

## **Economic freedom is negative liberty:**

### **A comment on Legum (2007) and Stanford (2007)**

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Two recent articles in this journal by Jim Stanford and the late Margaret Legum strongly condemn the measurements of economic freedom published by the Fraser Institute and the Heritage Foundation.<sup>1</sup> As researchers associated with the Fraser Institute's Economic Freedom of the World (EFW) index we feel that it is necessary to address some issues raised by their commentaries as they relate to the EFW index.<sup>2</sup>

Both Legum and Stanford believe that the problem with these indexes is that they are pro-business indexes that ignore normal, regular people. In the critical words of Stanford, the indexes say "what is good for investors and employers, is good for everyone."

This is a mischaracterization of the approach and methodology of the EFW index. The index conceives of economic freedom as a *negative* liberty. That is, economic freedom is defined as the absence of external obstacles that prevent an individual from engaging in activities that they would like to engage in given their available resources.<sup>3</sup> Freedom is not defined in the *positive* sense of being able to do some particular thing; rather it is defined in the negative, non-interference sense.

By utilizing the philosophy of negative liberty, the EFW index thus treats all individual interests equally. Can individuals enter into contracts? Can buyers and sellers trade freely at prices agreeable to each? Can individuals create business enterprises and compete with others without interference? Can employers and employees freely negotiate employment terms without government intrusion? Are people permitted to own the fruits of their labor? To take one example, the EFW index counts military conscription as a negative in the index because it is a clear violation of person's ability to choose freely how to spend his time. In what sense is this pro-business?

To the extent that individuals are free to start businesses or workers to join labor unions freely, the index treats these equally as good things. It is only when individuals (or groups of individuals) attempt to use the *political* process to gain forcibly at the expense of others that EFW scores are reduced. When businesses get special favors and subsidies the EFW index treats that as a negative. Similarly, when labor unions receive special treatment under the law, as in fact they do, that is a violation of economic freedom. The EFW index does not favor either business or labor.

It is important to distinguish between how individuals interact in the market compared with the political process. Mutual agreement provides the basis for economically free activities

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<sup>1</sup> Legum, Margaret. 2007. "Should We Aspire to a High Score for 'Economic Freedom'?" *Post-Autistic Economics Review* 42, p. 60. 18 May 2007.

<http://www.paecon.net/PAERReview/issue42/Legum42.pdf>.

Stanford, Jim. 2007. "A Silly Project." *Post-Autistic Economics Review* 43, p. 59.

<http://www.paecon.net/PAERReview/issue43/Stanford43.pdf>

<sup>2</sup> Gwartney, James and Robert Lawson. 2007. *Economic Freedom of the World: 2007 Annual Report*. Vancouver: Fraser Institute.

<sup>3</sup> For more on the distinction between positive and negative liberty, see Berlin, Isaiah 1969. 'Two Concepts of Liberty', in I. Berlin, *Four Essays on Liberty*, London: Oxford University Press.

in markets. Unless both parties agree to an exchange, the transaction will not occur. On the other hand, "majority rule" provides the basis for democratic political action. Inevitably, the political process involves some people forcing, in a quite literal sense, some other people to follow along with whatever decision the majority makes. While democratic decision making may be a convenient way to achieve certain objectives such as building dams and roads, creating public parks, and waging war, it is fundamentally at odds with any concept of individual freedom. In contrast, the market process simply does not allow for people to force others to trade with them; it is most consistent with economic freedom.

Legum and Stanford also argue that advocates of economic freedom believe this freedom is the only thing that matters. They point out correctly that there are other things that people find important besides economic freedom. We agree, in part, on this point. There is much to life besides economic freedom. Countries with higher degrees of economic freedom are given higher scores, but it does not follow directly that these countries are somehow better. Whether one should prefer more or less economic freedom is indeed a normative judgment. However, for those who make their normative judgments on consequentialist grounds, the existence of this measurement makes it possible to test long-standing claims, and counterclaims, that economic freedom enhances prosperity and other social goals.

Many, many studies have used the EFW index to examine the role institutions play in economic development. All have found a significant, positive correlation between EFW scores and growth.<sup>4</sup> Nor does growth seem to be the only thing affected by economic freedom. Other measures of social progress, including the UN Human Development Index, are positively related to the EFW index.<sup>5</sup> Lawson (2008) finds that income distribution is no better or worse on average in freer countries, but states "there is clear evidence that low-income people in freer countries are better off than their counterparts in less-free countries."<sup>6</sup> At least one study even shows a positive correlation between economic freedom and the environment.<sup>7</sup>

Critics of the measurement of economic freedom such as Stanford and Legum need to reply to this growing body of empirical evidence that economic freedom is associated with a wide ranging array of desirable social outcomes. Baseless commentaries on the "pro-business" nature of the index and attacks on the motives of the authors including name calling (e.g., "right-wing think tanks") do very little to advance our understanding of the relationship between different conceptions of freedom and human flourishing.

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<sup>4</sup> For a survey of the literature, see: Berggren, Niclas. 2003. "The Benefits of Economic Freedom: A Survey." *The Independent Review* 8 (2): 193-211.

[http://www.independent.org/pdf/tir/tir\\_08\\_2\\_berggren.pdf](http://www.independent.org/pdf/tir/tir_08_2_berggren.pdf) and De Haan, Jakob, Susanna Lundström and Jan-Egbert Sturm. 2006. "Market-Oriented Institutions and Policies and Economic Growth: A Critical Survey." *Journal of Economic Surveys*, 20 (April): 157-181.

<sup>5</sup> Grubel, Herbert G. 1998. "Economic Freedom and Human Welfare: Some Empirical Findings." *Cato Journal* 18 (2): 193-211.

<sup>6</sup> Lawson, Robert A. 2008. "Economic Freedom and Property Rights." *Making Poor Nations Rich*. Benjamin Powell. Stanford: Stanford University Press.

<sup>7</sup> Norton, Seth W. 1998. "Property Rights, the Environment, and Economic Well-Being." *Who Owns the Environment?* Peter J. Hill and Roger E. Meiners. Lanham: Rowman & Littlefield.