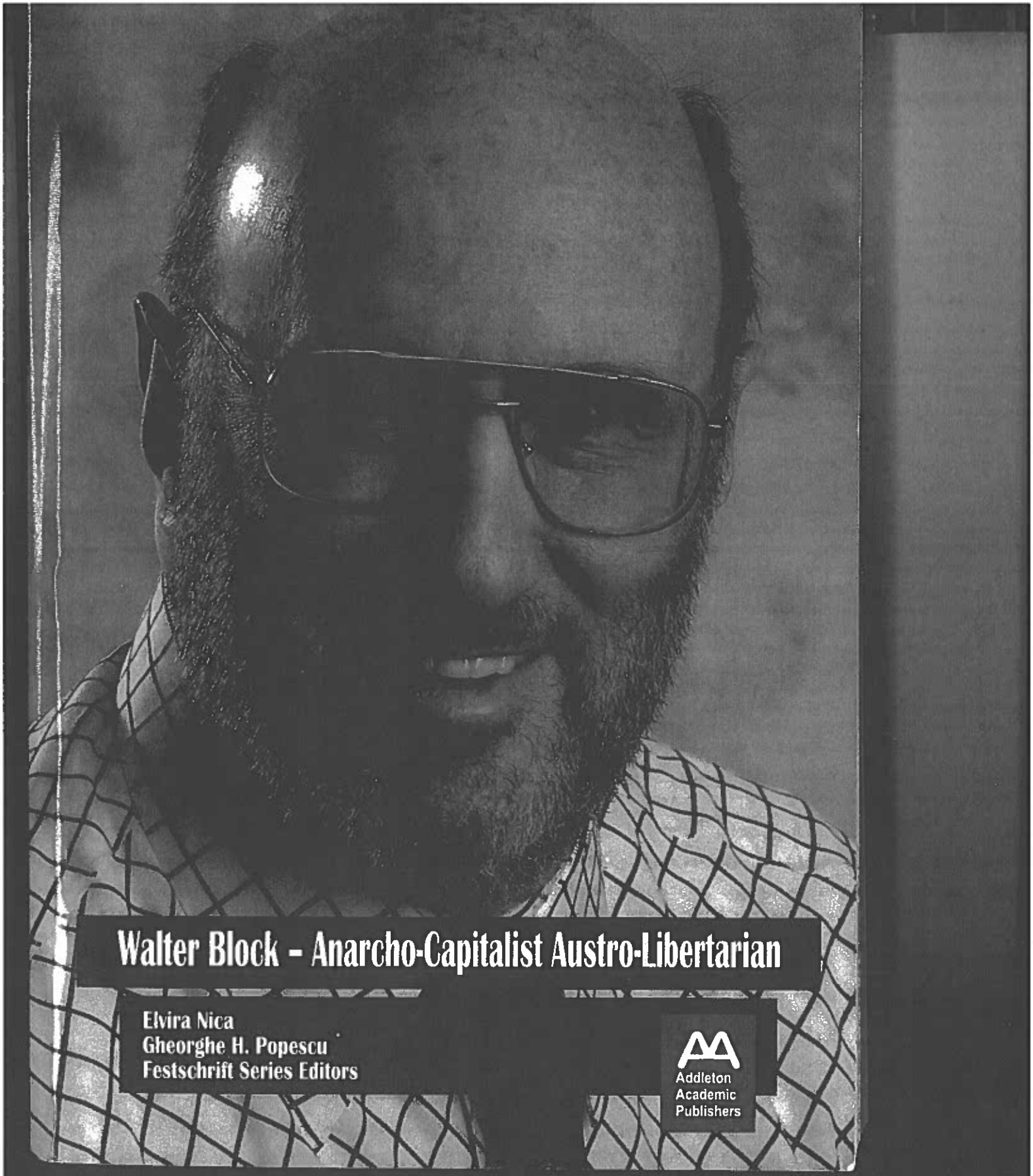


Walter Block – Anarcho-Capitalist Austro-Libertarian

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Addleton
Academic
Publishers



Addleton Academic Publishers
www.addletonacademicpublishers.com,
editors@addletonacademicpublishers.com
30-18 50th Street, Woodside, New York, 11377

ISBN 978-1-942585-58-9
eISBN 978-1-942585-59-6
Library of Congress Control Number: 2025943885

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Addleton Academic Publishers is an imprint of RIOTS, New York.

Publishing Executive Editors: Tomáš Klieštik, George Lăzăroiu, and Katarína Valášková

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Walter Block and the Economic Freedom of the World Index

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(Connolly Alexander Institute for Data Science, Tulane University)

Having taught at Loyola University New Orleans for nearly twenty years, I had the pleasure of working with one of the most dedicated scholars alive: Walter Block. Walter has a zealous obsession for uncovering the truth, and a pathological hatred for the State. I love that about him. Regardless of how uncomfortable it may make others feel, or the consequences he may suffer, he always asks the hard questions. He treads fearlessly and relentlessly.

Walter Block is probably best known as the preeminent Rothbardian, devoted to praxeological deductions, and *a priori* reasoning. What is perhaps less well known is that he is also an empiricist. Or rather, Walter Block (Block, Gwartney and Lawson, 1996) was instrumental in developing a measure of economic freedom that is the most valued tool in many empiricists' toolkits.

I won't write here about the genesis of the Index but rather I want to reflect on the influence it has had, and on how strongly this dataset illustrates the superiority of free market capitalism.

The Economic Freedom of the World Index ("EFW" from here on) measures a country's commitment to free markets. It does so by scoring each country on five dimensions (and many other sub-dimensions):

1. Size of Government
2. Legal System and Property Rights
3. Sound Money
4. Freedom to Trade Internationally
5. Regulation

Each country receives a yearly rating from 0-10. On the low end, are countries where there is no private enterprise, the economy is completely run by the government; you cannot own your own property, it is owned by the government; your currency does not maintain its value, it is manipulated by the government; you cannot trade abroad, the government has imposed prohibitive import/export controls and an unfriendly exchange rate; and there are myriad of regulations on what you can and cannot do. No country has scored a flat zero, but we

would be on safe ground to call such an economy communist. A perfect 10 would be a country where there is no governmental spending at all, people are perfectly secure in their property rights, the currency maintains all of its value, you can trade voluntarily with whomever you want, and on whatever terms. No country has scored a perfect 10, but we could call such a country a free-market capitalist country.

The EFW data spans 1970-2000 in five-year increments, and 2000-2021 annually. It grew from rating 93 countries to 165 as of the 2023 release (containing the 2021 data). (For further details on the construction of the EFW index, see Gwartney and Lawson, 2003).

So why is this dataset so important? It isn't just because academics can use their fancy formulas with it. Many people simply don't believe that free markets are good for anything. Some may grudgingly admit that they are good for creating wealth. But then they counter that it also creates wealth inequality, with the majority of the money accruing to the already-rich. And then they claim that free markets impose a whole host of burdens: poor health outcomes, environmental pollution. It seems that free market capitalism gets blamed for each and every social ill. The critics of free markets argue that the meager benefits of capitalism don't justify the costs. The EFW dataset was constructed to investigate whether such assertions are true.

The panel nature of the dataset allows researchers to investigate far more interesting questions than a mere cross-section would allow. It allows for quite sophisticated statistical analyses. I won't conduct a rigorous statistical analysis in this note. Rigorously and scientifically exploring the correlation between even two variables requires a 20-30 page paper, and space constraints don't allow for that. To date, over 700 such papers have used the EFW in a scientific context to explore the effect of economic freedom.[1] I won't attempt to add another one in this volume.

I contend in this paper that the EFW isn't just for statistically minded academics and social scientists. Rather, one of the major strengths of the EFW is that it allows for very simple—admittedly non-scientific—analyses. The kinds of analyses that fit on a bumper sticker. Or on a single picture that can be printed in a magazine or posted on a wall.

Simple pictures are worth a thousand words, and ten thousand regressions. So what I'll do is illustrate the amazingly strong correlation between the EFW and a variety of social indicators. I do this with the hope that you'll be amazed—as I once was years ago—at the strong

correlation between economic freedom and many of the things that we consider "good."

To keep the pictures simple, I've simplified the dataset. I've eliminated all observations before 2000. I then averaged the values of each of the variables. This leaves us with one observation per country. A cross section that can be easily graphed in a scatterplot.

First, there is an incredibly strong correlation between a country's EFW score and its income. Specifically, Figure 1 below shows the correlation between each country's average EFW and the average real income per person (real GDP per person).[2] Put simply, the average person in a more capitalist country is far richer than the average person in a more communist country.

De Haan and Sturm (2000) explored the link between EFW and growth, and concluded that increases in a country's EFW score are correlated with increased economic growth.

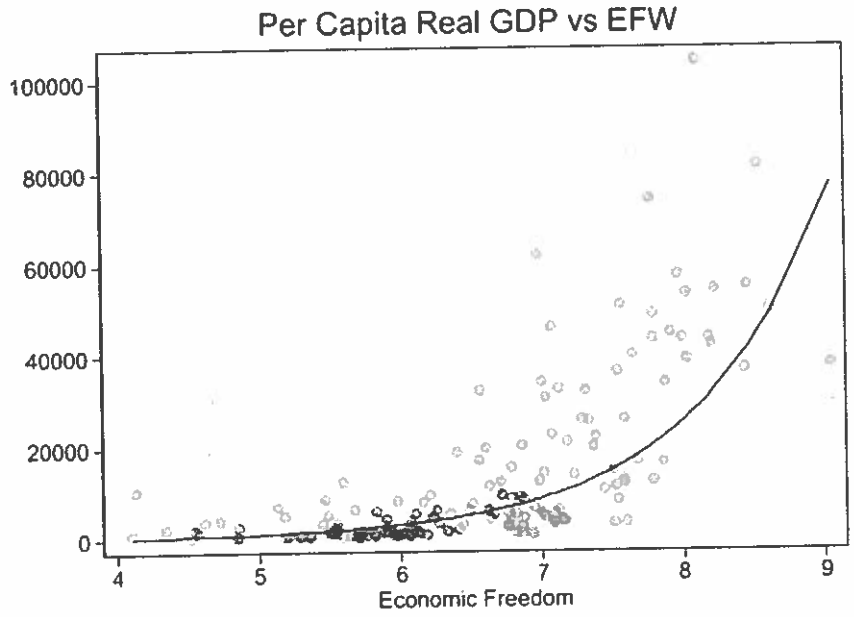


Figure 1

Most people are not surprised that economic freedom is correlated with a strong economy, or at least with high average wealth. The problem with averages is that they are sensitive to outliers. The US's GDP is $26.8 trillion in 2023.[3] If an evil genie snapped his fingers tomorrow and gave one person everyone's income, plus one dollar, then average income would go up. Per capita GDP would increase, but so would inequality; and everyone but one person would be worse off.

Average income numbers can be very misleading: they ignore the *distribution* of income. So let's turn to the distribution of income.

Aren't more socialist economies more equal? No. Economic Freedom is positively correlated with wealth *equality*. The more economically free a country is, the more equal it is. Countries that resist markets are the most unequal. This is surprising, as the desire to be better off than others is often a major driver of the capitalist engine; and the desire to equalize incomes is often at the center of (the rhetoric of) communism.

Figure 2 illustrates the true correlation between EFW and inequality. Income inequality is measured by the Gini index, a number between 0 and 1.[4] A score of 0 means that everyone has the same income. A score of 1 shows what happens when the evil genie snaps his fingers and lets one person have all the income. In summary, higher numbers mean more inequality.

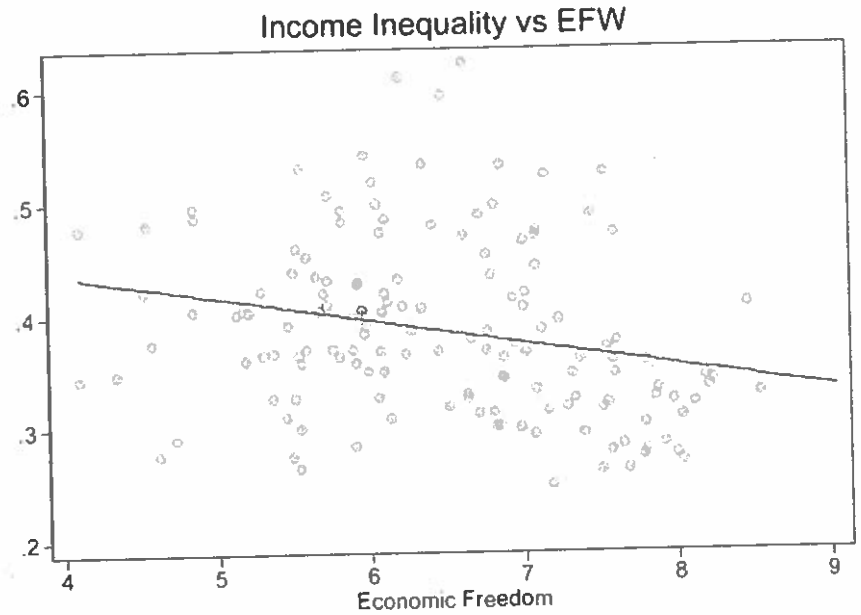


Figure 2

Well, don't more communist countries do a better job of educating their people? After all, greedy capitalists don't seem to have any incentive to educate the workforce. It turns out that economically free countries—more capitalist ones—have higher literacy rates.

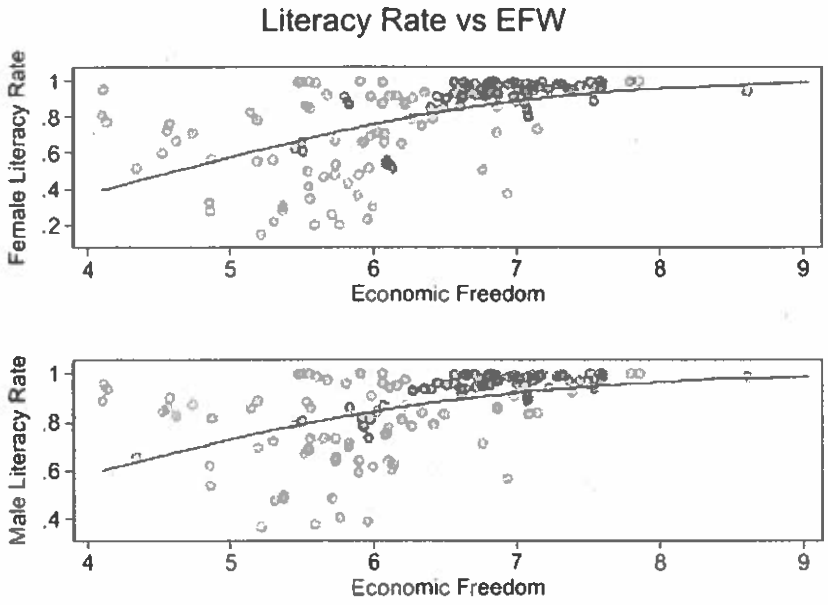


Figure 3

In Figure 3 we can see the positive correlation between EFW and the literacy rate among adults (aged 15 and above). Figure 3 splits this into Male and Female literacy, showing that both men and women benefit from economic freedom. A plausible mechanism for this is that freedom leads to wealth (pcGDP), and wealth allows people to afford more education.

But don't communist countries have better public services? Certainly they care more about their people and would provide more sanitation, no? Sanitation is, after all, a classic "public good" and such goods are traditionally under-provided by the market.

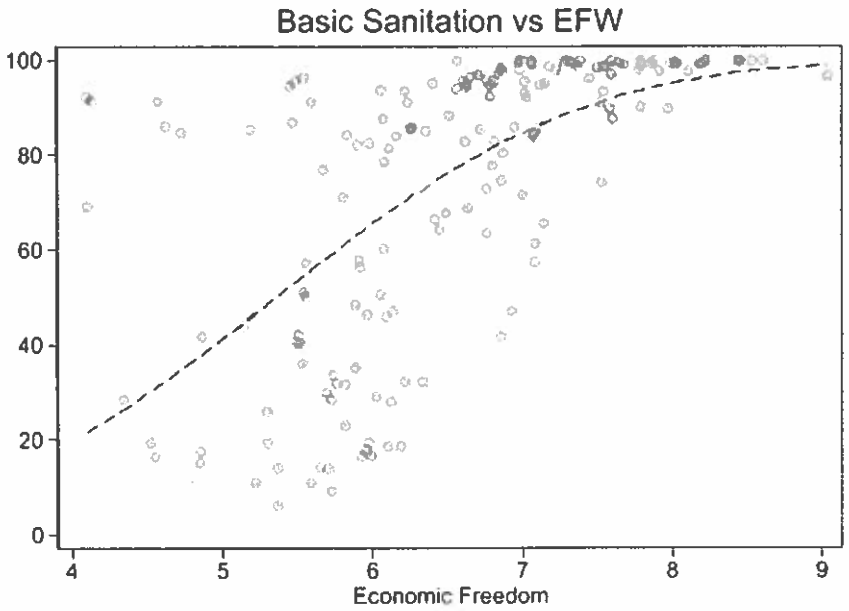


Figure 4

Figure 4 graphs the relationship between EFW and the percent of the population using at least basic sanitation services.[5] It turns out that communist countries under-provide sanitation even more than the capitalist ones.

What about healthcare? Economically free countries have lower maternal mortality rates (Figure 5) and lower infant mortality rates as well (Figure 6).[6]

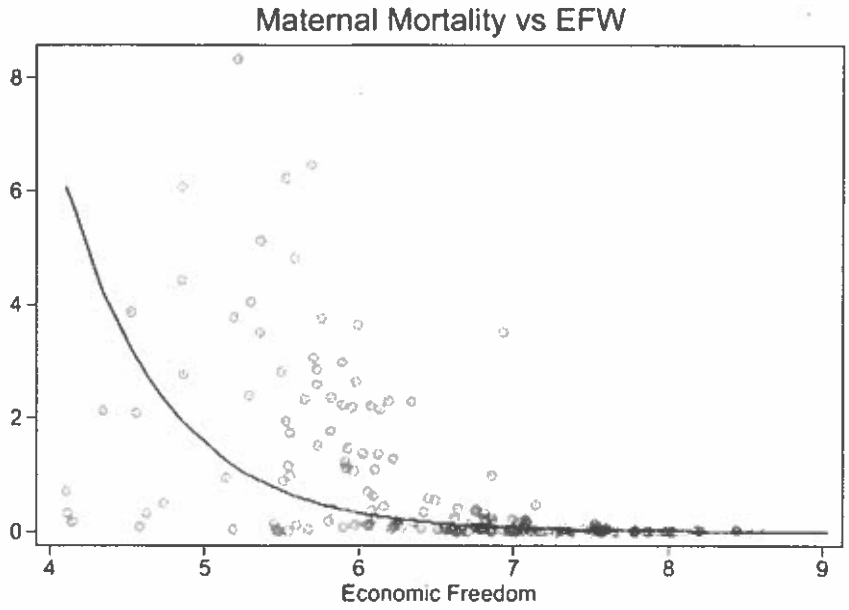


Figure 5

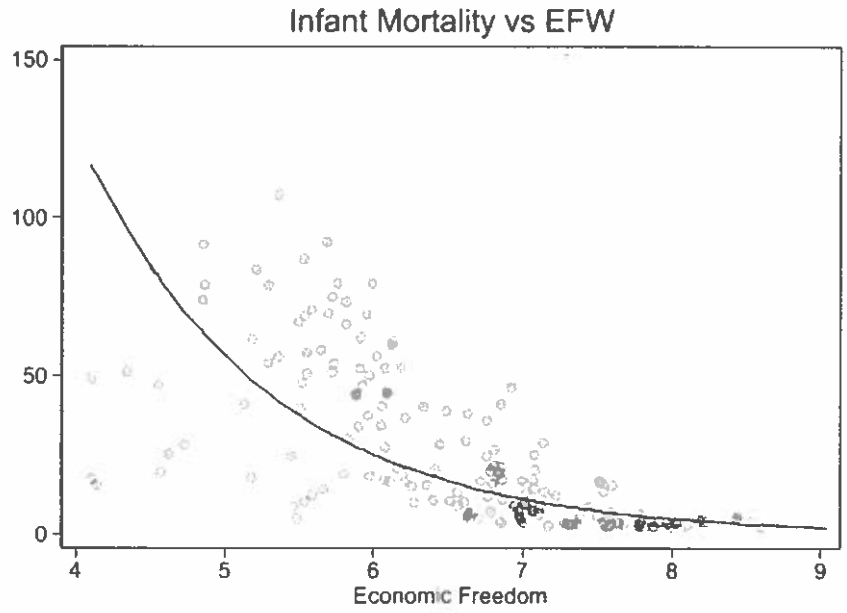


Figure 6

Surely, more communal economies have less corruption than those greedy free-market capitalist countries, no? No, again. In Figure 7 we can see there is a strong negative correlation between a country's

measured levels of corruption (using data gathered from the World Bank[7]) and EFW. Here, too, free markets tend to discourage bad behavior. There are various theories for this. One such theory is that, when markets are rare and everything is governmentally controlled, you must go, hat in hand, to a government employee for services. This makes corruption all but inevitable.

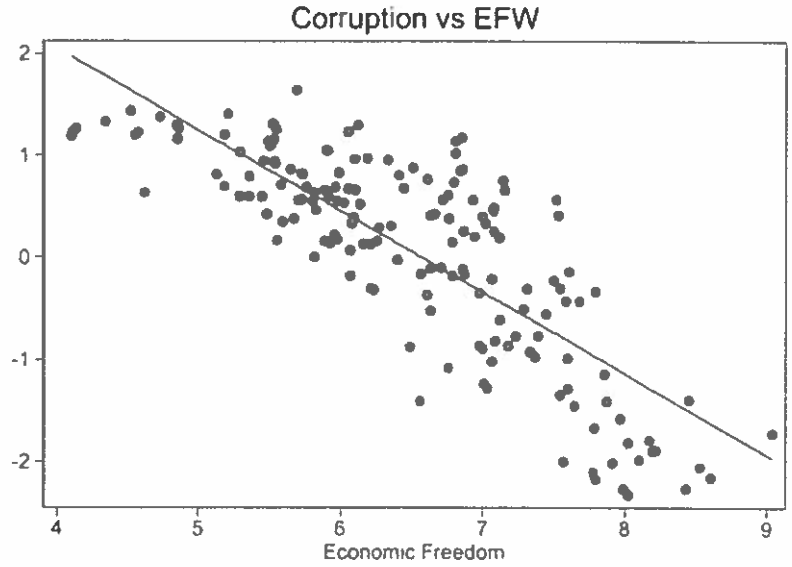


Figure 7

Finally, isn't capitalism destroying the planet? The EFW data shows that it is precisely the more socialist countries who pollute the most.

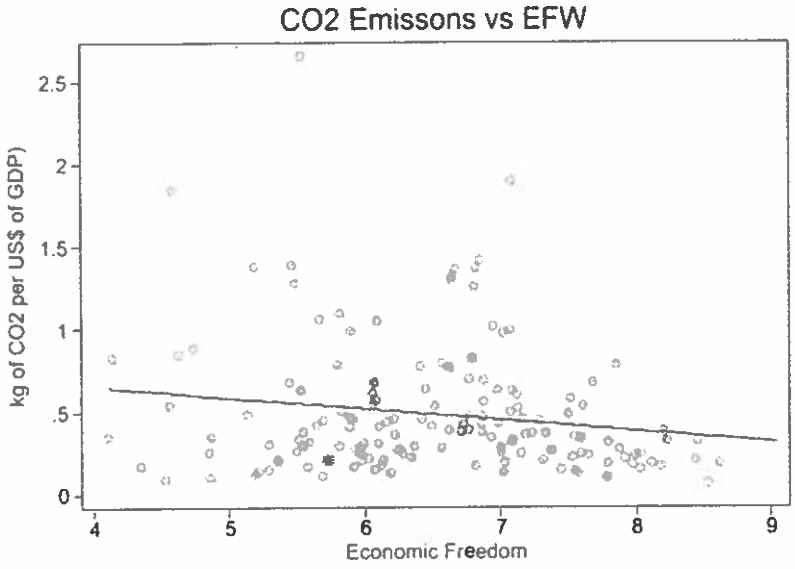


Figure 8

Figure 8 shows the negative correlation between EFW and carbon dioxide emission per unit of GDP.[8] A clean environment may be a normal good; a good which people purchase more of when they have more income. But it is more than that! The fact that CO_2 output is measured as kg per unit of income removes the effect of income. If you want to save the planet, try free market capitalism!

Over and over again, scholars have examined the data and concluded that free and open markets are positively correlated with things that we like and negatively correlated with things that we don't. An analysis of the scientific literature found overwhelming statistical support for hypotheses where economic freedom is correlated with positive social and economic outcomes; less than 4% found correlations with any "bad" outcomes (Hall and Lawson, 2014).

In my own research, I have found that economically free countries have less corruption (Hall, Levendis and Scarcioffolo, 2020), and even fewer homicides (Stringham and Levendis, 2010). And this is even after we control for the differences in income, education and a host of other variables.

Walter likes to call himself the "Jewish grandmother" of the Austro-Libertarian movement, having nurtured and taught dozens of high-profile academics and scores of economics majors. He is more than that. He is the intellectual Godfather of hundreds of free

marketeers. And he is a friend. It has been a professional privilege, a true honor, to be colleagues with Walter Block.

NOTES

1. https://www.fraserinstitute.org/studies/economic-freedom-of-the-world-2023-annual-report

2. GDP data is from the World Bank, series: NY.GDP.PCAP.KD.

3. https://www.bea.gov/news/2023/gross-domestic-product-second-quarter-2023-second-estimate-and-corporate-profits

4. Data for the Gini Coefficient is from World Bank series SI.POV.GINI.

5. Sanitation data is from World Bank series SH.STA.BASS.ZS. The data series reports the percent of the population with access to at least basic sanitation.

6. Maternal mortality rates are reported as "Lifetime risk of maternal death" as a percent, and are from World Bank series SH.MMR.RISK.ZS. Infant mortality rates are reported as the number of infant deaths per 1,000 live births. The data is from World Bank series SP.DYN.IMRT.IN.

7. Data were gathered from the World Bank's "Control of Corruption" dataset, series CC.EST. This is a part of its larger "Worldwide Governance Indicators" dataset. Rather than directly measuring corruption, the "control of corruption" dataset uses questionnaires to measure people's perceptions of corruption. For more details, see (Kaufmann, Kraay and Mastruzzi, 2010). In the original CC.EST dataset, higher numbers meant less corruption. In this paper, I've rescaled the data so that higher numbers indicate more corruption.

8. Carbon emissions data is from World Bank series CC.EST. They are measured as kilogram of carbon dioxide output per dollar of GDP, measured in real US$.

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