

BOOK REVIEW

Title: **INDEX OF ECONOMIC FREEDOM**, 24th Edition

Year: 2018, Page: 492

Published by: The Heritage Foundation 214 Massachusetts Ave., N E Washington, DC 20002

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Retrieved from: http://www.iberglobal.com/files/2018/heritage_2018.pdf.

INTRODUCTION

The Index of Economic Freedom 2018 is a scholarly book that yields a complete assessment of economic freedom. Contents of the book are divided into four chapter. First chapter includes Economic Freedom: Policies for Prosperity. The second chapter is on the theme Societies Thrive as Economic Freedom Grows. The third chapter presents the Regional Developments in Economic Freedom. The final chapter four analyzes the Countries data with the inclusion of many macroeconomic variables.

The characteristics of economic freedom were estimated relating a country's relations wit the rest of the world with the extent of an economy's openness to global investment and trade. The book focusses on policies within a country, assessing the liberty of individuals to use their labor and finances without excessive check and government delay. Each of the measured aspects of economic freedom plays a vital role in promoting and sustaining personal and national prosperity.

The objectives of the 24th edition of the Index of Economic Freedom, is to explore many critical aspects of the relationships between individuals and governments with focus on a comprehensive yet far from exhaustive range of policy areas in which governments typically act, for good or ill. Also the authors aim to provide as true a picture as possible of the state of economic freedom around the world.

DATA AND METHODOLOGY

The 24th edition of the book analyzes the freedom index on economic policy developments in 186 countries. Countries are graded and ranked on 12 measures of economic freedom that evaluate the rule of law, government size, regulatory efficiency, and the openness of markets. For analytic purposes data covered the second half of 2016 through the first half of 2017. To the extent possible, the information considered

for each variable was current as of June 30, 2017. The monetary freedom component used a three-year weighted average rate of inflation from January 1, 2014, through December 31, 2016. Economic and demographic indicators were selected as follow: purchasing power parity (PPP), Population, GDP, GDP growth rate, GDP five-year average annual growth, GDP per capita, Unemployment rate, Inflation, Foreign direct investment (FDI), inward flow, and debt. Data were collected from sources like International Monetary Fund, World Economic Outlook Database, country's statistical agency and central bank, World Bank, World Development Indicators Online, Economist Intelligence Unit, Data Tool; Asian Development Bank, Asian Development Outlook, and World Investment Report.

In assessing conditions in these four categories, the Index measures 12 specific components of economic freedom, each of which is graded on a scale from 0 to 100. Scores on these 12 components of economic freedom, are calculated from a number of sub-variables, and are equally weighted and averaged to produce an overall economic freedom score for each economy. The different sections provided detailed descriptions of the formulas and methodology used to compute the scores for each of the 12 components of economic freedom.

To measure the economic freedom 2018 ranking scale (in score) of economic freedom was used. The scale was between 0 and 100. Economic Freedom Scores 100 means totally free; 80 to 99.9 Free, 70 to 79.9 Mostly Free, 60 to 69.9 Moderately Free, 50 to 59.9 Mostly Unfree and 0 to 49.9 Repressed. There were twelve aspects divided into four categories.

The first category was, Rule of law for Property rights. It was divided into the five sub-factors: physical property rights, intellectual property rights, strength of investor protection, risk of expropriation and quality of land administration. Each of these sub-factors was derived from numerical data sets that are normalized for comparative purposes using the following equation:

$$\text{Sub-factor Score } i = 100 \times (\text{Sub-factorMax} - \text{Sub-factor } i) / (\text{Sub-factorMax} - \text{Sub-factorMin})$$

The second category was Judicial effectiveness of the nation. This was divided into three sub-factors: judicial independence, quality of the judicial process, likelihood of obtaining favorable judicial decisions. The sub-factors were derived from numerical data sets that are normalized for comparative purposes using the following equation:

$$\text{Sub-factor Score } i = 100 \times (\text{Sub-factorMax} - \text{Sub-factor } i) / (\text{Sub-factorMax} - \text{Sub-factorMin})$$

The third category was Government integrity. In this section data was analyzed on how prevalent are forms of political corruption and practices such

as bribery, extortion, nepotism, cronyism, patronage, embezzlement, and graft. The category was divided into six different sub-factors: public trust in politicians, irregular payments and bribes, transparency of government policy making, absence of corruption, perceptions of corruption, governmental and civil service transparency and the equation was as follow:

$$\text{Sub-factor Score } i = 100 \times (\text{Sub-factorMax} - \text{Sub-factor}_i) / (\text{Sub-factorMax} - \text{Sub-factorMin})$$

Next category was the Government size including Tax burden of marginal rate of taxation personal and corporate income, direct and indirect tax. Its sub-factors were: top marginal tax rate on individual income, top marginal tax rate on corporate income, total tax burden as a percentage of GDP. The data for each sub-factor are converted to a 100-point scale using the following equation:

$$\text{Tax Burden}_{ij} = 100 - \alpha (\text{Factor}_{ij})^2$$

Government spending was another category to quantify the burden of government expenditures, including consumption by the state and all transfer payments related to various entitlement programs. The equation used for computing a country's government spending score was:

$$GE_i = 100 - \alpha (\text{Expenditures}_i)^2$$

Fiscal health this analyzed to reveal how well a country manages its budget by quantifying the growing debt and deficit. It was divided into the following sub-factors: average deficits as a percentage of GDP for the most recent three years, debt as a percentage of GDP. The equation used for computing a country's fiscal health score was:

$$\text{Sub-factor Score}_i = 100 - \alpha (\text{Sub-factor}_i)^2$$

Regulatory efficiency of Business freedom analyzes the cost, time and freedom to open, operate and close a business, taking into consideration factors like electricity. It is divided into thirteen sub-factors: starting a business, starting a business—time (days); starting a business—cost (% of income per capita); starting a business—minimum capital (% of income per capita); obtaining a license—procedures (number); obtaining a license—time (days); obtaining a license—cost (% of income per capita); closing a business—time (years); closing a business—cost (% of estate); closing a business—recovery rate (cents on the dollar); getting electricity—procedures (number); getting electricity—time (days); and getting electricity—cost (% of income per capita). Each sub-factor was converted to a scale of 0 to 100 using the following equation:

$$\text{Sub-factor Score}_i = 50 \times (\text{Sub-factor}_{\text{average}} / \text{Sub-factor}_i)$$

In freedom of Labor its quantifies the intrusiveness of labor rights such as minimum wage, laws inhibiting layoffs, severance requirements, and measurable regulatory restraints on hiring and hours worked, plus the labor force participation rate as an indicative measure of employment opportunities in the labor market. It is divided into the following sub-factors: ratio of minimum wage to the average value added per worker, hindrance to hiring additional workers, rigidity of hours, difficulty of firing redundant employees, legally mandated notice period, mandatory severance pays, and labor force participation rate. In constructing the labor freedom score, each of the seven sub-factors is converted to a scale of 0 to 100 based on the following equation:

$$\text{Sub-factor Score}_i = 50 \times (\text{Sub-factor average} / \text{Sub-factor}_i)$$

Authors analyse how stable are prices and how much microeconomy intervenes are in Monetary freedom. It is divided into the following sub-factors: weighted average inflation rate for the most recent three years, price controls. The two equations used to convert inflation rates into the final monetary freedom score are:

$$\text{Weighted Avg. Inflation}_i = \theta_1 \text{Inflation}_i + \theta_2 \text{Inflation}_{i-1} + \theta_3 \text{Inflation}_{i-2}$$

$$\text{Monetary Freedom}_i = 100 - \alpha \sqrt{\text{Weighted Avg. Inflation}_i - \text{PC penalty}_i}$$

Market openness for trade freedom quantifies the extent to which tariff and nontariff barriers affect imports and exports of goods and services into and out of the country. Its sub-factors are: trade-weighted average tariff rate, and nontariff barriers (NTBs). Weighted average tariffs are a purely quantitative measure and account for the calculation of the base trade freedom score using the following equation:

$$\text{Trade Freedom}_i = 100(\text{Tariffmax} - \text{Tariff}_i) / (\text{Tariffmax} - \text{Tariffmin}) - \text{NTBi}$$

Investment freedom analyzes how free or constrained is the flow of investment capital of individuals and firms. This aspect looks at five broad areas: extent of government regulation of financial services, degree of state intervention in banks and other financial firms through direct and indirect ownership, government influence on the allocation of credit, extent of financial and capital market development and openness to foreign competition.

KEY FINDINGS OF THE 2018 INDEX

The 24th edition, of the Index of economic freedom analyzed economic policy developments in 186 countries. Authors grade and rank countries on 12 measures of economic freedom that evaluate the rule of law, government size, regulatory efficiency, and the openness of markets. The profile of global economic freedom of selected countries is presented in Table 1.

Table 1: Index of Economic Freedom 2018 World Rankings

World Rank	Country	Overall Score	Change from 2017	Property Rights	Judicial Effectiveness	Government Integrity	Tax Burden	Government Spending	Fiscal Health	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
1	Hong Kong	90.2	0.4	92.5	84.3	82.8	93.1	90.2	100	96.3	89.4	83.3	90	90	90
2	Singapore	88.8	0.2	98.4	90.9	91.2	90.4	90.6	80	90.9	92.6	85.2	90	85	80
3	New Zealand	84.2	0.5	95.1	88.4	95.7	70.5	49.5	98.3	91.5	84.4	90	87.4	80	80
4	Switzerland	81.7	0.2	84.2	82.1	82.8	70.5	65.4	95.9	75.7	73.9	85.2	90	85	90
5	Australia	80.9	-0.1	78.7	93.4	77.4	63.0	61.2	84.3	89.1	79.7	84.4	86.2	80	90
7	Estonia	78.8	-0.3	80.4	83.9	75.7	80.7	52.6	99.8	75.6	54.8	85.1	86.9	90	80
8	UK	78	1.6	92.2	93.8	79	65.2	44.4	53.5	91.1	74.4	85.2	86.9	90	80
9	Canada	77.7	-0.8	87.5	77.1	78.3	76.7	52.3	81.2	81.8	71.3	77.5	88.1	80	80
10	UAE	77.6	0.7	76.3	83.4	77.3	93.4	70.9	99	79.9	81.1	80.2	88.3	40	60
11	Iceland	77	2.6	87.7	72.6	77.3	72.1	44.2	94.3	89.5	61.8	81.7	88.5	85	70
35	Botswana	69.9	-0.2	57.7	54.7	56.6	76.1	63.4	98.2	69.5	64.6	79	83.9	65	70
37	Romania	69.4	-0.3	61	59.7	40	87.3	66.6	91.1	62.2	66.8	82.8	86.9	75	50
87	Bhutan	61.8	3.4	60.9	51.6	50.9	83	72.2	80	72.5	75.7	70.5	74.4	20	30
111	Sri Lanka	57.8	0.4	46.5	52	30.7	84.9	89.3	24.3	76.2	60.1	74	74.5	40	40
128	Bangladesh	55.1	0.1	32.4	32.6	21.2	72.7	94.2	78.9	52.1	66.4	69	61.2	50	30
130	India	54.5	1.9	55.4	54.3	47.2	79.4	77.7	13.2	56.4	41.8	75.9	72.4	40	40
131	Pakistan	54.4	1.6	36	34	27.3	78.5	88.2	54	55.3	40.6	77.7	65.9	55	40
133	Nepal	54.1	-1.0	37.5	36.2	34.6	84.2	87.6	98.5	64.9	43.5	65.8	66.6	10	30
161	Sudan	49.4	0.6	27.8	21.4	21.2	85.9	95.3	87.2	52.3	58.8	62.2	56.1	5	20
174	Zimbabwe	44	0.6	27	33	18.9	61.1	72	59.1	37.1	38.8	76.9	69.1	25	10
179	Venezuela	25.2	-1.8	5.2	13.8	7.5	72.5	57.3	18.4	35.4	24.2	00	58.7	0	10

Source: Index of Economic Freedom, 24th Edition, The Heritage Foundation, 2018.

According to the statistical results economic freedom has taken an upturn in the majority of world economies. The global average economic freedom score of 61.1 is the highest ever recorded in the 24-year recorded of the Index. Hundred and eighty economies graded in the 2018 Index, the scores of 102 economies are better, the scores of 75 are worse, and the scores of three are unchanged. Six countries had sustained very high economic freedom scores of 80 or more, putting them in the ranks of the economically “free.”

Twenty-eight countries have been rated as “mostly free” economies, recording scores between 70 and 80. With scores of 60 to 70; 62 countries have earned scores that place them in the “moderately free” category. The total of 96 countries were economies more than half of all nations and territories graded in the 2018 Index provide institutional environments in which individuals and private enterprises benefit from at least a moderate degree of economic freedom in the search of greater economic development and prosperity.

The half of the countries graded in the Index⁸⁴ economies have registered economic freedom scores below 60. Of those, 63 have economies that are considered “mostly unfree”, their score is 50–60, and in 21 economies in which most aspects of economic freedom are “repressed” is less than 50. The Average of economic freedom vary widely among the five regions of the world. Europeans on average like the highest levels of economic freedom with an average score of 68.8, far higher than the 2018 Index of Economic Freedom world average of 61.1. The Middle East/ North Africa, Asia Pacific, and American regions have overall economic scores near the world average at 61.5, 61.0, and 60.1, respectively, while the Sub-Saharan Africa region falls significantly short at only 54.4.

Economies rated “free” or “mostly free” in the 2018 Index experience incomes that are more than twice the average levels in all other countries and more than five times higher than the incomes of “repressed” economies. Economic freedom is closely related to openness and limited government, advancing entrepreneurial activity. Given this relationship, it should be obvious that a government’s most effective stimulus activity is not to increase its own spending or putting in place more layers of regulation, both of which reduce economic freedom. The best results are often achieved instead through policy reforms that limit the size of government and create greater economic dynamism in the private sector. There is a strong relationship between improvements in economic freedom and levels of economic growth per capita. Whether long-term (20 years), medium-term (10 years), or short-term (5 years), the relationship between positive changes in economic freedom and rates of economic growth is consistent. This relationship holds over all levels of development.

Improvements in economic freedom are a vital determinant of whether or not countries will achieve rates of economic growth sufficient to reduce poverty. As the global economy has moved toward greater economic freedom over the life of the Index, the world economy has nearly doubled in size. This progress has lifted hundreds of millions of people out of poverty and cut the global poverty rate in half. The link between economic freedom and overall human development is clear and strong. People in economically free societies live longer, have better health, are able

to be better guardians of the environment, and push forward the frontiers of human achievement in science and technology through greater innovation.

Economically freer countries that open their societies to new ideas, products, and innovations have largely achieved high levels of social progress. It is not massive redistributions of wealth or government dictates that produce the most positive social outcomes. Instead, mobility and progress require lower barriers to market entry, freedom to engage with the world, and less government interference.

In the analysis of individual nations in Economic Freedom Index 2018, the score for Nepal is 54.1, which is 133rd freest country in the 2018 Index (p.310). Overall score for Nepal is decreased by 1.0 point, with improvements in judicial effectiveness and property rights outweighed by declines in monetary freedom and labor freedom. Nepal is ranked 32nd among 43 countries in the Asia–Pacific region, and its overall score is below the regional and world averages. Nepal is MOSTLY UNFREE of economic freedom in 2018. There was a fundamental lack of entrepreneurial dynamism in landlocked and isolated Nepal that blocks economic growth and long-term development. Although the government signed a trade and investment deal with India to increase Nepal's hydropower potential, foreign investment has been hampered by political uncertainty, a history of statism, and a difficult business climate. Lack of transparency, cronyism, and a burdensome approval process are other impediments. Property rights are undermined by an inefficient judicial system that is subject to substantial corruption and political influence.

According to economic freedom 2018 (p.311) Laws and regulations regarding property registration, ownership, and transfer are unclear. Property disputes account for half of the current backlog in Nepal's overburdened court system, and it can take years to settle a case. The law provides for an independent judiciary but courts remain vulnerable to political pressure, bribery, and intimidation. Government officials and police may engage in corrupt practices with impunity. The top individual income and corporate tax rates were 25 percent. Other taxes include value-added and property taxes. The overall tax burden equals 18.3 percent of total domestic income. Over the past three years, government spending has amounted to 20.3 percent of total output (GDP), and budget surpluses had averaged 1.2 percent of GDP. Public debt was equivalent to 27.3 percent of GDP.

Trade is significant for Nepal's economy; the combined value of exports and imports equals 50 percent of GDP. The average applied tariff rate was 11.7 percent. Nontariff barriers hamper some trade. The regulatory system acts as a barrier to foreign investment. Several state-owned enterprises distort the economy. The financial sector

remains fragmented, and government ownership and influence in the allocation of credit remain considerable.

CONCLUSION

The book *Economic Freedom* explains extraordinarily of free-market capitalist system, the system growth was well documented in the Index of Economic Freedom. The book provides people around the world with the opportunity to live a self-directed life with the self-respect and satisfaction which come from the ability to provide for themselves and those they love, while seeing their incomes and opportunities grow. According to the book if entrepreneurial private sector is capable to producing the growth and prosperity demanded dynamically by people today the government command-and-control economics simply can't do it.

The report was co-published by the Cato Institute, the Fraser Institute in Canada and more than 70 think tanks around the world. The book follows the path of Adam Smith, Milton Friedman, and Friedrich Hayek who emphasized freedom of exchange and market coordination provide the fuel for economic progress. Without exchange and entrepreneurial activity coordinated through markets, modern living standards would be impossible.

In-depth analysis of every aspect of economic freedom of individual nations with the use of mixed method for data analysis, is strongest part of the book. It identifies more variables and their sub-category definition is also the significant aspect of the book. The most important contribution of the book is the emphasis for countries to participate to improve their scores and transfer their ranking up. Countries that improved economic policy that boost economic freedom have empowered hundreds of millions to escape from poverty.

There seems many positive and strong argument in the book but there are some limitations and it fails to explain some important aspects. Economic freedom is a positive measurement and question is raised on what about value judgement? Some statistical figure is presented to compare economic freedom data with happiness data.

Table 2: Index of Economic Freedom 2018 and Ranking of Happiness

World Rank	Country	Overall Score	GDP Per Capita \$	PPP	GDP Growth (%)	GNI INDEX	Poverty Rate (%)	Life Expectancy	Ranking of Happiness 2016-2018
1	Hong Kong	90.0	48231	64794	3.77	NA	NA	84.63	5.43
5	Australia	80.9	56698	52363	3.24	33.20	12.80	83.20	7.22
8	UK	78.0	42261	45643	1.35	32.80	10.90	81.15	7.05
9	Canada	77.7	46733	49936	2.06	31.20	12.60	82.22	7.27
14	Luxembourg	76.4	113954	109199	4.00	28.40	8.10	82.00	7.09
18	USA	75.7	62518	62518	2.88	37.80	16.80	78.81	6.89
30	Japan	72.3	40106	44550	1.13	29.90	16.10	84.43	5.88
71	France	63.9	42931	45601	1.50	29.90	8.20	82.46	6.59
107	Russia	58.2	10950	29032	2.76	43.90	0.30	72.29	5.65
110	China	57.8	9633	18120	6.59	51.00	12.10	76.62	5.20
111	Sri Lanka	57.8	4265	64794	3.74	51.40	16.10	76.33	4.36
128	Bangladesh	55.1	1736	4598	7.34	39.50	59.20	72.15	4.45
130	India	54.5	2019	7796	7.30	47.90	60.40	69.27	4.00
131	Pakistan	54.4	1527	5714	5.79	36.20	39.70	67.20	6.53
133	Nepal	54.1	971	2902	6.29	39.50	50.90	70.31	4.91
179	Venezuela	25.2	3300	10968	-18.00	NA	NA	72.13	4.70

Source: International Monetary Fund World Economic Outlook (October-2018), World Happiness Report 2019, World Development Report. World Economic Forum's Inclusive Development Index, 2018.

Editors: John F. Helliwell, Richard Layard, and Jeffrey D. Sachs Associate Editors: Jan-Emmanuel De Neve, Haifang Huang, Shun Wang, and Lara B. Akinin.

The World Happiness Report was written by a group of independent experts. The World Happiness Report was an innovation survey of the state of global happiness that ranks 156 countries by how happy their citizens perceive themselves to be. The report was produced by the United Nations Sustainable Development Solutions Network in partnership with the Ernes to Illy Foundation. The question was asked to respondents to value their lives today on a 0 to 10 scale, with the worst possible life as a 0 and the best possible life as a 10. The value gave to compare happiness levels and inequality in different parts of the world. Population weighted average life evaluations differed significantly among regions, being highest score of Finland (7.769), Second highest Denmark (7.600) and third highest the Norway (7.554).The data indicate that they are the happiest people among the group of countries considered. But according to economic freedom 2018 Finland was the 26th country and the freedom score was 74.1.Likewise, Denmark was ranked 12 with 76.6 freedom score, and the Norway was ranked 23rd with economic freedom score of 74.3.

According to the data of economic freedom index Hong Kong was in the rank 1 of highest score of 90 points, but happiness reports the country's score was only 5.43. Likewise, France was with 71 economic free country and the score of the country was 63.9, but happiness index of the country was 6.59. This indicates that economic freedom in general does not mean the satisfaction of life of the people. The economic freedom rank of Nepal was 133 and its score was 54.1 only and the country is defined mostly unfree but the happiness score is 4.91 the score was higher than all south Asian countries. Another example is of Venezuela which was ranked 179 and freedom score was 25.2 defined as Repressed, but the happiness score was sufficiently high as many countries, the score was 4.7.

Comparing the data on economic freedom and per capita dollar income of the individual nations, Luxembourg's economy was in 14th rank in economic freedom but per capita dollar was 113954, life expectancy was 82 years and happiness ranking score was 7.09. The data was far better than Hong Kong. Likewise, Switzerland (per capita \$83,583), Norway (per capita \$82,372), Finland (per capita \$50,068), Denmark (per capita \$61,227), even United States of America (per capita \$62518) were greater than were ranked 10th countries. This indicates that indicators of economic freedom are not sufficient to measure the health of economy and length of life of the people and their happiness.

Nonetheless, the book explores the real situation of world statistics including their characters. Economic freedom rank shows that Nepal fell in MOSTLY UNFREE in the 2018 economic freedom index. Research identify the logic of poor ranking, its lack of transparency, cronyism, and a burdensome approval process, property rights are undermined by an inefficient judicial system that is subject to substantial corruption and political influence. The statistics can help to correct the causes of unfair and take a step to fair.

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