

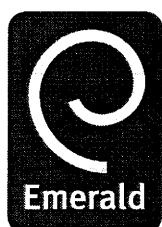
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Paul Craig Roberts on empirical measures of economic freedom: a rejoinder

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Paul Craig Roberts on empirical measures of economic freedom: a rejoinder

Empirical
measures

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481

Abstract

Purpose – The purpose of this paper is to counter the misunderstanding by Paul Craig Roberts of empirical measures of economic freedom.

Design/methodology/approach – The objective is achieved by citing Roberts' criticisms of the Fraser and Cato studies of economic freedom and demonstrating the fallacies in his analysis.

Findings – The result of the present analysis is that Roberts misunderstands and misconstrues empirical measure of economic freedom. He conflates economic freedom with other desiderata, such as political freedom, personal liberties.

Research limitations/implications – To the extent the widely publicized Roberts findings are believed by scholars, there will be less research conducted in this vitally important arena. To the extent that his errors are exposed, as, for example, by the present essay, there will be more research conducted in this vitally important arena.

Practical implications – The practical implication of this research initiative is to improve economic freedom around the world. If citizens are not even aware that there is such a thing as economic freedom, this will lessen the chances of it being implemented. Roberts' creation of red herrings and muddying of the waters around this topic, thus, unintentionally, diminishes economic freedom. One of the implications of the present article is to counter Roberts' influence in this matter.

Originality/value – What is new in the paper is that the fallacies in Roberts' critiques of empirical measures of economics are dissected.

Keywords Freedom, Economic theory, Economics research

Paper type Viewpoint

The Fraser Institute of Canada[1], in conjunction with the Cato Institute of the US, along with several scores of free market oriented think tanks all around the world, have been publishing[2] empirical measures of economic freedom for numerous nations ever since 1996. A similar research program has been undertaken by the Heritage Foundation, for roughly the same number of years[3]. While there are differences between the two approaches to this same challenge[4], the present paper shall not be concerned with any of them. Rather, it will reply to two criticisms of both of these efforts, each of them written by Roberts (2002, 2004).

Before we begin our reply to Roberts, a few words are in order describing what an empirical measure of economic freedom is and is not, what it can be and what it cannot be. First of all, it is an operational definition: economic freedom is defined in solely in terms of an amalgamation of the empirical indices that together comprise it. If a statistic is not included in the index, then it cannot determine the level of economic freedom in a given country. Secondly, it is an empirical definition: economic freedom is based on statistics. If a concept cannot be quantified, it cannot enter into consideration.



No matter how philosophically important a given consideration may be for economic freedom, if no objective quantification can be applied to it, it cannot be part of an empirical definition of economic freedom. Thirdly, such indices are concerned with economic freedom. While we define economics reasonably broadly[5], there are some issues that simply fall outside the range of the dismal science[6].

With this brief introduction, let us consider some of the criticisms against this line of thought leveled at it by Roberts. This author starts off with the following statement:

The war on terrorism has hardly begun, but it has already demolished the 4th Amendment, an important basis of our civil liberties. To feel more secure against Muslim terrorists, we have made ourselves less secure from government.

The Patriot Act and the new Department of Homeland Security override the 4th Amendment 'right of the people to be secure in their persons, houses, papers and effects, against unreasonable searches and seizures' as well as its stipulation that 'no Warrants shall be issued, but upon probable cause . . . particularly describing the place to be searched and the persons or things to be seized.'

Henceforth all Americans can be electronically searched and monitored without their knowledge.

In view of this loss, it comes as a relief to learn from two Washington DC, think tanks that world economic freedom is on the rise. The Cato Institute's 2002 report on economic freedom covers the year 2000 and finds a rise in the index of economic freedom. The Heritage Foundation's 2003 index covers June 2001 through June 2002 and also reports an increase in economic freedom.

First of all, minor point, the major contributor to the so-called "Cato Institute's 2002 report on economic freedom" was not the Cato Institute, but rather the Fraser Institute. Cato was merely one of the many contributors; Fraser was the initiator. Secondly, substantive point, this statement bespeaks a profound misunderstanding of what an empirical measure of economic freedom is, and what are its limitations. The 4th Amendment's "right to be secure" and not unfairly imposed upon by "Warrants" is clearly a political freedom, not an economic one, and thus is outside of the purview of both studies. In addition, no other country beside the USA has an explicit 4th Amendment. But an empirical measure of economic freedom is at bottom, and necessarily, a comparative one, and one that can be measured. That is, every statistic must compare our country with others on the globe on a statistical basis[7]. If it cannot do that, it cannot be included in the index. What number can we give to describe the undoubted fact that "The Patriot Act and the new Department of Homeland Security override the 4th Amendment?" This sort of thing, reprehensible as it may be, simply cannot be shoe horned into an empirical measure of economic freedom, and Roberts' castigation of these two studies on that ground merely exhibits his acute misunderstanding of this intellectual effort.

Next, consider the following complaint of this author:

The indices are constructed with care, but anomalous results suggest that improvements are possible. For example, the Cato Institute's report notes "the overall tax burden has been increasing from 32 percent of the GDP of OECD nations in 1980 to 37% in 1999." This means that people in Western nations, which by and large have the most economic freedom, have experienced a 15 percent decline in ownership of the products of their own labor; yet, the index shows a paradoxical rise in economic freedom.

This, too, demonstrates a misunderstanding of the enterprise. It is not at all “anomalous” that one aspect of the index such as taxation would worsen, while the overall level of economic freedom would rise. This is because indices of this sort are comprised of numerous constituent elements. Surely, it is no “paradox” that one subset of an index could move in one direction, and the overall score in the diametric opposite direction. Roberts’ criticism is akin to the complaint that Kobe Bryant’s score in a basketball game rose, and yet the total number of points scored by the Los Angeles Lakers fell. Or that the price of food increased, but that the overall consumer price index decreased. These results would be neither “anomalous” nor a “paradox,” and no one who was acquainted even in the slightest with this sport, or, indeed, with the definition of an index, could ever make such an elementary mistake.

And what are we to make of this Roberts’ sally:

Perhaps a problem is that the measure of economic freedom, constructed by economists, is ahistorical. Historically, freedom meant that a person owned his own labor and the products of his labor. A serf was not free, because he owed the feudal lord, the government of that time, one-third of his labor. When capitalism broke up feudalism, it freed labor from this tax.

Twentieth century income and social security taxes have re-enslaved populations. Today working Americans and Europeans have no more claim to their labor and its products than did feudal serfs. If freedom is measured by what it meant historically, no Western nation would be ranked as free.

Well, no nation at all, western or not, is technically ranked as “free.” It is all relative. The level of freedom in any one country is merely a comparison with that of others. Empirical measures of economic freedom are based on a contrast with the statistical levels that obtain elsewhere. In similar manner, strictly speaking, the baseball team that wins the World Series is merely the “best” one that given year. It is not “great” or “excellent,” or “wonderful” in any objective sense. Who knows, there may be another baseball team somewhere out there in the solar system that is better. Even if not, all that can properly be said about this sporting event is that team A beat team B four out of seven games. Both pennant winners may even be relatively poor teams, for example, if their stars were on the injured list and unavailable for play.

Next, consider this ill-considered criticism:

Both indices, however, fail to penalize the US and the UK for race and gender quotas that discriminate against white males in employment, training and university admissions.

Race and gender quotas impose costs and diminish economic freedom just as do import quotas. In the US race and gender quotas violate the 14th Amendment, thus raising wider issues of freedom.

There is no justification for penalizing a country’s ranking for import quotas and coercive measures such as minimum wage and collective bargaining, but not for race and gender quotas.

All I can say in response is that there is too a “justification for (not) penalizing a country’s ranking for race and gender quotas.” For one thing, these misbegotten practices are very difficult to quantify. For another, even if this objection could somehow be overcome, this would lose us an awful lot of countries, as data for these quotas would not be available for far too many. In Gwartney *et al.* (1996), 17 criteria of economic freedom were chosen, and data for them for 101 countries was utilized[8]. We could have utilized fewer criteria, and had coverage for more nations. Heritage utilized fewer criteria, and thus were able to include more nations in their sample.

Which one was “correct?” To ask this is to expose ignorance about the undertaking: there is no right answer. Different empirical measures will weigh criteria and sample size differently. All we can say is that if we had hundreds of criteria, our sample size would be zero, and that would not be a very illuminating index. Alternatively, only one criterion could be used, say, tax levels, and, perhaps, every country in the world could be studied. But, this, too, would hardly promote the study of economic freedom, for surely this is a multidimensional, complex phenomenon, not reducible to any one of its constituent elements, of which taxation is certainly one. If Roberts wants to include “race and gender quotas” and thereby lose, say, 75 out of 100 countries, he is certainly free to do so. But it seems a bit harsh on his side to criticize other researchers for not adopting any such policy, no matter how important is this criterion as a measure of economic freedom.

Here is another Roberts’ criticism:

There are similar problems with the measures of rule of law and property protection. Asset forfeiture laws in the US have made owners insecure in their property. Innocent owners have lost homes and boats because renters used drugs on the premises, thus making the property subject to forfeiture. People have had cash confiscated for no other reason than police ruled that the sum was large enough to imply intent to buy or sell drugs.

In recent years, the number of crimes for which property can be confiscated has increased dramatically. The confiscations are arbitrary, and owners have little recourse. To be accurate, the indices of economic freedom must factor in the insecurity of property that results from asset forfeiture laws.

A similar response is appropriate here. Asset forfeiture laws are too narrow, unique and idiosyncratic to be included in an international comparison. Some countries besides our own undoubtedly have them; others do not. But it was impossible to come by this data. Sometimes, the good is the enemy of the possible. In sharp contrast, the Fraser study does include a measure of rule of law and general property protection. This information was available for enough countries to enable us to include it as one of our criteria. Had Roberts been a more careful reader of this study, he undoubtedly would not have taxed us for its absence.

Let us consider one last criticism in Roberts (2002):

In the Preface to the Cato report, Milton Friedman suggests that the next step is to weld together measures of economic, civil, and political freedom into one index.

This is an excellent suggestion. Political correctness and “crimes of opinion” in the US are close to rendering the 1st Amendment no more operable than the 4th and the 14th Amendments.

It would be paradoxical to have indices showing rising economic freedom while all other freedoms plummet.

Here, again, there are problems. First, Amendments to the constitution of the USA, by definition, apply to that one country alone. Important as it is in world affairs, America alone cannot an international comparative index make. Second, it is not at all “paradoxical” for economic freedom to be high (low), or rising (falling), while other indices, such as those depicting the state of civil or political freedom are low (high) or falling (rising.) This is because economic freedom is a different concept than these others. Would Roberts be surprised to learn that economic freedom was negatively correlated with temperature, or musical ability or number of dogs in a country? Presumably not, since these are very different variables, and there is no necessary

connection between any of them. It is similar with economic, civil and political freedom. Some places, e.g. Singapore, are strong on the first, but weak on the latter two. In others, e.g. the Scandinavian countries, the very opposite is the case. This is no gigantic surprise to those who appreciate the fact that these are entirely separate categories.

We turn, now, to a consideration of the criticisms leveled at this sort of analysis by Roberts (2004):

The Heritage Foundation and *Wall Street Journal's* tenth annual Index of Economic Freedom pulls the wool over our eyes. The deception is unintentional and arises from a fatal flaw in the index.

The index delivers the comforting conclusion that the US is the 10th most free country, far ahead of 155th ranked North Korea. However, the index ignores the simple truth that people who do not own the product of their labor are not free. People subject to an income tax do not own the product of their labor.

Our Founding Fathers understood this. Indeed, historically the very definition of freedom has been self-ownership. Serfs and slaves are not free, because they do not own their labor.

Any American who thinks he owns his labor can test the proposition by refusing to pay his income tax. He will quickly discover that he is not a free person.

The Heritage index is ahistorical. It is blind to the enormous loss of freedom in the 20th century, especially in the US and the UK. It takes as its starting point the re-enservment of populations and predicates a "freedom" index on unfree labor."

This extraordinary failing reduces a valuable study to a propaganda device.

Compare an American taxpayer's situation today with that of a 19th century American slave. Not all slaves worked on cotton plantations. Some with marketable skills were leased to businesses or released to labor markets, where they worked for money wages. Just like the wages of today's taxpayer, a portion of the slave's money wages was withheld. In those days the private owner, not the government, received the withheld portion of the slave's wages.

Slaves in that situation were as free as today's American taxpayer to choose their housing from the available stock, purchase their food and clothing, and entertain themselves.

In fact, they were freer than today's American taxpayer. By hard work and thrift, they could save enough to purchase their freedom.

No American today can purchase his freedom from the IRS.

We must start off our reply by noting that Roberts is here criticizing only the Heritage – *Wall Street Journal* index, not the one published by the Fraser Institute (along with the Cato Institute and others). The substantive difficulties with these remarks are several. The USA is indeed "the 10th most free" country, with emphasis decidedly on "most." I certainly agree with Roberts that no one can be fully free with the compulsory income tax hanging over his head, but the index should not be interpreted in any such way. As mentioned before, it is essentially a vehicle for comparing freedom between one country and another, and, certainly, America is more free than North Korea, despite the fact that the income tax applies to both countries. I go further. If nothing else in these two countries changed, except that the latter rescinded its income tax, the former would still be more free, since there are many other factors that go into a measurement of economic freedom.

It undoubtedly sounds strange to our ears, but there is nothing intrinsically wrong with predicating "a 'freedom' index on unfree labor." Labor freedom is but one aspect

of overall economic freedom, and it can be low, or even virtually non-existent, as in the case of the income tax, but a people can still be (relatively) free in other regards.

Then there is this entirely inept, misleading, and even insulting equation of the "American taxpayer's situation today with that of a 19th century American slave." Did you ever hear that joke: "Do you know the difference between a bathroom and a living room? No? Well, then don't come to my house." In similar vein I say that if you cannot tell the difference between outright slavery, as occurred to blacks in the US in the 19th century, and being subject to an income tax, then do not come into the parlor where matters of political economy are being discussed. People of this ilk probably cannot distinguish between kidnapping and robbery. Yes, of course, it cannot be denied that there are similarities between kidnapping and robbery on the one hand and slavery and taxation on the other. All four are invasions of the person[9]. But the first of each of these pairs is an attack on the human person himself, while the latter are uninvited border crossings against physical property.

Roberts says that slaves are freer than taxpayers; I say, in response, let him put himself in the position of a 19th century slave, replete with whippings and having his wife and children sold "down the river." In return, we will ensure he never has to pay an income tax again. Will he take me up on this "modest proposal?" I very much think not.

Here is a challenge offered up by Roberts:

I challenge Heritage and the *Wall Street Journal* to initiate a broader index of freedom, one that not only includes self-ownership, but also the Bill of Rights that defines our civil liberties and the 14th Amendment that insists on equality before the law.

Such an index would reveal that the US is a stunningly unfree country. The lowest federal tax rate in combination with the Social Security and Medicare tax confers serf status upon lower income groups. The top tax rate, federal and state, converts successful Americans into government's slaves.

Yes, yes, I agree with Roberts that "the US is a stunningly unfree country." It indeed engages in an orgy of coercion and involuntarism. Compared to the libertarian ideal, America is practically a jail[10]. However, how we stack up against other countries, not against the ideal of libertarianism, is what empirical measures of economic freedom are designed to do.

Further, it has long been my experience that whenever any person reasonably but not fully sophisticated in economics sees the findings of these studies, he invariably objects on the ground that his own country is rated far too highly. My explanation for this phenomenon is that most moderately informed people know the situation in their own nation significantly better than for others. They are thus intimately acquainted with the machinations of their own politicians, warts and all. They think that if ever there was a country to which the honorific "economic freedom" does not apply, it is their own. But they do not realize that other countries are in the same boat, and sometimes a far worse one. So I can sympathize with a Roberts who complains that the USA is counted as more economically free than it actually is. However, this stems not from any scientific, rigorous systematic analysis, as do the empirical measures of economic freedom. Rather is it the result of a (very justified) disgust at the great deviations of local policy from that called for by the strictures of laissez faire capitalism. However, it seems to have escaped him that other nations could deviate from this ideal even more.

Here is another criticism of Roberts':

The "civil rights revolution" destroyed equality before the law. Today rights are race- and gender-based. We have resurrected the status-based rights of feudalism. The new privileges belong to 'preferred minorities' rather than noble families.

Neoconservative delusion that America has a monopoly on virtue and the right to impose American values on the world prevents a realistic look at the deplorable state of freedom in America today. It is a paradox that a country that has abandoned freedom and re-enslaved its population sees itself as role model for the world.

This, to be sure, is very regrettable. I entirely concur with Roberts on this assessment. But it reveals, yet again, that he simply has no concept of the strengths and limitations, the inherent and inevitable weaknesses, of an empirical measure of economic freedom. Take the last point first. "Impos(ing) American values on the world," e.g. by invading foreign countries which have not first attacked us is simply not a matter of domestic economic freedom. I entirely concur with Roberts in his attack on US imperialism. But to conflate this with economic liberty enjoyed by the American populace is surely a category mistake.

Similarly, with regard to the injustice of advantaging "preferred minorities." But let me answer this criticism indirectly. It is my contention that the only proper monetary system is the pure, full, 100 percent gold standard (Block, 1999; Paul and Lehrman, 1982; Greenspan, 1967; Rothbard, 1962). As it happens, there is no country at present in the entire world, which embraces such a system. Extrapolating from Roberts, and assuming he agreed with me on this matter, he would then presumably award each and every nation a zero. None of them feature the complete gold standard; therefore, none of them deserves to be called "economically free," I can just see him writing.

But such a decision is profoundly incompatible with the underlying philosophy of an empirical measure of economic freedom, which is to compare countries, one with another. We might just as well eliminate any such measure, as a zero for every nation on money, since it does not distinguish any one political jurisdiction from any other.

Let us end with an overall assessment of Roberts' criticisms of these studies. Based upon his almost hysterical dismissal of them all, one might almost infer that this commentator looked at the press releases accompanying these studies, and not the studies themselves. Yes, press releases sometimes, all right, often, make claims for research that cannot be sustained by the research itself. Press releases must be read with a grain of salt; ok, many grains.

We cannot finish a commentary on Roberts' criticisms of economic freedom without noting the complete absence, in his treatment, of international trade. The latter plays a pivotal role in both sets of studies. Why no mention, at all? This can only be speculative, not definitive, but it is possible that he does not discuss this issue at all because of his well-known attacks on the benefits, propriety, appropriateness, of free trade.

Let us end with one last difficulty: Roberts criticizes these empirical measures of economic freedom on the basis of a whole host of mistaken ideas, but fails to note one phenomenon that is indeed a weakness that has crept into the Fraser report (Gwartney and Lawson, 2003). I refer to the fact that this publication[11] now includes protection of intellectual property rights.

At first glance, this sounds reasonable. After all, property rights are the bedrock of economic freedom, and economic freedom is what this index is supposed to be all

about. But a more careful look shows deep flaws in this argument. For property rights apply, only, when there is scarcity (Kinsella, 2001). And ideas, once they are widely known, are simply not scarce any more. Therefore, it is profoundly mistaken to apply the concept of private property rights to intellectual discoveries, ideas, etc. Suppose a girl puts her hair up into a ponytail. Another girl sees this, and emulates the first one. Has the second girl stolen the property rights of the first? Not a bit of it; the first one can still utilize this mode of hair styling.

Does this mean that without patents and copy-rights[12], research and development will grind to a total halt? Certainly not, for there are still benefits to the originators of the idea, whether embodied in words, music, or some other manner. Madonna comes out with a new song. If I copy Madonna's music and sell it, she still has the advantage over me; she can do it first[13]. True, the prices she can charge will be lower if I am precluded from doing so. On the other hand, due to my efforts, there will be an increased demand on the part of the public to attend her live concerts. If someone copies and distributes a book I have authored, my receipts for its sales will decrease, but interest in me, as a paid lecturer will increase. In any case, there is a mere pragmatic issue, perhaps unworthy of our consideration. The bottom line in terms of economic freedom is that the optimal amount of research and development will occur when only legitimate property rights are protected, and this certainly does not include ideas and intellectual discoveries.

To be even more precise, the problem with this measure of economic freedom (Gwartney and Lawson, 2003) is not, paradoxically, that these authors include protection of intellectual property rights in their index. Rather, it is that they assign it the wrong sign. That is, according to this study, countries that promote patents and copyrights are to that extent more free. Yet, the Kinsella analysis points in exactly the opposite direction. Namely, that countries which promote patents and copyrights are to that extent less free, because they violate the property rights of others to do as they wish with their paper and ink, their recording studios, cameras and tapes.

Notes

1. Gwartney *et al.* (1996) and Gwartney and Lawson (2003). For an overview see www.fraserinstitute.ca/economicfreedom/index.asp?snavef
2. The genesis of this study was a suggestion I made to Michael Walker of the Fraser Institute when I was employed there. Freedom House, which had done reasonably good work on political freedom (www.freedomhouse.org/ratings/), was at that time contemplating a study of economic freedom. But their version of this concept greatly diverged from my own. In their view, economic freedom consisted of supporting unionism, government regulation of the economy, welfare payments for the poor, etc. I wanted us to go on record with a libertarian perspective on these issues. Walker and Milton Friedman, with my help, later set-up a series of Liberty Fund conferences on this issue under whose aegis several publications were issued (Block, 1991; Easton and Walker, 1992). At my invitation, Gwartney *et al.* (1992) wrote one of the early papers in this series, which was later broadened into our 1996 publication.
3. O'Driscoll *et al.* (2003); Miles *et al.* (2004); For an overview, see www.heritage.org/research/features/index/
4. Full disclosure: I am coauthor of only one contribution to this series: Gwartney *et al.* (1996). Thus, I take full responsibility (but of course only partial credit) for that one publication, but for none of the others.

5. For example, all the Fraser compilations take into account the presence or absence of the military draft as a component of economic freedom.
6. Gary Becker (1957, 1964, 1976) and Buchanan and Tullock (1962) have done more than most in terms of pushing out the frontiers of economics into what, before their contributions, were considered the preserve of sociologists and political scientists. Fogel and Engerman (1974) and North (1981, 1990) have played a similar role with regard to history.
7. It cannot be denied that some of these studies categorize some countries as “unfree,” “partially free” and, even, “free.” But, with regard to the latter, any reasonable reading of what is afoot will acknowledge that this category is a relative one, relative, that is, to other countries, and not to some Platonic or libertarian ideal, contrary to the interpretation of Roberts.
8. See also Gwartney and Lawson (1997, 1998, 2000, 2001, 2002, 2003).
9. When theft of property amounts to a veritable death sentence, e.g. on the sea or on the frontier, the gap between violations of person and property merge. But such is not the case at present.
10. But if the US is a vast prison, what, then, can we say of North Korea, or Cuba? Alternatively, if the latter are merely gigantic holding cells, the America really is the land of the free. I note that Roberts himself chooses to remain in the USA. If it were really so bad, that is, if there were better options available elsewhere, it would be difficult to account for this fact.
11. I was a co-author of the 1996 publication in this series, not of any of the later versions thereof. Thus, I cannot be blamed for errors committed after I dropped out.
12. Apart from specific contractual obligations.
13. The main advantage enjoyed by hard cover books vis a vis soft cover ones, or movies in theaters vis a vis video rentals, is their timeliness. And yet, even though they are more expensive, the copies in each case have not at all destroyed these primary industries. Very much to the contrary, they may have even enhanced them.

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