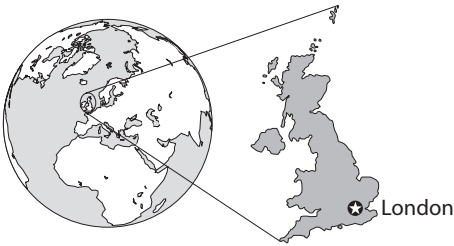


UNITED KINGDOM



World Rank: **16**

Regional Rank: **7**

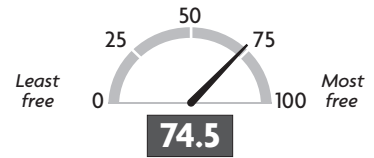
The United Kingdom's economic freedom score is 74.5, making its economy the 16th freest in the 2011 *Index*. Its score is 2 points lower than last year, reflecting declines particularly in fiscal freedom and government spending. The U.K. is ranked 7th out of 43 countries in the Europe region, and its overall score is much higher than the world average.

A dramatic expansion of government intervention has taken place in the U.K. in response to the global financial and economic crisis. The government has nationalized or seized ownership positions in some of the major banks. Public finance has deteriorated markedly. Welfare benefits have become a daunting burden. The government deficit has widened sharply, and gross public debt has climbed to over 70 percent of GDP.

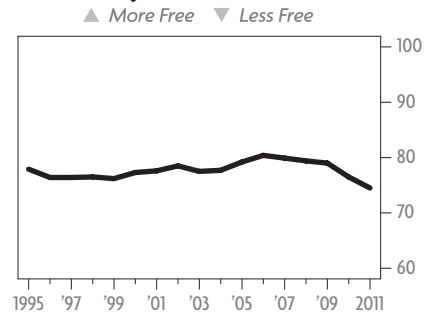
Newly elected Conservative Prime Minister David Cameron's coalition government has unveiled a series of major austerity measures designed to stem the loss of economic freedom. Proposed spending cuts are an encouraging first step toward reforming the bloated public sector and the costly welfare system, but policies conducive to private-sector investment will be critical to reviving vibrant economic expansion and job creation.

BACKGROUND: The May 2010 parliamentary elections resulted in a hung parliament, and a coalition government was formed between the Conservatives and the Liberal Democrats with David Cameron as prime minister. The new government's main priority is to reduce the deficit and restart the British economy, the sixth-largest in the world. Following the market reforms instituted by Prime Minister Margaret Thatcher in the 1980s, Britain experienced steady economic growth, outpacing other large European Union economies throughout the 1990s. However, the government's size and spending have grown significantly under successive Labour governments, damaging Britain's competitive edge. Prime Minister Gordon Brown plunged Britain further into debt at the onset of the recent financial crisis with bank bailouts and stimulus packages.

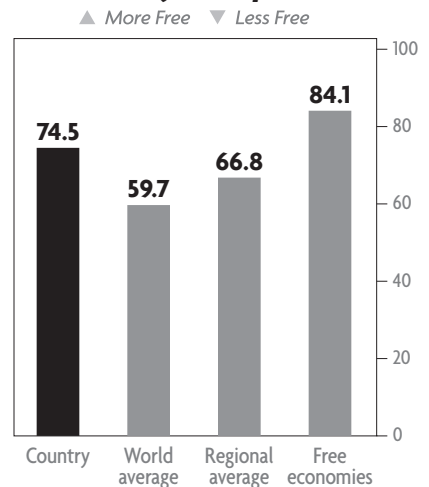
Economic Freedom Score



Country's Score Over Time



Country Comparisons



Quick Facts

Population: 61.8 million
GDP (PPP): \$2.1 trillion
 -4.9% growth in 2009
 0.2% 5-year compound annual growth
 \$34,619 per capita
Unemployment: 7.6%
Inflation (CPI): 2.2%
FDI Inflow: \$45.7 billion

How Do We Measure Economic Freedom?

See page 447 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

2009 data unless otherwise noted.
 Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

BUSINESS FREEDOM: 94.6 - 0.3

The U.K. has long had an efficient regulatory framework. Business formation is streamlined, and licensing requirements are transparent and not burdensome. Bankruptcy is easy and straightforward.

TRADE FREEDOM: 87.6 + 0.1

The U.K.'s trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and U.K. policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from the U.K.'s trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM: 52 - 9.8

The U.K. has a high income tax rate and a moderate corporate tax rate. The top income tax rate was raised to 50 percent as of April 2010. The top corporate tax rate is 28 percent, to be reduced to 27 percent in April 2011 and then further reduced by 1 percent every year until 2014. Small companies are subject to a reduced rate of 21 percent. Profits from oil and gas extraction remain subject to a rate of 30 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 38.9 percent.

GOVERNMENT SPENDING: 32.9 - 9.0

Government spending has risen steadily since the 1990s. In the most recent year, total government expenditures, including consumption and transfer payments, climbed to 47.3 percent of GDP. Fiscal stimulus measuring 2 percent of GDP has aggravated the deficit and national debt.

MONETARY FREEDOM: 74.9 + 1.2

Inflation has been moderate, averaging 2.5 percent between 2007 and 2009. As a participant in the EU's Common Agricultural Policy, the government subsidizes agricultural production, distorting the prices of agricultural products. Prices are generally set by market forces, but pharmaceutical prices are capped, and the government influences prices through regulation and state-owned utilities. The government controls virtually all prices for health care services. Fifteen points were deducted from the U.K.'s monetary freedom score to account for measures that distort domestic prices.

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 8	Investment Freedom	No. 2
Trade Freedom	No. 12	Financial Freedom	No. 4
Fiscal Freedom	No. 169	Property Rights	No. 17
Government Spending	No. 156	Freedom from Corruption	No. 17
Monetary Freedom	No. 93	Labor Freedom	No. 56

INVESTMENT FREEDOM: 90 *no change*

Foreign investors receive the same treatment as domestic businesses in most cases. Registered companies must have at least one U.K.-resident director. Foreign investment in airlines is limited to 49 percent. The investment code and bureaucracy are generally transparent and efficient. Residents and non-residents may hold foreign exchange accounts. Payments and proceeds on invisible transactions and current transfers are not subject to restrictions, and profits can be repatriated freely. Foreign investors may own land.

FINANCIAL FREEDOM: 80 *no change*

The financial system remains efficient and competitive. Regulations are transparent, and oversight is maintained by an independent institution. The insurance market is the world's second largest. Most large foreign insurers are represented, and many account for significant market shares. The London Stock Exchange, one of the world's largest, has strengthened its position after a merger with the Italian exchange. In response to the financial crisis, the Banking Act of 2009 allows the government to take stakes in failing banks and includes a special liquidity scheme and an asset-protection scheme. The government has nationalized Northern Rock Bank and taken stakes in other major banks. The Financial Services Act, enacted during the first half of 2010, gives the Financial Services Authority expanded disciplinary powers.

PROPERTY RIGHTS: 85 *no change*

Property rights are respected and enforced, and contracts are secure. The legal system protects intellectual property rights.

FREEDOM FROM CORRUPTION: 77 *no change*

Corruption is perceived as minimal. The United Kingdom ranks 17th out of 180 countries in Transparency International's Corruption Perceptions Index for 2009. Bribery of domestic or foreign public officials is a criminal offense, and corrupt payments are not tax-deductible. The Organisation for Economic Co-operation and Development's Working Group on Bribery has criticized the U.K.'s implementation of the OECD Anti-Bribery Convention.

LABOR FREEDOM: 71.2 - 1.6

The U.K.'s labor regulations are relatively flexible. The non-salary cost of employing a worker is moderate, and the severance payment is not overly burdensome. Regulations on work hours are flexible.