

The Relationship Between Political and Economic Freedom Reconsidered

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In chapter 1 of *Capital and Freedom* (1962), Milton and Rose Friedman made the argument that, instead of being antithetical to political freedom, economic freedom is compatible with political freedom. Their argument was reasonable, engaging and accessible to a wide audience. It came at a time when many intellectuals were inclined to believe that economic freedom ran contrary to political freedom. At the time, differences of opinion on the relationship between political and economic freedom were due in part to a lack of measurement of these phenomena. Today, with the accumulation of vast data sets of measures of political and economic freedom, it should be possible, empirically, to resolve the argument as to what is the relationship.¹

While it may appear obvious and well-established empirically,

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¹As F.A. Hayek (1960, pp. 11-21) has stated, there are several definitions of freedom. One may be described as the negative definition. This definition sees the primary role of the state to be the defense of persons from the coercion of others. The other definition may be described as the positive definition. According to this definition, the people are free—through the state—to do what they would not be able to do on their own. These two definitions conflict when what some people want to do through the state impinges on others, as when collective action involves the forcible taking of property or the curtailment of the liberty of others.

that economic freedom furthers economic growth,² there remain concerns about the casual relationship between the two. De Hann *et al* (2006, 176) argue that the possibility that economic freedom is co-determined along with economic growth “casts considerable doubt” on many of the studies of the effect of economic freedom on economic growth. The accumulation of additional years of data has enabled the application of so-called Granger (1969) or Granger-Sims (1980) causality tests to investigate this matter. Farr (1998) and Dawson (2003) have done just this, Dawson using data through 2000, finding that economic freedom is indeed a cause of economic growth.³

The effects of political freedom on economic growth, and of political and economic freedom on each other are less well developed than the effect of economic freedom on economic growth. De Vanssay, *et al* (2004) find some evidence that governments that are more accountable to the people are more likely to adopt economic freedom. Wu and Davis (2004), while arguing that economic freedom leads to economic development, and that economic development leads to political freedom, indicate that studies of a direct relationship between economic freedom and political freedom have not been conclusive. Furthermore, they say (p. 170), “Empirical analyses on the possible reverse relationship between political freedom and economic freedom

²Hanke and Walters (1997) and Leschke (2000) examine the effect of economic freedom on the level of GDP per capita; and Gwartney, Lawson and Holcombe (1999), among others, examine the effect of economic freedom and/or its changes on the change of GDP per capita.

³Dawson (2003) investigates a variety of specifications of the economic freedom-growth relationship, with and without “conditioning variables” such as the ratio of investment to GDP. In his specification of “the long-run,” including the conditioning variables, he does not find that the level of economic freedom causes the rate of economic growth (pp. 487-88). This finding can be reconciled with his other results by his finding that economic freedom causes growth, in the long-run, via investment, which he separately finds (pp. 489-90).

are largely lacking.”

As will be shown below, measures of political and economic freedom through 2005 indicate that political and economic freedom are positively correlated; and, that there is strong evidence that political freedom causes economic freedom, but only weak evidence that economic freedom causes political freedom. In addition, there is strong evidence that both political and economic freedom further economic growth. These results confirm and reinforce prior findings with regard to the relationship between economic freedom and economic growth, and add to our understanding of the relationships between economic and political freedom, and these and economic growth.

The rest of this paper is organized as follows: The next section describes the measurement of political and economic freedom. Then, the paper looks at the correlation of the two across countries, and their trends over the past thirty years. Then, some econometric analyses is conducted in which political and economic freedom and real GDP per capita are regressed against lagged values of these three variables and certain other variables, in order to explore the possible cause and effect relationships that bring about the observed correlation.

The Measurement of Freedom

In 1972, Freedom House, an independent think-tank based in New York, began an annual assessment of political freedom and civil liberty in the world. For the first several years, the report was essentially the work of Raymond Gastil. Subsequently, Freedom House developed a team of analysts, including both in-house and outside experts. At first, the annual report of Freedom House’s project was published in the organization’s magazine. Later, the report was also published in book form (e.g., Freedom House, 2005). Recently, the report has been published electronically.

For each country and territory included in the survey, the team of analysts assembled by Freedom House reviews a variety of sources including government, non-government and academic reports, foreign

and domestic news, personal contacts, and site visits. The team then rates jurisdictions on a scale from 1 to 4 on each of ten to twelve areas of political freedom, and on each of fifteen areas of civil liberties. These areas are described in Tables 1 and 2. The scores in the subcomponents are combined into overall ratings for each of political freedom and civil liberties, on a scale from 1 to 7 in which 1 means "Free," and 7 "Not Free." The methodology thus involves a systematic and consistent assessment of a set of political and civil conditions within countries, in which judgment is used to convert a variety of information into a scale. In this paper, the two Freedom House measures have been combined into one, and re-scaled from zero to 100, where zero is "Not Free" and 100 is "Free."

In 1997, following a series of conferences organized by Michael Walker of the Fraser Institute of Vancouver, British Columbia, and Milton Friedman, a measure of economic freedom was developed (Gwartney, Lawson and Block, 1996).⁴ The Economic Freedom Network's measure of economic freedom is similar to Freedom House's measure of political freedom, in that both are based on an average of several underlying scales (except that the measure of economic freedom runs from 1 to 10, where 1 is "Not Free" and 10 is "Free"). The underlying scales of the Economic Freedom index, however, are more precisely defined, about half of them being numerical data. Table 3 describes the areas, twenty-three in all, covered by the Economic Freedom Network's measure.

Before proceeding, a comment on the overlap between the two measures of freedom is warranted. Both measures incorporate aspects

⁴A rival partnership of the Heritage Foundation and the *Wall Street Journal* publishes an Index of Economic Freedom (Miles, Holmes and O'Grady, 2006).

Table 1

Freedom House's measure of Political Freedom. Each of the ten to twelve areas is rated on a (judgment-based) scale of 1 to 4, and these ratings are totaled and converted to a scale of 1 to 7, in which 1 is "Free" and 7 is "Not Free."

Is the head of state and/or head of government or other chief authority elected through free and fair elections?
Is the legislature elected through free and fair elections?
Are there fair election laws, equal campaigning opportunities, fair polling, and honest tabulation of ballots?
Do the people have the right to organize into different political parties?
Is there significant opposition vote, de facto opposition power, and a realistic possibility for the opposition to gain power through elections.
Are the people's political choices free from domination by the military, foreign powers, totalitarian parties, religious hierarchies, economic oligarchies, and other overly powerful groups?
Do cultural, ethnic, religious, and other minority groups have reasonable self-government, autonomy or participation in the decision-making process.
Do freely-elected person determine the policies of the government?
Is the government free from pervasive corruption?
Is the government accountable to the electorate in-between elections, and does it operate with openness and transparency?
(Supplemental) For traditional monarchies, is there a system allowing consultation with the people, encourage discussion of policy, and the right of petition?
(Supplemental) Is the government or occupying power changing the ethnic composition of the jurisdiction so as to destroy a culture or tip the political balance of power in favor of another group?

Table 2

Freedom House's measure of Civil Liberty. Each of the fifteen areas is rated on a (judgment-based) scale of 1 to 4, and these ratings are totaled and converted to a scale of 1 to 7, where 1 is "Free" and 7 is "Not Free."

Are there free and independent media and other forms of expression (or, does state-controlled media offer pluralistic points of view)?
Is there free private and public religious expression, and are there free religious institutions?
Is there academic freedom, and is the education system free of extensive political indoctrination?
Is there open and free private discussion?
Is there freedom of assembly, demonstration and open public discussion?
Are people free to join into political, quasi-political, civic and ad hoc issue organizations?
Are people free to join into trade unions, peasant organizations, professional associations and such? And, is there effective collective bargaining?
Is there an independent judiciary?
Does the rule of law prevail in civil and criminal matters? And, are the police under direct civilian control?
Are there protections from police terror, unjustified imprisonment, exile or torture? Are people reasonably secure from violence due to war and insurrection?
Are people treated equally under the law?
Is there personal autonomy in matters such as travel, choice of residence and choice of employment? Are people excessively dependent on the state?
Do citizens have the right to own property and establish private businesses? Are private businesses overly regulated by government officials, security forces, or organized crime?
Do citizens have personal freedom in matters such as marriage partners and children, and is there gender equality?
Is there equal opportunity and the absence of economic exploitation?

Table 3

The Economic Freedom Network's measure of Economic Freedom. For the 11 categories not involving numerical data, ratings are based on a (judgment-based) scale from 1 to 10; and for the 12 categories involving numerical data, ratings involve the conversion of the numerical data into a scale from 1 to 10. The (over-all) measure for a country is then set equal to a weighted average of the scores of these 23 categories, and is itself a scale from 1 to 10, where 1 is "Not Free" and 10 is "Free."

Size of Government – 11.0%
Government Consumption Expenditure as a percent of Total Consumption
Transfers and Subsidies as a percent of GDP
Structure of the Economy – 14.2%
Government Enterprises and Investment as a share of the economy
Extent of Price Controls
Marginal Tax Rates
Use of Military Conscription
Price Stability – 9.2%
Money Growth Rate in excess of real GDP Growth Rate
Inflation Rate
Standard Deviation of Inflation Rate
Currency Controls – 14.6%
Legality of ownership and use of foreign currencies
Black market in foreign currencies
Property Rights – 16.6%
Security of Property Ownership
Security of Contracts

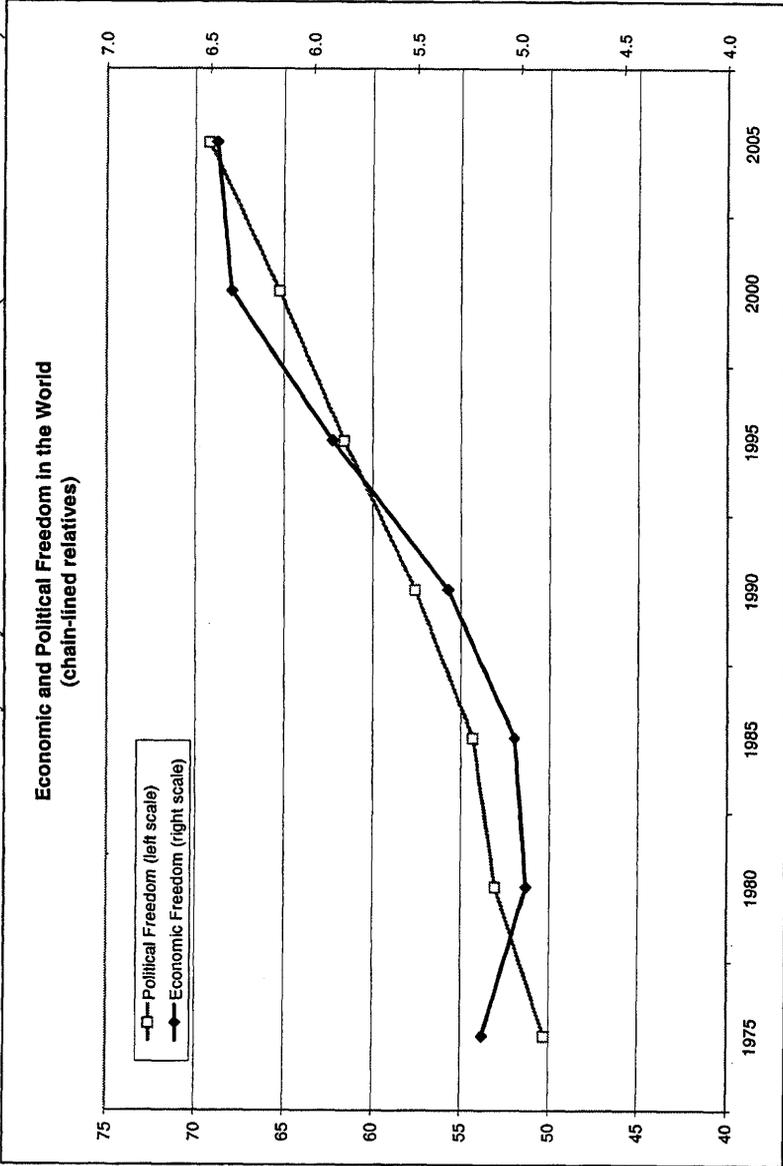
Security of Contracts
Legal Institutions securing the Rule of Law in Property and Contract
International Trade – 17.1%
Tariffs
Non-tariffs Barriers to Trade
Financial Markets – 17.2%
Private Ownership of Banks
Credit Controls
Interest Rate Controls
Capital Controls

of the rule of law and freedom of association in the marketplace. The thrust of Freedom House's measure—as it should be—is the protection of a person's civil liberty; while the thrust of the Economic Freedom Network's measure—also as it should be—is the protection of a person's wealth. Therefore, even in the places where the two measures overlap, they are not identical.

The Trend of Freedom in the World

In their 1980 book *Free to Choose* (pp. 283-310), Milton and Rose Friedman expressed tremendous optimism that the tide was turning for freedom in the world. The subsequent unfolding of history, shown in Figure 1, has validated their view. First, political freedom, in thirty years, has

Figure 1
The Trend of Political and Economic Freedom in the World, based an evolving sample of 53 to 123 countries observed every five years from 1975 to 2005. (chain-linked relatives)



expanded from 50 to 65.⁵ Second, while the world is shown to have continued its former drift toward socialism into the period of this study, by 1985, economic freedom was also on the rise.

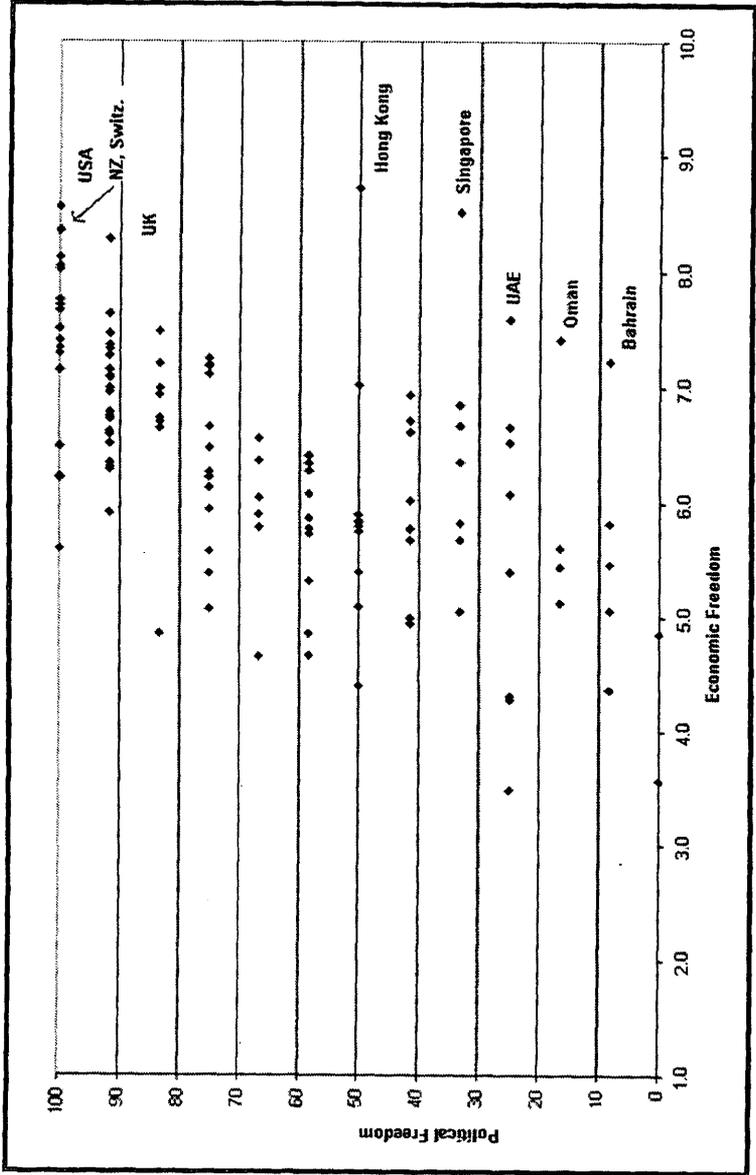
For some, seeing this trend of freedom in the world has been convincing, but Milton and Rose Friedman believed before they saw. Figure 2 presents a scatterplot of the cross-country relationship between political and economic freedom for the year 2000. Almost all countries are positioned in a swath that runs from the south-west to the north-east portions of the graph, indicative of a positive correlation. At the top of the heap, in terms of the combination of political and economic freedom, is the United States. Nearby are New Zealand, Switzerland and the United Kingdom. Just a bit further removed (but not identified in the graph) are Australia, Canada, Ireland, and the Netherlands.

Four countries and one semi-autonomous region clearly stand out from the others, these being Hong Kong, Singapore, the United Arab Emirates, Oman and Bahrain. These outliers can be easily explained. The first two are a relatively small Chinese jurisdiction and a majority ethnic-Chinese country that have for some time embraced economic freedom. The latter three are relatively small Arab countries that have recently embraced economic freedom.

Scatterplots for 1975, 1980, and so forth until 1995 (not shown) are roughly similar to Figure 2, except that various countries show themselves to be outliers from time to time. Consider the case of Turkey which—through the period—had a trend of rising economic freedom and a volatile record regarding political freedom involving military coups and radical governments. In 1980, Turkey had an

⁵While the five-year data show uninterrupted progress, an annual series constructed with the Freedom House numbers indicates that, following the fall of the Berlin Wall, there was, first, a burst of political freedom and, then, a partial retrogression.

Figure 2
The Cross-sectional Correlation between Political and Economic Freedom,
based on 123 countries in 2000.



unusual combination of relatively high political freedom but only moderate economic freedom; and, in 1995, with the rule of a popularly-elected, radical Islamic government, it had an unusual combination of relatively low political freedom and relatively high economic freedom.

Regression Analysis

To be sure, it is impossible to infer causality from the mere observation of a positive correlation between political and economic freedom. However, the few comments made above, concerning the non-democratic decision in five small jurisdictions to embrace economic freedom, and the volatility of political freedom relative to economic freedom in Turkey, suggest that economic freedom may be predetermined relative to political freedom. Robert J. Barro (1999) has described democracy as a “luxury good,” so that high-income countries would demand more of it than low-income countries. This suggests a chain of cause and effect involving economic freedom leading to economic development leading, in turn, to political freedom. Tentatively, this framework will be utilized.

In column 1 of Table 4 presents the simple regression of political freedom against economic freedom, using all the countries every five years, from 1975 to 2005,⁶ for which there is the requisite data. Consistent with the scatterplot discussed above, there is a positive correlation. Political freedom (measured on a scale from zero to 100) goes up by about 12 points, for every one point increase in economic freedom (measured on a scale from 1 to 10). This would be only slightly askew from a one-to-one relationship emanating from the

⁶For 2005, index of economic freedom is the 2003 figure of the Economic Freedom Network and the change from the 2003 to the 2005 figure of the Heritage Foundation/*Wall Street Journal* index.

Table 4

Regression analysis of Political Freedom (a scale of 0 to 100); using the data of an evolving sample of 53 to 123 countries, observed every five years from 1975 to 2005, a total of 745 observations. (Absolute values of t-statistics in parentheses)

	1		2	
Constant	-12.20 (2.67)	**	32.38 (5.82)	***
Economic Freedom (a scale from 1 to 10)	12.73 (16.45)	***	9.54 (12.24)	***
1980 observations			-3.34 (0.84)	
1985 observations			-4.82 (1.27)	
1990 observations			-5.21 (1.37)	
1995 observations			-6.29 (1.66)	0
2000 observations			-7.29 (1.89)	0
2005 observations			-3.97 (1.03)	
Asian countries			-34.34 (14.68)	***
Africa countries			-38.23 (15.06)	***
American countries			-11.50 (4.73)	***
R ²	26.7%		50.5%	

* significant at the two-tailed 10% level,

** at the two-tailed 5% level,

*** at the two-tailed 1% level

origin, if we were to measure both political and economic freedom on the same scale (either zero to 100, or 1 to 10). As indicated by R^2 , with the one variable of economic freedom, about one-quarter of the variation in political freedom is “explained.”

Most economic theories are posited on the basis that “other things” are equal; i.e., political freedom is higher if economic freedom is higher, other things being equal. But, what are the “other things” that should be held equal in the case of the relationship between economic freedom and political freedom? These would be conditions pre-determined to, or co-determined with economic freedom that also effect political freedom. In the context of a pooled, cross-section/time-series sample, an effective way to control for “other things” is a “fixed-effects” model. In a fixed-effects model, dummy variables are constructed for every time period other than one, and for every cross-sectional unit other than one (Kmenta, 1971: 516-17). These two sets of dummy variables usually do a good job of capturing the effects that are unique to each cross-sectional unit, and that over time are changing in common for the cross-sectional units (apart from the effects of the independent variables of interest). A fixed-effects model is a naïve model. It side-steps the development of a causal model.

Column 2 of Table 4 reports the results of a modified fixed-effects model, with dummy variables for observations in the years 1980, 1985, and so forth until 2000 (1975 being the excluded time period), and dummy variables for the countries of Asia, Africa and the Americas (the countries of Europe being the excluded cross-sectional units). This is a modified fixed-effects model because it does not have cross-sectional dummy variables for each cross-sectional unit except for one, but have only identified the countries of the several continents with cross-sectional dummy variables.

In the modified fixed-effects model (column 2), the effect of economic freedom on political freedom is slightly less than what is obtained in the simple model (column 1). The time series dummy variables are (individually) insignificant, which might mean that the

obtained in the simple model (column 1). The time series dummy variables are (individually) insignificant, which might mean that the positive trend observed in political freedom is sufficiently captured by the positive trend in economic freedom.

What is interesting in the modified fixed-effects model are the effects of the dummy variables distinguishing the Asian, African and American countries from the European countries. Compared to the European countries, American countries have about 11 points less political freedom (given their levels of economic freedom), and Asian and African countries about 34 and 40 points less political freedom (again, given their levels of economic freedom). These results do not mean that Asian, African and American countries are inherently less hospitable to political freedom than European countries. They only indicate that non-European countries were less hospitable to political freedom during the period of this study. (The same caveat applies to certain other effects to be discussed below.)

Casuality Tests

Table 5 reports some regressions exploring the cause and effect relationship that might be resulting in the observed correlation between Political and Economic Freedom. The presumption of these regressions is that if the past value of, e.g., Economic Freedom adds explanatory power to a regression of Political Freedom on its own past value, then it can be suspected that Economic Freedom is a cause of Political Freedom.

In these regressions, changes in Political Freedom, Economic Freedom and the natural logarithm of real GDP per capita are regressed on (1) the level of each of these variables of five years prior, (2) the modified fixed-effects variables described above, and (3) a set of variables reflecting the underlying religious beliefs of the people of the countries in the sample (see Barro and McCleary, 2003). Changes in the variables to be explained, and not levels, are used because of the susceptibility of time series analysis to spurious correlation and

Table 5
 Regression analysis of 5-year Changes in Political Freedom, Economic Freedom and the natural logarithm of GDP per capita; using the date of an evolving sample of 53 to 123 countries, observed every five years from 1980 to 2005, a total of 623 observations.
 (Absolute values of t-statistics in parentheses)

	1	2	3
Dependent Variable—5 year Change in ...	Political Freedom	Economic Freedom	Log(GDP per capita)
Constant	13.44 ** (1.96)	0.71 ** (2.75)	0.73 *** (9.19)
Political Freedom (A scale from 0 to 100)—five years prior	-0.31 *** (11.27)	0.005 *** (4.94)	0.001 *** (3.05)
Economic Freedom (a scale from 1 to 10)—five years prior	0.95 (1.40)	-0.27 *** (10.74)	0.03 *** (4.16)
Log(GDP per capita)—five years prior	1.53 (1.67)	0.08 ** (2.33)	-0.05 *** (4.95)
1985 observations	-3.83 (1.50)	-0.14 (1.45)	-0.18 *** (6.11)
1990 observations	-2.69 (1.05)	0.13 (1.34)	-0.23 *** (7.92)
1995 observations	-1.93 (0.75)	0.42 *** (4.33)	-0.28 *** (9.25)
2000 observations	-1.97 (0.77)	0.42 *** (4.37)	-0.28 *** (9.43)

2005 observations	-1.17 (0.45)	0.11 (1.09)	-0.39 (13.00)	***	
Asian countries	-10.11 (3.96)	***	-0.02 (0.25)	-0.09 (3.20)	***
African countries	-9.95 (3.65)	***	-0.09 (0.99)	-0.15 (5.33)	***
American countries	-5.01 (2.71)	**	-0.11 (1.52)	-0.10 (4.61)	***
Muslims	-7.76 (3.13)	***	-0.0001 (0.12)	0.0002 (0.75)	
Asian Religions	-2.13 (0.66)		0.0008 (0.71)	0.0014 (3.76)	***
R ²	19.0%		26.8%	37.4%	

*significant at the two-tailed 10% level; **at the two-tailed 5% level;

***at the two-tailed 1% level

misleadingly high R²s when using highly-trended data.

In case of the regression concerning economic growth, this form should be recognized as Barro's (1991). In this regression, the coefficient on the lagged level of the dependent is expected to be negative, because other things equal, highly advanced economies are not expected to grow as fast as developing economies. In the other two regressions, a negative coefficient on the lagged level of the dependent variable may be forced by the truncated measurement of the dependent variable. Table 6 has the definitions and sources of these variables.

The three regressions have R²s that vary from 19 to 38 percent, very significant lags of the dependent variable, and multiple other

Table 6
 Definition and Sources of the Variables included in
 Tables 4 and 5

Political Freedom	Average of Freedom House's measures of Political Freedom and Civil Liberty, re-scaled from zero to 100, where zero is "Not Free" and 100 is "Free"
Economic Freedom	The Economic Freedom Network's measure of Economic Freedom, from 1 to 10, where 1 is "Not Free" and 10 is "Free" [a]
1980 observations, 1985 observations, etc.	Dummy variables denoting the 1980 observations, the 1985 observations, etc., the 1975 observations being the excluded group
Asian Countries, African Countries and American Countries	Dummy variables denoting the observations from Asian countries, African countries, and American countries, the European countries being the excluded group [b]
Muslims, Asian Religions	The proportions of people adhering (a) to the Muslim religion, (b) to the Hindu, Buddhist, Confucian or another Asian religion or philosophy, (c) to Judaism or Christianity or (d) an Animist or Tribal religion (these are mostly Africans), assigning atheists and those expressing no religious belief to the dominant legacy religion of their country. From the CIA's <i>World Factbook</i> [c]
Real GDP per capita	i.e., in 1996US\$ - Almost all from the Penn World Table (Heston, Summers and Aten, 2002) [d]

[a] For 2005, I used the Freedom Network number for 2003 minus half the change in the Heritage Foundation/*Wall Street Journal* number from 2003 to 2005.

[b] Treating Iceland and Russia as European countries, Egypt as an African country, and Australia, New Zealand, Turkey, and the countries of Polynesia as Asian countries.

[c] In preliminary analysis, in which Christians and Jews were the excluded group, Animists did not enter the regressions significantly. The Animist variable was subsequently dropped from the regressions, making the excluded group Christians, Jews and Animists.

[d] For sixteen countries for which this number was not available for the year 2000, I used real GDP per capita from the U.N.'s 2001 *Human Development Report* (adjusted by the ratio of the U.S. figure in the Penn World Table to the U.S. figure in the U.N. source). For nine countries for which this number was not available for one or more previous years, I used the annual growth rate of real GDP per capita from the U.N.'s 2001 *Human Development Report* to backfill from the earliest year I had. For Taiwan for 2000, I used real GDP per capita from the CIA's *World Factbook* (adjusted by the ratio of the U.S. figure in the Penn World Table to the U.S. figure in the

significant variables. With regard to Political Freedom, the regression for which is reported in column (1), Economic Freedom enters the model with only marginal significance, as does GDP. These results provide only weak evidence that Economic Freedom is a cause of Political Freedom, either directly or through economic development.

With regard to Economic Freedom, column (2), Political Freedom enters the model significantly. This result provides strong evidence that Political Freedom is a cause of Economic Freedom. With regard to GDP, column (3), both Political and Economic Freedom

enter the model significantly, providing strong evidence that both are causes of economic development.

Turning to the dummy variables tracking the time dimension of the pooled sample, it can be seen, as in column (2) of Table 4, that all are insignificant in the Political Freedom regression. In the Economic Freedom regression, it can be seen that in 1995 and 2000, Economic Freedom was a bit higher than would have been predicted based on the model without these variables. Perhaps, Economic Freedom had, temporarily, gotten a bit ahead of the world's trajectory of the nexus of Political and Economic Freedom and of economic development. In the GDP regression, it can be seen that the dummy variables denoting the years of the sample from 1985 to 2005 indicate an increasing gap between the level of economic development in the world and its predicted level given the increasing levels of Political and Economic Freedom in the world, perhaps pointing toward continued strong economic growth in those countries that have liberalized.

Turning to the dummy variables indicating the continents of the world, it can be seen, as in column (2) of Table 4, that the countries of the Americas are a bit behind those of Europe, and those of Africa and Asia a bit further behind, in terms of Political Freedom. In terms of Economic Freedom, all three of these dummy variables are insignificant. In terms of GDP, these three variables indicate that the countries of the Americas, of Africa and of Asia are 10 to 15 percent less than where they would be given their current levels of Political and Economic Freedom.

Turning to the variables reflecting the (very broadly defined) religious or philosophical belief systems of the world, it can be seen that countries with substantial numbers of Muslims have significantly less Political Freedom than other countries, other things equal. It can also be seen that countries with substantial numbers of adherents to Asian religions or philosophical belief systems have slightly higher GDPs. These findings might be rationalized as due to the inclination of many Muslims toward theocracy, and the impressive work ethic associated

with many Asian people. Perhaps most informative is the lack of significance of either of these variables in the Economic Freedom regression. It appears that each of the religious or philosophical belief systems of the world is equally comfortable with Economic Freedom.

Summary and Conclusion

Using the data of an evolving set of countries, growing from 53 to 123 in number, observed every five years from 1975 to 2005, it is found that political freedom is positively associated with economic freedom. Furthermore, there is strong evidence that political freedom is a cause of economic freedom and only weak evidence that economic freedom is a cause of political freedom, and there is strong evidence that both economic freedom and political freedom are causes of economic growth. These results confirm and reinforce prior findings with regard to the effect of economic freedom on economic growth, and add to our understanding of the relationship between economic and political freedom. More than this, political freedom and economic freedom are growing rapidly in the world and the optimism expressed by Milton and Rose Friedman in 1980 has been fully justified.

In *Capitalism and Freedom* (p. 11), Milton and Rose Friedman wrote, concerning the relationship between political freedom and economic freedom, "Historical evidence by itself can never be convincing." The ability we have today, with serious attempts to quantify economic and political freedom, to correlate one against the other, and to conduct Granger-type causality tests does not really change things. As any good Bayesian knows, for the data to be convincing, there has to be an element of belief.

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