

Chapter 2

Fifteen Years of Advancing Freedom

Ambassador Terry Miller

The *Index of Economic Freedom* is a book of statistics. Behind those statistics are stories of human progress and the achievements of real people—literally billions of people around the world whose lives have improved profoundly. Sadly, there are also some stories of backsliding, regression, and even failure.

The link between economic freedom and economic growth and development is strong. Countries that allow their citizens more economic freedom enjoy 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, technology, and culture.

By a great many measures, the 15 years during which the *Index* has been charting the advance of economic freedom have been the most prosperous in the history of the world. More people have lived better lives than ever

before. Some, unfortunately, have not. That not all of the world's people have participated in our era's explosion of prosperity is a human tragedy—an appalling, *avoidable* human tragedy.

At the beginning of the 21st century, we know the economic policies and systems that promote economic growth and well-being.

- We know that those countries that practice some version of free-market capitalism, with economies open to trade and investment, do better than those that are protectionist or that shun economic linkages with others.

- We know that competition promotes greater productivity and a better allocation of resources than central planning.

- We know that private ownership and the protection of individuals and enterprises by the rule of law encourages effort and initiative more than collectivism and socialism.

- We know that governments that dominate their countries' economies impoverish their populations.

- And we know that excessive taxation stifles business activity and entrepreneurship.

The great economic debates of the past two centuries have centered on a profound moral question: the nature of fairness. The great political revolution of the 18th century that led to the founding of the United States of America was based on a belief in the primacy and freedom of the individual. The power of the collective, which finds its most forceful expression in actions by governments, was sharply and deliberately restricted by the U.S. Constitution. Fairness was defined by the U.S. Founding Fathers as equality of opportunity. The most fundamental right was the pursuit of happiness, not its achievement.

Over two centuries later, the economy built in the United States on equality of opportunity has grown and prospered to a degree unimagined in human history, providing even its poorest citizens with standards of living that exceed those of the world's wealthiest only a few generations before.

By contrast, the Russian revolution of the 20th century took as its guiding principles the Communist ideology of Karl Marx that extolled collective ownership and the abolition of class or economic distinction and declared that everyone was entitled not to the same opportunity to pursue happiness, but rather to the same degree of happiness, an outcome to be achieved at first through the redistributive power of government and eventually through the enlightened beneficence of the population. It was a powerful and seductive idea that failed ultimately because of the tendency of the powerful, redistributionist state to grow continuously rather than wither away. Unfortunately, to the extent that those who have followed the Marxist path have created equal societies, it has been an equality of misery rather than prosperity.

MEASURING FREEDOM FOR A DECADE AND A HALF

The *Index of Economic Freedom* is an attempt to measure those factors that contribute to individual freedom and a fair and equal opportuni-

ty for all to strive for happiness and prosperity. The authors and researchers hope that by identifying and quantifying what countries actually do, they can give governments and their citizens an important tool with which to identify policy changes that will promote increased well-being.

The *Index* has evolved over time, and its methodology has been significantly refined. The basic scale on which scores are registered shifted in 2007 from a ranking of 1 to 5, with lower scores reflecting more freedom, to a scale of 0 to 100, with higher scores reflecting more freedom. The availability of relevant data has improved greatly over the 15 years during which the *Index* has been measuring economic freedom, and coverage has grown from 101 countries in 1995 to 183 countries in 2009.

Over the past 15 years, the average economic freedom score for the 155 countries for which we have solid multi-year data has increased by 4.5 points.¹ Since the average starting score for these countries was 56.4, this represents an 8 percent increase in global economic freedom between 1995 and 2009—a meaningful gain in a short time and even more impressive in light of the fact that the fall of the Soviet Union and the rejection of Communism by its European satellites was five years in the past when the *Index* was first produced. The period since 1995 has been one of relative political stability worldwide, and the significant growth in economic freedom has been steady and purposeful rather than

1. Because the *Index* has grown significantly in coverage over the years, there are not 15 years of data for every country. The 21 countries added to the *Index* in 2009 are not included in multi-year score comparisons in this chapter. Unless otherwise specified, global comparisons described as “over the life of the *Index*” or “over the 15 years of the *Index*” or with similar phrases compare average scores of countries for which we have multiple years of data, using as a starting point either 1995 or their first year of coverage in the *Index*. The 2009 average economic freedom score for the 155 countries used in most of these comparisons is 60.9.

revolutionary or convulsive.

The average improvement in economic freedom scores hides significant differences among countries and regions. Economic freedom has increased in 115 countries and declined in 40.

The country that has gained the most economic freedom over the life of the *Index* is Azerbaijan: Its score has increased an impressive 28 points. Other big gainers are Armenia, Georgia, Bosnia and Herzegovina, Moldova, Lithuania, and Romania, all up more than 20 points in the *Index*. Per capita GDP has been growing in these countries over the past decade at an average annual rate of 7.4 percent. The 10-year average annual per capita GDP growth of the 36 countries that gained at least 10 points of economic freedom was just over 4.6 percent.

For the citizens of these countries, the gains in economic freedom have translated into real improvements in their lives. In Azerbaijan, an additional 750,000 people have gained access to clean water, 2.2 million have escaped hunger and undernourishment, and 200,000 have learned to read and write.²

At the other end of the scale, Zimbabwe, Venezuela, Argentina, and the Central African Republic all lost at least 10 points on the economic freedom scale. Zimbabwe's drop was over 25 points. The average annual per capita GDP growth rate for these countries in which economic freedom was significantly curtailed was actually negative: -0.42 percent.

The human costs of the loss of economic freedom can be terrible. Almost 2 million Venezuelans have lost their access to adequate nourishment. In the Central African Republic, 15,000 more mothers die in childbirth each year. In Zimbabwe, average life expectancy has dropped by 13 years.³

2. Estimates derived from data reported in United Nations Development Programme, *Human Development Report 1995*, at <http://hdr.undp.org/en/reports/global/hdr1995/chapters>, and *Human Development Report 2007/2008*, at <http://hdr.undp.org/en/reports/global/hdr2007-2008>.

3. *Ibid.*

CHANGES IN ECONOMIC FREEDOM MATTER

Both the absolute level of economic freedom and changes in the level of economic freedom are important predictors of economic growth. A comparison of GDP growth rates between countries in which economic freedom advanced and those in which it fell is revealing. Those countries that lost economic freedom saw their per capita GDP increase at an average annual rate of 1.9 percent.⁴ Countries that increased economic freedom grew more than a full percentage point faster, with an average per capita GDP growth rate of 3.3 percent.

A comparison between the countries that gained or lost substantial amounts of economic freedom is even more striking. Countries whose economic freedom scores improved at least 5 points over the life of the *Index* had average yearly per capita GDP growth of almost 4 percent. By contrast, countries whose economic freedom scores declined by 5 points or more averaged only 1.7 percent in per capita GDP growth. Table 1 shows how dramatically GDP growth rates improve with increases in economic freedom.

REDUCING POVERTY

We can also tell from looking at the data that countries that are freer economically do a better job of eliminating poverty. The United Nations Human Poverty Index (HPI) gives an approximation of the percentage of a population living in poverty and deprivation.⁵ A lower score indicates a society or economic system that is relatively better at taking care of a larger percentage of its population.

There are 70 countries that are ranked over the life of both the HPI and the *Index of Economic Freedom*. Countries that gained economic freedom, on average, lifted 5.0 percent of their people out of poverty. Countries that lost economic freedom performed less well, with only

4. Compound average growth rate of per capita GDP from 1996 to 2006.

5. See U.N. Development Programme, *Human Development Report 2007/2008*, pp. 238-240.

Increasing Economic Freedom Boosts Incomes

AVERAGE OF SCORE CHANGES

| Change in Economic Freedom Score (1995*-2009) | 10 Year GDP Per Capita Growth Rate (1996-2006) | Business Freedom | Trade Freedom | Fiscal Freedom | Government Size | Monetary Freedom | Investment Freedom | Financial Freedom | Property Rights | Freedom from Corruption | Labor Freedom** |
|---|--|------------------|---------------|----------------|-----------------|------------------|--------------------|-------------------|-----------------|-------------------------|-----------------|
| Over 5 | 3.99 | 4.8 | 20.1 | 15.6 | 9.6 | 28.9 | 3.8 | 11.9 | -0.5 | 10.3 | 0.0 |
| 0 to 5 | 2.39 | -0.9 | 17.8 | 8.1 | 1.9 | 8.1 | -4.3 | 0.0 | -8.1 | -2.3 | -0.8 |
| -5 to 0 | 1.96 | -5.9 | 15.0 | 4.9 | 2.8 | 2.5 | -8.1 | -3.0 | -20.6 | -7.6 | 0.2 |
| Below -5 | 1.70 | -14.8 | 7.6 | -0.6 | -1.7 | -6.0 | -22.3 | -16.2 | -30.8 | -7.8 | -0.3 |

* Or earliest year in which a country was ranked in the *Index*.

** Data to permit scoring of an independent labor freedom component became available only as of 2005.

Table 1  heritage.org

3.9 percent of their people escaping poverty on average. (See Table 2.)

The differences were even more telling for countries that gained or lost significant amounts of economic freedom. Countries that gained at least 5 points of economic freedom lifted 5.8 percent of their people out of poverty on average. For countries that lost at least 5 points of economic freedom, the picture was bleak. On average, an additional 0.4 percent of their people fell into poverty.

THE CHANGING COMPOSITION OF ECONOMIC FREEDOM

Advances in economic freedom have not occurred evenly across all of the factors measured in the *Index*. Table 3 shows the changes in average scores over the life of the *Index* for the various components of economic freedom.

It is clear that the growth in overall economic freedom has been driven primarily by advances in trade freedom, monetary freedom, and fiscal freedom. The success of the World

Trade Organization and the advancement of regional trading blocs like the European Union and NAFTA no doubt have driven major gains in trade freedom. Monetary freedom advanced significantly following the Asian financial crisis, which inspired major reforms, the professionalization of finance ministries, and an increasing focus worldwide on the importance of controlling inflation. Tax competition and the adoption of flat taxes in a

Economic Freedom Reduces Poverty

| Human Poverty Index (HPI) | 1997 | 2007/2008 | Change in the Percentage of the Population in Poverty |
|--|------|-----------|---|
| All countries | 31.3 | 26.6 | -4.7 |
| Countries that <i>gained</i> economic freedom | 33.0 | 28.0 | -5.0 |
| Countries that <i>lost</i> economic freedom | 27.3 | 23.4 | -3.9 |
| Countries that <i>gained</i> at least 5 points of economic freedom | 35.5 | 29.7 | -5.8 |
| Countries that <i>lost</i> at least 5 points of economic freedom | 23.3 | 23.7 | 0.4 |

* A negative change reflects a decrease in poverty.

Table 2  heritage.org

Component Score Changes

Score Changes Over the Life of the *Index*

| | |
|-------------------------|-------|
| Overall Score | +4.5 |
| Trade Freedom | +17.4 |
| Monetary Freedom | +15.1 |
| Fiscal Freedom | +10.1 |
| Government Size | +5.1 |
| Financial Freedom | +3.4 |
| Freedom from Corruption | +1.8 |
| Labor Freedom* | -0.2 |
| Business Freedom | -0.4 |
| Investment Freedom | -2.8 |
| Property Rights | -8.8 |

* Data to permit scoring of an independent labor freedom component became available only as of 2005.

Table 3  heritage.org

number of countries encouraged entrepreneurship and promoted private enterprise.

The declining scores in several of the components of economic freedom are cause for concern. Business freedom is a measure of the effect of regulatory policies that are entirely under the control of governments. The costs of inefficient and ineffective regulation are a dead-weight loss to an economy. This is an area in which the knowledge and expertise to fix government policies are available, but the political will seems to be lacking.

The drop in investment freedom stands in stark contrast to the average gains in trade freedom. Restrictions on investment freedom often derive from the same protectionist impulses that have been overcome with respect to trade in goods, and the lack of progress in freeing investment is comparable to the lack of progress in freeing trade in services. Investment restrictions preserve the status quo and privileges or monopoly positions that are enjoyed by elites and existing producers, and they slow innovation and productivity increases. Since the explosive growth in the availability of capital for international investment is a relatively recent phenomenon, it is possible that investment restrictions are merely becoming increasingly apparent and relevant as opposed

to increasing in absolute terms. Their significance in retarding economic growth, however, is unassailable.

The large drop in average scores for the economic freedom component measuring property rights and respect for the rule of law is alarming. A majority of the world's countries score below 50 on property rights. Better performers cluster around a score of 70, and the best economic performers score 90 or above on this component. The 20 countries whose scores on this component have improved over the life of the *Index* have seen their per capita GDPs grow almost twice as fast, at over 3.5 percent per year, as the countries whose property rights scores fell.

COUNTRIES ADVANCING AND RETREATING

Another way to compare countries over time and despite methodological changes is to look at changes in countries' rankings relative to each other. Table 4 shows the earliest and most recent *Index* scores for countries, expressed as percentiles that reflect relative positions in the rankings rather than absolute levels of economic freedom. The percentile score for a country is derived by dividing the number of countries that it outranks by the total number of countries ranked in a given year. Albania, for example, outranks 117 of the 179 countries ranked in the 2009 *Index*. Its percentile score is 117 divided by 179, or 65 percent. In other words, Albania is freer than 65 percent of the other countries ranked in 2009.

Percentile scores provide only a relative ranking: that is, how a country scored compared to others. They do not provide an absolute measure of economic freedom, which is something that a country's economic freedom score in the *Index* does provide.

Specifically, percentile scores provide a way to measure whether countries are moving up or falling behind in terms of economic freedom compared with others, and they minimize the effects of methodological changes or changes in the number of countries covered by the *Index*. It is important to bear in mind that a country's percentile ranking will be affected as much by

Moving Ahead or Falling Behind

| Country | Percentile Rank 2009 | Percentile Rank 1995* | Change in Percentile Ranking |
|------------------------|----------------------|-----------------------|------------------------------|
| Armenia | 83 | 12 | 71 |
| Georgia | 82 | 13 | 69 |
| Lithuania | 83 | 27 | 56 |
| Romania | 64 | 12 | 52 |
| Bulgaria | 69 | 24 | 45 |
| Albania | 65 | 21 | 44 |
| Nicaragua | 53 | 10 | 43 |
| Mongolia | 61 | 19 | 42 |
| Azerbaijan | 45 | 4 | 41 |
| Kazakhstan | 54 | 13 | 41 |
| Botswana | 81 | 44 | 37 |
| Hungary | 75 | 39 | 36 |
| Latvia | 75 | 39 | 36 |
| Montenegro | 47 | 12 | 35 |
| Slovenia | 62 | 30 | 32 |
| Malta | 74 | 43 | 31 |
| Madagascar | 59 | 29 | 30 |
| Moldova | 33 | 3 | 30 |
| Samoa | 52 | 22 | 30 |
| Cape Verde | 57 | 28 | 29 |
| Egypt | 46 | 17 | 29 |
| Kyrgyz Republic | 59 | 30 | 29 |
| Poland | 54 | 25 | 29 |
| Burkina Faso | 53 | 25 | 28 |
| Serbia | 39 | 12 | 27 |
| Sweden | 85 | 59 | 26 |
| Barbados | 88 | 63 | 25 |
| Slovak Republic | 80 | 55 | 25 |
| Finland | 91 | 67 | 24 |
| Rwanda | 31 | 7 | 24 |
| Suriname | 30 | 6 | 24 |
| Bosnia and Herzegovina | 25 | 3 | 22 |
| Mozambique | 37 | 15 | 22 |
| Peru | 68 | 46 | 22 |
| Fiji | 55 | 35 | 20 |
| Tajikistan | 32 | 12 | 20 |
| Yemen | 42 | 23 | 19 |
| Estonia | 93 | 75 | 18 |
| Ireland | 98 | 80 | 18 |
| Spain | 84 | 66 | 18 |
| Denmark | 96 | 79 | 17 |
| India | 31 | 14 | 17 |
| Israel | 77 | 60 | 17 |

* Or earliest year of entry into the *Index*.

** For Montenegro and Serbia, their earliest year scores were taken from Serbia and Montenegro prior to their independence in 2006.

| Country | Percentile Rank 2009 | Percentile Rank 1995* | Change in Percentile Ranking |
|--------------------|----------------------|-----------------------|------------------------------|
| Kenya | 50 | 33 | 17 |
| Nigeria | 35 | 18 | 17 |
| Uruguay | 79 | 63 | 16 |
| Belgium | 89 | 75 | 14 |
| Canada | 96 | 82 | 14 |
| Ethiopia | 25 | 11 | 14 |
| Mauritania | 29 | 15 | 14 |
| Brazil | 41 | 28 | 13 |
| Uzbekistan | 17 | 4 | 13 |
| Croatia | 35 | 23 | 12 |
| Macedonia | 56 | 44 | 12 |
| Niger | 28 | 16 | 12 |
| Qatar | 73 | 61 | 12 |
| Norway | 84 | 73 | 11 |
| Cambodia | 41 | 31 | 10 |
| Laos | 16 | 6 | 10 |
| South Africa | 66 | 56 | 10 |
| Vietnam | 19 | 9 | 10 |
| Dominican Republic | 51 | 42 | 9 |
| Mauritius | 90 | 81 | 9 |
| Ukraine | 15 | 6 | 9 |
| Angola | 9 | 1 | 8 |
| Chile | 94 | 86 | 8 |
| Jordan | 72 | 64 | 8 |
| Netherlands | 93 | 85 | 8 |
| Portugal | 70 | 62 | 8 |
| Syria | 21 | 13 | 8 |
| Bangladesh | 11 | 4 | 7 |
| Cyprus | 87 | 80 | 7 |
| Australia | 98 | 92 | 6 |
| Ghana | 46 | 40 | 6 |
| Turkey | 58 | 52 | 6 |
| Equatorial Guinea | 21 | 16 | 5 |
| The Gambia | 37 | 32 | 5 |
| Haiti | 18 | 13 | 5 |
| Mali | 36 | 31 | 5 |
| The Philippines | 42 | 37 | 5 |
| Guinea-Bissau | 8 | 4 | 4 |
| Iceland | 92 | 88 | 4 |
| Mexico | 73 | 69 | 4 |
| Austria | 87 | 84 | 3 |
| Germany | 86 | 83 | 3 |
| Luxembourg | 92 | 89 | 3 |
| Czech Republic | 79 | 77 | 2 |
| Honduras | 49 | 47 | 2 |

(continued on next page)

Table 4  heritage.org

Moving Ahead or Falling Behind (continued)

| Country | Percentile Rank 2009 | Percentile Rank 1995* | Change in Percentile Ranking | Country | Percentile Rank 2009 | Percentile Rank 1995* | Change in Percentile Ranking |
|----------------------------------|----------------------|-----------------------|------------------------------|----------------------|----------------------|-----------------------|------------------------------|
| Côte d'Ivoire | 34 | 32 | 2 | Bahrain | 91 | 95 | -4 |
| Zambia | 40 | 38 | 2 | Chad | 10 | 14 | -4 |
| El Salvador | 82 | 81 | 1 | China | 26 | 30 | -4 |
| Iran | 6 | 5 | 1 | Dominica | 61 | 65 | -4 |
| Namibia | 60 | 59 | 1 | Nepal | 26 | 30 | -4 |
| Singapore | 99 | 98 | 1 | Belize | 63 | 68 | -5 |
| United States | 97 | 96 | 1 | Dem. Rep. of Congo | 3 | 8 | -5 |
| Belarus | 7 | 7 | 0 | Costa Rica | 74 | 79 | -5 |
| Bhutan | 44 | 44 | 0 | Japan | 89 | 94 | -5 |
| Burundi | 15 | 15 | 0 | Malawi | 28 | 34 | -6 |
| Comoros | 4 | 4 | 0 | Pakistan | 43 | 50 | -7 |
| Eritrea | 2 | 2 | 0 | Trinidad and Tobago | 77 | 84 | -7 |
| Hong Kong | 99 | 99 | 0 | France | 64 | 72 | -8 |
| Italy | 58 | 58 | 0 | Kiribati | 8 | 16 | -8 |
| Liberia | 12 | 12 | 0 | Russia | 18 | 26 | -8 |
| Libya | 4 | 4 | 0 | Togo | 14 | 22 | -8 |
| Macau | 88 | 88 | 0 | Indonesia | 27 | 36 | -9 |
| Maldives | 20 | 20 | 0 | Oman | 76 | 85 | -9 |
| Micronesia | 22 | 22 | 0 | Guatemala | 51 | 61 | -10 |
| North Korea | 0 | 0 | 0 | Sierra Leone | 12 | 22 | -10 |
| Saint Lucia | 78 | 78 | 0 | Senegal | 39 | 50 | -11 |
| Saint Vincent and the Grenadines | 66 | 66 | 0 | Burma | 2 | 14 | -12 |
| São Tomé and Príncipe | 5 | 5 | 0 | South Korea | 78 | 91 | -13 |
| Seychelles | 11 | 11 | 0 | Taiwan | 80 | 93 | -13 |
| Solomon Islands | 9 | 9 | 0 | Colombia | 60 | 74 | -14 |
| Tanzania | 48 | 48 | 0 | Saudi Arabia | 67 | 81 | -14 |
| Timor-Leste | 17 | 17 | 0 | Gabon | 34 | 49 | -15 |
| Tonga | 30 | 30 | 0 | Djibouti | 22 | 39 | -17 |
| Turkmenistan | 6 | 6 | 0 | Sri Lanka | 38 | 55 | -17 |
| Vanuatu | 49 | 49 | 0 | Bolivia | 27 | 45 | -18 |
| Algeria | 40 | 41 | -1 | United Arab Emirates | 70 | 88 | -18 |
| Cuba | 1 | 2 | -1 | Lebanon | 47 | 66 | -19 |
| New Zealand | 97 | 98 | -1 | Panama | 69 | 88 | -19 |
| Benin | 36 | 38 | -2 | Zimbabwe | 1 | 20 | -19 |
| Greece | 55 | 57 | -2 | Paraguay | 56 | 76 | -20 |
| Jamaica | 71 | 73 | -2 | Swaziland | 50 | 70 | -20 |
| Switzerland | 95 | 97 | -2 | Morocco | 44 | 65 | -21 |
| Uganda | 65 | 67 | -2 | Papua New Guinea | 32 | 53 | -21 |
| Cameroon | 24 | 27 | -3 | Malaysia | 68 | 90 | -22 |
| Republic of Congo | 7 | 10 | -3 | Thailand | 63 | 87 | -24 |
| Guyana | 13 | 16 | -3 | Tunisia | 45 | 71 | -26 |
| Kuwait | 72 | 75 | -3 | Ecuador | 23 | 51 | -28 |
| Lesotho | 16 | 19 | -3 | Guinea | 20 | 53 | -33 |
| United Kingdom | 94 | 97 | -3 | Central African Rep. | 13 | 52 | -39 |
| The Bahamas | 85 | 89 | -4 | Venezuela | 3 | 54 | -51 |
| | | | | Argentina | 23 | 78 | -55 |

Table 4  heritage.org

other countries' progress as by its own performance. If a country stagnates in promoting economic freedom while others reform, its percentile score and degree of freedom relative to others will drop.

The percentile ranking data give a different perspective on the stories of economic achievement and failure that are told in the *Index of Economic Freedom*.

The most dramatic picture that emerges is the amazing progress in economic freedom among the countries that emerged from the breakup of the Soviet Union. Seven of the 20 countries that improved their relative position in the rankings the most are nations that were formerly republics of the Soviet Union. Armenia, Georgia, Lithuania, Kazakhstan, Azerbaijan, Latvia, and Moldova all moved up at least 30 percentage points in the percentile rankings, which means that they each leapfrogged at least 30 percent of the world's countries in economic freedom. Armenia, Georgia, and Lithuania advanced over more than half of the world's countries. Per capita GDP growth was very strong in these countries, averaging 8.0 percent between 1996 and 2006.

Of all the former Soviet republics, only Russia itself has lost ground relative to other countries, and only Russia has suffered an absolute loss in economic freedom since 1995.

The countries of Eastern Europe also rose rapidly in the rankings of economic freedom once the heavy yoke of Soviet domination was removed. Following the dissolution of the Soviet Union, most of these countries moved quickly to establish market economies that were mostly free rather than mostly repressed. The relative advance in economic freedom in the seven Eastern European former members of the Soviet Bloc is truly astounding, with the average percentile rank going up over 33 points despite virtually no movement at all after 1995 on the part of the Czech Republic. Annual average per capita GDP growth in these countries was over 4 percent over the past decade.

Mongolia, a non-European country in a similar situation vis-à-vis the former Soviet Union, improved its relative ranking by 42 points, the

eighth highest increase of all. Its per capita GDP grew at an annual average rate of 3.9 percent over the decade.

In Sub-Saharan Africa, Botswana, Madagascar, Cape Verde, Burkina Faso, Rwanda, Mozambique, Nigeria, Kenya, Ethiopia, Niger, Mauritania, and South Africa all improved their percentile rankings by at least 10 percentage points. Their average per capita GDP growth over 10 years was more than 3.0 percent. By contrast, the Central African Republic, Guinea, Swaziland, Zimbabwe, Djibouti, Gabon, Senegal, and Sierra Leone all moved down in the percentile rankings by at least 10 percentage points. These countries averaged no per capita GDP growth at all over the past 10 years, and four of them actually saw their per capita GDP fall.

Asia's diversity showed through in long-term trends. About half of the Asian countries gained in relative economic freedom, and about half lost ground. This region includes the highest ranking countries over the entire span of the *Index* (Hong Kong and Singapore) and the lowest (North Korea). Besides Mongolia, Asian countries that moved significantly ahead of other nations (gaining at least 10 percentile places on the list) included Samoa, Fiji, India, Laos, and Vietnam. Per capita GDP growth averaged 3.7 percent in these countries. By contrast, Thailand, Malaysia, Papua New Guinea, Sri Lanka, South Korea, Burma, and Taiwan all lost significant ground relative to other countries. Their average per capita GDP growth (excluding Burma, for which reliable GDP data are not available) was only 2.8 percent.

The two countries that slipped farthest down the rankings over the 15 years were both from Latin America. Argentina and Venezuela were surpassed by more than half of the world's countries in terms of economic freedom. Ecuador was the fifth worst performer in relative terms, surpassed by 28 percent of the world's countries. What these three countries share is a commitment to a brand of populist socialism that had lost favor for a time in Latin America but has resurfaced in recent years. The effects on the people of these countries are dev-

astating, with average per capita GDP growth of less than 1.5 percent per year.

In fact, the countries of Latin America are lagging significantly behind the rest of the world in the promotion of economic freedom. Eight Latin countries (Argentina, Venezuela, Ecuador, Paraguay, Panama, Bolivia, Colombia, and Guatemala) dropped 10 percentage points or more on the percentile rankings. Only Nicaragua, Barbados, Suriname, and Brazil advanced ahead of at least 10 percent of the world's countries.

There was significant slippage in the Middle East and North Africa region as well, with former good performers Saudi Arabia and the United Arab Emirates slipping toward the middle ranks of countries and Tunisia and Morocco both dropping at least 20 percentage points in the percentile rankings.

MOVING FORWARD

The 15 years of data measured in the *Index of Economic Freedom* should encourage economic reformers everywhere. It is clear that steps to improve economic performance are available to countries at all stages of development. It starts with the basics: freedom from corruption and respect for property rights. The poorest countries score far below the world average in these two categories.

The richest countries need to pay particular attention to government size and tax rates; the redistributionist temptations of utopian socialism kill economic growth.

All countries need to ensure a regulatory environment in which businesses and work-

ers have the right to compete freely on a level playing field. They need to maintain realistic and stable currency levels and low inflation to preserve the value of assets and income. They need to keep their economies open to flows of trade and investment to ensure productivity growth and innovation.

A PROVEN PATH TO PROSPERITY

Economic freedom is not a plan or an ideology. Indeed, it is the antithesis of centralized planning and government control.

Economic freedom is a threat only to elite privilege and special interests. It is the revolutionary economic counterpart to democratic political 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. It is not the only way to organize an economy, nor a perfect way, but it is a good way and far better on average than other systems that have been tried.

For 15 years, the *Index of Economic Freedom* has held up a mirror to countries undergoing profound economic and social change. The data in the *Index* can help countries guide their economic evolution along proven paths of prosperity. Much has been accomplished. Much remains to be done. The challenge of economic freedom is the challenge of economic growth and prosperity. Those countries that have been brave enough to accept the challenge have reaped great rewards and, in doing so, have set a powerful example for others to follow.