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# Does economic freedom really kill? On the association between 'Neoliberal' policies and homicide rates☆

Christian Bjørnskov *

*Department of Economics and Business, Aarhus University, Fuglesangs Allé 4, DK-8210 Aarhus V, Denmark*
*Research Institute of Industrial Economics (IFN), Stockholm, Sweden*

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ABSTRACT

This paper investigates recent claims that 'neoliberal' policies and reforms are associated with higher homicide rates and other types of crime. Using a panel of the 50 US states observed between 1981 and 2011 and the Economic Freedom Index of the Fraser Institute, results show that there is no direct association between changes in economic policies as measured by this index and homicide rates. The results nevertheless show that other non-violent types of crime decrease with spending or tax policy.



## 1. Introduction

Many commentators, backed by some political scientists and sociologists, have in recent years criticized and at times vilified what they term 'neoliberal' policies and reforms (Boas and Gans-Morse, 2009). What the term neoliberal means and which policies are meant is unclear, and the term is sometimes used as a catch-all for policies intended to restore budget or macroeconomic balances. Nevertheless, other policy changes denoted by the term are clearly market liberalizing reforms intended to reduce taxes, government interventions or regulations in society or reduce trade protectionism at home and abroad. These policies are clearly ideologically motivated.

While most criticism is moderate, a number of popular books, not least Naomi Klein's bestselling *The Shock Doctrine*, have propagated the view that 'neoliberal' policies are evil by claiming that liberalizing economic reforms associated with increased economic freedom are always based on blatant disregard for human rights. Hall and McLean (2009) go one step further in their reform skepticism – a seemingly common characteristic shared by many non-economists (cf. Boas and Gans-Morse, 2009; Thorsen, 2012) – in claiming that liberalizing policies and reforms directly cause an increase in homicide rates and other types of violent crime.[1] These and other claims have become influential in the global political debate and in particular in modern leftwing discourse, as well as in domestic policy discussions in several countries (cf. Stiglitz, 2002; Harvey, 2005).

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* Tel.: +45 87 16 48 19.
*E-mail address:* ChBj@econ.au.dk.

[1] It should be noted that throughout the paper, I use the words 'liberalized' and 'liberalizing' in the European sense. As such, any liberalizing reform rolls back the role of the state by limiting government spending, reducing taxes or easing regulations. Liberalizing reforms are thus consistent with increases in the indices of economic freedom, and not 'liberal' in the American sense of the word.

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However, the direct evidence for such 'race to the bottom' effects, for example if reforms undermine the protection of basic labor rights, is mixed at best. In recent studies, the properly formal empirical support for similar strong claims in the international debate turns out to be virtually non-existent. Carden and Lawson (2010), for example, show that human rights abuses actually tend to slow down liberalizing reforms, contrary to Klein's argument. De Soysa and Vadlamannati (2013) explore the almost standard claim that free-market reforms require authoritarian rule, i.e. disregard for democratic rights. Instead, their findings show positive effects of liberalizing economic reforms on governments' respect for physical integrity rights. Eriksen and de Soysa (2009) also note a significant correlation between economic freedom and governments' respect for human rights, and a negative correlation between rights and government size. Such policies are also, in the longer run, likely to lead to human development improvements such as longer life expectancy (Gerring and Thacker, 2008), faster economic development (Berggren, 2003; de Haan et al., 2006; Jong-A-Pin and de Haan, 2011) and higher total factor productivity (Nicoletti and Scarpetta, 2003; Méon and Weill, 2005; Bjørnskov and Foss, 2012). In addition, globalization and trade liberalization imply human development improvements. Bergh and Nilsson (2010) document a positive relation between globalization and national health measured as life expectancy, while Bergh and Nilsson (2014) find that trade liberalization and unregulated global information flows cause a decline in rates of absolute poverty in developing countries. De Soysa and Vadlamannati (2011) likewise find that increased exposure to globalization is accompanied by improved protection of basic human rights.

Yet, when it comes to one of the strongest claims in the anti-reform literature – that 'neoliberal' policies cause higher levels of violent crime and homicides – there is very little empirical research. Hall and McLean's (2009) paper, as politically influential as it has been, does not contain any empirical evidence other than strategic examples and conjectures based on comparisons between the US, Canada and other countries. The only study to date to deal quantitatively with this issue instead provides suggestive evidence from cross-country comparisons that countries with more economic freedom tend to have lower homicide rates (Stringham and Levendis, 2010). At times, there seems almost to be a chasm between what is argued about the human consequences of economic freedom in the public debate and what objective data tend to tell us.

In this paper, I therefore formally test the relation between homicide, other violent crime and non-violent crime, and neoliberal policy, measured as the degree of economic freedom. I do so using panel data from the US states observed across a 30-year period, such that cultural differences and other unobservable characteristics are held constant while policies and regulations change. The results do not support the negative view of liberalization. Across the states, changes in economic freedom tend not to be directly associated with changes in homicide rates. On the contrary, spending cuts, changes to tax policies and labor market regulations are robustly associated with reductions in non-violent crime in the following year. Allowing for cross-state and cross-crime spillovers from these types suggest that economic liberalization in the form of reductions in tax burdens are associated with a decrease in the incidence of other crime, which may arguably spill over into a reduction in both within-state homicide rates and crime rates in neighboring states.

The rest of the paper is structured as follows. The paper starts in Section 2 by outlining what is meant by 'neoliberalism' and neoliberalist policies. Section 3 sketches a set of fairly simple theoretical explanations for why one would expect an association between economic freedom and crime. Section 4 describes the data and outlines potential caveats with cross-country data on homicide and other types of crime. Section 5 presents the cross-state results, and Section 6 discusses the findings and concludes.

## 2. What are 'neoliberal' policies?

When entering the debate on neoliberalism and neoliberalist policies, one easily gets frustrated. The terms are used increasingly often, but without any formal definition or any consensus on what is meant. Very few social scientists and commentators who are positive or neutral towards what may be termed neoliberal policies have written about the topic while there is plenty of highly critical literature. In other words, as Boas and Gans-Morse (2009) show, there is virtually only one side to the debate, and the starting point for the debate is unclearly defined. This sometimes has the unfortunate consequence that writers "accord neoliberalism an overwhelming significance, while they at the same time seem quite happy to leave the concept of 'neoliberalism' completely undefined, claiming […] that it defies definition" (Thorsen, 2012, 180).

A set of policies that are often seen as a symbol of neoliberalism in pure form is what is usually called the 'Washington Consensus' (Harvey, 2005, Ch. 1). Williamson (1989) subsumes the consensus under ten points that include: 1) fiscal policy discipline; 2) a redirection of government expenditures from subsidies to provision of pro-growth, pro-poor public goods; 3) tax policy reforms that broaden the tax base and lower tax progressivity; 4) market-defined real interest rates; 5) free, competitive exchange rates; 6) trade liberalization; 7) abolition of capital controls that limit foreign direct investment; 8) privatization of state-owned enterprises; 9) deregulation that encourages competition; and 10) financial oversight. In addition, the Washington Consensus stresses the importance of strong protection of private property rights.

While some of these points are clearly controversial in an ideological sense, others constitute what is often considered economic prudence. For example, point 1) merely implies that countries should not consistently run budget deficits; otherwise, they will eventually have to either enact substantial budget cuts or default on their debt. Likewise, 2) means that the government ought to focus long-run spending, i.e. spending not associated with Keynesian stabilization policy or social insurance, on areas that are truly public and not provide private goods – a position that is not only ideologically controversial to the traditional left but also rather unpopular with most politicians – and 10) implies that they should ensure that the financial sector does not suffer from moral hazard problems.[2]

[2] It bears mention that such moral hazard problems are often created by explicit or implicit bail-out guarantees such as those that lead to the Asian 1997 crisis or the global financial crisis of 2008 (cf. Krugman, 1999).