
Reply to Michael C. Munger

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RYAN H. MURPHY

Michael Munger comments on my paper in this issue of *The Independent Review*, ultimately providing several points through which my argument could be improved with further clarifications. I attempt here to clarify where I was previously unclear. I also argue that although the empirical methodology is far from perfect, the State Economic Modernity Index meaningfully helps generate a list of three countries—Israel, Hungary, and China—whose characteristics have set them apart among socialist countries in a positive way, at least to some degree. To my knowledge, the parallels between the three countries have not previously been recognized.

First, the phrase “actually existing socialism” has historically been applied to “socialist” countries quite distant from the writings of Karl Marx. It is meant specifically to denote what “socialism” tended toward after the attempt to implement it (see, for example, Swain and Swain 1993). It is true that there has never been a country that has simultaneously employed the collective ownership of the means of production and extreme participatory democracy. But although China, Hungary, and Israel do not meet this stringent definition, they do meet the historical standard of “actually existing socialism.”

I also wish to clarify the meaning of the State Economic Modernity (SEM) Index. Munger implies that it rates countries positively for having small governments. But the “twist” in the index that has led to some confusion is that by subtracting the size-of-government component used in the Economic Freedom of the World (EFW) Index, the SEM Index *credits* countries for having *larger* governments. This is because the EFW Index is built such that 0 corresponds to a very large government and 10

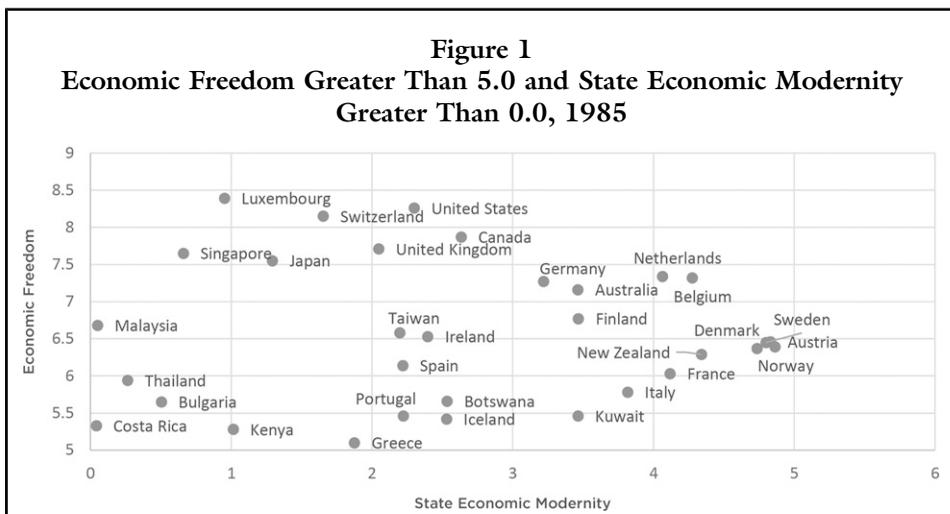
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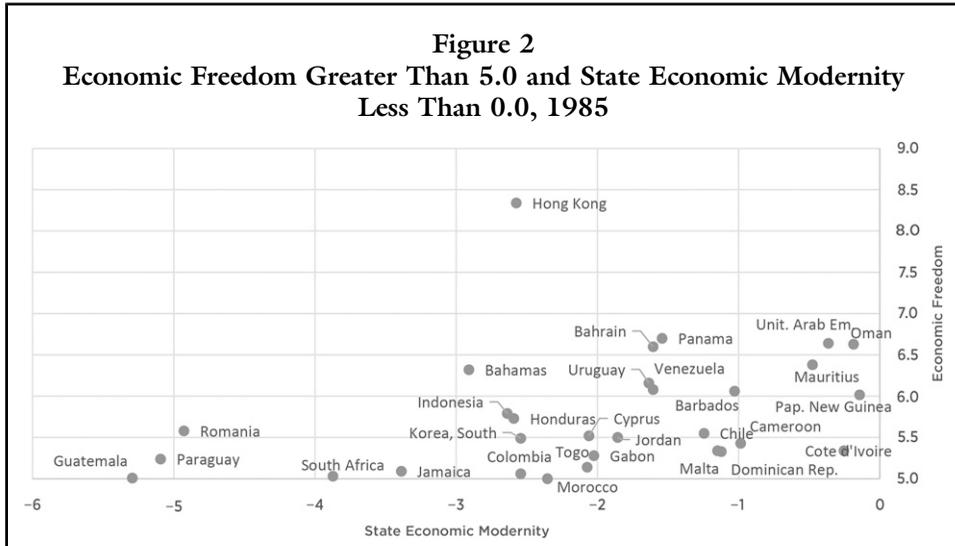
The Independent Review, v. 23, n. 2, Fall 2018, ISSN 1086–1653, Copyright © 2018, pp. 301–303.

corresponds to a very small government. Therefore, the SEM Index scores China well because of China’s large government (3.91/10) and tolerably effective legal system (6.78/10) in 1985, at least according to the data sources employed for the EFW Index. China receives these scores despite the political events of the historical period 1966–76, which Munger cites as a period in which state capacity and rule of law were destroyed. Figure 1 charts the SEM Index against the EFW Index for 1985, with country labels, while only showing countries rated higher than 5.0 in economic freedom and higher than 0 in state economic modernity. Figure 2 displays the same relationship, but for only countries with economic freedom rated higher than 5.0 and state economic modernity rated *lower than* 0. A comparison of these two figures conveys what differs across these countries for state modernity, “holding economic freedom constant.” Far more detail on the index is provided in my working paper, Murphy 2017.

In addition, this exercise offers a third path between ascribing all the negative outcomes found in self-proclaimed socialist countries to socialism itself and, to the contrary, perversely arguing that the Scandinavian model is the closest the world has ever had to “true” socialism. So what can one argue, in good faith, is an instance relatively close to “true” socialism, combined with otherwise strong institutions? As I note in the original article, trying to use measures of democracy to find instances of “good socialism” gets no traction at all. What the SEM Index does is offer a quantitative way of assessing “good institutions” that is only weakly (and accidentally) correlated with economic freedom, while having a lengthy enough time-series component to be able to peek back behind the Iron Curtain.

And although I would wholeheartedly agree that a low economic freedom score is not a *sufficient* condition for a country to be socialist (or at least, “actually existing socialist”), it is a *necessary* one. As a positive side effect, focusing on countries with high state economic modernity makes it much less likely that the method will start mixing in





failed states, kleptocracies, and kakistocracies—three of the other kinds of countries that receive very low economic freedom scores—with the “actually existing socialist” countries. Ultimately, if I relaxed the definition of the term *socialist*, I would quickly begin introducing countries that were or are not in any sense socialist, and if I relaxed the definition of the designation *modern state*, I would quickly begin introducing kleptocracies or kakistocracies.¹ As it is, the methodology identifies three countries that were practicing socialism in 1985, at least in the “actually existing socialism” sense. Meanwhile, if, say, Tanzania had instead received equally high ratings in state modernity as Hungary, China, or Israel, then the interesting story to tell would have perhaps been to figure out how the data possibly ended up that way.

For these reasons, I believe my article asks a new, meaningful question and provides a satisfactory answer to it. I thank *The Independent Review* for publishing my article, Michael Munger for his comment on my paper, and the editors for giving me the opportunity to respond to his comment.

References

- Murphy, Ryan H. 2017. *The State Economic Modernity Index: An Index of State Building, State Size and Scope, and State Economic Power*. Working paper. Dallas: SSRN. At https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3024394.
- Swain, Geoffrey, and Nigel Swain. 1993. Actually Existing Socialism in Operation. In *Eastern Europe since 1945*, edited by Geoffrey Swain and Nigel Swain, 101–26. London: Palgrave.

1. I would argue that it is definitionally impossible for a country to receive even a middling score in state economic modernity and at the same time be a failed state because failed states cannot provide law and order or raise revenue.

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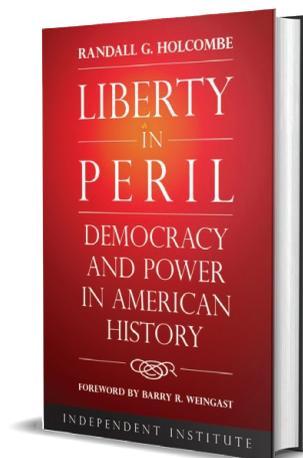
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