

# Economic Freedom As A Necessary And Sufficient Condition For Addressing Unemployment, Inequality And Poverty

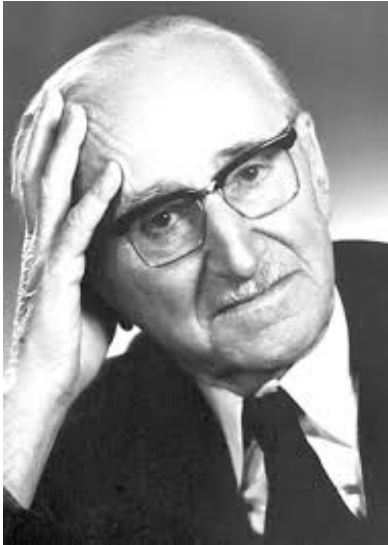
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# Back Ground

The relationship between economic freedom and growth has been studied and debated by economists since Adam Smith. It has been generally argued that free economies will be more productive. Economic freedom is considered to be the ultimate incentive for the optimal use of scarce resources, by creating a favorable environment for healthy competitiveness and stimulating human creativity. In a free private market, individuals have the freedom to choose what to consume, to produce, and to give. The invisible hand leads free economic agents to pursue their own interests and voluntarily cooperate with others. (Smith, 1776).

# Back Ground



*I am certain that nothing has done so much to destroy the juridical safeguards of individual freedom as the striving after this mirage of social justice.* Friedrich Hayek

*Socialism in general has a record of failure so blatant that only an intellectual could ignore or evade it.* Thomas Sowell



*We have a system that increasingly taxes work and subsidizes nonwork.*  
Milton Friedman





# Conceptualized

The Heritage Foundation publishes an on annual basis an Index of Economic (IEF) Freedom report. The report is published in partnership with the Wall Street Journal. Economic freedom, according to the Heritage Foundation, is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please. In economically free societies, governments allow labor, capital, and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself (<http://www.heritage.org/index/about>).



# Conceptualized

The Fraser Institute also publishes an Economic Freedom of the World (EFW) annual report. Economic freedom is the ability of individuals to make their own economic decisions without interference or limitations by government or government's protection of anti-market behavior in favor of powerful groups and these group's abuse of this power to limit market choices of other.

[https://en.wikipedia.org/wiki/Economic\\_Freedom\\_of\\_the\\_World](https://en.wikipedia.org/wiki/Economic_Freedom_of_the_World)



# Conceptualized

The Charles Koch Institute states that economic freedom is the key to greater opportunity and an improved quality of life. It's the freedom to choose how to produce, sell, and use your own resources, while respecting others' rights to do the same. While a simple concept, economic freedom is an engine that drives prosperity in the world and is the difference between why some societies thrive while others do not (<http://www.economicfreedom.org/about/what-is-economic-freedom/>).



# Conceptualized

Also see

- Gwartney and Lawson (2003)
- Cato Institute
- Beach and Kane





# Does it Matter

Justesen (2006) states that one prominent line of research which has gained momentum in the last decade emphasises the role of economic freedom as an important determinant of economic growth.

The main conclusion of the paper is that economic freedom does matter for economic growth.





# Does it Matter

Garrett and Rhine (2010) extend earlier models of economic growth and development by exploring the effect of economic freedom on U.S. state employment growth.

Their results reveal that economic freedom is a significant factor in state employment growth in addition to the more traditional determinants of growth such as industrial diversity and human capital.



# Does it Matter

Gorlach and Le Roux (2013) investigates the relationship between economic freedom — in aggregate and on an individual component basis — on economic growth in the SADC.

The empirical results confirm that economic freedom is positively related to economic growth in the SADC countries. More importantly, economic freedom is found to Granger-cause economic growth. Therefore, increasing the levels of economic freedom leads to higher GDP per capita growth rates.



# Does it Matter

Panahi, Assadzadeh and Refaei (2014) focused on the question; How does economic freedom impact economic growth?

A single unit increase in the economic freedom index leads to a 1.22 percentage point increase in growth.



# Does it Matter

Wulandari (2015) conducted a research study to find the relationship between economic freedom and economic growth in Indonesia from 2004-2014.

The results suggest that economic freedom has a positive impact on economic growth as well as economic growth has positive influence on economic freedom.



# It Matters How

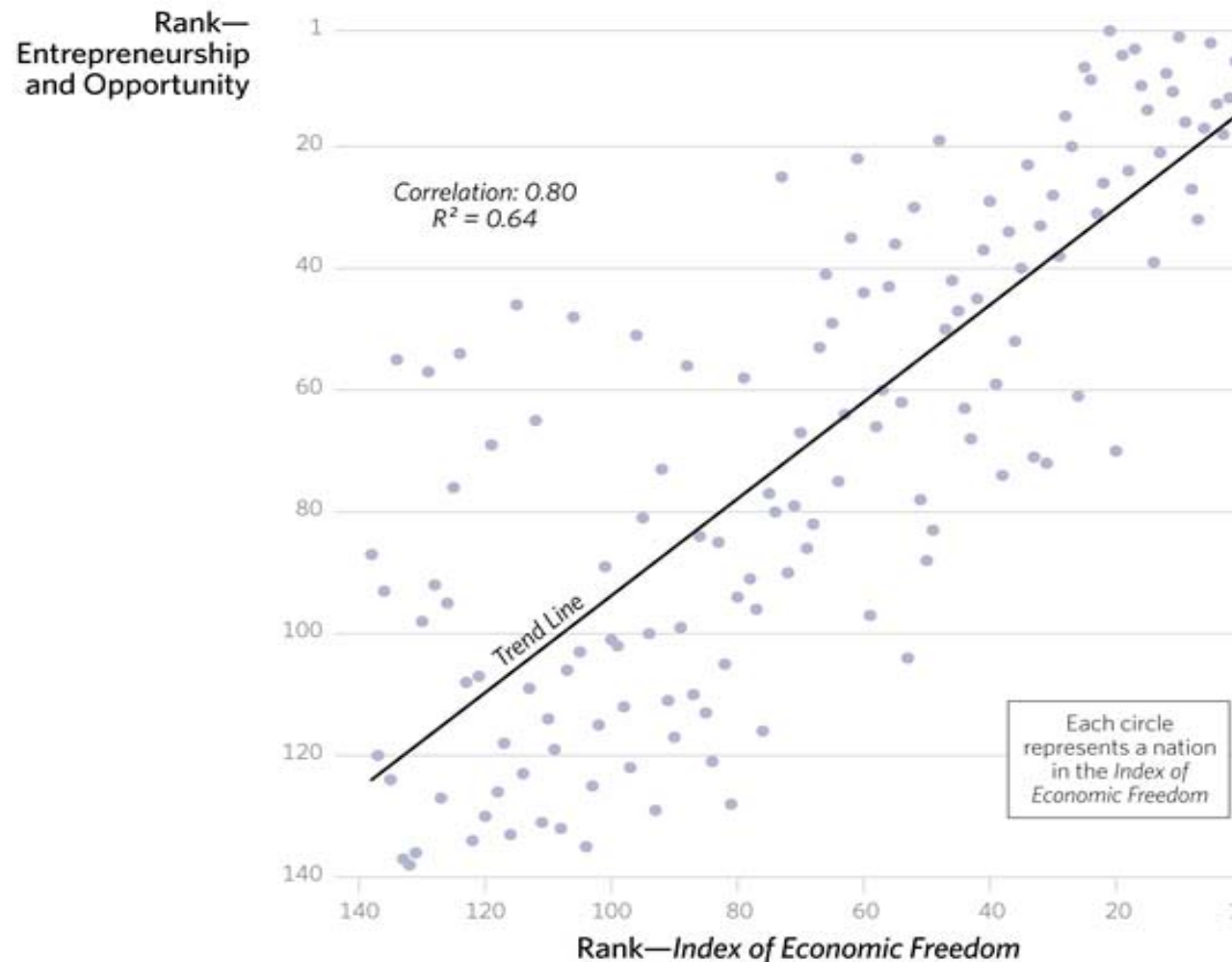
The three most comprehensive studies that attempt to measure economic freedom and publish the results thereof are the Heritage Foundation's Index of Economic Freedom, the Fraser Institute's Economic Freedom of the World Index, and the Freedom House's Freedom in the World Index.



# It Matters How

The Heritage Foundation's Index of Economic Freedom results have shown that sustaining such economic dynamism is achievable only when governments adopt economic policies that empower individuals and firms with more choices, encouraging greater entrepreneurship.

## Economic Freedom Promotes Entrepreneurial Dynamism

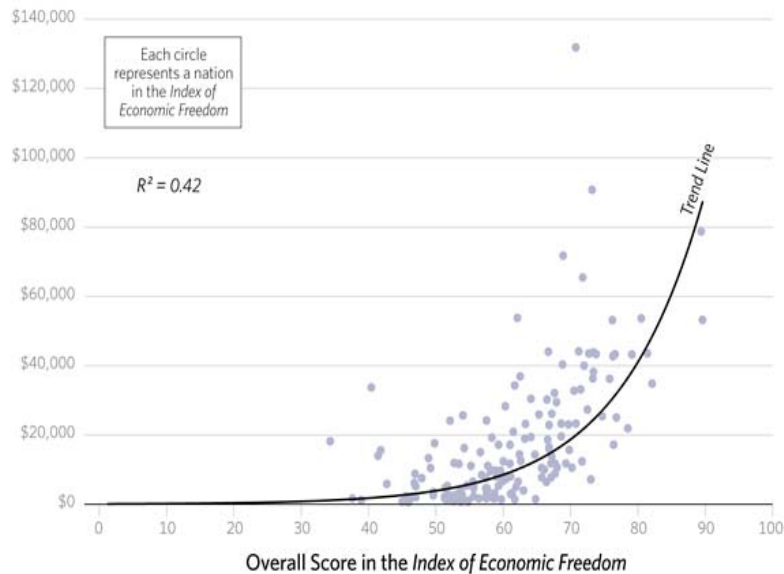


**Sources:** Terry Miller and Anthony B. Kim, 2015 *Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2015), <http://www.heritage.org/index>, and Legatum Institute Foundation, "Legatum Prosperity Index: Entrepreneurship and Opportunity," <http://www.prosperity.com/#!/entrepreneurship-opportunity> (accessed November 20, 2014).

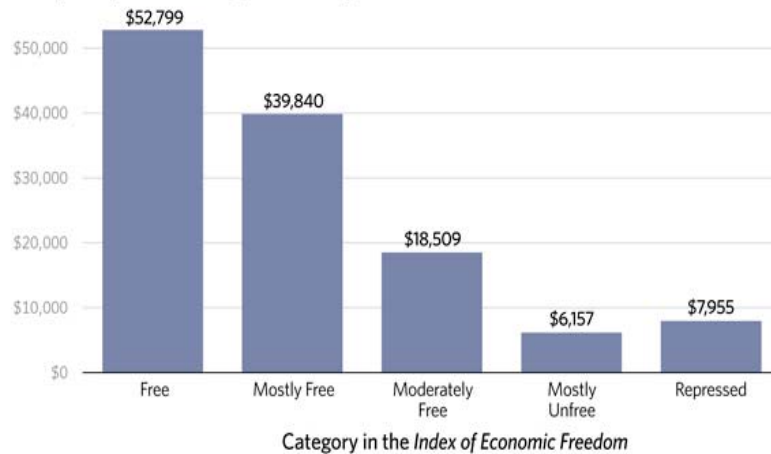


## Economic Freedom and Prosperity

GDP per Capita (Purchasing Power Parity)



GDP per Capita (Purchasing Power Parity)

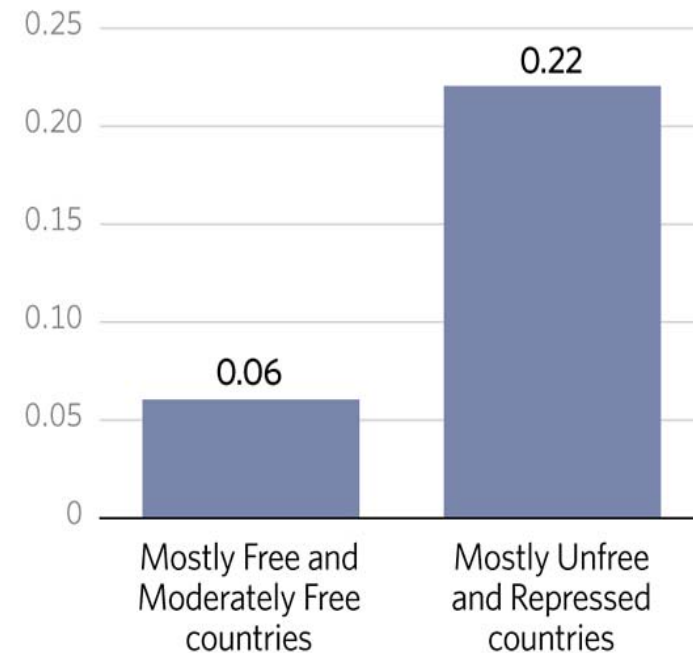


Sources: Terry Miller and Anthony B. Kim, 2015 *Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2015), <http://www.heritage.org/index>; and International Monetary Fund, World Economic Outlook Databases, <http://www.imf.org/external/ns/cs.aspx?id=28> (accessed November 19, 2014).

Chart 2 ■ heritage.org

## Economic Freedom and Poverty Intensity

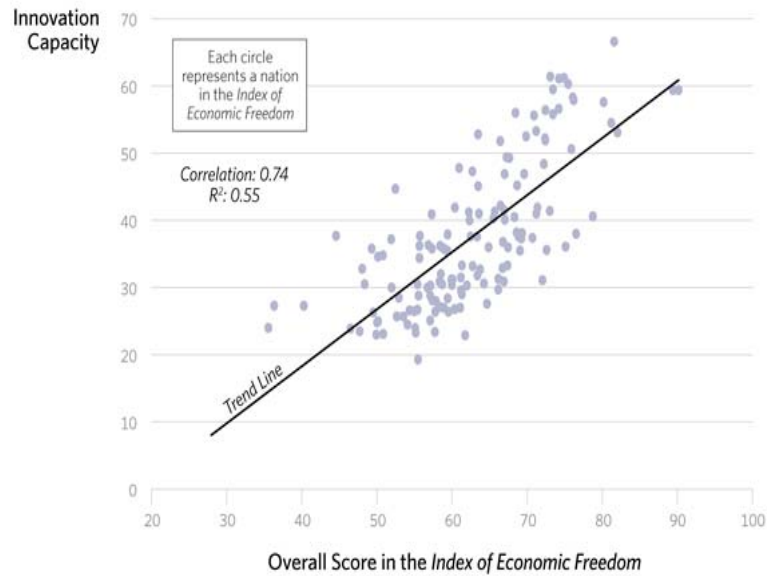
Poverty Intensity



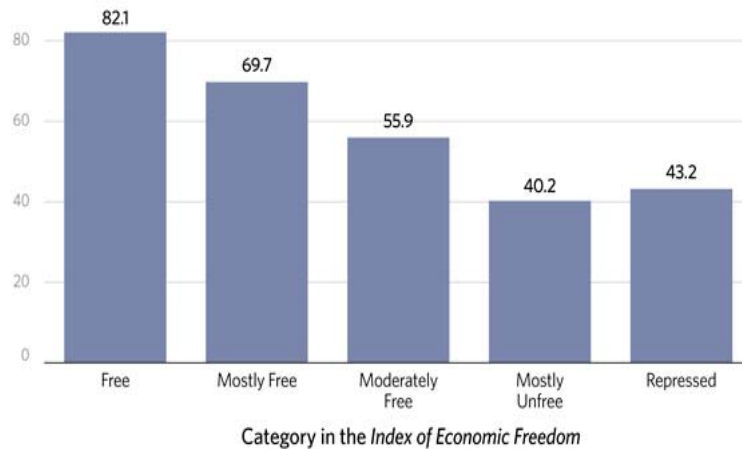
Sources: Terry Miller and Anthony B. Kim, 2015 *Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2015), <http://www.heritage.org/index>, and U.N. Human Development Programme, "Human Development Report 2014," 2014, <http://hdr.undp.org/en/content/human-development-report-2014> (accessed November 20, 2014).

Chart 5 ■ heritage.org

## Economic Freedom, Innovation, and the Environment



### Environmental Performance Index

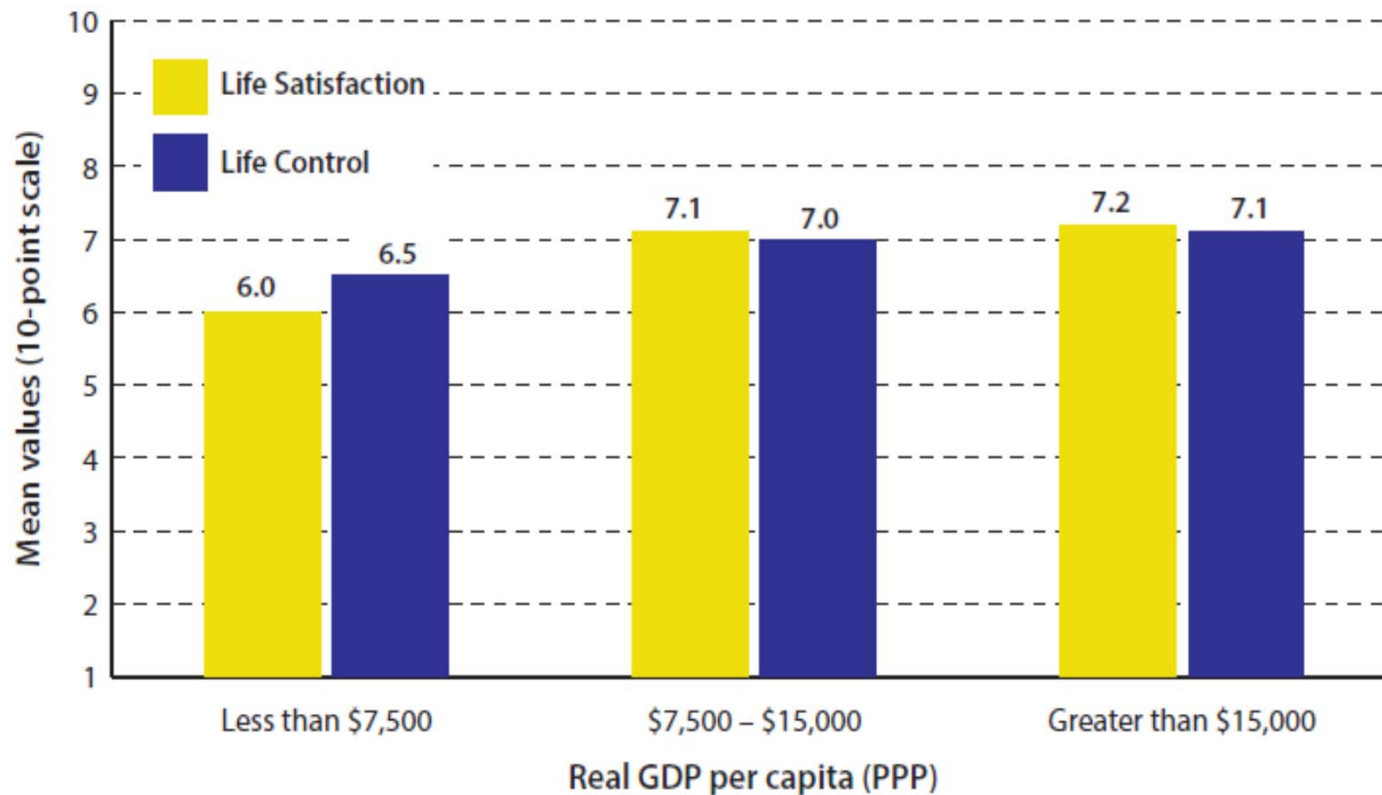


**Sources:** Terry Miller and Anthony B. Kim, 2015 *Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2015), <http://www.heritage.org/index>; and Cornell University, INSEAD, and World Intellectual Property Organization, *The Global Innovation Index 2013: The Local Dynamics of Innovation* (Geneva: World Intellectual Property Organization, 2013), <http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013> (accessed November 20, 2014); and Yale University, "2014 Environmental Performance Index," <http://epi.yale.edu/epi> (accessed November 20, 2014).



# It Matters How

According to the Fraser Institute's annual report, Economic Freedom of the World, based on 2013 statistics (the most recent year of available data), the top 10 most economically free jurisdictions are Hong Kong, Singapore, New Zealand, Switzerland, United Arab Emirates, Mauritius, Jordan, Ireland, Canada, with the United Kingdom and Chile tied for 10th. The United States, once considered a bastion of economic freedom, now ranks 16th in the world after being as high as second in 2000. The 10 lowest-ranked countries are Angola, Central African Republic, Zimbabwe, Algeria, Argentina, Syria, Chad, Libya, Republic of Congo, and Venezuela. Some despotic countries such as North Korea and Cuba can't be ranked due to lack of data.



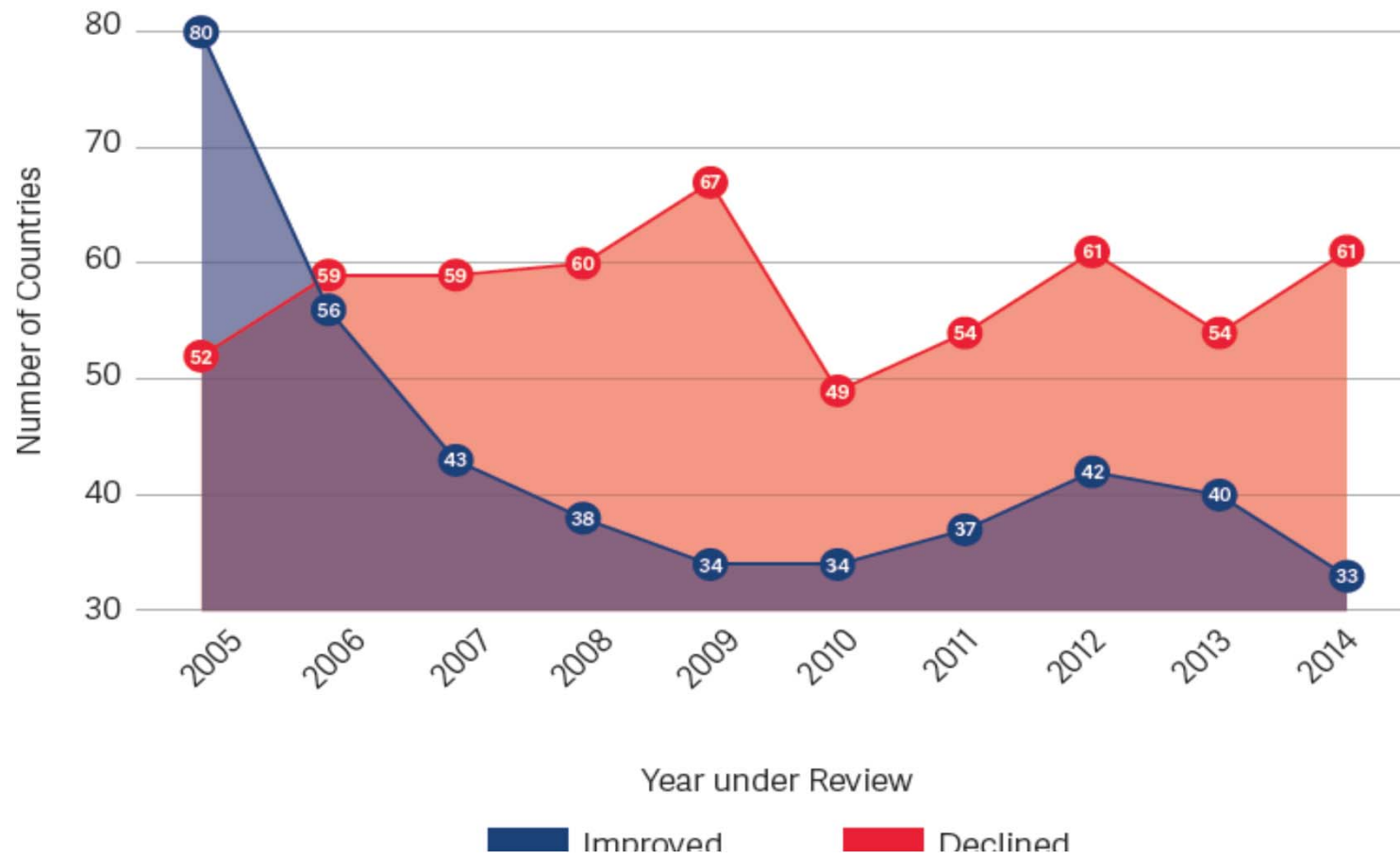
Sources: Feenstra, Inklaar, and Timmer, 2015 (Penn World Table); World Values Survey, 2014.

there is a welfare benefit derived from living in an economically free society that goes beyond pure income-enhancing effects.




# It Matters How

According to the Freedom House Freedom in the World 2015 report countries with declines in freedom have outnumbered those with gains for the past nine years as per the graph below.







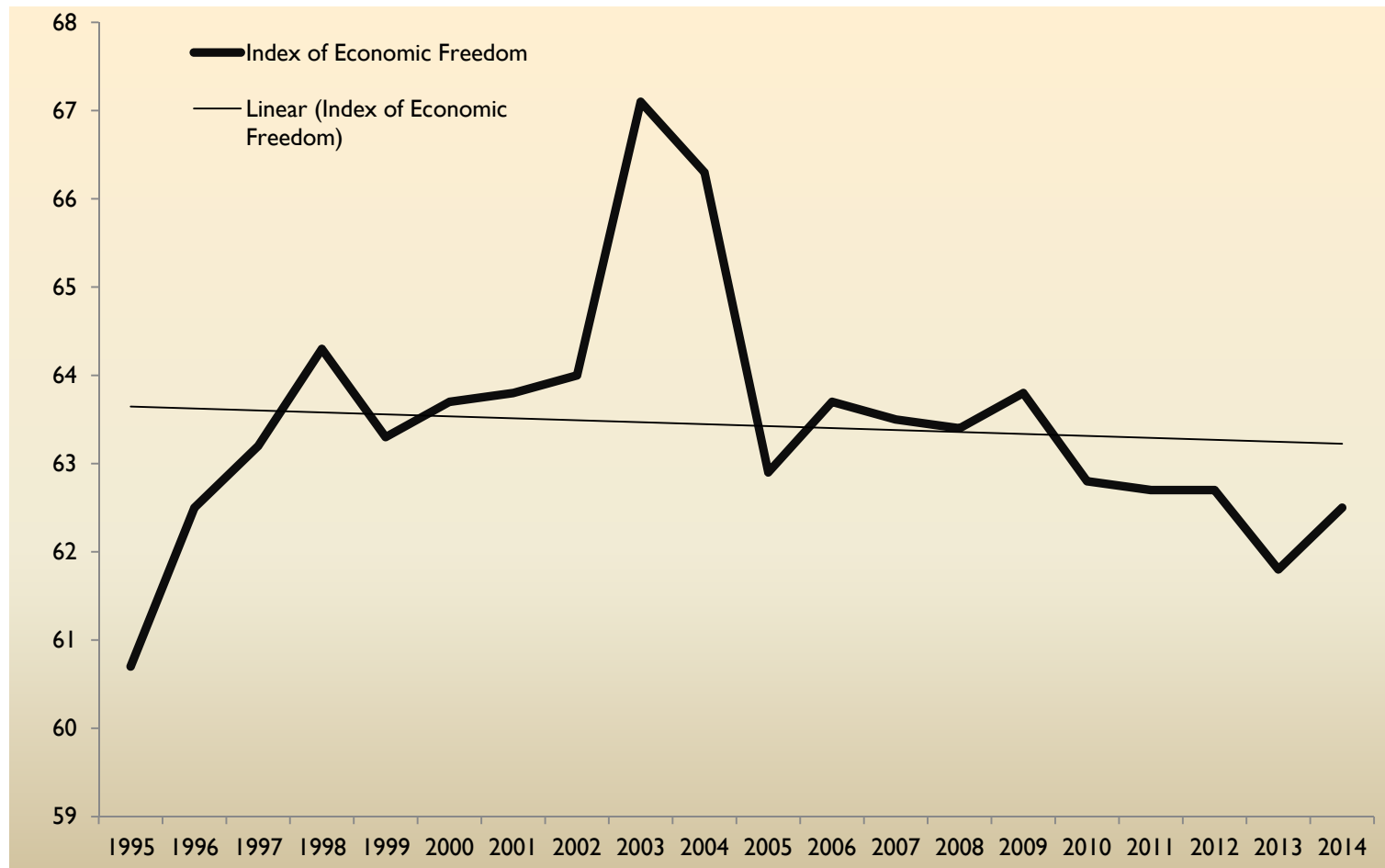
According to the report The number of countries designated by Freedom in the World as Free in 2014 stood at 89, representing 46 percent of the world's 195 polities and nearly 2.9 billion people—or 40 percent of the global population. The number of Free countries increased by one from the previous year's report. The number of countries qualifying as Partly Free stood at 55, or 28 percent of all countries assessed, and they were home to just over 1.7 billion people, or 24 percent of the world's total. The number of Partly Free countries decreased by four from the previous year. A total of 51 countries were deemed Not Free, representing 26 percent of the world's polities. The number of people living under Not Free conditions stood at 2.6 billion people, or 36 percent of the global population, though it is important to note that more than half of this number lives in just one country: China. The number of Not Free countries increased by three from 2013.



# South Africa

## Heritage Foundation's Index of Economic Freedom

100 representing the most free and 0 the least free



# South Africa

## Heritage Foundation's Index of Economic Freedom

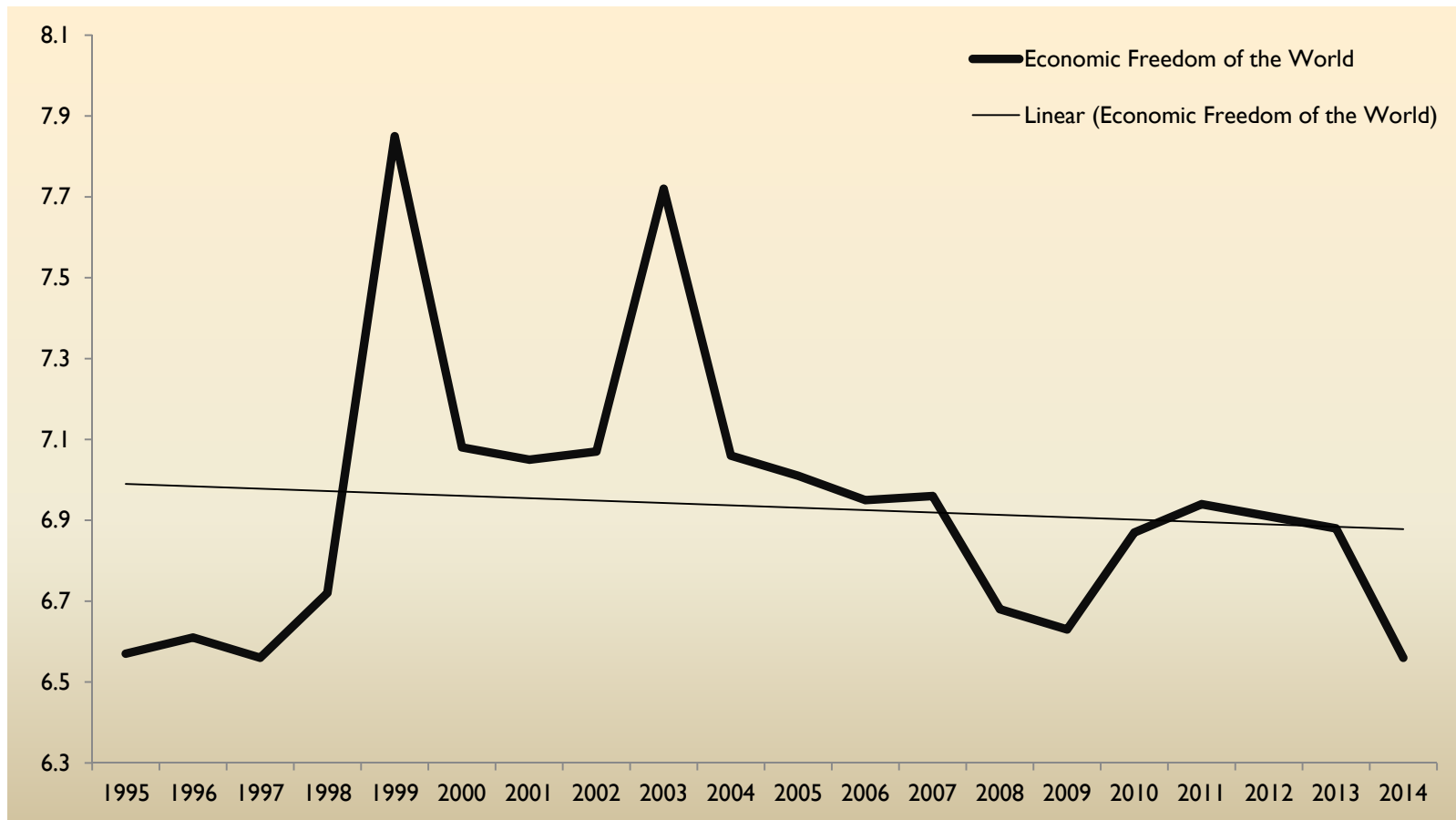
100 representing the most free and 0 the least free

### *Long-Term Score Change (since 1995)*

RULE OF LAW		GOVERNMENT SIZE		REGULATORY EFFICIENCY		OPEN MARKETS	
Property Rights	0	Fiscal Freedom	+8.4	Business Freedom	-12.0	Trade Freedom	+33.6
Freedom from Corruption	-8.0	Government Spending	+4.9	Labor Freedom	+2.9	Investment Freedom	-20.0
				Monetary Freedom	+1.1	Financial Freedom	+10.0

# South Africa

Fraser Institute's annual report, Economic Freedom of the World 10 representing the most free and 0 the least free





# South Africa

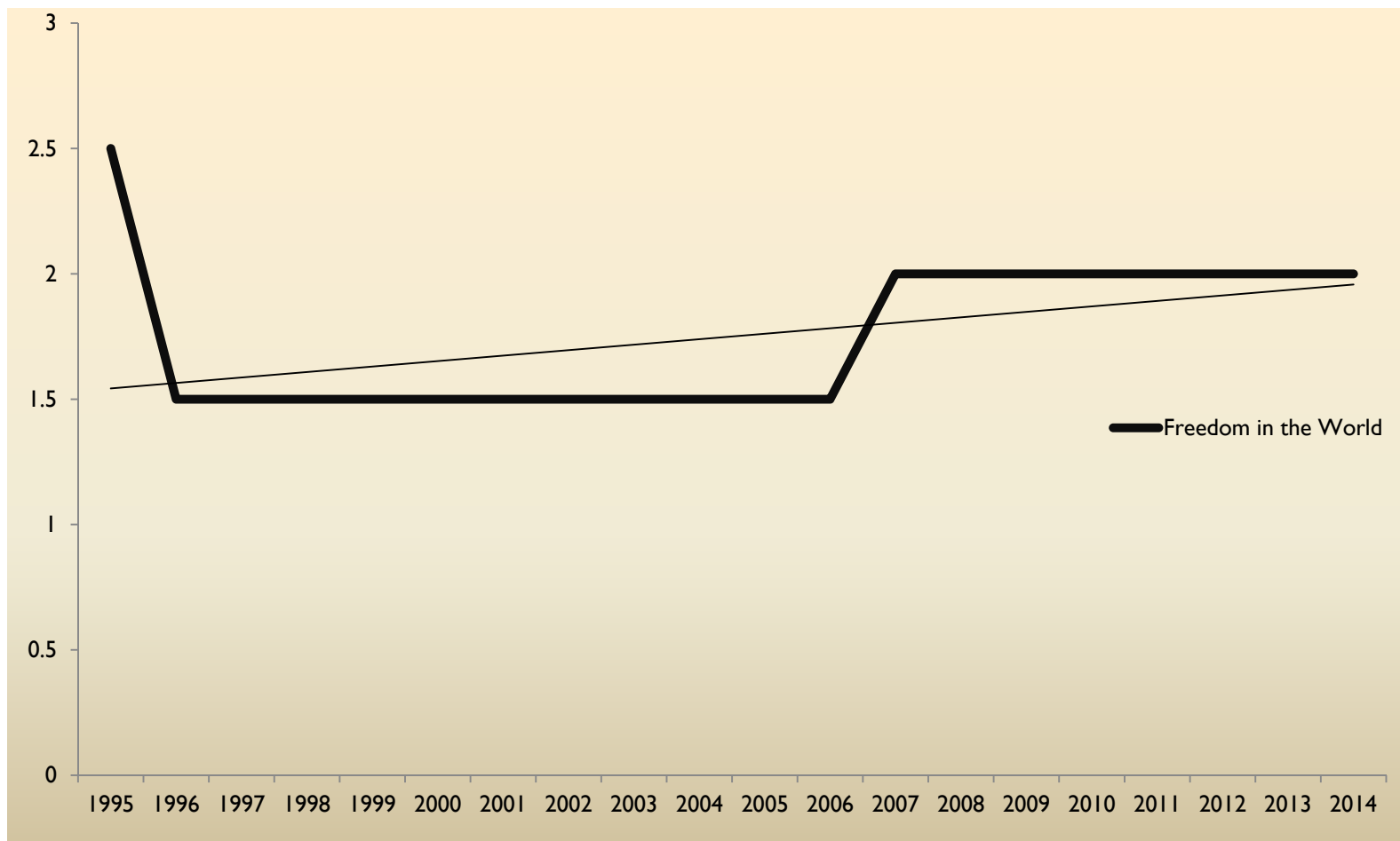
Fraser Institute's annual report, Economic Freedom of the World 10 representing the most free and 0 the least free

South Africa received a rating of 96 out of 175 countries. It is especially government size that received the lowest ranking, i.e., 121 whilst the legal system and property rights received the highest ranking, i.e., 61.

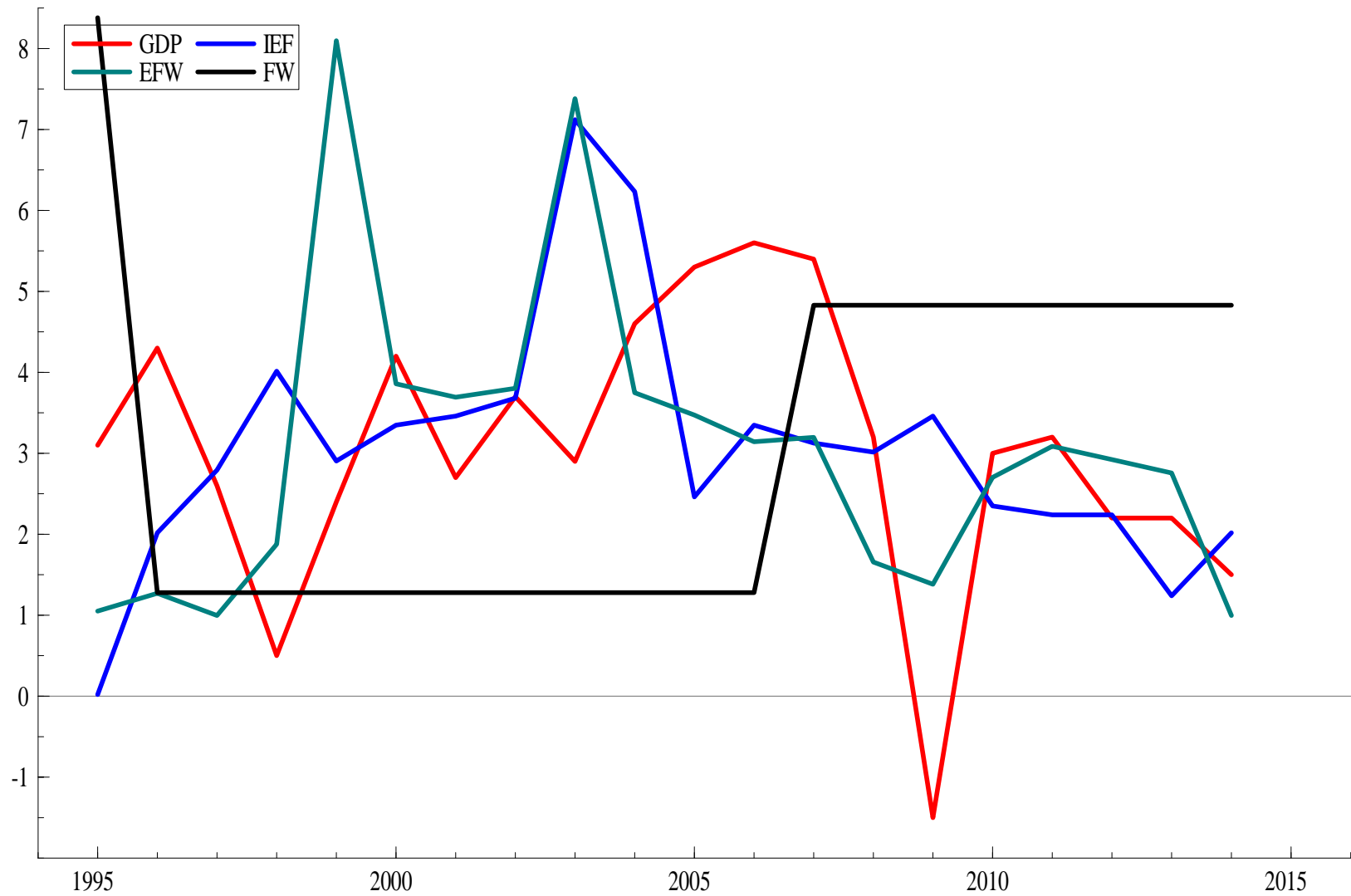
# South Africa

## Freedom House Freedom in the World 2015

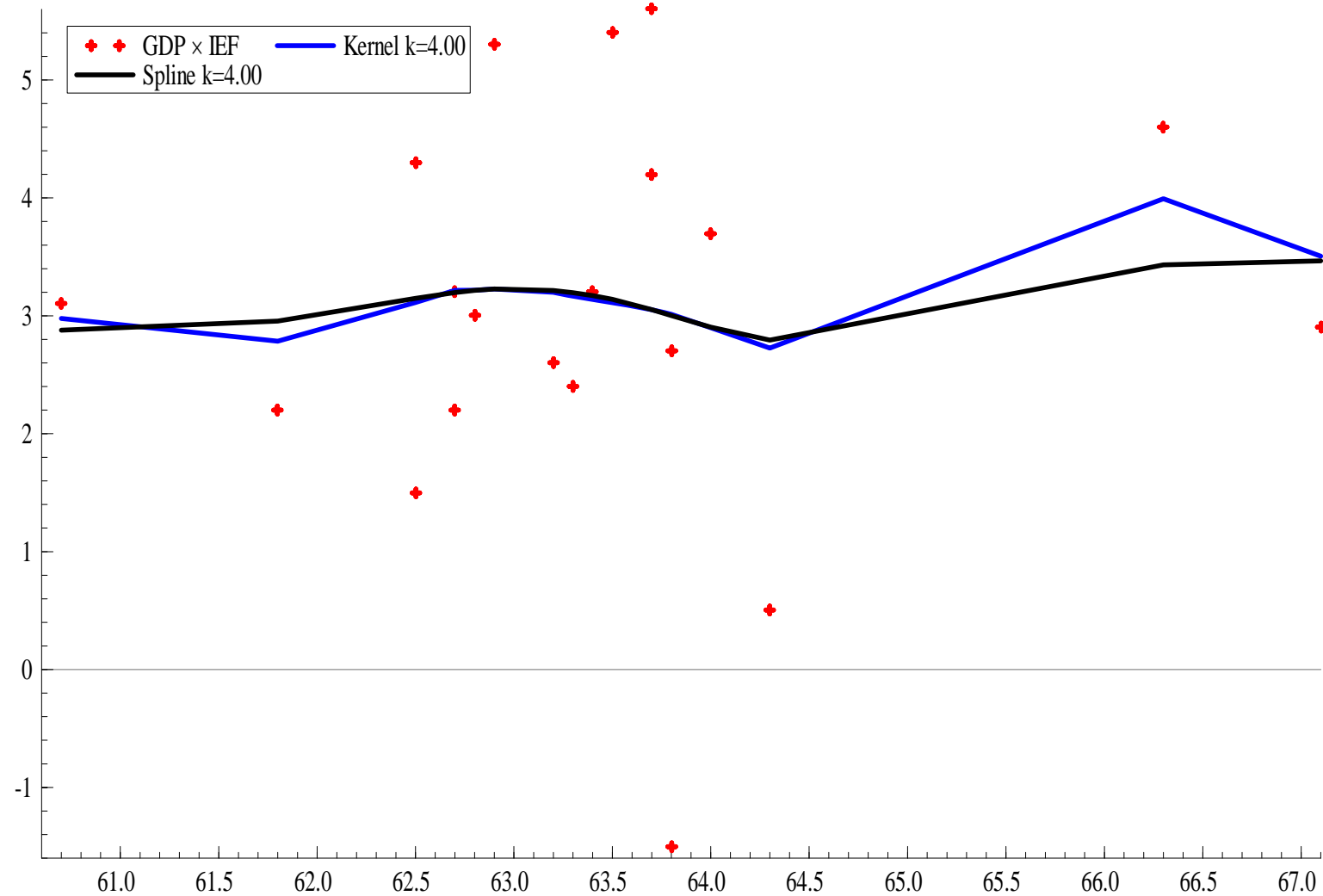
1 representing the most free and 7 the least free



# Basics

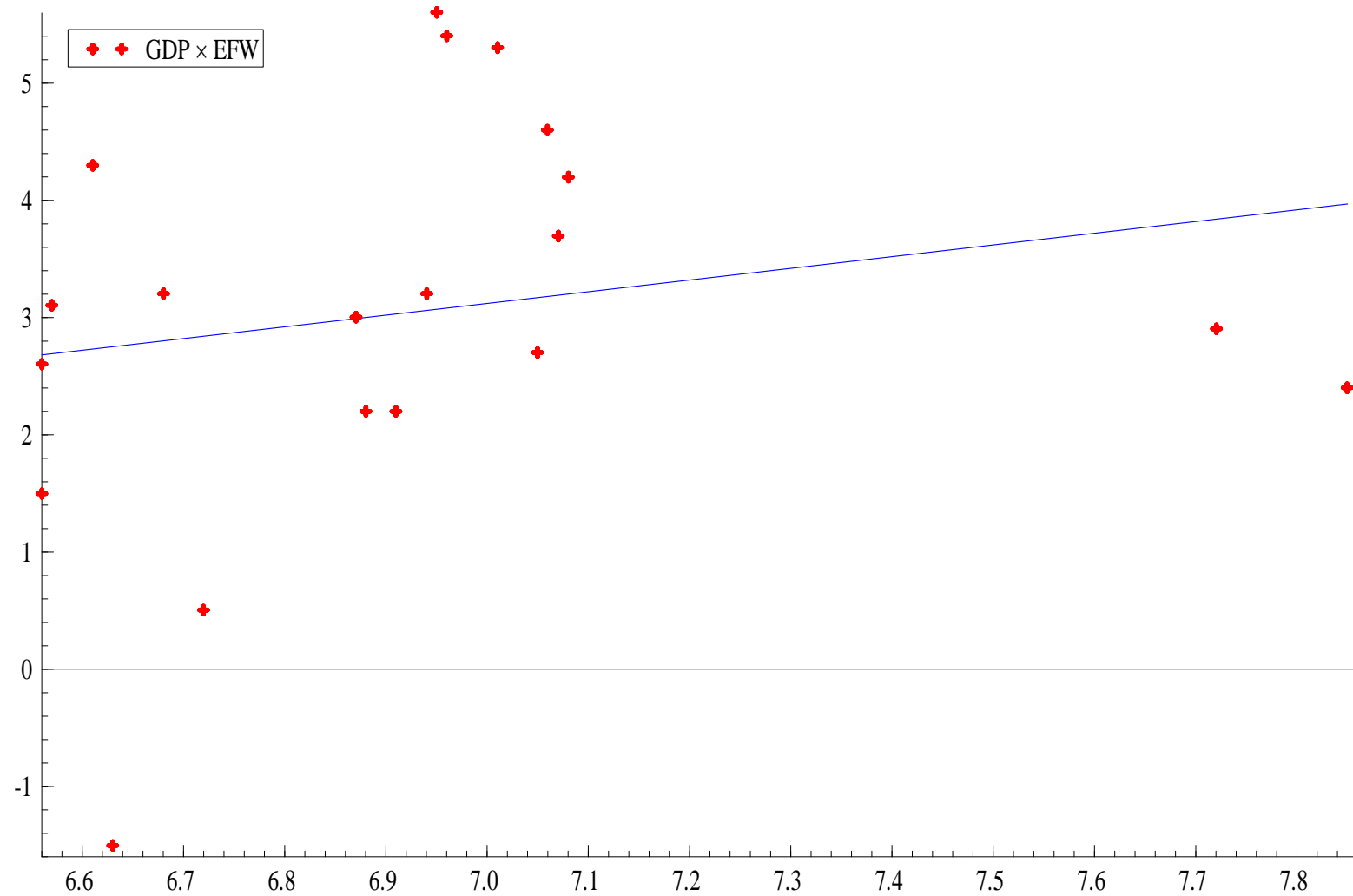


# Basics

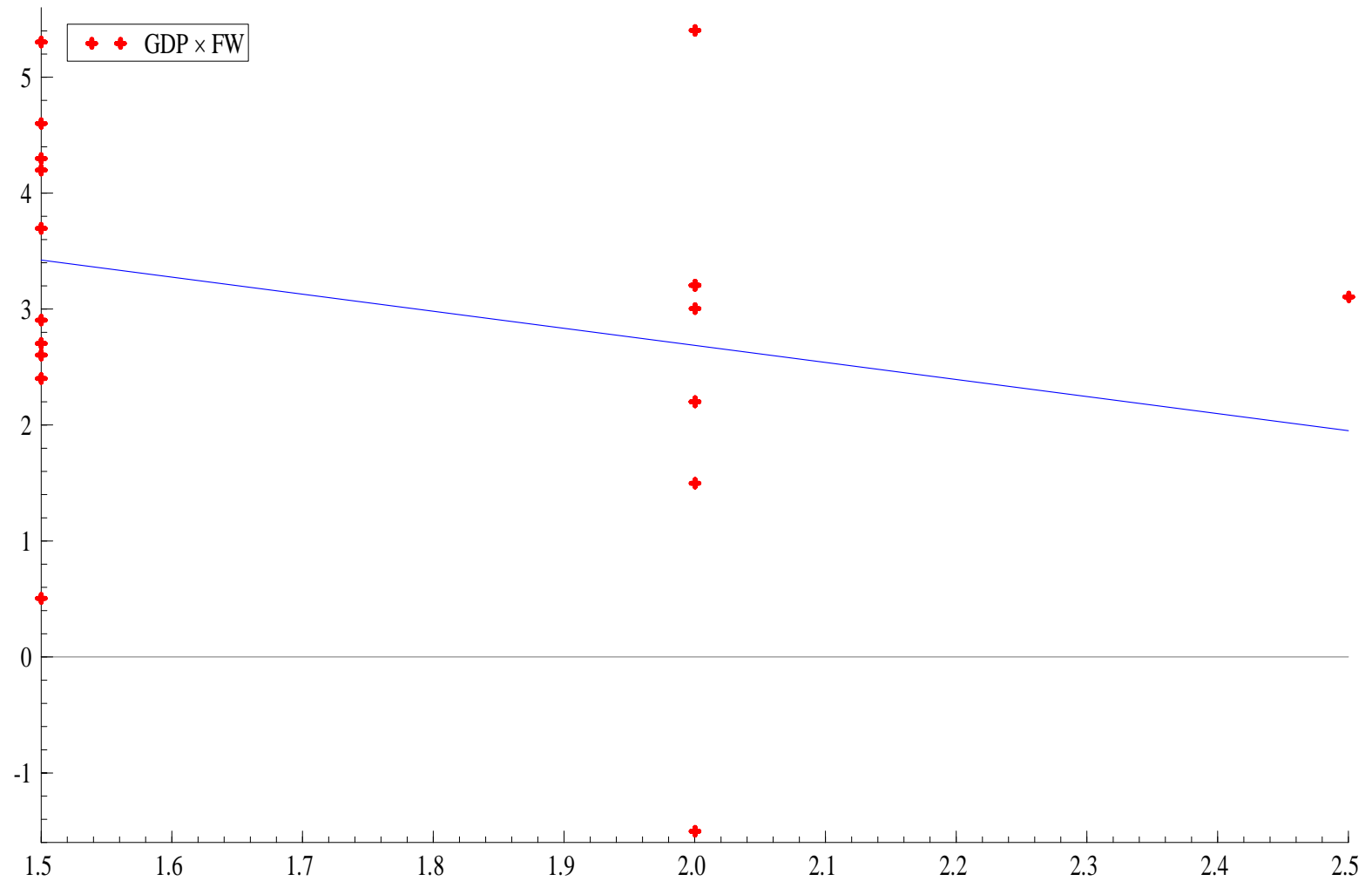




# Basics



# Basics



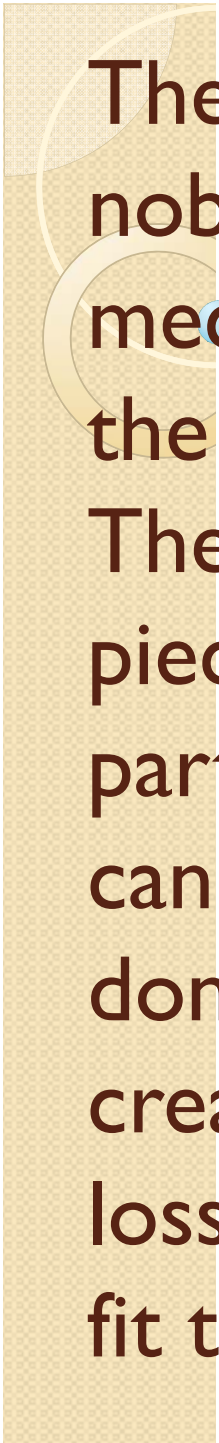
# Basics

Null Hypothesis:	Obs	F-Statistic	Prob.
IEF does not Granger Cause GDP	16	4.55990	0.0396
GDP does not Granger Cause IEF		0.31992	0.8562

Null Hypothesis:	Obs	F-Statistic	Prob.
EFW does not Granger Cause GDP	16	0.91870	0.5035
GDP does not Granger Cause EFW		0.43904	0.7775

Null Hypothesis:	Obs	F-Statistic	Prob.
FW does not Granger Cause GDP	16	10.0970	0.0049
GDP does not Granger Cause FW		1.46468	0.3088

NB - economic freedom is found to Granger-cause economic growth.



The economy is like a zig saw puzzle of which nobody knows the picture. Only the price mechanism will create the picture, i.e., using the signals of prices to induce behavior.

Therefore relying on price signals will the pieces of capital and labour fit together in particular combinations. Only specific pieces can be linked with others. But as stated we don't have a picture of the pattern we are creating. Instead we have prices, profits and losses to inform us when pieces do or do not fit together in ways that are orderly.



*Thank You*

*Markets serve Humanity*

*Humanity serve Government*