

Preface

The results of the 2011 *Index of Economic Freedom* will be encouraging for champions of individual freedom and policies that promote openness and competition. After two years of decline, the world's average level of economic freedom is again on the rise, up by about a third of a point. This news is particularly cheering because the current growth of economic freedom is driven primarily by the sound policy choices of many evolving and developing economies that have joined the free world only recently.

The embrace of capitalism by the young democracies of Eastern Europe and the former Soviet Union has proved particularly durable, and many developing countries have made major gains in reducing poverty by adopting measures that open up their economies and encourage economic engagement with the world. The strong commitment to economic freedom in these countries paves their way to more vibrant economic growth and greater prosperity in the years to come.

Friedrich von Hayek once observed, "To be controlled in our economic pursuits means to be controlled in everything." That observation resonates astonishingly well in today's world. Proposals for greater government control of economic activity have not taken the world

by storm. In fact, there has been little global demand for a shift to government planning or extensive state ownership of private businesses in the name of recovery and stability. Too many people in too many parts of the globe have lived under such systems too recently, missing out on chances to fulfill their dreams. Many of those people truly understand the costs of big government and the limits of government effectiveness. They have no intention of giving up economic or political freedoms only recently won.

It should not, then, be a surprise that only a small number of countries have responded to the global financial and economic crisis of 2008–2010 with measures that sharply reduced their citizens' economic freedom. Just 19 of the countries ranked in the *Index of Economic Freedom* have had cumulative drops of three points or more in economic freedom since 2008. Unfortunately, among those countries were the United States and the United Kingdom, two economies that, more than many others, have served as engines of growth for the world economy over the past century.

We cannot, of course, know what would have happened had the U.S. and the U.K. gone through the crisis with leaders who had high levels of faith and confidence in free-market institutions. The fact is, they didn't. We do

know that misguided and mismanaged government interventions in these two economies have produced a recession of unusual depth and duration. We also, in a note of hope, can see that the voters in both of these countries have recently repudiated both the policies and the officials responsible for the loss of economic freedom.

Those governments that opted to move away from economic freedom by continuing massive government spending in the name of Keynesian economic stimulus have, for the most part, seen their efforts fail. The *Index* results show no positive correlation between stimulus spending and the pace of recovery. The explosion of unsustainable debt and the erosion of long-term competitiveness in countries that have been losing economic freedom have led to a searing reassessment and sometimes painful readjustment of spending and economic priorities. Indeed, for many countries we may, as highlighted in a provocative essay by *Index* editor Terry Miller, have reached the limits of government expansion.

The 2011 *Index of Economic Freedom* documents a global economy that is progressing yet still engaged in the great battle between government and free markets. The fight for freedom is a never-ending struggle.

The *Index* offers a valuable starting place from which to reflect on the fundamental principles of the free-market system and the lasting value of economic freedom. As previous editions of the *Index* have elaborated, economic freedom is not a dogmatic ideology. It represents instead a philosophy that rejects dogma and embraces diverse and even competing strategies for economic advancement. By dispersing economic power and decision-making throughout an economy, economic freedom empowers ordinary people with more choices and greater opportunity for success.

Over the past 17 years, the *Index* has analyzed and confirmed the strong interplay between economic freedom and prosperity in countries around the world. The *Index* began to record the worldwide march of freedom and free exchange shortly after the fall of the Berlin Wall. In spite of ups and downs, the *Index* has

witnessed profound advances as the cause of freedom has swept the globe.

The 2011 *Index* records a resumption of this positive trend. Even more encouraging, political authorities have found themselves increasingly held accountable by those they govern. People around the world are opting, when they have a choice, for greater freedom. That their wisdom seems sometimes to outpace that of their leaders is one of the enduring lessons of the benefits of democracy.

In addition to the rankings and analysis of the results, the 2011 *Index* contains two informative chapters that examine facets of economic freedom that are particularly relevant to today's policy debates.

- In chapter 4, Ben Lieberman, Senior Fellow in Environmental Policy at the Competitive Enterprise Institute, highlights the vital link between economic freedom and the environment. The same free-market principles that have proven to be the key to economic success can also deliver environmental success.
- In chapter 5, Professors Pietro Navarra and Sebastiano Bavetta of the London School of Economics contribute a pioneering empirical study that sheds light on the critical relationship between economic freedom and broadly defined measures for individual well-being and the pursuit of happiness.

The 2011 *Index of Economic Freedom*, like its predecessors, provides ample evidence of the benefits of economic freedom, both to individuals and to societies. With global economic recovery far from secure, the need for greater economic growth is stronger than ever.

Clearly, many countries are at a critical juncture that requires both political will and decisive policy choices. Those that fail to make the policy adjustments necessary to enhance economic freedom and revitalize economic growth risk long-term stagnation or, worse, a return to recession and crisis.

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