

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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Received: February 2, 2023

Accepted: March 8, 2023

Online Published: March 12, 2023

doi:10.22158/wjeh.v5n2p17

URL: <http://dx.doi.org/10.22158/wjeh.v5n2p17>

Abstract

The article 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 based on 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 the quality of institutions, economic performance, and economic freedom have positive correlations.

1. Introduction

The authors argued that the current global phenomenon demonstrates that, with the exception of countries whose economies are based on natural resources, such as the Middle East, the rest of the economically developed nations have better institutional frameworks than developing countries. The authors also stated that the quality of institutions is in some ways a cause of greater economic performance. This leads to economic growth. Economic growth can change the morale of societies. It can create free, open, reliable, and responsible societies. Accordingly, economic freedom will prevail. In fact, quality institutions cannot be installed without the existence of economic growth. The quality of institutions needs economic growth. Economic growth leads to the establishment and development of quality institutions. 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.

2. Discussion

2.1 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.

3. 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.

4. 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 European countries, it has been shown that there is 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.

4. Critics

This work attempted to connect the dots between economic freedom and economic development; however, allow me 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 but ignored wealth distribution for citizens.
- 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 critics is about the gap in the study is concerning with China. 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 isn't mainly determined by the level of economic freedom.
- 4) The author is not clear on how quality by itself is measured.