

# WHY ECONOMIC FREEDOM MATTERS

A recurring theme in human history has been resilience and revival. The results of the 2025 *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.

Since 1995, the *Index* has measured economic freedom's advances and retreats around the globe, country by country, and has correlated 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. The weight of the cumulative evidence is clear: Economic freedom, buttressed by the rule of law, fiscal responsibility, market openness, and sound regulatory environments, remains the surest pathway to resilience and prosperity.

The need to advance economic freedom and vibrant entrepreneurial growth is more imperative now than ever before. No other economic system has demonstrated the ability of free-market capitalism, built on the principles of economic freedom, to adapt to new challenges. 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 toward the status quo—ever can.

Free markets and free enterprises, sustained by economic freedom, stimulate both the innovation and the practical solutions that are necessary for progress and sustainable recovery in all areas of human endeavor, thereby enabling better jobs, better products, and healthier, cleaner, and safer societies for all.

## ADVANCING ECONOMIC FREEDOM: THE KEY TO HUMAN FLOURISHING AND RESILIENCE

Economic Freedom's most fundamental benefit stems from its strong positive relationship to levels of per capita income. As indicated in Chart 1 and Chart 2, countries show increasingly high levels of average income as they move up the economic freedom scale. 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 2025 *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.

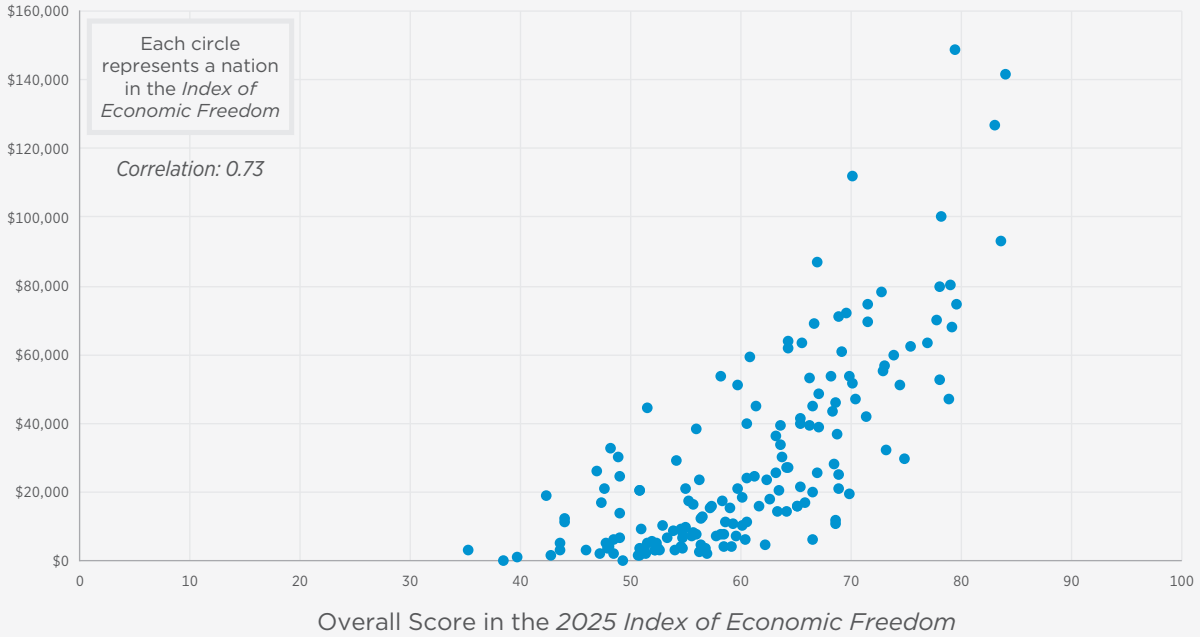
By a great many measures, over the past decades, countries that have adopted some version of free-market capitalism with businesses supported by efficient regulations and open to the free flow of goods, services, and capital have broken the vicious cycle of poverty and dependence.

It can no longer be doubted that the free-market system, 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, the global economy has moved toward greater economic freedom, becoming “moderately free” overall, while achieving real GDP expansion of approximately 70 percent. The result of this progress has been to lift hundreds of millions of people out of poverty.

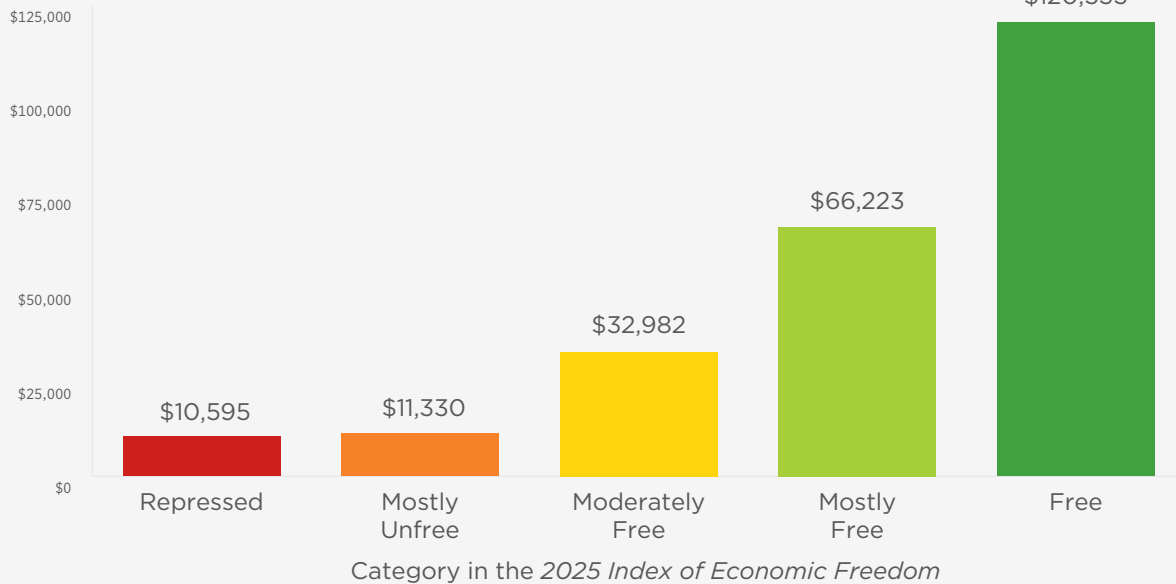
Meanwhile, the global poverty rate has declined by about two-thirds. Opening the gates of prosperity to ever more people around the world, economic freedom has made the world a profoundly better

## ECONOMIC FREEDOM AND STANDARD OF LIVING

GDP per Capita, Purchasing Power Parity, 2023



Average GDP per Capita, Purchasing Power Parity

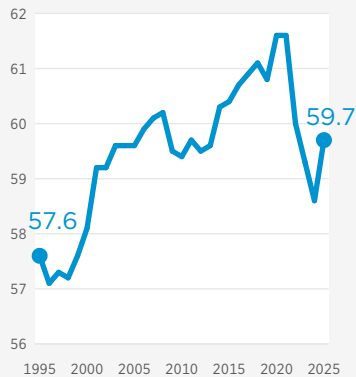


**SOURCES:** International Monetary Fund, *World Economic Outlook* database, October 2024, <https://www.imf.org/en/Publications/WEO/weo-database/2024/October> (accessed February 3, 2025); Central Intelligence Agency, *The World Factbook*, <https://www.cia.gov/the-world-factbook/> (accessed February 3, 2025); Anthony B. Kim, *2025 Index of Economic Freedom* (Washington: The Heritage Foundation, 2025), <http://www.heritage.org/index>.

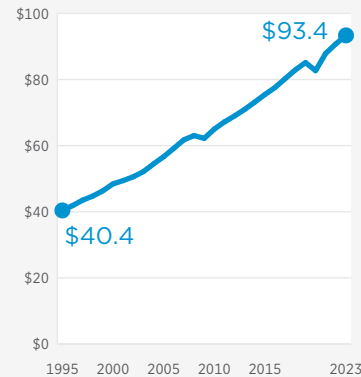
Chart 1 heritage.org

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

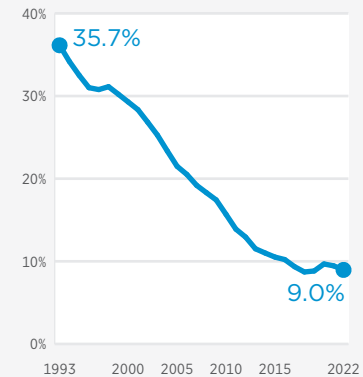
Average Score in the 2025 Index of Economic Freedom



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?end=2019&start=1992> (accessed February 4, 2025); World Bank, “Poverty and Inequality Platform,” <https://pip.worldbank.org/home> (accessed February 4, 2025); Anthony B. Kim, *2025 Index of Economic Freedom* (Washington: The Heritage Foundation, 2025), <https://www.heritage.org/index>.

Chart 2 heritage.org

place: More people are living longer and more fulfilling lives than ever before.

Poverty intensity as measured by the United Nations Development Programme’s Multidimensional Poverty Index (MPI), 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. Chart 4 shows the close correlation between economic freedom and entrepreneurial opportunity.

Given this positive relationship, governments should be cautious in undertaking shortsighted 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 the surest way to facilitate dynamic economic expansion and is therefore 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 improved economic freedom and 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 vital if countries are to achieve the 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 in successive editions of the *Index*, the average annual per capita economic growth rates of countries that have increased economic freedom the most are approximately 25 percent higher—at a minimum—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, but the benefits to society 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 measured by the United Nations Human Development Index (HDI), which measures life expectancy, literacy, education, and standards of living in countries worldwide.

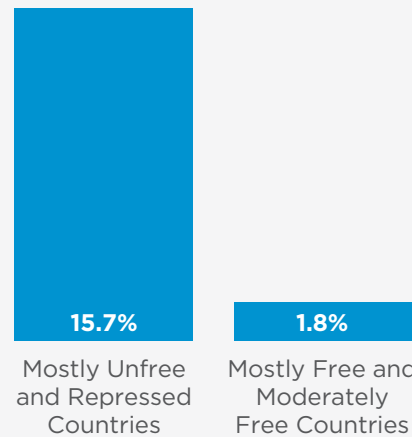
As Chart 5 shows, governments that choose policies that increase economic freedom are placing their societies on the path to more educational opportunities, better health care, and higher standards of living for their citizens.

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 implement 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 retard economic growth. Fortunately, the same free-market principles that have proven to be the key to economic success can also deliver environmental success.

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

### POVERTY INTENSITY

Average Percentage of Population Living in Multidimensional Poverty



**NOTE:** Represented are the 104 developing countries scored in both indexes.

**SOURCES:** United Nations Development Programme, *Global Multidimensional Poverty Index 2024: Poverty Amid Conflict*, <https://hdr.undp.org/content/2024-global-multidimensional-poverty-index-mpi#/indicies/MPI> (accessed February 4, 2025), and Anthony B. Kim, *2025 Index of Economic Freedom* (Washington: The Heritage Foundation, 2025), <http://www.heritage.org/index>.

Chart 3 heritage.org

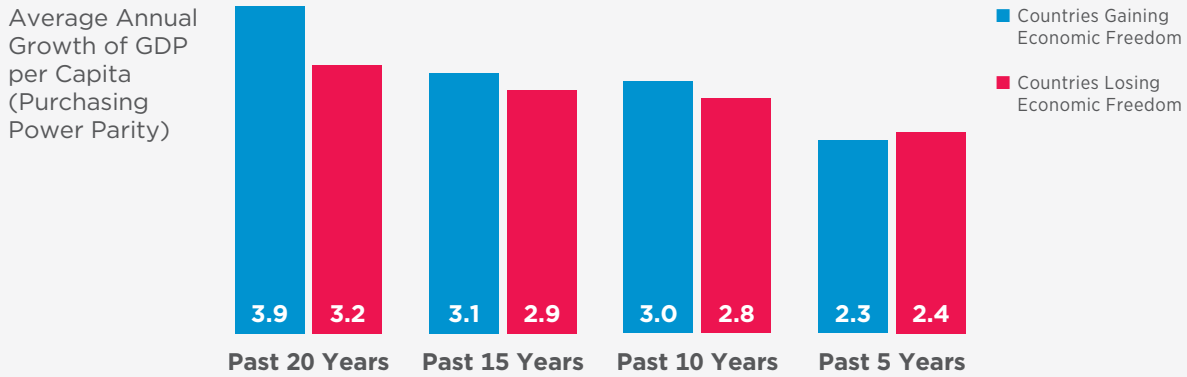
efficiency over the past decades have occurred not as a result of government regulation, but because of advances in economic freedom and freer trade.

The regulatory power of the marketplace, which is generally ignored and certainly underappreciated by advocates of big government, pushes firms to identify increasingly efficient means of production and respond to consumer demands for environmental cleanliness and sustainability. The result is a virtuous cycle of investment, innovation (including 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. The achievement of political freedom through a well-functioning democratic system is admittedly 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

## INCREASING ECONOMIC FREEDOM AND ECONOMIC GROWTH



**NOTES:** Figures are country averages for which both Index scores and data on GDP growth are available over the same time period. Five-year growth rates include 174 countries, 10-year growth rates include 173 countries, 15-year growth rates include 171 countries, and 20-year growth rates include 150 countries.

**SOURCES:** International Monetary Fund, *World Economic Outlook* database, October 2024, <https://www.imf.org/en/Publications/WEO/weo-database/2024/October> (accessed February 4, 2025), and Anthony B. Kim, *2025 Index of Economic Freedom* (Washington: The Heritage Foundation, 2025), <http://www.heritage.org/index>.

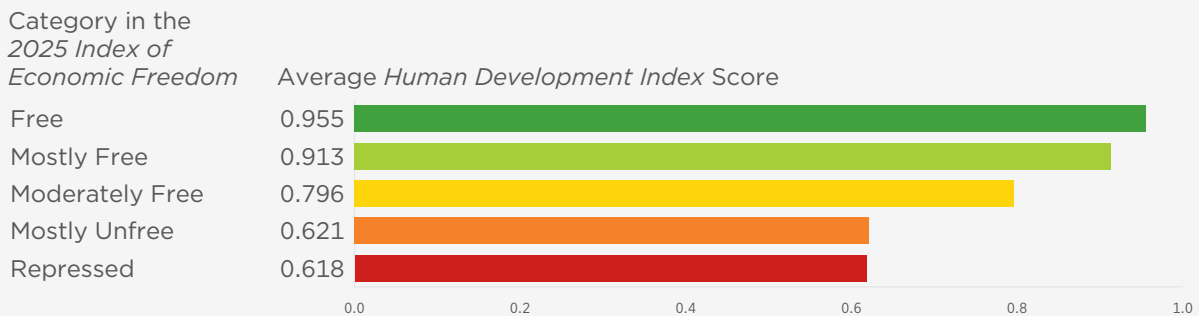
Chart 4 heritage.org

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

## ECONOMIC FREEDOM: THE FOUNDATION OF UPWARD MOBILITY

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 desirable outcomes. This debate has largely been won by free-market capitalism. Criticisms persist, however,

## ECONOMIC FREEDOM AND HUMAN DEVELOPMENT



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

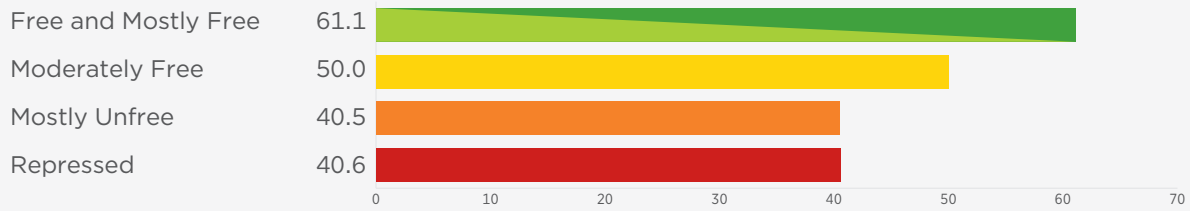
**SOURCES:** U.N. Human Development Programme, *Human Development Report 2023/2024*, <https://hdr.undp.org/content/human-development-report-2023-24> (accessed February 4, 2025), and Anthony B. Kim, *2025 Index of Economic Freedom* (Washington: The Heritage Foundation, 2025), <http://www.heritage.org/index>.

Chart 5 heritage.org

## ECONOMIC FREEDOM AND ENVIRONMENTAL PERFORMANCE

Category in the  
2025 Index of  
Economic Freedom

Environmental Performance Index Score



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

**SOURCES:** Sebastian Block et al., *Environmental Performance Index 2024* (New Haven, CT: Yale Center for Environmental Law & Policy, 2024), <https://epi.yale.edu/> (accessed February 4, 2025), and Anthony B. Kim, *2025 Index of Economic Freedom* (Washington: The Heritage Foundation, 2025), <http://www.heritage.org/index>.

Chart 6 heritage.org

## ECONOMIC FREEDOM AND GLOBAL INNOVATION

2024 Global Innovation Index Score



**NOTE:** Represented are the 131 nations that are in both datasets.

**SOURCES:** World Intellectual Property Organization, *Global Innovation Index 2024: Unlocking the Promise of Social Entrepreneurship*, [https://www.wipo.int/web-publications/global-innovation-index-2024/assets/67729/2000%20Global%20Innovation%20Index%202024\\_WEB3lite.pdf](https://www.wipo.int/web-publications/global-innovation-index-2024/assets/67729/2000%20Global%20Innovation%20Index%202024_WEB3lite.pdf) (accessed February 4, 2025), and Anthony B. Kim, *2025 Index of Economic Freedom* (Washington: The Heritage Foundation, 2025), <http://www.heritage.org/index>.

Chart 7 heritage.org


## ECONOMIC FREEDOM AND DEMOCRATIC GOVERNANCE

Democracy Index 2023 Score



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

**SOURCES:** Economist Intelligence Unit, *Democracy Index 2023*, <https://www.eiu.com/n/campaigns/democracy-index-2023/> (accessed February 4, 2025), and Anthony B. Kim, *2025 Index of Economic Freedom* (Washington: The Heritage Foundation, 2025), <http://www.heritage.org/index>.

Chart 8  heritage.org

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 how far they advance.

Alternatives to free-market capitalism, such as socialism, have proven to be unequal to the task of eliminating inequality and, because they tend to slow economic growth and thus reduce the resources that society has available to reduce poverty or pollution, notably counterproductive. 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 impact 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 persuasive 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.

### A TIME FOR RENEWAL, NOT RETREAT

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 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.

From the perspective of economic policy, the imperative now is for governments to avoid

compounding their problems by implementing ill-advised policies 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: the economic freedom that has unambiguously made our societies strong, vibrant, and flourishing.