Sometimes it seems to those of us who are fortunate enough to live in the modern economies of the 21st century that our lives have been inundated by a never-ending tsunami of information. The world seems to be drowning in it. E-mails, text messages, Twitter, Facebook, and YouTube videos—each new day brings another advance in communications.

Yet we often forget or take for granted the immense benefits that we receive every day from access to information. The health and growth of the globalized, competitive world economy depend upon the continuing free flow of transparent, timely, inexpensive, and truthful information. Knowledge of domestic and foreign political and economic developments, weather forecasts, and a million other bits of information generated daily around the world allows markets to function more efficiently.

Prices are the purest and most important form of information in any economy. Consumers and producers depend on knowledge of them to optimize their resource allocations to the highest and best uses. Freely available and unrestricted prices, whether at the wholesale or retail level, or expressed as wages, interest rates, foreign currency cross-rates, quantifiable opportunity costs, or in many other forms, are the single most important signals sent in a healthy economy.

Although it seems obvious to us today, Professor F. A. Hayek created a sensation in 1945 (an era when many put their faith in economies planned centrally by socialist bureaucrats) when he pointed this out in his seminal paper, “The Use of Knowledge in Society.” Refuting the central planners, Hayek described the real world where one person or small group, no matter how brilliant, cannot possibly have knowledge of all the relevant facts at any given moment. Since knowledge is dispersed among millions of people in an economy:

[P]rices can act to coordinate the separate actions of different people. The most
significant fact about this system is the economy of knowledge with which it operates, or how little the individual participants need to know in order to be able to take the right action.¹

Hayek’s paper continues to inspire economists’ work on tacit knowledge and dispersed, networked information (e.g., the Internet). Unfortunately, much of the world still suffers in the dark poverty of ignorance. The scarcity of access to modern information resources in developing countries is a major obstacle to attaining economic freedom, growth, and prosperity. In what may seem a vicious cycle, some obstacles to the free flow of information derive from the low levels of development to which they also contribute. Things like inadequate infrastructure, low education levels, and limited participation of workers in the formal economy can reduce access to and limit the search for information. Improving these factors can be a slow process, though advances in technology, such as the advent of cell phones, can sometimes contribute to leaps ahead.

The process of improving information infrastructure, technology, and access is an integral and understandable part of the development process. What are less understandable (and

---


---

Lack of Transparency by Monetary Authorities Hampers Global Economic Recovery

The U.S.-led response by monetary authorities in developed countries to the 2008 financial crash is perhaps the ultimate case study in how the lack of transparency and information flow can harm monetary freedom. The authorities, concerned that “too-big-to-fail” banks would fail, secretly funneled billions in borrowed, taxpayer-backed funds to them in hopes of preventing a run on all banks. The U.S. Federal Reserve blocked “disclosure of companies that participated in and securities covered by a series of emergency funding programs as the global credit crisis began to intensify.”¹

In retrospect, this morally hazardous policy harmed both good and bad banks because the public was not fully informed as to their condition. More than one year later, several U.S. newspapers still had not received details of the secret transactions that they had requested under the federal Freedom of Information Act.²

The authorities should have permitted the bad banks to fail (just as U.S. lawmakers later should have permitted the bankruptcy of General Motors and Chrysler). Harvard Professor of Economics Jeffrey Miron asserts that the great bailout was unjustified and reminds us that failure “is an essential aspect of capitalism. It provides information about good and bad investments, and it releases resources from bad projects to more productive ones.”³ As it is, the bad banks have not yet dealt with the bulk of their toxic assets, are still pursuing some dubious business practices, and still represent a large threat to the future health of the U.S. economy.

---


certainly inexcusable) in the midst of today’s deluge of data are the increasing attempts by governments around the world to control or even censor information.

**MICRO LEVEL: SUCCESSFUL ENTREPRENEURS MUST BE WELL-INFORMED**

Economic freedom and prosperity depend on the daily efforts of millions of entrepreneurs who risk their capital and invest their time and energy to supply the high-quality goods and services demanded by the market. Their success hinges not just on their hard work, but also on the public and private institutional frameworks within which they operate. If these entrepreneurs can access reliable information at low cost, markets will function better. Prices will be lower for consumers, price signals will encourage efficient levels of production and innovation, consumer preferences will be better matched, and profits will be higher for the entrepreneur.

In classical liberal economics, the microeconomic theory of the firm rests on the basic assumption that the firm is operating in a competitive marketplace. Free-flowing and accurate information is a core element of that competitive world. In fact, almost any economic analysis has as a starting point the supposition that correct and timely information is available to economic entrepreneurs to enable them to make decisions to maximize the efficient use of all factors of production. That efficient use is the key to productivity growth.

The role of information restrictions in retarding economic growth and development is illustrated in entire disciplines within economics that are dedicated to studying the effects of imperfect knowledge or information. Advances in the study of information economics were led by Hayek as well as by famed Chicago School economist Dr. George Stigler, a great friend of economic freedom who focused on “search” issues, and fellow Nobel Prize winner Kenneth Arrow. Fields that often focus on the lack of perfect information include economic law, finance, game theory, and public choice.

Information is a vital commodity for every participant in an economy: owners who are manufacturing and selling a product or service as well as consumers considering a purchase. Important information could include the customer’s knowledge of the prices of the product produced by the firm and comparable products on the market; the producer’s awareness of the costs of inputs needed to produce the product (e.g., labor and materials) from potential suppliers; and the firm owner’s comprehensive grasp of the size of market demand for the product so that just the right amount of production is planned, thereby avoiding underinvestment or overinvestment. For maximum efficiency and competitiveness, the information must be available to all participants at minimum cost.

It is especially distressing in times of crisis to see the reflexive use by governments of price controls to provide “stability.” What such controls actually do is cut off the flow of accurate market information.

When artificial constraints are imposed on wages and prices, forcing them to fluctuate only within a predetermined band, both the supply of and demand for labor and goods are distorted. The predictable results are shortages and surpluses in markets. When politicians

---

**Intervening in Bankruptcy Proceedings Denies Public Needed Information**

The U.S. government’s intervention in the bankruptcy of General Motors and Chrysler to benefit the powerful United Auto Workers union in 2009 is another egregious illustration of how artificially imposed constraints on information hurt the cause of economic liberty. Under U.S. law, normal bankruptcy proceedings reveal a great deal of information to the public about the debts, obligations, and managerial missteps of the failed company. This not only helps the market to reprice assets, but also serves as a warning to other companies so that they might take steps to avoid the same fate.
legislate minimum wages, impose interest rate caps on private banks, manipulate currency valuations, and use taxpayer subsidies to bail out politically well-connected “too-big-to-fail” companies and powerful labor unions, a comparatively lucky few benefit. The rest of us, however, face the prospect of living with (and paying for) the consequences of these restrictions on information.

MACRO LEVEL: INADEQUATE INFRASTRUCTURE IMPEDES ACCESS TO INFORMATION

Well-functioning markets at the microeconomic level depend on a supportive economic environment at the macroeconomic level. Accurate information about economic variables such as interest rates, credit, the money supply, job creation, and growth rates are fundamental to macroeconomic policymaking. The measurement of such variables and the factors that influence them is a key responsibility of governments and international economic institutions. The Index of Economic Freedom is one contribution to this quest for more—and more accurate—information. There are several others, however, that focus more directly on infrastructure or policy questions related to access to information.

The Information and Communication Technology (ICT) Development Index (IDI) prepared by the International Telecommunication Union covers 154 of the 183 countries that are included in the Index of Economic Freedom. The building blocks of the IDI (see Table 1) are teledensity (the number of fixed telephone landlines and cellular telephone service subscriptions per 100 inhabitants); access to and

---

Table 1 heritage.org

<table>
<thead>
<tr>
<th>Section 1: ICT Access</th>
<th>Reference Value</th>
<th>Percent of Section’s Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed telephone lines per 100 inhabitants</td>
<td>60</td>
<td>20%</td>
</tr>
<tr>
<td>Mobile cellular telephone subscriptions per 100 inhabitants</td>
<td>150</td>
<td>20%</td>
</tr>
<tr>
<td>International Internet bandwidth (bits/second) per Internet user</td>
<td>100,000*</td>
<td>20%</td>
</tr>
<tr>
<td>Proportion of households with a computer</td>
<td>100</td>
<td>20%</td>
</tr>
<tr>
<td>Proportion of households with Internet access at home</td>
<td>100</td>
<td>20%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Section 2: ICT Use</th>
<th>Reference Value</th>
<th>Percent of Section’s Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internet users per 100 inhabitants</td>
<td>100</td>
<td>33%</td>
</tr>
<tr>
<td>Fixed broadband Internet subscribers per 100 inhabitants</td>
<td>60</td>
<td>33%</td>
</tr>
<tr>
<td>Mobile broadband subscribers per 100 inhabitants</td>
<td>100</td>
<td>33%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Section 3: ICT Skills</th>
<th>Reference Value</th>
<th>Percent of Section’s Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult literacy rate</td>
<td>100</td>
<td>33%</td>
</tr>
<tr>
<td>Secondary gross enrollment ratio</td>
<td>100</td>
<td>33%</td>
</tr>
<tr>
<td>Tertiary gross enrollment ratio</td>
<td>100</td>
<td>33%</td>
</tr>
</tbody>
</table>

* Corresponds to a log value of 5, which was used in the normalization step.


usage of the Internet; and literacy rates.

The IDI does not include other data points found in the World Bank’s World Development Indicators,\(^3\) such as the percentage of the population and land area in the country covered by cellular telephone service networks or other information measures such as percentage of households with televisions/radios or daily newspapers per 1,000 people. Nor does it include a measure of Internet censorship. Nonetheless, it is the best and most comprehensive measure of the level of information infrastructure development in the countries that it covers.

There is a strong positive correlation between IDI scores and the Index of Economic Freedom. (See Chart 1.)

---


Although we can theorize from this correlation that higher levels of information infrastructure are associated with ever-greater degrees of economic freedom, we cannot state that more access to information provided by greater development of infrastructure (as reflected by the IDI) causes better scores on the Index. There appears to be a strong link between economic freedom and information infrastructure, but we must also consider the relationships between economic freedom and economic development, as well as economic development and information infrastructure. Inevitably, most measures of information infrastructure will be tied to development, and that development is spurred both by the principles of economic freedom and by improvements in information infrastructure.

While the IDI and the Index of Economic Freedom are strongly and positively correlated, there is also a strong positive correlation
between IDI scores and GDP per capita (0.851), as well as between Index scores and GDP per capita (0.702). (See Charts 2 and 3.)

It may well be that it is the higher levels of economic freedom recorded in the Index that are causing improvements in information infrastructure, particularly through the mechanism of increased economic growth. The most likely answer may be that there is a feedback loop between information access and economic freedom, with better information contributing to economic freedom and economic freedom providing greater access to information.

Increases in the availability of information are so important to economic functioning that governments historically have treated many improvements in information infrastructure as public goods. For example:

- In South Korea, a state-owned monopoly (Korea Telecom) was allowed to privatize on the condition that it provide broadband to all villages in the country.  

- In Sweden, policymaking included deregulation and competition to bring down prices of information access. However, the government owns a significant portion of the high-speed network infrastructure (78 percent as of 2003) and is a large shareholder (45.3 percent) in TeliaSonera, the dominant telecommunications company. The Swedish government also used mandates and subsidies to achieve the highly developed telecommunications infrastructure that its citizens enjoy.


---


• The government of the Netherlands encouraged competition by lowering barriers to entry in the broadband market, but it has also invested significant amounts of taxpayers’ money in research and infrastructure.  

In many cases, governments use free-market principles of deregulation and competition to lower costs and provide greater access to information technology. However, these governments also make significant financial investments to develop information infrastructure.

Although more than 70 countries retain state-owned monopolies that control international telecommunications gateway services, many developing countries in Africa (Ghana, Kenya, Nigeria, and Uganda) and South Asia (Bangladesh, Sri Lanka, India, and Pakistan) have learned that freer and more competitive markets can improve information access and affordability. They have increased the number of telecommunications licenses granted to private operators.  

**MORE THAN ECONOMIC FREEDOM AT RISK**

Information’s importance both to the efficiency of the marketplace and to economic freedom is but one aspect of the importance of information in preserving liberty itself. History is replete with examples of deliberate efforts to keep people uninformed about the actions of their governments. It has been said, for exam-

---

6. Ibid.

ple, that this was the de facto official policy in Francisco Franco’s Spain and Antonio Salazar’s Portugal in the mid-20th century. Salazar reportedly said that keeping people illiterate would ensure a happy and productive peasantry. What he got instead were people who could easily be misled by the Communist Party, which nearly succeeded in taking power in the 1970s. The same scenario had played out in Greece in 1948.

Dictatorial governments’ use and misuse of information follows familiar patterns. On the one hand, rulers use control of economic information to enrich themselves. Throughout history, it has not been uncommon to uncover evidence of better, more valuable information being withheld from the people by ruling elites. Access to reliable and useful information is certainly not always treated by governments as an inalienable right. Statistical data may be withheld or altered to encourage support for selected policies or to hide subsidies or other diversions of funds.

In the worst cases, even basic commercial data on commodity supplies or prices may be withheld. Such data are fundamental to the functioning of a market, but producers and consumers require more than just commercial information to compete efficiently. They need wide-ranging knowledge of political and economic developments, both within their own country and around the world. They must be aware of the latest technological innovations, fads that drive consumer choices, music and fashion trends—the list is endless. If the government attempts to manipulate information to gain political or economic advantage, it will have a negative effect on investor and consumer confidence. More than that, it is a transfer of resources from those who are denied information to those who retain access to it, which usually means the state and its cronies.

Beyond enriching themselves, dictatorial regimes typically exert control over information flows to maintain their political power. Freedom House publishes an index that measures this aspect of information freedom: the annual “Table of Global Press Freedom Rankings.”

As Freedom House notes:

A free press plays a key role in sustaining and monitoring a healthy democracy, as well as in contributing to greater accountability, good government, and economic development. Most importantly, restrictions on media are often an early indicator that governments intend to assault other democratic institutions.

The correlation between the Freedom House index scores and those of the Index of Economic Freedom is predictably strong, at –0.63, as seen in Chart 4. The trend line slopes down because lower numerical scores from Freedom House indicate higher levels of press freedom.

INFORMATION AND THE INDEX OF ECONOMIC FREEDOM

The importance of access to information in the maintenance of freedom and the promotion of prosperity is seen clearly in many of the indicators that make up the Index of Economic Freedom. Countries that earn the highest scores in the Index have benefited from allowing the free flow of labor, capital, goods—and information. Countries that have an information-
poor environment put their entrepreneurs at a disadvantage. Through the prism of the economic freedom indicators, we can see some of the damage that is done when public policy restricts the free flow of information.

**Business Freedom**

The transparency of the regulatory environment for business is an important element in promoting efficiency and reducing bribery. Entrepreneurs need correct and user-friendly information about compliance and where they are in the regulatory process. Regulations themselves, however, can also impede the flow of information between businesses and consumers.

For example, modern businesses cannot operate successfully without advertising: not just through mass marketing, but also through customized information channels that can target specific markets for products and services. Regulations that interfere with advertising are one way by which governments interfere with the flow of information between buyers and sellers.

**Trade Freedom**

Knowledge of the marketplace must not be artificially limited only to market conditions within a country’s borders. Protectionism cuts off information to producers and consumers alike about competing goods and services made in other countries. Knowledge of the relative prices and quality of those products—of recent innovations, marketing campaigns, safety testing, and an endless list of other fac-
tors—could help entrepreneurs in the protectionist country to manufacture and sell better products. Knowledge of available inputs aids domestic manufacturers in planning the most effective production processes to maximize productivity.

While propping up inefficient industries, protectionism reduces consumer choice and exempts producers from the need to adapt and evolve to improve consumer satisfaction. It results in inferior goods and services, as well as higher costs, and causes any country adopting such measures to be industrially crippled and likely to be left in the dust by its more agile, adaptable, and information-rich competitors.

**Fiscal Freedom**

Countries that lack the institutional infrastructure to collect taxes efficiently usually lack information infrastructure. Perversely, some of the least developed countries in the world receive artificially high scores for fiscal freedom and government spending in the *Index of Economic Freedom*, not because of any particular restraint or virtue by their governments, but rather because they lack the basic information about who is earning income at what levels. Information provides the vital link between taxpayers and tax collectors, both in communicating what government services are needed and in identifying who has the ability and responsibility to pay for them.

**Government Spending**

Governments that wish to increase spending may resort to restrictions on information or the manipulation of statistics in order to hide their intentions from the public. For example, David Walker, who formerly served as the nation’s “Auditor in Chief” as head of the U.S. Government Accountability Office, has warned of a “fiscal cancer” that is threatening America’s future economic viability. According to Walker, “off balance sheet obligations associated with Social Security and Medicare put us in a $56 trillion financial hole,” and the true costs of the Medicare drug entitlement benefit adopted in 2003 “were hidden from both Congress and the people.”

Countries with large numbers of state-owned enterprises often go even further, exerting tight control of commercial information. This is a hallmark of totalitarian states and one of the principal causes of the economic inefficiency and stagnation that characterize them.

In the Soviet Union, for example, the lack of accurate and timely information conveyed through supply-and-demand price signals contributed to a steady deterioration in product quality. According to Vladimir G. Treml, Professor of Economics at Duke University, the “quality of manufactured goods continued to be inferior by world standards because of the absence of demand pressures on producers isolated from buyers by the centralized supply system.” A Library of Congress study notes that because “of the inferior quality of Soviet goods, the Soviet Union was unsuccessful in increasing its exports of manufactured goods. In 1987 only 18 percent of Soviet manufactured goods met world technical standards.”

**Monetary Freedom**

Countries that maintain distortionary price controls of any sort, including controls on the prices of goods, labor (the wage), capital (the...
interest rate), and foreign money (the exchange rate), send incorrect signals to domestic producers and consumers, often creating inflationary pressures they sought to avoid and always harming consumers and putting businesses in their country at a disadvantage. Subsidies have similar effects in warping the information contained in prices.

Another private-sector index measures hazards to investors and traders that are posed by a country’s opaque institutions. The Opacity Index looks at risks “associated with the lack of transparency in five areas that can confound global investment and commerce” in 48 countries and the strategies and tactics that foreign firms must use to deal with them successfully. The five areas are:

- Corruption in business and government;
- The legal system—its protection (or lack thereof) of critical rights and its ability to quickly settle disputes;
- The government’s economic policy and its impact on business;
- Accounting standards and governance rules; and
- The regulatory structure of the financial system, markets and business in general.¹

Opacity in these areas obstructs the availability of perfect information. As Opacity Index authors Joel Kurtzman and Glenn Yago point out:

[S]mall-scale, high-frequency risks of operating globally present the real costs to business. These risks interfere with commerce, add to costs, slow growth and make the future even more difficult to predict. They also deter investment. The key to any good investment relationship is clarity—the ability to see and even be in communication with what’s really going on.²

Not unexpectedly, the Opacity Index and the Index of Economic Freedom are strongly correlated.

2. Ibid.
Investment Freedom

Potential foreign investors need information about industry and market conditions in the countries in which they are considering investing. There is an inverse relationship between the level of information available and the level of risk of an investment, and countries in which information is readily available have a large competitive advantage. Regulatory transparency is another vital information-related factor in determining investment levels.

Financial Freedom

Entrepreneurs and investors need timely information about interest rates and credit terms offered by the banking sector. Governments that impose artificial constraints on the private banking sector for political purposes—for example, through subsidized state-owned banks, interest rate caps, currency manipulation, and other burdensome regulations—restrict and distort the price signals vital to firms operating in the economy. At the root of the global financial crisis was the lack of accurate information about the level of risk associated with certain widely traded financial assets, which permitted a bubble in their price that ultimately burst when better information about the risks became known.

Property Rights

Publicly available records of land and real estate transactions provide transparency about market conditions for the entrepreneur or investor—and especially for land and home owners. In his introduction to the 2009 International Property Rights Index, Hernando de Soto champions the protection of both physical and intellectual property. Noting that people in the developing world often lack this protection, de Soto reminds us that:

[A]n environment where both forms of property are safe and legally enforceable contributes to increased levels of stability and encourages the free exchange of goods and ideas. This is done on a daily basis and often taken for granted by those that are afforded the chance to prosper from their investments.16

Without clarity of information, it is impossible to protect property. It is no accident that we speak of having “clear” title to a piece of property. “Clouded” titles end up in courtroom disputes. Countries with transparent rules, procedures, and government institutions to protect both the right to possess property and the right to acquire more of it have more economic freedom.

Freedom from Corruption

This is one of the most important freedoms from the standpoint of access to information, and it lies at the very heart of the definition of transparency. A free press is vital, both to expose political corruption and to guard against bribery, extortion, nepotism, cronyism, patronage, embezzlement, and graft.

Recently, there have been many disturbing acts of censorship, attacks on press freedom, and denials of Internet access around the world. As just one example, according to a recent World Bank report, bloggers in Burma, Iran, Syria, Cuba, Saudi Arabia, Vietnam, Tunisia, China, Turkmenistan, and Egypt are harassed and sometimes imprisoned by government censors who use “regulations and laws that censor bloggers, [as well as] control mechanisms to filter, monitor or limit the access to internet.”17


Labor Freedom

A competitive, merit-based labor market creates a more efficient and prosperous economy. Powerful unions that impose “closed shop” rules on employers cut off information about jobs from potential applicants and information about potential applicants from employers. In Mexico, for example, unions have had a stranglehold on the labor sector since the 1930s. Through rigid labor laws enacted by friendly politicians, they enjoy immense leverage in workplaces, as well as tremendous resources, closed-shop hiring and firing prerogatives, leadership elections by acclamation, and mandatory dues without transparency. Those unions have worked hand-in-glove with state-owned and private corporate monopolies. Of course, this arrangement has been great for those who are on the inside, but the economic stagnation that has resulted from these structural distortions of the economy has forced 40 percent of Mexico’s workers into the informal sector.18

CONCLUSION

The dark poverty of ignorance, caused by a scarcity of information resources in developing countries and the consequence of government censorship in all countries, is a major obstacle to attaining economic freedom, growth, and prosperity. There is also an increasing tendency by governments around the world to intervene in markets with intrusive regulatory and fiscal measures that restrict the ability of the price system to inform consumers and producers about the most efficient ways to spend or invest their resources. The threats to freedom of information from the lack of infrastructure and from government actions that, intended or not, restrict knowledge vital to economic efficiency are reflected—sometimes bluntly, at other times subtly—in many of the indicators measured in the Index of Economic Freedom.

Investments in information infrastructure can pay big dividends in many areas of economic freedom and economic well-being. Gains will be biggest in those countries that are the farthest behind when they begin. Unfortunately, benefits are easily undone when government officials repress information for personal economic or political gain.

One of the primary goals of the Index of Economic Freedom is to shed some light on the pathway to prosperity. The greater the availability of information—commercial, macro-economic, and political—the greater will be the overall illumination of that path, enabling entrepreneurs and policymakers to make the best choices for the future.