

Political Freedom and Capitalism: How Linked are Free Societies and Free Markets?

Encyclopedia: [Capitalism](#), [Elections](#), [Democracy](#), [Open Markets](#), [Pluralism](#)



“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 has not also used something comparable to a free market to organize the bulk of economic activity.”

-Milton Friedman, *Capitalism and Freedom*

Capitalism and Freedom is University of Chicago economist Milton Friedman’s highly influential series of essays dissecting the relationship between economic and political freedoms.^[1] In chapter one, he raises the hypothetical example of a person being imprisoned for selling a prescription drug for a lower price than that set by the government and the manufacturer. Friedman argues that this sort of state interventionism coerces individuals and necessarily limits personal liberties. In Friedman’s view, the only way to prevent this kind of coercion is to “remove the organization of economic activity from the control of political authority” through free and open markets.^[2] Evidence shows that there has been a clear recession of liberal democracy in recent years, with the average level of democracy slipping to where it was before the year 2000.^[3] This has coincided with renewed attacks on the neoliberal economic order in the form of populist movements. Since both economic and political freedom seem to be imperiled to some degree, one might ask: is there a relationship between political freedom and economic freedom?

In this case study you will use datasets from the DemCap Analytics tool to determine whether economic and political freedom are related to each other. You will also be asked to speculate on the nature of this relationship, namely whether capitalism *causes* political rights or is a *product* of them. The following paragraphs will provide arguments for both of these perspectives, as well as an overview of various common measures of political and economic freedom.

Political and Economic Freedom: Proposed Relationships

There are a number of different perspectives on the relationship between political freedom and economic freedom, ranging from a causal relationship from economic freedom to political freedom, a causal relationship from political freedom to economic freedom, a mutually reinforcing relationship

between both, and a lack of any relationship whatsoever. Many economic liberals see economic freedom as a necessary precursor to political freedom. Indeed, Austrian school economist Ludwig von Mises argues that constitutions and laws do not generate political rights, but rather protect “liberty and freedom, firmly established by the operation of the market economy, from encroachments on the part of officeholders.”^[4] Some scholars argue that Mises’ perspective that economic freedom precedes political freedom is correct because democratic electorates might oppose economic liberalization. There is often a high degree of uncertainty about the individual-level effects of economic liberalization, so a rational voter might oppose the transition to a free economy because they are unsure whether it would benefit them.^[5]

Additionally, economic liberalization is typically very disruptive in its early stages, and while most people will benefit from open markets and lower taxes, these benefits are not spread uniformly across the economy. The recent decline of industrial and manufacturing sectors in many developed countries, largely a result of globalization and international labor specialization, led to impassioned electoral resistance and the resurgence of populism in the United States and Europe. This, coupled with the demonstrable unpopularity of welfare cuts and layoffs in formerly state-owned industries, means economic liberalization in democracies is often halted or reversed because of its negative short-term consequences. If an authoritarian regime initiates liberalization, then it can follow through on programs with high short-term costs and implement democratic reforms after its economic reforms prove successful. Many countries have achieved political liberty this way, with countries such as Chile, South Korea, and Taiwan introducing market reforms and then transitioning into liberal democracies after they were successfully implemented.^[6]

In contrast, others argue that political freedom must precede economic freedom because only governments with popular legitimacy and robust impartial legal institutions are conducive to economic liberalization. Market liberalization can be costly in the short-term, and only a government with popular legitimacy can pass and sustain such reforms.^[7] Additionally, scholars like Dani Rodrik argue that the transparent institutional design of liberal democracies allows for above-board conflict resolution in a “predictable, inclusive, and participatory manner,” which puts them in a better position to adjudicate the distributional conflicts that often arise in capitalist economies.^[8] ^[9] Having an impartial legal system that can defend property rights and competitive markets is an integral reason why political freedom creates the institutional base that allows economic freedom to flourish.

Other scholars argue that there is no causal relationship between economic freedom and political freedom. Indeed, Fredric Pryor finds that while capitalism and political freedom are highly correlated in the late 20th and 21st centuries, this is not the case in the nineteenth century.^[10] Upon further analysis, he finds that most of the apparent relationship between the two can be explained through confounding variables, such as income, education, and other factors that affect both capitalism and political freedom. This means that while capitalism and political freedom are correlated, this is because they are both affected by the same variables; neither is directly causing the other.

Assignment

- Using the [Data Analysis](#) tool, complete the following chart for the most recent years available per country.

	Belarus	Canada	Chile	Egypt	Laos
Political Rights Index Score					
Overall Economic					

	Belarus	Canada	Chile	Egypt	Laos
Freedom Score					

2. What trends did you notice filling out the chart? Does there seem to be a clear correlation between Political Rights Index scores and the Overall Economic Freedom scores (i.e. is one typically high/low when the other is high/low)?
 - a. Examine the trends of multiple years. Do you see trends that hold true over time?
 - b. Based on the description of both measures you read, how do these findings suggest some kind of relationship between political and economic freedom?
3. Do you think it makes more sense that economic freedom leads to increases in political freedom or vice versa? Why do you think this?
 - a. Compare additional countries from different regions of the world using the matrix above. Do the patterns hold?
 - b. What countries' experience with political/economic freedom might support (or undermine) your argument?
4. What factors do you think go into political freedom and economic freedom? Do you think that political freedom can easily be captured in one holistic measure? What about economic freedom? If you were asked to construct a measure for both of these constructs, which datasets from the Data Analysis tool might you pull from?

Notes

[1] Friedman, Milton. *Capitalism and freedom*. University of Chicago press, 2020: 9.

[2] Friedman, Milton. *Capitalism and freedom*. University of Chicago press, 2020: 15.

[3] Mechkova, Valeriya, Anna Luhrmann, and Staffan I. Lindberg. "How much democratic backsliding?." *J. Democracy* 28 (2017): 162.

[4] "Mises on the Interconnection between Economic and Political Freedom (1949)." Online Library of Liberty. Accessed May 5, 2023. <https://oll.libertyfund.org/quote/mises-on-the-interconnection-between-economic-and-political-freedom-1949>.

[5] Fernandez, Raquel, and Dani Rodrik. "Resistance to reform: Status quo bias in the presence of individual-specific uncertainty." *The American economic review* (1991): 1146-1155.

[6] Edwards, Sebastian. "Stabilization and liberalization policies in Central and Eastern Europe: lessons from Latin America." (1991).

[7] De Haan, Jakob, and Jan-Egbert Sturm. "Does more democracy lead to greater economic freedom? New evidence for developing countries." *European Journal of Political Economy* 19, no. 3 (2003): 547-563.

[8] Rodrik, Dani. "Participatory politics, social cooperation, and economic stability." *American Economic Review* 90, no. 2 (2000): 140-144

[9] De Haan, Jakob, and Jan-Egbert Sturm. "Does more democracy lead to greater economic freedom? New evidence for developing countries." *European Journal of Political Economy* 19, no. 3 (2003): 547-563.

[10] Pryor, Frederic L. "Capitalism and freedom?." *Economic systems* 34, no. 1 (2010): 91-104.