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AN EDUCATIONAL NOTE

Teaching Economic Freedom with the Mystery Nations Lesson

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Abstract

Economic freedom is often overlooked in high school and college curricula and textbooks, despite its significant impact on per capita GDP and a variety of other social indicators. After introducing the Economic Freedom of the World index, this note outlines an innovative teaching lesson. By engaging students in a guessing game about the identity of different countries with known economic characteristics, the lesson highlights the critical role of economic freedom in national prosperity. The result can be a deeper understanding of this vital economic concept.

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I. Introduction and Background

Economic freedom is a critical concept for students of economics to understand. Given its strong connections with living standards and human rights, one might expect this concept to be widely covered in high school and college economics courses. However, economic freedom is rarely emphasized in textbooks, curricular materials, or state-level economics standards.

* We acknowledge the able research assistance of Concordia University Wisconsin student Anna Young. A PDF version of the PowerPoint presentation discussed in this note may be obtained by emailing Niederjohn at scott.niederjohn@cuw.edu.

This educational note first explains economic freedom and how economists measure it. It then provides an innovative and engaging teaching lesson for use by teachers interested in infusing their existing courses with the idea. This Mystery Nations lesson relies on an interactive process to illustrate the powerful role of economic freedom in promoting prosperity and higher living standards around the world. For current empirical evidence, it uses the well-known Fraser Institute Index of Economic Freedom.

II. Measuring Economic Freedom

Economic freedom is based on the concept of self-ownership. From self-ownership, it follows that individuals have a right to choose—to decide how to use their time and talents to shape their lives. Equally importantly, they do not have a right to take the time, talents, and resources of others. The cornerstones of economic freedom are personal choice, voluntary exchange, open markets, and clearly defined and enforced property rights. An economically free society provides infrastructure for voluntary exchange and protects individuals and their property from aggressors (Gwartney and Lawson 2003).

The Economic Freedom of the World index (Gwartney, Lawson, and Murphy 2023) measures how consistent nations' institutions and policies are with economic freedom. To achieve a high rating, a government must do some things but refrain from others. The index measures the degree of economic freedom in five major areas. Within these areas, there are a total of twenty-five components. Including measures in subcomponents, the index reflects data on forty-five measures.

The five major areas are as follows:

Area 1: Size of Government

This focuses on government expenditures and tax rates. Area 1's five components measure the degree to which a country relies on personal choice and markets rather than government budgets and political decision-making. When government decision-makers, even in democratic countries, spend tax dollars, citizens are less free to decide for themselves how their income should be spent. High marginal tax rates can deter taxpayers from working or investing more. Countries with lower government spending, lower marginal tax rates, and less government investment and state ownership of assets earn the highest ratings in this area.

Area 2: Legal System and Property Rights

This area focuses on the legal system. The key ingredients of a legal system that is consistent with economic freedom are rule of law, security of property rights, an independent and unbiased judiciary, and impartial and effective enforcement of the law. If Peter pays John to do a job, but John does not perform the contracted service, then Peter is little different from a thief, and John's freedom has been reduced. In such situations, it is critical that Peter have the ability to sue for damages in an efficient and fair court. The eight components of Area 2 are indicators of how effectively these protective functions of government are performed. The rating is adjusted based on an index of cross-country gender differences in legal rights.

Area 3: Sound Money

Area 3 focuses on money and general price stability. Sound money—money with relatively stable purchasing power across time—reduces transaction costs and facilitates exchange, thereby promoting economic freedom. If one saves money for the future, inflation acts as a tax on the savings by reducing its purchasing power; in fact, inflation acts as a tax on any currency-denominated asset, such as bonds, leases, and mortgages. To get a high rating in Area 3 requires policies and institutions that lead to low and stable rates of inflation while avoiding regulations that limit the ability to use alternative currencies.

Area 4: Freedom to Trade Internationally

This area focuses on voluntary exchange across national boundaries. When governments use taxes or regulations to restrict the ability of their residents to engage in these exchanges, economic freedom is diminished. Area 4's components measure a wide variety of trade restrictions: tariffs, quotas, hidden administrative restraints, and controls on exchange rates and the movement of capital. Getting a high rating requires low tariffs, easy clearance and efficient administration of customs, a freely convertible currency, and few controls on the movement of physical and human capital.

Area 5: Regulation

This comprises measures of regulations that restrict entry into markets and interfere with the freedom to engage in voluntary exchange. All markets are regulated by the actions of buyers and sellers through contracts and by the common law (governing things like fraud), but government regulations are frequently imposed on buyers or sellers against their wishes. Area 5 components focus on

regulatory restraints that limit freedom of exchange in credit, labor, and product markets.

The Economic Freedom of the World index rates 165 jurisdictions. The data are available annually from 2000 to 2021 and at five-year intervals from 1970 to 1995. This data set makes it possible for scholars to analyze both cross-country differences in economic freedom and changes across decades. Table 1 shows the top and bottom ten nations in economic freedom as measured by the index in 2023.

Table 1. Economic Freedom Top and Bottom 10 Nations, 2023

| Top 10 | Bottom 10 |
|-------------------|-------------------------------|
| 1. Singapore | 156. Republic of Congo |
| 2. Hong Kong | 157. Algeria |
| 3. Switzerland | 158. Argentina |
| 4. New Zealand | 159. Libya |
| 5. United States | 160. Islamic Republic of Iran |
| 6. Ireland | 161. Republic of Yemen |
| 7. Denmark | 162. Sudan |
| 8. Australia | 163. Syrian Arab Republic |
| 9. United Kingdom | 164. Zimbabwe |
| 10. Canada | 165. Venezuela |

III. Economic Freedom in High School and College Economic Education

Economic freedom is rarely mentioned in precollege or college curricular resources for teaching economics. This is a striking omission, given the strong positive association across countries between economic freedom and income and growth—and favorable associations between the former and other indicators including literacy, infant mortality, and poverty (Lawson 2022).

“Economic freedom” does not appear in the search results in the EconEdLink curricular database (online only; search “econedlink”) maintained by the Council on Economic Education. The organization is a prolific producer of K-12 lessons and materials, but they make very few references to economic freedom. One notable exception is the organization’s *Focus: Understanding Economics in Civics and Government* (Bossardt et al. 2009), which includes a lesson on the correlation between economic and political freedom for use in civics and government courses.

Economic freedom is not mentioned as a concept covered by the College Board (2022a, 2022b) in its review books on the AP Macroeconomics or AP Microeconomics course. Nor is it covered in the Voluntary National Content Standards in Economics (Council for Economic Education 2010) beyond a passing mention of topics such as property rights and the features of a market economy. Of the forty-six states whose twelfth-grade economics standards are reported online by the Foundation for Teaching Economics, only six states' standards mention economic freedom.

The Texas state standards in economics are a notable exception to the lack of coverage. These standards state students should be able to "explain the basic characteristics of economic systems, including property rights, incentives, economic freedom, competition, and the role of government" (Texas Education Agency 2011).

Economic freedom also does not show up in the index of the most popular college-level economics textbook (Mankiw 2024) or most others. One exception is *Public and Private Choice* (Gwartney et al. 2022), which dedicates an entire chapter to economic freedom and institutions, including a discussion of the Economic Freedom of the World index (Fraser Institute 2023).

A small number of curricular materials address the dearth of content on economic freedom. The Fraser Institute published a set of lessons on economic freedom related to the Economic Freedom of the World index (Thomas 2018). A book designed to infuse high school US history courses with economics (Schug et al. 2019) uses the concept of economic freedom to explain why slavery was not a market institution. A similar title on economics in civics and government (Niederjohn et al. 2022) features chapters dedicated to economic freedom: "Is Economic Freedom the First Civil Liberty?" and "Is Economic Freedom Indispensable to Democracy?" The Bridwell Institute for Economic Freedom offers a curriculum unit called "Economic Freedom of the World" as a part of its Teaching Free Enterprise program.

IV. The Mystery Nations Teaching Approach

We propose a teaching approach, called Mystery Nations, that engages students without taking too much scarce class time. The heart of this approach is having students guess which countries are rich and which are poor based only on their characteristics. Only later is the identity of each nation (mystery nation) revealed, providing further opportunity for learning and discussion.

The Mystery Nations approach begins by asking students to brainstorm a list of the factors that they believe make rich countries rich. That is, what do rich countries have that poor ones do not? “Natural resources” is the dominant answer. In hundreds of presentations we have given to groups as diverse as high school students, professional journalists in the United States and Canada, and the executive teams of major companies, never has a group not first mentioned natural resources. It is useful to write students’ responses on a flip chart or whiteboard (or use an online tool such as Poll Everywhere). Frequently, culture, education, population, geography, and form of government are offered in a long list of possible factors.

Next students must be told what economists mean by a wealthy nation. GDP per capita is the indispensable measure. To dramatize this measure, we recommend the popular Gapminder online tool (see *Guardian* 2009 for a review). In this data-visualization application, each country is represented by a bubble proportional in size to its population. One helpful simulation plots life expectancy (on the y-axis) and real GDP per capita (x-axis) for all countries beginning in 1800.

On Gapminder, it is obvious that most of the world led short lives and poor in 1800. Students should be reminded that the world had been in this state for essentially all of history until relatively recently. Students should be alerted at the start that they will be seeing dramatic changes in life expectancy due to the Spanish Flu epidemic, World War I, World War II, and China’s Great Leap Forward as they watch the data unfold over time. Once the tool has brought the data to the present, the huge gains many nations have made in life expectancy and income per person become obvious, along with the fate of the many countries in Africa left behind. Students can then be told that the onset of the Industrial Revolution is widely acknowledged to be the spark that finally saw the world’s living standards improve—but unevenly across the globe.

Now data on all mystery nations are revealed, but without identifying the nations. Information on their size, population, and natural resources is available from the CIA’s World Factbook (Central Intelligence Agency 2023). Argentina, Venezuela, Singapore, Nigeria, and Canada tend to work well as mystery nations. Students are invited to guess (via a show of hands or online polling software) which countries they believe are rich, middle income, or poor. Most

groups focus on natural resources and, for example, expect the mystery nations that turn out to be Venezuela and Nigeria to be rich.

The instructor then reveals CIA World Factbook information on each country, including per capita income, life expectancy, literacy rate, and infant mortality rate. (See table 2.) Students can then be shown that many countries with substantial endowments of natural resources (such as Canada or the United States) are rich; however, others with similar levels of natural resources are very poor (such as Venezuela and Nigeria). This fact suggests something other than natural resources is the key to a nation's prosperity.

Table 2. Mystery-Nations Information

| Country | Natural Resources | GDP per Capita | Life Expectancy (years) | Literacy Rate | Infant Mortality Rate | Economic Freedom of the World Ranking |
|-----------|-------------------|----------------|-------------------------|---------------|-----------------------|---------------------------------------|
| Argentina | Yes | \$23,170 | 76 | 98.1% | 10.1/1,000 | 158 |
| Venezuela | Yes | \$3,050 | 71 | 96.3% | 12.5/1,000 | 165 |
| Singapore | No | \$102,450 | 84 | 96.8% | 2.4 | 1 |
| Nigeria | Yes | \$5,200 | 54 | 60% | 71.2/1,000 | 81 |
| Canada | Yes | \$51,690 | 83 | 99% | 4.6/1,000 | 10 |

Source: *The World Factbook* (Central Intelligence Agency 2023)

The Korean peninsula provides a good illustration of the importance of economic freedom. North and South Korea have nearly identical natural resources, geography, and past and present culture—and yet drastic differences in living standards. This can motivate a discussion about what actually leads a country to become wealthy (a satellite image of the Korean peninsula at night can be useful and is available in the PowerPoint slides that are available on request).

Students at this point can be told how careful study by economists reveals that strong institutions and economic freedom are the critical elements for a nation's prosperity. The key topics are political stability, secure property rights, limited role of government in the economy, reasonable regulations, sound money, rule of law, and free trade. Time permitting, each of these areas can be elaborated.

Showing students the countries that rank in the top and bottom ten of the Fraser Institute's most recent (2023) Economic Freedom of the World report (see table 1) can motivate excellent discussion. In addition, it may surprise students to find out that countries such as Denmark (rank 7) and Sweden (rank 17) score very highly in economic freedom. A downloadable PowerPoint presentation from the Fraser Institute provides helpful graphs that break the world's countries into quartiles of economic freedom (least free, third, second, and most free quartiles). This presentation then depicts the differences in these groups as measured by extreme poverty, income of the poorest 10 percent of people, per capita income, literacy, life expectancy, political and civil rights, and happiness. (Search the presentation for "Economic Freedom of the World" and "pptx.") Last, the Fraser Institute's website maintains a map that can be used to further research countries and their economic-freedom component scores.

V. Conclusions

Economic freedom is rarely emphasized in high school or college curricula. This educational note provides a powerful and engaging way for teachers to enhance their economics courses with a new, empirically based and interactive lesson on the concept.

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