

Press Release

Jerusalem Institute for Market Studies: Israel Ranks 81st out of 141 countries in the Economic Freedom Index

Israel ranks 81st in the world in terms of economic freedom, according to the Economic Freedom of the World: 2010 Annual Report. Last year, Israel ranked 78th. The report, published in Israel by the Jerusalem Institute for Market Studies (JIMS), was conceived by Nobel laureate Milton Freedman and Professor Michael Walker in the 1970s, and is compiled by the Canadian Fraser Institute in cooperation with dozens of think tanks around the world. Not only did Israel's ranking fall this year, but for the first time in a quarter of a century, the level of global economic freedom also decreased, mostly due to highly questionable government policies aimed at easing the financial crisis.

Economic freedom is measured in five different areas: size of government, legal structure and protection of property rights, access to sound money, freedom to trade internationally, and regulation of credit, labor and business. Each country is given a score in each one of 42 sub-categories, which are then compiled into one overall economic freedom score.

The area in which Israel is least free, for which it received a score of 5 out of 10, is the size of government. A high marginal tax rate (5.0) and a high level of government spending as a share of GDP (3.0) lowered Israel's score in this area.

Israel also lags far behind the set of countries considered to be social democracies with large governments. For example, Israel received a score of 5.9 (62nd) for its legal structure and protection of property rights, while Scandinavian countries occupied 5 out of the top 6 spots. Israel received remarkably low scores for legal enforcement of contracts (3.5) and restrictions on the sale of property (5.6). In terms of regulation, Israel ranks 55 with a score of 6.7, far behind countries such as Iceland, Denmark, Sweden and the Netherlands. It received particularly low scores for bureaucracy (3.6) and mandated firing costs (1.6).

Israel's security problems damage its economic freedom not only because of the large defense budget. Israel received a score of 0 for its policy of conscription (an all-volunteer military would have moved Israel up 5 places in the ranking), and a score of 4.2 for military intervention in rule of law and the political process.

Israel received its best scores for access to sound money (9.2, 39th) and freedom to trade internationally (7.6, 28th). High import taxes for cars and other goods (3.1), and the small size of the trade sector (3.5) prevented it from getting an even higher score.

The Index is based on data from 2008. It ranks Hong Kong first, then Singapore, New Zealand and Switzerland. Zimbabwe once again has the lowest level of economic freedom, followed by Myanmar, Angola and Venezuela.

Many studies have pointed to the relationship between economic freedom and growth. Due to the financial crisis, this year's report focused on the correlation between economic freedom and stability. "The report found a negative correlation between economic freedom and volatility, showing that economic freedom supports

macroeconomic stability," says Corinne Sauer, Executive Director of JIMS. "Even the poor in countries with high levels of economic freedom are better off than the average person in the least free countries." The report shows that the bottom 10% of earners in countries in the top quartile of the Index earn more than twice the overall average of countries in the bottom quartile.

"Israel has made much progress since the report was first published in 1980," says Sauer, "but in the past decade, in spite of some positive reforms, other countries are progressing faster toward promoting economic freedom. In order to deal with the challenges we will face in the coming decade, Israel must continue to develop its economic prowess. There is no better way to achieve this than to advance additional reforms which promote economic freedom."

The full report can be found at www.freetheworld.com. For further information visit JIMS' website: www.jims-israel.org or contact Yarden Gazit at [yarden.gazit\[at\]jims-israel.org](mailto:yarden.gazit@jims-israel.org).