

# Using the *Index of Economic Freedom*

A Practical Guide for Citizens and Leaders



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Economics at The Heritage Foundation*

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**F**or two decades, the *Index of Economic Freedom*, co-published by *The Wall Street Journal* and The Heritage Foundation, has served as a beacon for people around the world who recognize economic liberty and individual opportunity as the surest path to greater prosperity.

The ideas behind the *Index* are fundamental and enduring, applicable to the trends that researchers and educators analyze—and the decisions that investors, government officials, and advocacy groups make across the world. This timely, accurate research is relevant in spheres many have not even considered.

This practical guide provides over 20 ways the *Index of Economic Freedom* can be used and built upon as we endeavor to enhance and defend economic freedom. As the *Index* moves into its next decade, it is vital to apply these ideas to today's greatest challenges.

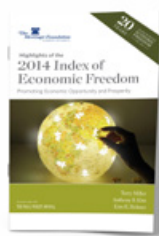


## ADVOCACY

Citizens at the grassroots level are on the front lines promoting the ideals of liberty. The *Index of Economic Freedom* is a vital tool for those who want to build a better livelihood for themselves and society through advocacy.

Currently, no country in the *Index* receives a perfect score—either overall or in any factor. This provides plenty of ammunition for advocates of economic freedom to promote their causes. Those interested in advocating for increased levels of economic freedom in their country can:

- **Promote economic freedom in your local community.** Meet with local members of your community and discuss how the principles of economic freedom can be applied to your city or state. Sometimes the most powerful movements start in the smallest ways. Promoting economic freedom and educating others in your community are vital for spreading the word about the benefits of economic freedom.
- **Share and distribute the facts on economic freedom.** Whether in a book club or other small group where you participate, people in your sphere of influence can benefit from understanding economic freedom. Heritage publishes a short booklet *Highlights of the Index of Economic Freedom*, an excellent resource to provide to friends and family.



- **Contact your representatives.** Hold your representatives accountable in their support for the principles of economic freedom. Be vocal about legislation that is not consistent with these principles by writing letters, making phone calls, and setting up meetings with your local and national lawmakers. Share your concerns about economic freedom directly and publicly by commenting on your elected representatives' Facebook and Twitter profiles.



**E**conomic freedom should be a guiding principle for policymakers and their staff as they shape the laws and institutions of society. The *Index* is a helpful guide for anyone interested in seeing which policies are succeeding (or failing) in promoting economic freedom.

Using *Index* analysis and data is also useful for measuring and benchmarking economic and institutional impacts, as laws and policies are implemented.

Policymakers who want to improve the efficacy of their efforts to promote prosperity by ensuring consistency with the principles of economic freedom can:

- **Develop economic reforms based on the Ten Economic Freedoms.** The *Index of Economic Freedom* is based on 10 factors, ranked on a numeric scale from zero to 100. With easy-to-read graphics on each country page, policymakers can easily identify opportunities for improving economic performance in which their country performs poorly. In addition, each country page presents in-depth justification for each factor score, allowing individuals to identify specific reforms to undertake.



MILLENNIUM  
CHALLENGE CORPORATION  
UNITED STATES OF AMERICA

Since 2004, the U.S. Millennium Challenge Corporation has used the *Index* to help determine whether countries should qualify for U.S. foreign assistance.

- **Incorporate the *Index* in policy review and implementation.** The *Index* provides valuable data for measuring the results of government policies and programs. Following the example of the Millennium Challenge Corporation, U.S. and international policymakers can use the *Index* to monitor policy achievements and outcomes. This could include targeting foreign policy objectives to economic freedom indicators and linking the success of economic reform implementation to *Index* scores.
- **Create an economic freedom agenda.** Each year, experts at The Heritage Foundation update the “Global Agenda for Economic Freedom.” This report lays out key areas for reform that are consistent with the principles of economic freedom. It is a useful resource for policymakers around the globe who want to implement economic freedom policies in their countries.



## EDUCATION

Understanding the principles of economic freedom and their importance in building more prosperous societies is a key lesson for students around the world. Today, students are often not taught the historical connection between economic freedom and prosperity.

Recent studies (see below) indicate high school students are largely ignorant of economics and economic freedom in general. For educators, the *Index* is an educational tool that can be used as a framework for teaching students about economics and economic freedom.

### By the Numbers:

#### High School Students and Economics—

Only **22 states** in the U.S. require economics courses in high school.

The average American high school student scored **53 percent** (a failing grade) on a simple economics quiz.

Source: National Council for Economic Education

### Understanding America:

#### Why Does Economic Freedom Matter?



#### Share and distribute the facts on economic freedom.

To bring these issues to the classroom, Heritage has published a short booklet *Why Does Economic Freedom Matter?* that examines these issues from America's founding to the present day. For students attending college, the short booklet *Highlights of the*

*Index of Economic Freedom* is an enlightening resource. Contact Heritage for information on how educators can receive materials in bulk.

**Develop Curriculum.** Separately or as a whole, the principles of economic freedom can be molded and shaped into a variety of lesson plans and curricula, ranging from business courses to law and economics. A comprehensive course on economic freedom may include the following seven lessons:

- Lesson 1: Fundamentals of Economic Freedom.** Explore the intellectual and philosophical truths in the works of Adam Smith, Friedrich Hayek, and Milton Freidman.
- Lesson 2: Rule of Law.** Discover how property rights underpin our society, and how corruption (including crony capitalism) affects the efficiency of markets.
- Lesson 3: Government Size.** Study the effects taxes and government spending have on individuals and entrepreneurs—such as the crowding-out effect of government borrowing.
- Lesson 4: Regulatory Efficiency.** Learn the importance of the freedom to work, inflation, and how government regulations impact the functioning of markets.
- Lesson 5: Open Markets.** Understand the benefits of trade, including comparative advantage and the effects that tariffs have on the goods we buy.
- Lesson 6: Nation Case Studies.** Using the *Index* as a primary source, identify a country's weakest economic freedom factor, the reasons for it, and recommend reforms.
- Lesson 7: Comparative Analysis.** Choosing one rich and one poor country, highlight where the economies have succeeded and failed based on economic freedom principles.

Educators can make these ideas come alive with relevant examples. Compare business freedom and licensing to the frustration of going to the DMV to get a driver's license.

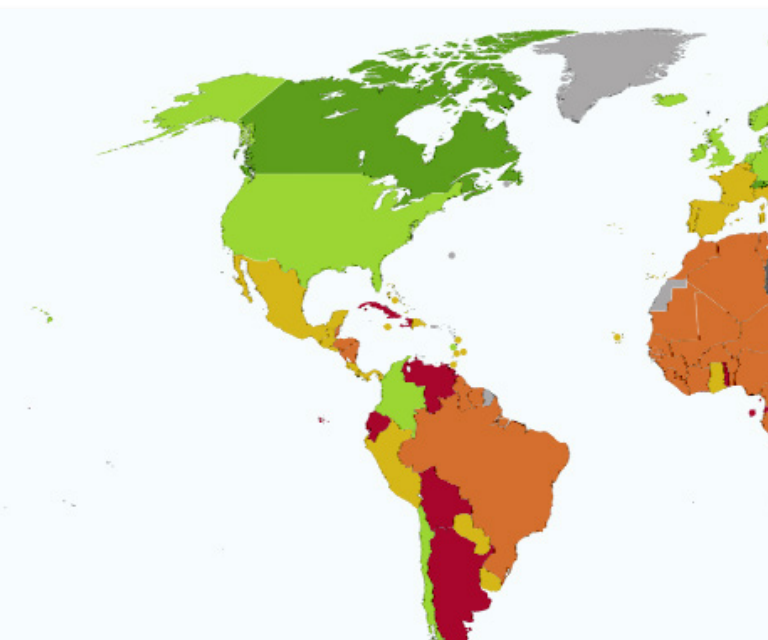


## MARKET ANALYSIS

As global markets expand and become more interconnected, businesses are increasingly looking for resources to help identify competitive and profitable opportunities both in the United States and overseas. The *Index of Economic Freedom* is an important tool for meeting this need.

Drawing from a team of researchers, economists, and area specialists at The Heritage Foundation, the *Index* includes objective measurements, historical background, and policy analysis of 186 economies throughout the world. This detailed research can be used as an important resource for businesses and investors conducting market analysis. Potential applications include:

- **Political risk analysis.** Included in each country page is a historical background that provides the political and historical context for the *Index's* conclusions. This information, as well as key macroeconomic statistics, complement the 10 economic freedoms and provide readers with timely,

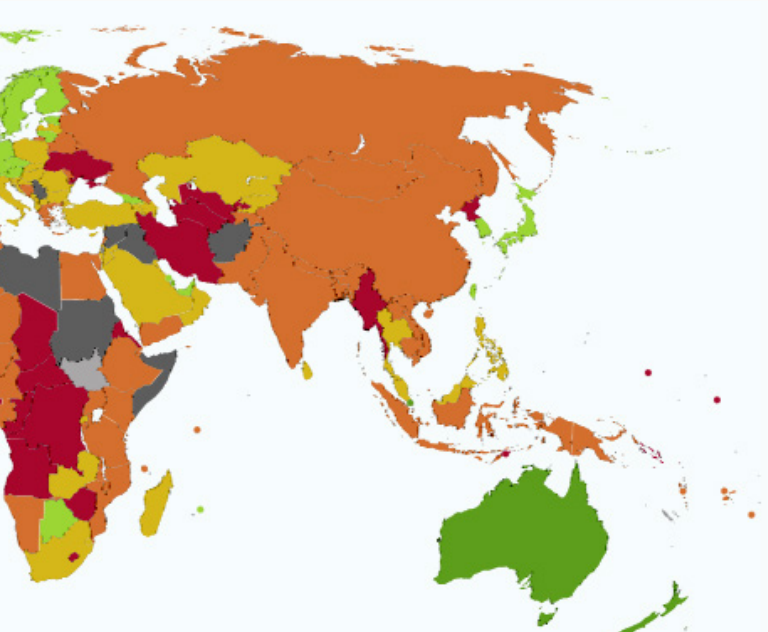


Use the **Economic Freedom Heat Map** to create custom comparison charts of over 180 economies worldwide—online at [heritage.org/index](https://heritage.org/index)



objective information on the potential political risk of the country in question. This information can be used as an important reference for business leaders and investors as they seek to enter markets throughout the world.

- **Tracking economic reform.** Pro-market economic reforms are essential to improving a country's competitiveness and score in the *Index of Economic Freedom*. Perhaps one of the most important insights for businesses is that they operate not merely in an economy, but in a political economy. Each country page tracks ongoing reforms in four areas relevant to economic freedom: (1) rule of law, (2) government size, (3) regulatory efficiency, and (4) market openness. The *Index* provides vital insights into major reform agendas in countries throughout the world, as well as their policy outcomes.
- **Understanding regional competitiveness.** The proliferation of regional supply chains and trading networks makes understanding regional competitiveness important for any investor. The *Index* is a helpful tool for identifying and analyzing competitive markets, both amongst and within geographical regions.





## INVESTMENT PROMOTION

Increasingly, countries across the globe are competing for limited investment dollars. Attracting investment is key to growth, and instituting good public policies (including economic freedom) is vital for any country looking to improve its attractiveness on the international stage.

Branding has become a crucial factor for marketing countries to global investors. Countries have turned to investment promotion and industrial development agencies to promote their economies.

In recent years, the Cyprus Investment Promotion Agency and Industrial Development Agency of Ireland have both publically promoted their countries' success in the *Index*.



IRELAND



CYPRUS

As a measure of economic freedom and competitiveness, the *Index* can help countries market themselves. Steps national leaders can take include:

- **Collaborate with The Heritage Foundation on an *Index* launch.** Each January, The Heritage Foundation releases a new edition of the *Index of Economic Freedom*. This launch week is an exciting time for tracking a nation's progress on several important economic indicators. For many countries, the *Index* launch is a time of worldwide press coverage as the media analyzes how it has become more free. Heritage experts are available to provide expert commentary on a country's advances in economic freedom.
- **Promote your country's progress on an investment promotion website.** Investment authorities regularly boast about good investment grades from Standard & Poor's and Moody's. Similarly, economic freedom is something to boast about, too. Promoting positive progress toward economic freedom on a country's investment website is highly attractive to investors and observers and indicates a commitment to reform and good public policy.



Opening a business can be difficult and risky. When coupled with high taxes, inefficient regulations, corruption, and financial risk, the barriers to becoming a successful entrepreneur are often impossibly high. Sometimes these risks are difficult to track, and not abundantly clear.

The *Index of Economic Freedom* can provide a solution by serving as a transparent, easy-to-understand tool to help entrepreneurs understand the risks of starting a business in their own country.

Each of the *Index's* four themes—rule of law, government size, regulatory efficiency, and open markets—affect the operation of business and the ability of entrepreneurs to start and maintain profitable enterprises. As a result, entrepreneurs can use the *Index* as an important source to:

- **Understand the risks facing your business.** High taxes, tariffs, inflation, excessive steps to obtain a business license, as well as unclear and arbitrary enforcement of property rights are all risks facing businesses around the globe. The *Index* compiles these factors in a single source so entrepreneurs can conveniently learn about the issues you will face—before filing your first tax return or heading to the business registrar.
- **Lobby lawmakers for increased economic freedom.** In many countries, business communities are the most vocal and persistent advocates of economic freedom. As a result, they have the opportunity to promote economic freedom in national capitals around the world. As mentioned above, the *Index* can be used as an effective tool for tracking the public policy priorities of lawmakers and holding them accountable for the policies that either discourage or encourage entrepreneurship in their societies.
- **Track how public policy will affect your bottom line.** Every action by lawmakers affects a company's bottom line in some way. The *Index of Economic Freedom* helps to track these effects by measuring the ability of individuals and entrepreneurs to expand businesses without undue government intervention. Each economic freedom contains key insights into public policy developments of that respective country, allowing entrepreneurs to track the policies that directly affect them and their employees.



## ACADEMIC RESEARCH

Nobel Laureate Milton Friedman first professed the need for a way to measure and monitor economic freedom around the world. Since then, the *Index of Economic Freedom* has been featured in numerous pieces of empirical and theoretical academic research from respected research institutions.

Data-driven and fact-based, the *Index* is a useful qualitative and quantitative tool for academics and college students interested in studying the impacts that economic freedom has on economies and societies.

### Universities Using the Index—



universität  
wien



Queen's  
UNIVERSITY



ILLINOIS STATE  
UNIVERSITY  
*Illinois' first public university*

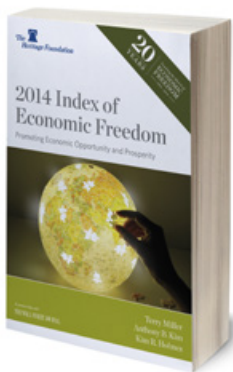


WAKE FOREST  
UNIVERSITY

### Academics and students can use the Index to:

- **Conduct quantitative analysis of the global economy.** In 2014 alone, the *Index* authors collected over 7,000 data points, and immeasurable qualitative research information. This information can be used to contribute to the growing statistical and econometric analysis of economic freedom over the past two decades. *Index* data can easily be accessed through an easy-to-use website database. Data include not only individual factor scores and rankings, but also macroeconomic data, including unemployment rates, gross domestic product, foreign direct investment flows, and debt levels. All data are collected from impartial third-party sources, such as the World Bank, the International Monetary Fund, and the World Trade Organization.

- **Use the *Index* for public policy research and analysis.** The *Index* provides objective background material on nearly every economy in the world. Each country page is packed with information on recent social, economic, and political developments —authored by The Heritage Foundation’s foreign policy experts. In addition, each country page offers up-to-date information and analysis of public policies, reforms, regulatory changes, and business environments. Rankings and scores of all economic freedom factors are available for the entire 20-year history of the publication. This information can be helpful for conducting research and analysis on public policies throughout the world.



- **Learn about recent empirical and theoretical studies on economic freedom.** Each edition of the *Index of Economic Freedom* includes work from scholars on the subjects of economic freedom and free markets. These include such notables as John Tomasi of Brown University, Harvard University economist Robert Barro, and Xavier Sala-i-Martin of Columbia University. These works can be easily accessed on the *Index* website, and contribute to a growing academic literature on economic freedom. For current researchers, the data provides an important intellectual foundation for further free-market studies.

Instead of searching multiple websites, researchers can access macroeconomic data for **186 countries** in one central location:  
[heritage.org/index](http://heritage.org/index)

## A WORLD OF KNOWLEDGE AWAITS

In addition to the annually updated *Index of Economic Freedom* – and companion *Highlights* booklet – don't miss these world-class Heritage resources.

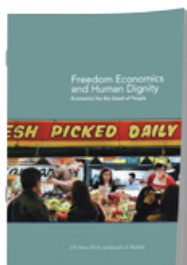
### ***Understanding America Series***



A series of engaging booklets, the *Understanding America* Series explores how America's commitment to the universal truths of human equality and the right to self-government—as proclaimed in the Declaration of Independence—requires a vigilant defense of the cause of liberty. Booklets, 20 pages each.

### ***Freedom Economics and Human Dignity***

A quick read for high school students and above, this booklet reveals how individual freedom serves the well-being of people worldwide. You'll learn how economic freedom helps order our lives together in a way that reflects the nature of man and best connects resources with material needs. Booklet, 32 pages.



Explore our full selection of booklets films, and more at [shop.heritage.org](https://shop.heritage.org)



## **ABOUT THE HERITAGE FOUNDATION**

The Heritage Foundation is a research and educational institution—a think tank—whose mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defense.

Our vision is to build an America where freedom, opportunity, prosperity, and civil society flourish. As conservatives, we believe the values and ideas that motivate our Founding Fathers are worth conserving. As policy entrepreneurs, we believe the most effective solutions are consistent with those ideas and values.

For the latest news, research, and details on membership, visit our website [heritage.org](https://www.heritage.org)



## ONWARD IN ECONOMIC FREEDOM

Going into its 21st year, the *Index of Economic Freedom* has the potential to be a vital tool for a large constituency, from investors to students to policymakers and beyond.

This practical guide is a useful starting point for the next generation of individuals who wish to use and apply the principles of economic freedom in their lives.

By *Using the Index of Economic Freedom*, individuals can improve their businesses, advocate good public policies, educate their children and, most important, help build a society where freedom, opportunity, prosperity, and civil society flourish.

Explore the *Index of Economic Freedom* in depth at [heritage.org/index](https://heritage.org/index)

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