### **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 and to measure the degree of economic freedom 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 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**

This year the index published in *Economic Freedom of the World* 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. There is a short description of the Gender Disparity Index and its use to make the adjustment in the summary of chapter 3 below.<sup>1</sup>

#### 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.<sup>2</sup>

The EFW index now ranks 159 countries and territories. Data are available for approximately 100 nations and territories back to 1980, and many back to 1970.<sup>3</sup> 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 20154

#### Top-rated countries

Hong Kong and Singapore, once again, occupy the top two positions. The other nations in the top 10 are New Zealand, Switzerland, Ireland, the United Kingdom, Mauritius, Georgia, Australia, and Estonia.

#### Other major countries

The rankings of some other major countries are the United States, tied with Canada at 11<sup>th</sup>, Germany (23<sup>rd</sup>), South Korea (32<sup>nd</sup>), Japan (39<sup>th</sup>), France (52<sup>nd</sup>), Italy (54<sup>th</sup>), Mexico (76<sup>th</sup>), India (95<sup>th</sup>), Russia (100<sup>th</sup>), China (112<sup>th</sup>), and Brazil (137<sup>th</sup>).

#### Lowest-rated countries

The 10 lowest-rated countries are: Iran, Chad, Myanmar, Syria, Libya, Argentina, Algeria, the Republic of the Congo, the Central African Republic, and, lastly, Venezuela.

- 1 For full details, see Chapter 3: Gender Disparity in Legal Rights and Its Effect on Economic Freedom, pages 189–212 in *Economic Freedom of the World: 2016 Annual Report*; and Chapter 3: Adjusting for Gender Disparity in Economic Freedom and Why It Matters, pp. 189–211 in this year's report.
- 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. <a href="http://onlinelibrary.wiley.com/oi/10.1111/coep.12010/abstract">http://onlinelibrary.wiley.com/oi/10.1111/coep.12010/abstract</a>.
- 3 A comprehensive data set is available at <www.fraserinstitute.org/economic-freedom/dataset>.
- 4 The most recent data available for calculating the index in the 2017 edition of *Economic Freedom of the World* is from 2015.

#### Who's up? Who's down?

The five nations showing the biggest declines in economic freedom from 2000 to 2015 are Venezuela, Argentina, Bolivia, Iceland, and Greece. The five nations with the largest gains in economic freedom over the period are Romania, Bulgaria, Rwanda, Albania, and Cyprus.

### 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 \$42,463 in 2015, compared to \$6,036 for bottom quartile nations (PPP constant 2011 US\$) (exhibit 1.11).
- In the top quartile, the average income of the poorest 10% was \$11,998, compared to \$1,124 in the bottom quartile in 2015 (PPP constant 2011 US\$) (exhibit 1.14). Interestingly, the average income of the *poorest* 10% in the most economically free nations is almost twice the *average* per capita income in the least free nations.
- Life expectancy is 80.7 years in the top quartile compared to 64.4 years in the bottom quartile (exhibit 1.16).

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 (exhibit 1.17).
- Gender equality is greater in economically free nations (exhibit 1.18).
- Happiness levels are higher in economically free nations (exhibit 1.19)

### Chapters in the report

#### Chapter 1: Economic Freedom of the World in 2015

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.

#### Chapter 2: Country Data Tables

Detailed historical information is provided for each of the 159 countries and territories in the index.

# Chapter 3: Adjusting for Gender Disparity in Economic Freedom and Why It Matters

By Rosemarie Fike

The adjustment for gender disparity applied this year to the index published in *Economic Freedom of the World* takes into account the fact that in many nations women are not legally accorded the same level of economic freedom as men. The EFW index uses many objective measures that, on their own, implicitly assume

that all members of society have equal access to economic institutions. This is not a reality for many women across the world. Formal legal restrictions to the economic rights of women in many countries prevent a significant portion of the population from engaging in mutually beneficial exchanges. The Gender Disparity Index employs 41 variables for 2015—fewer are available in earlier years—to measure legal discrimination against women; it is applied to Area 2, Legal System and Property Rights. The negative adjustment factor is smaller in economically free nations than in non-free nations.

## Chapter 4: Economic Freedom, Social Protections, and Electoral Support for Anti-Immigrant Populist Parties in 27 Industrial Democracies

By Krishna Chaitanya Vadlamannati and Indra de Soysa

Some propose that the rise of anti-immigrant, nativist populism in many industrial democracies is the result of economic insecurities stemming from globalization. They suggest that greater social protections can cushion society from communal disharmony. Others suggest that anti-immigrant sentiment is driven by "welfare chauvinism", where people already enjoying high levels of social welfare are likely to see immigrants as interlopers that free-ride on welfare and threaten the livelihood of the existing residents. The authors test these competing propositions using panel data for 27 OECD countries between 1990 and 2014 and find that the positive effect of a bigger immigrant share of the population on support for nativist populism is conditional upon higher degrees of social welfare, which reduces economic freedom. This finding reinforces the view that support for populistic nativist parties increases when the degree of economic freedom is low and the degree of social protection is high.

## Chapter 5: Economic Freedom in South Africa and the Constraints on Economic Policy

By Richard J. Grant

The index published in the *Economic Freedom of the World* covers two very distinct eras in South African history: the apartheid era and that after the transition to the "new South Africa" in 1994. Economic freedom rose dramatically following the end of apartheid in South Africa, from 5.5 out of 10 in 1990 to 6.6 in 1995, and then hit a peak of 7.1 in 2000. The author describes in detail the rise in economic freedom and the subsequent decline, as well as ongoing threats to economic freedom. The decline in South Africa's economic freedom and increases elsewhere led to a fall in the nation's rank from 42<sup>nd</sup> in 2000 to 95<sup>th</sup> in 2014. The author concludes: "As economic freedom has decreased, the GDP growth rate has declined, as would be expected, from near 4% to less than 1%, with four quarters of negative growth spread across the past three years".