

Economic Freedom and Quality of Life Impacts:  
A Comparison

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## Abstract

The “invisible hand” is a concept foundational to the argument for free market economics, and so is hotly debated. One measure of whether or not the free market is a successful economic model is the quality of life of a country’s residents. Quality of life can be assessed through the areas of housing, labor, health, and education. Economic indicators and quality of life statistics for Hong Kong, the United States, China, and Venezuela appear to prove that there is a correlation between quality of life and economic freedom, as defined by the Heritage Foundation’s *Index of Economic Freedom*. Even though countries with more economic freedom also have a higher degree of inequality, it is balanced out by overall higher quality of life.

## Economic Freedom and Quality of Life Impacts: A Comparison

What does it take for a national economy to thrive? Eighteenth-century Scottish philosopher Adam Smith believed that an economy could prosper if the free market was allowed to function without government interference. Competition and supply and demand result in a situation in which prices and wages are beneficial for all parties involved. In fact, individuals do not even have to attempt to bring about this balance and overall prosperity, but can continue to act in a self-interested manner. Smith explains in his magnum opus *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776):

[an individual] generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it...he intends only his own gain, and he is in this...led by an invisible hand to promote an end which was no part of his intention...By pursuing his own interest he frequently promotes that of the society more effectually than when he intends to promote it. (Volume 1, p. 477)

Economic experts have taken from this passage the term “invisible hand” as a way to describe how the free market can function autonomously. This so-called invisible hand is said to set prices more effectively than any human ever could, due to supply and demand signals that are directly received by the market. Human regulators have to collect economic data, analyze it, and then try to predict future trends, often unsuccessfully. In addition, people are often biased towards or against certain industries, which further distorts the signals to the detriment of the economy.

While gross domestic product (GDP) is often used to measure the success or wealth of a country’s economy, there are those who argue that it does not accurately

portray economic prosperity. Lábaj, Luptáčík, and Nezinský (2014) state that there has been a call for “new approaches for measuring the economic performance of...national economies...The new concepts should simultaneously take into account economic as well as social and environmental goals” (p. 407–408). One of these social goals is the reduction of income disparity; even if the per capita GDP is relatively high, a large portion of the overall GDP is often held by the richest citizens, leaving the poorest citizens with whatever remains.

However, income disparity may not be as big an issue as it is often made out to be. While there may be a large gap between the poor and the rich in a country, these “poor” might be better off than even the well-to-do of some other countries (Economist.com, 2013). There will always be a group that is “poor” relative to others, no matter how small the gap between rich and poor. The key to truly determining the success of a national economy does not necessarily lie in a high per capita GDP, or even in a small income disparity; instead, the most pertinent factor should be the quality of life of a country’s poor population.

This quality of life can be calculated using several different factors, such as housing, health, labor, and education, among others (OECD, 2015). The combination of these four factors will help to paint a picture of what life is like for the citizens of a country, possibly more accurately than the size of the income gap. Increased economic freedom and a higher Gini coefficient do not necessarily lead to lower standards of living; in the case studies below, in fact, the opposite appears to be the case.

## Literature Review

### The Significance of the Term “Invisible Hand”

One aspect regarding the “invisible hand” that is greatly debated is the true significance and meaning of the term, specifically concerning Adam Smith’s original meaning behind it. This debate is exemplified in the exchange between Gavin Kennedy and Daniel B. Klein in the *Econ Journal Watch*. The discussion between Kennedy, Emeritus Professor at Heriot-Watt University in Scotland, and Klein, Professor of Economics at George Mason University in Virginia, consists of three parts: the original essay by Kennedy, the dissenting opinion by Klein, and a final rejoinder by Kennedy.

According to Kennedy (2009) in his essay “Adam Smith and the Invisible Hand: From Metaphor to Myth,” the term “invisible hand” is no more than “an isolated, though well-known, 18<sup>th</sup>-century literary metaphor” (p. 240). It has been taken far out of context by modern economists and used erroneously in support of their favored economic policies. The phrase did not gain influence, nor was it widely used, until the late 20<sup>th</sup> century, nearly 200 years after Smith used it in his writings. In addition, Adam Smith used it only three times in his writings, in three different books, with three different meanings. Kennedy does not believe that Adam Smith meant for the “invisible hand” to be a theory, nor does he believe in the theory that is currently attached to this phrase.

Klein (2009) answered this essay with “In Adam Smith’s Invisible Hands: Comment on Gavin Kennedy.” In his response he argues that economists should not “lay down the struggle” to understand the idea behind the “invisible hand,” as Kennedy encourages them to do (p. 264). Klein claims that the three different occurrences of the

phrase within Adam Smith's works can be reconciled upon a closer look. Also, he states that its use in *The Wealth of Nations* (1776) can be interpreted either narrowly or in a broader sense.

Kennedy chooses the narrow option. He believes it to mean that "individuals acted in their own best interests as they saw them...they tried to maximise their returns from their capital and labor, and in doing so, they contributed towards maximising the annual revenues of society" (Kennedy, 2009a, p. 258). The broader interpretation would be that "the investment decision [is] but one example of a much wider domain within which the principle applies" (Klein, 2009, p. 271).

Klein (2009) admits that we can never know for sure whether or not Smith meant for the term "invisible hand" to refer to the "comparative merit of freedom," but he certainly does not think that it is out of the question to believe that it was indeed Smith's intention (p. 276). Kennedy (2009) ends the exchange with his rejoinder "A Reply to Daniel Klein on Adam Smith and the Invisible Hand" by sticking to his position, with slightly more support to back him up. He concludes that it is highly unlikely that Adam Smith meant for the "invisible hand" to be anything more than a metaphor, and that, unlike Klein's assertion that in the end Smith's intention does not truly matter, the original significance of the phrase was the principal subject of their debate.

### **How the Invisible Hand Works**

N. Emrah Aydinonat (2008), an Associate Professor of Economics at Bahcesehir University in Turkey, focuses on the "unintended consequences" aspect of the "invisible hand" in his book *Invisible Hand in Economics: How Economists Explain Unintended*

*Social Consequences*. However, he points out that individuals are not completely blind when it comes to decision-making. Instead, individuals know what is best for themselves, and what they want. However, individuals may not know what is best for all other individuals and society as a whole, and government shares in this flaw. Aydinonat (2008) also points out that pursuing one's self-interest through political means, such as businesses lobbying for restrictions on imports, is completely different from "pursuing self-interests at the individual level," and so has an adverse outcome (p. 79). He claims that Adam Smith's argument on this subject is that since "individuals...cannot judge the interests of the rest of society...they should not try to bring about social consequence" (p. 78).

Another point that Aydinonat (2008) makes is that "unintended" does not automatically mean "unanticipated" (p. 25). Individuals can often anticipate the outcome of their, or of society's, actions, which might seem to contradict the idea of the "invisible hand." However, the impact of the "invisible hand" comes about through many individuals acting separately in pursuit of their own interests; they do not work together to better the economy. Thus, actions can be both anticipated and unintended at the same time. In reality, the majority of individuals are not even able to accurately anticipate the results of their own behavior, though this does not stop them from trying.

In his book *The Vision of the Anointed*, Thomas Sowell (1995), American economist and political philosopher, points out why the alternative to the "invisible hand," government control, does not work. He explains that there is a pattern of failure in social policies that takes place in four stages: the crisis, the solution, the results, and the

response (p. 8). In short, policy-makers implement policies intended to fix a certain problem, dismiss critics who warn that the policies will lead to a different outcome, and then shift the blame when the policies end up leading to unintended outcomes rather than the ones intended. This process comes about because there are political and intellectual “elites” who believe they have the knowledge and wisdom necessary to bring about the best situation for everyone. The market is far too complex for humans to read and predict properly, and so most of the elites’ policies lead only to disaster.

Sowell (2000) goes more into depth about why the free market system does work in his book *Basic Economics: A Citizen’s Guide to the Economy*. Though he does not specifically address the idea of an “invisible hand,” it is implied in his discussion of the workings of the market, especially regarding prices and price controls. Sowell (2000) explains that prices “rise because the amount demanded exceeds the amount supplied *at existing prices*. Prices fall because the amount supplied exceeds the amount demanded *at existing prices*...both depend on *existing prices*” (p. 22). Sowell (2000) goes on to describe that when government sets a minimum or maximum price (or wage), there will often be a shortage or a surplus of goods or employees. The “invisible hand” functions through signals, such as prices, that end up distorted when the government intervenes, resulting in surpluses and shortages in many different industries.

### **Opposing Views**

Along with those who believe that the modern theory of the “invisible hand” did not truly originate with Adam Smith, and so is disqualified as a viable economic theory, there are those who simply do not believe that self-interested, individual actions can bring

about positive unintended consequences. Among these critics is Kaushik Basu (2010), Senior-Vice President and Chief Economist of the World Bank. In his book *Beyond the Invisible Hand: Groundwork for a New Economics*, he brings up another “invisible hand”: that of Franz Kafka. In Kafka’s (1925) book *The Trial*, he describes the malicious force of the unintended consequences that individual actions of the many can have on society. Basu describes this force by saying “in the society that K inhabits, there *is* no central authority or person to appeal to. All individuals in this labyrinthine world go about their limited daily chores, and this gives rise to forces that transcend each individual” (pp. 6–7). These combined individual actions result in the innocent protagonist being condemned to death for a crime he did not commit.

In place of the modern theory of the “invisible hand” and pure capitalism, Basu (2010) suggests that societies should pursue a more fair and equitable economy. He believes humanity has the capacity for “not exploiting every opportunity for personal gain” and for working “even when they know that much of the fruit of their labor will go to those who are less fortunate” (p. 195). Basu (2010) argues that though there have been many who have failed in their attempts to implement such a system, including Mao Tse-tung, Fidel Castro, and Che Guevara, their failure is due to trying “just by their heart” and relying purely on passion (p. 194). More “radical research and activism,” as well as abstention from casting “individuals into categories of good and evil,” is necessary to successfully bring about such a utopian society (p. 197). He believes that it will need to be a slow, evolutionary process, and not sudden, extreme actions or policies, that will bring about a successful transformation of the economy. However, he does not really

suggest practical solutions, but rather focuses on the theoretical concepts behind his position.

Another economist who does not believe in the “invisible hand” is Terry Peach, Visiting Professor at Shanghai University of Finance and Economics. He also believes that Adam Smith’s work has been misunderstood, but not in the same way that Kennedy and Basu do. In “Adam Smith’s ‘Optimistic Deism,’ the Invisible Hand of Providence, and the Unhappiness of Nations,” Peach (2014) states that the optimism displayed by Smith is a “carefully crafted illusion or deception on his part, obtained by accentuating...influence on ‘bettering our condition’...by not actually specifying the level of happiness on which ‘all the different ranks of the world are nearly upon’” (p. 56). Peach argues that, according to Adam Smith, the only way for an economy to grow is through individuals saving at least part of their income. The only way to get people to save is with the incentive of potentially bettering their condition in the future. Thus, the economy is built on the constant striving for individual economic betterment; satisfaction may never be attained.

While Peach (2014) does not question the economic aspect of the “invisible hand,” he does ask if increased national wealth is truly worth the destruction of the “real happiness” of its citizens (72). The constant striving for more wealth, and indirectly, power, drains the tranquility and happiness out of one’s life:

the undoubted benefit of ‘commercial society’ in providing the great mass of people with a higher material standard of living...their prospects for ‘real happiness’ were poor if not completely non-existent, being undermined by the

anxiety of pursuing wealth and status, and obliterated by working and living conditions. (p. 73)

### **The Heritage Foundation's *Index of Economic Freedom***

According to the index's website, the *Index of Economic Freedom* is "an annual guide published by The Wall Street Journal and The Heritage Foundation, Washington's No. 1 think tank" (About The Index section, para. 2). It measures ten specific freedoms, including business freedom, labor freedom, and monetary freedom, in 186 countries in order to analyze the effects that increased economic freedom has on the world (Miller, Kim, Roberts, Riley, & Olsen, 2015).<sup>1</sup> If the "invisible hand" can truly benefit an economy, then the results of this analysis should show that the freer the economy is, the more it thrives. It ranks these 186 countries according to overall economic freedom based on the ten specific freedoms; this ranking is used in this thesis to select the four countries to be compared, as they range from the highest ranking to the very low ranked.

### **Gini Coefficient**

The Gini coefficient is a measurement of income inequality that is measured on a scale from 0 to 1. 0 means that all income is completely equal and 1 means that maximum inequality exists, as demonstrated by one person receiving all national income. The lowest Gini coefficient actually held by a country is around 0.2, and the highest is around 0.6. Much of the international media views a Gini coefficient over 0.4 as a precursor to unrest, but there does not seem to be any widely accepted economic theories that support this allegation (Tao, Wu, & Li, 2013).

**Quality of Life Variables**

Quality of life can be difficult to measure, as there is no one indicator that can prove the degree of quality. Thus, several different indicators must be examined in order to get closer to fully and accurately describing the degree of quality of life. These indicators can include factors such as access to food and water, personal safety, or political freedom, among many others. For the purpose of this study, statistics for housing, labor, health, and education will be examined in order to get a general idea about trends in the quality of life of the four countries.

**Case Studies**

In order to evaluate whether or not the “invisible hand” brings about economic prosperity for national society as a whole, multiple countries with a range of economic systems must be looked at. Four countries that fit these qualifications are China, the United States of America, Hong Kong, and Venezuela, as these countries’ economies range from very free to very government-regulated, according to the Heritage Foundation’s *2015 Index of Economic Freedom*.<sup>2</sup>

This analysis will focus on per capita GDP, income disparity, and quality of life of each country. Per capita GDP will be calculated in U.S. dollars in terms of Purchasing Power Parity.<sup>3</sup> Income disparity will look at differences between the income of the top 20% and the bottom 20% of the population, as measured by the Gini coefficient. Quality of life will be evaluated based on the condition of housing, labor, health, and the education of the countries’ citizens.

**Hong Kong**

According to the *2015 Index of Economic Freedom*, Hong Kong currently has the most economically free system in the world. Not only is it number one overall, it also ranks in the top fifteen of every specific area measured in the study (Miller, Kim, Roberts, Riley, & Olsen, 2015). This makes Hong Kong the ideal testing ground for the success of the “invisible hand.”

**Per capita GDP and Income Disparity.** According to the World Bank (2016), Hong Kong’s per capita GDP as of 2014 is \$55,084. Hong Kong’s top 20% of domestic households make at least \$68,950 per month, its bottom 20% of domestic households make less than \$6839 per month, and the median monthly domestic household income is \$23,500 (Hong Kong, 2015). As of 2011, Hong Kong had a Gini coefficient of 0.537, which is considered a sign of relatively high inequality (Census and Statistics, 2011).

**Quality of Life.**

**Housing.** In Hong Kong 53.5% of the population live in private permanent housing, 29.3% live in public rental housing, 16.6% live in subsidized home ownership housing, and only 0.6% live in temporary housing (Hong Kong, 2015). Out of a household’s total monthly expenditures, 32.8% is spent on average on housing expenses, including rent, management fees, and maintenance costs (Hong Kong, 2011). There is an average of 1.1 rooms per person over all types of housing and in all districts throughout Hong Kong (Average number, 2012).<sup>4</sup>

**Labor.** Hong Kong’s labor force is made up of 61.1% of the total population over fifteen years old, and consists of 68.8% of men and 54.6% of women (Hong Kong, 2015).

The unemployment rate is at 3.3%, and the total number of unemployed citizens is at around 121,600 people (Labor, 2016).<sup>5</sup> The median monthly wage is \$14,800 while the median hourly wage is \$60 (Wages, 2015).

**Health.** The life expectancy for males born in 2014 is 81.2 years, and for females 86.7 years (Hong Kong, 2015). The infant mortality rate is at 1.6 out of every 1000 live births (Hong Kong, 2015). About 5.2% of the national GDP is spent on health, private and public expenditures combined (Department, 2015). There are 53 public and private hospitals, and approximately one doctor for every 550 citizens, not counting specialists (Department, 2015). The top three causes of death are malignant neoplasms, pneumonia, and heart diseases (Department, 2015).

**Education.** Out of the population aged fifteen and above, 19.8% have only a primary education or less, 50.6% have reached a secondary education, and 29.7% have completed a post-secondary education (Distribution, 2014). The pupil-teacher ratio is 14:1 in primary schools and 13:1 in secondary schools (Primary, 2015; Secondary, 2015). There are 571 primary and 509 secondary schools to choose from, including private and international schools (Primary, 2015; Secondary, 2015).

### **The United States of America**

While the United States of America is generally known for its freedom, it is not as economically free as it used to be; it has slowly transformed from a free market economy to a mixed one, a combination of free and controlled. It now ranks as number eleven in overall economic freedom in the *2015 Index of Economic Freedom*, and in the areas of

business freedom, labor freedom, and monetary freedom it is considered free, free, and mostly free, respectively (Miller et al., 2015).<sup>6</sup>

**Per capita GDP and Income Disparity.** As of 2014, the United States' per capita GDP is \$54,630 (The World Bank, 2016). The top 20% of domestic households receive at least \$9355 per month, and 51.2% of the aggregate national household income; the bottom 20% of domestic households received \$1785 per month or less, and 3.1% of the aggregate national household income; and the median household income is \$4471 per month (DaNavas-Walt & Proctor, 2015).<sup>7</sup> As of 2014, the U.S.A. has a Gini coefficient of 0.48 (DaNavas-Proctor, 2015).

#### **Quality of Life.**

**Housing.** In the United States 57% of the available housing units are owner-occupied units, 30.3% are renter-occupied units, 9.7% are vacant units, and 3.1% are seasonal units (United States Census Bureau, 2015). Median monthly expenditures come to a total of \$929, including mortgage payments, property insurance, real estate taxes, routine maintenance, electricity, and trash removal (United States Census Bureau, 2015). This is, on average, 22% of a household's monthly income (United States Census Bureau, 2013). On average, there is about 1.54 rooms per person, and 0.96 bedrooms per person, in American housing (United States Census Bureau, 2013).

**Labor.** The American labor force is made up of 62.7% of the population aged 16 years old and above (U. S. Department of Labor, *Labor Participation*, 2016).

Approximately 64% of the male population over 16 and 56% of the female population over 16 participate in the work force (Howard, 2010). The unemployment rate is 4.9%,

and the total number of unemployed citizens is 8,309,000 (U. S. Department of Labor, *Unemployment Rate*, 2016; U. S. Department of Labor, *Unemployment Level*, 2016).<sup>8</sup> The median hourly wage is at \$17.40 as of May 2015, and the average monthly wage is \$4027<sup>9</sup> (Occupational Employment Statistics, 2015).

**Health.** A child born in 2013 has a life expectancy of 78.8 years (81.2 years for females and 76.4 years for males), and the infant mortality rate is 5.96 deaths per every 1000 live births (Centers for Disease Control and Prevention, 2013). Health expenditures make up 17.4% of the United States' GDP (Centers for Disease Control and Prevention, *Health*, 2015). There are 5627 registered hospitals in the U.S., and approximately one doctor for every 400 people (American Health Association, 2016).<sup>10</sup> The top three causes of death are heart disease, cancer, and chronic lower respiratory diseases (Centers for Disease Control and Prevention, *Leading Causes*, 2015; The World Bank, 2016).

**Education.** In the United States, 6.3% of the population over 25 years old has received a primary education or less, 37% received at least some secondary education and/or earned their GED, and 56.8% completed at least some higher education (Ryan & Siebends, 2012). U.S. primary schools have an average 14:1 pupil-teacher ratio, and secondary schools have an average 16:1 pupil-teacher ratio (The World Bank, 2016). There are 98,328 public and 30,861 private schools, including elementary, secondary, and combined educational levels (National Center for Education Statistics, 2015).

## **China**<sup>11</sup>

China is known as a communist country, and thus for having a very controlled economy. However, it has taken steps toward a free market economy in recent years. It

ranks at number 144 overall, but is considered mostly unfree, moderately free, and mostly free in terms of business freedom, labor freedom, and monetary freedom, respectively (Miller et al, 2015).

**Per capita GDP and Income Disparity.** As of 2014, China's per capita GDP is \$13,206 (The World Bank, 2016). The top 20% of domestic households receive a \$7749 monthly income on average, and the middle 20% receive a \$2681 monthly income, while the bottom 20% receive a \$714 monthly income (National Bureau of Statistics of China, 2015).<sup>12</sup> As of 2010, China has a Gini coefficient of 0.469 (Central Intelligence Agency, 2016).

#### **Quality of Life.**

**Housing.** The median expenditure on urban housing costs is about \$600, which is about 12% of the median total expenditure of an urban household; rural households spend on average about \$140, which is about 6% of their total expenditures (China Household Finance Survey, 2013).<sup>13</sup>

**Labor.** China's labor force is made up of approximately 80% of the population aged 15–64, and the unemployment rate in urban areas is at 4.1% (Central Intelligence Agency, 2016).<sup>14</sup> This includes 64% of the female population and 78% of the male population over 15 years old (The World Bank, 2016). The average annual wage of employed persons in urban units is \$8573, resulting in an average monthly wage of \$714 (National Bureau of Statistics in China, 2015).<sup>15</sup>

**Health.** The life expectancy for a newborn child is 75.41 years; for females it is 77.73 years, and for males it is 73.38 years (Central Intelligence Agency, 2016). The

infant mortality rate is 12.44 deaths for every 1000 live births (Central Intelligence Agency, 2016). China spends 5.55% of its GDP on health costs; this includes both government and private spending (National Bureau of Statistics of China, 2015). There are 25,860 hospitals throughout China, and approximately one licensed doctor for every 570 people (National Bureau of Statistics of China, 2015). The top three causes of death are malignant neoplasms, heart diseases, and cerebrovascular diseases (World Health Organization, 2009).

**Education.** In China, 29% of the population aged 15 and older had a primary education at most, 60% had reached a secondary education, and 11% had completed at least some higher education (United Nations Statistics Division, 2016). The pupil-teacher ratio in primary schools is 17:1, and in secondary schools is 16:1 (The World Bank, 2016). There are 201,377 primary schools and 79,670 secondary schools throughout the country (National Bureau of Statistics of China, 2015).

## **Venezuela**

Venezuela had leaders from the Socialist Party of Venezuela in power from 1999 until December 2015, and so had many socialist policies regarding the market. It is ranked at number 176 on the *2015 Index of Economic Freedom* out of 178, and is considered repressed. In the areas of business freedom, labor freedom, and monetary freedom, it is also considered repressed (Miller et al., 2015).

**Per capita GDP and Income Disparity.** As of 2014, Venezuela's per capita GDP is \$17,800 (Central Intelligence Agency, 2016). In 2006, the top 20% of domestic households received 50.7% of the national income, the middle 20% received 14.5% of

the national income, and the bottom 20% received 3.2% of the national income (World Bank, 2016). Its Gini coefficient is 0.39 as of 2011 (Central Intelligence Agency, 2016).

### **Quality of Life.**

**Housing.** The Venezuelan government has not made many housing statistics known to the general public, so the quality of life in Venezuela concerning housing will not be compared with the other countries in this thesis.

**Labor.** Out of the Venezuelan population aged fifteen and older, 65.1% participate in the labor force; 78.9% of the male population older than fifteen, and 51.5% of the female population older than fifteen (The World Bank, 2016). There is a 7% unemployment rate, and a total of about 990,000 unemployed people (Central Intelligence Agency, 2016). The current minimum monthly wage is around \$1823 according to the official exchange rate; however, it is only worth about \$6 according to the arguably more accurate black market exchange rate (Trading Economics).<sup>16</sup> The median hourly wage is worth about \$0.08 (Salary Explorer).<sup>17</sup>

**Health.** A baby born in 2013 is expected to live an average of 74.1 years; males are expected to live about 70 years, while females are expected to live about 78 years (The World Bank, 2016). The infant mortality rate is currently 12.9 deaths for every 1000 live births (The World Bank, 2016). 3.6% of the national GDP is spent on health expenditures, combining public and private spending (The World Bank, 2016). As of 2001, there was approximately only one doctor for every 998 people (The World Bank, 2016).

***Education.*** Venezuela has a 95% literacy rate, and compulsory education lasts until a child is sixteen years old (United Nations Educational, Scientific and Cultural Organization, 2014). Out of the labor force, 41.4% have a primary education, 25.5% have a secondary education, and 30.3% have a tertiary education (The World Bank, 2016). The most recent calculation of Venezuela's pupil-teacher ratio states that there are 25.7 students for each teacher during primary education, and 18 students for each teacher during secondary education (The World Bank, 2016).

### **Analysis**

The data found in these case studies shows a relatively clear pattern in most areas, as the highest and lowest ranking countries in regards to economic freedom also tend to be ranked the highest or lowest in several of the specific areas as well. This data, as well as the ranking each country receives relative to the other three both in specific areas and in overall quality of life, can be seen more distinctly in Table 1:

Table 1. *Data Compilation*

	<b>Hong Kong</b>		<b>USA</b>		<b>China</b>		<b>Venezuela</b>	
<b>Average Rank</b>	<b>1.8</b>		<b>1.9</b>		<b>2.7</b>		<b>3.1</b>	
<b>Economic Freedom</b>	<b>1</b>	1	<b>11</b>	2	<b>144</b>	3	<b>176</b>	4
Per Capita GDP	\$55,084	1	\$54,630	2	\$13,206	4	\$17,800	3
Top 20% (monthly)	\$68,950	1	\$9355	2	\$7,749	3	N/A	
Bottom 20% (monthly)	\$6,839	1	\$1785	2	\$722	3	N/A	
Gini Coefficient	0.537	4	0.480	3	0.469	2	0.390	1
<b>Housing</b>								
Rooms/Person	1.1 to 1	2	1.54 to 1	1	N/A		N/A	
Expenditure	32.80%	3	22%	2	12%	1	N/A	
<b>Labor</b>								
Labor Participation Rate	61.1%	4	62.7%	3	80.0%	1	65.1%	2
Monthly Wage	\$14,800	1	\$4,027	2	\$714	3	\$6 (min)	
Median Hourly Wage	\$60	1	\$17.40	2	N/A		\$0.08	3
Unemployment	3.3%	1	4.9%	3	4.1%	2	7.0%	4
<b>Health</b>								
Life Expectancy-Men	81.2	1	76.4	2	73.38	3	70	4
Life Expectancy-Women	86.7	1	81.2	2	77.73	3	78	4
Infant Mortality Rate	1.6	1	5.96	2	12.44	3	12.9	4
GDP spent on health	5.20%	3	17.40%	1	5.55%	2	3.60%	4
Doctor to Patient Ratio	1 to 550	2	1 to 400	1	1 to 570	3	1 to 998	4
<b>Education</b>								
Primary only	19.80%	2	6.30%	1	29%	3	41.40%	4
Secondary	50.60%	3	37%	2	60%	4	25.50%	1
Post-Secondary	29.70%	3	56.80%	1	11%	4	30.30%	2
Primary Pupil-Teacher	14 to 1	1	14 to 1	1	17 to 1	2	27.5 to 1	3
Secondary Pupil-Teacher	13 to 1	1	16 to 1	2	16 to 1	2	18 to 1	3

Hong Kong has an average ranking of 1.8, and the United States is close behind with 1.9. China's ranking averages out to 2.7, and Venezuela's to 3.1. If certain indicators were taken out, such as the Gini coefficient or the labor participation rate, there would likely be a greater difference between these averages. Nonetheless, they show that overall more economic freedom leads to a thriving economy and greater quality of life. This can be seen clearly in comparison of the individual factors as well.

### **Economic Indicators**

The data describing the economic indicators can be found in Table 2:

Table 2. *Economic Indicators*

	<b>Hong Kong</b>		<b>USA</b>		<b>China</b>		<b>Venezuela</b>	
Per Capita GDP	\$55,084	1	\$54,630	2	\$13,206	4	\$17,800	3
Top 20% (monthly)	\$68,950	1	\$9355	2	\$7,749	3	N/A	
Bottom 20% (monthly)	\$6,839	1	\$1785	2	\$722	3	N/A	
Gini Coefficient	0.537	4	0.480	3	0.469	2	0.390	1

In regards to per capita GDP, Hong Kong had the largest amount (\$55, 084) and China had the smallest (\$13,206). While the general trend was that the freer a country is, the higher the per capita GDP is, Venezuela has a higher per capita GDP than China, even though Venezuela is considered far more repressed. There was a more consistent trend in income disparity: the freer the economy, the higher the level of income inequality. Hong Kong had the highest Gini coefficient at 0.537, which is not surprising given that its top 20% make about 10 times as much money as the bottom 20%. Venezuela had the lowest at 0.39.

There is a large gap between the amounts that Hong Kong's upper and lower 20% make and the amounts that the United States' and China's upper and lower 20% make. In

fact, households in the bottom 20% in Hong Kong make nearly as much money per month as the households in the upper 20% of China do. This seems to prove that Hong Kong is truly the best off in regards to economic indicators, regardless of the high level of inequality.

### **Housing**

The data concerning housing can be seen in Table 3:

Table 3. *Housing*

	<b>Hong Kong</b>		<b>USA</b>		<b>China</b>		<b>Venezuela</b>	
Rooms/Person	1.1 to 1	2	1.54 to 1	1	N/A		N/A	
Expenditure	32.80%	3	22%	2	12%	1	N/A	

There were not many comparable factors having to do with the quality of life in the area of housing, and China and Venezuela did not have much statistical information on this subject available to the general public. However, a surprising trend can be seen regarding housing expenditures in Hong Kong, the United States, and China. According to the statistics, the Chinese pay the lowest percentage of their income on housing expenses, while residents of Hong Kong pay the highest percentage. It is difficult to say whether or not this is accurate, as it seems odd that housing would be more expensive in a free market than in a controlled market, since competition often drives prices down. These statistics could be explained by differing definitions of “housing expenditures” among the countries, higher quality of housing in the Hong Kong and the U.S., or it could be that the controlled Chinese economy really is better in regards to housing expenses.

**Labor**

The labor statistics data can be found in Table 4:

Table 4. *Labor*

	<b>Hong Kong</b>		<b>USA</b>		<b>China</b>		<b>Venezuela</b>	
Labor Participation Rate	61.1%	4	62.7%	3	80.0%	1	65.1%	2
Monthly Wage	\$14,800	1	\$4,027	2	\$714	3	\$6 (min)	
Median Hourly Wage	\$60	1	\$17.40	2	N/A		\$0.08	3
Unemployment	3.3%	1	4.9%	3	4.1%	2	7.0%	4

Regarding labor and employment, there was not an apparent trend in the percentage of working-age adults involved in the labor force. China had the highest percentage at 80%, while Hong Kong had the lowest at 61.1%; however, this comparison may not be accurate as China considers “working-age” to be between 15 and 64 years old, the U.S. considers it to be 16 years and older, and Hong Kong and Venezuela consider it to be 15 years and older. Thus, in the United States, Hong Kong, and Venezuela, it is probable that retirees bring down the percentage.

There is a general trend regarding average monthly wage and median hourly wage. Since Venezuela only revealed its minimum monthly wage, and not its average, theirs is not a completely accurate figure. Nonetheless, it seems fairly certain that the average monthly wage is most likely far lower than that of China. In the same way, the median hourly wage seems to decline as economic freedom does, though a median hourly wage was unavailable for China.

The trend continues in the unemployment rate, as Hong Kong has the lowest rate (3.3%) and Venezuela has the highest (7%). The correlation is not fully supported, as the

United States has a slightly higher unemployment rate than China. This discrepancy may be caused by only urban data being used in the analysis for China, and so this area requires further research.

## Health

The health statistics data can be found in Table 5:

Table 5. *Health*

	Hong Kong		USA		China		Venezuela	
Life Expectancy- Men	81.2	1	76.4	2	73.38	3	70	4
Life Expectancy- Women	86.7	1	81.2	2	77.73	3	78	4
Infant Mortality Rate	1.6	1	5.96	2	12.44	3	12.9	4
GDP spent on health	5.20%	3	17.40%	1	5.55%	2	3.60%	4
Doctor to Patient Ratio	1 to 550	2	1 to 400	1	1 to 570	3	1 to 998	4

National health is a bit easier to compare between countries. The country with the highest overall life expectancy is Hong Kong (83.95 years<sup>18</sup>), while the country with the lowest life expectancy is Venezuela (74.1 years). This ranking remains the same for the specific life expectancies of both men and of women. Though there may be a variety of factors contributing to a country's average life expectancy, it is interesting to note that among these four countries, the more free the economy the longer is life expectancy. This trend is also apparent regarding the infant mortality rate: Hong Kong only loses 1.6 out of 1000 live births, while Venezuela loses 12.9 out of 1000.

The United States has the highest physician-population ratio (1 physician for every 400 people), and Venezuela has the lowest (1 physicians for every 998 people).

Among all four countries, malignant neoplasms/cancer and heart diseases were among the top three causes of death. There does not seem to be any sort of obvious economic trend related to these indicators.

### **Education**

Though comparing countries' statistics regarding education may not be as accurate as one would like due to differing definitions and methodologies both in education itself and in data collection, these statistics can still give a general idea of where a country stands. The data regarding education can be seen in Table 6:

Table 6. *Education*

	<b>Hong Kong</b>		<b>USA</b>		<b>China</b>		<b>Venezuela</b>	
Primary only	19.80%	2	6.30%	1	29%	3	41.40%	4
Secondary	50.60%	3	37%	2	60%	4	25.50%	1
Post-Secondary	29.70%	3	56.80%	1	11%	4	30.30%	2
Primary Pupil-Teacher	14 to 1	1	14 to 1	1	17 to 1	2	27.5 to 1	3
Secondary Pupil-Teacher	13 to 1	1	16 to 1	2	16 to 1	2	18 to 1	3

In Hong Kong, the majority of the population over 15 years old has completed at least some secondary education. In the United States, the majority of the population over 25 years old completed at least some tertiary education. In China, the majority of the population over 15 years old has completed at least some secondary education. In Venezuela, the majority of the labor force has a primary education or less. The level of education may have cultural or other causes, but it is also clear from this data that the most repressed country has the least-educated labor force.

The lowest pupil-teacher ratio in primary schools is shared by Hong Kong and the United States (14:1), and in secondary schools is found in Hong Kong (13:1). The highest

pupil-teacher ratio in both primary schools and secondary schools held by Venezuela (25.7:1 and 18:1, respectively). These ratios could be interpreted in either a positive or a negative light. A low ratio could mean that there are relatively many teachers (positive), or it could mean that there are relatively few students (negative). Considering that the lowest ratios are found in the countries with higher per capita GDPs and higher ratings in other aspects of quality of life, it seems safe to assume the positive interpretation.

### **Summary**

Overall, the data seems to suggest that the more free a country's economy is, the better its citizens' quality of life becomes. In the majority of specific areas, Hong Kong ranks first while Venezuela ranks last. The three statistics that seem to directly contradict this conclusion would be that of income disparity, housing expenditures, and the percentage of the population involved in the labor force. In the case of income inequality, it appears that the freer the economy is, the greater the income inequality. However, this makes sense.

If a market is left free from government intervention, then competition will thrive, and some people will be more valuable in the marketplace than others due to skills, experience, and ability. This results in the opportunity for some people to make far more money than others. This occurrence does not necessarily damage the claim that the "invisible hand" brings about a healthier economy, as the free market appears to bring about success in all other areas. It causes the national economy as a whole to thrive and grow, so that even those who are considered "poor" are still relatively well-off, as

evidenced by the relatively high monthly income brought in by households in the bottom 20% in Hong Kong.

The trend of housing expenditures taking up a larger percentage of a household's income requires more research, as it is not easily explained, other than the fact that better housing is more expensive, or that having less available land within the region of Hong Kong drives up prices. In the case of the percentage of the population involved in the labor force, the statistics may not be completely comparable due to the differing definitions of "population" used in the calculation. China appears to have the highest participation rate, but it is also measuring from a more specific portion of the population than the other countries. Since the other three countries do not have an upper age limit, their percentages are watered down by those too old to work. In addition, there is the possibility of people leaving the work force not because they give up on finding work, but because they can afford not to work. Overall, the labor participation rate alone is not an accurate representation of the job market, or of quality of life.

### **Conclusion**

The information gleaned from the literature review and the data from the case studies seem to clearly imply that a free market system can lead to a thriving economy and a flourishing population, while a controlled or repressed economy has the opposite effect. Income inequality apparently does become worse when an economy is more free, but this may be simply a result of an increased freedom to earn and spend money as one likes. While it is probable that Adam Smith did not intend for the phrase "invisible hand"

to have the meaning it holds today, his intentions do not discount the validity of the current theory.

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Footnotes

<sup>1</sup> The ten categories the Heritage Foundation uses to measure economic freedom: business freedom, trade freedom, fiscal freedom, government spending, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, and labor freedom.

<sup>2</sup> According to the index, Hong Kong is considered “free”, the United States is considered “mostly free”, China is considered “mostly unfree”, and Venezuela is considered “repressed”.

<sup>3</sup> Purchasing Power Parity is a rate of currency conversion which is based on the purchasing power of currency, and is an alternative to market exchange rates. It is calculated by comparing the amount of currency needed to purchase the same item or group of items in different countries.

<sup>4</sup> These rooms include living rooms, dining rooms, bedrooms, and other rooms, and exclude kitchens and bathrooms/toilets.

<sup>5</sup> Unemployed persons refer to those persons aged 15 and over who fulfil the following conditions : (a) Have not had a job and have not performed any work for pay or profit during the 7 days before enumeration; (b) Have been available for work during the 7 days before enumeration; and (c) Have sought work during the 30 days before enumeration. There are some exceptions for condition (c). See <http://www.censtatd.gov.hk/hkstat/sub/sc30.jsp#g181607> for more details.

<sup>6</sup> Each country is graded on a scale of 0 to 100 in each of the ten categories as well as overall. These scores are then grouped into five categories: free (80-100), mostly

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free (70-80), moderately free (60-70), mostly unfree (50-60), and repressed (0-50). For more information about how the countries are scored, as well as what “business freedom,” “labor freedom,” and “monetary freedom” entail, see pages 475-487 of the *2015 Index of Economic Freedom*.

<sup>7</sup> Calculated by dividing the annual income amounts by twelve.

<sup>8</sup> Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work. Persons who were not working and were waiting to be recalled to a job from which they had been temporarily laid off are also included as unemployed.

<sup>9</sup> This is calculated from the given average annual wage.

<sup>10</sup> Registered hospitals are those hospitals that meet the American Hospital Association's criteria for registration as a hospital facility. Registered hospitals include AHA member hospitals as well as nonmember hospitals. For a complete listing of the criteria used for registration, please see [http://www.aha.org/research/rc/stat-studies/REGISTRATION\\_FY\\_08.pdf](http://www.aha.org/research/rc/stat-studies/REGISTRATION_FY_08.pdf)

<sup>11</sup> The Chinese government breaks up statistics between urban areas and rural areas, and does not have much data for the country as a whole. For the purpose of this thesis, data from urban areas was used.

<sup>12</sup> Income is counted after taxes. These amounts have been converted from Chinese RMB to US dollar (50,968 yuan, 17,631 yuan, and 4747 yuan, respectively).

<sup>13</sup> 3964 yuan.

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<sup>14</sup> This only includes registered urban unemployment, which excludes private enterprises and migrants.

<sup>15</sup> The average annual monthly wage is 56,360 yuan; the converted amount is divided by twelve in order to calculate average monthly wage.

<sup>16</sup> The minimum monthly wage is 11,578 Venezuelan bolivar. The official exchange rate is 6.35 VEF to 1 USD (CENCOEX), while the black market rate is 1150 VEF to 1 USD (dolartoday.com).

<sup>17</sup> 90 VEF; calculated to USD using black market rate.

<sup>18</sup> This number is taken from the average of the male life expectancy and the female life expectancy in Hong Kong.