

# **Measuring the Pulse of Prosperity: An Index of Economic Freedom Analysis**

## **Introduction:**

### **What is an Index of Economic Freedom?**

An index of economic freedom compares the jurisdictions against each other for various aspects, such as trade freedom, judicial effectiveness, and tax burden. These factors may be weighed for their influence on economic freedom and collated into a single score for ranking. The ranking can be assigned based on a country or can contract to smaller sub-national units like states.

### **Understanding Index of Economic Freedom**

An index of economic freedom measures and ranks countries according to relevant standards judged by the creators of the index. Not all economists will agree on the relevant criteria, of course.

Indices of economic freedom consider free-market economies at the high-end of the spectrum for analysis. There is a firm correlation between both the earnings a country's citizens enjoy and the index of economic freedom ranking of such country. Investors can use the index of economic freedom as a faster way to observe the changes in economies.

Using the Economic Freedom Index, users can discover innovative ways to use the index in science, public policy, enterprise, and advocacy. The index is an excellent analytical tool for evaluating 186 economies worldwide, and each country page is a platform for examining the political and economic trends of a nation in depth.

## **Types of Index of Economic Freedom**

Principal varieties of this index include free, mostly free, moderately free, moderately free, mostly unfree, primarily unfree, and repressed.

## **Recent Updates about the Index of Economic Freedom**

In the Index of Economic Freedom 2019, an annual guide published by The Heritage Foundation, Washington's No. 1 think tank, the ideals of economic freedom which fuelled this impressive progress was again calculated.

Over recent years, economic freedom's top countries have been relatively consistent. In 2019, Hong Kong ranked number one with a score of 90.2 overall. Singapore (89.4), New Zealand (84.4), Switzerland (81.9), Australia (80.9), and Ireland (80.5) followed to round out the economies classified safe.

Using the Atlas method, is used to classify countries for operational purposes - lending eligibility and repayment terms. It is also used to classify economies into four main income groups for analytical purposes: low-income, lower-middle-income, upper-middle-income, and high-income. Further information on the operational and analytical classifications is available [here](#). GNI per capita data are published every year in July for the previous year—data for 2017 will be published during the July 2018 update of the WDI database. However, some national data do not become available until later in the year.

Major updates for national accounts data occur every July and December. However data can be updated more often if countries revise their economic data monthly or quarterly, change methodology or coverage, or introduce new weights. Information on revisions between quarterly scheduled updates is available [here](#).

## **Featured Indicators**

A selection of relevant indicators is presented below. The table shows, for each featured indicator, time coverage per year, for all countries, for each decade since the 1960s, and regional coverage for each World Bank geographical region since 2010. For detailed thematic lists please refer to the World Development Indicators Statistical Tables.

## **What Are Economic Indicators?**

Economic indicators are datasets or statistical representations of details that help indicate and assess the economic health of any nation. Knowing about these determinants helps individuals and entities make more informative and wiser investment decisions, given the direction towards which an economy seems to move.

Human freedom is an inherently valuable social concept that recognizes the dignity of individuals. Human freedom enables and empowers people to do as they please, free from constraints or punishments, so long as it does not impinge upon the freedom of another. Human freedom plays a huge role in human progress.

## **The Human Freedom Index and its purpose**

The Human Freedom Index is an annual report that evaluates the state of human freedom in 165 countries and territories around the world, representing 98.1 percent of the human population as of 2021. The HFI is a broadly comprehensive measure that encompasses both personal and economic freedom, then merges the two into a single value titled simply "human freedom." The Human Freedom Index is co-published by the Cato Institute, the Fraser Institute, and the Liberales Institut at the Friedrich Naumann Foundation for Freedom. The

countries with the highest Human Freedom Index scores are widely considered to be among (the freest countries in the world).

The 2021 Human Freedom Index report is the most comprehensive empirical measure of freedom yet created. It compares and combines 82 different indicators to quantify the degree of freedom in 165 countries and territories during 2019, the most recent year for which sufficient data are available. Each of the 82 indicators examined fits into one of 12 meta-categories.

### **The 12 Categories of the Human Freedom Index:**

1. Rule of Law
2. Security and Safety
3. Movement
4. Religion
5. Association, Assembly, and Civil Society
6. Expression and Information
7. Identity and Relationships
8. Size of Government
9. Legal System and Property Rights
10. Access to Sound Money
11. Freedom to Trade Internationally
12. Regulation

The Human Freedom Index gives each country a score from 0 to 10, wherein a score of 10 represents the most freedom and 0 represents no freedom at all, in each of the 82 indicators. These scores are carefully weighted and combined to determine the values for personal freedom and economic freedom, then those two values are averaged to determine each country's ultimate human freedom index score.

### **Personal freedom and economic freedom compared**

Personal freedom and economic freedom are made up of two sets of distinct, but closely intertwined indicators. Personal freedom involves indicators such as the fairness of the laws, personal safety, freedom of movement and assembly, freedom of religion, freedom to run for political office, freedom of the press, freedom of speech and expression, and freedom to pursue same-sex relationships or obtain a divorce.

In comparison, economic freedom observes indicators such as the size of the government and degree of overbearance it imposes, tax and interest rates, the impartiality of the courts and integrity of the legal system, freedom to participate in financial markets and/or trade internationally, minimum wage, the cost of starting a business, the presence or absence of conscription (obligatory government work), and general freedom to prosper financially without intervention from the government or economic authority.

### **Top 10 Countries with the Highest Human Freedom Indexes (2021):**

1. Switzerland — 9.11
2. New Zealand — 9.01
3. Denmark — 8.98
4. Estonia — 8.91

5. Ireland — 8.90
6. Canada — 8.85
7. Finland — 8.85
8. Australia — 8.84
9. Sweden — 8.83
10. Luxembourg — 8.80

In the 2021 edition of the Human Freedom Index, the average human freedom score was 7.12. Compared to the levels in 2008, the overall freedom of the countries included has decreased by 0.01. The report finds a strong relationship between human freedom and democracy.

The regions with the highest levels of freedom are North America, Western Europe, and East Asia. The lowest levels of freedom are in the Middle East and North Africa, sub-Saharan Africa, and South Asia. Women are particularly unprotected in these regions, where female-specific freedoms are more likely to be repressed.

#### **Top 10 Countries with the Lowest Human Freedom Indexes (2021):**

1. Syria — 3.66
2. Venezuela — 4.03
3. Yemen — 4.08
4. Sudan — 4.48
5. Egypt — 4.49
6. Iran — 4.53

7. Somalia — 4.93
8. Burundi — 5.02 (tie)
9. Iraq — 5.02 (tie)
10. Libya — 5.05

### **The quartiles of human freedom**

The Human Freedom Index further groups each country into one of four quartiles, with the first quartile being the freest and the fourth quartile being the least free. According to the data analyzed for the 2021 report, only 14.6 percent of people live in the first quartile, which offers the greatest amount of personal, economic, and human freedom. Conversely, a full 40.3 percent live in the fourth quartile, which enjoys the lowest degree of personal, economic, and human freedom. What's more, those who live in the first quartile enjoyed a per-capita income of \$48,748. This compared quite favorably to the much lower \$11,259 average income in the fourth quartile.

**What is the freest economy in the world?** Hong Kong. Hong Kong has relatively low taxes, a good legal system, sound money, free trade, and minimal regulations; and it has had these institutions and policies in place for several decades. Other highly rated countries include Singapore, the United States, New Zealand, and the United Kingdom. Table 1 shows the economic freedom ratings of selected countries for 1980, 1990, and 2002.<sup>1</sup>

Singapore is an interesting case because it exhibits an odd combination of high economic freedom and considerable political and civil repression. Although economic freedom and political freedom tend to go together, especially in the long run, Singapore is an exception. It will be worth watching to see if Singapore can maintain this situation. Many scholars believe that economic freedom and political repression are an unsustainable combination.

Some countries, such as Hong Kong, Singapore, and the United States, consistently registered high ratings throughout the 1980s and 1990s. Germany's



economic freedom rating has also been quite steady. Germany's rating in 2002 was 7.3, compared with 7.0 in 1980. Because several other countries have made substantial improvements, however, Germany's ranking has declined, receding to twenty-second in 2002 from fifth in 1980. Likewise, because other countries have improved, France's ranking fell to forty-fourth from twenty-eighth in 1980.

Looking at some absolute scores, one can note a clear trend worldwide toward economic liberalization since 1980. The highest-rated African nation, Botswana, increased its rating from 5.0 in 1980 to 7.4 in 2002 and now ranks eighteenth in the world. Also in Africa, Mauritius's rating jumped from 4.7 in 1980 to 6.1 in 1990 and 7.2 in 2002. In Latin America, Chile's rating improved from 5.3 in 1980 to 7.3 in 2002, making it the highest-rated country in its region.

Among developed countries we also have seen some big reformers. Ireland's rating jumped from 6.2 in 1980 to 7.8 in 2002. The United Kingdom was a big gainer during the Thatcher years, when its rating rose from 6.1 in 1980 to 7.7 in 1990 and, ultimately, to 8.2. Similarly, New Zealand's economic reforms in the late 1980s and early 1990s caused its rating to increase from 6.1 in 1980 to 8.2 in 2002. While these gains are not the largest seen in the world, they do show that well-established developed economies can implement significant economic liberalization.

The world's two largest economies by population, India and China, both have low ratings. But both have made tremendous strides toward more economic freedom. China's rating increased from 3.8 to 5.7, and India's rose from 4.9 to 6.3. While their current ratings are still low by world standards, these improvements in economic freedom have been quite substantial; both countries' economies are growing rapidly as a result.