



# Index of Economic Freedom 2012: Good News for Chile

**Chile is top ten among the freest countries, specifically, in the 7<sup>th</sup> position of the general ranking, leading again in South and Central America and the Caribbean. At world level, however, it registers a downward change with a score lower than 60 (from a total of 100 which indicates total economic freedom), the second lowest result in the last 10 years. Within the 184 analyzed countries, 90 stepped back and 14 remained unchanged.**

This week, The Heritage Foundation, The Wall Street Journal and a think tank network published the 18<sup>th</sup> version of the Index of Economic Freedom corresponding to 2012.

The report brings good news for Chile, but at world level, we cannot state the same with such determination. The tension between government control and free market has increased around the world, particularly in the developed countries; several of them refuse to strengthen economic freedom in view of the great external uncertainty of the past months, and which has shown no signs yet of getting better.

Thus, 75 out of 184 analyzed countries increased their scores in relation to 2011, 90 descended and 14 remained unchanged. The average world score slightly descended 0.2 points compared with last year, reaching 59.5 points, the second lowest score obtained in the last ten years.

The countries were classified and ranked by 10 economic freedom measures, 100 being the score representing maximum freedom and 0, the opposite. These 10 scores are averaged to obtain an overall economic score for each country.

In general terms, it is worth mentioning that each region continues to be represented by at least one of the freest countries; Hong Kong stands out with an average score of 89.9 for satisfactorily defending the State as the world's freest country, and Singapore, for having the second place and cutting down the gap in relation to the first place. Australia, New Zealand,

Switzerland and Canada remain in their last year's position: third, fourth, fifth and sixth place respectively.

Table 1

### INDEX OF ECONOMIC FREEDOM RANKING

Position	2011	2012
1	Hong Kong	Hong Kong
2	Singapore	Singapore
3	Australia	Australia
4	New Zealand	New Zealand
5	Switzerland	Switzerland
6	Canada	Canada
7	Ireland	<b>Chile</b>
8	Denmark	Mauritius
9	United States	Ireland
10	Bahrain	United States
11	<b>Chile</b>	Denmark

Source: The Heritage Foundation

Chile is top ten among the freest countries, specifically, in the 7<sup>th</sup> position of the general ranking, leading again in South and Central America and the Caribbean. Chile's overall score is 78.3, that is, 0.9 better than the score registered in 2011 (77.4), when it held the 11<sup>th</sup> position. However, our country decreased in 3 out of 10 parameters measured by the index. Specifically, Chile stepped back in trade and fiscal freedom and government spending level in relation to the GDP, that is, its major failures are in the Government's control on economy.

With regard to government spending, which considers the government spending level as a percentage of the GDP, including consumption and transfers, the report indicates that we obtained 4.5 points less. However, lagged data were used to elaborate this indicator, since current information indicates that the spending percentage in relation to the GDP decreased between 2009 and 2010 from 24.8% to 23.5%, and the same occurs between 2010 and 2011, going from 23.5% to 22.5%.

Concerning fiscal freedom, which measures the fiscal load imposed by the government, it is highly probable that this indicator has worsened, since as from 2010, as a post earthquake consequence, there has been a transitory increase in the tax paid by businesses, rising from 17% to 20%.

Now, in relation to trade freedom, the measure is composed by the average trade weighted tariff and the non-tariff barriers. This indicator decreased 6 points, but it should not be forgotten that the tariff has not increased, quite

the opposite, it has gradually descended through the increasing number of treaties signed by Chile.

In spite of this, Chile considerably improved in monetary freedom, property rights protection and freedom from corruption, and it marginally improved in labor and business freedom. In financial and investment freedom, our country maintained the score of 2011.

Regarding monetary freedom, it combines a price stability measure, so the calculation of its value considers two factors: the weighted average of the inflation rate for the last three years, and price controls. In 2008, Chile had a high inflation; therefore this indicator's improvement is consistent, since the index 2012 includes the inflation for 2009, 2010 and 2011, which was lower than in 2008.

Business and labor freedom have marginally improved thanks to the Competitive Stimulus Agenda, which has allowed reducing the time needed to start a business from 22 to 7 days, now requiring only 7 processes<sup>i</sup>. This could further improve if the bill currently pending at the Congress is passed, since it would allow creating, modifying or liquidating firms in less than 24 hours and at much lower costs than today.<sup>ii</sup> But there is still work to be done, since most measures embraced in the Agenda, such as the firms' insolvency cost, should be implemented no later than May of this year, considering their urgency and the consequences on the country's productivity, which in the end allow the country to keep growing. It is also urgent to send the Insolvency Law modification project.

Chile's overall score makes it an "Almost Free" economy, whose range goes from 70 to 79.9 points, since a score over 80 corresponds to a free economy. The average score of the freest countries is 84.7 and it includes the first 5 countries observed in Table 1, because those were the ones that obtained an average over 80 points.

Chile, in spite of its leadership in South and Central America and the Caribbean, is still behind other economies such as New Zealand, regarding which we have similar levels of property rights protection and monetary freedom, even better scores in fiscal and investment freedom, and our government spending level in relation to the GDP is smaller. Nevertheless, we still have much progress to do in business freedom, labor freedom and freedom from corruption, as a result of the existence of different industrial regulations and obstacles, a labor market which is still rigid, in addition to the minimum wage increases that have exceeded the average productivity increase in the economy.

Table 2

SCORE BY INDEX COMPONENT 2011-2012			
Indicator	Score 2011	Score 2012	Variation
Property Rights	85	90	5.0
Freedom from Corruption	67	72	5.0
Fiscal Freedom	77.7	77.4	-0.3
Government Spending	86.6	82.1	-4.5
Business Freedom	67.2	68.6	1.4
Labor Freedom	74.5	75.1	0.6
Monetary Freedom	77.9	85.6	7.7
Trade Freedom	88	82	-6.0
Investment Freedom	80	80	0
Financial Freedom	70	70	0

Source: The Heritage Foundation

With regard to other Latin American and Caribbean countries having a regional average of 60 points, Uruguay ranked 29, El Salvador, 41; Peru, 42; Costa Rica, 44; and Colombia, 45. On the contrary, the following are under position 100, but above position 150: Nicaragua, 101, Haiti, 142 and Bolivia, 146. Finally, among the least free countries of the world are Ecuador, place 156; Argentina, 158; Venezuela, 174 and Cuba, 177. The latter is only surpassed by Zimbabwe and North Korea.

Within the countries showing a considerable increase in their overall score are El Salvador, Brazil and Ecuador. On the other hand, among those who slightly descended are Uruguay and Paraguay. Meanwhile, Argentina and Mexico strongly descended in the ranking.

Although Chile holds the leadership in Latin America and the Caribbean, in terms of the overall ranking, this is not so in all its components; something which is evidenced when analyzing specific aspect of the ranking; for example, in business freedom matters, Chile is surpassed by Uruguay, Peru, Colombia, Mexico, Panama and Jamaica. In fiscal freedom and government spending issues, practically all other countries rank better than Chile. In international trade freedom matters, Chile is behind Uruguay, Peru, Costa Rica, Paraguay, Guatemala and Nicaragua, while in labor and investment freedom, it is surpassed by Colombia and Jamaica respectively.

Table 3

### INDEX OF ECONOMIC FREEDOM FOR THE OTHER LATIN AMERICAN COUNTRIES

Country	2011	2012	Variation
Chile	77.4	78.3	0.9
Uruguay	70	69.9	-0.1
El Salvador	66.8	68.7	1.9
Peru	68.6	68.7	0.1
Costa Rica	67.3	68	0.7
Colombia	68	68	0
Mexico	67.8	65.3	-2.5
Panama	64.9	65.2	0.3
Paraguay	62.3	61.8	-0.5
Guatemala	61.9	60.9	-1
Dominican Republic	60	60.2	0.2
Honduras	58.6	58.8	0.2
Brazil	56.3	57.9	1.6
Nicaragua	58.8	57.9	-0.9
Haiti	52.1	50.7	-1.4
Bolivia	50	50.2	0.2
Ecuador	47.1	48.3	1.2
Argentine	51.7	48	-3.7
Venezuela	37.6	38.1	0.5
Cuba	27.7	28.3	0.6

Source: The Heritage Foundation

### Conclusion

Chile is very solid at international level in economic freedom issues, and we are recognized for having a limited government action and our trade barriers are very low. This scenario supports itself on free market policies through efficient regulations, which in turn welcomes foreign investment. Many aspects can be highlighted, mainly in macroeconomic and fiscal matters, but there is still much work to do considering that an environment promoting growth opportunities, income increase and people's general wellbeing improvement are achieved by means of economic freedom, where the government adopts economic policies improving individual choice and opportunity level.

The direct and close relationship between economic freedom and prosperity is clearly reflected in this index, since GDP per capita is much higher in countries with greater economic freedom, which in turn is strongly correlated with poverty uprooting. The education and health level, and people's standard of living are much greater, on average, in countries with

more economic freedom, so there is no doubt that our country's task is to reach the goal of 100 points in the index.

In brief...

**CHILE REACHES THE SEVENTH PLACE IN THE INDEX OF ECONOMIC FREEDOM, THE BEST ACHIEVEMENT SINCE THE MEASUREMENT STARTED, MAKING IT CLEAR THAT THE COUNTRY IS ON ITS WAY TO DEVELOPMENT**

- For the first time, Chile surpasses the United States and it is the leading country in South and Central America and the Caribbean.
- The country highlights for the increase by 7.7 points in monetary freedom, due to our average price stability in the last years.
- The indicators for business freedom and labor freedom have slightly improved thanks to the Competitive Stimulus Agenda, evidencing that once the 50 measures are fulfilled, the progress will be even greater.

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<sup>i</sup> Law Nr 20,494 published in the Diario Oficial on January 27<sup>th</sup>, 2011.

<sup>ii</sup> Bulletin 7328-03. It simplifies the regime of constitution, modification and liquidation of commercial firms.