

Chapter 2

Advancing Freedom: The Path to Greater Development and Progress

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The 20th edition of the *Index of Economic Freedom* shows economic freedom once again on the rise, reaching the highest point in the *Index's* 20-year history. Behind this record are stories of human progress and the achievements of countries and their citizens—literally billions of people around the world whose lives have measurably improved. There are also stories of backsliding, regression, and even failure.

As previous editions of the *Index* have documented, the link between economic freedom and long-term development is clear and strong. Countries that allow their citizens more economic freedom reach higher incomes and better standards of life. People in economically free societies live longer. They have better health. They are able to be better stewards of the environment, and they push forward the frontiers of human achievement in science and technology through greater innovation.

With the perspective of 20 years, it is apparent that despite ups and downs, the principles and lessons of economic freedom have been

widely understood, accepted, and implemented in practice by a significant number of countries around the globe. Their progress is seen in the score changes. The poorer performing countries, by contrast, have tried only some of the ideas, adulterated others, or even, in a few cases, rejected them outright.

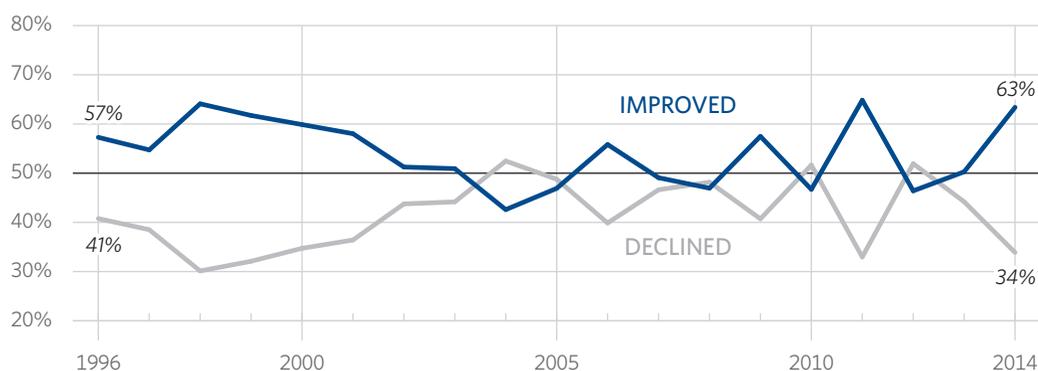
The negative consequences are readily apparent in countries falling in the rankings. The *Index* provides compelling evidence that economic prosperity and economic freedom go hand in hand. Lasting prosperity cannot exist in the absence of economic freedom.

To be sure, there have been setbacks for economic freedom over the past two decades. (See Chart 1.) Some of them were quite severe as in the aftermaths of the 1997 Asian financial crisis and the 2008 global financial turmoil.

Looking back, however, the crises have served as critical tests of countries' commitments to preserving and advancing economic freedom. The political and policy choices that emerged from the crises and in subsequent years have led

Improving or Declining Economic Freedom

Share of Countries in the *Index of Economic Freedom* Whose Scores Improved or Declined



Source: Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>.

Chart 1  heritage.org

to diverging trends of economic freedom with far-reaching economic consequences for those who have chosen different paths. Countries that have acknowledged the limits of government and continued their commitment to sustaining economic freedom have reaped tangible rewards of swift economic rebound and renewed dynamism. By contrast, those that have relinquished economic freedom with short-sighted interventionist and populist policies have prolonged the crises and fallen into the trap of economic stagnation and greater uncertainty.

These real examples of the consequences of the rise and fall of economic freedom in countries around the globe demonstrate unmistakably that economic prosperity is not a national birthright: Rich economies can fall into self-inflicted stagnation all too quickly, while long-suffering underdeveloped nations can ascend from poverty to economic dynamism in a matter of years.

As the *Index* has documented over the past two decades, the most critical variable in sustaining the wealth of nations and the most effective means to eliminating poverty is economic freedom.

The findings of the 2014 *Index* once again evince the strongly positive link between advancing economic freedom and achieving

greater prosperity. Chart 2 shows the most basic benefit of economic freedom, confirmed now with data covering 20 years: the strong relationship between economic freedom and levels of per capita income. For countries that achieve scores that reflect even moderate levels of economic freedom (60 or above), the relationship between economic freedom and per capita GDP is highly significant.

Greater levels of economic freedom have had a major positive impact on poverty levels over the past decade. Poverty intensity, as measured by the United Nations Development Programme (UNDP) Multidimensional Poverty Index that assesses the nature and intensity of deprivation at the individual level in education, health, and standard of living, is much lower on average in countries with higher levels of economic freedom. The intensity of poverty in countries whose economies are considered mostly free or moderately free is only about one-fourth the level in countries that are rated less free.

TWENTY YEARS OF ADVANCING ECONOMIC FREEDOM

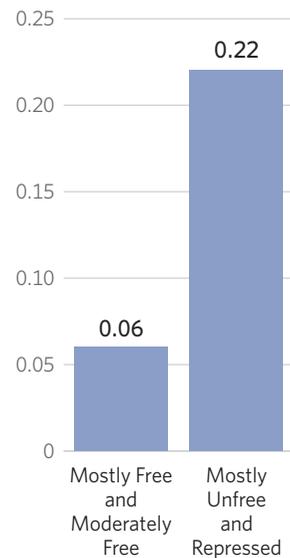
By a great many measures, the past 20 years during which the *Index* has been charting the advance of economic freedom have been the

Economic Freedom, Standard of Living, and Poverty

GDP per Capita (Purchasing Power Parity)



Poverty Intensity



Category in the *Index of Economic Freedom*

Sources: Terry Miller, Anthony B. Kim, and Kim R. Holmes, 2014 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>; International Monetary Fund, World Economic Outlook Databases, <http://www.imf.org/external/ns/cs.aspx?id=28> (accessed November 13, 2013); and United Nations, Human Development Programme, “Human Development Report 2013,” <http://hdr.undp.org/en/reports/global/hdr2013/> (accessed November 13, 2013).

Chart 2  heritage.org

most prosperous in the history of humankind. More people are living better lives than ever before. Some, unfortunately, are not. As *Index* editor Terry Miller pointed out in these pages in 2009, it is a human tragedy—an appalling, avoidable human tragedy—that not all of the world’s people have participated in our era’s explosion of prosperity.¹

Since 1995, when the *Index* started documenting economic policies that promote broader economic growth and greater well-being, we have learned that:²

- Those countries that practice some version of free-market capitalism, with economies open to global trade and investment, do better than those that are protectionist or that shun economic linkages with others.
- Competition promotes greater productivity

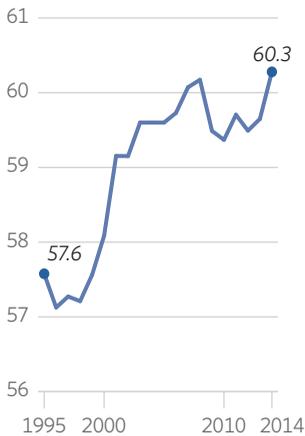
and a more efficient allocation of resources than central planning.

- Private ownership and the protection of individuals and enterprises by the rule of law encourage effort and initiative more than do collectivism and socialism.
- Governments that dominate their countries’ economies impoverish their citizens through economic stagnation.

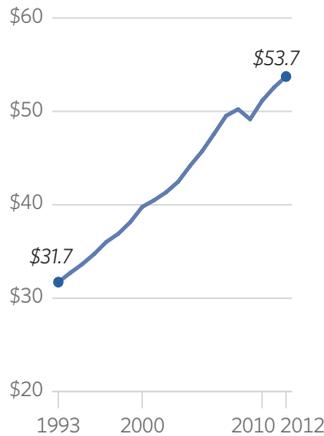
The free-market system that is rooted in economic freedom has fueled unprecedented economic growth around the world. As Chart 3 illustrates, over the past two decades in which the global economy has moved toward greater economic freedom, becoming “moderately free” overall, the world economy achieved real GDP expansion by around 70 percent, lifting hundreds of millions of people out of poverty.

As Economic Freedom Rises, Global Economy Expands and Poverty Declines

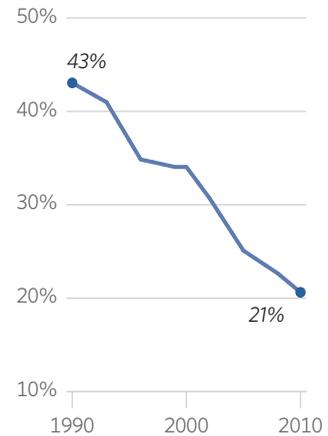
Average Score in the
Index of Economic Freedom



Real Global GDP in
Trillions of Constant
2005 U.S. Dollars



Percent of Global
Population in Poverty



Sources: Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>; The World Bank, World Development Indicators Online, <http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators> (accessed November 13, 2013); and The World Bank, PovcalNet, <http://iresearch.worldbank.org/PovcalNet/index.htm?1> (accessed November 13, 2013). Some figures have been interpolated.

Chart 3  heritage.org

With global economic freedom rising over the past two decades, the world has recorded significant economic growth, and the global poverty rate has been cut in half. Opening the gates of prosperity to ever more people around the world, economic freedom has made the world a profoundly better place.

THE IMPORTANCE OF GROWING ECONOMIC FREEDOM

Any discussion about advancing economic freedom is essentially a story of the empowerment of people. Strengthening and expanding freedom improves each individual's chance to achieve his or her goals and own and enjoy the value of what he or she creates. Amartya Sen, a Nobel laureate economist who has made considerable contributions to development economics, once noted that “[d]evelopment consists of the removal of various types of unfreedoms that leave people with little choice and little opportunity for exercising their reasoned agency.”³

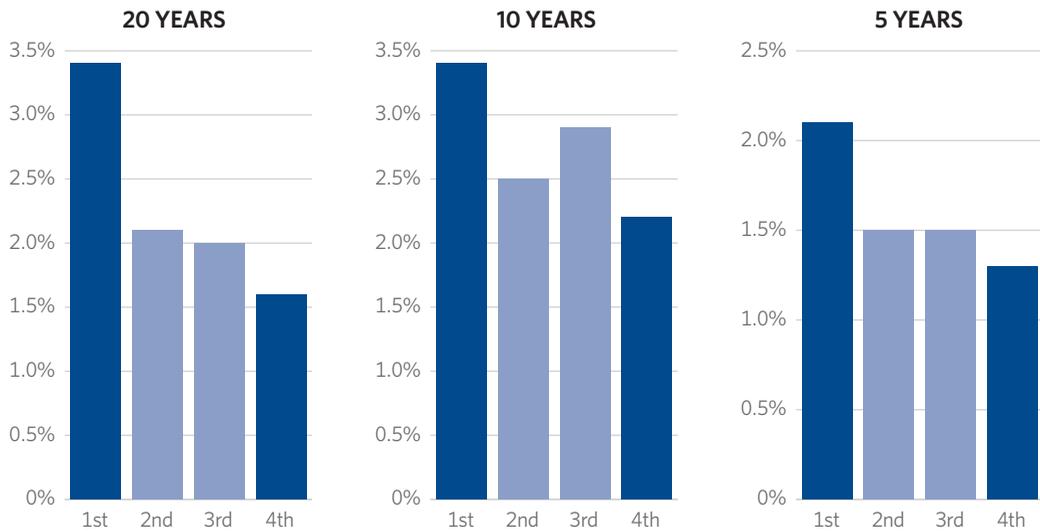
People crave liberation from poverty, and they hunger for the dignity of free will. By reducing barriers to these fundamentals, the forces of economic freedom create a framework in which people can fulfill their dreams of success.

In this vein, one of the most important goals of economic policy in almost every country in the world is to increase the rate of economic growth. Since the *Index of Economic Freedom* is primarily a measure of the economic policy environment in various countries, the 20-year history of the *Index* and its database have a lot to say about what really drives economic growth and related human progress in different aspects. There is strong support within the global database for the idea that improvements in economic freedom are an important determinant of rates of growth. Key drivers of this economic growth and poverty reduction are the high levels of flexibility and resilience that come with economic freedom.

More specifically, as documented in the previous editions of the *Index* and supported by

Advancing Economic Freedom Leads to Higher Economic Growth

Average Annual Growth in Real Per Capita GDP



Change in Economic Freedom Score, by Quartile
(1st—most improvement, 4th—least)

Sources: Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>; and The World Bank, World Development Indicators Online, <http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators> (accessed November 13, 2013). Changes in economic freedom score have been calculated as the annual compound growth rate.

Chart 4  heritage.org

volumes of academic research, vibrant and lasting economic growth results when governments implement policies that enhance economic freedom and empower individuals with greater choice and more opportunities. In fact, the advancement of economic freedom is the most straightforward path to dynamic growth and true progress for the greatest number of people.

As Chart 4 demonstrates, there is a robust relationship between improving economic freedom and achieving higher per capita economic growth. Whether long-term (20 years), medium-term (10 years), or short-term (5 years), the relationship between changes in economic freedom and changes in economic growth is consistently positive.

Undeniably, countries moving toward greater economic freedom tend to achieve higher rates of growth in per capita GDP over time. In all

of the three specific periods examined in this 20-year *Index* database, the average annual per capita economic growth rates of countries that have grown economic freedom most are at least 50 percent higher than those of countries where freedom has stagnated or eroded.

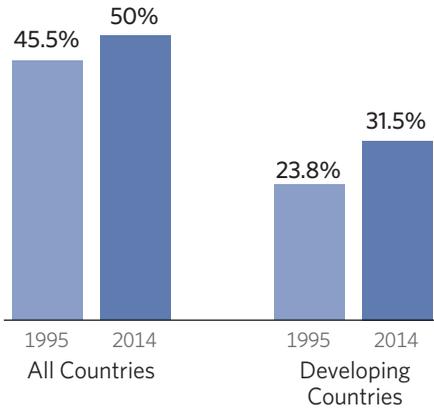
Even better, advancing economic freedom produces dynamic and inclusive growth for ordinary people in a society. Economic freedom, cultivated by the rule of law, limited government, regulatory efficiency, and open markets, has proven to be critical to generating the broader-based economic growth that creates opportunities in all sectors of society.

ECONOMIC FREEDOM: THE REAL AGENT OF REVOLUTION

As emphasized in the *Index* and confirmed by its findings, sustaining vibrant growth and

Share of Countries Scoring 60 or Higher in the Index

Countries Categorized as Free, Mostly Free, or Moderately Free



Source: Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>.

Chart 5 heritage.org

broader-based economic expansion requires that countries be committed to putting into practice three fundamental principles of economic freedom: empowerment of the individual, non-discrimination, and open competition.

In pursuing these principles of economic freedom and the policies necessary to realize them over the past 20 years, many governments have facilitated the free flow of goods and services, improved the ease of doing business, established monetary stability, and cut taxes, all while accentuating greater transparency and accountability under more dependable rule of law.

It is encouraging to see that the powerful forces of economic freedom have fostered the spirit of entrepreneurship and innovation that creates new products and more jobs, spreading the benefits of economic dynamism to an increasing number of countries around the globe over the past 20 years. As Chart 5 summarizes, more countries are classified as at least “moderately free,” with scores of above 60, today than in the 1995 *Index*.

The advancement of global economic freedom to its highest level ever in the 2014 *Index*,

Countries with Major Category Changes

	Score in First Year in Index		Score in 2014 Index		Change	
Azerbaijan	30.0	Repressed	61.3	Moderately Free	+31.3	
Georgia	44.1	Repressed	72.6	Mostly Free	+28.5	
Armenia	42.2	Repressed	68.9	Moderately Free	+26.7	
Rwanda	38.3	Repressed	64.7	Moderately Free	+26.4	
Lithuania	49.7	Repressed	73.0	Mostly Free	+23.3	
Romania	42.9	Repressed	65.5	Moderately Free	+22.6	
Kazakhstan	41.7	Repressed	63.7	Moderately Free	+22.0	
Albania	49.7	Repressed	66.9	Moderately Free	+17.2	
Cape Verde	49.7	Repressed	66.1	Moderately Free	+16.4	
Croatia	48.0	Repressed	60.4	Moderately Free	+12.4	
Ecuador	57.7	Mostly Unfree	48.0	Repressed	-9.7	
Argentina	68.0	Moderately Free	44.6	Repressed	-23.4	
Venezuela	59.8	Mostly Unfree	36.3	Repressed	-23.5	

Source: Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>.

Chart 6 heritage.org

with a greater number of countries rated at least “moderately free,” is particularly welcome given that the notable upsurge has been driven mainly by developing and emerging economies around the world, which now account for the first time in the modern era for about half of the global economy’s output.⁴

Globally, 124 countries have improved their economic freedom scores relative to the first year in which they were rated in the *Index*, while 52 countries have recorded score declines.

Most notably, 10 developing countries across the globe that were rated as “repressed” economies in the first years they were graded in the *Index* almost 20 years ago have successfully leaped forward into the ranks of the “moderately free” or “mostly free.” (See Chart 6.)

This is quite a geographically and economically diverse group, encompassing African countries, Eastern European countries, and members of the former Soviet Union. Over the past two decades, these 10 developing economies as a group have recorded an average annual economic growth rate of 5 percent, which is 1.2 percentage points higher than the average of all other countries.

On the other end of the scale, three countries—Argentina, Ecuador, and Venezuela—have dropped into the ranks of the “repressed” over the past two decades. (See Chart 6.) These economies were rated more highly in the first years they were graded in the *Index* but since then have steadily lost economic freedom. These three have recorded growth rates that, on average, lag almost two percentage points behind those that have graduated from “repressed” status.

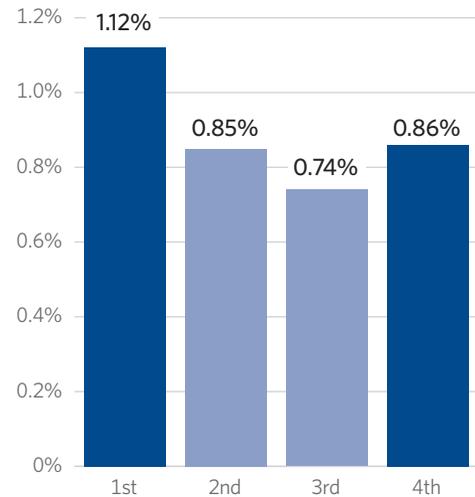
ECONOMIC FREEDOM: A VITAL MEANS FOR CHARTING GREATER PROGRESS

Growing economic freedom is unequivocally about achieving greater overall prosperity that goes beyond materialistic and monetary dimensions of well-being. Improvements in economic freedom enhance economic dynamism and, thus, overall human developmental progress.

Advancing economic freedom is strongly related to the enhancement of overall human

Improving Economic Freedom Means Greater Human Development

Average Annual Growth in Human Development Index, 2000–2012



Change in Economic Freedom Score, by Quartile
(1st—most improvement, 4th—least)

Sources: Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>; and United Nations, Human Development Programme, International Human Development Indicators, <http://hdr.undp.org/en/statistics/> (accessed November 13, 2013).

Chart 7 heritage.org

development as measured by the UNDP Human Development Index, a composite assessment of health, education, and standard of living. As Chart 7 shows, since the beginning of this century, countries that have improved their economic freedom to greater degrees have also achieved much greater enhancement of human development.

Governments that choose policies that increase economic freedom are placing their societies on the pathway to more education opportunities, better health care, and greater standards of living for their citizens. Those governments in the first quartile that have embraced

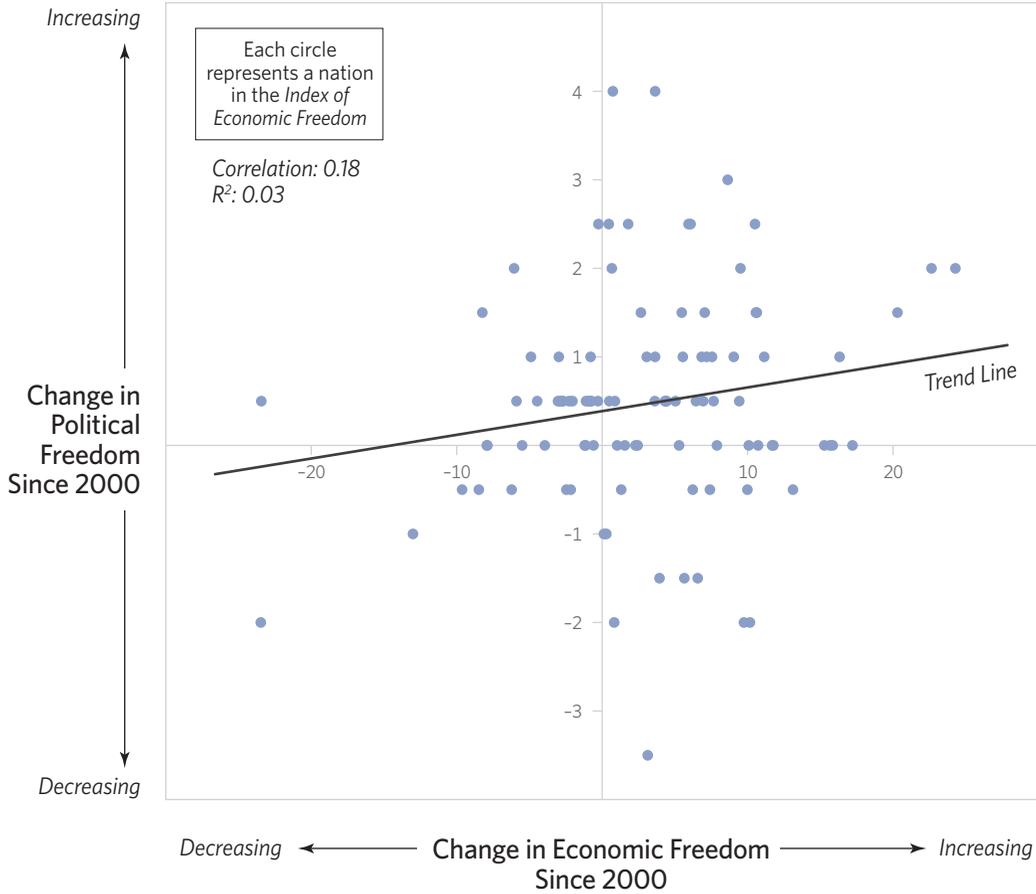
Moving Ahead or Falling Behind?

Rank According to Long-Term Score Change

Country	Score Change	Country	Score Change	Country	Score Change			
1	Azerbaijan	31.3	61	Uruguay	6.8	120	China	0.5
2	Bosnia and Herzegovina	29.0	62	The Gambia	6.6	121	Tanzania	0.5
3	Georgia	28.5	63	Jordan	6.5	122	Gabon	0.3
4	Armenia	26.7	64	Turkey	6.5	123	Solomon Islands	0.2
5	Rwanda	26.4	65	Colombia	6.2	124	Honduras	0.1
6	Moldova	24.3	66	Barbados	6.0	125	Eritrea	0.0
7	Lithuania	23.3	67	Burundi	6.0	126	Cyprus	-0.1
8	Romania	22.6	68	Slovak Republic	6.0	127	Nepal	-0.2
9	Kazakhstan	22.0	69	Haiti	5.9	128	United Arab Emirates	-0.2
10	Angola	20.3	70	Yemen	5.7	129	Italy	-0.3
11	Guinea-Bissau	17.8	71	Brazil	5.5	130	Maldives	-0.3
12	Suriname	17.5	72	Dominican Republic	5.5	131	Taiwan	-0.3
13	Albania	17.2	73	Norway	5.5	132	Chad	-0.6
14	Cape Verde	16.4	74	Montenegro	5.4	133	Sri Lanka	-0.6
15	Poland	16.3	75	Zambia	5.3	134	Equatorial Guinea	-0.7
16	Nicaragua	15.9	76	The Philippines	5.1	135	Macau	-0.7
17	Bulgaria	15.7	77	São Tomé and Príncipe	5.0	136	Congo, Dem. Rep. of	-0.8
18	Botswana	15.2	78	Switzerland	4.8	137	Guatemala	-0.8
19	Uzbekistan	15.0	79	Cambodia	4.6	138	South Korea	-0.8
20	Latvia	13.7	80	The Netherlands	4.5	139	France	-0.9
21	Samoa	13.5	81	Czech Republic	4.4	140	Bhutan	-1.0
22	Bangladesh	13.2	82	Spain	4.4	141	Bahrain	-1.1
23	Laos	12.7	83	Côte d'Ivoire	4.3	142	Costa Rica	-1.1
24	Croatia	12.4	84	Liberia	4.3	143	United States	-1.2
25	Slovenia	12.3	85	Iran	4.2	144	Micronesia	-1.9
26	Hungary	11.8	86	Tonga	4.1	145	The Bahamas	-2.0
27	Sweden	11.7	87	Fiji	4.0	146	Swaziland	-2.1
28	Mongolia	11.1	88	Belgium	3.9	147	Namibia	-2.2
29	Tajikistan	10.9	89	Mexico	3.7	148	Malaysia	-2.3
30	Canada	10.8	90	Germany	3.6	149	Pakistan	-2.4
31	Estonia	10.7	91	Indonesia	3.6	150	Japan	-2.6
32	India	10.6	92	Congo, Rep. of	3.4	151	Oman	-2.8
33	Macedonia	10.6	93	Mali	3.1	152	Senegal	-2.8
34	Peru	10.5	94	New Zealand	3.1	153	El Salvador	-2.9
35	Madagascar	10.1	95	Singapore	3.1	154	Uganda	-3.0
36	Malta	10.1	96	Serbia	2.8	155	United Kingdom	-3.0
37	Guyana	10.0	97	Saint Vincent and the Grenadines	2.7	156	Kuwait	-3.8
38	Belarus	9.7				157	Lebanon	-3.8
39	Finland	9.7	98	Benin	2.6	158	Paraguay	-3.9
40	Burkina Faso	9.5	99	Dominica	2.6	159	Morocco	-4.5
41	Mozambique	9.5	100	Kenya	2.6	160	Papua New Guinea	-4.7
42	Ukraine	9.4	101	Lesotho	2.5	161	Algeria	-4.9
43	Kyrgyz Republic	9.3	102	Austria	2.4	162	Greece	-5.5
44	Niger	9.3	103	Jamaica	2.3	163	Guinea	-5.9
45	Qatar	9.2	104	Iceland	1.9	164	Saudi Arabia	-6.1
46	Vietnam	9.1	105	Saint Lucia	1.9	165	Tunisia	-6.1
47	Denmark	8.8	106	South Africa	1.8	166	Belize	-6.2
48	Ghana	8.6	107	Luxembourg	1.7	167	Trinidad and Tobago	-6.5
49	Seychelles	8.4	108	Togo	1.7	168	Timor-Leste	-7.3
50	Comoros	8.1	109	Hong Kong	1.5	169	North Korea	-7.9
51	Mauritius	8.0	110	Burma	1.4	170	Thailand	-8.0
52	Australia	7.9	111	Djibouti	1.4	171	Panama	-8.2
53	Ireland	7.7	112	Cameroon	1.3	172	Bolivia	-8.4
54	Mauritania	7.7	113	Portugal	1.1	173	Ecuador	-9.7
55	Chile	7.5	114	Vanuatu	1.1	174	Zimbabwe	-13.0
56	Ethiopia	7.4	115	Cuba	0.9	175	Central African Republic	-13.1
57	Egypt	7.2	116	Russia	0.8	176	Argentina	-23.4
58	Turkmenistan	7.2	117	Malawi	0.7	177	Venezuela	-23.5
59	Nigeria	7.0	118	Sierra Leone	0.7	N/A	Brunei	N/A
60	Israel	6.9	119	Kiribati	0.6			

Score change over the country's history in the *Index*. For more information, see Appendix, *Index of Economic Freedom Scores, 1995–2014*.

Economic Freedom and Political Freedom Advance in Tandem



Sources: Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>; and Freedom House, "2013 Freedom in the World," Comparative and Historical Data, <http://www.freedomhouse.org/report-types/freedom-world> (accessed November 13, 2013).

Chart 8  heritage.org

policies that enhance economic freedom have recorded at least a 30 percent higher average annual growth rate of overall human development since 2000 in comparison to the others.

Greater economic freedom can also provide more fertile ground for effective and democratic governance. Advancing economic freedom is about empowering more people to exercise greater control of their daily decision-making processes. In doing so, economic freedom ultimately nurtures political reform as well. Economic freedom encourages a pluralistic society

and makes it possible for independent sources of ideas and resources to counterbalance entrenched political power.

Debate about the direction of causality between economic freedom and democracy has become more controversial in recent years due to the multifaceted interaction between the two. However, the positive relationship that exists between economic freedom and political freedom is undeniable. Chart 8 demonstrates that there is a positive linkage between advancing economic freedom and greater political freedom

as measured by Freedom House. Although the relationship is not as robust as one might hope to see, over the past two decades, countries that have advanced their economic freedom have tended to achieve greater enhancement of political freedom in general.

Undoubtedly, achieving greater political freedom and well-functioning democracy is a messy and often excruciating process. However, the complex interplay between improving economic freedom and advancing political freedom is something positive and merits further examination.

THE INDEX BEYOND 20

Improving and maintaining economic freedom is the proven way to generate positive cycles of economic growth and lasting prosperity. Economies that have advanced economic freedom have achieved overall levels of growth higher than those achieved by countries where economic freedoms have been curtailed by the heavy hand of government. No other systems that have been tried have come close in terms of providing broad-based prosperity. Countries that have not joined the march of freedom have left their citizens lagging behind and even, in the worst cases, stuck in poverty or destitution.

Such failures are inexcusable. Most important, they are preventable. It is too soon to know how coming years will play out as the *Index of Economic Freedom* enters its third decade. Nonetheless, it is both heartening to know that economic freedom is again on the march and safe to predict that countries that find the political will and wisdom to advance economic freedom will see their citizens prosper in the years ahead.

Endnotes

- 1 Ambassador Terry Miller and Anthony B. Kim, “Fifteen Years of Advancing Freedom,” chapter 2 in Terry Miller and Kim R. Holmes, *2009 Index of Economic Freedom* (Washington: The Heritage Foundation and Dow Jones & Company, Inc., 2009), p. 17.
- 2 Ibid.
- 3 Amartya Sen, *Development as Freedom* (New York: Anchor Books, 1999), p. xii.
- 4 International Monetary Fund, World Economic Outlook Databases, October 2013, <http://www.imf.org/external/pubs/ft/weo/2013/02/weodata/index.aspx>.

