

Economic Freedom of the World

2013 Annual Report

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Executive Summary

Economic Freedom of the World

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 compete, and security of privately owned property. Forty-two variables are used to construct a summary index and to measure the degree of economic freedom in five broad areas:

- 1 Size of Government;
- 2 Legal System and Property Rights;
- 3 Sound Money;
- 4 Freedom to Trade Internationally;
- 5 Regulation.

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.¹

The EFW index now covers 152 countries and territories.² Data are available for approximately 100 nations and territories back to 1980, and many back to 1970.³ 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.

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- 1 For a review, see Hall, Joshua, and Robert Lawson (2013). *Economic Freedom of the World: An Accounting of the Literature*. *Contemporary Economic Policy*. <<http://onlinelibrary.wiley.com/doi/10.1111/coep.12010/abstract>>.
 - 2 Historical data are provided for 153 nations in Chapter 2: Country Data Tables. However, due to events in Syria, data for 2011 are questionable and, therefore, have not been shown in the tables. For the same reason, Syria is not included this year among the 152 countries ranked in the index.
 - 3 A comprehensive data set is available at <www.freetheworld.com>.

Economic freedom from around the world

Average chain-linked rating

The average chain-linked economic freedom rating for the 101 countries with ratings since 1980 has increased from 5.34 in 1980 to 5.82 in 1990 to 6.74 in 2000 and finally to 6.87 in 2011. After a global average drop between 2007 and 2009, the average summary rating increased modestly in both 2010 and 2011, though it remains below its peak level of 6.92 in 2007. The chain-linked index is used for this comparison because it is most appropriate for measurement of changes across time.

Countries included

There are 152 countries included in this year's index, up from 144 last year. The new countries added to the index (with data for both 2010 and 2011) are Brunei Darussalam, Cape Verde, The Gambia, Lebanon, Suriname, Swaziland, Tajikistan, Timor-Leste, and Yemen. Because of the civil war and the unreliability of the data since 2011, the rating for Syria has been temporarily suspended, though historical data are included in Chapter 2: Country Data Tables.

Top-rated countries

Hong Kong and Singapore, once again, occupy the top two positions. The other nations in the top ten are New Zealand, Switzerland, United Arab Emirates, Mauritius, Finland, Bahrain, Canada, and Australia.

Other major countries

The rankings of some other major countries are: United Kingdom (12th), United States (17th), Germany (19th), Japan (33rd), South Korea (33rd), France (40th), Italy (83rd), Mexico (94th), Russia (101st), Brazil (102nd), India (111th), and China (123rd).

Lowest-rated countries

The ten lowest-rated countries are: Algeria, Democratic Republic of Congo, Burundi, Central African Republic, Angola, Chad, Zimbabwe, Republic of Congo, Myanmar, and, in last place, Venezuela. Eight of the countries in the bottom ten are located in Africa.

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 \$36,446 in 2011, compared to \$4,382 for nations in the bottom quartile in 2011 US(PPP) dollars (Exhibit 1.6).
- In the top quartile, the average income of the poorest 10% was \$10,556, compared to \$932 in the bottom quartile in 2011 US(PPP) dollars (Exhibit 1.9). Interestingly, the average income of the poorest 10% in the most economically free nations is more than twice the overall average income in the least free nations.
- Life expectancy is 79.2 years in nations in the top quartile compared to 60.2 years in those 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 2011

James Gwartney, Robert Lawson, and Joshua Hall

In chapter one, the authors of *Economic Freedom of the World* provide an overview of the report and discuss why economic freedom is important. They also review the continuing decline of economic freedom in the United States.

Chapter 2: Country Data Tables

Detailed historical information is provided for each of the 152 countries and territories in the index as well as for Syria, though 2011 data are not included for this nation.

Chapter 3: Institutions and Economic, Political, and Civil Liberty in Africa

Alice M. Crisp and James Gwartney

In this chapter takes a close look at the economic, political, and civil institutions of 26 African countries. The economic, political, and civil institutions of a country are interrelated and they work as a combination to influence the operation of an economy. To a large degree, researchers know the bundle of economic institutions and policies that lead to economic growth and prosperity. But, economic institutions are an outgrowth of political institutions and the choices that emanate from the political process. Similarly, civil liberties influence the public discourse and thereby have an impact on both economic and political decision-making. Because of these interrelationships, it is important to consider institutional quality in all of these areas. Chapter 3 provides detailed information on the institutional strengths and weaknesses of each of the 26 African economies.

Chapter 4: Economic Freedom, Democracy, and Life Satisfaction

Martin Rode, Bodo Knoll, and Hans Pitlik

The research presented in this chapter indicates that both economic freedom and political democracy exert an independent impact on life satisfaction over and above the impact of per-capita income levels and other indicators of material well-being. This is true even after accounting for the influence of marriage, belief in God, trust, regional differences, and other variables that prior research has identified as important determinants of life satisfaction. Moreover, the impact of economic freedom and democracy on life satisfaction is quite substantial, particularly when both the direct and indirect effects through higher income levels and lower rates of unemployment are taken into account.

Data available to researchers

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