

FOREWORD

Economic freedom is a critical element of human well-being and a vital linchpin in sustaining a free civil society. As Friedrich A. Hayek foresaw decades ago, “The guiding principle in any attempt to create a world of free men must be this: a policy of freedom for the individual is the only truly progressive policy.” Indeed, the best path to prosperity is the path of freedom: letting individuals decide for themselves how best to achieve their dreams and aspirations and those of their families. It is that path whose course is charted in the *Index of Economic Freedom*.

FOSTERING INCLUSIVE AND SUSTAINABLE GROWTH

In practice, each country’s path to growth and development must be tailored to its own culture, history, and unique conditions, but there are certain fundamental characteristics of that path that are common to all countries. Nations with higher degrees of economic freedom prosper because they tend to capitalize more fully on the knowledge and ability of all individuals in society. Given a chance, the free-market system provides a framework for organizing, without coercion, the skills, talents, and effort of individuals toward the production of the goods and services most in demand by their fellow citizens. For society as a whole, this generates dynamic economic growth and promotes innovation through the efficient allocation of resources.

In addition, policies that promote freedom, whether through improvements in the rule of law, the promotion of efficiency through competition and openness, or suitable restraints

on the size and economic reach of government, create an environment that is conducive to practical solutions to a wide range of economic and social challenges that face the world’s societies.

As the country profiles in the 2017 *Index of Economic Freedom* document, the link between economic freedom and prosperity has never been clearer. Since the dawn of the modern age, a central question for policymakers has been: “What can government do to spur growth?” The data provide an obvious answer: “Adopt policies that advance economic freedom.”

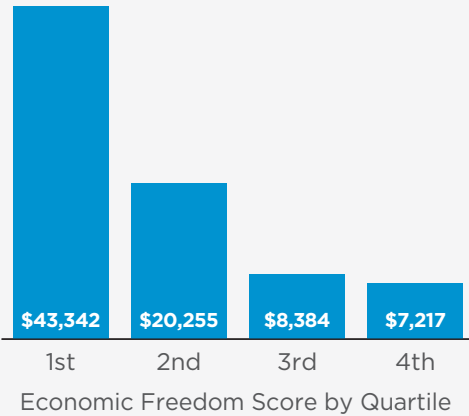
Chart 1, which compares income per capita and levels of economic freedom, illustrates the significant differences in income between countries with low levels of economic freedom and those that provide the greatest scope for individual initiative and choice. It also plots the impact that changes in economic freedom have on economic growth rates. Countries can get an immediate boost to economic growth by taking steps to increase economic freedom through policies that reduce taxes, rationalize the regulatory environment, open the economy to greater competition, and fight corruption.

WITH ECONOMIC FREEDOM COMES PROSPERITY AND MORE RAPID GROWTH

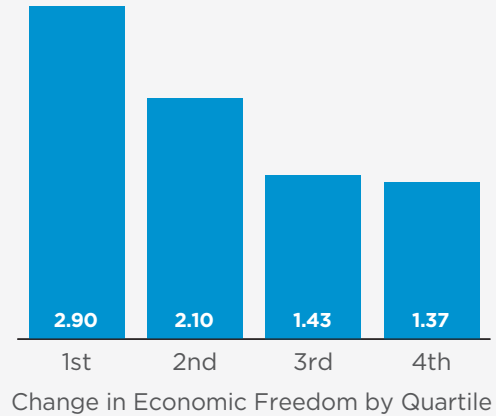
Equally important, of course, are the things that government should *not* do. Policies that subsidize specific industries, impose one-size-fits-all central planning, attempt to buy growth through government “stimulus”

WITH ECONOMIC FREEDOM COMES PROSPERITY AND MORE RAPID GROWTH

GDP per Capita, Purchasing Power Parity, Current U.S. Dollars



GDP per Capita, Purchasing Power Parity, 5-Year Growth Rate



SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>; 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); and The World Bank, World Development Indicators Online, <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators> (accessed December 13, 2016).

Chart 1 heritage.org

spending, or rack up excessive debt by accumulating budget deficits are highly counterproductive. The evidence is overwhelming that any gains from such strategies will be ephemeral at best. The economic distortions they create reduce efficiency, productivity, and ultimately growth. That is too high a price to pay for any short-term benefits that such strategies might yield.

ECONOMIC FREEDOM: MORE THAN A GOOD BUSINESS ENVIRONMENT

To be sure, economic freedom is about much more than a business environment in which entrepreneurship and prosperity can flourish. With its far-reaching impacts on various aspects of human development, economic freedom empowers people, unleashes powerful forces of choice and opportunity, gives nourishment to other liberties, and improves the overall quality of life.

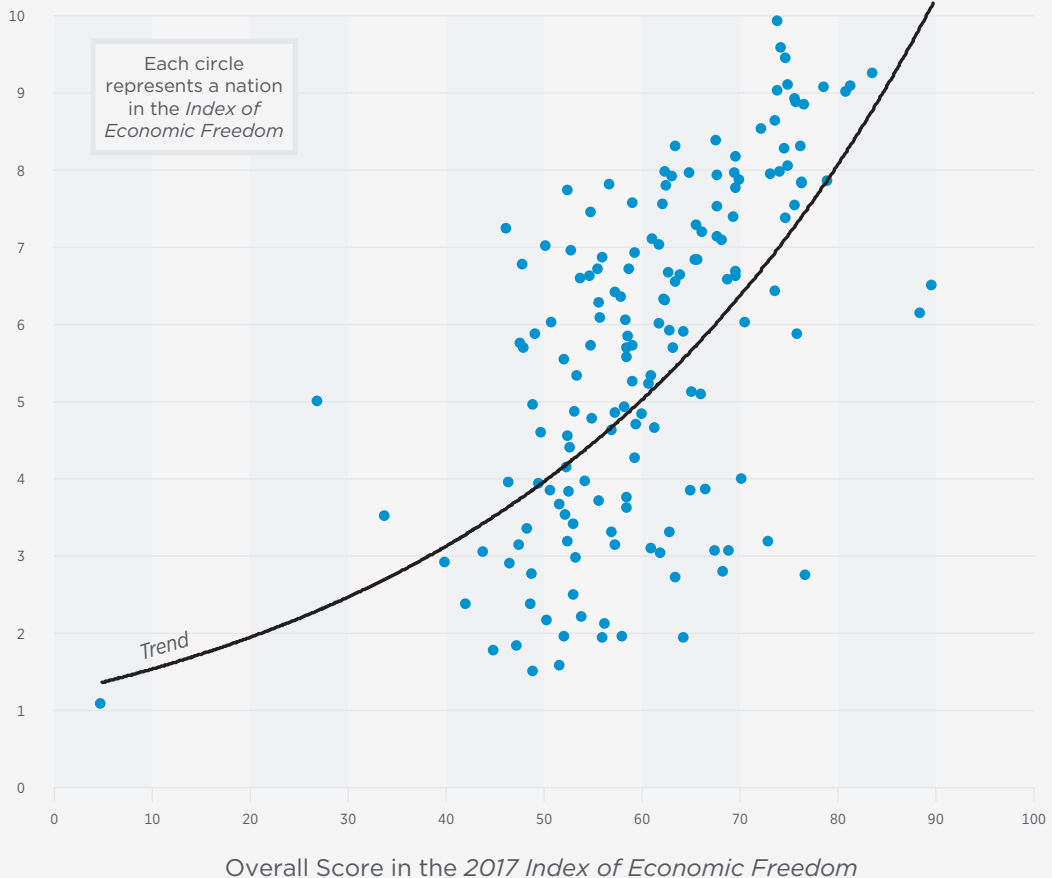
While the *Index of Economic Freedom* is concerned exclusively with the measurement of freedom in the economic sphere of life, it is clear that economic freedom is also connected to civil and political freedom. A free economy is a fertile environment for the promotion of democracy. By giving people greater control of their daily lives, economic freedom nurtures self-reliance and the acquisition of varied skills and resources—key attributes of a middle class.

The pursuit of greater economic freedom can thus be an important stepping-stone to democratic governance. Freedom in the economic sphere encourages individual initiative and promotes decentralized decision-making throughout society. It nurtures precisely those personal attributes that allow individuals to challenge entrenched interests and compete for political power.

The dispersion of power in a well-functioning market system easily accommodates

DEMOCRATIC GOVERNANCE AND ECONOMIC FREEDOM

Democratic Governance



SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and The Economist Intelligence Unit, "Democracy Index 2015," <http://www.eiu.com/Handlers/WhitepaperHandler.ashx?fi=EIU-Democracy-Index-2015.pdf&mode=wp&campaignid=DemocracyIndex2015> (accessed December 13, 2016).

Chart 2  heritage.org

diversity of thought and action. In fact, perhaps the greatest benefit of the free-market system is that it can provide a powerful yet peaceful organizing principle for today's pluralistic societies. And on a wider scale, the mutually beneficial interactions of freely trading societies may be the best hope for a peaceful world.

Undoubtedly, achieving greater political freedom and creating a well-functioning democracy can be a messy and often excruciating

process. However, as shown in Chart 2, the positive relationship between economic freedom and effective democratic governance is unmistakable.

THE STRUGGLE CONTINUES

Now, as we progress further into the 21st century, more countries, whether politically free or not, have realized the critical necessity of establishing institutional frameworks that can enhance economic freedom for their

citizens as the best path to development. Yet the struggle for economic freedom continues to face determined opposition.

For example, it has been common for those who feel “exploited by the system” in recent years to lash out at capitalism as the cause of their economic woes. When their complaints are examined, however, what stands out is not anger at an actual free-market capitalist system, but frustration with the prospect of an almost insurmountable existing system of privilege based on cronyism. Those who want special privileges will always pressure societies to expand the size and weight of government intervention, but special privileges for the few mean less prosperity for the many. In many parts of the globe, aspiring entrepreneurs, willing to work hard and full of ideas and energy, start out against a stacked deck because they lack political or family connections. The struggle for economic freedom is the struggle against those who want to maintain special privileges for the few.

To get ahead based on sheer merit and hard work, citizens of any country need a system that maintains non-discriminatory markets, allocates resources impartially, and rewards individual effort and success. That is the recipe for economic freedom—and for the opportunity to escape poverty and build lasting prosperity.

No alternative systems—and many have been tried—come close to the record of free-market capitalism in promoting growth and enhancing the human condition. The undeniable link between economic freedom and prosperity is a striking demonstration of what people can do when they are left to pursue their own interests within the rule of law.

The late Milton and Rose Friedman were optimistic that such freedom would prevail. In the concluding chapter of their celebrated book *Free to Choose*, they noted with assurance:

Fortunately, we are waking up. We are again recognizing the dangers of an over-governed society, coming to understand that good objectives can be perverted by bad means, that reliance on the freedom of people to control their own lives in accordance with their own values is the surest way to achieve the full potential of a great society.

Though written in 1980, this observation is astonishingly relevant today.

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