When countries choose freedom, the economic outcomes are dramatically improved.

With tables charts and equations.

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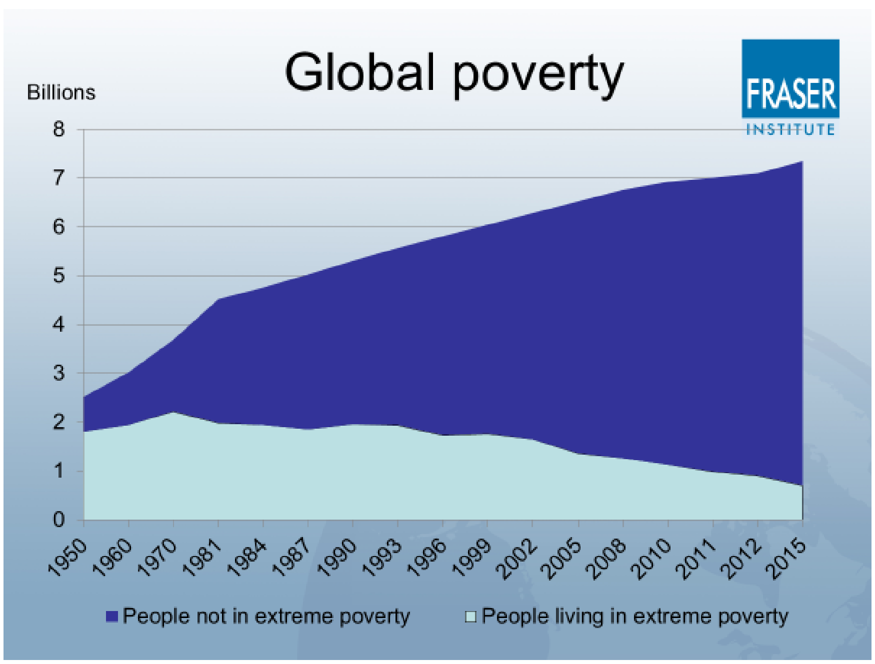
It has proved very possible for average incomes and spending power to improve consistently over long periods of time. In the West economic progress has now been sustained for centuries. Over the past 70 years the improvement in global per capita incomes has been especially impressive as the process of economic growth has been extended more widely.

Global incomes per head in inflation adjusted terms have increased on average by about four times since 1950. And as the world population increased by over 5 billion to over 7 billion over this period, those subject to absolute poverty have declined to about 1 billion, fewer poor than in 1950. Absolute poverty may be defined as having less than 3.5 current US dollars to spend each day on the essentials to sustain life.

A global economic success story – many more humans- many fewer impoverished



Source; Fraser Institute

Parson Malthus would be very impressed. He argued late in the 18th century that the population growth that came with higher incomes would in turn depress wages and incomes – so making economic progress but a very temporary form of relief for mankind. Economic history has proved to be not at all so dismal. And can help explain how the human condition has been so uplifted.

Not all countries or regions have performed as well as others. Nor inevitably have all shared equally in the progress. This uneven pace of development helps the explanation of it. David Landes[1] identified and summarised the essential, ideal, conditions for economic growth as follows

1. Secure rights of private property, the better to encourage saving and investment. (*We might add also to encourage enterprise and innovation and devotion to duty, that is appropriately rewarded)*
2. Secure rights of personal liberty – secure them against the abuses of tyranny and private disorder (crime and corruption)
3. Enforce rights of contract, explicit and implicit.
4. Provide stable government, not necessarily democratic, but itself governed by publicly know rules (a government of rules rather than men)
5. Provide responsive government, one that will hear complaint and make redress
6. Provide honest government, such that economic actors are not moved to seek advantage and privilege inside or outside the marketplace. In economic jargon, there should be no rents to favour and position.
7. Provide moderate, efficient, ungreedy government. The effect should be to hold taxes down, reduce the government's claim on the social surplus, and avoid privilege.

We might further summarise these essential conditions for economic development as that of cultivating economic and political freedom as best as possible. To allow individuals to pursue their interest in higher incomes with as little interference and obstruction from others. That is freedom to buy and sell, to employ or be employed to hire or rent as they see fit. And to protect these freedoms and their consequences in the form of savings and investment from arbitrary expropriation by other individuals or the government.

It is the sum of the efforts made by millions and billions of economic actors to do as best they can for themselves and their dependents that leads to higher levels of national production and incomes. Governments – exercising the collective will -can facilitate this process or inhibit it more or less damagingly. Or in other words politics, that sets the rules, habits and culture identified by Landes (-and many others notably Douglas North[2] who help found the modern school of institutional economics) can help accelerate economic growth or slow it down.

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[1] David Landes, The Waelth and Poverty of Nations, *Why Some Are So Rich and Some So Poor, 1998, Abucus Edition 1999.*

[2] https://en.wikipedia.org/wiki/Douglass_North

Why then to countries fail to adopt the right mix of rules and regulations for the sake of economic progress? Even as other countries – even their neighbours - do so much better at compounding, ever higher, the incomes and living standards of their citizens, including the standard of living of the poorest 20% of their populations. Those least economically advantaged by dint of their own economic outcomes, can benefit materially from income and benefits redistributed their way out of the incomes of the better off. Provided the economy is prosperous enough and the tax base is consequentially wide and deep enough to allow for significant transfers that will not much inhibit the process of growth itself. The inevitable trade-off between growth and redistribution calls for careful judgment. For growth and re-distribution and hopefully not redistribution at the expense of growth.

American economists Acemoglu and Robinson more recently [3] have examined a great variety of cases, that identify the failures to adopt the right economic stuff. As they make very clear the stumbling block to economic advances are the powerful interests in the economic and political status quo.

These with a valuable stake in the system, as it is, will always be threatened by the competition for their customers or suppliers that comes with economic and political freedom. For example those with inherited or captured valuable land and mineral rights, or guilds of professionals protected by high qualification barriers to entry, or merchants with government chartered monopolies of valuable trades, or powerful trades unions with strong bargaining powers, will all wish to protect the economic advantages they may currently enjoy- including perhaps constraints of imported or foreign competition. Those with government favoured ethnic or religiously based credentials to do business or find employment on preferred terms, will resist the competition that might reduce their incomes and opportunities that comes with open markets. The government officials responsible for administering the rules and regulation that govern economic activity will also have an economic interest, well paid jobs perhaps. They are not natural reformers of a system even when acting fairly and honestly.

Economic freedom is highly supportive of a general interest in a stronger economy. But the general interest in a strong economy and rising per capita incomes does not necessarily prevail. Special interests may well prevent it happening.

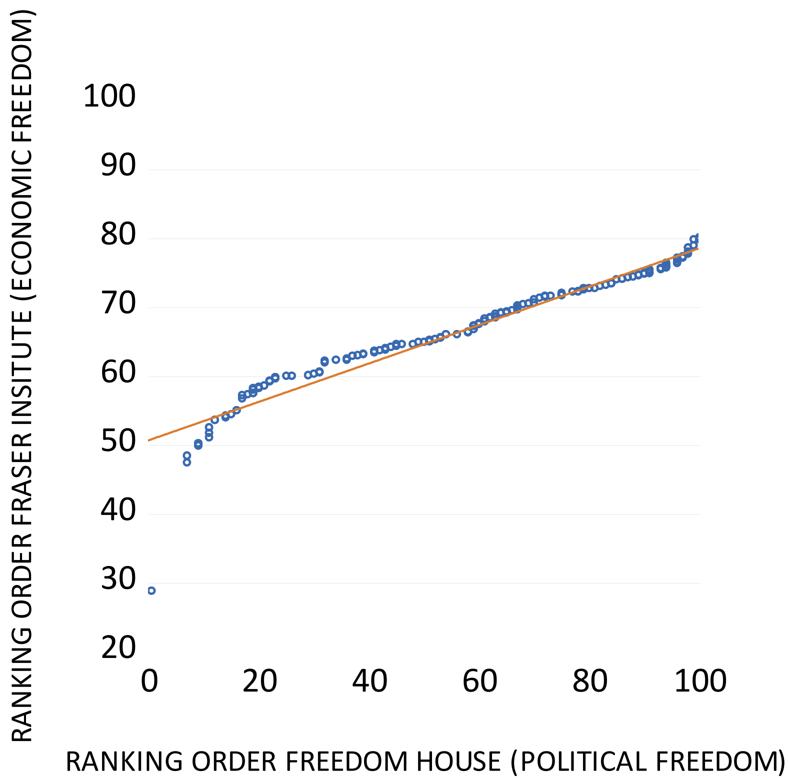
Economic and Political Freedom is being measured. Freedom House has long compared what may be described as political freedom or democracy across countries. The Fraser Institute in Vancouver Canada has pioneered the similarly comparative measurement of economic freedom. [4]The ranking order of the countries scored for economic freedom by the Fraser

[3] Daron Acemoglu and James A. Robinson, Why Nations Fail, The Origins of Power, Prosperity and Poverty, Crown Business (2012)

[4] https://freedomhouse.org/report/countries-world-freedom-2019
https://www.fraserinstitute.org/studies/economic-freedom

Institute and for freedom measured by Freedom House is highly correlated with an R squared of 0.97 and not co-incidentally so. (see below)

Rank correlation of countries – measured for Economic Freedom (Fraser Institute) and Democracy (Freedom House – freedom of the World)



Source; Fraser Institution, Freedom House, Investec Wealth and Investment

In the chart and tables below we show the respective scores (out of a possible perfect 100 for economic and political freedom and their differences) It may be seen that a relatively high score for economic freedom may be enjoyed without much political freedom. As in the cases of China, Russia and Vietnam. Singapore is the most free economy (88.4 points) according to the Fraser calculations but only is credited with 51 points for political freedom. New Zealand ranks second for economic freedom with a score of 84.9 and does very well on the Freedom House tally.

Finland, Norway and Sweden among a few other countries register a maximum of 100 points for political freedom. Their scores for economic freedom are in the mid-seventies. The US achieves a score of 86 for political freedom and an impressive – but not world beating - score of 80.3 for economic freedom.

Political freedom without a high degree of accompanying economic freedom appears very unlikely on the evidence. When given the opportunity the people have voted for a high degree of economic freedom. Experiments with top-down economic planning (in the Soviet Union and China and Cuba for example) reveals that It takes the repression of democratic freedoms to deny economic freedom.

The difference between the Fraser score for economic freedom and the Freedom House Score

(A score of above zero indicates relatively more economic than political freedom and vice-versa. The above the line differences are greater than those below the line.

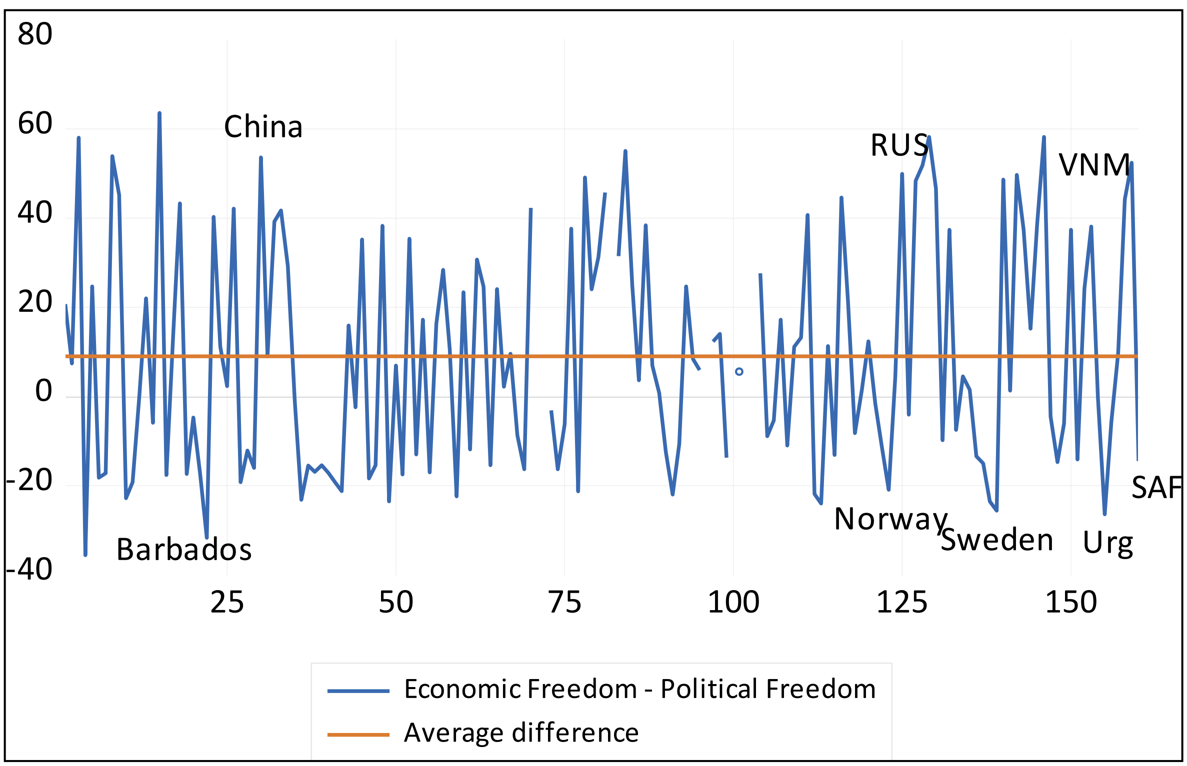


Table of Freedom Scores

Code	Country		Economic Freedom	Freedom House	Economic - Political
AGO	Angola	1	51.7	31	20.7
ALB	Albania	2	75.4	68	7.4
ARE	Unit. Arab Em.	3	75	17	58
ARG	Argentina	4	48.4	84	-35.6
ARM	Armenia	5	75.7	51	24.7
AUS	Australia	6	79.8	98	-18.2
AUT	Austria	7	75.8	93	-17.2
AZE	Azerbaijan	8	64.9	11	53.9
BDI	Burundi	9	59.2	14	45.2
BEL	Belgium	10	73.2	96	-22.8
BEN	Benin	11	59.8	79	-19.2
BFA	Burkina Faso	12	60.5	60	0.5
BGD	Bangladesh	13	63	41	22
BGR	Bulgaria	14	74.1	80	-5.9
BHR	Bahrain	15	75.6	12	63.6
BHS	Bahamas	16	73.4	91	-17.6
BIH	Bosnia and Herzegovina	17	66	53	13
BLR	Belarus	18	62.3	19	43.3
BLZ	Belize	19	68.6	86	-17.4
BOL	Bolivia	20	62.3	67	-4.7
BRA	Brazil	21	57.5	75	-17.5
BRB	Barbados	22	64.3	96	-31.7
BRN	Brunei Darussalam	23	69.3	29	40.3
BTN	Bhutan	24	70.2	59	11.2
BWA	Botswana	25	74.3	72	2.3
CAF	Central Afr. Rep.	26	51.1	9	42.1
CAN	Canada	27	79.8	99	-19.2
CHE	Switzerland	28	83.9	96	-12.1
CHL	Chile	29	78	94	-16

CHN	China	30	64.6	11	53.6
CIV	Cote d'Ivoire	31	60	51	9
CMR	Cameroon	32	58.2	19	39.2
COD	Congo, Dem. R.	33	56.7	15	41.7
COG	Congo, Rep. Of	34	50.2	21	29.2
COL	Colombia	35	65	66	-1
CPV	Cape Verde	36	66.8	90	-23.2
CRI	Costa Rica	37	75.5	91	-15.5
CYP	Cyprus	38	77.1	94	-16.9
CZE	Czech Rep.	39	75.6	91	-15.4
DEU	Germany	40	76.9	94	-17.1
DNK	Denmark	41	77.7	97	-19.3
DOM	Dominican Rep.	42	71.8	93	-21.2
DZA	Algeria	43	49.9	34	15.9
ECU	Ecuador	44	60.6	63	-2.4
EGY	Egypt	45	57.2	22	35.2
ESP	Spain	46	75.6	94	-18.4
EST	Estonia	47	78.6	94	-15.4
ETH	Ethiopia	48	57.3	19	38.3
FIN	Finland	49	76.5	100	-23.5
FJI	Fiji	50	67.9	61	6.9
FRA	France	51	72.5	90	-17.5
GAB	Gabon	52	58.4	23	35.4
GBR	United Kingdom	53	80	93	-13
GEO	Georgia	54	80.2	63	17.2
GHA	Ghana	55	66	83	-17
GIN	Guinea	56	59.3	43	16.3
GMB	Gambia, The	57	73.4	45	28.4
GNB	Guinea-Bissau	58	52.5	42	10.5
GRC	Greece	59	64.6	87	-22.4
GTM	Guatemala	60	76.4	53	23.4
GUY	Guyana	61	63.1	75	-11.9
HKG	Hong Kong	62	89.7	59	30.7
HND	Honduras	63	70.6	46	24.6
HRV	Croatia	64	69.6	85	-15.4
HTI	Haiti	65	65.1	41	24.1

HUN	Hungary	66	72.2	70	2.2
IDN	Indonesia	67	71.6	62	9.6
IND	India	68	66.3	75	-8.7
IRL	Ireland	69	80.7	97	-16.3
IRN	Iran	70	60.3	18	42.3
IRQ	Iraq	71	54	NA	NA
ISL	Iceland	72	72.2	NA	NA
ISR	Israel	73	74.9	78	-3.1
ITA	Italy	74	72.7	89	-16.3
JAM	Jamaica	75	71.8	78	-6.2
JOR	Jordan	76	74.6	37	37.6
JPN	Japan	77	74.7	96	-21.3
KAZ	Kazakhstan	78	71.1	22	49.1
KEN	Kenya	79	72	48	24
KGZ	Kyrgyz Republic	80	69.3	38	31.3
KHM	Cambodia	81	71.7	26	45.7
KOR	Korea, South	82	75.3	NA	NA
KWT	Kuwait	83	67.5	36	31.5
LAO	Laos	84	69.1	14	55.1
LBN	Lebanon	85	69.9	45	24.9
LBR	Liberia	86	65.6	62	3.6
LBY	Libya	87	47.4	9	38.4
LKA	Sri Lanka	88	64.9	58	6.9
LSO	Lesotho	89	63.8	63	0.8
LTU	Lithuania	90	78.6	91	-12.4
LUX	Luxembourg	91	76	98	-22
LVA	Latvia	92	76.4	87	-10.6
MAR	Morocco	93	63.7	39	24.7
MDA	Moldova	94	66.4	58	8.4
MDG	Madagascar	95	61.9	56	5.9
MEX	Mexico	96	69	NA	NA
MKD	Macedonia	97	71.3	59	12.3
MLI	Mali	98	58	44	14
MLT	Malta	99	77.3	91	-13.7
MMR	Myanmar	100	54.2	NA	NA
MNE	Montenegro	101	70.4	65	5.4
MNG	Mongolia	102	74	NA	NA

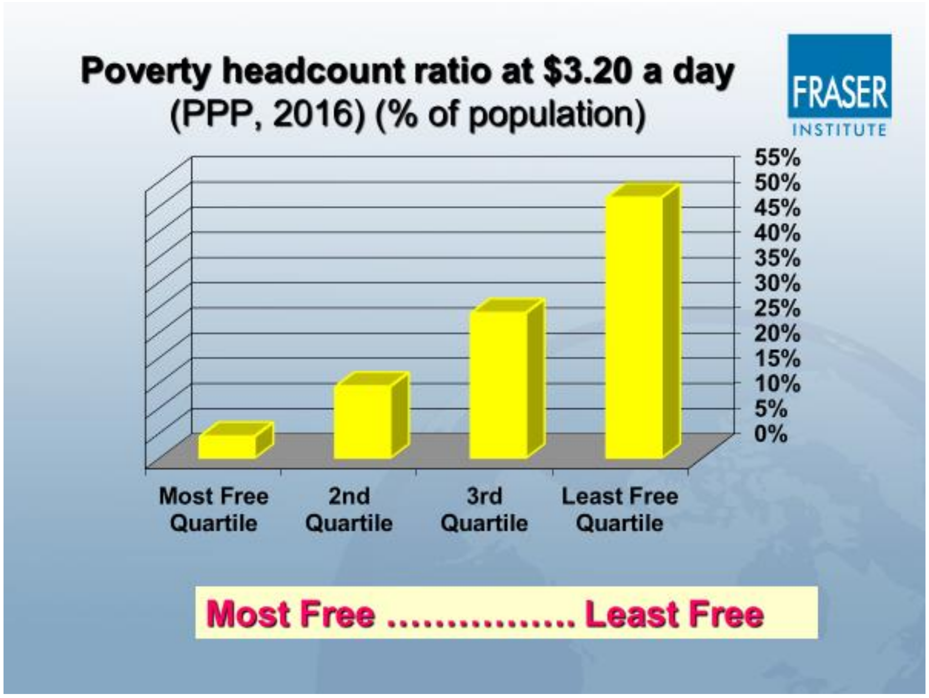
MOZ	Mozambique	103	55 NA	NA	
MRT	Mauritania	104	59.6	32	27.6
MUS	Mauritius	105	80.1	89	-8.9
MWI	Malawi	106	58.6	64	-5.4
MYS	Malaysia	107	69.2	52	17.2
NAM	Namibia	108	64	75	-11
NER	Niger	109	60.1	49	11.1
NGA	Nigeria	110	63.2	50	13.2
NIC	Nicaragua	111	72.7	32	40.7
NLD	Netherlands	112	77.1	99	-21.9
NOR	Norway	113	76	100	-24
NPL	Nepal	114	65.3	54	11.3
NZL	New Zealand	115	84.9	98	-13.1
OMN	Oman	116	67.6	23	44.6
PAK	Pakistan	117	60	39	21
PAN	Panama	118	75.8	84	-8.2
PER	Peru	119	74.3	73	1.3
PHL	Philippines	120	73.4	61	12.4
PNG	Pap. New Guinea	121	62.5	64	-1.5
POL	Poland	122	72.7	84	-11.3
PRT	Portugal	123	75.1	96	-20.9
PRY	Paraguay	124	69.5	65	4.5
QAT	Qatar	125	74.9	25	49.9
ROU	Romania	126	76.9	81	-4.1
RUS	Russia	127	68.3	20	48.3
RWA	Rwanda	128	74.8	23	51.8
SAU	Saudi Arabia	129	65.2	7	58.2
SDN	Sudan	130	53.6	7	46.6
SEN	Senegal	131	62.2	72	-9.8
SGP	Singapore	132	88.4	51	37.4
SLE	Sierra Leone	133	57.5	65	-7.5
SLV	El Salvador	134	71.5	67	4.5
SRB	Serbia	135	68.5	67	1.5
SUR	Suriname	136	63.6	77	-13.4
SVK	Slovak Rep	137	73	88	-15
SVN	Slovenia	138	70.5	94	-23.5
SWE	Sweden	139	74.4	100	-25.6

SWZ	Swaziland	140	64.6	16	48.6
SYC	Seychelles	141	72.3	71	1.3
SYR	Syria	142	50.2	0.5	49.7
TCD	Chad	143	54.4	17	37.4
TGO	Togo	144	58.2	43	15.2
THA	Thailand	145	68.5	30	38.5
TJK	Tajikistan	146	67.2	9	58.2
TLS	Timor-Leste	147	65.5	70	-4.5
TTO	Trinidad & Tob.	148	67.3	82	-14.7
TUN	Tunisia	149	62.9	69	-6.1
TUR	Turkey	150	68.4	31	37.4
TWN	Taiwan	151	78.9	93	-14.1
TZA	Tanzania	152	69.2	45	24.2
UGA	Uganda	153	74.1	36	38.1
UKR	Ukraine	154	59.8	60	-0.2
URY	Uruguay	155	71.6	98	-26.4
USA	United States	156	80.3	86	-5.7
VEN	Venezuela	157	28.8	19	9.8
VNM	Vietnam	158	64.2	20	44.2
YEM	Yemen, Rep.	159	63.4	11	52.4
ZAF	South Africa	160	64.5	79	-14.5

Source; Fraser Institution, Freedom House, Investec Wealth and Investment

South Africa – unsurprisingly - scores very poorly for economic freedom. The score of 64.5 gives it a low rank of 110 out of 160 countries. This economic freedom score has declined in recent years. The score for political freedom of 79 places SA in the second quartile of free countries.

The countries judged as most free economically are mostly those with high average per capita incomes and with the smallest percentages of their populations suffering absolute poverty.

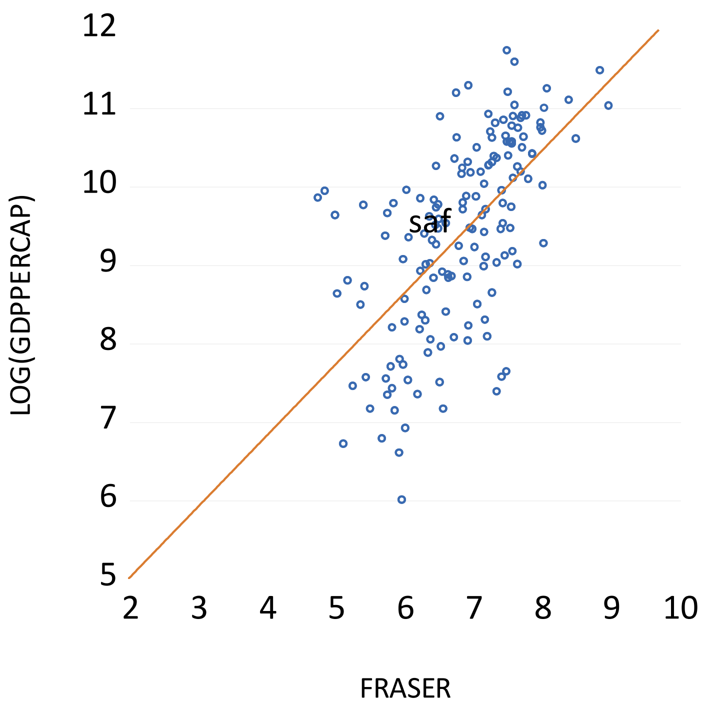


Source; Fraser Institute

Source; Fraser Institute

The relationship between GDP per capita and the Fraser Economic Freedom score (10 being as free as possible) is shown below. As may be seen the log linear relationship in 2016 is a positive one with an R squared of 0.36.

Economic Freedom and GDP per capita (Scatter Plot 2016)



Source; Fraser Institute and Investec Wealth and Investment

While the economic freedom score explains 36% of the GDP per capita, leaving much to be explained by other forces at work, the cross- sectional relationship between the freedom score and GDP per capita is a statistically highly significant one, as may be seen in the regression output. [5] The equation indicates that on average every one percent increase in the freedom score will add 5.9% to per capita GDP. As may be seen the relationship for South Africa is about what would be predicted by the general relationship.

The higher income countries register well on the economic freedom scale despite the tendency for the governments of the higher income countries to collect not only more taxes but for their taxes to command a higher proportion of their (higher) GDP's. Clearly the more tax paid out of incomes the less freedom left over for individual taxpayers to exercise their own economic freedoms. There may well be an important element of redistribution from the better to the less well off in society in the mix of taxes and government spending. This detracts from the freedom to consume by some members of the society while adding to the freedom of others. Tax revenues in the modern state are widely used to provide private benefits. And not only to provide what may be described as pure public goods, for example spending on defence, law and order and the infrastructure that provide similar benefits to all citizens independently of their incomes. The high-income countries are typically not shy to regulate economic activity. However they appear to regulate better than the bulk of lower income countries, according to the Fraser metrics. Their regulations are judged as more transparent and predictable and less vulnerable to corruption.

It would appear however that the share of GDP taken by the governments of the most advanced seven economies (the G7) in taxes may well have stabilized. (see figures below) The global financial crisis and the accompanying decline in GDP saw the government spending ratio

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[5]

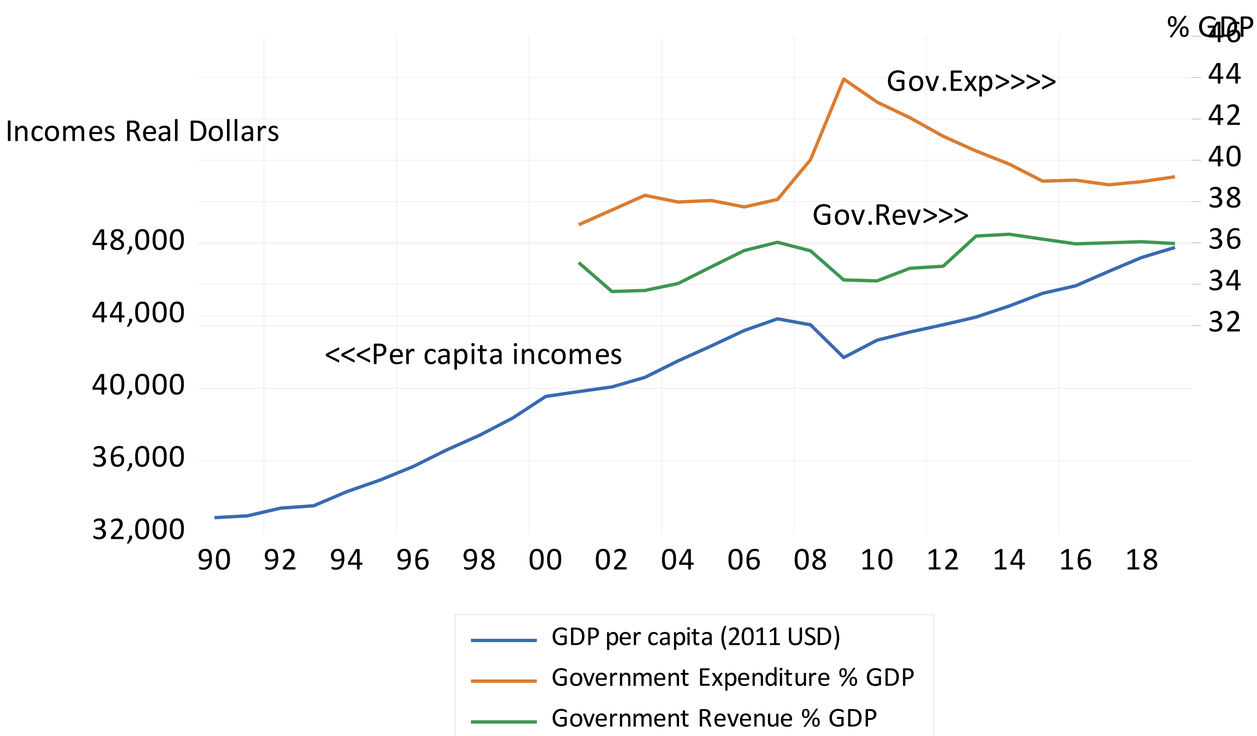
Dependent Variable: LOG(GDPPERCAP)				
Method: Least Squares				
Sample: 1 160				
Included observations: 157				
Variable	Coefficier	Std. Error	t-Statistic	Prob.
C	-1.79909	1.215536	-1.480078	0.1409
LOG(FRASER)	5.859125	0.633866	9.243474	0
R-squared	0.355353	Mean dependent var		9.413067
Adjusted R-squared	0.351194	S.D. dependent var		1.225384
S.E. of regression	0.987028	Akaike info criterion		2.824421
Sum squared resid	151.0049	Schwarz criterion		2.863354
Log likelihood	-219.717	Hannan-Quinn criter.		2.840233
F-statistic	85.44182	Durbin-Watson stat		1.873102
Prob(F-statistic)	0			

rise and the ratio of taxes to GDP decline. But more recently the ratios have stabilized at their pre-crisis rates.

Perhaps this indicates the influence of mobile taxpayers- corporations and wealthy individuals – who can choose to some degree their domiciles. Competition for mobile tax-payers may well help restrain tax rates- in ways that promote economic growth and serve to increase the amount of tax collected. Germany is a very demanding tax collector while the US combining all levels of government taxes comparatively lightly as may be seen in the further figure.

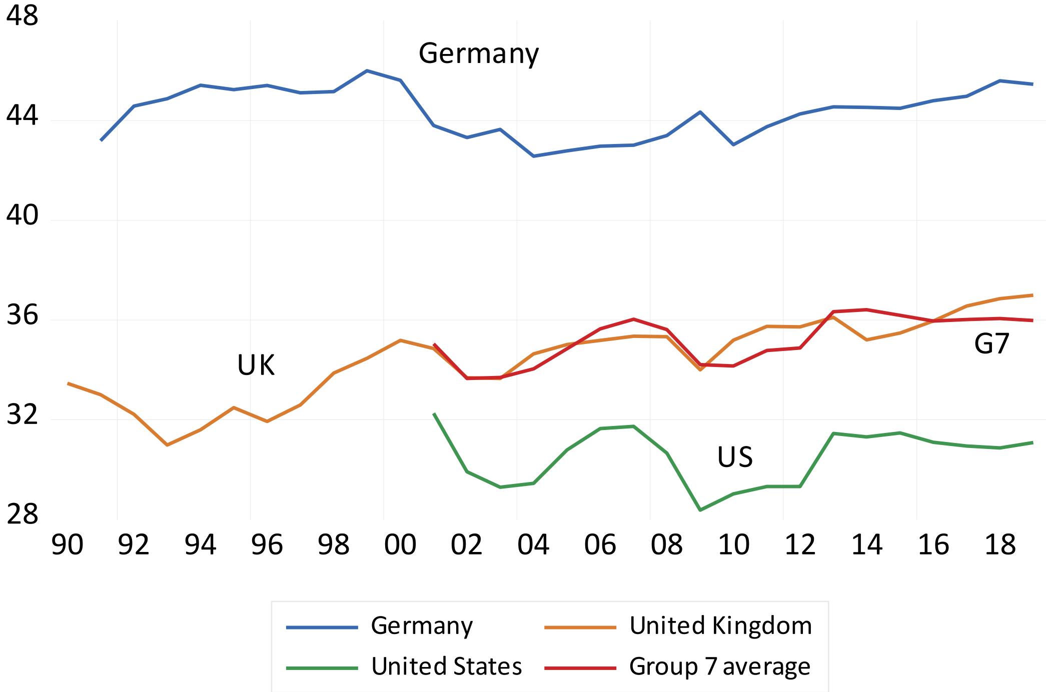
The average GDP per capita for the G7 has increased by about 38% since 1990- equivalent to an average compound rate of growth of 1.88% p.a. fast enough to almost double per capita output every generation of 30 years. Presumably such a fast pace of growth cannot be sustained indefinitely. Higher per capita incomes will lead to increased consumption of leisure- and fewer working hours on average.

Most Advanced Economies (G7) GDP per head and share of government expenditure and revenue in GDP



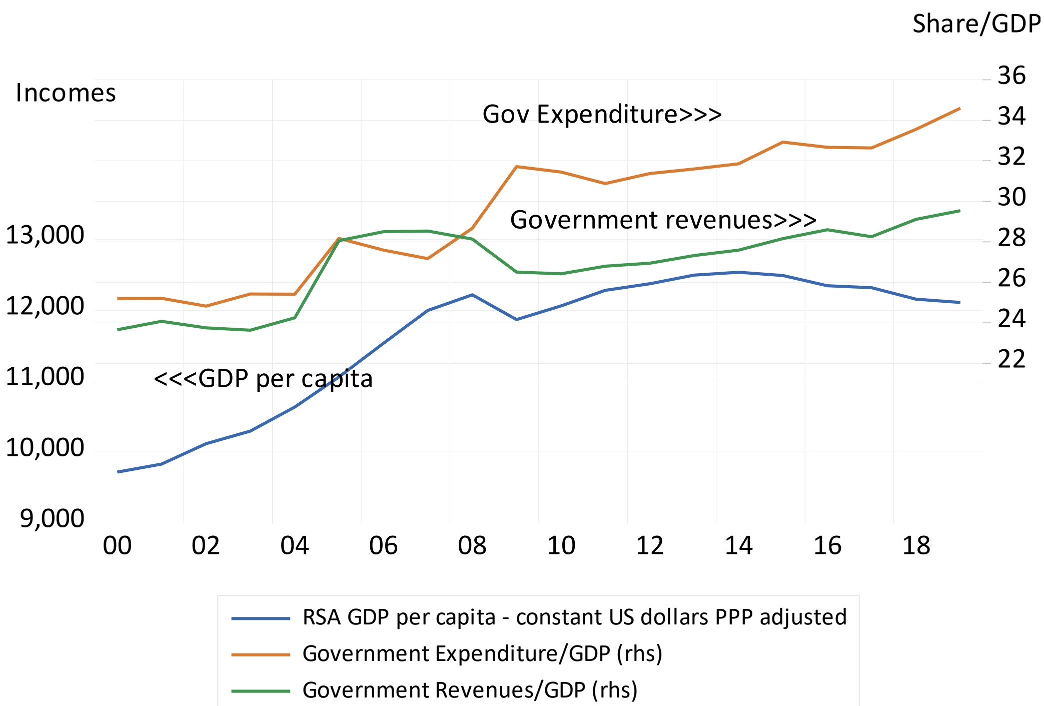
Source; IMF WEO and Investec Wealth and Investment

Germany , UK and US- Tax revenues as share of GDP



Source; IMF WEO and Investec Wealth and Investment

RSA GDP per capita (USD) and share of government expenditure and revenue of GDP



Source; IMF WEO and Investec Wealth and Investment

The equivalent South African trends have been moving in the wrong direction for freedom and economic growth. The ratio of government spending and tax revenues to GDP have been increasing while per capita GDP has stagnated since 2010.

The inability of South Africa to restrain the upward march of government spending given the weakness of the economy has led to higher tax rates – and a larger share of taxes in GDP. The higher tax rates intended to close the gap between government spending and revenues have in turn discouraged economic activity and depressed tax collections.

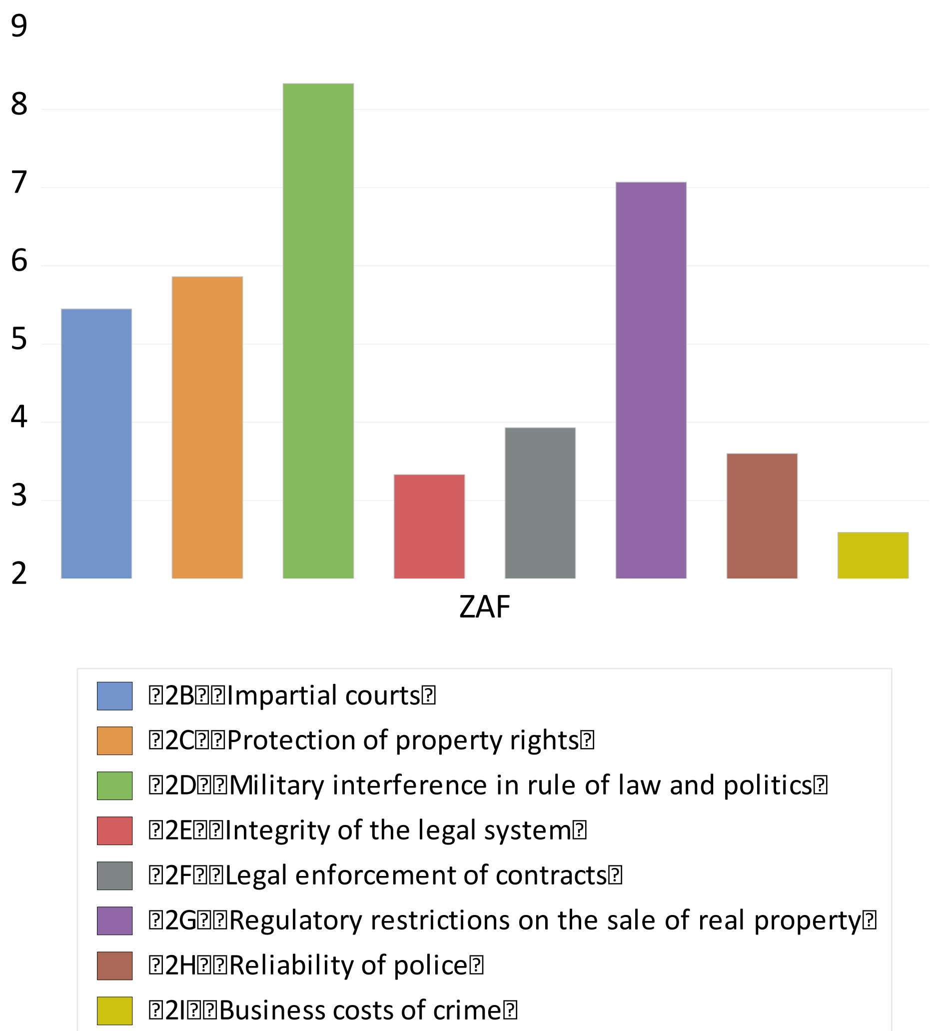
The answer for South Africa's failure to improve per capita incomes growth and a potential government debt trap that accompanies persistently weak GDP growth is greater economic freedom to stimulate growth. Economic history makes this advice very obviously valuable.

But as in all cases of frustrated economic development there is a powerful interest in the SA status quo. The bloated SA government and its state-owned enterprises provide a very good and much improved standard of living for those who work for and supply the state on highly favoured terms. A freer more competitive economy would clearly threaten their well-being and will be resisted accordingly. For South Africa as with all economies, the choices a society makes – choosing less or more economic freedom will determine the economics and economic fate of its most vulnerable citizens. We can only hope that South Africa given the bleak alternative makes more of the right choices.

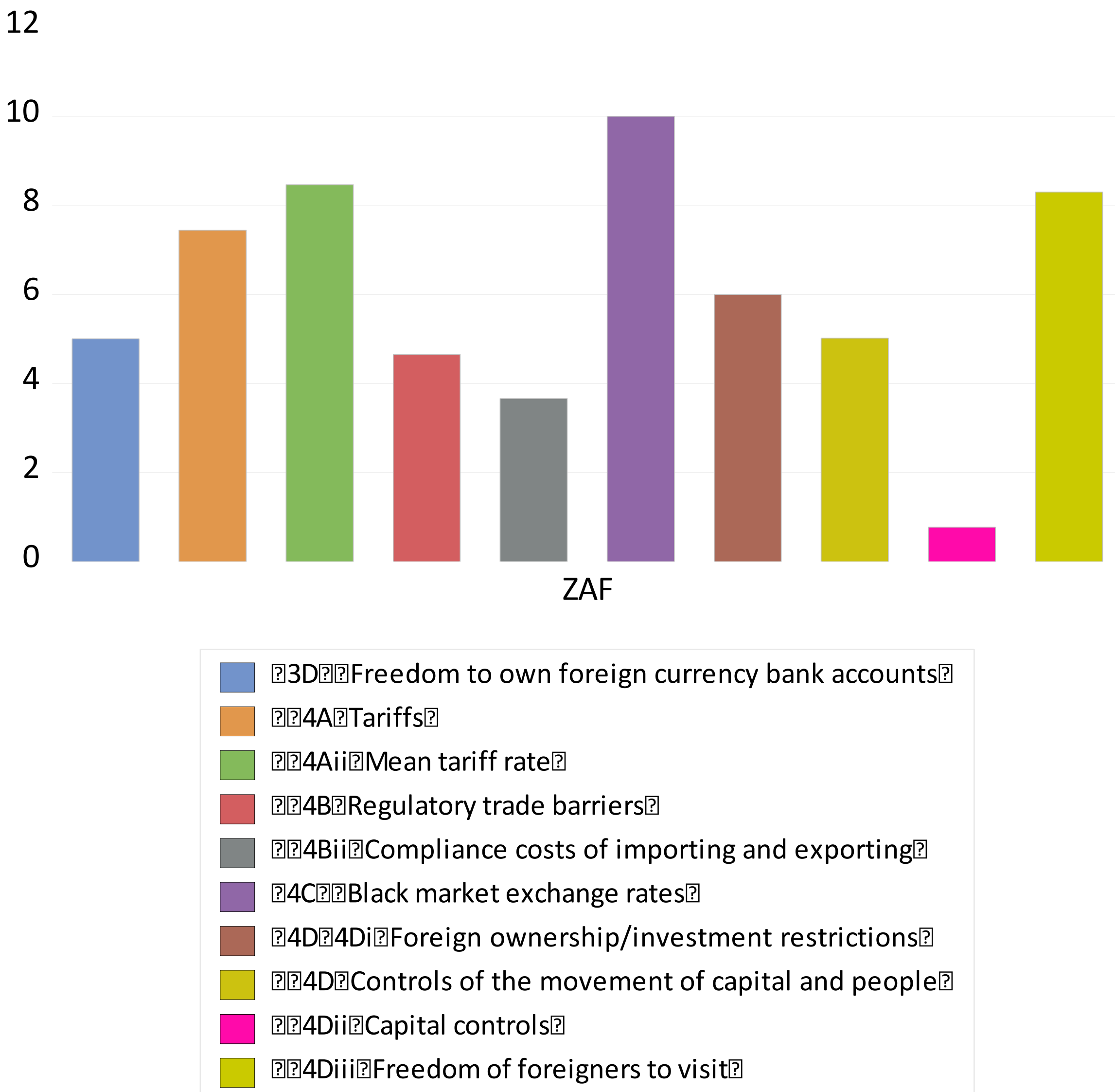
Appendix – The Fraser Institute Report on South Africa - Extracts

The following charts show in some detail how the South African Economic freedom score of 110 was calculated as the sum of its many characteristics. As may be seen South Africa does comparatively poorly for labour market freedoms and better for its credit markets. Not all the sub-categories are shown below. For the full breakdown the Fraser Report on Economic Freedom can be referred to. https://www.fraserinstitute.org/studies/economic-freedom

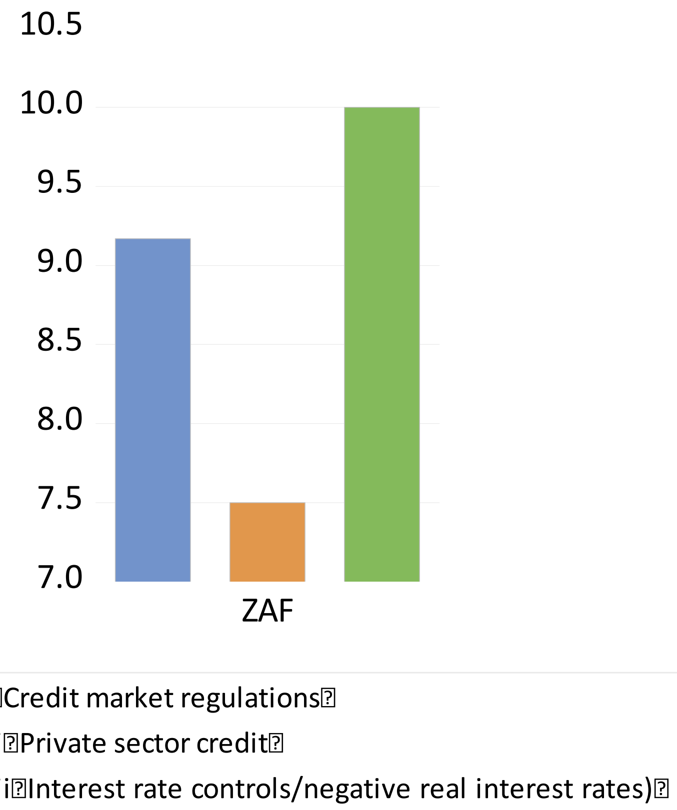
South Africa – sub-category scores out of 10; law and order



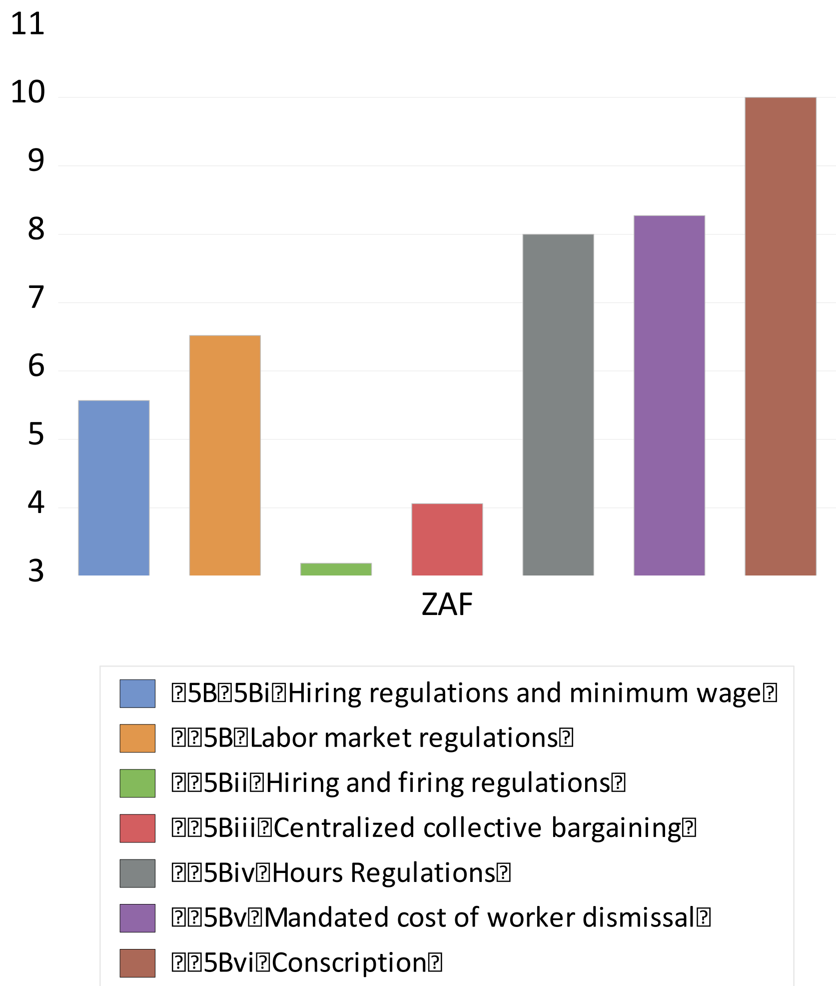
South Africa; Foreign trade and capital flows



South Africa; Credit market ratings



South Africa; Labour Market Indicators



Source; Fraser Institute and Investec Wealth and Investment