouver, Calgary, and Toronto.

For further information, please contact:

Suzanne Walters, Director of Communications, The Fraser Institute
(604) 714-4582, Email suzannew@fraserinstitute.ca.

The media release and publication are available at www.fraserinstitute.ca and at www.freetheworld.com.