

CHAPTER 1

THE GROWTH AND IMPACT OF ECONOMIC FREEDOM

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Economic freedom has advanced in over 100 countries over the past year. Global average economic freedom increased by 0.2 point to a record level of 60.9 on the 0–100 scale used in the *Index of Economic Freedom*. In the years since the inception of the *Index* in 1995, average scores have increased by over 5 percent.

Behind this record of advancing economic freedom are stories of human progress and the achievements of countries and their citizens—literally billions of people around the world whose lives have been measurably improved. There also are stories of policy failure, backsliding, and continuing repression.

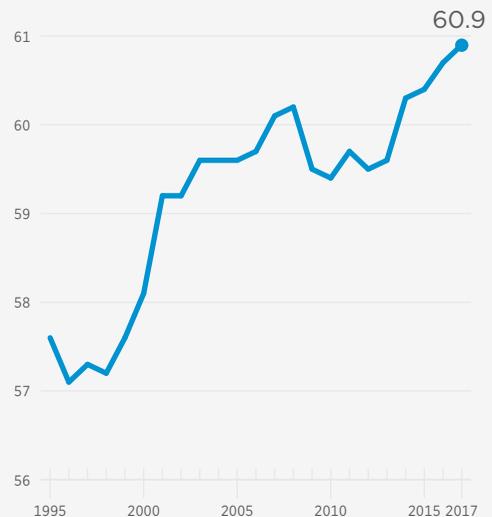
GAINS AND LOSSES

In the 2017 *Index*, 103 countries, the majority of which are less developed or emerging economies, showed advances in economic freedom over the past year. Remarkably, 49 countries achieved their highest economic freedom scores ever. Two large economies (China and Russia) are included in this group.

While two countries (Mauritius and the United Kingdom) recorded no change in score, 73 experienced declines in economic freedom, and 16 countries, including notably the Bahamas, Bahrain, El Salvador, Pakistan, Venezuela, and the United States, recorded their lowest economic freedom scores ever.

The Asia–Pacific region is home to nine of the 20 most improved countries: Fiji, Kiribati, Kazakhstan, China, Turkmenistan, Uzbekistan, Vanuatu, Tajikistan, and the Solomon Islands all recorded score gains of four points or more. On the other hand, Sub-Saharan Africa has the

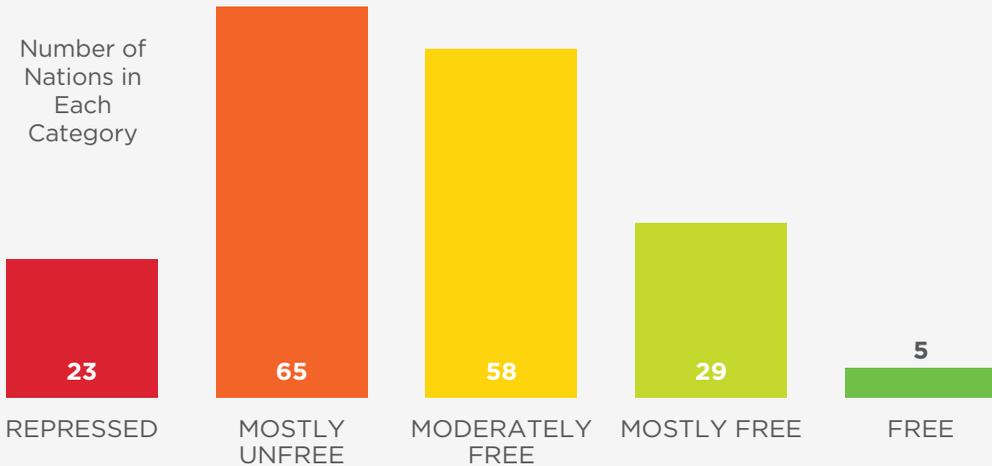
GLOBAL ECONOMIC FREEDOM SCORE



SOURCE: Terry Miller and Anthony B. Kim, 2017 *Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

Chart 1  heritage.org

GLOBAL ECONOMIC FREEDOM IN 2017



SOURCE: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

Chart 2  heritage.org

most countries (Cabo Verde, Djibouti, Ghana, Guinea, Kenya, The Gambia, and Madagascar) recording notable score declines, followed by the Americas (Barbados, the Bahamas, Venezuela, Suriname, Saint Lucia, and Brazil).

Score improvements in 19 countries, all of which are developing or emerging economies, were significant enough to merit upgrades in their economic freedom status in the *Index*. Notably, Macedonia and Armenia have joined the ranks of the “mostly free,” with Macedonia ranked “mostly free” for the first time ever and Armenia regaining a level of economic freedom it had not experienced since 2006. Seven developing countries (Fiji, Tonga, Indonesia, Swaziland, the Kyrgyz Republic, Uganda, and Bosnia and Herzegovina) have advanced into the ranks of the “moderately free,” and 10 others (Belarus, the Democratic Republic Congo, the Solomon Islands, Laos, Burma, Uzbekistan, the Central African Republic, Kiribati, Iran, and Argentina) have escaped the status of economically “repressed.”

Of the 180 economies whose economic freedom has been graded and ranked in the 2017 *Index*, only five have sustained very high

freedom scores of 80 or more, putting them in the ranks of the economically “free.” The five are Hong Kong, Singapore, New Zealand, Switzerland, and Australia. A further 29 countries, including Chile, the United Arab Emirates, the United Kingdom, Georgia, the United States, and Mauritius, have been rated as “mostly free” economies with scores between 70 and 80.

A total of 92 economies, or about 51 percent of all nations and territories graded in the 2017 *Index*, have earned a designation of “moderately free” or better. These economies provide institutional environments in which individuals and private enterprises benefit from at least a moderate degree of economic freedom in the pursuit of greater competitiveness, growth, and prosperity. On the opposite side of the spectrum, nearly half of the countries graded in the *Index*—88 economies—have registered economic freedom scores below 60. Of those, 65 economies are considered “mostly unfree” (scores of 50–60), and 23 are considered “repressed” (scores below 50).

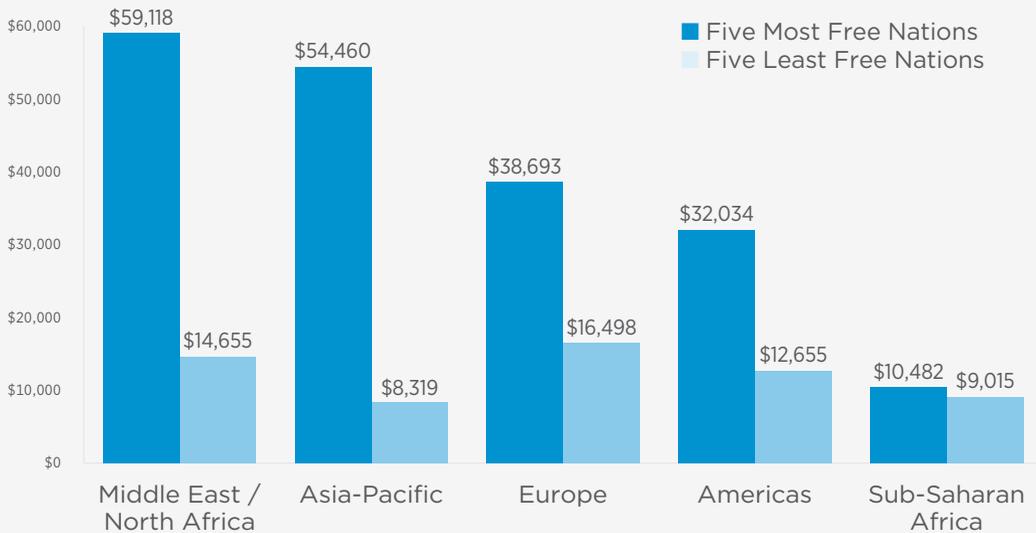
Despite the global progress recorded over the 23-year history of the *Index*, the number

ECONOMIC FREEDOM AND PER CAPITA INCOME

GDP per Capita (Purchasing Power Parity)



GDP per Capita (Purchasing Power Parity)



SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and International Monetary Fund, World Economic Outlook Database, April 2016, <https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx> (accessed December 13, 2016).

Chart 3 heritage.org

of people suffering from a lack of economic freedom remains disturbingly high: around 4.5 billion, or about 65 percent of the world's population. More than half of these people live in just two countries, China and India, where advancement toward greater economic freedom has been both limited and uneven. In the two most populous economies, structural reforms in a few key sectors have sometimes boosted growth, but the governments have failed to institutionalize open environments that promote broad-based and sustainable improvements in the economic well-being of the population as a whole.

ECONOMIC FREEDOM AROUND THE GLOBE

Patterns of economic freedom are quite diverse both within and among the five *Index* regions, reflecting the unique culture and history of the nations and the individuals that inhabit them, not to mention circumstances of geography or endowments of natural resources. With an average score of 68, Europe has recorded the highest level of average economic freedom among the regions. Despite the ongoing economic and political turmoil in a number of countries in the Middle East and North Africa, the region as a whole has still achieved an average economic freedom score slightly above 60 due to high ratings of economic freedom in the United Arab Emirates, Qatar, Israel, and Bahrain. Despite some progress in recent years, the average economic freedom score in Sub-Saharan Africa continues to be below 60.

As demonstrated in previous editions of the *Index*, it is notable that despite varying degrees of economic freedom across the regions, the fundamentally positive relationship between economic freedom and prosperity is readily apparent worldwide. Chart 3 shows that, no matter the region, the higher a country's level of economic freedom is, the higher its income per capita also is.

The diversity of the world's peoples and cultures implies that there will be many paths

to economic development and prosperity. The whole idea of economic freedom is to empower people with more opportunity to choose for themselves how to pursue and fulfill their dreams, subject only to the basic rule of law and honest competition from others.

There is no single answer to the particular challenges of development that we face as individuals or as members of distinct societies. One thing, however, is proven: Governments that respect and promote economic freedom provide the best environment for experimentation, innovation, and progress, and it is through these that humankind grows in prosperity and well-being.

THE PROVEN IMPACT OF ECONOMIC FREEDOM

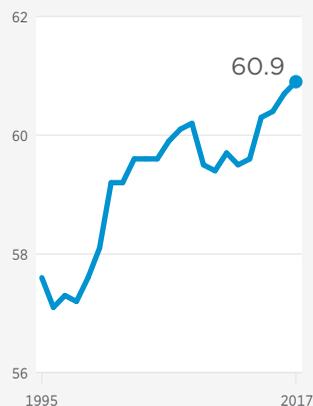
As successive editions of the *Index* have documented since 1995, the affirmative link between economic freedom and long-term development is unmistakable and robust. Countries that allow their citizens more economic freedom achieve higher incomes and better standards of living. People in economically free societies have longer lives. They have better health and access to more effective education. They are able to be better stewards of the environment, and they push forward the frontiers of human achievement in science and technology through greater innovation.

It has become quite apparent that despite ups and downs, the principles and lessons of economic freedom have been widely understood, accepted, and implemented in practice by a significant number of countries around the globe. Their progress is seen in the score changes. The poorer-performing countries, by contrast, have tried only some of the ideas, adulterated others, or even in a few cases rejected them outright.

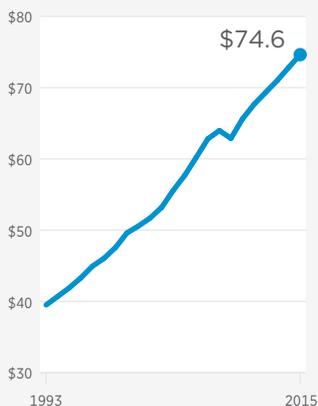
The economic performance of countries with various rankings in the *Index* provides numerous examples of the consequences of the rise and fall of economic freedom around the globe. For example:

AS ECONOMIC FREEDOM RISES, THE GLOBAL ECONOMY EXPANDS AND POVERTY FALLS

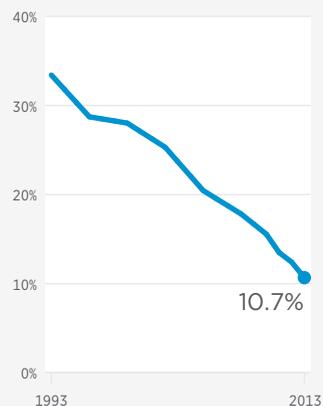
Average Score in the *Index of Economic Freedom*



Global GDP, in Trillions of 2010 U.S. Dollars



Percentage of Global Population in Poverty

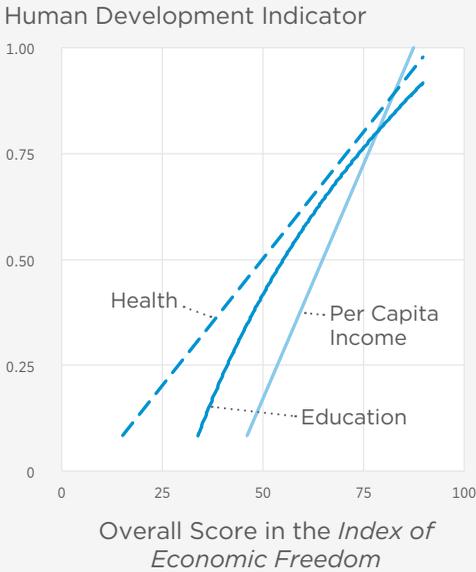


SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index.org/index>; The World Bank, World Development Indicators, <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed December 16, 2016); and The World Bank, PovcalNet, <http://iresearch.worldbank.org/PovcalNet/povDuplicateWB.aspx> (accessed December 16, 2016). Some figures have been interpolated.

Chart 4  heritage.org

- Countries that allow private ownership of property protected by an effective judicial system encourage more entrepreneurial initiative than do countries that require collective or government ownership or control of economic resources.
- Countries that practice some version of free-market capitalism, with economies open to global trade, investment, and financial markets, do better than those that are protectionist or that shun economic linkages with others.
- Governments that dominate their countries' economies with heavy taxation and deficit spending end up impoverishing their citizens through prolonged economic stagnation exacerbated by high debt burdens.
- Policies that promote economic freedom, whether through improvements in the rule of law, the promotion of efficiency and openness, or suitable restraints on the size and reach of government, therefore provide the environment that can best inspire people to develop practical solutions to the economic and social challenges that confront our world.
- Open competition, facilitated by regulatory efficiency, promotes greater productivity and ensures better-organized allocation of resources than do systems of central planning.

GREATER ECONOMIC FREEDOM MEANS GREATER HUMAN DEVELOPMENT



SOURCES: Terry Miller and Anthony B. Kim, 2017 *Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and U.N. Human Development Programme, *Human Development Report 2015*, <http://hdr.undp.org/en/2015-report> (accessed December 16, 2016). Human Development values have been converted to a 0–1 scale.

Chart 5 heritage.org

ECONOMIC FREEDOM ALLEVIATES POVERTY AND PROMOTES OVERALL HUMAN DEVELOPMENT

The free-market system that is rooted in the principles of economic freedom has fueled unprecedented economic growth around the world. As the global economy has moved toward greater economic freedom over the past two decades, real world GDP has increased by about 80 percent, and the global poverty rate has been cut in half, lifting hundreds of millions of people out of poverty.

Achieving greater overall prosperity that goes beyond the materialistic and monetary dimensions of well-being is equally important.

The societal benefits of economic freedom extend far beyond reductions in poverty. Countries with higher levels of economic freedom enjoy higher levels of human development in terms of life expectancy, literacy, education, and overall quality of life.

As Chart 5 shows, governments that choose policies that increase economic freedom are placing their societies on the path to more education opportunities, better health care, and higher standards of living for their citizens.

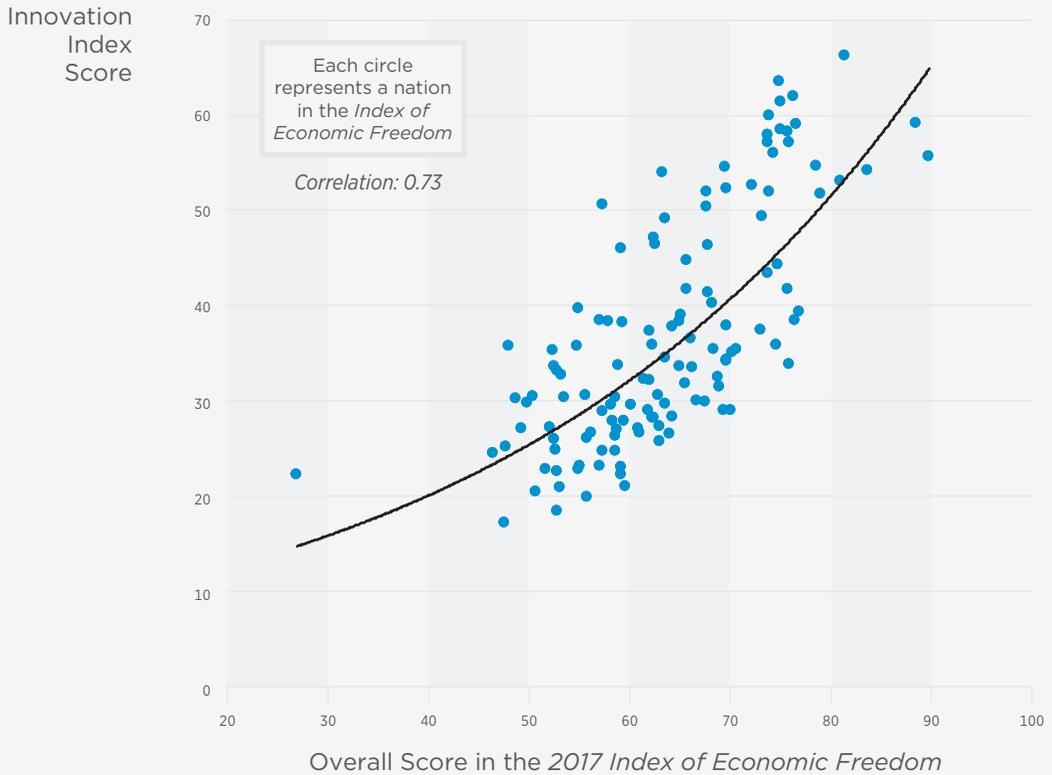
ECONOMIC FREEDOM FACILITATES INNOVATION AND BETTER ENVIRONMENTAL PROTECTION

The positive link between economic freedom and higher levels of innovation ensures greater economic dynamism in coping with various developmental challenges by spurring a virtuous cycle of investment, innovation (including in greener technologies), and dynamic entrepreneurial growth.

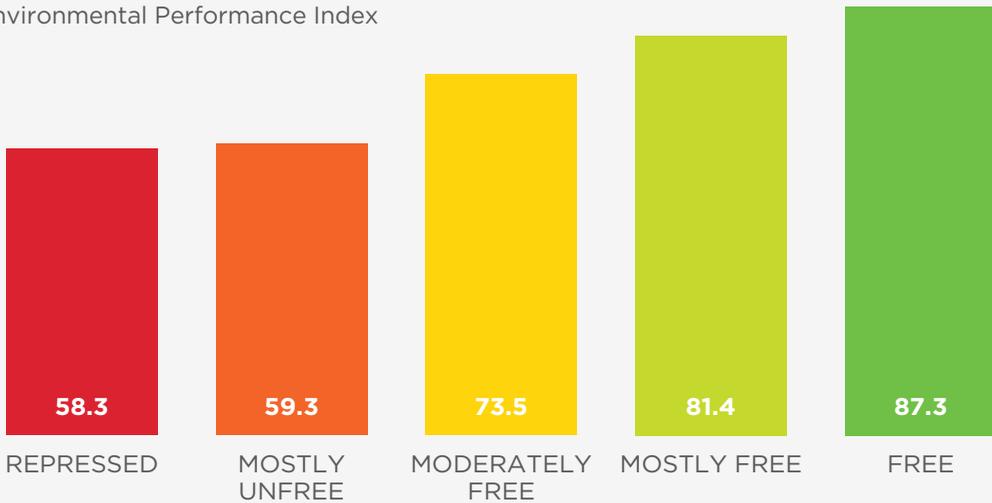
In recent years, government policies and actions concerning the environment have become more intrusive and economically distortionary. Many governments have promoted programs to tax carbon emissions and increase taxes on gasoline, have organized non-transparent and sometimes corrupt exchanges for the buying and selling of carbon emissions, and have provided subsidies for “clean” energy to politically favored firms. Such policies impose a huge direct cost on society and retard economic growth—and all for uncertain environmental benefits.

In addition, the fact that the most remarkable improvements in clean energy use and energy efficiency over the past decades have occurred not as a result of government regulation, but rather as a result of advances in technology and trade should not be overlooked. Around the world, economic freedom has been a key factor in enhancing countries’ capacity for innovation and, by so doing, in improving their overall environmental performance.

ECONOMIC FREEDOM, INNOVATION, AND THE ENVIRONMENT



Environmental Performance Index

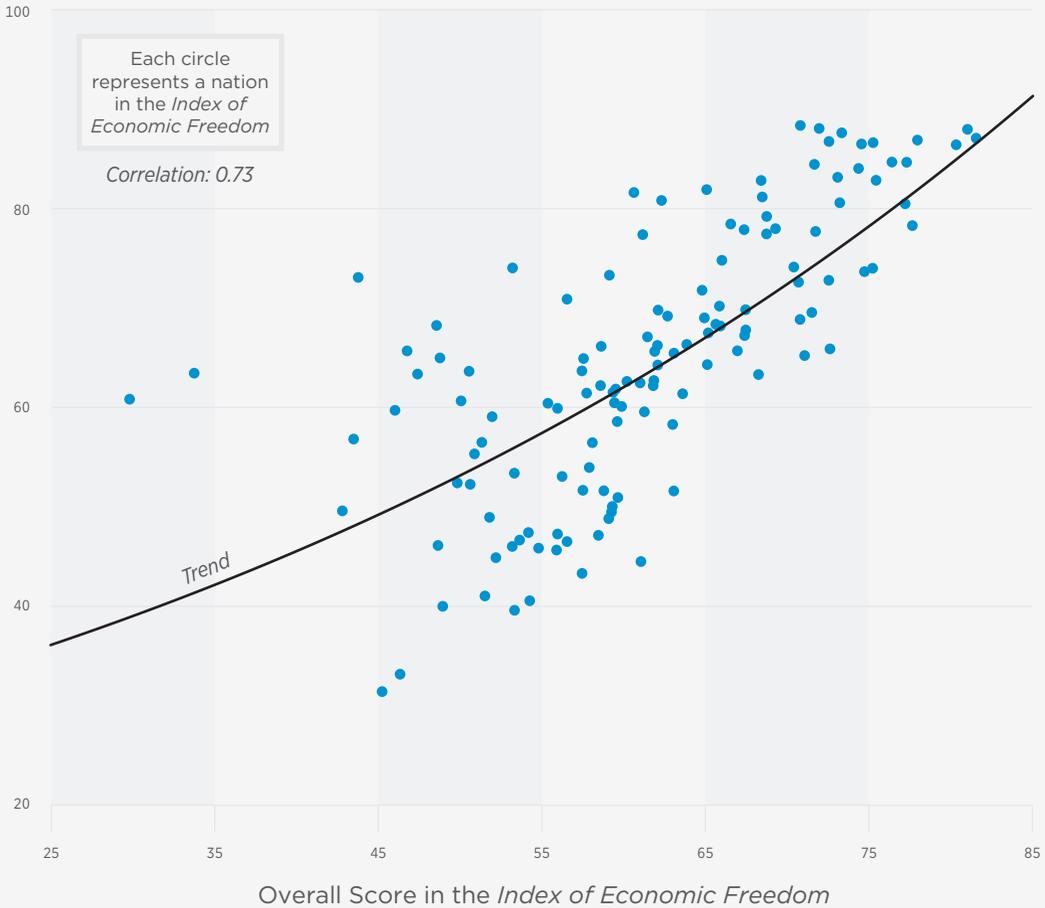


SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>; Cornell University, INSEAD, and World Intellectual Property Organization, *The Global Innovation Index 2016* (Geneva: World Intellectual Property Organization, 2016), <https://www.globalinnovationindex.org/gii-2016-report> (accessed December 16, 2016); and Yale University, “2016 Environmental Performance Index,” <http://epi.yale.edu/reports/2016-report> (accessed December 16, 2016).

Chart 6 heritage.org

ECONOMIC FREEDOM AND SOCIAL PROGRESS

Social Progress Index Score



SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and Social Progress Imperative, "Social Progress Index 2015," <http://www.socialprogressimperative.org/data/spi> (accessed December 8, 2016).

Chart 7 heritage.org

ECONOMIC FREEDOM ENSURES GREATER SOCIETAL PROGRESS

The massive improvements in global indicators of income and quality of life largely reflect a paradigm shift in the debate about how societies should be structured to achieve the most optimal outcome. Over the past two decades, this debate has largely been won by capitalism. However, fears that the immediate benefits of capitalism are fading have led to concerns about economic mobility and economic freedom.

At the heart of ensuring upward economic mobility is the task of advancing economic freedom so that ordinary people in a free society can enjoy the fruits of dynamic and inclusive growth. Economic freedom is critical to generating the broader-based economic growth that brings more opportunities for a greater number of people to work, produce, and save. In other words, ensuring greater economic freedom is directly related to preserving and enhancing dynamic upward mobility.

Not surprisingly, societies based on economic freedom are the ones that have demonstrated the strongest social progress. As shown in Chart 7, countries that more fully embrace economic freedom have provided the institutional environments that are most conducive to societal progress. Countries that have improved their competitiveness and have opened their societies to new ideas have largely achieved the high levels of societal progress that their citizens demand. It is not massive redistributions of wealth or government dictates on income levels that produce the most positive societal outcomes. Instead, mobility and progress require lower barriers to market entry, freedom to engage with the world, and less government intrusion.

ADVANCING ECONOMIC FREEDOM: THE SOURCE OF TRUE PROGRESS

Regrettably, it has been an avoidable human tragedy that not all of the world's people have participated in our era's spread of economic freedom. Free-market capitalism, given a chance, does benefit the greatest number of people. No other systems that have been tried have come close in terms of providing

broad-based prosperity. Countries that have not joined the march of freedom have left their citizens lagging behind and even, in the worst cases, stuck in poverty or destitution.

Such failures are inexcusable. Most important, they are preventable.

Advancing the free market is the most democratic and effective way to challenge big government, concentrated government power, and the status quo. Perhaps one of the critical lessons of the past years is that the fundamental superiority and value of economic liberty must be retaught to a new generation of political leaders, either by their peers who have lived in less free systems and less free times or by their own citizens, who understand instinctively that when individuals are allowed to decide for themselves how best to pursue their dreams and aspirations, their collective achievements can add up to a better society for all.

As Friedrich A. Hayek once observed, "If old truths are to retain their hold on men's minds, they must be restated in the language and concepts of successive generations." The *Index of Economic Freedom* provides the basis for such a dialogue and a foundation for economic revival in the years ahead.