

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-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. This is the same structure as last year, though changes have been made to nine of the components. 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.

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.

Jurisdictions

The total number of jurisdictions in the index remains at 162. The data are available annually from 2000 to 2018 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. Estimates are also provided at five-year intervals back to 1950 on the economic freedom website.¹

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.²

Economic freedom around the world in 2018

Top-rated countries

The most recent comprehensive data available are from 2018. 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 2019 and 2020 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, United States, Australia, Mauritius, Georgia, Canada, and Ireland.

Rankings of other major countries

The rankings of some other major countries are Japan (20th), Germany (21st), Italy (51st), France (58th), Mexico (68th), Russia (89th), India (105th), Brazil (105th), and China (124th).

Ten lowest-rated countries

The ten lowest-rated countries are: the Central African Republic, Democratic Republic of Congo, Zimbabwe, Republic of Congo, Algeria, Iran, Angola, Libya, Sudan, and, lastly, Venezuela.

1 A comprehensive data set is available at <www.fraserinstitute.org/economic-freedom/dataset>.

2 For a review of these studies, see: Joshua Hall and Robert Lawson (2014). Economic Freedom of the World: An Accounting of the Literature. *Contemporary Economic Policy* 32, 1: 1–19. <<https://onlinelibrary.wiley.com/doi/abs/10.1111/coep.12010>>.

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 \$44,198 in 2018, compared to \$5,754 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 \$12,293, compared to \$1,558 in the bottom quartile (PPP constant 2017, international\$) (exhibit 1.9). 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, 1.8% of the population experience extreme poverty (US\$1.90 a day) compared to 27.2% in the lowest quartile (exhibit 1.11).
- Life expectancy is 80.3 years in the top quartile compared to 65.6 years in the bottom quartile (exhibit 1.6).

Economic freedom continues to grow

Exhibit 1.4 shows the global average for all 123 nations with complete data since 2000. Between 2000 and 2018, the average economic freedom rating increased to 6.98 from 6.63, about one-third of a standard deviation over this period.

Chapters in the report

Chapter 1: Economic Freedom of the World in 2018

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

Detailed historical information is provided for each of the 161 countries and one territory in the index.

Chapter 3: Economic Freedom as a Driver of Trust and Tolerance

By Niclas Berggren and Therese Nilsson

Chapter 3 examines how the market economy affects cultural traits, in particular trust, tolerance, and antisemitism. The results indicate economic freedom generates social trust and tolerance. The relationship to antisemitism is complex. Gains in one area of economic freedom, the legal system, reduce it while gains in another, trade openness, increase it.

Data available to researchers

The full data set, including the data published in this report as well as data omitted due to limited space, can be downloaded for free at <www.fraserinstitute.org/economic-freedom/dataset>. The data file available there contains the most up-to-date and accurate data for the *Economic Freedom of the World* index. Some variable names and data sources have evolved over the years since the first publication in 1996; users should consult earlier editions of *Economic Freedom of the World* for details about sources and descriptions for those years. All editions of the report are available in PDF and can be downloaded for free at <<https://www.fraserinstitute.org/studies/economic-freedom>>. However, users are always strongly encouraged to use the data from this most recent data file as updates and corrections, even to earlier years' data, do occur. Users doing long-term or longitudinal studies are encouraged to use the EFW Panel Dataset as it is the most consistent through time.¹

Technical help

If you have difficulty retrieving the data, please contact Fred McMahon via e-mail to <freetheworld@fraserinstitute.org>. If you have technical questions about the data itself, please contact Joshua Hall <joshua.c.hall@gmail.com> or Robert Lawson <robert.a.lawson@gmail.com>.

Citing the data

Please cite data as: James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy (2020). Economic Freedom Dataset, published in *Economic Freedom of the World: 2020 Annual Report*. Fraser Institute. <www.fraserinstitute.org/economic-freedom/dataset>.

Published work using ratings from *Economic Freedom of the World*

A list of published papers that have used the economic freedom ratings from *Economic Freedom of the World* is available on line at <www.fraserinstitute.org/economic-freedom/citations>. In most cases, a brief abstract of the article is provided. If you know of other papers current or forthcoming that should be included on this page, or have further information about any of these papers or authors, please write to <freetheworld@fraserinstitute.org>.

1. Note that the official names of two countries have changed: Macedonia is now North Macedonia and Swaziland is now Eswatini. The alphabetic order of countries in the EFW Panel Dataset has been adjusted accordingly. ISO codes remain the same.