

During and regulation  
of credit, labor, and  
business.



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During the Cold War, the clash of economic philosophy between Adam Smith's free market policies and Karl Marx's communist/socialist views led to debates on the topic of development and that economic growth is not the only criteria for a country's wellbeing. Economic development can be defined as the process of improving quality of life of all humans, including the promotion of freedom. Economic freedom is an important aspect of development as "(it) is based on the concept of self-ownership", meaning that individuals have the right to make their own choices and protected from violation of these rights (Gwartney et. al.

, 2017). The Economic Freedom of the World Index (EFW) measures the country's institutions and policies with economic freedom. In the following paragraphs I will summarize the first chapter of the 2017 EFW report and discuss the findings and quality of the index. The EFW measures the degree of economic freedom present in five major areas, size of government, legal system and property rights, sound money, freedom to trade internationally, and regulation of credit, labor, and business. Each area of measure consists of several components and sub-components within. The (sub)components are ranked on a scale from 0 to 10 and averaged to make up for the higher degree of order to derive the summary rating for each country.

The data used by the index are gathered from external sources such as the International Monetary Funds and World Bank that provide impartial data for a large number of countries. The 2017 report ranked a total of 159 countries and found the top three freest countries for 2015 are Hong Kong,

Singapore and New Zealand while the bottom three are Republic of Congo, Central African Rep., and lastly Venezuela (Gwartney et. al.

, 2017). The report had pointed out that growth rate per capita GDP of the developing countries have exceeded the high-income countries, as the EFW difference between high income industrial countries and developing countries has been decreased by 40% from 1980 to 2015, showing a clear sign of convergence. Gwartney et. al. attributed the cause of narrowing gap to the rapid improvements in areas of sound money and freedom of international trade in the developing countries (2017). The chapter concluded with graphs showing connections between economic freedom and numerous factors of economic development.

The connections suggest that countries with higher degree of economic freedom tend to have higher per capita GDP, growth, substantially lower extreme and moderate poverty rates and higher life expectancy. High EFW countries also have more political rights and civil liberty, with lesser gender inequality and greater happiness level.