

# **Economic Freedom in the Literature What Is It Good (Bad) For?**

**Robert Lawson**

## Contents

Top authors, journals, and fields citing the EFW index / 3

How is the EFW index used? / 5

Is economic freedom positively or negatively linked  
to desirable outcomes? / 6

Diversity of dependent variables / 8

Publication bias? / 11

Conclusions / 12

References / 13

About the Author and Acknowledgments / 15

## Executive Summary

Hundreds of studies in top-ranked academic journals show that economic freedom leads to positive outcomes for people, whether in increased prosperity, reduced conflict, or stronger human rights. Scholars such as Adam Smith, David Ricardo, Ludwig von Mises, F.A. Hayek, Milton Friedman, among others, argue that an economic system based on private property, competitive markets, and free trade would yield good outcomes: not only prosperity but human flourishing in many dimensions. Other scholars, among them Karl Marx, J.M. Keynes, Abba Lerner, and Joseph Stiglitz, argue that economic freedom leads to bad, or at least sub-optimal, outcomes. Ultimately, whether economic freedom yields positive or negative outcomes is an empirical question.

This chapter examines over 1,300 peer-reviewed journal articles that have cited the index published in *Economic Freedom of the World* (EFW). Of these, over 700 articles looked at the impact of economic freedom on the human condition and most find a link between high or increasing levels of economic freedom with gains in prosperity and other measures of well-being; less than one in 20 find negative consequences.

The study uses the Fraser Institute's EFW index as its measure of economic freedom. It measures limits to freedom whether caused by overly powerful government or crony elites. The determination of “positive” outcomes—such as increased prosperity, human rights, and social development—and “negative” outcomes—such as poverty, conflict, and reduced life expectancy—is based on 721 papers in academic journals between 1996 and early 2022 that undertook fact-based studies of the impact of economic freedom, as listed in the Social Science Citations Index (SSCI).

Just over half, 50.6%, found economic freedom was related to “positive” outcomes while only 4.6% found “negative” outcomes; 44.8% did not find a clear relationship between economic freedom and either “positive” or “negative” outcomes. Economic benefits were particularly pronounced. Two thirds of the relevant studies found that economic freedom was positively related to economic growth, 72.5% to increased incomes and productivity, and 62.9% to increased entrepreneurship.

### Broad areas examined by the literature under review

**Immigration & Travel:** of the 10 relevant studies, 90% found economic freedom was related to increased immigration and tourism while 10% found no clear relationship.

**Income & Productivity:** of the 51 relevant studies, 72.5% found economic freedom was related to increases in income or productivity and 27.5% found no clear relationship.

**Economic Growth:** of the 92 relevant studies, 66.3% found economic freedom was related to increased economic growth, 32.6% found no clear relationships, and only 1.3% found a negative relationship.

**Entrepreneurship & Innovation:** of the 35 relevant studies, 62.9% found economic freedom was related to increased entrepreneurship and innovation, 34.3% found no clear relationship, and 2.9% found a negative relationship.

**Conflict—wars, civil unrest, and terrorist attacks:** Of the 10 relevant studies, 60% found economic freedom was related to reduced conflict and 40% found no clear relationship. None found economic freedom increased conflict.

**Investment:** of the 65 relevant studies, 58.5% found economic freedom was related to increased investment, 38.5% found no clear relationship, and 3.1% found a negative relationship.

**Labor Market Outcomes:** of the 10 relevant studies, 53.3% found economic freedom produced improved labor market outcomes, such as reduced unemployment and increased wages and participation, 42.2% found no clear relationship, and 4.4%, a negative relationship.

**Human Rights & Social Development—papers using the UN’s Human Development index and other indicators like life expectancy and social trust:** of the 68 relevant studies, 52.9% found economic freedom was related to improved human rights and social development, and 38.5% found no clear relationship, and 4.4% found a negative relationship.

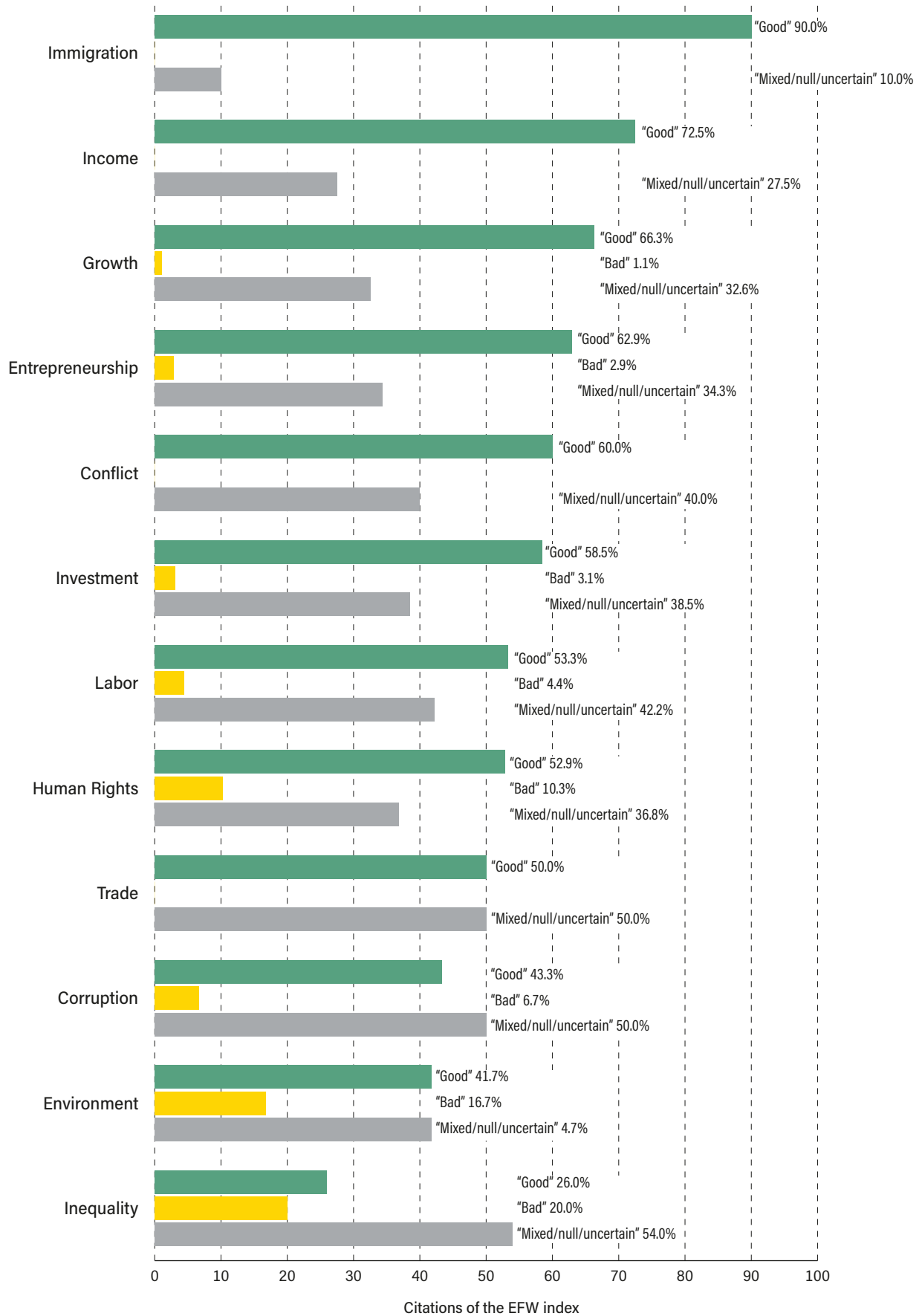
**Trade:** of the 28 relevant studies, the verdict was split down the middle with half finding economic freedom increased trade and half finding no clear relationship.

**Corruption & Shadow Economy:** of the 30 relevant studies, 43.3% found economic freedom was related to reduced corruption and a smaller shadow economy, 50% found no clear relationship, and 6.7% found economic freedom was related to increases in corruption and the shadow economy.

**Environmental Outcomes—CO<sub>2</sub> emissions and other measures of pollution as well as environmental outcomes like biodiversity:** of the 24 relevant studies, 41.7% found economic freedom was related to improved environmental outcomes, 40% found no clear relationship, and 16.7% found a negative relationship.

**Inequality:** of the 50 relevant studies, 26% found economic freedom was related to reduced inequality either in income or wealth, 54% found no clear relationship, and 20% found economic freedom related to increases in inequality.

Exsum figure: What Is Economic Freedom Good For?





# Chapter 3 Economic Freedom in the Literature: What Is It Good (Bad) For?

*Robert Lawson*

Scholars such as Adam Smith, David Ricardo, John Stuart Mill, Ludwig von Mises, F.A. Hayek, Milton Friedman, among many others have argued that an economic system based on private property, competitive markets, and free trade would yield good outcomes. In the words of Adam Smith, the “wealth of the nation” would be higher if countries pursued policies consistent with what he called a “system of natural liberty”, or what we here would call economic freedom. To these advocates and those that follow in their footsteps, economic freedom brings about not only material prosperity but human flourishing in many dimensions. In contrast, other scholars, among them Karl Marx, J.M. Keynes, Abba Lerner, and Joseph Stiglitz, have argued that economic freedom leads to disastrous, or at least sub-optimal, outcomes especially in its effects upon business cycles and income equality. More recently, opponents of economic freedom have added concerns about the climate and the environment to the list.

Although the theoretical debate between these various camps is itself interesting, at the end of the day, whether economic freedom yields positive or negative outcomes is an empirical question. Since the first edition of the *Economic Freedom of the World* (EFW) (Gwartney, Lawson, and Block, 1996), scholars have used the EFW index in a multitude of different ways to examine these issues. About a decade ago, Hall and Lawson (2014) examined all the academic papers citing the EFW index from 1996 to early 2011, as listed in the Social Science Citations Index (SSCI), and attempted a cataloguing of the results. They summarized their findings this way:

Of 402 articles citing the EFW index, 198 used the index as an independent variable in an empirical study. Over two thirds of these studies found economic freedom to correspond to a “good” outcome such as faster growth,

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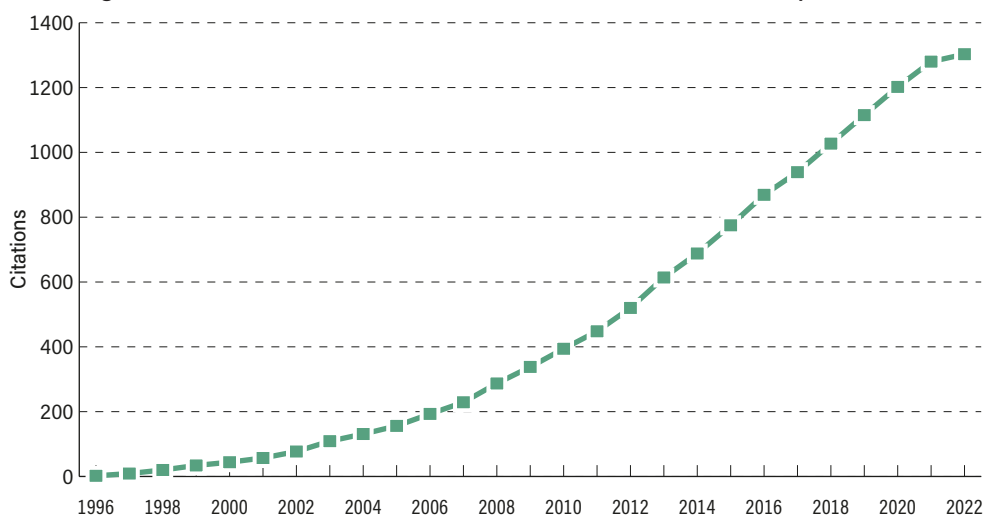
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better living standards, more happiness, etc. Less than 4% of the sample found economic freedom to be associated with a “bad” outcome such as increased income inequality. The balance of evidence is overwhelming that economic freedom corresponds with a wide variety of positive outcomes with almost no negative tradeoffs.

This chapter is an update to that study and adds to the analysis those papers published and listed in the SSCI from 2011 to early 2022.<sup>1</sup> Including the original 402 papers identified by Hall and Lawson, this chapter includes an *additional* 901 papers, for a total of 1,303. More than twice as many citations of the EFW index were recorded in the last 11 years than in the first 15 years after the first publication. Figure 3.1 shows the cumulative citations of the EFW index by year.<sup>2</sup>

Figure 3.1: Cumulative citations of the EFW index, 1996 to April, 2022



The primary purpose of this chapter is to assess whether the scholarly literature generally assesses the EFW index to be normatively good or bad relative to the various socio-economic outcomes found in the literature. Before turning to the analysis of the degree to which the EFW index has been found to be good or bad within this literature, we will look at who is writing what kinds of papers in what journals.

- 1 The SSCI list was compiled on April 18, 2022. It is worth noting that the SSCI is a fairly exclusive list of academic journals. There were in fact many, many more academic citations of the EFW index over these years that were not tracked by the SSCI. Academic books, chapters in books, policy studies, and so on as well as many academic journals are simply not in the SSCI and, of course, the SSCI does not track references from popular media of which there are many. While the numbers from Google Scholar are clearly inflated because of self-cites and duplicate publications (e.g., a working paper, conference presentation, and the final journal article may be counted two or more times), that site reports over 12,000 citations to the EFW index.
- 2 Some of the increase in the number of papers being listed in the SSCI could be because the SSCI has added more journals to their list. The entire list of papers can be found here: <https://www.dropbox.com/s/8onka7wf8unw1dc/EFW%20SSCI%20Database%204.18.2022.xlsx>.



## Top authors, journals, and fields citing the EFW index

Led by the indefatigable Christian Bjornsköv (Aarhus University) with 33 papers and the prolific Horst Feldmann (University of Bath) with 22, the authors with the most SSCI journal citations of the EFW index and shown in figure 3.2. These 20 authors accounted for fully 20% of all the citations. For a project conducted by American academics and published by the Fraser Institute in Canada, it is interesting to see that 11 of the 20 authors listed are based in Europe, and only two, Lawson and Murphy, have direct ties to the EFW project.

Figure 3.2: Top 20 authors using the EFW index

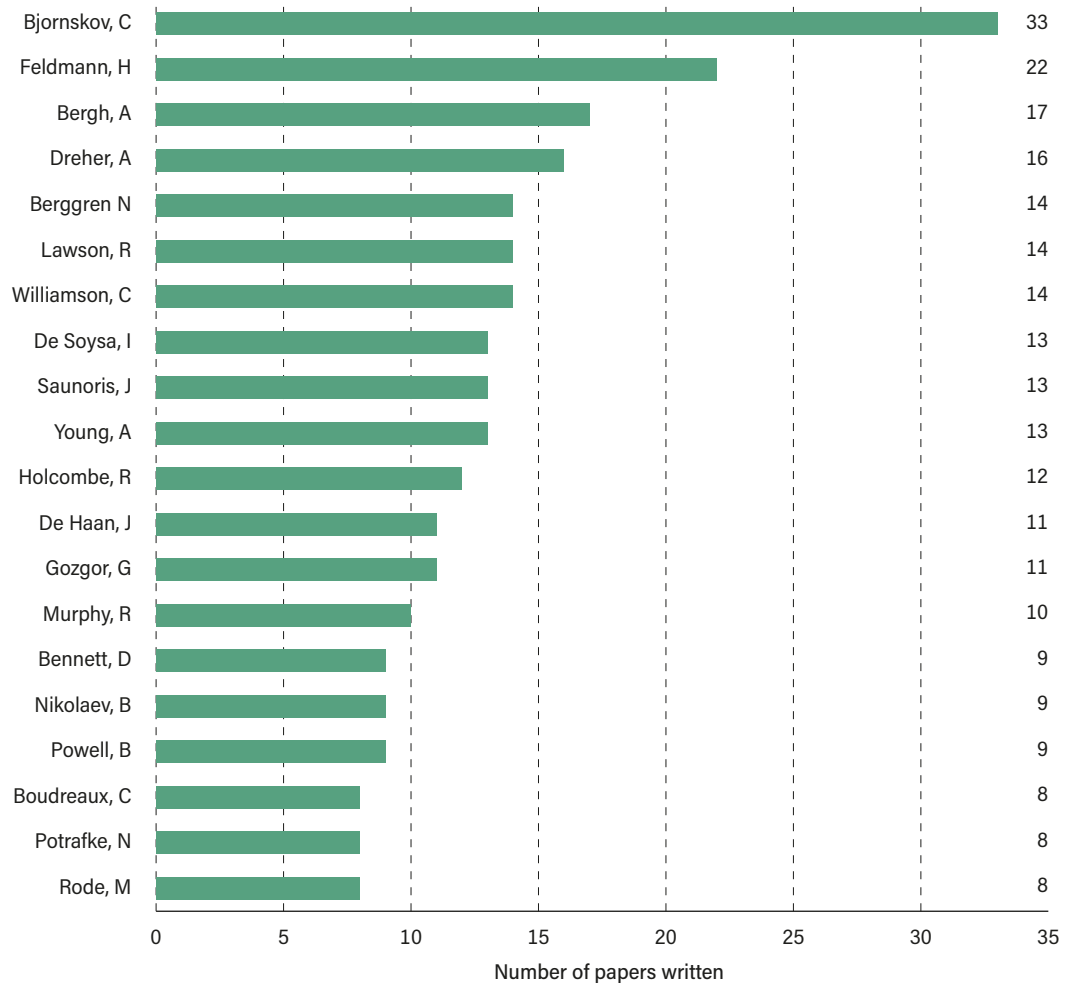


Figure 3.3 reports the citation counts for the 20 (actually 21 because of a tie) journals citing the index most often. *Public Choice* leads the pack with 69 citations of the EFW index. In total, the journals listed in figure 3.3 account for 35% of all the citations. Later, we will examine how sensitive our ultimate findings are to the inclusion or exclusion of the most prominent authors and journals.

Figure 3.4 lists the fields represented by all papers citing the EFW index. Not surprisingly, economics journals dominate the list with 821 citations. Three business fields (business, business finance, and management) accounted for 331 citations combined, while political science and international relations teamed up for 330 citations.<sup>3</sup>

<sup>3</sup> Some journals cover more than one SSCI field so the total count is higher than the number of papers.

Figure 3.3: Journals with the most citations of the EFW index

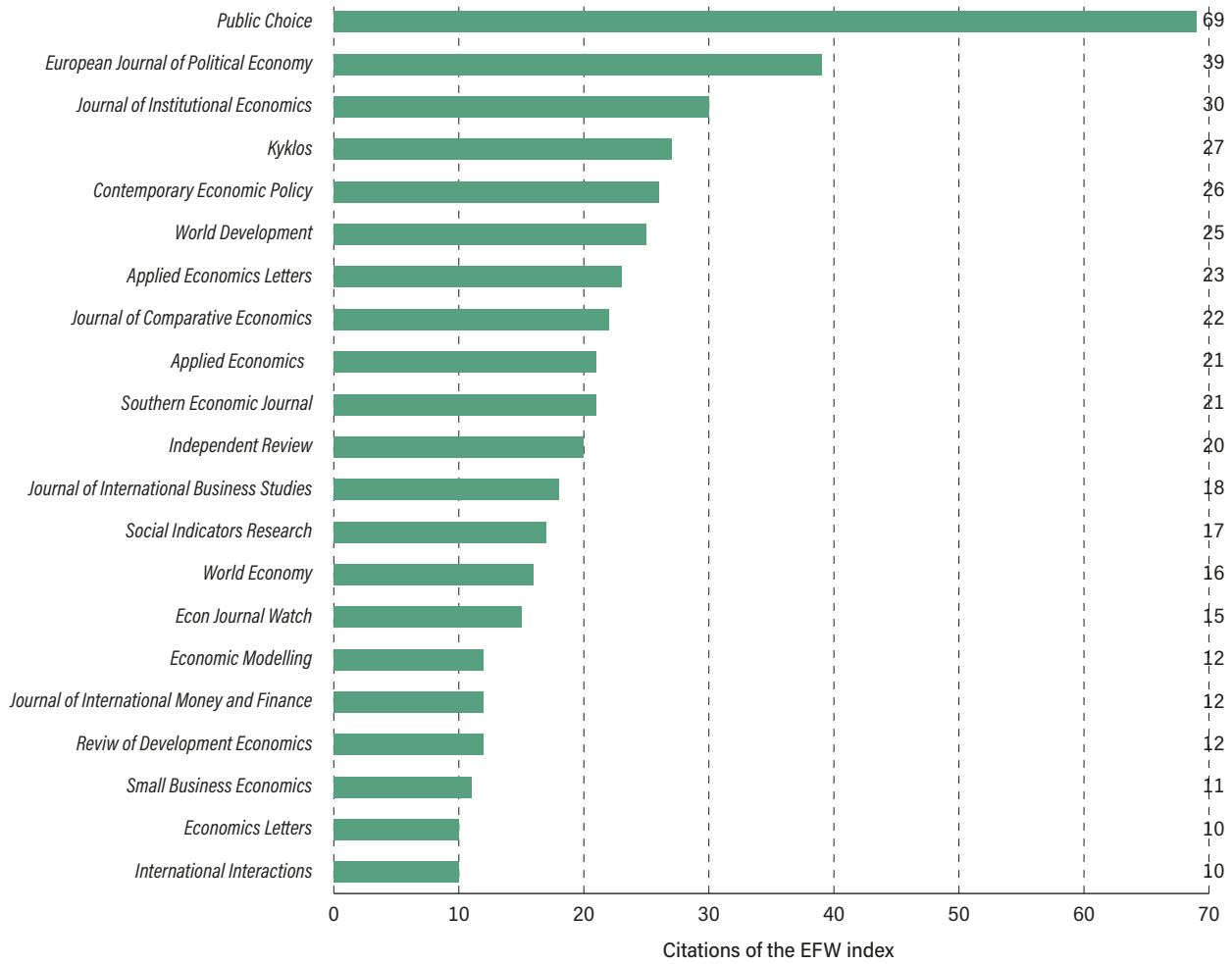
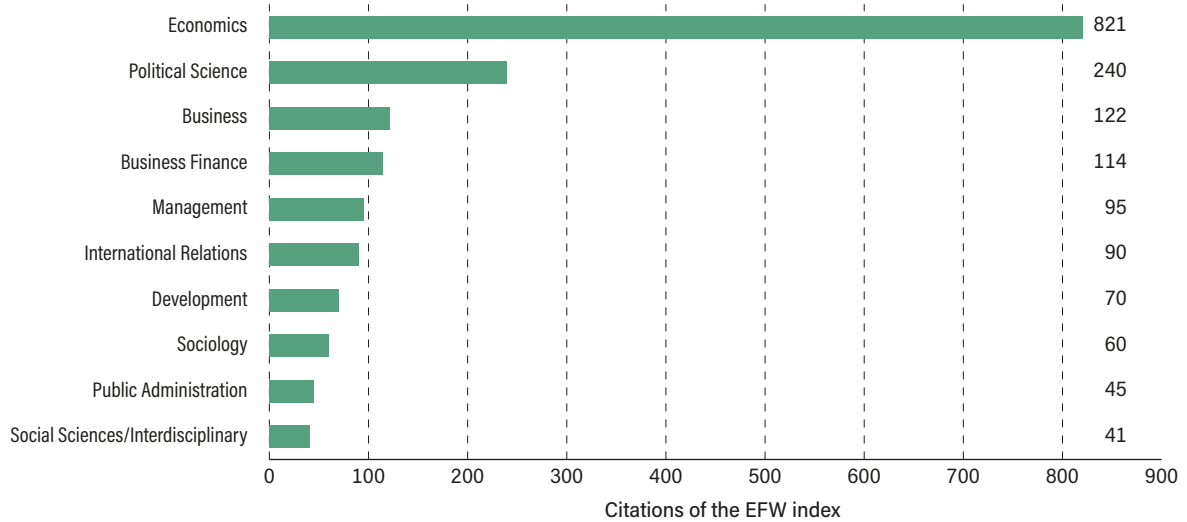


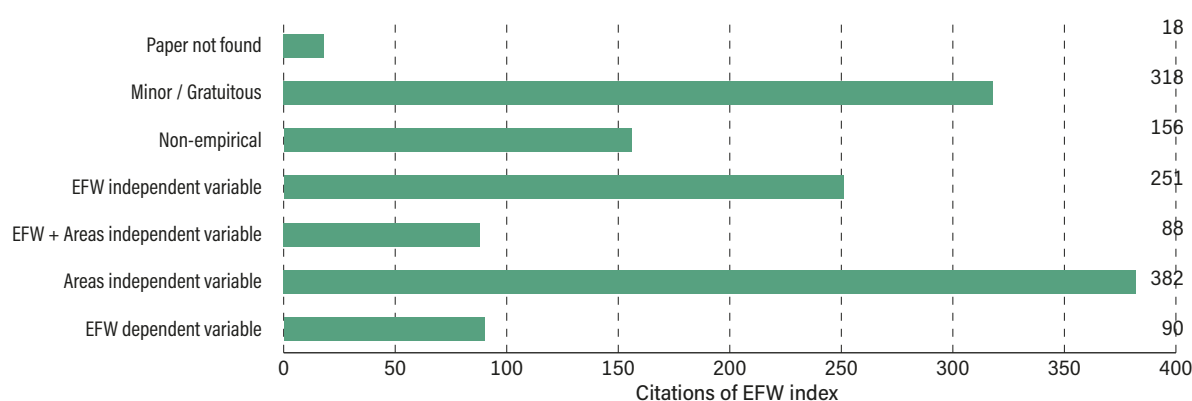
Figure 3.4: Most popular fields citing the EFW index



## How is the EFW index used?

Each of the papers was first coded for how the author(s) used the EFW index (figure 3.5). Of the 1,303 papers citing the EFW index: 18 could not be found;<sup>4</sup> 318 papers included only a very minor or gratuitous citation; 156 papers used the index in more substantial way but the paper did not have a clear empirical model expressed with a dependent variable as a function of various independent variables. The remaining 811 papers did employ a conventional empirical model. Of these, 90 papers used the level and/or change in the EFW index and/or one of its areas or components as the dependent variable.<sup>5</sup> For the purposes of this chapter, we will focus on the remaining 721 papers that use the EFW summary, area(s), component(s), and/or sub-component(s) as an independent explanatory variable(s); thus, this chapter increases the sample size from the 198 empirical papers examined by Hall and Lawson (2014) by 523 papers.

Figure 3.5: Types of citations and uses of the EFW index



Each of the 721 empirical papers was coded for how the EFW index was used: 251 papers used only the summary EFW index; 88 papers used the summary EFW index and at least one area, component, or sub-component; and 382 papers used only at least one area, component, or sub-component but not the overall EFW index. In Hall and Lawson's study (2014), there were slightly more uses of the summary EFW index ( $n = 94$ ) than of the areas, components, and sub-components ( $n = 84$ ). Over the years, the authors of *Economic Freedom of the World* have expressed some discomfort with the practice of disaggregating the EFW index:

Furthermore, there is reason to question whether the areas (and components) are independent or work together like the wheels, motor, transmission, driveshaft, and frame of a car. Just as these interconnected parts provide for the mobility of an automobile, it may be the combination of interrelated factors that brings about economic freedom. Which is more important for the

4 Despite access to the library systems of three research universities and interlibrary loan requests, we could not locate these 18 papers.

5 Putting EFW on the "left-hand side" of the equation has become a more important part of the literature over time. Lawson, Murphy, and Powell (2020) provide a relatively recent review of 69 such papers.

mobility of an automobile: the motor, wheels, or transmission? The question cannot be easily answered because the parts work together. If any of these key parts break down, the car is immobile. Institutional quality may be much the same. If any of the key parts are absent, the overall effectiveness is undermined. (Gwartney, Lawson, Hall, and Murphy, 2021: 6)

Despite the authors' warning above, it is clear that disaggregating the index has become more popular. While we did not track which areas, components or sub-components were used most, Area 2 (Legal Structure and Property Rights) was clearly the most commonly used; Area 1 (Size of Government), Area 4 (Freedom to Trade Internationally), Area 5 (Regulation), and Component 5B (Labor Market Regulation) were also commonly used.

### Is economic freedom positively or negatively linked to desirable outcomes?

After determining how the EFW index was used, the second step was to evaluate whether the EFW index (and/or its areas, components, and sub-components) was positively linked to a desirable dependent variable (or negatively linked to an undesirable dependent variable), in which case the paper was coded as a “good” result for economic freedom. If the EFW variable correlated positively with an undesirable outcome (or negatively with a desirable outcome), the paper was coded as a “bad” result. If the EFW variable was sometimes good, sometimes bad, generally insignificant, or conditional on other factors, then the paper was coded as a “mixed/null/uncertain” result.

This scoring process is obviously somewhat subjective but it was rarely difficult to code a paper. In determining whether the dependent variable was a good outcome or a bad outcome, a *ceteris paribus* (all things being equal) assumption was applied. Outcomes like economic growth, foreign direct investment (FDI), life expectancy, and happiness are clearly desirable outcomes, all things being equal, at least to most people. Likewise, outcomes like inequality and pollution are clearly undesirable outcomes, again, all things being equal and at least to most people. A few outcomes were impossible to classify as uniformly desirable or undesirable, even if holding all else equal, and in these cases, the papers were inevitably classified in the mixed/null/uncertain category. A good example of this would be those papers that looked at public opinions of various kinds as the dependent variable; we don't see any way to code people's opinions as either good or bad.

The papers under investigation showed varying levels of care with the data and econometric sophistication. We did not omit or attempt to correct any papers that we thought were flawed, and there were many such papers. All the papers passed through an editorial and peer-review process that led ultimately to final publication in an SSCI-indexed journal, and as a result they are all now a part of the social scientific record. The bottom line is that it is simply not our place here to judge these papers a second time.

Among the entire group of 721 empirical papers, slightly more than half (50.6%,  $n = 365$ ) of the papers were deemed to be good in that the EFW index variable was positively correlated with a good outcome. Only 4.6% ( $n = 33$ ) were classified as bad. Lastly, some 44.8% ( $n = 323$ ) of the papers fell into the mixed/

null/uncertain category. Compared with the findings of Hall and Lawson (2014) based on 198 papers, these updated numbers based on 721 papers indicate a lower percentage of positive results, more mixed/null/uncertain results, and about the same proportion of negative results (figure 3.6).

Figure 3.6: Normative outcomes associated with the EFW index, 2014, 2022

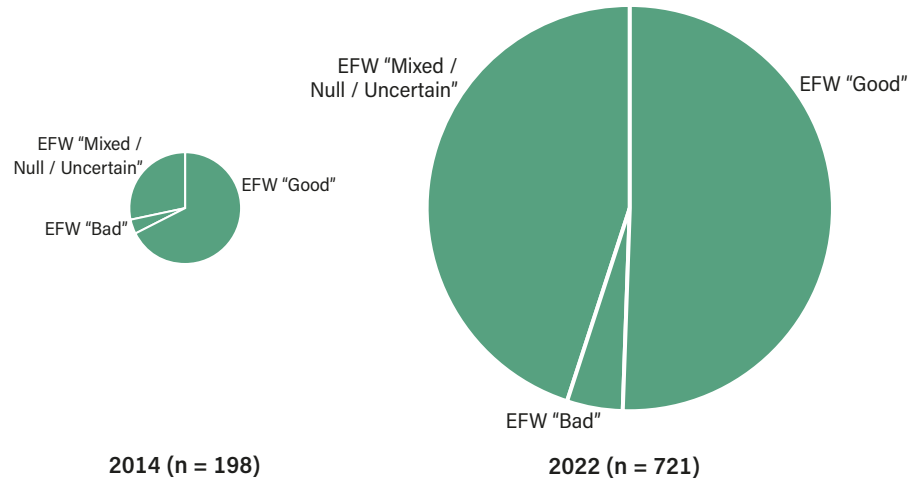
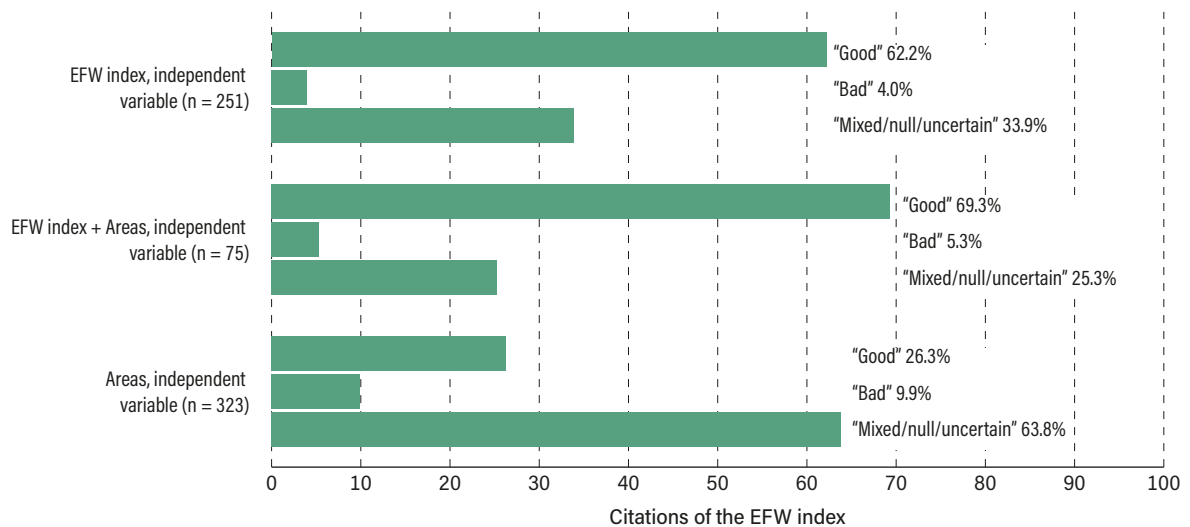


Figure 3.7 breaks down the results based on how the EFW index was used. If the paper used the summary index only (or used the summary index along with some areas, components and/or sub-components), then it was about twice as likely to find a positive result as a mixed/null/uncertain result. In contrast, papers using only elements of the EFW index, such as ratings from Area 2, Legal Structure and Property Rights or component 5B, Labor Market Regulation, were much less likely to find a positive result and much more likely to find a mixed/null/uncertain one. Normatively bad classifications, while still fairly rare, were more than twice as likely when authors used areas, components, and sub-components than when they used just the summary index.

Figure 3.7: Normative outcomes (%) by use of EFW index, 2022



### Diversity of dependent variables

With so many different dependent variables being used in these studies, it is almost impossible to summarize the outcome variables. The word clouds depicted in figures 8a and 8b illustrate the most common words describing the outcome variables when the EFW variable was coded positively (figure 3.8a) or negatively (figure 3.8b). As expected, the EFW index seems to clearly correspond in a good way with variables like economic growth, investment, and income. Inequality is shown to be a very common outcome among the papers classified as bad; that is, several papers found that the EFW index variable(s) correlated with greater income inequality.

Figure 3.8a: Most common words describing the outcome variables when the EFW variable was coded *positively*



Figure 3.8b: Most common words describing the outcome variables when the EFW variable was coded *negatively*



To gain some additional precision in our understanding of these results, we collected many of the papers into the following broad categories.

**Conflict** This refers to things like wars, civil unrest, and terrorist attacks.

**Corruption and shadow economy** Both measures of corruption, such as the Transparency International index, and the underground economy are in this category.

**Entrepreneurship and innovation** This groups covers papers looking at entrepreneurship, business starts and failures, as well as measures of innovation such as patent applications.

**Environmental outcomes** This includes CO<sub>2</sub> emissions and other measures of pollution as well as environmental outcomes like biodiversity.

**Economic growth** Primarily, this is growth in GDP per capita but this group includes some papers looking at growth by economic sector.

**Human rights and social development** This category includes those papers looking at the UN's Human Development index as well as those looking at social progress indicators like life expectancy, social trust, and so on.

**Immigration and travel** Papers on migrant (including refugee) and immigrant stocks and flows and papers on tourist travel are in this group. A positive outcome is recorded when higher levels of economic freedom increase the attractiveness of a jurisdiction to tourists and immigrants.<sup>6</sup>

**Income and productivity** Typically, this category uses GDP per capita but there are numerous papers looking at output per worker or total factor productivity.

**Inequality** Papers examining the effect of economic freedom on both income and wealth inequality are in this group.

**Investment** Papers looking at investment in both physical and human capital as the dependent variable are in this group; papers on foreign direct investment (FDI) are also here.

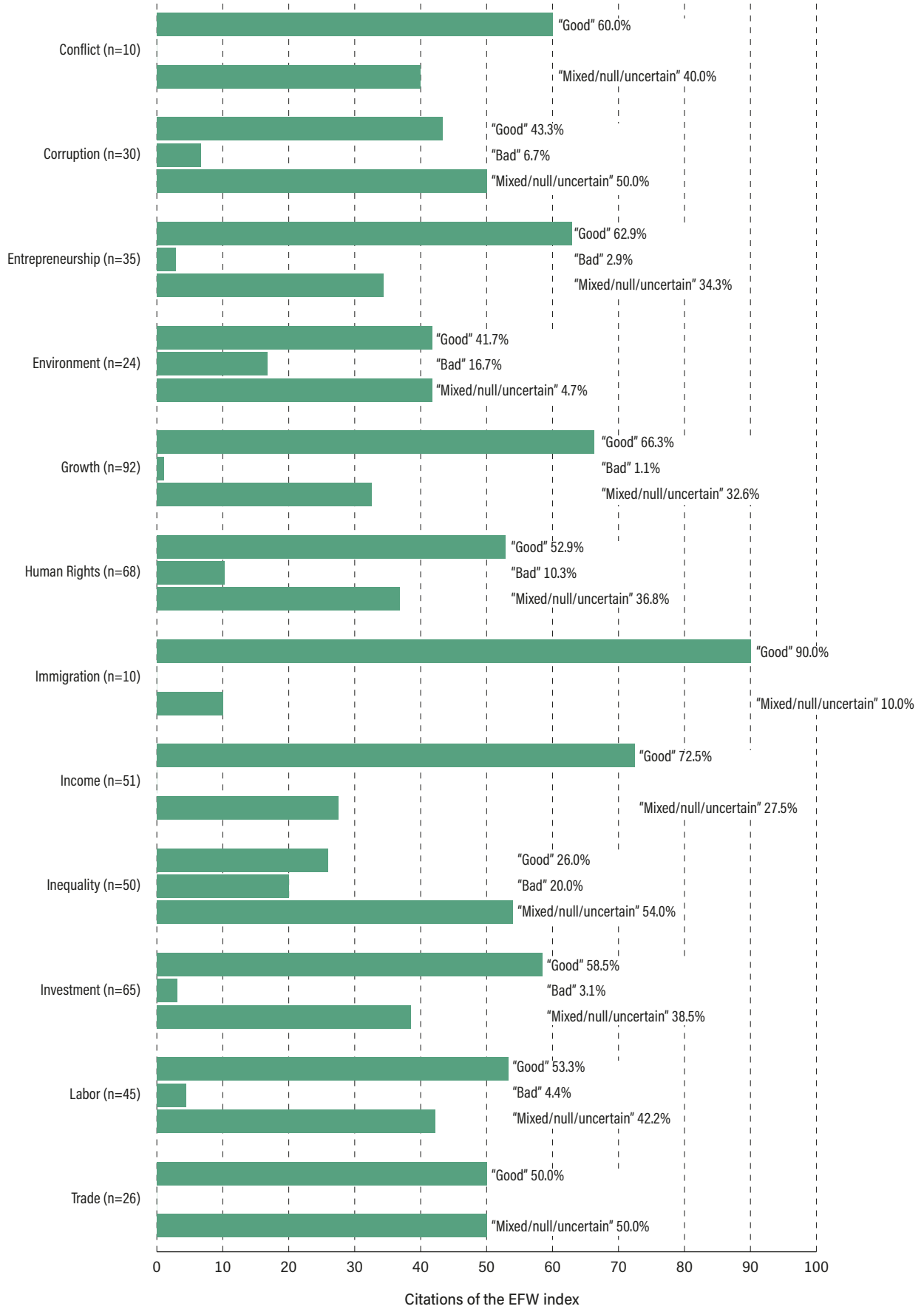
**Labor market outcomes** This category includes papers focused on unemployment, employment, wages, or labor-force participation.

**Trade** The papers looking at imports and/or export are collected in this category.

Figure 3.9 reports the good, bad, and mixed/null/uncertain breakdowns in these broad categories. In each category, the positive results outnumbered the negative results and, in most cases, positive results were the most common finding overall, even if including mixed/null/uncertain results. As expected, the EFW index variables were quite positively related to the more “economic” variables, such as growth, income, investment, labor, and trade. The only categories in which the negative results accounted for even double-digit shares were environmental outcomes, human rights, and social development, and inequality. But again, it is important to note that even in these categories, economic freedom was more commonly found to have a normatively good correlation with these outcomes than a bad correlation.

6 While there is a vigorous public debate about the desirability or undesirability of immigrants, migrants, and refugees on various social outcomes such as jobs, wages, crime, social welfare spending, and so on, the social-science literature has generally not found immigrants to be associated with worsening social and economic conditions among natives, and there is little doubt about the welfare gains to the migrants themselves (Nowratsteh and Powell, 2021).

Figure 3.9: Normative outcomes (%) by dependent variable, 2022



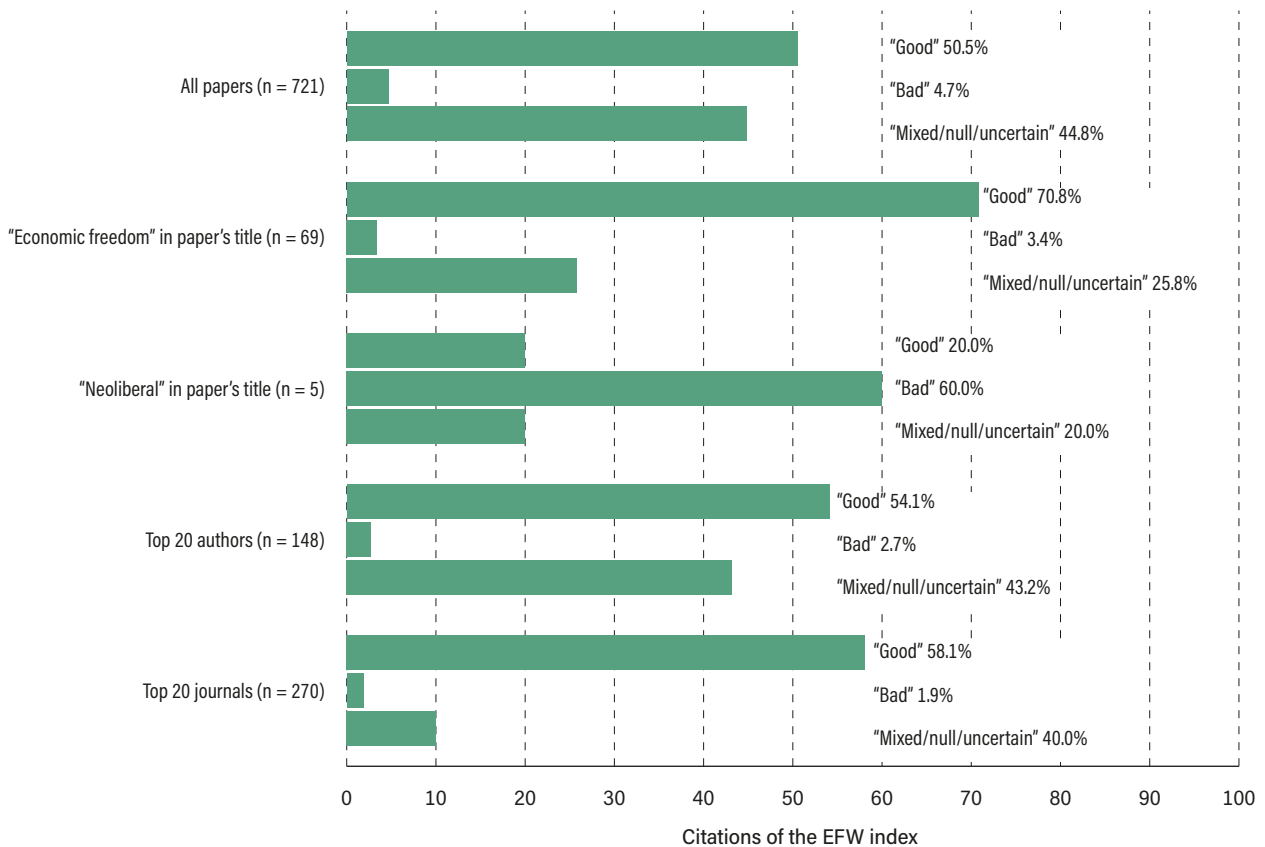


## Publication bias?

Finally, we turn our attention to the prospect that the preponderance of good findings (and relative paucity of bad ones) are the result of ideological bias or publication bias on the part of the authors and/or journals. First, we speculate that authors using the term “economic freedom” in the actual title of a paper are more likely to be sympathetic to liberal market policies and institutions of the type measured by the EFW index; likewise, we strongly suspect authors using the term “neoliberal” are more likely to be hostile to these ideas.

If we look only at papers using these terms, we do see some evidence of possible ideological bias. In figure 3.10, we see that over 70% of the 69 papers using the term “economic freedom” in the title were coded as good. Interestingly, while lower than in the overall sample, the papers using “economic freedom” in the title still reported negative results 3.4% of the time. The balance of the papers (25.8%) were coded as mixed/null/uncertain.

Figure 3.10: Normative outcomes (%) by word use, top authors and top journals, 2022



There were only five papers using the term “neoliberal” in the paper’s title. Still, it is interesting to note that three of the five papers reported bad outcomes for the EFW index, while the other two papers were split between good and mixed/null/uncertain. Recall that in the overall sample of 721 empirical papers, slightly more than half, 364 papers (50.5%), found the EFW index to be correlated with a good outcome, 34 papers (4.7%) reported the EFW index to be correlated with a bad outcome, and 323 papers (44.8%) found mixed/null/uncertain results.

Obviously, any generalizations from this small sample, especially among the very few papers using “neoliberal”, should be done with extreme care. Additionally, causation is hard to determine here. Do people who like (dislike) economic freedom and who are more likely to use such terms, experiment with empirical specifications and methods, commonly referred to as “p-hacking”, until their regressions get their desired good (bad) results? Or are people who find good (bad) results more likely to use terms like “economic freedom” (“neoliberal”)? Setting these cautions aside though, it does seem to be the case that authors using the terms “economic freedom” (“neoliberal”) are more (less) sympathetic to the cause of economic freedom than those not using these terms.

Next, we examine the possibility of publication bias among journals and referees. Doucouliagos (2005) argued that publication bias among journal editors and referees was responsible for some of the positive EFW findings with respect to growth. Next, we reexamine this thesis. Figure 3.10 also reports the good/bad/mixed breakdowns among the 148 empirical papers published by the 20 most prolific authors (as shown in figure 3.2). For good measure, figure 3.10 additionally shows the results among the 270 empirical papers published in the 20 most common journals (as shown in figure 3.3).<sup>7</sup> Although the top authors and journals are slightly more (less) likely to report that the EFW index correlates with a good (bad) outcome than the overall sample, it does not appear that this effect is very strong as the results are not that far out of line with the larger dataset.

## Conclusions

This chapter has updated the paper by Hall and Lawson (2014) that examined the 198 papers using the EFW index as an independent variable in a traditional empirical model through early 2011. This chapter added 523 papers to the original list, bringing the total number of empirical papers to 721. As in the earlier study, we find again that the bulk of the evidence suggests that economic freedom, as measured by the EFW index, corresponds with normatively good outcomes. Just over 50% of the papers report normatively good correlations while about 45% report mixed/null/uncertain results. Compared with the earlier article by Hall and Lawson, this chapter does find more mixed/null/uncertain and a lower percentage of good results. We believe the increased use of more and more sophisticated empirical methods plus additional calls from editors and referees for ever more robustness checks has contributed to the increase in mixed/null/uncertain results. In addition, more papers are disaggregating the EFW index, and these papers appear less likely to find a clean positive or negative result.

There are a few papers, about one out of 20, that reported a normatively bad outcome when analyzing data from the EFW index. This proportion is essentially unchanged from the finding of Hall and Lawson’s earlier study. Importantly, there appears to be no consensus in the overall literature on these negative results; in every instance, at least as many other papers using the same or similar outcomes reported positive results.

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<sup>7</sup> There are fewer papers listed for the top authors and the top journals in figure 3.10 than in figures 3.2 and 3.3 because figure 3.10 looks only at the empirical papers; that is, it omits the gratuitous, minor, or non-empirical citations that were included in figures 3.2 and 3.3.

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Our mission is to improve the quality of life for Canadians, their families and future generations by studying, measuring and broadly communicating the effects of government policies, entrepreneurship and choice on their well-being.

Notre mission consiste à améliorer la qualité de vie des Canadiens et des générations à venir en étudiant, en mesurant et en diffusant les effets des politiques gouvernementales, de l'entrepreneuriat et des choix sur leur bien-être.

## Purpose, Funding, and Independence

The Fraser Institute provides a useful public service. We report objective information about the economic and social effects of current public policies, and we offer evidence-based research and education about policy options that can improve the quality of life.

The Institute is a non-profit organization. Our activities are funded by charitable donations, unrestricted grants, ticket sales, and sponsorships from events, the licensing of products for public distribution, and the sale of publications.

All research is subject to rigorous review by external experts, and is conducted and published separately from the Institute's Board of Trustees and its donors.

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As a healthy part of public discussion among fellow citizens who desire to improve the lives of people through better public policy, the Institute welcomes evidence-focused scrutiny of the research we publish, including verification of data sources, replication of analytical methods, and intelligent debate about the practical effects of policy recommendations.

