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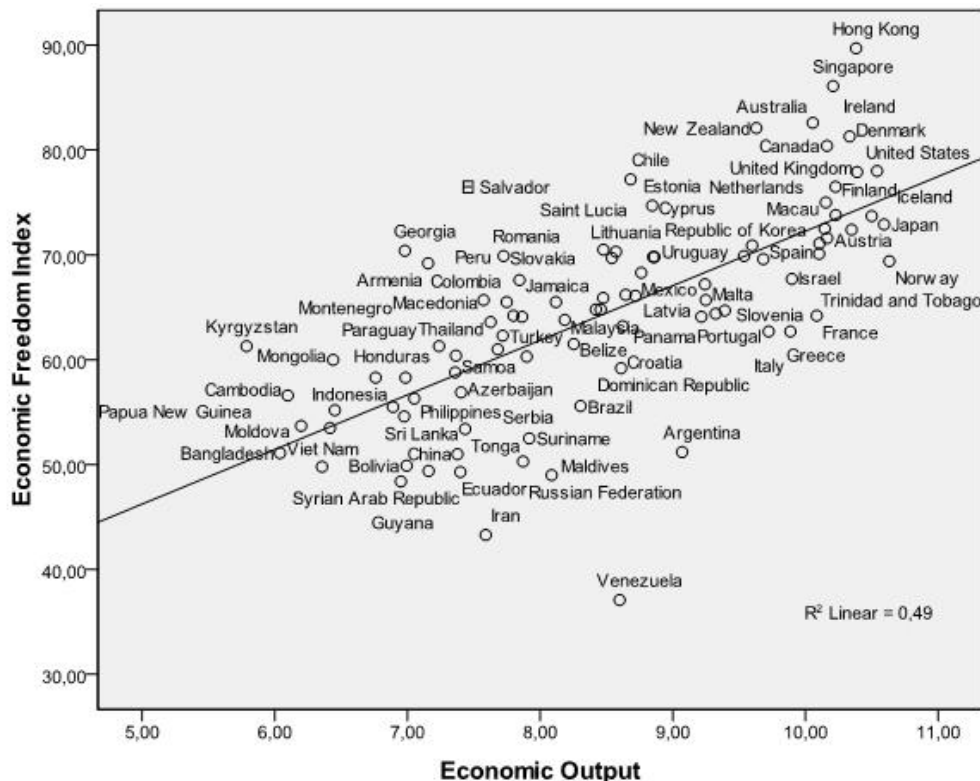
# Free, Tolerant, and Happy

By

A week or so ago, *Newsweek's* Julia Baird [pointed to](#) my [analysis](#) of the connection between national happiness and tolerance. That reminded me and my [MPI](#) colleagues of the Heritage Foundation's [Economic Freedom Index](#). The index, which covers 183 countries, is based on ratings for 10 specific factors: business freedom, trade freedom, fiscal freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, and labor freedom. Hong Kong topped the list overall, followed by Singapore, Australia, New Zealand, Ireland, and Switzerland. Canada came in 7th, the highest among North American nations and slightly ahead of the United States which ranked 8th.

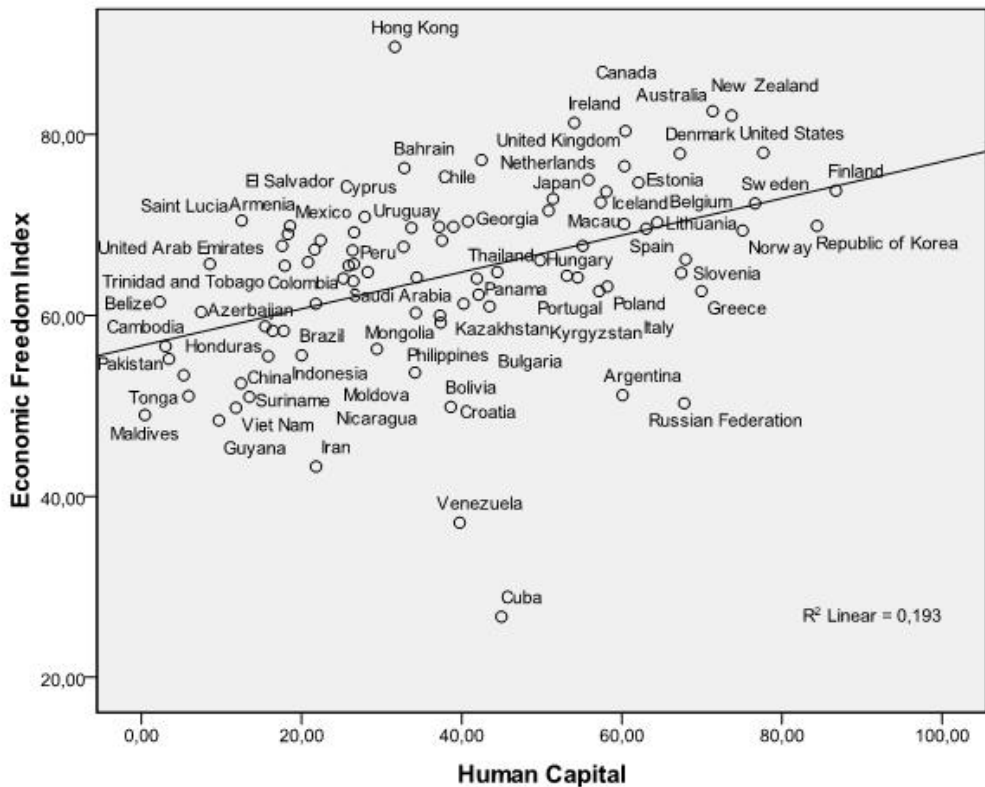
To what extent is economic freedom associated with tolerance and happiness? Are freer nations also more tolerant? Are their residents happier than those of other nations? To what extent is economic freedom also associated with other factors like affluence and material well-being, the level of human capital, and the transition to postindustrial economic structures? And what is the relationship between freedom and economic inequality?

We decided to take a look. We ran some bivariate correlations and a series of scatter-graphs which I summarize below. Lack of matching data for some of our indicators caused us to leave out African nations from our analysis. As usual, I point out that our analysis points to association between variables only. It does not imply causation, and other factors may complicate the picture. Still, the findings are interesting.



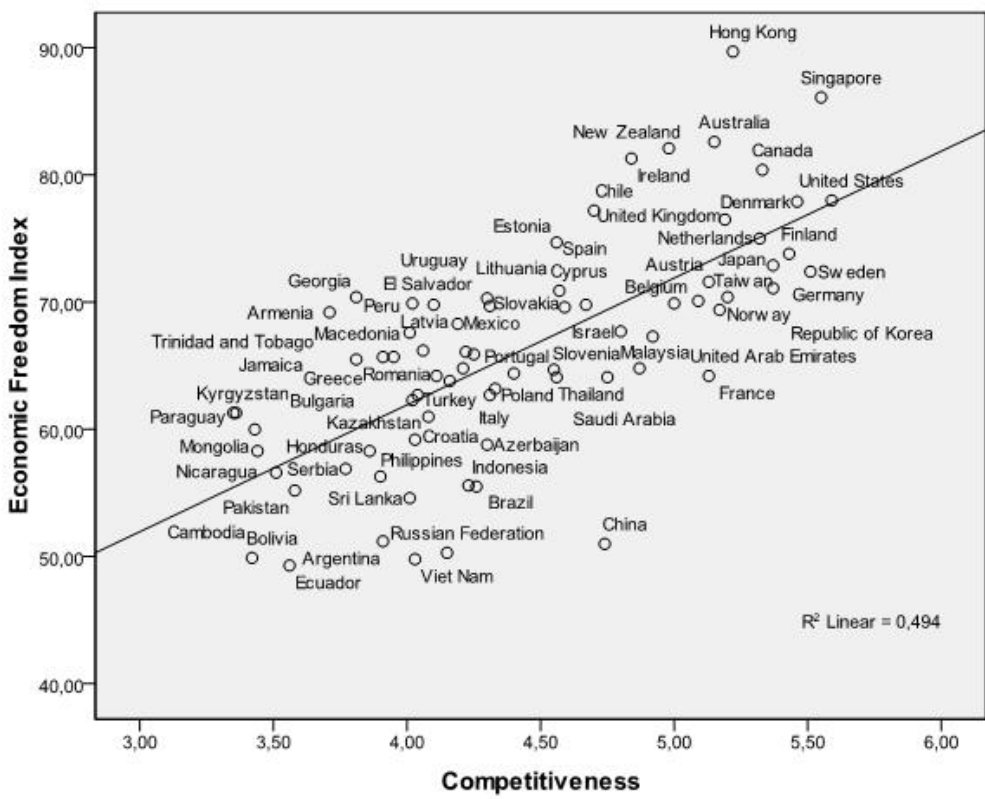
Source: Economic Output is measured as gross domestic product per capita, World Bank, *World Development Indicators*

It's not surprising that richer countries are, on average, freer -- the correlation between the conventional measure of economic well-being (that is, gross domestic product per capita) and the Economic Freedom Index being .71. The scatter-graph above shows that Hong Kong, Australia, New Zealand, the United States, Canada, Denmark, the Netherlands, and Ireland all do very well on both measures.



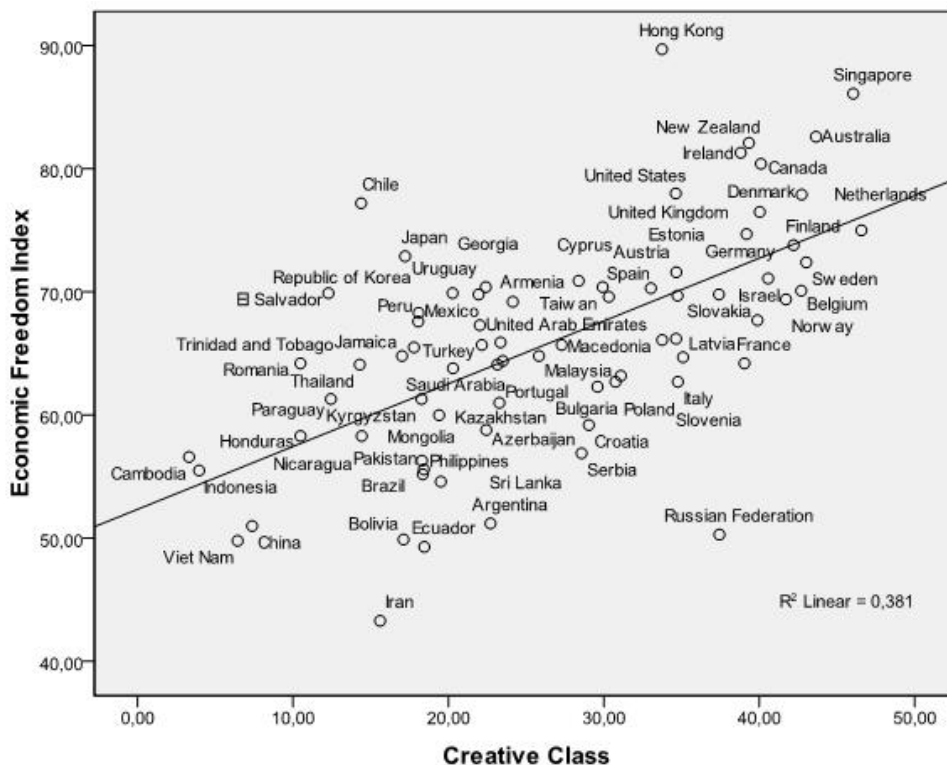
Source: World Bank, *World Development Indicators*

Freer countries also have higher levels of human capital (that is, more highly educated populations) -- the correlation here being .44. Again, Hong Kong, Singapore, Australia, New Zealand, the U.S., and Canada all do well on both.



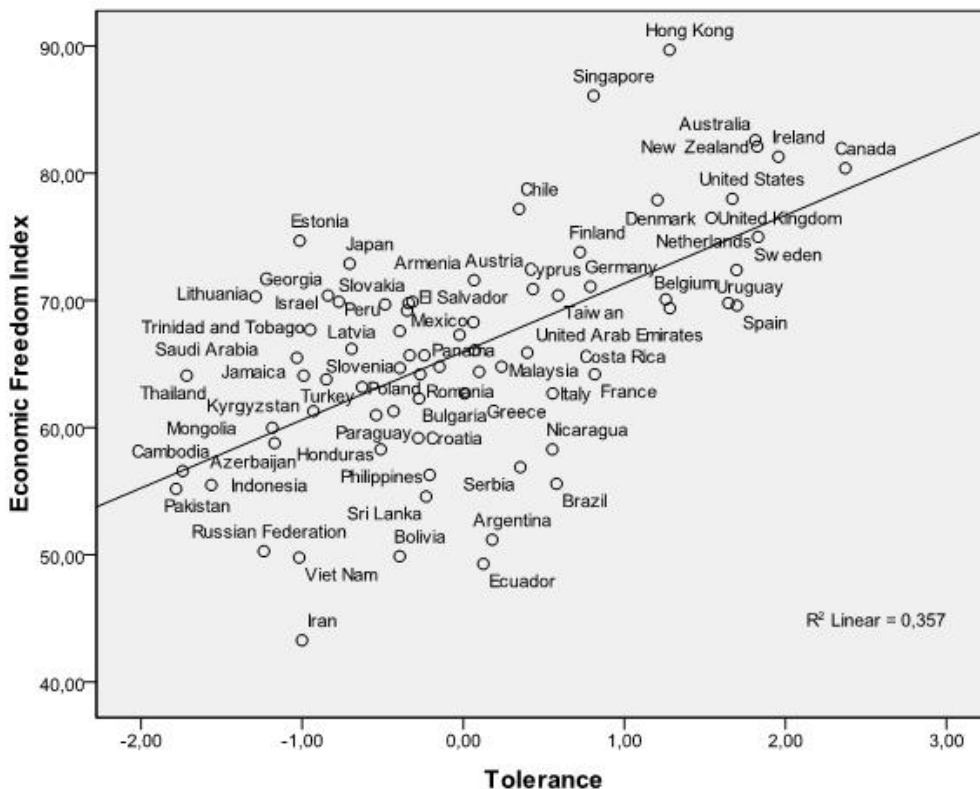
Source: *Global Competitiveness Index (PDF)*

Freer countries score better on global competitiveness, according to the [Global Competitiveness Index \(PDF\)](#) developed by Harvard University professor Michael Porter for Davos. The correlation between the two is .7. Despite what some say about the rise of the Chinese state capitalist model, overall, economic freedom and competitiveness appear to go hand-in-hand.



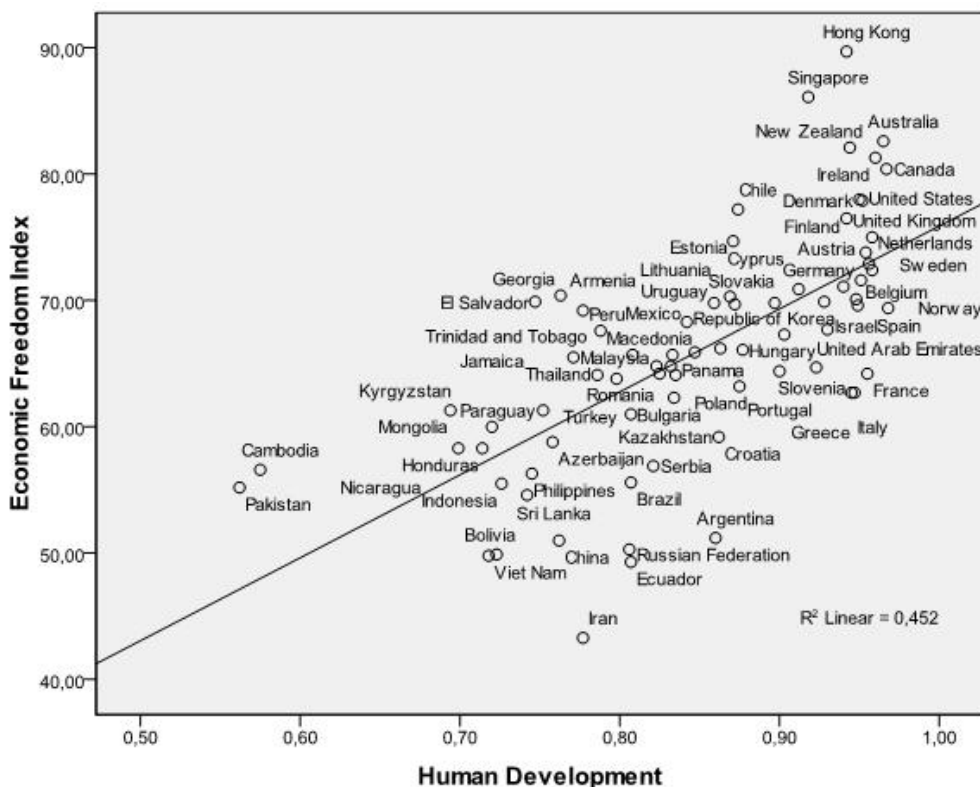
Source: Definition based on *Rise of the Creative Class*; data are from the [International Labour Organization](#).

One thing that's interesting: economic freedom is closely associated with the transition to postindustrialism. A key indicator of that transition is the percentage of workers in the creative class which spans science and technology; arts, culture and entertainment; and the knowledge-based professions. The correlation between the creative class and economic freedom is .45. Hong Kong, Singapore, Australia, New Zealand, Ireland, the U.S., Canada, Denmark, and the Netherlands do well on both measures. On the other hand, the correlation between economic freedom and the working class is negative, though not statistically significant.

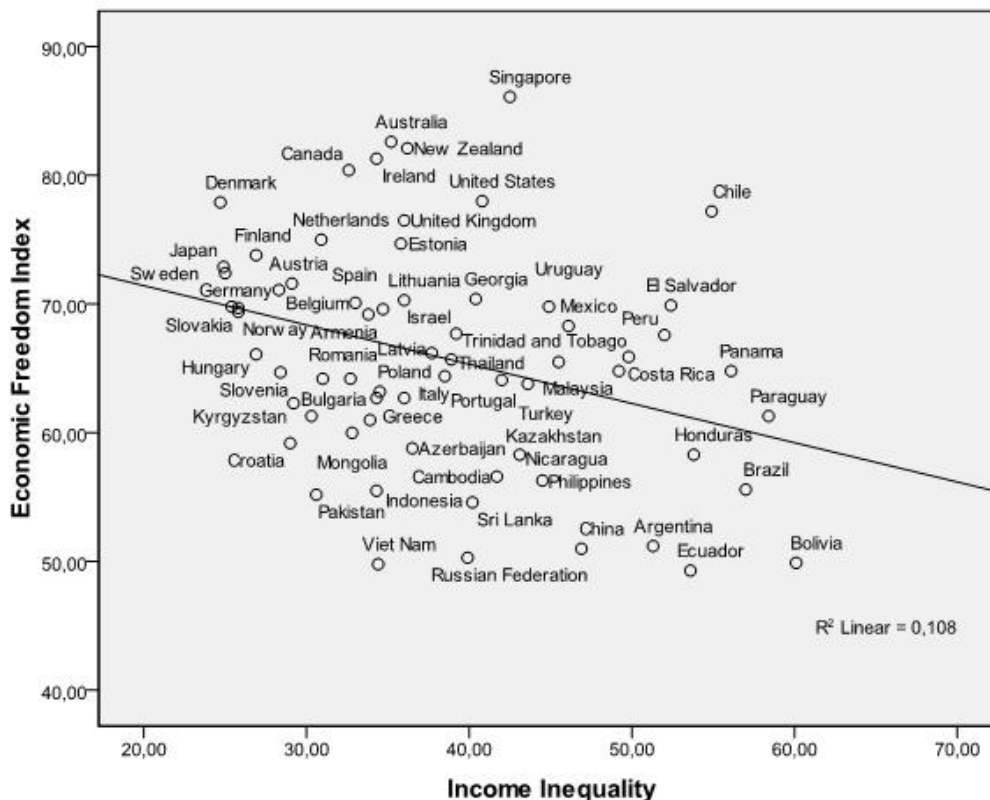


Source: Tolerance is a combined index of attitudes toward racial and ethnic minorities and attitudes toward gays and lesbians. Data are from a Gallup Organization survey.

Freer countries are also more tolerant. We looked at the association between economic freedom and attitudes toward ethnic and racial minorities and gays and lesbians. Freer countries had more open-minded attitudes toward each. And, the association was even higher when we generated a combined measure of both -- the correlation being .59.







Source: *World Development Indicators*

The relationship between economic freedom and income equality is interesting. We measure inequality based on the conventional [Gini coefficient of inequality](#). The overall correlation is negative (-.33). That means freer countries, on average, are more equal. Many of the countries with the highest levels of economic freedom are also among those with the highest levels of economic equality -- Sweden, Denmark, Japan, and Finland. The most unequal countries -- Bolivia, Brazil, Ecuador, and Argentina -- on the other hand, have relatively low levels of economic freedom. The United States is one of several countries, along with the United Kingdom and Singapore, that have high levels of economic freedom alongside relatively high levels of inequality.

Economic freedom, according to our analysis, is not just a lofty goal or something that can be imposed on societies. Rather, as we've seen, economic freedom is tied to material economic and social conditions. Economic freedom, not surprisingly, reflects levels of affluence and economic development: richer countries are, on average, freer. But economic freedom is also tied to postindustrial economic structures. It is considerably higher and more widespread in nations with a larger creative class, a smaller working class, and more highly educated people. Freer countries are also more tolerant, with more open social attitudes toward minorities and gays. This is in line with [Ronald Inglehart's](#) decades-long observation of the shift from materialist to post-materialist values. And economic freedom goes hand in hand with higher levels of happiness and life satisfaction.

Perhaps the most interesting finding to emerge from our analysis concerns the relationship between economic freedom and inequality. The relationship is often seen in terms of a trade-off. The ability to pursue one's economic dreams unencumbered by social or institutional restraint is seen as conditioning higher levels of inequality. But that's not what we found. In fact, our analysis indicates that the relationship between economic freedom and income inequality is negative. That is, freer

countries are on balance more equal. Many of the countries with the highest levels of economic freedom also have the highest levels of economic equality.

The United States is one of a relatively small number of nations, along with the United Kingdom and Singapore, that have relatively high levels of economic inequality alongside high levels of economic freedom. Americans frequently see this pattern as reflecting the country's individualistic ethos that spurs hard work, individual ambition, and unbridled entrepreneurship. Darwinian as it may be, inequality is seen as a necessary, if negative, byproduct of this ethos which is what in the end makes America richer, happier, and freer than other nations. That may have been true in the past. But today, the U.S. pattern is far from the dominant one: in fact, it's rather unique. Economic freedom in general is associated with relatively low levels of income inequality.

All of this points to the fact that it's not just greater affluence that leads to freedom and happiness, but the combination of greater wealth with relative economic equality. Freer, happier societies reflect the old adage of a rising tide that lifts all boats. That's something Americans should keep in mind as the nation grapples with how best to generate economic growth, create jobs, and deal with rising social and economic inequality in the ongoing era of the [Great Reset](#).

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