

## APPENDIX 1: MEASURES OF CAPITALISM AND POLITICAL FREEDOM

All indicators shown below were transformed into series with a zero mean and a standard deviation of one before they were combined. The summary measures were also transformed in a similar manner. The correlation matrices calculated from the adjusted coefficients of determination are reported below.

Appendix Table A1: Matrices of Correlation Coefficients

### A. Substantial and legally protected private ownership of the means of production

	<u>Correlation matrix</u>								
	1.	2.	3.	4.	5.	6.	7.	8.	9..
1. Private investment as a share of total investmt	1.00								
2. Rule of law	0.42	1.00							
3. Judicial independence	0.35	0.87	1.00						
4. Impartial courts	0.35	0.88	0.94	1.00					
5. Protection of intellectual property	0.36	0.89	0.89	0.90	1.00				
6. Law and order	0.32	0.85	0.73	0.74	0.75	1.00			
7. Legal enforcement of contracts	0.22	0.54	0.52	0.52	0.59	0.56	1.00		
8. Judicial indicators combined	0.31	0.91	0.91	0.92	0.93	0.85	0.70	1.00	
9. All indicators combined	0.81	0.82	0.78	0.79	0.79	0.72	0.57	0.81	1.00

#### Sources and methods

1. Gwartney et al. (2007), series 1C: an average of values for 1995, 2000, and 2005 for one minus the share of government enterprises and government in total investment.
2. Kaufmann et al.(2007): an average of values for 1996 1998 and 2000 through 2005. The two earlier values are given double weight.
3. Gwartney et al. (2007), series 2A: an average of values for 1995, 2000, and 2005.
4. Ibid., series 2B: an average of values for 1995, 2000, and 2005.
5. Ibid., series 2C: an average of values for 1995, 2000, and 2005.
6. Ibid., series 2E: an average of values for 1995, 2000, and 2005.
7. Ibid., series 2F: an average of values for 1995, 2000, and 2005.
8. Indicators 2 through 7 combined, giving equal weight to all
9. The summary measure gives equal weight to the ownership (indicator 1) and the indicators for legal protection of private property (indicator 8).

### B. Competitive markets

	<u>Correlation matrix</u>				
	1	2	3	4	5
1. Business freedom	1.00				
2. Price controls	0.45	1.00			
3. Competition in domestic banking	0.16	0.31	1.00		
4. Collective bargaining at central level	-0.04	-0.18	0.09	1.00	
5. All indicators combined	0.65	0.65	0.66	0.39	1.00

Sources and methods:

1. Heritage Foundation (2008): an average for 1995, 2000, and 2005. See also Beach and Kane (2008).
2. Gwartney et al. (2007), series 5Ci: an average of values for 1995, 2000, and 2005.
3. Ibid., series 5Aii: an average of values for 1995, 2000, and 2005.
4. Ibid., series 5Biii: an average of values for 1995, 2000, and 2005.
5. An average with all indicators given equal weight.

**C. Economic freedom**

	<u>Correlation matrix</u>					
	1	2	3	4	5	6
1. Lack of interest rate regulation	1.00					
2. Trade freedom	0.40	1.00				
3. Investment freedom		0.19	0.41	1.00		
4. Financial freedom	0.29	0.53	0.70	1.00		
5. Labor freedom	0.33	0.20	0.07	0.21	1.00	
6. All indicators combined	0.65	0.74	0.69	0.80	0.53	1.00

Sources and methods:

1. Gwartney et al. (2007), series 5Aiv: an average of values for 1995, 2000, and 2005.
2. Heritage Foundation (2008): an average for 1995, 2000, and 2005. See also Beach and Kane (2008).
3. Heritage Foundation (2008): an average for 1995, 2000, and 2005. See also Beach and Kane (2008).
4. Heritage Foundation (2008): an average for 1995, 2000, and 2005. See also Beach and Kane (2008).
5. Heritage Foundation (2008): an average for 1995, 2000, and 2005. See also Beach and Kane (2008).
6. All indicators combined with equal weight.

**D. Political freedom**

	<u>Correlation matrix</u>				
	1.	2.	3.	4.	5.
1. Democracy and autocracy measure	1.00				
2. Popular voice in, and accountability of government	0.81	1.00			
3. Political liberties	0.64	0.66	1.00		
4. Civil rights	0.57	0.65	0.93	1.00	
5. Combined, all indicators	0.85	0.88	0.91	0.89	1.00

Sources and methods:

1. Marshall and Jagers (2005): polity2 variable which combines democracy and autocracy measures; this is an average of values from 1995 through 2004.
2. Kaufmann et al. (2007): an average of values of 1996 1998 and 2000 through 2005. The two earlier values are given double weight.
3. Freedom House (2008): an average of values from 1995 through 2005.
4. Ibid: an average of values from 1995 through 2005.
5. All indicators combined with equal weights.

**E. The Three Elements of Capitalism**Correlation matrix

	1	2	3	4
1. Property, protection and relative extent	1.00			
2. Competitive markets	0.42	1.00		
3. Economic freedom	0.70	0.67	1.00	
4. Degree of capitalism	0.92	0.59	0.92	1.00

Appendix Table A2: Basic Data

	Capitalism score, 2000	Political freedom, 2000	1990-94 Per capita GDP, 1990 dollars
Albania	-0.58	-0.50	\$1,980
Algeria	-1.79	-1.71	2,757
Argentina	-0.03	0.20	7,421
Armenia	0.25	-0.83	4,031
Australia	1.48	1.13	17,241
Austria	0.54	1.12	17,251
Azerbaijan	-0.66	-1.77	3,473
Belgium	0.70	1.01	17,511
Bolivia	-0.53	0.23	2,267
Bosnia-Herzegovina	-0.65	-0.96	2,635
Botswana	0.59	0.57	3,242
Brazil	-0.51	0.05	4,944
Bulgaria	-0.49	0.39	5,146
Canada	1.49	1.18	18,548
Chile	1.56	0.62	7,255
China	-1.63	-2.34	2,130
Colombia	-0.45	-0.51	4,968
Costa Rica	0.05	0.89	4,961
Croatia	-0.46	-0.31	5,627
Czech Republic	0.80	0.85	8,078
Denmark	1.94	1.18	18,968
Dominican Republic	-0.69	0.14	2,533
Ecuador	-1.16	-0.03	4,009
Egypt	-0.92	-1.88	2,428
El Salvador	1.06	0.06	2,268
Estonia	1.06	0.66	8,958
Finland	1.10	1.18	15,597
France	0.36	0.89	18,196
Gabon	-1.49	-1.23	4,763
Georgia	0.01	-0.55	4,256
Germany	0.82	1.00	16,564
Greece	-0.12	0.73	10,077
Guatemala	-0.30	-0.40	3,085
Honduras	-1.04	-0.12	1,921
Hungary	0.76	0.92	5,773

Table A2 continued

Table A2 continued

	Capitalism score, 2000	Political freedom, 2000	1990-94 Per capita GDP, 1990 dollars
Indonesia	-1.13	-1.04	2,814
Iran	-2.35	-1.74	3,793
Ireland	1.56	1.11	12,360
Israel	0.32	0.59	13,433
Italy	0.21	0.89	16,536
Jamaica	0.28	0.41	3,650
Japan	0.77	0.83	19,317
Jordan	-0.43	-1.09	3,814
Kazakhstan	-0.75	-1.69	6,032
Korea, South	-0.14	0.48	9,828
Kuwait	0.74	-1.38	9,838
Kyrgyzstan	-0.97	-1.43	2,762
Latvia	0.35	0.66	6,976
Lithuania	-0.25	0.81	6,695
Macedonia	-0.04	-0.24	3,386
Malaysia	-0.12	-0.89	5,776
Mauritius	-0.30	0.84	7,828
Mexico	-0.46	-0.06	6,330
Moldova	-0.84	-0.25	4,147
Morocco	-0.56	-1.40	2,600
Namibia	-0.05	0.17	3,440
Netherlands	1.37	1.18	17,700
New Zealand	2.70	1.19	13,910
Norway	0.41	1.17	19,520
Oman	0.16	-1.93	6,820
Pakistan	-0.73	-1.18	1,702
Panama	0.32	0.51	4,987
Paraguay	-1.07	-0.32	3,270
Peru	0.07	-0.37	3,009
Philippines	-0.71	0.17	2,160
Poland	-0.25	0.85	4,993
Portugal	0.32	1.12	11,150
Romania	-0.84	0.30	3,034
Russia	-1.13	-0.76	6,432
Serbia & Montenegro	-0.86	-0.52	3,473

Table A2 continued

Table A2 continued

	Capitalism score, 2000	Political freedom, 2000	1990-94 Per capita GDP, 1990 dollars
Singapore	1.97	-1.04	16,025
Slovakia	-0.07	0.57	6,524
Slovenia	-0.64	0.91	8,666
South Africa	0.00	0.73	3,791
Spain	0.35	0.96	12,264
Sri Lanka	-0.57	-0.41	2,648
Sweden	0.93	1.17	17,156
Switzerland	1.50	1.15	20,643
Syria	-2.92	-2.52	6,266
Taiwan	0.40	0.59	11,137
Thailand	-0.16	0.21	5,327
Trinidad & Tobago	0.25	0.55	9,621
Tunisia	-0.29	-1.60	3,523
Turkey	0.17	-0.56	5,591
Ukraine	-0.61	-0.46	4,785
United Arab Emirates	0.59	-1.80	12,855
United Kingdom	2.03	0.97	16,430
United States	2.12	1.10	23,352
Uruguay	0.05	0.88	6,987
Venezuela	-1.74	-0.23	8,882

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