

Social Climate

Philippine economic freedom: middling

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Philippine Daily Inquirer

First Posted 02:36:00 09/20/2008

MANILA, Philippines—“Middling” is a precise description of economic freedom in the Philippines, given its rank of No. 72 among 141 countries graded in the “2008 Economic Freedom of the World (EFW) Report: Philippine Edition,” launched last Thursday at the annual conference of Economic Freedom Network Asia, at the University of Asia and the Pacific.

The EFW index of economic freedom is built up from 42 indicators, each scaled from 0 to 10, where 0 marks the least actual freedom, and 10 marks the most actual freedom, in the group of countries for that particular indicator. One can properly call 10 fully free, 7.5 three-quarters free, 5 half-free, etc. The exact median of the index numbers of the 141 countries graded for reference year 2006 is at rank No. 71 (namely Namibia, rated 6.77), just ahead of the Philippines, rated 6.72.

The top three countries on the EFW index are Hong Kong (8.94), Singapore (8.57), and New Zealand (8.28). The lowest three are Zimbabwe (2.67), Angola (4.10) and Myanmar (4.19).

Five areas of economic freedom. The 42 underlying indicators of the EFW index are grouped under five areas. In the area of (1) Size of Government: Expenditures, Taxes, and Enterprises, which uses five indicators, the most economic freedom is found in Hong Kong, with a rating of 9.1. Under (2) Legal Structure and Security of Property Rights, (seven indicators), the best is Finland, rated 9.0.

In the area of (3) Access to Sound Money (four indicators), the best is Japan, at 9.7. Under (4) Freedom to Trade Internationally (nine indicators), at the top is Hong Kong at 9.5. Finally, under (5) Regulation of Credit, Labor, and Business (17 indicators), at the top is Iceland, at 8.8.

There being 141 countries graded, ranks 1-28 can be called relatively good, ranks 29-56 relatively fair, ranks 57-84 relatively middling, ranks 85-112 relatively poor, and ranks 113-141 relatively bad, in terms of economic freedom. From here on, I will omit the term “relatively” for simplicity.

In Size of Government, the Philippine score of 7.1 is 44th or fair. In Legal Structure, the RP score of 4.9 is 94th, or poor—hampered by 3.4 on legal enforcement of contracts, 3.4 on impartiality of courts, and 3.9 on judicial independence. In Sound Money, the RP score of 8.1 is 78th, or middling. In Freedom to Trade, the Philippine score of 7.2 is 48th, or fair.

In Regulation, the Philippine score of 6.3 is 89th, or poor—notably 1.6 on mandated cost of dismissing workers, 2.5 on administrative requirements, 3.0 on price controls, 3.1 on minimum wages, and 4.0 on bribes. (The EFW report uses two decimal points, but here I round off to one decimal for simplicity.)

Economic freedom within ASEAN. The EFW report includes seven of the 10 ASEAN countries. Among the seven, Singapore (No. 2 in the world) has the most economic freedom, with scores of 7.9, 8.4, 9.0, 9.4, and 8.2 in the five freedom areas respectively—all good, except fair on Sound Money.

Thailand's EFW index is 7.00 (rank 56, fair), making it second in economic freedom in the ASEAN region, with area scores of 7.3, 6.2, 6.6, 7.5, and 7.4. This is good on Freedom to Trade, but bad on Sound Money due to lack of freedom to own foreign currency bank accounts both domestically and abroad. The other scores are fair.

Malaysia and the Philippines, both with EFW indexes of 6.72, are tied at rank 72 (middling). Malaysia's area scores are 5.5 (poor), 6.8 (fair), 6.0 (bad, again due to lack of freedom to own foreign currency bank accounts), 7.6 (good), and 7.7 (good).

Indonesia's EFW index is 6.12 (rank 101, poor), with area scores of 6.4 (middling), 3.9 (bad—particularly on legal enforcement of contracts), 7.2 (poor), 7.3 (fair), and 5.8 (poor).

Vietnam's EFW index is 5.94 (rank 108, poor), with area scores of 4.6 (bad—since the economy is dominated by state-operated enterprises, and government investment exceeds 50 percent of total investment), 5.8 (middling), 6.4 (bad—due to lack of freedom to own foreign currency bank accounts), 7.0 (middling), and 6.0 (poor).

Myanmar's EFW index is 4.19 (rank 139, bad), with area scores of 5.8 (poor), 2.6 (bad), 4.0 (bad), 2.3 (bad), and 6.2 (poor).

Global patterns. To show the great relevance of economic freedom, the new EFW report relates the EFW indexes, averaged over 1990-2006, to various indicators of human and political progress. Here are key relationships that it points out:

- Countries with more economic freedom have substantially higher per capita incomes, have higher growth rates, and attract more foreign investment.
- In countries with more economic freedom, total investment is slightly higher, and private investment is much higher.
- The share of income earned by the poorest 10 percent of the population is unrelated to the degree of economic freedom in a nation.
- In nations with the most economic freedom, compared to those with the least, the amount per capita, as opposed to the share, of income going to the poorest 10 percent of the population is much greater, and the life expectancy is over 20 years longer.
- With fewer regulations, taxes, and tariffs, economic freedom reduces the opportunities for corruption on the part of public officials.
- Political rights such as free and fair elections, and civil liberties such as freedom of speech, go hand in hand with economic freedom.
- Environmental stresses on human health are lower, and ecosystem vitality is greater, in countries with more economic freedom.

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The “Economic Freedom of the World: 2008 Annual Report,” by James D. Gwartney and Robert Lawson, is available at www.fraserinstitute.org and www.freetheworld.com.