

Economic Freedom

What Is It? How Is It Measured?

And How Does It Affect Our Lives?



2024

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ECONOMIC FREEDOM

What Is It?

How Is It Measured?

And How Does It Affect Our Lives?

Some believe economic freedom makes life better, by, for example, enabling material prosperity, reducing conflict, and fostering trust. Others argue that too much economic freedom makes life worse, by, for example, undermining social cohesion, exacerbating inequalities, and permitting exploitation of workers and the environment. This piece offers a three-step approach to resolve this debate. Step One is to precisely define human and economic freedom. Step Two is to measure economic freedom. And Step Three is to use this measure to test the various claims that have been made. For nearly three decades, social scientists have been following these steps and their work overwhelmingly demonstrates that people are correct to regard economic freedom as beneficial to the human condition.



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EXECUTIVE SUMMARY

- Though it is possible to define freedom in absolute terms, it is more useful to think of it as a spectrum. When individuals are freer, others impose fewer and less severe constraints on their choices, aside from those constraints that protect the free choices of others.
- Economic freedoms are a subset of human freedoms. Economic freedom concerns economic activity such as working, transacting, and holding and using productive property. When individuals are more economically free, there are fewer and less severe constraints on their economic choices, aside from those constraints that protect the rights of others.
- The index published in the *Economic Freedom of the World* (EFW index) employs 45 indicators to measure economic freedom in each of 165 jurisdictions worldwide. It is available in five-year increments from 1970 through 2000 and annually for the years after 2000. These indicators tell us the degree to which individuals in each of these places are allowed to make their own economic choices, free of constraints imposed by others.
- The EFW index has been used in nearly a thousand studies assessing the effect of economic freedom on the human condition. Most of these studies associate economic freedom with good outcomes, including higher and faster-growing incomes, less poverty, better health, longer life, lower infant mortality, greater life satisfaction, cleaner environments, less violence, greater trust, greater tolerance, more democratic institutions, and more personal freedom. For every one article associating economic freedom with a bad outcome, there are eleven that associate it with a good outcome.

1. Step One:

Define Human and Economic Freedom

A. Defining Human Freedom

Freedom is more frequently invoked than defined.¹ But if we think it valuable or dangerous, we had better be clear about what it is. The Greek stoic philosopher, Epictetus, offered one of the simplest definitions of freedom, saying it was “the right to live as we wish.” He knew better than most; he was born a slave.

Epictetus’s definition is a good starting place. One strength is that it puts individual free will front and center. Another is that it does not say freedom is the “ability” to live as we wish. I may wish to dunk on a regulation basketball hoop, but I do not lack freedom because I lack this ability. That is because Epictetus was not talking about what we are *capable* of doing, but what others *allow* us to do.² This makes freedom a social concept in that one man’s freedom depends on everyone else respecting it.

This is why Epictetus uses the word “right.” To say that someone has a right is to imply that others have a duty to respect that right (Hohfeld, 1913). Freedom is based on the right to self-ownership. We own our bodies, our time, our talents, and

the fruits of our labor. And because each of us owns ourselves, no one may prevent us from making our own choices.³

If we think about freedom as a social concept, it is clear that self-imposed constraints do not limit freedom. A free person may find it convenient to enter a contract with her spouse, her employer, or her customer. And in doing so she may agree to limit her behavior in some way. She may even agree to pay a

penalty if she breaks the agreement. But so long as she willingly entered it and was not deceived in doing so, the agreement does not infringe upon her freedom. In fact, she would be less free if someone prevented her from contracting with others as she chooses.

But for all its strengths, Epictetus’s definition is incomplete. It seems to permit some—like Epictetus’s master—to live at the expense of others. During the US Civil

What makes a society more free?

When individuals are freer, others impose fewer and less severe constraints on their choices, aside from those constraints that protect the free choices of other people.

War, President Abraham Lincoln highlighted this problem with an analogy: “The Shepherd drives the wolf from the sheep’s throat,” he remarked, “for which the sheep thanks the shepherd as a liberator, while the wolf denounces him for the same act as a destroyer of liberty. Plainly, the sheep and the wolf are not agreed upon a definition of liberty” (Lincoln, 1864). A more complete and precise definition of freedom would account for the liberty of the wolf without endangering the liberty of the sheep.

With this in mind, we can improve Epictetus’s definition and say that when we are free, no one may prevent us from making our own choices, provided we respect the similar rights of others. The stipulation that one must respect the rights of others means that freedom is not license. My freedom to swing my fist ends at your nose. And the only way for everyone to be free is for each of us to respect the freedom of everyone else.⁴

Though we can think of it in absolute terms, it is more realistic to think of freedom in terms of a spectrum. There are many types of choices we might make and we could be constrained in some ways but not others. For example, both the United States and Canada allow people to practice whatever religion they choose but not to start businesses that compete with the government post office. By contrast, in Sweden people are allowed to practice whatever religion they choose *and* to compete with the post office. Different societies also take different approaches to constraining the same type of activity. While both Saudi Arabia and Kuwait limit the exercise of religion, Saudi Arabia is far more restrictive, even punishing blasphemy with death.

Correcting for Epictetus’s omission and accounting for the degree of freedom, we can say that when individuals are freer, others impose fewer and less severe constraints on their choices, aside from those constraints that protect the free choices of other people.

B. Defining Economic Freedom

Compared with human freedom, economic freedom refers to a narrower range of human action. Specifically, it concerns economic activities like working, transacting, and holding and using productive property (Nickel, 2000: 156). When a woman is economically free, no one may stop her from making her own economic choices. But as with freedom more broadly, there is a caveat. She is obliged to respect the freedom of others; her neighbor would be justified in preventing her from turning his living room into her place of business without his consent.

As with human freedom more broadly, it is useful to think of economic freedom in terms of a spectrum. One reason is that some governments restrict some economic activities and not others. For example, while both the socialist governments of Poland and the Soviet Union forbade most forms of private enterprise, socialist Poland permitted more private farming, making it relatively more economically free than the Soviet Union (Boettke, Zhukov, and Mitchell, 2023). And even when two governments limit the same economic activity, one may be more restrictive than the other. For example, in the United States, both New York and Iowa limit peoples' ability to provide cosmetology services, but Iowa is far more restrictive, requiring aspiring cosmetologists to pay for and take more than a year's worth of classes (more than twice what New York requires) before they may begin offering their services to others (Knepper, Deyo, Sweetland, Tiezzi, and Mena, 2022). Accounting

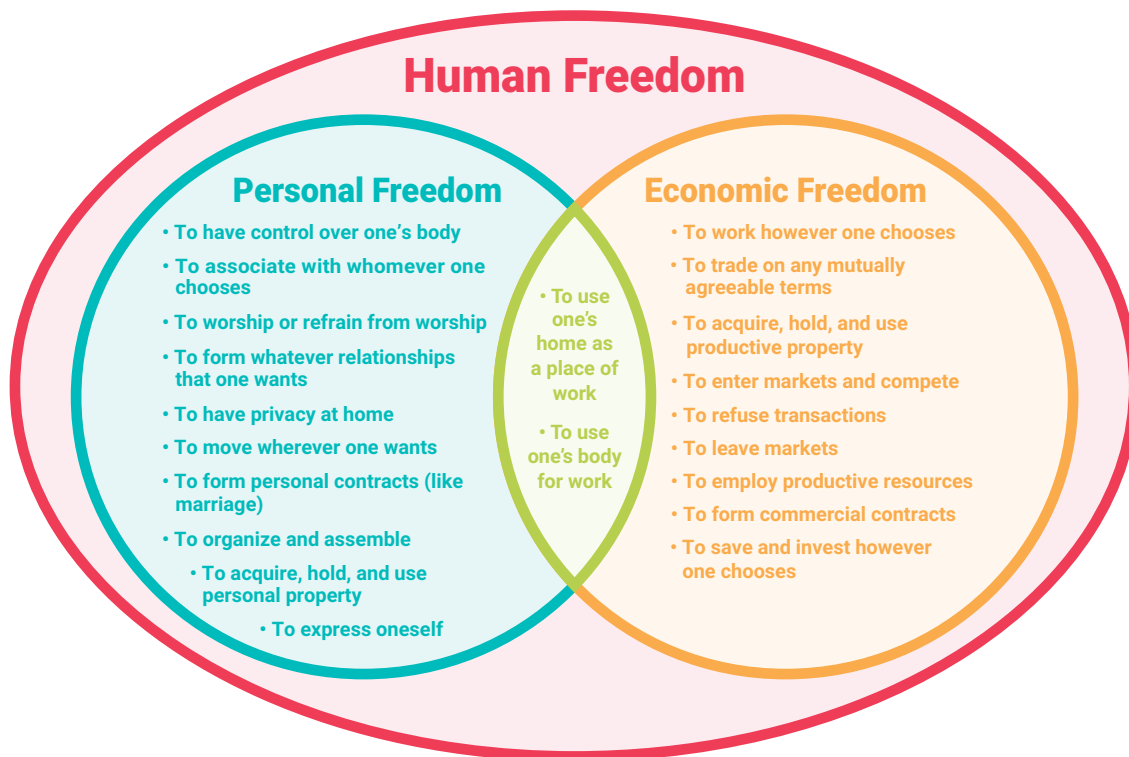
What makes an economy more free?

When individuals are more economically free, there are fewer and less severe constraints on their economic choices, aside from those constraints that protect the rights of others.

for the extent of economic freedom, we can say that when individuals are more economically free, there are fewer and less severe constraints on their economic choices, aside from those constraints that protect the rights of others.

For simplicity, we can refer to all non-economic freedoms as "personal freedoms." Figure 1 shows the relationship between overall human freedom, personal freedom, and economic freedom. It also shows examples of

each variety of freedom. Note that these are not exhaustive lists. In fact, it would be impossible to produce an exhaustive list of all the economic and personal freedoms.⁵ Since economic activity concerns a slice of human activity, economic freedom is a slice of human freedom. This is why limits on economic freedom can also be considered limits on human freedom. To restrict what a person may sell, or to limit his or her ability to work in the profession of their choosing, or to stop them from acquiring and using property, is to restrict their economic freedom *and* their human freedom. Some freedoms are both personal and economic. For example, when a man uses his home as a place of work or when a model uses her body to make money, they are each exercising freedoms that could be considered both personal and economic.

Figure 1: Economic Freedoms are a Subset of Human Freedom

C. Freedom and Government

If freedom implies the lack of constraint, where do constraints come from? They have two primary sources: fraud and force. With fraud, a deceitful person can trick another to do his bidding, overriding the victim's true choice. And with force or the threat of force, a bully can compel others to make choices they would rather not make.

Going at least as far back as the English philosopher Thomas Hobbes (1651) people have argued that government is necessary to protect us from fraudsters and bullies. This may be true. But government itself can also be the source of fraud or force. Government, in fact, is commonly defined as that institution with a monopoly on the legitimate use of force (Weber, 1919). And in some places, such as a US police interrogation room, government also has a monopoly on the legitimate use of deceit (*Frazier v. Cupp*, 1969).

All of this means that the relationship between government and freedom is ambiguous. On the one hand, a government might protect freedom by policing private fraud or force. On the other, it might endanger freedom by exercising fraud or force itself. This is why James Madison famously described the business of government as a "great difficulty":

If men were angels, no government would be necessary. If angels were to govern men, neither external nor internal controls on government would be necessary. In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself. (Madison, 2003)

Democratic procedures are one way to control the government. They can make it more difficult for a minority to threaten the freedom of a majority. But democratic procedures cannot prevent a majority from threatening the freedom of a minority. As the adage goes: democracy is two wolves and a lamb deciding what to have for lunch.⁶ That is why many constitutions specifically limit what majorities may legally do. The US Bill of Rights and the Canadian Charter of Rights and Freedoms both protect the right to free expression. Even if 99 percent of Congressmen want to abridge free speech, the Constitution forbids it.

As with broader human freedom, the effect of government on economic freedom is ambiguous. When the US Securities and Exchange Commission breaks up a deceptive Ponzi scheme, it is trying to stop private fraud. In doing so, it is attempting to protect peoples' right to make their own economic choices free of fraud or force and to safeguard economic freedom. On the other hand, when the same government makes it illegal for a farmer to grow more than a certain amount of wheat on his own farm to feed his own animals, it is constraining his ability to make his own choices, limiting his economic freedom (*Wickard v. Filburn*, 1942). Madison's "great difficulty" is clear.

As we will see, eminent philosophers, economists, and other social scientists have produced countless reasons to believe that economic freedom can improve the human condition by, for example, enabling material prosperity, reducing conflict, and fostering trust. On the other hand, plenty of respected thinkers believe too much freedom threatens the human condition by, for example, undermining social cohesion, exacerbating inequalities, and permitting exploitation of workers and the environment. These theoretical arguments are valuable, but they only take us so far. To resolve these disagreements, we must measure economic freedom. I turn to that next.



2. Step Two:

Measure Economic Freedom

A. **The Origins of the Economic Freedom of the World Index**

In 1984, a group of intellectuals met in Cambridge, England, to debate the state of freedom. The occasion was the semi-annual Mont Pelerin Society meeting, and in recognition of the year, the conference included a panel on George Orwell's *1984*. Fraser Institute founder Michael Walker brought up Milton Friedman's (1962) hypothesis that political freedom depends on economic freedom. This sparked a heated debate over whether economic freedom was waxing or waning.

Afterward, Walker sat down for lunch with Milton Friedman and his wife, Rose, and proposed an audacious idea: Someone should measure economic freedom. Armed with an index that empirically measured the degree of economic freedom in countries around the world, it would be possible to test the relationship between economic and political freedom. In fact, it would be possible to test the relationship between economic freedom and any number of claims listed above. The Friedmans were sold on the idea and over the next decade, they and Walker organized a series of conferences at which participants would first define and then measure economic freedom. A total of 61 scholars participated, including the Nobel Prize winners Douglass North, Gary Becker, and Milton Friedman.⁷

By the third conference, the participants had largely settled on a definition of economic freedom that was consistent with the definition offered above: They agreed that in more economically free societies, there are fewer and less severe constraints on individual economic choices, aside from those constraints that protect the rights of others. The participants also had a shared understanding of what they would look at in the attempt to measure economic freedom. They would look at government policies to see if governments either limited economic choices or enabled them by protecting private property and policing private fraud and force.

B. How is Economic Freedom Measured Today?

At the third conference, Florida State University economist James Gwartney and Fraser Institute senior economist Walter Block proposed to collect data from a wide set of countries on a relatively small set of indicators. Walker and the Friedmans encouraged them to get started and Gwartney went back to FSU to recruit his graduate student, Robert Lawson, to work with him on it. Together they developed a plan to look at factors like barriers to international trade, the extent of regulations, tax rates, and the government's promise to maintain the value of money.

After a number of iterations, in 1996 the index was first published by the Fraser Institute in *Economic Freedom of the World: 1975–1995*. Its authors were James Gwartney, Walter Block, and Robert Lawson. Different coauthors have contributed

to the project over the years, but Gwartney and Lawson have always taken the lead and, with Gwartney's passing in 2024, Lawson will now be the lead in constructing the EFW index and preparing *Economic Freedom of the World*.

Today, the EFW index is published annually and distributed globally. And thanks to better data availability, it manages to be both deep and broad, covering several dozen indicators in each of 165 countries. In its current iteration, the index

Measuring Economic Freedom:

Each of the 45 indicators in the EFW index tell us the degree to which individuals are allowed to make their own economic choices free of constraints imposed by others.

includes five broad areas: the size of government, legal system and property rights, sound money, freedom to trade internationally, and regulation. Table 1 offers brief descriptions of each area and how it relates to economic freedom. Table 2 lists the 45 components and sub-components that comprise each area. The indicators that comprise the EFW index touch on a wide variety of government policies and institutions—from tax policy and judicial independence to inflation, tariffs, and labor regulation. Nevertheless, a single thread runs through each of the 45 components: Each tells us the degree to which individuals are allowed to make their own economic choices free of constraints imposed by others.

Most of the data in the EFW index are drawn from external sources such as the International Monetary Fund, the World Bank, or the World Economic Forum. Whenever possible, components are taken from objective data sources rather than

Table 1: Describing the Five Areas of the EFW**Area 1: Size of Government**

Almost all government spending is financed through either current taxation, future taxation (debt), or inflation. Therefore, when a government spends money, it necessarily expropriates resources from its citizens, limiting their economic choices.

Countries with lower levels of government spending, lower marginal tax rates, less government investment, and less state ownership of assets earn higher ratings in this area of economic freedom.

Area 2: Legal System and Property Rights

When a person and her rightfully-acquired property is not secure, others (both private individuals and the state) may limit her economic choices. Those jurisdictions that operate under the rule of law, that ensure the security of property rights, that have independent and unbiased judicial systems, and that impartially and effectively enforce the law earn higher ratings in this area of economic freedom.

Area 3: Sound Money

Money is involved in nearly every transaction in an economy. If a government's monetary authority creates significant and unexpected inflation, it makes money less valuable and expropriates property from savers. Conversely, if the government creates significant and unexpected deflation, it makes money more valuable and expropriates property from borrowers. Thus, high and volatile inflation and deflation interfere with individuals' economic choices. Those jurisdictions that permit their citizens access to sound money—i.e., currencies that maintain their value over time—earn higher ratings in this area of economic freedom.

Area 4: Freedom to Trade Internationally

When a government imposes taxes or regulations at the border, it limits its citizens' ability to engage in voluntary exchange with people from other countries. Those jurisdictions with low tariffs, easy and efficient customs clearance, a freely convertible currency, and few controls on the movement of physical capital and labor earn higher ratings in this area of economic freedom.

Area 5: Regulation

When government regulations restrict entry into a market, limit or dictate the terms of certain types of exchange, or otherwise dictate how people and businesses may engage in economic activity, they limit individuals' economic choices. Jurisdictions that impose fewer and less burdensome restrictions on credit markets, labor, business activity, and competition earn higher ratings in this area of economic freedom.

Table 2: Areas, Components, and Subcomponents of the EFW Index (2023)**Area 1: Size of Government**

A. Government consumption	D. Top marginal tax rate
B. Transfers and subsidies	i. Top marginal income tax rate
C. Government investment	ii. Top marginal income and payroll tax rates
	E. State ownership of assets

Area 2: Legal System and Property Rights

A. Judicial independence	E. Integrity of the legal system
B. Impartial courts	F. Contracts
C. Property rights	G. Real property
D. Military interference	H. Police and crime

Note: Area 2 ratings are calculated with adjustments for inequalities in the legal treatment of women using a Gender Disparity Index produced by Rosemarie Fike. The adjusted Area 2 ratings is used to compute the summary rating.

Table 2: Areas, Components, and Subcomponents of the EFW Index (2023), cont'd**Area 3: Sound Money**

- | | |
|------------------------------------|-----------------------------------|
| A. Money growth | C. Inflation: most recent year |
| B. Standard deviation of inflation | D. Foreign currency bank accounts |

Area 4: Freedom to Trade Internationally

- | | |
|---|---|
| A. Tariffs | C. Black-market exchange rates |
| i. Trade tax revenue | D. Controls of the movement of capital and people |
| ii. Mean tariff rate | i. Financial openness |
| iii. Standard deviation of tariff rates | ii. Capital controls |
| ii. Mean tariff rate | iii. Freedom of foreigners to visit |
| iii. Standard deviation of tariff rates | iv. Protection of foreign assets |
| B. Regulatory trade barriers | |
| i. Non-tariff trade barriers | |
| ii. Costs of importing and exporting | |

Area 5: Regulation

- | | |
|--|---|
| A. Credit market regulation | C. Business regulation |
| i. Ownership of banks | i. Regulatory burden |
| ii. Private sector credit | ii. Bureaucracy costs |
| iii. Interest rate controls / negative real interest rates | iii. Impartial public administration |
| B. Labor market regulation | iv. Tax compliance |
| i. Labor regulations and minimum wage | D. Freedom to compete |
| ii. Hiring and firing regulations | i. Market openness |
| iii. Flexible wage determination | ii. Business permits |
| iv. Hours regulation | iii. Distortion of business environment |
| v. Costs of worker dismissal | |
| vi. Conscription | |
| vii. Foreign labor | |

surveys. And scores are never altered based on the value judgements of the authors. All components and subcomponents are converted to a zero to 10 scale that reflects the distribution of the underlying data. If a component has subcomponents, they are averaged to create the component score; component scores are then averaged to create area scores; and the five area scores are averaged to derive the overall EFW score of each jurisdiction. The result is a zero to 10 score for each of 165 jurisdictions worldwide where higher scores indicate the jurisdiction is more economically free. The EFW index is available for years ending in zero or five for 1970 through 2000 and for every year from 2000 to 2021.

C. What the EFW is Not

Before summarizing the results of the EFW, I should say a few words about what the EFW is *not*. These points are summarized in table 3. First, the only outcome that the EFW index measures is economic freedom. It does not account for the standard of living, the extent of corruption, the protection of personal freedoms such as speech, or any other measure of wellbeing. Each of these factors is important for the human condition. And as we will see, economic freedom *does* correlate with many of them. But it is not itself a measure of these things. Nor should it be. Since the EFW index is used to see if economic freedom relates to these factors, it would be tautological to include these factors in the index itself.

Second, the EFW should not be taken as a *net* measure of good policy. In other words, it does not weigh the costs of infringements on economic freedom against the hoped-for benefits of these infringements. A tax or a regulation may well produce some *good* outcome. It might address a negative environmental externality, fund a valuable public good, or correct some social injustice. But the authors of the EFW index make no effort to account for these potential benefits. Instead, they offer their index as a measure of one side of the ledger, believing that this is the first step toward such a full net accounting. Other scholars may, of course, take the next step and assess whether these infringements on economic freedom are in some sense worth it.

Finally, the EFW index should be seen as a measure of “what is” rather than as a judgement about “what ought to be.” The authors, like most social scientists, do have their own opinions about economic freedom (on the margin, they would prefer to see most countries become more economically free). But that should not keep skeptics

Table 3: What the EFW is Not

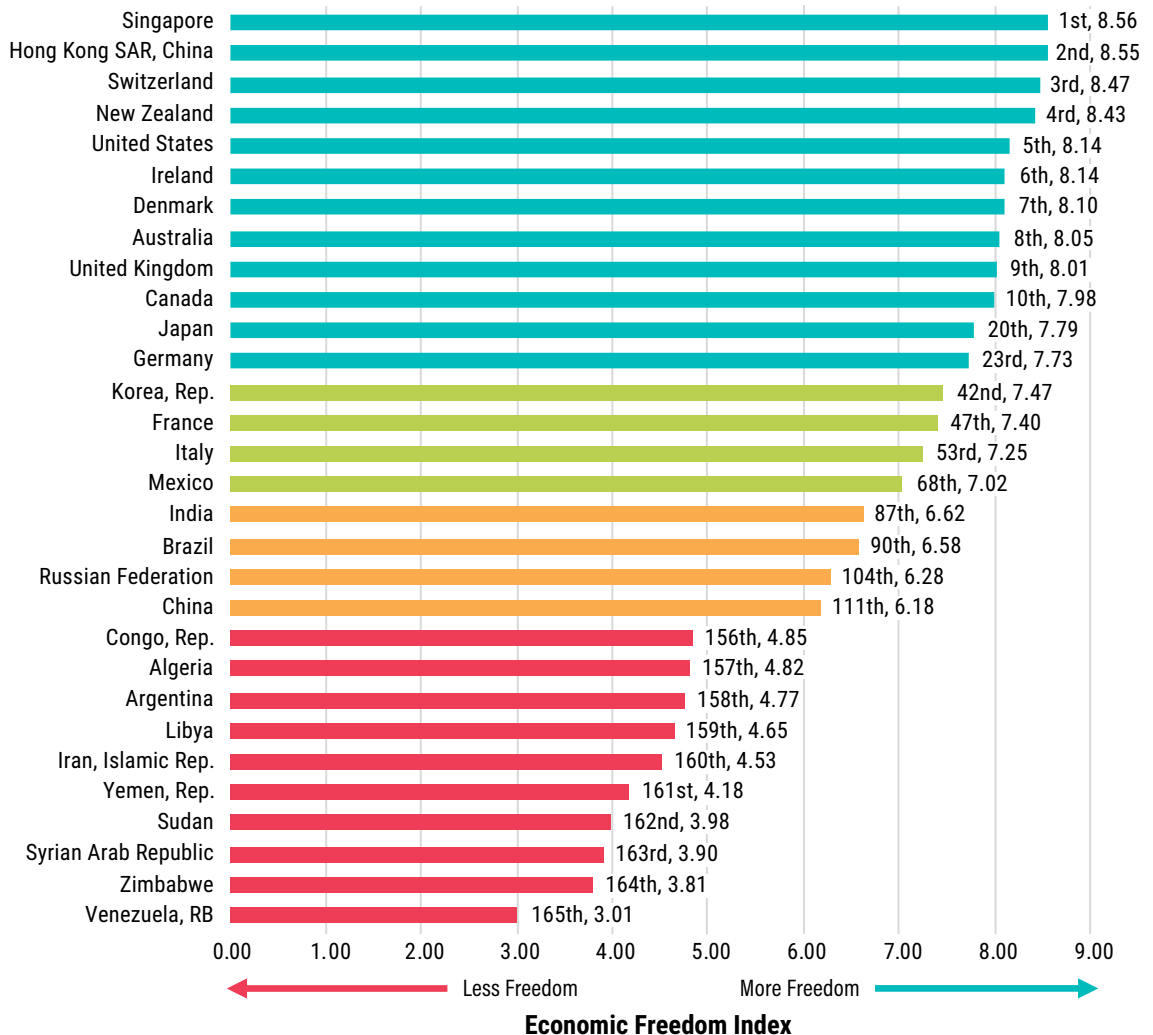
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1. It does not measure anything but economic freedom. The only outcome the EFW index measures is economic freedom. It does not attempt to measure other indicators of wellbeing like standard of living or other measures of freedom such as freedom of speech.
 2. It is not a “net” measure of the costs and benefits of limiting economic freedom. The EFW does not attempt to net out the benefits of infringing on economic freedom. It is a comprehensive measure of one side of the ledger. Other scholars can and should use the index to study whether infringements on economic freedom are in some sense worth it.
 3. It is not a statement about what is ideal. The EFW is a measure of “what is,” not a judgement of “what ought to be.” As a measure of economic freedom, it can be used by both fans and skeptics of economic freedom alike to study the effects of economic freedom on human societies.

of economic freedom from using the EFW index to study their own topics. Indeed, in recent years, it has become more common for skeptics of economic freedom to use the EFW index in their own research and the authors welcome this development (Lawson, 2022).

D. Summarizing the Economic Freedom of the World (EFW) Index

Figure 2 shows the EFW scores of 30 select jurisdictions while figure 3 shows a global map of all 165 jurisdictions in the dataset (because the EFW index relies on government data, there is a two-year lag). In both figures, jurisdictions are grouped into four broad categories: most economically-free (blue), second most economically-free (green), third most economically-free (orange), and least economically-free (red).

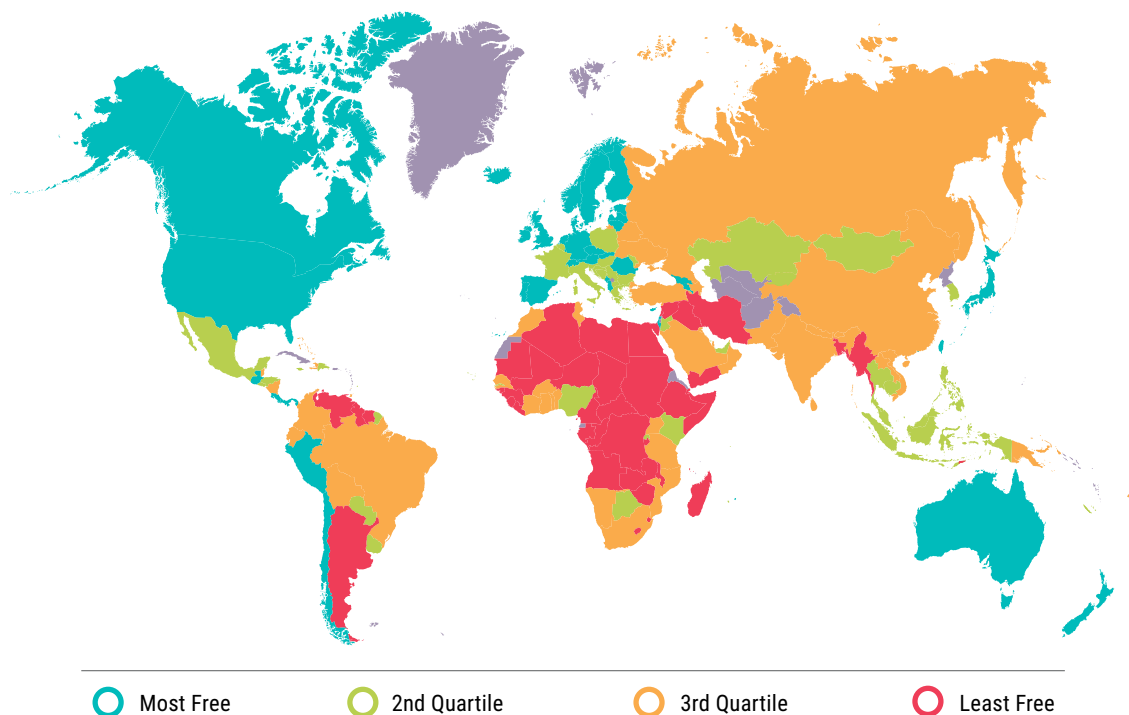
Figure 2: Economic Freedom in Select Jurisdictions (2021)



Source: Gwartney, Lawson, and Murphy, 2023.

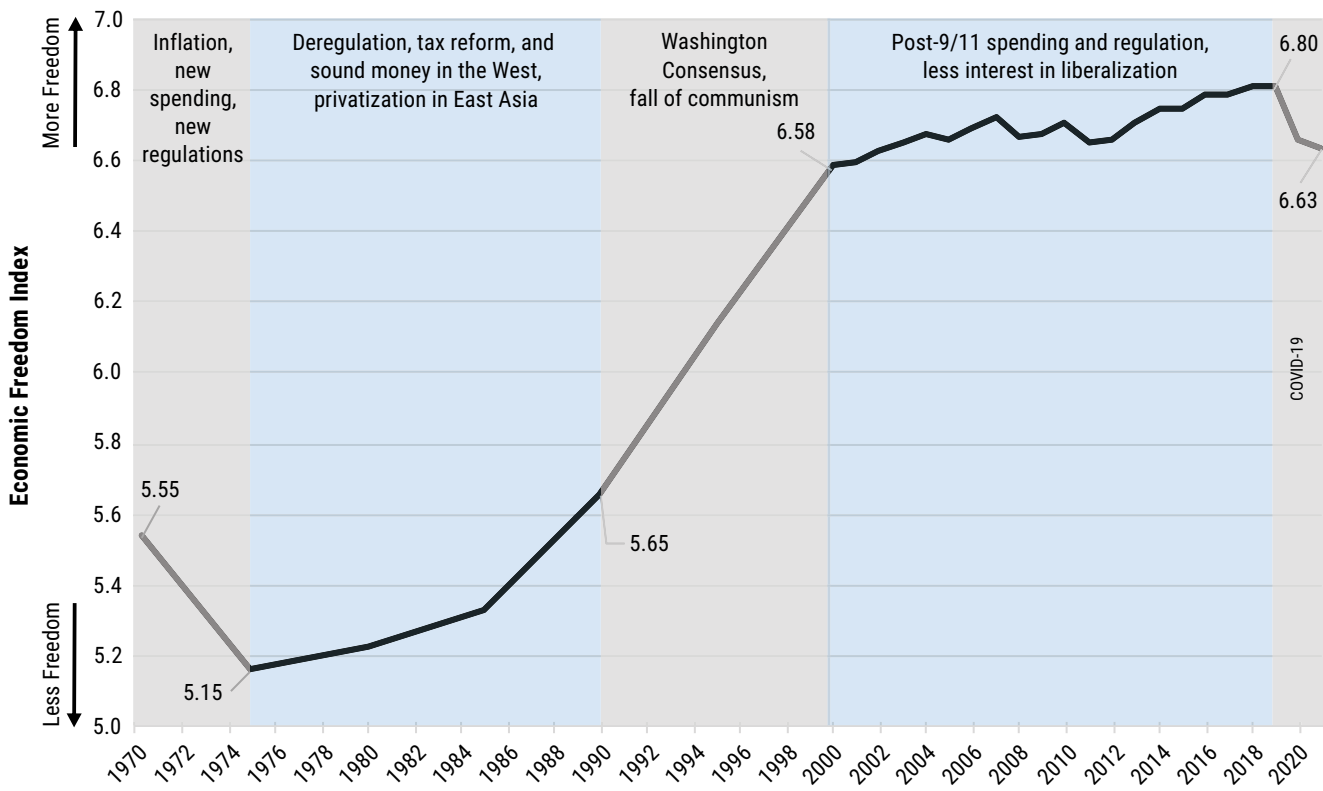
Note that these rankings are consistent with intuition: According to the EFW, Singapore and the US are more economically free than Korea and Mexico, which are freer than Brazil and China, which are freer than Argentina and Iran.⁸ This roughly corresponds to intuition about these jurisdictions and the degree to which individuals in these places are allowed to make their own economic choices. Note that jurisdictions in the top quartile of freedom (blue) appear on five out of the six permanently inhabited continents (the exception being Africa) and represent a wide variety of cultures, ethnicities, and historical circumstances. It is also interesting to note that economically free jurisdictions like Hong Kong and Costa Rica can often be found right next to relatively un-free places like Mainland China and Nicaragua.

Figure 3: Economic Freedom of the World by Quartile (2021)



Source: Gwartney, Lawson, and Murphy, 2023.

The EFW can also tell us something about trends in economic freedom over time. Figure 4 shows world economic freedom, averaged over all jurisdictions, from 1970 to 2021. As with figures 2 and 3, it comports with our intuition. World economic freedom fell in the early 1970s as Western nations from the US to Scandinavia introduced new entitlements, regulations, and spending programs, and in many cases financed them by printing money. Then world economic freedom began to rise modestly from the

Figure 4: World Economic Freedom Averaged Over All Available Jurisdictions (1970–2021)

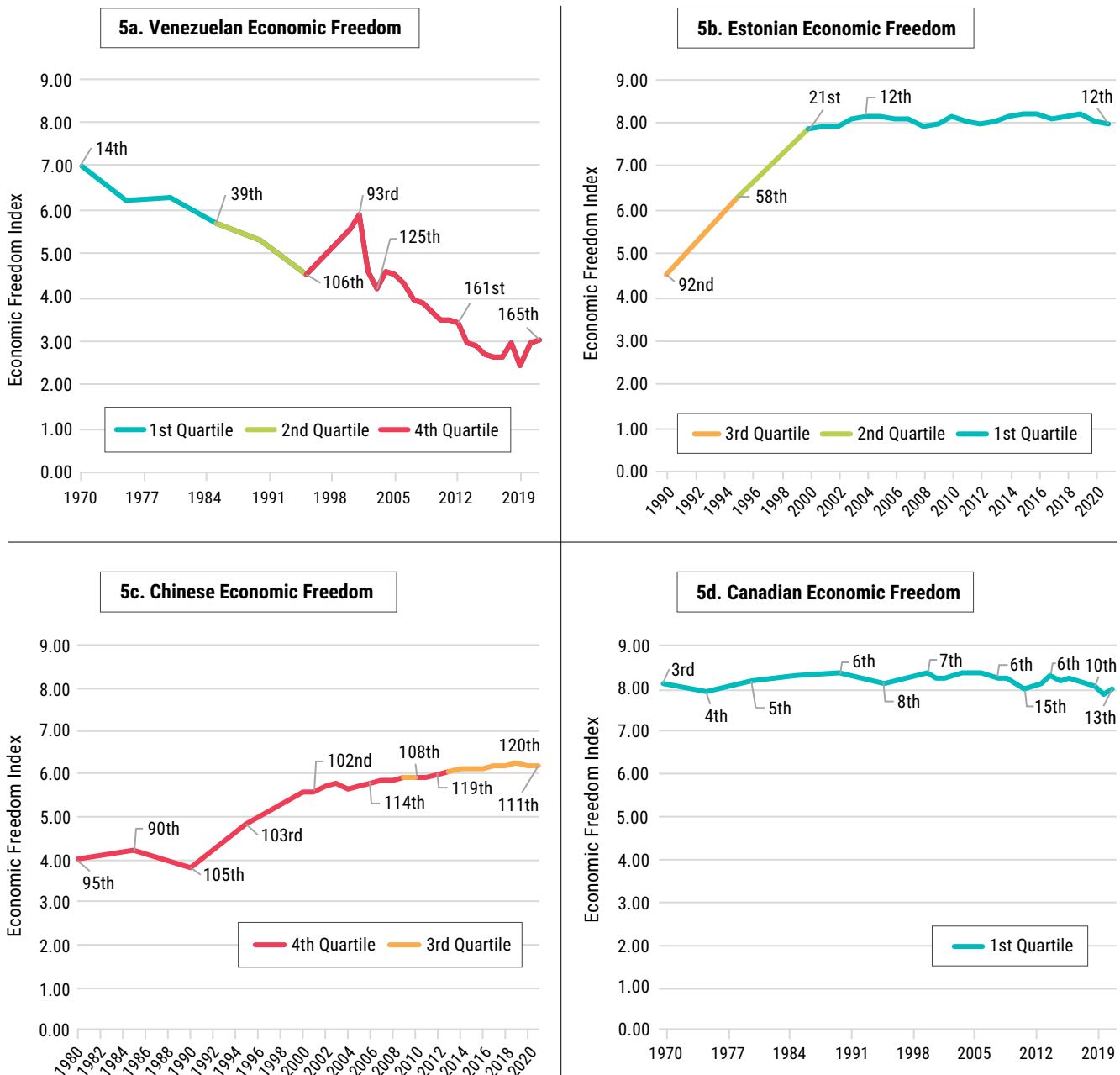
Source: Gwartney, Lawson, and Murphy, 2023.

mid-1970s through the 1980s as Western nations like the US, Canada, UK, Sweden, Denmark, and New Zealand deregulated and cut taxes and as Asian nations like China and South Korea permitted more private economic activity. Then, as the formerly socialist states of Eastern Europe privatized and eliminated many state controls over the economy, global economic freedom rose more dramatically. With the turn of the century the pace of liberalization slackened and measured economic freedom rose more gradually. Finally, as spending and regulations surged in the wake of the COVID-19 pandemic, measured economic freedom fell dramatically, erasing nearly two decades of increased economic freedom.

The EFW also allows us to look at individual countries over time. Figure 5, for example, shows economic freedom in four countries over the last several decades. The Venezuelan story is one of collapsing economic freedom. Just five decades ago, its economy was the 14th freest in the world. Now it is 165. Estonia has had the opposite experience. When it left the Soviet Union, it was in the 3rd quartile, but by the turn of the century, it was in the first quartile and has remained at or near the top 10 for the

past twenty years. China’s gain in economic freedom over this period is undeniable, yet modest. And because so much of the rest of the world has liberalized, China’s rank has actually fallen over time. Finally, Canada has long enjoyed relatively high and steady levels of economic freedom. But its highest level of measured economic freedom was in the year 2000 and today’s level of economic freedom is no different than it was in the late 1970s.

Figure 5: Economic Freedom in Four Countries



Source: Gwartney, Lawson, and Murphy, 2023.

In summary, the EFW index offers an objective measure of economic freedom across both time and geography. It includes 45 indicators grouped into five broad areas: size of government, legal system and property rights, monetary policy, freedom to trade internationally, and regulation. Together, these indicators tell us the degree to which individuals are allowed to make their own economic choices, free of constraints imposed by others. The EFW index is available in five-year increments from 1970 through 2000 and annually from there on out. In recent years, it covers 165 jurisdictions.⁹ How does the EFW index help us assess the arguments for and against economic freedom? I turn to that question next.

3. Step Three:

Study Economic Freedom and the Human Condition

As a tool for scientific investigation, the index published in *Economic Freedom of the World* (EFW index) has been wildly successful. According to Google Scholar, researchers have cited various editions of the EFW index about 14,000 times. More importantly, they have put the index to work. A search of the prestigious Social Science Citation Index finds that scholars have used the EFW in nearly a thousand peer-reviewed studies assessing the effect of economic freedom on the human condition. I will not attempt to cover the entire body of research here, but will try to summarize the highlights, focusing on the main claims that have been made about economic freedom. I begin with a ‘big picture’ assessment of the effect of economic freedom on good and bad outcomes. Then I discuss the relationships between economic freedom and the following outcomes: income, the income of the least well-off, poverty, inequality, other measures of the human condition, the environment, violence and conflict, culture, democracy, and personal freedom. In each case, before looking at the data, I briefly discuss the theoretical arguments.

A. The Big Picture

In a recent review of the literature, Robert Lawson looked at 721 academic studies of economic freedom. Figure 6 summarizes this research. A majority of the articles—51 percent—associate economic freedom with good outcomes such as faster growth, higher incomes, less conflict, or better protection of the environment. Just five percent of studies associate economic freedom with bad outcomes such as greater inequality or dirtier environments. The rest find mixed, null, or uncertain results. One takeaway here is that for every article associating economic freedom with a bad outcome, there are 11 that associate economic freedom with a good outcome.

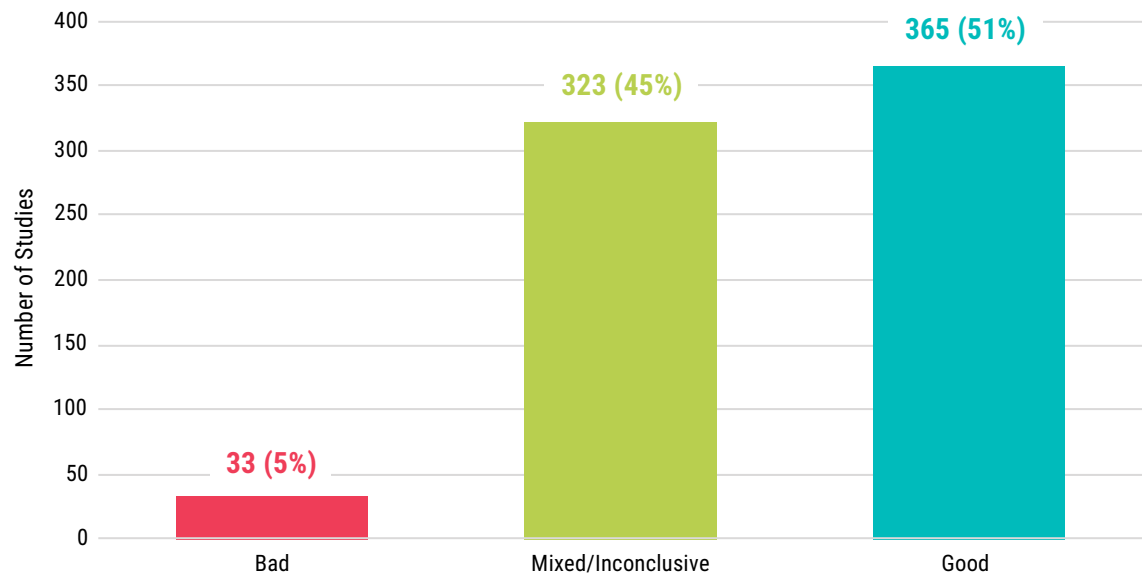
Figure 7 breaks down the literature by outcome area. Note, first, that in *every* category of the literature, more articles associate economic freedom with good outcomes than bad. Second, note that in eight out of the 12 categories, a good outcome is the most common finding (in the remaining four areas, mixed results are either

as frequent or more frequent than good results). Finally, note that in some cases—especially those related to economic outcomes—the evidence in favor of economic freedom is especially lopsided.

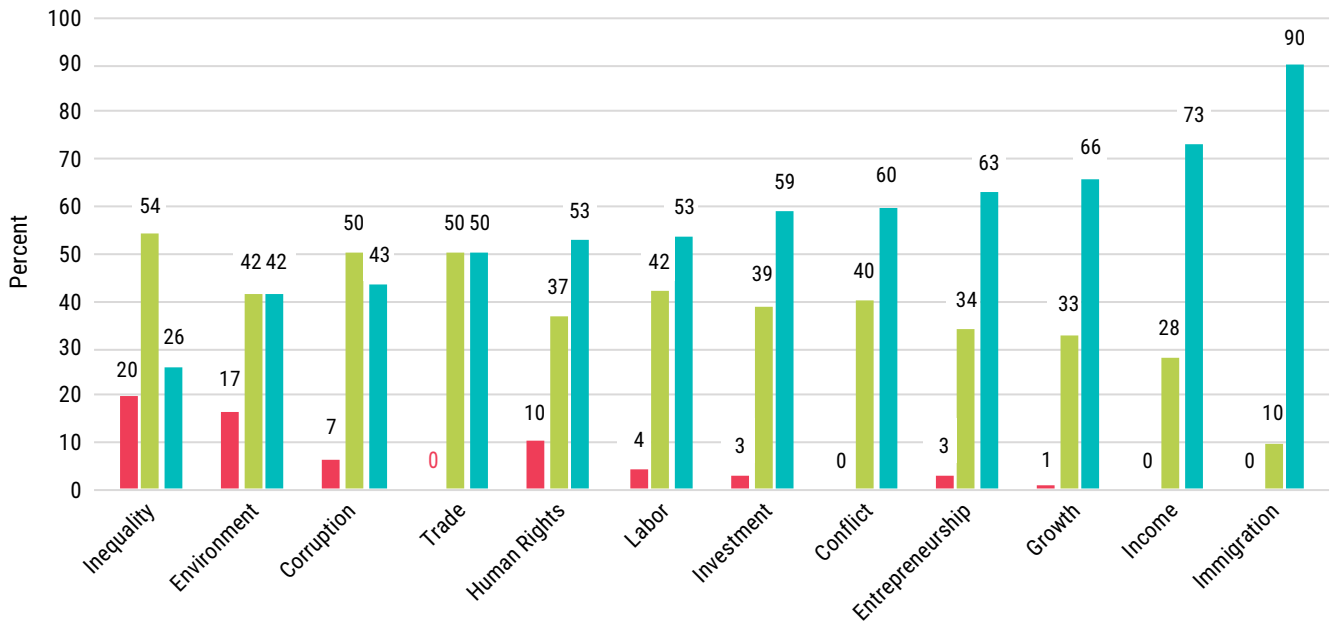
When it comes to labor, investment, conflict, entrepreneurship, income, and immigration the good results outweigh the bad by wide margins. Even in those cases where the evidence is somewhat mixed, however, the case for economic freedom remains strong. For example, while 17 percent of studies associate economic freedom with bad environmental outcomes, more than twice as many—42 percent—associate economic freedom with good outcomes. The case for economic freedom is weakest when it comes to economic inequality. But even in this case, more studies associate economic freedom with less inequality than associate it with more inequality, while most studies find mixed or inconclusive results in this area.

The studies summarized in figures 6 and 7 usually include a large sample of countries across a long span of time, which means that they include hundreds and sometimes thousands of observations. They typically employ regression analyses with numerous control variables to account for other factors that might influence the outcome. For example, a study of growth is likely to include control variables that account for geography, culture, demography, political institutions, and historical patterns of development.

Figure 6: Studies Associating Economic Freedom with Good, Bad, or Mixed Outcomes



Source: Lawson, 2022.

Figure 7: Studies Associating Economic Freedom with Good, Bad, or Mixed Outcomes (by Outcome)

Source: Lawson, 2022.

Correlation is not causation. It is possible that countries with good outcomes such as high income may be more likely to permit their citizens greater economic freedom. In other words, maybe prosperity causes economic freedom, not the other way around. Or perhaps some third factor causes both prosperity and economic freedom. Statisticians refer to this problem as endogeneity.¹⁰ Though it is not always possible in cross country comparisons, researchers can attempt to get around this problem by employing statistical techniques such as synthetic controls, matching methods, natural experiments, instrumental variables, or event studies.¹¹

We can get a sense of the association between economic freedom and the human condition by looking at simple comparisons. In the following sections, I show simple diagrams that illustrate these relationships. In one area after another, we see that economic freedom is associated with good outcomes while a lack of economic freedom is associated with bad outcomes.

At the very least, these simple comparisons suggest that economic freedom does not cause the negative results supposed by some thinkers. Economic freedom does not seem to be associated with mass poverty, worker exploitation, environmental degradation, violence, or intolerance. In fact, when combined with more sophisticated analyses, the comparisons suggest economic freedom seems to

improve the human condition, leading to a higher standard of living. After each of these simple comparisons, I cite more sophisticated studies that control for other factors and, when possible, allow researchers to infer causality.

B. Average and Median Income

Wealth is not everything. But it does make life easier. Wealth does not just buy fancier cars and nicer vacations. It also buys greater nutrition, longer lifespans, better education, more art, more peace, better safety, and even more happiness (Friedman, 2006; Stevenson and Wolfers, 2008). Because so much of the human condition depends on material prosperity, it makes sense to use the EFW index to see if economic freedom relates to material prosperity. And, indeed, this is one of the most common uses of the index.

Many thinkers maintain that too much economic freedom is inefficient and that governments can promote prosperity by curtailing economic freedom.¹² Some, like Karl Marx and Friedrich Engels, would abolish nearly all economic freedoms. Others, like John Maynard Keynes and Arthur C. Pigou are less radical, believing that by limiting some dimensions of economic freedom, governments can correct the worst parts of a free market.¹³ Over the years, skeptics have offered various reasons to believe too much economic freedom can be harmful to economic prosperity:

- **Too much economic freedom leads to inefficient market anarchy.** Markets are chaotic, with each participant pursuing his or her own (often conflicting) goals. Through central planning, governments can ensure that everyone works toward the same goal, eliminating wasteful duplication and encouraging economy-wide coordination (Marx and Engels, 1848; Marx, 1875; Lange, 1967).
- **With too much economic freedom public goods are underprovided.** An unfettered free market will underprovide certain goods such as public safety. The government can correct this problem by taxing private activity and using the money to fund public services (Samuelson, 1954).
- **Too much economic freedom leads to market failure due to imperfect information.** If one side of a market has greater information than the other—then various market failures arise such as “moral hazard” and “adverse selection.”¹⁴ These problems can be corrected by government regulations (Akerlof, 1970; Rothschild and Stiglitz, 1976).

- **Too much economic freedom leads to monopolization.** Unchecked, the free market tends to lead to large and inefficient monopolies, especially in the case of natural monopolies. Regulators can break up monopolies or prevent them before they form (Adams, 1878; Brandeis, 1934; Khan, 2017).
- **Too much economic freedom leads to macroeconomic instability.** Unfettered free markets are prone to periodic booms and busts that lead to widespread suffering. The volatile business cycle can be tamed through active fiscal, regulatory, and monetary policy, which limits economic freedom (Keynes, 1937; Krugman, 2012).

Others, however, maintain that economic freedom is the key to material prosperity, and there are plenty of reasons for thinking so:

- **More economic freedom allows more gains from trade.** The famed Scottish economist Adam Smith (1776) argued that economic freedom allows people to gain from exchange with one another.¹⁵ Even if people are primarily interested in serving themselves and those they love, they end up serving others through exchange, and it is economic freedom that makes this possible.
- **More economic freedom allows more specialization.** Smith (1776) also argued that with greater economic freedom, people are able to have access to wider markets. And if they can buy and sell to more people, they can afford to specialize in what they produce. This makes them better at what they do, further increasing the gains from exchange.
- **More economic freedom allows more competition.** Modern economics textbooks emphasize that economic freedom permits competition. And competition tends to benefit customers by keeping prices low and quality high (Cowen and Tabarrok, 2020).¹⁶
- **More economic freedom allows more dynamism.** Economic freedom allows entrepreneurs to profit by finding new and better ways to create value for customers, often correcting the mistakes or omissions of others (Schumpeter, 1912; Schumpeter, 1942; Kirzner, 1963; Demsetz, 1983).
- **More economic freedom allows us to make better use of relevant knowledge.** With economic freedom, market prices tend to reflect the dispersed, tacit, subjective, and local knowledge and opinions of millions of buyers and sellers. Prices communicate this knowledge and incentivize people to react to it, allowing us to coordinate our plans with one another without coercion (Mises, 1920; Hayek, 1945).

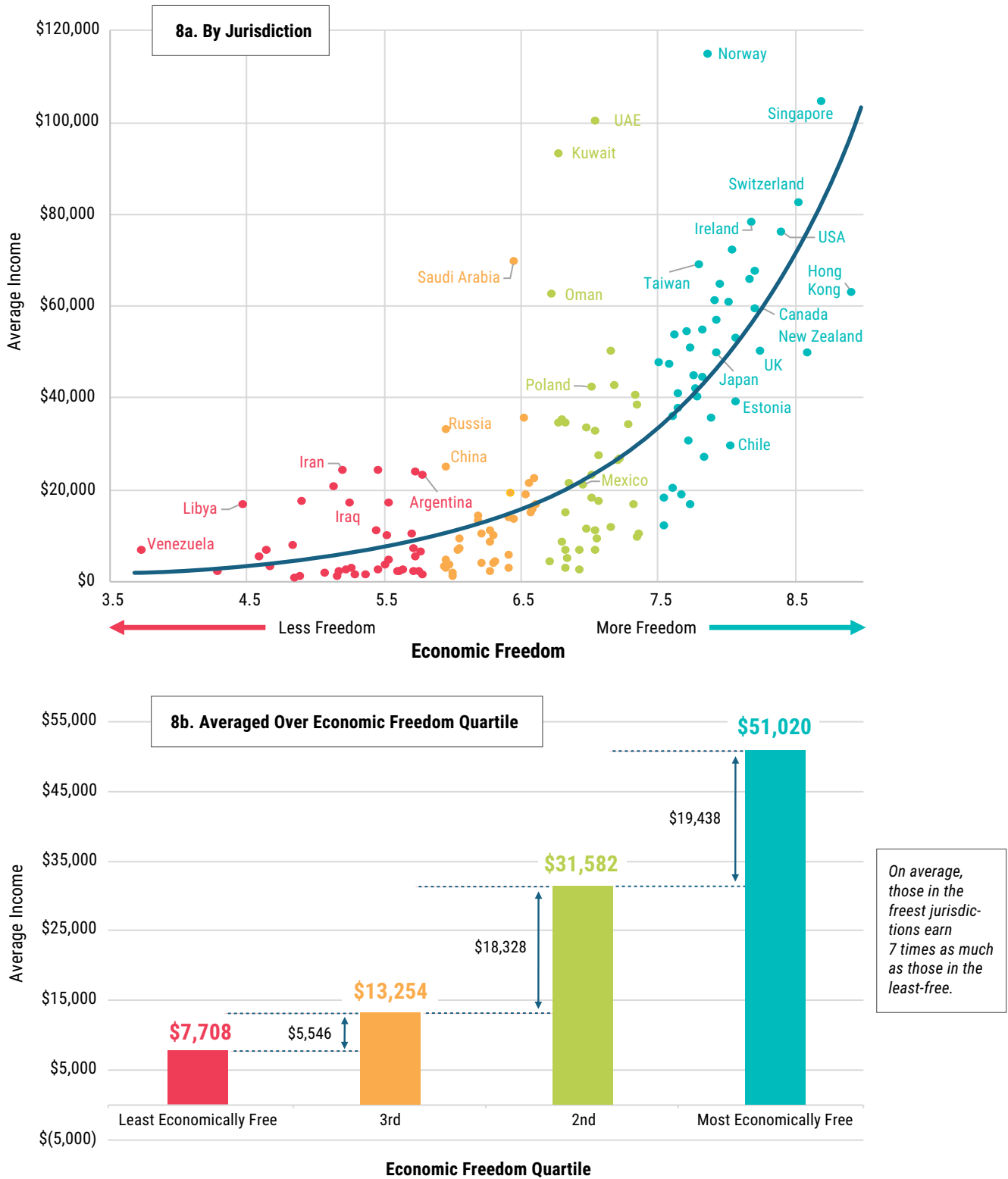
- **More economic freedom permits macroeconomic stability.** Though people often claim that government interventions can smooth out the ups and downs of a volatile business cycle, taxation, spending, regulation, and monetary policy may actually create these ups and downs (Friedman, 1968; Kydland and Prescott, 1977; Cowen, 2010).

With plausible-sounding arguments on both sides, we need to turn to the data. The top panel of figure 8 (A) shows a simple scatter plot relating economic freedom to the most common measure of prosperity, Gross Domestic Product (GDP) per person.¹⁷ Following the same color scheme as the figures above, the least economically free jurisdictions are red, the third-most free jurisdictions are orange, the second-most free jurisdictions are green, and the most economically-free jurisdictions are blue. The figure also includes a trend line showing the general relationship. It strongly suggests that economic freedom and general prosperity are positively correlated.

This is not to say that economic freedom is the *only* thing that matters for prosperity. Many oil-rich nations like Norway, the United Arab Emirates, Kuwait, Saudi Arabia, and Oman appear to achieve higher incomes than other similarly-free countries without oil. But notice that *no country* manages to achieve much prosperity at all without some degree of economic freedom. The bottom panel of figure 8 (B) offers a simpler look at the same data. Here, I average countries by quartile. In displaying the data this way, we can more easily see the increasing returns to economic freedom. On average, those in the third quartile of economic freedom make \$5,546 more than those in the least-free quartile. But those in the first quartile make \$19,438 more than those in the second quartile.¹⁸

Average GDP per person is widely available across countries and across time and it is, by far, the most-common measure of material prosperity. But it is not perfect. One problem with any average measure is that it can be driven by very large outliers. Canada's \$60,000 average GDP per person, for example, might be the result of everyone making about \$60,000 or it might be the result of 10 percent of the population making \$500,000 and everyone else making \$11,000. One way to get around this problem is to look at the income of the person in the middle of the income distribution, that is, to look at the median income. Figure 9, panels A and B, shows the relationship between economic freedom and median after-tax income. Here we see that the same positive (and increasing) relationship holds.

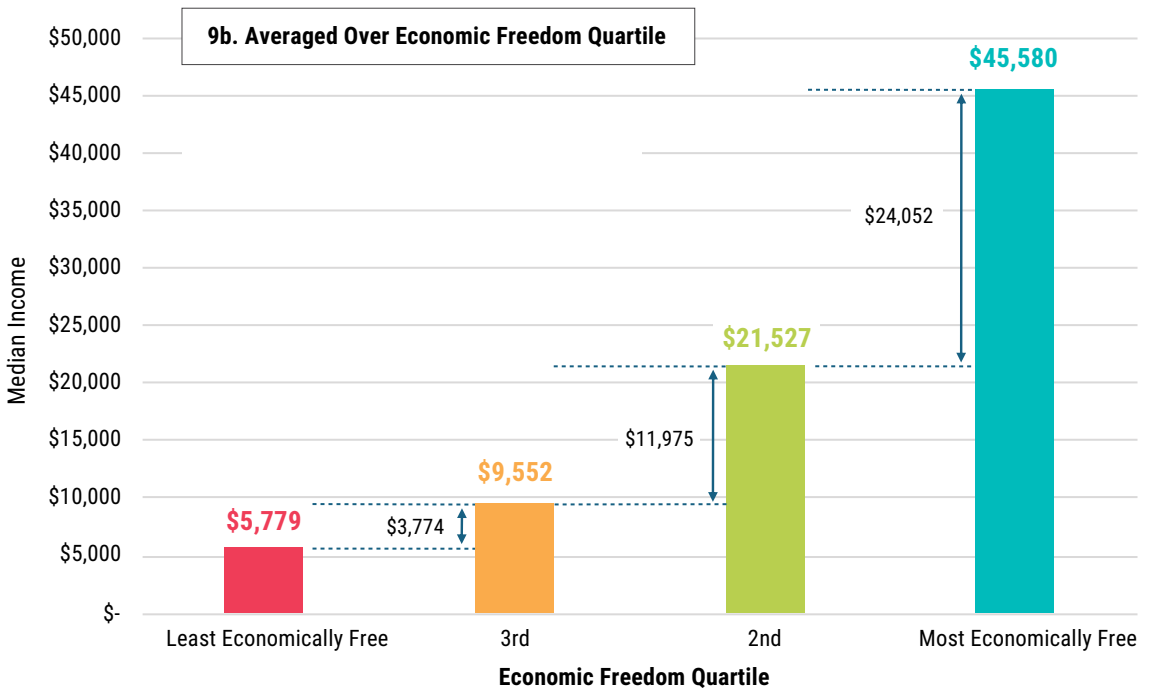
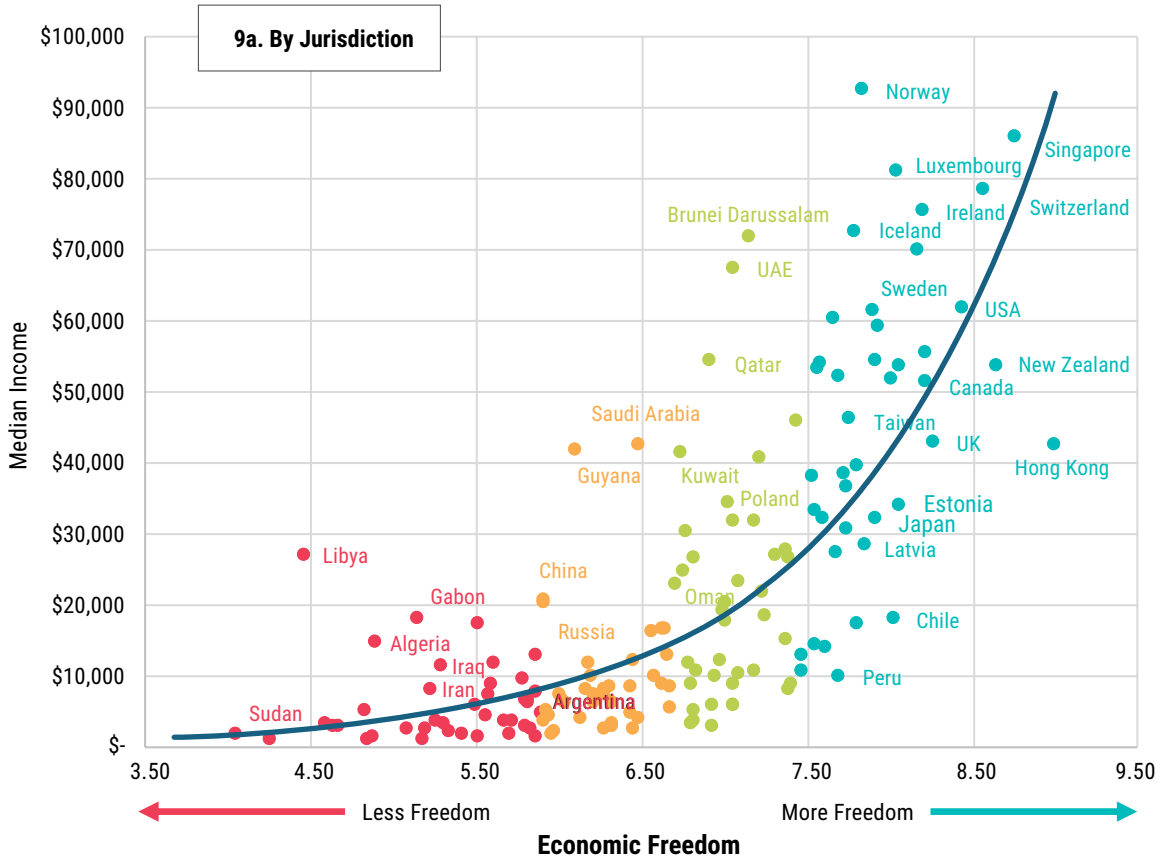
Figure 8: Economic Freedom and Average Income



Note: Average income measured by GDP Per Person in 2022, in 2011 US dollars, adjusted for purchasing power parity. Economic freedom is averaged over 2000 to 2021.

Sources: Gwartney, Lawson, and Murphy, 2023; Bolt and van Zanden, 2024.

Figure 9: Economic Freedom and Median Income



The median earner in the freest jurisdictions earns 7.9 times as much as the median in the least free jurisdictions.

Note: Median income is median after-tax income in 2022, expressed in 2023 US dollars, adjusted for purchasing power parity. Sources: Gwartney, Lawson, and Murphy, 2023; Bolt and van Zanden, 2024.

The simple correlations shown in these figures are supported by more sophisticated statistical analyses. In a recent review of the literature, Robert Lawson, Vincent Miozzi, and Meg Tuszynski examine 23 academic articles containing 386 empirical tests of the relationship between economic freedom and income. Over 90 percent of these estimates find a positive association between economic freedom and income and over 80 percent of them are statistically significant (Lawson, Miozzi, and Tuszynski, 2024: 9).¹⁹ These studies suggest that a one standard deviation increase in economic freedom (an increase of about 0.49 in the EFW scale, roughly the difference between Romania and Spain) corresponds to about \$8,750 more per person per year.

New research suggests, however, that studies may be underestimating the positive effects of economic freedom on income. That is because those regimes that limit their citizens' economic freedom are often dictatorships and dictators are known to inflate their official GDP statistics. Economists Sean Patrick Alvarez, Vincent Geloso, and Macy Scheck use nighttime light intensity from satellite photos to adjust for this deception and find that the estimated relationship between economic freedom and income increases by 10 to 62 percent (Alvarez, Geloso, and Scheck, forthcoming).

The relationship between economic freedom and income is driven, in part, by other relationships. For example, Lawson and his coauthors identify 54 papers containing 696 estimates that assess the relationship between economic freedom and economic growth. About 80 percent of these estimates indicate that economic freedom is positively associated with economic growth (Lawson, Miozzi, and Tuszynski, 2024: 6). Areas 2, 3, and 5—the areas of economic freedom dealing with property rights, sound money, and limited regulation—seem to be driving much of this relationship.

Lawson and his coauthors also look at studies exploring the link between economic freedom and investment, finding that among 32 papers containing 343 estimates, over 80 percent find economic freedom to be positively associated with investment. In this case, the relationship seems to be driven by areas 1, 2, and 4—size of government, property rights, and trade freedom. Similarly, in their survey of economic freedom and entrepreneurship, Per Bylund, Peter Klein, and Matthew McCaffrey report that “Most studies find positive relationships between economic freedom and new firm formation, self-employment rates, innovation, and other indicators of entrepreneurial activity” (Bylund, Klein, and McCaffrey, 2024: 248). And though the question has received less attention, the available evidence suggests that economic freedom can

mitigate the negative impact of an economic crisis or natural disasters such as COVID-19 (Dawson, 2010; Pavlik, 2024).

In short, the evidence strongly supports the hypothesis that economic freedom and general prosperity are positively related, both in the short and the long run.

C. **Poverty, Inequality, and the Income of the Least Well-Off**

Economic freedom may be good for the average or the median citizen. But is it good for the poorest? Many think not. Skeptics often assert that economic freedom poses a unique danger to society's poorest and most vulnerable individuals:

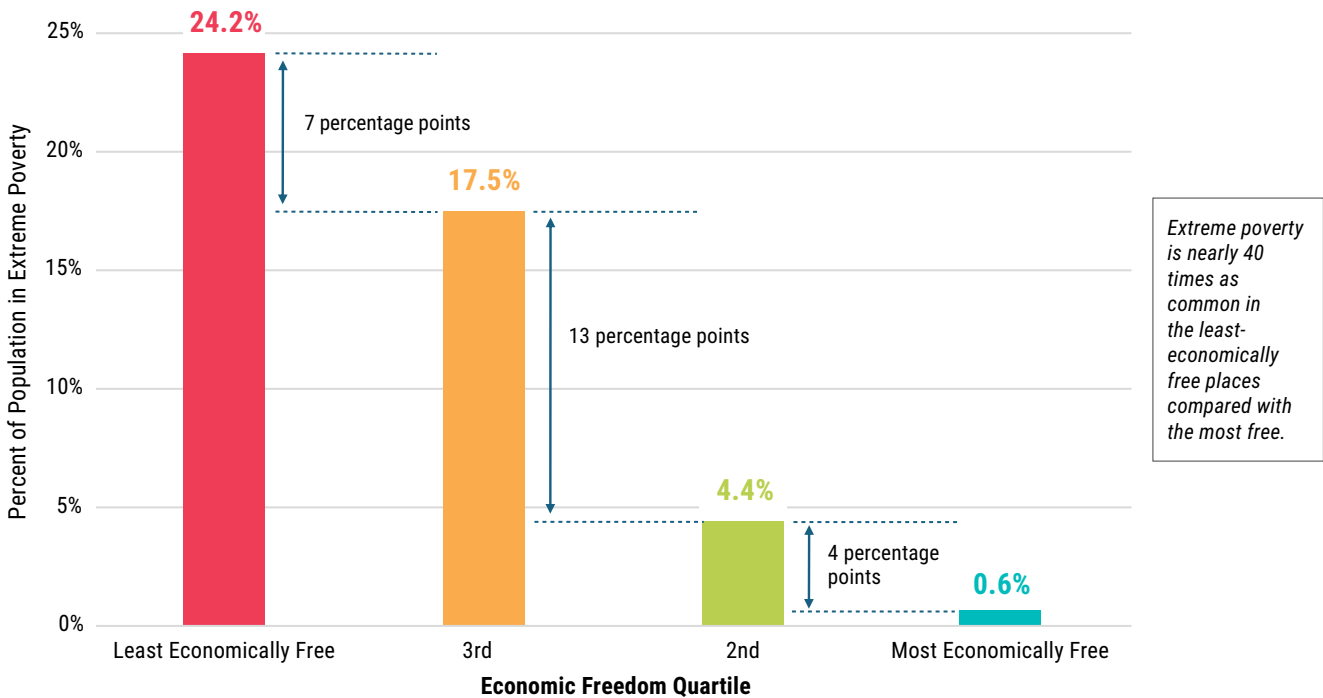
- **Too much economic freedom leads to gross inequality.** In the absence of redistributive taxation and spending, there will be great and unjust inequalities (Rawls, 1971; Dworkin, 2000; Cohen, 2011; Piketty, 2017).
- **Too much economic freedom channels too much wealth and power toward industry and not enough toward other important goals like education.** Taxpayer-funded government investments in education and infrastructure can correct this imbalance and reduce poverty (Galbraith, 1958).

Others, however, believe that economic freedom offers the best means available to lift everyone out of poverty:

- **Economic freedom permits “win-win” gains from exchange that benefit both parties, while restrictions on economic freedom are often “win-lose” transfers from one group to another.** For example, regulations that limit competition tend to privilege politically powerful firms, allowing them to corner a market, charge higher prices, and offer lower-quality goods and services. While this benefits the privileged firms, it harms politically powerless consumers and would-be competitors. To make matters worse, people often waste resources seeking and maintaining these privileges (Smith, 1776; Kolko, 1963; Tullock, 1967; Stigler, 1971; Mitchell, 2012). And when favor and disfavor are difficult to contest, society's most marginalized populations are often the ones who are disfavored (Mitchell, 2019).
- **Economic freedom permits upward mobility.** While limitations on economic freedom tend to exploit the politically powerless, economic freedom offers a chance at upward mobility for all (Hutt, 1939; Becker, 1957; Buchanan and Congleton, 1998; Ridley, 2011; McCloskey, 2011, 2016).

One way to assess this question is to look at the relationship between economic freedom and the share of the population living in extreme poverty (defined by the World Bank as living on less than \$2.15/day). This is shown in figure 10. In the least economically free places, more than 24 percent of the population lives in extreme poverty while in the most free, fewer than one percent live in extreme poverty. To put it another way, extreme poverty is nearly *forty times* as common in un-free places as it is in economically free places. These simple correlations stand up to more rigorous statistical analysis (Saccone and Migheli, 2022).

Figure 10: Economic Freedom and Poverty



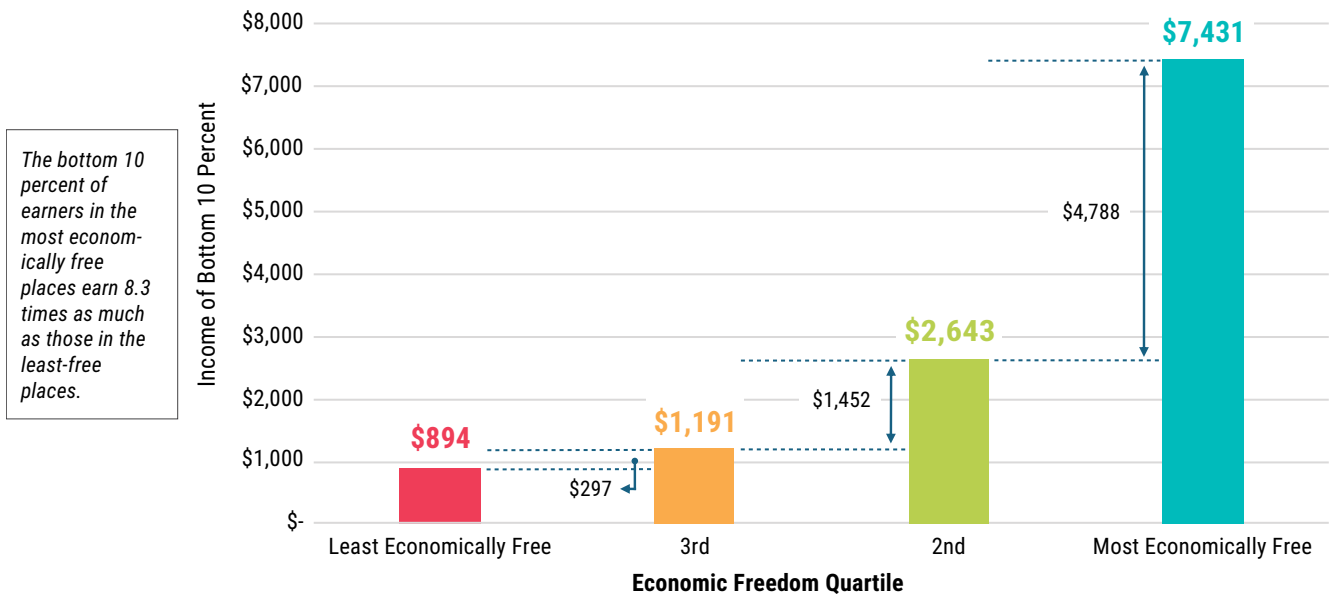
Note: Poverty is the share of the population earning \$2.15/day or less in the latest available year in each country.

Sources: Gwartney, Lawson, and Murphy, 2023; World Bank Poverty and Inequality Platform, 2024.

Another way to assess the relationship between economic freedom and poverty is to look at the earnings of the poorest citizens. This is shown in figure 11. There we see that in the most economically free jurisdictions, the bottom 10 percent of earners make, on average, \$7,431. Though low compared with the average income (\$51,020) in these same countries, it is more than eight times what the poorest 10 percent of earners in the least-free places make (\$894).

The prevalence of poverty and the income of the poorest 10 percent of citizens tell us how economic freedom affects the wellbeing of the least-well-off. Many, however,

Figure 11: Economic Freedom and Income of Bottom 10 Percent

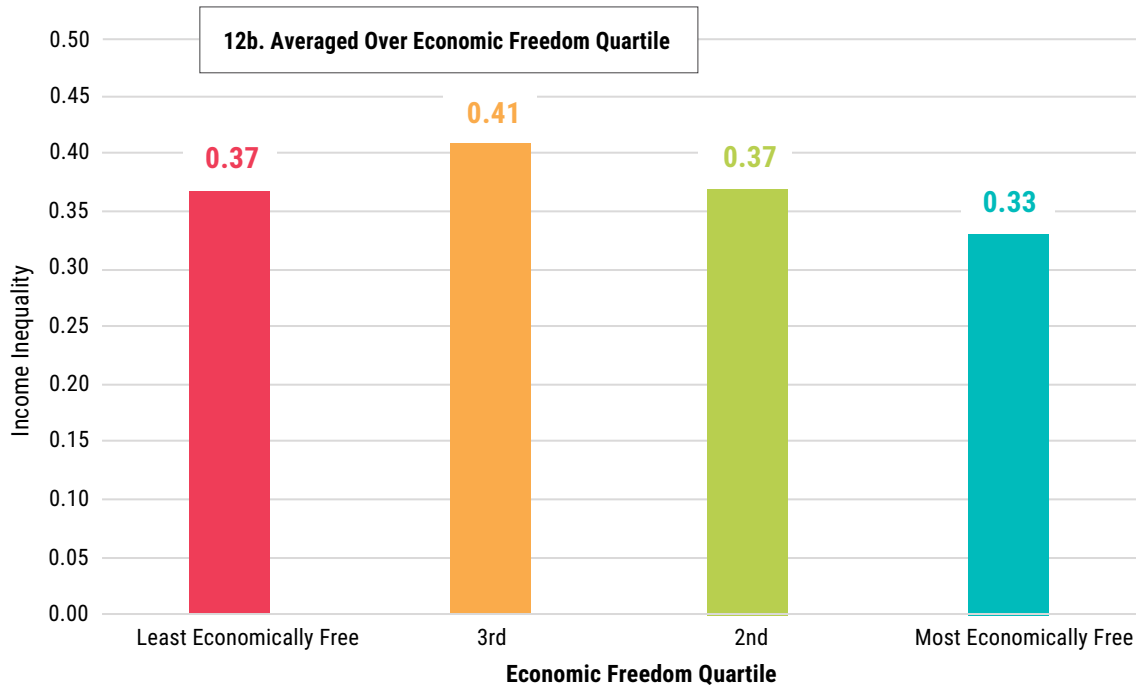
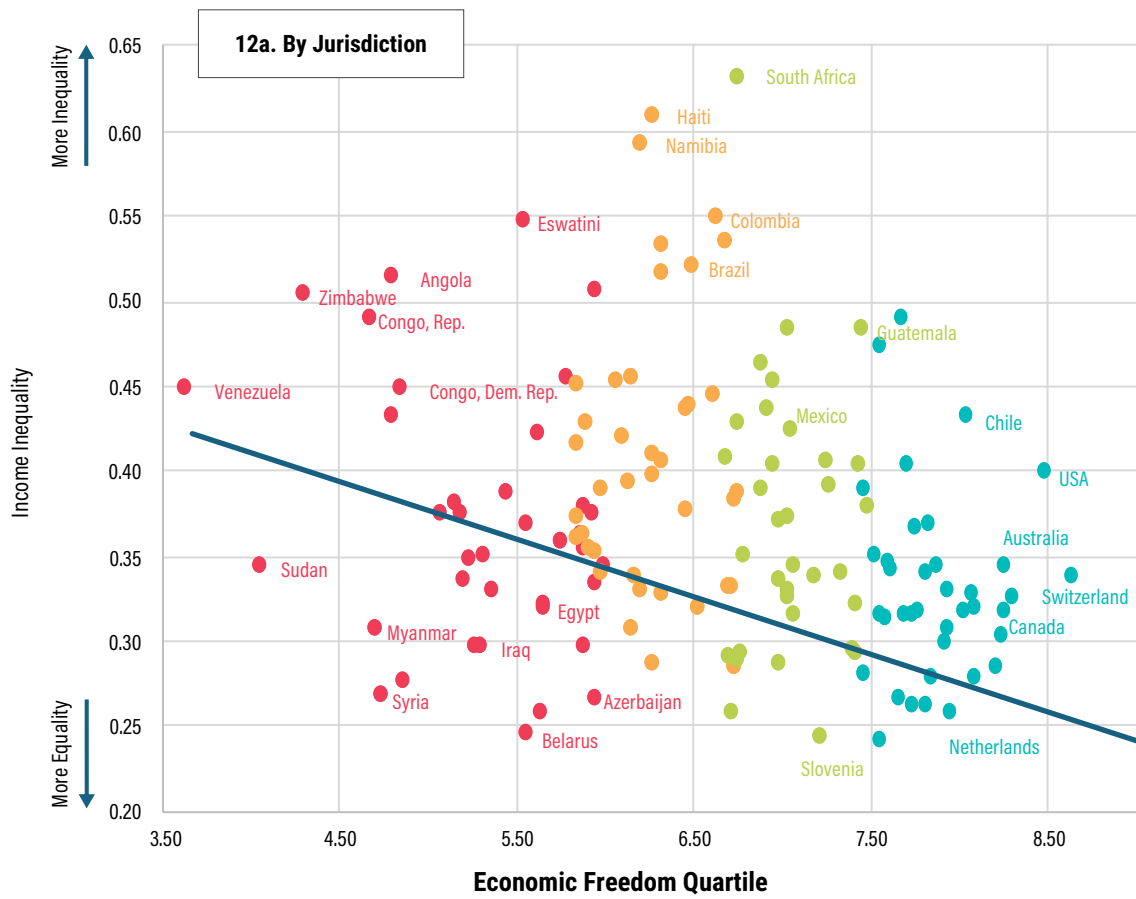


Note: The vertical axis is the threshold for the bottom 10 percent of earners in the latest available year in each country.
 Sources: Gwartney, Lawson, and Murphy, 2023; World Bank Poverty and Inequality Platform, 2024.

are interested in the overall distribution of wealth in society. The most common way to measure this is a number called the Gini coefficient. It tells us the degree of inequality in a society and ranges from zero to one, with zero indicating perfect equality and one indicating perfect inequality.²⁰ Figure 12, panels A and B, shows the relationship between economic freedom and income inequality. Overall, the data suggest that there is not an especially strong relationship. But to the extent that there is a relationship, it seems that economic freedom is associated with less income inequality.

The general pattern shown in figure 12 is supported by more formal analyses. Lawson and his coauthors, for example, review 26 studies that together contain 769 estimates of the relationship between economic freedom and inequality. Most focus on income inequality as measured by the Gini coefficient, but some look at wealth inequality, gender wage gaps, medical access inequality, and happiness inequality. Across all of these studies, the average effect of economic freedom on inequality is close to zero and among those papers that do find an effect, the results suggest that economic freedom is associated with less inequality. There is some evidence, however, from a relatively small number of studies that *positive changes in economic freedom* are associated with greater inequality. This means that when a country is in the midst of liberalizing, inequality may rise (Lawson, Miozzi, and Tuszynski, 2024: 22). Given

Figure 12: Economic Freedom and Inequality



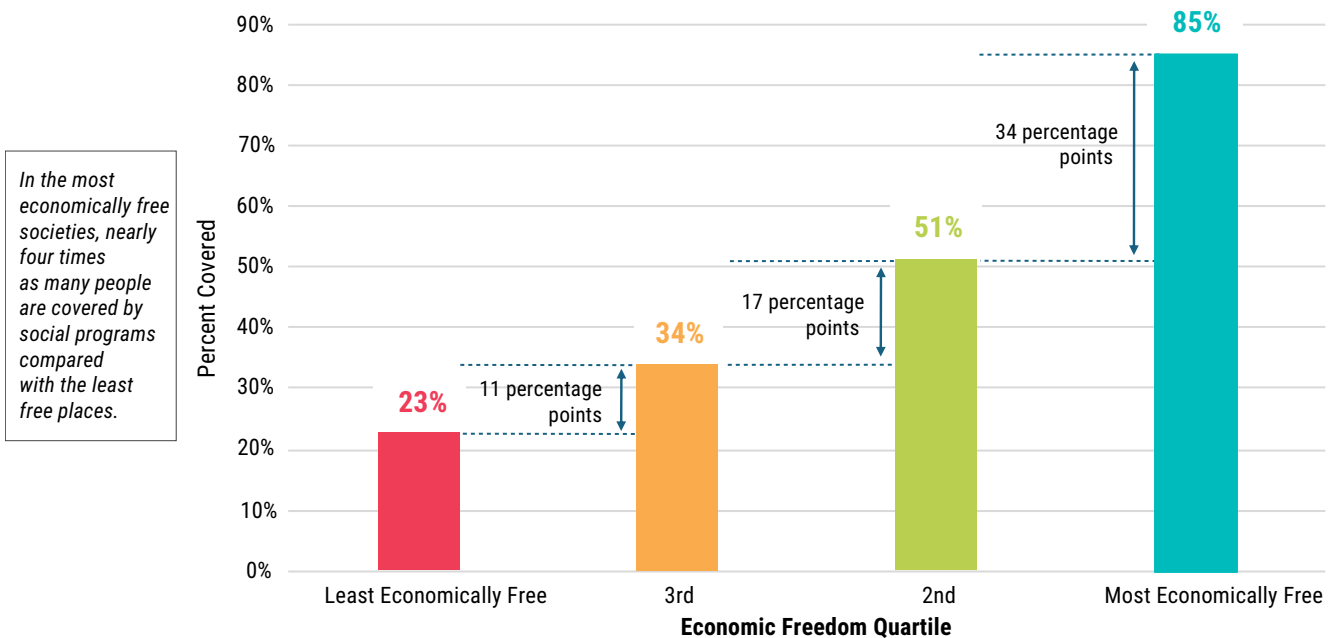
Note: Inequality is the income Gini coefficient in the latest available year in each country.
 Sources: Gwartney, Lawson, and Murphy, 2023; World Bank Poverty and Inequality Platform, 2024.

the data shown in figures 10 and 11, however, it seems clear that once a country has liberalized, its poorest citizens can expect to be much better off.

These findings are corroborated in a separate review of the literature by Bennett encompassing 58 articles. Several of the studies he surveys suggest that the effect of economic freedom on inequality depends on other factors such as the political regime, the degree of economic development, or where a country is on the economic freedom spectrum (Bennett, 2024: 221). And relatedly, other research suggests that economic freedom is associated with greater socio-economic mobility (Boudreaux, 2014; Dean and Geloso, 2022; Callais and Geloso, 2023).

Finally, consider the role of government social safety net programs in alleviating poverty and misfortune. These programs are funded by taxes that, by definition, reduce economic freedom. So, one might expect more economically free societies to have less comprehensive social safety nets. On the other hand, since these societies tend to be wealthier, they may be able to afford more social safety net spending. Figure 13 shows the share of the population covered by a social safety net program in each of the four economic freedom quartiles. Among the least economically free nations, just 23 percent of the population is covered by one or

Figure 13: Economic Freedom and Share of the Population Covered by a Social Program



Notes: Percent Covered is the percent of the population covered by at least one social protection program in 2022.

Sources: Gwartney, Lawson, and Murphy, 2023; Multiple sources compiled by the United Nations and processed by Our World in Data, 2023.

more social program. But among the most economically free nations, 85 percent of the population is covered.

Overall, the evidence suggests that economic freedom is not only associated with greater prosperity for the average citizen but with greater prosperity for those who are least well-off among us.

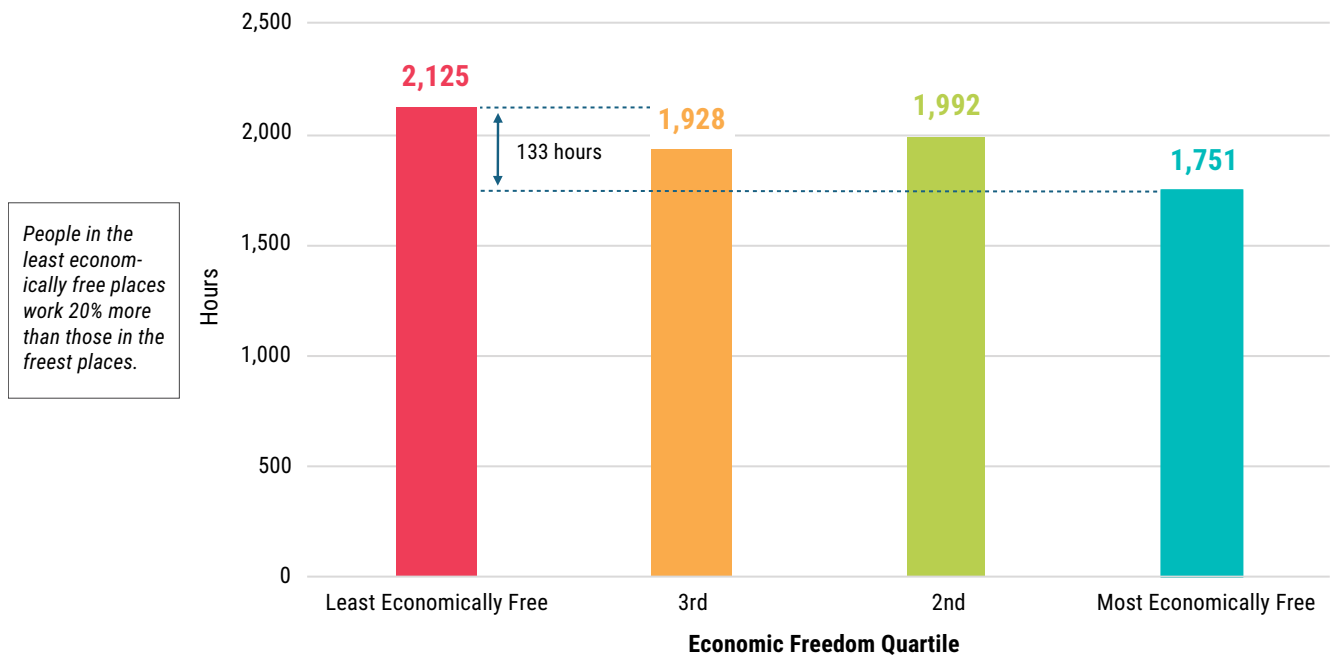
D. **Work, Health, Literacy, and Life Satisfaction**

Many believe that our most valuable resource is not material wealth, but time. And it is often argued that economic freedom squanders this precious resource, forcing us to work longer hours under worse conditions, crowding out other values and life pursuits:

- **Unfettered economic freedom leads to unsafe working conditions and shotty or unhealthy products.** Government regulations can correct some of the excesses of market capitalism (Sinclair, 1905).
- **Too much economic freedom allows capitalists to exploit workers.** State socialism can liberate workers and workplace democracy can ensure that both firms and the economy serve the interests of the workers (Marx and Engels, 1848; Croly 1909; Paul, 2023).
- **With too much economic freedom, we find ourselves stuck in a rat race.** Even if no one in particular is exploiting us, the excessive competition of economic freedom causes each of us to work ourselves ragged (Paul, 2023).

Others, however, maintain that the material prosperity that economic freedom affords us can liberate us from life's greatest woes:

- **Economic freedom permits more prosperity, and more prosperity allows us to enjoy other things that make life worthwhile.** With more wealth, we can afford more leisure, better health, better education, and more happiness (Friedman, 2006; Mitchell and Boettke, 2017).
- **Even if it doesn't make us wealthier, economic freedom makes us happy.** People value their freedom, including their economic freedom. And people are more satisfied if they can be the authors of their own economic lives (Nozick, 1974; Schmidt, 2006).

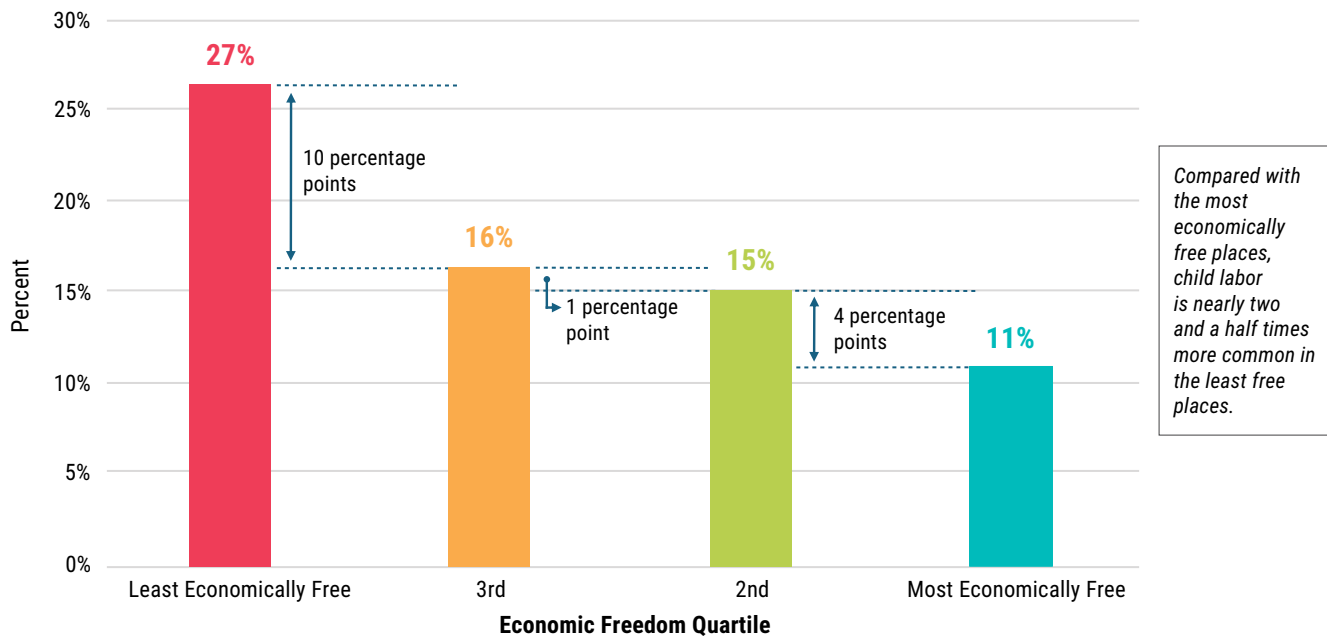
Figure 14: Economic Freedom and Average Annual Working Hours Per Worker

Notes: Hours are average annual working hours per worker in 2017.

Sources: Gwartney, Lawson, and Murphy, 2023; Huberman and Minns (2007); and PWT 9.1 (2019), processed by Our World in Data (2019).

Figure 14 shows the average annual working hours per worker in each of the four economic freedom quartiles. It suggests that economic freedom does not cause us to work ourselves ragged. Those who live in the least economically free places in the world work, on average, about 20 percent more than those who live in the most economically free places.

Another way to see if economic freedom permits exploitation is to look at child labor. Below a certain age, a child cannot be said to voluntarily and knowingly enter a contract. Therefore, prohibitions on child labor are not obvious limitations of economic freedom. Nearly every developed nation has some sort of child labor law. Still, many children work, both legally and illegally, throughout the world. Figure 15 shows the relationship between economic freedom and the percent of children in the labor force. In the least economically free societies, the share of children in the labor force is nearly two and a half times that of the most economically free societies. This is an understudied topic. But there is some evidence that the long-term reduction in child labor has more to do with increasing prosperity than with laws prohibiting child labor and this likely explains the relationship (Moehling, 1999).

Figure 15: Economic Freedom and Percent of Children in the Workforce

Notes: Percent is percent of children aged 7–14 in employment in the latest available year in each country.

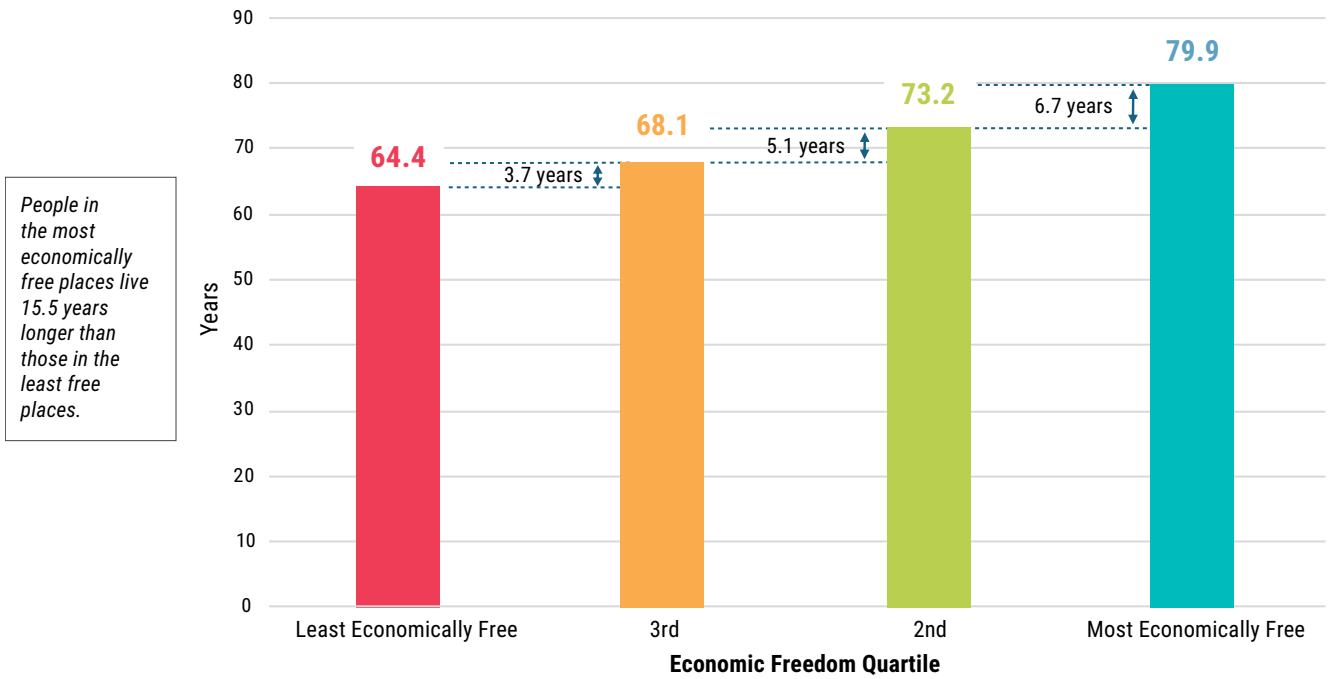
Sources: Gwartney, Lawson, and Murphy, 2023; World Bank, 2024.

With greater prosperity, people can afford healthier diets, more exercise, and better health care, all of which can lead to lower mortality and longer life. Figure 16 shows the relationship between economic freedom and life expectancy, while figure 17 shows the relationship between economic freedom and infant mortality. People in the most economically free nations live nearly 16 years longer than those in the least economically free nations. And almost nine times as many infants die in the least economically-free places as compared with the freest.

The relationships shown in figures 16 and 17 have been corroborated by more formal analyses that attempt to control for possibly-confounding factors (Esposito and Zaleski, 1999; Lawson, Murphy, and Williamson, 2016; Naanwaab, 2018; Kouton, Bétila, and Lawin, 2021; Sharma, 2020).

Economic freedom is also positively related to higher literacy rates among 15 to 24-year-olds. As shown in figure 18, in the most economically free quartile, the female literacy rate among this age group is 25 percentage points higher than in the least economically free quartile. Interestingly, the male-female literacy gap also disappears as economic freedom rises, so that in the top three quartiles of economic freedom, young women have slightly higher literacy rates than their male counterparts. More

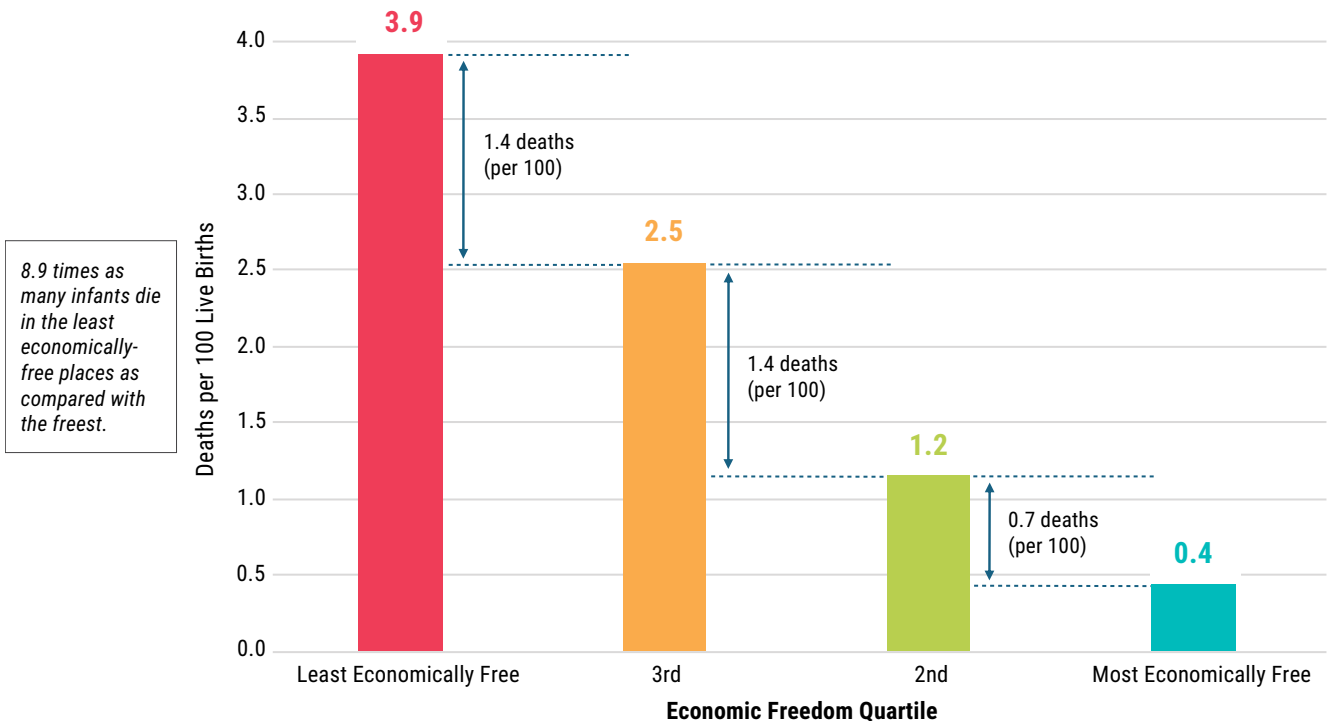
Figure 16: Economic Freedom and Life Expectancy at Birth



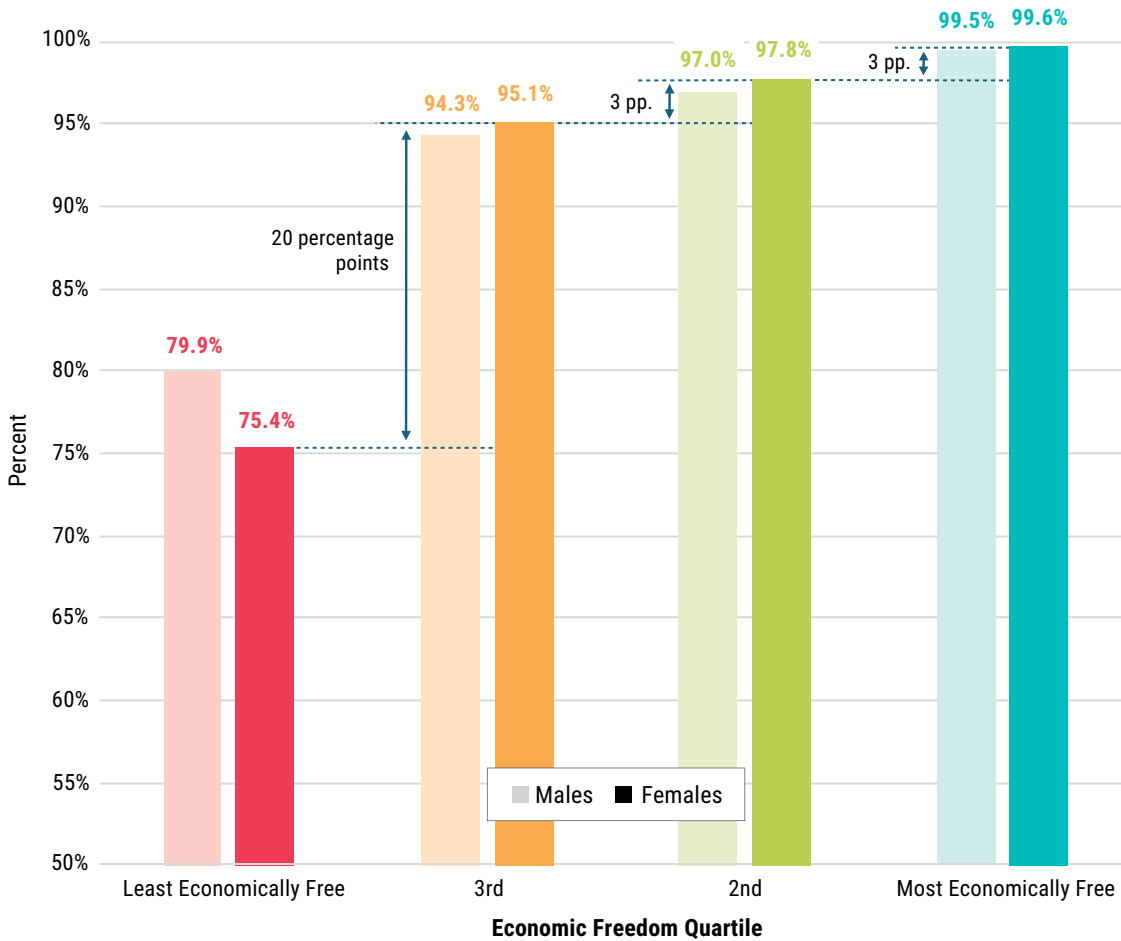
Note: Years are life expectancy at birth in 2021.

Sources: Gwartney, Lawson, and Murphy, 2023; UN WPP, 2022; HMD, 2023; Zijdeman et al., 2015; Riley, 2005, processed by Our World in Data, 2024.

Figure 17: Economic Freedom and Infant Mortality



Sources: Gwartney, Lawson, and Murphy, 2023; World Bank, 2024.

Figure 18: Economic Freedom and Youth Literacy Rates

Note: Literacy rate is among 15- to 24-year-olds in the latest available year in each country.

Sources: Gwartney, Lawson, and Murphy, 2023; World Bank, processed by Our World in Data, 2023.

broadly, the relationship between economic freedom and education has been well-established (Nikolaev, 2014; Feldmann, 2017; Fike, 2024a).

More money, longer life, and greater literacy all sound good. But does economic freedom make life more satisfying? According to surveys, yes. As shown in figure 19, those who live in more economically free societies tend to report greater satisfaction with their lives. This survey asks respondents to imagine themselves on a ladder with steps numbered from zero to 10. The top of the ladder represents the best possible life and the bottom the worst. Respondents are then asked to say which step they consider themselves to be on. In the least economically free quartile, the average answer is 5.0. But in the freest quartile, the average answer is 6.8 (40 percent higher).

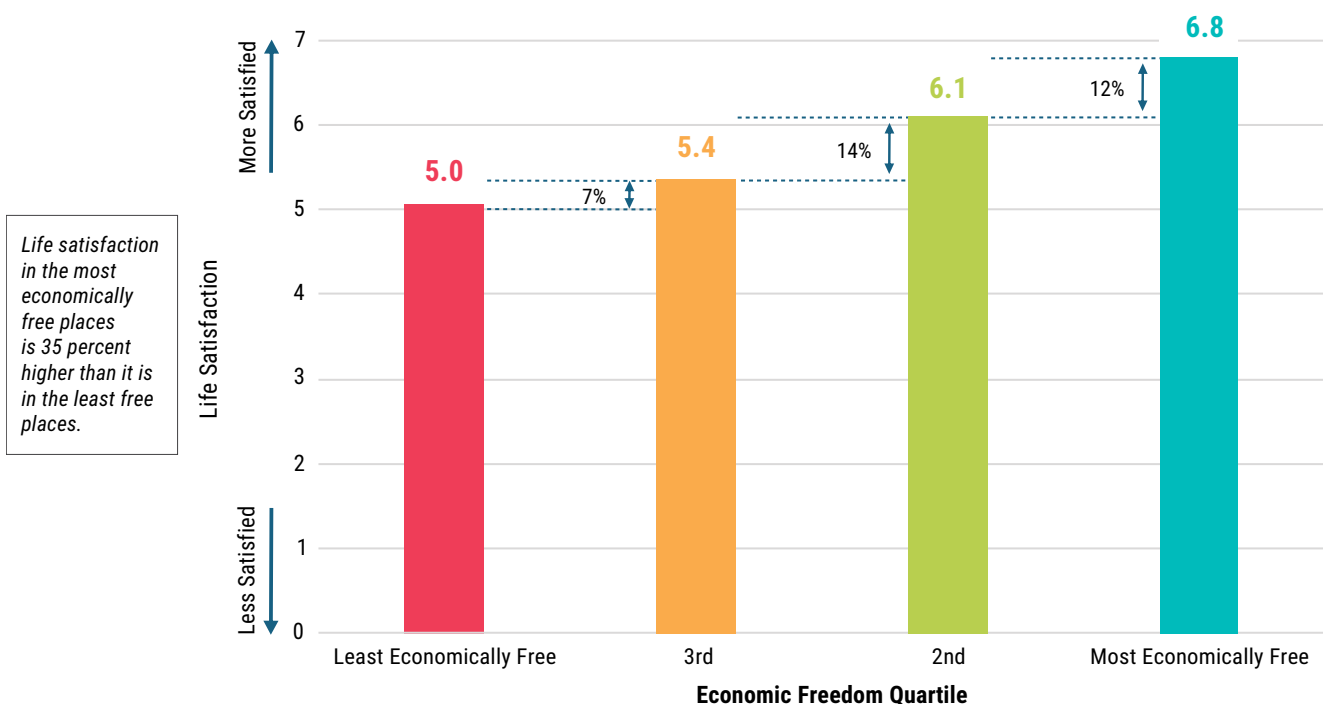
The relationship between economic freedom and happiness has been widely studied. One recent review of the literature finds “almost unambiguous support for

a positive relationship between economic freedom and happiness” (Graafland, 2024: 226). Most of these studies do not attempt to infer causality, but those that do “support a positive causal effect from economic freedom on happiness” (Graafland, 2024: 226).²¹ Interestingly, economic freedom is not just associated with greater happiness, but with greater *equality* of happiness (Bennett and Nikolaev, 2017).

The area of economic freedom with the strongest association with happiness is the legal system and property rights (Area 2), followed closely by sound money (Area 3) and freedom to trade internationally (Area 4) (Graafland, 2024: 227). The legal system seems to be more important for happiness in wealthy countries while free trade seems to be more important for happiness in low-income countries (Graafland, 2024: 231). The effects of economic freedom on happiness are stronger in nations with large Christian populations and in places where people seem to have a longer-term orientation (Graafland, 2024: 231).²²

One might suppose that economic freedom increases life satisfaction by raising income, which, in turn, raises happiness. But that may not be the case. Recent research suggests that economic freedom increases peoples’ sense of autonomy and control over their own lives and it is this greater autonomy which raises life satisfaction

Figure 19: Economic Freedom and Self-Reported Life Satisfaction



Sources: Gwartney, Lawson, and Murphy, 2023; World Happiness Report, 2023.

(Steckermeier, 2021; Graafland, 2023). This may explain the result mentioned above that economic freedom is associated with greater equality of happiness. If countries with greater economic freedom permit all their citizens to enjoy that economic freedom, then we would expect all of them to share in the greater sense of autonomy, even if only some of them become wealthy as a result.

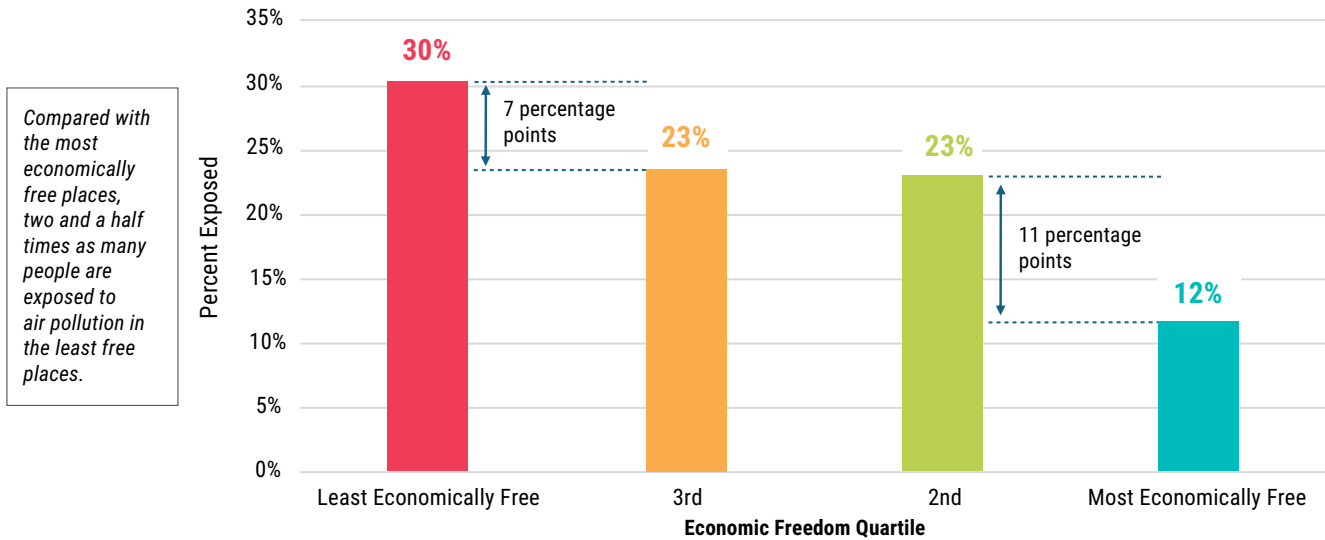
E. The Environment

If humans gain from economic freedom, does the environment lose? Karl Marx certainly believed so, writing that capitalist progress was “progress in the art, not only of robbing the worker, but of robbing the soil” (Marx, 1867: 637). Many thinkers far less radical than Marx shared his belief that too much economic freedom comes at a cost to the environment:

- **Too much economic freedom leads to inefficient externalities.** If not corrected by taxes, subsidies, or regulations, the free market will permit inefficient negative externalities such as pollution and inefficient positive externalities such as under-vaccination against communicable diseases (Pigou, 1920).
- **Too much economic freedom leads to over-exploitation of natural resources.** Populations grow faster than the resources on which they depend, eventually leading to environmental and population collapse. Government regulations may be able to help avoid this problem (Malthus, 1798; Carson, 1964; Ehrlich, 1968).

There are some reasons, however, to believe that economic freedom can make us better stewards of the environment:

- **Greater economic freedom and protection of property encourage responsible environmental stewardship.** In a market economy firms with wasteful and inefficient processes pay the price for their carelessness, while those that manage to produce more with less can profit from doing so. When determined by the market, the prices of raw materials reflect relative scarcities, encouraging producers to economize on rare or valuable inputs and to find less resource-intensive ways to satisfy consumer desires. And when people and their property are protected through tort and property law, producers pay for environmental damage, again, encouraging them to find the least costly means of meeting consumer demands (Simon, 1981; Anderson and Leal, 2001; Lomborg, 2001).

Figure 20: Economic Freedom and Exposure to Air Pollution

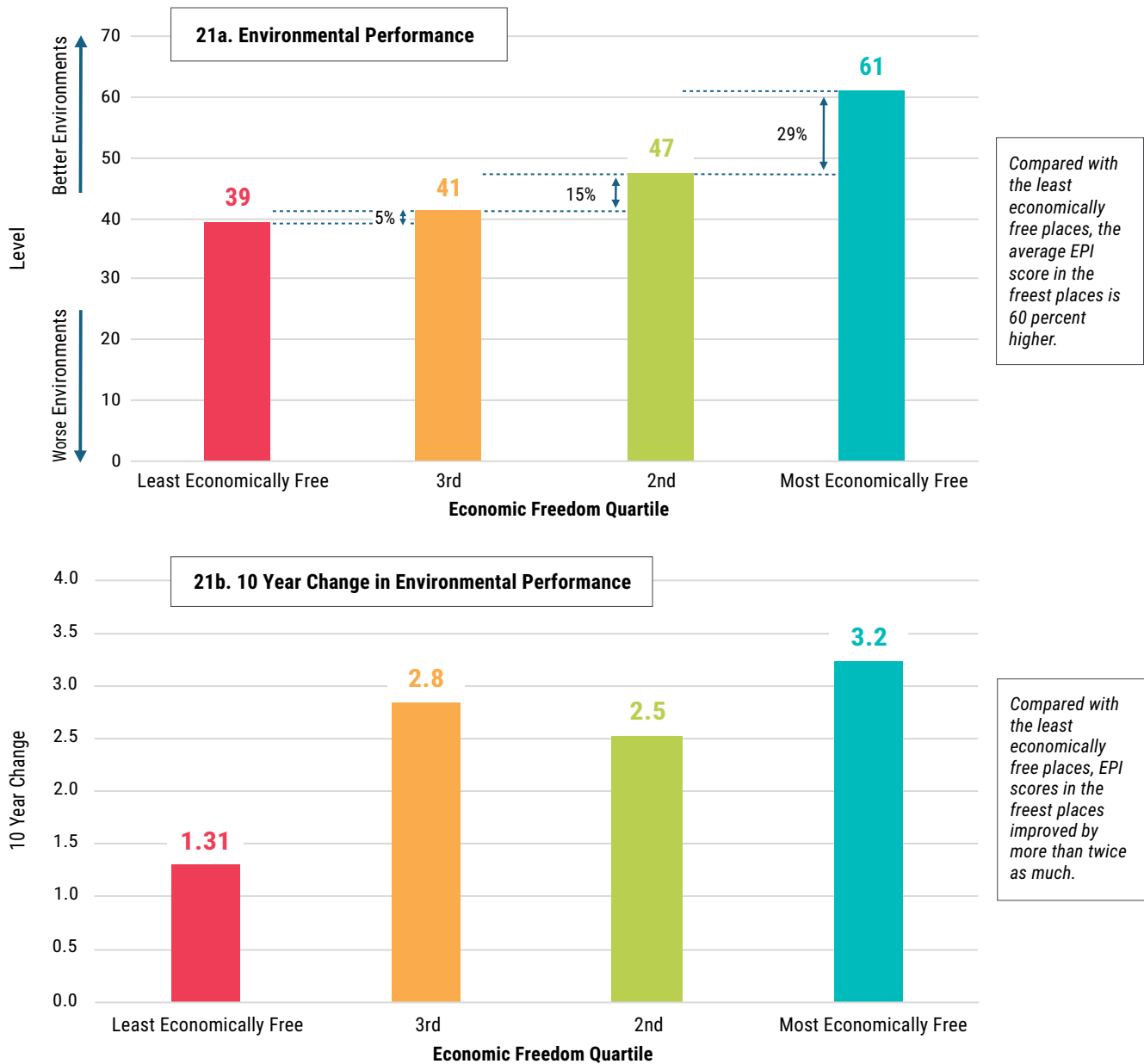
Note: Percent exposed is the percent of the population exposed to dangerous levels of particulate air pollution.
Sources: Gwartney, Lawson, and Murphy, 2023; Brauer et al., 2017, via World Bank, processed by Our World in Data, 2024.

One way to assess this question is to look at exposure to air pollution. Figure 20 shows the relationship between economic freedom and the share of the population exposed to dangerous levels of air pollution.²³ Compared with the most economically free places, two and a half times as many people are exposed to air pollution in the least free places.

But the environmental benefits of economic freedom go well beyond air pollution. Researchers at the Yale Center for Environmental Law and Policy have developed a broad measure of environmental stewardship which they call the Environmental Performance Index (EPI). It combines 58 indicators of environmental performance across 11 categories to create a summary score for 180 countries. Broadly, it accounts for climate change performance, environmental health, and ecosystem vitality. Figure 21 shows the relationship between economic freedom and the EPI. Panel A shows that the average EPI score in the most economically free quartile is 60 percent better than that of the least-free quartile. Panel B shows that economically free nations have also seen the largest improvements in the EPI over the last 10 years.

Still, if those countries with the most economic freedom are the most productive, that likely means that they forge the most steel, pour the most concrete, and burn the most coal, and each of these activities releases carbon into the air. It is no surprise,

Figure 21: Environmental Performance Index



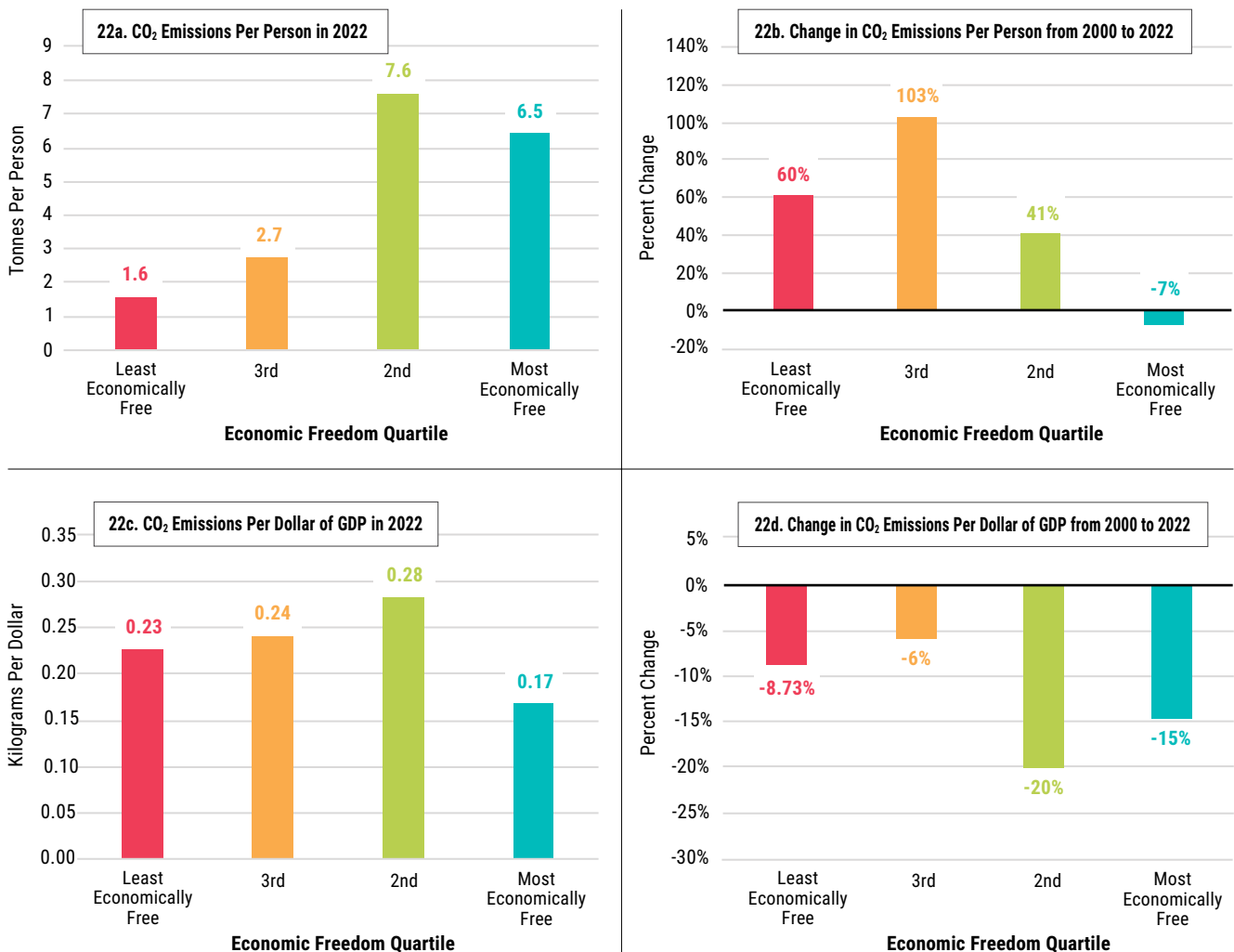
Note: The EPI measures environmental performance across 11 categories covering climate change, environmental health, and ecosystem vitality. Levels are for 2024 and change is from 2014 to 2024.

Sources: Gwartney, Lawson, and Murphy, 2023; Block et al., 2024.

then, that economic freedom *does* correlate with annual CO₂ emissions per person as is shown in Panel A of figure 22. But even in this case, the story is not as bad as it first looks. Note that in the freest quartile, annual CO₂ emissions per person are lower than in the 2nd quartile. This was not always the case. In the year 2000, CO₂ emissions were highest in the most-free quartile. To get a better sense of what is happening, look at Panel B which shows the *change* in annual CO₂ emissions per person from 2000 to

2022. Here we see that annual CO₂ emissions per person rose the most (103 percent) in the 3rd quartile, followed by the 4th and then the 2nd quartiles. In the most economically free quartile, however, annual CO₂ emissions per person fell seven percent over this period. This is consistent with the broad phenomenon of declining annual emissions in the world’s wealthiest (and freest) countries. We see a similar pattern in panels C and D. Rather than plot CO₂ emissions per person, these panels show CO₂ emissions *per dollar of GDP*. Not only do the world’s freest places manage to emit the least amount of carbon per dollar of GDP, they have also seen large declines in CO₂ per dollar of GDP over the last two decades. Together, these data suggest that economic freedom may be a key to getting a handle on carbon emissions.

Figure 22: Economic Freedom and Carbon Emissions



Sources: Gwartney, Lawson, and Murphy, 2023; Global Carbon Budget; Population Based on Various Sources, with major processing by Our World in Data, 2023.

The patterns I have shown in this section are corroborated by more sophisticated empirical tests that control for other possibly confounding factors. Lawson identifies 24 papers assessing the effect of economic freedom on the environment. These include “CO2 emissions and other measures of pollution as well as environmental outcomes like biodiversity” (Lawson, 2022: 9). Ten of these papers (about 42 percent) associate economic freedom with good environmental outcomes. An equal percentage associate economic freedom with mixed, null, or uncertain outcomes. Just four tests associate economic freedom with bad environmental outcomes (Lawson, 2022: 10). Overall, the balance of evidence suggests that economic freedom is good for the environment and in the one area where it is not good (carbon emissions), it is moving in the right direction.

F. Violence and Conflict

Does economic freedom beget violence and conflict? Many think so:

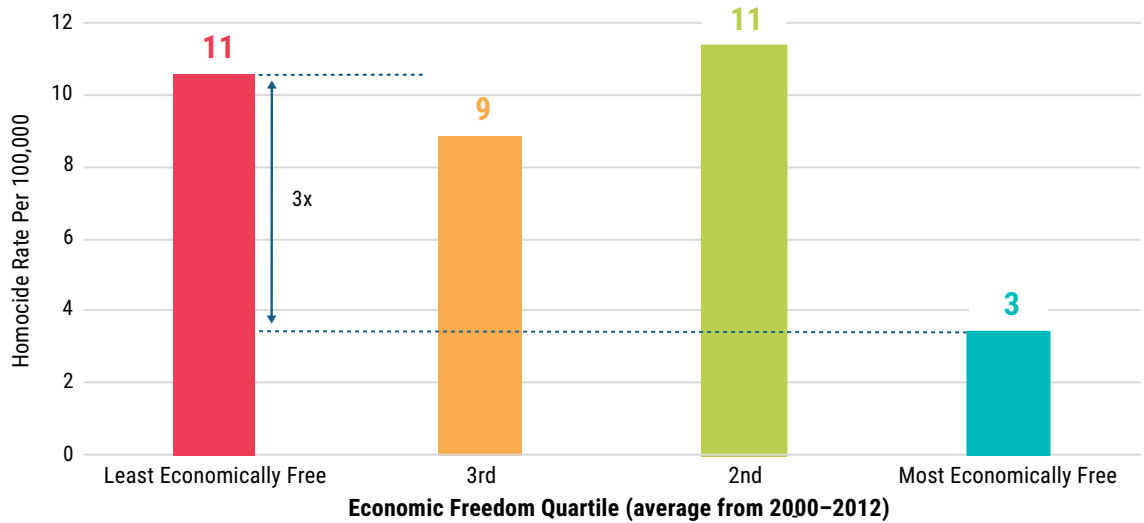
- **Too much freedom (economic and otherwise) leads to a war of all against all.** Only a strong state that sacrifices some individual freedom can save humans from our own violent nature (Hobbes, 1651).
- **Economic freedom normalizes cut-throat competition.** By elevating individualistic values above community, economic freedom encourages violence (Klein, 2010; Rodrik, 2011).
- **Capitalism begets imperialism.** Capitalist societies are prone to go to war with one another because capitalism leads to uneven economic development and encourages imperialism (Lenin, 1917).²⁴
- **Unfettered economic freedom threatens national security.** Too much economic freedom—especially too much trade freedom—hollows out strategically important sectors threatening national defense (Hamilton, 1791; Cass, 2018).

On the other hand, some believe economic freedom tends to pacify us:

- **Greater economic freedom makes it easier for us to get along with one another.** During the Enlightenment, several thinkers stressed what they called the “doux commerce” or “gentle commerce” hypothesis. The idea is that commercial life encourages beneficial norms. In our work, it makes us more frugal, industrious, and careful. And in our dealings with others, it makes us more tolerant and respectful of other races, cultures, religions, and ethnicities (Voltaire, 1733; Montesquieu, 1748; Hume, 1752; Smith, 1776; Paine, 1791; Mill, 1848).

Figure 23 shows the relationship between economic freedom and the homicide rate per 100,000 people²⁵ While there is no clear pattern among the bottom three quartiles, homicides appear to be less common in the freest societies. Though there is room for further study, the general relationship holds when researchers control for possibly-confounding factors (Stringham and Levendis, 2010; de Soysa, 2021).

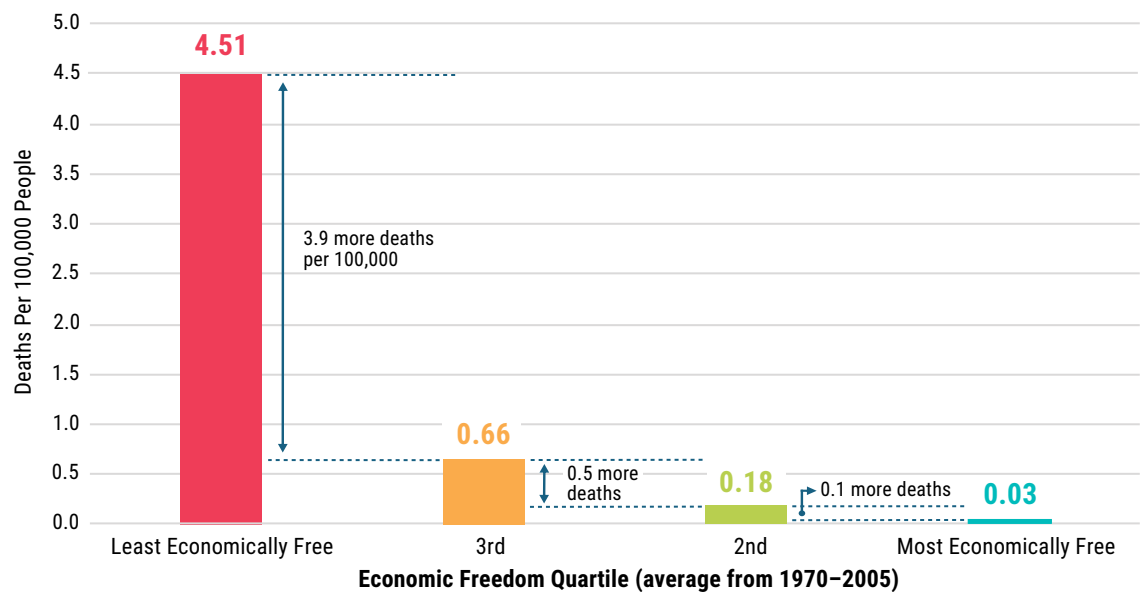
Figure 23: Economic Freedom and Homocides



Note: Economic freedom is averaged over 2000 to 2012. Homicide rate is the latest available year in each country.
Sources: Gwartney, Lawson, and Murphy, 2023; *Know Violence in Childhood Report*, 2017.

Figure 24: Economic Freedom and Death from Conflict

Compared with the most economically free societies, deaths from conflicts in the least free societies are 143 times more common.



Note: Conflict deaths are averaged from 2000 to 2022.
Sources: Gwartney, Lawson, and Murphy, 2023; Uppsala Conflict Data Program, Natural Earth, processed by Our World in Data, 2023.

What about state-sponsored violence? Figure 24 shows the relationship between economic freedom and the death rate from conflict. In the least economically free societies, deaths from conflict are 143 times as common as in the most economically free societies. But it is not just deaths from conflict that are less common in economically free societies. Tim Krieger and Daniel Meierrieks recently reviewed the literature and report that the evidence is nearly unanimous that in economically free societies, governments are less likely to go to war with other governments, civil wars are less frequent, and deaths from terrorism are less common (Krieger and Meierrieks, 2024: 362–64).

G. Culture

Does economic freedom and the commercial habits it creates undermine the cultural values that hold our societies together? If we expect our meal from the baker not because he loves us but because he loves himself, should we trust him less? (Smith, 1776: Book 1, Chapter 2). Does economic freedom cause us to look on one another as mere instruments for the satisfaction of our own wants, making us less tolerant of others or less willing to help them? The skeptics of economic freedom have long feared its threat to our culture and habits:

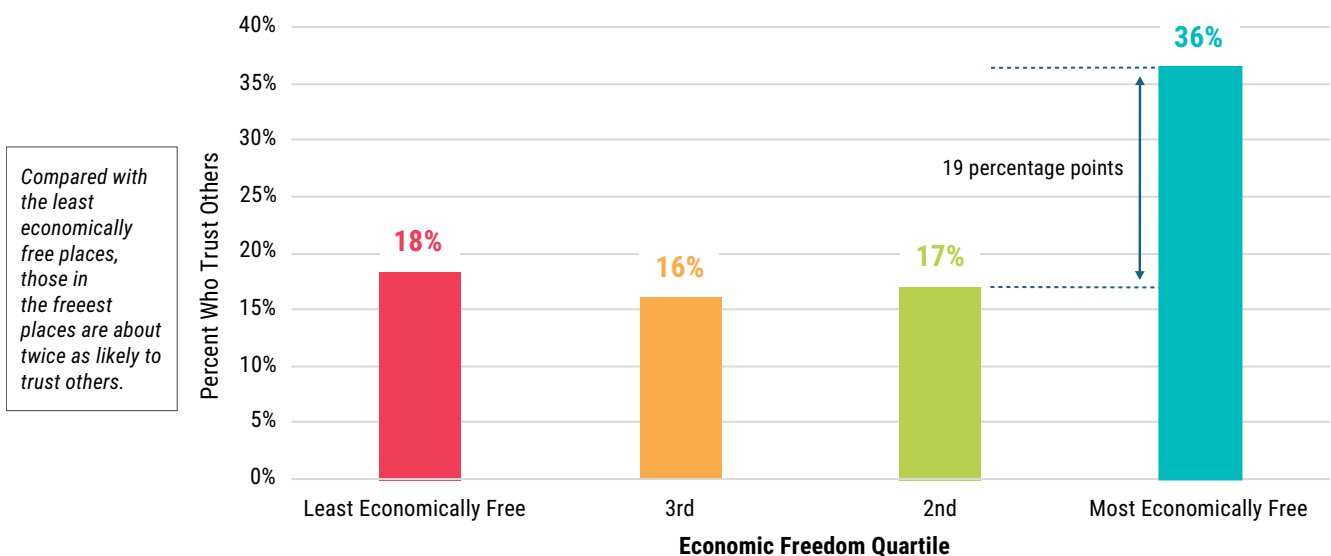
- **Too much economic freedom leads to unhealthy spending habits.** Economic freedom and the commercial society it creates foster conspicuous consumption and conspicuous leisure, neither of which contribute to society and may lead to unhealthy attempts to “keep up with the Joneses” (Veblen, 1899).
- **Too much economic freedom encourages us to commodify important ideas and relationships.** When everything is for sale, market values crowd out non-market norms, endangering moral and civic goods (Sandel, 2012).
- **Too much economic freedom impoverishes the spirit.** Even if it leads to material prosperity, unfettered economic freedom can lead to spiritual impoverishment, sowing the seeds of immorality (Marcuse, 1964).
- **Too much economic freedom threatens other important social structures.** Freedom, including economic freedom, can lead to the breakdown of traditional structures such as family, religion, and community (Deneen, 2018).
- **Too much freedom can lead to outcomes no one wants.** The spontaneous order of the marketplace can lead to perverse outcomes that no one wants, as when a mild preference to live amongst some members of one’s own group leads to extreme segregation that no one favors (Schelling, 1969).

But there may be reasons to believe that economic freedom improves our culture and our habits:

- **Economic freedom permits social experimentation.** Freedom permits economic, social, spiritual, and cultural experimentation, leading to new and better ways to solve problems and live peacefully with one another (Nozick, 1974).
- **Economic freedom permits philanthropic entrepreneurship.** With more economic freedom, people find it easier to start, build, and raise capital to support philanthropic endeavors such as charities and mutual aid societies (Tocqueville, 1835; Cornuelle, 1965; Ostrom, 1990; Beito, 2000).

Figure 25 shows the relationship between economic freedom and what is known as “generalized trust.” When assessing generalized trust, researchers ask respondents the following question: “Generally speaking, would you say that most people can be trusted or that you need to be very careful in dealing with people?” Possible answers include “Most people can be trusted,” “Do not know,” and “Need to be very careful.” In the most economically free quartile, 36 percent of respondents answer that “most people can be trusted.” While this is not especially high, it is twice as high as those who respond this way in the least free quartile. In a more formal analysis, Berggren and Jordahl (2006) find that overall economic freedom—and especially the area of

Figure 25: Economic Freedom and Generalized Trust

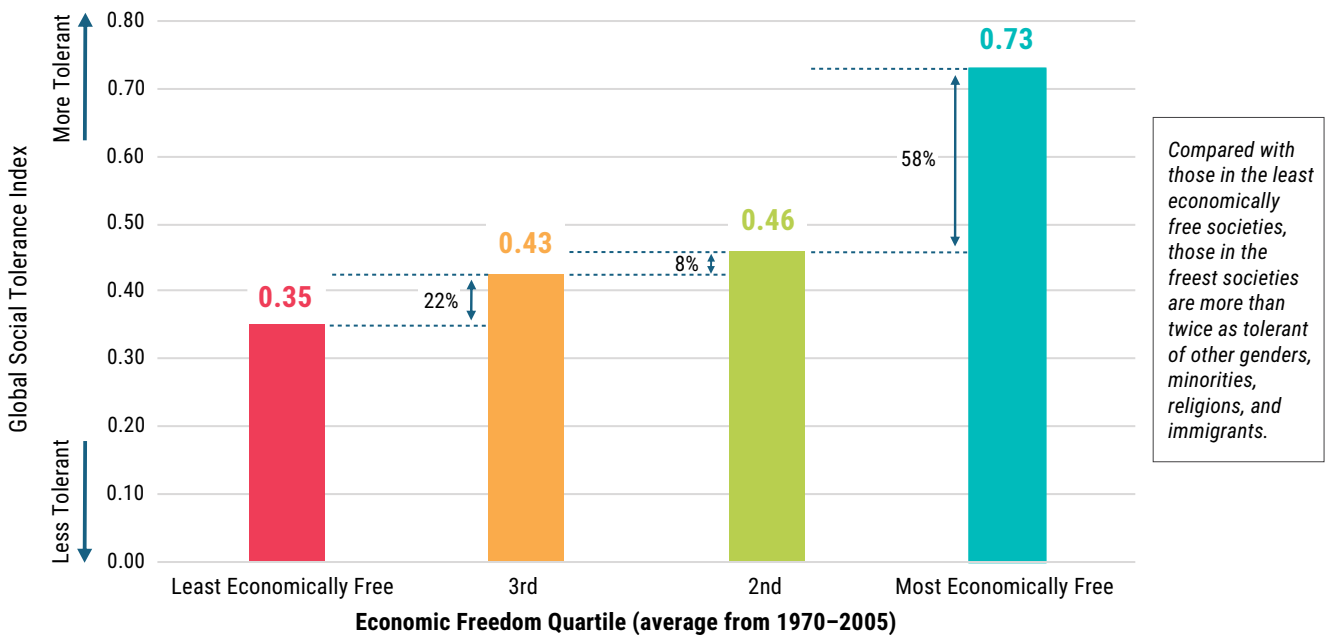


Note: Trust is the percent of people who agree that “most people can be trusted” in the latest available year in each country. Sources: Gwartney, Lawson, and Murphy, 2023; Integrated Values Surveys, with major processing by Our World in Data, 2022.

economic freedom focusing on the legal system and property rights—correlates positively with generalized trust. Others report that generalized trust is higher when the government’s executive is constrained and when the judiciary is independent, so this may be a case in which many institutional factors go hand-in-hand to reinforce a culture of trust (Knack and Keefer, 1995; Zak and Knack, 2001; de Jong, 2024).

What about tolerance? Social scientists have studied various forms of tolerance and its opposite, intolerance. Researchers Stelios Zanakis, William Newburry, and Vasy Taras (Zanakis, Newburry, and Taras, 2016) have combined several of these measures, covering tolerance of gender, minorities, religions, and immigrants to create what they call the “Global Social Tolerance Index” (GSTI), which ranges from zero (intolerant) to one (highly tolerant). Figure 26 shows the relationship between economic freedom and the GSTI. By this measure, those who live in the most economically free societies are more than twice as tolerant as those in the least free societies. The link between economic freedom and tolerance has been relatively well-studied (see, for example, Berggren and Nilsson (2013) on economic freedom and tolerance of homosexuality and Rosemarie Fike (2024b, 2024a) on economic freedom and sexist attitudes). Eelke

Figure 26: Economic Freedom and Social Tolerance



Note: Tolerance is measured by the Global Social Tolerance Index (GSTI) which includes tolerance of gender, minorities, religions, and immigrants. The GSTI ranges from 0 (intollerant) to 1 (highly tolerant) and is measured in the year 2005 so economic freedom is averaged over 1970 to 2005.

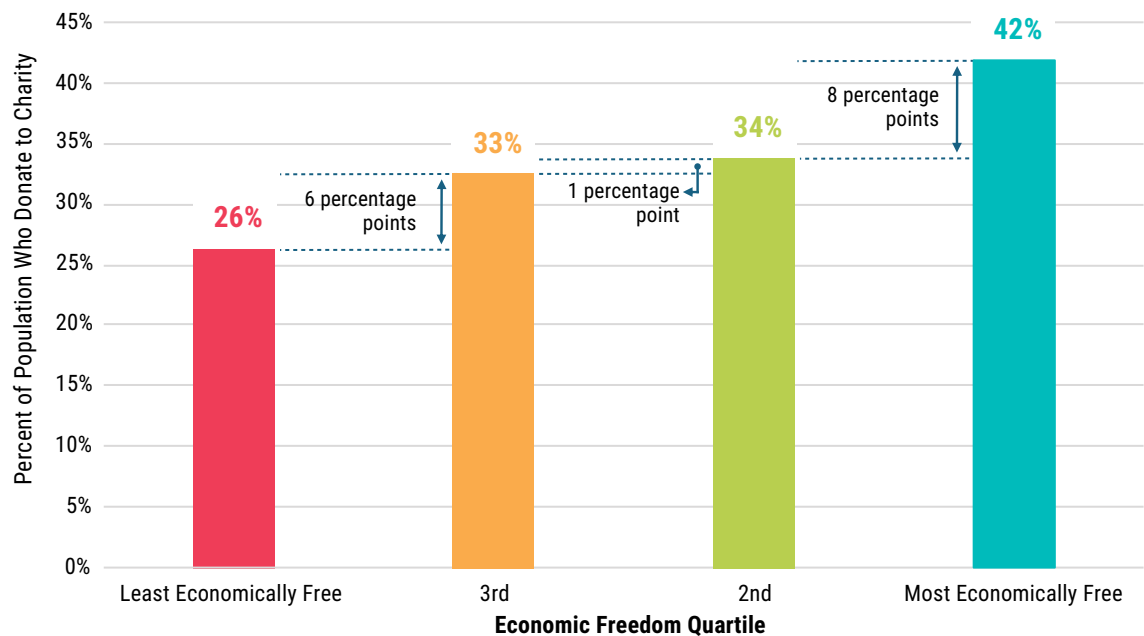
Sources: Gwartney, Lawson, and Murphy, 2023; Zanakis, Newburry, and Taras, 2016.

de Jong recently reviewed this literature and reports that “Economic freedom appears to increase tolerance towards homosexuals, people of a different race, atheists and communists” (de Jong, 2024: 267). The legal system and property rights area (Area 2) of the EFW appears to be an especially important driver of tolerance. Unfortunately, one exception to this rule may be the component of economic freedom that measures freedom to trade internationally, which seems to be negatively related to acceptance of Jews (de Jong, 2024: 268).

People in economically free societies are not only more trusting and tolerant, but they are also more generous. The Charities Aid Foundation tracks global giving patterns through semi-regular surveys. Figure 27 shows the relationship between economic freedom and charitable giving. Compared with those in the least economically free societies, those in the freest places are about 60 percent more likely to donate to charity. The link between economic freedom and charitable giving has been studied formally, and the pattern holds even after controlling for GDP per capita, inequality, and other institutional and cultural differences between countries (Cai et al., 2022).

Interestingly, those who live in more economically free societies seem to be less materialistic (perhaps when goods are abundant and cheap, people are less inclined

Figure 27: Economic Freedom and Charitable Giving



Sources: Gwartney, Lawson, and Murphy, 2023; Charities Aid Foundation, 2022.

to obsess over them) (Teague, Storr, and Fike, 2020). And in valuing material goods less, people in more economically free societies seem to value other humans more. In *Do Markets Corrupt Our Morals*, Virgil Henry Storr and Ginny Seung Choi (2019) corroborate the cultural patterns reported in this section. They also find that those who live in more economically free societies tend to be more engaged with their communities, less prejudiced, and less likely to see unethical actions as justified.

H. Democracy, Corruption, and Personal Freedom

What about the question that inspired Michael Walker to propose the economic freedom index in the first place? Does economic freedom undermine or complement democracy? How about other indicators of good government such as corruption or personal freedom? Even as he laid the foundations of authoritarianism in Russia, Lenin asserted that in capitalist societies “democracy [is] for an insignificant minority, democracy for the rich” (Lenin, 1917). Plenty of modern thinkers have also worried that free market capitalism poses a threat to democracy and personal freedom:

- **Too much economic freedom leads to wealth inequality and wealth inequality leads to political inequality.** Successful capitalists are able to exploit their power to capture the political system and maintain their wealth (Zingales, 2012).
- **Too much economic freedom threatens other personal freedoms.** While capitalist societies protect freedom in the boardroom, they threaten other freedoms, such as those in the bedroom (Ghodsee, 2018).

The advocates of economic freedom, on the other hand, believe it complements rather than undermines democracy and personal freedom:

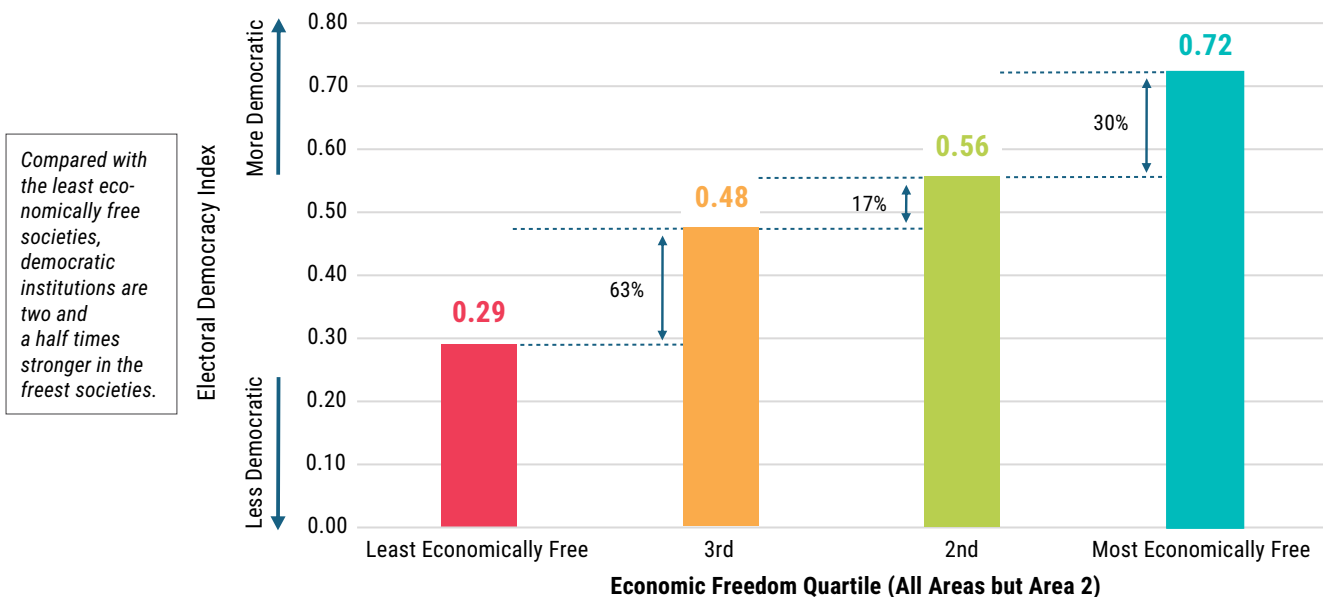
- **Political freedom depends on economic freedom.** Economic freedom facilitates political organization, communication, and protest, breaking down political monopolies, leading to greater political and civil freedom (Hayek, 1944; Friedman, 1962).²⁶
- **Economic freedom permits a marketplace of ideas.** With greater economic freedom, people are able to start businesses like newspapers, radio, television, podcasts, and blogs, that facilitate the exchange of ideas, weeding out the bad and encouraging the good (Mill, 1848; Thoreau, 1849).

When Walker first proposed the idea of measuring economic freedom, measures of democracy were also in their infancy. Today there are several widely-used measures of democracy and democratic rights, but perhaps the most sophisticated is the electoral democracy index published by V-Dem (Rankin, 2016; V-Dem, processed by Our World in Data, 2024). It ranges from zero to one and aims to capture the extent to which political leaders are elected under comprehensive voting rights, whether there are free and fair elections, and whether freedom of association and expression are protected.

Figure 28 shows the relationship between economic freedom and the Electoral Democracy Index. Those who live in the most economically free societies also tend to live in the most democratic societies.²⁷ By the V-Dem measure, democratic institutions are about two-and-a-half times as strong in the most economically free places as compared with the least free.

In a recent review of the literature Christian Bjørnskov (2024) identifies 10 papers that test the link between economic freedom and democracy and control for other factors that might influence democratic institutions. While all of them associate economic freedom with more democratic institutions, there is no clear consensus

Figure 28: Economic Freedom and Democracy



Note: The Electoral Democracy Index ranges from 0 (closed autocracy) to 1 (liberal democracy) and captures the extent to which political leaders are elected under comprehensive voting rights, whether there are free and fair elections, and whether freedom of association and expression are protected. The Index data are for the year 2023.

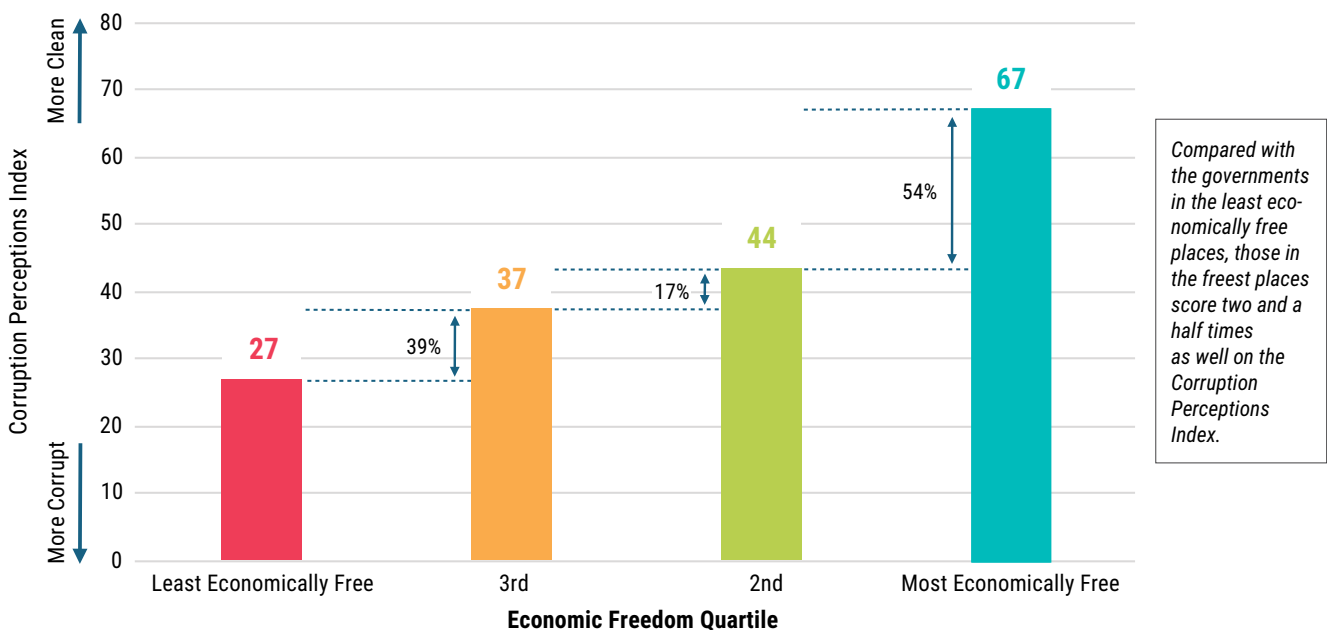
Sources: Gwartney, Lawson, and Murphy, 2023; V-Dem, processed by Our World In Data, 2024.

on the direction of causality. Boudreaux and Holcombe (2017), for example, find that economic freedom leads to democratic stability, while de Haan and Sturm (2003) and Rode and Gwartney (2012) find that democracy facilitates economic freedom. And of course, causality could run in both directions.

Democratic governance does not guarantee clean governance. Transparency International defines corruption as the abuse of power for private gain. To see how economic freedom relates to corruption, consider figure 29. It plots economic freedom against Transparency International’s Corruption Perception Index. The index is constructed using expert assessments and opinion survey and is scaled from zero (“highly corrupt”) to 100 (“very clean”). Compared with governments in the least economically free places, governments in the freest places score about two-and-a-half times better on the index. Peter Graeff (2024) reviews this literature, finding that most studies associate the broad measure of economic freedom with less corruption. Some components of economic freedom like financial freedom, however, may facilitate corruption while others like protection of private property rights tend to suppress corruption.

The last comparison brings us back to the beginning. Recall figure 1 and the discussion surrounding it. There, I argued that economic freedom is a slice of overall

Figure 29: Economic Freedom and a Lack of Corruption



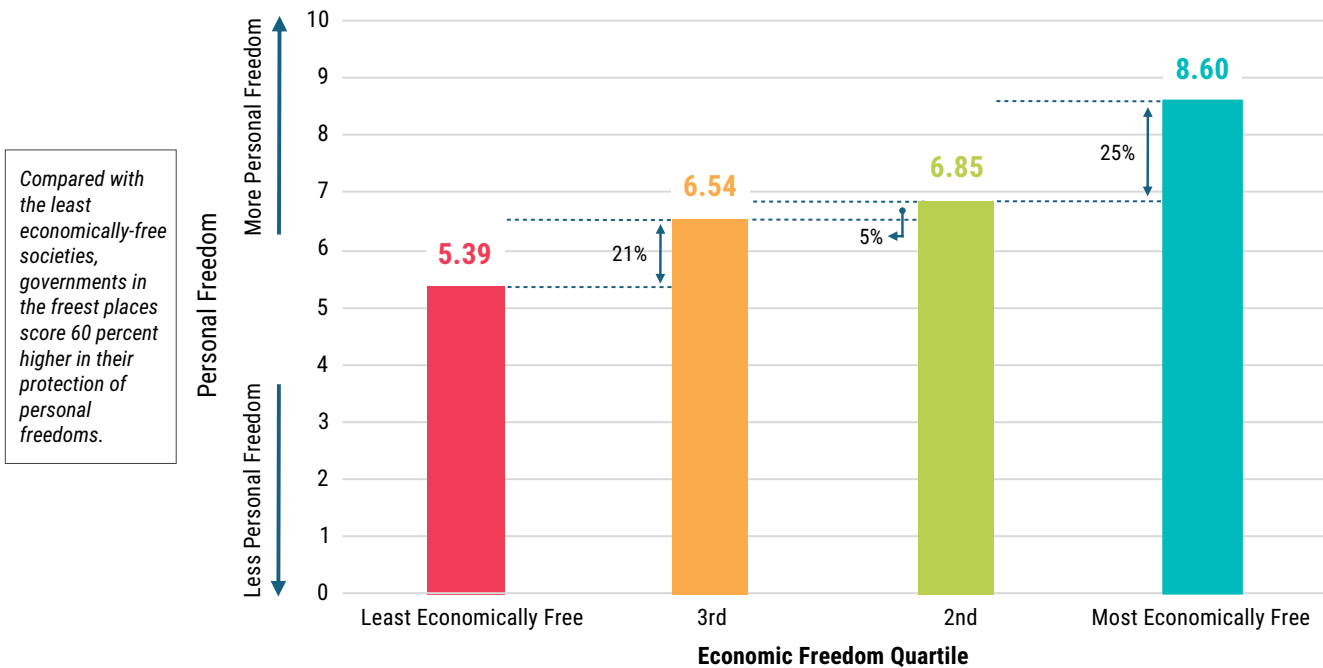
Note: The Corruption Perceptions Index ranges from 0 (highly corrupt) to 100 (very clean) and is measured in the year 2015.

Sources: Gwartney, Lawson, and Murphy, 2023; Corruption Perception Index, 2018.

human freedom. While economic freedom entails, for example, the freedom to exchange with others or to work however one chooses, human freedom includes these freedoms *and many more*. For example, it also includes the freedom to worship (or not) as one chooses, the freedom to form relationships, and the freedom to express oneself. We call these non-economic freedoms “personal freedom” and together personal freedom and economic freedom constitute human freedom. In 2015, researchers at the Fraser Institute and the Cato Institute began collecting data on these personal freedoms, combining them with the index published in *Economic Freedom of the World* to create what they call the Human Freedom Index (or HFI) (Vásquez, McMahon, Murphy, and Schneider, 2023). It includes all 45 indicators from the EFW, plus another 41 indicators that constitute personal freedom. Personal freedoms are grouped into the following seven categories: rule of law; security and safety; movement; religion; association, assembly, and civil society; expression and information; and relationships.

Figure 30 shows the relationship between economic freedom and the personal freedoms measured in the HFI. It suggests that those who live in economically free societies also enjoy more personal freedoms. This result has been corroborated

Figure 30: Economic Freedom and Personal Freedom



Note: Personal freedom is measured in the Human Freedom Index and ranges from 0 (no protection of personal freedoms) to 10 (protection of a wide range of personal freedoms). Data are for the year 2021.

Sources: Gwartney, Lawson, and Murphy, 2023; Vásquez et al., 2023.

in more formal analyses. Earlier, I mentioned Bjørnskov's (2024) survey of studies assessing the link between economic freedom and democracy. He also looked at the effect of economic freedom on non-political rights such as the right to bodily integrity, the right to religious freedom, the right to free association, women's rights, and the right of minorities to be free of discrimination. Among the 38 studies he surveys, 30 of them associate economic freedom with better protection of other human rights, while just two studies find negative results (and both have been challenged by subsequent work).

4. Conclusion

Some debates over the value of freedom and economic freedom can only be adjudicated through moral and logical reasoning. When the late Harvard philosopher Robert Nozick wrote that “Individuals have rights, and there are things no person or group may do to them (without violating their rights)” he was not making an empirical claim, but a moral one.²⁸ And there is no way to “test” this claim by analyzing data or running a controlled experiment. The same is true for many of the claims of his friend, colleague, and intellectual rival, John Rawls.²⁹

But as the lists above make clear, plenty of the arguments about the value (or danger) of freedom *are* empirical. They assert that freedom is either positively or negatively related to other things that humans care about. There are plenty of reasons to believe that economic freedom can improve the human condition by, for example, enabling material prosperity, reducing conflict, and fostering trust. But there is no shortage of respected thinkers who believe too much freedom threatens the human condition by, for example, undermining social cohesion, exacerbating inequalities, and permitting exploitation of workers and the environment. These theoretical arguments are valuable, but they only take us so far.³⁰

In this piece I have suggested three steps to take the argument further. Step One is to clearly and carefully define human and economic freedom. Step Two is to measure economic freedom. And Step three is to use this measure to test the various claims. Thousands of social scientists have taken these steps. Using different samples, controls, and estimation methods, their research overwhelmingly suggests that economic freedom is positively related to good things like higher incomes, longer life, and cleaner environments and negatively related to bad things like poverty, corruption, and intolerance.

5. Endnotes

- 1 While some philosophers have drawn a distinction between “liberty” and “freedom” the trend has not caught on and most just use the terms interchangeably.
- 2 This concept of freedom is sometimes referred to as “negative freedom” or “freedom from others” because it implies an absence of constraint. It can be found in the writings of John Locke, John Stuart Mill, Benjamin Constant, Alexis de Tocqueville, Milton Friedman, Robert Nozick, David Schmidtz, and Eric Mack.

This is not the only conception of freedom, however. Another is “positive freedom” or “freedom to” which is the idea that a person is only free if he or she has the power and resources to act as she chooses (Berlin, 1969). By the “freedom to” definition, a poor but otherwise unconstrained person is not fully free because she lacks the resources to do as she pleases. This notion of freedom—or something close to it—can be found in the writings of John Rawls, Elizabeth Anderson, Ronald Dworkin, and Mark Paul.

These two conceptions of freedom are often said to conflict. But philosophers David Schmidtz and Jason Brennan argue that this need not be so. Positive and negative freedom only conflict if government *actively promotes* positive freedom. For example, if government takes money from you and gives it to me to help me achieve my goals, it restricts your negative freedom. But, say Schmidtz and Brennan, “It may turn out that the most effective way to promote positive liberty is to protect negative liberty.” But to see if this is true, “We need to investigate what happens to people when negative liberties are reasonably secure, and what happens when they are not. That is, if you want to know how valuable negative liberty is, you need to get off the armchair and go check” (Schmidtz and Brennan, 2010). Many have used the EFW to perform just this sort of check. And as we will see, Schmidtz and Brennan are correct to think that negative freedom promotes positive freedom.

- 3 As John Locke put it in his *Second Treatise on Government*: “Every man has a *Property* in his own *Person*. This no Body has any Right to but himself.” (Locke, 1689, punctuation and emphasis, original).
- 4 Herbert Spencer called this the “Law of Equal Freedom” and put it this way: “Every man is free to do that which he wills, provided he infringes not the equal freedom of any other man” (Spencer, 1887, II, §272).
- 5 During the debates over the US Constitution, many complained that the charter lacked a bill of rights. But others worried that it would be impossible to list all the rights of men and women. In the North Carolina ratifying convention, for example, future Supreme Court Justice James Iredell declared: “[I]t would be impossible to enumerate every [right]. Let anyone make what collection or enumeration of rights he pleases, I will immediately mention twenty or thirty more rights not contained in it” (Cogan et al., 2015: 635). He and others worried that an incomplete list of rights would imply that anything that was left out was not a right at all. James Madison ultimately suggested the Ninth Amendment as an answer to this concern. It asserts that the Constitution’s enumeration of certain rights, “shall not be construed to deny or disparage others retained by the people.”
- 6 Though it is often attributed to Benjamin Franklin, there is no evidence that he said this.
- 7 Other notable participants included Armen Alchian, Peter Bauer, Walter Block, John Chant, Ed Crane, Ramon Diaz, Arthur Denzau, Thomas DiLorenzo, David Friedman, John Goodman, Herbert Grubel, James Gwartney, Arnold Harberger, William Hammett, Edward Hudgins, Ronald Jones, Henri Lepage, Assar Lindbeck, Tibor Machan, Henry Manne, Richard McKenzie,

Charles Murray, William Niskanen, Michael Parkin, Svetozar Pejovich, Robert (Bob) Poole, Alvin Rabushka, Richard Rahn, Alan Stockman, Sally Pipes, Alan Reynolds, Gerald Scully, Richard Stroup, and Gordon Tullock.

- 8 There is not enough data to score North Korea and Cuba.
- 9 Following these same principles, Fraser also publishes a companion index called the Economic Freedom of North America (EFNA), which measures economic freedom in each of the Canadian provinces, US states, and Mexican states, plus the US territory of Puerto Rico (Stansel, Torra, McMahon, and Carrión-Tavárez, 2023).
- 10 In a regression, an explanatory variable is said to be endogenous if it is correlated with the error term. This presents a problem because it means the explanatory variable is not randomly determined. It might be influenced by the outcome variable or by a third variable that influences both.
- 11 In the economic freedom literature, the two most common techniques to mitigate endogeneity are to employ a two-stage-least squares regression with an instrument for EFW, or to use lagged variables. In those studies that employ these techniques, the correlation between economic freedom and wellbeing tends to be stronger (Lawson, Miozzi, and Tuszynski, 2024: 6, 16).
- 12 In welfare economics, an improvement is typically judged via Kaldor-Hicks efficiency, or some variation of it. In this framework, a situation is said to be inefficient if a change would allow some members of society to gain so much that they could theoretically compensate anyone who might lose from the change. Importantly, the winners do not necessarily have to compensate the losers.
- 13 In fact, those who call for restrictions on economic freedom often claim that these measures will ward off more radical restrictions.
- 14 With moral hazard, people have an incentive to take undue risk because they are shielded from the consequences of their actions, for example, by insurance. With adverse selection, only people or products with certain characteristics will participate in markets. For example, only those who are selling ‘lemons’ in a used car market will participate, causing the market to collapse.
- 15 Smith was not the first to make this case. Important predecessors include the 13th Century Italian priest Thomas Aquinas, the 15th and 16th Century Late Scholastics at the University of Salamanca in Spain, the 18th Century Dutch political economist Bernard Mandeville, and Smith’s Scottish Enlightenment cotemporaries, including David Hume and Adam Ferguson.
- 16 Note that we can acknowledge this general tendency even if we admit that the extreme version of it—so-called “perfect competition” in which all firms produce identical products and all set price equal to marginal cost—is not realistic in most cases.
- 17 Unless otherwise noted, in this and in all future examples, I use the average EFW for each country over the years 2000 to 2021. This reflects the fact that, in most cases, it probably takes some time for economic freedom to have an effect on the outcome of interest.
- 18 All currency figures are denominated in US dollars and are adjusted to account for differences in prices across countries.
- 19 The small number of negative results are statistically consistent with chance.
- 20 The Gini coefficient can be calculated with references to any metric of wellbeing: income, consumption, wealth, happiness, etc.
- 21 He cites Rode (2013) and Jackson (2017). The latter uses the Fraser Institute’s state-level measure of economic freedom, the *Economic Freedom of North America*. Rok Spruk and Aleksandar Kešeljević (2016) corroborate the result in cross-country analysis but not over time when controlling for income level and state dependence.
- 22 See Henrich (2021) for why this might be the case.
- 23 To be precise, it shows the share of the population exposed to outdoor concentrations of particulate matter that exceed the World Health Organization’s guideline value of 10 micrograms per cubic meter per year.

- 24 A year after he published this prediction, Lenin invaded Poland, initiating the Polish-Soviet War.
- 25 As noted in an earlier note, in all other figures, EFW is averaged over 2000 to 2021. Comprehensive homicide data was only available through 2012, however, so for this figure, I have averaged EFW over 2000 to 2012.
- 26 While Hayek and Friedman both stressed that political freedom rarely thrived without economic freedom, neither offered detailed explanations. See Lawson and Clark (2010) for more details.
- 27 Some components of the V-Dem index (judicial independence, the impartiality of courts, and the integrity of the legal system) are used to construct Area 2 of the EFW. So, to avoid counting these factors on both sides of the comparison, I have removed Area 2 from the EFW computation here.
- 28 He was not alone. Many believe freedom—including economic freedom—is a right of all people, even if it does not lead to better outcomes. To limit one’s economic freedom is to limit a fundamental human right (Locke, 1689; Smith, 1776; Bastiat, 1850; Acton, 1907; Rothbard, 1973; Nozick, 1974).
- 29 Rawls’s first principle of justice is rather Nozickian and is consistent with the definition of freedom offered above: “Each person is to have an equal right to the most extensive scheme of equal basic liberties compatible with a similar scheme of liberties for all.” The two men famously clashed, however, over Rawls’s second principle: “social and economic inequalities are to be arranged so that they are both (a) reasonably expected to be to everyone’s advantage, and (b) attached to positions and offices open to all” (Rawls, 1971: 53). But see footnote 2 above. As an empirical matter, it may very well be the case that the best way to promote the kind of freedom Rawls cared about is to protect the kind of freedom that *both* Rawls and Nozick cared about.
- 30 I have argued elsewhere that measurement without theory is impossible (Mitchell and Boettke, 2017).

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Acknowledgments

The author would like to thank the Donner Canadian Foundation for its support of this project. He would also like to thank the anonymous reviewers for their comments on an earlier draft. Any remaining errors or omissions are the sole responsibility of the author. As the researcher has worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters.

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Date of issue

September 2024

ISBN

978-0-88975-800-1

Citation

Matthew Mitchell (2024).

Economic Freedom: What Is It? How Is It Measured? And How Does It Affect Our Lives?

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