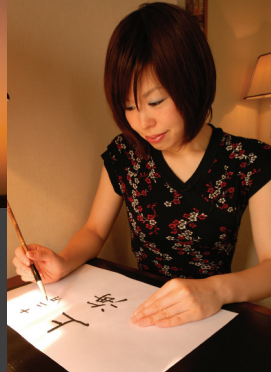


15th
Anniversary

Highlights of the

2009 INDEX of ECONOMIC FREEDOM

The Link Between Economic Opportunity and Prosperity




The Heritage Foundation
LEADERSHIP FOR AMERICA





THE WALL STREET JOURNAL.

Terry Miller
Kim R. Holmes

RANKING THE WORLD BY ECONOMIC FREEDOM

Rank	Country	Overall Score	Rank	Country	Overall Score	Rank	Country	Overall Score
1	Hong Kong	90.0	66	Belize	63.0	132	China	53.2
2	Singapore	87.1	67	Thailand	63.0	133	Nepal	53.2
3	Australia	82.6	68	Slovenia	62.9	134	Bosnia and Herzegovina	53.1
4	Ireland	82.2	69	Mongolia	62.8	135	Ethiopia	53.0
5	New Zealand	82.0	70	Dominica	62.6	136	Cameroon	53.0
6	United States	80.7	71	Namibia	62.4	137	Ecuador	52.5
7	Canada	80.5	72	Colombia	62.3	138	Argentina	52.3
8	Denmark	79.6	73	Madagascar	62.2	139	Micronesia	51.7
9	Switzerland	79.4	74	Kyrgyz Republic	61.8	140	Djibouti	51.3
10	United Kingdom	79.0	75	Turkey	61.6	141	Syria	51.3
11	Chile	78.3	76	Italy	61.4	142	Equatorial Guinea	51.3
12	Netherlands	77.0	77	Cape Verde	61.3	143	Maldives	51.3
13	Estonia	76.4	78	Macedonia	61.2	144	Guinea	51.0
14	Iceland	75.9	79	Paraguay	61.0	145	Vietnam	51.0
15	Luxembourg	75.2	80	Fiji	61.0	146	Russia	50.8
16	Bahrain	74.8	81	Greece	60.8	147	Haiti	50.5
17	Finland	74.5	82	Poland	60.3	148	Uzbekistan	50.5
18	Mauritius	74.3	83	Kazakhstan	60.1	149	Timor-Leste	50.5
19	Japan	72.8	84	Nicaragua	59.8	150	Laos	50.4
20	Belgium	72.1	85	Burkina Faso	59.5	151	Lesotho	49.7
21	Macau	72.0	86	Samoa	59.5	152	Ukraine	48.8
22	Barbados	71.5	87	Guatemala	59.4	153	Burundi	48.8
23	Austria	71.2	88	Dominican Republic	59.2	154	Togo	48.7
24	Cyprus	70.8	89	Swaziland	59.1	155	Guyana	48.4
25	Germany	70.5	90	Kenya	58.7	156	Central African Republic	48.3
26	Sweden	70.5	91	Honduras	58.7	157	Liberia	48.1
27	The Bahamas	70.3	92	Vanuatu	58.4	158	Sierra Leone	47.8
28	Norway	70.2	93	Tanzania	58.3	159	Seychelles	47.8
29	Spain	70.1	94	Montenegro	58.2	160	Bangladesh	47.5
30	Lithuania	70.0	95	Lebanon	58.1	161	Chad	47.5
31	Armenia	69.9	96	Ghana	58.1	162	Angola	47.0
32	Georgia	69.8	97	Egypt	58.0	163	Solomon Islands	46.0
33	El Salvador	69.8	98	Tunisia	58.0	164	Kiribati	45.7
34	Botswana	69.7	99	Azerbaijan	58.0	165	Guinea-Bissau	45.4
35	Taiwan	69.5	100	Bhutan	57.7	166	Republic of Congo	45.4
36	Slovak Republic	69.4	101	Morocco	57.7	167	Belarus	45.0
37	Czech Republic	69.4	102	Pakistan	57.0	168	Iran	44.6
38	Uruguay	69.1	103	Yemen	56.9	169	Turkmenistan	44.2
39	Saint Lucia	68.8	104	The Philippines	56.8	170	São Tomé and Príncipe	43.8
40	South Korea	68.1	105	Brazil	56.7	171	Libya	43.5
41	Trinidad and Tobago	68.0	106	Cambodia	56.6	172	Comoros	43.3
42	Israel	67.6	107	Algeria	56.6	173	Democratic Republic of Congo	42.8
43	Oman	67.0	108	Zambia	56.6	174	Venezuela	39.9
44	Hungary	66.8	109	Serbia	56.6	175	Eritrea	38.5
45	Latvia	66.6	110	Senegal	56.3	176	Burma	37.7
46	Costa Rica	66.4	111	Sri Lanka	56.0	177	Cuba	27.9
47	Malta	66.1	112	The Gambia	55.8	178	Zimbabwe	22.7
48	Qatar	65.8	113	Mozambique	55.7	179	North Korea	2.0
49	Mexico	65.8	114	Mali	55.6	n/a	Afghanistan	n/a
50	Kuwait	65.6	115	Benin	55.4	n/a	Iraq	n/a
51	Jordan	65.4	116	Croatia	55.1	n/a	Liechtenstein	n/a
52	Jamaica	65.2	117	Nigeria	55.1	n/a	Sudan	n/a
53	Portugal	64.9	118	Gabon	55.0			
54	United Arab Emirates	64.7	119	Côte d'Ivoire	55.0			
55	Panama	64.7	120	Moldova	54.9			
56	Bulgaria	64.6	121	Papua New Guinea	54.8			
57	Peru	64.6	122	Tajikistan	54.6			
58	Malaysia	64.6	123	India	54.4			
59	Saudi Arabia	64.3	124	Rwanda	54.2			
60	Saint Vincent and the Grenadines	64.3	125	Suriname	54.1			
61	South Africa	63.8	126	Tonga	54.1			
62	Albania	63.7	127	Mauritania	53.9			
63	Uganda	63.5	128	Niger	53.8			
64	France	63.3	129	Malawi	53.7			
65	Romania	63.2	130	Bolivia	53.6			
			131	Indonesia	53.4			

ECONOMIC FREEDOM SCORES

	80-100 FREE
	70-79.9 MOSTLY FREE
	60-69.9 MODERATELY FREE
	50-59.9 MOSTLY UNFREE
	0-49.9 REPRESSED

The Path to Prosperity

In a period of slowing economic growth in many parts of the world, popular pressure for governments to act to fix the situation can be enormous. In responding to such pressure, it is vital that leaders understand the real causes of negative economic developments and undertake actions that will fix them rather than exacerbate them. If intrusive government regulation has contributed to an economic problem, it is unlikely that still more government regulation will cure it. If excessive taxes have stifled investment and entrepreneurship, increasing tax rates is unlikely to spur economic growth. If the monetary supply has been too loose or credit too easily available, lowering interest rates is unlikely to be the magic fix the public demands.

The *Index of Economic Freedom* offers a time-tested formula for sustained economic growth. Grounded in the classical liberal economic theories of Adam Smith and Friedrich Hayek,

the *Index* promotes economic policies that:

- Put the individual first and allow people to decide for themselves what is best for their own well-being and that of their families;
- Recognize that the free market is the only reliable predictor of the real prices of goods, labor, and capital;
- Use government to shape a fair and secure environment, protect private property and the value of money, enforce contracts, and promote competition, but not to produce or sell goods and services; and
- Emphasize openness to international trade and investment as the surest paths to increased productivity and economic growth.

A government that limits its involvement in economic activity consistent with these principles maximizes opportunities for individuals to reach their full economic potential and pro-

motes the greatest levels of prosperity and human well-being for society as a whole.

In 2009, the *Index of Economic Freedom* is celebrating its 15th anniversary. The idea of producing a user-friendly “index of economic freedom” was first discussed at The Heritage

Foundation in the late 1980s. The goal was to develop a systematic, objective, and empirical measurement of economic freedom in economies around the world.

The methodology for measuring economic freedom has been gradually enhanced as the availability of data has grown. The *2009 Index of Economic Freedom* covers 183 countries¹ and measures 10 separate components of economic freedom. (See text box, “The 10 Components of Economic Freedom.”)

Taken together, these 10 components of economic freedom provide a portrait of a country’s economic policies and establish benchmarks by which to gauge strengths and weaknesses. A systematic analysis of the 10 freedoms over the 15-year history of the *Index* demonstrates that economic freedom is the key to creating an environment in which entrepreneurship and innovation flourish, with rapid economic growth and sustainable development as the happy results.

Highlights from the 2009 *Index*

- **Despite the progress made over the past 15 years, the struggle between the state and the free market continues.** Many govern-

The 10 Components of Economic Freedom

1. **Business Freedom**
Ease of conducting business
2. **Trade Freedom**
Tariffs and non-tariff barriers
3. **Fiscal Freedom**
Tax rates and revenue
4. **Government Size**
State spending
5. **Monetary Freedom**
Inflation and price controls
6. **Investment Freedom**
Free flow of capital
7. **Financial Freedom**
Access to credit
8. **Property Rights**
Physical and intellectual
9. **Freedom from Corruption**
Bribery and graft
10. **Labor Freedom**
Flexibility of labor market

Each freedom is measured between 0 and 100. The scores are averaged to give an overall economic freedom score.

1. The 2009 *Index* has expanded its coverage to include for the first time Afghanistan, Bhutan, Comoros, Dominica, Eritrea, Kiribati, Liberia, Liechtenstein, Macau, Maldives, Micronesia, Papua New Guinea, Saint Lucia, Saint Vincent and the Grenadines, Samoa, São Tomé and Príncipe, Seychelles, Solomon Islands, Timor-Leste, Tonga, and Vanuatu.

ments are maintaining a strong commitment to economic freedom, but others are regressing. Regrettably, populist attacks on the free market, fueled by the economic slowdown and the political temptation of quick interventionist remedies, have gained momentum. Even so, however, for countries included in last year's *Index*, economic freedom advanced, from an average score of 60.2 to an average score of 60.3. The overall average score this year for all ranked countries, including the 21 appearing for the first time in the *Index*, is 59.5.²

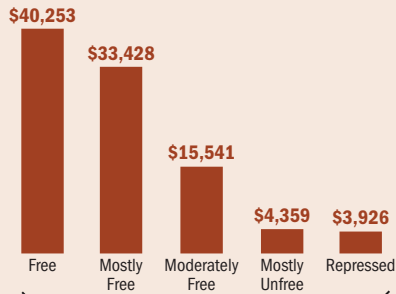
- Four Asia–Pacific economies lead the world in economic freedom.** Hong Kong maintains its status as the world's freest economy, a position it has held for 15 consecutive years. It was the only economy to score at least 90 on the 100-point economic freedom scale. Singapore remains close, ranked as the world's second freest economy. Australia has climbed to third place in the 2009 *Index*, with New Zealand only 0.4 point back in fifth place.
- Every region continues to maintain at least one of the top 20 freest economies.** Ten of the 20 freest economies are European, led by Ireland, Denmark, Switzerland, and

the United Kingdom. Five are in the Asia–Pacific region, and two (the United States and Canada) are from North America. The other regions are represented by one country each: Chile (South and Central America/Caribbean region); Mauritius (Sub-Saharan Africa region); and Bahrain (Middle East/North Africa region).

- Economic freedom is strongly related to good economic performance.** Per capita incomes are much higher in countries that are economically free. Economies rated “free” or “mostly free” in the 2009 *Index* enjoy incomes that are more than double the average levels in all other countries and more than eight times higher than the incomes of “repressed” economies.

Economic Freedom and Standard of Living

GDP Per Capita, Measured by Purchasing Power Parity (PPP)



2009 Index of Economic Freedom Score

Source: 2009 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at <http://www.heritage.org/index>; International Monetary Fund, World Economic Outlook database, April 2007, at <http://www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx>.

Chart 1 heritage.org

2. For countries graded in both the 2008 and 2009 editions of the *Index of Economic Freedom*, average scores increased from 60.2 to 60.3. However, the average economic freedom score for all countries in the 2009 *Index* is only 59.5 because of the addition to the *Index* rankings of 21 previously unrated economies, most of which score below the world average.

- Overall human development, political openness, and environmental sustainability thrive in an environment that is economically free.** Economic freedom is about more than a business environment in which entrepreneurship and prosperity can flourish. With its far-reaching impacts on various aspects of human development, economic freedom empowers people, unleashes powerful forces of choice and opportunity, gives nourishment to other liberties, and improves the overall quality of life. (See below, “Economic Freedom Matters.”)
- A sustained commitment to economic freedom is critical to fostering economic development and prosperity.** The *Index* findings reveal that sustained commitment to policies that promote economic freedom is critical to achieving development and lasting prosperity. Countries that are too quick to abandon their efforts at policy reform often find their economic freedom fading away, along with their prosperity. We have seen ebbs and flows of economic freedom in specific countries or regions. The erosion of economic freedom in South America, for example, reflects reversals of free-market policies in some countries and a lack of perseverance in pursuing economic freedom in others. Venezuela, in particular, is tempting long-run decline as President Hugo Chávez takes the country further down an

anti-democratic and anti-free market path.

As shown in Chart 2, of the 179 economies that are numerically graded in the 2009 *Index*,³ only seven have very high freedom scores of 80 or more, putting them in the “free” category (the highest). The next 23 countries have scores between 70 and 80, placing them in the “mostly free” category.



Thus, a total of only 30 countries, or about one-sixth of all countries graded, have economic systems in which individuals enjoy substantial levels of freedom. The largest portion of the countries graded—119 economies—have freedom scores

3. Numerical grading was not possible for Afghanistan, Iraq, Liechtenstein, and Sudan due to the limited availability of relevant data.

between 50 and 70. Of those, 53 economies are “moderately free” (scores of 60–70), and 67 economies are “mostly unfree” (scores of 50–60). This year, 29 countries have “repressed economies” with scores below 50.

Economic Freedom Matters

There are clear relationships between economic freedom and numerous other positive economic and social indicators, the most prominent being the strong relationship between the level of economic freedom and the level of prosperity in a given country. (See Chart 3.)

Previous editions of the *Index* have confirmed the tangible benefits of

living in freer societies. Not only are higher levels of economic freedom associated with higher per capita incomes and higher GDP growth rates, but those higher growth rates seem to create a virtuous cycle, triggering further improvements in economic freedom.

Greater economic freedom can also provide more fertile ground for effective and democratic governance. It empowers people to exercise greater control of their daily lives. By increasing options, economic freedom ultimately nurtures political reform as well. Economic freedom makes it possible for individuals to gain the economic resources necessary to challenge entrenched interests or compete for political power, thereby encouraging the creation of more pluralistic societies.

Debate has occasionally arisen over the direction of causality between economic freedom and democracy because of the complex interplay between them. However, the positive relationship is undeniable. Chart 4 shows the relationship between economic freedom and democratic governance as measured by the Economist Intelligence Unit’s Democracy Index.⁴ They are clearly interrelated and together form a coherent philosophy of governance.

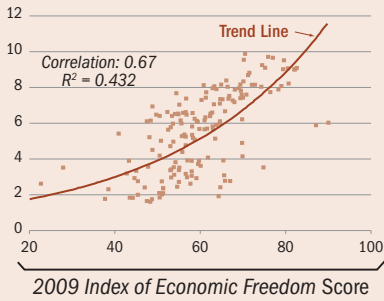


4. For more information on the EIU Democracy Index, see Laza Kekic, “The Economist Intelligence Unit’s Index of Democracy,” *The World in 2007: Democracy Index*, at http://www.economist.com/media/pdf/Democracy_Index_2007_v3.pdf.

Economic Freedom and Democratic Governance

Each dot represents a country in the *Index of Economic Freedom*.

Economist Intelligence Unit's Index of Democracy



Source: 2009 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at <http://www.heritage.org/index>; The Economist Intelligence Unit's Index of Democracy, Country Forecasting Services, Economist Intelligence Unit, at http://www.economist.com/media/pdf/Democracy_Index_2007_v3.pdf.

Chart 4 heritage.org

Higher economic freedom is also strongly correlated with overall human development as measured by the United Nations Human Development Index,⁵ which measures life expectancy, literacy, education, and the standard of living in countries worldwide. (See Chart 5.)

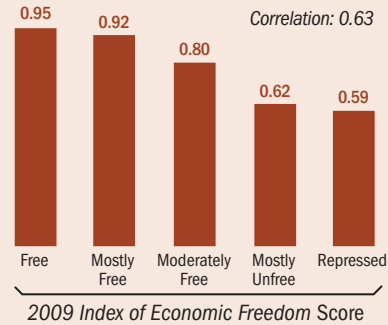
The prosperity that flows from economic freedom results in greater access to education, reduced illiteracy, increased access to higher quality health care and food supplies, and longer life expectancy.

In addition, economically free countries do a better job of protecting

5. For more information on the United Nations Human Development Index, see United Nations Development Programme, *Human Development Reports*, at <http://hdr.undp.org/en/statistics>.

Economic Freedom and Human Development

U.N. Human Development Index



Source: 2009 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at <http://www.heritage.org/index>; *Human Development Reports 2007/2008*, United Nations Human Development Programme, at <http://hdr.undp.org/en/statistics>.

Chart 5 heritage.org

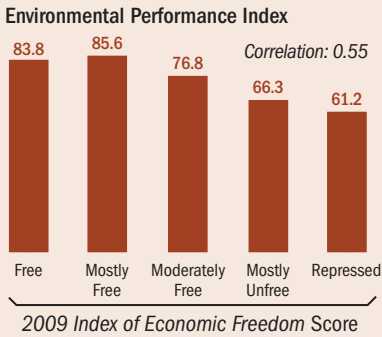
the environment. In January 2008, the World Economic Forum, the Center for International Earth Science Information Network (CIESIN), and the Yale Center for Environmental Law and Policy published an Environmental Performance Index (EPI).⁶ The EPI shows a country's performance in coping with environmental challenges, providing "a composite index of current national environmental protection efforts."⁷

Chart 6 illustrates the relationship between economic freedom scores and the EPI. The chart shows a strong relationship between economic freedom


6. See Daniel C. Esty, M. A. Levy, C. H. Kim, A. de Sherbinin, T. Srebotnjak, and V. Mara, 2008 *Environmental Performance Index* (New Haven: Yale Center for Environmental Law and Policy, 2008), at <http://epi.yale.edu/Framework>.

7. *Ibid.*

Economic Freedom and the Environment



Source: 2009 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at <http://www.heritage.org/index>; Daniel C. Esty, M. A. Levy, C. H. Kim, A. de Sherbinin, T. Srebotnjak, and V. Mara, 2008 *Environmental Performance Index* (New Haven: Yale Center for Environmental Law and Policy, 2008), at <http://epi.yale.edu/Framework>.

Chart 6  heritage.org

and environmental performance: The freer the economy, the better the level of environmental protection or sustainability.

The lesson is clear: Economic freedom is good not only for growth and individual economic advancement,

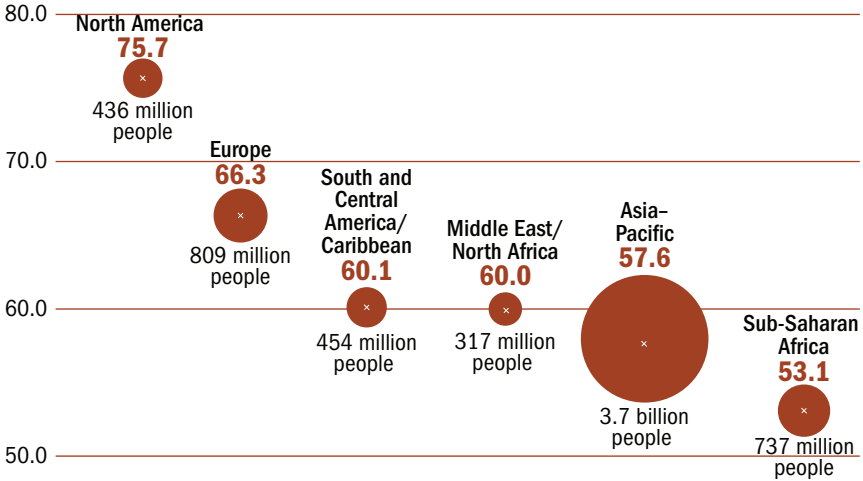
but also for the progressive values and public goods that people seek for society as a whole.

In economically free societies, children go to school rather than to work, trees are valued for their shade rather than as fuel, workers worry about job safety rather than unemployment, and hospitals are places of hope rather than despair.

Economic freedom is the revolutionary economic counterpart to democratic pluralism. It empowers the poor and builds the middle class. It is a philosophy that encourages entrepreneurship and disperses economic power and decision-making throughout an economy. Governments that embrace the desires of their citizens for growing and sustainable prosperity will find the surest path to be that which is also the widest and most open, offering each individual the chance to walk freely in their own way toward a better future.

Economic Freedom and Performance by Region

Economic Freedom Score



Source: 2009 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at www.heritage.org/index; World Bank, World Development Indicators Online, at www.worldbank.org/data; Central Intelligence Agency, the World Factbook 2008, at <https://www.cia.gov/library/publications/the-world-factbook/index.html>.

	Average Economic Freedom 2009 Score			Population Weighted Average			
	Simple Average	Population Weighted Average	Population	GDP per Capita (PPP)	GDP 5-Year Growth Rate	Inflation	Unemployment Rate
North America	75.7	77.1	436,200,000	\$35,831	2.7	3.1	4.5
Europe	66.3	63.0	809,200,000	\$21,639	4.2	5.1	7.3
South and Central America/Caribbean	60.1	56.9	453,700,000	\$8,169	3.8	5.8	9.7
Middle East/North Africa	60.0	55.2	316,500,000	\$8,933	4.9	9.3	12.9
Asia-Pacific	57.6	54.6	3,674,700,000	\$5,206	7.8	5.9	5.8
Sub-Saharan Africa	53.1	54.2	736,700,000	\$1,784	6.2	8.2*	15.0
World	59.5	57.3	6,427,000,000	\$9,354	6.4	6.1*	7.6

*Excluding Zimbabwe, whose hyperinflation (estimated at over 10,000 percent) would distort the regional and the world average.

Source: 2009 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2009), at www.heritage.org/index; International Monetary Fund, World Economic Outlook database, April 2007, at www.imf.org/external/pubs/ft/weo/2008/01/weodata/index.aspx; World Bank, World Development Indicators Online, at www.worldbank.org/data; Central Intelligence Agency, the World Factbook 2008, at <https://www.cia.gov/library/publications/the-world-factbook/index.html>.

Economic Freedom at Risk

Edwin J. Feulner, Ph.D.

President

The Heritage Foundation

2008 was an extraordinary year for the global economy, with slowing growth and financial turmoil in many countries, including the United States. Our free-market system was questioned by some as a root cause of the economic woes. An article in *The Washington Post* even declared, “The worst financial crisis since the Great Depression is claiming another casualty: American-style capitalism.” Indeed, populist attacks on the free market, fueled by election-year politics in the United States as well as by actual setbacks to the economy, have gained momentum.

Some of the policy measures undertaken or planned by the governments of the United States and other countries in response to the 2008 financial crisis threaten economic freedom and long-term economic growth and prosperity. Given the rush toward government interventionist measures in late 2008 to shore up—or even buy up—financial institutions or invest-

ment equities, there is a real possibility that the economic freedom scores in this edition of the *Index of Economic Freedom*, which ranks countries based on data and conditions current as of June 30, 2008, might represent the historical high point for economic freedom in the world. Certainly if the U.S. continues on its present course, all things being equal, its economic freedom score will decline significantly next year.

To many of us who have long tracked economic freedom around the world, 2008 was a vivid reminder of the continuing struggle between the state and the free market. In times of uncertainty, it is natural that people will look to their governments for answers. Yet the long-term solutions to our current economic problems do not lie in more government controls and regulations. They lie in a return to free-market principles.

The 2009 *Index of Economic Freedom*, our 15th anniversary edition,

offers a good starting point from which to step back from the temptation of short-sighted quick fixes and reflect on the fundamental principles that are responsible for the progress we have achieved.

The *Index* started a few years after the fall of the Berlin Wall and in the years since then has recorded the worldwide advance of the principles of free exchange, openness, and competition. Over the past 15 years, it has evolved into a powerful tool with which to compare and contrast different approaches to economic growth and well-being.

The *Index* has witnessed profound advances in economic freedom and prosperity around the globe. Worldwide economic freedom has increased over 8 percent during the 15 years that we have been measuring it. The world economy has grown in that time from about \$30 trillion to well over \$50 trillion, bringing better standards of life to billions of people.

Political authorities find themselves increasingly accountable to the people they govern, and they need tested policies that deliver positive results. Countries that have opened themselves to the productivity-boosting competition of the global marketplace have experienced startling bursts of innovation and economic growth. They have achieved levels of prosperity that are far higher than those found in countries where economic freedoms are constrained. Leaders who have not

joined the march of freedom have left their citizens lagging behind and even, in the worst cases, in poverty or destitution. Such failures are inexcusable.

The 2009 *Index* has expanded to include 183 economies from every corner of the globe. In this 15th edition, most of the 20 freest countries from last year are still ranked among the freest, while others in the middle of the pack have experienced some shuffling as a result of varying efforts at reform.

While four Asia–Pacific economies lead the world in economic freedom, every region continues to maintain at least one of the 20 freest economies. Economic freedom can improve the quality of life in any cultural or geographic setting and under any form of government. By allowing the best new ideas of entrepreneurs and innovators to compete freely with established and traditional practices, economic freedom encourages a constant process of change and improvement. It fosters diversity, ensures fairness, and in the long run promotes equality more surely and sustainably than any government-directed program to redistribute wealth.

Our confidence in economic freedom is being tested, and now is not the time to waver. The world has experienced ebbs and flows of economic freedom in countries or regions, and the results are plain for all to see. Advances in economic freedom lead to advances in sustainable prosperity.

Economic freedom is a philosophy that encourages entrepreneurship, disperses economic power and decision-making throughout an economy, and—most important—empowers ordinary people with greater opportunity and more choices. Experience teaches that even the best efforts of central planners and bureaucrats are unlikely to lead to sustainable growth. Countries that have tried that approach have failed.

The surer path to prosperity is the path of freedom, letting individuals decide for themselves the way forward that is best to achieve their dreams and aspirations and those of their families. It is that path whose course we map in the *Index of Economic Freedom*.

Drawn from the Preface of the 2009 edition of the *Index of Economic Freedom*.

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The complete text of the *Index*, which includes individual country pages, component scores, regional analysis, and essays highlighting particular issues related to economic freedom, is available online at heritage.org/index, or may be purchased in hard copy from The Heritage Foundation Bookstore, 214 Massachusetts Avenue, NE, Washington, DC 20002-4999, 1-800-544-4843.



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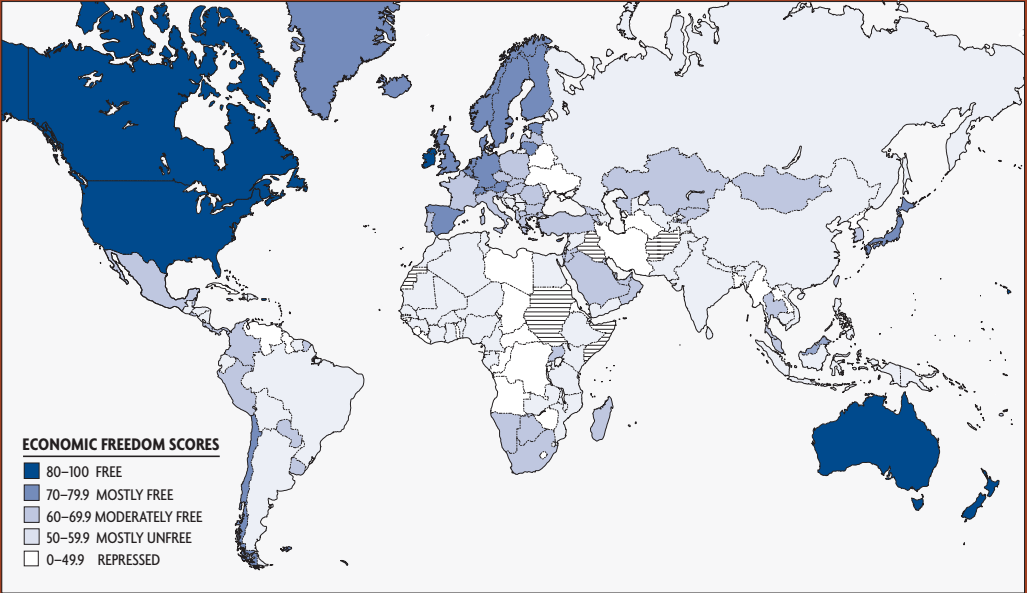
Our vision is to build an America where freedom, opportunity, prosperity, and civil society flourish. As conservatives, we believe the values and ideas that motivated our Founding Fathers are worth conserving. As policy entrepreneurs, we believe the most effective solutions are consistent with those ideas and values.

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The 2009 *Index of Economic Freedom* offers strong evidence to the contrary.

Economic freedom continues to provide the surest path to prosperity.

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