

# ECONOMIC FREEDOM AROUND THE WORLD: THE KEY TO HUMAN PROGRESS

**E**conomically resilient countries are not necessarily geographically large or richly blessed with natural resources. Many nations 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 countries in any stage of development can achieve and sustain economic dynamism if their governments adopt economic policies that encourage greater entrepreneurship by empowering individuals and firms with more freedom of action.

It is noteworthy that despite some policy missteps such as trade and investment protectionism in responding to the global pandemic and the ongoing political assault on capitalism, the free-market system of economic freedom is not on the verge of breakdown or blunt dismissal. The evidence shows instead that a considerable and even growing number of people around the world understand the economic damage that is inflicted too often by heavy-handed and misguided government policies that result in lingering uncertainty, 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

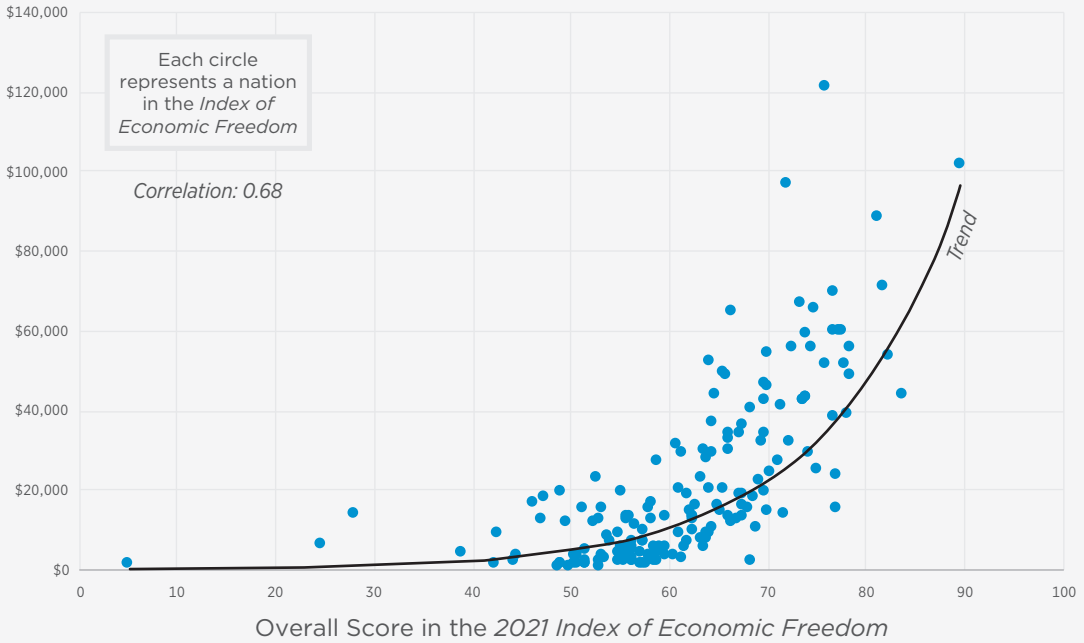
of per capita income. As indicated in Chart 1, countries moving up the economic freedom scale show increasingly high levels of average income. For countries achieving scores that reflect even moderate levels of economic freedom (60 or above), the relationship between economic freedom and per capita gross domestic product (GDP) is highly significant. Economies rated “free” or “mostly free” in the 2021 *Index* enjoy incomes that are more than twice the average levels in all other countries and more than six times higher than the incomes of “repressed” economies.

In addition, economic freedom is closely related to the openness to entrepreneurial activity that allows individuals to innovate, respond to new opportunities in the marketplace, and enjoy success based on their own efforts.

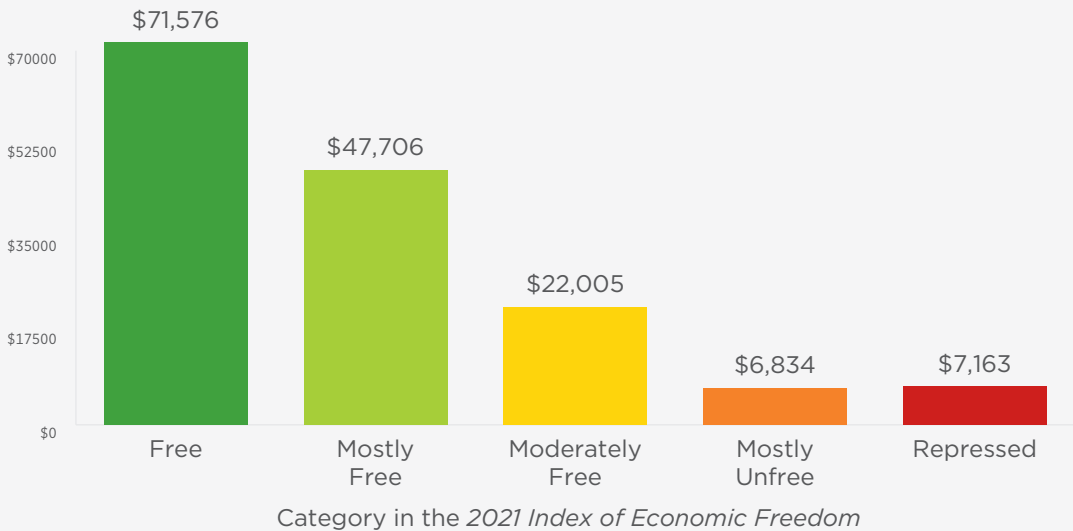
Chart 2 shows the close correlation between economic freedom and entrepreneurial opportunity measured by new business entry density, which the World Bank defines as “the number of newly registered corporations per 1,000 working-age people (those ages 15–64).”<sup>21</sup> Given this positive relationship, governments should be cautious in undertaking stimulus programs 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 reforms include improvements in the efficiency of business and

## ECONOMIC FREEDOM AND STANDARD OF LIVING

### GDP per Capita (PPP)



### Average GDP per Capita (PPP)



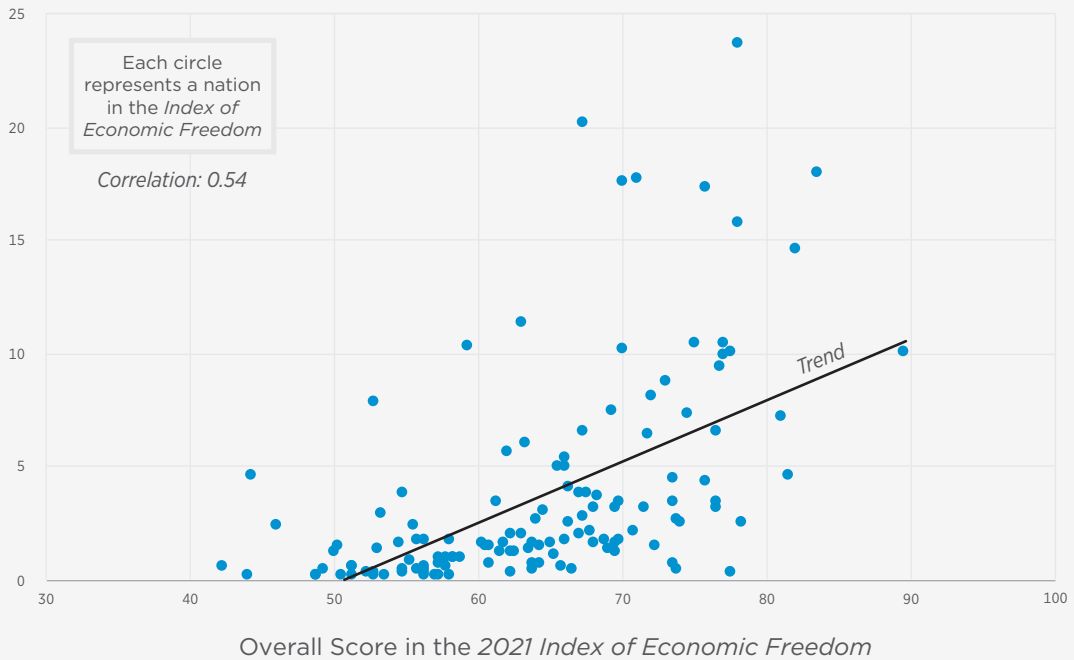
**NOTE:** Represented are the 178 nations that are in both datasets.

**SOURCES:** The World Bank, "GDP per Capita, PPP (Current International \$)," <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD> (accessed December 15, 2020), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 1 heritage.org


## ECONOMIC FREEDOM AND ENTREPRENEURIAL DYNAMISM

New Businesses per 1,000 Population Ages 15–64



**NOTE:** Represented are the 131 nations that are in both datasets.

**SOURCES:** The World Bank, “Entrepreneurship,” <https://www.doingbusiness.org/en/data/exploretopics/entrepreneurship> (accessed December 15, 2020), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 2  heritage.org

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 PROVEN CURE FOR POVERTY

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

Without question, the free-market system that is rooted in empowerment of the individual and open competition has fueled

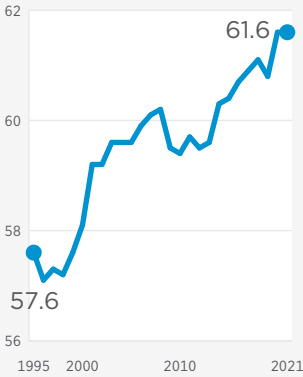
unprecedented economic growth around the world. As Chart 3 illustrates, over the past two-and-a-half decades the global economy has moved toward greater economic freedom, becoming “moderately free” overall, and more than doubled in size. This progress has lifted hundreds of millions of people out of poverty.

During this period, the global poverty rate has declined by more than 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.

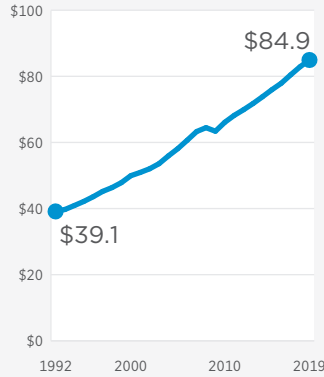
The key driver of poverty reduction is dynamic and resilient economic growth. As documented here and in previous editions of the *Index*, as well as in volumes of academic research,

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

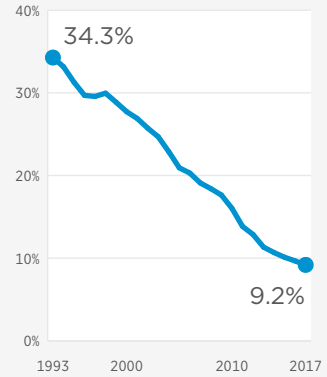
Average Score in the *Index of Economic Freedom*



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, “GDP (Constant 2010 US\$),” <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD> (accessed October 15, 2020); The World Bank, “Regional Aggregation Using 2011 PPP and \$1.9/Day Poverty Line,” <http://iresearch.worldbank.org/povcalnet/povDuplicateWB.aspx> (accessed December 14, 2020); and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 3  heritage.org

vibrant and lasting economic growth is likely when governments implement policies that enhance economic freedom and 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 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.

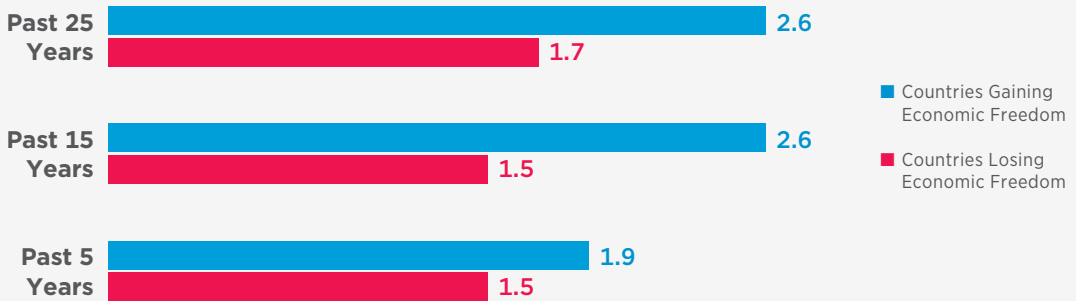
Undeniably, countries moving toward greater economic freedom tend to achieve higher

growth rates of per capita GDP over time. Over all the time periods considered, the average annual per capita economic growth rates of countries that have increased economic freedom the most are at least 25 percent higher than those of countries where freedom has stagnated or declined.

Greater economic freedom is one of the most effective means by which to eliminate poverty or reduce its prevalence. It also has a major positive impact on the intensity of the poverty that remains. The United Nations Development Programme’s Multidimensional Poverty Index assesses the nature and intensity of deprivation at the individual level in education, health outcomes, and standard of living. As depicted in Chart 5, the multidimensional poverty rate in countries with economies that are considered “mostly free” or “moderately free” is less than one-fourth the level in countries that are rated “less free.”

## 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 168 countries, 15-year growth rates include 146 countries, and 25-year growth rates include 129 countries.

**SOURCES:** The World Bank, "GDP per Capita Growth (Annual %)," <https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG> (accessed December 8, 2020), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 4 heritage.org

## ECONOMIC FREEDOM: THE FOUNDATION OF GREATER ECONOMIC EMPOWERMENT AND POLITICAL FREEDOM

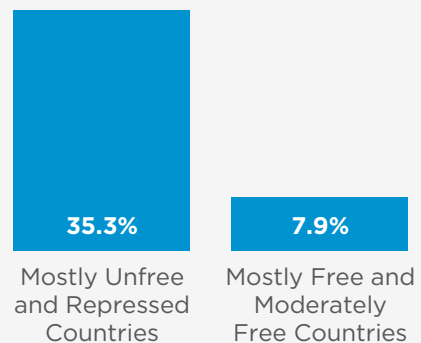
Growing economic freedom is unequivocally about achieving greater overall prosperity that goes beyond materialistic and monetary dimensions of well-being. The societal benefits of economic freedom extend far beyond higher incomes or lower rates of poverty. Countries with higher levels of economic freedom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

As Chart 6 shows, governments that choose policies that increase economic freedom are placing their societies on the path to more educational opportunities, better health care, and greater standards of living for their citizens.

In recent years, environmentally related government policies and actions have become more intrusive and economically distortionary. Many of the world's governments are pushing

## POVERTY INTENSITY

Average Percentage of Population Living in Multidimensional Poverty

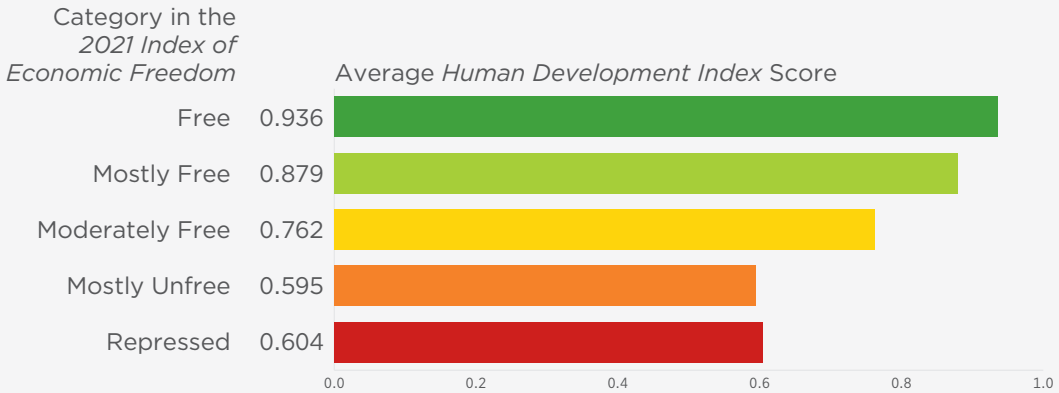


**NOTE:** Represented are the 80 developing countries scored in both indexes.

**SOURCES:** United Nations Development Programme, *2020 Global Multidimensional Poverty Index*, <http://hdr.undp.org/en/2019-MPI> (accessed December 3, 2020), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 5 heritage.org

## ECONOMIC FREEDOM AND HUMAN DEVELOPMENT

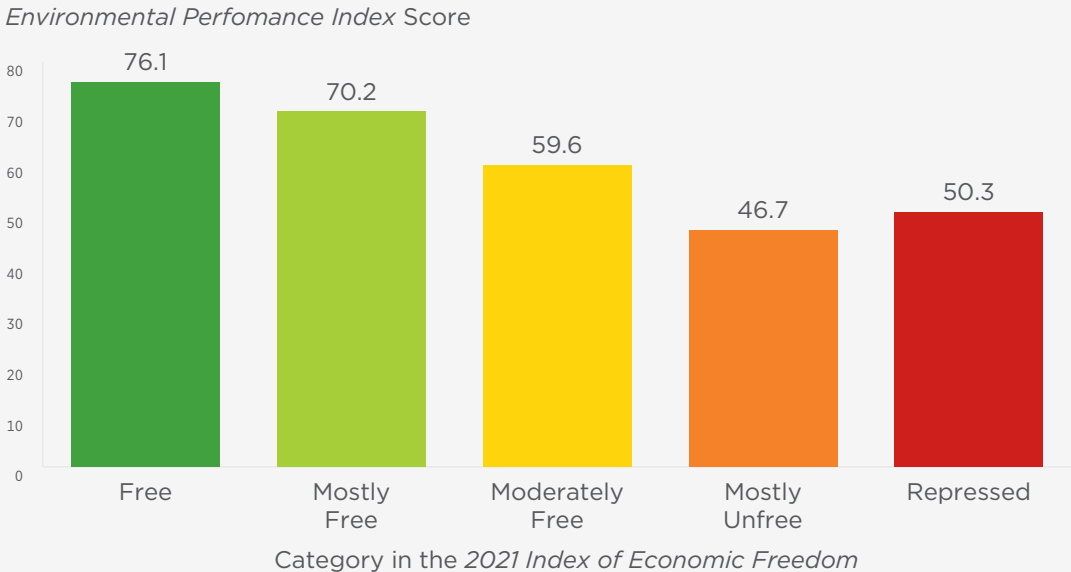


**NOTE:** Represented are the 175 nations that are in both datasets.

**SOURCES:** U.N. Human Development Programme, *Human Development Report 2019* <http://hdr.undp.org/sites/default/files/hdr2019.pdf> (accessed December 8, 2020), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 6 heritage.org

## ECONOMIC FREEDOM AND ENVIRONMENTAL PERFORMANCE



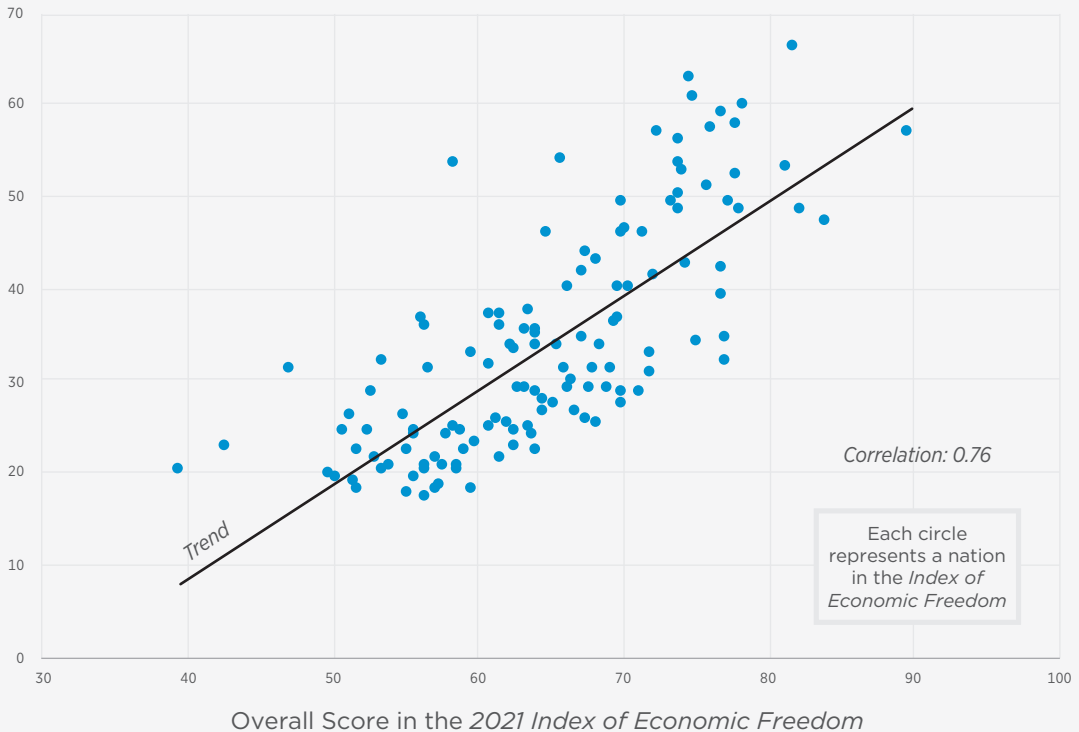
**NOTE:** Represented are the 176 nations that are in both datasets.

**SOURCES:** Yale University, *2020 Environmental Performance Index* (New Haven, CT: Yale University, 2020), <https://epi.envirocenter.yale.edu/> (accessed December 3, 2020), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 7 heritage.org


## ECONOMIC FREEDOM AND GLOBAL INNOVATION

Global Innovation Index Score



**NOTE:** Represented are the 129 nations that are in both datasets.

**SOURCES:** The Global Innovation Index, *2020 Global Innovation Index*, <https://www.globalinnovationindex.org/gii-2020-report> (accessed December 12, 2020), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 8  heritage.org

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 emissions rights. Some are using government revenue to subsidize various types of so-called “clean” energy. Such policies impose a huge cost, and can retard economic growth. Fortunately, the same free-market principles that have proven to be the key to economic success can also deliver environmental success.

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 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, which is 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


## ECONOMIC FREEDOM AND DEMOCRATIC GOVERNANCE

Democracy Index 2019 Score



**NOTE:** Represented are the 160 nations that are in both datasets.

**SOURCES:** The Economist Intelligence Unit, *Democracy Index 2019*, <https://www.eiu.com/topic/democracy-index> (accessed December 15, 2020), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 9  heritage.org

of investment, innovation (including in greener technologies), and dynamic economic growth. (See Chart 7 and 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 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

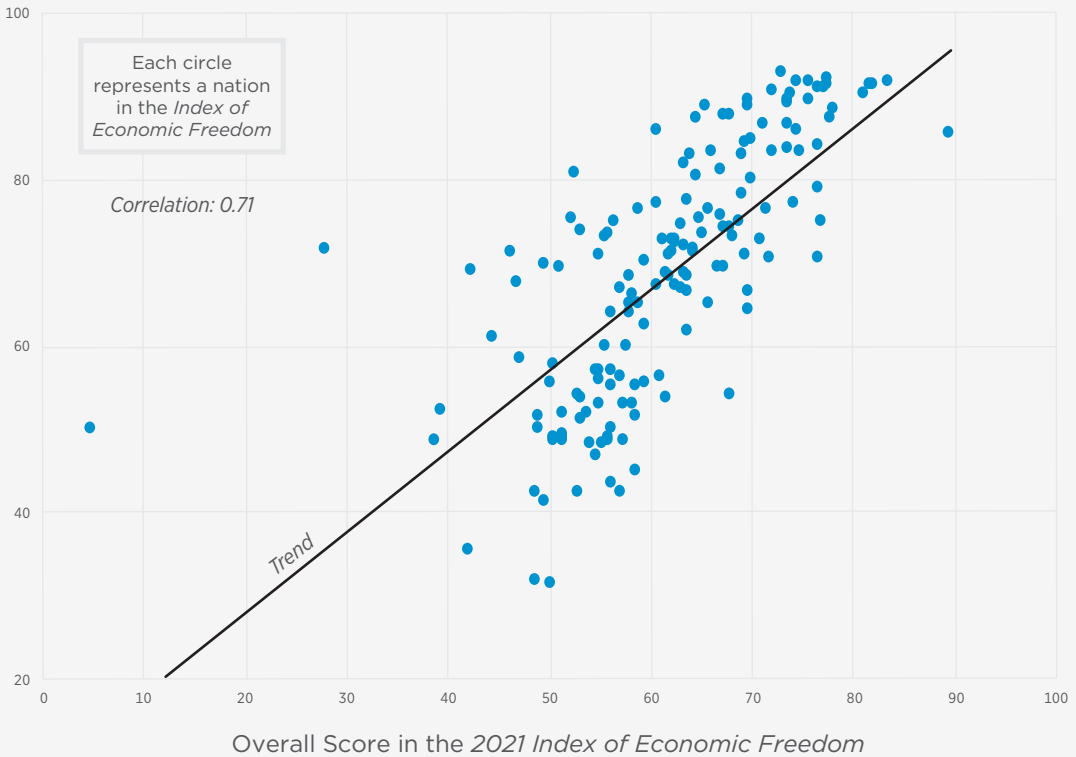
political reform by making it possible for individuals to gain the economic resources that they can use to challenge entrenched interests or compete for political power, thereby encouraging the creation of more pluralistic societies.

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 AND SOCIAL PROGRESS

Social Progress Index Score



**NOTE:** Represented are the 160 nations that are in both datasets.

**SOURCE:** The Social Progress Imperative, *2020 Social Progress Index*, <https://www.socialprogress.org/index> (accessed December 15, 2020), and Terry Miller, Anthony B. Kim, and James M. Roberts, *2021 Index of Economic Freedom* (Washington: The Heritage Foundation, 2021), <http://www.heritage.org/index>.

Chart 10  heritage.org

### ECONOMIC FREEDOM: THE KEY TO UPWARD MOBILITY AND MEANINGFUL 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 about 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 growth and thus reduce the resources that society has available to reduce 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 they are about 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 societies 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.<sup>2</sup> 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.

## **TIME TO RETURN TO FREE-MARKET PRINCIPLES**

The path by which the global economy can emerge from this pandemic stronger than ever runs through a recommitment to the proven ideas of the free-market system. In times of uncertainty, people naturally look to their governments for answers, but the lasting solutions to our current economic problems do not lie in more government controls and regulations. They lie in a return to free-market principles.

It would be a tragic mistake to assume that in a time of crisis we must abandon our commitment to economic freedom in the hope of politically resetting the situation. That freedom has unambiguously made our societies strong, vibrant, and flourishing.

Economically free and dynamic societies have provided the effective response and resilience that the world has needed to restore economic livelihoods. 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.

A recurring theme of human history has been resilience and revival. The results of the 2021 *Index of Economic Freedom* demonstrate that by building on what works, countries can accelerate their progress in the face of even the most difficult challenges and chart ever greater economic success.

## ENDNOTES

1. The World Bank, “Doing Business: Entrepreneurship,” <https://www.doingbusiness.org/en/data/exploretopics/entrepreneurship> (accessed December 15, 2020).
2. 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, *2020 Social Progress Index*, “Overview,” <https://www.socialprogress.org/index/global> (accessed December 15, 2020).