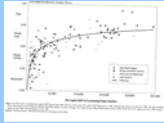


## Evidence on Technological Change



## Measures of Economic Freedom

- Heritage Foundation / *Wall Street Journal*
- Quantifies Economic Freedom
- Look at the Relation between a nation's income and level of Economic Freedom.

## Measures of Economic Freedom

- Trade policy:
  - Are there tariffs and other barriers to trade?

## Measures of Economic Freedom

- Trade policy:
- Taxation:
- Government intervention in the economy:
  - Does the government own businesses? What is the size of government consumption relative to the size of the economy?

## Measures of Economic Freedom

- Trade policy:
- Taxation:
- Government intervention in the economy:
- Banking:
  - Does the government own banks? Does the government influence who gets loans? Are there other regulations?

## Measures of Economic Freedom

- Trade policy:
- Taxation:
- Government intervention in the economy:
- Banking:
- Property rights:
  - Is there corruption in the court system? Are there laws governing contracts? Is there protection from government or private seizure of property?

## Measures of Economic Freedom

- Trade policy:
- Taxation:
- Government intervention:
- Banking:
- Property rights:

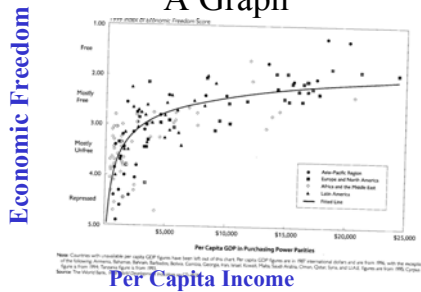
For each factor, the Heritage Foundation assigns a score of 1 (good) to 5 (bad)

The national score is an average of their 10 scores

## Selected Scores

Country	Economic Freedom Index
Hong Kong	1.25
Switzerland	1.85
United States	1.90
Japan	2.05
Germany	2.30
South Korea	2.40
Poland	2.95
Bulgaria	3.45
North Korea	5.00

## A Graph



## A Comparison

- Before WWII, North and South Korea were united (as a Japanese colony).
  - Today, North Korea has a per capita income of \$900.
  - South Korea is \$13,193

## Caveats

- Some of the factors are questionable.
- A common theme: protection of property rights.

## Back to Miller's Pizzeria

- Miller's Pizzeria is located in Backwater
- Backwater has low levels of economic freedom and income.
- Suppose that a political revolution bring Backwater's Index of Economic Freedom up to that of the United States.
  - We would expect Backwater's standard of living to move up to that of the United States *over time*.

## Applying to Miller's Pizzeria

- The owner will greet the revolution cautiously.
  - Political revolutions promising "new eras" come and go.
  - People must trust that there is economic freedom.

## Applying to Miller's Pizzeria

- The owner will greet the changes cautiously.
- The Pizzeria is under capitalized.
  - Its pizza ovens are something from the Dark Ages
  - It has an uninviting appearance; an improved appearance will simply attract the tax collector.
  - All of these problems can be fixed with a capital infusion, but it will take time.

## Applying to Miller's Pizzeria

- The owner will greet the changes cautiously.
- Because of the heavy regulation, the Pizzeria is under capitalized.
- The owner has not kept abreast of new advances.
  - Why bother? Now, he will. But it will take time.

## Applying to Miller's Pizzeria

- The owner will greet the changes cautiously.
- Because of the heavy regulation, the Pizzeria is under capitalized.
- The owner has not kept abreast of new advances.
- His staff will require time to learn new skills.

## A Summary

- Economic Freedom is the key
- Don't worry too much about Heritage Foundation Numbers.

End

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