

Article Review: Andrea, V and Elena, F. Impact of Economic Freedom on Economic Development: A Nonparametric Approach to Evaluation. European Scientific Journal (ISSN: 1857-7881), 216-226, 2016

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Abstract:

The article, which was written by Andrea and Elena at the University of Economics in the Department of Economic Policy, Slovakia, examined the impact of economic freedom on the economic development of European countries. The author assessed the degree of achievement of economic freedom in various countries as reflected in their level of economic performance. For this purpose, the data of the Heritage Foundation was employed. The nonparametric method-data analysis was used during the research. The result of the study confirmed that economic freedom, economic performance, and the quality of institutions have positive correlations.

INTRODUCTION

The authors argued that economic freedom can create an enabling environment for economic performance. The economic performance instigated a high-quality institutional framework. Related to this, the current global phenomenon demonstrates that, economically developed nations have economic freedoms that have led to better institutional frameworks than developing countries. In some ways, the quality of institutions can sustain greater economic performance. This leads to well established economic growth. Economic growth leads to the establishment and development of extended institutions that can change the morale and livelihood of societies. It can create self-helping, free, open, reliable, and responsible societies. Accordingly, economic freedom will prevail among individuals.

Additionally, along with economic freedom, the article correlated the quality of life with the adoption and implementation of political rights and civil liberties. In general, the research tried to show the positive correlation among economic freedom, institutional quality, economic performance, political rights, and civil liberties. Accordingly, the article emphasized the significance of political freedom in achieving economic freedom.

DISCUSSION

Methodology and Data

The author focused on four key aspects of the economic environment: the rule of law, government size, regulatory efficiency, and market openness. Property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labor freedom, monetary freedom, trade freedom, investment freedom, and financial freedom were mentioned in the evaluation of economic freedom.

The components of economic freedom are rated on a scale from 0 to 100. The ten components of economic freedom, which are calculated from a number of sub-variables, are equally weighted and averaged to produce an overall economic freedom score for each economy (Heritage Foundation 2015). Given the large set of countries that were the subject of four investigations, only the results for European countries were available. Inputs to the model had been individual components that form the basic framework of the Economic Freedom Index, compiled by the Heritage Foundation.

The countries, that were studied, have been evaluated by all aspects of economic freedom (174 countries). Related with this, the world efficiency frontier showed that there are countries around the world that have successfully transformed their achieved degree of economic freedom into economic performance. This means that countries located on the border of efficiency can increase their economic performance only by increasing the degree of their economic freedom.

RESULTS

The European countries on the global efficiency frontier are Denmark, Sweden, Norway, Austria, Belgium, France, Italy, Slovenia, Greece, and Belarus. These countries, at a given level of economic freedom, achieve the highest possible economic performance. Their economic performance cannot stop here. It is possible to push it toward its peak point by increasing economic freedom.

CONCLUSION

Economic performance in the current period is often attributed to quality institutions. The development of institutional quality creates better conditions for economic growth and development. That is cyclical. In the case of some European countries, there has been good economic performance that has been an oasis of quality in their political and economic institutions. This, in turn, results in economic development that transforms into economic freedom. Economic freedom leads to a high economic level. Less efficient economies cause a lower degree of economic freedom.

CRITICS

This work attempted to connect the dots between economic freedom and economic development; however, allow us to reflect on the gaps in the research.

1. The study focused on the political-economic doctrine of Western liberal thought. It focused on economic growth and development at the state level that was indexed based on liberal definitions, only.
2. It ignored the effects of international financial institutions (like the IMF and the World Bank) that have a highly significant impact on the growth of nations.
3. The other critic is related to China's case. China is one of the nations that have scored high on economic development for the past three decades but scores low on economic freedom indexes, which means economic development ain't mainly determined by the level of economic freedom.
4. The authors' idea of economic freedom as the basis for economic development has been backed by the capitalism and liberalism points of view, and it cannot be applicable in developing and underdeveloped countries.