

ECONOMIC FREEDOM: THE KEY TO HUMAN FLOURISHING

Free-market capitalism is one of mankind’s best ideas. It has led to more practical, measurable advances in living standards, health, knowledge, and societal progress than anything else that man has devised in the past 2,000 years. The Heritage Foundation’s 2024 *Index of Economic Freedom* proves that the world needs free markets that conserve and advance economic freedom today more than ever.

For the past 30 years, since 1995, the *Index* has measured economic freedom’s advances and retreats around the globe country by country, correlating those changes with fundamental measures of economic well-being like economic growth, reductions in poverty, various social indicators like longevity and health, and environmental protection.

At the same time, the principles of economic freedom have been questioned and put to the test. Populist attacks on the free market, fueled by politics in many countries around the world as well as by actual economic setbacks, have gained greater momentum. Out of all the debate, two things have become clear:

- A nation’s capacity to develop and prosper hinges on its economic system and the quality of its institutions, and
- Economic freedom, prosperity, and resilience are undeniably and strongly linked.

The current global economic situation does not change this fundamental truth: Economic freedom, buttressed by the rule of law, fiscal responsibility, market openness, and sound regulatory environments, remains the surest pathway to resilience and prosperity. As the global economy recovers from this challenging period, economic policy must continue to have as its overarching objective preserving the

interplay between freedom and prosperity while reinforcing the values of transparency and good economic governance.

The need to advance economic freedom and vibrant entrepreneurial growth is therefore more imperative than ever. No other economic system has proven to be as capable of adapting to new challenges as has free-market capitalism built on the principles of economic freedom. The dispersed information-gathering processes and price-setting power of free markets guide change far more efficiently than centralized political processes—typically slow and often biased in favor of the status quo—ever can.

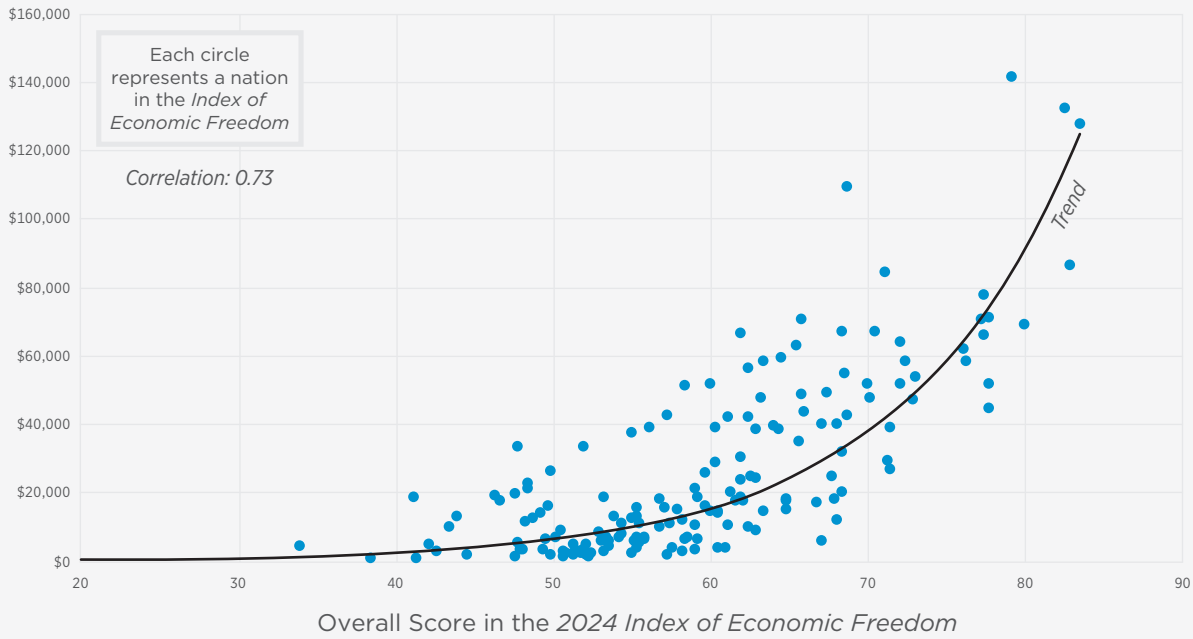
Free markets and free enterprises, sustained by economic freedom, stimulate both the innovation and the practical solutions in all realms that are necessary for progress and sustainable recovery, and this enables better jobs, better products, and healthier, cleaner, and safer societies for all.

RESTORING ECONOMIC FREEDOM: IMPERATIVE FOR RECOVERY AND RESILIENCE

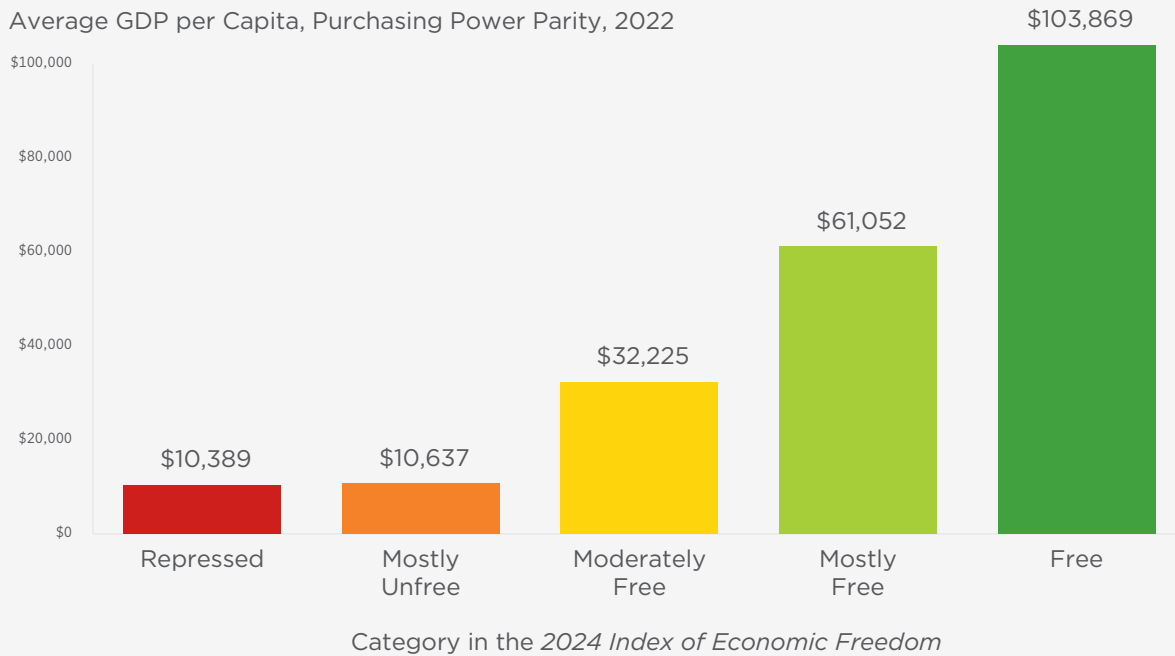
The most fundamental benefit of economic freedom stems from its strong positive relationship to levels of per capita income. As indicated in Chart 1, countries moving up the economic freedom scale show increasingly high levels of average income. For countries achieving scores that reflect even moderate levels of economic freedom (60 or above), the relationship between economic freedom and per capita gross domestic product (GDP) is highly significant. Economies rated “free” or “mostly free” in the 2024 *Index* enjoy incomes that are more than twice the average levels in all other countries and more than five times higher than the incomes of “repressed” economies.

ECONOMIC FREEDOM AND STANDARD OF LIVING

GDP per Capita, Purchasing Power Parity, 2022



Average GDP per Capita, Purchasing Power Parity, 2022



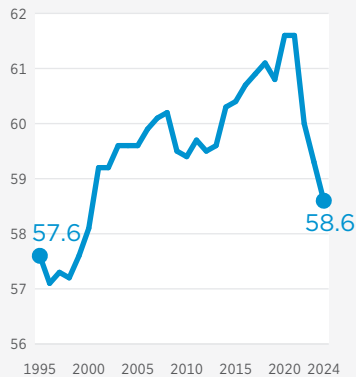
NOTE: Lebanon and North Korea are not included.

SOURCES: Anthony B. Kim, *2024 Index of Economic Freedom* (Washington: The Heritage Foundation, 2024), <http://www.heritage.org/index>; International Monetary Fund, World Economic Outlook database, October 2023, <https://www.imf.org/en/Publications/WEO/weo-database/2022/April> (accessed January 16, 2024); Economist Intelligence Unit; and C.I.A. *World Factbook*.

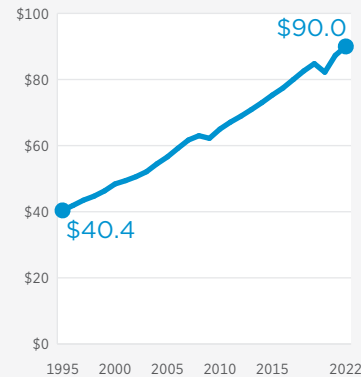
Chart 1 heritage.org

AS ECONOMIC FREEDOM RISES, THE GLOBAL ECONOMY EXPANDS AND POVERTY FALLS

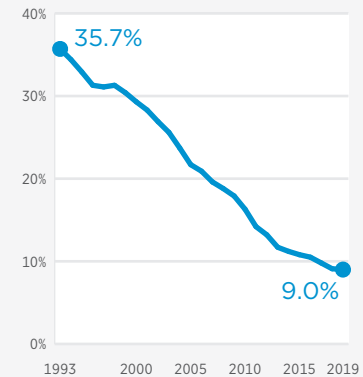
Average Score in the *Index of Economic Freedom*



Global GDP, in Trillions of 2015 U.S. Dollars



Percentage of Global Population Living in Abject Poverty



SOURCES: World Bank, “GDP (Constant 2015 US\$),” <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD> (accessed January 30, 2024); World Bank, “Regional Aggregation Using 2011 PPP and \$1.9/Day Poverty Line,” <https://data.worldbank.org/indicator/SI.POV.DDAY?locations=1W&start=1984&view=chart> (accessed January 30, 2024); and Anthony B. Kim, *2024 Index of Economic Freedom* (Washington: The Heritage Foundation, 2024), <http://www.heritage.org/index>.

Chart 2 heritage.org

By a great many measures, over the past decades, countries that have adopted some version of free-market capitalism with businesses supported by efficient regulations and open to the free flow of goods, services, and capital have broken the vicious cycle of poverty and dependence.

Without question, the free-market system that is rooted in empowerment of the individual and open competition has fueled unprecedented economic growth around the world. As Chart 2 illustrates, for more than two decades, as the global economy has moved toward greater economic freedom, becoming “moderately free” overall, it also has achieved real GDP expansion of around 70 percent. This progress has lifted hundreds of millions of people out of poverty.

With global economic freedom rising steadily over the past two decades, the world has recorded significant economic expansion despite some ups and downs. Meanwhile, the global poverty rate has declined by about two-thirds. Opening the gates of prosperity to ever more people around the world, economic freedom has made the world a profoundly better place. More people are living longer and more fulfilling lives than ever before.

Greater economic freedom, because it is one of the most effective means by which to eliminate poverty, has a major positive impact on overall levels of poverty as well. Poverty intensity as measured by the United Nations Development Programme’s Multidimensional Poverty Index (MPI),¹ which assesses the nature and intensity of deprivation at the individual level in education, health outcomes, and standard of living, is also much lower on average in countries with higher levels of economic freedom. As depicted in Chart 3, the level of poverty in countries with economies that are considered “mostly free” or “moderately free” is only about one-fourth the level in countries that are rated “less free.”

ECONOMIC FREEDOM: DRIVING VIBRANT GROWTH

Economic freedom is closely related to the openness to entrepreneurial activity that allows individuals to innovate, respond to new opportunities in the marketplace, and enjoy success based on their own efforts. Given this positive relationship, governments should be cautious in undertaking short-sighted stimulus programs that increase their own

spending or add new layers of regulation, both of which reduce economic freedom.

The best results are likely to be achieved instead through policy reforms that improve the incentives that drive entrepreneurial activity. These reforms include improvements in the efficiency of business and labor regulations, reductions in tariffs and other barriers to trade or investment, and financial reforms to increase competition, ensure stability, and improve and broaden access to credit.

As documented in this edition of the *Index*, as well as in previous editions and volumes of academic research, vibrant and lasting economic growth is most likely to occur when governments implement policies that enhance economic freedom and empower individuals with greater choice and more opportunities. Advancing economic freedom is a proven policy for dynamic economic expansion and is likely to be the surest path to 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 (30 years), medium-term (10 to 15 years), or short-term (five years), the relationship between changes in economic freedom and changes in economic growth is consistently positive. Improvements in economic freedom are a vital determinant of rates of economic expansion that the record shows will reduce poverty.

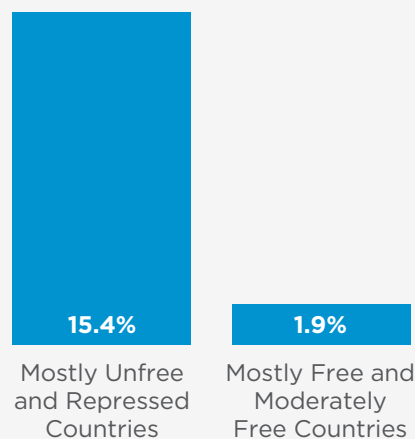
Undeniably, countries moving toward greater economic freedom tend to achieve higher growth rates of per capita GDP over time. Throughout all the time periods considered, the average annual per capita economic growth rates of countries that have increased economic freedom the most are at least about 25 percent higher than those of countries in which freedom has stagnated or declined.

ECONOMIC FREEDOM: ENSURING GREATER HUMAN DEVELOPMENT AND POLITICAL FREEDOM

Increasing economic freedom is unequivocally about achieving greater overall prosperity that includes but also goes beyond the materialistic and monetary dimensions of well-being. The societal benefits of economic freedom extend far beyond higher incomes or lower rates of poverty. Countries with higher levels of economic freedom enjoy higher levels of overall human development as

POVERTY INTENSITY

Average Percentage of Population Living in Multidimensional Poverty



NOTE: Represented are the 103 developing countries scored in both indexes.

SOURCES: United Nations Development Programme, *2023 Global Multidimensional Poverty Index*, <https://hdr.undp.org/content/2023-global-multidimensional-poverty-index-mpi#/indicies/MPI> (accessed January 30, 2024), and Anthony B. Kim, *2024 Index of Economic Freedom* (Washington: The Heritage Foundation, 2024), <http://www.heritage.org/index>.

Chart 3 heritage.org

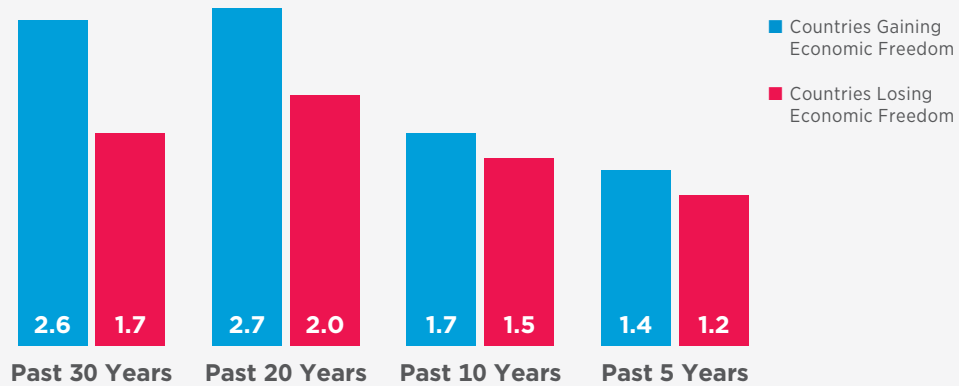
measured by the United Nations Human Development Index (HDI),² which measures life expectancy, literacy, education, and standards of living in countries worldwide.

As Chart 5 shows, governments that choose policies that increase economic freedom are placing their societies on the path to more educational opportunities, better health care, and greater standards of living for their citizens.

In recent years, environmentally related government policies and actions have been more intrusive and economically distortionary. Many of the world's governments are promoting programs to tax carbon emissions, increase taxes on gasoline, and set up nontransparent and economically harmful exchanges and marketplaces for the buying and selling of carbon emissions and are using government revenue to subsidize various types of so-called clean energy. Such policies impose a huge cost on society and discourage economic growth. Fortunately, the same free-market principles that have proven to be the key to economic success can also deliver environmental success.

INCREASING ECONOMIC FREEDOM AND ECONOMIC GROWTH

Average Annual Growth of GDP per Capita (Purchasing Power Parity)



NOTES: Figures are country averages in which both Index scores and data on GDP growth are available over the same time period. Five-year growth rates include 172 countries, 10-year growth rates include 171 countries, 20-year growth rates include 148 countries, and 30-year growth rates include 96 countries.

SOURCES: World Bank, "GDP per Capita Growth (Annual %)," <https://data.worldbank.org/indicator/NY.GDP.PCAP.KD.ZG> (accessed January 30, 2024), and Anthony B. Kim, 2024 Index of Economic Freedom (Washington: The Heritage Foundation, 2024), <http://www.heritage.org/index>.

Chart 4 heritage.org

In countries around the world, economic freedom has been shown to increase the capacity for environmentally friendly innovation. The positive link between economic freedom and higher levels of innovation ensures greater capacity to cope with environmental challenges. Moreover, the most remarkable improvements in clean energy use and energy efficiency over the past decades have occurred not as a result of government regulation, but

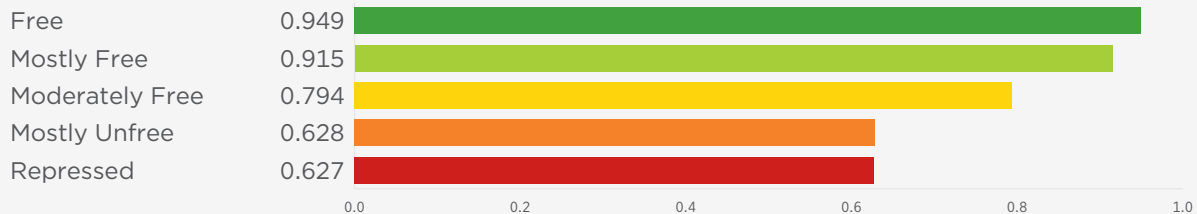
rather because of advances in economic freedom and freer trade.

The regulatory power of the marketplace, which is generally ignored and certainly underappreciated by advocates of big government, pushes firms to identify ever more efficient means of production and respond to consumer demands for environmental cleanliness and sustainability. The result is a virtuous cycle of investment, innovation (including

ECONOMIC FREEDOM AND HUMAN DEVELOPMENT

Category in the 2024 Index of Economic Freedom

Average Human Development Index Score



NOTE: Represented are the 176 nations that are in both datasets.

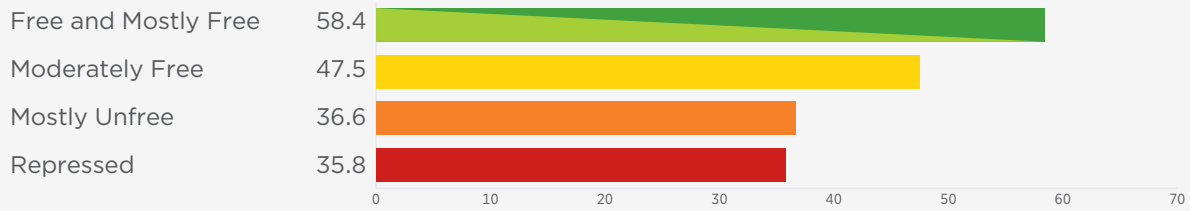
SOURCES: U.N. Human Development Programme, Human Development Index and Its Components, Table 1, HDR21-22_Statistical_Annex_HDI_Table.xlsx (accessed February 6, 2024), and Anthony B. Kim, 2024 Index of Economic Freedom (Washington: The Heritage Foundation, 2024), <http://www.heritage.org/index>.

Chart 5 heritage.org

ECONOMIC FREEDOM AND ENVIRONMENTAL PERFORMANCE

Category in the
2024 Index of
Economic Freedom

Environmental Performance Index Score



NOTE: Represented are the 174 nations that are in both datasets.

SOURCES: Martin J. Wolf, John W. Emerson, Daniel C. Esty, Alex de Sherbinin, and Zachary A. Wendling, *Environmental Performance Index 2022* (New Haven, CT: Yale Center for Environmental Law & Policy, 2022), <https://epi.yale.edu/> (accessed January 30, 2024), and Anthony B. Kim, *2024 Index of Economic Freedom* (Washington: The Heritage Foundation, 2024), <http://www.heritage.org/index>.

Chart 6 heritage.org

ECONOMIC FREEDOM AND GLOBAL INNOVATION

Global Innovation Index Score



NOTE: Represented are the 130 nations that are in both datasets.

SOURCES: World Intellectual Property Organization, *Global Innovation Index 2023: Innovation in the Face of Uncertainty*, <https://www.wipo.int/edocs/pubdocs/en/wipo-pub-2000-2023-en-main-report-global-innovation-index-2023-16th-edition.pdf> (accessed January 30, 2024), and Anthony B. Kim, *2024 Index of Economic Freedom* (Washington: The Heritage Foundation, 2024), <http://www.heritage.org/index>.

Chart 7 heritage.org


ECONOMIC FREEDOM AND DEMOCRATIC GOVERNANCE

Democracy Index 2022 Score



NOTE: Represented are the 161 nations that are in both datasets.

SOURCES: Economist Intelligence Unit, *Democracy Index 2022*, <https://www.eiu.com/n/campaigns/democracy-index-2022/> (accessed January 30, 2024), and Anthony B. Kim, *2024 Index of Economic Freedom* (Washington: The Heritage Foundation, 2024), <http://www.heritage.org/index>.

Chart 8  heritage.org

greener technologies), and dynamic economic growth. (See Chart 6 and Chart 7.)

Greater economic freedom can also provide more fertile ground for effective and democratic governance. Admittedly, the achievement of political freedom through a well-functioning democratic system is a messy and often excruciating process, but the positive relationship between economic freedom and democratic governance is undeniable. (See Chart 8.)

By empowering people to exercise greater control of their daily lives, economic freedom ultimately nurtures political reform by making it possible for individuals to gain the economic resources they can use to challenge entrenched interests or compete for political power, thereby encouraging the creation of more pluralistic societies. Pursuit of greater economic freedom is thus an important stepping-stone

to democracy: It empowers the poor and builds the middle class.

ECONOMIC FREEDOM: THE FOUNDATION OF UPWARD MOBILITY AND SOCIAL PROGRESS

The massive improvements in global indicators of income and quality of life in recent decades reflect a paradigm shift in the debate about how societies should be structured economically to achieve the most optimal outcomes. This debate has largely been won by free-market capitalism. Criticisms persist, however, based primarily on the inequality of outcomes in a system that rewards individual effort and ability, which differ within any population, and where differences in individuals' starting positions can sometimes have a profound effect on their end results.

Alternatives to free-market capitalism, such as socialism, have proven to be both unequal to the task of eliminating inequality and counterproductive in that they tend to slow economic growth and thus reduce the resources that society has available to reduce poverty or pollution. Most advanced societies have thus opted for some version of free-market capitalism with various types of government intervention to redistribute resources within society. It is our hope that the *Index of Economic Freedom's* data on governments' tax, spending, and regulatory activities can shed light on the relative impacts of such interventions.

Ultimately, discussions of inequality are more about a society's values than they are about its economic system. At the heart of ensuring upward economic mobility is the task of advancing economic freedom so that dynamic and inclusive growth can occur meaningfully for *all* members of society. The evidence is strong that societies based on economic freedom are the societies in which social progress is strongest. Advancing economic freedom is really about putting in place growth-inducing pro-market policies that benefit the greatest possible number of people rather than a select few.

TIME FOR RENEWAL, NOT RETREAT

A recurring theme in human history has been resilience and revival. The results of the 2024 *Index of Economic Freedom* demonstrate that by building on what works, countries can accelerate their progress against even the most difficult challenges and chart ever greater economic success.

The record is clear: Economically free and dynamic societies have demonstrated repeatedly

that they are able to improve standards of living and respond effectively to any crises that may arise. This record includes countless individual stories of human progress and the achievements of countries and their citizens—billions of people around the world whose lives have measurably improved and who continue to strive for greater freedom. The path by which the global economy can emerge stronger than it was before runs through the renewal of commitments to the proven ideas of the free-market system.

Since early 2020, the global economy has been dealing with one of the greatest political, social, and economic challenges the world has ever faced. The livelihoods of millions of people have been deeply disrupted both by the health impacts of the COVID-19 pandemic and—perhaps even more—by governments' responses to it in the form of lockdowns, travel bans, and restrictions on trade, all of which have exacted real and heavy economic and social costs. Around the world, the economic policy landscapes have taken sharp and varying turns with divergent impacts across countries.

From an economic policy perspective, the imperative now is for governments to avoid compounding the problem with ill-advised actions that distort markets, destroy incentives to work and innovate, or otherwise diminish the prospects for rapid recovery and growth. In the long run, the proven way to revitalize the economic life of societies in the most broad-based, meaningful way is by restoring what we know has worked best: economic freedom that has unambiguously made our societies strong, vibrant, and flourishing.

ENDNOTES

1. United Nations Development Programme and Oxford Poverty and Human Development Initiative, *Global Multidimensional Poverty Index 2023: Unstacking Global Poverty: Data for High-Impact Action*, <https://hdr.undp.org/system/files/documents/hdp-document/2023mpireportenpdf.pdf> (accessed January 9, 2024).
2. United Nations Development Programme, *Human Development Index*, <https://hdr.undp.org/data-center/human-development-index#/indicies/HDI> (accessed January 9, 2024).