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What does economic freedom buy?

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Abstract

The debate regarding “positive” versus “negative” freedom is discussed in terms of past theoretical and empirical studies. This is followed by an analysis of the impact of “negative” freedom, using a recently developed index of economic freedom for each of the 50 U.S. states allowing for an analysis of otherwise quite *homogenous* political entities, an advantage not realizable in previous international comparisons. Using several indicators of social well-being, the analysis suggests that the minimalist government aspects of negative freedom are often perversely related to other conditions of well-being, across states, and by implication among nations. Further, it is argued that such an adverse relationship may well flow from the behavior patterns embodied in and encouraged by a single-minded focus on negative freedom.

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“I used to think when I was a child, that Christ might have been exaggerating when he warned about the dangers of wealth. Today I know better. I know how very hard it is to be rich and still keep the milk of human kindness. Money has a dangerous way of putting scales on one’s eyes, a dangerous way of freezing people’s hands, eyes, lips and hearts.” (Dom Helder Camara¹)

1. Introduction

The concept and value of “economic” freedom remain the subject of significant interest, both in academic journals and in the publications of several major conservative think tanks.

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The main focus of this paper will be on the latter, with particular emphasis on the implication of differing degrees of such freedom across the 50 states of the U.S. The context for this analysis, however, is best understood against the underlying philosophical debate over the respective merits of what have commonly been referred to as “negative” and “positive” freedom.

It is easy to demonstrate the single-mindedness employed by today’s leading conservative institutions. The value ascribed to economic (negative) freedom places all other possible attributes in the distant reaches of social desiderata. Equally apparent are the limitations embodied in this conservative, near-libertarian perspective.²

Berlin’s (1958) *Two Concepts of Liberty* is most often cited as the contemporary source of the terms “negative” and “positive” freedom. For Berlin, negative freedom holds in the sense that “I am normally said to be free to the degree to which no human being interferes with my activity Political liberty in this sense is simply the area within which a man can do what he wants” (p. 7). Such liberty stands in sharp contrast to “positive” freedom which “derives from the wish on the part of the individual to *be his own master* . . .” (p. 16). Not only do these concepts differ in significant ways, but, according to Berlin, they are fundamentally incompatible. He argues that while negative freedom seeks to “curb authority as such,” those seeking positive freedom want authority “placed in their own hands.” Consequently, these two objectives are “profoundly divergent and irreconcilable attitudes to the ends of life” (pp. 51–52).

Conservative economists, from Nobel laureates Milton Friedman and Friedrich Hayek on to less well-known think-tank analysts,³ have employed this latter argument in placing negative freedom above all else.⁴ Such a clear cut ordering was not what Berlin initially argued. To the contrary, while assuming a deep incompatibility between the two notions of freedom, he seemed unwilling to acknowledge a preference, arguing instead that “it would be a profound lack of social and moral understanding not to recognize that the satisfaction that each of them seeks is an ultimate value which, both historically and morally, has an equal right to be classed among the deepest interests of mankind” (p. 52). Despite this clear reluctance to grant priority to “negative” freedom, during much of the post WW II era, Berlin was interpreted as doing just that. Michael Ignatieff, Berlin’s biographer sees in the *Two Concepts*, “the most influential statement of liberal belief of the past fifty years . . . [wherein Berlin] sharply distinguished the liberal credo from its radical, socialist, and communist cousins through his exploration of the idea of liberty itself” (Ignatieff, 1998a, p. 72).⁵

Justification for this unyielding interpretation, so favored by conservatives today, lies in Berlin’s post-war experiences in the Soviet Union. According to Ignatieff, his meetings with friends (particularly the poet Anna Akhmatova and Boris Pasternak) while visiting in the Soviet Union after WW II “brought home to him the truly inhuman cost” implicit in the communist notion that one should be “willing to sacrifice the liberty of some for the sake of justice for the masses” (pp. 68–69).⁶

It was, of course, a similar if more extended experience with the tyranny of pre-war communism and fascism that inspired Hayek to place unyielding preference on economic freedom—and by implication the *impersonal* forces of the market—at the admitted cost of a misguided but understandable desire for economic security (Hayek, 1944; see in particular, chapter IX). And while Berlin must be interpreted with a substantial degree of ambiguity regarding the *two* freedoms, no such uncertainty is evident in the writings of Hayek, Friedman, and more recent conservative scholars. This is not the case, however, with numerous others, whose views are

to the left of Hayek. These writers find significant problems, both theoretical and empirical, with the conservative “either/or” characterization.

This controversy over the relative importance and appropriate commingling of competing concepts of freedom is extensive, deep and complex, ranging widely across the disciplines of philosophy, politics and economics. While a review of such is beyond the scope of this paper, a brief thumb-nail sketch of the critique of the Hayek/Friedman position will provide context for the empirical analysis which follows.

2. One, two or N freedoms?

Hayek’s ideas, as expressed in *The Road to Serfdom*, were stimulated by the Keynesian “drift” he observed in England and the United States in the mid-1930s. Keynes did indeed see the world differently. In his essay, “The End of Laissez-faire,” [Keynes \(1963b\)](#) was quite explicit regarding the two freedoms. Here he indicated that his hostility towards state socialism was “not because it seeks to engage men’s altruistic impulses in the service of Society, or because it departs from *laissez-faire*, or because it takes away from man’s natural liberty to make a million . . . *All these I applaud*” (p. 316). He rejected the notion of either/or in saying that “our problem is to work out a social organization which shall be as efficient as possible without offending our notions of a satisfactory way of life” (p. 321).

Following on Berlin, [Rawls \(1971\)](#) suggests that “the inability to take advantage of one’s rights and opportunities as a result of poverty and ignorance, and a lack of means generally . . . [affects] the worth of liberty” (p. 203). That is, an absence of “positive freedom” impacts directly on the worth of “negative freedom.”

More recently, a number of scholars have highlighted the artificiality and misguided nature of the conservative position. [Hausman and McPherson \(1993\)](#) contend that contrary to Berlin’s characterization, it is difficult to separate negative liberty from “concerns with freedom in a wider sense” (p. 694). In other words, the “two” freedoms really conflate more appropriately into one, or at least one must incorporate “both liberties and rights into a scheme of moral evaluation” (p. 695); a perspective similar to that of both [West \(1993\)](#) and [Simhony \(1993\)](#). West argues that “while negative freedom exists when we are able to act according to our will, positive freedom requires beyond this that the will itself is formed autonomously” (p. 286). Thus, the advantages flowing from a lack of constraints require an understanding of what your interests actually are. This is difficult with an absence of food, shelter and clothing, to say nothing of an effective education. For Simhony, a “lack of coercion can be compatible with a lack of autonomy [what he calls “unfreedom”] because the un-coerced person may be still unable to shape and pursue his or her life-plan. Thus negative freedom has to be supplemented by [among other things] . . . external positive freedom (enabling conditions or opportunities)” (p. 49).

Finally, [Sen \(1992\)](#), argues persuasively that the seeming “anti-egalitarian” implications in the Hayek/Friedman position (and made explicitly in the libertarian views of Robert Nozick) offer in reality a false choice. Sen contends that “all theories of society are egalitarian in terms of some focal variable . . . [the] real question is ‘equality of what?’” (p. 4). “Negative freedom” simply implies that all men and women are *equal* with respect to an absence of

governmental imposed constraints. In an idealized libertarian world, such equality would be accompanied by vast inequalities in income, education, and political access, along with all of the other life-affirming and enhancing attributes that flow from their consumption.

In fairness, the writings of both Hayek and Berlin give evidence of such an understanding.⁷ Friedman's position, however, comes closer to the pure libertarian ideologue.⁸ So too, by implication, are the contemporary characterizations of "economic freedom" around the world and within the nation, to which we now turn.

3. Who is the "freest" of them all?

According to the Heritage Foundation, Hong Kong and Singapore have ranked 1st and 2nd in economic freedom since 1995, the first year of their rankings. The methodology employed (discussed below) finds countries like the Netherlands, Denmark and Finland surpassed by "freer" locales including Sri Lanka, Panama and Estonia. Within the U.S., Idaho, Virginia and Utah lead all states in the first 1999 freedom sweepstakes, with residents of Rhode Island and New York trailing the entire pack. On the face of it, one might reasonably ask just what is being measured in such comparisons.

The measures of "economic freedom" used below are those developed by the Heritage Foundation (Johnson et al., 1998) and the Center for Policy and Legal Studies (Byars et al., 1999; henceforth CPLS) respectively. The CPLS group is the first to provide such measures on a state level. Heritage is one of the three conservative organizations that have been publishing country indices since the mid 1990s: the other two are The Fraiser Institute (Canada) and Freedom House.⁹ These have in common the notion of minimum government interference in all economic matters. As Hanke and Waters (1997, p. 2) indicate, there "appears to be wide agreement" on the requisite aspects of economic freedom. These are four:

- secure rights to property (legally acquired);
- freedom to engage in voluntary transactions, inside and outside a nation's borders;
- freedom from governmental control on the terms on which individuals transact;
- and freedom from governmental expropriation of property (e.g., by confiscatory taxation or unanticipated inflation).

The state indices—our primary focus below—are similar in concept. The CPLS considers six categories (pp. 8–10). The list (including a portion of the text) is instructive.

- *Taxation.* Whatever the purpose of the tax, it represents a government confiscation of private resources and is therefore a violation of economic freedom as the term is used here.
- *Regulation.* Whatever the purpose of regulatory legislation, it represents a restriction on the use and allocation of private resources and is therefore a violation of economic freedom.
- *Litigation.* If the structure of a state's judiciary system . . . encourages frivolous law suits . . . the assets of private individuals or entities are unnecessarily exposed to higher risks of confiscation and redistribution. This is a violation of economic freedom. . .

It is difficult to decide if tort reform is an appropriate measure of protection of economic freedom simply because it may inhibit the pursuit of a just suit. A balancing act is at play here.

- *Communalism*. The fraction of total state income that runs through the political process is another, bold indicator of individual economic freedom.
- *Conscription*. Mandatory activities are indicators of economic freedom because they restrict the use of private resources and time. Mandatory schooling is a good example. [Voucher systems, abundant home and private schools, thus] offer relatively more economic freedom
- *Cash transfers*. Expenditures on social welfare programs are indicators of the violation of economic freedom It is not a concern for the question of economic freedom whether or not these programs serve other purposes. They are violations of economic freedom because they are funded by the confiscation of private assets. Private charity, by contrast, is a manifestation of economic freedom.

It is hard to imagine a more pristine version (save for trade and monetary policy) of the notion of “economic” freedom. The CPLS, as well as Heritage, Freedom House, and Fraiser have in this sense sought to provide empirical content to the first of Berlin’s two liberties. Such ranking allows the debate regarding the value of one freedom over another to move from the theoretical to the empirical, that is, to begin to measure just what is so positive about negative freedom.

4. The benefits (and costs?) of “economic freedom”: a brief survey

Much of the analysis to date has focused on the question of economic growth, particularly in terms of income. The results are nearly uniform in confirming the vision first set out by Adam Smith in *The Wealth of Nations*. There can be little doubt that the freeing-up of markets has had a profound impact on economic growth. This has been evident since the mid 18th century, and reinforced by more recent events in eastern Europe. As [Hanke and Waters \(1997\)](#) put it, “[recent analysis] have rediscovered Smith’s ancient insight that economic liberty is a crucial precondition for sustained, vigorous economic growth” (p. 1). In most such studies, levels and changes in income per capita are correlated with one or another index of economic freedom. Hanke and Water’s work is typical of the approach taken. Regressing the log of GNP/CPLS on selected indices of economic freedom, along with the Freedom House (1997) measure of political and civil liberties, yield unambiguous results: there is a positive and highly significant correlation between income and both of these measures. Further, they conclude that “gains in economic freedom have a ‘prosperity dividend’ that is three to six times greater than that which would be obtained from comparable gains in political/civil liberty” (1997, p. 14).

Hanke and Waters confirm the results from a number of similar studies. Many of the latter appear under the auspices of conservative oriented publications and think tanks (e.g., *Cato Journal* and *Public Choice*, and Freedom House and the Heritage Foundation). And in this sense, if no other, the agreement across these studies should not surprise. This is not to say that the relationship between measures of economic freedom and economic (income) growth

is invalid. To the contrary, it is just this well established relationship—first posited by Adam Smith—that cast doubt on the unqualified conclusions of Hanke, Walters, et al. That near-full economic development, market oriented economics, and efficient use of resources have come to most western nations, and tarry significantly among the Congos, Angolas, and Uzbekistan's of the world is hardly an unexpected revelation. It is basically this point that most of the studies discussed in Hanke and Waters confirm.¹⁰

A different, and perhaps more appropriate question as far as *domestic policy within highly developed countries* is concerned, deals precisely with the costs and benefits of such government “intrusion” in areas of welfare policy, environmental regulation, health and safety standards, etc.¹¹ For the Heritage Foundation and its allies to espouse the minimal government mantra based on the economic experience of the Congo and Angola certainly qualifies as high level sophistry. More relevant for U.S. domestic policy is the “odd” fact, that, according to Heritage, the Scandinavian countries are blessed with a lesser degree of economic freedom than Chile, El Salvador, Argentina, United Arab Emirates, Bahamas, and the Czech Republic among others. The “oddity,” of course is the fact so amply explored in the philosophical debates touched upon above. There are at least two freedoms. What of the social and public well-being of a nation? As noted above, many but not all parties to the *a priori* debate accept the notion of some degree of trade-off among the two or more “freedoms.”

The empirical literature, while limited, has begun to address this question. In a recent article, Falkenberg (1998) considers these issues from a theoretical, philosophical and empirical level. Based on an analysis of several aggregate statistics for the three (communal oriented) Scandinavian countries and the (individualistic oriented) U.S. over the period 1960 (or 1973) through 1994 (or 1993), Falkenberg concludes that “equity, broadly defined based on traditions from moral philosophy and sociology, *promotes both economic efficiency and freedom of choice*” (p. 25, emphasis added).¹² Robinson and Siles (1999) come to a similar conclusion in their analysis of census data (1980 and 1990) for the 50 states. They define in broad terms a concept of “social capital”—a measure of communitarian spirit—and conclude that a deterioration in social capital is associated with an increase in income inequality and a *reduction* in the level of income over the period of study (p. 89).

These conclusions are contradicted by Grubel (1998) writing in the *Cato Journal*. In an analysis of 56 countries, Grubel argues that “policies that bring about greater income equality also result in lower economic freedom, income and growth” (p. 299). Also relevant here is the paper by Berggren (1999), who addresses the issues of economic freedom and equality directly, while finding the two factors far more “friend” than “foe.” Berggren concludes, however, that “sustained and gradual increases in economic freedom influence equality measures positively” while “the absolute level of economic freedom (especially the scope of government regulations and the level of taxation) appears to be negatively related to equality in some cases” (p. 217).

These several studies taken as a whole suggest that the “trade-off” between equity and efficiency is far from clear cut. Not only is the causal relationship complex, with an obvious feedback loop from one element to the other, but the relationship itself impacts differentially across countries and cultures.¹³

Indeed, a significant degree of ambiguity remains when limiting the analysis to the relatively small number of fully industrialized nations. My own analysis of 24 such nations—*not reported here*—suggests that the degree of “economic freedom” accounts for little with respect to

a nation's GDP/capita, human development and gender empowerment (HDI and GEM as measured by the United Nations). There is a significant *negative* relationship between the Heritage measure of freedom and the GINI coefficient, but again, much of the degree of equality among the industrialized nations remains unexplained.¹⁴

But should we expect otherwise? In arguing that “culture matters,” Boettke (1999) writes that “international data . . . cannot unambiguously arbitrate between competing hypothesis on the nature and causes of the wealth of nations . . . [Rather, it is necessary to] understand the ideas, beliefs, habits that are indigenous to an area, and then see how the political, legal and economic institutions that are correlated with economic development fit in the social ecology” (p. 9). Boettke's concern addresses the fact that a “similar” economic and legal framework will not necessarily have the same impact on nations engaged in economic *development*. The same can be fairly said for fully developed nations as well. While the cultural and social distances separating fully developed nations from the North Korea of the world are obviously vast, relevant disparities certainly exist among the former group alone.

The previously cited work by Falkenberg (1998) is persuasive in this regard. In his analysis of nine fully developed nations, Falkenberg finds significant differences in key social and psychological attributes—attitudes towards such issues as social equity, efficiency, and freedom—that can and do alter economic outcomes among nations with similar economic and governmental institutions (p. 1).¹⁵ In a recent paper, Yang and Lester (2000) provide a brief but useful review of the literature, while suggesting that the extent “impulsivity” and lack of socialization among a population (“extraversion”) may well have adverse economic consequences (p. 288). Berggren (1999) himself concludes that the positive relationship between acquisition of economic freedom and increased equality “hold[s] better for less-developed than for developed countries” (p. 213). With respect to the latter, few would deny the significant cultural differences between say the Swedes and the Italians, sufficient so as to alter economic outcomes given similar market structures. Indeed, Young (2000) argues that the strength of such cultural differences would appear to be a significant complicating factor in the evolution of the European Union. As it turns out, recently developed indices of economic freedom make it possible to get beyond this seemingly inevitable cultural influence. Before doing so, however, it will be useful to examine the theoretical implications of Dom Helder Camara's comment given at the opening of this article as the relate to the two freedoms.

5. More than a “zero-sum” outcome: the potential impact of an excess of negative freedom

The Brazilian Bishop's words point to the risks inherent (in a *causal* sense) in economic growth itself. That is, to the extent that “negative” freedom does promote relatively rapid economic growth, it at the same time may foster attitudes inimical to the more communitarian values necessary in sustaining important aspects of “positive” freedom. While truly poignant, Dom Helder Camara's theoretical assertion resonates with the thoughts expressed by economists in centuries past. Smith (1937) certainly was aware of the debilitating social consequences inherent in the process of economic growth. Providing for internal security (justice), the second of three vital state obligations, was necessary to protect an increasingly

wealthy society from the consequences of among other things “the avarice and affluence of the rich . . .” along with the “indignation of the poor” (p. 670). A set of competing attributes ill-designed to foster community and social harmony. A century later, Marx and Engels (1955, p. 12) saw in capitalist development the severing of all essential human relations between men other “than naked self interest . . . [while tearing away] from the family its sentimental veil, and [reducing] the family relation to a mere money relation”. And as if history stood still despite the passing of another century, Polanyi (1960) characterized the same development process, encouraged by Smith and condemned by Marx, as one that had simultaneously “enriched society” and “impoverished the individual” (pp. 72–73).

There is little else to interpret in these words. There is clearly a causal connection between the fostering of “negative” freedom, with its bias towards individualism, and at least some cost in what Smith (1969) refers to as our “moral sentiments;” or in more recent times, the notion of “social capital,” that is “the quality of our relationships . . . [to include] “civic” [and] “community engagements” (Robinson and Siles, 1999, p. 44). Echoing the thoughts from Smith, Robinson and Siles argue that the pursuit of “competitive activities,” many of which are the norms of free-market behavior, “not only have the tendency to reduce existing levels of social capital between groups or people, but they may also create *antipathy, a negative form of social capital*” (p. 50, emphasis added).

Thus, the essential argument is clear in its implications. Where the economic institutions come to play a dominant if not *the* dominant role in society, and where such institutions place significant emphasis on individualism and self-seeking behavior, it is just such behaviors that will come to dominate the polity itself. Olson (1982) puts the argument succinctly:

“Every society, whatever its institutions and governing ideology, gives greater rewards to the fittest—the fittest for that society. What it takes to be favored varies from society to society, but no society rewards those who are least fit to thrive under its arrangements.” (p. 72)

Political entities, from nation states on down to smaller units, which seek and are successful in attaining a high degree of “negative” freedom are thus likely to be less able (and willing) to provide their citizens an equal abundance “positive” freedoms. The analysis which follows is, I would argue, fully consistent with these assertions.

6. Empirical analysis: the “homogenous” states

While the differences between New York city and rural communities further south may offer considerable cultural heterogeneity, it is not unreasonable to see far more cultural, social, and developmental similarity across the 50 states than one might expect among the 50 or more nations that have been the subject of empirical study to date. National identification abounds, be it voluntary (from the flag to women’s soccer) or coerced (via the constitution). A multitude of religious and social organizations (from the Baptists to the Elks to the KKK) are represented in every state. Our politics are dominated by two political parties who offer not the slightest difference in what Lindblom (1977) has called “grand majority” issues—dominated by a strong belief in individualism and free markets. And while demographic and other changes

may be wearing away at the core fabric of our society, we remain “one nation, under God, indivisible . . .”

It is also the case that strictures of the constitution prevent important “freedom” differences in the areas of monetary, fiscal, and trade policies which abound across sovereign nations. The same constitution does, however, permit ample room for economic policies at the state level that can be and are considered an “infringement” on economic freedom.

As noted above, the first effort to measure such freedom has been accomplished under the auspices of The Center for Policy and Legal Studies—CPLS—located at Clemson University. Economic freedom is defined so as to accord with “the notions of Adam Smith and other classical liberal thinkers who saw the individual as *sovereign* and urged the state to become a *benign* instrument for preserving individual sovereignty” (Byars et al., 1999, p. 2, emphasis added¹⁶). And, “w[hatever] the purpose,” taxes, regulatory legislation, mandatory schooling, and all social welfare spending, constitute a “violation of economic freedom” (pp. 8–9). Economic freedom, so defined, is surely incompatible with *any degree* of “positive” freedom. What is of interest is the extent to which such freedom or lack thereof impacts on the lives of citizens of the respective states in ways hypothesized in Section 5.

A wide array of social, demographic, and economic indicators are available in the Department of Commerce publication, *State and Metropolitan Area Data Book* (1998, henceforth, SMADB), which permit such exploration. And while these variables are contemporaneous with the CPLF freedom measures for the year 1995, a reasonable case can be made for causality. That is to say, it is highly unlikely that the institutional arrangements that go into the CPLF indices fluctuate dramatically over time, and consequently, these rankings are likely to reflect institutional patterns—political, economic and legal—that have persisted for at least some time past.¹⁷

The analysis utilizes ten specific “dependent” variables; the overall level of poverty, child well-being, child poverty, SAT scores, the rates of suicide, violent crime, population uncovered by medical insurance, percentage voting in the last presidential election, percent of union labor in the state work force, and net-migration. All but child well-being and SAT scores are derived from SMADB (precise definitions and sources for all variables are given in Appendix A).

The several measures selected serve as proxies for some dimensions of citizen well-being. The poverty measures indicate an aspect of the state’s economic well-being; child well-being, suicide and medical insurance coverage might be considered proxies for the mental and physical health environment; the measures of crime serve as proxies for the social climate; SAT scores as a crude indicator of school quality, and the extent of voting and degree of unionization are meant to serve as very limited proxies for the degree of social cohesion.¹⁸

The discussion in Section 2 above indicates that economic freedom, however measured, is but one of a number of factors that may well impact on the well-being of citizens residing in any political entity. With the case of the 50 states, a degree of homogeneity in excess of what one encounters in cross-country analysis can be assumed. Nevertheless, differences among the states are not trivial. I’ve included several variables designed to capture differences in income, age, education, ethnicity and the catch-all, region (again, precise definitions are given in Appendix A).

As has been customary in most of the studies discussed above, the statistical analysis utilizes OLS. To avoid confusion it is important to note that as is customary with all such indices, the

Table 1
Simple regressions across 50 states

Dependent/ independent variable	Poverty	Kids	Child poverty	Education	Suicide	Medical uncovered	Violent crime	% Voting	% Union	Net migration
Constant	16.41 (4.28)***	46.30 (3.49)***	17.13 (2.74)***	1183.62 (19.5)***	22.96 (2.90)***	19.54 (5.18)***	288.84 (1.15)	48.65 (8.07)***	−13.81 (3.68)	26.21 (4.18)***
Freedom	−0.64 (0.89)	−3.87 (1.59)	−0.02 (0.02)	−21.65 (1.94)*	−1.81 (3.40)***	−1.01 (1.46)	46.44 (1.01)	0.55 (0.49)	5.02 (7.31)***	−3.32 (2.89)***
R^2 adjusted	.00	.03	.00	.05	.18	.02	.00	.00	.51	.13

Data definition and source: Appendix A.

* Significance level at .10.

*** Significance level at .01.

CPLF index of state levels of economic freedom is given in *ascending* order, from more to less freedom, with the “freest” state number one. Table 1 gives the results of the simplest naïve formulation of the question, what impact does the degree of economic freedom have on the several measures of economic and social well-being? As might be expected, such a simple two-variable analysis yields, for most *but not all* variables, little by way of significant results. There is no correlation at all between economic freedom and overall poverty, child poverty, the absence of medical insurance, total and violent crime, and the percent voting in the 1996 presidential elections. While not reported in Table 1, there is a highly significant *negative* correlation between a state’s level of freedom and its level of income.¹⁹

The negative coefficients on child well-being and education (the former significant at just beyond the 10% level) suggests that the greater the economic freedom, the *greater* the school quality and child well-being—that is, the freedom ranking from most free (rank = 1) to least free (rank = 50) inversely related to absolute values of dependent variables. The reverse implication applies regarding the extent of suicide and union organization. In both cases the coefficient on economic freedom is of high statistical significance, suggesting that increases in economic freedom across the states is associated with greater rates of suicide and lower rates of unionization.²⁰ The relationship with respect to medical coverage is also adverse, but of low significance ($R^2 = .14$). Consistent with the CPLS (Byars et al., 1999, p. 123) study, wherein it is argued that “according to the Tiebout hypothesis,” migration flows should follow economic opportunity, there is a positive correlation between economic freedom and migration rates as indicated in the last column of Table 1.²¹ Under any circumstance, however, little should be made of any results based on such a simple two-variable analysis.

The outcome of a more reasonable regression analysis is given in Table 2. Here 11 independent variables are included along with the degree of economic freedom in each of the equations (the variables measuring education expenditures and percent of students taking the SAT test are added where SAT scores are the dependent variable). The overall results here are of high statistical significance. More to the point is the particular impact of economic freedom and several other explanatory variables. And the results with respect to the focus of this paper, the benefits *and* costs of economic freedom, are of considerable interest.

Economic freedom is significant, often highly so, in 7 of the 10 equations. Indeed, no other independent variable is significant more often. In terms of impact, states with a high degree of such freedom have relatively low rates of poverty, child poverty, and crime of all sorts, and higher rates of net in-migration. However, the conclusions from the simple regressions in Table 1 also stand with respect to voting behavior and unionization, that is, economic freedom would seem to militate against these two measures of communal oriented behavior. There is a modest suggestion (negative coefficient, but of somewhat low statistical significance) of an adverse relationship with respect to suicide as well. Interestingly the results are altered with respect to SAT scores. Here, higher scores are associated in a significant way with lower levels of economic freedom. Finally, there appears to be no relationship with respect to medical coverage and overall child well-being.

In Table 3 the regressions of Table 2 are replicated, with the *exclusion* of all independent variables that are not significant at least the .10 level. The only differences between the two sets of equations are that in the latter approach both the levels of suicide and absence of medical coverage are now highly significantly and adversely related to the degree of economic freedom.

Table 2
Multiple regression analysis across 50 states: all independent variables

Dependent/ independent variable	Poverty	Kids	Child poverty	Education	Suicide	Medical uncovered	Violent crime	% Voting	% Union	Net migration
Constant	13.60 (1.49)	−31.82 (0.88)	−1.39 (0.08)	1103.97 (13.17)	8.39 (0.93)	15.53 (1.68)	−628.56 (0.79)	48.96 (2.70)	−29.48 (1.77)	20.11 (0.89)
Freedom	1.22 (2.50)***	1.71 (0.88)	2.15 (2.35)**	12.15 (2.28)**	−0.67 (1.39)	−0.08 (0.16)	91.72 (2.15)**	2.12 (2.19)**	4.84 (5.44)***	−3.15 (2.62)***
Income	−0.34 (3.05)***	−0.30 (0.69)	−0.45 (2.14)**	1.50 (1.39)	0.09 (0.77)	−0.12 (1.07)	0.84 (0.08)	−0.09 (0.42)	0.46 (2.28)**	0.10 (0.37)
<HS	0.10 (0.92)	1.51 (3.38)***	0.39 (1.86)*	−2.87 (2.63)***	−0.05 (0.41)	0.01 (0.09)	−8.38 (0.86)	−0.74 (3.36)***	0.21 (1.04)	−0.24 (0.88)
>BA	0.16 (0.50)	0.53 (0.40)	1.00 (1.63)	4.70 (1.55)	−0.59 (1.84)*	−0.22 (0.66)	−16.70 (0.59)	0.09 (0.13)	0.71 (1.20)	−1.90 (2.36)**
65+	0.41 (2.08)**	−0.13 (0.15)	0.92 (2.44)**	0.16 (0.08)	0.13 (0.67)	−0.13 (0.62)	−1.60 (0.09)	0.25 (0.63)	−0.38 (1.04)	−0.37 (0.74)
Black	0.21 (3.51)***	0.58 (2.43)**	0.31 (2.70)***	−0.03 (0.06)	0.07 (1.26)	0.17 (2.89)***	20.82 (3.94)***	0.19 (1.55)	−0.17 (1.53)	0.19 (1.29)
Hispanic	0.22 (4.34)***	0.20 (0.97)	0.30 (3.07)***	−0.38 (0.79)	0.05 (0.99)	0.35 (6.60)***	12.30 (2.69)***	−0.18 (1.74)*	−0.12 (1.23)	0.16 (1.23)
White	−0.01 (0.14)	0.14 (1.02)	−0.01 (0.18)	0.48 (1.47)	0.08 (2.36)**	0.06 (1.65)	3.50 (1.13)	0.20 (2.92)***	−0.02 (0.33)	0.12 (1.46)
Metro	−0.06 (2.36)**	−0.05 (0.56)	−0.08 (1.78)**	−0.27 (1.14)	−0.04 (1.51)	−0.02 (0.87)	2.95 (1.41)	−0.12 (2.61)***	0.01 (0.20)	0.12 (2.13)**
West	2.01 (1.41)	18.79 (3.32)***	4.58 (1.72)*	−43.68 (3.23)***	6.31 (4.48)***	0.28 (0.19)	229.55 (1.84)*	−1.57 (0.55)	4.52 (1.74)*	8.00 (2.28)**
Central	0.38 (0.33)	4.65 (1.02)	2.01 (0.94)	−9.70 (0.79)	−0.43 (0.38)	−2.03 (1.75)*	189.42 (1.91)*	0.89 (0.39)	3.44 (1.66)*	−2.94 (1.05)
South	1.07 (0.82)	10.00 (1.92)*	2.21 (0.90)	−11.35 (0.89)	1.61 (1.24)	1.76 (1.31)	249.19 (2.18)**	−0.61 (0.23)	1.96 (0.82)	0.09 (0.03)
Education expenditure Percent				−2.71 (17.72)***						
R ² adjusted	.80	.75	.73	.94	.72	.79	.64	.68	.67	.61
DW	1.93	1.88	2.04	2.07	2.09	2.14	1.92	1.79	2.12	1.98
F	17.65	13.01	12.12	54.81	11.56	16.53	8.39	9.63	9.23	7.38
Dependent mean	12.94	25.44	17.25	1066.80	13.18	14.09	539.44	51.60	13.29	8.28

Data definition and source: Appendix A.

* Significance level at .10.

** Significance level at .05.

*** Significance level at .01.

Table 3
Multiple regression analysis across 50 states: significant independent variables only

Dependent/ independent variable	Poverty	Kids	Child poverty	Education	Suicide	Medical uncovered	Violent crime	% Voting	% Union	Net migration
Constant	22.06 (5.61)	−25.08 (2.61)	3.49 (0.31)	1245.65 (42.10)	17.09 (6.67)	12.52 (2.96)	−444.73 (1.90)	45.33 (6.61)	−24.69 (5.75)	22.14 (5.22)
Freedom	1.26 (3.20)***	−0.47 (0.35)	2.10 (2.68)***	15.35 (4.18)***	−1.14 (3.16)***	−1.36 (3.57)***	99.80 (2.75)***	1.86 (2.69)***	4.29 (6.10)***	−3.93 (4.36)***
Income	−0.42 (5.58)***		−0.35 (1.92) [†]						0.27 (2.81)***	
<HS		1.82 (6.30)***	0.31 (1.75) [†]	−50.90 (8.01)***				−0.49 (4.93)***		
>BA					−0.48 (2.60)***					−0.81 (1.66) [†]
65+	0.26 (1.56)		0.81 (2.21)**							
Black	0.24 (7.00)***	0.36 (2.25)**	0.37 4.09)***			0.21 (4.70)***	18.95 (5.42)***			
Hispanic	0.25 (5.62)***		0.36 (4.21)***			0.33 (8.10)***	13.94 (4.26)***	−0.27 (3.92)***		
White					0.03 (1.68) [†]	0.06 (1.80) [†]		0.18 (3.86)***		
Metro	−0.05 (2.14)**		−0.08 (1.79) [†]					−0.10 (3.26)***		0.15 (4.14)***
West		17.59 (6.30)***	2.61 (1.50)	−50.90 (7.57)			224.20 (2.57)***		3.32 (2.67)***	10.52 (7.23)***
Central						−2.96 (3.95)***	200.85 (2.41)**		3.16 (2.59)***	
South		6.04 (1.63)					188.45 (1.85) [†]			
Education expenditure				−0.03 (1.99)**						
Percent				−2.52 (23.46)***						
R ² adjusted	.81	.75	.74	.93	.72	.75	.63	.72	.64	.62
DW	2.04	1.92	1.86	2.05	1.87	1.73	1.91	1.89	2.20	2.09
F	35.66	30.49	18.03	134.53	31.95	26.04	14.98	22.32	22.90	21.04
Dependent mean	12.94	25.44	17.25	1066.80	13.18	14.09	539.44	51.60	13.29	8.28

Data definition and source: Appendix A.

* Significance level at .10.

** Significance level at .05.

*** Significance level at .01.

While the main concern here has been with the impact of economic freedom, other results in [Tables 2 and 3](#) are informative as well. Several points in particular are worthy of comment. Some of these should not be surprising, others might be.

- Race matters much of the time—and in the expected way. Larger Black (and often Hispanic) populations are strongly associated with undesirable levels of poverty, child well-being, medical coverage and crime. In contrast, states populated by large numbers of Whites have significantly higher levels of voting and medical insurance coverage. Such states have lower levels of crime as well. The only “negative” attribute associated with relatively large White populations is the level of suicide. The white dummy, the number of citizens with more than a BA degree along with the West regional dummy (no doubt influenced by Native American populations) account for over 70% of the variation in suicide rates across the 50 states.
- While there exists a positive correlation between economic freedom and income levels (simple correlation = .48), income retains significant independent explanatory power with respect to poverty (less), crime (less) and unionization (more).
- States with relatively large numbers of less educated citizens had lower levels of child welfare, voting participation and overall crime rates (influenced mainly by property as distinct from violent crime).
- Where populations were more concentrated in metropolitan (less rural) areas, poverty and voting participation was significantly lower, while crime rates were higher.
- Finally, beyond the higher suicide rates in the west, regional variation impacted on child welfare (lower in the west and south), medical insurance coverage (lower in the central states), and crime (higher in the west, central and south).

7. Concluding comments

With the preceding analysis of the impact of economic freedom on the welfare of citizens across the individual 50 states we have come full circle. The philosophical/political/economic debates regarding the singular importance of “negative” freedom over the competing values (often combined within the notion of “positive” freedom) is unlikely to ever be resolved conclusively. An individual’s priors on such issues are as often as not based on underlying and deeply held ideological beliefs (see, for example, [Kaun, 1984](#)). And these values can, as [Card and Krugman \(1995\)](#) vividly demonstrate, intrude on the nature of empirical work done and *published*. With these caveats in mind, I would argue that data so often used to bolster the conservative perspective—citing the regularity of correlation between economic freedom and levels and changes in income and economic growth—is far from convincing.

Indeed, there is clear, and not surprising evidence to the effect that the fostering of free markets and the absence of heavy-handed government intervention in the economy is fully consistent with economic growth of a nation. This much has been demonstrated in several recent empirical studies. However, to rest the case with such evidence is to ignore the fundamental question facing all of the world’s *fully developed* nations.²² An analysis restricted to such political entities is far from conclusive regarding the merits of economic freedom. Previous studies

have suggested that as between “negative” and “positive” freedom, the latter may well be more influential in promoting continued economic growth. Other studies have been explicit in arguing the significance of “equity” concerns in assessing the balanced well-being of a nation.

A similar caveat with respect to the blessings of unmitigated “negative” freedom is warranted based on my analysis of as homogenous a large group of political entities as one might hope to find, the 50 states of the U.S. Not to repeat the conclusions of [Section 6](#), it is sufficient to say that greater economic freedom does seem to impact on the economic conditions and migration patterns of each state in a way suggested by the conservative analysis. However, the record is certainly mixed, and in some cases perverse with respect to a broader array of social well-being indicators, in particular levels of suicide, medical coverage, quality of education, voting behavior and labor union participation. Again, these latter relationships are consistent with the *causal adverse social relationships* flowing from an “excess” of negative freedom. And while no common set of equations (as utilized in [Table 3](#)) can possibly capture all aspects of citizen well-being, the evidence presented here is fully consistent with the notion of a “trade-off” between economic (negative) freedom and a number of other socially desirable attributes.

Over seventy years ago, [Keynes \(1963a\)](#) wrote the following:

“I see us free . . . to return to some of the most sure and certain principles of religion and traditional virtue—that avarice is a vice, that the exaction of usury is a misdemeanor, and the love of money is detestable, that those walk most truly in the paths of virtue and sane wisdom who take least thought for the morrow. We shall once more value ends above means and prefer the good to the useful.” (pp. 371–372)

Here as elsewhere, Keynes was arguing the folly of a narrow focus on the values implicit in “negative” freedom. And even though he was looking forward to the year 2030, many of the developed nations of his day soon began, and continue to understand the liabilities of an excessive reliance on bread alone. The same may well apply to many smaller political entities within these countries, as evidence among the 50 U.S. states indicates.

Notes

1. As quoted in [Sider \(1997, p. 21\)](#).
2. I use the term “near-libertarian” since the indices of economic freedom employed by The Heritage Foundation and others see all aspects of “minimal government” as most highly desired.
3. In an op-ed piece in the *New York Times*, entitled “How To be A Hack,” [Krugman \(2000\)](#) writes rather disparagingly about “hired guns,” as he calls them, who work on behalf of right-wing causes, and “run in packs” in Washington, DC (p. 11).
4. In an early statement of the dilemma, [Friedman \(1962\)](#) asserts that “The 19th-century liberal regarded an extension of [economic] freedom as the most effective way to promote welfare and equality; the 20th-century liberal regards welfare and equality as either prerequisites for or alternatives to freedom” (p. 5). One can reasonably argue that Hayek’s *The Road to Serfdom* is devoted, in its entirety, to the same fundamental questions.

5. Despite this interpretation, [Ignatieff \(1998b\)](#) casts Berlin as anything but a fellow-traveler of the Freedman and Hakes in this matter. Rather, Berlin insisted that “systems of values were never internally consistent. He argued that “liberty [negative freedom] ought to have a certain priority,” . . . but “even liberty might have to be curtailed in the interests of *social justice*.” It was just this inherent incompatibility between two valid ends that created for Berlin the dismal realization: “We are doomed to choose, and every choice may entail an *irreparable loss*” (p. 285, emphasis added).
6. [West \(1993\)](#) makes a similar point: “In common with much 20th-century political thought it is the double trauma of fascism and Stalinist communism which form the implicit backdrop for Berlin’s strictures on positive freedom” (p. 285).
7. Indeed, Berlin himself was, in [Ignatieff’s \(1998a, p. 72\)](#) words, a “New Deal Liberal”. And in reply to David West, [Berlin \(1993\)](#) repeats his commentary in *Two Liberties*, to the effect that positive freedom is “an unimpeachable human value.” His strictures apply only to “perverted interpretations” of such freedoms (p. 297). [Hayek \(1944\)](#) is equally clear regarding the desirability of government supported assistance in the provision of “security against severe physical privation, [and] the certainty of a given minimum of sustenance for all. Such security, however, should not be mistaken with the security of a “given standard of life, or the relative position which one person or group enjoys compared with others.” The former being a security of a “minimum income,” versus the “security of the particular income a person is thought to deserve” (p. 120).
8. How else might one describe an individual who sees no validity for government involvement in among other things farm price supports, tariffs, minimum wages, “detailed” regulation of industry, social security programs, licensure requirements with respect to business and occupation, public housing, the military draft in peacetime, or national parks? And as [Friedman \(1962\)](#) notes, “This list is far from comprehensive” (p. 36).
9. [Hanke and Waters \(1997\)](#) provide an excellent discussion and comparison of the indices developed by each organization. They conclude that the three surveys “share more similarities than differences,” and that where there are differences these are mainly with Freedom House’s exclusion of measures relating to the size of government and monetary stability. All three organizations include measures of the extent to which governments “secure private property rights and enforce contracts,” and all three “support freedom of international exchange of goods and capital,” while viewing “barriers to entry into labor and product markets and controls on wages and prices with disfavor” (p. 7). [Easton and Walker \(1997\)](#) use the Fraiser index of economic freedom, and conclude that increases in economic freedom so measured will “contribute to prosperity and development” (p. 332).
10. This is not to suggest that the studies in question utilize all of the countries so ranked by Heritage or Fraiser. It is the case, however, that the touted relationship between economic freedom and income is, at best, far weaker among nations that have achieved a similar level of economic development. More on this shortly.
11. Such concerns needn’t be limited to developed nations, as the continuing and intriguing debate over the “sustainability” of the Kerala Model attests. See for example, [Parayil \(2000\)](#).

12. In an earlier analysis of 123 countries [Cereseto and Waitzkin \(1988\)](#) reached similar conclusions regarding the benefits accruing to more socialist oriented countries. [Gwartney et al. \(1988, p. 175\)](#) offer data showing precisely the reverse. In arguing that government expenditures beyond those defined by Adam Smith inhibit economic growth, *and using end-point periods*, the Scandinavian countries are shown to have far lower growth rates than the United States during the period 1990–1996 as compared with the period 1960–1965. During the latter period the size of government was similar across these countries, but expanded far more in the three Scandinavian countries after that. In all likelihood, a very different conclusion would emerge had the 1980s been utilized in place of the 1990s.
13. [Berggren \(1999, pp. 205–208\)](#) does a particularly nice job of characterizing the likely *a priori* relationship between economic freedom and equality, and concludes that the particular direction of such a relationship is clearly ambiguous.
14. The adjusted R^2 is .15. Results for the developed nation regressions available from the author upon request.
15. Falkenberg derives these from the more detailed distinctions developed by [Hofstede \(1980\)](#); the latter exploring significant cultural differences across a wide array of countries (39) including all of the OECD nations.
16. Byars and his colleagues create an index of such freedom “based on more than 100 different individual measures of economic freedom, in an effort to quantify the extent of government spending, regulation, school choice, taxation and the judicial system” (p. iv).
17. This assertion is fully consistent with the Heritage Foundation rankings of economic freedom among nations, where there has been little change in the rankings since first published in 1995. For example, Hong Kong, Singapore and New Zealand have ranked 1st, 2nd, and 4th, respectively over the past seven years. And with only slight alteration, the United States, Switzerland, Luxembourg and the United Kingdom have followed close behind each year.
18. For a much more extensive discussion of the notion of social cohesion (capital), see [Robinson and Siles \(1999\)](#). The authors see membership in civic and professional organizations as enhancing social capital, but make no specific reference to the collective act of voting. On the other hand, they argue that “competitive” events such as strikes and elections may decrease the amount of social capital (p. 50). The analysis below suggests, as seems correct *a priori*, that such behavior is more, rather than less communitarian in nature.
19. The coefficient on freedom is significant at the .01 level for both personal income and family (four persons) income (adjusted R^2 of .31 and .25, respectively. These results are not inconsistent with the [Byars et al.’s \(1999\)](#) analysis showing a positive correlation between *growth* in personal income, although the relationship here is of low significance (p. 130).
20. It is peculiarly interesting to observe the magnitude of impact economic freedom *seems* to have on the degree of unionization—namely close to 50% of the variation in unionization is “accounted” for by differences in economic freedom. This strong association remains in the multiple regression analysis.

21. In seeking to confirm the validity of their measure of economic freedom, [Byars et al. \(1999\)](#) employ total in-migration as the dependent variable. I've used net-migration rates. And while the regression equations differ, the general results are similar. It should be noted as indicated in [Tables 2 and 3](#), that while economic freedom does impact on migration flows, the bulk of the explanatory power lies in the regional variable alone. Step-wise regression (not reported) indicates that the degree of economic freedom and the percent of state population living in metropolitan areas each account for approximately 10% of the variation in net migration among the states over the period 1990–1997, while the regional variable alone (West) accounts for close to 40% alone.
22. The debate regarding the extent to which “culture matters,” discussed earlier and relevant in this paper has become sufficiently cosmopolitan and contemporary as to make “today’s” pages of the *New York Times*, whereas [Stille \(2001\)](#) suggests a growth in the “number of scholars who have come to believe that social attitudes are more important than politics,” a fact that is unsettling to “policy makers,” in its challenge to Marxist and market economists alike (p. A17).

Appendix A. State variables—[Tables 1–3](#)

Dependent variables—identification-definition-(source)

- Poverty*—1995 percentage of total population below poverty level (2)
- Kids*—1997 ranking of Annie E. Casey Foundation—composite of 10 indicators of child well-being (3)
- Child poverty*—1995 percentage of population under 18 below poverty level (2)
- Suicide*—1994 rate of suicide per 100,000 population (2)
- Medical uncovered*—1995 percent of state population with no health insurance (2)
- Education*—1999 SAT scores (math and verbal combined) for high-school seniors (4)
- Violent crime*—1995 number of violent crimes—murder, forcible rape, robbery and aggravated assault—per 100,000 population (2)
- % Voting*—1996 percent of population voting in presidential election (2)
- % Union*—1996 union members as a percent of all workers (2)

Independent variables—identification-definition-(source)

- Freedom*—1995 CPLS Index of Economic Freedom (1)
- Income*—1995 median income for a 4-person family (2)
- <HS*—1990 percent of state population over 25 with less than high school degree (2)
- >BA*—1990 percent of state population over 25 with more than a BA degree (2)
- 65+*—percent of state population over 65 in 2000 (2)
- Black-Hispanic-White*—1996 percent of state population in each ethnic group (2)
- Metro*—1994 percent of state population living in metropolitan statistical areas (2)
- West-Central-South*—dummy variables assigned by regional location
- Net migration*—percentage change in net migration, 1990–1997 (2)
- Education expenditures*—per capita expenditures, 1993–1994 (2)
- Percent*—percent of high school seniors taking SAT test (4)

Appendix A. (Continued)

Source reference

- (1) Byars et al., 1999—see references
- (2) United States Department of Commerce, 1998—see references
- (3) Annie E. Casey Foundation, 2000, <http://www.aecf.org/kidscount/index.htm>
- (4) Associated Press as reported in San Jose Mercury, 9/1/99

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