

Rejoinder: Philosophical underpinning of “economic freedom” laid bare

Jim Stanford [Canadian Auto Workers]

In their response to critiques of their measurement of economic “freedom”, Joshua C. Hall, Robert Lawson, and Will Luther have done us a favour in laying bare the extreme libertarian philosophies which underpin their work.

The Economic Freedom of the World project (an international initiative coordinated by Canada’s right-wing Fraser Institute) attempts to quantify a highly neoclassical conception of freedom: namely, the extent to which economic agents (investors, entrepreneurs, workers, and consumers) are free from interference or constraint from government regulations, taxes, collective bargaining, or other intrusions. As Hall *et al.* explain, this conception is a nominally neutral conception of “negative liberty”: that is, it measures the extent to which individual agents are not interfered with. But it captures no positive rights which individuals may claim in the economic sphere – such as the right to employment, the right to a basic standard of living, or the right to organize a union and bargain collectively.

Hall *et al.* claim that this measure is neutral with respect to different agents or classes in society. This is true only in the same sense as Anatole France’s famous adage: “The law, in its majestic equality, forbids the rich as well as the poor to beg in the streets, steal bread, or sleep under a bridge.” We can’t pretend that these laws are equal in their impact on all individuals, without considering the real-world social and economic imbalances that fundamentally impact the manner in which the laws are implemented. The worth of a person’s freedom to keep as much money as they possibly can accumulate, without paying taxes on it, is obviously contingent on how much money the individual owns or can realistically hope to own. (Not surprisingly, low taxes are an important component of the EFW index.)

Taken to an extreme, this judgement that freedom equals non-interference implies a rejection of collective democracy in its entirety. As the authors themselves claim, “Democratic decision making ... is fundamentally at odds with any concept of individual freedom.” The pinnacle of freedom, in this view, is a world in which every individual is out for their themselves, with no obligation or accountability to the society in which they live, work, and accumulate. It matches the idealized neoclassical vision, but would repulse most democrats. And, historically, it has never described how real-world capitalism works – even in its early days, when the collective power and interventions of (pro-capitalist) governments played an essential role in fostering the early development of the new system.

The corresponding assumption that all private contracts (including employment contracts) are “voluntary” and hence mutually agreeable likewise ignores the real-world economic and social context for the operation of markets. In reality, compulsion, coercion, and even (surprisingly often) outright force underpins the so-called “free exchange” between workers and employers that the EFW approach celebrates. No wonder, then, whereas a high minimum wage or unionization translates into negative intrusions on liberty (namely, the right of employers to hire labour, free from government or union intervention, for the lowest price that the poverty and desperation of working people will allow), for workers minimum wages and unionization translate into a bit of economic freedom – namely, freedom from the compulsion for exploitation that is the deliberate aim of neoliberal labour market policy. Workers’ freedom and employers’ freedom are in this view quite opposite – and the EFW

approach (with its emphasis on deregulation, low taxation, and liberalization) clearly takes the employers' side.

The claim of a clear empirical link between economic freedom (EFW-style) and mass prosperity (again, reminiscent of the neoclassical conclusion that an unregulated general equilibrium maximizes social welfare) is spurious, and reflects the worst traditions of simple-minded econometrics. Regressions of global economic measures (even broad ones, like the U.N.'s Human Development Index) on EFW scores may produce positive correlations (which imply nothing about causation). But this correlation is mostly catching the impact of economic development on institutional stability and democracy. For reasons that have little if anything to do with neoclassical theories of optimization, very poor developing countries (especially those that have been wracked by war, political turmoil, or disease) also have very low EFW scores. Merely developing stable institutions and rule of law (a central qualitative feature of economic development) will enhance a country's GDP as well as its EFW score, and hence create an apparent (but spurious) collinearity between the two. Control for the general level of economic and institutional development, however, and the relationship between EFW-style "freedom" and actual human well-being becomes insignificant or even negative. Among OECD countries, for example, countries with larger governments, more regulations, and higher taxes score disproportionately high according to their human development. The UNDP's top-ten human development list for 2007 includes high-tax Iceland, Norway, Sweden, Netherlands, and France – while the low-tax (and hence more "free") U.S. ranks twelfth (despite its very high GDP per capita).

In short, economic freedom is very much in the eye of the beholder. The Fraser Institute's EFW index, despite its pseudo-technical trappings, represents a highly ideological effort to further the neoliberal policy agenda (deregulation, privatization, tax cuts, and globalization) that has so exacerbated inequality in the global economy. And as both myself and the late Margaret Legum suggested in our initial contributions to the *post-autistic economics review* on this subject, it would be a worthy project for a network of progressive economists to develop a quantitative index of economic freedom for those of us who live on the other side of the tracks.

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