

## Freedom to Flourish

What is the connection between economic freedom and poverty?

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**N**obel Laureate Theodore W. Schultz declared some years ago that because most people of the world are poor, understanding the economics of poor people means understanding the economics that really matter. My research with Dr. James Gwartney of Florida State University examines the poverty levels among 79 countries that comprise about 4.8 billion people in non-industrialized regions. My focus is on trends in world poverty and the link to economic freedom.

Poverty rates are customarily measured as the proportion of a country whose income is beneath a low absolute level such as one or two dollars a day. Poverty can alternatively be measured in non-pecuniary terms, such as the percentage of the population that survives infancy, or the percentage of the population that has access to basic life-sustaining benefits like safe water.

Economic freedom exists where there are consistent institutions and policies in place to ensure a voluntary exchange coordinated by markets with free entry and freedom to compete, as well as a protection of persons and their property.

The last two decades have seen a promising decline in poverty levels. The average population living on \$1 a day fell dramatically from 32 percent of the world's population in 1980 to 16.5 percent in 2004. Similarly, infant survival and life expectancy are on the rise.

While much of the non-industrialized world has flourished in this period, the good news has to be tempered with a grim exception—sub-Saharan Africa. Many of the non-industrialized nations of the world have become economically freer, while economic freedom in Africa has stagnated or even declined during the last quarter century. Understanding this exception requires exploring

the connection between the world's poverty and economic freedom. Simply stated, for non-industrialized nations, economic freedom reduces poverty.

Countries that are *not* economically free have about 30 percent of their population living on \$1 a day and nearly 60 percent living on \$2 a day, while countries that *are* economically free have less than 8 percent living on \$1 a day and 39 percent living on \$2 a day. About 74 percent of the population has access to good water in countries that are not free, while almost 100 percent of the population has access to good water in most economically free countries.

The various measures of poverty all point in the same direction—more economic freedom means lower poverty rates. Some might question whether lower levels of poverty are in fact the cause of economic freedom, rather than the result of this freedom. This interpretation is plausible, but not likely. Further statistical analysis shows that increases in economic freedom lower poverty rates regardless of the measure of poverty, even after accounting for other factors such as geography and the levels of urbanization in a country.

Studying links between economic freedom and world poverty is fascinating yet depressing, given the ties between poverty and human suffering, frailty, and depravity. If so many people would benefit from free economies, why do we not observe more economic freedom around the world?



Dr. Seth W. Norton has made research contributions in the fields of government regulation, franchising, telecommunications, and world poverty. He is currently studying the links between economic institutions and poverty; public policies toward business and the economy; as well as government regulation, property rights, and the role of culture in framing economic institutions. From 1996 to 2008, he was also head wrestling coach at Wheaton.