**Data origin**

In **1986**, the first of a series of Fraser Institute conferences, sponsored by Liberty Fund Inc. and hosted by then Fraser Institute executive director Michael Walker along with Milton and Rose Friedman, focused on the development of a clearly defined measurement of economic freedom. In addition to the Friedmans, several of the world’s leading economists including Douglass North, Gary Becker, William Niskanen, and Gordon Tullock participated in the conferences. **These conferences held from 1986 to 1994 culminated with the initial publication of Economic Freedom of the World** (Gwartney, Lawson, and Block, 1996).

We did not want our subjective views to influence the rating of any country **so all data are taken from third party sources.**

* **10 is more “free”**

**Data Sources**

* International Country Risk Guide
* Global Competitiveness Report
* World Bank's Doing Business Project

**Latent Variables**

1. Size of Government
   * Government Consumption
   * Transfer and subsidies
   * Government enterprises and investment
   * Top marginal tax rate
     + Top marginal income tax rate
     + Top marginal income and payroll tax rate
   * State ownership of assets
2. Legal System and Security of Property Rights
3. Sound Money
4. Freedom to Trade Internationally
5. Regulation

**Data Quality**

**Content**

1. *Size of Government.*
   1. **Government Consumption** and **Transfer and subsidies**

When government consumption is a large share of the total, political choice is substituted for personal choice.

When governments tax some people in order to provide transfers to others, they reduce the freedom of individuals to keep what they earn

* 1. **Government enterprises and investment** and **State ownership of assets**

Governments and state-owned enterprises play by rules that are different from those to which private enterprises are subject. They are not dependent on customers for their revenue or on investors for capital.

* 1. **Top marginal tax rate**

Such rates deny individuals the fruits of their labor. Thus, countries with high marginal tax rates and low-income thresholds are rated lower.

1. *Legal System and Property Rights*

This area is essential for the efficient allocation of resources.

1. *Sound Money*

High inflation distorts relative-prices and make it harder for individuals to plan for the future. Thus, when governments finance their expenditures by creating money, they are, in effect, expropriating the property and violating the economic freedom of their citizens.

The important thing is that individuals have access to sound money: who provides it makes little difference. Thus, in addition to data on a country’s rate of inflation and its government’s monetary policy, it is important to consider how difficult it is to use alternative, more credible, currencies. If bankers can offer saving and checking accounts in other currencies or if citizens can open foreign bank accounts, then access to sound money is increased and economic freedom expanded.

1. *Freedom to Trade Internationally*

The components in this area are designed to measure a wide variety of restraints that affect international exchange: tariffs, quotas, hidden administrative restraints, and controls on exchange rates and the movement of capital. In order to get a high rating in this area, a country must have low tariffs, easy clearance and efficient administration of customs, a freely convertible currency, and few controls on the movement of physical and human capital.

1. *Regulation*