

ECONOMIC FREEDOM: THE SUREST PATH TO HUMAN FLOURISHING

Since early 2020, the global economy has confronted one of the greatest political, social, and economic challenges the world has ever faced. The livelihoods of millions of people have been deeply disrupted both by the health impacts of the COVID-19 pandemic and—perhaps even more—by governments’ responses to it in the form of lockdowns, travel bans, and restrictions on trade, all of which have exacted real and heavy economic and social costs. In countries around the world, economic policy has taken sharp and varying turns with divergent impacts across countries.

From an economic policy perspective, the imperative now is for governments to avoid compounding the problem with ill-advised actions that distort markets, destroy incentives to work and innovate, or otherwise diminish the prospects for rapid recovery and growth. In the long run, the proven way to revitalize the economic life of societies in the most broad-based, meaningful way is by restoring what we know has worked best: economic freedom, not greater government control and micromanagement.

ECONOMIC FREEDOM MATTERS NOW MORE THAN EVER

For the 29 successive years, ever since publication of its inaugural 1995 edition, the *Index of Economic Freedom* has measured economic freedom’s advances and retreats country by country around the globe, correlating those changes with fundamental measures of economic well-being like economic growth, reductions in poverty, various social indicators like longevity and health, and environmental protection.

At the same time, the principles of economic freedom have been questioned and put to the test. Attacks on the free market, fueled by politics in many countries around the world as well as by actual economic setbacks, have gained greater momentum. Out of all the debate, two things have become clear:

- A nation’s capacity to develop and prosper economically hinges on its economic system and the quality of its institutions, and
- Economic freedom, prosperity, and resilience are undeniably and strongly linked.

The current global economic situation does not change this fundamental truth: Economic freedom, buttressed by the rule of law, fiscal responsibility, market openness, and sound regulatory environments, remains the surest pathway to resilience and prosperity. As the global economy recovers from this challenging period, economic policy must continue to have as its overarching objective preserving the interplay between freedom and prosperity while reinforcing the values of transparency and good economic governance.

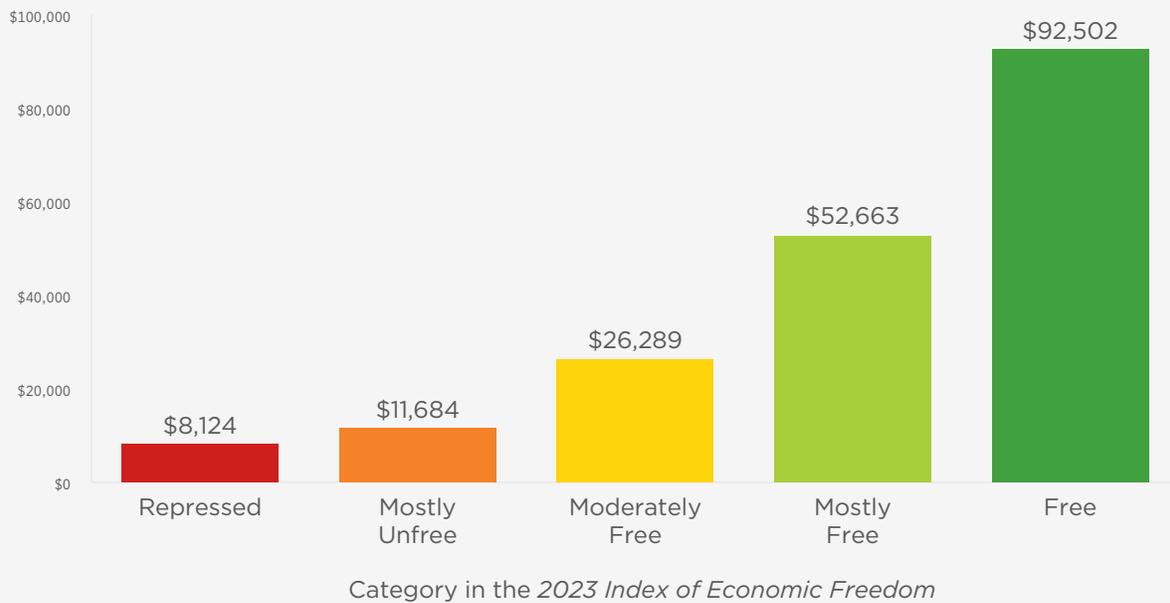
The need to advance economic freedom and vibrant entrepreneurial growth is therefore more imperative than ever. No other economic system has proven to be as capable of adapting to new challenges as has free-market capitalism built on the principles of economic freedom. The dispersed information-gathering processes and price-setting power of free markets guide change far more efficiently than centralized political processes—typically slow and often biased toward the status quo—ever can.

ECONOMIC FREEDOM AND STANDARD OF LIVING

GDP per Capita, Purchasing Power Parity, 2021



Average GDP per Capita, Purchasing Power Parity, 2021



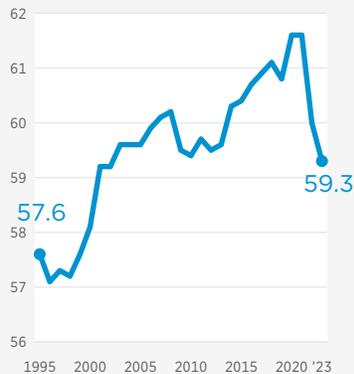
NOTE: Lebanon and North Korea are not included.

SOURCES: Anthony B. Kim, *2023 Index of Economic Freedom* (Washington: The Heritage Foundation, 2023), <http://www.heritage.org/index>; International Monetary Fund, World Economic Outlook database, April 2022, <https://www.imf.org/en/Publications/WEO/weo-database/2022/April> (accessed January 25, 2023); Economist Intelligence Unit; and C.I.A. *World Factbook*.

Chart 1 heritage.org

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

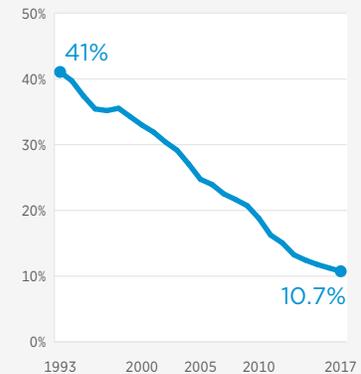
Average Score in the *Index of Economic Freedom*



Global GDP, in Trillions of 2015 U.S. Dollars



Percentage of Global Population Living in Abject Poverty



SOURCES: World Bank, “GDP (Constant 2015 US\$),” <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD> (accessed January 25, 2023); World Bank, “Regional Aggregation Using 2011 PPP and \$1.9/Day Poverty Line,” <http://iresearch.worldbank.org/povcalnet/povDuplicateWB.aspx> (accessed December 2, 2022); Anthony B. Kim, *2023 Index of Economic Freedom* (Washington: The Heritage Foundation, 2023), <http://www.heritage.org/index..>

Chart 2 heritage.org

Free markets and free enterprises, sustained by economic freedom, stimulate both the innovation and the practical solutions in all realms that are necessary for progress and sustainable recovery, and this enables better jobs, better products, and healthier, cleaner, and safer societies for all.

RESTORING ECONOMIC FREEDOM: IMPERATIVE FOR RECOVERY AND RESILIENCE

Economic freedom’s most fundamental benefit stems from its strong positive relationship to 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 2023 *Index* enjoy incomes that are more than twice the average levels in all other countries and more than five times higher than the incomes of “repressed” economies.

By a great many measures, over the past decades, 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 2 illustrates, for more than two decades, as the global economy has moved toward greater economic freedom, becoming “moderately free” overall, the world economy has also achieved real GDP expansion of around 70 percent. This progress has lifted hundreds of millions of people out of poverty.

With global economic freedom rising steadily over the past two decades, the world has recorded significant economic expansion despite some ups and downs. Meanwhile, the global poverty rate has declined by about 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.

Greater economic freedom, as one of the most effective means by which to eliminate poverty, has

a major positive impact on levels of poverty as well. Poverty intensity as measured by the United Nations Development Programme’s Multidimensional Poverty Index (MPI), which assesses the nature and intensity of deprivation at the individual level in education, health outcomes, and standard of living, is also much lower on average in countries with higher levels of economic freedom. As depicted in Chart 3, the level of poverty in countries with economies that are considered “mostly free” or “moderately free” is only about one-fourth the level in countries that are rated “less free.”

ECONOMIC FREEDOM: DRIVING VIBRANT GROWTH

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. Given this positive relationship, governments should be cautious in undertaking short-sighted stimulus programs that increase their own spending or add new layers of regulation, both of which reduce economic freedom.

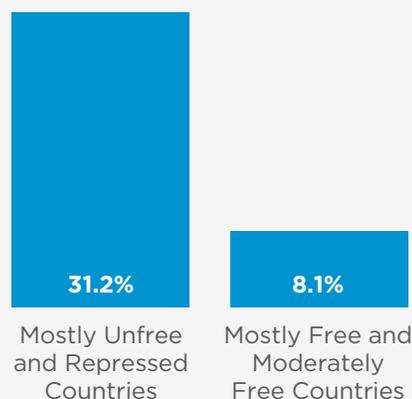
The best results are likely to be achieved instead through policy reforms that improve the incentives that drive entrepreneurial activity. These reforms include improvements in the efficiency of business and labor regulations, reductions in tariffs and other barriers to trade or investment, and financial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

As documented in this edition of the *Index*, as well as in previous editions and volumes of academic research, vibrant and lasting economic growth is most likely to occur when governments implement policies that enhance economic freedom and empower individuals with greater choice and more opportunities. Advancing economic freedom is a proven policy 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

POVERTY INTENSITY

Average Percentage of Population Living in Multidimensional Poverty



NOTE: Represented are the 105 developing countries scored in both indexes.

SOURCES: United Nations Development Programme, *2022 Global Multidimensional Poverty Index*, <https://hdr.undp.org/content/2022-global-multidimensional-poverty-index-mpi#/indicies/MPI> (accessed January 25, 2023), and Anthony B. Kim, *2023 Index of Economic Freedom* (Washington: The Heritage Foundation, 2023), <http://www.heritage.org/index>.

Chart 3 heritage.org

determinant of rates of economic expansion that the record shows will reduce poverty.

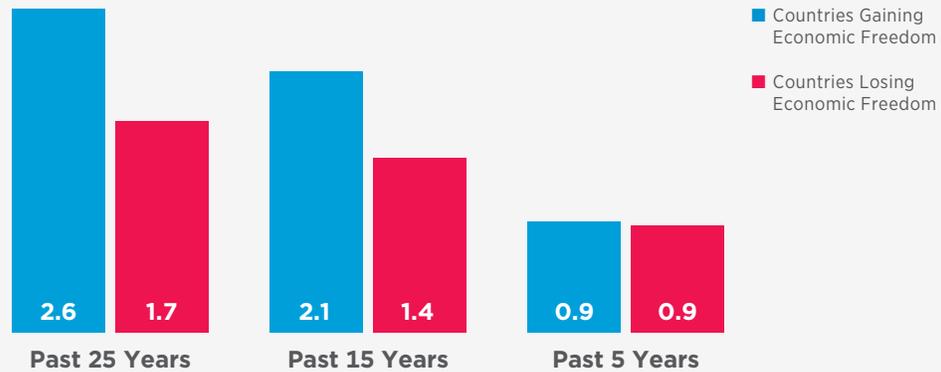
Undeniably, countries moving toward greater economic freedom tend to achieve higher growth rates of per capita GDP over time. Throughout all the time periods considered, the average annual per capita economic growth rates of countries that have increased economic freedom the most are about 25 percent higher than those of countries in which freedom has stagnated or declined.

ECONOMIC FREEDOM: ENSURING GREATER HUMAN DEVELOPMENT AND POLITICAL FREEDOM

Increasing economic freedom is unequivocally about achieving greater overall prosperity that includes but goes beyond the 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 (HDI),

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 163 countries, 15-year growth rates include 142 countries, and 25-year growth rates include 139 countries.
SOURCES: World Bank, “GDP per Capita Growth (Annual %),” <https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG> (accessed January 25, 2023), and Anthony B. Kim, *2023 Index of Economic Freedom* (Washington: The Heritage Foundation, 2023), <http://www.heritage.org/index>.

Chart 4 heritage.org

which measures life expectancy, literacy, education, and standards of living in countries worldwide.

As Chart 5 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 been more intrusive

and economically distortionary. Many of the world’s governments are promoting programs to tax carbon emissions, increase taxes on fuel, and set up non-transparent and economically harmful exchanges and marketplaces for the buying and selling of carbon emissions and are using government revenue to subsidize various types of favored energy. Such policies impose a huge cost on society and retard economic growth. Fortunately, the same free-market

ECONOMIC FREEDOM AND HUMAN DEVELOPMENT

Category in the 2023 *Index of Economic Freedom*

Average Human Development Index Score



NOTE: Represented are the 174 nations that are in both datasets.

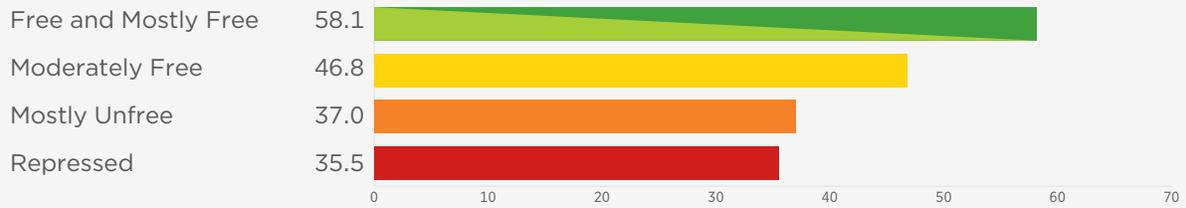
SOURCES: U.N. Human Development Programme, *Human Development Report 2022*, <https://hdr.undp.org/data-center/human-development-index#/indicies/HDI> (accessed January 25, 2023), and Anthony B. Kim, *2023 Index of Economic Freedom* (Washington: The Heritage Foundation, 2023), <http://www.heritage.org/index>.

Chart 5 heritage.org

ECONOMIC FREEDOM AND ENVIRONMENTAL PERFORMANCE

Category in the
2023 Index of
Economic Freedom

Environmental Performance Index Score



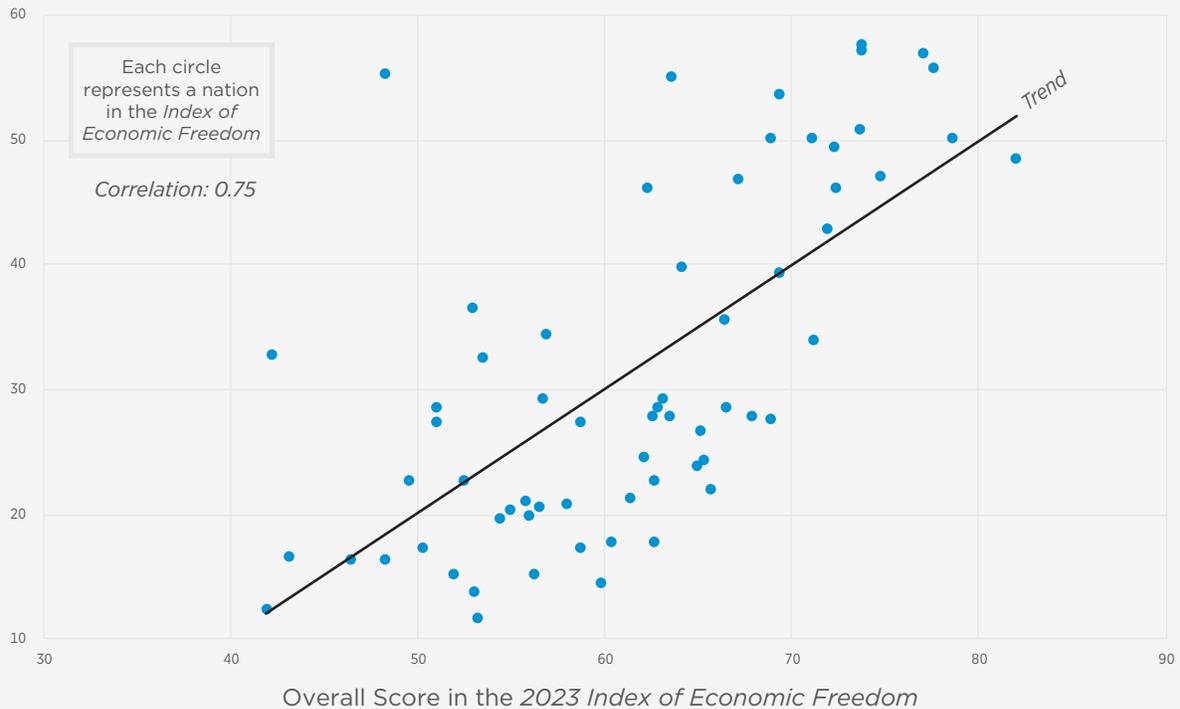
NOTE: Represented are the 175 nations that are in both datasets.

SOURCES: Yale University, *Environmental Performance Index 2022* (New Haven, CT: Yale Center for Environmental Law & Policy), <https://epi.yale.edu/> (accessed January 25, 2023), and Anthony B. Kim, *2023 Index of Economic Freedom* (Washington: The Heritage Foundation, 2023), <http://www.heritage.org/index>.

Chart 6 heritage.org

ECONOMIC FREEDOM AND GLOBAL INNOVATION

Global Innovation Index Score



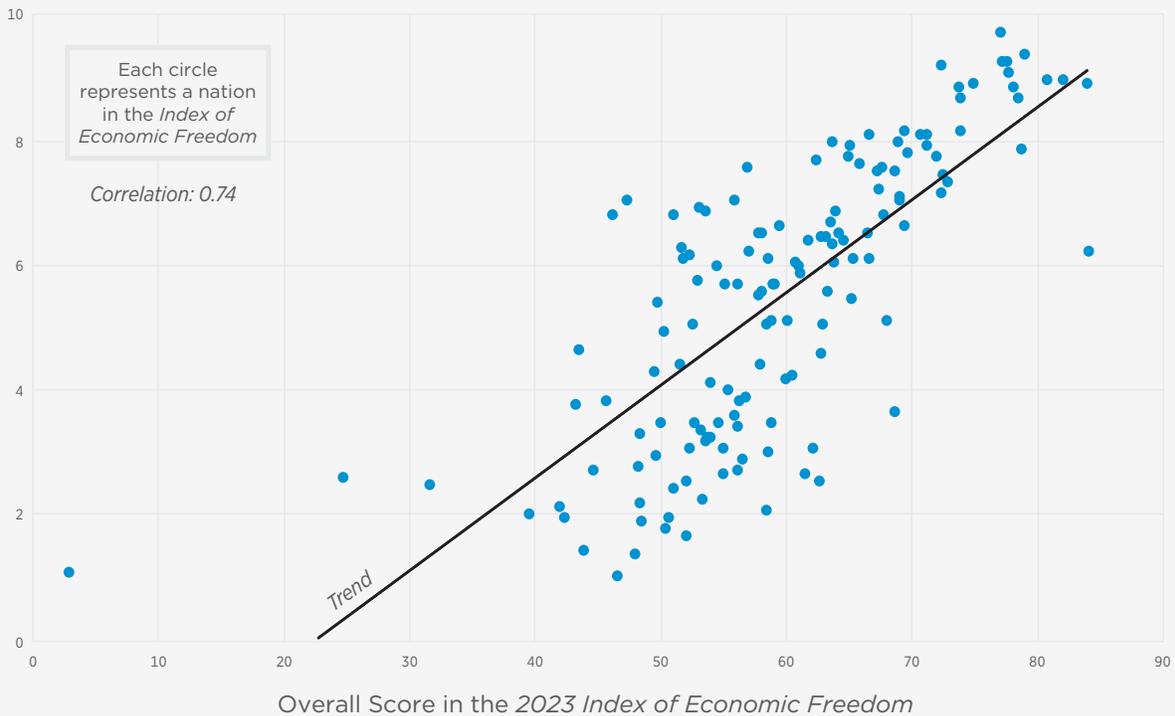
NOTE: Represented are the 130 nations that are in both datasets.

SOURCES: World Intellectual Property Organization, *Global Innovation Index 2022*, <https://www.globalinnovationindex.org/gii-2022-report> (accessed January 25, 2023), and Anthony B. Kim, *2023 Index of Economic Freedom* (Washington: The Heritage Foundation, 2023), <http://www.heritage.org/index>.

Chart 7 heritage.org

ECONOMIC FREEDOM AND DEMOCRATIC GOVERNANCE

Democracy Index 2021 Score



NOTE: Represented are the 161 nations that are in both datasets.

SOURCES: Economist Intelligence Unit, *Democracy Index 2021*, <https://www.eiu.com/n/campaigns/democracy-index-2021> (accessed January 25, 2023), and Anthony B. Kim, *2023 Index of Economic Freedom* (Washington: The Heritage Foundation, 2023), <http://www.heritage.org/index>.

Chart 8  heritage.org

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. Moreover, 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 result is a virtuous cycle of investment, innovation (including in greener technologies), and dynamic economic growth. (See Chart 6 and Chart 7.)

Greater economic freedom can also provide more fertile ground for effective and democratic governance. Admittedly, 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 8.)

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 they can use to challenge entrenched interests or compete for political power, thereby encouraging the creation of more pluralistic societies. Pursuit of

ECONOMIC FREEDOM AND SOCIAL PROGRESS

Social Progress Index Score



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

SOURCES: Social Progress Imperative, *2022 Social Progress Index*, <https://www.socialprogress.org> (accessed January 25, 2023), and Anthony B. Kim, *2023 Index of Economic Freedom* (Washington: The Heritage Foundation, 2023), <http://www.heritage.org/index>.

Chart 9  heritage.org

greater economic freedom can be an important stepping-stone to democracy. It empowers the poor and builds the middle class.

ECONOMIC FREEDOM: THE FOUNDATION OF UPWARD MOBILITY AND SOCIAL PROGRESS

The massive improvements in global indicators of income and quality of life in recent decades should reflect a paradigm shift in the debate about how societies should be structured economically to achieve the most optimal outcomes. Free-market capitalism does better by nearly every measure. Criticisms in the developed world 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, have proven to be 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 *all* members of society. 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 a select few.

As shown in Chart 9, countries that provide an environment that is conducive to social progress also largely embrace economic freedom. 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 levels that produce the most positive social outcomes.

TIME FOR RENEWAL, NOT RETREAT

A recurring theme in human history has been resilience and revival. The results of the 2023 *Index of Economic Freedom* demonstrate that by building on what works, countries can accelerate their progress against even the most difficult challenges and chart ever greater economic success.

The record is clear: Economically free and dynamic societies have demonstrated repeatedly that they are able to improve standards of living and respond effectively to any crises that may arise. This record includes countless individual 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. The path by which the global economy can emerge stronger than it was before runs through the renewal of commitments 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 control and regulation. They lie in a return to free-market principles that have unambiguously made our societies strong, vibrant, and flourishing.