

Chapter 1 Economic Freedom of the World in 2021

Economic Freedom of the World is an ongoing research project. As Milton Friedman stated in his foreword to the initial report, *Economic Freedom of the World: 1975–1995* (Gwartney, Lawson, and Block, 1996), additional work would be necessary to “bring the indexes of economic freedom up to date and to incorporate the additional understanding that will be generated”. This has never been more true than this year as we have begun to integrate a number of new indicators to compensate for the cancellation or delay of some of our key data sources. We have also made a few structural changes to the index itself by incorporating new components and subcomponents within the traditional five areas.

We urge users of the EFW index to use the data only from the most recent report because of data updates and changes to the report’s methodology over time. All the ratings for all countries and years for which we have ratings are available in the datafile corresponding to each new report.

What is economic freedom?

Economic freedom is based on the concept of self-ownership. Because of this self-ownership, individuals have a right to choose—to decide how to use their time and talents to shape their lives. On the other hand, they do not have a right to the time, talents, and resources of others. Thus, they have no right to take things from others or demand that others provide things for them.

The cornerstones of economic freedom are personal choice, voluntary exchange, open markets, and clearly defined and enforced property rights. Individuals are economically free when they are permitted to choose for themselves and engage in voluntary transactions as long as they do not harm the person or property of others. When individuals possess economic freedom they are able to decide what, when, and how goods and services will be produced, exchanged, and consumed. Put another way, economically free individuals are permitted to decide for themselves rather than having options imposed on them by the political process or by the use of violence, theft, or fraud by others.

The EFW index is designed to measure the degree to which the institutions and policies of countries are consistent with economic freedom. In order to achieve a high EFW rating, a country’s government must do some things, but refrain from others. Governments enhance economic freedom when they provide an infrastructure for voluntary exchange, and protect individuals and their property from aggressors who might use violence, coercion, or fraud to seize things that do not belong to them. To this end, the legal system is particularly important. A country’s legal institutions must protect the person and property of all

individuals from the aggressive acts of others and enforce contracts in an even-handed manner. Governments must also permit access to a sound money that results in macroeconomic price stability and predictability. Governments must also refrain from actions that restrict personal choice, interfere with voluntary exchange, and limit entry into markets. Economic freedom is reduced when taxes, government expenditures, and regulations override personal choice, voluntary exchange, and market coordination.

The EFW measure might be thought of as a measure of the degree to which scarce resources are allocated by personal choices coordinated by markets rather than by centralized planning directed by the political process. It might also be thought of as an effort to identify how closely the institutions and policies of a country correspond with the classical liberal ideal of a limited government, where the government protects property rights and arranges for the provision of a limited set of “public goods” such as national defense and access to money of sound value, but little beyond these core functions. To a large degree, a country’s EFW summary rating is a measure of how closely its institutions and policies compare with the idealized structure implied by standard textbook analysis of microeconomics.

The Economic Freedom of the World index—an overview

The EFW index provides a comprehensive measure of the degree to which a jurisdiction’s institutions and policies are consistent with economic freedom. It is an outgrowth of a series of six conferences hosted by Milton and Rose Friedman and Michael Walker from 1986 to 1994, which resulted in three books (Walker, 1988; Block, 1991; Easton and Walker, 1992) documenting the discussion and various prototype indexes that culminated with the initial publication, *Economic Freedom of the World: 1975–1995*. In addition to the Friedmans, several of the world’s leading economists including Douglass North, Gary Becker, Peter Bauer, William Niskanen, and Gordon Tullock participated in the discussions leading to the EFW index. The index is published by a network of institutes spearheaded by the Fraser Institute in Canada. Members of the network and other interested parties meet annually to review the structure of the index and consider ideas for its improvement.

The construction of the EFW index is based on three important methodological principles. First, objective sources of data are preferred to those that involve surveys or value judgments. With that said, given the multidimensional nature of economic freedom and the importance of legal and regulatory elements, it is sometimes necessary to use data based on surveys, expert panels, and generic case studies. To the fullest extent possible, however, the index uses objective sources of data. Second, the data used to construct the index ratings are from external sources such as the International Monetary Fund, World Bank, and World Economic Forum that provide data for a large number of jurisdictions. Data provided directly from a source within a country are rarely used. Importantly, the value judgments of the authors or others in the Economic Freedom Network are never used to alter the raw data or the rating of any country. Third, we strive for transparency throughout. The report provides information about the data sources, the methodology used to transform raw data into the ratings of the components and subcomponents and how these ratings are used to construct both the

area and summary ratings. Methodological details can be found in the Appendix: Explanatory Notes and Data Sources of this report (pp. 249–262). The entire data set used in the construction of the index is freely available to researchers at <www.fraserinstitute.org/economic-freedom/dataset>.

The EFW index rates 165 jurisdictions. 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 several decades. The EFW measure is a valuable tool for scholars seeking to examine the contribution of economic institutions more thoroughly and to disentangle their influence from political, climatic, locational, cultural, and historical factors as determinants of growth and development.

Structure of the EFW index

Exhibit 1.1 indicates the structure of the EFW index. The index measures the degree of economic freedom present in five major areas: [1] Size of Government, [2] Legal System and Property Rights, [3] Sound Money [4] Freedom to Trade Internationally, and [5] Regulation.

Within the five major areas, there are a total of 25 components in the index. Many of the components are themselves made up of several subcomponents (which in turn may be based on several more underlying sources of data). In total, the index incorporates 45 distinct components and or subcomponents of data. Each component and subcomponent is placed on a scale from 0 to 10 that reflects the distribution of the underlying data. When subcomponents are present, they are averaged to derive the component rating. The component ratings within each area are then averaged to derive ratings for each of the five areas. In turn, the five area ratings are averaged to derive the summary rating for each country.

Area 1. Size of Government focuses on how government expenditures and tax rates affect economic freedom. Taken together, the five components of Area 1 measure the degree to which a country relies on personal choice and markets rather than government budgets and political decision-making. Countries with lower levels of government spending, lower marginal tax rates, less government investment, and state ownership of assets earn the highest ratings in this area.

Area 2. Legal System and Property Rights focuses on the importance of the legal system as a determinant of economic freedom. Protection of persons and their rightfully acquired property is a central element of economic freedom. Many would argue that it is the most important function of government. The key ingredients of a legal system consistent with economic freedom are rule of law, security of property rights, an independent and unbiased judiciary, and impartial and effective enforcement of the law. The eight components of Area 2 are indicators of how effectively the protective functions of government are performed. The rating for Area 2 is adjusted based on a gender-disparity index that reflects cross-country differences in legal rights based on gender.

Area 3. Sound Money focuses on the importance of money and general price stability in the exchange process. Sound money—money with relatively stable purchasing power across time—reduces transaction costs and facilitates exchange,

Exhibit 1.1: Areas, Components, and Subcomponents of the EFW Index

1. Size of Government

- | | |
|----------------------------|--|
| A. Government consumption | D. Top marginal tax rate |
| B. Transfers and subsidies | (i) Top marginal income tax rate |
| C. Government investment | (ii) Top marginal income and payroll tax rates |
| | E. State ownership of assets |

2. Legal System and Property Rights

- | | |
|--------------------------|----------------------------------|
| A. Judicial independence | E. Integrity of the legal system |
| B. Impartial courts | F. Contracts |
| C. Property rights | G. Real property |
| D. Military interference | H. Police and crime |

Note: Area 2 ratings are calculated with adjustments for inequalities in the legal treatment of women using a Gender Disparity Index produced by Rosemarie Fike. The adjusted Area 2 rating is used to compute the summary rating.

3. Sound Money

- | | |
|------------------------------------|-----------------------------------|
| A. Money growth | C. Inflation: most recent year |
| B. Standard deviation of inflation | D. Foreign currency bank accounts |

4. Freedom to Trade Internationally

- | | |
|--|---|
| A. Tariffs | C. Black-market exchange rates |
| (i) Trade tax revenue | D. Controls of the movement of capital and people |
| (ii) Mean tariff rate | (i) Financial openness |
| (iii) Standard deviation of tariff rates | (ii) Capital controls |
| B. Regulatory trade barriers | (iii) Freedom of foreigners to visit |
| (i) Non-tariff trade barriers | (iv) Protection of foreign assets |
| (ii) Costs of importing and exporting | |

5. Regulation

- | | |
|---|--|
| A. Credit market regulation | C. Business regulation |
| (i) Ownership of banks | (i) Regulatory burden |
| (ii) Private sector credit | (ii) Bureaucracy costs |
| (iii) Interest rate controls / negative real interest rates | (iii) Impartial public administration |
| B. Labor market regulation | (iv) Tax compliance |
| (i) Labor regulations and minimum wage | D. Freedom to compete |
| (ii) Hiring and firing regulations | (i) Market openness |
| (iii) Flexible wage determination | (ii) Business permits |
| (iv) Hours regulations | (iii) Distortion of business environment |
| (v) Costs of worker dismissal | |
| (vi) Conscription | |
| (vii) Foreign labor | |

thereby promoting economic freedom. The four components of this area provide a measure of the extent to which people in different countries have access to sound money. In order to earn a high rating in Area 3, a country must follow policies and adopt institutions that lead to low (and stable) rates of inflation and avoid regulations that limit the ability to use alternative currencies.

Area 4. Freedom to Trade Internationally focuses on exchange across national boundaries. In our modern world, freedom to trade with people in other countries is an important ingredient of economic freedom. When governments impose restrictions that reduce the ability of their residents to engage in voluntary exchange with people in other countries, economic freedom is diminished. The components in Area 4 are designed to measure a wide variety of trade restrictions: tariffs, quotas, hidden administrative restraints, and controls on exchange rates and the movement of capital. In order to get a high rating in this area, a country must have low tariffs, easy clearance and efficient administration of customs, a freely convertible currency, and few controls on the movement of physical and human capital.

Area 5. Regulation measures how regulations that restrict entry into markets and interfere with the freedom to engage in voluntary exchange reduce economic freedom. The components of Area 5 focus on regulatory restraints that limit the freedom of exchange in credit, labor, and product markets.

Key changes and issues in the EFW index in the 2023 Annual Report

The last few years have been a huge challenge for the EFW index as two of our most important data sources became unavailable. The World Bank's *Doing Business* report was abruptly canceled, and data from the World Economic Forum's *Global Competitiveness Report* have not been published in the last three years. These two sources had been used in whole, or in part, in 17 of the 42 (40%) components or subcomponents in the EFW index. In the last three reports, we continued to use the latest available data. While there is some hope that both sources will return in some capacity, the situation remains uncertain and the timing unknown.

Over the last couple of years as we cast about for solutions to these difficulties, we turned to the Economist Intelligence Unit's (EIU) Business Environment Rankings. We had looked at their numbers previously and generally judged them to be high quality, but their main dataset covered only about 80 countries, far short of the 165 that we require. We contacted them last year to ask if they could rate all 165 jurisdictions. Ultimately, we were able to contract with the EIU to get the numbers we wanted for all of our countries for the years since 2017.

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 do not have natural places within the existing EFW index structure, and as a result, we have had to make a few adjustments to the component and subcomponent structure. There are a few components and subcomponents that remain wholly reliant on the *Doing Business* or *Global Competitiveness Report* data that have not been updated here. We hope to deal with these in the next year or two. These components are the following: 4Bii (Costs of importing and exporting), 5Biii (Flexible wage determination), 5Biv (Hours regulations), 5Bv (Cost of worker dismissal), and 5Ci (Regulatory burden).

Here is a brief description of the changes to the structure of the index by area related to the EIU data integration

Area 1. Size of Government: This area is unchanged.

Area 2. Legal System and Property Rights: The component structure is unchanged, but EIU data were integrated into components 2B, 2C, 2F, and 2H.

Area 3. Sound Money: This area is unchanged.

Area 4. Freedom to Trade Internationally: The component structure is unchanged. EIU data were integrated into subcomponents 4Bi, 4Di, and 4Div. 4Div is a new subcomponent within component 4D related to the protection of foreign assets and investments.

Area 5. Regulation: We now have four components in Area 5 instead of the previous three. Components 5A and 5B and 5C have the same titles. Several subcomponents in the old 5C have been moved to form part of the new component 5D, which is labelled “Freedom to compete”. The appropriate EIU data were integrated into subcomponents 5Bi, 5Bii, 5Bvii, 5Civ, 5Di, and 5Diii. 5Bvii is a new subcomponent about the ease of hiring foreign labor. Subcomponent 5Diii is new and is labelled “Distortion of the business environment”; it relies on EIU data on “price controls” and “state control” of private businesses.

Here is a list of the EFW components and subcomponents into which the new EIU variables are being integrated:

EFW	EIU variable
2B	Transparency and fairness of legal system
2C	Degree to which private property rights are guaranteed and protected
2F	Efficiency of legal system
2H	Impact of crime
4Bii	Tariff and non-tariff barriers
4Di	Capital account liberalisation
4Div	Risk of expropriation of foreign assets
5Bi	Wage regulation
5Bii	Restrictiveness of labour laws
5Bvii	Hiring of foreign nationals
5Ci	Level of government regulation and impact on private business
5Ciii	Government favouritism
5Civ	Tax complexity
5Di	Freedom of existing businesses to compete
5Diii	Price controls & State control

We understand that big changes to the index structure like this can pose difficulties for our users, but at some point we had to deal with the loss of the data from *Doing Business* and the *Global Competitiveness Report*. It is important to note that every effort has been made to make the data consistent on a time-series basis. For example,

when a component or subcomponent is based on several underlying sources of data (for example, both old *Global Competitiveness Report* data and new EIU data), we are employing our familiar chain-linking method to assure the best possible consistency within that component or subcomponent over time. And of course, we will continue to provide the full chain-linked panel data set of area and summary ratings.

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).

Construction of Area and Summary ratings

Theory provides us with some direction about elements that should be included in the five areas and the summary index, but it does not indicate what weights should be attached to the components within the areas or among the areas in the construction of the summary index. It would be convenient if these factors were independent and a weight could be attached to each of them. In the past, we investigated several methods of weighting the various components, including principal component analysis and a survey of economists. We have also invited others to use their own weighting structure if they believe that it is preferable. Our experience indicates that the summary index is not very sensitive to alternative weighting methods.

Furthermore, there is reason to question whether the areas (and components) are independent of one another, or if instead, they work together like the wheels, motor, transmission, drive shaft, and frame of a car. Just as these interconnected parts allow an automobile to move forward, it may be that a combination of interrelated factors allows people to enjoy economic freedom. Which is more important for the mobility of an automobile: the motor, wheels, or transmission? The question cannot be easily answered because the parts work together. If any of these key parts break down, the car is immobile. Institutional quality may be much the same. If any of the key parts are absent, the overall effectiveness may be undermined.

As the result of these two considerations, we organize the elements of the index in a manner that seems sensible, but we make no attempt to weight the components in any special way when deriving either area or summary ratings. Of course, the component and subcomponent data are available to researchers who would like to consider alternative weighting schemes and we encourage them to do so.

Summary Economic Freedom ratings in 2021

Exhibits 1.2a and 1.2b (pp. 8–9) present the summary economic freedom ratings, sorted from highest to lowest, for the 165 jurisdictions of this year’s report. These ratings are for 2021, the most recent year for which comprehensive data are available. Hong Kong and Singapore, as usual, occupy the top two positions—but for the first time in the history of the EFW index, Singapore edges out Hong Kong for the #1 ranking.¹ The next highest scoring nations are Switzerland, New Zealand, United States, Ireland, Denmark, Australia, United Kingdom, and Canada.

1 It is worth noting that this exchange of positions is not an artifact of the integration of the EIU data and/or changes to the EFW index structure in this year’s report; Hong Kong would have dropped to 2nd position even had we made no changes to the EFW index methodology in this year’s report.

Exhibit 1.2a: Summary Economic Freedom Ratings for 2021, First and Second Quartiles

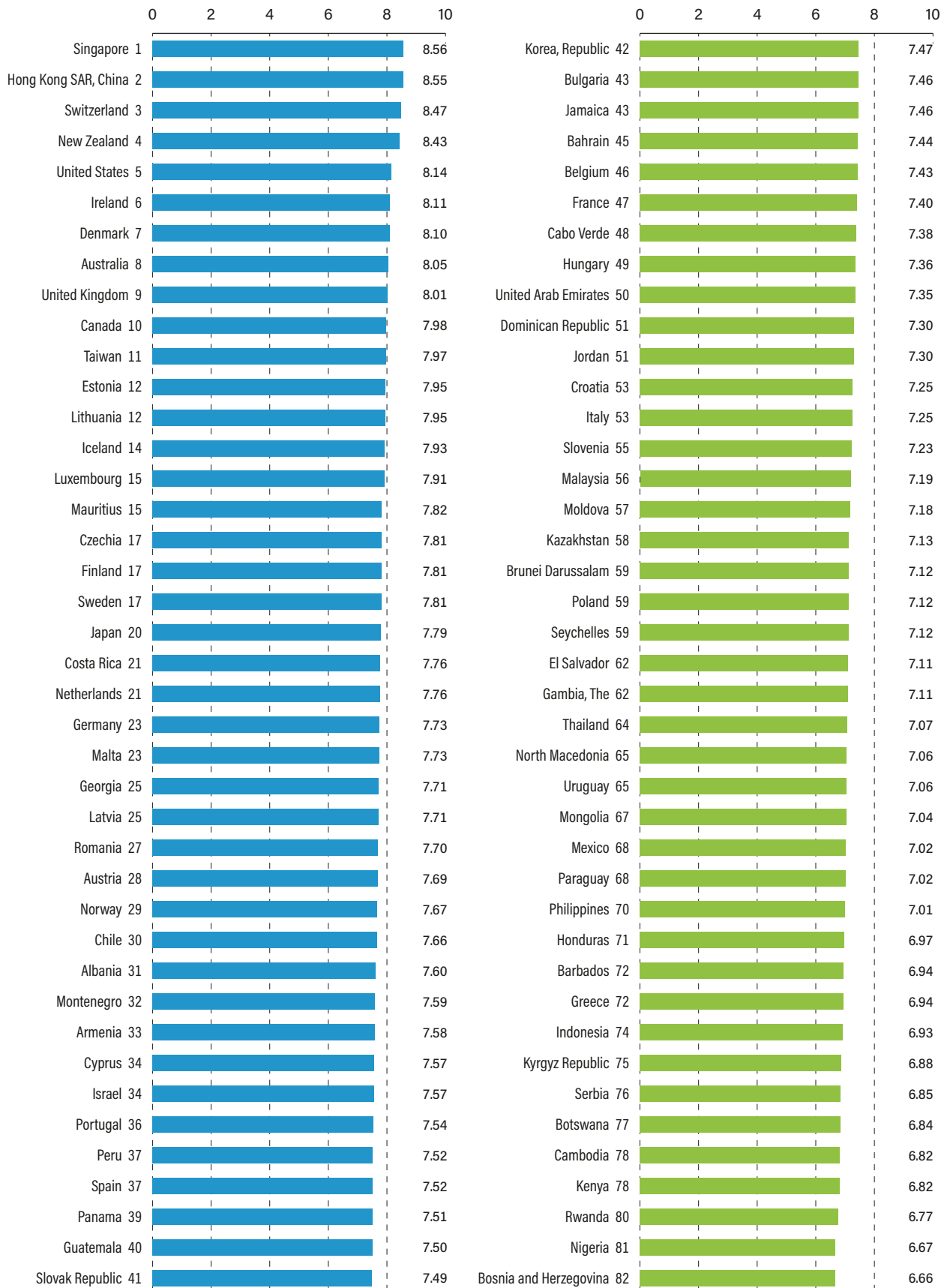
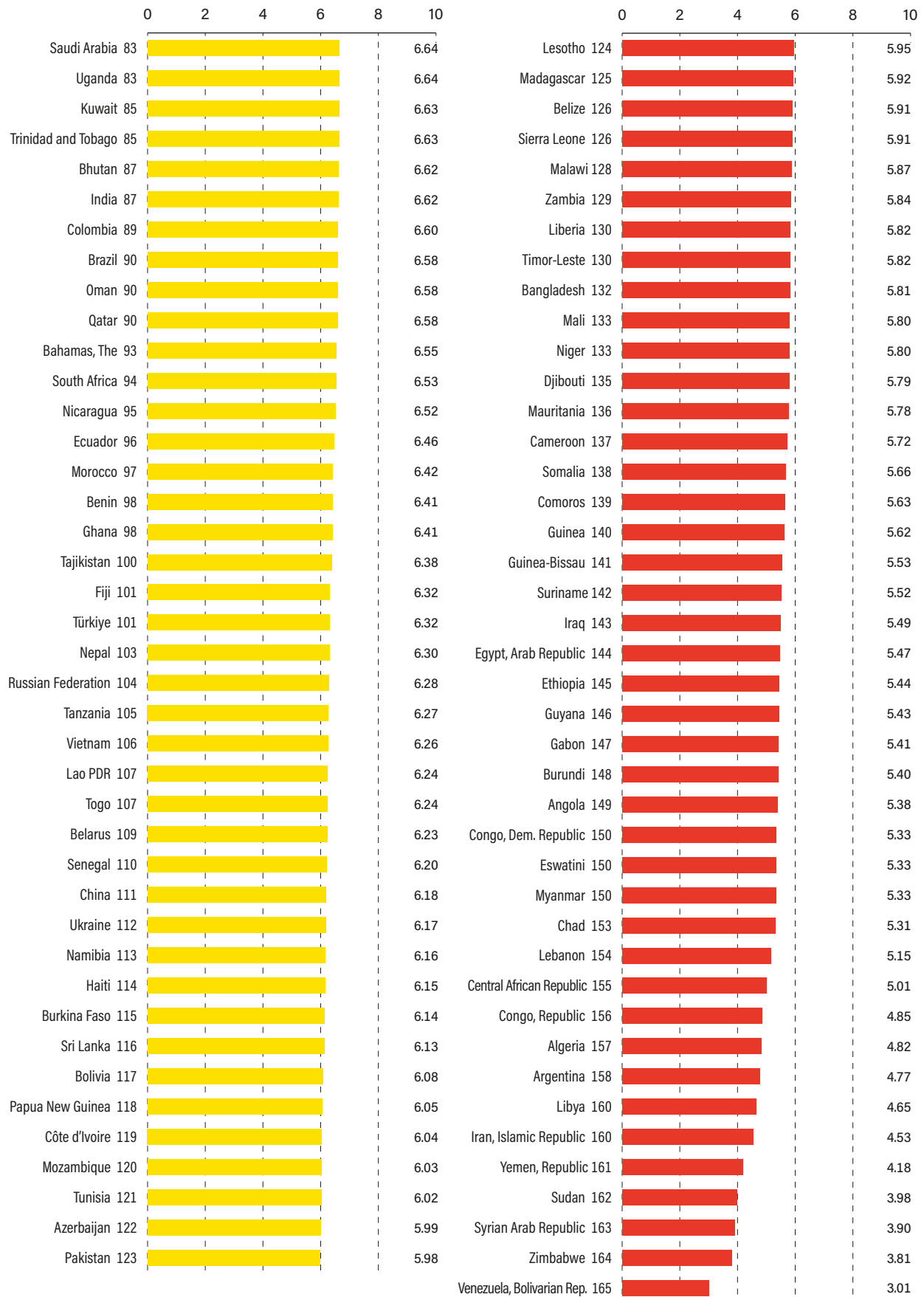


Exhibit 1.2b: Summary Economic Freedom Ratings for 2021, Third and Fourth Quartiles



The rankings of some other major countries are Taiwan (11th), Japan (20th), Germany (23rd), Korea (42nd), France (47th), Italy (53rd), Mexico (68th), India (87th), Brazil (90th), Russia (104th), and China (111th). The 10 lowest-rated countries are: Republic of Congo, Algeria, Argentina, Libya, Iran, Yemen, Sudan, Syria, Zimbabwe, and Venezuela.

As noted above, Hong Kong had been at the top of the EFW index for all years for which we had data—that is until this report when Singapore achieved a slightly higher rating by just 0.01 points for 2021. In previous annual reports, we sounded the alarm bell about signs of declining economic—and other—freedoms in Hong Kong. In particular, we highlighted the new security law imposed in 2021 by the Chinese government with potential sentences of life imprisonment and the accompanying arrests in its aftermath. Hong Kong’s rating has now fallen 0.64 points since its peak rating of 9.19 in 2010. In just the last two years, Hong Kong’s rating has fallen by a whopping 0.40 points. How much of that decline is related to China’s economic and political crackdown in Hong Kong and how much is related to the coronavirus pandemic is difficult to discern, but we do note that the decline in Hong Kong’s rating in recent years has been much larger than the world’s average decline. It seems reasonable to assume that much of this decline is related to China’s new harsh policies in Hong Kong and is not entirely the fault of pandemic policies.

Ratings and rankings in 2021 for the five Areas of the index

Exhibit 1.3 (pp. 11–15) presents the ratings (and rankings) for each of the five areas of the index. A number of interesting patterns emerge from an analysis of these data. High-income industrial economies generally rank quite high for Legal System and Property Rights (Area 2), Sound Money (Area 3), and Freedom to Trade Internationally (Area 4). Their ratings were lower, however, for Size of Government (Area 1) and Regulation (Area 5). This was particularly true for the high-income countries of Western Europe.

On the other hand, a number of developing nations have a small fiscal size of government but rate low in other areas, and as a result, have a low overall rating. The lesson from this is clear: a small fiscal size of government is insufficient to ensure economic freedom. The institutions of economic freedom, such as the rule of law and property rights, as well as sound money, trade openness, and sensible regulation are also required.

As the area ratings show, weakness in the rule of law and property rights is particularly pronounced in Sub-Saharan Africa, among Islamic nations, and for some nations that were formerly part of the Soviet bloc, though several countries in the latter group have made impressive strides toward improvement. Many nations in Latin America and Southeast Asia also score poorly for rule of law and property rights. The nations that rank poorly in this category also tend to score poorly in the trade and regulation areas, even though several have reasonably sized governments and sound money.

Exhibit 1.3: Area Economic Freedom Ratings (Rankings) for 2021

	Area 1 Size of Government	Area 2 Legal System and Property Rights	Area 3 Sound Money	Area 4 Freedom to trade internationally	Area 5 Regulation
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Albania	7.73 (26)	5.28 (70)	9.59 (9)	8.43 (15)	6.97 (51)
Algeria	4.45 (163)	3.82 (128)	7.08 (126)	3.92 (159)	4.84 (150)
Angola	7.71 (28)	3.18 (146)	5.79 (156)	5.52 (139)	4.73 (153)
Argentina	6.21 (103)	4.98 (83)	4.04 (161)	3.32 (163)	5.30 (143)
Armenia	7.76 (25)	5.92 (52)	9.12 (53)	8.15 (39)	6.94 (52)
Australia	5.92 (122)	8.61 (9)	9.53 (18)	8.07 (46)	8.12 (10)
Austria	4.95 (150)	8.55 (10)	9.12 (52)	8.55 (12)	7.28 (38)
Azerbaijan	4.60 (161)	4.81 (91)	6.92 (133)	7.18 (72)	6.44 (86)
Bahamas, The	8.52 (8)	5.63 (63)	6.65 (144)	5.07 (151)	6.88 (54)
Bahrain	7.08 (56)	5.18 (76)	9.39 (30)	8.19 (35)	7.38 (32)
Bangladesh	8.32 (11)	2.70 (152)	6.92 (134)	5.45 (143)	5.67 (129)
Barbados	7.31 (46)	5.78 (58)	8.38 (88)	6.17 (115)	7.05 (47)
Belarus	6.25 (101)	4.27 (118)	8.92 (72)	6.20 (113)	5.51 (137)
Belgium	4.51 (162)	7.69 (20)	9.10 (57)	8.16 (38)	7.70 (22)
Belize	6.20 (104)	3.89 (126)	6.85 (137)	5.94 (125)	6.69 (75)
Benin	7.99 (20)	4.43 (112)	7.15 (122)	5.71 (133)	6.79 (64)
Bhutan	5.85 (128)	6.84 (33)	6.40 (149)	6.83 (83)	7.18 (41)
Bolivia	5.94 (120)	3.95 (125)	9.55 (14)	6.14 (118)	4.81 (151)
Bosnia & Herzegovina	6.76 (72)	4.52 (106)	8.21 (92)	7.06 (74)	6.77 (68)
Botswana	6.38 (95)	5.91 (53)	9.28 (38)	6.56 (95)	6.05 (108)
Brazil	6.55 (81)	5.19 (75)	8.87 (74)	6.73 (87)	5.59 (133)
Brunei Darussalam	6.67 (76)	5.13 (78)	8.82 (78)	7.31 (66)	7.66 (26)
Bulgaria	6.79 (70)	5.81 (56)	9.40 (28)	8.30 (23)	7.02 (49)
Burkina Faso	7.23 (50)	3.79 (129)	6.67 (142)	6.20 (112)	6.81 (62)
Burundi	6.71 (74)	3.52 (136)	8.06 (99)	3.22 (164)	5.51 (138)
Cabo Verde	7.16 (52)	6.39 (43)	9.64 (6)	6.96 (77)	6.74 (71)
Cambodia	8.85 (3)	3.78 (130)	9.13 (51)	6.70 (88)	5.66 (130)
Cameroon	7.23 (51)	2.74 (151)	7.16 (120)	5.42 (144)	6.03 (110)
Canada	6.28 (99)	8.30 (13)	9.18 (47)	8.14 (40)	7.99 (11)
Central African Rep.	6.35 (97)	2.17 (162)	6.60 (146)	5.06 (153)	4.88 (149)
Chad	7.35 (45)	2.45 (157)	6.97 (130)	5.14 (150)	4.63 (155)
Chile	7.47 (37)	6.86 (31)	9.27 (40)	7.99 (53)	6.73 (73)
China	5.08 (147)	4.77 (92)	8.49 (86)	6.96 (76)	5.62 (131)

Note: ratings are shown rounded to the nearest tenth of a point, but the rankings are based on the unrounded ratings.

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Rankings) for 2021

	Area 1 Size of Government	Area 2 Legal System and Property Rights	Area 3 Sound Money	Area 4 Freedom to trade internationally	Area 5 Regulation
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Colombia	6.93 (64)	4.91 (85)	8.14 (97)	6.50 (99)	6.54 (83)
Comoros	6.42 (91)	3.09 (148)	6.74 (138)	5.80 (128)	6.10 (104)
Congo, Dem. Republic	7.57 (35)	2.51 (156)	6.03 (154)	5.51 (140)	5.02 (146)
Congo, Republic	5.83 (129)	2.80 (150)	5.31 (157)	5.78 (129)	4.53 (158)
Costa Rica	7.42 (40)	6.64 (40)	9.70 (5)	8.30 (24)	6.73 (72)
Côte d'Ivoire	6.61 (78)	4.59 (103)	6.94 (132)	5.64 (136)	6.41 (89)
Croatia	5.53 (133)	6.04 (50)	9.52 (19)	8.32 (22)	6.83 (58)
Cyprus	6.68 (75)	6.73 (38)	9.00 (68)	8.17 (36)	7.29 (37)
Czech Republic	6.19 (105)	7.34 (26)	9.42 (26)	8.73 (4)	7.37 (33)
Denmark	5.18 (143)	9.08 (2)	9.63 (7)	8.25 (31)	8.39 (4)
Djibouti	5.51 (134)	3.59 (133)	7.26 (115)	5.76 (131)	6.83 (59)
Dominican Republic	8.75 (5)	5.10 (80)	9.10 (56)	7.54 (60)	6.00 (113)
Ecuador	7.00 (60)	4.66 (97)	8.56 (85)	6.11 (120)	5.96 (117)
Egypt, Arab Republic	5.30 (140)	3.41 (139)	8.42 (87)	5.50 (142)	4.73 (154)
El Salvador	8.52 (7)	3.95 (124)	9.27 (39)	8.00 (50)	5.80 (124)
Estonia	6.42 (92)	7.95 (16)	8.91 (73)	8.28 (29)	8.18 (8)
Eswatini	5.17 (145)	3.11 (147)	7.78 (108)	5.07 (152)	5.52 (136)
Ethiopia	6.86 (67)	4.41 (113)	6.32 (151)	3.55 (160)	6.05 (109)
Fiji	6.76 (71)	4.59 (102)	7.11 (125)	5.39 (145)	7.74 (20)
Finland	4.90 (153)	8.90 (5)	9.10 (55)	7.99 (51)	8.18 (7)
France	4.88 (155)	7.48 (22)	9.11 (54)	8.26 (30)	7.28 (39)
Gabon	6.52 (84)	3.20 (145)	6.10 (153)	5.86 (127)	5.37 (140)
Gambia, The	8.05 (18)	4.63 (100)	9.19 (46)	6.62 (91)	7.05 (46)
Georgia	7.40 (41)	6.33 (45)	8.74 (81)	8.67 (7)	7.40 (31)
Germany	5.66 (131)	8.15 (14)	9.07 (62)	8.04 (47)	7.73 (21)
Ghana	8.29 (12)	5.21 (73)	6.29 (152)	6.16 (116)	6.11 (102)
Greece	4.79 (158)	6.13 (48)	9.06 (65)	8.38 (17)	6.32 (93)
Guatemala	9.04 (1)	4.49 (109)	9.44 (23)	7.84 (54)	6.70 (74)
Guinea	6.16 (106)	3.31 (142)	7.00 (129)	5.76 (130)	5.89 (120)
Guinea-Bissau	7.45 (38)	2.66 (153)	6.87 (136)	5.69 (134)	4.96 (147)
Guyana	3.86 (164)	4.70 (95)	6.73 (139)	6.04 (123)	5.83 (122)
Haiti	8.20 (15)	2.06 (164)	7.16 (119)	7.30 (68)	6.02 (111)
Honduras	8.87 (2)	3.86 (127)	9.26 (41)	6.55 (96)	6.31 (95)

Note: ratings are shown rounded to the nearest tenth of a point, but the rankings are based on the unrounded ratings.

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Rankings) for 2021

	Area 1 Size of Government	Area 2 Legal System and Property Rights	Area 3 Sound Money	Area 4 Freedom to trade internationally	Area 5 Regulation
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Hong Kong SAR, China	7.92 (21)	7.58 (21)	9.57 (12)	9.04 (1)	8.64 (3)
Hungary	5.96 (118)	6.40 (42)	9.25 (43)	8.56 (11)	6.63 (78)
Iceland	5.98 (117)	8.77 (6)	9.42 (27)	8.38 (18)	7.12 (43)
India	7.64 (30)	5.29 (69)	7.99 (103)	6.19 (114)	5.98 (116)
Indonesia	8.13 (17)	4.58 (105)	9.54 (16)	6.49 (100)	5.91 (119)
Iran, Islamic Republic	6.59 (79)	3.26 (144)	5.90 (155)	2.39 (165)	4.49 (159)
Iraq	4.93 (152)	2.29 (160)	7.53 (110)	6.84 (82)	5.87 (121)
Ireland	6.40 (93)	7.88 (17)	9.22 (44)	8.86 (3)	8.20 (6)
Israel	6.05 (111)	6.21 (46)	9.58 (11)	8.67 (6)	7.33 (34)
Italy	5.43 (136)	6.52 (41)	9.09 (59)	8.29 (26)	6.89 (53)
Jamaica	7.92 (22)	5.63 (64)	9.03 (66)	7.19 (71)	7.54 (28)
Japan	5.62 (132)	7.70 (19)	9.79 (3)	8.03 (48)	7.82 (15)
Jordan	7.44 (39)	4.36 (116)	9.83 (2)	7.31 (67)	7.55 (27)
Kazakhstan	7.64 (31)	5.49 (65)	9.15 (49)	6.57 (94)	6.77 (66)
Kenya	7.06 (57)	4.67 (96)	9.31 (35)	6.22 (110)	6.83 (60)
Korea, Rep.	6.29 (98)	6.86 (32)	9.54 (15)	7.37 (63)	7.30 (36)
Kuwait	5.92 (124)	5.12 (79)	8.20 (93)	7.38 (62)	6.54 (82)
Kyrgyz Republic	7.38 (42)	4.61 (101)	8.29 (91)	7.33 (65)	6.77 (69)
Lao PDR	6.94 (62)	4.39 (114)	7.52 (111)	6.76 (84)	5.62 (132)
Latvia	6.01 (115)	7.17 (28)	8.97 (71)	8.66 (8)	7.75 (18)
Lebanon	8.47 (9)	3.43 (138)	4.97 (158)	3.53 (161)	5.32 (142)
Lesotho	5.21 (142)	4.63 (98)	7.84 (107)	6.25 (106)	5.83 (123)
Liberia	6.01 (114)	3.71 (131)	9.07 (61)	5.72 (132)	4.59 (156)
Libya	3.73 (165)	2.51 (155)	7.14 (124)	5.54 (138)	4.31 (160)
Lithuania	6.94 (63)	7.40 (24)	8.97 (70)	8.64 (9)	7.80 (16)
Luxembourg	5.39 (139)	8.64 (7)	9.07 (60)	8.29 (27)	8.14 (9)
Madagascar	7.36 (44)	2.65 (154)	7.93 (106)	6.23 (109)	5.45 (139)
Malawi	6.51 (86)	4.63 (99)	7.38 (112)	4.91 (155)	5.92 (118)
Malaysia	7.27 (47)	5.70 (61)	8.16 (96)	7.26 (69)	7.54 (29)
Mali	6.47 (87)	3.40 (140)	6.92 (135)	6.21 (111)	6.00 (114)
Malta	6.46 (88)	6.78 (36)	9.30 (36)	8.34 (19)	7.78 (17)
Mauritania	5.42 (138)	3.27 (143)	7.96 (105)	6.16 (117)	6.09 (106)
Mauritius	7.71 (27)	7.06 (29)	9.35 (34)	8.13 (41)	6.84 (57)

Note: ratings are shown rounded to the nearest tenth of a point, but the rankings are based on the unrounded ratings.

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Rankings) for 2021

	Area 1 Size of Government	Area 2 Legal System and Property Rights	Area 3 Sound Money	Area 4 Freedom to trade internationally	Area 5 Regulation
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Mexico	8.15 (16)	4.46 (111)	8.04 (100)	8.13 (42)	6.33 (92)
Moldova	7.84 (24)	5.96 (51)	8.03 (101)	7.63 (57)	6.42 (88)
Mongolia	6.55 (82)	6.05 (49)	8.74 (80)	7.09 (73)	6.76 (70)
Montenegro	6.44 (89)	5.64 (62)	9.61 (8)	8.32 (20)	7.93 (13)
Morocco	6.56 (80)	5.25 (71)	7.21 (118)	6.58 (93)	6.51 (85)
Mozambique	6.89 (66)	4.49 (107)	6.50 (148)	6.46 (102)	5.79 (125)
Myanmar	6.43 (90)	3.02 (149)	6.66 (143)	5.34 (148)	5.19 (144)
Namibia	7.13 (53)	5.73 (60)	6.70 (141)	5.68 (135)	5.54 (135)
Nepal	7.63 (32)	4.90 (86)	6.63 (145)	5.37 (147)	6.97 (50)
Netherlands	4.90 (154)	8.64 (8)	9.10 (58)	8.48 (14)	7.67 (25)
New Zealand	6.15 (108)	9.09 (1)	9.42 (25)	8.53 (13)	8.95 (1)
Nicaragua	6.15 (107)	3.49 (137)	9.59 (10)	7.35 (64)	6.02 (112)
Niger	6.52 (85)	3.56 (134)	7.16 (121)	5.62 (137)	6.14 (101)
Nigeria	8.72 (6)	3.55 (135)	8.81 (79)	5.51 (141)	6.77 (67)
North Macedonia	6.93 (65)	4.74 (94)	8.19 (94)	7.72 (56)	7.69 (24)
Norway	4.97 (149)	9.00 (3)	8.83 (77)	8.24 (33)	7.32 (35)
Oman	5.01 (148)	5.36 (68)	8.69 (82)	7.55 (59)	6.27 (97)
Pakistan	8.24 (14)	3.63 (132)	6.37 (150)	5.91 (126)	5.76 (127)
Panama	7.61 (33)	5.79 (57)	9.36 (33)	8.24 (32)	6.55 (81)
Papua New Guinea	6.04 (112)	4.36 (115)	6.71 (140)	6.74 (86)	6.40 (90)
Paraguay	8.00 (19)	4.35 (117)	9.25 (42)	6.94 (79)	6.57 (80)
Peru	7.61 (34)	5.23 (72)	9.44 (24)	8.17 (37)	7.15 (42)
Philippines	7.91 (23)	4.49 (108)	9.51 (20)	6.53 (97)	6.62 (79)
Poland	5.76 (130)	6.38 (44)	8.09 (98)	8.30 (25)	7.09 (44)
Portugal	6.04 (113)	7.38 (25)	9.17 (48)	8.23 (34)	6.87 (55)
Qatar	5.94 (121)	5.39 (67)	8.32 (90)	6.99 (75)	6.27 (98)
Romania	6.95 (61)	6.78 (35)	9.30 (37)	8.43 (16)	7.03 (48)
Russian Federation	5.92 (123)	4.91 (84)	8.66 (83)	6.33 (105)	5.58 (134)
Rwanda	4.93 (151)	5.88 (54)	9.21 (45)	6.95 (78)	6.85 (56)
Saudi Arabia	4.81 (157)	6.70 (39)	8.86 (76)	6.64 (90)	6.21 (99)
Senegal	7.05 (58)	4.16 (121)	7.14 (123)	6.60 (92)	6.05 (107)
Serbia	5.87 (126)	5.44 (66)	8.02 (102)	8.10 (43)	6.83 (61)
Seychelles	6.38 (96)	6.14 (47)	8.56 (84)	7.74 (55)	6.78 (65)

Note: ratings are shown rounded to the nearest tenth of a point, but the rankings are based on the unrounded ratings.

Exhibit 1.3 (continued): Area Economic Freedom Ratings (Rankings) for 2021

	Area 1 Size of Government	Area 2 Legal System and Property Rights	Area 3 Sound Money	Area 4 Freedom to trade internationally	Area 5 Regulation
	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)	Rating (Rank)
Sierra Leone	7.10 (55)	4.48 (110)	7.21 (117)	6.00 (124)	4.76 (152)
Singapore	7.26 (49)	8.43 (11)	9.45 (22)	8.94 (2)	8.74 (2)
Slovak Republic	6.22 (102)	6.74 (37)	9.14 (50)	8.29 (28)	7.09 (45)
Slovenia	4.81 (156)	6.84 (34)	9.38 (32)	8.32 (21)	6.81 (63)
Somalia	8.84 (4)	1.88 (165)	7.29 (114)	6.12 (119)	4.20 (161)
South Africa	5.95 (119)	5.76 (59)	8.16 (95)	6.43 (103)	6.35 (91)
Spain	5.88 (125)	7.42 (23)	9.06 (63)	7.99 (52)	7.27 (40)
Sri Lanka	8.28 (13)	4.84 (87)	6.57 (147)	4.88 (156)	6.09 (105)
Sudan	7.37 (43)	2.06 (163)	1.25 (163)	5.20 (149)	4.02 (162)
Suriname	6.27 (100)	4.27 (119)	4.29 (160)	6.48 (101)	6.28 (96)
Sweden	4.73 (159)	8.34 (12)	9.54 (17)	8.59 (10)	7.83 (14)
Switzerland	7.51 (36)	8.96 (4)	9.85 (1)	8.09 (44)	7.97 (12)
Syrian Arab Republic	5.48 (135)	2.30 (159)	4.81 (159)	3.45 (162)	3.47 (163)
Taiwan	7.69 (29)	7.30 (27)	9.56 (13)	7.62 (58)	7.69 (23)
Tajikistan	5.86 (127)	4.01 (123)	9.06 (64)	6.76 (85)	6.21 (100)
Tanzania	5.98 (116)	5.07 (81)	8.38 (89)	5.39 (146)	6.53 (84)
Thailand	6.86 (68)	5.20 (74)	9.76 (4)	6.90 (80)	6.63 (77)
Timor-Leste	5.43 (137)	4.07 (122)	7.22 (116)	7.23 (70)	5.15 (145)
Togo	6.76 (73)	4.83 (88)	7.07 (127)	6.10 (121)	6.43 (87)
Trinidad and Tobago	6.83 (69)	5.05 (82)	9.01 (67)	6.25 (107)	6.00 (115)
Tunisia	5.17 (144)	4.82 (90)	7.99 (104)	6.34 (104)	5.77 (126)
Türkiye	6.65 (77)	4.83 (89)	7.54 (109)	6.87 (81)	5.71 (128)
Uganda	7.02 (59)	4.25 (120)	9.40 (29)	6.23 (108)	6.32 (94)
Ukraine	7.26 (48)	4.58 (104)	6.96 (131)	6.67 (89)	5.36 (141)
United Arab Emirates	5.28 (141)	7.03 (30)	8.99 (69)	8.01 (49)	7.47 (30)
United Kingdom	6.10 (110)	7.99 (15)	9.49 (21)	8.71 (5)	7.75 (19)
United States	7.13 (54)	7.86 (18)	9.38 (31)	8.07 (45)	8.29 (5)
Uruguay	6.39 (94)	5.87 (55)	8.86 (75)	7.50 (61)	6.66 (76)
Venezuela, RB	4.65 (160)	2.29 (161)	0.94 (165)	4.99 (154)	2.17 (165)
Vietnam	6.53 (83)	5.15 (77)	7.02 (128)	6.52 (98)	6.10 (103)
Yemen, Republic	8.35 (10)	2.36 (158)	2.48 (162)	4.65 (158)	3.08 (164)
Zambia	6.13 (109)	4.77 (93)	7.33 (113)	6.07 (122)	4.89 (148)
Zimbabwe	5.08 (146)	3.40 (141)	1.25 (163)	4.81 (157)	4.54 (157)

Note: ratings are shown rounded to the nearest tenth of a point, but the rankings are based on the unrounded ratings.

The EFW Panel Dataset

Over the years, the EFW index has become more comprehensive and the available data more complete. As a result, the number and composition of the components and subcomponents for many countries vary across time. This makes it difficult to directly compare index values from earlier periods with those of later periods. To assist researchers who are interested in a consistent time-series for a particular country and/or longitudinal data for a panel of countries, we have developed the EFW Panel Dataset.

The EFW Panel Dataset is a chain-linked version of the index. It uses the most recent year as the base year, and changes in a country's scores backward in time are based only on changes in components that were present in adjoining years.

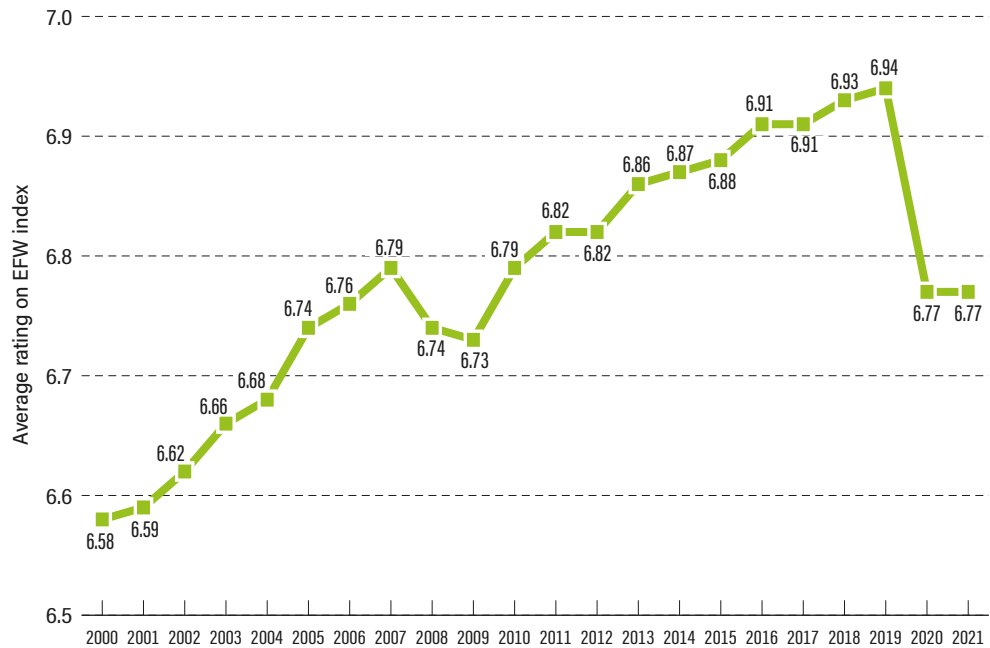
The table below demonstrates the procedure using some illustrative numbers. In the years from 2018 to 2021, Variables 1 and 2 are simply averaged to create a rating. The problem comes in the period from 2012 to 2017 when Variable 2 is not available. If we took only the usual raw average of Variable 1 (since there is no Variable 2), the average would artificially fall by 0.5 points. The chain-linked version, though, would base the rating only on the changes in Variable 1, and since there was no change to Variable 1 in 2017 compared with 2018, the chain-linked rating would not change from 2018 to 2017. This process is then continued to get chain-linked ratings backward in time.

Year	Variable 1	Variable 2	Raw Average	Chain-Linked
2021	6.0	8.0	7.0	7.0
2020	6.0	8.0	7.0	7.0
2019	5.0	7.0	6.0	6.0
2018	5.0	6.0	5.5	5.5
2017	5.0		5.0	5.5
2016	5.0		5.0	5.5
2015	4.0		4.0	4.4
2014	4.0		4.0	4.4
2013	3.0		3.0	3.3
2012	3.0		3.0	3.3

It should be noted that the EFW Panel Dataset contains area and summary ratings only for those years in which the country received a regular EFW index rating. Because some data for earlier years may have been updated or corrected, researchers are always encouraged to use the data from the most recent annual report to ensure the most reliable figures.

Exhibit 1.4 presents the global average for all nations with complete data since 2000 using the EFW Panel Dataset. Overall, the index shows increases in economic freedom since 2000, but the last few years have been rocky. Thanks no doubt to the coronavirus pandemic, the world average has fallen to 6.77 from 6.94 since 2019—a 0.17 point decline. This erases a decade's worth of improvement in the global average and is 2.5 times larger than the global decline witnessed in the 2008/09 financial crisis.

Exhibit 1.4: Average Economic Freedom Rating, 2000–2021



We take no position on the efficacy of the various public-health policies designed to deal with the coronavirus pandemic; they very well may have saved millions of lives, or they may have been completely ineffectual. That is a question for epidemiologists and health economists to work out. Our concern is economic freedom, and on that margin, there is no question that government policies responding to the coronavirus pandemic have reduced economic freedom.

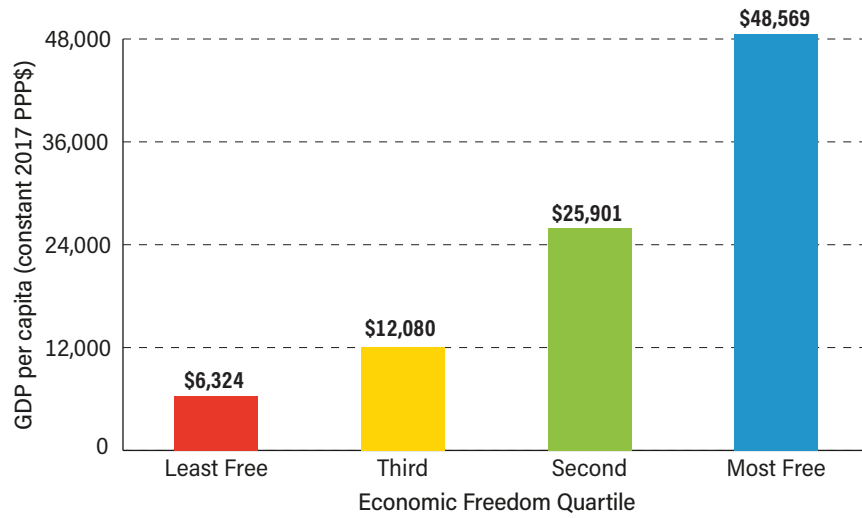
Economic freedom and human progress

As is customary, this chapter concludes with some simple graphs illustrating relationships between economic freedom and various other indicators of human progress (Exhibits 1.5–1.12). The graphs use the average of the EFW panel dataset for the period from 2000 to 2021, breaking the data into four quartiles ordered from least free to most free. Because persistence is important and the impact of economic freedom will be felt over a lengthy period of time, it is better to use the average rating over a fairly long time period rather than the current rating to observe the impact of economic freedom on performance.

The graphs begin with the data on the relationship between economic freedom and the level of GDP per capita and then go on to examine the correlation with other economic and social outcomes. Many of the relationships illustrated in the graphs below reflect the impact of economic freedom as it works through increasing per capita income. We are not necessarily arguing that there is a direct causal relation between economic freedom and the variables considered below. These graphics nonetheless provide some insights into the contrast between market-oriented economies and those dominated by government regulation and planning. At the very least, these graphs suggest fruitful areas for future research.

Exhibit 1.5: Economic Freedom and Income per Capita

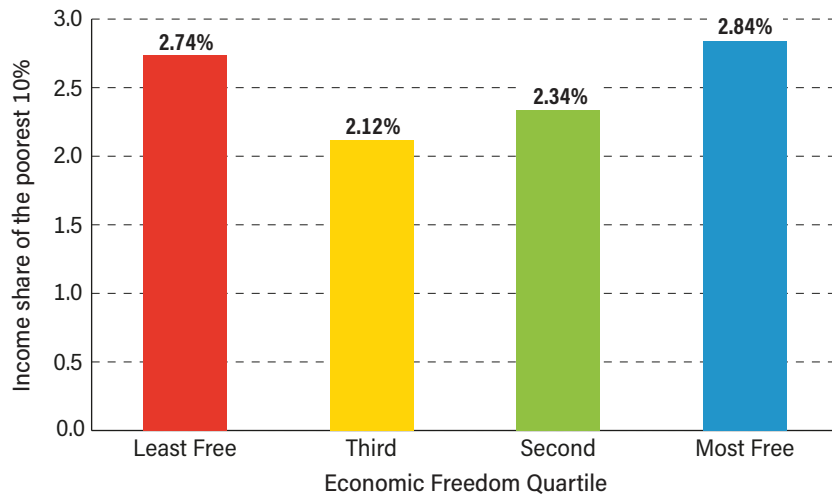
Countries with greater economic freedom have substantially higher per-capita incomes.



Sources: *Economic Freedom of the World: 2023 Annual Report*; World Bank, 2023, *World Development Indicators* [on-line database].

Exhibit 1.6: Economic Freedom and the Income Share of the Poorest 10%

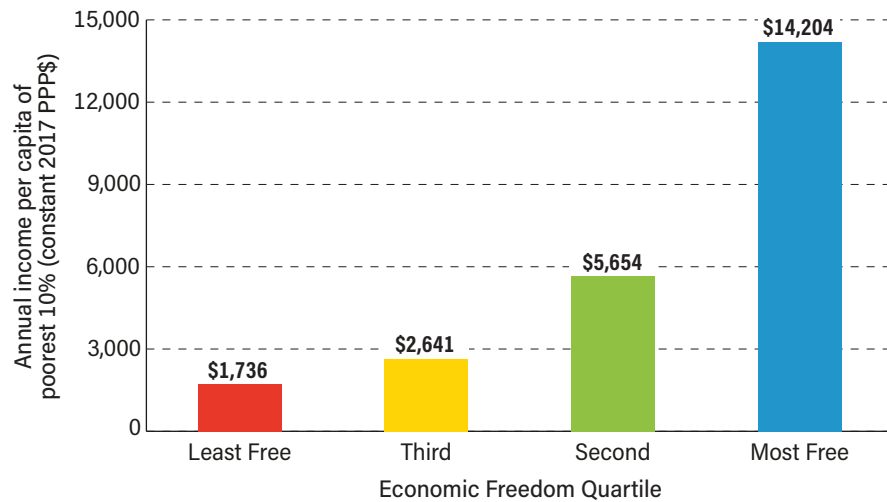
The share of income earned by the poorest 10% of the population is unrelated to economic freedom.



Sources: *Economic Freedom of the World: 2023 Annual Report*; World Bank, 2023, *World Development Indicators* [on-line database].

Exhibit 1.7: Economic Freedom and the Income Earned by the Poorest 10%

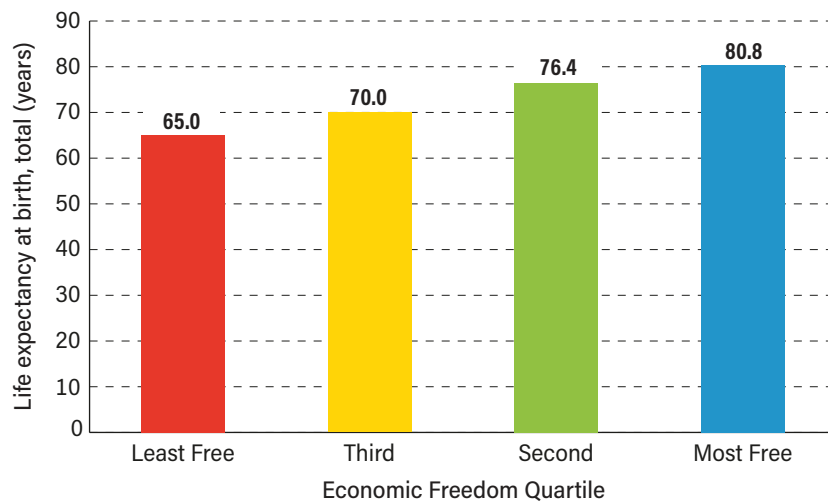
The amount of income, as opposed to the share, earned by the poorest 10% of the population is much higher in countries with higher economic freedom.



Sources: *Economic Freedom of the World: 2023 Annual Report*; World Bank, 2023, *World Development Indicators* [on-line database].

Exhibit 1.8: Economic Freedom and Life Expectancy

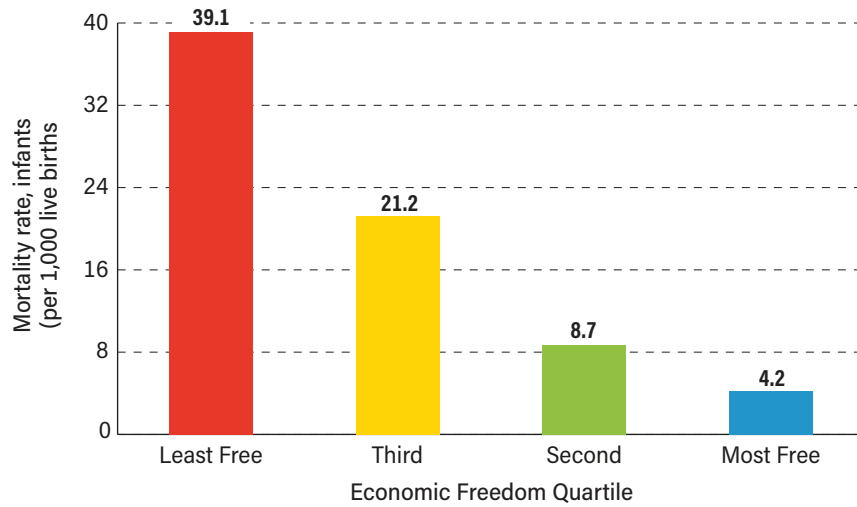
Life expectancy is almost 16 years longer in countries with the most economic freedom than it is in countries with the least.



Sources: *Economic Freedom of the World: 2023 Annual Report*; World Bank, 2023, *World Development Indicators* [on-line database].

Exhibit 1.9: Economic Freedom and Infant Mortality Rate

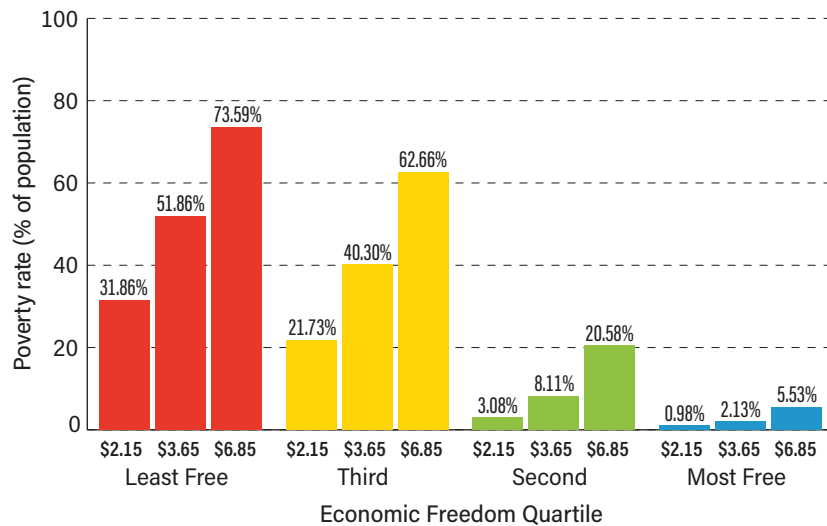
The infant mortality rate is almost ten times higher in nations in the lowest quartile of economic freedom than it is in nations in the highest quartile.



Sources: *Economic Freedom of the World: 2023 Annual Report*; World Bank, 2023, *World Development Indicators* [on-line database].

Exhibit 1.10: The Effect of Economic Freedom on Poverty Rates

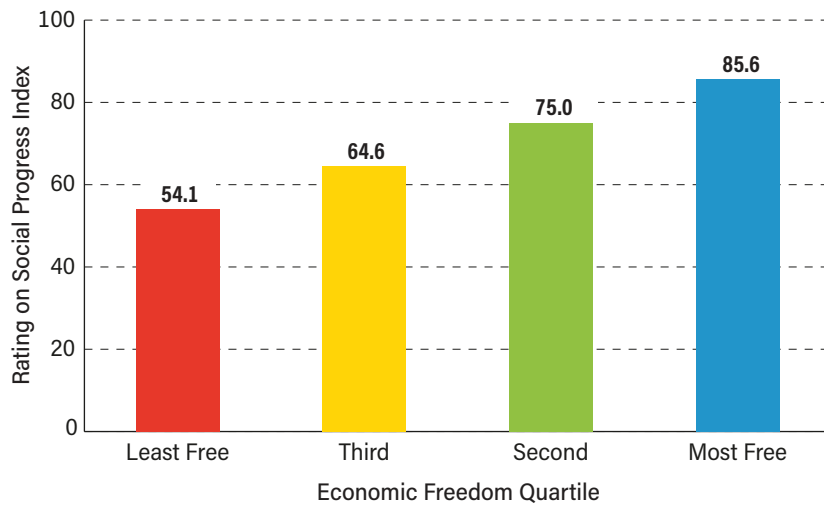
Poverty rates are lower in countries with more economic freedom.



Note: The columns show, for each quartile, the percentage of a country's population that lives on \$2.15 per day, \$3.65 per day, or \$6.85 per day, in 2017 constant PPP-adjusted dollars. Sources: *Economic Freedom of the World: 2023 Annual Report*; World Bank, 2023, *World Development Indicators* [on-line database].

Exhibit 1.11: Economic Freedom and Social Progress

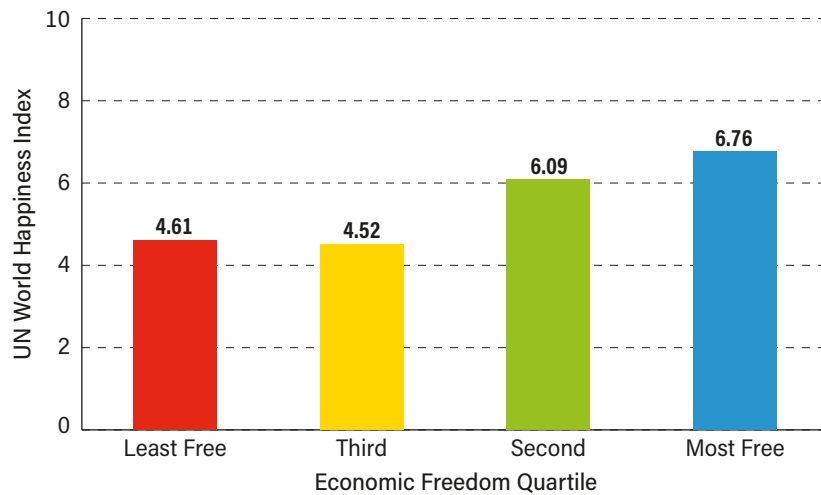
Economic freedom corresponds with higher social progress, as measured by the Social Progress Index.



Sources: *Economic Freedom of the World: 2023 Annual Report*; *Social Progress Imperative, 2022, 2022 Social Progress Index*.

Exhibit 1.12: Economic Freedom and the UN World Happiness Index

People report that they are happier in countries with greater economic freedom.



Sources: *Economic Freedom of the World: 2023 Annual Report*; United Nations, *World Happiness Report 2023*.

References

- Block, Walter E., ed. (1991). *Economic Freedom: Toward a Theory of Measurement*. Proceedings of an International Symposium (Volume 2). Fraser Institute. <<https://www.fraserinstitute.org/research/economic-freedom-toward-a-theory-of-measurement>>, as of July 6, 2022.
- Easton, Stephen T., and Michael A. Walker, eds. (1992). *Rating Global Economic Freedom*. Fraser Institute. <<https://www.fraserinstitute.org/research/rating-global-economic-freedom>>, as of July 6, 2022.
- Gwartney, James, Robert Lawson, and Walter Block (1996). *Economic Freedom of the World: 1975–1995*. Fraser Institute. <<https://www.fraserinstitute.org/research/economic-freedom-of-the-world-1975-1995>>, as of July 6, 2021.
- Walker, Michael A., ed. (1988). *Freedom, Democracy, and Economic Welfare*. Proceedings of an International Symposium (Volume 1). Fraser Institute. <<https://www.fraserinstitute.org/research/freedom-democracy-and-economic-welfare>>, as of July 6, 2022.