

# Economic Freedom, Democracy and the Quality of Life

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*Capitalism and democracy are both known to improve the quality of life. But which is more effective in promoting social welfare? Three typical measures of social welfare are health, education and disease prevention. Poor countries generally rank lower than developed countries on these social metrics, but better public policies can improve them.*



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Two major policy reform strategies have been tried: 1) market-oriented economic reforms and 2) democratic political reforms.

Many political reforms assume that democratically-determined policies will promote social welfare. The evidence, however, suggests that greater individual economic freedoms consistently enhance welfare measures, whereas greater democratic freedoms tend to have an inconsistent and smaller positive influence. This implies that countries favoring the expansion of political rights more than markets will likely see less improvement in their quality of life than countries that favor increases in economic freedom. This is especially true for countries that already have relatively high levels of economic freedom.

**Measuring Economic and Political Freedom.** A capitalistic, or economically free, society is one in which institutions are characterized by personal choice, voluntary exchange, freedom to compete, and protection of person and property. It requires public policies that promote open markets, limited government, stable monetary growth, free trade and a strong rule of law.

The Fraser Institute's Economic Freedom Index (EFI) evaluates these public institutions and policies for more than 120 countries from 1975 to the present, based on objective, measurable data.

Freedom House produces a political rights index (PRI) based on survey data. The political rights measured include the right to organize political parties, the significance of the opposition vote, and the realistic possibility of the opposition increasing its support or gaining power through elections.

In order to compare the two indices, the PRI was converted to a 10-point scale and inverted to match the EFI. The EFI and PRI values for each country range from 1.0 (least free) to 10.0 (most free). Academic studies have shown that a country's economic freedom has positive effects on many measures of economic progress, including investment, growth and income. Studies have found mixed support for positive effects of political freedom on measures of human welfare.

There were large discrepancies in economic and political freedom among countries over the last two decades [see the figure]. For example, the United States and Switzerland have high levels of both, while Algeria and Burundi have low levels of both. On the other hand, Singapore and Bahrain have high levels of economic freedom while allowing few political rights. Argentina and Ukraine, until recently, had more

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political rights relative to other countries, but limited economic freedom.

### Countries with Low Levels of Economic and Political Freedom.

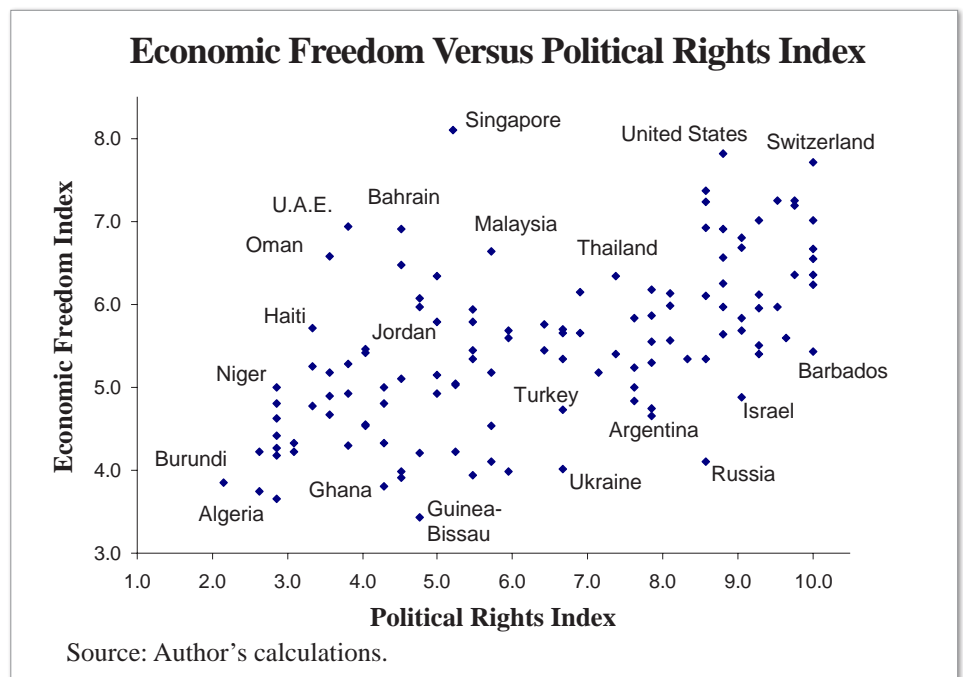
In countries with relatively low levels of both economic and political freedom, adopting greater economic freedom is more likely to enhance society's well-being than increasing political rights through expanded democracy. Consider:

- A one-unit increase in a country's EFI score is associated with a 1.3 year rise in life expectancy at birth and reduces child mortality by 16 deaths per 1,000.
- However, a one-unit increase in a country's PRI score reduces life expectancy at birth by three months and reduces child mortality rates by only one-fourth as much (four deaths per 1,000) as a similar increase in the EFI score.
- Furthermore, a one-unit increase in the EFI score is associated with a 10.3 percent increase of two-year-olds with adequate vaccinations (diphtheria, pertussis and tetanus), whereas a one-point increase in PRI produces less than a 0.1 percent increase in vaccinations.

### Countries with High Levels of Economic and Political Freedom.

Among countries with relatively high levels of both types of freedom, enhanced political rights improve the well-being of society less than economic freedom. Indeed:

- A one-unit increase in EFI increases life expectancy by one-and-a-half years and reduces child mortality by 14.6 deaths per 1,000.
- However, a one-unit increase in PRI *decreases* life expect-



tancy by four months and reduces child mortality rates by only 1.6 deaths per 1,000.

- Moreover, a one-unit increase in EFI is associated with a nine-point rise in the percentage of two-year-olds with adequate vaccinations, while a one-unit increase in PRI has no significant effect.

While it is counterintuitive to expect that more democratic freedoms could decrease life expectancy, one explanation may be revealed in the fact that this negative relationship is exhibited only in countries with greater political rights. When the government of a politically unfree country initially bestows basic freedoms to its people, this increase in democracy likely results in more constructive public policies. However, when democratic governments empower special interest groups and exploit unorganized taxpayers without protecting individual rights to income and property, public policies are likely to result in greater resource redistribution,

which may lead to lower standards of living and poorer health.

**Conclusion.** The evidence suggests that societies which rely more heavily on policies that create and maintain individual economic freedoms to promote well-being in society will be more successful than societies that rely more heavily upon greater political rights to achieve social progress. Governments of relatively unfree countries will generate greater social welfare by increasing individual economic freedoms than the same increase in political freedoms, as measured by these indexes. Further, relatively democratic governments that focus on increasing the scope of democratic powers over individual lives without preserving individual economic freedoms in society will likely produce smaller improvements in the quality of life for its people.

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