Executive Summary

- The index published in *Economic Freedom of the World* measures the degree to which the policies and institutions of countries are supportive of economic freedom. The cornerstones of economic freedom are personal choice, voluntary exchange, freedom to compete, and security of privately owned property. Thirty-eight components and sub-components are used to construct a summary index and to measure the degree of economic freedom in five areas: (1) size of government; (2) legal structure and protection of property rights; (3) access to sound money; (4) international exchange; and (5) regulation.

- Hong Kong retains the highest rating for economic freedom, 8.7 of 10, closely followed by Singapore at 8.6. New Zealand, Switzerland, United Kingdom, and United States tied for third with ratings of 8.2. The other top 10 nations are Australia, Canada, Ireland, and Luxembourg. The rankings of other large economies are Germany, 22; Japan and Italy, 36; France, 44; Mexico, 58; India, 68; Brazil, 74; China, 90; and Russia, 114.

- Most of the lowest-ranking nations are African, Latin American, or former communist states. Botswana's ranking of 18 is by far the best among continental sub-Saharan African nations. Chile, with the best record in Latin America, was tied with four other nations at 22. The bottom five nations were Venezuela, Central African Republic, the Democratic Republic of Congo, Zimbabwe, and Myanmar. However, a number of other nations for which data are not available, such as North Korea and Cuba, may have even less economic freedom.

- The chain-link EFW index (exhibit 1.4) makes it possible to identify the countries that have moved substantially toward economic liberalization and to pinpoint the time period during which the changes occur. The following countries have registered substantial gains in economic freedom during the last couple of decades: Australia, Botswana, Chile, China, El Salvador, Ghana, Iceland, India, Ireland, Mauritius, New Zealand, Trinidad and Tobago, Uganda, and the United Kingdom. In addition a number of former centrally planned economies have registered large recent improvements. Estonia, Hungary, Czech Republic, Latvia, and Lithuania were all in the top 45 in 2002. In contrast, the ratings of Venezuela, Zimbabwe, Indonesia, Argentina, and Malaysia have declined significantly in recent years.

- Chapter 2 analyzes the impact of economic freedom on investment, growth, and income from 1980 to 2000. The major findings of this analysis were:
  (1) economically free countries grow more rapidly (exhibit 2.1),
  (2) countries with more economic freedom both attract more investment and generate a higher productivity from that investment than countries with less economic freedom (exhibits 2.2, 2.3, and 2.4),
  (3) increases in economic freedom during the 1980s and 1990s enhanced growth during the period from 1980 to 2000 (exhibit 2.5).
  (4) long-term differences in economic freedom explain approximately two-thirds of the variation in cross-country per-capita GDP (exhibit 2.6).
  (5) a legal structure that provides for secure property rights, even-handed enforcement of contracts, and rule of law is essential if a country is going to grow and achieve a high level of income.