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The 10 Freest Economies For Entrepreneurs

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It's easier to be an entrepreneur in a country where the government and legal system don't stand in your way.

Each year, The Washington, D.C.-based Cato Institute releases a report on economic freedom around the world, ranking 157 economies. What's striking about the most recent list is that two countries in the Middle East, a region that many Americans think of as repressive, rank in the top 10. The United States, once considered a "bastion of economic freedom," as the report says, has fallen to 16th from number 2 in 2000.

The UAE and Jordan are numbers five and seven on the list respectively.

"The Gulf Countries [such as the UAE] are small. They've tended historically to have a tradition of trade. That helps," said Ian Vasquez, director of the Cato Institute's Center for Global Liberty and Prosperity. As for Jordan, Ala Alsallal, an entrepreneur I interviewed there, told me he thought its culture of entrepreneurship stems from the fact that it has absorbed wave upon wave of refugees, from Palestinians, to Iraqis, to now, Syrians — there are more than 1.4 million in a country of 8 million.

The most important indicators for entrepreneurship on the economic freedom index are probably regulation and the rule of law. Both say something about the level of trust in a country: a high level of trust is important if an entrepreneur is going to make the leap to start a company.

A low ranking on regulatory infrastructure, said Vasquez, is an indicator of cronyism.

In a country that ranks low on the rule of law, people don't have confidence they will be treated fairly, especially that their property rights will be respected. One of the reasons the United States has fallen so far so fast in the rankings is that the experts give the country declining scores on property rights, Vasquez said — indicating that trust in the U.S. government to protect those rights is probably declining.

(A World Bank report shows the United States at eighth, by the way).

Other global hot spots for entrepreneurship, including Hong Kong, Singapore, and Ireland, show up on the list, often because they combine economies that encourage international trade and have lightly regulated labor, credit and business markets.

Economic and human freedom are two different things, of course. On the Human Rights Index, the UAE is 109 out of 157, Jordan ranks 96 out of 157 and the United States ranks 20th. But the economic study reports that economic freedom is correlated with well-being: people in freer economies live longer and have higher incomes.

There's debate in the field about whether economic freedom precedes human freedoms, or vice versa, with more experts tending to believe the former, said Vasquez. Once people have jobs, they press for human rights. "Typically when you have higher levels of economic freedom that tends to support other freedoms," he said.

The list is based on data in five areas:

Size of government: expenditures, taxes, and enterprises

Legal structure and security of property rights

Access to sound money

Freedom to trade internationally

Regulation of credit, labor, and business.

1. Hong Kong

8.97

Hong Kong ranks first on the measure that looks at the size of government, and first in two other categories: freedom to trade and low regulatory burden. Credit markets and labor markets in particular have low regulatory burdens.

2. Singapore

8.52

Singapore ranks 25th for the size of its government, and scores high for having freedom to trade (2nd), a low regulatory burden (7th) and firm property rights (6th).

3. New Zealand

8.19

New Zealand has a big government for its population — it ranks 125th — but is 2nd for having a legal system that supports a free economy, and has a low regulatory burden for businesses, ranking 4th in that category.

4. Switzerland

8.16

Compared with other developed word economies, Switzerland has a fairly small government, ranking 25th worldwide. But it is 4th in the world for having a legal system that supports freedom. It ranks lower on freedom to trade internationally, 87th worldwide.

5. United Arab Emirates

8.15

The UAE, home to high-flying Dubai, ranks highly for freedom to trade (9th) and has a low regulatory burden (10th), with a labor market that has little regulation. It ranks 9th in the world in that subcategory

6. Mauritius

8.08

The small nation in the Indian Ocean is in the top quartile in every category. It's ranked 21st in the world for having a small government (21st), and 5th in the world for freedom to trade internationally.

7. Jordan

7.93

Jordan is in the top quartile for its small size of government (13th), its freedom to trade internationally (26th), and its regulatory infrastructure (22nd) — its labor and business markets are particularly lightly regulated.

8. Ireland

7.90

Ireland ranks third in the world for freedom to trade internationally, and 10th and 11th for its legal system and sound money, respectively. It's in the top quartile for its low regulatory burden (39th).

9. Canada

7.89

Like many developed economies, Canada has a fairly large government, ranking 99th. But its light regulatory system puts it in the top 10 in that category (9th), and it's at the very top in its regulation of credit markets. It also scores in the top quartile for its legal system and sound money (11th and 33rd, respectively)

10. Tie: the U.K. and Chile

7.87

Chile has a fairly small government, ranking 16th in the world, and a lot of freedom to trade, ranking 12th. The United Kingdom ranks highly in three categories: legal system and property rights (17th in the world), sound money (10th) and freedom to trade internationally (14th).

Where Does the U.S. Rank?

7.73

“The United States, once considered a bastion of economic freedom, now ranks 16th in the world with a score of 7.73. Due to a weakening rule of law, increasing regulation, and the ramifications of wars on terrorism and drugs, the United States has seen its economic freedom score plummet in recent years, compared to 2000 when it ranked second globally,” says the report.