



# Examining the Hayek–Friedman hypothesis on economic and political freedom

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## ABSTRACT

This paper examines empirically the hypothesis made famous by Nobel Laureates Friedrich A. Hayek and Milton Friedman that societies with high levels of political freedom must also have high levels of economic freedom. In our judgment, the Hayek–Friedman hypothesis holds up fairly well to historical scrutiny. Using data on economic and political freedom for a sample of up to 123 nations back as far as 1970, we find relatively few instances of societies combining relatively high political freedom without relatively high levels of economic freedom. In addition, we find that these cases are diminishing over time. Finally, we examine several cases of countries on different economic and political freedom journeys.

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## 1. Introduction/background

In *The Road to Serfdom*, Friedrich A. Hayek (1944) sounded the alarm bell among intellectuals worried about the prospects for political liberalism in Europe. Hayek speculated that the centralized planning embraced by the United Kingdom during the war would continue and spread after the war and this would ultimately threaten the liberal democratic values of Western Europe.<sup>2</sup> Hayek wrote:

If “capitalism” means here a competitive system based on free disposal over private property, it is far more important to realize that only within this system is democracy possible. When it becomes dominated by a collectivist creed, democracy will inevitably destroy itself. (Hayek, 1944, pp. 69–70)

Writing 18 years later in the United States, Milton Friedman echoed Hayek in his 1962 book, *Capitalism and Freedom*:

Historical evidence speaks with a single voice on the relation between political freedom and a free market. I know of no example in time or place of a society that has been marked by a large measure of political freedom, and that

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<sup>2</sup> The idea that economic freedom (or its opposite, central planning) can spread from one country to another was recently examined empirically by Sobel and Leeson (2007).

has not also used something comparable to a free market to organize the bulk of economic activity. (Friedman, 1962, p. 9)

The purpose of this paper is to examine empirically the “Hayek–Friedman hypothesis” that economic freedom is a necessary condition for political freedom.

It is important to be clear about the nature of this hypothesis. On the one hand, Friedman was uncomfortable with any dichotomy between economic and political freedom: “We’ve talked about economic and political freedom as if they were wholly separate things, which they are not” (Friedman, 2002, p. xvii). He resisted attempts to play one type of freedom off on another. On the other hand, the two concepts are clearly distinguishable.

The Hayek–Friedman hypothesis says that politically free societies must be economically free; it does *not* say that economically free societies must be politically free. Indeed examples of this latter combination come readily to mind in places such as Singapore, Hong Kong, and selected oil-rich nations in the Middle East. Friedman himself is responsible, perhaps more than anyone else, for highlighting Hong Kong’s position as the freest economy in the world even though it lacks most of the usual democratic freedoms. To be complete, we should note that there is clearly no problem with societies combining economic and political freedom (e.g., the United States) or economic and political repression (e.g., USSR).

Neither Hayek nor Friedman is particularly detailed in describing the exact mechanism or process that makes the combination of high political freedom with low economic freedom impossible. Both appear to adhere to a proto-public choice argument that “power corrupts”—that once the power to tax and regulate economic life is given to politicians and bureaucrats, these same bureaucrats will not be able to resist the temptation to regulate political and civil life as well.

However, of the two authors, Hayek is more descriptive about what processes are at work. He appears to advance two distinct arguments. First, he notes that economic planners must have a code of values to guide them as they weigh the various production and consumption tradeoffs necessary in a scarce world. If we live in a democratic world, this requires that the voters must also support the planner’s code of values. In order to achieve this agreement between the interests of the planner and the voters, voters must be subjected to political controls and propaganda. Basically, political opinion needs to be managed to be kept in harmony with the economic plan (Hayek, 1939). Second, in the chapter “Planning and Democracy” in *The Road to Serfdom*, Hayek notes that if the preferences of voters are not stable, then responsibility for administering the economic plan must be kept out of the hands of voters. Basically, Hayek says voters cannot be trusted to agree with the expert economic planners so democracy cannot coexist with central planning. These two views are not exactly compatible. The first says that voters can be consistently duped into agreeing to the central planner’s goals, while the second says voters are too unreliable to be allowed to have much say about the plan. In either case, Hayek argues a functioning liberal democracy cannot coexist with centralized economic planning.

Although the work in this paper collapses the views of Hayek and Friedman into a single hypothesis, there is one subtle difference. Hayek, writing immediately after World War II, appeared more concerned with the trappings of traditional political democracy: freedom to vote, run for office, organize political parties, etc. Friedman, writing in the early 1960s, appears equally concerned with a broader array of civil liberties and, indeed, often downplays the role of formal political rights like voting (e.g., in Hong Kong). On a practical level, this distinction is of little importance since countries that protect political rights also tend to protect civil liberties. There is very little to be gained by treating the two concepts separately in practice.<sup>3</sup>

Exhibit 1 is an attempt to illustrate the economic and political freedom possibilities in a simple two-by-two matrix. The upper-left quadrant represents situations with high levels of political freedom, but low levels of economic freedom. The lower-right quadrant represents low levels of political freedom matched with high levels of economic freedom. The upper-right and lower-left quadrants reflect matching levels of political and economic freedom accordingly.

Combinations of economic and political freedom in the upper-left (PF, NEF) are violations of the Hayek–Friedman hypothesis. The combinations in the lower-left (NPR, NEF), lower-right (NPF, EF) and upper-right (PF, EF) quadrants are all possible and not a problem from the standpoint of the Hayek–Friedman hypothesis.

There is a solid empirical literature in existence on the relationship between economic and political freedom (Dawson, 1998, 2003; Farr et al., 1998; Wu and Davis, 1999; Vega-Gordillo and Álvarez-Arce, 2003; de Haan and Sturm, 2003; Pitlik and Wirth, 2003). While all appear to agree that the relationship between economic and political freedom is positive, there is no settled view on the direction of causality. While there is nothing wrong with these papers per se, none of these econometric exercises has examined the problem with an explicit eye toward the Hayek–Friedman hypothesis. The “necessary but not sufficient” character of the Hayek–Friedman hypothesis is not easily tested with standard econometrics which force straight-line, unilateral relationships onto the data.

## 2. Measuring political and economic freedom

Concepts like “political freedom” and “economic freedom” are difficult to measure objectively. Civil libertarians are apt to criticize democracies like the United States for even relatively minor transgressions against civil and political rights.

<sup>3</sup> In 2005, the correlation coefficient between the Freedom House’s political rights rating and its civil liberties rating was 0.942. Only 3 countries out of the 123 used in this paper had a political rights rating more than one point away from the civil liberties rating (on their 1–7 point scale where lower scores indicate more freedom). These countries were Hong Kong (PR = 5, CL = 2), Burundi (PR = 3, CL = 5), and Gabon (PR = 6, CL = 4).

	Not Economically Free (NEF)	Economically Free (EF)
Politically Free (PF)	PF, NEF (Violates Hayek-Friedman Hypothesis)	PF, EF (USA)
Not Politically Free (NPF)	NPF, NEF (USSR)	NPF, EF (Singapore)

**Exhibit 1.** Economic and political freedom possibilities matrix.

Likewise, anarcho-capitalists (Rothbard, 1962) are likely to find offense at even the smallest economic interventions. The reality is that no nation has ever perfectly epitomized the political and economic liberalism of the staunchest advocates. In the real world, countries position themselves along a continuum.

In this paper, we will utilize two commonly used measures of economic and political freedom to look specifically at the Hayek–Friedman hypothesis. The measure of economic freedom is the Economic Freedom of the World (EFW) index by Gwartney and Lawson (2007). This index, compiled since 1996, but with data available for the years 1970, 1975, 1980, 1985, 1990, 1995, 2000–2005, attempts to measure the consistency of a nation’s economic institutions and policies with economic freedom. The index itself is based on measurements in five distinct areas: size of government, legal structure and property rights, sound money, freedom to trade internationally, and regulation. These five areas in turn are based on a total of 42 different components. The EFW index is measured on a 0–10 scale with higher values indicative of higher levels of economic freedom, and here we use the chain-linked version of the index as it is the most consistent series over time.

Friedman himself was intimately involved in the early development of the EFW index, and has said that one of the purposes of the EFW index was to act as a complement to the measures of political freedom compiled by Freedom House (Friedman and Friedman, 1998, pp. 566–567). Freedom House (FH) has produced indexes of political rights and civil liberties annually since 1972. Other measures of political liberalism exist, but Freedom House’s indexes have the advantage of going back in time far enough to match up with the EFW index. Freedom House presents indexes separately for political rights and for civil liberties, but here we will follow common practice and use the average of the two indexes for our measure of political freedom. The FH index is measured on a 1–7 scale with lower values indicative of higher levels of political freedom.

The data set used here is the EFW and FH scores for 1970–2005 in 5-year intervals. The 1970 data from the EFW index are matched with the FH values from 1972, the first year in which those data were available. In order to avoid confusion related to the two index scales, we will examine standardized versions of each index so that the mean of each measure is zero and the standard deviation is one. Additionally, the scale on the FH index has been inverted so that *higher* values indicate *greater* political freedom. In total, there were 815 observations (country and year pairs) of the EFW and FH indexes over time: 53 in 1970; 70 in 1975; 101 in 1980; 109 in 1985; 113 in 1990; and 123 in 1995, 2000, and 2005. A scattergram of the data is shown in Exhibit 2. The overall correlation between the two sets of data is positive ( $r = 0.543$ ) indicating a general tendency for high (low) levels of economic freedom to be paired with high (low) levels of political freedom.<sup>4</sup>

In looking at Exhibit 2, we can see examples of relatively high levels of political freedom (vertically toward the top) without relatively high levels of economic freedom (horizontally to the left). These cases appearing in the upper-left part of Exhibit 2 could be violations of the Hayek–Friedman hypothesis.

<sup>4</sup> Noting this high correlation between the two concepts, several papers; e.g., Gwartney et al. (2004), Stroup (2008), and Stroup (2007) have looked at economic and political freedom as separate independent variables in studies of various kinds in order to distinguish the impact of one freedom from the other.



**Exhibit 2.** Economic freedom (EF) v. political freedom (PF), 1970–2005.

Referring back to Friedman’s quote, he speaks of the impossibility of countries with “a large measure of political freedom” without “something comparable to a free market.” It is not obvious, however, how those phrases by Friedman map onto the data.

Nevertheless, as a first approximation, let us define “a large measure of political freedom” to be cases one standard deviation above average on the FH index. There are a total of 248 country-year examples, representing 51 distinct countries, with a standardized FH index greater than one. This represents about 30% of the overall sample. Similarly, let us define “something comparable to a free market” to be 0.5 standard deviations above average on the EFW index. There are 265 cases meeting this standard, and thus there are 550 cases, representing 113 distinct countries during different time periods, that fail to meet this criterion—about two-thirds of the sample.

The test of the Hayek–Friedman hypothesis is to look for cases combining political freedom without economic freedom. Using the thresholds described above, there were a total of 76 cases reflecting 33 distinct nations at various time periods, exhibiting high degrees of political freedom without high levels of economic freedom. This is less than 10% of the entire sample. Exhibit 3 lists countries with high levels of political freedom ( $PF > 1$ ), those without high levels of economic freedom ( $EF < 0.5$ ), and those exhibiting both conditions simultaneously; that is, those apparently violating the Hayek–Friedman hypothesis under the criteria described above.

Perhaps the combination of political freedom without economic freedom is not literally impossible, but rather is simply not a stable equilibrium; that is, that although examples may be found at a point in time, these cases do not last long. Indeed, this is exactly the case. The data in Exhibit 3 indicate a gradual diminishment in the percentage of possible cases violating the Hayek–Friedman hypothesis over time: 9.4% in 1970, 20% in 1975, 11.9% in 1980, 11.0% in 1985, 8.8% in 1990, 8.9% in 1995, 7.3% in 2000, and just 2.4% in 2005.

The 12 countries violating the Hayek–Friedman hypothesis in 1980 were Bahamas, Barbados, Costa Rica, Denmark, France, Greece, Iceland, Italy, Norway, Sweden, United Kingdom, and Venezuela. For the most part, these are high income Western nations who were in the final stages of their most socialist periods. Only Barbados continues to exhibit a high degree of political freedom combined with relatively low economic freedom. Of the remaining 11 countries, all but one, Venezuela, have moved toward freer markets to match their political freedoms. That is, they have moved from the upper-left quadrant to the upper-right quadrant in Exhibit 1 sense. Venezuela stands out in that it has moved toward lower political freedom to match the low economic freedom. In fact, both the economic and political freedom scores for Venezuela are more than one standard unit lower in 2005 than in 1980.

Ten countries found themselves in violation of the Hayek–Friedman hypothesis in 1990: Barbados, Belize, Botswana, Cyprus, Greece, Malta, Portugal, Spain, Trinidad and Tobago, and Uruguay. And again, by 2005 only Barbados remained on the list. Of the remaining nine, all nine moved toward freer markets, thus bringing their economic systems more in sync with their political systems.

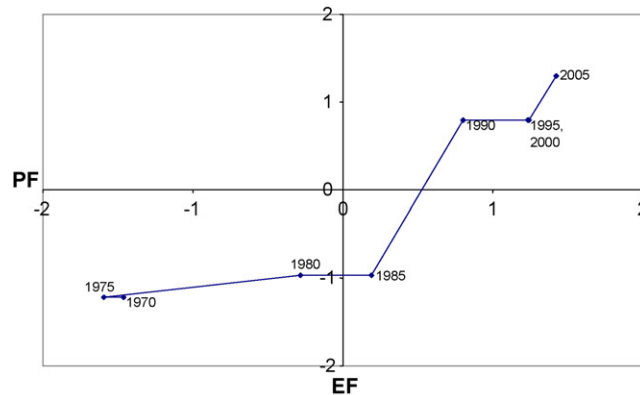
The preceding paragraphs shed some empirical light on the debate about the so-called “inevitability thesis” that economic planning inevitably puts a country on a path toward political repression as recently discussed by Farrant and McPhail (2009).

PF > 1.0		EF < 0.5		PF > 1.0 and EF < 0.5	
Argentina	2000	Albania	1990-2005	Australia	1975
Australia	1970-2005	Algeria	1980-2005	Austria	1970-1975
Austria	1970-2005	Argentina	1970-1995, 2005	Bahamas	1980-2000
Bahamas	1975-1980, 1995-2005	Australia	1975	Barbados	1975-2005
Barbados	1975-2005	Austria	1970-1975	Belize	1985-2000
Belgium	1970-2005	Bahamas	1980-2000	Botswana	1990
Belize	1985-2005	Bangladesh	1975-2005	Costa Rica	1975-1985
Botswana	1990	Barbados	1975-2005	Cyprus	1985-2000
Bulgaria	2005	Belize	1985-2000	Czech Rep.	1995
Canada	1970-2005	Benin	1980-2005	Denmark	1975-1980
Chile	2005	Bolivia	1980-1995	France	1975-1985
Costa Rica	1975-2005	Botswana	1980-1995	Ghana	2005
Cyprus	1985-2005	Brazil	1970-2005	Greece	1980, 1990
Czech Rep.	1995-2005	Bulgaria	1985-2000	Hungary	1995
Denmark	1970-2005	Burundi	1975-2005	Iceland	1975-1985
Estonia	2000-2005	Cameroon	1980-2005	Ireland	1975
Finland	1990-2005	Central Afr. Rep.	1985-2005	Italy	1970-1995
France	1970-2005	Chad	1985-2005	Japan	1975
Germany	1970-2005	Chile	1970-1980	Lithuania	1995-2000
Ghana	2005	China	1980-2005	Malta	1990, 2000
Greece	1980, 1990, 2005	Colombia	1970-2005	New Zealand	1975, 1985
Hungary	1995-2005	Congo, Dem. R.	1970-2005	Norway	1970-1980
Iceland	1970-2005	Congo, Rep. Of	1980-2005	Poland	1995-2000
Ireland	1970-2005	Costa Rica	1975-1985	Portugal	1985-1990
Israel	2005	Cote d'Ivoire	1980-2005	Slovak Rep	2000
Italy	1970-2005	Croatia	1995-2005	Slovenia	1995-2005
Japan	1970-2005	Cyprus	1975-2000	South Africa	1995
Latvia	2000-2005	Czech Rep.	1995	Spain	1985-1990
Lithuania	1995-2005	Denmark	1975-1980	Sweden	1970-1980
Luxembourg	1970-2005	Dominican Rep.	1980-2005	Trinidad & Tob.	1985-1990
Malta	1990-2005	Ecuador	1970-2005	United Kingdom	1970-1980
Mauritius	1995-2005	Egypt	1975-1995	Uruguay	1990
Netherlands	1970-2005	El Salvador	1980-1990	Venezuela	1980-1985
New Zealand	1970-2005	Estonia	1995		
Norway	1970-2005	Fiji	1975-2005		
Panama	2000-2005	Finland	1975		
Poland	1995-2005	France	1975-1985		
Portugal	1985-2005	Gabon	1980-2005		
Slovak Rep	2000-2005	Ghana	1975-2005		
Slovenia	1995-2005	Greece	1970-1995		
South Africa	1995-2005	Guatemala	1970-2000		
South Korea	2005	Guinea-Bissau	1990-2005		
Spain	1985-2005	Guyana	1995, 2005		
Sweden	1970-2005	Haiti	1980-2005		

**Exhibit 3.** Countries with high levels of political freedom without high level of economic freedom.

		Economic Freedom Less Than:						
		-2.5	-2.0	-1.5	-1.0	-0.5	0.0	0.5
Political Freedom Greater Than:	1.3	0	0	0	0	2	16	39
	1.0	0	0	0	0	5	32	76
	0.8	0	0	3	7	20	65	126
	0.5	0	2	9	21	47	106	181
	0.3	0	4	11	27	59	127	216
	0.0	0	4	15	38	79	163	265

**Exhibit 4.** Number of cases violating the Hayek–Friedman hypothesis at different and economic freedom thresholds.



**Exhibit 5.** Chile: economic freedom (EF) v. political freedom (PF), 1970–2005.

Clearly, the data indicate that almost all countries violating the Hayek–Friedman hypothesis in the past have moved toward freer markets and not toward political totalitarianism. Whether Hayek believed violations of economic freedom led inevitably toward political repression or not is perhaps unclear. However, the empirical evidence of the last several decades suggests that the road to serfdom is not a one-way street.

**Exhibit 4** reports the number of country-year cases that combine high levels of political freedom without high levels of economic freedom, using different thresholds for defining those concepts. The numbers in **Exhibit 4** matrix reflect the number of cases violating the Hayek–Friedman hypothesis. For example, the combination of simply above-average political freedom ( $PF > 0$ ) and below-average economic freedom ( $EF < 0$ ) yields 163 cases. On the other hand the combination of very high political freedom ( $PF > 1$ ) and very low economic freedom ( $EF < -1$ ) yields exactly zero cases in violation of the hypothesis.<sup>5</sup>

**Appendix A** reports the same table for each of the five areas of the EFW index. Not surprisingly, the Hayek–Friedman hypothesis is confirmed most strongly when looking at the legal structure and property rights and the regulation areas of the EFW index. These two areas are more closely identified with political and civil liberties than the other areas of the EFW index (fiscal size of government, monetary policy, and trade policy).

### 3. Country cases

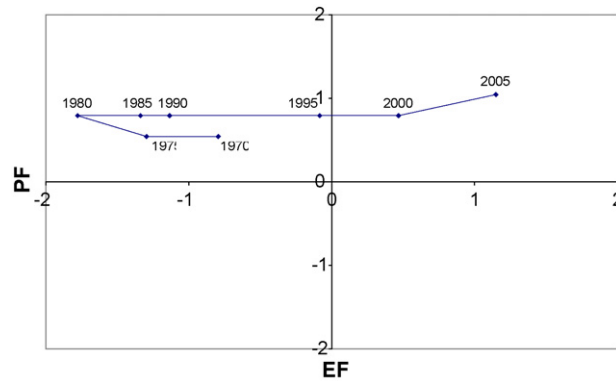
There are a number of interesting individual countries worth highlighting. Obviously, these cases are meant to be instructive and thought-provoking.

#### 3.1. Chile

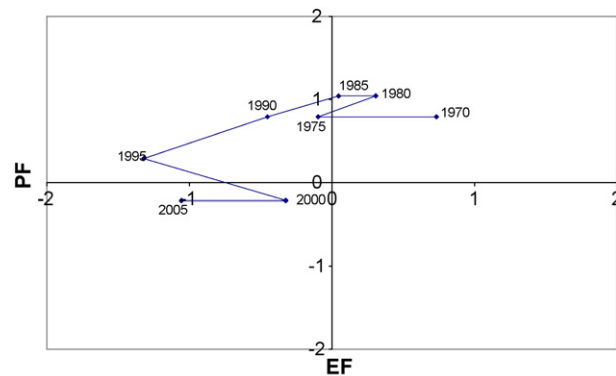
**Exhibit 5** illustrates the case of Chile. Chile began the period as a politically and economically repressive regime in the 1970s. During the 1980s, the country began to move in the direction of economic liberalism, while remaining politically repressive under Pinochet.<sup>6</sup> Ultimately in the 1990s Pinochet's authoritarian rule was replaced with a more liberal democ-

<sup>5</sup> Without knowing this result in advance, Bryan Caplan commented that this very threshold seemed most appropriate to him.

<sup>6</sup> A number of University of Chicago-trained Chilean economists were responsible for the free-market reforms in Chile. Free-market economists at Chicago, including Milton Friedman, have been sharply criticized, unjustly in our opinion, for supposedly supporting the Pinochet regime.



**Exhibit 6.** Israel: economic freedom (EF) v. political freedom (PF), 1970–2005.



**Exhibit 7.** Venezuela: economic freedom (EF) v. political freedom (PF), 1970–2005.

racy. Chile's recent history has exhibited episodes in three of the four quadrants. Interestingly, the only quadrant Chile avoided throughout was the one conflicting with the Hayek–Friedman hypothesis.

### 3.2. Israel

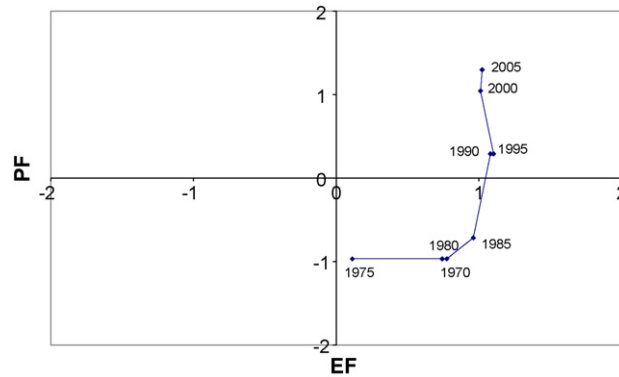
Though not technically among the list of Hayek–Friedman violations listed in Exhibit 3, Israel is another case worth studying (see Exhibit 6). During the 1970s and through the 1980s, Israel attempted to do what Hayek and Friedman said was impossible. Rabushka (1994) wrote “the Israeli economy revolves around the exercise of political power, often arbitrary and capricious. Here elected officials, doing what comes naturally with unchecked power, and appointed bureaucrats strive to control all aspects of the lives of ordinary Israelis. State control denies individuals any reasonable degree of economic freedom.” Meanwhile, Israel maintained a reasonably high-functioning liberal democracy according to Freedom House.

But in the 1990s, things began to change in Israel. Top marginal tax rates fell to 49% from their height of 66%; transfer spending as a share of the economy declined to 10.6% from over 20%; inflation fell to the single digits from a rate over 200% in 1990; and capital controls were mostly lifted. In 2005 Israel's EFW index ranking improved to 44th overall out of 141 countries from 102nd out of 105 (Gwartney and Lawson, 2007). In a dynamic sense, Israel's experience supports the Hayek–Friedman view about the unsustainability of the contemporaneous combination of liberal democracy and economic repression.

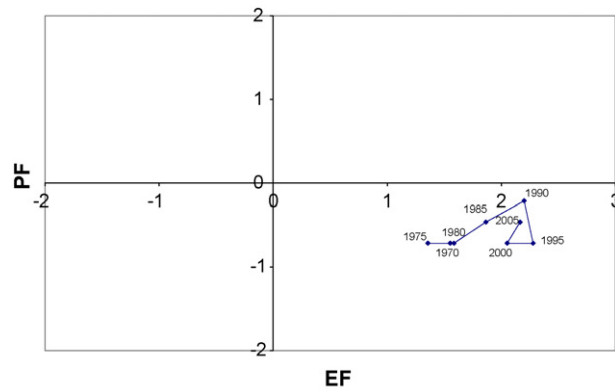
### 3.3. Venezuela

Exhibit 7 illustrates the somewhat more tragic case of Venezuela. In the 1970s, 1980s, and into the 1990s, Venezuela sustained a fairly high-functioning democracy and mostly liberal economy. But as time went on, the nation began to tighten controls in the economic sphere, and the EFW index began to decline. In 1970, Venezuela ranked 14th in the world in the EFW index out of the 53 nations rated, but by 2005 its rank had fallen to 135th out of 141. Increased taxation and government spending, higher inflation, and dramatically reduced security of private property have characterized the Venezuelan experience over the last 30 years.

As the authoritarian grip tightened around economic life, the consequences of those policies became apparent. Venezuela's GDP per capita growth rate from 1970 to 2005 was *negative* 0.61% per year, leaving average income levels 19%



**Exhibit 8.** Taiwan: economic freedom (EF) v. political freedom (PF), 1970–2005.



**Exhibit 9.** Singapore: economic freedom (EF) v. political freedom (PF), 1970–2005.

lower in 2005 than at the beginning of the period. This poor economic record created the opportunity for the populist neo-Marxist Hugo Chavez to come to power. True to the Hayek–Friedman hypothesis, Chavez has systematically seized nearly total political control of the country.<sup>7</sup> One of Latin America's few examples of liberalism in both the economic and political sense, and one of its richest, is now a heavy-handed authoritarian state in every respect and the economy is in shambles.

The final case, actually two cases, concerns the lower-right quadrant in Exhibit 1 matrix. Is it possible or sustainable to combine economic freedom with political repression? Technically, the Hayek–Friedman hypothesis is silent on this question. Fairly extreme examples of this combination have occurred in places such as Taiwan and Singapore (and to a lesser extent South Korea and Hong Kong) as well as among the oil-rich Arab nations.

Exhibits 8 and 9 illustrate the cases of Taiwan and Singapore, respectively. Both began the period with liberal economic policies but with authoritarian politics. In both cases, economic performance has been impressive with high sustained growth rates resulting in high average levels of income. In Taiwan's case, this newfound wealth led to increasing calls for political freedom. In the late 1980s and early 1990s, Taiwan witnessed the removal of authoritarian leadership and the installation of a more traditional democratically elected government.

Meanwhile, Lee Kuan Yew's tight political hold over Singapore remained strong right up until his retirement from office, and continues even to this day as the son has taken the reins from his father. At this point, there appears to be little evidence of any movement in Singapore toward greater political freedom. The experiences of these two countries show that economic liberalism can be maintained with or without political liberalism. While it might be comforting to believe that economic liberalism leads toward greater political liberalism, examples like Singapore perhaps suggest otherwise.

#### 4. Conclusions

As both Milton Friedman and F.A. Hayek suggested, there are relatively few instances of societies combining high political freedom without high levels of economic freedom. It appears that at least some reasonable amount of economic freedom is a precondition, necessary but not sufficient, if a nation is to have high political freedom. The number of cases where countries

<sup>7</sup> In 2006, Freedom House further reduced Venezuela's political rights rating by one point.



have tried to combine high political freedom and low economic freedom appears to be diminishing over time with almost all of them moving in the direction of freer markets. This judgment is somewhat dependent, however, on the thresholds one uses for defining the concepts of high political and low economic freedom. Still, the overall pattern of observations is consistent with the Hayek–Friedman hypothesis.

This paper also examined the cases of five countries on very different economic and political freedom journeys. The first three cases, Chile, Israel, and Venezuela, all exemplify the essence of the Hayek–Friedman hypothesis: political liberalism cannot exist without economic freedom. Chile never even tried this combination. Countries that have attempted this combination have had to make a choice to either liberalize the economy to match the political freedom, like Israel has done, or descend into political authoritarianism to match the economic repression, as Venezuela has done. More research is clearly needed to determine what factors contributed to these different paths.

The converse of the Hayek–Friedman hypothesis, that economic liberalism implies political liberalism, has not been critically examined here though it appears not to be true. The cases of Taiwan and Singapore are illustrative here. Economic liberalism may, or may not, beget political freedom. It has in Taiwan, but it has not, so far at least, in Singapore. Understanding the dynamics of the economically free/politically repressive combination is an area for further research.

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## Appendix A. Number of cases violating the Hayek–Friedman hypothesis at different political and economic freedom thresholds, by area

Political freedom greater than:	Size of government rating less than:						
	–2.0	–1.5	–1.0	–0.5	0.0	0.5	1.0
1.29	0	8	33	58	96	131	153
1.04	2	14	50	88	144	195	227
0.79	4	19	61	108	176	238	282
0.05	4	24	71	128	211	300	336
0.29	4	24	71	128	211	300	366
0.03	7	29	78	141	237	335	406

Political freedom greater than:	Legal structure rating less than:						
	–2.0	–1.5	–1.0	–0.5	0.0	0.5	1.0
1.29	0	0	0	1	10	25	55
1.04	0	0	0	4	21	63	111
0.79	0	0	2	14	44	111	169
0.05	3	6	21	60	119	207	271
0.29	3	6	21	60	119	207	271
0.03	3	12	36	88	158	254	320

Political freedom greater than:	Sound money rating less than:						
	–2.0	–1.5	–1.0	–0.5	0.0	0.5	1.0
1.29	1	3	3	7	31	49	74
1.04	2	5	7	15	58	89	129
0.79	5	15	24	38	93	136	190
0.05	16	31	45	77	161	225	297
0.29	16	31	45	77	161	225	297
0.03	23	39	58	93	192	271	349

Political freedom greater than:	Freedom to trade rating less than:						
	–2.0	–1.5	–1.0	–0.5	0.0	0.5	1.0
1.29	0	2	5	12	26	49	104
1.04	0	2	6	18	39	82	162
0.79	0	3	10	25	62	129	219
0.05	4	12	35	60	119	215	332
0.29	4	12	35	60	119	215	332
0.03	5	15	41	82	151	262	381
1.29	0	0	0	2	37	68	107
1.04	0	0	0	11	60	113	167
0.79	0	3	9	34	91	156	225

## Appendix A (Continued)

Political freedom greater than:	Regulation rating less than:						
	–2.0	–1.5	–1.0	–0.5	0.0	0.5	1.0
0.05	1	7	21	54	136	231	324
0.29	1	7	21	54	136	231	324
0.03	3	11	30	73	172	275	374

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