

## Executive Summary

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-five 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 takes the place of 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. If property is not secure, if individuals are not safe, if the judiciary is not impartial, or if the rule of law is undermined, then, again, economic freedom is reduced.

### Area 3: Sound Money

Inflation erodes the value of rightfully earned income and savings, and changes the terms of agreed-upon contracts. Sound money is thus essential to protect property rights. When inflation is high or volatile, it becomes difficult for individuals to plan for the future and limits their economic freedom.

### Area 4: Freedom to Trade Internationally

Freedom to exchange—in its broadest sense, buying, selling, making contracts, and so on—is the essence of economic freedom. And this freedom is reduced when government impediments to trade make it costly or even impossible to exchange with 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, domestically as well as on international trade, that limit the right to exchange, gain credit, hire or work for whomever one wishes, or freely operate one's business. As these limits multiply, economic freedom decreases.

## Gender Legal Rights Adjustment

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 in making the adjustment is described in Chapter 3: Adjusting for Gender Disparity in Economic Freedom and Why It Matters, pp. 189–211 in the report of 2017.<sup>1</sup>

## Jurisdictions

The total number of jurisdictions in the index is 165. The data are available annually from 2000 to 2021 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. Separate estimates are also provided at five-year intervals back to 1950 on the economic freedom website.<sup>2</sup>

## Related research

Since our first publication in 1996, over 700 studies have used the data published in *Economic Freedom of the World* to examine the impact of economic freedom on human well-being.<sup>3</sup> The strong balance of the evidence suggests that those who live in jurisdictions with greater economic freedom experience higher levels of well-being as measured by factors such as greater productivity, more rapid economic growth, higher income levels, less poverty, less corruption, and fewer conflicts.

## Changes to the Index

Two important sources of data for the EFW—the World Bank’s annual *Doing Business* report and the World Economic Forum’s annual *Global Competitiveness Report*—have not been published in the last three years. While there is some hope that both sources will return in some capacity, the situation remains uncertain and the timing unknown. So, rather than use increasingly dated data we have begun to incorporate alternative sources of data from the Economist Intelligence Unit’s (EIU) *Business Environment Rankings* into the EFW.

For the most part, we have been able to integrate the new EIU data easily into the existing structure of the EFW index. A few of the EIU indicators, however, do not have natural places within the existing EFW index structure. As a result, we have had to make a few adjustments to the component and subcomponent structure. These changes mean that this edition of the EFW contains 45 distinct components or subcomponents instead of the 42 used earlier.

We have also taken this opportunity to revise and shorten several area, component, and subcomponent labels. All of these changes are documented in the Appendix: Explanatory Notes and Data Sources (pp. 249–262).

1 <<https://fraserinstitute.org/studies/economic-freedom-of-the-world-2017-annual-report>>

2 A comprehensive data set is available at <[www.fraserinstitute.org/economic-freedom/dataset](http://www.fraserinstitute.org/economic-freedom/dataset)>.

3 For a review of these studies, see the chapter, Economic Freedom in the Literature: What Is It Good (Bad) For? (Robert Lawson, *Economic Freedom of the World: 2022 Annual Report*: 187–200; <<https://www.fraserinstitute.org/studies/economic-freedom-in-the-literature-what-is-it-good-bad-for>>.

## Economic freedom around the world in 2021

### Top-rated countries

The most recent comprehensive data available are from 2021. For the first time in the history of the index, Hong Kong slipped from its top position. The Chinese government imposed new and significant barriers to entry, limits on the employment of foreign labor, and increases in the costs of doing business, which drove a 0.25-point decline in Hong Kong's Area 5 (regulation) component. Meanwhile, increased military interference in the rule of law and eroding confidence in judicial independence and the impartiality of Hong Kong courts led to a 0.20-point decline in the jurisdiction's Area 2 (legal system and property rights) component.

As Hong Kong declined, Singapore's scores improved. Driven by improvements in its size of government and regulation components, Singapore's overall score rose 0.06 points to take the top ranking. The next highest scoring nations are Switzerland, New Zealand, United States, Ireland, Denmark, Australia, United Kingdom, and Canada.

### Rankings of other major countries

Taiwan (11<sup>th</sup>), Japan (20<sup>th</sup>), Germany (23<sup>rd</sup>), Korea (42<sup>nd</sup>), France (47<sup>th</sup>), Italy (53<sup>rd</sup>), Mexico (68<sup>th</sup>), India (87<sup>th</sup>), Russia (104<sup>th</sup>), Brazil (90<sup>th</sup>), and China (111<sup>th</sup>).

### Ten lowest-rated countries

Republic of Congo, Algeria, Argentina, Libya, Iran, Yemen, Sudan, Syria, Zimbabwe, and, lastly, Venezuela.

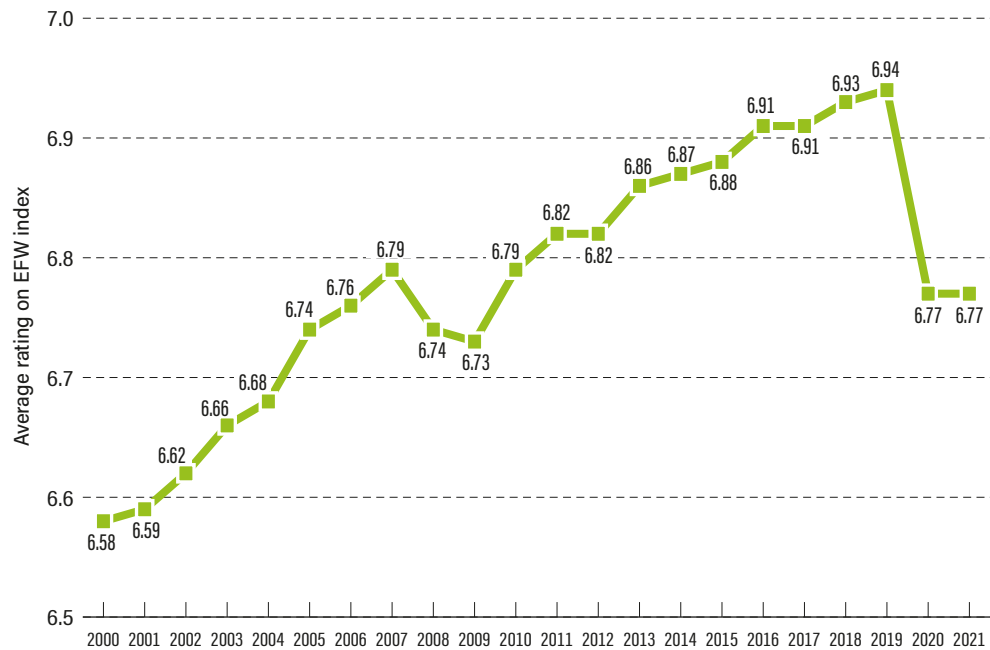
### Well-being is much greater in economically free jurisdictions

- Nations in the top quartile of economic freedom had an average per-capita GDP of \$48,569 in 2021, compared to \$6,324 for nations in the bottom quartile (PPP constant 2017, international\$) (exhibit 1.5).
- In the top quartile, the average income of the poorest 10% was \$14,091, compared to \$1,740 in the bottom quartile (PPP constant 2017, international\$) (exhibit 1.7). Interestingly, the average income of the poorest 10% in the most economically free nations is more than twice the average income of all people in the least free nations (exhibits 1.5 and 1.7).
- In the top quartile, 2.02% of the population experience extreme poverty (US\$1.90 a day) compared to 31.45% in the lowest quartile (exhibit 1.10).
- Life expectancy is 80.8 years in the top quartile compared to 65.0 years in the bottom quartile (exhibit 1.8).
- In the top quartile, the infant mortality rate is 4.2 per 1,000 live births while in the bottom quartile, it is 39.1 per 1,000 live births (exhibit 1.9).
- In the top quartile, 0.98% of the population experience extreme poverty (US\$2.15 a day) compared to 31.86% in the lowest quartile (exhibit 1.10).

## A decade of growth in economic freedom was erased in 2020

Exhibit 1.4 shows the global average economic freedom score for all 123 jurisdiction with complete data since 2000. Between 2000 and 2019, the average economic freedom rating increased from 6.58 to 6.94 but in 2020 the average rating fell to 6.77, where it remained in 2021. The last time the average economic freedom rating was this low was 2009.

Exhibit 1.4: Average Economic Freedom Rating, 2000–2021



## Chapters in the report

### Chapter 1: Economic Freedom of the World in 2021

The authors of the report, James Gwartney, Robert Lawson, 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, 2010, 2015, 2019, 2020, and 2021.

### Chapter 3: Populism, Majority Rule, and Economic Freedom

*Andrea Celico and Martin Rode*

In this chapter, Andrea Celico and Martin Rode of the Universidad de Navarra investigate the relationship between populism and economic freedom. They also consider the potentially mediating roles of institutional constraints and government ideology. Controlling for other determinants, they find that populism in

government is significantly associated with reductions in economic freedom for a large sample of democratic countries. They also find that in OECD countries, the negative association between populism and economic freedom seems to be mediated to a substantial degree by political constraints and political ideology. It is possible that institutional guardrails, which are often absent in many non-OECD countries, check the power of populist governments.

#### **Chapter 4: The Rule of Law and Economic Freedom: Two Sides of the Same Coin for Purchasing Economic Prosperity**

*Matanda Abubaker*

In this chapter, the Ugandan judge and law lecturer, Matanda Abubaker, discusses the relationship between economic freedom and the rule of law. He explores what is meant by the rule of law and he concludes that causality runs in both directions: while there cannot be economic freedom without the rule of law, economic freedom also enhances the rule of law. He also argues that when one of the two is threatened, the other is also threatened.

#### **Chapter 5: Diamonds, Dynasties, or Decent Decisions? The Origin of Botswana's Liberal Policies and their Contemporary Unravelling**

*Alexander C.R. Hammond*

In this chapter, Alexander Hammond of the Institute of Economic Affairs explores Botswana's unique economic history. In a continent dogged by stagnant growth, Botswana prospers. For the last half century, the economy of this sparsely populated nation in southern Africa has grown faster than that of almost any other in the world. While economists generally agree that Botswana owes its relative prosperity to its long-standing commitment to decent levels of economic freedom, there is less agreement about what has permitted Botswana to maintain this commitment. Here, Hammond attributes the nation's freedom to good decision-making, political and socio-economic stability, and certain internal and external constraints on policy makers' decisions. Alarmingly, however, he concludes that some of these factors may be waning.

