

# Economic Freedom of the World

## 2015 Annual Report

by James Gwartney, Robert Lawson, and Joshua Hall

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: [1] size of government: expenditures, taxes, and enterprises; [2] legal structure and security of property rights; [3] access to sound money; [4] freedom to trade internationally; and [5] regulation of credit, labor, and business.

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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 EFW index now ranks 157 countries and territories. The nations added this year are: Bhutan, Guinea, Libya, and the Seychelles. Data are available for just over 100 nations and territories back to 1980, and many back to 1970. 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 four decades.

### *Economic freedom around the world*

The average chain-linked economic freedom rating for the 102 countries with continuous ratings since 1980 has increased from 5.31 in 1980 to 5.77 in 1990 before jumping to 6.74 in 2000 and finally to 6.86 in 2013. The global average increased slightly this past year.

Hong Kong and Singapore, once again, occupy the top two positions. The other nations in the top 10 are New Zealand, Switzerland, United Arab Emirates, Mauritius, Jordan, Ireland, Canada, and the United Kingdom.

The rankings of some other major countries are the United States (16<sup>th</sup>), Japan (26<sup>th</sup>), Germany (29<sup>th</sup>), South Korea (39<sup>th</sup>), Italy (68<sup>th</sup>), France (70<sup>th</sup>), Mexico (93<sup>rd</sup>), Russia (99<sup>th</sup>), China (111<sup>th</sup>), India (114<sup>th</sup>), and Brazil (118<sup>th</sup>).

The 10 lowest-rated countries are: Angola, Central African Republic, Zimbabwe, Algeria, Argentina, Syria, Chad, Libya, the Republic of Congo, and, in last place, Venezuela.

### *Economic freedom and human progress*

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 \$38,601 in 2013, compared to \$6,986 for bottom quartile nations (2013, PPP constant 2011 US\$) (exhibit 1.6). In the top quartile, the average income of the poorest 10% was \$9,881, compared to \$1,629 in the bottom quartile in 2013 (2013, PPP constant 2011 US\$) (exhibit 1.9).

Interestingly, the average income of the poorest 10% in the most economically free nations is about 50% greater than the overall average income in the least free nations.

Life expectancy is 80.1 years in the top quartile compared to 63.1 years in the bottom quartile (exhibit 1.10). Political and civil liberties are considerably higher in economically free nations than in unfree nations (exhibit 1.11).

**Chapter 1: Economic Freedom of the World in 2013**

The authors of the report, James Gwartney, Robert Lawson, and Joshua Hall, provide an overview of the report and discuss why economic freedom is important. They also analyze the decline of economic freedom in the United States and its potential consequences. They note that the 7.73 US chain-linked score in 2013 was more than 0.9 units lower than the 2000 rating. This decline in economic freedom is more than three times greater than the average decline in the OECD. It could cut the US historic growth rate of 3% by half. The decline in US scores has been concentrated in Area 4: Freedom to Trade Internationally, Area 5: Regulation, and Area 2: Legal System and Protection of Property Rights, where there has been a particularly large and alarming decline. Likely culprits are increased use of eminent domain to transfer property to powerful political interests, the ramifications of the wars on terrorism and drugs, and the violation of the property rights of bondholders in the auto-bailout case.

**Chapter 2: Country Data Tables**

The chapter provides detailed historical information for each of the 157 countries and territories in the index.

**Chapter 3: Economic Freedom, Individual Perceptions of Life Control, and Life Satisfaction**

by Hans Pitlik, Dulce M. Redin, and Martin Rode.

Happiness economics has shown that the degree to which people feel they are in control of their lives positively correlates with personal life satisfaction. In a parallel manner, economic freedom has been found to exert an independent impact on life satisfaction over and above the impact on per-capita income levels and other indicators of material well-being. In this chapter, the authors put both of these strands together and establish that economic freedom exerts a strong and persistent impact on both individual life control and life satisfaction. Employing data from the World Values Survey and the European Values Study, their findings show that living in a country with high overall economic freedom is a major determinant of perceived personal control over one's life. Thus, the authors show that economic freedom has a direct positive influence on life satisfaction and also influences individual happiness by providing people with more control over their own lives.



*Economic Freedom of the World: 2015 Annual Report*

by James Gwartney, Robert Lawson, and Joshua Hall

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**Average Chain-linked EFW Rating for the 101 countries with ratings since 1980**

