

# Economic Freedom of the World

## 2019 Annual Report

by James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy

The index published in *Economic Freedom of the World* measures the degree to which the policies and institutions of countries are supportive of economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to enter markets and compete, and security of the person and privately owned property. Forty-two data points are used to construct a summary index and to measure the degree of economic freedom in five broad areas.

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**Area 1: Size of Government**—As government spending, taxation, and the size of government-controlled enterprises increase, government decision-making is substituted for individual choice and economic freedom is reduced.

**Area 2: Legal System and Property Rights**—Protection of persons and their rightfully acquired property is a central element of both economic freedom and civil society. Indeed, it is the most important function of government.

**Area 3: Sound Money**—Inflation erodes the value of rightfully earned wages and savings. Sound money is thus essential to protect property rights. When inflation is not only high but also volatile, it becomes difficult for individuals to plan for the future and thus use economic freedom effectively.

**Area 4: Freedom to Trade Internationally**—Freedom to exchange—in its broadest sense, buying, selling, making contracts, and so on—is essential to economic freedom, which is reduced when freedom to exchange does not include businesses and individuals in other nations.

**Area 5: Regulation**—Governments not only use a number of tools to limit the right to exchange internationally, they may also develop onerous regulations that limit the right to exchange, gain credit, hire, or work for whom you wish, or freely operate your business.

### **Gender Disparity Index**

The index published in *Economic Freedom of the World* now includes an adjustment for gender disparity to take into account the fact that in many nations women are not legally accorded the same level of economic freedom as men. The Gender Disparity Index and its use to make the adjustment is described in Chapter 3: Adjusting for Gender Disparity in *Economic Freedom and Why It Matters*, pp. 189–211 in *Economic Freedom of the World: 2017 Annual Report*.

### **Related research**

Since our first publication in 1996, numerous studies have used the data published in *Economic Freedom of the World* to examine the impact of economic freedom on investment, economic growth, income levels, and poverty rates. Virtually without exception, these studies have found that countries with institutions and policies more consistent with economic freedom have higher investment rates, more rapid economic growth, higher income levels, and a more rapid reduction in poverty rates.

The data are available annually from 2000 to 2017 and for years ending in zero or five back to 1970. The data are available for 123 countries for every year from 2000 to 2016 and for approximately 100 countries back to 1980. This data set

makes it possible for scholars to analyze the impact of both cross-country differences in economic freedom and changes in that freedom across a three-decade time frame.

### *Economic freedom around the world in 2017*

#### Top-rated countries

Hong Kong and Singapore, as usual, occupy the top two positions. The next highest scoring nations are New Zealand, Switzerland, United States, Ireland, United Kingdom, Canada, Australia, and Mauritius.

#### Other major countries

The rankings of some other major countries are Japan (17<sup>th</sup>), Germany (20<sup>th</sup>), Italy (46<sup>th</sup>), France (50<sup>th</sup>), Mexico (76<sup>th</sup>), India (79<sup>th</sup>), Russia (85<sup>th</sup>), China (113<sup>th</sup>), and Brazil (120<sup>th</sup>).

#### Lowest-rated countries

The 10 lowest-rated countries are: Iraq, Republic of Congo, Egypt, Syria, Democratic Republic of Congo, Angola, Algeria, Sudan, Libya, and, lastly, Venezuela.

### *Nations that are economically free out-perform non-free nations in indicators of well-being*

■ Nations in the top quartile of economic freedom had an average per-capita GDP of \$36,770 in 2017, compared to \$6,140 for bottom quartile nations (PPP constant US\$). ■ In the top quartile, the average income of the poorest 10% was \$10,646, compared to \$1,503 in the bottom quartile in 2017. Interestingly, the average income of the *poorest* 10% in the most economically free nations is two-thirds higher than the *average* per-capita income in the least-free nations. ■ In the top quartile, 1.8% of the population experience extreme poverty (US\$1.90 a day) compared to 27.2% in the lowest quartile. ■ Infant mortality is 6.7 per 1,000 live births in the top quartile compared to 40.5 in the bottom quartile. ■ Life expectancy is 79.5 years in the top quartile compared to 64.4 years in the bottom quartile.

A number of other outcomes are more positive in economically free nations than in those that lack economic freedom. For example: ■ Political and civil liberties are considerably higher in economically free nations than in unfree nations. ■ Gender equality is greater in economically free nations. ■ Happiness levels are higher in economically free nations.

### *Chapter 1: Economic Freedom of the World in 2017*

The authors of the report, James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy provide an overview of the report and discuss why economic freedom is important.

### *Chapter 2: Country Data Tables*

A table showing detailed historical information is provided for each of the 162 countries and territories in the index.

### *Chapter 3: Economic Freedom of the World in the 1950s and 1960s*

By Robert Lawson and Ryan Murphy

In this chapter, two of the authors of *Economic Freedom of the World* explain how they are able to extend the EFW index by estimating historic economic freedom for 111 countries in 1950, 113 countries in 1955, 116 countries in 1960, and 118 in 1965 using a newly available dataset. They briefly discuss some of the findings.

### *Chapter 4: Economic Freedom, Public Policy, and Entrepreneurship*

By Daniel L. Bennett and Boris Nikolaev

The authors examine whether countries with more interventionist government policies experience more or less entrepreneurship and innovation compared to more economically free nations. Many entrepreneurship policies involve government interventions in the market that distort resource allocations, provide perverse incentives for socially unproductive behavior, and undermine economic freedom. The authors add to a growing body of empirical evidence that suggests countries with more economic freedom are more entrepreneurial.



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