

ECONOMIC FREEDOM: GAINING GROUND AROUND THE WORLD

The Heritage Foundation’s annual *Index of Economic Freedom* provides compelling evidence that economic freedom is the key to progress and prosperity. Nations with higher scores on the *Index* protect and promote individual liberty and empowerment and the free exchange of goods and services in markets that are characterized by open domestic and international competition. Economically free nations benefit from the dynamic growth that is generated and reinforced through the markets’ efficient resource allocation, value creation, and innovation.

Economic freedom continues to provide the surest pathway to prosperity. When governments respect the property rights of individuals and provide fair and evenhanded access to justice; when they limit their own use of society’s resources and impose regulations only with a view to economic efficiency, health, and safety; and when they open themselves to productivity-enhancing resources and competition from around the world, they ensure an environment in which individuals and companies can best prosper now and best confront whatever conditions might imperil their progress and security in the future.

In an increasingly global environment characterized by rapid and sometimes unexpected change, the imperative to advance economic freedom and vibrant entrepreneurial growth is stronger than ever. No other economic system has proven as adaptive to

change as has free-market capitalism built on the principles of economic freedom. The dispersed information-gathering processes and price-setting power of free markets incentivize and guide change far more efficiently than centralized political processes that are typically slow and often biased toward the status quo. They inspire the innovation in all realms that is necessary for progress, enabling better jobs, better products, and healthier, cleaner, and safer societies.

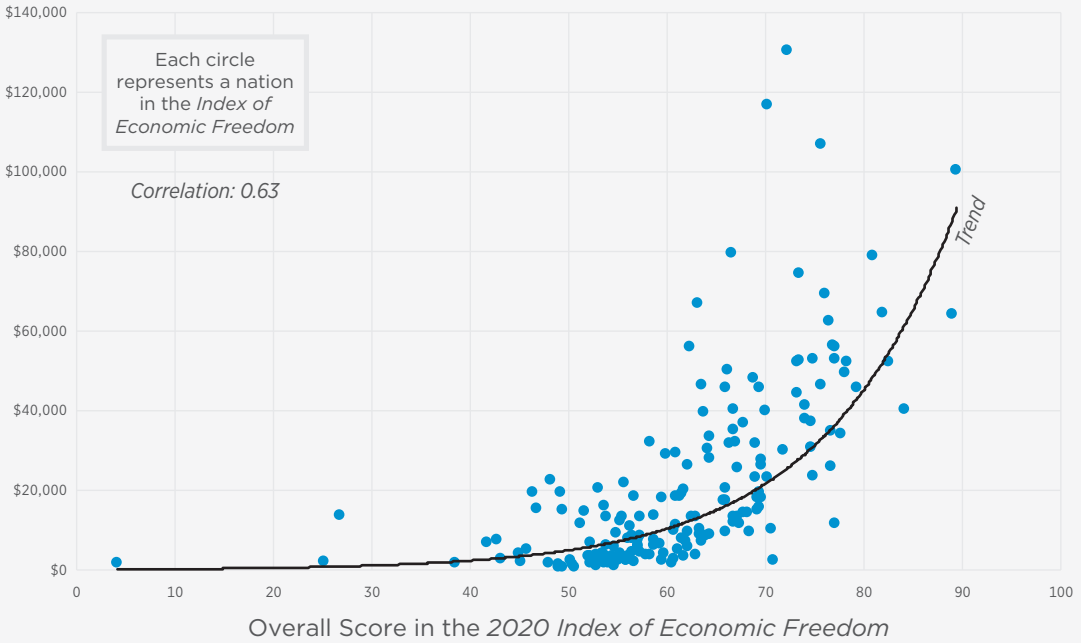
GLOBAL ECONOMIC FREEDOM HAS ADVANCED

The 2020 *Index* reveals a world economy that as a whole continues to be “moderately free.” Global average economic freedom has advanced slightly by 0.8 point to 61.6 over the past year. This represents a full four-point overall improvement since the inception of the *Index* in 1995 and is the highest average score in *Index* history. According to the 2020 *Index*:

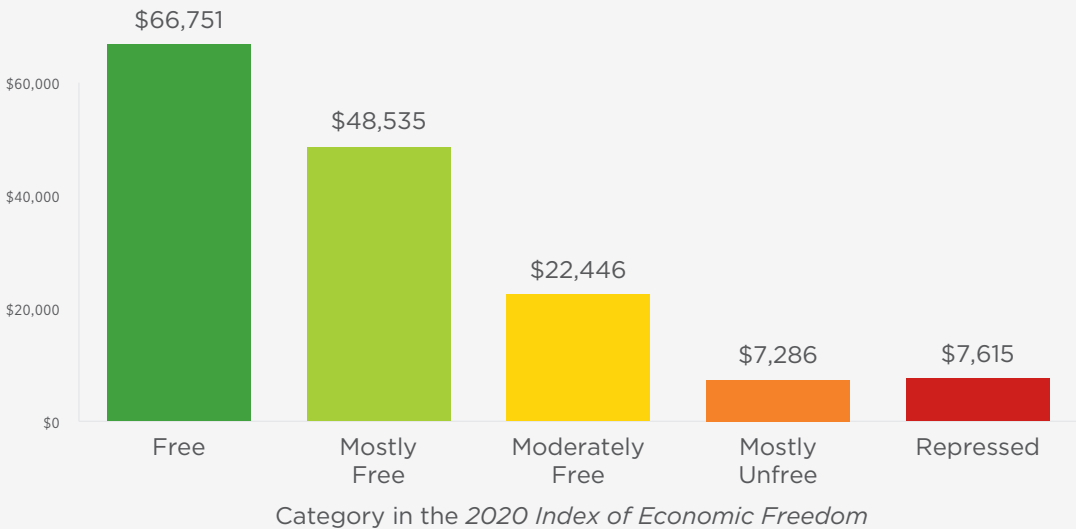
- Per capita incomes are much higher in countries that are more economically free. Economies rated “free” or “mostly free” in the 2020 *Index* generate incomes that are more than double the average levels in other countries and more than five times higher than the incomes of people living in countries with “repressed” economies.

ECONOMIC FREEDOM AND STANDARD OF LIVING

GDP per Capita (PPP)



Average GDP per Capita (PPP)

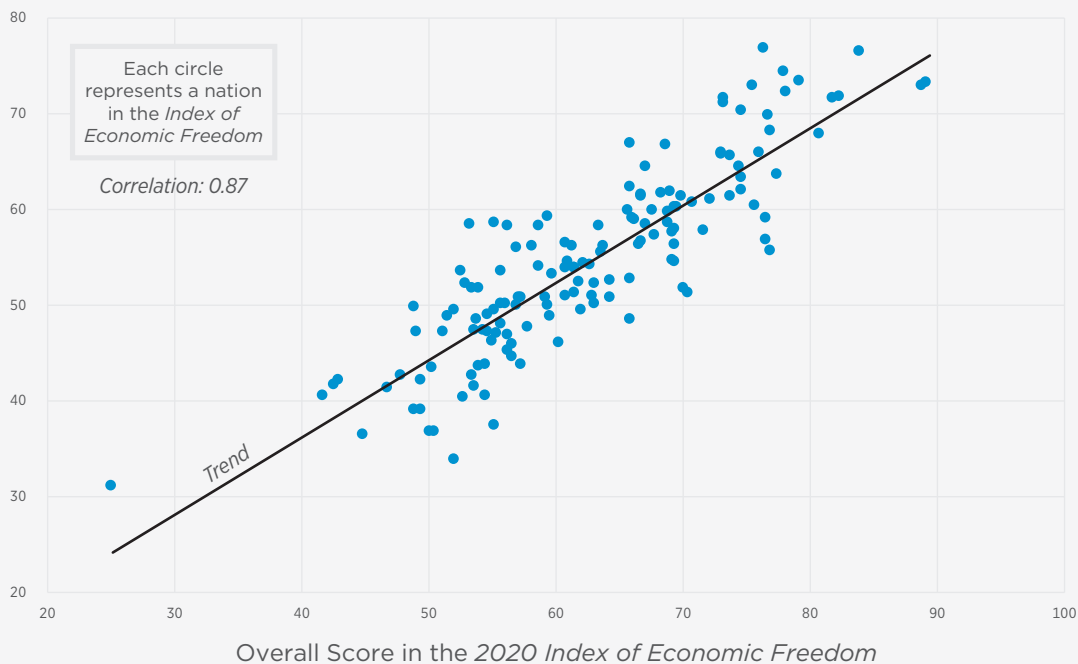


NOTE: Represented are the 180 nations that are in both datasets.

SOURCES: International Monetary Fund, World Economic Outlook Database, April 2019, <http://www.imf.org/external/pubs/ft/weo/2019/01/weodata/weoselgr.aspx> (accessed December 12, 2019), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.


ECONOMIC FREEDOM AND ENTREPRENEURIAL DYNAMISM

Legatum Prosperity Index's 2018 Business Environment Pillar Score



NOTE: Represented are the 146 nations that are in both datasets.

SOURCES: Legatum Institute Foundation, *Legatum Prosperity Index 2018*, <https://li.com/reports/2018-legatum-prosperity-index/> (accessed December 12, 2019), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.

Chart 2  heritage.org

- Economic freedom is also strongly correlated with overall well-being, including such factors as health, education, the environment, innovation, societal progress, and democratic governance.
- There is a robust relationship between improving economic freedom and achieving higher per capita economic growth. No matter what their existing level of development may be, countries can get a measurable boost in their economic growth by implementing steps to increase economic freedom through policies that reduce taxes, rationalize the regulatory environment, open the economy to greater competition, and fight corruption.

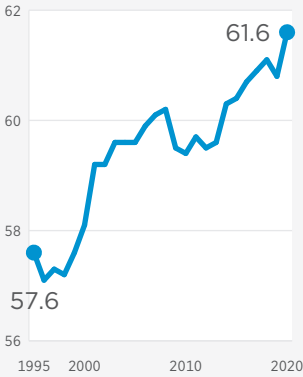
ECONOMIC FREEDOM: THE VITAL LINK BETWEEN OPPORTUNITY AND PROSPERITY

Today's successful economies are not necessarily geographically large or richly blessed with natural resources. Many economies have managed to expand opportunities for their citizens by enhancing their economic dynamism and integration into global markets. In general, the overarching objective of economic policies must be to create an environment that provides the best chance to translate opportunity into prosperity.

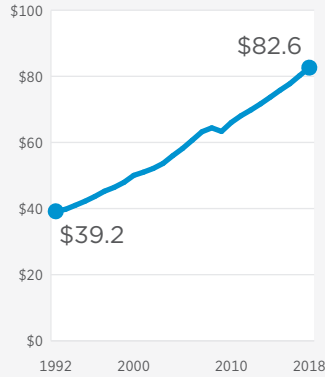
The *Index* results demonstrate that sustaining economic dynamism is achievable for countries at all stages of development when governments adopt economic policies that empower

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

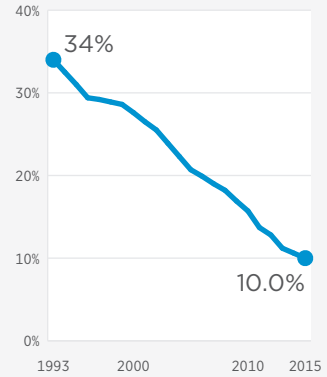
Average Score in the *Index of Economic Freedom*



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




Percentage of Global Population Living in Abject Poverty



NOTES: Some poverty figures have been interpolated.

SOURCES: The World Bank, World Development Indicators, <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators#> (accessed December 12, 2019); The World Bank, “Regional Aggregation Using 2011 PPP and \$1.9/day Poverty Line,” <http://iresearch.worldbank.org/povcalnet/povDuplicateWB.aspx> (accessed December 12, 2019); and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.

Chart 3  heritage.org

individuals and firms with more choices, encouraging greater entrepreneurship.

It is noteworthy that despite the recent years’ policy missteps in responding to the global economic slowdown and the ongoing political assault on capitalism, the free-market system of economic freedom is not at the verge of breakdown or blunt dismissal. The evidence instead is that a growing number of people around the world have understood the economic damage that is inflicted too often by heavy-handed and misguided government policies that result in subpar growth, deteriorating entrepreneurial environments, and lower employment growth. The demand for greater freedom is thus stronger than ever.

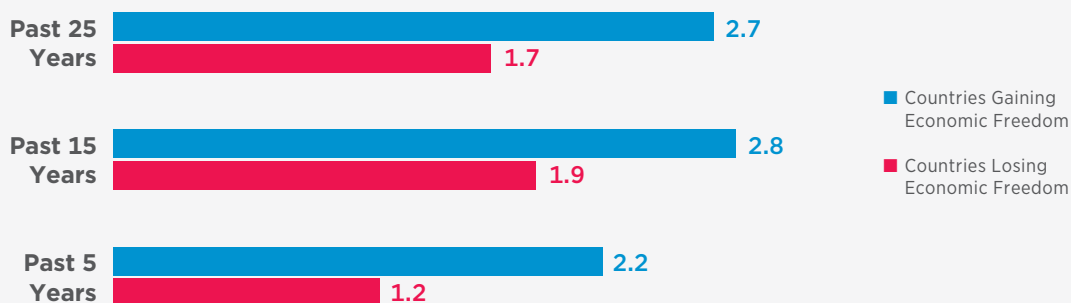
The most fundamental benefit of economic freedom stems from the strong positive relationship between economic freedom and levels of per capita income. As indicated in Chart 1, countries moving up the economic freedom

scale show increasingly high levels of average income. For countries achieving scores that reflect even moderate levels of economic freedom (60 or above), the relationship between economic freedom and per capita gross domestic product (GDP) is highly significant.

In addition, economic freedom is closely related to the openness to entrepreneurial activity that allows individuals to innovate, to respond to new opportunities in the marketplace, and to enjoy success based on their own efforts. Chart 2 shows the close correspondence between economic freedom and entrepreneurial opportunity measured by the Business Environment pillar of the 2018 *Legatum Prosperity Index*, which “measures a country’s entrepreneurial environment, its business infrastructure, access to credit, investor protections and labour market flexibility.”²¹ Given this positive relationship, governments should be cautious in undertaking stimulus programs

INCREASING ECONOMIC FREEDOM AND ECONOMIC GROWTH

Average Annual Growth of GDP per Capita
(Purchasing Power Parity)



NOTES: Figures are country averages in which both *Index* scores and data on GDP growth are available over the same time period. Five-year growth rates include 169 countries, 15-year growth rates include 148 countries, and 25-year growth rates include 132 countries.

SOURCES: The World Bank, "GDP per Capita Growth (Annual %)," <https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG> (accessed December 12, 2019), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.

Chart 4  heritage.org

that increase their own spending or increase layers of regulation, both of which reduce economic freedom. The best results are likely to be achieved instead through policy reforms that improve the incentives that drive entrepreneurial activity. These include improvements in the efficiency of business and labor regulations, reductions in tariffs and other barriers to trade or investment, and financial reforms to increase competition, ensure stability, and improve and broaden access to credit.

ECONOMIC FREEDOM: THE CURE TO POVERTY

By a great many measures, over the past decades, those countries that have adopted some version of free-market capitalism, with economies supported by efficient regulations and open to the free flow of goods, services, and capital, have broken the vicious cycle of poverty and dependence.

Unquestionably, the free-market system that is rooted in empowerment of the individual and open competition has fueled unprecedented economic growth around the world. As Chart 3

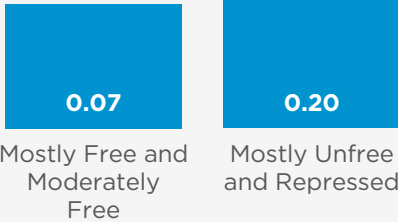
illustrates, over the past two-and-a-half decades in which the global economy has moved toward greater economic freedom, the world economy has more than doubled in size. This progress has lifted hundreds of millions of people out of poverty, and the global poverty rate has declined by two-thirds. Opening the gates of prosperity to ever more people around the world, economic freedom has made the world a profoundly better place. More people are living longer and more fulfilling lives than ever before.

The key driver of poverty reduction is dynamic and resilient economic growth. As documented here and in previous editions of the *Index*, as well as in volumes of academic research, vibrant and lasting economic growth is likely when governments implement economic freedom-enhancing policies that empower individuals with greater choice and more opportunities. Advancing economic freedom is a proven strategy for dynamic economic expansion and is likely to be the surest path to true progress for the greatest number of people.


As Chart 4 demonstrates, there is a robust relationship between improving economic freedom

POVERTY INTENSITY

Multidimensional Poverty Index (higher scores indicate more intense poverty)



SOURCES: United Nations Development Programme, *2019 Global Multidimensional Poverty Index*, <http://hdr.undp.org/en/2019-MPI> (accessed December 12, 2019), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.

Chart 5  heritage.org

and achieving higher per capita economic growth. Whether long-term (25 years), medium-term (15 years), or short-term (five years), the relationship between changes in economic freedom and changes in economic growth is consistently positive. Improvements in economic freedom are a vital determinant of rates of economic expansion that the record shows will reduce poverty.

Undeniably, countries moving toward greater economic freedom tend to achieve higher growth rates of per capita GDP over time. Over all the time periods considered, the average annual per capita economic growth rate of countries that have increased economic freedom most is significantly higher than that of countries where freedom has stagnated or declined.

Greater economic freedom also has a major positive effect on the impact of poverty. Poverty intensity, as measured by the United Nations Development Programme's 2019 *Multidimensional Poverty Index*, which assesses the nature and intensity of deprivation at the individual level in

education, health outcomes, and standard of living,² is also much lower on average in countries with higher levels of economic freedom. As depicted in Chart 5, the intensity of poverty in countries whose economies are considered “mostly free” or “moderately free” is only about one-third the level in countries that are rated “less free.”

ECONOMIC FREEDOM: THE FOUNDATION FOR GREATER DEVELOPMENT AND DEMOCRATIC PROGRESS

Growing economic freedom is unequivocally about achieving greater overall prosperity that goes beyond materialistic and monetary dimensions of well-being. The societal benefits of economic freedom extend far beyond higher incomes or reductions in poverty. As Chart 6 shows, countries with higher levels of economic freedom enjoy higher levels of overall human development as measured by the United Nations *Human Development Index*, which evaluates life expectancy, literacy, education, and standards of living in countries worldwide.³

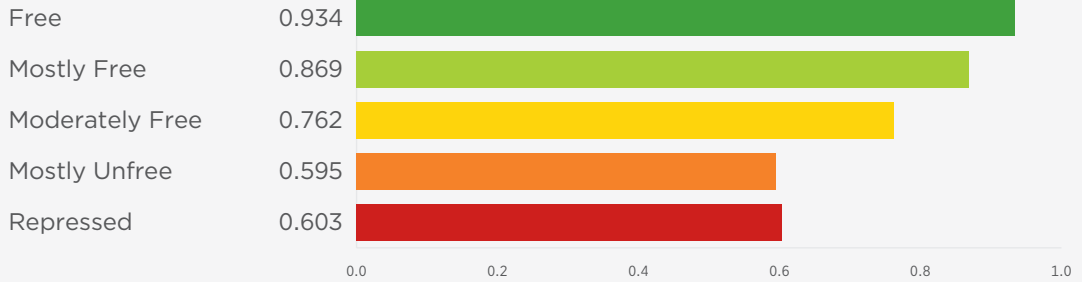
In recent years, government policies and actions concerning the environment have been more intrusive and economically distortionary. Many governments around the world are pushing programs to tax carbon emissions, increase taxes on gasoline, and set up nontransparent and economically harmful exchanges and marketplaces for the buying and selling of carbon emissions and are using government revenue to subsidize various types of so-called clean energy. Such policies impose a huge cost on society and retard economic growth. Fortunately, the same free-market principles that have proven to be the key to economic success can also deliver environmental success. (See Chart 7.)

In countries around the world, economic freedom has been shown to increase the capacity for environmentally friendly innovation. The positive link between economic freedom and higher levels of innovation ensures greater capacity to cope with environmental challenges, and the most remarkable improvements in clean energy use and energy efficiency over the past

ECONOMIC FREEDOM AND HUMAN DEVELOPMENT


Category in the
2020 Index of
Economic Freedom

Average Human Development Index Score



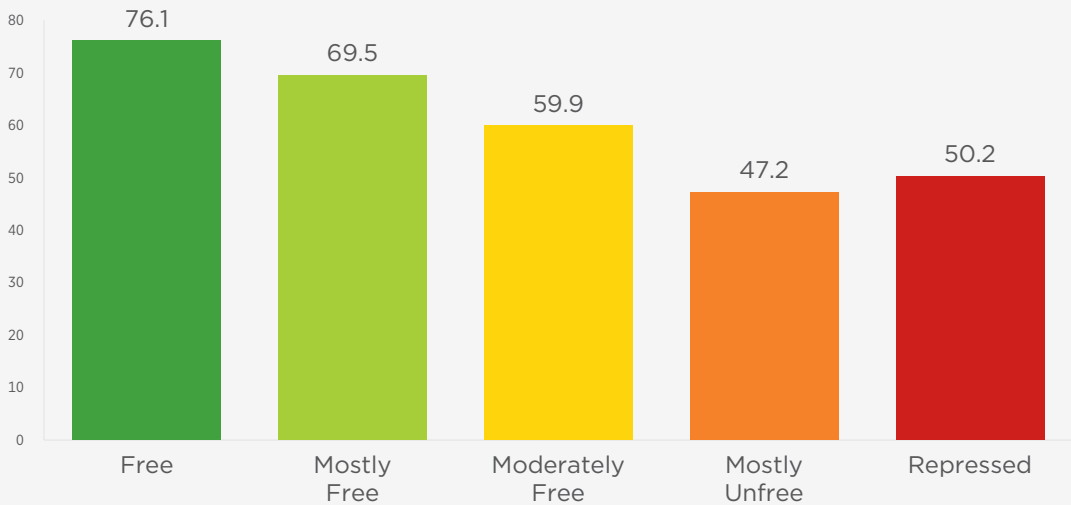
NOTE: Represented are the 176 nations that are in both datasets.

SOURCES: U.N. Human Development Programme, "Human Development Indices and Indicators, 2018 Statistical Update," http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf (accessed December 12, 2019), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.

Chart 6  heritage.org


ECONOMIC FREEDOM AND ENVIRONMENTAL PERFORMANCE

Environmental Performance Index Score



Category in the 2020 Index of Economic Freedom

SOURCES: Yale University, *2018 Environmental Performance Index* (New Haven, CT: Yale University, 2018), <https://epi.envirocenter.yale.edu/> (accessed December 12, 2019), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.

Chart 7  heritage.org


ECONOMIC FREEDOM AND GLOBAL INNOVATION

Global Innovation Index Score



NOTE: Represented are the 128 nations that are in both datasets.

SOURCES: The Global Innovation Index, *2019 Global Innovation Index*, <https://www.globalinnovationindex.org/gii-2019-report> (accessed December 12, 2019), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.

Chart 8  heritage.org

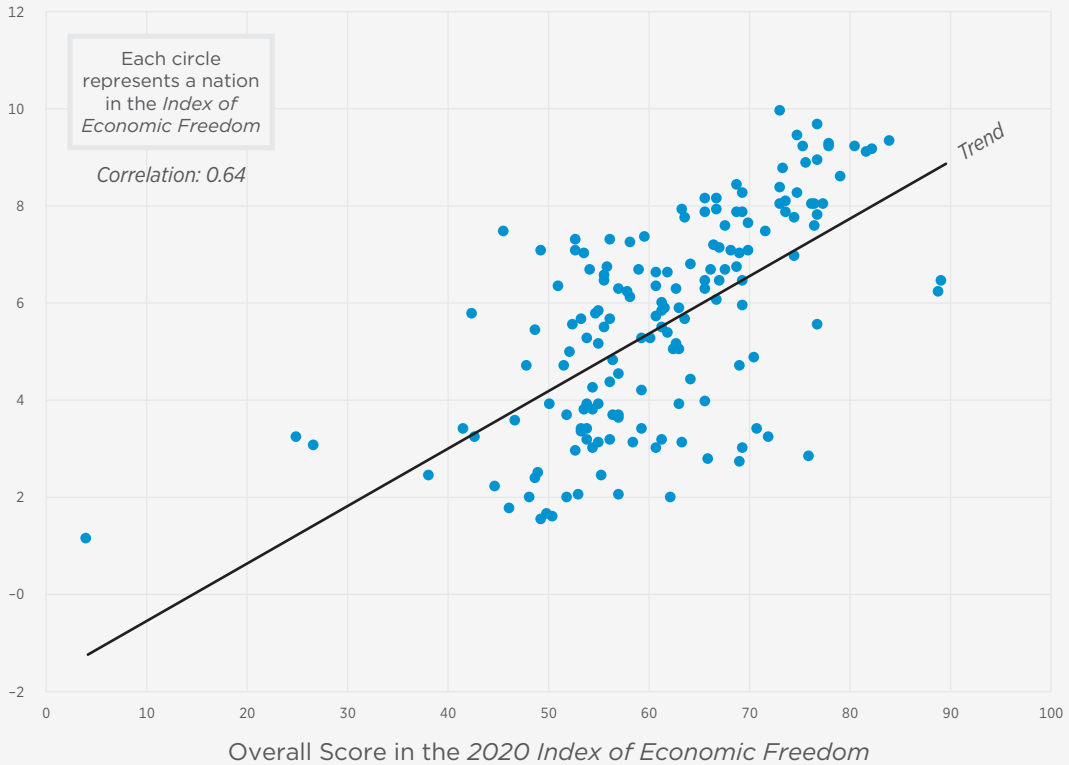
decades have occurred not as a result of government regulation, but rather because of advances in economic freedom and freer trade. The regulatory power of the marketplace, generally ignored and certainly underappreciated by advocates of big government, pushes firms to identify ever more efficient means of production and respond to consumer demands for environmental cleanliness and sustainability. The end result is a virtuous cycle of investment, innovation (including in greener technologies), and dynamic economic growth. (See Chart 8.)

Greater economic freedom can also provide more fertile ground for effective and

democratic governance. Undoubtedly, the achievement of political freedom through a well-functioning democratic system is a messy and often excruciating process, but the positive relationship that exists between economic freedom and democratic governance is undeniable. (See Chart 9.) By empowering people to exercise greater control of their daily lives, economic freedom ultimately nurtures political reform by making it possible for individuals to gain the economic resources that they can use to challenge entrenched interests or compete for political power, thereby encouraging the creation of more pluralistic societies.


ECONOMIC FREEDOM AND DEMOCRATIC GOVERNANCE

Democracy Index 2018 Score



NOTE: Represented are the 162 nations that are in both datasets.

SOURCES: The Economist Intelligence Unit, *Democracy Index 2018*, <https://www.eiu.com/topic/democracy-index> (accessed December 12, 2019), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.

Chart 9  heritage.org

Pursuit of greater economic freedom is thus an important stepping-stone to democracy. It empowers the poor and builds the middle class. It is a philosophy that encourages individual initiative and disperses economic power and decision-making throughout an economy.

ECONOMIC FREEDOM: ENSURING UPWARD MOBILITY AND GREATER SOCIAL PROGRESS

The massive improvements in global indicators of income and quality of life in recent years largely reflect a paradigm shift in the

debate over how societies should be structured economically to achieve the most optimal outcomes. In recent decades, this debate has largely been won by free-market capitalism. Criticisms persist, however, based primarily on the inequality of outcomes in a system that rewards individual effort and ability, which differ within any population, and where differences in individuals' starting positions can sometimes have a profound effect on their end results.

Alternatives to free-market capitalism, such as socialism or Communism, have proven both unequal to the task of eliminating inequality and counterproductive in that they tend to slow

ECONOMIC FREEDOM AND SOCIAL PROGRESS

Social Progress Index Score



NOTE: Represented are the 148 nations that are in both datasets.

SOURCE: The Social Progress Imperative, *2019 Social Progress Index*, <https://www.socialprogress.org/index> (accessed December 12, 2019), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2020 Index of Economic Freedom* (Washington: The Heritage Foundation, 2020), <http://www.heritage.org/index>.

Chart 10  heritage.org

economic growth and thus reduce the resources that society has available to address poverty or pollution. Most advanced societies have thus opted for some version of free-market capitalism with various types of government intervention to redistribute resources within society. It is our hope that the *Index of Economic Freedom's* data on governments' tax, spending, and regulatory activities can shed light on the relative impact of such interventions.

Ultimately, discussions of inequality are more about a society's values than its economic system. At the heart of ensuring upward economic mobility is the task of advancing

economic freedom so that dynamic and inclusive growth can occur meaningfully for ordinary people. The evidence is strong that societies based on economic freedom are the ones in which social progress is strongest. Advancing economic freedom is really about putting in place growth-inducing pro-market policies that benefit the greatest possible number of people rather than the select few.

As shown in Chart 10, countries that provide an environment that is conducive to social progress also largely embrace economic freedom.⁴ Countries that improve their competitiveness and open their societies to new

ideas, products, and innovations have largely achieved the high levels of social progress that their citizens demand. It is not massive redistributions of wealth or government dictates on income level that produce the most positive social outcomes. Instead, based on the evidence, mobility and progress seem to require lower barriers to entry, freedom to engage with the world, and less (or at least much better targeted) government intervention.

ECONOMIC FREEDOM MATTERS TODAY MORE THAN EVER

The 2020 *Index of Economic Freedom* shows economic freedom on the rise in an interconnected yet challenging global environment, reaching the highest point in the 26-year history of the *Index*. Behind this record are stories of human progress and the achievements

of countries and their citizens—billions of people around the world whose lives have measurably improved and who continue to strive for greater freedom to liberate themselves from the shackles of poverty and the socialism and stifling government policies that so often are implicated in its perseverance.

People in countries that have advanced economic freedom have reaped enormous rewards. By contrast, those who live in countries where freedom remains curtailed lag in every indicator of human well-being.

A recurring theme of human history has been resilience and revival. The results of the 2020 *Index of Economic Freedom* highlight that by building on what works, countries can accelerate their progress against even the most difficult challenges and chart ever greater economic success.

ENDNOTES

1. Legatum Institute, *The Legatum Prosperity Index™ 2018*, p. 8, https://li.com/wp-content/uploads/2018/11/2018_Pro Prosperity_Index.pdf (accessed December 13, 2019).
2. United Nations Development Programme and Oxford Poverty and Human Development Initiative, *Global Multidimensional Poverty Index 2019: Measuring Inequalities*, http://hdr.undp.org/sites/default/files/mpi_2019_publication.pdf (accessed December 13, 2019).
3. United Nations Human Development Programme, *Human Development Indices and Indicators: 2018 Statistical Update*, http://hdr.undp.org/sites/default/files/2018_human_development_statistical_update.pdf (accessed December 13, 2019).
4. The *Social Progress Index* defines social progress as “the capacity of a society to meet the basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential.” Social Progress Imperative, *2019 Social Progress Index*, “Overview,” <https://www.socialprogress.org/index/global> (accessed December 13, 2019).

ECONOMIC FREEDOM: REGIONAL VARIATIONS (REGIONAL AVERAGE)

Regional Ranking	The Americas (60.0)	Asia-Pacific (61.1)	Europe (69.8)	Middle East/ North Africa (61.8)	Sub-Saharan Africa (55.1)
1	Canada	Singapore	Switzerland	United Arab Emirates	Mauritius
2	Chile	Hong Kong	Ireland	Israel	Rwanda
3	United States	New Zealand	United Kingdom	Qatar	Botswana
4	Colombia	Australia	Denmark	Bahrain	Seychelles
5	Uruguay	Taiwan	Estonia	Jordan	Cabo Verde
6	Jamaica	Malaysia	Georgia	Oman	Tanzania
7	Saint Lucia	South Korea	Iceland	Morocco	Namibia
8	Peru	Japan	Netherlands	Kuwait	Madagascar
9	Panama	Macau	Lithuania	Saudi Arabia	Côte d'Ivoire
10	St. Vincent & Grenadines	Kazakhstan	Luxembourg	Tunisia	Uganda
11	Mexico	Thailand	Finland	Egypt	Ghana
12	Costa Rica	Indonesia	Sweden	Lebanon	South Africa
13	Bahamas	Brunei Darussalam	Czech Republic	Iran	Senegal
14	Guatemala	Philippines	Germany	Algeria	Nigeria
15	Paraguay	Fiji	Norway	Iraq	Burkina Faso
16	El Salvador	Kyrgyz Republic	Austria	Syria	Gabon
17	Barbados	Bhutan	Latvia	Libya	Guinea
18	Honduras	Samoa	Armenia	Yemen	Gambia
19	Dominican Republic	Vanuatu	Bulgaria		São Tomé & Príncipe
20	Dominica	China	Cyprus		Mali
21	Trinidad & Tobago	Tonga	Romania		Eswatini
22	Belize	Vietnam	Malta		Kenya
23	Nicaragua	Papua New Guinea	North Macedonia		Mauritania
24	Guyana	Sri Lanka	Azerbaijan		Benin
25	Brazil	Cambodia	Poland		Niger
26	Argentina	Uzbekistan	Belgium		Lesotho
27	Haiti	India	Slovenia		Togo
28	Ecuador	Maldives	Kosovo		Comoros
29	Suriname	Bangladesh	Portugal		Cameroon
30	Bolivia	Mongolia	Albania		Ethiopia
31	Cuba	Laos	Spain		Zambia
32	Venezuela	Pakistan	Slovakia		Guinea-Bissau
33		Afghanistan	Hungary		Djibouti
34		Nepal	France		Malawi
35		Burma	Serbia		Angola
36		Solomon Islands	Turkey		Central African Republic
37		Tajikistan	Italy		Mozambique
38		Micronesia	Bosnia & Herzegovina		Chad
39		Turkmenistan	Croatia		Dem. Rep. Congo
40		Timor-Leste	Moldova		Burundi
41		Kiribati	Belarus		Liberia
42		North Korea	Montenegro		Equatorial Guinea
43			Russia		Sierra Leone
44			Greece		Sudan
45			Ukraine		Zimbabwe
46			Liechtenstein		Rep. Congo
47					Eritrea
48					Somalia

Economic Freedom Scores

- 80–100 Free
- 70–79.9 Mostly Free
- 60–69.9 Moderately Free
- 50–59.9 Mostly Unfree
- 0–49.9 Repressed
- Not Graded