



Think tanks measure global economic freedom ... the U.S. declines

By Dr. Alejandro Chafuen

October 16, 2013

The significant efforts in recent years to measure economic freedom did not come from universities. They came from think tanks. These efforts are a powerful proof that think tanks are an essential institution in civil society. More than that, the “freedom truths” they affirm are vital for the world and the United States. This is crucial information that we all need to know.

The two main efforts to document the benefits of economic freedom have been led by think tanks—namely, the Fraser Institute and Heritage Foundation.

For most of its indices, Fraser Institute relied on the expertise of James Gwartney and Bob Lawson. Gwartney is a past president of the Southern Economic Association and former chief economist of the Joint Economic Committee of the U.S. Congress. Lawson holds the Jerome M. Fullinwider Endowed Centennial Chair in Economic Freedom, at the Southern Methodist University, in Dallas, Texas. The new edition of the Fraser Institute’s report, released just last week, also included Joshua Hall (West Virginia University) and scholars from Austria, Germany and Spain. They spearheaded an effort with economists at Fraser and at think tanks across the globe.

Another major effort has been the very influential work of the Heritage Foundation. Several economists collaborated to refine the economic-freedom index prepared by the Heritage Foundation. I personally followed with special interest the effort of Dr. Gerald O’Driscoll, currently a senior fellow at Cato Institute, who had experience as an academic (NYU), government (chief economist for the Dallas Fed), and banking (Citigroup). After his pass through Heritage, and the continued efforts of those who succeeded O’Driscoll, the methodology of the Heritage effort has achieved increased respect. Measurements in social sciences are never perfect and competition should continue to lead to improvements.

Measuring freedom is not perfect and not easy. Freedom House had been compiling a freedom index for some time, but it neglected its economic aspects. The Fraser Institute, in collaboration with the Indianapolis-based Liberty Fund, a private operating foundation, began to focus on the core question: Can we develop a definition of economic freedom that can be measured? Fraser’s motto is, “if it matters, measure it.” Obviously, the effort fit well with its mission. The early meetings attracted Milton Friedman and other talented economists. These high-level discussions

led to gradual progress and the development of a workable framework which is still the basis of the index.

The Heritage Foundation also got into the game of assessing economic liberties across the globe. It had a specific goal in mind: try to gauge if U.S. foreign aid had been of any help or if it had been squandered in socialist experiments and failed economic policies.

Despite the different methodologies used by Fraser and Heritage the results were quite similar. The first indices were released in the 1990s. They worked separately and still show a very high correlation. In 1997, when I first studied the results, the correlation between the indices of Fraser (Economic Freedom of the World, EFW) and Heritage was 0.86 (a 1.00 would mean a perfect match). Since then, many more countries were included in the sample. The most current figures, using the latest comparable indices, show a correlation of 0.79. This number correlates well with the top 10 countries in each index. Seven of the top countries in the EFW index are on the top 10 in the Heritage-Wall Street Journal index (HWSJ): Hong Kong, Singapore, New Zealand, Switzerland, Canada, Australia, and Bahrain. On the losing side, the 10 countries at the bottom of the rankings in this new Fraser Institute index also appear in the bottom 20 percent of the HWSJ index. The U.S. continues to decline in both measurements, scoring 77 out of 100 in the EFW (17th place), and 76 in the latest Heritage index (10th place).

Overall, the scores of the Fraser Institute show a world with more economic freedom (an approximate world average of 69 percent as compared to 62 percent with the HWSJ index). The major divergence between the scores of Fraser and HWSJ are caused by the prevalence of corruption across the globe. The countries that had over 10 points of difference had an average rate of transparency of three out of 10: highly corrupt. It is a possibility that corruption, like in Argentina, where government manipulates most prices and data, reduces the accuracy of the indices.

Those of us working at other think tanks and with our own areas of knowledge began using the indices to make comparisons with other trends. In my research, I focused on corruption and inequality. Others have focused on economic freedom and democracy, economic freedom and poverty, and other relevant issues. Some of these studies have been published by Fraser and Heritage. Using similar models, think tanks in Canada, the United States, Spain, and Argentina, have created indices to measure economic freedom within the regions and provinces of their countries. The Fraser Institute keeps track of most the scholarly and other relevant articles that have used and cited its index. The list is very large. It shows all the different aspects of an empirical science of economic freedom.

If we do not know where we are, it is hard to know how to get to our destination. These indices are getting better at showing us where we stand. Now they are being used to show us where to go: the Heritage Foundation recently released its 2013 Global Agenda for Economic Freedom. Based on what they learned from the index, researchers at Heritage's Center for International Trade and Economics divided the world in seven regions and made specific recommendations about how to move forward in each.

So far, the effort to measure economic freedom has placed think tanks ahead of universities. It

has also placed think tanks ahead of the for-profit sector. I forecast that for-profit companies and universities will develop competing and complementary measurements.

“If it matters, measure it.” If it really matters, let many measure it—and let the world learn it.

Derek Carter, an economics, mathematics and finance major at the University of Alabama, conducted research for this article.

Dr. Alejandro A. (Alex) Chafuen '84 is president of the Atlas Economic Research Foundation and a member of the board of advisors for The Center for Vision & Values at Grove City College. (The opinions expressed by the author are his own and do not necessarily reflect those of Grove City College, Atlas Economic Research Foundation, or their boards of trustees.)