



A SPECIAL MEETING

THE MONT PELERIN SOCIETY

1980 | 2020

JANUARY 15–17, 2020

FROM THE PAST TO THE FUTURE:
IDEAS AND ACTIONS FOR A FREE SOCIETY

CHAPTER TWENTY

ECONOMIC FREEDOM MATTERS & CHARTS

ANTHONY KIM



Economic Freedom Matters
Anthony Kim
Research Manager and Editor of the Index of Economic Freedom
The Heritage Foundation

Milton Friedman, whom the Economist once named “the most influential economist of the second half of the 20th century, possibly all of it,”¹ was the champion of the powerful idea that free markets and individual choice lead society to ultimate prosperity and overall well-being. His contributions to economic theory, and the conviction with which he espoused them, made him truly an extraordinary giant among political and economic thinkers.

Friedman’s ideas and writings earned him the Nobel prize in economics, but his greatest legacy is unquestionably the improvement in living standards of people around the globe who have benefited from the implementation of his theories, even though they may have never read one of his books, attended one of his lectures, or even heard his name. As Friedman’s ideas have been translated into public policy in countries around the globe, they have served as the invisible hand guiding and allowing millions to pursue their individual dreams, endowed with greater economic and political freedom. In reviewing Friedman’s monumental *Capitalism and Freedom* more than five decades ago, *The Economist* magazine asserted that the book “makes ideal reading for politicians of either party in this country, not because it would convince them, but because it challenges the reader to sort out his own ideas more fundamentally.”²

Indeed, many of Friedman’s perspectives and policy ideas are not only far-reaching, but truly enduring throughout generations via his own publications, as well as through others’ countless scholarly researches, whose underlying theses trace back to Friedman’s insights. Friedman’s economic, philosophical, and political writing has inspired decades of research in such diverse areas as welfare reform, competition in education, budget reform, and free trade.

The Index of Economic Freedom: Measuring Economic Freedom around the World

It goes without saying that people across the globe are particularly indebted to Milton Friedman for his role in championing economic freedom, and his ideas continue to live on today. Friedman elaborated “the role of competitive capitalism—the organization of the bulk of economic activity through private enterprise operating in a free market—as a system of economic freedom.” Indeed, it was Friedman who first suggested that economic freedom of countries around the world be measured and monitored.³

The Heritage Foundation’s *Index of Economic Freedom*, a data-driven policy guide that evaluates countries’ economic policies and demonstrates why economic freedom matters, was first published in 1995. Since then, the *Index* has continued to echo many of Friedman’s insights

¹“Milton Friedman: A Heavyweight Champ, at Five Foot Two,” *The Economist*, November 23, 2006, <http://www.economist.com/node/8313925>

²“A Tract for the Times,” *The Economist*, February 16, 1963, http://www.economist.com/node/8311321?story_id=8311321

³Lee Edwards, *The Power of Ideas: The Heritage Foundation at 25 Years*, (Ottawa, Ill.: Jameson Books, 1997), p. 152.

on the power of freedom, documenting countries' reform efforts, and monitoring ups and downs of economic freedom around the world.

Using metrics examining critical aspects of economic freedom such as government size, market openness, regulatory efficiency, and the rule of law, the *Index* has demonstrated the strong relationship between economic freedom and progress. The *Index* measures economic freedom based on quantitative and qualitative factors, which are grouped into four broad pillars of economic freedom. Each of the 12 economic freedoms within the 4 pillars is rated on a scale of 0 to 100. A country's overall score is derived by averaging these 12 economic freedoms, with equal weight being given to each.

As the *Index* documents, there is no single formula for overcoming challenges to economic development, but one thing is clear: Around the world, free market economies adopting and preserving policies that enhance economic freedom provide more opportunities, real progress, and greater prosperity for people.

To many who have long tracked economic freedom, the years since 2008 have served as a vivid reminder of the continuing struggle between the state and the free market. In times of uncertainty, it may be natural that people will look to their governments for answers. Yet the long-term solutions to our current economic problems do not lie in more government controls and regulations. They lie in a return to free-market principles.

Perhaps the most critical lesson of the past years of growing government intrusion into the free market system around the globe is that the fundamental superiority and value of economic liberty *must* be steadfastly reiterated, or even re-taught, to many political leaders and policymakers.

Economic Freedom is Key to Prosperity

The *Index* offers valuable evidence of the lasting values of freedom that Milton Friedman so keenly articulated and advocated:

In the only cases in which the masses have escaped from the kind of grinding poverty you're talking about...they have had capitalism and largely free trade. . . .So that the record of history is absolutely crystal clear: that there is no alternative way so far discovered of improving the lot of the ordinary people that can hold a candle to the productive activities that are unleashed by a free enterprise system.⁴

As the *Index* has consistently illustrated over the past 25 years, the relationship between economic freedom and prosperity is strongly positive. Gross domestic product (GDP) per capita is much higher in countries with greater economic freedom. On average, economies rated "free" or "mostly free" enjoy incomes that are more than double the average levels in all other countries, and more than seven times higher than the incomes of "repressed" economies.

⁴"The Phil Donahue Show," 1979, See more in Travis Pantin, "Milton Friedman Answers Phil Donahue's Charges," The New York Sun, November 12, 2007, at <http://www.nysun.com/business/milton-friedman-answers-phil-donahues-charges/66258/>

More importantly, a sustained commitment to economic freedom is critical to ensuring economic growth and prosperity. Not only is a higher level of economic freedom clearly associated with a higher level of per capita income, but countries' improvements in economic freedom also tend to increase their income growth rates, ensuring economic and social progress.

Also notably, as Friedman suggested, economic freedom means free markets at home and around the world. Free trade drives prosperity, providing greater economic opportunity in countries that choose to embrace free-trade policies. On average, economies with the most trade freedom have the highest per capita GDP.

Economic Freedom Promotes Overall Well-being and Political Freedom

Of course, life is not just about money or wealth. As Friedman observed: "It is in the free societies that there has been a far greater development of the nonmaterial, spiritual, artistic aspects of well-being."⁵

In case after case, Friedman keenly observed that government interventions in free markets are not only futile, but tend to generate the exact opposite outcomes of their intended purpose. He called this unseen force that makes things go terribly and perversely wrong with government social programs the "invisible foot."⁶

It is economic freedom that effectively improves overall well-being for a greater number of people. The *Index* has documented various tangible non-materialistic benefits of living in freer societies administrated by limited government. As Friedman witnessed again and again, not only are higher levels of economic freedom associated with higher material prosperity, greater economic freedom also strongly correlates with overall well-being, which takes into account such factors as health, education, and personal safety.

Friedman also pointed out:

Economic freedom plays a dual role in the promotion of a free society. On the one hand, freedom in economic arrangements is itself a component of freedom broadly understood, so economic freedom is an end in itself. In the second place, economic freedom is also an indispensable means toward the achievement of political freedom."⁷

The *Index* has empirically explored this critical relationship between economic freedom and political freedom or democratic governance. As shown in *the Index*, there is a strongly positive correlation between the two, and little doubt that higher levels in either generally have a positive impact on the other.

Economic Freedom Propels Entrepreneurial Dynamism

⁵Milton Friedman, *Free Minds and Free Markets: Twenty-Five Years of Reason*, (San Francisco: Pacific Research Institute, 1993).

⁶Feulner, "Feulner on Friedman," and "Volume 1 - The Power of the Market, Free To Choose - Original 1980 Series," Free to Choose.TV, 1980, <http://www.freetochoose.tv/>

⁷Milton Friedman, *Capitalism and Freedom*, (Chicago: University of Chicago Press, 1962).

Economic freedom makes it possible for independent sources of wealth to counterbalance political power and to cultivate a pluralistic society. In other words, economic freedom underpins and reinforces political liberty and market-based democracy. As Friedman stated, “The greatest advances of civilization, whether in architecture or painting, in science and literature, in industry or agriculture, have never come from centralized government.”⁸

As the *Index* has demonstrated, economic freedom is highly correlated with entrepreneurial activity in the private sector, creating new jobs and increasing opportunities and choices for individuals in advancing their own well-being. When individuals are allowed to decide themselves how best to pursue their dreams and aspirations, their collective achievements driven by individual choices, not by government mandates, add up to a better society for all.

To put it differently, economic freedom is positively linked to innovation that is often nurtured by free enterprise, not by central planning. The proven path to revitalizing economic growth is to advance economic freedom by promoting policies that generate a virtuous cycle of innovation, job creation, and productivity growth that, in turn, helps to advance the social and economic evolution.

Time to Renew Commitment to Greater Economic Freedom

Milton Friedman was confident that freedom would prevail, as indicated in the conclusion of *Free to Choose*, a powerful restatement of his beliefs co-authored with his wife Rose Friedman:

Fortunately, we are waking up. We are again recognizing the dangers of an over-governed society, coming to understand that good objectives can be perverted by bad means, that reliance on the freedom of people to control their own lives in accordance with their own values is the surest way to achieve the full potential of a great society. Fortunately, also, we are as a people still free to choose which way we should go—whether to continue along the road we have been following to ever bigger government, or to call a halt and change direction.⁹

Though stated decades ago, the Friedmans’ keen observations are shockingly relevant to today’s challenging time. The reckless and populist policy choices of an increasingly leviathan government have placed the country on the path that diverges sharply from its historical quest for greater freedom. Worse, the system of “competitive capitalism” is being replaced by a crony capitalism that encourages the concentration of power that Friedman warned was one of the greatest threats to freedom.

Still, there are signs that, as in Friedman’s day, the public is waking up, and maybe one can be optimistic that freedom will again prevail. Now is the time to renew our commitment to economic freedom, push forward policies that promote it, and instill confidence that a people who are free to choose will make the right decisions to ensure their future prosperity and happiness.

⁸Ibid.

⁹Milton and Rose D. Friedman, *Free to Choose*, (Boston: Mariner Books, 1990).



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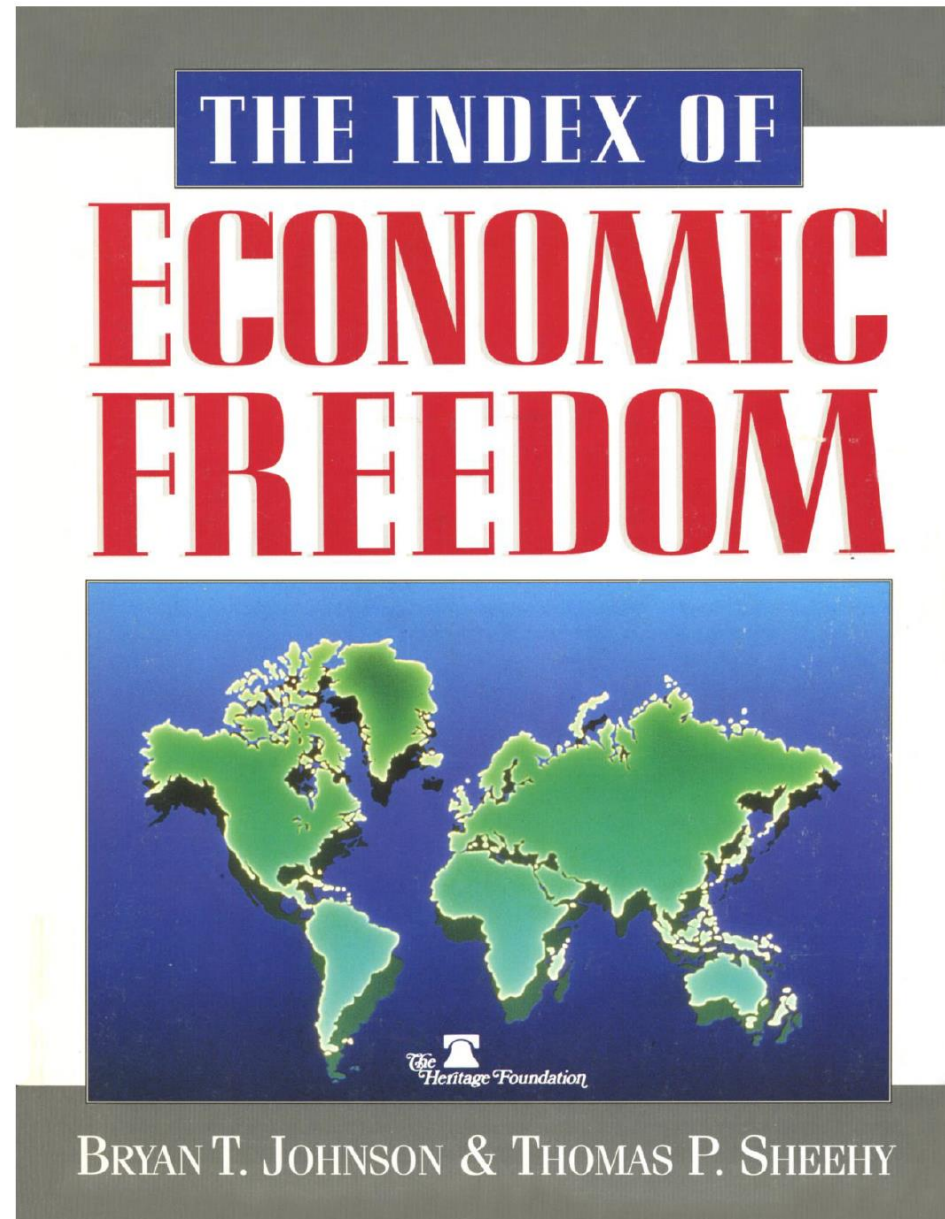
Economic Freedom

Promoting Economic Opportunity and Prosperity

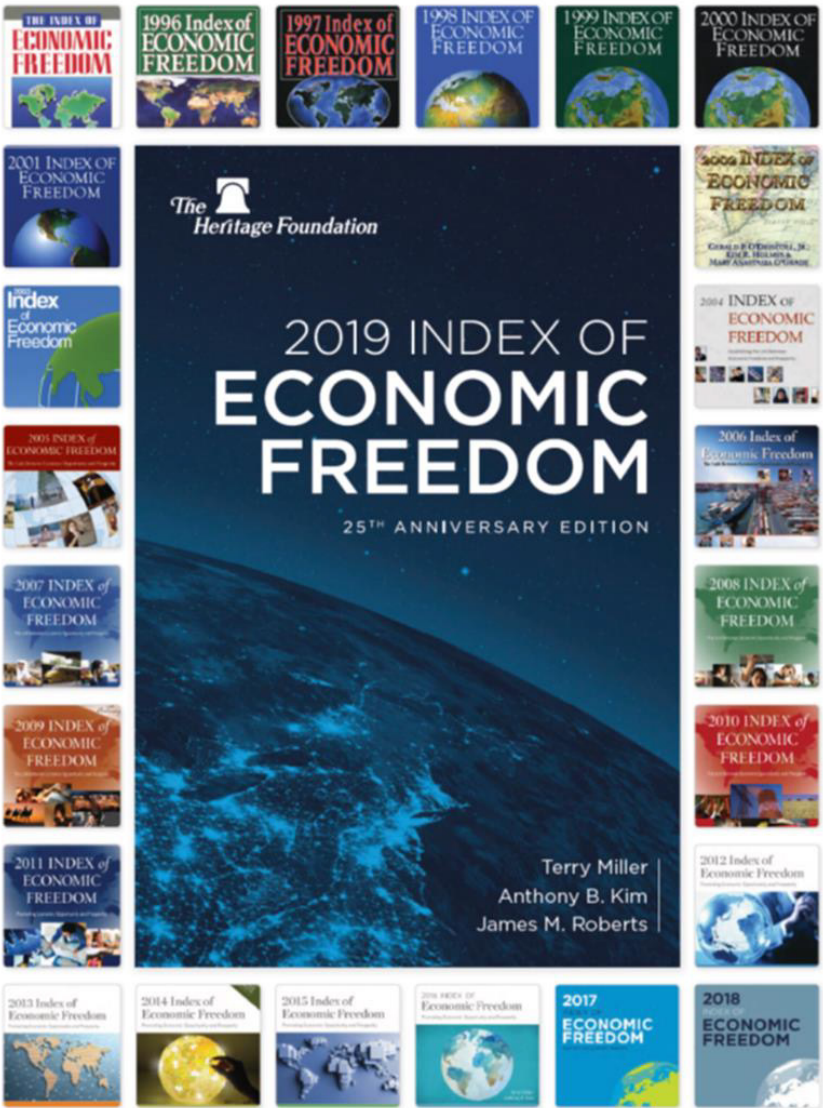
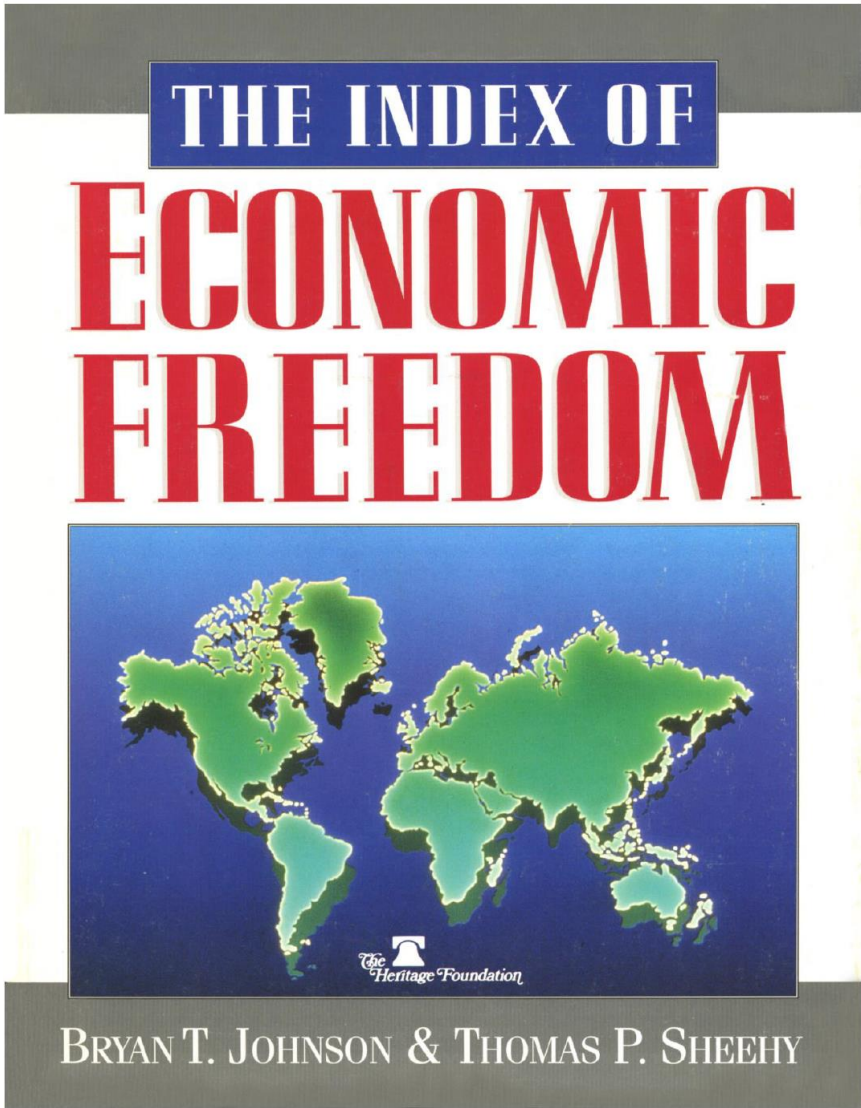


Anthony Kim
Research Manager and Editor of the Index of Economic Freedom

1995 Index of Economic Freedom

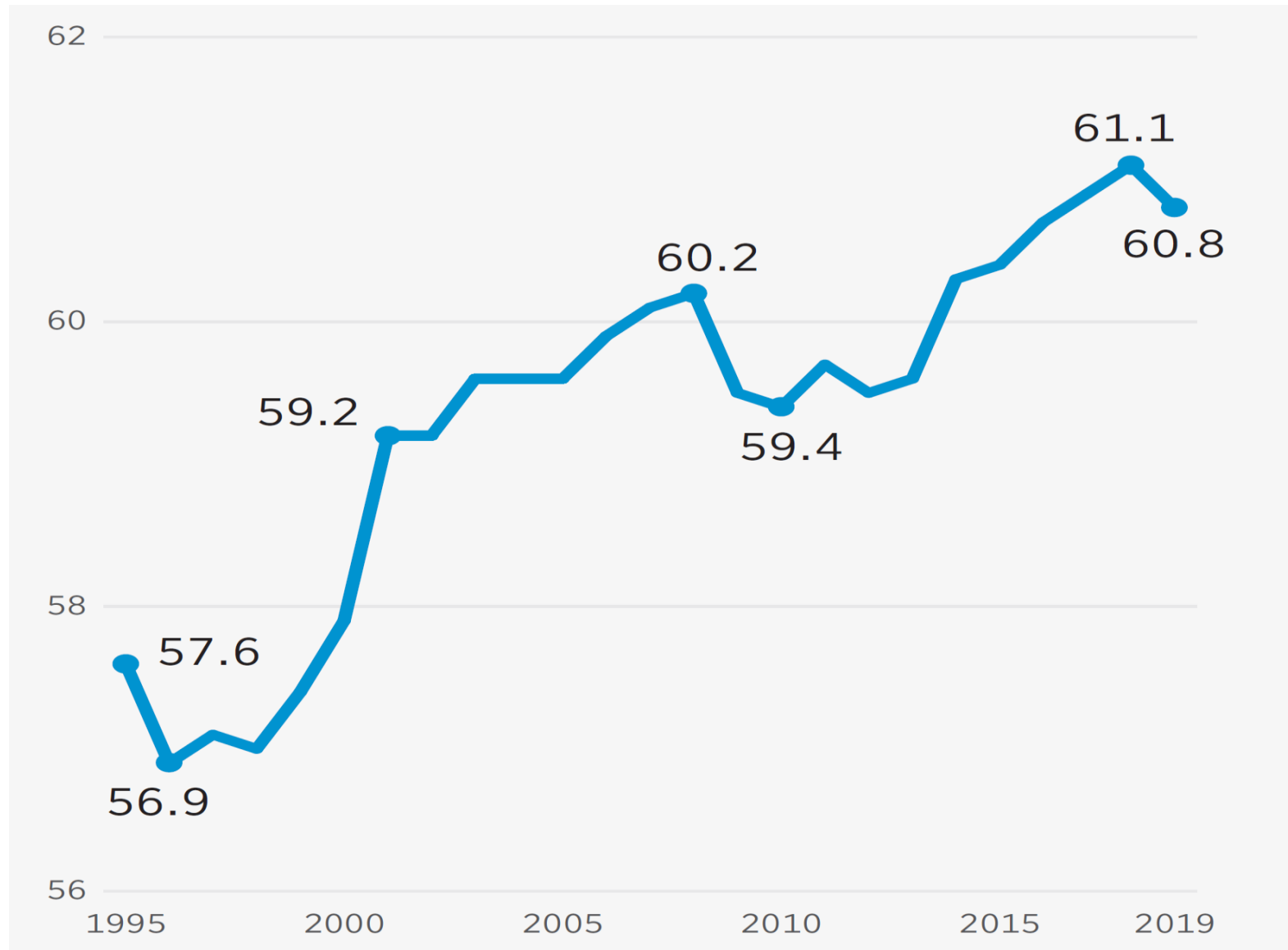


25 Years of Measuring Economic Freedom and Continuing



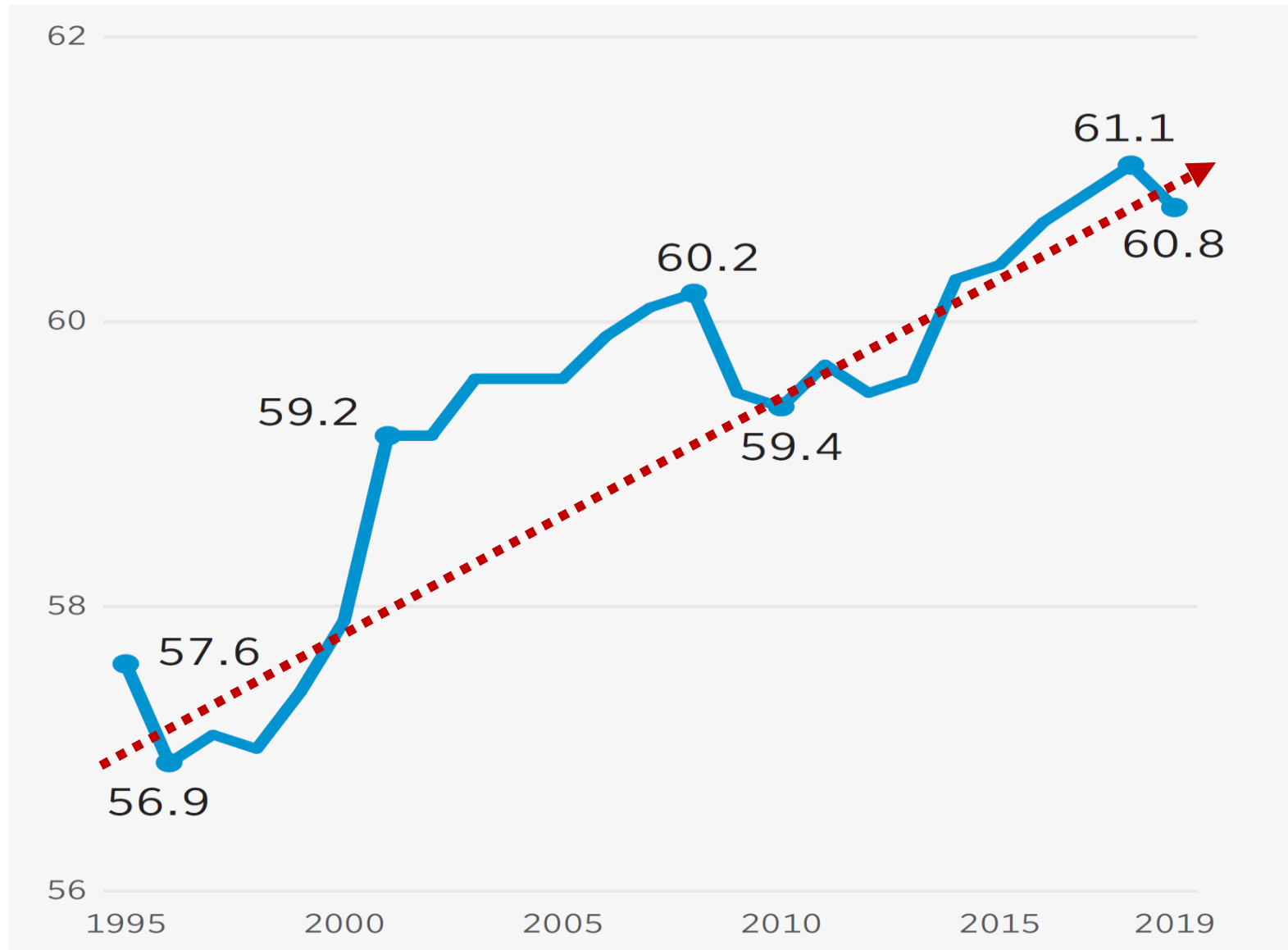


Global Economic Freedom Trend





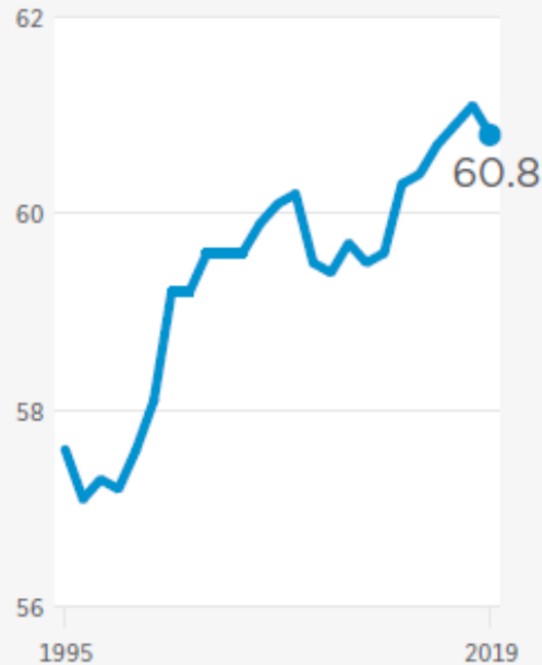
Rising Global Economic Freedom



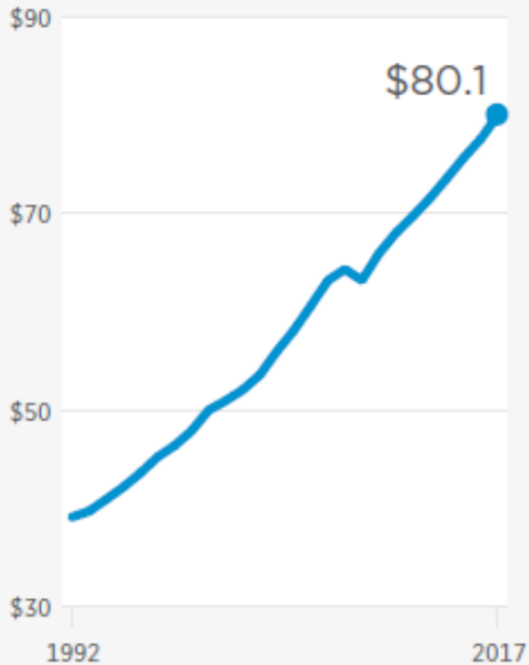


As Economic Freedom Rises, The Global Economy Expands and Poverty Falls

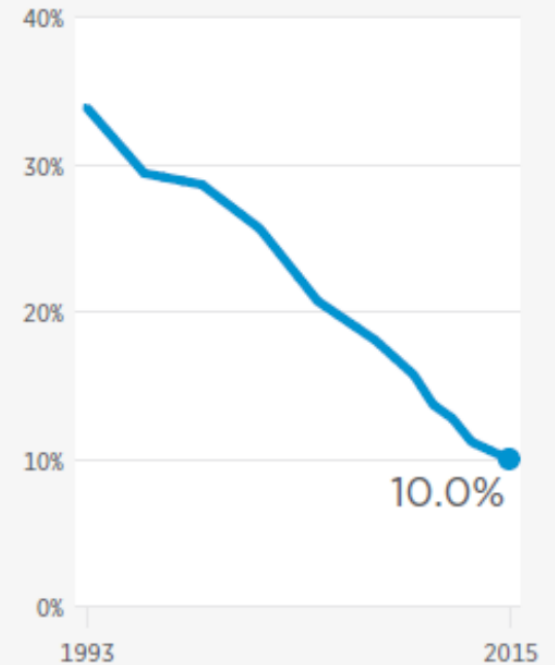
Average Score in the
*Index of Economic
Freedom*



Global GDP, in Trillions
of 2010 U.S. Dollars

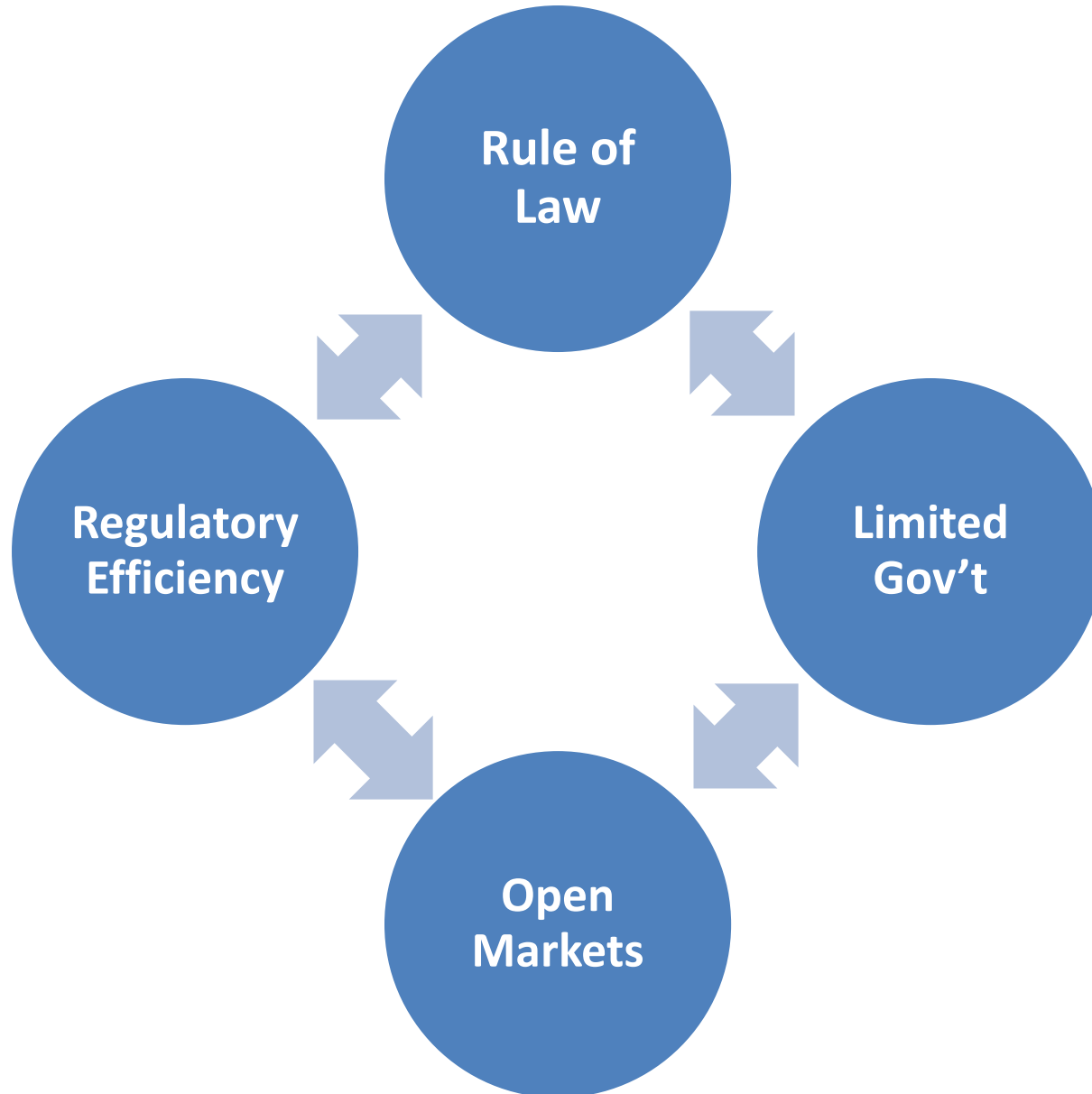


Percentage of Global
Population in Poverty



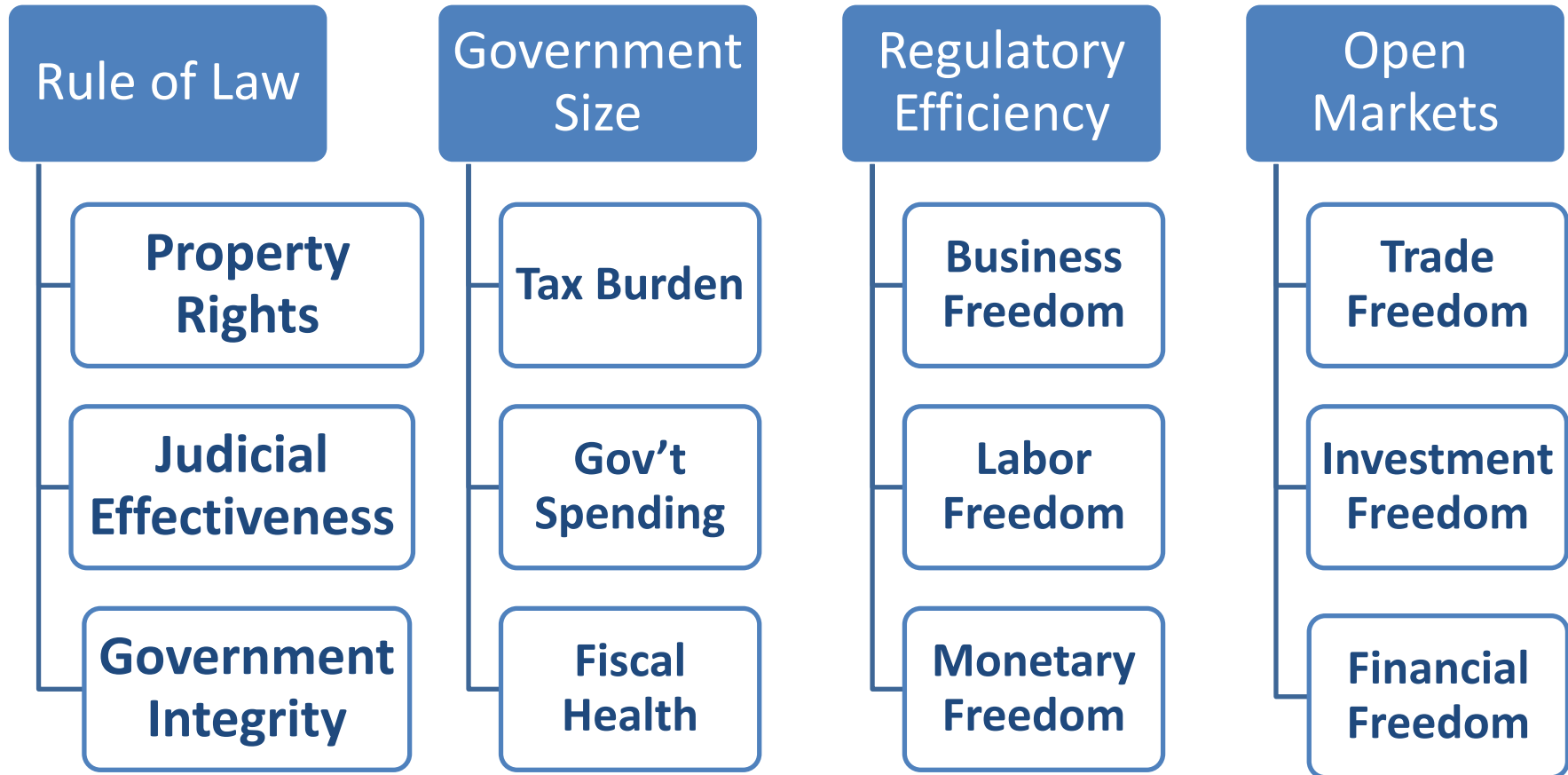


4 Pillars of Economic Freedom





12 Components of Economic Freedom



- *Each freedom is measured between **0 and 100**.*
- *An economy's overall economic freedom score is a **simple average** of the 12 factors (**equal weighting**).*



Rule of Law

Property Rights

- Physical property rights
- Intellectual property rights
- Strength of investor protection
- Risk of expropriation
- Quality of land administration

Judicial Effectiveness

- Judicial independence
- Quality of the judicial process
- Favoritism in decisions of government officials

Gov't Integrity

- Public trust in politicians
- Irregular payments and bribes
- Transparency of government policymaking
- Absence of corruption
Perceptions of corruption
- Governmental and civil service transparency



Government Size

Tax Burden

- The top marginal tax rate on individual income
- The top marginal tax rate on corporate income
- The total tax burden as a percentage of GDP

Gov't Spending

- Government Expenditure as a percentage of GDP

Fiscal Health

- Average deficits as a percentage of GDP for the most recent three years
- Debt as a percentage of GDP



Regulatory Efficiency

Business Freedom

- Starting a business (time, procedures, cost, and minimum capital)
- Obtaining a license (time, procedures, and cost)
- Closing a business (time, procedures, and recovery rate)
- Getting electricity (time, procedures, and cost)

Labor Freedom

- Minimum wage
- Hindrance to hiring additional workers
- Rigidity of hours
- Difficulty of firing redundant employees
- Legally mandated notice
- Mandatory severance pay
- Labor force participation rate

Monetary Freedom

- The weighted average inflation rate for the most recent three years and
- Price controls



Open Market

Trade Freedom

- The trade-weighted average tariff rate
- Nontariff barriers (NTBs)

Investment Freedom

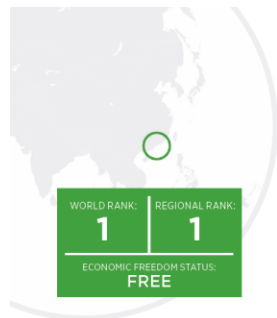
- National treatment of foreign investment
- Foreign investment code
- Restrictions on land ownership
- Sectoral investment restrictions
- Expropriation of investments
- Foreign exchange controls
- Capital controls

Financial Freedom

- The extent of gov't regulation of financial services
- State intervention through direct and indirect ownership
- Gov't influence on the allocation of credit
- Financial and capital market development
- Openness to foreign competition



Index of Economic Freedom

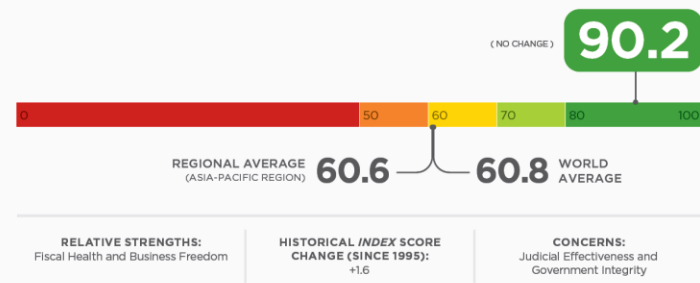


HONG KONG

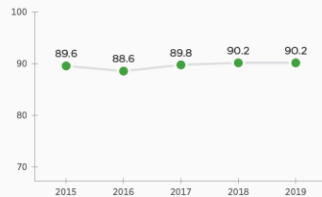
Hong Kong's economic freedom score is 90.2, sustaining its status as the world's freest economy in the 2019 *Index*. Its overall score is unchanged from 2018, with increases in scores for **trade freedom**, **monetary freedom**, and **government integrity** countered by a decline in **judicial effectiveness**. Hong Kong is ranked 1st among 43 countries in the Asia-Pacific region, and its overall score is well above the regional and world averages.

Moderately looser fiscal policy encouraged economic growth in 2018, but U.S.-China trade frictions could have significant negative repercussions. An exceptionally competitive financial and business hub, Hong Kong remains one of the world's most resilient economies. A high-quality legal framework provides effective protection of property rights and strongly supports the rule of law. There is little tolerance for corruption, and a high degree of transparency enhances government integrity. Regulatory efficiency and openness to global commerce undergird a vibrant entrepreneurial climate.

ECONOMIC FREEDOM SCORE



FREEDOM TREND



QUICK FACTS

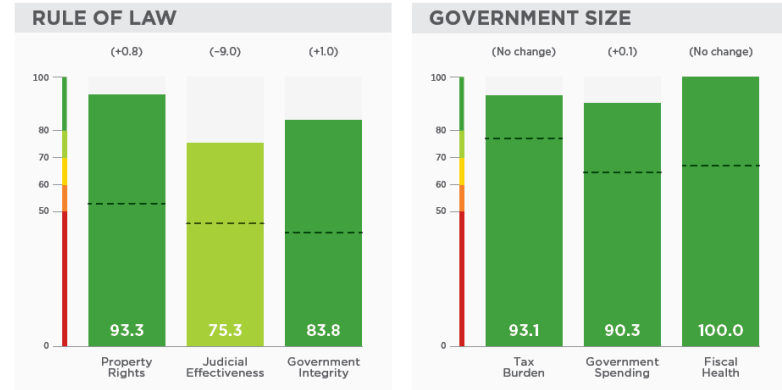
POPULATION: 7.4 million
GDP (PPP): \$454.9 billion
3.8% growth in 2017
5-year compound annual growth 2.8%
\$61,393 per capita

UNEMPLOYMENT: 3.1%
INFLATION (CPI): 1.5%
FDI INFLOW: \$104.3 billion
PUBLIC DEBT: 0.1% of GDP

2017 data unless otherwise noted. Data compiled as of September 2018

BACKGROUND: Hong Kong became a Special Administrative Region of the People's Republic of China in 1997. Carrie Lam began a five-year term as chief executive in 2017. Under the "one country, two systems" agreement, China granted Hong Kong a high degree of autonomy in all matters except foreign and defense policy for 50 years. This policy has been strained by PRC political interference in recent years, and the Hong Kong government's decision in 2018 to ban a pro-independence party led to protests and raised concerns about future prospects for freedom of speech and association in the SAR. Despite the political unrest, Hong Kong's open and market-driven economy continues to flourish, increasingly integrated with the mainland through trade, tourism, and financial links.

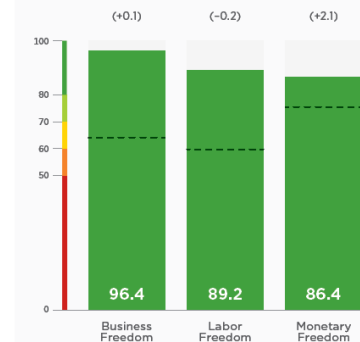
12 ECONOMIC FREEDOMS | HONG KONG



Property rights are effectively enforced and enshrined in the Basic Law, which serves in effect as the SAR's constitution. Commercial and company laws uphold the sanctity of contracts. The judiciary is independent, but Beijing reserves the right to make final interpretations of the Basic Law, effectively limiting the power of Hong Kong's Court of Final Appeal. Hong Kong has an excellent record of combatting corruption.

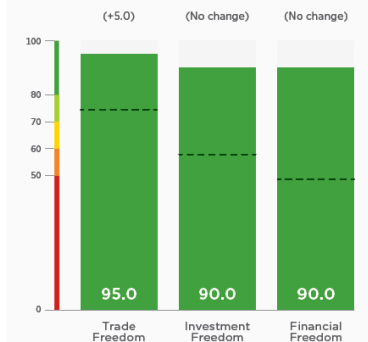
The standard income tax rate is 15 percent, and the top corporate tax rate is 16.5 percent. The tax system is simple and efficient. The overall tax burden equals 14.0 percent of total domestic income. Over the past three years, government spending has amounted to 17.9 percent of the country's output (GDP), and budget surpluses have averaged 3.4 percent of GDP. Public debt is equivalent to 0.1 percent of GDP.

REGULATORY EFFICIENCY



Business freedom is well protected within an efficient regulatory framework. Transparency encourages entrepreneurship, and the overall environment is conducive to the start-up of businesses. The labor code is strictly enforced but not burdensome. Very few price controls are in place, but the government regulates residential rents and in 2018 announced that it will study possible increases in transportation subsidies.

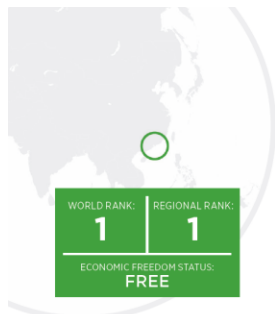
OPEN MARKETS



The combined value of exports and imports is equal to 375.1 percent of GDP. The average applied tariff rate is 0.0 percent. As of June 30, 2018, according to the WTO, Hong Kong had 149 nontariff measures in force. Hong Kong is very open to global trade and investment. The financial regulatory environment focuses on ensuring transparency and enforcing prudent minimum standards. There are no restrictions on foreign banks.



Index of Economic Freedom

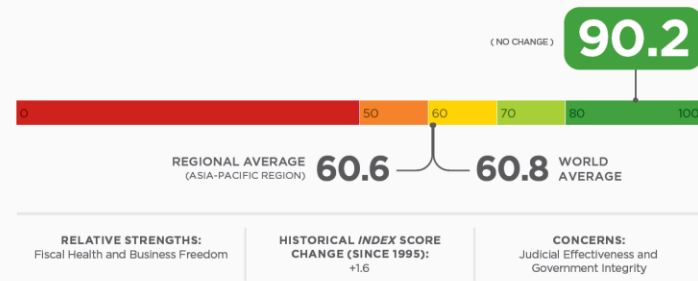


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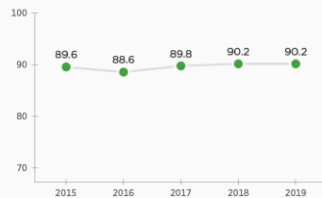
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Moderately looser fiscal policy encouraged economic growth in 2018, but U.S.-China trade frictions could have significant negative repercussions. An exceptionally competitive financial and business hub, Hong Kong remains one of the world's most resilient economies. A high-quality legal framework provides effective protection of property rights and strongly supports the rule of law. There is little tolerance for corruption, and a high degree of transparency enhances government integrity. Regulatory efficiency and openness to global commerce undergird a vibrant entrepreneurial climate.

ECONOMIC FREEDOM SCORE



FREEDOM TREND



QUICK FACTS

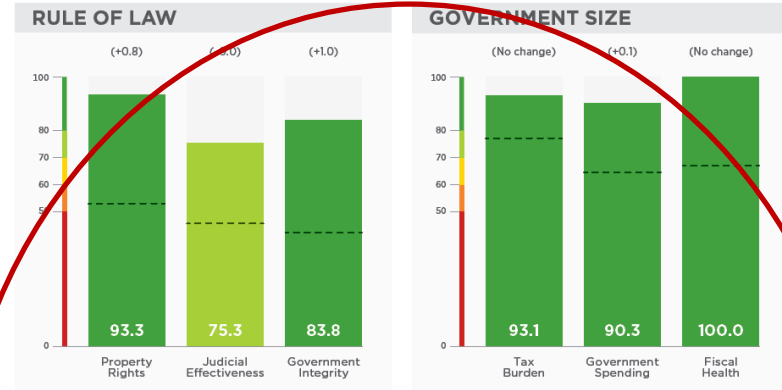
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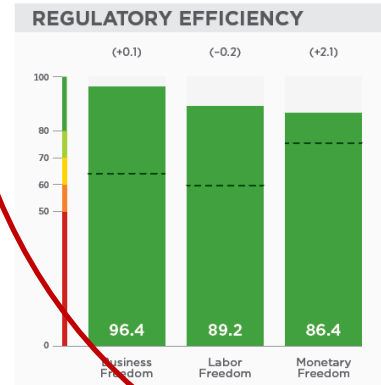
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12 ECONOMIC FREEDOMS | HONG KONG



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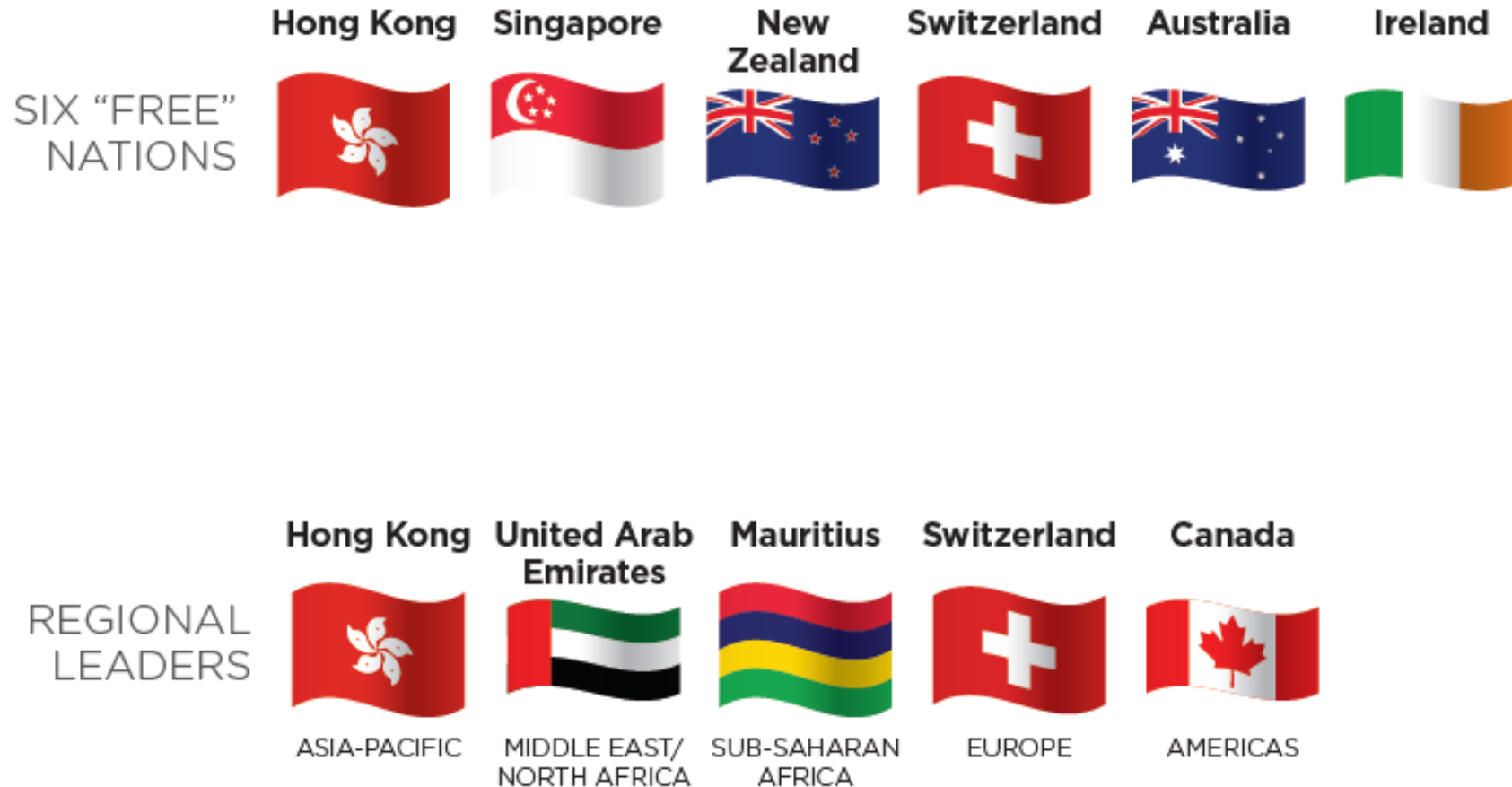
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Which Economies Are Leading?





Top 20 vs. Bottom 20

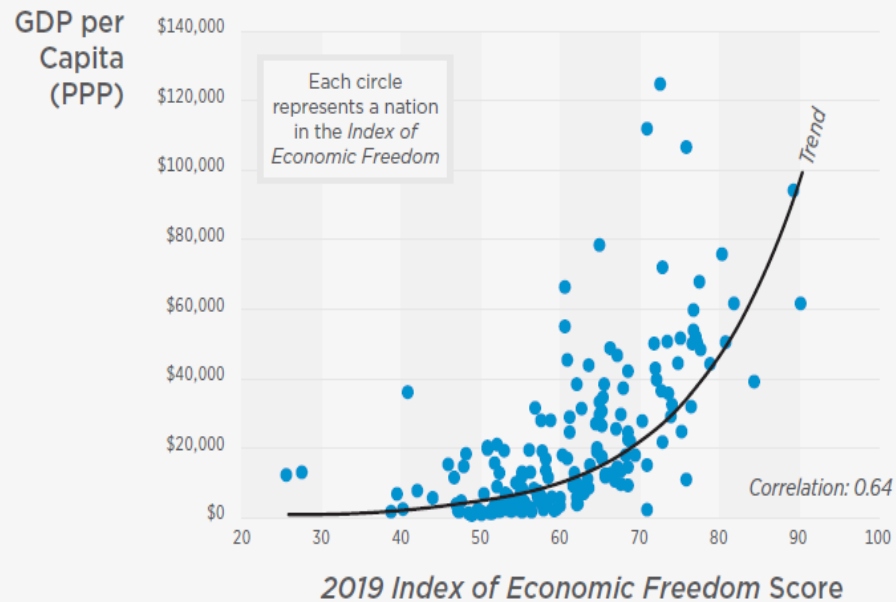
Rank	Country	Overall Score
1	Hong Kong	90.2
2	Singapore	89.4
3	New Zealand	84.4
4	Switzerland	81.9
5	Australia	80.9
6	Ireland	80.5
7	United Kingdom	78.9
8	Canada	77.7
9	United Arab Emirates	77.6
10	Taiwan	77.3
11	Iceland	77.1
12	United States	76.8
13	Netherlands	76.8
14	Denmark	76.7
15	Estonia	76.6
16	Georgia	75.9
17	Luxembourg	75.9
18	Chile	75.4
19	Sweden	75.2
20	Finland	74.9

Rank	Country	Overall Score
160	Liberia	49.7
161	Central African Republic	49.1
162	Burundi	48.9
163	Mozambique	48.6
164	Turkmenistan	48.4
165	Suriname	48.1
166	Sudan	47.7
167	Sierra Leone	47.5
168	Kiribati	47.3
169	Djibouti	47.1
170	Ecuador	46.9
171	Algeria	46.2
172	Timor-Leste	44.2
173	Bolivia	42.3
174	Equatorial Guinea	41.0
175	Zimbabwe	40.4
176	Republic of Congo	39.7
177	Eritrea	38.9
178	Cuba	27.8
179	Venezuela	25.9
180	North Korea	5.9



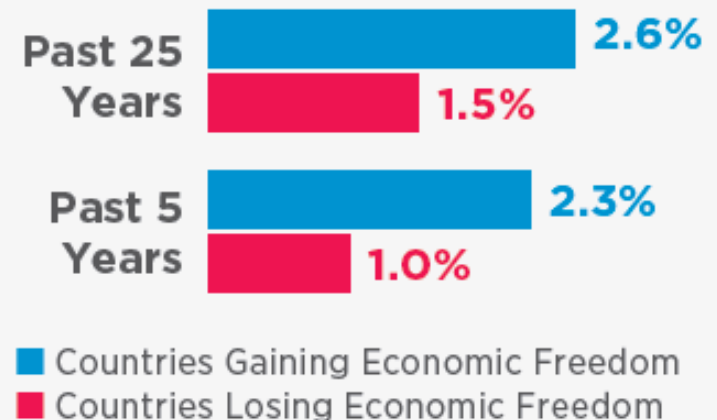
With Economic Freedom Comes Greater Prosperity and More Vibrant Growth

ECONOMIC FREEDOM AND THE STANDARD OF LIVING



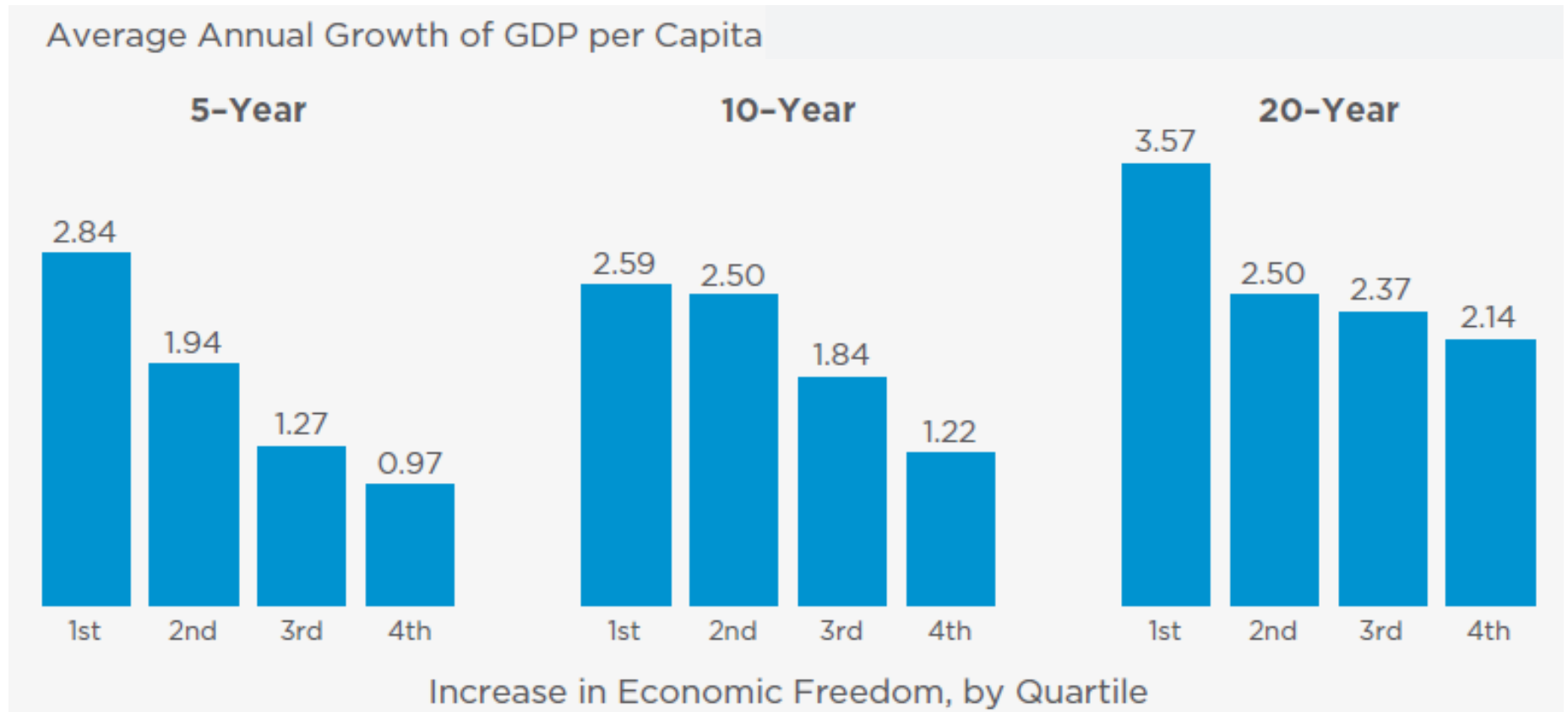
ECONOMIC GROWTH

Average Annual Growth of GDP per Capita





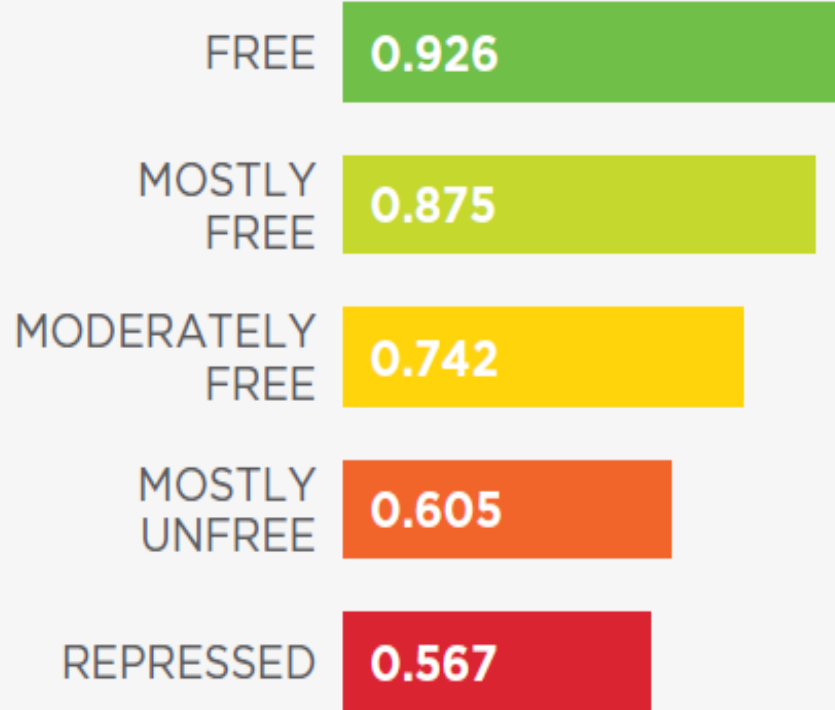
With Economic Freedom Comes More Vibrant Growth





Economic Freedom: Key to Human Development and Social Progress

Human Development Index Score,
by Index of Economic Freedom
Category

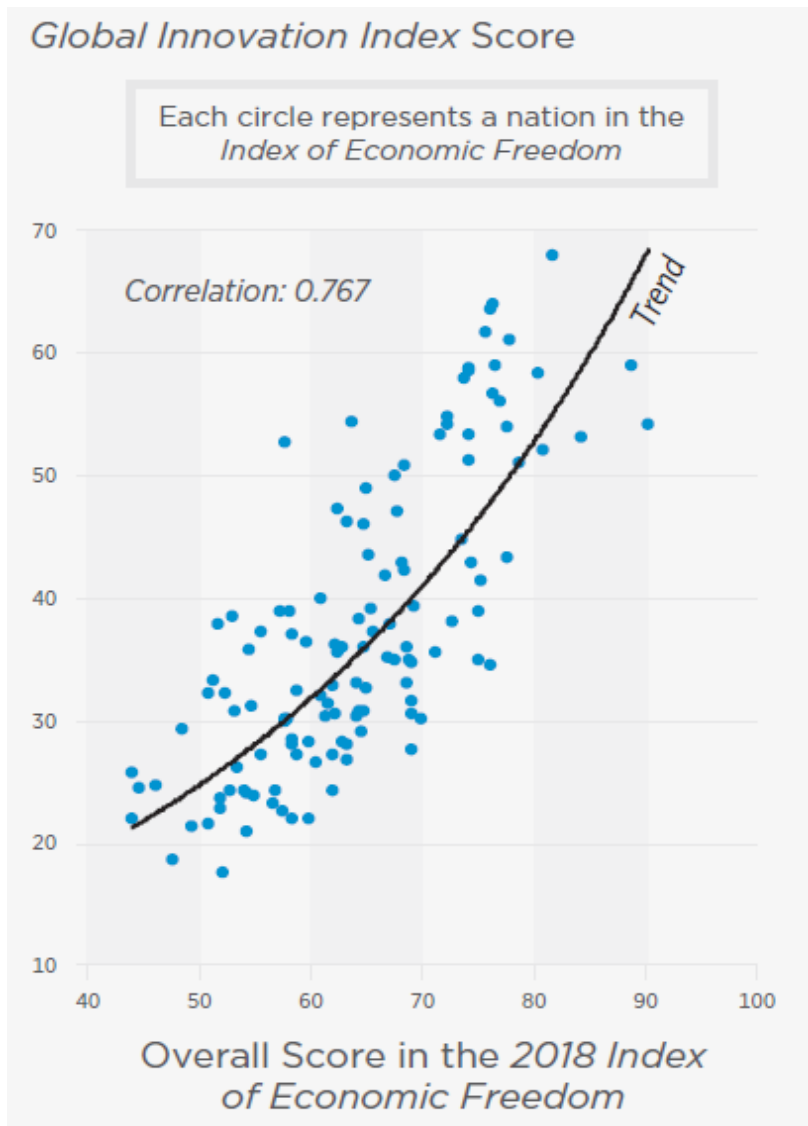


Social Progress Index Score

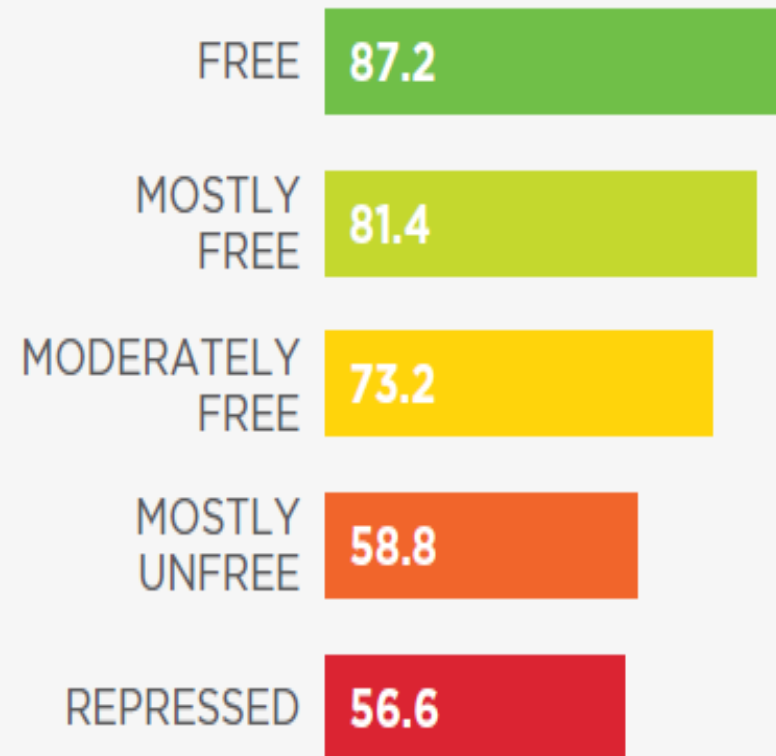




Economic Freedom: Key to Innovation & Environmental Sustainability

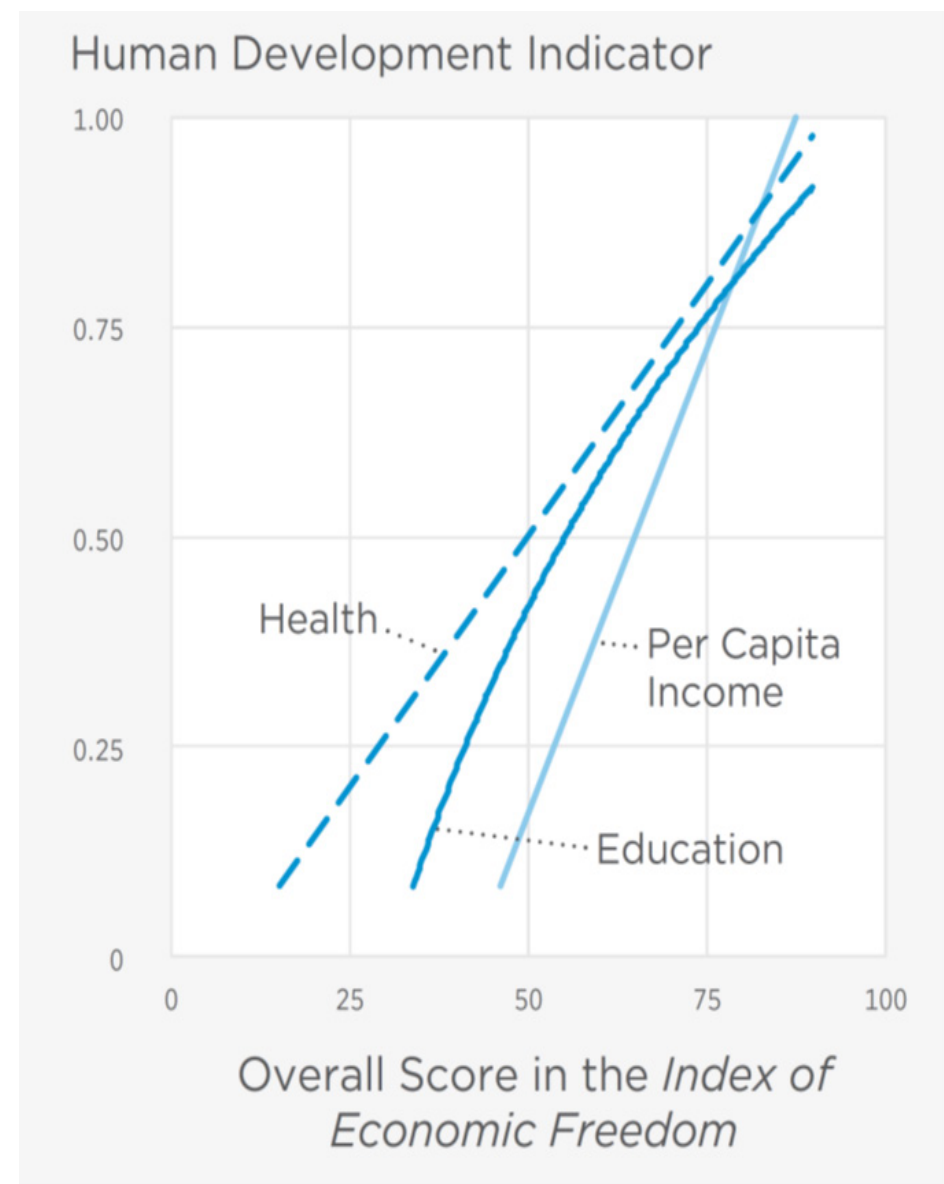
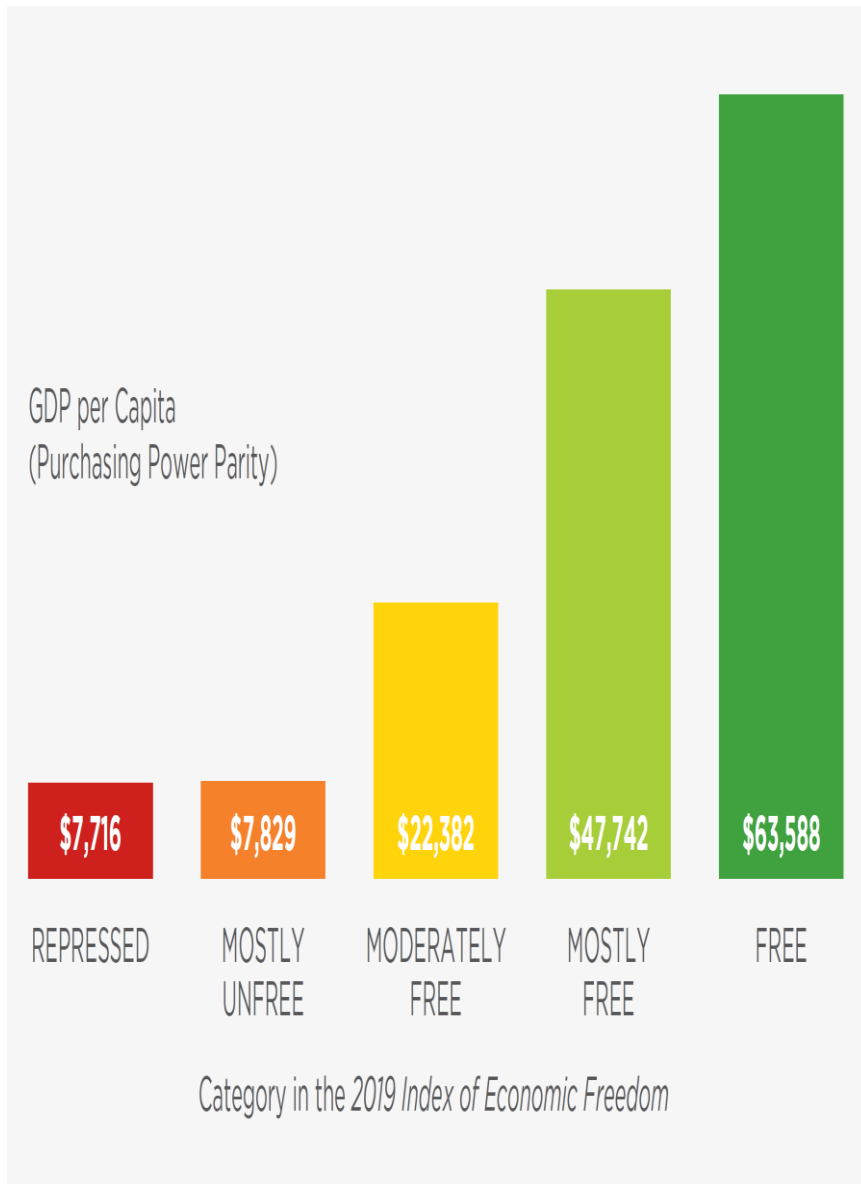


Environmental Performance Index Score, by Index of Economic Freedom Category





Economic Freedom Matters: Access, Opportunity, and Empowerment

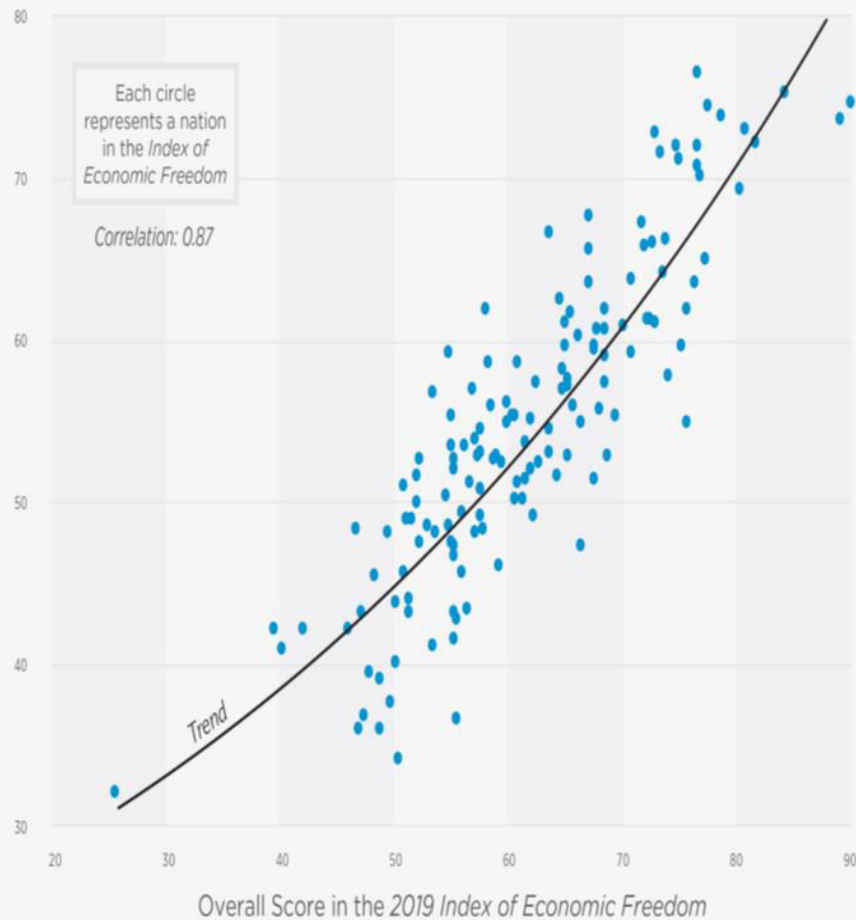




Economic Freedom: Key to Entrepreneurial Dynamism and Democratic Governance

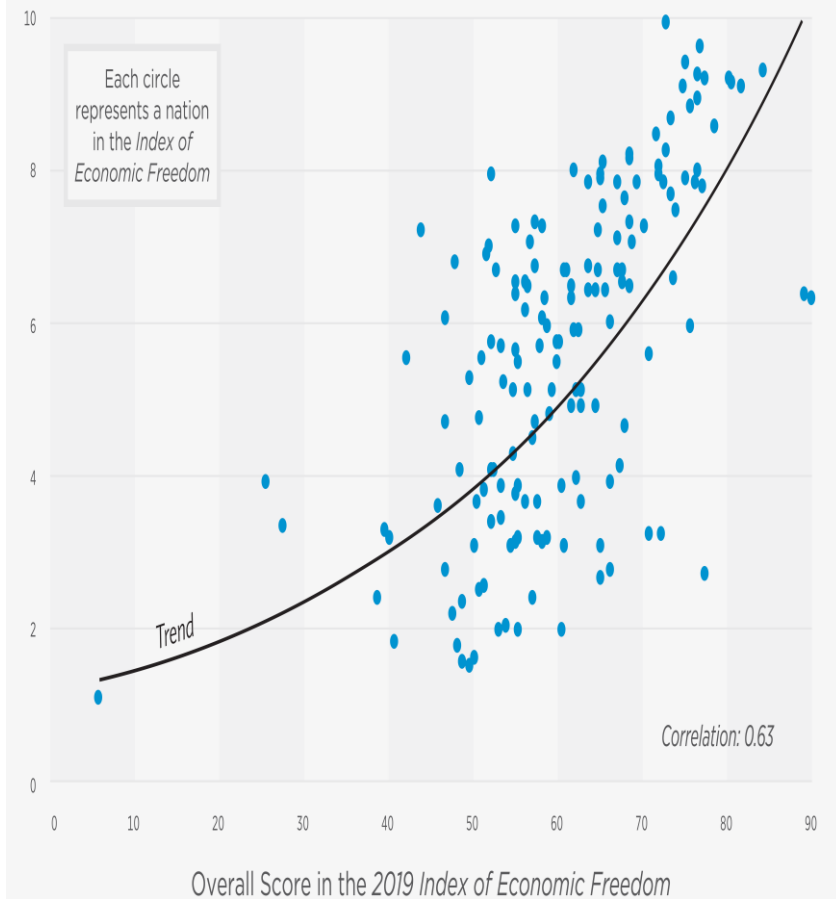
ECONOMIC FREEDOM AND ENTREPRENEURIAL DYNAMISM

Legatum Prosperity Index's Business Environment Pillar Score



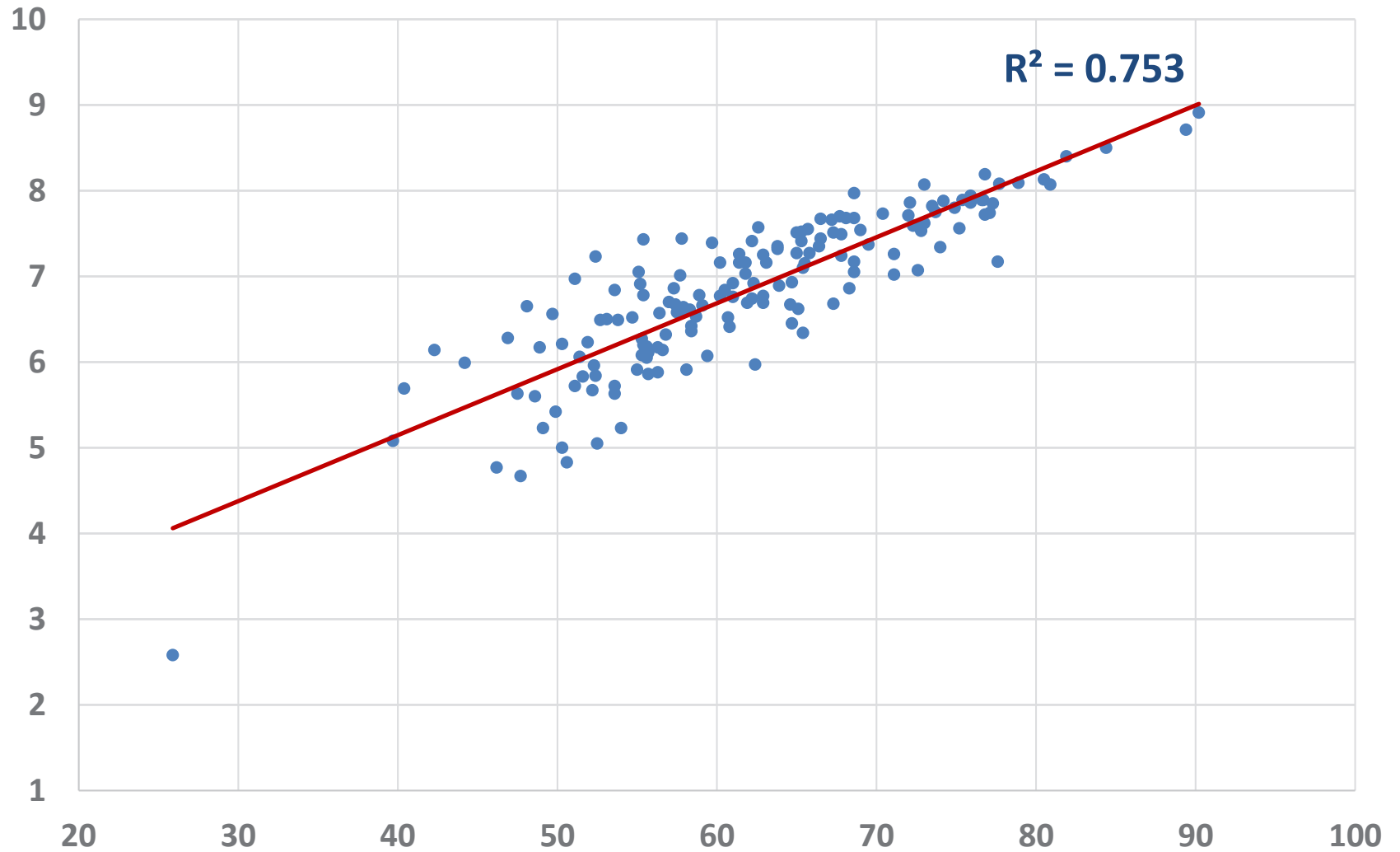
ECONOMIC FREEDOM AND DEMOCRATIC GOVERNANCE

Democracy Index Score



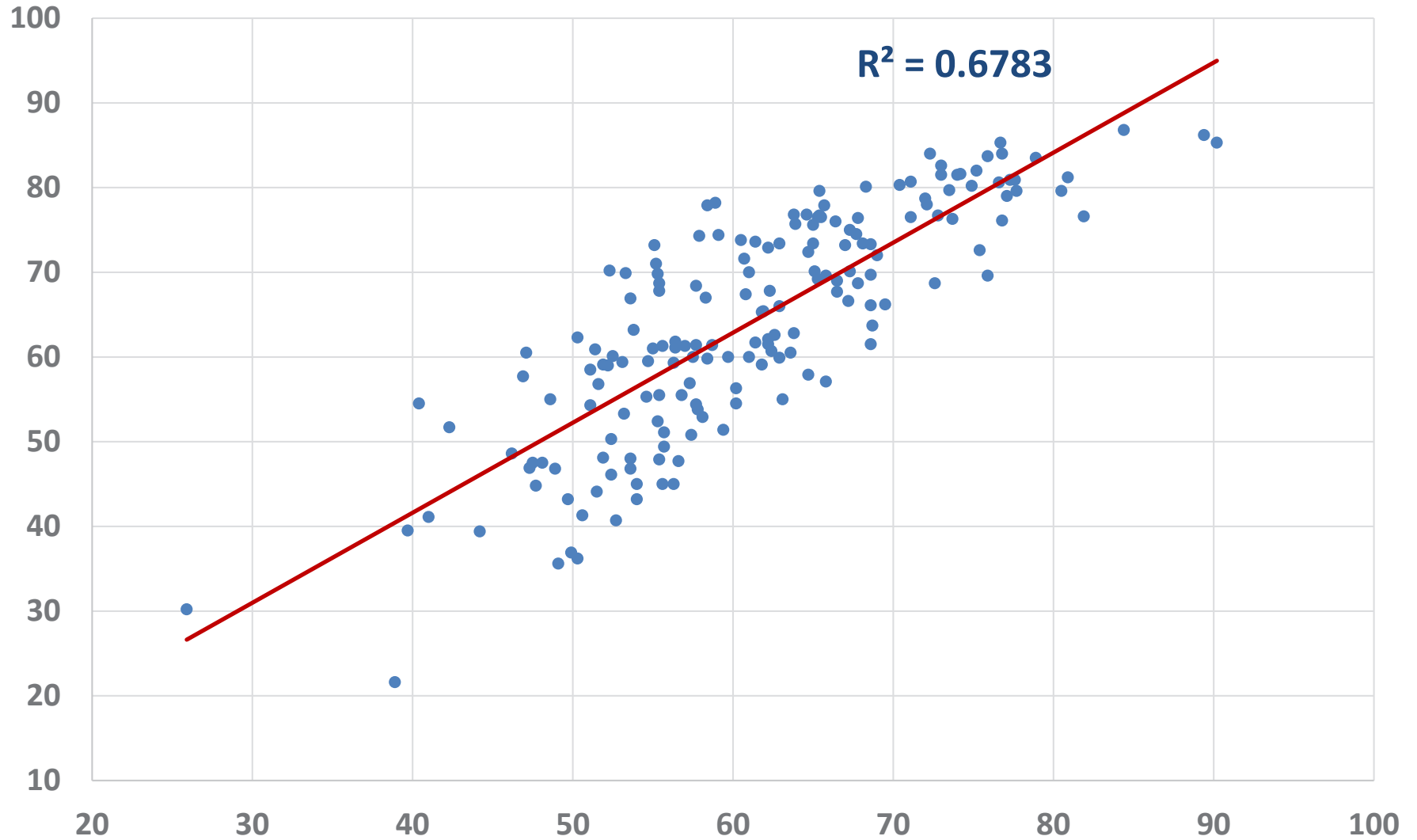


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1	Hong Kong	90.2	0.0 —
2	Singapore	89.4	0.6 ▲
3	New Zealand	84.4	0.2 ▲
4	Switzerland	81.9	0.2 ▲
5	Australia	80.9	0.0 —
6	Ireland	80.5	0.1 ▲
7	United Kingdom	78.9	0.9 ▲
8	Canada	77.7	0.0 —
9	United Arab Emirates	77.6	0.0 —
10	Taiwan	77.3	0.7 ▲

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Economic Freedom

Promoting Economic Opportunity and Prosperity



Anthony Kim
Research Manager and Editor of the Index of Economic Freedom



ANTHONY B. KIM
INDEX OF ECONOMIC FREEDOM

Anthony B. Kim is research manager and editor of the *Index of Economic Freedom*, published annually by the Heritage Foundation. Previously, Kim served as deputy chief of staff to Heritage founder Edwin J. Feulner. Focusing on policies related to economic freedom, entrepreneurship, and investment in various countries around the world, Kim researches international economic issues. The *Index of Economic Freedom* is a widely respected policy guidebook that tracks the march of economic freedom around the world by measuring twelve freedoms—from property rights to entrepreneurship—in 186 countries. In 2007, after publishing the *Index* for a decade, Heritage executives decided that changes were needed

to make it more accessible to more readers, from policy makers to investors around the globe. Kim helped oversee and implement those changes.

Kim's commentary and opinion pieces have been published by the *Wall Street Journal's* Asia edition, the *New York Post*, the *Washington Times*, the *National Review Online* and the *Korea Herald*, among other outlets. He has been quoted by major US and international media, among them the *Financial Times*, Associated Press, Agence France-Presse, Fox Business News, and Voice of America. Kim won Heritage's prestigious Drs. W. Glenn and Rita Ricardo Campbell Award, which goes to the employee who makes "an outstanding contribution to the analysis and promotion of a free society." Before joining Heritage in 2001, Kim studied economics at Rutgers University. He holds a master's degree in international trade and investment policy from the Elliott School of International Affairs at George Washington University.

TABLE OF CONTENTS

PAST AS PROLOGUE TO THE FUTURE

An Opening Conversation

Chapter 1. Why Choose Economic Freedom?.....	6
<i>George P. Shultz and John B. Taylor</i>	

Free to Choose: 1980 to 2020 and the Network

Chapter 2. Introduction to Free to Choose 1980 to 2020 and the Network.....	14
<i>Robert Chatfield</i>	
Chapter 3. Milton, Rose, me and Poetry.....	16
<i>Robert Chitester</i>	

Removing Obstacles on the Road to Economic Freedom: 1947 to 1980

Chapter 4. Removing Obstacles on the Road to Economic Freedom.....	24
<i>Eamonn Butler</i>	
Chapter 5. Milton Friedman: The Early Years.....	26
<i>Jennifer Burns</i>	
Chapter 6. Mont Pelerin 1947.....	32
<i>Bruce Caldwell</i>	
Chapter 7. The Road Not Taken of “Nuovo liberalismo”.....	85
<i>Alberto Mingardi</i>	

Spread of Free-Market Ideas in the 1980s

Chapter 8. The Reception of Free to Choose and the Problem of Tacit Presuppositions of Political Economy.....	102
<i>Peter Boettke</i>	
Chapter 9. The Spread of Free-Market Ideas in the 1980s (With a Nod to the Late 1970s).....	131
<i>David Henderson</i>	
Chapter 10. Ideas of Freedom and Their Role in Active Policymaking.....	142
<i>Condoleezza Rice</i>	

TABLE OF CONTENTS

Lessons Learned from History for the Future of Freedom

Chapter 11. Assaults on Freedom and Citizenship.....	147
<i>Victor Davis Hanson</i>	
Chapter 12. Fed Chair Agonistes.....	152
<i>Amity Shlaes</i>	
Chapter 13. Keynes v Hayek: The Four Buts.....	160
<i>Robert Skidelsky</i>	

IDEAS FOR A FREE SOCIETY

The Role of Law as Protector of Liberty

Chapter 14. Capitalism, Socialism and Nationalism: Lessons from History.....	168
<i>Niall Ferguson</i>	
Chapter 15. Magna Carta, the rule of law, and the limits on government.....	200
<i>Jesús Fernández-Villaverde</i>	
Chapter 16. The Commerce Clause, the Takings Clause, and Due Process.....	208
<i>Douglas Ginsburg</i>	

How to Deal with the Reemergence of Socialism

Chapter 17. The rise and fall of environmental socialism: Smashing the watermelon.....	221
<i>Jeff Bennett</i>	
Chapter 18. Understanding the left.....	226
<i>John Cochrane</i>	
Chapter 19. Economic systems between socialism and liberalism and the new threats of neo-interventionism.....	233
<i>Lars Peder Nordbakken</i>	

Measures of Economic Freedom

Chapter 20. Economic Freedom Matters & Charts.....	248
<i>Anthony Kim</i>	

TABLE OF CONTENTS

Chapter 21. Economic Freedom: Objective, Transparent Measurement.....279
Fred McMahon

Chapter 22. The World Bank’s Doing Business Indicators.....310
Valeria Perotti

Restraining Expansions of Government

Chapter 23. Common Sense Approach to Addressing America’s Entitlement Challenge.....318
John Cogan

Chapter 24. Key Milestones in Regulation.....339
Susan Dudley

Chapter 25. A Quest for Fiscal Rules.....343
Lars Feld

ACTIONS FOR A FREE SOCIETY

Taking Ideas to Action around the World

Chapter 26. Turning Freedom into Action: Some Reflections on Reforming Higher Education.....371
Ayaan Hirsi Ali

Chapter 27. Culture and the Free Society.....380
Samuel Gregg

Chapter 28. Taking Ideas to Action Around the World.....394
Bridgett Wagner

What Happened in Chile?

Introduction.....402

Chapter 29. Presentation I.....403
Axel Kaiser

Chapter 30. Presentation II.....406
Ernesto Silva

Chapter 31. Presentation III.....409
Arnold Harberger

TABLE OF CONTENTS

Taking Ideas to Action: Making the Case for Freedom

Chapter 32. Restoring Liberty for American Indians.....	411
<i>Terry Anderson</i>	
Chapter 33. The Effect of Economic Freedom on Labor Market Efficiency and Performance.....	434
<i>Lee Ohanian</i>	
Chapter 34. Making the Case for Liberty.....	466
<i>Russell Roberts</i>	

Taking Ideas to Action in the Private Sector

Chapter 35. Brexit: Taking a Good Idea into Action.....	473
<i>Jamie Borwick</i>	
Chapter 36. Taking Ideas to Action in Central Governments—The US Case.....	476
<i>Tyler Goodspeed</i>	
Chapter 37. Ideas and Actions for a Free Society.....	487
<i>Ruth Richardson</i>	

Taking Ideas to Action in the Private Sector

Chapter 38. Public Policy, Private Actor.....	491
<i>Dominique Lazanski</i>	
Chapter 39. Libertarianism is Dysfunctional but Liberty is Great.....	508
<i>Joe Lonsdale</i>	
Chapter 40. The False Promise of Medicare for All.....	514
<i>Sally Pipes</i>	

A Closing Conversation

Chapter 41. China, Globalization, Capitalism, Silicon Valley, Political Correctness, and Exceptionalism.....	527
<i>Peter Thiel and Peter Robinson</i>	