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Is Economic Freedom the Hidden Path to Social Justice?

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Abstract: How can societies advance social justice? Many of the goals of social justice are addressed by research on economic freedom, including social tolerance and protection of minority rights, promotion of democracy and political freedoms, and income inequality. We survey the academic literature on these topics and find that in many cases economic freedom can serve to advance the goals of social justice. Income equality is the goal for which the results are the least clear, and it is possible that some components of economic freedom increase income inequality, but the effects are nuanced. Based on these results, advocates of social justice may indeed want to embrace economic freedom in some areas while recognizing that there may sometimes be a trade-off between various goals.

The social justice movement attempts to address some of the most pressing social, political, and economic issues of our time. But as with any social movement, there is often a large gap between identifying problems and finding solutions. Sometimes the solutions to social problems are found in unexpected places.

The very first story Cowen and Tabarrok (2018) use in their principles-of-microeconomics textbook involves a social-justice problem that was solved in an unexpected way: by changing the incentives. The transportation of British convicts to the penal colony of Australia in the 18th century caused a scandal: on some ships, up to one-third of the convicts were perishing before reaching Australia. Though the passengers were criminals, citizens of a civilized society such as Great Britain knew that a society is measured by how its people treat all humans, even those convicted of crimes. The solution to the problem: pay ship captains for the number of prisoners that survive the journey rather than the number that board the ship.

Today, human trafficking and slavery is a major issue that the social justice movement has focused on. Millions of humans, many of them women and children, are trapped in these circumstances. What is to be done? Is this the dark side of globalization and economic freedom, as increasingly connected rich and poor countries interact with one another?

Researchers have addressed this exact question. Heller et al. (2018) use data from the Fraser Institute's Economic Freedom of the World Index to bring scientific rigor to the question. They reach two important findings. First, there is no statistical relationship between economic freedom and human trafficking. In other words, countries with more economic freedom do not have more trafficking. There is no dark side of economic freedom in this case. But this result also suggests that economic freedom does not reduce trafficking either. Depending on one's prior beliefs, this result may or may not be surprising.

But the paper's second result may be just as important: countries with greater economic freedom are more likely to institute and enforce policies designed to combat human trafficking. For the social-justice movement, this may be the more important result as enactment of credible policies is one of the movement's main intermediate goals for achieving its ultimate ends.

The human-trafficking example is a good illustration of how empirical research and measures of economic freedom can shed light on how social justice can be advanced. This way of thinking is the approach of this paper to the question "Can economic freedom be a tool for advancing social justice?" Before we address this question more directly, we need to first more clearly define the term "social justice."

Social Justice

For a concise definition of social justice, we turn to the introduction of Tomasi (2012). There Tomasi states that social "justice requires that institutions be designed so that the benefits they help produce are enjoyed by all citizens, including the least fortunate" (Tomasi 2012, xiv). Much like Tomasi (2012), we contend that social justice and market liberalism need not be in opposition. While Tomasi gives a philosophical defense of the system of "market democracy," we instead focus on the empirical outcomes associated with the system—more specifically, economic freedom—that are also associated with the social-justice movement's goals.

While Tomasi's definition is to be credited for its brevity, some scholars more closely aligned with the social-justice movement might object to its lack of nuance. Bell (2016) offers a definition of social justice that is less concise but shows the breadth of the term:

> Social justice is both a goal and a process. The goal of social justice is full and equitable participation of people from all social identity groups in a society that is mutually shaped to meet their needs. The process for attaining the goal of social justice should also be democratic and participatory, respectful of human diversity and group differences, and inclusive and affirming of human agency and capacity for working with others to create change. Domination cannot be ended through coercive tactics that recreate domination in new forms.… Forming coalitions and working collaboratively with diverse others is an essential part of social justice.… Our vision for social justice is a world in which the distribution of resources is equitable and ecologically sustainable, and all members are physically and psychologically safe and secure, recognized, and treated with respect. We envision a world in which individuals are both self-determining (able to develop their full capacities) and interdependent (capable of interacting democratically with others). (Bell, 2016, 3)

The definitions provided by Tomasi (2012) and Bell (2016) lead us to an understanding of the objectives of social justice. Firstly, institutions should be oriented in such a way that all members of a society, regardless of their social-identity group, are included and respected and have their human agency affirmed. This includes the least fortunate members of society and those that have been most marginalized. In a society that pursues social justice, diverse viewpoints will be tolerated and individuals will trust each other as they work together to achieve a common end. Secondly, social justice requires voluntary (as opposed to coercive) democratic participation and process. Political cronyism and corruption propagate the power differentials social justice seeks to undo. Lastly, social justice is dedicated to the equitable distribution of resources. Chief among societal resources are income and wealth.

To answer the question of whether economic freedom can further the objectives of social justice, we examine the three broad groups of social-justice objectives we have outlined: tolerance and protection of minority rights; democracy and political freedom; and income inequality. For each of these three groups of goals, we find that economic freedom may help to advance them. We caution that this is not always the case and that sometimes the relationship is complicated. The most challenging area to assess is income inequality. The literature is very mixed on this question, with much of it suggesting that economic freedom increases income inequality, though this is not a universal finding. Causation is also difficult to establish in many cases.

Even with the mixed results for income inequality, a clear lesson for social-justice policy can be drawn: while some areas of economic freedom may increase inequality, others may reduce it. For example, highly progressive income taxes reduce a country's economic freedom score but may reduce inequality. However, other areas of economic freedom, such as the freedom to trade internationally, appear to reduce inequality in some cases. If specific policy changes are important goals of the social justice movement, understanding this relationship in detail is crucial. Convincing countries to move policy in the wrong direction could backfire and lead to less social justice.

Economic Freedom

Before proceeding to the survey of the research, a brief discussion of the concept of economic freedom and its measurement is important. Any interpretation of the empirics of economic freedom must be made based upon its assigned definition. Here we borrow the definition provided by Gwartney et al. (2018):

> The cornerstones of economic freedom are personal choice, voluntary exchange, open markets, and clearly defined and enforced property rights. Individuals are economically free when they

> are permitted to choose for themselves and engage in voluntary transactions as long as they do not harm the person or property of others. When economic freedom is present, the choices of individuals will decide what and how goods and services are produced. Put another way, economically free individuals will be permitted to decide for themselves rather than having options imposed on them by the political process or the use of violence, theft, or fraud by others. (Gwartney et al. 2018, 1–2)

The Economic Freedom of the World Index constructed in Gwartney et al. (2018) measures, for 162 countries and territories, the consistency of the institutions within a country with the ideals of economic freedom, with greater scores indicating greater economic freedom. While competing indexes of economic freedom have been published, the index of Gwartney et al. (2018) is the most heavily cited in the academic literature and is the one used by most of the studies we cite. Its methodology is data driven, with no subjective valuations, and is based on data in five components that measure aspects of economic freedom: (1) Size of Government, (2) Legal System and Property Rights, (3) Sound Money, (4) Freedom to Trade Internationally, and (5) Regulation of Credit, Labor, and Business. The Size of Government component uses data on government consumption, transfers and subsidies, government enterprises and investment, and top marginal tax rates to measure the degree to which a country allows freedom of personal choice through markets versus centralized decision-making. The Legal System and Property Rights component takes in data from nine indicators reflecting adherence to the rule of law, the security of property rights, and an impartial justice system. The Sound Money measure is based on the idea that citizens need access to sound money as a store of value and as a means to transact. The measurement is based on four components relating to inflation and freedom to own foreign-currency bank accounts. The Freedom to Trade Internationally area uses data in four component areas to measure freedom to trade with people in foreign countries and focuses primarily on various types of trade restrictions. Finally, the Regulation of Credit, Labor, and Business area measures regulatory restrictions of voluntary exchange.

The other major economic freedom measurement is published by the Heritage Foundation, and is called the Index of Economic Freedom (Miller, Kim, and Roberts 2018). The two world indices are similar in what they measure, with some differences in the variables used and weighting of categories. While the majority of papers we review use the Fraser index, some use the Heritage index as well. The Fraser Institute, which publishes the Economic Freedom of the World Index, also publishes the Economic Freedom of North America Index (Stansel, Torra, and McMahon 2018). This index is modeled closely on the Economic Freedom of the World Index but measures economic freedom for each of the US and Mexican states in addition to the Canadian provinces.

Tolerance and Protection of Minority Groups

The concept of social justice requires, in keeping with Rawlsian philosophy, that care be given to the plight of the least well off in society and those who are most vulnerable. This includes classes of society that are in various minority positions relative to the economically and politically powerful. These minority groups include those who identify with various racial, ethnic, gender, and sexual categories. A liberal society oriented toward social justice would be focused on including members of said groups, which is revealed by attitudes of tolerance.

Research has largely demonstrated that in environments characterized by racial, ethnic, and cultural heterogeneity, generalized social trust will be weakened (Stolle, Soroka, and Johnston 2008). Homogeneity breeds trust and social capital (Costa and Kahn 2003). It is easy for people to have generalized trust in a population that shares the same values, culture, and appearance. Yet, in such homogenous environments, members of various minority groups are also more likely to be disenfranchised, isolated, disadvantaged, and discriminated against (Kymlicka 1995; Simpson and Yinger 2013). Principles of common decency, and the values of social justice more generally, preclude seeking to make a population more homogeneous through policy targeted toward increasing social capital[1] and social trust. Social trust and social capital more broadly are indicators of acceptance and tolerance toward minority groups (Sullivan and Transue 1999; Cigler and Joslyn 2002; Persell, Green, and Gurevich 2001). Social trust and social capital are linked to a number of positive outcomes including economic growth (Knack and Keefer 1997), democracy (Inglehart 1999), happiness (Bjørnskov 2003), low crime (Buonanno, Montolio, and Vanin 2009; Lederman, Loayza, and Menendez 2002), and health (Kawachi, Subramanian, and Kim 2008). However, because social capital itself cannot be redistributed by taking it from one and giving it to another, social capital, while consistent with many of the goals of social justice, is fundamentally incompatible with the goal of equal distribution (Jackson and Palm 2017).

Niclas Berggren, along with several coauthors, most prominently Therese Nilsson, has been quite prolific in researching the attitudes of societies toward minorities, especially as the attitudes are affected by economic freedom. This line of research began with Berggren (1999), which focuses on the effects of economic freedom and income inequality. However, it is in Berggren and Jordahl (2006) that the effects of economic freedom on social attitudes, and social trust in particular, come into focus.

Berggren and Jordahl (2006) find empirical evidence that establishes a positive and causal link between economic freedom and general social trust. Their research makes use of the generalized-trust question from the World Values Survey as well as the Fraser Institute's Economic Freedom of the World Index. Generalized trust is measured as the percentage of respondents in a country that agree that "most people can be trusted." Berggren and Jordahl (2006) conclude that policies to promote economic freedom, primarily through the channels of the legal structure and the security of property rights, can be a tool to increase generalized social trust and social capital.

While the positive effect of economic freedom on generalized trust is interesting, generalized trust is only tangentially related to attitudes toward minority and disadvantaged groups. In subsequent papers, Berggren and Nilsson tackle attitudes of tolerance directly. Berggren and Nilsson (2013) find that economic freedom is positively related to tolerance toward gay people both at a point in time and over time. They also find that economic freedom appears to be unrelated to racial tolerance. Berggren and Nilsson (2014) find that social trust mediates the relationship between economic freedom and tolerance toward gay people so that the effect of economic freedom is largest when trust is also large. While the previous studies all use international data, Berggren and Nilsson (2016) explore the effect of economic freedom on racial, religious, political, and sexual attitudes in the United States making use of the Economic Freedom of North America Index. They uncover robust effects of a less progressive tax system and lower marginal tax rates on increased tolerance toward gay people, communists, and atheists.

In addition to the effect of economic freedom on social trust and tolerance, a well-established literature demonstrates a positive effect of economic freedom on happiness (Jackson 2017b) and subjective well-being more broadly (Veenhoven 2000). Gehring (2013) finds a positive and significant effect of economic freedom on happiness that is moderated in part by attitudes of tolerance. Societies that display more tolerance obtain bigger increases in well-being from increased economic freedom. Nikolaev and Bennett (2017) find an effect of economic freedom on more emotional aspects of subjective well-being such as

[1] In a similar study, Jackson et al. (2015) were unable to find a relationship between economic freedom and social capital in the US. However, as is further pointed out in Jackson (2017a), this is largely due to a shortcoming in the measure of social capital used, which does not have a trust dimension and instead focuses on measures of civic engagement.

increased positive affect and decreased negative affect. Meanwhile, Bennett and Nikolaev (2017) demonstrate that economic freedom reduces inequality of well-being using a robust set of inequality measures. This demonstrates that people actually report being happier under institutions of greater economic freedom and that the benefits of economic freedom on well-being aren't falling only on those in the upper ranks of the happiness distribution. Enhanced subjective well-being, along with the psychological resources that come with it, is consistent with the psychological safety and security objectives of social justice.

Democracy, Political Rights, and Civil Liberties

While social justice is often defined in terms of outcomes, various components of the political process could be included in a robust definition. For example, Rawls (2001) identifies political liberties as a component of his first principle of justice. Political liberties include the equal rights to hold office and affect the outcome of elections, and similar rights; we might generally call these liberties democracy or political freedom. Other political liberties could include freedom of speech, press, and assembly. Another democratic component of social justice is the absence of corruption or cronyism.

The previous section showed that economic freedom can lead to increased tolerance, trust, and well-being. Each of these effects has also been demonstrated to contribute to better-functioning democratic institutions (Inglehan 1999; Sullivan, Piereson, and Marcus 1993; Sullivan and Transue 1999; Warren 1999). Is there a further connection between political freedoms and economic freedoms?

One relevant line of research looks at a slightly different question: whether political or economic freedoms lead to beneficial outcomes, such as economic growth. But much of this research also comments on the relationship between economic and political freedom, including whether one causes the other. Dawson (1998) suggests that changes in economic freedom explain subsequent levels of political freedom and civil liberties. Wu and Davis (1999) argue that economic freedom is necessary for high levels of income, and political freedom follows economic prosperity.

In contrast, Davis (2003) uses Granger causality tests to show that political and individual liberties cause economic freedom. Aixala and Fabro (2009) decompose political freedom into civil liberties and political rights, and also perform Granger tests. They also find that civil liberties and political rights are causing economic freedom, but also that a virtuous circle exists: economic freedom causes economic growth, which in turn expands civil liberties, which promote further economic freedom.

One paper that directly discusses the relationship between economic and political freedom is Lawson and Clark (2010). The authors investigate the "Hayek-Friedman hypothesis," which they summarize as "Societies with high levels of political freedom must also have high levels of economic freedom." The hypothesis comes from Hayek (1944) and Friedman (1962). Lawson and Clark use the Fraser Economic Freedom of the World Index to argue that it is rare to find societies with high levels of political freedom that don't also have high levels of economic freedom (using data going back to 1972). Further, these rare cases are diminishing over time, as many countries that temporarily have had low political but high economic freedom often have moved to a higher level of political freedom in the cases they examine. They argue that this method is superior to the tests used in earlier papers because it does not attempt to fit countries to a line (as in regression analysis) but instead looks at case studies.

Freedom of the press and media can also be considered a component of democracy in that it allows the public to be informed about important political issues. Bjornskov (2018) tests a variant of the Hayek-

Friedman hypothesis and finds that increases in economic freedom are followed by increases in press freedom.

Several papers have also looked at the relationship between economic freedom and corruption. Corruption can be defined as using a position of political power for personal gain, and thus it is in conflict with social justice. Sandholtz and Koetzle (2000) use the Freedom House indicators of economic freedom to show that state control of the economy leads to more corruption as measured by Transparency International. Graeff and Melkhop (2001) use the Fraser index for their economic-freedom variables, but also deconstruct the index into its components. They find different results for rich and poor countries, and while many areas of economic freedom reduce corruption, a few do not. For example, in poor countries the freedom to own foreign currencies increases corruption, and in rich countries bigger governments are associated with less corruption (though the authors doubt this is causal).

Goel and Nelson (2005) compare the effects of economic and political freedom on corruption. They find that economic freedom is a greater deterrent of corruption, specifically that more freedom in terms of monetary policy, financial-market regulation, and black market activity is related to less corruption. Saha and Su (2012) examine the effect of the interaction between democracy and economic freedom on corruption. They find that higher levels of economic freedom reduce corruption, but it is more effective when levels of democracy are also high. In contrast, democracy does not reduce corruption when economic freedom levels are low.

Income Inequality

The common Rawlsian approach (Rawls 1971) maximizes the least well off individual's welfare even at the expense of many others. For example, "the primary goal of most social protection interventions is to protect minimum subsistence in low-income households" (Devereux et al. 2011). Nevertheless, it is uncertain whether economic prosperity enhances quality of life (Diener and Diener 1995). The economic-freedom literature does not simplistically use national GDP per capita as a proxy for its welfare function. Grubel (1998) and the first *Economic Freedom of the World* (Gwartney, et al 1996) show that the poorest quintile in less free societies. Bernstein (2000) does a similar analysis at the US state level. He reminds readers that specific data at the top of the scale is suppressed for privacy reasons in the US, and therefore imputation is required for top earners and that may induce error.

Clark and Lawson (2008) use the Fraser Economic Freedom Index to look at the relationship among economic freedom, taxes, and inequality. They find a relationship between progressive taxation (high top marginal tax rates) and reduced inequality. However, they also find that higher scores on property rights, sound money, trade openness, and government size correlate with less inequality. Primarily looking at correlations, the paper identifies a common theme in the subsequent literature: different components of economic freedom have different relationships with income inequality. It may be impossible to state definitively the relationship between economic freedom and income inequality.

Scully (2002), using structural and reduced-form models, finds a positive, significant, but relatively small trade-off between economic growth and income inequality from 1960 to 1990. Scully further finds that when government expenditure is separated into productive and nonproductive components, the coefficient of productive expenditures is positive but insignificant, while that of nonproductive expenditures is negative and significant.

Using estimates for a fixed-effects model of country-level Gini coefficients[2] as a function of economic freedom along with relevant control variables, Carter (2007) finds that over a broad range of freedom, the estimated relation between economic freedom and income inequality is positive and statistically significant. His data come from two main sources: the UNU/WIDER World Income Inequality Database Version 2.0a and the Fraser Institute's Economic Freedom of the World Index. He controls for per capita income, political structure, education, demographics, and industrial composition.

Bergh and Nilsson (2010) study eighty countries from 1970 to 2005 and find that under a variety of specifications including GMM (generalized method of moments), increasing economic freedom increases inequality in many cases. However, they find that monetary reforms, legal reforms, and political globalization do not increase inequality.

Bennett and Nikolaev (2017) use six different measures of income inequality with up to 112 countries between 1970 and 2010. By using the Standardized World Income Inequality Dataset, they are able to account for the uncertainty of the estimated Gini coefficients. Doing this, they find results are sensitive to the choice of country sample, time period, and inequality measure.

Berggren (1999) focusing on property rights finds that between 1975 and 1985, the more a country increased its economic freedom, the more equality it had at the end of the period. Trade liberalization and financial deregulation were the areas of economic freedom that were most important for reducing inequality. He also finds that increasing economic freedom slowly seems to result in more equality.

State Level

There are multiple measures of income in the United States. These measures include various means of measuring income and what counts as income. Different measures of income provide different measures of inequality. All studies find that income inequality rose after 1979, but common perceptions that all income gain went to the top 10 percent and middle class incomes stagnated (or even declined) are wrong." Rose (2018 pg 9).

Ashby and Sobel (2008) use cross-sectional data for US states from 1980 to 2003 and confirm Berggren's result that reforms matter. They confirm Berggren's result that the coefficients are negative and significant. They also find that increasing economic freedom increases everyone's income but the top quintile gains about twice as much as the lowest quintile. Their analysis considers the impact of economic freedom on the lowest income quintile in three different models: the cumulative percentage change in the mean income within the lowest quintile between 1980 and 2003; the middle-quintile income level at the end of the period (2001–3); and the share of total income held by the lowest quintile. For all models, the effect of economic freedom is positive and significant.

Compton, Giedeman, and Hoover (2014) also use state-level economic-freedom measures to look at how changes in economic freedom affect state-level income growth across income quintiles. They find

[2] A Gini coefficient, or index, measures the degree of dispersion of a variable. It ranges from a value of zero to one, with a higher coefficient representing greater inequality. For income, a Gini coefficient of zero demonstrates equal distribution (all individuals have the same income), and a Gini coefficient of one occurs when all income is possessed by one individual (the case of maximal inequality).

that the lowest income quintile does not benefit from increasing economic freedom. Thus, increasing economic freedom leads to greater inequality.

Apergis, Dincer, and Payne (2014) find two interesting relationships. First, causation may run in the opposite direction: states with higher inequality adopt more-redistributive policies, which lowers their economic-freedom score. Second, in the long run, the decline in economic freedom further increases income inequality.

Hoover, Compton, and Giedeman (2015) use state-level data from 1980 to 2010 to examine the impact of economic freedom on the racial income gap. They find evidence that higher state-level economic freedom is correlated with a larger gap in median income between black households and white households.

Conclusion

Social justice concerns some of the most important social problems of our time. Persecution of minorities, political inequality, and economic inequality are well-known problems that have existed throughout human history. Modern societies pride themselves on having alleviated many of these problems, yet they still persist throughout the world, including many parts of the developed world.

But crucial for seeking to further alleviate these social problems is understanding how they might be improved. While the ends may never justify the means, it is important to understand whether particular means lead to particular ends. Economic freedom is usually not in the vocabulary of advocates of social justice. If anything, when economic freedom is mentioned in the context of social justice, it is considered to be in opposition to the goals of the movement. But, as the research we have summarized suggests, the term should be part of the advocates' vocabulary.

Economic freedom is not a panacea for the world problems that the social justice movement is concerned with. But it may solve some of them. Where it is does not solve a problem, we should also be interested in whether economic freedom exacerbates a problem or is merely unrelated to it. By having a better understanding of the academic research on the relationship between social justice and economic freedom, we can move beyond slogans and simple theories toward solving real social problems.

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