

PREFACE

PROMOTING ECONOMIC FREEDOM: TWENTY-FIVE YEARS OF PROGRESS

When we inaugurated the *Index of Economic Freedom* in 1995, we hoped that it would gain recognition among policymakers and academics as a vital benchmark for economic policy and progress toward prosperity. Twenty-five years later, here we are: The *Index* has become a known and trusted reference in capitals throughout the world.

The *Index* is more than a reference book, however. The philosophical commitment of the *Index* to the capitalist free-market system should be apparent to all. Through all the years, we have seen confirmation of our view that implementation of the fundamental tenets of economic freedom leads to rapid increases in incomes; dramatic drops in poverty; sustainable gains in education, health, and the environment; and improved conditions for democracy and peaceful cooperation among neighbors. It is a credit to our editors that the integrity of our data and analysis is widely accepted and acknowledged by friends and foes of freedom alike.

As we observe the 25th anniversary of the *Index of Economic Freedom*, we celebrate a publication that has become by far the most widely circulated and most widely read product of The Heritage Foundation. Published copies of the *Index* are in libraries around the globe. *Index* webpages have been viewed more than seven million times over the past year and more than

40 million times over the past five years. Over 600 scholarly articles in peer-reviewed publications have referenced one recent annual edition of the *Index*; similar results were achieved in other years. Presidents and Prime Ministers from around the world, including from countries like Poland, Taiwan, Estonia, Chile, Tunisia, Ghana, and Mexico, have referred to the *Index* as an important guide for economic policy. The *Index* rankings are reported annually in countless broadcast and print media. It's a large footprint, and one of which we are justifiably proud.

The idea for producing an *Index of Economic Freedom* on an annual basis grew initially out of concern in Washington in the late 1980s about the effectiveness of foreign aid. Officials understood intuitively that a policy commitment to the free-market system was essential in creating fertile soil for the seeds of development planted by the U.S. Agency for International Development (USAID) and other aid agencies around the world. There was basic agreement about the fundamentals of capitalism but no systematic way to measure whether and to what extent those fundamentals existed in Mogadishu, Manila, or Minsk. That was the void we sought to fill.

The first edition of the *Index* covered 101 countries, evaluating them in 10 categories covering fiscal, monetary, and regulatory policy, as

well as the rule of law. Timely economic statistics of consistent quality were difficult to obtain, but the authors did their best to winnow away the dubious or deceitful and to present as comprehensive a snapshot as possible of the actual conditions facing everyday citizens and potential entrepreneurs as they sought to improve their lives. Judgments were based on the best information available at the time.

Today, thanks in no small part to the improved data-collection efforts of international institutions like the World Bank, the International Monetary Fund, the World Trade Organization, nongovernmental organizations like Transparency International and the World Economic Forum, and commercial enterprises such as the Economist Intelligence Unit, Deloitte, and PricewaterhouseCoopers, the *Index* has become more data-driven, objective, and rigorous, with replicable mathematical formulas augmenting if not altogether replacing judgment in many of the categories of economic freedom.

Over the past 25 years, the mission of the *Index* has grown far beyond the initial impulse to identify and measure conditions conducive to aid effectiveness. As the so-called Washington Consensus gained widespread acceptance in international organizations and among economic policymakers everywhere except the most doctrinaire socialist or Communist countries, policymakers around the world soon realized that the *Index*, whose 10 economic freedoms looked a lot like the 10 policy priorities of the Washington Consensus, could be used to demonstrate progress, or the lack thereof, in efforts by countries to implement the policy mix that would best promote rapid and sustainable growth. The *Index* became, in effect, a tool for accountability, one welcomed enthusiastically in many of the countries of Eastern Europe and the former Soviet Union and perhaps a bit more grudgingly in the more autocratic regimes of Africa, Latin America, and Asia.

The widespread acceptance of the *Index* was aided immensely by our 20-year partnership with *The Wall Street Journal*, which began in

1997. *Journal* writers like Paul Gigot, Melanie Kirkpatrick, and Mary Anastasia O’Grady contributed significantly in highlighting the importance of economic freedom, and the *Journal’s* worldwide reach helped the *Index* to penetrate markets that otherwise might have paid little attention to the product of a Washington think tank.

The persistent appearance of economies like Hong Kong, Singapore, Australia, and New Zealand at or near the top of its rankings has made the *Index* particularly popular and influential in Asia. The Hong Kong government has taken out full-page ads to tout its number-one ranking in the *Index*. Average people also have taken notice: On an early promotional tour for the *Index*, we were greeted in a hotel in Singapore by a clerk declaring, “We’re number two,” referring to Singapore’s second-place ranking that year.

Over the past 10 years, with the idea of international rankings of one sort or another turning into something of a growth industry, the *Index* has become institutionalized within organizations such as USAID and the Millennium Challenge Corporation, the World Bank, and commercial credit rating and investment agencies as a valuable resource. Its transparent and easily accessible data have become a preferred resource for academics interested in exploring the impact of economic policies on indicators of economic and social well-being or the factors that most affect business decision-making and firm behavior. Countries, as always, continue to use it as a reliable benchmark for policy and performance vis-a-vis their neighbors or competitors.

Looking ahead, the *Index of Economic Freedom* will continue to provide our users with information that is up-to-date, as comprehensive as possible, and packaged for ease of understanding and access. Since the first edition of the *Index* in 1995, we have seen dramatic progress in some countries, steady gains in others, and only a few cases of backsliding in the pursuit of greater economic freedom. The evidence linking gains in economic freedom to improvements in living standards and well-being

is overwhelming. When governments do a little less and do what they do with restraint, transparency, and integrity, they can empower their people to do so much more, unleashing powerful energies of entrepreneurship and effort.

That is the promise of economic freedom, and we are confident that the *Index* will continue in the years ahead to document ever-greater successes as more and more countries set out on the free-market path to prosperity.

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