

## Executive Summary

### Economic Freedom of the World

The index published in *Economic Freedom of the World* measures the degree to which the policies and institutions of countries are supportive of economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and privately owned property. Forty-two data points are used to construct a summary index and to measure the degree of economic freedom in five broad areas:

- 1 Size of Government: Expenditures, Taxes, and Enterprises;
- 2 Legal Structure and Security of Property Rights;
- 3 Access to Sound Money;
- 4 Freedom to Trade Internationally;
- 5 Regulation of Credit, Labor, and Business.

Since our first publication in 1996, numerous studies have used the data published in *Economic Freedom of the World* to examine the impact of economic freedom on investment, economic growth, income levels, and poverty rates. Virtually without exception, these studies have found that countries with institutions and policies more consistent with economic freedom have higher investment rates, more rapid economic growth, higher income levels, and a more rapid reduction in poverty rates.<sup>1</sup>

The EFW index now ranks 152 countries and territories. Data are available for approximately 100 nations and territories back to 1980, and many back to 1970.<sup>2</sup> This data set makes it possible for scholars to analyze the impact of both cross-country differences in economic freedom and changes in that freedom across a three-decade time frame.<sup>3</sup>

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1 For a review of these studies, see: Hall, Joshua, and Robert Lawson (2014). *Economic Freedom of the World: An Accounting of the Literature*. *Contemporary Economic Policy*. <<http://onlinelibrary.wiley.com/doi/10.1111/coep.12010/abstract>>.

2 A comprehensive data set is available at <[www.freetheworld.com](http://www.freetheworld.com)>.

3 The table for Syria, with historic data, is included in chapter two of the report but, because of events in the country, recent data are questionable and Syria is not ranked in the report.

## Economic freedom around the world

### *Average chain-linked rating*

The average chain-linked economic freedom rating for the 101 countries with ratings since 1980 has increased from 5.32 in 1980 to 5.78 in 1990 to 6.72 in 2000 and finally to 6.84 in 2012.

### *Top-rated countries*

Hong Kong and Singapore, once again, occupy the top two positions. The other nations in the top 10 are New Zealand, Switzerland, Mauritius, United Arab Emirates, Canada, Australia, Jordan, and, tied for 10<sup>th</sup>, Chile and Finland.

### *Other major countries*

The rankings of some other major countries are the United Kingdom and United States (12<sup>th</sup>), Japan (23<sup>rd</sup>), Germany (28<sup>th</sup>), South Korea (33<sup>rd</sup>), France (58<sup>th</sup>), Italy (79<sup>th</sup>), Mexico (91<sup>st</sup>), Russia (98<sup>th</sup>), Brazil (103<sup>rd</sup>), India (110<sup>th</sup>), and China (115<sup>th</sup>).

### *Lowest-rated countries*

The 10 lowest-rated countries are: Myanmar, Democratic Republic of Congo, Burundi, Chad, Iran, Algeria, Argentina, Zimbabwe, Republic of Congo, and, lastly, Venezuela.

## Nations that are economically free out-perform non-free nations in indicators of well-being

- Nations in the top quartile of economic freedom had an average per-capita GDP of \$39,899 in 2012, compared to \$6,253 for bottom quartile nations (PPP constant 2011 US\$) (exhibit 1.6).
- In the top quartile, the average income of the poorest 10% was \$11,610, compared to \$1,358 in the bottom quartile in 2012 (PPP constant 2011 US\$) (exhibit 1.9). Interestingly, the average income of the *poorest* 10% in the most economically free nations is almost twice the *overall average* income in the least free nations.
- Life expectancy is 79.9 years in the top quartile compared to 63.2 years in the bottom quartile (exhibit 1.10).
- Political and civil liberties are considerably higher in economically free nations than in unfree nations (exhibit 1.11).

## Chapter 1: Economic Freedom of the World

The authors of the report, James Gwartney, Robert Lawson, and Joshua Hall, provide an overview of the report and discuss why economic freedom is important. They also review the decline of economic freedom in the United States.

## Chapter 2: Country Data Tables

Detailed historical information is provided for each of the 152 countries and territories in the index.

### **Chapter 3: Institutions and Economic, Political, and Civil Liberty in the Arab World: The Prospect for Economic Reform in the Wake of the Arab Spring**

*By Fred McMahon*

This chapter provides an overview of the evolution of economic policy in the Arab world and how this relates to the Arab Spring and developments since. It examines how factors blocking economic freedom arose in the Arab world and the many barriers—social, political, and historical—that stand in the way of removing them. Despite the lack of an economic vision emerging from the Arab spring, the article points to signs of hope in several Arab nations.

### **Chapter 4: Free Markets and Civil Peace: Some Theory and Empirical Evidence**

*by Indra de Soysa and Krishna Chaitanya Vadlamannati*

This chapter examines the relationship between economic freedom and civil unrest. It provides a review of the literature and finds compelling econometric evidence that economic freedom reduces conflict. The empirical results show that economic freedom has a statistically significant negative effect on the onset of conflict and discourages states from violating people's right to physical integrity. Economic freedom also encourages greater calm between distinct ethno-linguistic and religious groups within countries.