Country Reports

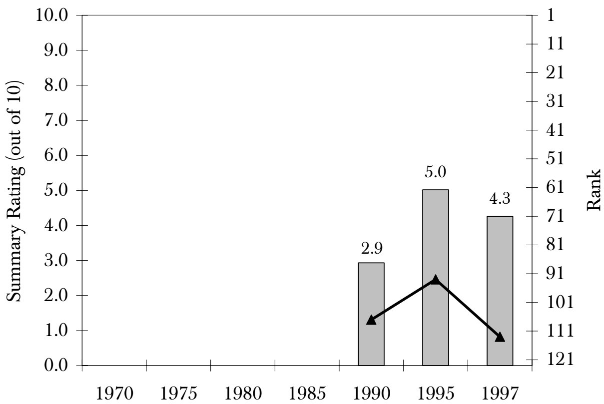
This chapter presents an overview of the level of economic freedom in some of the countries included in this study. Included for each country is a background description of the levels and changes in economic freedom and, in some cases, the future outlook for economic freedom. These reports were produced with the help of the members of the Economic Freedom Network, who contributed specific knowledge of their own country's circumstances. More countries are not included because it is difficult to have a detailed understanding about the level of economic freedom in every single country.

For each country, we present two charts (showing data from 1970, 1975, 1980, 1985, 1990, 1995, and 1997, where data are available.) The first, which appears in the upper left-hand side of the page, shows the summary economic freedom rating along with that country's overall rank. The left axis and the bars correspond to the country's summary ratings. The right axis and the line correspond to the country's overall rank. (The number of countries rated and ranked varies each year.) The chart to the right of this shows total government expenditure as a percentage of GDP over the measurement period. For years, this ratio was considered the most objective measure of the size of the government sector as compared to the market sector. While revealing, it neglects other important aspects of economic freedom that are highlighted in our index, including the structure of the economy, monetary policy, freedom to use alternative currencies, legal structure and property rights, freedom to trade with foreigners, and the freedom of exchange in capital and financial markets. Some would argue that these "other factors" should have less (or more) weight in the measurement of economic freedom. Observation of changes in both economic freedom and government expenditures will help us to interpret the trends in, and meaning of, these two different but interrelated indicators with greater understanding.

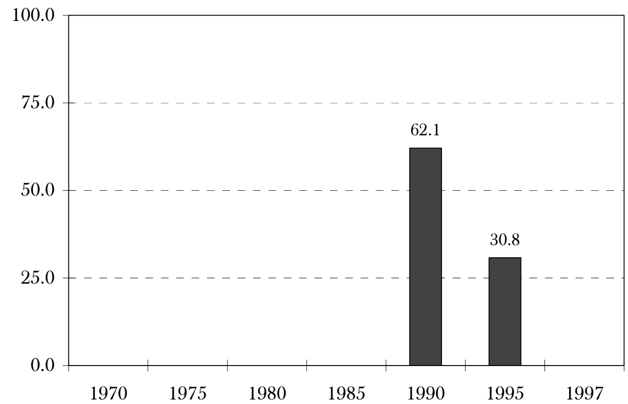
More detailed information on the 23 components that compose the economic freedom index can be found in the next section, Country Data Tables, which includes all the countries in this study.

ALBANIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



This troubled Balkan country saw its already low rating fall from 5.0 in 1995 to 4.3 in 1997. This places Albania 113th out of the 123 countries rated in this edition of *Economic Freedom of the World*. Widespread use of government enterprises, price controls, and credit and currency-market controls contribute to the low rating. The monetary regime has all but collapsed as Albania's rating in Area III has fallen to 2.5, reflecting an inflationary and volatile monetary policy. But, the financial crisis of 1997 appears to be over and there are signs that the situation is stabilizing as the inflation rate is falling.

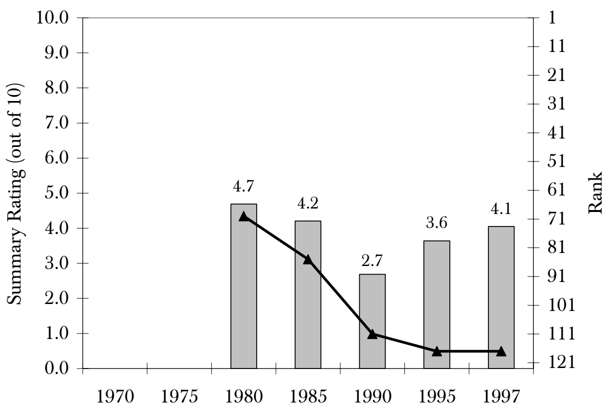
Among the most important areas that threaten the economy are corruption, lack of public order, the political tensions in Albania as well as the recent events in Kosovo.

The growth rate of GDP in 1998 was 8 percent, which is comparable with growth prior to the financial crisis of 1997. Unemployment continues at an exceedingly high rate (17.5 percent in 1998).

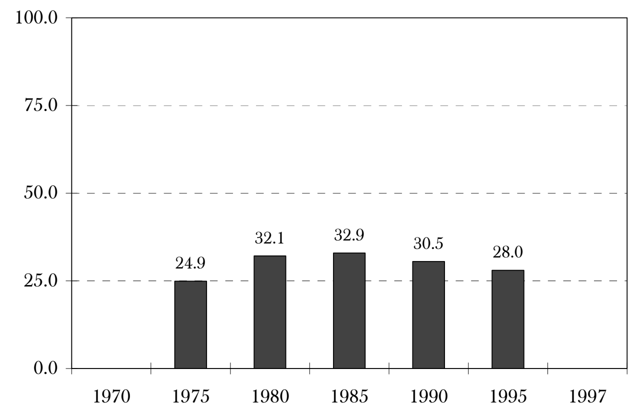
The privatization of strategic sectors is supposed to start with the telecommunication companies (Albanian Mobile Communication, Albtelecom). Other companies that are supposed to enter the process of strategic-sector privatization include those active in mines, energy, petrol, and banking.

ALGERIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Since the 1990s, Algeria has been near the bottom of the rated countries. In 1997, Algeria was 117th of 123 countries. This poor performance can be attributed to the prevailing unstable political situation, the aftermath of bloody independence and a socialistic approach to policy.

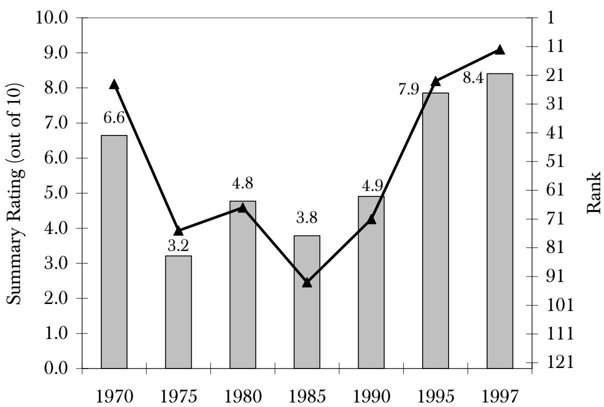
The relatively high share of government consumption (22 percent) and government enterprises (rating 0.0), the remaining price controls (rating 4.0), limited freedom in financial markets, and military conscription drag this country's rating downward.

Monetary policy seems to be improving. The annual money growth has been slightly curbed, the inflation variability has been reduced, and the recent inflation rate declined from 28.5 percent in 1995 to 6.3 percent in 1997, which correspond to ratings of 4.3 (1995) and 8.7 (1997).

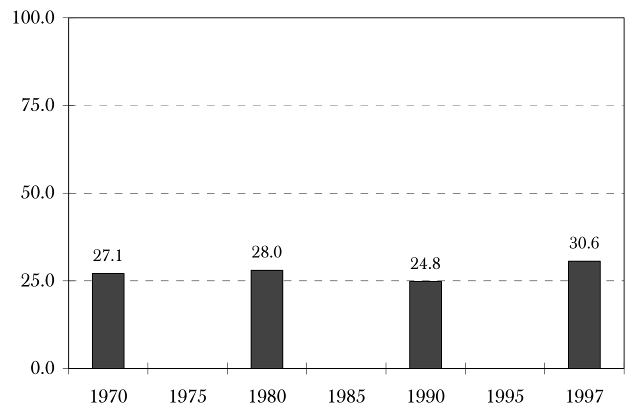
Due to restrictions on the ownership of foreign currencies and a soaring black-market exchange-rate differential, Area IV, Freedom to Use Alternative Currencies, got a rating of 0.0. As well, Area VII, Freedom of Exchange in Capital and Financial Markets, received a rating of 0.7.

Argentina

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



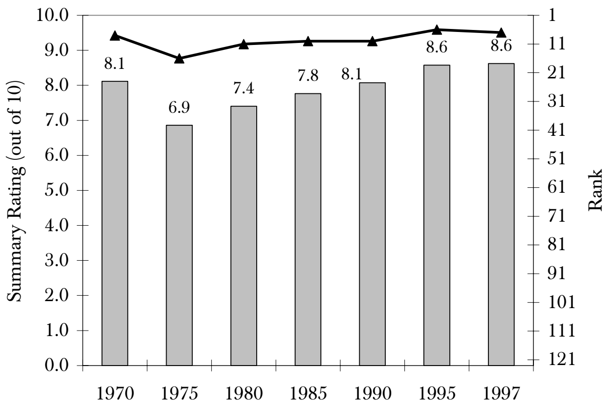
Argentina is one of the real success stories in economic freedom. As recently as 1985, Argentina was ranked 93rd in the world with an abysmal 3.8 rating. Its current rating of 8.4 places Argentina in 12th place.

Rapid and widespread privatization, de-control of prices, a shift to a volunteer military and, most importantly, a radically improved monetary regime are all responsible for the improvement. Argentina's currency-board arrangement has turned one of the world's most notorious inflation records into one of the best. Having the Argentine peso tied to the American dollar has brought inflation from over 2000 percent as recently as 1990 to under 1 percent. There is even serious talk about dollarization; i.e., using American dollars instead of a domestic currency.

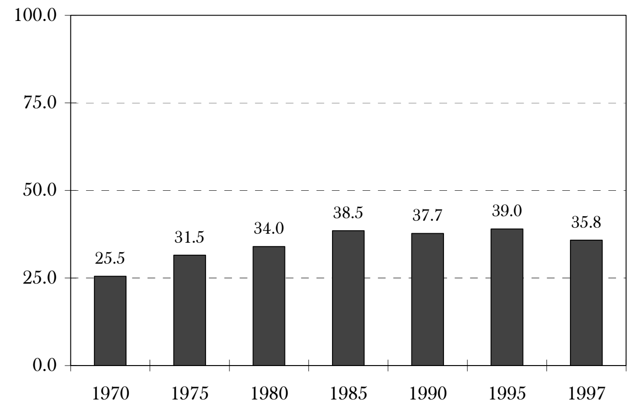
Argentina's most significant weak spot is in the area of international trade, where it records some fairly high tariffs and a smaller trade sector than one would expect. Privatization of the remaining government-owned banks also remains on the agenda.

AUSTRALIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Australia's 8.6 rating placed it 7th among the 123 countries rated.

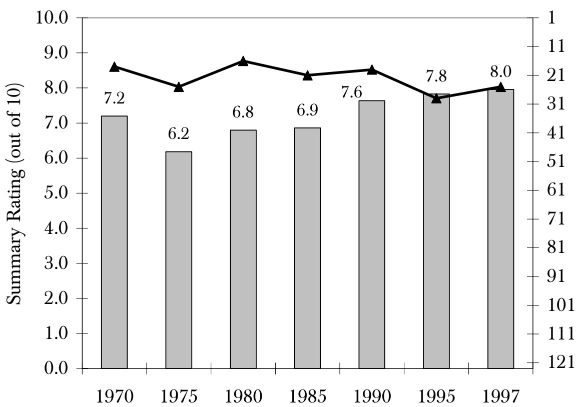
Two core elements of Australia's high rating are: an established legal structure guaranteeing secure property rights and stable monetary policy, which maintains low inflation rates (1 percent for 1997).

Institutional arrangements provide for substantial capital mobility. Citizens are free to own foreign currency accounts, although some limitations in engaging in capital transactions with foreigners are imposed. In financial markets, the trend of replacing credit extended to the government with private investments is proceeding, with just 5.5 percent of the credit allocated to the non-private sector. Australia possesses a free and liberalized international trade sector; the few existing taxes and tariffs are almost negligible.

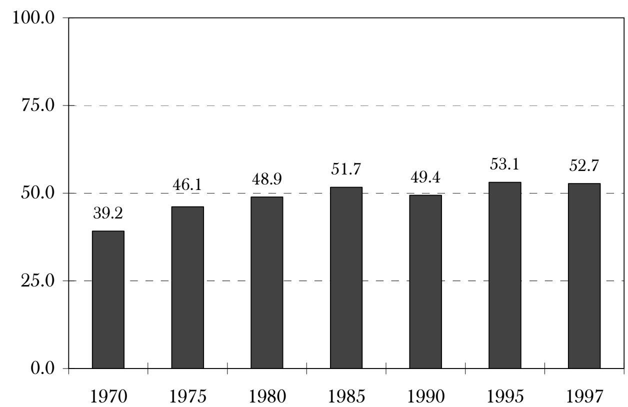
Although the share of government consumption is shrinking, transfers and subsidies have been increasing since the mid-1970s.

AUSTRIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Austria's rating of 8.0 in 1997 placed it 25th among the 123 countries of this study. Its ranking during the past three decades has been relatively constant. Its strengths are a trustworthy established legal structure, a credible monetary policy, and the freedom to maintain foreign currency accounts domestically and abroad.

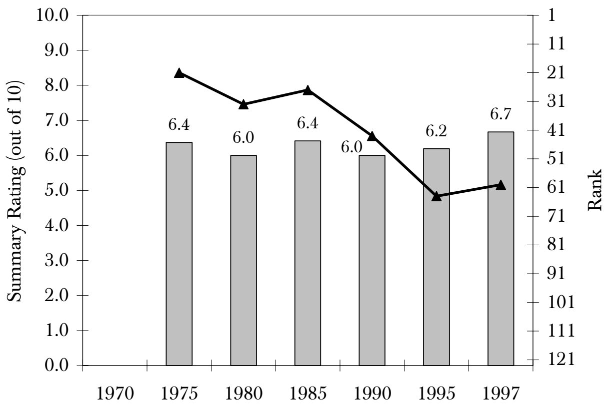
In preparation for European single-market integration, the trade sector has been liberalized and tariffs almost abolished.

But, as in most European nations, the size of government is relatively high. This is especially the case in the area of transfers and subsidies. A top marginal tax rate of 50 percent is needed to finance this income redistribution.

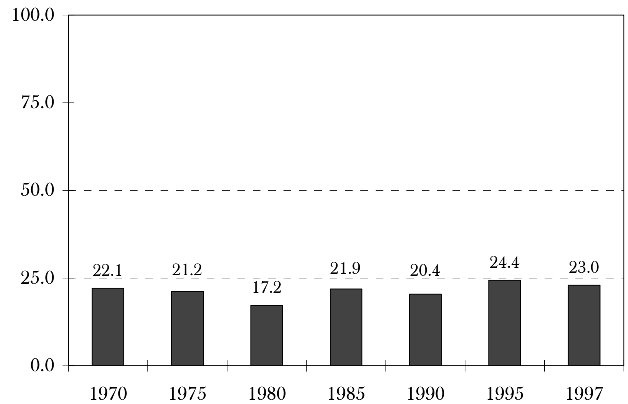
Privatization is moving along smoothly. Since 1990, over i2.5 billion worth of assets have been privatized. The government telecom monopoly has been eliminated and prices have plummeted while service has increased. A choice among several sources of electricity is now available for large industrial users. About 50 private radio broadcasters now compete with the state-owned enterprise though television remains a state monopoly. Deregulation and privatization of banking and finance is still needed.

BAHAMAS

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



The Bahamas is a very small island country that has a highly regulated, centrally managed economy. All business ventures face a complex set of often-contradictory entry restraints, tax breaks, and subsidies. For instance, a licensing system restrains and controls business entry so that a business venture may get a construction permit, construct its facilities and then not receive the necessary operating license. Foreigners are excluded from the wholesale and retail business sector but qualify for tax breaks in other areas. Expatriate employees must have work permits that are increasingly costly. The Government has invested heavily in the tourist industry and still owns the utilities.

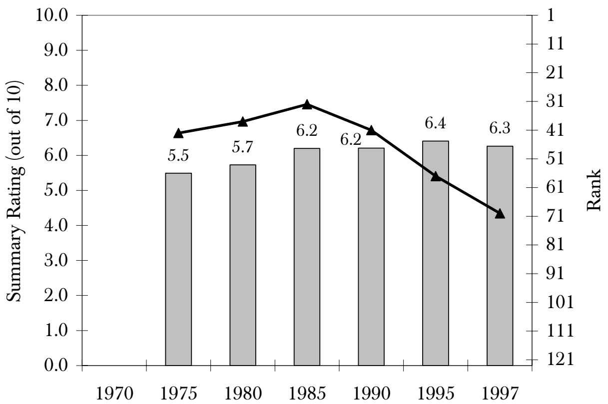
Consequently, the Bahamas has a rating of 6.7, which places it 60th in the world. Most disturbing, though, is the Bahamas' relative decline: it ranked 43rd in the world as late as 1990 and 21st in 1975. Its lowest rated areas are Area II, Use of Markets, Area IV, Use of Alternative Currencies, and, oddly for a island nation, Area VI, International Exchange.

However, a new administration in 1992 promised and subsequently produced a more honest government, sought foreign investment, and sold its largest hotels. This has produced four years of real per-capita growth in the range of 1 ½ to 2 ½ percent per year, reduced unemployment, and increased wage rates.

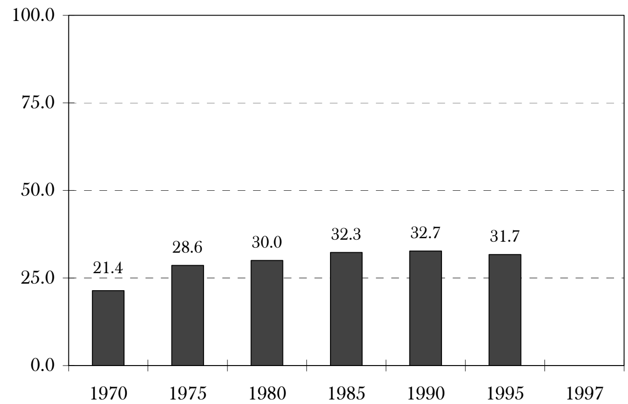
Despite the new-found prosperity, the government has problems. It created a fast track through the maze of bureaucratic controls for selected investments but it has not changed the maze. Its efforts to privatize the utilities have been slow. The first project, Bahamas Telecommunications, has not been concluded. A 62 percent reduction in staff, an apparent prerequisite to a sale, has produced exceedingly high separation costs and significant labour unrest. This case illustrates how political factors can sometimes undermine movement toward a more efficient and competitive economy.

BARBADOS

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



The economic freedom rating of Barbados has remained fairly constant during recent years; its rating was 6.2 in 1990 and 6.3 in 1997. This has resulted in a drop in its relative position from 41st in 1990 to 70th currently.

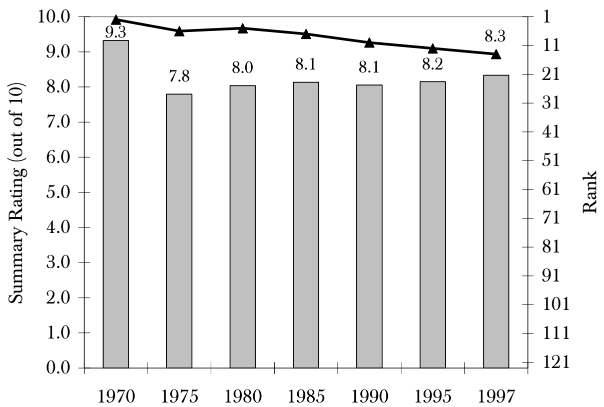
The main weaknesses of this country are price controls, economic intervention through state-owned companies, lack of trade openness to the rest of the world and capital-mobility controls. All these aspects create market distortions and reduce resource allocation efficiency in the economy. Government consumption as a percentage of the total is over 20 percent. This has not changed in the last ten years.

Among the capital controls that are worth mentioning are the prohibitions on holding foreign bank accounts and the use of foreign currency for economic transactions. These restrictions hold back many commercial activities. In addition, high and selective tariffs contribute to an unusually small amount of trade (especially for an island nation).

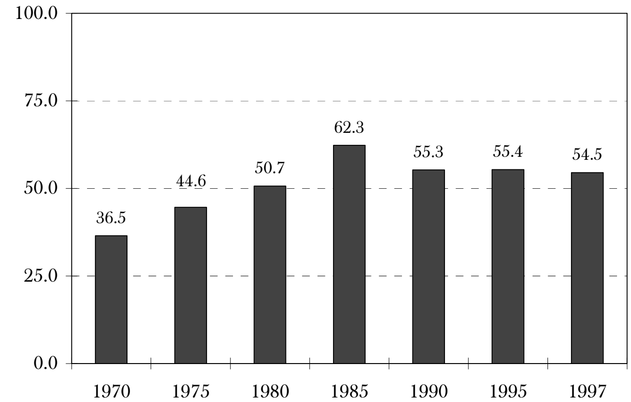
However, Barbados has made modest advances in terms of lowering top marginal tax rates. There has also been some improvement concerning property rights and contract enforcement.

BELGIUM

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Belgium's summary rating of 8.3 for 1997 does not differ significantly from its historical norm. Its overall ranking for 1997 was 14th of 123, down somewhat from earlier years.

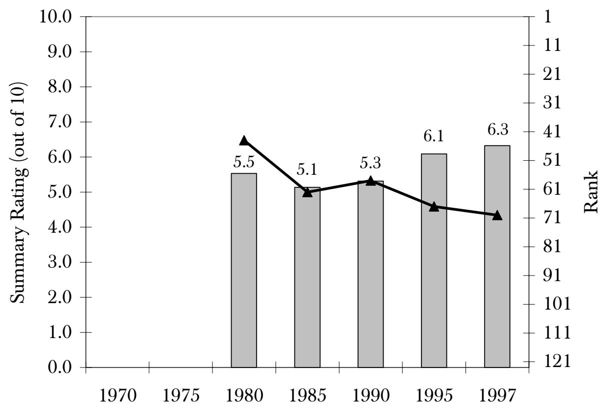
Belgium's strengths are in the areas of legal structure, monetary policy, freedom to use alternative currencies and international trade. By conducting a tight and strict anti-inflationary policy, Belgium has kept its inflation rate at a low level (1.5 percent in 1997). The Belgium Franc is fully convertible and citizens are free to engage in capital transactions with foreigners and to own foreign-currency bank accounts. The international trade sector is well developed and existing barriers will be reduced soon. Also a well-established legal structure is provided but there exists a highly bureaucratic system and space for an erosion of the rule of law (rating 7.0).

Looking to the banking sector, while savings are held by the private financial institutions, only 45.3 percent of total credit is extended to the private sector.

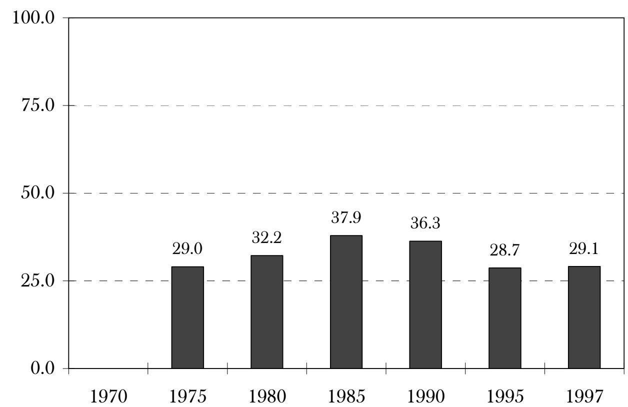
Like the western welfare economies, Belgium's government consumption is relatively high at 18.7 percent. The unemployment rate of almost 10 percent is in part financed by excessive top marginal tax rates (58 percent to 64 percent). Therefore, a slimming of the government, tax cuts, and lifting of existing price controls are recommended.

BELIZE

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Like other Caribbean countries, Belize's rating has not changed too much recently. Its rating in 1990 was 5.3 and in 1997 it was 6.3. Despite this slight improvement, its ranking relative to other countries was set back several positions. Belize was ranked 58th in 1990 and 70th in 1997.

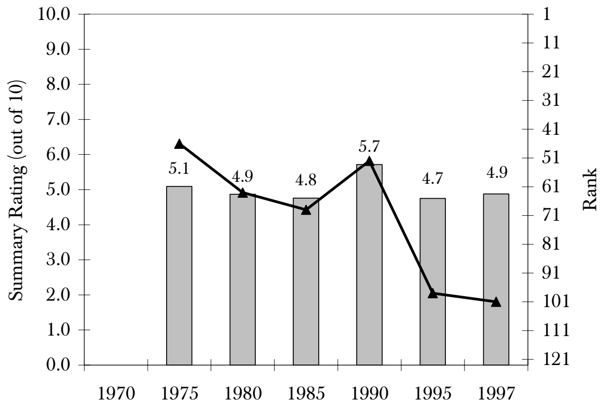
This country has shown important improvements in several areas. Belize's strength is in monetary policy. The growth of the money supply has slowed and price instability has been reduced. In addition, currency exchange restrictions have been reduced to the point where only minimal black-market activity remains.

However, there are also several factors that have not improved, holding back economic freedom. Belize still has high trade barriers that reduce the size of the trade sector. The size of imports plus exports as a percentage of GDP is very low compared with its expected size. Also, the financial system and capital market are highly regulated, which reduces Belize's access to international funds.

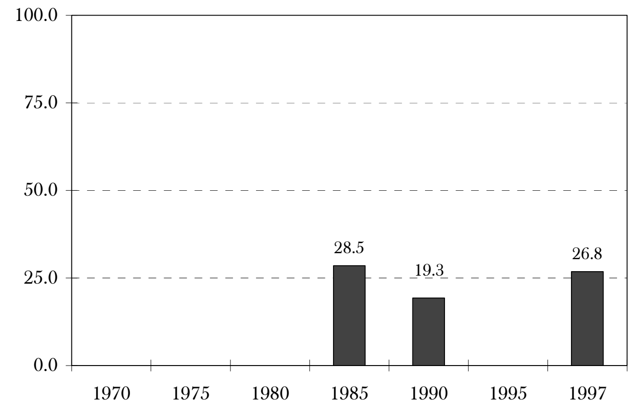
Another liability is the number of state-owned enterprises that participate in the economy, inhibiting the private sector.

BENIN

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Benin's rating fell from 5.7 to 4.9 and its rank from 52nd in 1990 to 101st in 1997. Its economy remains underdeveloped and dependent upon agriculture, cotton production, and regional trade. The agricultural sector makes up 38.4 percent of GDP while the industrial sector makes up only 13.9 percent.

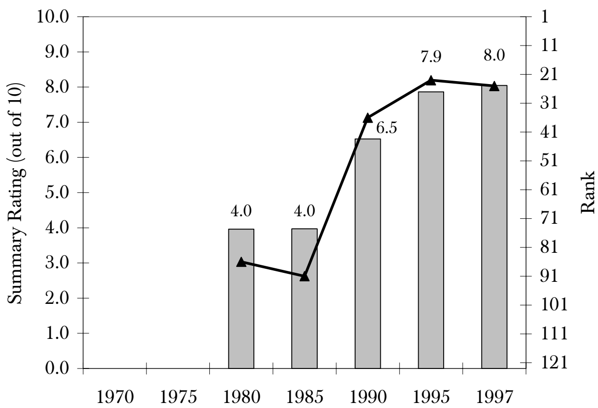
Although the size of government consumption is relatively low, a large number of government enterprises exist within the economy. Price controls are still prevalent.

Despite some problems in the mid-1990s (the inflation rate in 1995 was 15.4 percent), positive developments can be seen more recently as inflation has fallen to single digits. The banking sector is completely private with all deposits held in private banks.

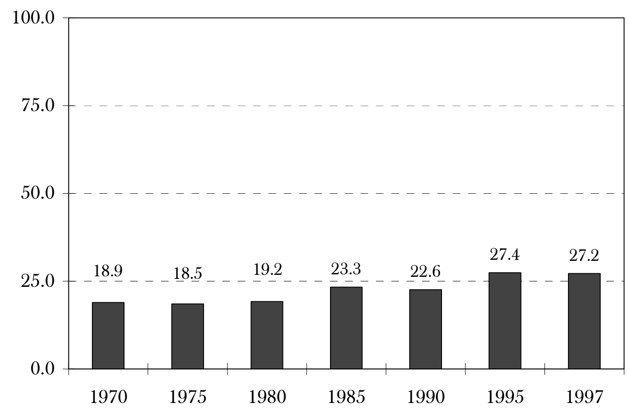
There are still strong restrictions on capital transactions with foreigners and the ability to own foreign currencies remains unchanged receiving a rating of 0. Problems also remain in generating a trustworthy established legal structure. Benin needs to contend with corruption, encourage competition and adopt market-based policies if its prospects for growth are to improve.

BOLIVIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



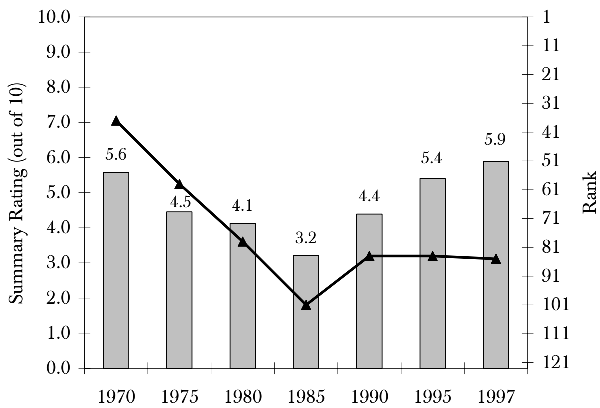
Bolivia's economic freedom rating was flat during the 1980s but it has rebounded during the last decade. Bolivia's rating improved from 4.0 in 1985 to 8.0 most recently. It now ranks 25th in the world. Historically, the potential of this country has been stifled by monetary instability and hyperinflation. In 1985, Bolivia's inflation rate soared to nearly 13,000 percent. Inflation rates of this magnitude undermine economic progress, regardless of the policies in other areas.

Seeking to rebound from this catastrophic situation, Bolivia has taken a number of constructive steps. The freedom to maintain foreign currency bank accounts, which was denied during the inflation of the mid-1980s, has been restored. The top marginal tax rate was reduced from 48 percent in 1980 to 10 percent in 1990 and 13 percent in 1995. Tariff rates were reduced sharply and most of the discriminatory treatment among product categories eliminated. Relaxation of exchange rate controls has virtually eliminated the black market. There has also been some liberalization of the restrictions on the movement of capital.

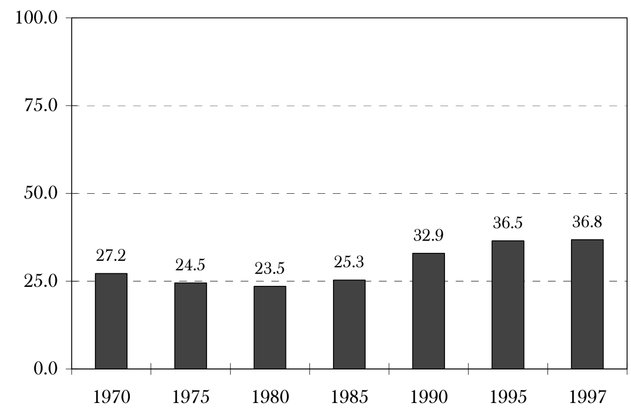
The privatization program has transferred the management of almost all state-owned companies to the private sector. In order to modernize mandatory social security for the Bolivian employees and workers, the Pensions Law has been passed with the objective that everyone saves with an individual account by means of obligatory savings in private institutions.

BRAZIL

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Throughout the last two decades, Brazil's ranking has been low. In 1997, Brazil ranked 85th among 123 countries. Its relative position in the world has been more or less unchanged throughout the period.

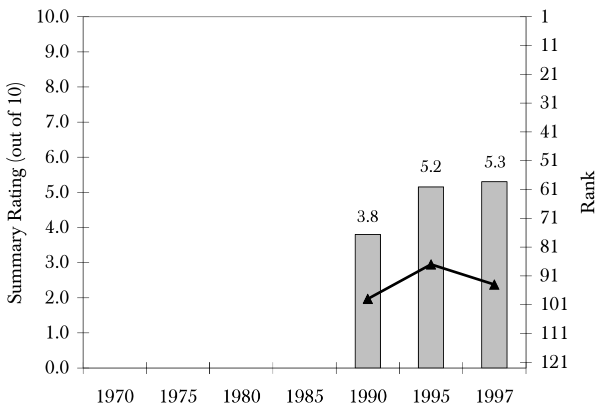
The large share of government enterprises is a sign of the government's control over important sectors of the economy. Furthermore, monetary policy remains poor, even following a sharp decrease in annual money growth and the accompanying decrease of the inflation rate from 2,506.5 percent in 1990 to 77.6 percent in 1995 to 7.9 percent in 1997. The high level of inflation variability implies danger.

Remarkable improvement has been made in avoiding negative interest rates: in 1995 the rating was still 0.0 and by 1997, 8.0. The field of government consumption shows a slight improvement, a sign of further reforms under Mr. Cardoso. The share of transfers remains high despite recent efforts to cut the budget. One positive note has been the relaxation of price controls during the 1990s. Brazil's rating in this area rose from 0.0 in 1990 to 8.0 in 1997.

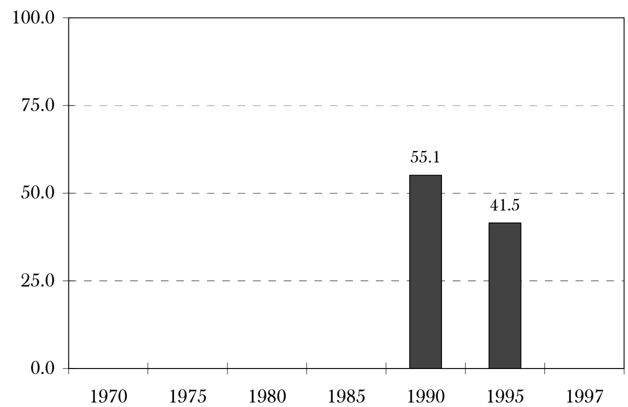
While protectionism remains at a high level, Brazil has moved toward trade liberalization during the 1990s. The mean tariff rate was reduced from 30 percent in 1990 to 11.9 percent in 1997. The standard deviation of tariff rates followed a similar pattern. As the world's 9th largest economy and the main player within the MERCOSUR, reforms of the trade sector would be advantageous for all parties involved.

BULGARIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



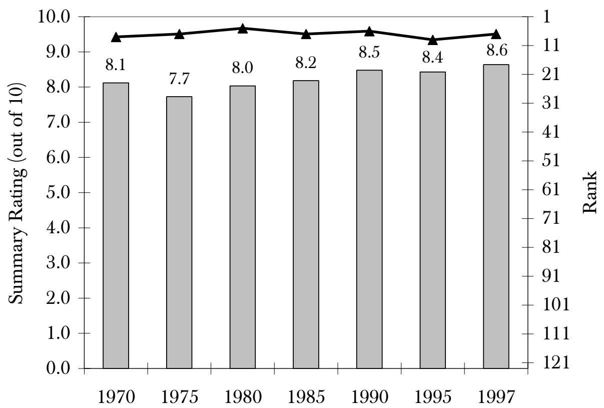
The transition to a market economy in Bulgaria is now ten years old. The reform has been painful, output has declined, and the population has suffered high social costs. However, real GDP growth reached 3.2 percent in 1998. The improvement in economic performance is due to the introduction of a currency-board regime in July of 1997. Even though significant progress has been made in the areas of trade and price liberalization, the prices of energy products, tobacco, and telecom services are still controlled by the government.

Bulgaria's economic freedom rating has grown slowly during the decade, reaching 5.3 in 1997, up from 3.8 in 1990. The former communist country ranks 94th out of 123 in the world. In fact, if Bulgaria's new currency board works as expected, its extremely low monetary area rating (0.0) should be on the rise in the next few years.

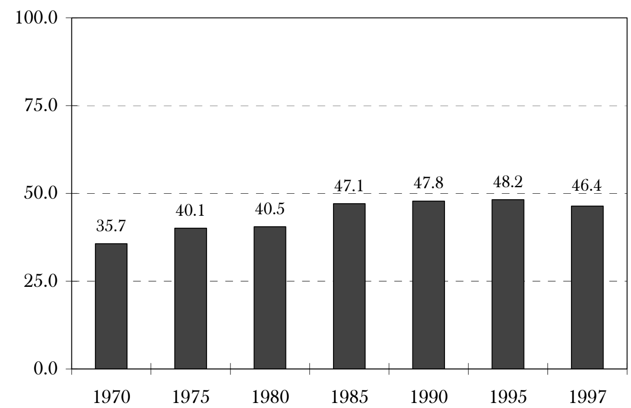
1998 also saw the privatization of small and medium enterprises. The privatization of big unprofitable enterprises, however, has gone slowly. If privatization takes hold, Bulgaria's other weak spot (Area II) should improve. If these improvements come to pass, then Bulgaria's overall rating could improve significantly.

CANADA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Canada currently ranks 7th overall in economic freedom with a score of 8.6, its highest rating ever. While its ranking of 7th is an improvement over 1995, when it placed 9th, it is still below its ranking of 5th in 1980. The fact that its rating has risen steadily during that time but its ranking has also fallen reflects the faster growth of economic freedom in the rest of the world.

Canada rates well in most of the areas of the index. Its highest scores are earned in Area IV, Freedom to Use Alternative Currencies (a score of 10) and Area V, Legal Structure and Property Rights (a score of 9.4). Canada also does well in monetary policy and freedom of exchange in financial markets. However, the substantial size of government in the Canadian economy along with mediocre scores in Area II, Structure of the Economy and Use of the Markets, drag down Canada's overall rating.

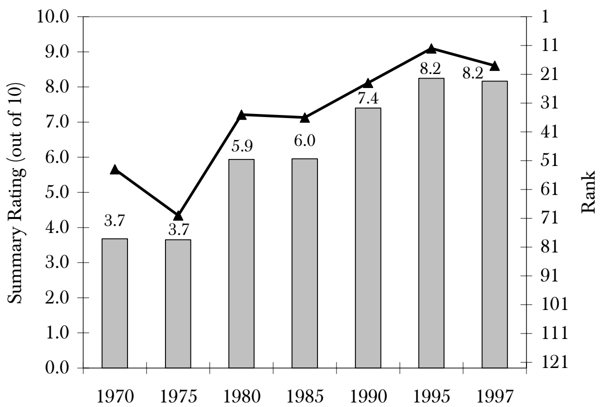
Areas of improvement since the 1970s include Area II, Structure of the Economy and the Use of Markets and Area VII, Freedom of Exchange in Financial Markets. The improvement in Area II stems from declines in the importance of government enterprises, less reliance on price controls, and reductions in the top marginal tax rate. Canada has followed the general worldwide trend in lowering top marginal rates since the 1970s, when the top marginal rate was over 90 percent in some provinces! Despite its improvement, Canada still scores fairly low in this component, receiving a 4. Nevertheless, some of this nation's provinces have made progress in lowering their marginal tax rates and other provinces and the federal government might be expected to follow. The improvements in Area VII derive from an increase in the percent of credit extended to the private sector. This corresponds with a decrease in the importance of government-operated enterprises in the economy.

In other areas of the index, Canada's performance has remained fairly steady, with notable exceptions in Area III, Monetary Policy and Price Stability, and Area V, Legal Structure and Property Rights. After falling during the 1970s, Canada's score in both areas has increased in recent years. In the case of Area III, its initial score has been surpassed while Area V's rating, although increasing, is lower today than it was in 1970.

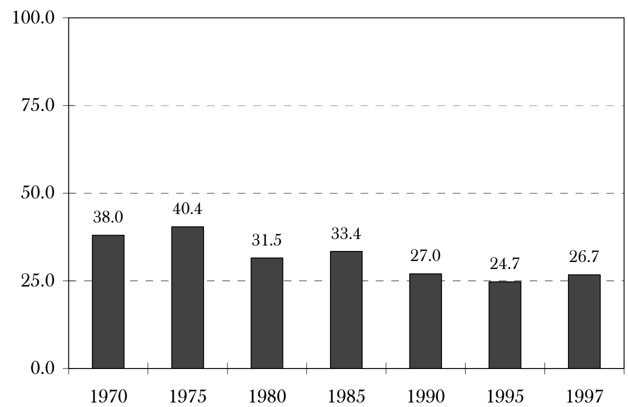
Much of the current debate in Canada about economic freedom concerns marginal tax rates. Little of this debate has been on the appropriate size of government (where Canada ranks quite poorly) or its functions. The lack of attention to the current substantial size of government, unfortunately, implies a low likelihood of great improvements in Canada's overall score.

CHILE

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP

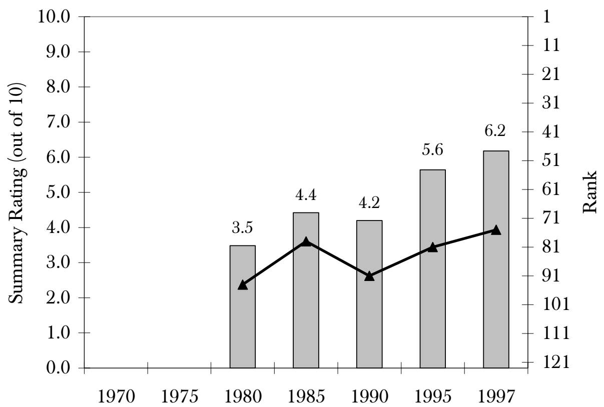


Chile's rating of 3.7 (54th rank) in 1970 was almost the worst rating in the world for that year. Its current rating of 8.2 is good for 18th place. There has been significant privatization of state-owned enterprises, liberalization of trade (note the reduction in the mean tariff rate from 105 percent in 1970 to 9.4 percent in 1997), private ownership of banks, and much improved legal framework. Chile's much celebrated privatized pension plan, though not directly measured in this index, is reflected in the reductions in the transfer sector: 15.3 percent in 1985 and 10.8 percent in 1997.

The recent re-establishment of democracy coupled with this degree of economic freedom surely makes Chile one of the most free Latin nations. It is not a surprise, then, that Chile has grown at a 5.7 percent annual rate in real per-capita income in the 1990s.

CHINA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP

NO RELIABLE DATA AVAILABLE

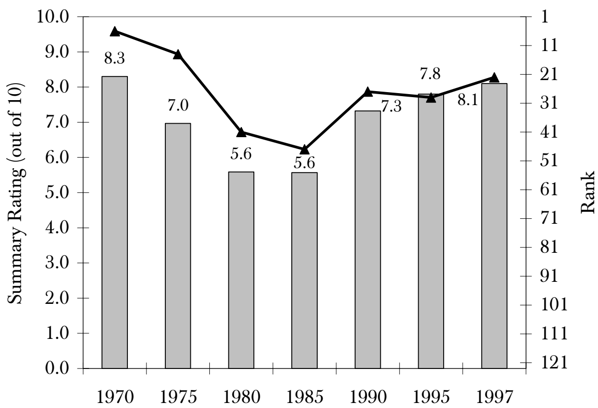
The most populous country in the world continues a slow march toward economic liberalism. China's rating in the 1990s has improved 2 points to 6.2 while per-capita GDP growth remained very high at 8.65 percent per year. However, despite the positive press about China's economic reforms, it still ranks only 75th in the world.

Most of the positive changes have taken place in the area of economic structure and use of markets, one of China's weakest areas in the economic freedom index. Likewise, the financial market and the country's legal structure have seen a number of positive changes. The rating in Area VII, Freedom of Exchange in Capital and Financial Markets, has risen from 0.0 in 1980 to 3.0 in 1997, still very low but a nice improvement nevertheless. The rating for Area V, Legal Structure and Property Rights, has improved from 6.5 in 1990 to its current 8.5 and rating for Area IV, Freedom to Use Alternative Currencies, improved from 2.5 to 6.8 during the 1990s.

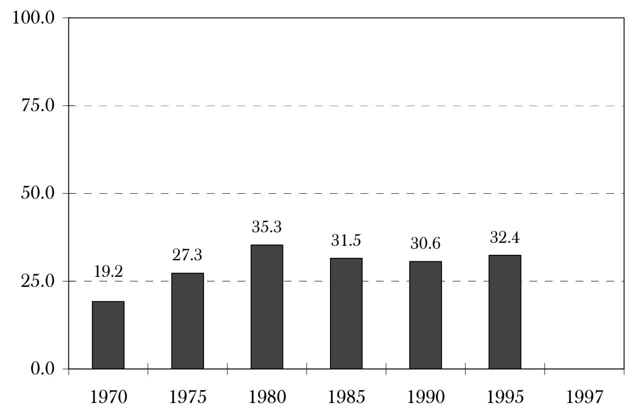
The greatest fear for the Chinese is a possible backward move in the international trade area where additional restrictions on foreign exchange have been imposed as a result of the Asian financial crisis. Also, tariff reductions as a part of the negotiations for entering into the WTO may be slowing under domestic pressures.

Costa Rica

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Costa Rica has improved its economic freedom rating in the last few years. Its rating of 8.1 places it 22nd in the world. During the period from 1990 to 1998, the average growth of real GDP was 4.1 percent. With an annual rate of population increase of 2.3 percent (1985–1996), the average real per-capita growth in the last eight years averaged 1.8 percent, similar to that of the United States over the same period.

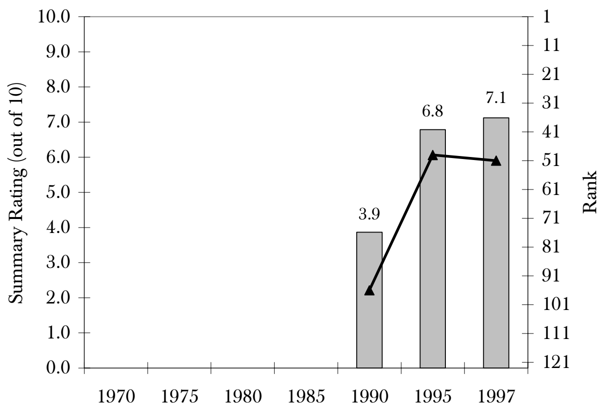
Government consumption expenditures as a percent of total consumption have fallen from 22.9 percent in 1995 to 17.2 percent in 1997. Although low with respect to public expenditures in many developed countries, this rate is still high when contrasted with developing nations and with the services provided.

The data of the Central Bank of Costa Rica indicate that the average annual inflation rate (CPI) for the 13-year period from 1986 to 1998 was 17.3 percent and the average growth of the money supply (M1), 18.2 percent. The growth of the money supply slowed in the 1990s, as did inflation.

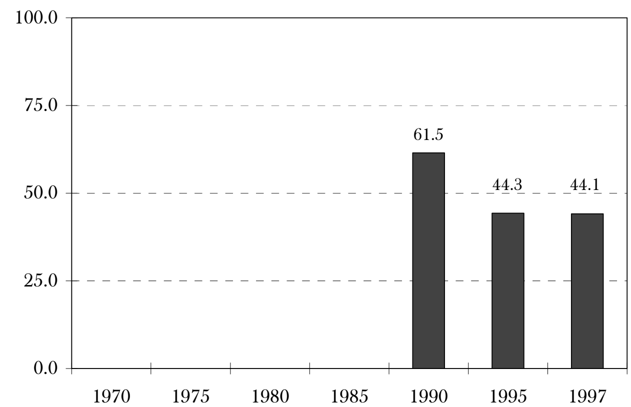
Although residents may freely hold bank accounts in foreign currency, domestically and abroad, foreign banks face many restrictions and regulations that prevent them from operating freely in the country. This severely limits the number of participants in the banking system, a fact that is reflected in a very high spread between the deposit rate and the lending rate and high real interest rates.

CZECH REPUBLIC

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



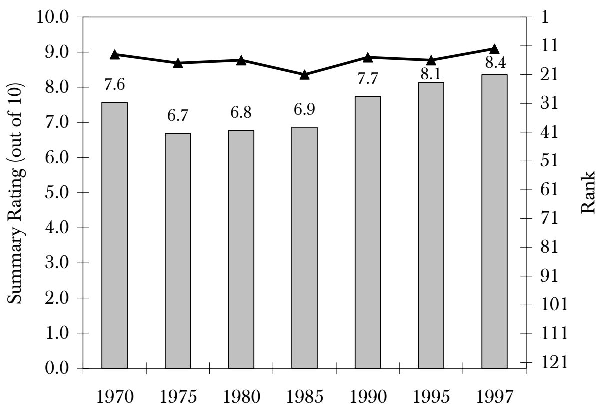
The Czech Republic has made significant moves toward economic freedom since the fall of communism and the Velvet Revolution of 1989. Its summary rating increased from 3.9 in 1990 to 7.1 in 1997 (note that the 1990 figure is for the former Czechoslovakia). This increased the country's ranking from 96th (out of 115) to its current 51st (out of 123). But, after 1995 political deadlock ensued. There has been very little increase in economic freedom since 1995. Virtually no additional moves in the areas of privatization and deregulation have been made.

The Czech Republic made the transition to a market economy more smoothly than most former socialist countries. This country was spared the hyperinflation that beset most other transitional economies. Price controls have been eliminated from most products and the size and scope of state-operated enterprises has been reduced by voucher privatization. Exchange-rate controls have been eliminated and the Czech koruna is now a fully convertible currency. As trade barriers have fallen, the size of the trade sector has grown. Government expenditures for both consumption and income transfers have been curtailed.

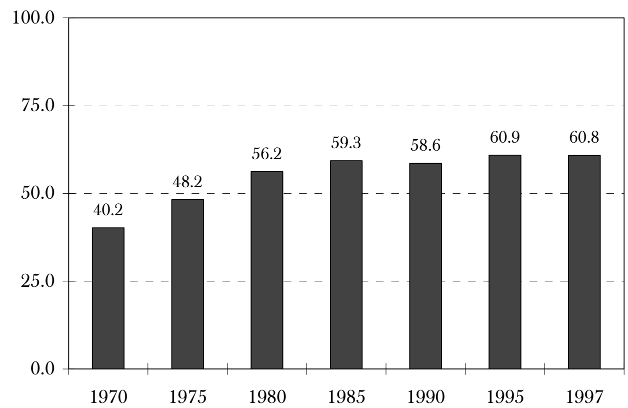
However, it is expected that transfers and subsidies as a percent of GDP, already high at 27.2 percent, will increase. Many other problems remain. The economy is still fighting the consequences of a halfway privatization of the banking sector, which is still heavily subsidized. Fiscal policy is highly expansionary; the fiscal deficit is expected to move to an all-time high. The inflation rate is relatively stable and in the single digits. However, high fiscal deficits often invite inflationary monetary policies. This may lead to future problems.

DENMARK

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP

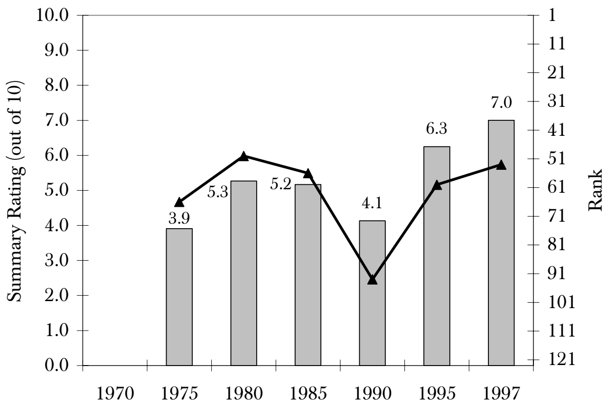


Denmark's ranking has improved from 21st in 1985 to 12th in 1997. The strengths of its economy are the freedom to use alternative currencies as well as its legal structure and guarantee of property rights. Further, the achievements of a consistent monetary policy should be mentioned. The area of capital transactions with foreigners has been improved and got a perfect rating of 10; the previous rating in 1995 was 8.0.

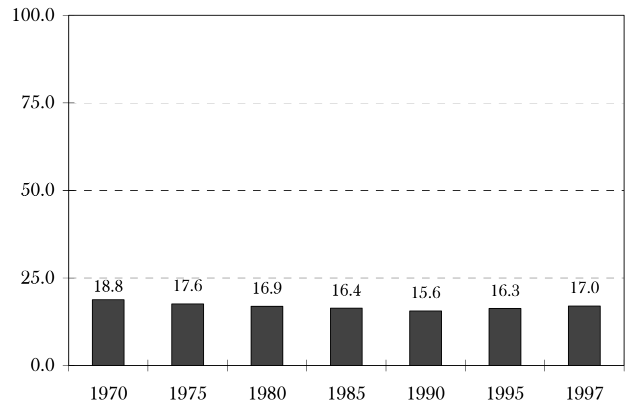
However, the share of government consumption—governmental expenditure and transfers—is particularly high. This consumption is financed to the detriment of the taxpayer and is reflected in an enormous top marginal tax rate (55 percent to 60 percent). For that reason, in this category Denmark receives a rating of 2.0. The Extension of Credit also deserves note. Only 58.7 percent of available credit is given to the private sector, remarkably low in international comparison. As an EU nation, Denmark's revenues on Taxes on International Trade are almost negligible (0.3 percent of trade value) but there is still potential for improving the Mean Tariff Rate (rating 8.6) and Standard Deviation of Tariff rates (rating 7.6) in all the EU nations.

DOMINICAN REPUBLIC

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



The Dominican Republic rated a 7.0 in 1997, placing it 53rd out of 123 countries. This represents a large increase from the 4.1 rating (93rd ranking) of 1990.

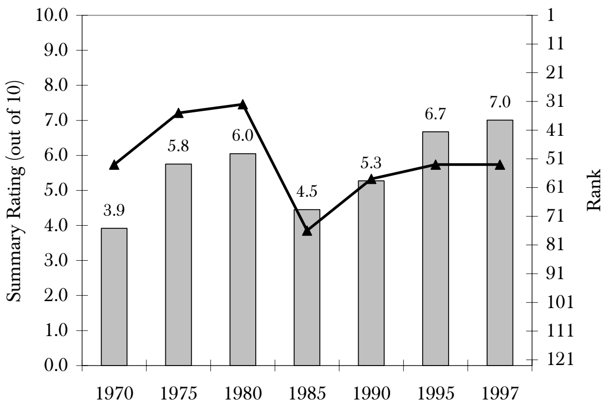
This country has made important improvements in monetary, exchange, and credit policies. The top marginal tax rate has been reduced and mandatory military service has been eliminated.

There was a significant advance over previous years with respect to the enforcement of contracts (Area V-B). In improving its legal structure, the system has more credibility, which would grant confidence to investors.

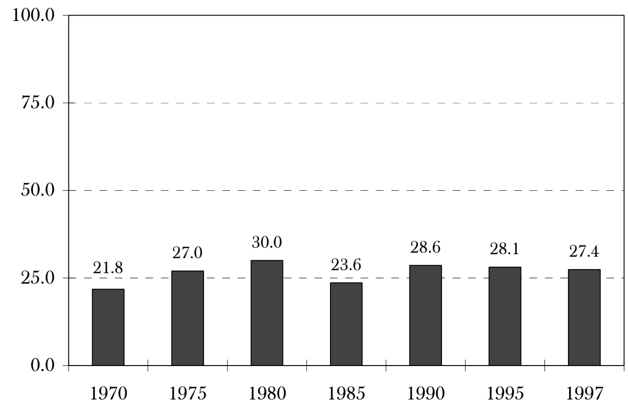
However, the Dominican Republic could improve other aspects to drive the country towards a higher degree of economic freedom. In particular, lower tariffs and reduction of other trade restrictions are needed. Concerning financial and capital markets, it is still necessary to break barriers that impede the mobility of capital. Dominican Republic needs to eliminate remaining restrictions on currency convertibility.

ECUADOR

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



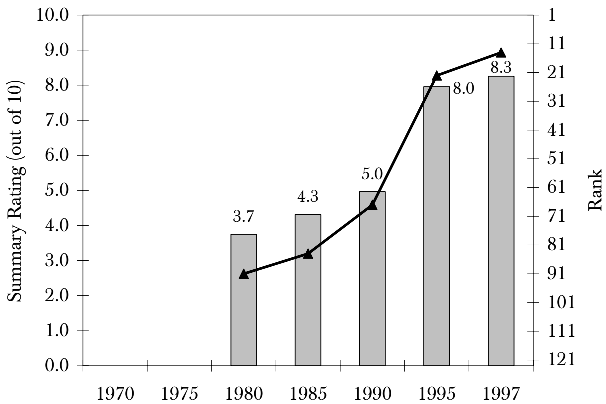
In 1990, Ecuador ranked 58th among the 115 countries in the study. In 1997, Ecuador ranked 53rd among the 123 countries studied. With few exceptions, such as in the area of freedom of exchange in capital and financial markets (Area VII), little improvement in economic freedom can be found. Monetary expansion during the 1990s has led to an annual inflation rate of 26 percent in 1997. The country is in a state of stagnation; per-capita economic growth in the 1990s has been an abysmal 0.90 percent.

Unlike other countries in the region, Ecuador has done almost nothing to privatize government enterprises and little to reduce price controls on gas, electricity, and telephone service. The property-rights structure and legal system is weak and sensitive to political manipulation.

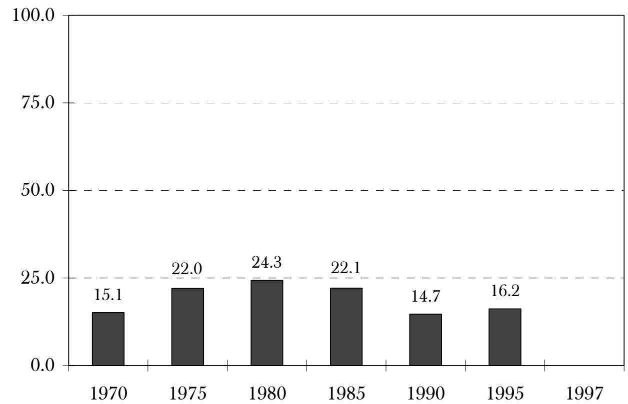
Monetary reform to reduce the discretionary power of the central bank to print money and bail out banks, a cut in tax rates, a reduction in government expenditures, and privatization of government enterprises would help to enhance the health of this economy.

EL SALVADOR

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP

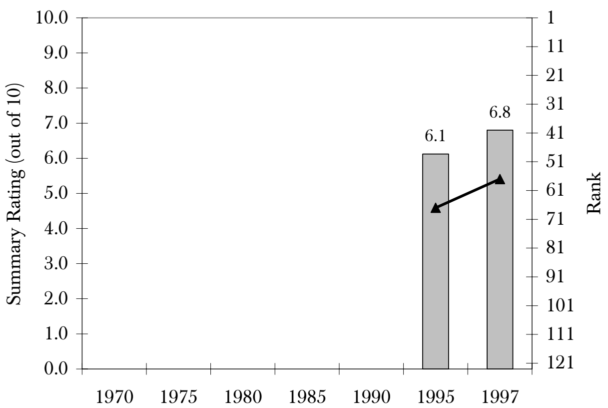


El Salvador is one of the Latin American countries that showed a dramatic improvement in its economic freedom. Its rating of 5.0 in 1990 increased to 8.3 in 1997. El Salvador jumped from the 67th position to the 14th in the world ranking. A more market-oriented program is the main reason for this improvement. Price controls in many markets have been eliminated and government participation in the economy has been reduced through an ambitious privatization process, especially in strategic sectors such as communications and electricity. Moreover, policies promoting trade liberalization and more freedom in financial and capital-market transactions have been adopted.

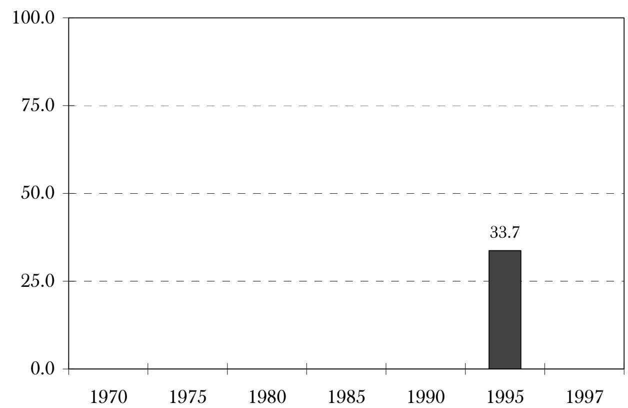
Monetary policy has been less expansionary. The annual rate of monetary growth has been curtailed from 11.5 percent in 1990 to 5.0 percent in 1997. This allowed the country to reduce its inflation rate from 23 percent in 1990 to 4.6 percent in 1997, one of the lowest rates in the Central America region. In addition, legalization of foreign-currency bank accounts, a reduction in government consumption expenditure, relaxation of exchange-rate controls, a stronger legal system and a lower exchange-rate premium in the black market have contributed to the improvement in El Salvador's economic freedom rating.

ESTONIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



In 1997, Estonia ranks 57th in terms of economic freedom among 123 countries. Estonia's strength is its liberalized trade sector; taxes on international trade are negligible. Its efforts to regain monetary stability have also borne some fruit. The annual money growth for the past five years (relative to economic growth) shrank from 74.6 percent in 1995 to 38.4 percent, and the inflation rate has gone from 29.0 percent to 11.4 percent. Broad goals to reach firm monetary stability and credibility still remain.

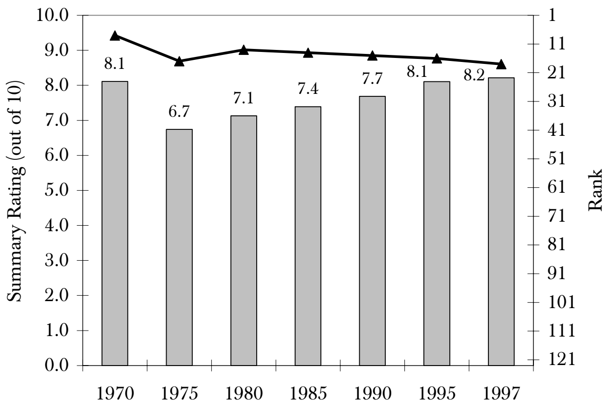
The share of government consumption and transfers, though modest by European standards, is relatively high compared to the rest of the world. Reforms leading to privatization are under way to reduce the government enterprises. For example, in 1997, a partial privatization of Estonian Telecom was conducted to reduce the government's stake to 27 percent. Visible restructuring of the banking sector was also undertaken. However, restrictions on ownership of foreign currencies still remain.

One point for consideration is the lack of a fully guaranteed rule of law and viability of contracts, a characteristic of all three Baltic States.

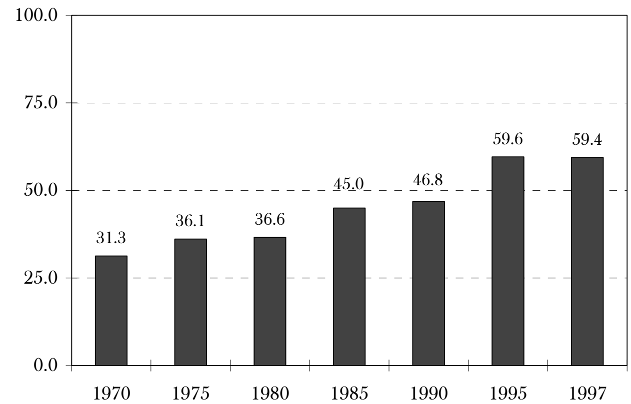
A threat for Estonia's economic prosperity is the economic situation in Russia, although the bilateral trade dependencies are declining since Estonia has gained independence. Estonia ambitiously continues structural reforms to match EU accession requirements for membership as a long-term target. The growth of real GDP moved forward from 4.3 percent in 1995 to 10.6 percent in 1997.

FINLAND

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Finland's 8.2 rating places it at 18th position among 123 countries in 1997, about the same as its 8.1 rating and 8th place finish (out of 57) in 1970.

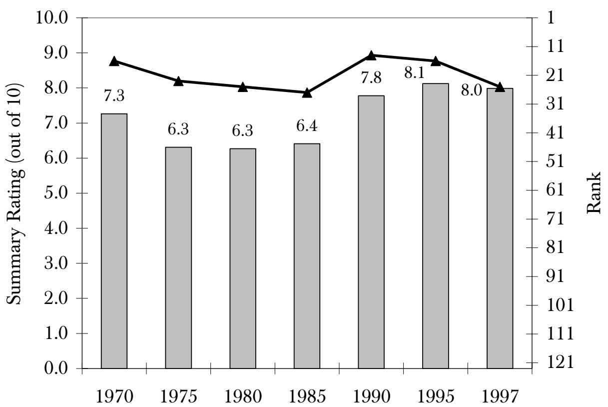
Despite the recent economic revival the government shows no significant structural realignment in terms of the size and share of government consumption. Further, transfers and subsidies remain high–21.9 percent of GDP–and are financed by top marginal tax rates of 53 percent to 60 percent.

A receding governmental share of the economy would increase the potential for economic growth.

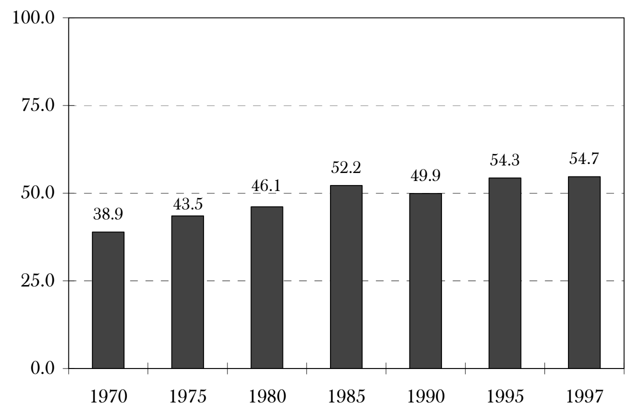
Finland's economic strengths are an established and reliable legal structure, the freedom of citizens to maintain foreign currency accounts domestically and abroad, and an almost fully liberalized foreign-trade sector. Also, attempts to control the annual money supply were effective as the inflation rate shrank to 1.5 percent.

FRANCE

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



In 1995, France ranked 16th and slipped to 25th in 1997. The most obvious reduction was in the rule of law component–from 10.0 in 1995 to 7.0. Nevertheless, the credibility of its legal structure is far from seriously damaged and remains reliable.

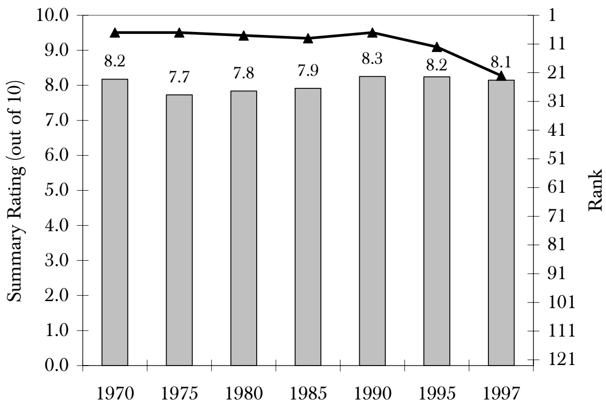
France's monetary administration pursues strict policies of price stability. Its achievements culminated in an inflation rate of 1 percent in 1997 with an inflation variability of 0.5 for the recent five years. Citizens are free to own foreign currencies and the banking sector is fully deregulated. But, in the area of capital transactions with foreigners, constraints still exist. As one of the countries pushing European integration energetically, its foreign-trade sector receives good scores.

France's problem areas are the large share of government consumption, huge transfers and business subsidies, and a stalled deregulation and privatization program. Government consumption, 24.2 percent (1997) of total consumption, resembles the shares of leading western industrial countries. A significant portion of the economy, 28.8 percent of GDP, was redistributed as transfers and subsidies, financing double-digit unemployment (12.3 percent) and distorting market competition.

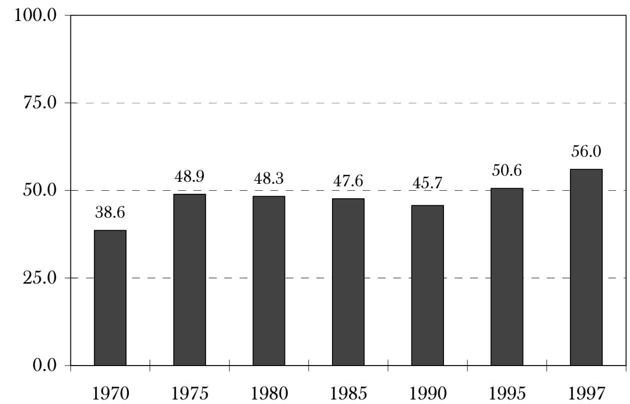
The real GDP growth rate for 1997 was 2.3 percent but going forward with structural reforms within the government apparatus and more liberalization efforts would enable higher potential growth rates.

GERMANY

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



In the immediate post-war years, Germany had been one of the most free economies in the world. This was the basic reason for the "economic miracle" at the time, when the country had one of the fastest growing economies in the world. Since the 1970s, stagnation has been the characteristic feature of Germany's economic policy. The economic-freedom rating has fallen slightly during the last two decades (from 8.2 in 1970 to 8.1 most recently). The relative decline is even more worrisome than the absolute one: because most other countries have liberalized their economies since the 1980s, Germany's relative decline, if compared to the development of the rest of the world, is fairly dramatic. In 1970, Germany's 8.2 rating made it the 7th most free economy in the world; its current 8.1 rating places it at only 22nd place.

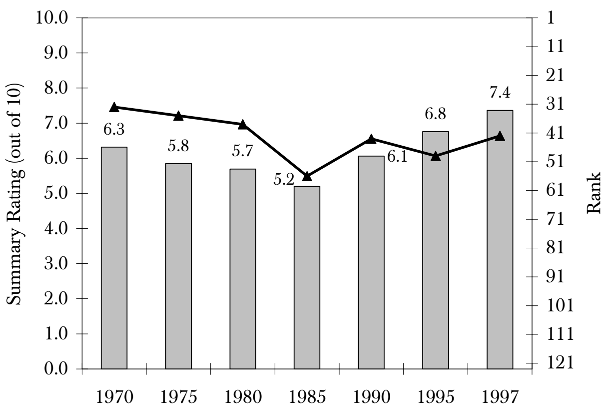
There are, of course, positive aspects to be noted. Stability in monetary policy and prices was boldly maintained by the independent Deutsche Bundesbank (German Federal Bank, i.e. the central bank). Trade policies have been oriented toward free trade and the trade sector has consistently registered a strong performance.

There are three major weaknesses, however, which have not been dealt with by government for decades despite growing pressure. One of them is high government consumption, which hovers around 25 percent of total consumption. Another is the highly developed welfare state of Germany, which contributes to a large transfer sector (over 20 percent of GDP). The third problem is taxation. With a 56-percent top marginal tax rate, Germany imposes one of the highest top tax rates in the world. In 1997, the government tried to implement a radical tax reform to reduce this tax rate but it was defeated by the opposition in the Bundesrat (Second Chamber). The new government, elected in 1998, is also planning a tax reform, the outcome of which remains unclear.

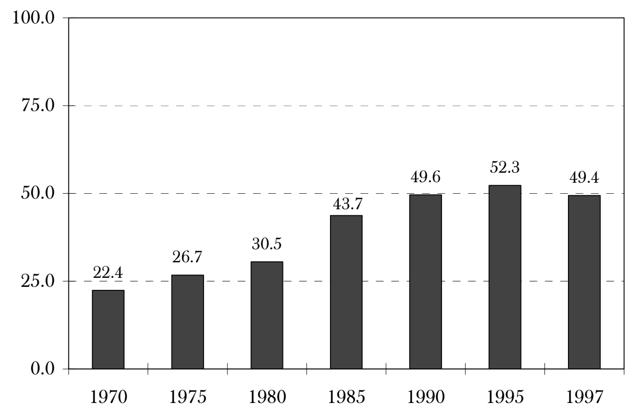
Germany also still has a highly regulated economy. There have been major successful reforms in some areas, such as telecommunications and electricity. However, the German labour market remains as highly regulated as ever and, therefore, the main problem of the German economy will also remain unsolved. While, on the whole, the German economy may still perform fairly well in the future under the given circumstances, unemployment will continue to stay at an intolerably high level.

GREECE

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



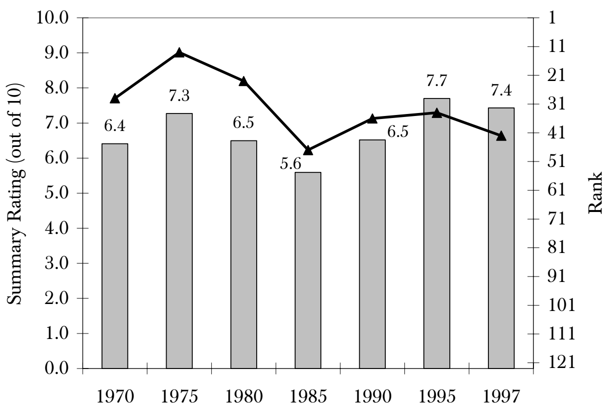
Greece has improved its rating somewhat since 1970 but has been on an erratic path towards greater economic freedom. In 1997, Greece climbed up to 42nd position from a previous rank of 49th in 1995.

One area of improvement is the freedom to hold foreign currencies, still limited as late as 1995. Further positive aspects are the provision of a functional legal structure and the guarantee of property rights, although deficiencies still exist in this area. Greece scores quite low in the Structure of the Economy and Use of Markets, in part due to its reliance on conscription for military recruits and a large government enterprise sector. The 45 percent top marginal tax rate also lowers Greece's score in Area II.

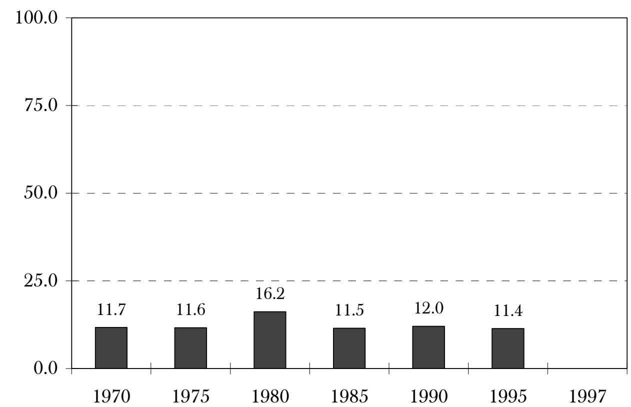
There is a push toward further liberalization of financial markets. Around 50 percent of available credit is channelled to the private sector, up from 39 percent in 1990, and capital transactions with foreigners are less restricted. Since 1995 the government has moved to dam the abundant flow of transfers and subsidies. Compared to 1990, where 20.5 percent of GDP was redistributed as transfers and subsidies, in 1995 19 percent and, in 1997, 17 percent of GDP was used. This is still high but it is a move in the right direction.

GUATEMALA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Guatemala ranks 42nd among the countries in this study. This represents little change: in 1990, it ranked in 36th place. Except for a decline during the 1980s that was primarily the result of high government consumption, monetary instability, restrictive exchange rate controls, higher trade tariffs, and many price controls, Guatemala's summary rating has been fairly steady throughout the last two decades.

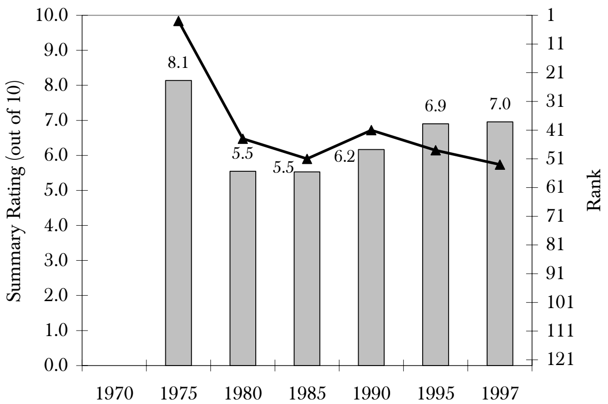
Inflation has declined to 8.4 percent in 1997. Price controls were relaxed. Several previously regulated markets were opened. A number of state-owned companies have been privatized. Government consumption as a percentage of GDP has declined and transfers and subsidies have been reduced. Moreover, the top marginal tax was reduced from 34 percent in 1995 to 25 percent in 1997.

Modest steps towards more economic freedom have been taken in the commercial area. Within the Northern Triangle (Guatemala, Honduras and El Salvador), duties on international trade have declined slightly during recent years and some other steps have been taken to reduce non-tariff restrictions.

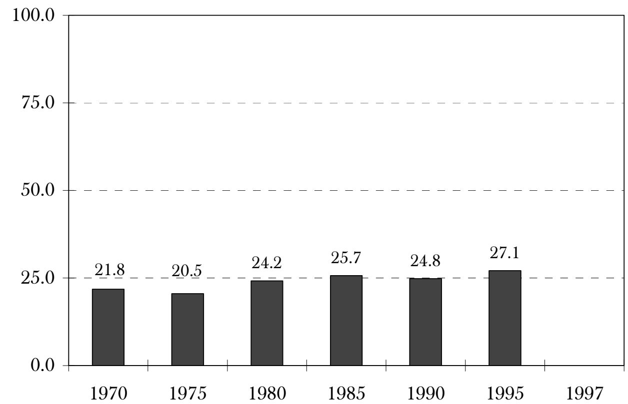
Although positive steps toward more economic freedom have been adopted in recent years, Guatemala still needs to make progress in other key areas where freedom could be improved: it still needs to liberalize currency convertibility and advance on reforms that allow its legal structure to move closer to a true rule-of-law. In addition, Guatemala's use of military conscription hurts its economic freedom rating.

HONDURAS

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



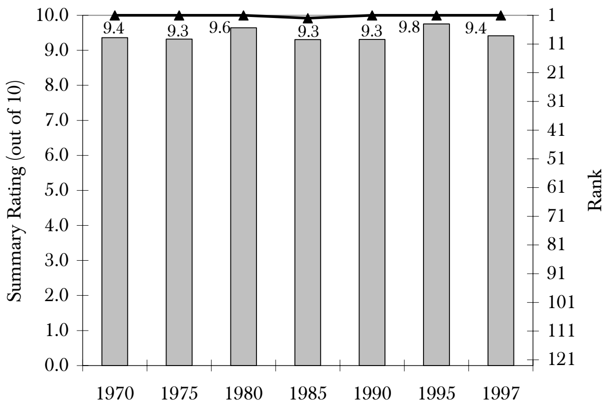
Although Honduras has increased its summary rating from 6.2 in 1990 to 7.0 in 1997, it has dropped from 41st to 53rd place. This relative movement away from more economic freedom is explained by uncertainty in monetary policy, an increase in the top marginal tax rate, and the existence of price and exchange controls.

Although Honduras has made efforts to have a less expansionary monetary policy, to reduce the top marginal tax rate, and to increase the size of its commercial sector (as a percentage of GDP), results are still very poor. The inflation rate still remains high. In 1990, the inflation rate was 23.3 percent and, in 1997, 20.2 percent. Some efforts have been made to reduce the size of government through privatization of state-owned companies but results are very poor and no significant improvement has been achieved in this area.

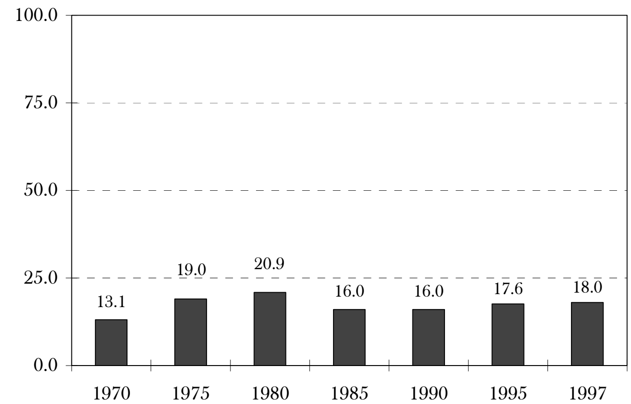
Actions were taken to remove financial and capital-market controls and to fortify the legal structure. This explained the improvements shown for this country in its effort to approach to a rule-of-law. Nonetheless, the current ranking of Honduras is well below that achieved during the mid-1970s.

HONG KONG

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



The resumption of sovereignty over Hong Kong by China on July 1, 1997 has not materially hurt the economic freedom long enjoyed by the people of the territory. The latest economic freedom index stands at a level of 9.4, maintaining Hong Kong's primacy as the most economically free place on earth. This year, though, they will share that title with Singapore whose rating was also 9.4. The concept of "One Country, Two Systems" seems to be working. On the whole, the government of the Hong Kong Special Administration Region has been given considerable autonomy by the central government in Beijing in conducting its affairs.

The Asian financial turmoil has taken its toll on Hong Kong. After decades of high growth, real GDP shrank by 3 percent in 1998. The unemployment rate shot up from 3 percent to 6 percent, property values decreased by one-third, and the stock market took a beating. Given the severity of the economic downturn, many suggested that the old policy of "positive non-intervention" could not be maintained.

The government did respond to this crisis. The two most controversial moves were the suspension of public land sales for a year and the purchase of more than HK$100 billion worth of shares of Hong Kong blue chip companies in August 1998. Such overt intervention in the market was prompted by the desire to avoid a collapse in the property market, the concern over bank failures, and the support for the Hong Kong dollar. The government intervention, though condemned in some quarters, had the support of the public.

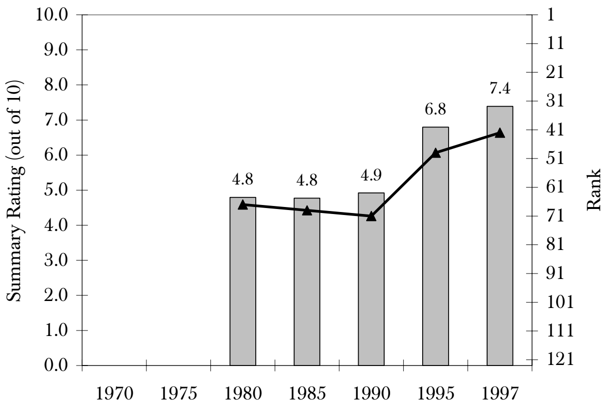
Concerned by the heavy dependence of the economy on the property and financial sectors, the government has taken steps to diversify the economy. A cyberport on multimedia and internet services will be developed; Disneyland is being courted to build a theme park; there are talks of science parks, a silicon harbour, and a Chinese Medicine Centre.

The government has adopted a policy to sell public rental housing units to their incumbent tenants. This policy, championed by the Hong Kong Centre for Economic Research for close to a decade, will enhance the efficiency of the housing market, and make the distribution of public housing subsidies more equitable. The telecommunication market is being further liberalized. More competition was introduced into the transportation sector. There are more franchised bus companies and more routes. The interest rate agreement as maintained by the banking cartel is scheduled to be completely abolished next year.

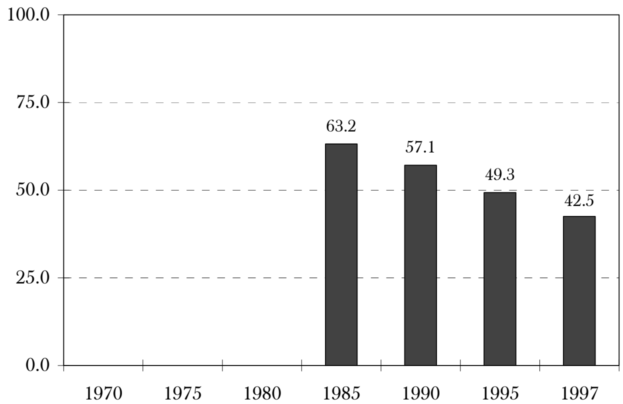
(Continued on page 82)

HUNGARY

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



In transforming itself from an economy that was centrally (or, semi-centrally) planned toward one that is market-driven, Hungary made significant progress towards economic freedom, the results of which are captured by its economic freedom rating. In this decade, Hungary showed solid improvement in the rating, which jumped from 4.9 in 1990 to 6.8 in 1995 and further to 7.4 in 1997. This ranked it 42nd in 1997, up from 71st in 1990.

The comprehensive stabilization package introduced in 1995 had some temporary negative effects on the assessment of economic freedom: (1) the Consumer Price Index jumped abruptly, increasing temporarily the uncertainty among the economic actors and the variability of the prices; (2) the levied temporary import surcharge decreased the free international exchange of goods (by 1997 the import surcharge had been gradually abandoned).

Nevertheless, some good resulted: (1) the tight monetary and restrictive fiscal policy reduced the rate of inflation; (2) the new exchange-rate regime became credible; (3) the internal and external equilibrium was restored; (4) the size of the government sector decreased; (5) the competitiveness of the private sector strengthened; (6) Hungary remained attractive to foreign capital.

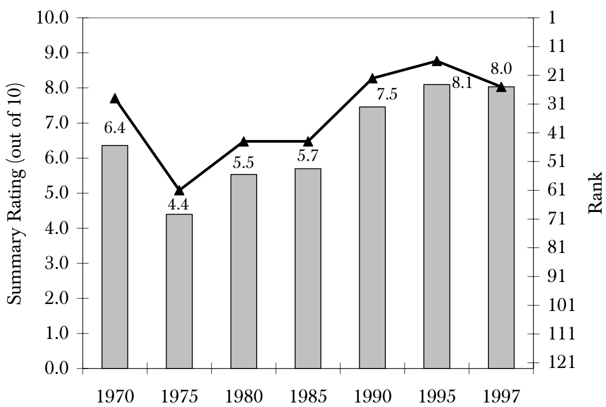
Institutional measures were also taken to liberalize the economy and to cut back the government sector. Privatization went ahead rapidly. Restrictions on foreigners entering the Hungarian money market were eased. The pay-as-you-go pension system was replaced by a 3-pillar system, including a new fully-funded pillar as well.

Marginal tax rates were decreased slightly after the temporary rise in the 1995 stabilization package. The top rate jumped from 44 percent in 1995 to 48 percent in 1996, then fell to 42 percent in 1997 and remained the same in 1998. After the general elections in 1998, the new government declared a new tax and contribution policy to reduce the private sector's burden. Accordingly, the top rate for 1999 fell to 40 percent. Social insurance contributions paid by companies have also fallen. A special sort of tax is conscription. It remained in force but the duration was shortened significantly. Early in the 1990s, it lasted 18 months; this was cut back to 12 months and then to 9 months in 1994, giving more room for individual freedom.

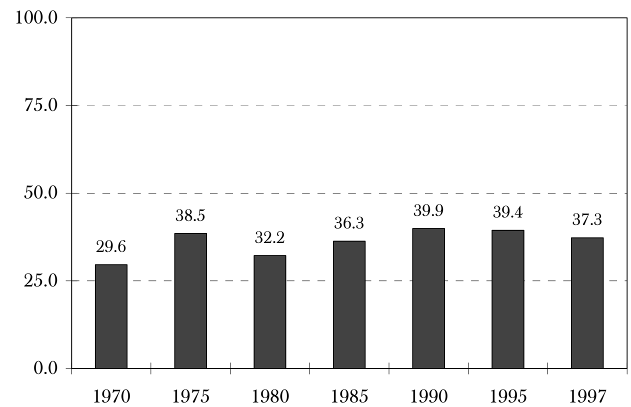
(Continued on page 82)

ICELAND

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



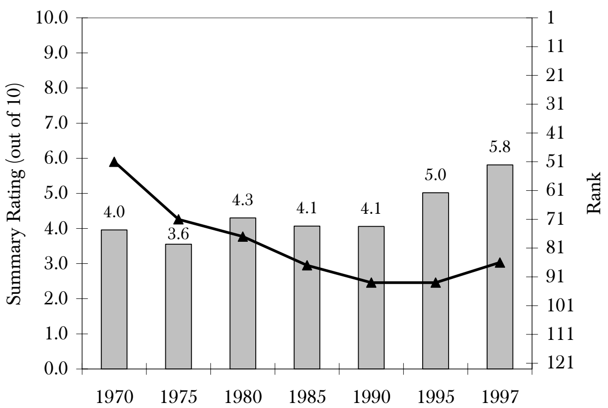
Iceland's rating of 8.0 placed it 25th among the 123 countries in our study. In 1995, it placed 16th with a rating of 8.1. This decline in rank is due to the more vigorous efforts of other countries towards greater economic freedom. But all told, Iceland has rebounded nicely from the doldrums of the 1970s and 1980s when its rating fell to very low levels largely as a result of unstable money and price policies.

The share of government consumption is, as in all western European economies, relatively high and, during the last decades, there has been a tendency for it to increase. Since 1985, the sector of transfers and subsidies has shrunk. The cut in the top marginal tax rate (42 percent) and deregulation of the banking sector in the field of saving deposits in government-owned financial institutions are other positive signs.

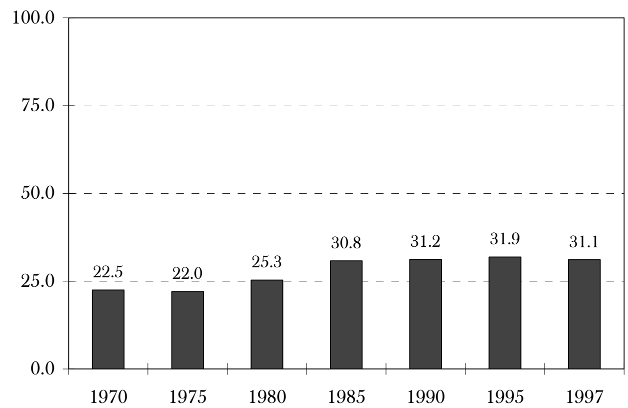
The citizens of Iceland are free to own foreign currency accounts and the country has a functional and well-established legal structure that provides a sound base for stable economic activities. Its monetary policies are showing promise in maintaining the inflation rate at a level that will fulfill the Maastricht-criteria–for 1997 the inflation rate was only 1.6 percent.

INDIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



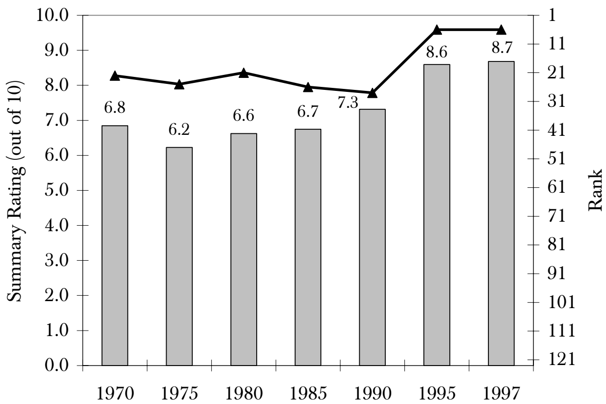
A shift in India's economic policy took place in 1991 when central planning appeared to give way to market forces. The large increase in the economic freedom rating of 1.7 points during the 1990s in the Summary Rating marks that shift. But, in relative terms this improvement has barely kept pace with the liberalization of the rest of the world. India's rank only improved from 93rd (out of 115) to 86th (out of 123) in the 1990s.

The score of 4.1 on Component VI: International Exchange clearly indicates the long path India still has to travel, even though this is the area where India has seen the most improvement. The ratings for Area II: Structure of the Economy and Use of Markets and Area VII: Freedom of Exchange in Capital and Financial Markets suggest that the state control of the domestic economy through price controls, nationalized banking and insurance industry, and public sector enterprises has seen little change.

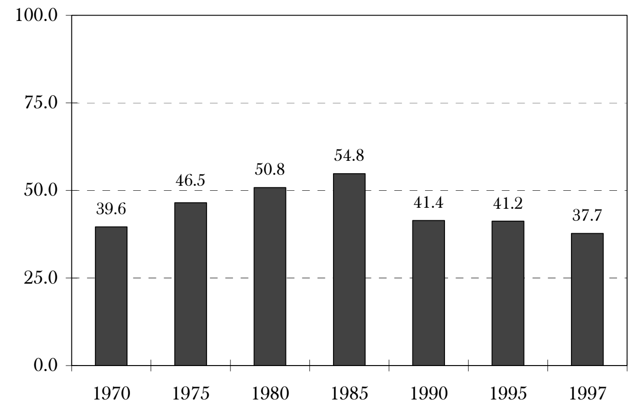
The improvement in Area V: Legal Structure and Property Rights indicates the increasing independence of the judiciary and of the agencies that supervise the government, like Central Vigilance Commission, Comptroller and Auditor General, and especially the Election Commission, which has curtailed sops given by ruling parties just before elections. The changes in the components of the Index provide reason for guarded optimism.

IRELAND

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Ireland has been one of the few real success stories of Europe. Beginning in the early 1990s, Ireland embarked on an impressive liberalization program and has now achieved a rating of 8.7 to gain 6th position.

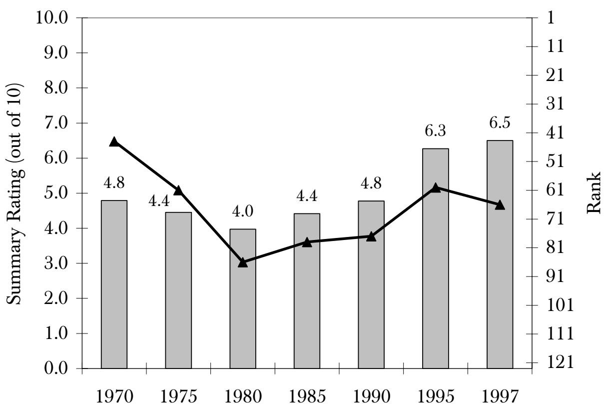
Ireland's economy is one of the most explosive economies in Western Europe. Its growth rate of real GDP for 1997 was a formidable 10.5 percent and, on average, from 1990 to 1997 it grew annually by 6.6 percent.

Ireland's government spending has fallen mostly by reducing the size of the national debt and the accompanying interest payments (a factor that is not fully captured by the government consumption and transfer data). Between 1986 and 1989, government employment fell by 10 percent. Marginal tax rates for high-income individuals have been reduced from the brutal 1975 rate of 80 percent to 58 percent in 1986 and 48 percent in the period from 1992 to 1997. In 1998, the top rate was reduced to 46 percent. Even so, the 3 rating in the marginal tax component is the only really significant blight on Ireland's economic freedom rating.

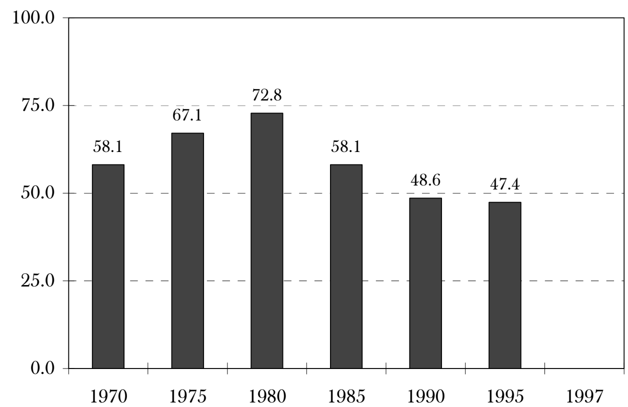
Supporting these developments was the contribution of monetary policy and legal structure. The latter got a perfect 10 rating. Since the 1990s, the inflation rate has fallen to 1.8 percent in 1997. There are no restrictions upon citizens who wish to maintain foreign currency accounts domestically and abroad.

ISRAEL

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



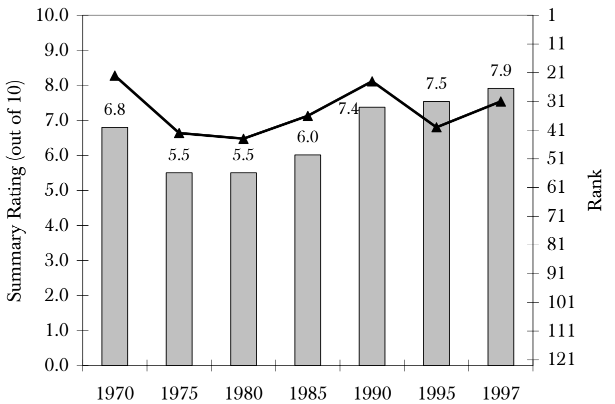
Israel's rating has improved only slightly over the last three decades from 4.8 to 6.5. At times it has been ranked near to the bottom of the list (86th in 1980, for instance) but now holds 66th place.

Israel's government consumes a large portion of the nation's resources; it also has a huge regulatory presence. State-owned enterprises abound, price controls are quite extensive, marginal tax rates are high and apply at low levels of income, and military conscription is used. Banks are all but nationalized, ownership of foreign currency is partially restricted, capital transactions are restricted, and trade is reduced by non-tariff barriers.

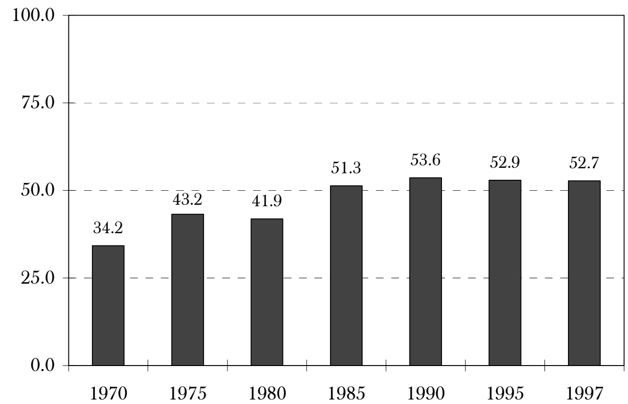
The only bright spot for Israel is that it has managed to get its monetary regime under control. The recent single digit inflation rates represent a huge improvement over the three digit rates in the 1980s.

ITALY

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Italy ranked 31st in 1997, down from its rank of 24th in 1990. Among the major industrial countries, Italy lags behind in terms of economic freedom, doing better than only a handful of its European neighbours.

The bright spots are freedom of exchange in capital and financial markets, use of alternative currencies, legal structure, security of property rights and international trade. These results have been achieved through the effort to join the European Monetary Union (EMU). As a co-founder of EMU, Italy has been stimulated to deregulate the financial market and other important areas of the economy. Moreover, in order to fulfill the Maastricht's criteria, Italy reduced its historically high inflation rate and cut the public deficit below the level of 3 percent of GDP.

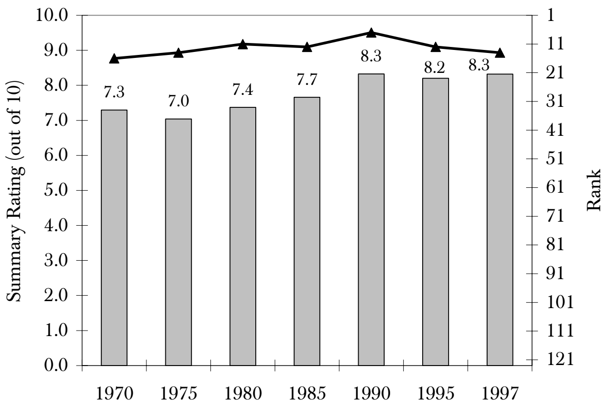
The size of the government in terms of consumption, transfers, and subsidies has been slightly reduced but remains huge: in 1997, government consumption was over 20 percent of total consumption and transfers and subsidies accounted for more than 20 percent of GDP.

The structure of the economy represents the most critical issue. Although the privatization plan is proceeding, it seems to gain ground too slowly. In 1997, state-owned enterprises still represented more than a quarter of the national economy. The national power-generating utility (ENEL) is state owned and the state directly owns the national railway system. The national Mail Service is state-owned. Some privatization is expected to be realized during the next year but, as in the past, some of it will undoubtedly be deferred.

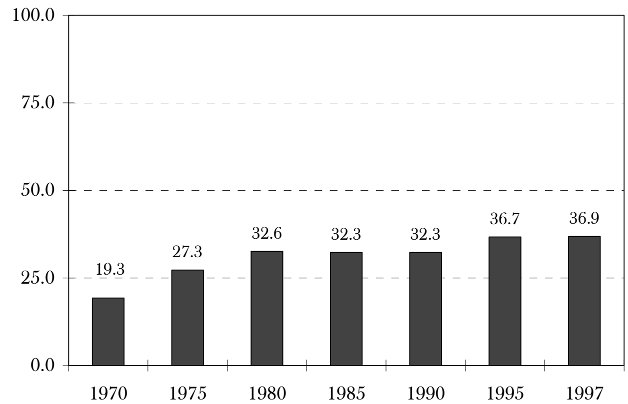
Most of the prices are determined by the market forces; a few controls are levied on energy and agriculture in accordance with the framework set by the European Union. The Italian top personal marginal tax rate ranks near the top level worldwide though there is some prospect for tax reform in the future.

JAPAN

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



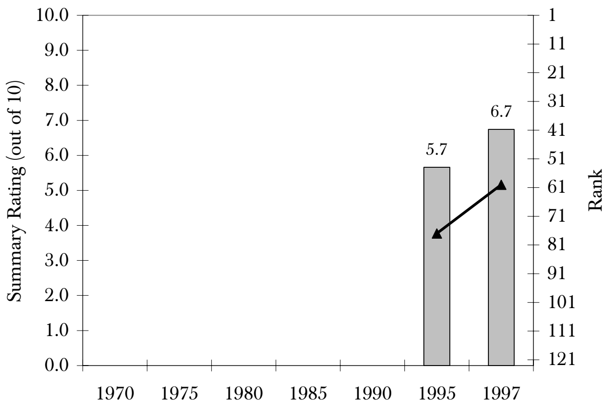
Japan's ranking moved modestly higher between 1970 and 1990. Faced with consequences of the Asian flu at the beginning of the 1990s, the government's trend toward greater economic freedom lost momentum. This allowed other countries to move past Japan in terms of ranking even as its summary rating remained relatively the same. Japan fell from 7th position in 1990 to 14th in 1997.

Japan's strength remains in the field of money and inflation but the incomplete reformation of the banking sector (bad loans), the outflow of private savings from government-owned Post-Banks, and the endangered independence of the Bank of Japan could cast doubt on future positive developments. The figures for ownership of banks remain constant (rating 5.0) because of the size and presumed importance of the government-owned banks for Japan's economy. Successful deregulation policies are, however, being finalized.

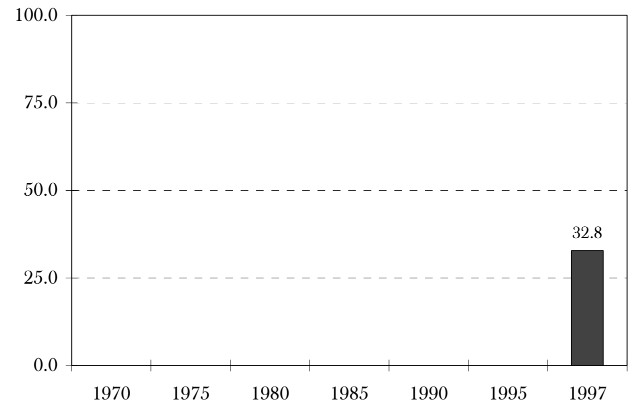
Japan also needs to improve in Area II (Economic Structure and Use of Markets) since it had poor ratings in IIA (Government Enterprises) and IIB (Price Controls). The marginal tax rate (65 percent) that applies to its most productive citizens is out of line with the rest of the world and warrants a rating of 2 in that component. Japan's use of non-tariff (and even non-quota) trade barriers is reflected in the unusually small size of its trade sector when compared to expectations.

LATVIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Latvia improved its relative position from 77th in 1995 to 60th in 1997.

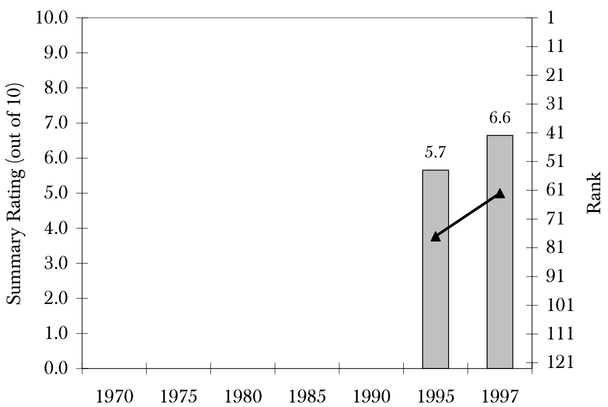
Latvia shares some of the characteristics of the other Baltic states. Latvia reduced its annual money growth (relative to economic growth) for the past five years from 49.5 percent in 1995 to 18.5 percent in 1997. At the same time, its inflation rate fell from 16.0 percent to 6.6 percent.

There are also problems with the rule of law and recognition of property rights. Ownership of foreign currencies is not fully allowed—a measure to avert outflow of foreign capital resources—and the relatively high share of government consumption, though modest by European Standards, is significant.

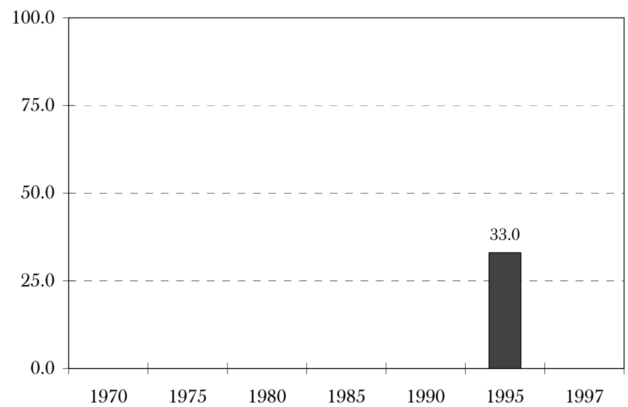
The reduction of government enterprises is worthy of mention. Latvia has improved its rating from 0.0 in 1995 to 4.0 in 1997. Although Latvia's privatization reforms lagged behind other reforms, privatization got a refreshing impetus in 1997 when a new competition law was approved.

LITHUANIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Consistent market reforms have allowed Lithuania to improve its rating to 6.6 from 5.7 in 1995. It now ranks 62nd out of the 123 countries in this study.

Lithuania's tax system is based on an income tax that is almost flat (the regular rate is 33 percent, compared to a top rate of only 35 percent). The VAT (which is the basic source of budget income) is now applied universally at the rate of 18 per cent, with very few items still exempt. It is in the official program of the government to abolish corporate income tax and all companies are already allowed to deduct their investments fully from taxable profits.

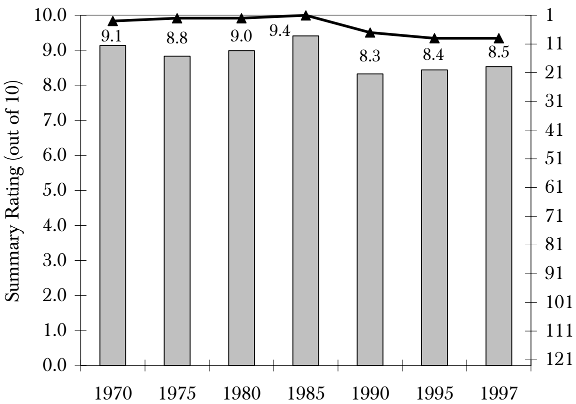
The private sector, which employs two-thirds of the country's work force, contributes up to 75 per cent of GDP. Privatization has reached areas of the infrastructure that earlier were "non-touchable." Even the government's 60 percent stake of the Telecommunication Company was privatized in 1998. Of course, given the low rating in this area, there is more to be done.

The currency is protected from political and other interventions by the Currency Board, introduced in 1994. Since that time, the national currency, Litas, is fully backed by foreign reserves and is freely changed into foreign currency at the rate of 4 Litas for US$1. Thanks to the Currency Board, interest rates went down significantly and private investment, both domestic and foreign, boomed. People's savings and other assets are protected from devaluation and income is consistently rising. Since this component is calculated for a period of five years, Lithuania's rating is still affected by the problems of post-Soviet times and will see improvement in the coming years.

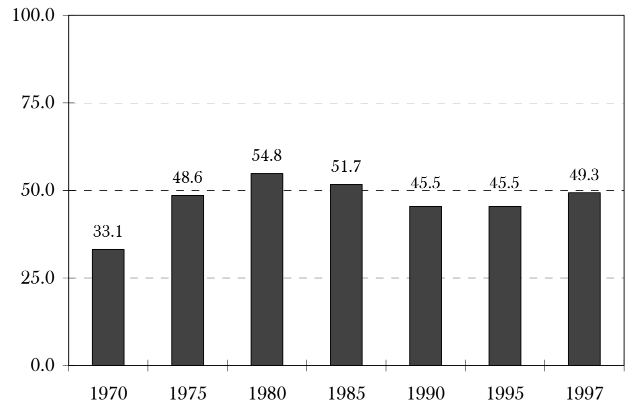
Lithuania can also expect further increases in economic freedom if it proceeds further with privatization (including privatization of financial services) and eliminates conscription and price controls.

LUXEMBOURG

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



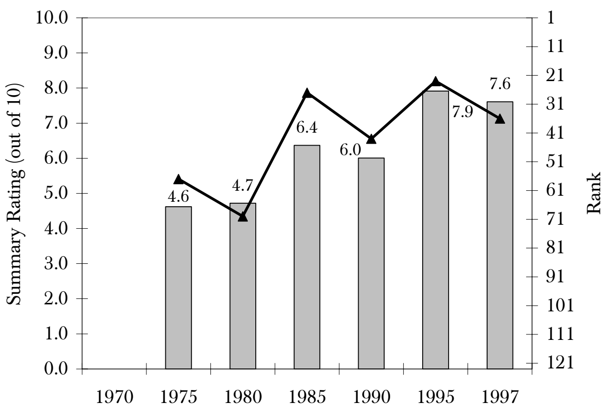
Luxembourg's 8.5 rating places it at 9th position among the 123 countries in our study. Luxembourg lost the high ranking that it held through the 1980s because of rapid development in other countries and, to a certain extent, problems in Luxembourg itself.

There has been a tendency towards government growth during the recent decades. Government's share of total consumption has grown from 13.6 percent in 1970 to 19.8 percent in 1997. Transfers and subsidies absorbed 26 percent of the GDP in 1997 and were financed by very high marginal tax rates.

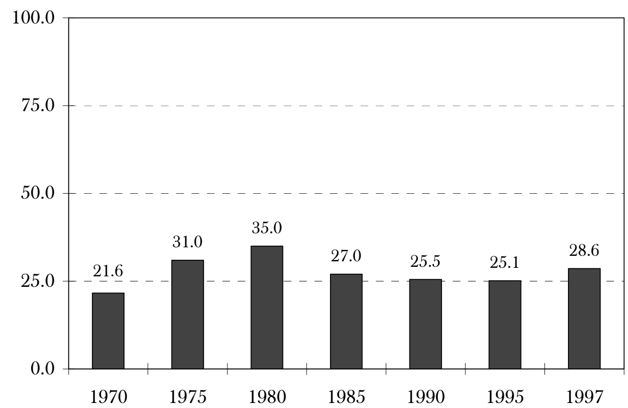
However, in other fields of examination Luxembourg's performance is one of the best. Citizens are fully free to maintain foreign currency accounts domestically and abroad and suffer no constraints in capital transactions with foreigners. There is a reliable, well-established legal structure providing for the protection of property rights. Its international trade sector has been almost completely liberalized as a precondition for integration into the EU. Since the middle 1980s, the monetary authorities have kept control over inflation. Another important quality of Luxembourg is its functional and liberal banking sector.

MAURITIUS

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



This small African country of approximately 1.2 million people has seen impressive increases in its level of economic freedom, rising from an overall score of 4.6 in 1975 (70th in rank) to a peak of 7.9 in 1995 (23rd in rank). In 1997, Mauritius had an overall score of 7.6 (36th in rank).

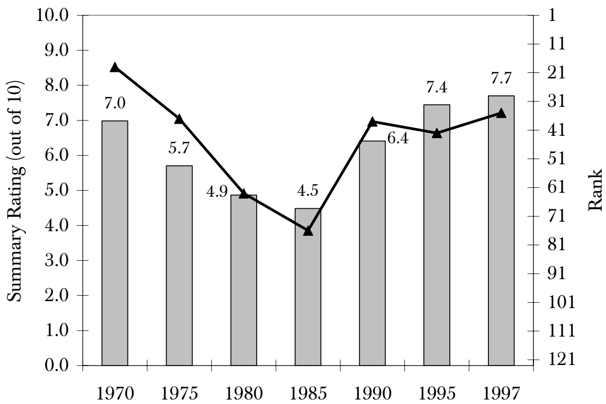
Improvements in their overall score can be attributed to improvements in three areas: (I) Structure of the Economy and Use of Markets, (IV) Freedom to Use Alternative Currencies and (VII) Freedom of Exchange in Financial Markets. In particular, Mauritius has made significant improvements in its top marginal tax rate, going from a score of 3 in 1980 to 8 by 1995. Mauritius has also increased the reliance on the private sector by moving toward more private banks and allocating credit more to the private sector rather than the public.

The mean tariff rate remains high but was showing some signs of improvement until it increased between 1995 and 1997. The standard deviation of tariff rates is also unacceptably high, garnering them the lowest score possible of 0.

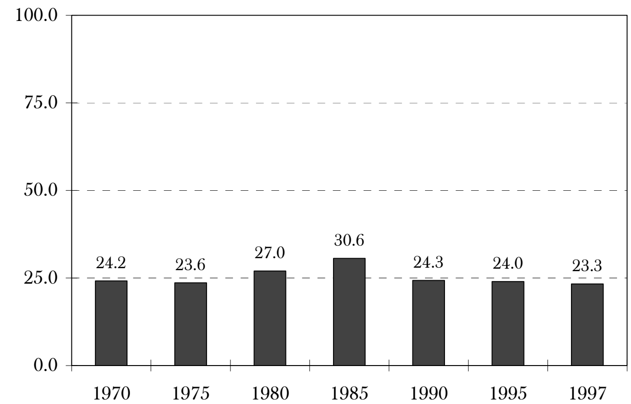
The overall effect of the increase in economic freedom has been tremendous. The average annual growth rate in GNP per capita between 1977 and 1987 was 1.8 percent per year. From 1988 to 1998, this rate jumped to 4.1 percent per year. In 1997, it was 5 percent and in 1998 it was 4 percent.

MEXICO

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



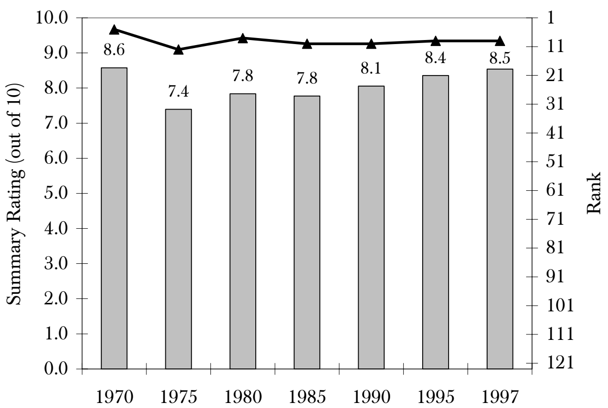
During the past 15 years, Mexico has steadily improved its rating. Its 7.7 rating in 1997 places it 35th among 123 countries in our study; this is up from its 4.5 rating and 76th ranking in 1985.

Mexico has been a fast-growing economy; its real GDP grew by 6.8 percent in 1997. Positive aspects are its small share of government consumption (only 11.3 percent in 1997), low transfers and subsidies (7.5 percent in 1997), and the relatively liberal foreign-trade sector. Although it still suffers from corruption and bureaucratic ineffectiveness, the legal structure has improved significantly since 1985. Compared with 1995, some price controls have been relaxed.

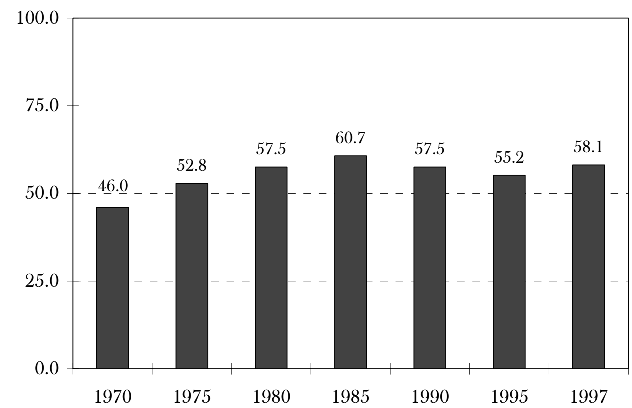
Mexico has problems with its monetary policy. The authorities are struggling to curb annual money growth and an inflation rate of 19 percent cannot be a basis for sustainable growth. While citizens are free to own and maintain foreign currency accounts, there are constraints on capital transactions with foreigners. The recent decline in credit extended to the private sector represents a step backwards. In 1997, just 60.5 percent of total credit was extended to the private sector, down from 83 percent in 1995.

THE NETHERLANDS

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP

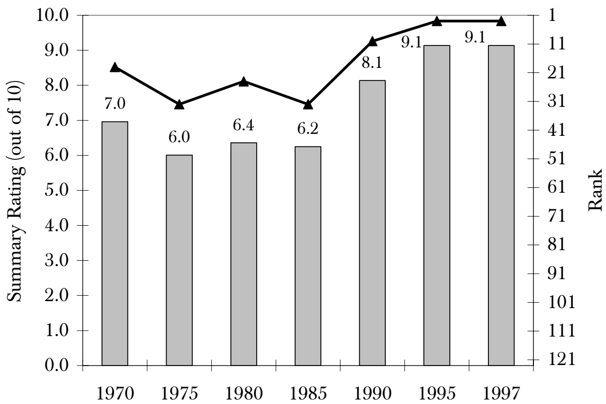


The Netherlands' 8.5 rating in 1997 places it 9th among the 123 countries in our study. The Netherlands has one of the most agile economies among western European countries. It has a moderate unemployment rate and a healthy rate of growth in real GDP. The Netherlands gets high ratings in the areas of monetary policy, international trade, financial markets, and alternative currencies. Its reputation is as a successful anti-inflationary regime. Since the change from full monetary sovereignty to reliance on German Bundesbank policies in the 1980s, the inflation rate has been maintained at a low level by its authorities. Citizens are free to hold foreign currency accounts domestically and abroad and are not bound by restrictions to engage in capital transactions with foreigners. The trade sector is liberalized; remaining tariffs and taxes are negligible.

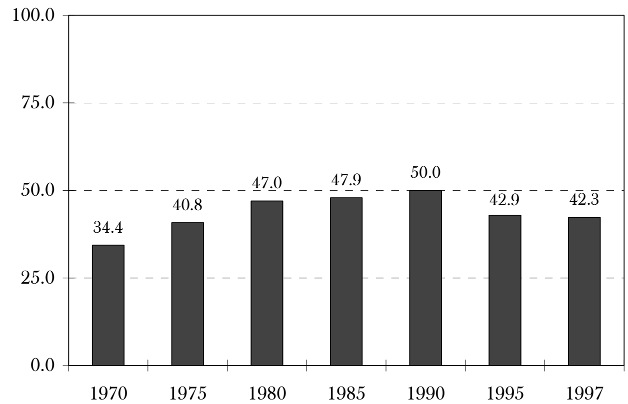
Even in the area of government operations improvements are visible. Even though government consumption, at 19 percent of total consumption, is relatively high, it has declined slightly during the past 20 years. Also, the transfers and subsidies sector fell modestly from 29.7 percent of GDP in 1995 to 27 percent in 1997, though it remains at a very high level and is financed by a very high top marginal tax rate of 60 percent. The government relaxed some price controls and abandoned conscription. The government provides a well-established legal structure supportive of sound economic development.

NEW ZEALAND

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



In recent years, New Zealand has moved to the top ranks of this index more rapidly than any other country. In 1997, as in 1995, it ranked in 3rd place. As recently as 1985, though, New Zealand rated just 6.2 and ranked 32nd of 111 nations.

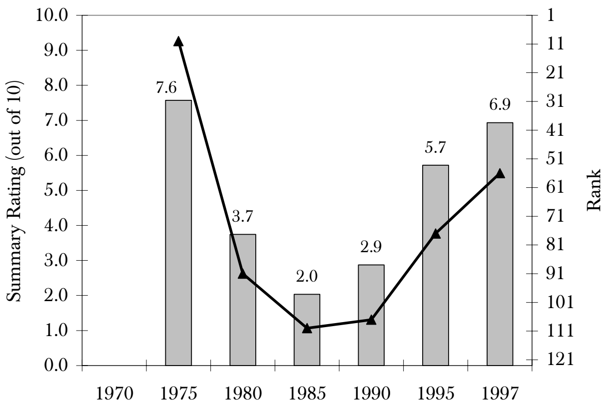
The key components of New Zealand's prosperous economy are a well-established legal structure (note the perfect 10 rating) and a consistent anti-inflationary monetary policy–the inflation rate for 1997 was –0.5 percent.

The reductions in government expenditures in the early 1990s were remarkable. The share of government consumption remains relatively high but has fallen. The reduction in the transfers and subsidies area has been even more impressive–from 27.5 percent in 1990 to 12.4 percent in 1997, financed by a comparatively low top marginal tax rate of 33 percent. Government enterprises are more completely privatized and price controls abolished.

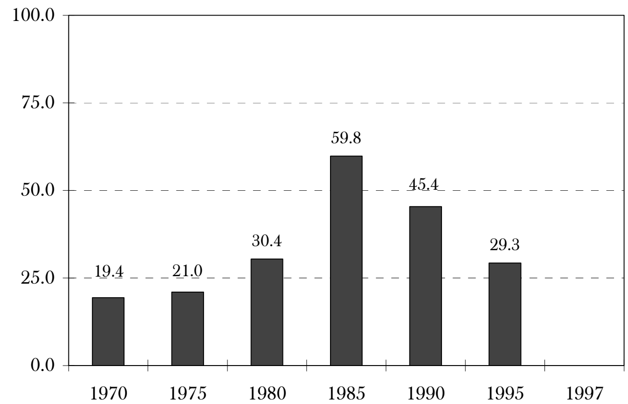
New Zealand's international trade sector is almost completely liberalized and only some minor taxes and tariffs still exist. Even so, the size of the trade sector (in percent of GDP) has declined slightly.

NICARAGUA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



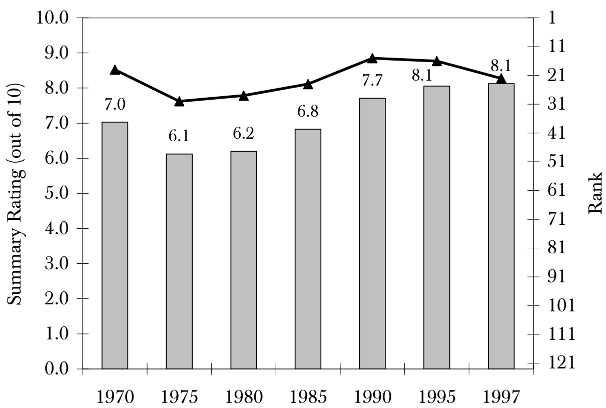
The policies of the 1980s caused Nicaragua's economic freedom rating to plunge from 7.6 in 1975 to 2.0 in 1985. Through reforms in the 1990s, Nicaragua has dramatically changed its policy making and this has improved its rating for economic freedom substantially. It has now recovered to the level it had before the Sandinista Revolution and has moved from 109th position (out of 111 countries) in 1985 to 56th in 1997.

What has produced the increase in Nicaragua's ranking? Price stability and freedom to have foreign currency accounts have played a role. Price controls were also relaxed. Another substantial achievement was met when controls on interest rates and capital markets were eliminated. Nicaragua has also made efforts to reduce its government's consumption and to respect contracts and property rights.

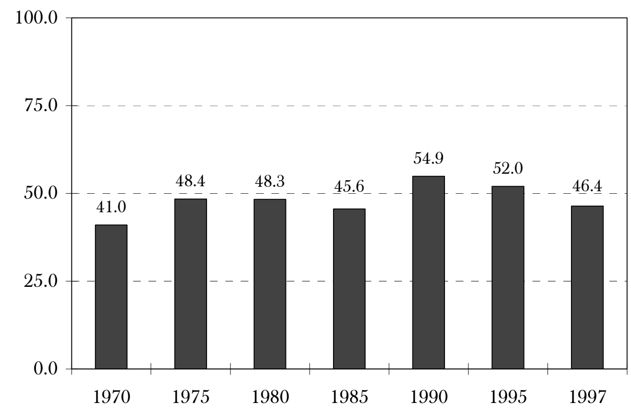
The risk of expropriation and the lack of attention to the principles of a rule-of-law are still weaknesses of Nicaragua's economy. The country still has a lot to do if it wants to regain the confidence of citizens and foreigners.

NORWAY

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



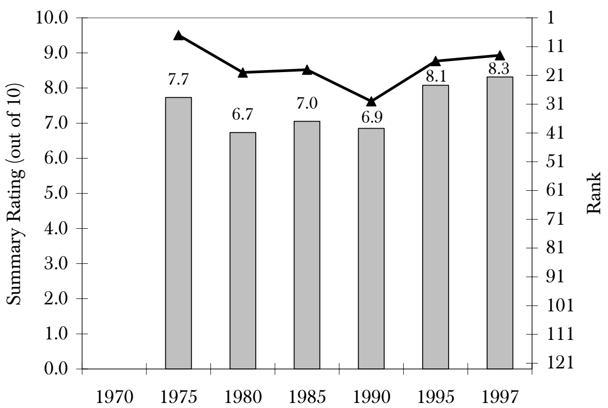
Although Norway received the same rating of 8.1 in 1997 and in 1995, its ranking fell from 16th position to 22nd in 1997.

Norway's share of government consumption is high, as it is in other European welfare states. However, since 1990 there has been a slimming of the transfer and subsidies sector: the share of this sector fell from 27.3 percent of GDP in 1990 to 19.5 percent in 1997. Furthermore, in some areas, price controls were abandoned. There is still an opportunity to reduce the number of government enterprises and its investments.

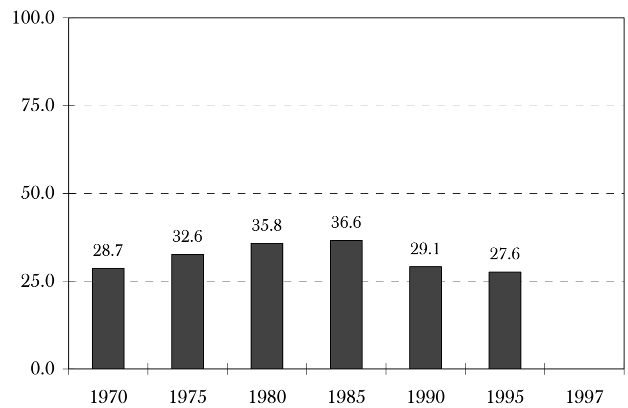
Norway provides a progressive and functional legal structure supporting economic development. While tariffs are low, their standard deviation increased during the 1990s. Citizens are free to own foreign currencies and to maintain those accounts domestically and abroad. A characteristic feature of Norway's macroeconomic indicators is its successful monetary policy pursuing monetary stability.

PANAMA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP

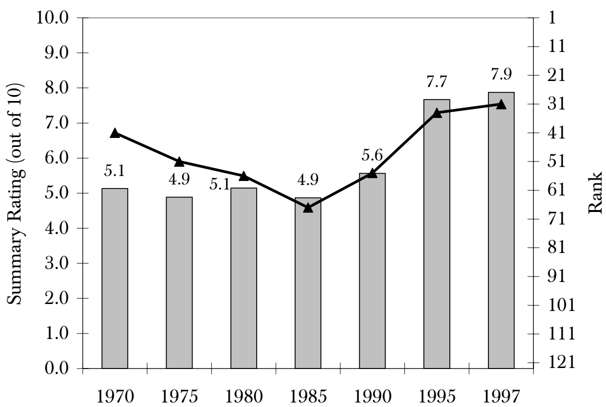


In 1997, Panama's rating was 8.3, up from 6.9 in 1990. Its ranking rose from 30th in 1990 to 14th in 1997. Panama has made substantial moves toward economic freedom during the last decade: tariffs have been reduced and financial and capital markets have been liberalized. The strengths of the Panamanian economy are price stability and its highly convertible currency. Beginning in 1904, Panama adopted the American dollar as its official currency. This provides Panama with a highly credible currency that is readily accepted throughout the world.

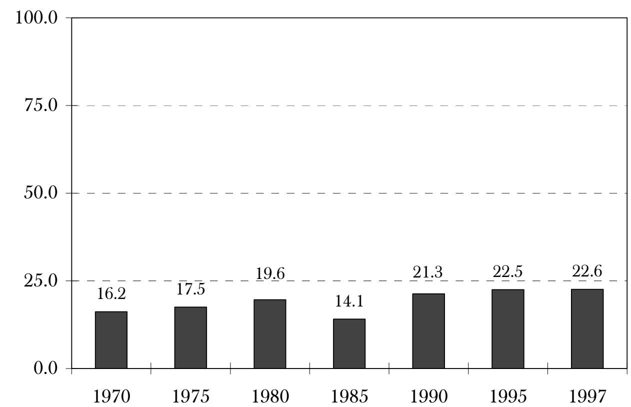
There are still weaknesses to be overcome. The legal structure (respect of contracts and the security of private property) would benefit from the removal of barriers that reduce the trust of investors, both foreign and domestic. The state continues to operate a number of government enterprises. Moreover, the size of government is quite large, particularly for a country with a low per-capita income. In spite of these negative factors, Panama has the best economic freedom rating in Central America.

PHILIPPINES

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



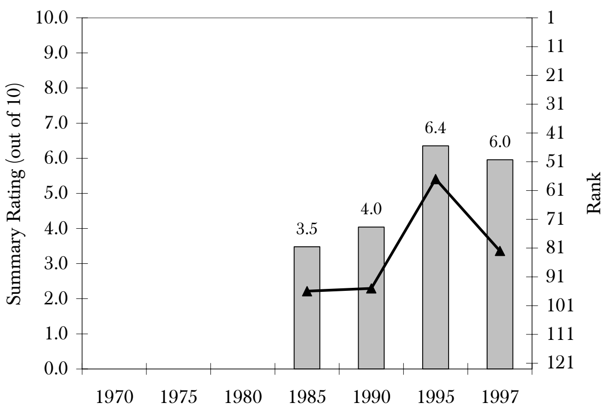
The Philippines' rating has moved up to 7.9 from 4.9 in 1985 and has secured a 31st place ranking. One weak area is Area II, Structure of the Economy and Use of Markets, with a fairly low rating (5 out of 10) for the Price Control Component. The ratings in Area V, Legal Structure and Property rights, were quite low with a very poor 4.1 rating for the Rule of Law component. Relatively high tariffs and restrictions on capital-account transactions are also problem areas.

On the positive side, money and prices are relatively stable and the citizens have access to alternative currencies. Government consumption and direct transfers are fairly small as well.

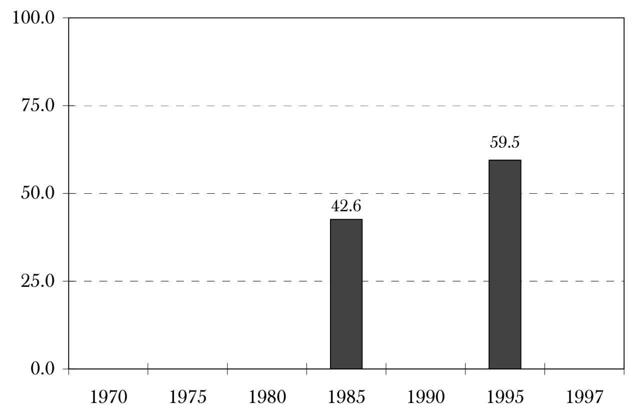
The Philippines, like so many of the emerging Asian economies, needs a healthy dose of transparency and reduced corruption if it is to continue its trek toward the industrialized world.

POLAND

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Since 1989, Poland has been on a steady path toward a market economy. Its economic freedom score increased from 3.5 in 1985 to 4.0 in 1990 and 6.4 in 1995, while its rank rose from 96^{th} (out of 111) in 1985 to 95^{th} (out of 115) in 1990, and 57^{th} (out of 122) in 1995. However, in 1996/1997 it recorded a slight decline to 6.0, which gave it a ranking of 82^{nd} place.

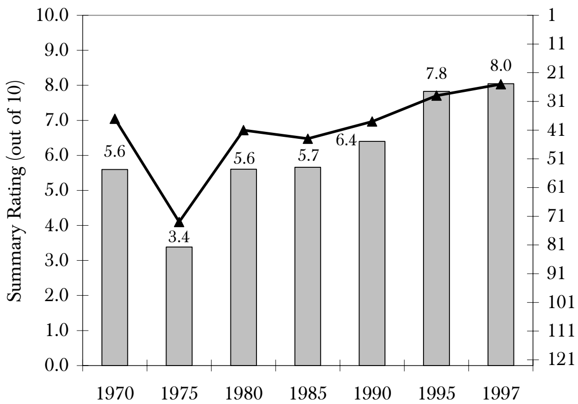
Between 1995 and 1997, economic freedom of other eastern European countries went up while Poland experienced a slow-down from its earlier fast pace of transformation toward a freer economy. This, however, was not reflected by any substantial decline in economic growth or in the worsening of other major macroeconomic indicators. A decline in rating for Area VI, International Exchange: Freedom to Trade with Foreigners, from 6.2 in 1995 to 5.0 and another in Area II, Structure of the Economy and Use of Markets, from 4.1 to 3.4 should be noted. There would have been no fall in the overall score if not for the deterioration in these two categories. It may be expected that the scores in Area VI will improve shortly, as Polish trade and competition policies will have to be harmonized with those of the European Union. Scores in Area II will be positively influenced by recent reductions in marginal tax rates and the shortening of compulsory military service.

The Central Bank continued to be a guardian of sound national money. In February 1998, a new body—the Monetary Policy Council—was established to monitor and, to a degree, control decisions of the President of the Central Bank. Nevertheless, the Council itself proved to be largely independent of any direct political influence. In short, the Central Bank maintained a stable money supply and interest rates, retained its traditionally liberal stance in the area of citizens' access to foreign currencies, implemented progressive though not hasty liberalization of the financing of capital transactions and exchange-rate determination (moving toward floating regime). The pace of privatization of commercial banking was rather slow although there are good prospects for a more visible change in this respect in the immediate future.

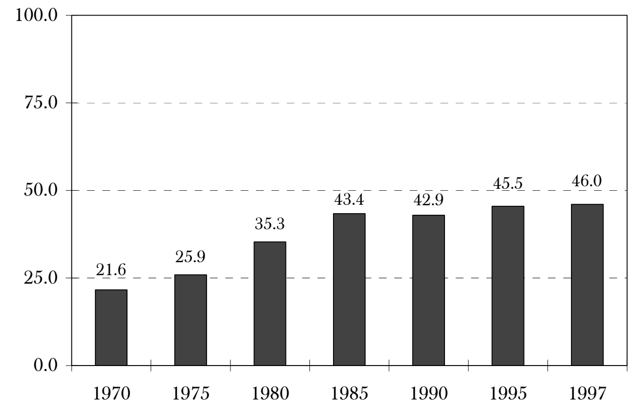
Problems were exacerbated by the fact that crucial systemic reforms had not been undertaken before the end of 1997 (social security, health care, territorial administration, and education). They were finally prepared and introduced in 1998 and 1999 and may substantially improve the country's economic-freedom score in the years to come. These positive tendencies may, however, be offset by rising demands for redistribution by social groups like the coal miners and peasant farmers influenced by populist ideology and trade-union leaders.

Portugal

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



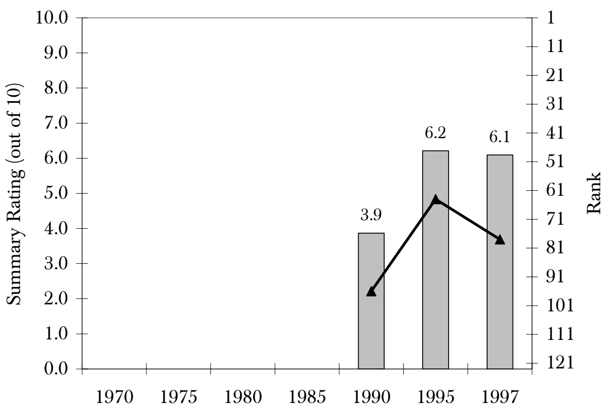
In 1997, Portugal ranked 25th among the 123 countries in our study. This is the best ranking Portugal has ever received. Its rating has improved steadily since 1975's low rating of 3.4 (73rd out of 83 nations) to its current rating of 8.0.

Portugal's monetary policy has shown strong improvement toward monetary stability in order to qualify for membership in the EMU. After more than 20 years of high inflation, the inflation rate declined to a narrow range between 2 percent and 3 percent. The citizens are free to maintain foreign currency accounts domestically and abroad. The recent economic achievements are backed by a well-established legal structure providing a nearly perfect score in Area V. Portugal's international trade sector is very liberalized as it is part of the EU. Progress is also found in the deregulation of the banking sector, where an increasing share of deposits are held in private banks.

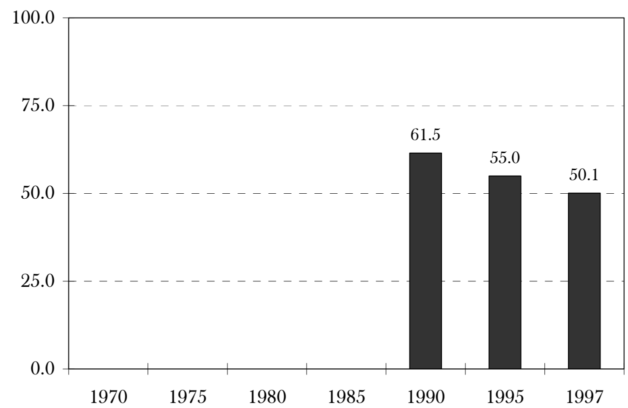
The share of government consumption remains relatively high (though moderate by European standards) and transfers and subsidies appear to be coming down. Price controls exist in some sectors and there is ample opportunity for additional privatization of government enterprises.

SLOVAKIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



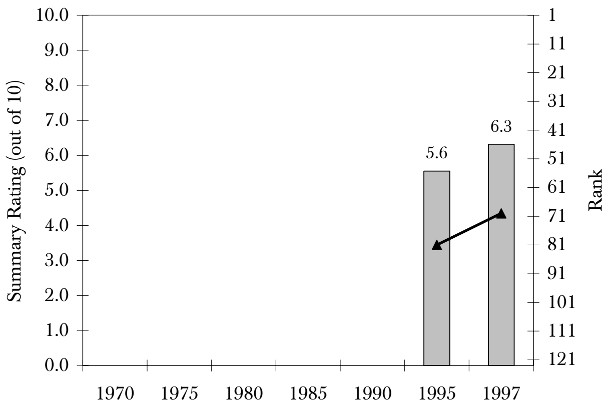
Slovakia's 1997 rating of 6.1 placed it 78th among 123 countries. This rating was a marked improvement over the 3.9 rating (and 96th ranking) of the former Czechoslovakia in 1990 but leaves a lot of room for improvement.

Slovakia has one of the most open economies and some of the lowest tariff barriers in the region. Even though it has made significant progress in the legal protection of private-property rights, it has still a long way to go in the enforcement and viability of contracts. Restrictive monetary policy contributed to one of the lowest inflation rates in the region (around 6 percent in 1996/1997). On the other hand, there have been delays in deregulating prices, especially those for electricity, gas, and rents. Slovakia is gradually liberalizing its capital flows and foreign-currency regime, where further lifting of controls are expected. High marginal tax rates are used to support the still significant share of general government expenditures (50.1 percent of GDP in 1997). The largest banks are still in the hands of the state, as are public utilities.

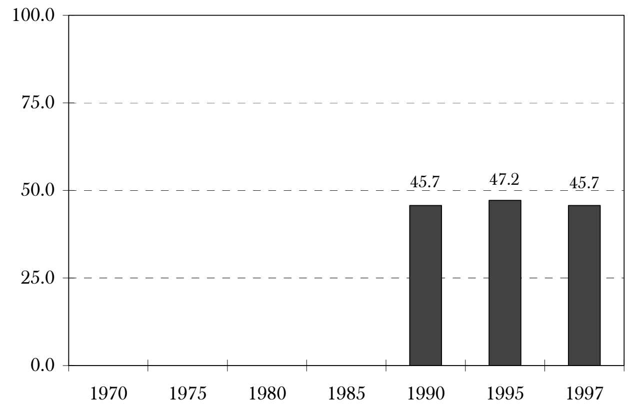
Slovakia will be able to improve its ranking significantly only if restructuring and privatization are accelerated both in banking and in corporate sectors and if there is a far-reaching reform of public finances aimed at reductions in income redistribution.

SLOVENIA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Slovenia's 1997 rating of 6.3 placed it 70th among 123 countries. Slovenia's low rating stems from its weaknesses in Area II: Structure of the Economy and Use of Markets. In particular, it received low ratings because of the large number of government enterprises, the size of its government, and restrictions on the mobility of capital.

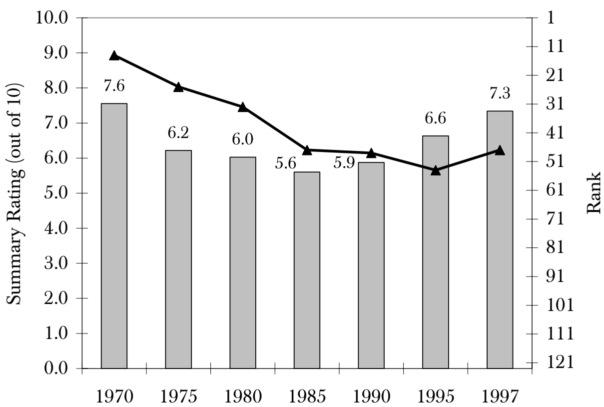
There is some good news that will be reflected in up-coming indexes. The privatization of trade and industry has been completed. However, a few enterprises (2 percent of equity) showing losses are still state-owned. Several steps forward in the expected privatization of insurance companies, banks and public utilities have been undertaken recently. A draft version of Proposal of Law of State Property Privatization has been prepared.

The new Foreign Exchange Operations Act, which regulates operations between residents and non-residents, went into force in April 1999. It represents a major step towards full liberalization in the flow of capital. A number of restrictions on foreign investment in Slovenia have been phased out; at the same time, there are almost no restrictions left on residents' investments abroad. Nevertheless, foreign-currency bank accounts abroad for residents are still not permitted.

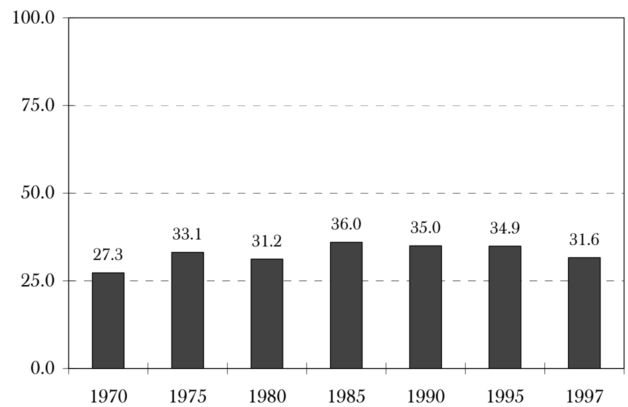
Further steps must also be taken to lower general government expenditures, especially transfers and subsidies, which constitute an astounding 33 percent of GDP. Since Slovenia is a candidate for full EU membership, it is reasonable to expect that structural reforms towards more economic freedom will be coming.

SOUTH AFRICA

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Despite slow improvement during the 1990s, South Africa's economic-freedom rating continues to fall midway among rated countries: its ranking remained steady, 48th (out of 115) in 1990 and 47th (out of 123) in 1997. Government expenditure (31.6 percent of GDP in 1997) remains extremely high for a low-income country ($4,513 per-capita GDP in 1996) but fiscal discipline has been improved and the level of expenditure as well as the size of the budget deficit is declining.

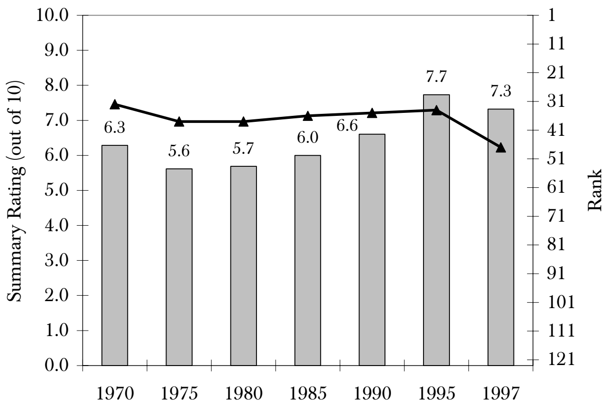
With the disappearance of apartheid, the first government of the new democracy and the 1996 Constitution greatly improved the overall legal structure. Conscription has been abolished and other pro-market changes have been made. However, while controls on the movement of capital have been substantially reduced, exchange controls remain in place and the inflation rate, while declining, has been consistently higher than the rates of South Africa's major trading partners. The currency exchange rate has consequently been falling continuously.

Trade tariffs have been reduced and the powers of the former agricultural marketing boards removed. Farmers and long-protected industries have had to adjust to the changed circumstances and formal unemployment has consequently increased to around one-third of the potential workforce. New labour laws have exacerbated the problem by imposing increased costs on employers. The high unemployment level and restrictive labour laws also make it difficult for the government to implement its planned reduction in the number of civil servants and employees at state-owned industries. The government has re-stated its commitment to privatization but the process is proceeding very slowly.

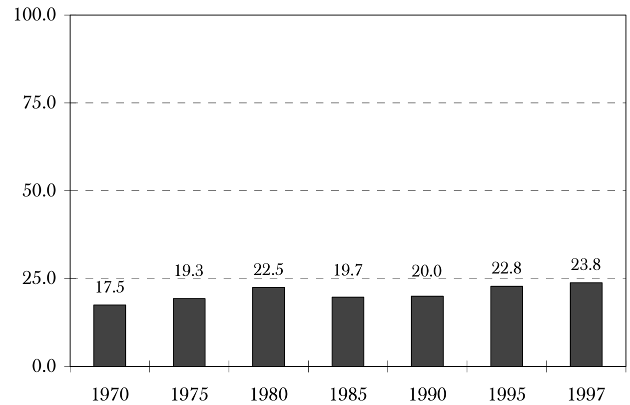
South Africa can improve its economic freedom rating and prospects of higher growth by continuing to reduce the growth rate of the money supply, replacing the existing limited rights to own foreign currency with total freedom to maintain foreign currency accounts in local banks, abolishing the remaining limitations on the ownership of bank accounts abroad, substantially reducing government expenditure as a percentage of GDP, privatizing rapidly, and reducing marginal tax rates.

South Korea

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Although South Korea's rating declined only slightly from 7.7 in 1995 to 7.3 in 1997, its ranking fell from 34th in 1995 to 47th in 1997. Reasons for this decline are the successful efforts of other countries pushing forward economic development and freedom.

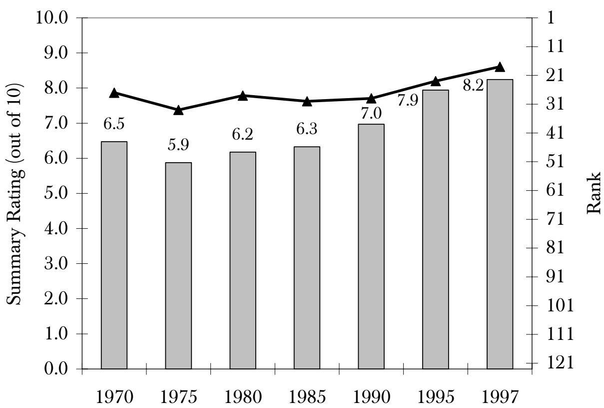
Korea is well known for its economic growth. However, for a sustainable future development, the Korean government must deregulate the density and supremacy of affiliated trusts (Chaebol) in order to foster flexibility, competition, and efficient allocation of investments.

For the last several decades, governmental consumption and spending on transfers and subsidies have been increasing but remain within a modest range. Particular strengths are the monetary policy, freedom to use alternative currencies and a well-established legal structure. The credibility of its monetary policies has been improved through curbing annual money growth and reducing inflation.

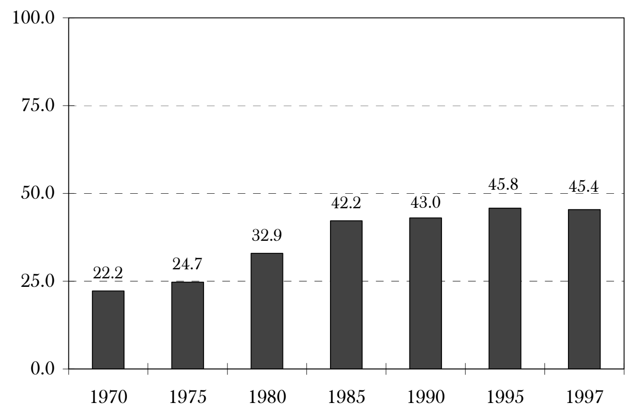
Korea has a large functional foreign-trade sector but there is a relatively high Mean Tariff Rate. The standard deviation of tariff rates indicates a prevailing protectionism toward domestic industries. In the recent decades there have been no significant efforts to liberalize the banking sector. Like Japan, private savings held as deposits in government-owned financial institutions are very large.

Spain

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



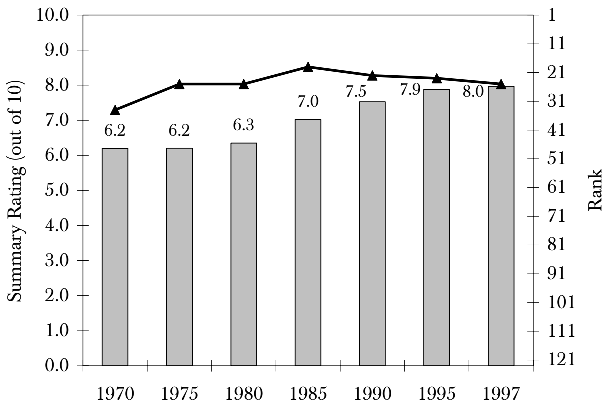
Spain improved its performance steadily during the last decades and the 8.2 rating places it at 18th place, the best that it has yet attained. This is a fairly sound improvement over its 29th ranking in 1990 .

Spain's strengths are international exchange, a fully convertible currency, its legal structure and its monetary policy. Since 1985, the monetary authorities have successfully moved the inflation rate down to 2.1 percent. Obviously, the Maastricht-criteria for accession to the EMU were partly the reason for this. The citizens are not subject to restrictions infringing their right to own foreign currencies domestically and abroad. There is a well-established, trustworthy legal structure providing support for economic development. Spain's foreign-trade sector could be expanded and is almost completely liberalized.

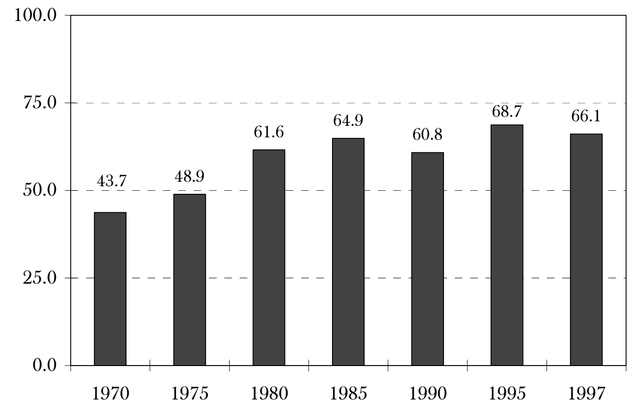
Transfers and subsidies, as well as government consumption, still remain high. Moreover, during the recent decades there has been a tendency towards the expansion of total government consumption. Signs of liberalization of government enterprises and price controls are hard to find and point to an obvious area for improvement.

SWEDEN

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



The Swedish figures have been fairly stable over time, varying from a summary rating of 6.2 in 1970 to a rating of 8.0 most recently. Sweden's ranking consequently has not changed much either: 34^{th} in 1970 and 25^{th} in 1997. Two trends are discernable: the variables associated with Area I, Size of Government, and Area II, Structure of the Economy and Use of Markets, have received lower scores, while the variables in Area VI, International Exchange, and Area VII, Freedom of Exchange in Capital and Financial Markets, have improved.

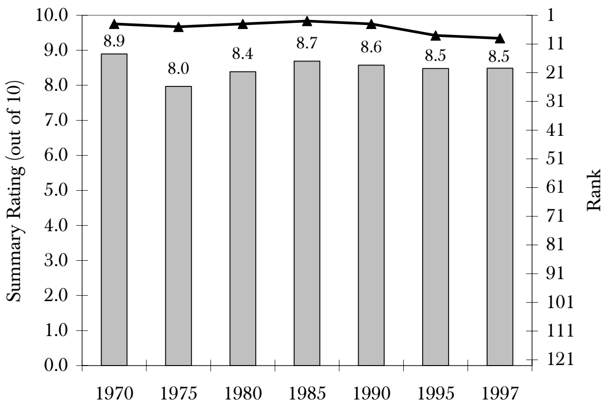
It is in the two first areas that the main problems can be found. The Swedish government has continued to expand and to increase the level of taxation, especially since 1970, which has caused long-term economic growth to slow down and economic freedom to be curtailed. The Swedish welfare state consumes over one third of the total consumption of the nation and redistributes another third.

Two important markets that are not included in the index at present, the labour and housing markets, represent some of Sweden's biggest challenges. The former is plagued by a compressed wage structure and rigid laws regulating hiring and firing decisions, which have resulted in high unemployment. The housing market is likewise highly regulated, with price ceilings, subsidies, poor competition, building requirements, and so on. Were these to be included in the index, Sweden's freedom score would surely drop. Even so, Sweden is near the bottom of the industrialized European nations in terms of economic liberty.

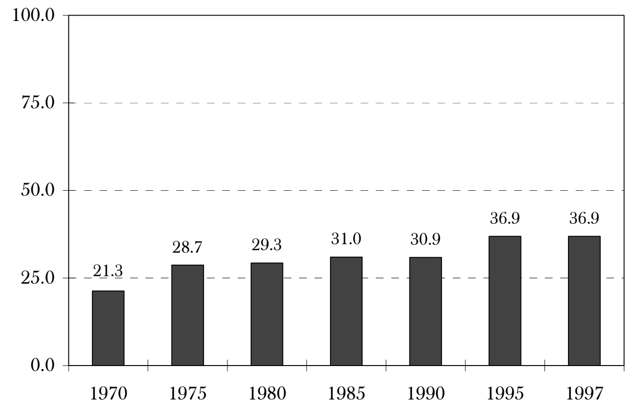
It is hard to say if substantial structural reforms are forthcoming. Many economists advocate them; certain influential interest groups oppose them. Reality, however, may force some liberal reforms to be implemented, which would prove beneficial for both economic freedom and the functioning of the economy.

SWITZERLAND

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Switzerland's 8.5 rating places it 9th in our 1997 index. Switzerland has sustained its high position during the past decades and has never been ranked below 10th position.

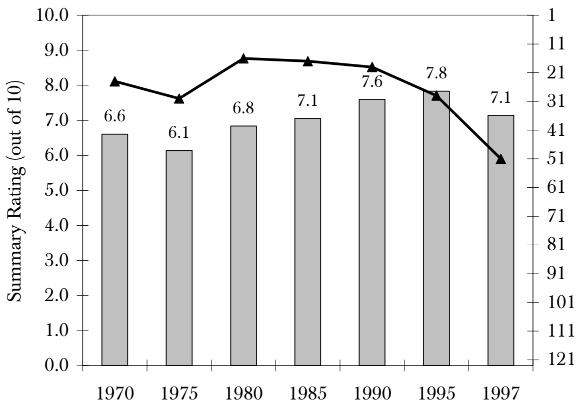
The characteristics of the Swiss economy are its credible and stable monetary regime and well-established legal structure (note the almost perfect rating in that area). Further, a free foreign-trade sector–in the last two years nearly all taxes on international trade were abandoned–as well as the freedom of owning foreign currencies and the small number of government enterprises are positive attributes.

Like its highly developed neighbouring countries, both government consumption and transfers are high. Switzerland's practice of military conscription, famous around the world, hurts its rating. Also, despite being a world center for banking, a large percentage of deposits are held in government-owned banks.

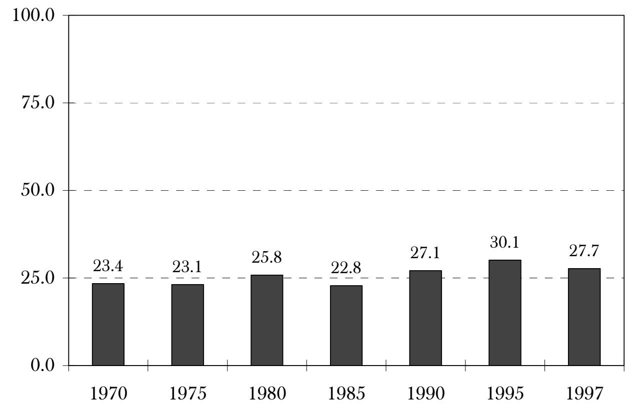
While the growth rate of real GDP has been meagre–an average of 0.4 percent annually between 1990 and 1997–the Swiss economy remains one of the most free in Europe.

TAIWAN

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



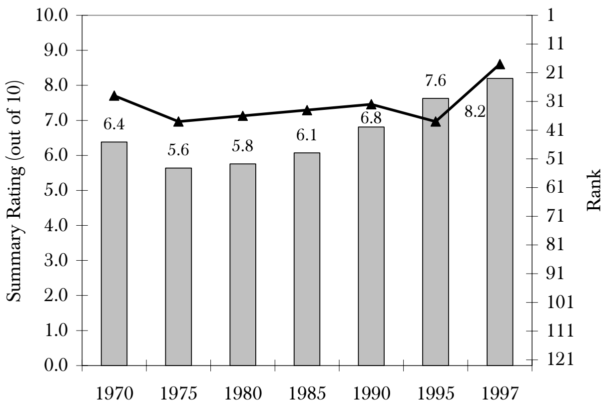
Taiwan's rating has hovered in the low to middle 7s since the 1980s. The 1997 rating of 7.1, however, has not kept pace with other countries and, as a consequence, Taiwan has fallen to 51st place.

Taiwan does a good job in most areas but in two areas significant problems remain. Heavy use of government-owned enterprises, price controls, and conscription generate a very low 3.1 rating in Area II, Structure of the Economy and Use of Markets. Widespread government ownership of banks and capital-account restrictions contribute to a 5.5 rating in Area VII, Freedom of Exchange in Capital and Financial Markets.

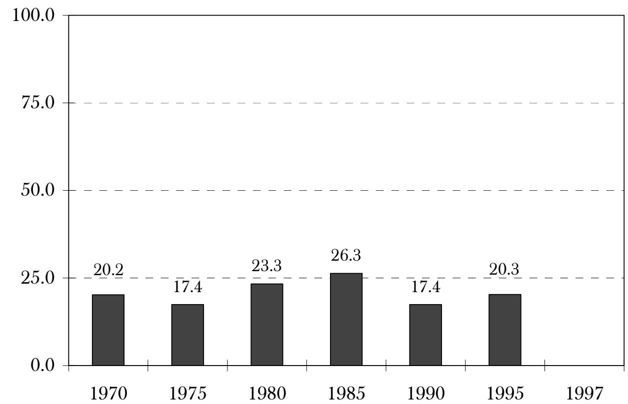
Taiwan could easily move its ranking into the top 20 or higher by privatizing public-sector firms and deregulating prices.

THAILAND

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Thailand is on the path to improved economic freedom. In 1975, the economic freedom rating of Thailand was only 5.6 but, in 1997, had improved to 8.2, pushing Thailand to the 18th rank. The continual improvement in economic freedom from 1985 to 1997 can be attributed to the following factors.

(1) Government transfer and subsidies have long been relatively low compared with the gross domestic product.

(2) The role of state enterprises has been reduced. The rating in this category rose to 7 in 1997, up from 4 in 1985. The decreasing role of state enterprises in the 1990s can be attributed to the government's privatizing plan in the 1980s. In addition, the latest financial rescue package from the IMF also requires Thailand to privatize key state enterprises, such as the Transportation Company and the Telephone Organisation of Thailand, to name a few.

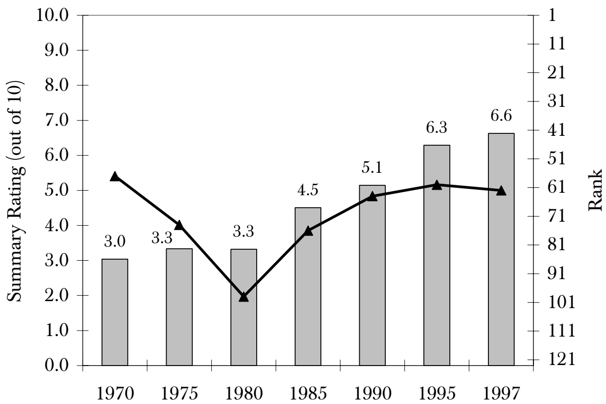
(3) The price level in Thailand, as measured by the standard deviation of the inflation rate, is relatively stable and Thai residents may now freely hold foreign-currency bank accounts, which was not allowed in 1975.

(4) Thailand's tariffs are declining although they remain high.

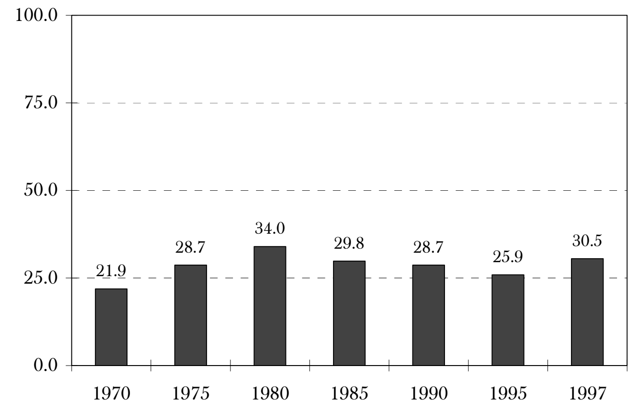
Although Thailand has improved economic freedom in certain areas, the country still faces several challenges to become an economically free country. The government uses a 24-month conscription to obtain military personnel. Prices of certain products remain under the government's control: in 1997, the government still formally controlled the prices of gas and sugar, setting the "maximum" price for gas and the "minimum" price for sugar. For approximately 22 basic consumption products, it oversees the price administration system, which accounts for the rating of 5 in the price-control component. Residents of Thailand are not totally free to engage in capital transactions with foreigners. If Thailand's rating is to improve, it must remove controls on capital transactions, strengthen the rule of law, streamline its tariff structure and reduce price controls.

TURKEY

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



Turkey's most recent rating of 6.6 places it 62nd out of the 123 countries rated. This represents some considerable improvement from the 3.0 rating and dead-last placement in 1970.

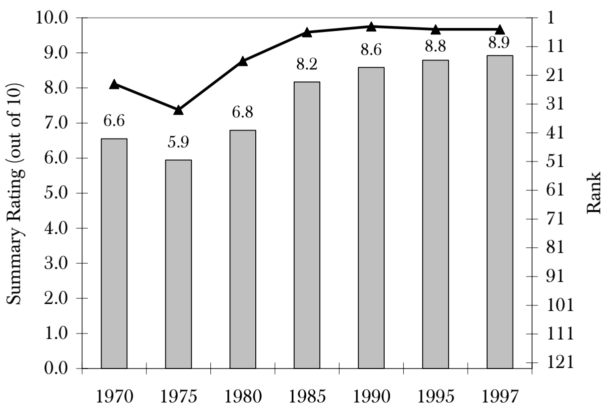
Turkey's biggest problem is in the monetary area, for which it received a rating of just 1.6. The situation seems to be getting worse on this front. The inflation rate was 65 percent in August 1999, and the interest rate on government bonds has risen to nearly 100 percent. Other problems include state-owned enterprises, price controls, and military conscription. Privatization efforts have been stymied by trade unions and other interest groups.

Political freedoms are even less protected than economic freedoms. Liberals are either sacked from their jobs if they are journalists or harassed if they are government officials. Still, freedom of thought was improved during the recent election and development of relations with the EU has brought about a better climate.

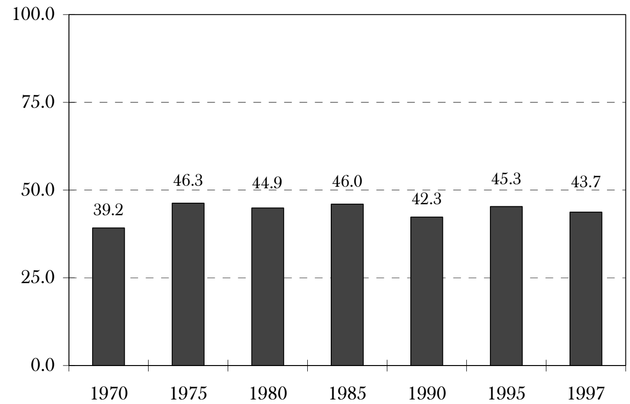
The tax reform in 1998 tried to increase the tax burden but decrease marginal tax rates. But Turkey ended up with an economic crisis: GDP fell 5.8 percent in the last six months of 1999. The tragic earthquake has only made matters worse.

UNITED KINGDOM

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



The United Kingdom is now one of the freest economies in the world, following the policy changes brought about by Margaret Thatcher's government. In 1980, the United Kingdom ranked 16th but has now risen to 5th place. The principal reasons for this improvement have been greater monetary and price stability, removal of exchange controls, a substantial privatization program and sharply reduced top marginal personal tax rates (from 83 percent in 1980 to 40 percent at present).

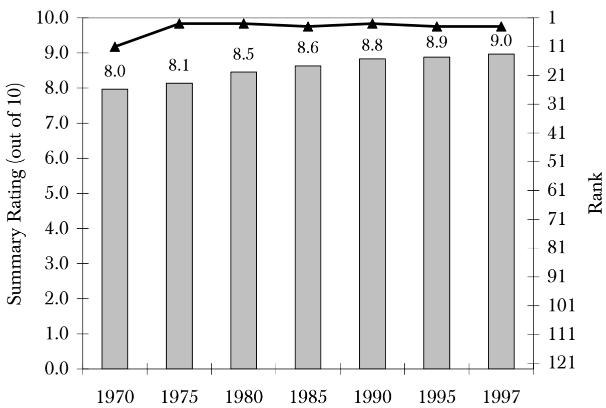
In several respects, trends in the United Kingdom have been different from those in continental Europe. Government expenditures as a proportion of GDP have changed little whereas they have increased in other major European countries. Government transfers and subsidies as a proportion of GDP have also remained fairly stable instead of increasing. The British labour market is less regulated than most Continental markets and in recent years unemployment has been significantly lower than in those countries.

The "New Labour" government, elected in 1997, has emphasized monetary stability and a prudent fiscal policy and has given the Bank of England operational independence to pursue an inflation target of 2½ percent each year. After six years of economic growth, the economy slowed in 1998 but growth now appears to have resumed.

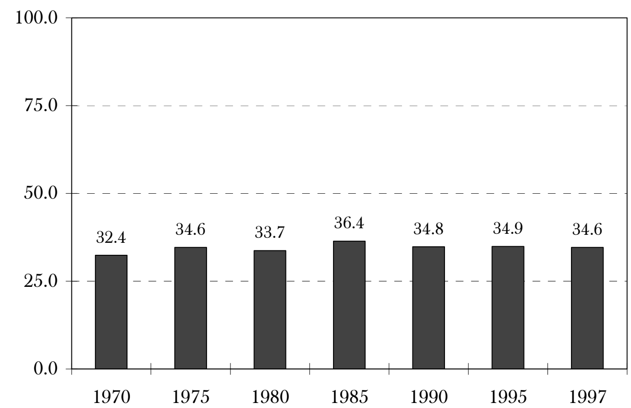
There are still some serious economic problems to be overcome in the United Kingdom. The government sector is large and regulation is extensive. The new government has imposed a minimum wage, agreed to the European Union's working time and other "social" regulations that the previous government would not accept. The mobility of labour is also reduced by the large "public" housing sector and the presence of controls, taxes, and subsidies in the housing market. The big issues to be tackled if economic freedom is to increase are fundamental reform of the "welfare state" and a radical attack on regulation to reduce the power of the government.

UNITED STATES

Economic Freedom Rating (bar) and Rank (line)



Total Government Expenditure as a Percentage of GDP



The economic freedom rating of the United States has remained remarkably consistent over the last three decades. The 8.0 rating of 1970 was good for 11th place but the United States has held the 3rd or 4th position ever since. Its 1997 rating of 9.0 earned the United States 4th place. Whatever improvement the index captures reflects a much improved monetary regime. The rating for Area III, Monetary Policy and Price Stability, went from 3.4 in 1970 to 9.8 in 1997. The fiscal size of government has grown only modestly over the years and has actually fallen slightly in the 1990s. Most of all, the United States deserves credit for not increasing the size of government as so many high-income industrial nations have done.

The greatest threats to economic liberty in the United States are in areas that the index does not capture well. For instance, there have been several minimum-wage increases in the last few years. The regulation of the labour market through anti-discrimination laws (for example, the American's with Disabilities Act) has become burdensome as well. Health-care regulations, especially price controls in the Medicare and Medicaid programs, are also a great concern.

Although little gain can been seen in the budget figures, welfare reform has been a success. Literally millions of people have been moved off the social welfare rolls into the job market without the dire consequences so many predicted.

Protectionist and other anti-foreign (especially anti-immigrant) sentiment appear to be on the rise. This has delayed attempts to bring Chile and other Latin American nations into the North American Free Trade Agreement. Indeed the United States' rating in Area VI, International Exchange, has recently fallen to 7.8 from 8.4 in 1980.

Also, despite leading the wave in cutting marginal income taxes that swept the world beginning in the 1980s, the top marginal tax rate has crept up to 39.6 percent at the federal level (and additional state and local income taxes usually apply). Thus the United States' rating for that component is just 7.0.

For the United States to maintain its top-five status, it must refrain from adding burdensome labour and environmental regulations and it must move to privatize social security. Maintaining its leadership in the international arena over freer trade and fundamental tax reform are also critical to future economic freedom and prosperity.

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The Hong Kong government has indeed taken a more active role in the economy. The widened scope of policy initiatives may only be a cyclical phenomenon. When the economy starts to grow again, the government can then afford to have more faith in the market mechanism and to revert to its "positive non-intervention" principle. This will bode well for long term continuation of Hong Kong's economic freedom.

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The transition towards a free economy has not been smooth. Although the freedom of choice keeps increasing, low incomes limit the actual options available to individuals. But GDP in 1998 exceeded the 1989 level, so Hungary is the second country in the region—after Poland—that exceeded the pre-transformation GDP level in real terms. Now the country is on a sustainable growth path with a projected annual rate of growth of 4 percent to 5 percent for the coming years.