

Economic Freedom of the World

2021 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, along with a Gender Legal Rights Adjustment to measure the extent to which women have the same level of economic freedom as men. The degree of economic freedom is measured in five broad areas.

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 impose onerous regulations that limit the right to exchange, gain credit, hire or work for whom you wish, or freely operate your business.

Jurisdictions

The total number of jurisdictions in the index has increased to 165 from 162 with the addition of Comoros, Djibouti, and Somalia. The data are available annually from 2000 to 2019 and for years ending in zero or five back to 1970. This dataset makes it possible for scholars to analyze the impact of both cross-country differences in economic freedom and changes in that freedom across a time frame of several decades.

Top-rated countries in 2019

The most recent comprehensive data available are from 2019. Hong Kong remains in the top position. The apparent increased insecurity of property rights and the weakening of the rule of law caused by the interventions of the Chinese government during 2020 and 2021 will likely have a negative impact on Hong Kong's score, especially in Area 2, Legal System and Property Rights, going forward. Singapore, once again, comes in second. The next highest scoring nations are New Zealand, Switzerland, Georgia, United States, Ireland, Lithuania, Australia, and Denmark.

Rankings of other major countries

The rankings of some other major countries are Canada (14th), Japan (18th), Germany (22nd), Italy (47th), France (53rd), Mexico (75th), Russia (100th), India (108th), Brazil (109th), and China (116th).

The ten lowest-rated countries

The ten lowest-rated countries are: Central African Republic, Democratic Republic of Congo, Syria, Republic of Congo, Iran, Zimbabwe, Algeria, Libya, Sudan, 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 \$50,619 in 2019, compared to \$5,911 for nations in the bottom quartile (PPP constant 2017, international\$). ■ In the top quartile, the average income of the poorest 10% was \$14,400, compared to \$1,549 in the bottom quartile (PPP constant 2017, international\$). Interestingly, the average income of the poorest 10% in the most economically free nations is more than twice the average per-capita income in the least free nations. ■ In the top quartile, 0.9% of the population experience extreme poverty (US\$1.90 a day) compared to 34.1% in the lowest quartile. ■ Life expectancy is 81.1 years in the top quartile compared to 65.9 years in the bottom quartile.

Economic freedom continues to grow

Between 2000 and 2019, the average economic-freedom rating increased to 7.04 from 6.61, about four tenths of a standard deviation over this period.

Chapter 1: Economic Freedom of the World in 2019

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

The tables in chapter 2 provide detailed historical information for the 165 jurisdictions in the index. For each jurisdiction for which data were available, the tables show the overall EFW index rating and the rank of that country for the years 1980, 1990, 2000, 2005, 2010, 2015, and 2019.

Chapter 3: Economic Freedom Promotes Upward Income Mobility—by Justin T. Callais and Vincent Geloso

Considerable research has assessed the relationship between economic freedom and income inequality, but there have not been any direct tests of economic freedom on social mobility. This chapter fills the void and finds that economic freedom increases upward income mobility and, of the ten pillars of social mobility, economic freedom is highly related to four: education quality, lifelong learning, technology access, and inclusive institutions. Disaggregating the five areas of economic freedom, the authors find that legal systems and

protections of property rights have the strongest relation to social mobility, followed by freedom to trade internationally and limited regulation.

Chapter 4: The State of the Institutions of Economic Freedom in the Kurdistan Region of Iraq—by Nijdar S. Khalid

This chapter provides a preliminary attempt to build a rating of economic freedom for the Kurdistan Region of Iraq (KRI). To do this, the author examines the evolution of economic freedom in the KRI and the impediments it faces. The methodology used to construct the index published in Economic Freedom of the World is used to estimate economic freedom scores in the KRI. The study's importance lies in the fundamental role of economic freedom in promoting individual initiative, entrepreneurship, voluntary exchange, and freedom to conduct a business, which ultimately leads to long-term economic growth, good governance, and democracy. The author concludes that weakness of the rule of law, the inflated size of the government, politicization, and nepotism are among the most critical factors that impede the development of institutions of economic freedom in the Kurdistan Region of Iraq.

Chapter 5: The Dangers of South Africa's Proposed Policy of Confiscating Property—by Martin van Staden

South Africa's ruling party, the African National Congress (ANC), has proposed legislation and a constitutional amendment to allow the expropriation of fixed property without compensation. This chapter discusses the powers this would grant the government, their potential and even probable abuses, and the threat this poses to the nation's poorest and most marginalized populations—mostly poor blacks—who could become victims to powerful forces using new powers for their own benefit. The author argues that property rights, as a necessary precondition of economic freedom, are fundamental to human dignity and notes the economic collapse of Zimbabwe and Venezuela when property rights were systematically violated.



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