

From the Editor

MIKE NAHAN

In August this year, 40,000 NGO activists will descend upon Johannesburg to attend the World Conference on Sustainable Development, ostensibly to discuss how to advance the wellbeing of people in developing nations.

Unfortunately, the Conference plans to condemn the very thing that offers the greatest hope: economic freedom.

As the *Economic Freedom of the World: 2002 Annual Report** and the growing body of associated research show, economic freedom—free trade, sound money, protection of property rights, limited government, and neutral and limited regulation—provides the most effective route from poverty and hopelessness.

The Report finds a strong and positive relationship between economic freedom and income, and between economic freedom and economic growth.

In 2000, the most economically free countries had an average per capita income of \$23,450 which is nearly twice the per capita income of the next highest group of countries. In contrast, the bottom group of countries in terms of economic freedom had an average per capita income of just \$2,556.

Economically-free countries also tend to grow faster. Over the 1990s, the freest group of countries grew at an average rate of 2.56 per cent per annum, while the least free nations—most of which were in Africa—were mired in depression with their economies shrinking by 0.85 per cent per year.

The relationship between economic freedom and economic growth is not a statistical illusion or spurious correlation. Indeed, it is statistically significant and robust.

The relationship between growth and economic freedom is not restricted to rich countries. Although developed countries dominate the ranks of 'the most free' countries, the largest gains in terms of growth have been achieved by countries which started poor such as



Hong Kong (now ranked 1st), Singapore (now ranked 2nd) and Chile (now ranked 15th). Ireland (ranked 7th this year) also started the 1990s as one of the poorest countries of Europe, but became the continent's tiger economy and ended the decade with a higher per capita income than France and the UK, thanks, in large part, to its adoption of free-market policies.

The message is also positive for poverty alleviation. First, research has found a significant negative statistical relationship between economic freedom and poverty. That is, the proportion of the population in poverty within a country is smaller the greater the level of economic freedom. Second, the Report finds that poor people are far better-off in countries with higher levels of freedom. For example, in 2000, the poorest people in the freest countries received, on average, US\$7,017 which was 70 per cent higher than the next freest group of countries and nearly 10 times the level of the least-free group of countries.

And it is not just about money. Economic freedom also has a strong positive impact on human development, with the levels of education, health and life expectancy rising strongly with more freedom. Interestingly, a recent study found that a 15 per cent increase in economic freedom (which was achieved across Africa in 2000) is expected to

yield a 16 per cent increase in access to safe drinking water—a key target for discussion in Johannesburg.

Importantly, economic freedom is also shown to be a powerful antidote to corruption, with levels of corruption falling sharply with an increased level of economic freedom. This really is no surprise, as economic freedom acts directly against the main source of corruption, which is the ability of bureaucrats and politicians to sell their unrestrained influence over government.

The poorest nations of the world have long accepted the Johannesburg mantra and have shunned economic freedom.

The Economic Freedom Report, however, finds evidence of a sea change, even in Africa. Since 1980, economic freedom has been on the rise worldwide. Since 1995, the average level of freedom across Africa has increased significantly, albeit from a low level. Indeed, Nigeria and Zambia—two of Africa's largest nations—displayed the largest increases in economic freedom across the world in 2000.

The importance of economic freedom is not being overlooked where it counts. President Bush recently committed the US to a large increase in foreign aid, with the caveat that it will only go to countries that are committed to economic freedom. This theme received additional support at the G8 meeting in Canada and from President Mbeki of South Africa.

The hordes in Johannesburg will demand to be heard, but 40,000 activists on taxpayer-funded junkets should count for little against the future of 4 billion people.

NOTE

*Available at [www.freetheworld.com] or contact the IPA at [www.ipa.org.au]

IPA

REVIEW