

Economic Freedom of the World

2016 Annual Report

by James Gwartney, Robert Lawson, and Joshua Hall

The index published in *Economic Freedom of the World* measures the degree to which the policies and institutions of countries support 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: [1] size of government: expenditures, taxes, and enterprises; [2] legal structure and security of property rights; [3] access to sound money; [4] freedom to trade internationally; and [5] regulation of credit, labor, and business.

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.

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. 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 time frame of three and a half decades.

Economic freedom around the world in 2014

Average chain-linked rating

The average chain-linked economic freedom rating for advanced countries with ratings since 1985 has increased from 6.9 to 7.7 in 2014. The average chain-linked economic freedom rating for developing countries with ratings since 1985 has increased from 5.0 to 6.7 in 2014.

Top-rated countries

Hong Kong and Singapore, once again, occupy the top two positions. Other nations in the top 10 are New Zealand, Switzerland, Canada, Georgia, Ireland, Mauritius, the United Arab Emirates, and Australia and the United Kingdom, tied for 10th.

Other major countries

The rankings of some other major countries: the United States (16th), Germany (30th), Japan (40th), South Korea (42nd), France (57th), Italy (69th), Mexico (88th), Russia (102nd), India (112th), China (113th) and Brazil (124th).

Lowest-rated countries

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

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 \$41,228 in 2014, compared to \$5,471 for bottom quartile nations (PPP constant 2011 US\$). ■ In the top quartile, the average income of the poorest 10% was

\$11,283, compared to \$1,080 in the bottom quartile in 2014 (PPP constant 2011 US\$). Interestingly, the average income of the poorest 10% in the most economically free nations is twice the average per-capita income in the least free nations. ■ Life expectancy is 80.4 years in the top quartile compared to 64.0 years in the bottom quartile. ■ Political and civil liberties are considerably higher in economically free nations than in unfree nations.

Chapter 1: Economic Freedom of the World in 2014

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

The chapter provides detailed historical information for each of the 159 countries and territories in the index.

Chapter 3: Gender Disparity in Legal Rights and Its Effect on Economic Freedom

by Rosemarie Fike

The EFW index uses many objective measures that 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. In addition, social norms can place very real barriers in front of women wishing to own property, operate a business, and engage in voluntary exchange. This chapter considers several alternative methods of adjusting the EFW index to account for gender bias present in the data used in its construction.

National Case Studies

Three case studies examine the profound effect of major shifts in economic freedom in three countries: Venezuela, Ireland and the United States. In each, the authors of the chapter explain the causes and results of the changes in economic freedom.

Chapter 4: The Critical Role of Economic Freedom in Venezuela's Predicament

by Hugo J. Faria and Hugo M. Montesinos-Yufa

Venezuela has been trapped in a lengthy decline in economic freedom that started long before Hugo Chavez assumed the presidency in 1999. But Chavez, his United Socialist Party of Venezuela, and successor, Nicolás Maduro, have presided

over a continued, stunning slide in economic freedom that landed Venezuela in dead last place among approximately 150 countries from 2010 to 2014. The economic consequences have been disastrous and, if anything, are getting worse.

Chapter 5: Economic Freedom and Growth in Ireland, 1980 to 2014

by Robbie Butler and John Considine

Ireland has had a moderately high level of economic freedom back to the initial year of the EFW data in 1970. In the 1970s and 1980s, its score was typically around 6.5 out of 10 and its rank around 20th. Ireland entered the top 10 in 1995 and has remained there except for a couple of years following the financial crisis of 2008. Since 2010, Ireland has regained its momentum in both economic freedom and economic growth, as the authors show. It re-entered the top 10 in economic freedom in 2012.

Chapter 6: Economic Freedom in the United States, 1980 to the Present

by Dean Stansel and Meg Tuszynski

While the reduction in economic freedom of the United States has been moderate relative to that of Venezuela, nonetheless the decline has been substantial. The United States' high-water mark in economic freedom came in 2000 with a score of 8.65 and a rank of second place. The decline has been steady since and, in 2010, the United States fell out of the top 10. The recent economic performance of the United States has been sub-par and its recovery from the Great Recession has been the slowest since World War II.



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