

# **2008 Index of Economic Freedom**

# What's New in the 2008 Index?

Every year, the editors evaluate the *Index of Economic Freedom* and consider ways to improve the product. This year's edition of the *Index* continues the substance and style of the 2007 edition with a renewed emphasis on a more scientific and objective methodology coupled with an accessible format. There are few dramatic changes in the 2008 *Index*, but there are a number of important refinements.

These changes continue the Heritage Foundation/*Wall Street Journal* tradition of year-by-year improvement. For example, changes in the methodology were instituted in 2000, 2002, 2004, 2006, and 2007 to enhance the robustness of one or more of the 10 factors that are used to measure overall economic freedom. Each time, the entire time series is revised so that all scores are as consistent as possible, dating back to 1995. Our goal is to make the *Index* a resource that is credible, usable, and relevant to a changing world, with new data and knowledge, while also consistent with our heritage.

A more detailed explanation of what has

changed, as well as what has not changed, in the 2008 *Index* follows:

- **Free Downloads at [www.heritage.org/index](http://www.heritage.org/index).** The *Index* Web site has been revised to include free downloads of each chapter and even each individual country page. These can be used for briefing books, student handouts, or anything else that readers find useful. The Web site also has new audio and video presentations by *Index* scholars, as well as all of the raw data and related research papers.

- **Non-Tariff Barrier Penalty.** The *Index* methodology is consistent with the revisions made in 2007, measuring the same 10 economic freedoms in each economy and using exactly the same underlying data. The only change is a set of refinements in the equations used for three of the 10 freedoms. One of these refinements is in trade freedom, which has always included a penalty for non-tariff barriers (NTBs). Until now, it has been a binary penalty equal to a reduction of 20 percentage points in the trade freedom

score as calculated by tariffs, and thus a reduction of 2 percentage points in a country's total score. The change is that the NTB penalty now ranges in increments of 5 percentage points, up to a 20-percentage point maximum penalty. As a result, a country with moderate import restrictions will have 10 percentage points subtracted from its trade freedom score. This change was also applied retroactively so that previous penalties of 20 percentage points dating back to 1995 were largely reduced to 15 or 10 percentage points. The effect has been to raise overall scores, since the vast majority of countries utilize NTBs and had the penalty in place. This is an improvement in the level of detail that the *Index* provides, allowing greater differentiation and fairness in reflecting economic policies across countries.

• **Taxes and Expenditures.** The introduction of a new methodology in 2007 produced some results that could not be anticipated until grading was completed. One surprise was that average scores for each of the 10 freedoms varied widely. The "best" score was fiscal freedom, which averaged 82.8, but this sent the unintended signal that the area least in need of reform was taxation. Regrettably, tax reform is badly needed in almost all countries, and the creeping size of government taxation and expenditure is a signature reason for the existence of the *Index*. In fact, most economists would agree that the primary area of success in economic governance has been the rise of stable prices and low inflation, largely as a result of independent central banking, implying that the "best" score on average should be in monetary freedom. To remedy the balance among the 10 economic freedoms in the *Index*, an adjustment was made to two equations with no change in the underlying data. Since the equations to calculate scores for financial freedom and government size were producing overly generous scores, the coefficients were tightened in each case. The same equation is used to calculate scores through the entire time series back to 1995, so these changes were made retroactively and seamlessly in past scores. The effect was to lower scores for every country. The overall effect of the higher average scores for trade freedom and lower

average scores for fiscal freedom and government size was neutral.

• **New 10 Freedoms Chart.** Each country page includes two charts. The first shows how the country's overall economic freedom score has changed from 1995 to the present. The second shows, numerically and graphically, the score of each of the 10 freedoms. New this year, this second chart also includes an "up-or-down arrow" that signals the change during the most recent year. For example, you can see that the United States worsened in four freedoms, improved in one other, and is unchanged in the remaining three freedoms. The overall effect was under a full percentage point decline, but these new arrows help to identify exactly what areas are causing the score to slip.

We hope the changes in the *Index* make it an even better research tool and a more accessible policymaking guide. Whatever changes may be made from year to year, however, our goal remains constant: to advance human freedom. We believe that today's *Index* might even make the transition to a better world faster and surer.

One of the editors' paramount concerns is that the *Index* always remains a useful tool for researchers. This means that the integrity of the current-year scores is crucial. During a period of aggressive improvements, there undoubtedly will be mistakes in the scores, based on our errors and errors in source data. We cannot promise perfection, but we do promise objectivity: Our methods and modifications will always be transparent and duplicable by other scholars.

Moreover, even though the *Index* itself is published in January, based on policies and data available as of the previous June, we remain committed to providing the most accurate and up-to-date measures online and will make any needed corrections in that source file immediately. For researchers who want to weight the *Index* or consider individual components in statistical analysis, the 10 freedoms and even the raw data are also available transparently online. Revised scores of individual factors for all years are available for download at [www.heritage.org/Index](http://www.heritage.org/Index).

# Executive Summary

This is the 14th edition of The Heritage Foundation/Wall Street Journal *Index of Economic Freedom*. Over the past years, the *Index* has documented the link between economic opportunity and prosperity, researching and analyzing economic policies in countries around the world. That trend continues in the 2008 *Index*, which paints a portrait of economic freedom around the world and establishes a benchmark by which to gauge a country's chances of economic success.

The idea of producing a user-friendly "index of economic freedom" as a tool for policymakers and investors was first discussed at The Heritage Foundation in the late 1980s. The goal then, as it is today, was to develop a systematic, empirical measurement of economic freedom in countries throughout the world. To this end, the decision was made to establish a set of objective economic criteria that, since the inaugural edition in 1995, have been used to study and grade various countries for the annual publication of the *Index of Economic Freedom*.

Economic theory dating back to the publication of Adam Smith's *The Wealth of Nations* in 1776 emphasizes the lesson that basic institutions that protect the liberty of individuals to pursue their own economic interests result in greater prosperity for the larger society. Perhaps the idea of freedom is too sophisticated, as popular support for it seems constantly to erode before the onslaught of populism, whether democratic or autocratic. Yet modern scholars of political economy are rediscovering the central fact that "free institutions" are essential to rapid long-term growth. In other words, the techniques may be new, but they reaffirm classic truths. The objective of the *Index* is to catalogue those economic institutions in a quantitative and rigorous manner.

Yet the *Index* is more than a simple ranking based on economic theory and empirical study. It also identifies the variables that comprise economic freedom and analyzes the interaction of freedom with wealth.

The 2008 *Index of Economic Freedom* covers 162 countries across 10 specific factors of economic freedom, which are listed below. Chapter 4 explains these factors in detail. High scores approaching 100 represent higher levels of freedom. The higher the score on a factor, the lower the level of government interference in the economy.

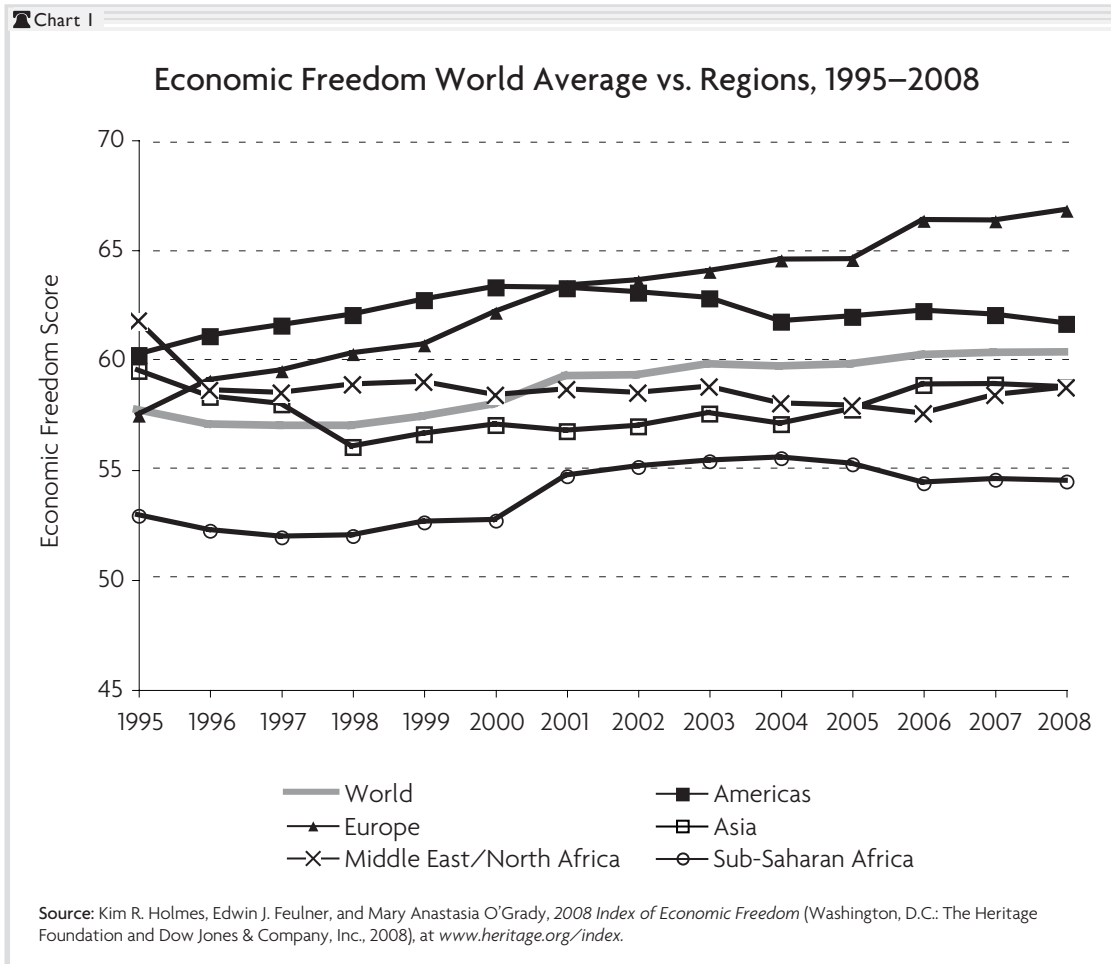
**The 10 Economic Freedoms**

- Business Freedom
- Trade Freedom
- Fiscal Freedom
- Government Size
- Monetary Freedom
- Investment Freedom
- Financial Freedom
- Property Rights
- Freedom from Corruption
- Labor Freedom

Taken together, these 10 freedoms offer an empirical depiction of a country’s degree of economic freedom. A systematic analysis of the 10 freedoms has demonstrated again this year that economic freedom is the key to creating an environment that allows a virtuous cycle of entrepreneurship, innovation, and sustained economic growth and development to flourish. Economies with higher levels of economic freedom enjoy higher living standards.

**HIGHLIGHTS FROM THE 2008 INDEX**

**Global economic freedom continues to hold steady while progressing more slowly than one might hope.** The global economic freedom score is 60.3 percent, essentially the same as last year. In the years since the *Index* began in 1995, world economic freedom has improved by 2.6 percentage points. Overall, each region’s economic freedom holds steady,



but varying degrees of commitment to economic freedom over the past decade have resulted in mixed trends in individual regions' pursuit of greater economic freedom.

**Former British colonies in Asia continue to lead the world in economic freedom.** Hong Kong has the highest level of economic freedom for the 14th straight year. Singapore remains close, ranked second in the world, and Australia is ranked fourth-freest, which means that the Asia-Pacific region is home to the three of the world's top five freest economies.

**While every region has at least one of the top 20 freest economies, half of them are European.** A majority of the freest economies are in Europe, led by Ireland, Switzerland, the United Kingdom, and Denmark. Five are in the Asia-Pacific region, and three are from the Americas: the United States, Canada, and Chile. One country (Mauritius) is from the sub-Saharan Africa region, and one (Bahrain) is from the Middle East/North Africa region.

**Economic freedom is strongly related to good economic performance.** The world's freest countries have twice the average per capita income of the second quintile of countries and over five times the average income of the fifth quintile. The freest economies also have lower rates of unemployment and lower inflation. These relationships hold across each quintile, meaning that every quintile of less free economies has worse average rates of inflation and unemployment than the preceding quintile has. (See "The Impact of Economic Freedom.")

**In pursuing sustainable prosperity, both the direction of policy and commitment to economic freedom are important.** Across the five regions, Europe is clearly the most free using an unweighted average (66.8 percent), followed at some distance by the Americas (61.6 percent). The other three regions fall below the world average: Asia-Pacific (58.7 percent), Middle East/North Africa (58.7 percent), and sub-Saharan Africa (54.5 percent). However, trends in freedom are mixed across regions. Consistently scoring above the global average, Europe has continued to advance its economic freedom because of policy improvements, such as tax cuts and other business cli-

mate reforms, adopted by many of the region's individual economies as they compete with one another to attract more investment.

On the other hand, the Americas, while also maintaining a level of economic freedom higher than the global average during every year covered by the *Index*, has experienced some regional deterioration in economic freedom in recent years. The erosion of economic freedom in the Americas reflects reversals of free-market policies and lack of perseverance in pursuing economic freedom in some countries. Venezuela, in particular, is tempting long-run decline as President Hugo Chávez takes the country further down an anti-democratic and anti-free market path. Asia-Pacific countries have the highest variance within their region, which means that there is a much wider gap between the heights of freedom in some economies and the lows in others that is nearly twice as variable as the norm. Economic freedom in sub-Saharan Africa and the Middle East/North Africa region has somewhat stagnated over the life of the *Index*, but those regions have been moving slowly toward higher economic freedom in recent years.

**The methodology for measuring economic freedom is further strengthened.** The methodology introduced in the 2007 *Index*, using a scale of 0-100 rather than the 1-5 brackets of previous years when assessing the 10 component economic freedoms, was refined slightly, particularly in assessing non-tariff barriers, taxes, and government spending. The modifications allowed the methodology to be tightened. The methodology has been vetted with an academic advisory board and should now even better reflect the details of each country's economic policies. In order to compare country performances from past years accurately, scores and rankings for all previous years dating back to 1995 have been adjusted to reflect the refinements.

As shown in Chart 2, of the 157 countries graded numerically in the 2008 *Index*,<sup>1</sup> only

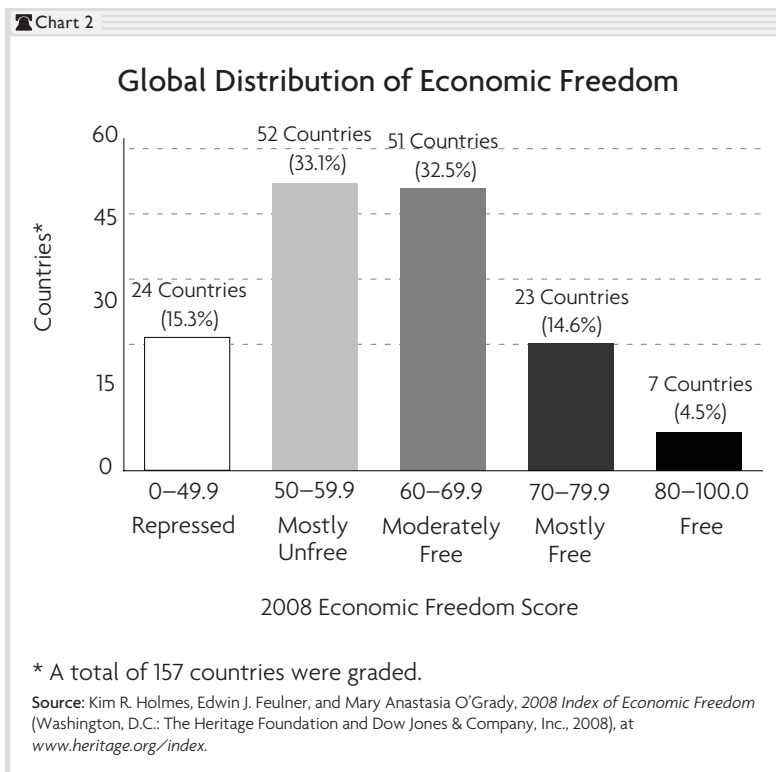
1 Five countries (the Democratic Republic of Congo, Iraq, Serbia, Montenegro, and Sudan) were suspended from grading again this year because of questions about the accuracy of the data or about whether the data truly reflect economic

seven have very high freedom scores of 80 percent or more, putting them into the “free” economies category (the highest). The next 23 countries are in the 70 percent range, placing them in the “mostly free” category. This means that only 30 countries, or less than one-fifth of all countries surveyed, have economic freedom scores higher than 70 percent. The bulk of countries—103 economies—have freedom scores of 50 percent–70 percent. Of those, about half are “moderately free” (scores of 60 percent–70 percent), and half are “mostly unfree” (scores of 50 percent–60 percent).

This year, 24 countries—a slight increase from last year’s 20 countries—have “repressed economies” with scores below 50 percent.

The typical country has an economy that is 60.3 percent free, essentially the same as last year. Improved scores in business freedom, fiscal freedom, government size, and investment freedom were offset by worsened scores in monetary freedom, freedom from corruption, and labor freedom. The trade freedom and property rights scores were unchanged. Notwithstanding the absence of dramatic improvement in global economic freedom this year, it is gratifying to note that the past two editions of the *Index* have recorded the two highest global scores ever achieved, so the overall trend continues to be positive.

circumstances for most of the country. Data for suspended countries are reviewed annually to ascertain whether the situation has improved. The Democratic Republic of Congo and Sudan were suspended from grading in the 2008 *Index* because, in each case, civil unrest or anarchy indicated that official government policies did not apply to large portions of the country. Serbia, Montenegro, and Iraq were suspended because reliable data were not available.



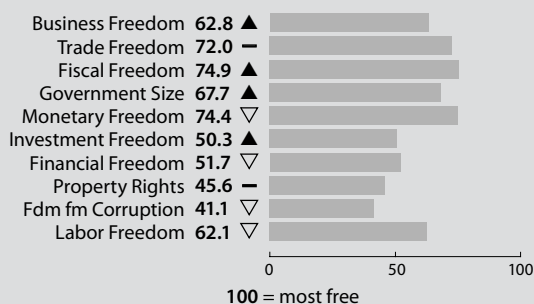
## THE IMPACT OF ECONOMIC FREEDOM

There are clear relationships between economic freedom and numerous other cross-country variables, the most prominent being the strong relationship between the level of freedom and the level of prosperity in a given country. Previous editions of the *Index* have confirmed the tangible benefits of living in freer societies. Not only is a higher level of economic freedom clearly associated with a higher level of per capita gross domestic product, but those higher GDP growth rates seem to create a virtuous cycle, triggering further improvements in economic freedom. Our 14 years of *Index* data strongly suggest that countries that increase their levels of freedom experience faster growth rates.

Chart 3 shows a strong relationship between the level of economic freedom in 2008 and the logarithmic value of the most recent data for per capita GDP using 157 countries as data points.

Charts 4–7 illustrate four different relationships using a quintile framework. The top quintile of countries is composed of those that

# THE 10 ECONOMIC FREEDOMS: A GLOBAL GUIDE



## BUSINESS FREEDOM — 62.8%

Business freedom measures how free entrepreneurs are to start businesses, how easy it is to obtain licenses, and the ease of closing a business. Impediments to any of these three activities are deterrents to business and therefore to job creation. Globally, starting a business takes an average of 43 days, while getting necessary licenses takes an average of 19 procedures and 234 days. Bankruptcy proceedings take an average of three years.<sup>1</sup>

## TRADE FREEDOM — 72%

Tariffs are the primary obstacle to free trade among nations, but non-tariff barriers (NTBs) such as quotas and bureaucratic delays are also significant impediments. The overall trade freedom score is composed of these two elements. The first component is a score calculated from each country's weighted average tariff rate and ranges from 0 to 100 percent. The higher the score, the lower the tariff rate. The mean worldwide tariff rate is 11.1 percent. A country with that rate would receive a score of 80 percent. Depending upon the severity of a country's NTB barriers, a penalty of 5, 10, 15, or 20 percentage points is subtracted from the weighted average tariff rate score to arrive at each country's overall trade freedom score. The global average trade freedom score for 2008 is 72 percent.

## FISCAL FREEDOM — 74.9%

The top tax rate on individual income averages 31 percent, and the top tax rate on corporate income averages 26 percent. There are also many other types of taxes that governments use to raise revenue, and total tax revenue from all forms of taxation averages 21 percent of country GDP. Mixing the three scores together is the basis of the fiscal freedom score. Using a quadratic cost function that penalizes higher taxes with a higher penalty, the average score is 74.9 percent.

## GOVERNMENT SIZE — 67.7%

Government size is defined to include all government expenditures, including consumption and transfers. Ideally, the state will provide only true public goods with an absolute minimum of expenditure. The average level of government spending as a portion of GDP is slightly over 30 percent.<sup>2</sup> Using a non-linear quadratic cost function that

1 The global average is based on data for 146 countries that are graded by both the *Index of Economic Freedom* and the World Bank's *Doing Business 2008*.

2 In general, the government size indicator looks

downgrades higher government spending with a higher penalty, the world average score for government size is 67.7 percent.

## MONETARY FREEDOM — 74.4%

The worldwide average of the weighted average inflation rates per country from 2004 to 2006 is 10.6 percent, an increase over last year's weighted average of 7.9 reflects in part Zimbabwe's hyperinflation, which climbed to over 1,000 percent. Price stability explains most of the monetary freedom score, although there is a penalty of up to 20 percentage points for countries that use price controls. The average price control penalty was 10.3 points this year.

## INVESTMENT FREEDOM — 50.3%

Only 17 countries enjoy high investment freedom with scores of 80 percent and higher. These countries impose few or no restrictions on foreign investment, which promotes economic expansion and enhances overall economic freedom. Meanwhile, more than one-third of countries significantly lack investment freedom with scores of less than 50 percent.

## FINANCIAL FREEDOM — 51.7%

The more that banks are controlled by the government, the less free they are to engage in essential financial activities that facilitate private sector-led economic growth. Regrettably, most countries continue to impose a heavy burden of bank regulation on the private sector, reducing opportunities and restricting economic freedom. About 80 countries' financial freedom scores are between 50 and 70.

## PROPERTY RIGHTS — 45.6%

Progress toward stronger property rights is still gradual and slow. With scores above 80, many Western economies (along with Hong Kong and Singapore) benefit from secure protection of property rights, but more than half of the world's countries score below 50.

## FREEDOM FROM CORRUPTION — 41.1%

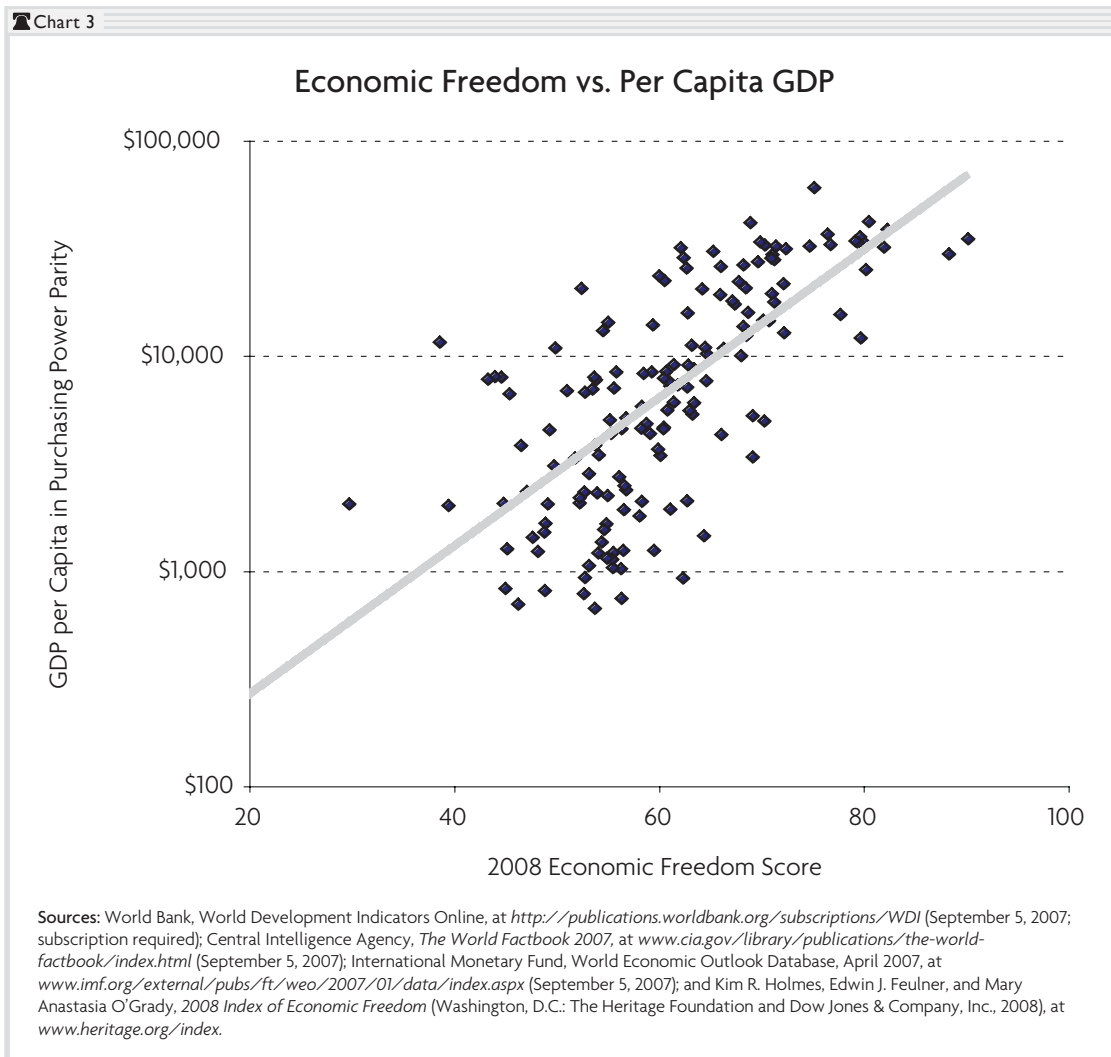
Little progress has been made since last year, and corruption is still perceived as widespread in many countries. Scores for only 16 countries are 80 percent or higher, while 114 countries' scores are below 50. Freedom from corruption remains the lowest average score among the 10 factors.

## LABOR FREEDOM — 62.1%

Labor market flexibility is essential to enhancing employment opportunities and overall productivity growth. The rigidity of hiring and firing a worker creates a risk aversion for companies that would otherwise employ more people and grow. The world average of labor freedom is 62.1 percent, reflecting wage, hour, and other restrictions. Only 25 countries have notably flexible labor market policies with scores above 80, while 35 countries score below 50 as a result of their rigid labor market regulations.

at general government expenditure data that combine all levels of government such as central or federal, state or provincial, and local. In countries for which general government spending data are not available, central government expenditure data are used for grading.





are ranked from 1 to 31 globally (Hong Kong to Spain), and each subsequent quintile includes the next group of countries. Quintiles are not the same as categorical groups (free, mostly free, etc.) and are used here because each quintile is comparable based on about the same number of countries.

Chart 4 shows that four of five quintiles have roughly equal populations, but the fourth quintile alone contains half of the world's population. This is due to the presence of China and India together.

This fact suggests that when China and India further open their economies to globalization so that internal economic freedoms are strengthened, the rise in global prosperity will be spectacular.

Chart 5 is another look at the relationship

between economic freedom and average per capita incomes. The quintiles with higher economic freedom have dramatically higher incomes per person.

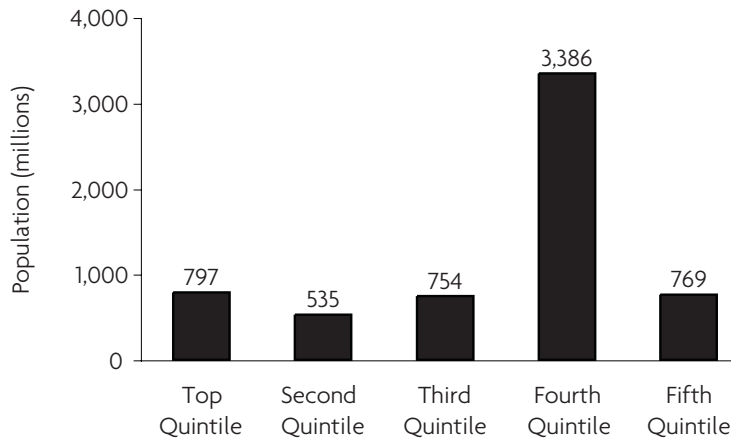
Chart 6 and Chart 7 show that unemployment rates are higher for each quintile of lower economic freedom. Likewise, on average, inflation rates rise as economic freedom declines.

The lesson from these charts is simple: Economic failure is a predictable consequence of economic repression. Countries that reflect the desires of their people for better lives will adopt economic freedom, and countries that repress their people for political reasons will cause economic suffocation.

In other words, any populist who claims that the suspension of economic freedom is done for the good of the people is no longer credible.

Chart 4

### Global Distribution of Economic Freedom by Population

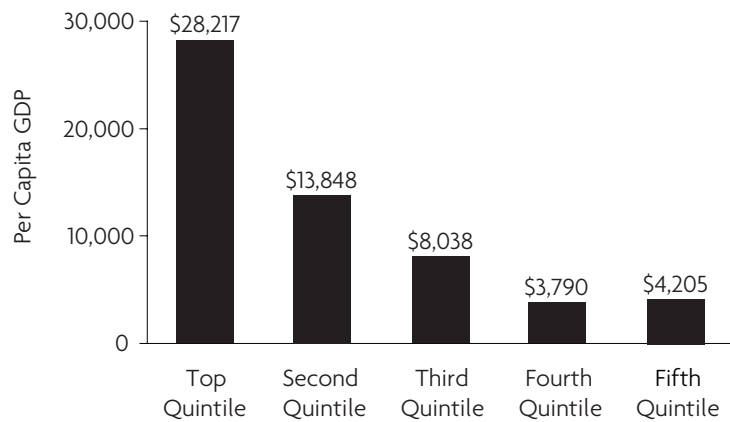


2008 Economic Freedom Score

Sources: World Bank, World Development Indicators Online, at <http://publications.worldbank.org/subscriptions/WDI> (September 5, 2007; subscription required); Central Intelligence Agency, *The World Factbook 2007*, at [www.cia.gov/library/publications/the-world-factbook/index.html](http://www.cia.gov/library/publications/the-world-factbook/index.html) (September 5, 2007); International Monetary Fund, World Economic Outlook Database, April 2007, at [www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx](http://www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx) (September 5, 2007); and Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), at [www.heritage.org/index](http://www.heritage.org/index).

Chart 5

### Economic Freedom and Per Capita GDP

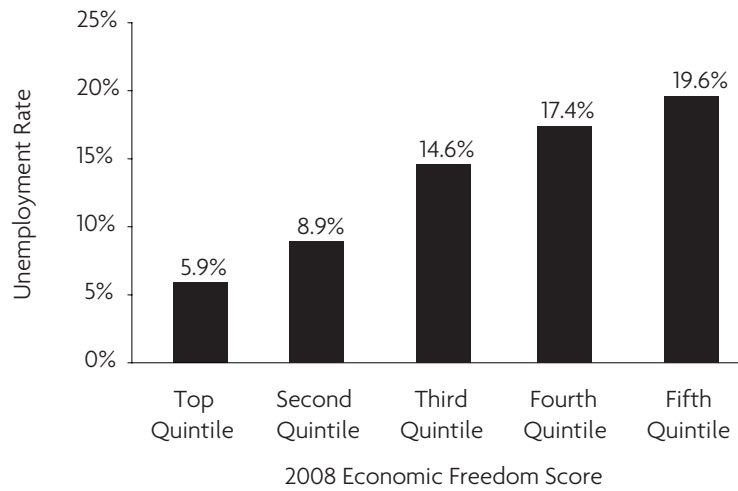


2008 Economic Freedom Score

Sources: World Bank, World Development Indicators Online, at <http://publications.worldbank.org/subscriptions/WDI> (September 5, 2007; subscription required); Central Intelligence Agency, *The World Factbook 2007*, at [www.cia.gov/library/publications/the-world-factbook/index.html](http://www.cia.gov/library/publications/the-world-factbook/index.html) (September 5, 2007); International Monetary Fund, World Economic Outlook Database, April 2007, at [www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx](http://www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx) (September 5, 2007); and Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), at [www.heritage.org/index](http://www.heritage.org/index).

Chart 6

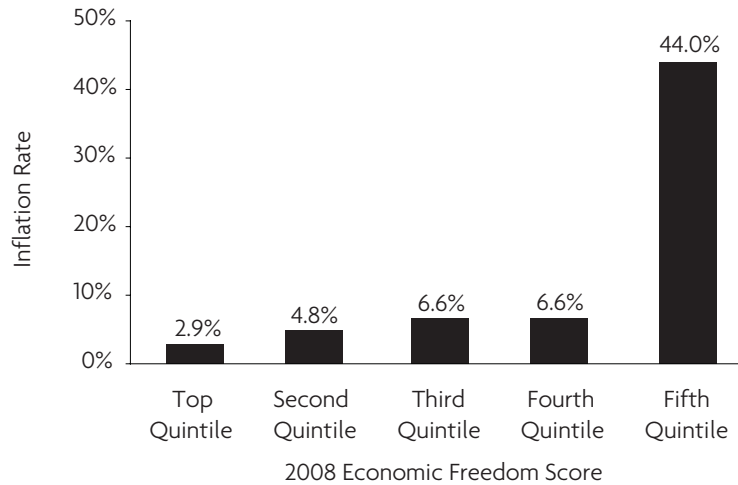
### Economic Freedom and Unemployment



Sources: World Bank, World Development Indicators Online, at <http://publications.worldbank.org/subscriptions/WDI> (September 5, 2007; subscription required); Central Intelligence Agency, *The World Factbook 2007*, at [www.cia.gov/library/publications/the-world-factbook/index.html](http://www.cia.gov/library/publications/the-world-factbook/index.html) (September 5, 2007); International Monetary Fund, World Economic Outlook Database, April 2007, at [www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx](http://www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx) (September 5, 2007); and Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), at [www.heritage.org/index](http://www.heritage.org/index).

Chart 7

### Economic Freedom and Stable Money



Sources: World Bank, World Development Indicators Online, at <http://publications.worldbank.org/subscriptions/WDI> (September 5, 2007; subscription required); Central Intelligence Agency, *The World Factbook 2007*, at [www.cia.gov/library/publications/the-world-factbook/index.html](http://www.cia.gov/library/publications/the-world-factbook/index.html) (September 5, 2007); International Monetary Fund, World Economic Outlook Database, April 2007, at [www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx](http://www.imf.org/external/pubs/ft/weo/2007/01/data/index.aspx) (September 5, 2007); and Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), at [www.heritage.org/index](http://www.heritage.org/index).

## Index of Economic Freedom World Rankings

World Rank	Country	Overall Score	Change from 2007	Business Freedom	Trade Freedom	Fiscal Freedom	Government Size	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
1	Hong Kong	90.3	-0.3	88.2	95.0	92.8	93.1	87.2	90	90	90.0	83.0	93.3
2	Singapore	87.4	0.2	97.8	90.0	90.3	93.9	88.9	80	50	90.0	94.0	99.0
3	Ireland	82.4	-0.2	92.2	86.0	71.5	64.5	84.9	90	90	90.0	74.0	80.4
4	Australia	82.0	1.0	89.3	83.8	59.2	62.8	83.7	80	90	90.0	87.0	94.2
5	United States	80.6	-0.3	91.7	86.8	68.3	59.8	83.7	80	80	90.0	73.0	92.3
6	New Zealand	80.2	-0.8	99.9	80.8	60.5	56.0	83.7	70	80	90.0	96.0	85.5
7	Canada	80.2	2.1	96.7	87.0	75.5	53.7	81.0	70	80	90.0	85.0	82.9
8	Chile	79.8	0.8	67.5	82.2	78.1	88.2	78.8	80	70	90.0	73.0	90.0
9	Switzerland	79.7	1.6	83.9	87.2	68.0	61.6	83.6	70	80	90.0	91.0	82.0
10	United Kingdom	79.5	-0.5	90.8	86.0	61.2	40.1	80.7	90	90	90.0	86.0	80.7
11	Denmark	79.2	2.2	99.9	86.0	35.0	19.8	86.5	90	90	90.0	95.0	99.9
12	Estonia	77.8	-0.2	84.5	86.0	86.0	62.0	82.0	90	80	90.0	67.0	50.3
13	Netherlands, The	76.8	1.9	88.0	86.0	51.6	38.2	86.9	90	90	90.0	87.0	60.5
14	Iceland	76.5	-0.2	94.5	85.0	73.6	46.3	74.8	60	70	90.0	96.0	75.0
15	Luxembourg	75.2	-0.1	76.9	86.0	65.4	44.8	79.8	90	80	90.0	86.0	53.1
16	Finland	74.8	0.6	95.2	86.0	64.3	29.1	88.5	70	80	90.0	96.0	48.8
17	Japan	72.5	0.3	88.1	80.0	70.3	56.2	94.3	60	50	70.0	76.0	79.8
18	Mauritius	72.3	3.1	81.6	80.6	92.1	81.4	75.7	70	60	60.0	51.0	70.6
19	Bahrain	72.2	1.0	80.0	80.8	99.7	80.3	74.3	60	90	60.0	57.0	40.0
20	Belgium	71.5	-0.9	93.7	86.0	43.9	17.9	80.4	90	80	80.0	73.0	69.9
21	Barbados	71.3	1.4	90.0	58.8	71.3	62.2	74.0	60	60	90.0	67.0	80.0
22	Cyprus	71.3	-0.4	70.0	81.0	78.2	43.0	85.0	70	70	90.0	56.0	70.0
23	Germany	71.2	-0.4	88.9	86.0	58.4	34.0	81.4	80	60	90.0	80.0	52.8
24	Bahamas, The	71.1	-0.9	80.0	32.0	96.2	86.4	76.3	40	70	80.0	70.0	80.0
25	Taiwan	71.0	0.8	70.7	86.7	75.9	87.8	83.3	70	50	70.0	59.0	56.9
26	Lithuania	70.8	-0.7	83.2	86.0	86.3	68.3	78.5	70	80	50.0	48.0	57.6
27	Sweden	70.4	1.4	94.8	86.0	32.7	3.9	82.8	80	80	90.0	92.0	62.0
28	Armenia	70.3	1.0	81.3	85.0	89.0	86.4	84.6	70	70	35.0	29.0	73.1
29	Trinidad and Tobago	70.2	-1.1	64.1	79.0	81.1	81.7	72.6	70	70	65.0	32.0	86.9
30	Austria	70.0	-0.2	80.6	86.0	51.2	25.3	81.4	70	70	90.0	86.0	59.2
31	Spain	69.7	-0.2	77.5	86.0	54.5	56.2	78.1	70	80	70.0	68.0	56.7
32	Georgia	69.2	-0.1	85.0	71.0	90.7	81.2	71.4	70	60	35.0	28.0	99.9
33	El Salvador	69.2	-0.6	58.6	76.6	83.4	88.7	76.8	70	70	50.0	40.0	78.0

## Index of Economic Freedom World Rankings

World Rank	Country	Overall Score	Change from 2007	Business Freedom	Trade Freedom	Fiscal Freedom	Government Size	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
34	Norway	69.0	0.6	89.1	86.2	50.3	46.3	76.1	60	50	90.0	88.0	53.9
35	Slovak Republic	68.7	0.3	69.3	86.0	89.4	53.9	76.9	70	80	50.0	47.0	64.9
36	Botswana	68.6	0.1	68.7	67.6	76.4	61.8	69.7	70	70	70.0	56.0	75.9
37	Czech Republic	68.5	0.8	63.9	86.0	71.3	45.6	80.3	70	80	70.0	48.0	70.2
38	Latvia	68.3	0.1	74.3	86.0	83.4	59.2	73.8	70	70	55.0	47.0	64.6
39	Kuwait	68.3	1.7	68.5	81.0	99.9	74.6	73.8	50	50	55.0	48.0	82.1
40	Uruguay	68.1	-0.7	59.8	83.0	85.9	76.6	74.2	60	30	70.0	64.0	77.3
41	Korea, South	67.9	0.7	84.0	66.4	71.1	77.3	80.1	70	60	70.0	51.0	49.0
42	Oman	67.4	1.4	55.8	83.6	98.5	60.7	74.7	60	60	50.0	54.0	77.2
43	Hungary	67.2	2.8	73.9	86.0	70.0	26.5	77.2	80	70	70.0	52.0	66.8
44	Mexico	66.4	0.1	82.6	79.0	83.4	83.7	77.7	50	60	50.0	33.0	64.3
45	Jamaica	66.2	0.2	82.0	70.4	74.9	59.6	74.3	80	60	50.0	37.0	73.3
46	Israel	66.1	1.5	68.4	86.6	55.9	35.1	81.8	80	60	70.0	59.0	64.0
47	Malta	66.0	-0.1	70.0	86.0	61.3	29.1	79.8	50	70	90.0	64.0	60.0
48	France	65.4	2.5	87.1	81.0	53.2	13.2	81.2	60	70	70.0	74.0	63.8
49	Costa Rica	64.8	0.2	59.7	81.8	82.9	87.4	67.9	70	40	50.0	41.0	66.8
50	Panama	64.7	0.1	72.8	76.2	83.0	89.1	80.2	70	70	30.0	31.0	44.4
51	Malaysia	64.5	0.1	69.0	76.2	82.2	80.8	78.6	40	40	50.0	50.0	78.7
52	Uganda	64.4	0.7	56.3	72.0	80.5	86.0	78.5	50	70	30.0	27.0	93.9
53	Portugal	64.3	-0.2	79.6	86.0	61.3	32.6	79.4	70	50	70.0	66.0	48.0
54	Thailand	63.5	-1.3	72.1	75.2	74.7	90.7	66.7	30	50	50.0	36.0	89.6
55	Peru	63.5	1.0	64.5	73.4	80.2	91.8	85.9	60	60	40.0	33.0	45.8
56	Albania	63.3	0.9	55.6	75.8	90.3	76.0	80.4	70	70	30.0	26.0	59.3
57	South Africa	63.2	-0.2	71.2	74.2	69.5	76.8	77.2	50	60	50.0	46.0	57.5
58	Jordan	63.0	-0.5	55.4	74.8	83.7	53.2	80.4	50	60	55.0	53.0	64.8
59	Bulgaria	62.9	0.9	67.5	86.0	82.7	56.0	73.7	60	60	30.0	40.0	73.2
60	Saudi Arabia	62.8	1.2	72.5	76.8	99.7	69.1	76.7	30	40	50.0	33.0	80.6
61	Belize	62.8	-0.4	76.3	64.6	69.3	74.8	77.3	50	50	50.0	35.0	80.9
62	Mongolia	62.8	3.0	71.1	81.4	85.0	71.7	78.2	60	60	30.0	28.0	62.4
63	United Arab Emirates	62.8	-0.1	47.9	80.4	99.9	80.2	70.9	30	40	40.0	62.0	76.2
64	Italy	62.5	-0.2	76.8	81.0	54.3	29.4	80.6	70	60	50.0	49.0	73.5
65	Madagascar	62.4	1.3	56.0	79.6	80.9	86.4	72.2	70	50	50.0	31.0	47.9
66	Qatar	62.2	-0.7	60.0	70.8	99.8	72.1	69.4	30	50	50.0	60.0	60.0

## Index of Economic Freedom World Rankings

World Rank	Country	Overall Score	Change from 2007	Business Freedom	Trade Freedom	Fiscal Freedom	Government Size	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
67	Colombia	61.9	2.3	72.5	70.8	72.8	71.2	71.4	60	60	40.0	39.0	61.4
68	Romania	61.5	0.3	74.1	86.0	85.6	70.8	72.5	60	50	30.0	31.0	55.3
69	Fiji	61.5	0.9	69.7	74.2	74.5	75.3	78.9	30	60	30.0	40.0	82.7
70	Kyrgyz Republic	61.1	0.8	60.4	81.4	93.9	76.1	75.6	50	50	30.0	22.0	72.0
71	Macedonia	61.1	0.5	65.1	83.4	88.1	61.6	85.5	50	60	30.0	27.0	60.7
72	Namibia	61.0	-2.1	73.8	87.4	67.9	71.0	76.8	30	50	30.0	41.0	82.4
73	Lebanon	60.9	-0.5	55.4	77.4	91.4	69.5	77.8	30	70	30.0	36.0	71.2
74	Turkey	60.8	2.5	67.9	86.8	77.7	68.3	70.8	50	50	50.0	38.0	48.0
75	Slovenia	60.6	0.4	73.0	86.0	62.4	33.2	79.5	60	50	50.0	64.0	47.7
76	Kazakhstan	60.5	1.4	56.5	86.2	80.1	84.7	71.9	30	60	30.0	26.0	80.0
77	Paraguay	60.5	1.6	57.6	78.4	96.6	90.8	76.6	50	60	35.0	26.0	34.2
78	Guatemala	60.5	-0.8	54.1	78.4	79.9	95.9	72.9	50	50	30.0	26.0	67.9
79	Honduras	60.2	-0.2	59.5	78.0	84.5	82.6	73.7	50	60	30.0	25.0	59.0
80	Greece	60.1	1.8	69.5	81.0	65.6	57.8	78.5	50	50	50.0	44.0	54.3
81	Nicaragua	60.0	-2.0	56.4	79.2	79.0	77.6	70.6	70	50	25.0	26.0	65.7
82	Kenya	59.6	-0.4	65.3	75.0	78.2	84.8	72.2	50	50	35.0	22.0	63.2
83	Poland	59.5	2.1	54.1	86.0	68.6	43.5	82.3	60	60	50.0	37.0	53.5
84	Tunisia	59.3	-0.2	79.2	71.8	76.4	77.1	77.6	30	30	50.0	46.0	55.3
85	Egypt	59.2	4.0	59.7	66.0	90.8	73.0	69.9	50	40	40.0	33.0	69.1
86	Swaziland	58.9	-1.7	69.0	69.0	71.4	62.4	76.0	50	40	50.0	25.0	75.7
87	Dominican Republic	58.5	0.9	62.2	73.0	80.4	88.8	69.3	50	40	30.0	28.0	63.6
88	Cape Verde	58.4	1.3	55.1	41.2	66.2	60.5	78.7	60	50	70.0	40.0	62.3
89	Moldova	58.4	-0.8	68.5	79.2	83.0	56.9	67.6	30	50	50.0	32.0	66.6
90	Sri Lanka	58.3	-1.0	71.5	69.6	73.5	81.7	65.4	30	40	50.0	31.0	70.5
91	Senegal	58.2	0.1	54.5	71.6	65.2	82.3	81.4	50	50	50.0	33.0	43.6
92	Philippines, The	56.9	-0.1	53.0	78.8	75.8	90.2	73.8	30	50	30.0	25.0	61.9
93	Pakistan	56.8	-1.7	70.8	65.2	79.1	90.1	72.2	40	30	30.0	22.0	69.1
94	Ghana	56.7	-0.7	53.1	63.0	83.7	71.5	68.0	50	50	50.0	33.0	44.2
95	Gambia, The	56.6	-0.8	57.1	62.6	72.5	72.8	73.9	50	50	30.0	25.0	72.1
96	Mozambique	56.6	0.7	53.0	72.8	78.1	85.2	73.6	50	50	30.0	28.0	45.0
97	Tanzania	56.4	-0.4	47.9	73.2	80.5	79.9	75.4	50	50	30.0	29.0	48.1
98	Morocco	56.4	-0.8	75.8	62.6	65.4	73.2	79.8	60	40	35.0	32.0	40.2
99	Zambia	56.4	-0.8	62.4	71.2	72.6	80.3	62.9	50	50	40.0	26.0	48.2

## Index of Economic Freedom World Rankings

World Rank	Country	Overall Score	Change from 2007	Business Freedom	Trade Freedom	Fiscal Freedom	Government Size	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
100	Cambodia	56.2	0.1	43.0	52.2	91.4	94.2	80.9	50	50	30.0	21.0	49.1
101	Brazil	55.9	-0.2	53.6	70.8	68.6	55.5	75.7	50	40	50.0	33.0	61.9
102	Algeria	55.7	0.6	72.7	68.8	77.0	74.6	80.2	40	30	30.0	31.0	52.3
103	Burkina Faso	55.6	0.6	49.8	66.6	77.5	85.9	78.8	40	50	30.0	32.0	45.7
104	Mali	55.5	0.8	41.9	68.6	69.3	81.5	79.9	50	40	30.0	28.0	66.0
105	Nigeria	55.5	-0.5	52.6	63.4	84.4	68.1	73.8	30	40	30.0	22.0	90.6
106	Ecuador	55.4	-0.2	58.1	67.6	86.4	82.3	74.1	40	50	30.0	23.0	42.4
107	Azerbaijan	55.3	0.5	61.6	78.4	80.3	82.9	76.5	30	30	30.0	24.0	59.2
108	Argentina	55.1	0.1	63.2	69.6	70.5	80.9	65.0	50	40	30.0	29.0	52.9
109	Mauritania	55.0	1.5	38.9	70.2	75.4	66.3	77.1	60	50	30.0	31.0	51.2
110	Benin	55.0	0.1	47.7	65.2	67.5	86.4	77.5	40	60	30.0	25.0	50.8
111	Ivory Coast	54.9	-1.0	47.0	59.8	52.3	88.1	80.7	40	60	30.0	21.0	70.5
112	Nepal	54.7	-0.4	60.0	61.4	86.5	92.0	78.5	30	30	30.0	25.0	53.4
113	Croatia	54.6	0.7	58.1	87.6	68.8	28.0	78.8	50	60	30.0	34.0	50.5
114	Tajikistan	54.5	0.7	43.4	77.8	89.3	84.1	65.8	30	40	30.0	22.0	62.1
115	India	54.2	0.1	50.0	51.0	75.7	73.5	70.3	40	30	50.0	33.0	68.6
116	Rwanda	54.1	1.7	51.8	70.6	76.9	75.6	73.3	40	40	30.0	25.0	58.2
117	Cameroon	54.0	-1.4	39.9	57.0	71.8	93.6	72.3	50	50	30.0	23.0	52.5
118	Suriname	53.9	-0.5	41.7	65.0	68.0	72.8	69.2	30	30	50.0	30.0	82.1
119	Indonesia	53.9	-0.1	48.8	73.0	77.5	89.7	68.2	30	40	30.0	24.0	57.5
120	Malawi	53.8	-0.2	52.1	64.6	70.2	44.3	69.9	50	50	40.0	27.0	70.1
121	Bosnia & Herzegovina	53.7	-0.6	56.1	79.8	73.7	48.3	76.6	50	60	10.0	29.0	53.7
122	Gabon	53.6	-0.6	52.8	56.4	61.7	85.6	74.6	40	40	40.0	30.0	54.6
123	Bolivia	53.2	-1.1	58.6	79.0	87.8	68.1	76.5	20	60	25.0	27.0	30.5
124	Ethiopia	53.2	-1.2	58.3	63.0	77.2	80.9	69.4	40	20	30.0	24.0	69.5
125	Yemen	52.8	-0.4	53.7	66.4	83.2	58.5	62.9	50	30	30.0	26.0	67.7
126	China	52.8	1.0	50.0	70.2	66.4	89.7	76.5	30	30	20.0	33.0	62.4
127	Guinea	52.8	-1.7	44.9	59.6	70.1	88.7	54.3	40	50	30.0	19.0	71.1
128	Niger	52.7	-0.4	36.0	64.4	66.4	89.3	86.0	50	40	30.0	23.0	42.2
129	Equatorial Guinea	52.5	-1.6	47.1	52.2	75.4	82.0	81.1	30	50	30.0	21.0	56.2
130	Uzbekistan	52.3	0.3	67.8	68.4	88.0	68.3	57.5	30	20	30.0	21.0	72.1
131	Djibouti	52.3	-1.2	37.5	28.2	80.8	57.8	78.3	50	60	30.0	30.0	70.6
132	Lesotho	51.9	-1.2	56.9	56.4	67.2	46.8	75.4	30	50	40.0	32.0	64.0

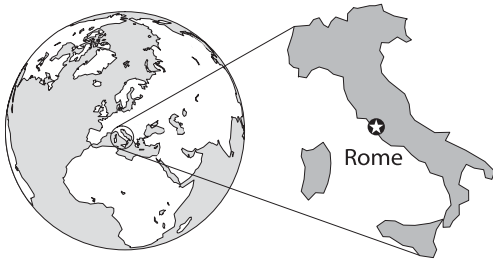
## Index of Economic Freedom World Rankings

World Rank	Country	Overall Score	Change from 2007	Business Freedom	Trade Freedom	Fiscal Freedom	Government Size	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom from Corruption	Labor Freedom
133	Ukraine	51.1	-0.6	44.3	82.2	79.0	43.0	69.9	30	50	30.0	28.0	54.3
134	Russia	49.9	-2.5	52.8	44.2	79.2	69.5	64.4	30	40	30.0	25.0	64.2
135	Vietnam	49.8	0.4	60.0	62.8	74.3	78.0	67.4	30	30	10.0	26.0	59.5
136	Guyana	49.4	-5.0	56.4	65.8	67.3	16.1	73.9	40	40	40.0	25.0	69.1
137	Laos	49.2	-0.0	60.8	57.0	71.0	92.1	73.0	30	20	10.0	26.0	52.3
138	Haiti	48.9	-2.4	35.7	67.0	77.8	93.2	65.3	30	30	10.0	18.0	62.4
139	Sierra Leone	48.9	1.3	49.4	60.2	81.0	81.8	74.4	30	40	10.0	22.0	40.3
140	Togo	48.8	-0.9	36.1	69.2	53.9	88.8	78.2	30	30	30.0	24.0	48.2
141	Central African Rep.	48.2	-2.1	40.7	51.4	65.5	91.6	72.5	30	40	20.0	24.0	46.7
142	Chad	47.7	-2.3	34.6	60.0	49.9	94.9	73.6	40	40	20.0	20.0	44.2
143	Angola	47.1	1.9	36.5	73.0	85.2	72.8	57.8	20	40	20.0	22.0	44.1
144	Syria	46.6	-1.5	52.9	54.0	86.2	60.3	66.2	30	10	30.0	29.0	47.1
145	Burundi	46.3	-0.7	35.5	50.2	72.1	59.4	74.7	30	30	30.0	24.0	57.4
146	Congo, Republic of	45.2	0.8	45.3	54.6	60.1	83.1	73.0	30	30	10.0	22.0	44.0
147	Guinea-Bissau	45.1	-1.7	24.8	56.8	88.4	56.5	75.7	30	30	20.0	10.0	58.5
148	Venezuela	45.0	-2.9	51.4	54.6	74.5	79.7	60.6	20	40	10.0	23.0	35.8
149	Bangladesh	44.9	-3.1	55.3	0.0	84.0	93.2	68.9	20	20	25.0	20.0	62.8
150	Belarus	44.7	-1.8	58.6	52.2	81.0	55.5	66.2	20	10	20.0	21.0	62.0
151	Iran	44.0	-0.1	55.0	57.4	81.1	84.5	61.3	10	10	10.0	27.0	43.8
152	Turkmenistan	43.4	0.3	30.0	79.2	90.6	85.3	66.4	10	10	10.0	22.0	30.0
153	Burma (Myanmar)	39.5	-1.5	20.0	71.0	81.7	97.0	56.5	10	10	10.0	19.0	20.0
154	Libya	38.7	1.6	20.0	39.6	81.7	63.5	74.9	30	20	10.0	27.0	20.0
155	Zimbabwe	29.8	-2.0	41.0	55.4	57.8	24.1	0.0	10	20	10.0	24.0	56.0
156	Cuba	27.5	-1.1	10.0	60.8	54.8	0.0	64.6	10	10	10.0	35.0	20.0
157	Korea, North	3.0	0.0	0.0	0.0	0.0	0.0	0.0	10	0	10.0	10.0	0.0

Source: Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, *2008 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008), at [www.heritage.org/index](http://www.heritage.org/index).



# ITALY



Italy's economy is 62.5 percent free, according to our 2008 assessment, which makes it the world's 64th freest economy. Its overall score is 0.2 percentage point lower than last year. Italy is ranked 29th out of 41 countries in the European region, and its overall score is not improving as quickly as it might because of deeper reforms implemented in neighboring countries.

Italy scores highly in business freedom, trade freedom, investment freedom, and labor freedom when compared to the world average. Starting a business takes about 13 days, which is far below the world average. The tariff rate is low, although an inefficient bureaucracy implements some non-tariff barriers that also deter foreign investment. As a member of the EU, Italy has a standardized monetary policy that yields relatively low inflation despite government distortion in the agricultural sector.

Property rights and freedom from corruption are relatively weak compared to other European states. Italy scores below the world average and is exceptionally weak in fiscal freedom and government size because of having to support an extensive welfare state. Tax revenues equal 40 percent of GDP, and government expenditures equal nearly half of GDP.

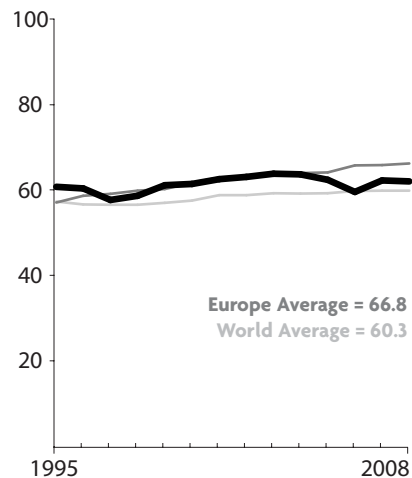
**BACKGROUND:** Italy has been a central force in European integration ever since the end of World War II. It also is a member of NATO and the G-8. Despite having one of the world's largest economies, Italy faces serious economic challenges, including a high tax burden, large pension liabilities, and labor market rigidities. However, the center-left government of Romano Prodi continues to face tough opposition to structural reform from labor unions. Despite strong international competition from emerging Asian economies, small and medium-sized enterprises continue to thrive in manufacturing and high design, particularly in the country's northern regions. Tourism and services are among the most important sectors.

How Do We Measure Economic Freedom? See Chapter 4 (page 39) for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

Rank: 64

Regional Rank: 29 of 41

The economy is 62.5% free



## QUICK FACTS

**Population:** 58.6 million

**GDP (PPP):** \$1.7 trillion

0.1% growth in 2005

0.4% 5-yr. comp. ann. growth

\$28,529 per capita

**Unemployment:** 7.9%

**Inflation (CPI):** 2.2%

**FDI (net inflow):** -\$19.7 billion

**Official Development Assistance:**

Multilateral: None

Bilateral: None

**External Debt:** \$2.0 trillion

**Exports:** \$462.7 billion

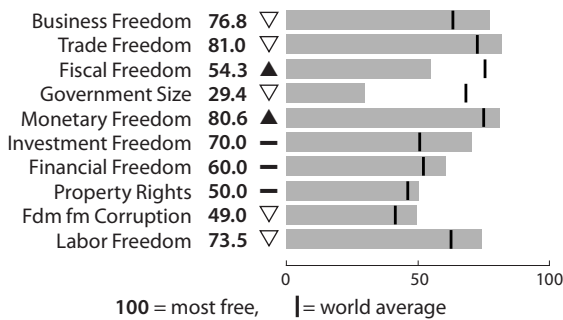
Primarily engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment

**Imports:** \$463.3 billion

Primarily engineering products, chemicals, transport equipment, energy products, minerals and nonferrous metals, textiles and clothing, food, beverages, tobacco

2005 data unless otherwise noted.

## ITALY'S TEN ECONOMIC FREEDOMS



### BUSINESS FREEDOM — 76.8%

The overall freedom to start, operate, and close a business is relatively well protected by Italy's regulatory environment. The government has streamlined bureaucratic procedures. Starting a business takes an average of 13 days, compared to the world average of 43 days. Obtaining a business license requires less than the world average of 19 procedures and slightly more than the world average of 234 days. Closing a business is relatively easy.

### TRADE FREEDOM — 81%

Italy's trade policy is the same as those of other members of the European Union. The common EU weighted average tariff rate was 2 percent in 2005. Non-tariff barriers reflected in EU policy include multiple restrictions. Pharmaceutical and biotechnology regulations are restrictive, government procurement is non-transparent and prone to corruption, service market access barriers can exceed the EU norm, and enforcement of intellectual property is weak. An additional 15 percentage points is deducted from Italy's trade freedom score to account for non-tariff barriers.

### FISCAL FREEDOM — 54.3%

Italy has high tax rates. The top income tax rate is 43 percent, and the top corporate tax rate is 33 percent. Other taxes include a value-added tax (VAT), a tax on interest, and an advertising tax. In the most recent year, overall tax revenue as a percentage of GDP was 40.4 percent.

### GOVERNMENT SIZE — 29.4%

Total government expenditures, including consumption and transfer payments, are very high. In the most recent year, government spending equaled 48.5 percent of GDP. Reducing the budget deficit and public debt (still equivalent to over 100 percent of GDP) is a priority, but progress has been sluggish.

### MONETARY FREEDOM — 80.6%

Italy is a member of the euro zone. Inflation is relatively low, averaging 2.2 percent between 2004 and 2006. Relatively stable prices explain most of the monetary freedom score. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting agricultural prices. It also can introduce price controls. Items subject to rate setting at the national level include drinking water, electricity, gas, highway tolls, pre-

scription drugs reimbursed by the national health service, telecommunications, and domestic travel. An additional 10 percentage points is deducted from Italy's monetary freedom score to account for policies that distort domestic prices.

### INVESTMENT FREEDOM — 70%

Italy welcomes foreign investment, but the government can veto acquisitions involving foreign investors. Since the election of Romano Prodi in 2006, certain investments in large Italian companies have been blocked. Foreign investment is closely regulated in defense, aircraft manufacturing, petroleum exploration and development, domestic airlines, and shipping. The Sviluppo Italia agency is trying to attract investment with incentive packages. Bureaucracy, inadequate infrastructure, legislative complexity, and a rigid labor market are major disincentives. Foreigners may not buy land along the border. There are no barriers to repatriation of profits, transfers, payments, or current transfers.

### FINANCIAL FREEDOM — 60%

Credit is allocated on market terms, and foreign participation is welcome. Only three major financial institutions (Cassa Depositi e Prestiti, Bancoposta, and the sports bank Istituto per il Credito Sportivo) remain state-controlled. There were 784 banks at the end of 2005, down from over 1,150 in the early 1990s. The six largest banks account for over 54.6 percent of assets, though the market is less concentrated than elsewhere in Europe. Regulations and prohibitions can be burdensome, and approval is needed to gain control of a financial institution. Legislation to improve the regulatory environment was passed in late 2005. Italy has the EU's fourth-largest insurance market. The government is taking steps to reform underdeveloped capital markets.

### PROPERTY RIGHTS — 50%

Property rights and contracts are secure, but judicial procedures are extremely slow, and many companies choose to settle out of court. Many judges are politically oriented. Enforcement of intellectual property rights falls below the standards of other developed Western European countries.

### FREEDOM FROM CORRUPTION — 49%

Corruption is perceived as present. Italy ranks 45th out of 163 countries in Transparency International's Corruption Perceptions Index for 2006. Corruption is more common than in other European countries. Italians regard investment-related sectors as corrupt.

### LABOR FREEDOM — 73.5%

Relatively flexible employment regulations could be further improved to enhance employment opportunities and productivity growth. The non-salary cost of employing a worker is very high, but dismissing a redundant employee can be costless. Rules on the number of work hours are relatively rigid.