

Are We Taking Certain Liberties by Assuming a Relationship Exists Between Economic and Political Freedom?

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Scholars (Vega-Gordillo and Alvarez-Arce, 2003) have debated the connection between economic freedom and political freedom. Empirical studies of such arguments have not conclusively found support for the presence or absence of such a relationship.

Is the relationship between the variables harmonious or harmful? Using multiple measures of democracy, a link is found between economic and political freedom. However, the findings are weaker, though significant, for a sample of developing countries. There is also a higher than expected number of cases where governments provide one freedom, but partial elements of another freedom. This may explain the differences in results achieved by scholars analyzing these ties.

Literature Review

Optimists and Pessimists Evaluate Economic and Political Freedom's Relationship

Several scholars have produced optimistic assessments of ties between economic and political freedom. Milton Friedman (1962) hypothesized that economic and political freedom were mutually reinforcing, a finding confirmed by Vega-Gordillo and Alvarez-Arce (2003). Mbaku (2003) argues that writing democratic constitutions not only reduces governmental opportunistic behavior, but helps economic freedom. Griswold (2003) claims it is difficult for governments to grant

one freedom, but not the other.¹

Others have a more pessimistic view of the relationship between economics and political freedom. Such skeptics cite Friedman's (1962) assertion that the relationship between the two variables may be somewhat complex, not straightforward. Some scholars contend that economic freedom is only connected to political freedom through the mediating variable economic growth (Barro, 1996; Dorn, 1996; Hanke and Walters, 1997; Ali, 1997). Others (Brady, 1997; Cleveland, 1997) claim that government attempts to replace the market, serving special interests who want regulations and monopoly rents (Brady, 1997).

Additional skeptics assert that countries may have economic freedom, but not political freedom or political freedom without economic freedom (Hanke and Walters, 1997).² These arguments contending no relationship exists between the freedoms are confirmed by statistical tests (Barro, 1996; Farr, Lord and Wolfenbarger, 1998) and

¹Other studies supporting ties between the two freedoms find a less direct link. Dorn (1996) notes that markets must be supported by the presence of personal freedom and good government; cases such as South Korea and Taiwan support his claims. Lundstrom (2002) and De Haan and Sturm (2003) both assert a connection between economic and political freedom, though their analyses both focus on developing countries. As for the developed world, Crampton (2002) makes the case that voter preferences for economic freedom are associated with changes in economic freedom among the OECD countries. Finally Berggren (2003) finds democracy is related to some economic freedom components ("government operations and regulations" and "restraints on international exchange") but not others ("money and inflation" and "takings and discriminatory taxation").

²Farr, Lord and Wolfenbarger (1998) discover that there is no causal relationship between political freedom as the independent variable and economic freedom as the dependent variable.

analyses of cases (Fontaine, 1996; Brady, 1997; Dorn, 2004).³

Outlining the Arguments

As evidenced from the lessons of the literature, there is no clear consensus concerning the connection between capitalism and democracy. Strong evidence seems to suggest that the two freedoms are connected, while equally compelling arguments claim that they are unrelated. Can these discrepancies be resolved?

The first step is to test whether or not a connection exists between the arguments. The null hypothesis claiming no relationship exists between the two freedoms is assessed; its rejection might prompt support for a “freedom hypothesis.”

Additional texts are conducted to examine the disparity of results. If the null hypothesis is supported, is it because there are a large number of countries that are “authoritarian capitalists” (countries with economic freedom, but no political freedom) or “democratic socialists” (countries with little economic freedom, but are politically free)? Or, is it an issue of nuance, where countries are politically free, yet offer at least modest amounts of economic freedom (social democrats⁴), while economically-free countries provide some political freedom (anocratic

³Fontaine (1996) laments the success neo-communist parties have had in East European elections, rolling back democratic and capitalistic reforms. Dorn (2003) assails the United States government for reducing economic freedom by socializing health care, raising tariffs, and increasing government spending.

⁴The term “social democrats” borrows from the German party, which called for modest regulation of the economy. This is different from “democratic socialism,” which is based upon the former German communist party, “Party of Democratic Socialism,” which calls for government control of the economy and democratic elections.

capitalists⁵)? The former set of arguments contends that both types of freedom are hostile to each other, while the latter believes that countries offer full freedoms in one category, and partial freedoms in another category.

Table 1

		POLITICAL	FREEDOM	(COLUMNS)
		0 = Little Political Freedom	1 = Some Political Freedom	2 = High Political Freedom
ECONOMIC	0 = Little Economic Freedom	<i>Freedom Hypothesis</i>	No Theoretical Expectation	<i>Democratic Socialist</i>
FREEDOM	1 = Some Economic Freedom	No Theoretical Expectation	No Theoretical Expectation	<i>Social Democrat</i>
(ROWS)	2 = High Economic Freedom	<i>Autocratic Capitalist</i>	<i>Anocratic Capitalist</i>	<i>Freedom Hypothesis</i>

⁵Anocracies are governments with characteristics of democracies and autocratic governments.

There are other possible reasons for the incongruities in studies of economic and political freedom. These could be attributable to differences in samples of countries, measures of variables, and measures of association. The next section outlines variable measurement, statistical techniques, and the sample of countries to be analyzed.

Research Design

Dependent Variable: Economic Freedom

The independent or explanatory variable is represented by data from the “Economic Freedom of the World” index (EFW) listed in the annual report published by the Cato Institute.⁶ Higher EFW scores indicate more economic freedom, while lower numbers indicate increased state domination of commercial transactions. I break these EFW scores into three categories for each of reporting the results.⁷

Independent Variable: Political Freedom

DeHaan and Strum (2003) contend that multiple measures of freedom are preferable to individual measures. Given that no one measure of political freedom captures all of its elements, several different democracy datasets are employed.

The first dataset, compiled by Freedom House, examines a

⁶James Gwartney, Robert Lawson and Dexter Samida (2000) describe their data from their report as measuring the size of government, price stability, trade openness, the quality of legal structures, etc.

⁷“Free” states have EFW scores ranging from 7 through 10, and receive an economic freedom score of three. “Partly Free” countries have EFW scores as low as 5 and as high as 6.999. They receive an economic development score of two. “Not Free” nations make up the final category, with EFW scores at 4.999 and lower, and get a “one” for the economic freedom measure.

government's respect for civil liberties and political freedoms.⁸ Freedom House provides a trichotomous measure judging countries to be free, partly free or not free, based on their scores from the checklist. In this measure, free countries receive a score of two, partly free countries receive a score of one, and zeros represent not free countries.⁹

Another democracy dataset, Polity IV, provides an institutional measure of political freedom.¹⁰ This measure examines how effectively the country's constitution disperses power throughout the system, making it difficult for one person to control the government.¹¹ This information is condensed into three categories: democracy, anocracy and autocracy, based upon the level of political freedom.¹²

Given that the term democracy means "people rule," many

⁸Freedom House's civil liberties include freedoms similar to those of America's bill of rights. The political rights include free and fair elections, access to politics, etc.

⁹Many studies use the Freedom House measure to capture political freedom (Ali, 1997); Hanke and Walters, 1997; Farr, Lord and Wolfenbarger, 1998; Lundstrom, 2002; Griswold, 2004).

¹⁰Scholars understand the importance institutions play in providing freedom. Dorn (2004) argues that government power can be limited by a constitution of liberty. Spender and DeVanssay (2002) examine the components of constitutions in their analyses. Mbaku (2002) points out the importance of constitution writing in African democracies.

¹¹These factors include how chief executives are chosen and controlled, as well as the level of local government and citizen participation.

¹²Some scholars use the Polity dataset code democracies as all cases of countries with a score of six or greater on the democracy scale (Dixon, 1994). Therefore, it would be a logical assumption that countries that have an autocracy score of six or better on the autocracy scale are considered fully undemocratic. Those countries with scores in between would be the anocratic countries.

often think of elections as the mechanism by which people vote for their preferences for political office, thereby exercising their authority. But merely the presence of elections is not enough, given that even dictatorships often conduct sham elections to legitimize their authority. Therefore, elections are about cases where there is an actual choice between candidates, and many people are allowed to participate.¹³ Tatu Vanhanen's Polyarchy Dataset (2000) captures these concepts in his measure of democracy, which includes the strength of the opposition in the election and degree of participation. As with the other measures, this Polyarchy dataset is condensed into a trichotomous variable distinguishing between democratic, partially democratic and undemocratic political systems.¹⁴

Spatial-Temporal Domain for Sample

To determine which cases should be studied, a sample is developed for years where common information is available for all of the variables to be studied. Therefore, the analysis focuses on five

¹³Those who analyze freedom have found the role of elections to be critical. Fontaine (1996) focuses upon East European elections in his analysis of economic freedom reforms. Crampton's (2002) study looks at voter preferences and support for economic freedom. Voigt's (1998) article contends that the presence of a strong opposition party is the most important guarantor of economic and political freedom, because it alone can limit post-contractual opportunism in government.

¹⁴Following Vanhanen's coding rules, democracies are cases with an opposition score of 30, a participation score of 10, and an Index of Democratization score in excess of 5. There is no set criteria for autocracy, but any country with a score of less than one on the Index of Democratization (which indicates almost no opposition votes or political participation in the system whatsoever) can be defined autocracies. Countries with some levels of opposition activity and some political participation, but less than the numbers required for the democratic criteria are labeled anocracies.

annual cross-sections: 1975, 1980, 1985, 1990, and 1995.¹⁵

The tests analyze the developed and developing countries. The criterion for prior development is the country's membership in the Organization for Economic Cooperation and Development (OECD). If the analyzed country has joined the OECD prior to the year analyzed (or is admitted during that year), it receives a score of one on the OECD countries. Non-OECD countries receive a score of zero.

Measurement Tactics

There is no shortage of measurement techniques that can be used to assess the connection between economic and political freedom.¹⁶ Contingency tables are used because they have some advantages over other statistical methods, for the purpose of this paper.¹⁷ It allows a closer analysis of the categories. This will not only

¹⁵The Economic Freedom of the World measure is reported every five years beginning in 1970. Polity IV scores are updated on nearly an annual basis, and are available from the year 1800 through the year 2000. Vanhanen's Polyarchy Dataset begins in 1810, but ends in 1998. Freedom House scores commence in 1972, but continue through 2003. The countries included in the sample are those incorporated in the Fraser Index study. This omits a number of purported economically and politically unfree countries such as North Korea and Cuba (Hanke and Walters, 1997), but any connection between two freedoms can only be solidified when this factor is taken into account.

¹⁶Problems emerged with a regression analysis incorporating multiple forms of political freedom as independent variables, especially severe multi-collinearity.

¹⁷These contingency tables incorporate the economic freedom measure as the row variable and the political freedom measure as the column variable. Such an analysis also compares the number of actual observations with the expected number of cases. The latter is generated by the number of cases in each category, compared to the amount of freedom in the international system. To determine if the statistical relationship between the two freedoms is significant, the chi-square statistic, which captures all of the differences between observations and expectations, is consulted.

test of the null hypothesis, but also the argument that partial categories (autocratic capitalists, democratic socialists, social democrats and anocratic capitalists) have confounded prior analyses.

Results

All Countries

When examining the connection between economic and political freedom for all countries for all measures of political freedom, the null hypothesis can be rejected. In all tests, the cases where countries are both economically and politically free are greater than expected as are those where both freedoms are absent. Conversely the countries with economic freedom but no political freedom (autocratic capitalists) are significantly lower than expected, as are the number of cases where a country is rated as a democracy, but lacks economic freedom (democratic socialists). In all cases, the chi-square results are statistically significant at the .001 level.

Pearson Chi-Square Statistic: 92.617, (4df); p<.000			Freedom House Scores (2 = Free, 1 = Partly Free, 0 = Not Free)			Total
			.00	1.00	2.00	
Economic Freedom of the World Scores: 2=7-10 (Free), 1 = 5-7 (Partly Free), 0 = 0-4.999 (Not Free))	.00	Count	70	87	36	193
		Expected Count	41.4	69.6	82.0	193.0
	1.00	Count	37	75	109	221
		Expected Count	47.4	79.7	93.9	221.0
	2.00	Count	6	28	79	113
		Expected Count	24.2	40.7	48.0	113.0
Total	Count	113	190	224	527	
	Expected Count	113.0	190.0	224.0	527.0	

The greater the difference between these observations and expectations, the more likely the relationship is to be “statistically significant.”

Pearson Chi-Square Statistic: 63.657, (4df); p<.000			Polity Democracy 2 = Democracy (6 to 10 on Polity Scale), 1 = Anocracy (-5 to +5 on Polity Scale), 0 = Autocracy (-6 to -10 on Polity Scale)			Total
			.00	1.00	2.00	
Economic Freedom of the World Scores: 2=7-10 (Free), 1 = 5-7 (Partly Free), 0 = 0-4.999 (Not Free))	.00	Count	97	35	54	186
		Expected Count	63.9	32.9	89.2	186.0
	1.00	Count	57	36	101	194
		Expected Count	66.7	34.3	93.0	194.0
	2.00	Count	13	15	78	106
		Expected Count	36.4	18.8	50.8	106.0
Total	Count	167	86	233	486	
	Expected Count	167.0	86.0	233.0	486.0	

Pearson Chi-Square Statistic: 78.561, (4df); p<.000			Polityarchy Measure, Vanhanen Dataset (2 = Democracy, If Country has 30% Comp, 10% Part and 5 ID), 1 = Anocracy (All Else), 0 = Autocracy (0-1 ID)			Total
			00	1.00	2.00	
Economic Freedom of the World Scores: 2=7-10 (Free), 1 = 5-7 (Partly Free), 0 = 0-4.999 (Not Free))	.00	Count	90	38	65	193
		Expected Count	57.9	27.1	108.0	193.0
	1.00	Count	55	31	136	221
		Expected Count	66.3	31.0	123.7	221.0
	2.00	Count	13	5	95	113
		Expected Count	33.9	15.9	63.3	113.0
Total	Count	158	74	295	527	
	Expected Count	158.0	74.0	295.0	527.0	

Developing Countries

When limiting the sample of developing countries, the links between economic freedom and political freedom still exist, but are not as strong. The null hypothesis can be rejected in all cases, but not by as great a margin as for samples of all countries. Regardless of which political freedom measure is used, there are more than expected cases where a country has no economic freedom and no political freedom. The number of countries with autocratic capitalistic (economically free, politically unfree) or democratic socialist (economically unfree, politically free) systems are also less likely to occur than expected. But the findings for other categories are relatively mixed. When examining

the politically and economically free cases, only those observations employing Polyarchy dataset are sizably greater than expected. The number of anocratic capitalists (cases of economic freedom melded with partial political freedom) are significant only for Freedom House and the Polity dataset. Only the cases of “social democrats” (political freedom melded with partial economic freedom) are more likely to occur than expected for each measure of democracy.

Pearson Chi-Square Statistic: 29.752, (4df); p<.000			Freedom House Scores (2 = Free, 1 = Partly Free, 0 = Not Free)			Total
			.00	1.00	2.00	
Economic Freedom of the World Scores: 2=7-10 (Free), 1 = 5-7 (Partly Free), 0 = 0-4.999 (Not Free))	.00	Count	70	84	34	188
		Expected Count	52.6	85.2	50.3	188.0
	1.00	Count	37	72	66	175
		Expected Count	48.9	79.3	46.8	175.0
	2.00	Count	6	27	8	41
		Expected Count	11.5	18.6	11.0	41.0
Total	Count	113	183	108	404	
	Expected Count	113.0	183.0	108.0	404.0	

Pearson Chi-Square Statistic: 12.399, (4df); p<.05			Polity Democracy 2 = Democracy (6 to 10 on Polity Scale), 1 = Anocracy (-5 to +5 on Polity Scale), 0 = Autocracy (-6 to -10 on Polity Scale)			Total
			.00	1.00	2.00	
Economic Freedom of the World Scores: 2=7-10 (Free), 1 = 5-7 (Partly Free), 0 = 0-4.999 (Not Free))	.00	Count	97	34	52	183
		Expected Count	81.5	41.0	60.5	183.0
	1.00	Count	57	36	58	151
		Expected Count	67.2	33.8	49.9	151.0
	2.00	Count	13	14	14	41
		Expected Count	18.3	9.2	13.6	41.0
Total	Count	167	84	124	375	
	Expected Count	167.0	84.0	124.0	375.0	

Pearson Chi-Square Statistic: 17.564, (4df): p<.01			Polyarchy Measure, Vanhanen Dataset (2 = Democracy, if Country has 30% Comp, 10% Part and 5 ID), 1 = Anocracy (All Else), 0 = Autocracy (0-1 ID)			Total
			.00	1.00	2.00	
Economic Freedom of the World Scores: 2=7-10 (Free), 1 = 5-7 (Partly Free), 0 = 0-4.999 (Not Free)	.00	Count	89	38	61	188
		Expected Count	72.6	34.4	81.0	188.0
	1.00	Count	54	31	90	175
		Expected Count	67.6	32.1	75.4	175.0
	2.00	Count	13	5	23	41
		Expected Count	15.8	7.5	17.7	41.0
Total	Count	156	74	174	404	
	Expected Count	156.0	74.0	174.0	404.0	

Conclusion

There are several important findings revealed. First, there is a generally significant statistical connection between economic and political freedom. Second, this relationship is weaker, but still significant for developing countries. Third, the presence of “autocratic capitalists” and “democratic socialists” is less likely to be present in the international system than expected. Fourth, the presence of “anocratic capitalists” has a mixed track record; it is not consistently more likely to be present than expected. Finally, the number of “social democratic” countries (those with political freedom, but only partial economic freedom) is consistently more likely to occur than expected, for all measures of democracy, as well as for samples of all countries and the developing world. “Social democracies” emerge as a possible culprit for studies which fail to find a connection between economic and political freedom.

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