

Preface

With global economic recovery far from secure, many economies are at a critical juncture, and governments face decisive policy choices. Political and economic developments since the second half of 2010 have inspired a fundamental rethinking of the social contract between citizens and governments in many parts of the world. Debt, recession, and financial instability have slowed progress in countries everywhere, and economic crises have become political crises, particularly in countries where governments play a large role in directing economic activity.

The political and policy choices that emerge from the current debates will have far-reaching consequences. If those who govern acknowledge the limits of government and make necessary policy adjustments, economic freedom can blossom and high growth can once again liberate millions from poverty and joblessness. If leaders instead carry on with ill-guided policies that empower their governments rather than their people, the result is likely, at best, to be economic stagnation and ever-increasing dependence. The alternatives and consequences are clear: openness or protectionism, entrepreneurial dynamism or economic drift, prosperity or impoverishment, freedom or repression.

We know from history that the human spirit thrives on fairness, opportunity, transparency, and liberty. We have been vividly reminded of this truth by the downfall of the Soviet Union two decades ago and by the ongoing “Arab Spring” today. Yet there are those who persist in attacking individual freedom in the name of collectivism, solidarity, and social justice. These false idols of socialist nirvanas may have emotional appeal for some, but the economic and social results when they become the touchstones of government policy are all too predictable: poverty, deprivation, and oppression. If we are going to continue to safeguard societies from errors that have brought nothing but misery throughout history, we must win the battle of ideas that is currently being waged over our basic freedoms.

The link between freedom and human progress has never been clearer. Fortunately, people around the world have more access to information than ever before. Repressive regimes cannot hide behind a veil of secrecy. Informed populations are opting for greater freedom, either at the ballot box or with revolutionary vigor in the streets. Even more encouraging, political authorities have found themselves increasingly held accountable by those they govern.

As Friedrich A. Hayek foresaw decades ago, “The guiding principle in any attempt to create a

world of free men must be this: a policy of freedom for the individual is the only truly progressive policy.” Thus, the battle of ideas must also be a battle for the meaning of the very words with which we debate. Is it “progressive” to utilize the coercive power of the state to redistribute and level incomes within a society? Is it “liberal” to build a massive state apparatus to regulate conditions of employment, usage of energy, and access to capital? The answers to such questions will determine how we live as individuals in the 21st century.

The *2012 Index of Economic Freedom* documents a global economy that is engaged in this evolving battle between the forces of government and free markets. Today’s troubles have been neither accidental nor inevitable. The problems we face are the outcomes of politically driven and economically self-defeating policy decisions that have turned an economic slowdown into an accelerating decline.

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. Over the past 18 years, the *Index* has analyzed and confirmed the strong interplay between economic freedom and prosperity in countries around the world. 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. The *Index* also reveals that it is not the policies we fail to implement that hold back economic growth. Rather, it is the dreadful policies that, all too often, we put in place.

In addition to the rankings and analysis of the results, the *2012 Index* contains three timely chapters that examine facets of economic free-

dom that are particularly relevant to today’s policy debates.

- In chapter 3, Ambassador Terry Miller and Dr. J. D. Foster of The Heritage Foundation highlight the complex interplay between public debt, economic freedom, and growth. The concepts of economic freedom offer important insights into the multifaceted dynamics between a government’s debt and a country’s economic growth.
- In chapter 4, the *Index* takes a close look at underlying causes of the rapidly evolving situation in the Middle East. An Iranian economist, Dr. Nahid Anaraki, applies the tools of econometric analysis in a study of causal factors and possible outcomes of the turmoil.
- In chapter 5, The Honorable Obiageli Ezekwesili, Vice President for the Africa Region at the World Bank, presents a strong case for fighting poverty through economic freedom, particularly in the Sub-Saharan Africa region.

The fight for freedom is a never-ending struggle. The *2012 Index of Economic Freedom*, like its predecessors, provides ample evidence of dynamic gains from greater economic freedom, both for individuals and for societies. With global economic recovery far from certain, the imperative for advancing economic freedom to revitalize vibrant entrepreneurial growth is stronger than ever. Our commitment to preserving and enhancing freedom has seen us through much in the past and will surely guide us successfully in the future.

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