



EUROPE

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Europe has served as the testing ground for the two great economic philosophies of the past century and has witnessed the collapse of one of them: Communism, which proved unable to generate standards of living even remotely approximating those of capitalist Western Europe.

Now that the old Cold War rivalries have been eclipsed by a new technology-driven globalization, many of the large economies in Europe that were built on a quasi-market welfare state model are looking for ways to improve their competitiveness vis-a-vis fast-growing small economies like Ireland and Estonia that have surpassed them in economic efficiency.

The European region encompasses nations as diverse as Russia, Switzerland, Iceland, and Greece. The population-weighted average GDP per capita for the region stands at \$31,661, with inflation generally under control. However, the European continent is plagued by higher unemployment rates than are historically typical and by a growing level of public debt.

Chart 1 shows the distribution of countries in Europe within the five categories of

economic freedom. One of the world's five truly "free" economies (Switzerland) is in this region.

It is notable that 11 of the world's 20 freest countries are in Europe, which is the only region to have a distribution of economies that is skewed toward relatively high levels of economic freedom. Most countries in the region fall into the category of "mostly free" and "moderately free."

Seven countries (Croatia, Slovenia, Serbia, Belarus, Moldova, Russia, and Greece) have economies that are rated "mostly unfree." Ukraine, which continues to experience political and security turmoil, remains the region's least economically free economy.

Relatively extensive and long-established free-market institutions in a number of countries allow the region to score far above the world average in most categories of economic freedom. (See Table 1.) It is over 10 points ahead in both investment freedom and financial freedom. The region's average scores on property rights, judicial effectiveness, and government integrity lead the world averages by about 15 points or more.

However, taken as a whole, the Europe region still struggles with a variety of policy barriers to dynamic economic expansion, such as overly protective and costly labor regulations, higher tax burdens, various market-distorting subsidies, and continuing problems in public finance caused by years of public-sector expansion. The result has been stagnant economic growth, which has exacerbated the burden of fiscal deficits and mounting debt in a number of countries in the region.

Chart 2 shows the strongly positive correlation between high levels of economic freedom and high GDP per capita, but the freedom gap is less pronounced within Europe than it is in other regions. Europe has definitely benefited from economic competition over the centuries, which may help to

EUROPE: QUICK FACTS

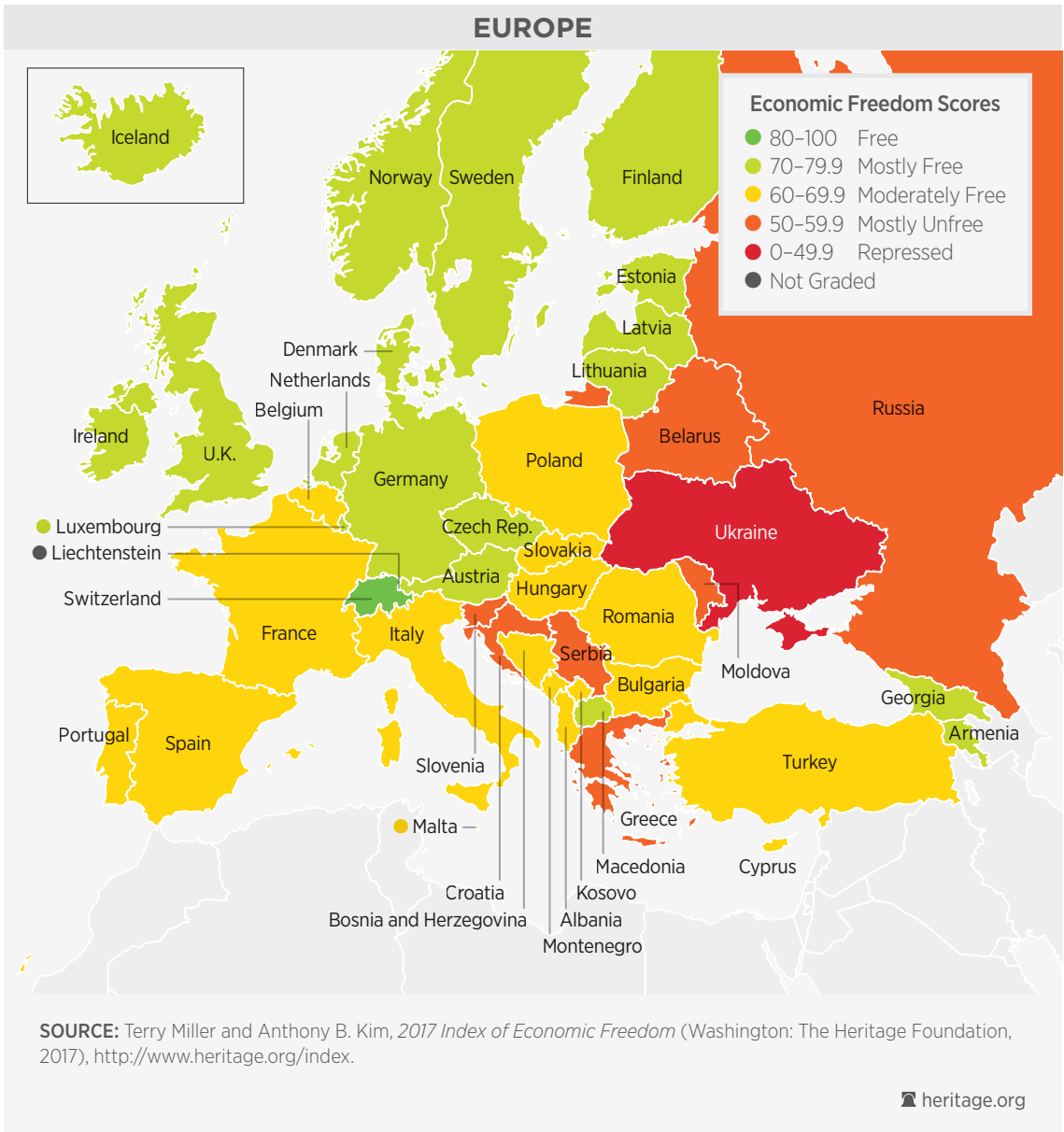
TOTAL POPULATION: 823 million

POPULATION WEIGHTED AVERAGES

GDP PER CAPITA (PPP):	\$31,661
GROWTH:	0.5%
5 YEAR GROWTH:	1.29%
INFLATION:	6.2%
UNEMPLOYMENT:	9.1%
PUBLIC DEBT:	66.3%

SOURCE: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

 heritage.org



explain why economic repression is so rare in the West. However, that competition has still not generated enough reform in some of the Eastern European countries. Many post-Communist countries, such as Russia, Belarus, and Ukraine, are found in the “less free” end of the distribution.

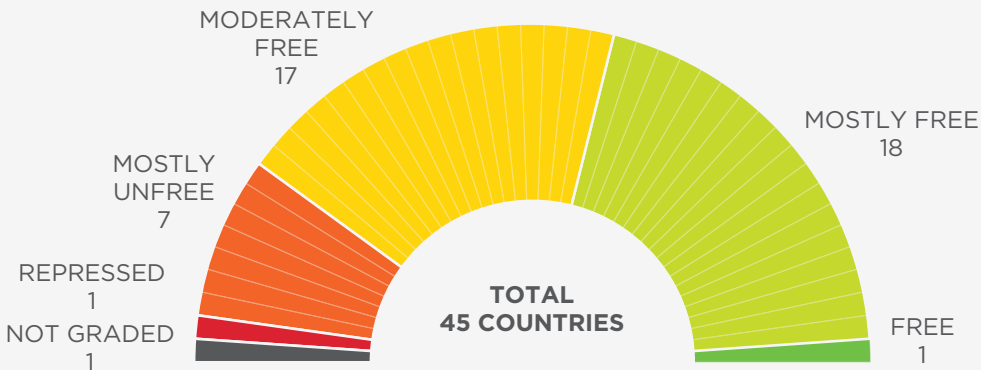
As shown in Chart 3, around the region, countries with higher economic freedom tend to maintain cleaner environments and greater protection of ecosystem vitality.

In the 2017 *Index*, the scores of 30 countries in the European region have improved, and those of 14 have declined.

NOTABLE COUNTRIES

- Despite the challenging economic environment within the European Union, Germany continues to be one of the world’s most powerful and dynamic economies. Business freedom and investment freedom

EUROPE: ECONOMIC FREEDOM SUMMARY



SOURCE: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

Chart 1 heritage.org

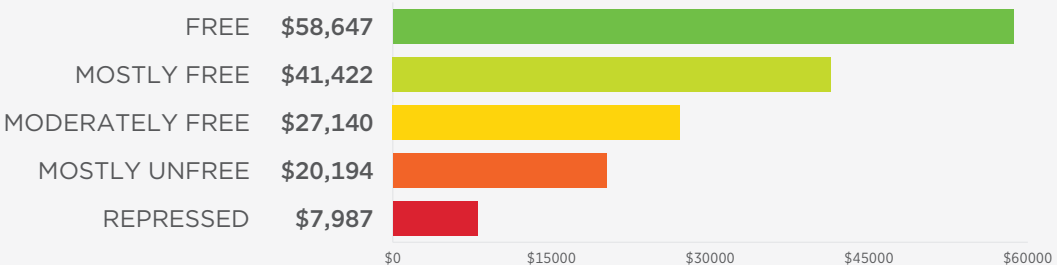
are strong. Long-term competitiveness and entrepreneurial growth are supported by openness to global commerce, well-protected property rights, and a sound business regulatory environment.

- The increasing dynamism of Latvia's economy has been facilitated by openness to global trade and investment. Supported by efficient business regulations that promote

entrepreneurial activity, the overall commercial environment has become conducive to business creation and risk-taking. Fiscal consolidation in recent years has kept government spending under control and ensured macroeconomic stability.

- The United Kingdom has continued its efforts to improve economic performance by reducing taxes and containing government

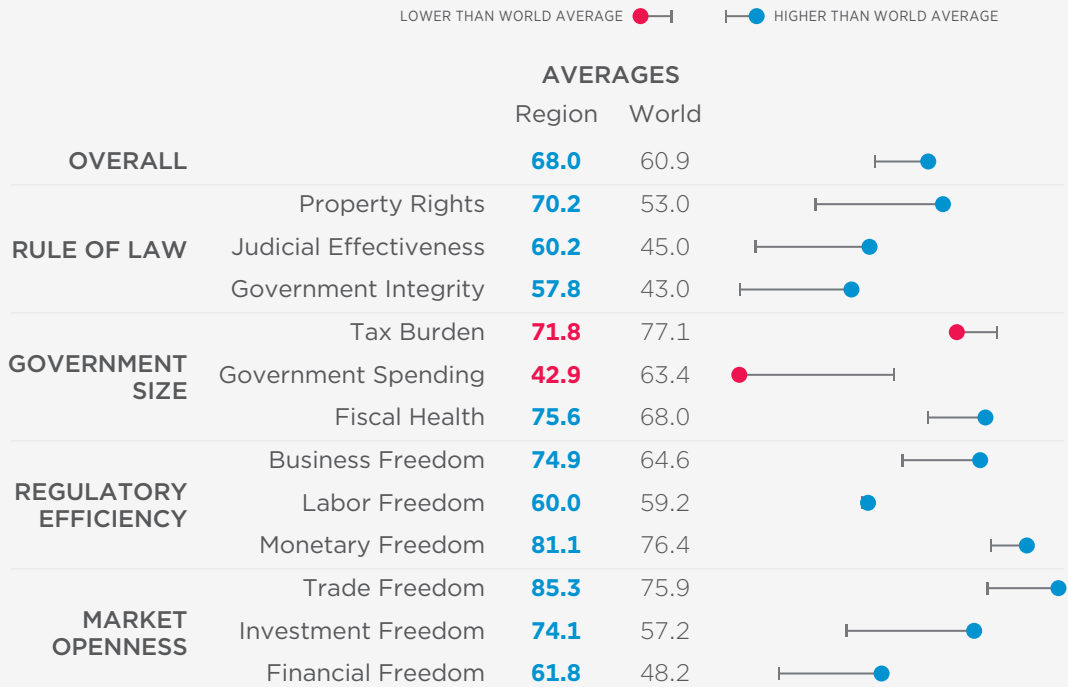
EUROPE: GDP PER CAPITA, BY ECONOMIC FREEDOM CATEGORY



SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and International Monetary Fund, *World Economic Outlook Database*, April 2016, <https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx> (accessed December 13, 2016).

Chart 2 heritage.org

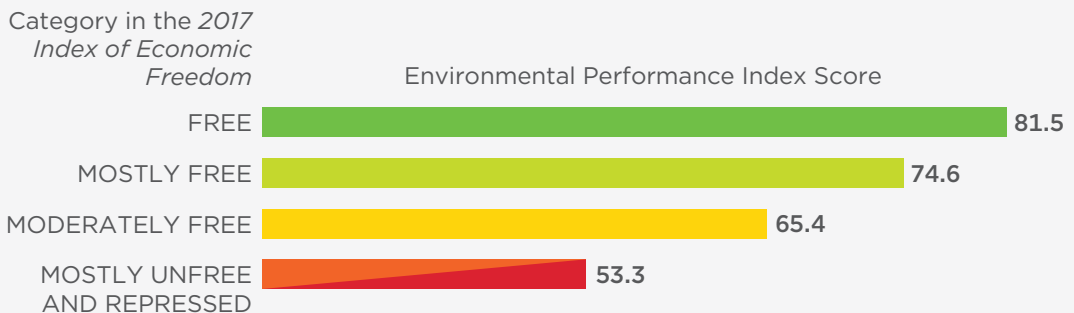
EUROPE: COMPONENTS OF ECONOMIC FREEDOM



SOURCE: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>.

Table 1 heritage.org

EUROPE: ECONOMIC FREEDOM AND THE ENVIRONMENT



SOURCES: Terry Miller and Anthony B. Kim, *2017 Index of Economic Freedom* (Washington: The Heritage Foundation, 2017), <http://www.heritage.org/index>, and Yale University, "2016 Environmental Performance Index," <http://epi.yale.edu/reports/2016-report> (accessed December 13, 2016).

Chart 3 heritage.org

spending, and growth rates have picked up somewhat. The looming prospect of an exit from the European Union presents both major challenges and opportunities to improve regulatory and other policies that bear on economic freedom.

- Russia's economy is severely hampered by blatant disdain for the rule of law and rejection of any concept of limited government. The private sector remains marginalized by structural and institutional constraints caused by ever-growing government encroachment into the marketplace. Rising inflationary pressure jeopardizes macroeconomic stability.

- Spain's economy has experienced a notable rebound facilitated by structural reforms. Ongoing efforts have focused on reducing the inefficient and oversized government sector and reforming the labor market. Top income tax rates on individuals and corporations have been lowered as well. Spain's ongoing economic recovery, however, remains highly vulnerable to challenges related to ensuring fiscal stability and restoring the financial sector's competitiveness.

ECONOMIC FREEDOM IN EUROPE

World Rank	Regional Rank	Country	Overall Score	Change from 2016	Property Rights	Judicial Effectiveness	Government Integrity	Tax Burden	Government Spending	Fiscal Health	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
4	1	Switzerland	81.5	0.5	86.9	77.6	80.3	70.9	67.5	95.8	76.8	72.2	84.4	90.0	85	90
6	2	Estonia	79.1	1.9	82.6	82.8	69.9	81.2	55.8	99.8	77.0	56.9	85.7	87.0	90	80
9	3	Ireland	76.7	-0.6	85.8	78.3	78.3	72.7	57.1	60.3	80.3	73.6	87.6	87.0	90	70
12	4	United Kingdom	76.4	0.0	93.8	93.0	78.3	65.1	41.9	40.4	89.9	72.8	85.0	87.0	90	80
13	5	Georgia	76.0	3.4	55.1	66.5	65.0	87.3	74.4	93.5	87.2	75.9	78.2	88.6	80	60
14	6	Luxembourg	75.9	2.0	85.8	77.0	78.3	64.5	46.0	99.0	68.6	43.8	86.2	87.0	95	80
15	7	Netherlands	75.8	1.2	87.4	69.9	85.7	53.2	37.0	83.0	80.2	70.5	85.8	87.0	90	80
16	8	Lithuania	75.8	0.6	73.0	62.4	69.7	86.9	64.1	93.6	79.1	63.6	90.0	87.0	70	70
18	9	Denmark	75.1	-0.2	86.7	68.5	84.9	37.2	5.7	95.4	93.9	85.8	85.5	87.0	90	80
19	10	Sweden	74.9	2.9	88.6	82.2	87.4	44.4	21.7	93.4	90.8	53.2	85.3	87.0	85	80
20	11	Latvia	74.8	4.4	72.6	59.7	67.3	84.7	57.4	95.0	79.8	72.0	86.5	87.0	75	60
22	12	Iceland	74.4	1.1	85.0	71.5	71.5	70.9	41.1	90.6	90.2	62.6	81.2	88.0	80	60
24	13	Finland	74.0	1.4	90.6	82.7	90.0	66.6	0.0	77.3	90.2	53.4	85.1	87.0	85	80
25	14	Norway	74.0	3.2	86.7	83.3	88.3	55.6	38.5	98.4	89.5	48.8	75.8	87.7	75	60
26	15	Germany	73.8	-0.6	82.9	79.5	77.7	61.9	41.4	89.9	86.6	42.8	85.9	87.0	80	70
28	16	Czech Republic	73.3	0.1	70.3	55.9	55.9	82.9	45.3	92.0	67.2	77.7	85.8	87.0	80	80
30	17	Austria	72.3	0.6	86.0	81.8	75.2	50.3	19.3	79.7	76.9	67.6	83.4	87.0	90	70
31	18	Macedonia	70.7	3.2	67.0	61.4	52.0	91.9	68.9	72.6	81.5	66.7	80.8	86.1	60	60
33	19	Armenia	70.3	3.3	55.5	42.5	43.4	83.7	81.7	82.9	78.5	72.4	72.8	80.2	80	70
39	20	Romania	69.7	4.1	63.9	58.5	45.9	87.4	65.3	90.9	65.9	62.5	83.6	87.0	75	50
45	21	Poland	68.3	-1.0	60.8	58.0	55.5	76.0	46.9	76.1	67.8	61.5	84.7	87.0	75	70
46	22	Kosovo	67.9	6.5	70.3	58.0	45.9	93.5	77.8	88.9	68.8	65.3	80.0	70.8	65	30
47	23	Bulgaria	67.9	2.0	62.5	38.9	41.8	91.0	58.4	86.4	66.7	68.3	83.3	87.0	70	60
48	24	Cyprus	67.9	-0.8	75.4	60.7	53.6	73.0	48.8	72.9	75.8	58.6	83.3	87.0	75	50
49	25	Belgium	67.8	-0.6	83.3	69.3	71.5	44.1	9.6	66.3	82.0	61.1	84.9	87.0	85	70
50	26	Malta	67.7	1.0	67.7	62.9	53.6	62.8	44.9	85.1	62.5	57.2	83.5	87.0	85	60
56	27	Hungary	65.8	-0.2	60.1	51.8	41.5	79.3	25.3	79.3	64.0	64.4	91.7	87.0	75	70
57	28	Slovak Republic	65.7	-0.9	69.0	38.0	39.6	79.7	47.2	82.9	64.9	54.4	81.1	87.0	75	70
60	29	Turkey	65.2	3.1	61.3	52.5	40.7	75.5	57.7	95.7	64.3	48.5	72.2	79.4	75	60
65	30	Albania	64.4	-1.5	54.0	28.5	39.7	86.9	72.5	51.5	79.3	50.7	81.4	87.7	70	70
69	31	Spain	63.6	-4.9	71.2	53.9	57.2	62.5	41.4	26.9	66.9	55.3	85.5	87.0	85	70
72	32	France	63.3	1.0	85.0	72.7	69.7	47.6	2.0	57.0	78.0	44.1	81.6	82.0	70	70
77	33	Portugal	62.6	-2.5	73.3	68.9	59.0	59.8	25.1	32.1	86.4	43.4	85.9	87.0	70	60
79	34	Italy	62.5	1.3	74.6	55.4	44.7	54.9	22.3	66.9	69.8	52.9	86.9	87.0	85	50
83	35	Montenegro	62.0	-2.9	58.0	50.4	43.4	83.1	33.1	44.3	72.0	67.4	82.5	84.7	75	50
92	36	Bosnia and Herzegovina	60.2	1.6	41.2	40.0	32.7	83.5	33.7	89.3	47.4	59.3	84.0	86.6	65	60
95	37	Croatia	59.4	0.3	65.5	56.8	43.4	66.8	31.3	44.7	58.2	43.3	80.3	87.4	75	60

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World Rank	Regional Rank	Country	Overall Score	Change from 2016	Property Rights	Judicial Effectiveness	Government Integrity	Tax Burden	Government Spending	Fiscal Health	Business Freedom	Labor Freedom	Monetary Freedom	Trade Freedom	Investment Freedom	Financial Freedom
97	38	Slovenia	59.2	-1.4	75.0	55.1	53.6	58.7	28.6	6.1	80.6	60.2	85.3	87.0	70	50
99	39	Serbia	58.9	-3.2	50.3	40.2	38.2	83.3	40.3	46.9	62.9	65.9	80.8	77.8	70	50
104	40	Belarus	58.6	9.8	50.9	56.3	37.6	89.8	48.7	92.8	71.3	74.6	60.4	80.6	30	10
110	41	Moldova	58.0	0.6	49.6	23.9	28.6	86.1	54.8	90.6	65.9	38.9	72.0	80.0	55	50
114	42	Russia	57.1	6.5	47.6	44.5	38.2	81.8	61.5	93.4	74.8	50.8	57.3	75.2	30	30
127	43	Greece	55.0	1.8	52.5	56.1	41.3	61.1	5.4	58.1	74.3	51.0	78.2	82.0	60	40
166	44	Ukraine	48.1	1.3	41.4	22.6	29.2	78.6	38.2	67.9	62.1	48.8	47.4	85.9	25	30
N/A	N/A	Liechtenstein	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	92.3	85.7	N/A	90.0	85	80