

Economic Freedom of the World

2020 Annual Report

by James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy

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 ex-change, 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, along with a Gender Legal Rights Adjustment to measure the extent to which women have the same level of economic freedom as men. This is the same structure as last year, though changes have been made to nine of the components. The degree of economic freedom is measured 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 impose onerous regulations that limit the right to exchange, gain credit, hire or work for whom you wish, or freely operate your business.

Gender Legal Rights Adjustment

The index published in *Economic Freedom of the World* now 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. The Gender Disparity Index and its use in making the adjustment is described in Chapter 3: Adjusting for Gender Disparity in *Economic Freedom and Why It Matters*, pp. 189–211 in the report of 2017.

Jurisdictions

The total number of jurisdictions in the index remains at 162. The data are available annually from 2000 to 2018 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 a time frame of several decades. Estimates are also provided at five-year intervals back to 1950 on the economic freedom website.

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.

Economic freedom around the world in 2018

Top-rated countries

The most recent comprehensive data available are from 2018. Hong Kong remains in the top position. The apparent increased insecurity of property rights and the weakening of the rule of law caused by the interventions of the Chinese government during 2019 and 2020 will likely have a negative impact on Hong Kong's score, especially in Area 2, Legal System and Property Rights, going forward. Singapore, once again, comes in second. The next highest scoring nations are New Zealand, Switzerland, United States, Australia, Mauritius, Georgia, Canada, and Ireland.

Rankings of other major countries

The rankings of some other major countries are Japan (20th), Germany (21st), Italy (51st), France (58th), Mexico (68th), Russia (89th), India (105th), Brazil (105th), and China (124th).

Lowest-rated countries

The ten lowest-rated countries are: the Central African Republic, Democratic Republic of Congo, Zimbabwe, Republic of Congo, Algeria, Iran, Angola, Libya, Sudan, 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 \$44,198 in 2018, compared to \$5,754 for nations in the bottom quartile (PPP constant 2017, international\$) (exhibit 1.5). ■ In the top quartile, the average income of the poorest 10% was \$12,293, compared to \$1,558 in

the bottom quartile (PPP constant 2017, international\$) (exhibit 1.9). Interestingly, the average income of the poorest 10% in the most economically free nations is more than twice the average per-capita income in the least free nations. ■ In the top quartile, 1.7% of the population experience extreme poverty (US\$1.90 a day) compared to 31.5% in the lowest quartile (exhibit 1.10). ■ Life expectancy is 80.3 years in the top quartile compared to 65.6 years in the bottom quartile (exhibit 1.6).

Economic freedom continues to grow

Exhibit 1.4 shows the global average for all 123 nations with complete data since 2000. Between 2000 and 2018, the average economic freedom rating increased to 6.98 from 6.63, about one-third of a standard deviation over this period.

Chapter 1: Economic Freedom of the World in 2018

The authors of the report, James Gwartney, Robert Lawson, Joshua Hall, and Ryan Murphy provide an overview of the report and discuss why economic freedom is important.

Chapter 2: Country Data Tables

A table showing detailed historical information is provided for each of the 161 countries and one territory in the index.

Chapter 3: Economic Freedom as a Driver of Trust and Tolerance

By Niclas Berggren and Therese Nilsson

Chapter 3 examines how the market economy affects cultural traits, in particular trust, tolerance, and antisemitism. The results indicate economic freedom generates social trust and tolerance. The relationship to antisemitism is complex. Gains in one area of economic freedom, the legal system, reduce it while gains in another, trade openness, increase it.



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