

## ASPECTS REGARDING THE RELATION BETWEEN ECONOMIC FREEDOM, DEMOCRACY AND DEVELOPMENT

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### Abstract

Liberalism is an ideology centered around the entire social life of the individual as opposed to democracy, which comprises only the social aspects related to the functioning of the political system. Democracy has liberalism as its basis, being thus an expression of the spiritual and civic engaging of a set of values which are attributed to the individual in order to have the power to act rationally and freely. A democratic political system allows for the active but voluntary participation of citizens creating at the same time favorable conditions for the economic growth and development. Thus, the individuals may enjoy the economic freedom of operating within a market economy. Most studies regarding the impact of economic development on political changes suggest a strong relationship between the increasing levels of economic development and the opening of the political success, as well as between the changing social structures and the emergence of political competition. Lipset's theory remarkably states that all developed states are democratic states with the exception of Singapore and that democracy is never influenced in a relatively rich country. Economic freedom is a complex concept able to manifest itself in various aspects relating to the individual's economic behaviour and designating his fundamental right to have access and to act economically by performing economic activities. The research is based on secondary data (indicators reflecting the level of economic freedom, of democracy and of development) existing in the international databases (Political Stability, Index of Economic Freedom, Governance Indicators, World Development Indicators etc.). The main direction of the qualitative analysis of the paper is based on the concept of economic freedom, an overview of its history and chronological presence in the economic theory and practice, as well as on the ways of quantifying it using various indices that measure the economic freedom of the countries in Europe. The empirical part of the research comprises the analysis of the relationship between economic freedom and economic growth with the help of Heritage Foundation's Index of Economic Freedom. The methodology for creating the index focused mainly on theoretical input as well as on a theoretical extension of the interpretation of each segment.

**Key words:** liberalism, economy, democracy, economic development

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### MATERIAL AND METHOD

The research methods used within the study have been structured in line with the stages covered from the elaboration of the plan for performing the analysis to drawing the conclusions and elaborating the solutions proposed for this field of activity.

The research methodology relies on emphasizing the analysis methods in a certain field. Moreover, it aims at the correctness and implicitly the observance of the principles

applicable in the field of the general progress of the implied activity.

In the elaboration of this paper there have been used methods, research instruments, techniques adapted to the objectives, *i.e.* documentation, the study of the literature pertaining to the proposed field, descriptive methods, methods centered on behavior analysis such as observation, case study and then the analysis of the present situation regarding the application of liberalism at the level of organizations, as well as studies regarding the evolution of economic indicators following political changes.

Thus, the document research focuses on studying the literature pertaining to the set purpose in the the present paper and the identification of the stage in which the research regarding the application of liberalism is. International and national databases have been consulted (e.g.: The

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National Institute of Statistics) as well as scientific papers or public institution reports.

## RESULTS AND DISCUSSIONS

The paper aims at identifying and presenting the stage of economic freedom and democracy starting from the main elements of liberalism, work division, capitalism and democracy, so that the particularities of the transition of the countries from Central and Eastern Europe as well as those of Romania may be identified based on some indicators such as economic freedom Index or democracy Index.

In order to ensure a conceptual coherence of the paper and of our research, we have devoted considerable attention to formulating the specific issue, starting from the following **hypotheses**:

- Which are the factors that limit or facilitate the economic activity?
- Is liberalism/ democracy a springboard for the growth and the development of the economy?
- Which is the role of economic freedom in the new economy?
- Is liberalism capable of generating economic growth and development?

Historically, liberalism represents the first political movement that refers to the achievement of welfare by all social classes, not only by some predefined ones. This principle may make us think of the general welfare of socialism, but the element that differentiates the two doctrines is the way in which it uses its means to reach the desired end. The rational behavior is different from the irrational through the presence of some provisional, temporary sacrifices that will be rewarded in the future. The rational human must be organized an institutionalized to act properly (Pohoățã I., 2009).

Work division set into motion by human cooperation is achieved in a society in which mankind has to choose the private property over the production means at the expense of common property, and market economy or capitalism represents "the only system of social organisation that has the work division at its foundation". (Ludowig von Mises, 2012)

Capitalism development refers to owning the right by all to serve customers better and more cheaply, principle that has been proved to have changed the world regarding the demand and the offer.

The market represents the place where all the rights and freedoms of the individual are present; it has always existed in the sense that exchange is the main action, and this is only a

space through which the transactions between them are appointed.

Capitalism is the one that creates riches on the market by extending the satisfaction of consumers' needs, needs that in the past seemed without any solution. Thus, the individual is the only one that chooses mass-produced products or superior products that a market from a capitalist society generates. "The validation of institutions within the perimeter of economic theory is not a recent one, ..., institutions represent a component part of the economic sphere that they have not given up in the past but not now." (Socoliuc Oana-Ramona, 2014)

Democracy has liberalism as its basis, being thus an expression of the spiritual and civic engaging of a set of values which are attributed to the individual in order to have the power to act rationally and freely. This power is determined by the civilians' de facto and de jure abilities of making decisions through institutionalized control and representation systems which make possible the distribution of power in the state.

The European Bank for Reconstruction and Development created a mechanism of measuring transition progress which is named The Transition Progress Index (TPI). This is measured on a scale from 1 to 4.3 where 1 means "a reduced or inexistent change from a planned economy and 4.3 represents an economy of the industrialized market". This indicator offers a picture of the progress made by a country in transition towards an economy market in statutes such as the privatization of enterprises, price liberalization, commercial and currency exchanges etc.

The transition of countries from a centralized to a free market has been accomplished in two types of reforms, a rapid one and a gradual, step-by-step one. Studies have shown that the rapid reforms were more efficient from the economic point of view because there have been shorter recessions and the social cost of transition has been lower than in the case of a gradual transition (United Nations Development Programme- Human Development Reports. The countries that are in this changing process have been divided into various categories depending on their transition after the first years after the fall of Communism. Therefore, those who recorded an increase in the TPI score with at least one point are classified in the category of rapid reforms, according to the data in *table 1*.

Table 1

The countries in transition grouped according to the types of reforms

| Rapid/ "Big-Bang" Reform  | Constant Reform                | Gradual Reform                | Limit Reform |
|---|--------------------------------|-------------------------------|--------------|
| Slovakia<br>Poland<br>Latvia<br>Lithuania<br>The Czech Republic | Hungary<br>Slovenia<br>Croatia | Ukraine<br>Romania<br>Armenia | Belarus      |

Source: Oleh Havrylyshyn, *Divergent Paths in Post-Communist Transformation Capitalism for All or Capitalism for the Few?*, Houndmills, Great Britain: Palgrave MacMillan, 2006, p.10.

Till 1995 the values and the importance of the governing form have spread on a large scale, continuing in this liberalization trend up to now. Poland was the first to apply the transition reforms with the rest of the countries in Eastern and Central Europe joining it up to mid-1990s.

In *figure 1* we can observe the progress made by the countries in Central and Southeast Europe who were in transition. The big divergence among the regions has been known but apparently the majority had a score of 1 at the beginning of the transition from a nondemocratic to a democratic system.

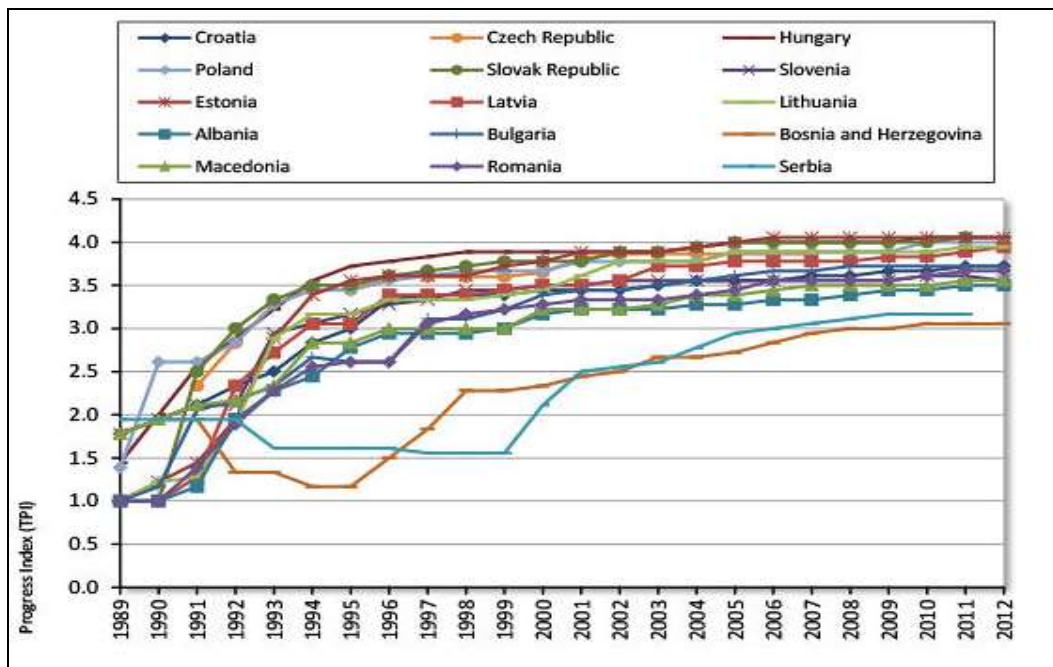


Figure 1 The transition to a market economy in ex-communist countries

Source: European Bank for Reconstruction and Development, "Forecasts, Macro Data, Transition Indicators," <http://www.ebrd.com/what-we-do/economic-research-and-data/data/forecast>

From 1995, the Index of Economic Freedom published by Heritage Foundation has delivered annual reports related to the global economic freedom at country level as well, by analyzing key factors such as: limited or not limited governance, rule of law, free market, the efficiency of regulations, etc. It has been demonstrated that the nations that have managed after the transition from a nondemocratic to a democratic governance have a prosperous economy due to the full capitalization

of the individuals' capacity to innovate and create when they benefit from a free market without regulations.

According to the data in *figure 2* it can be observed that in 2019, the index of freedom shows that the principles and the determining factors of freedom have been understood and applied, a fact that demonstrated once again that freedom and economic prosperity are interdependent.

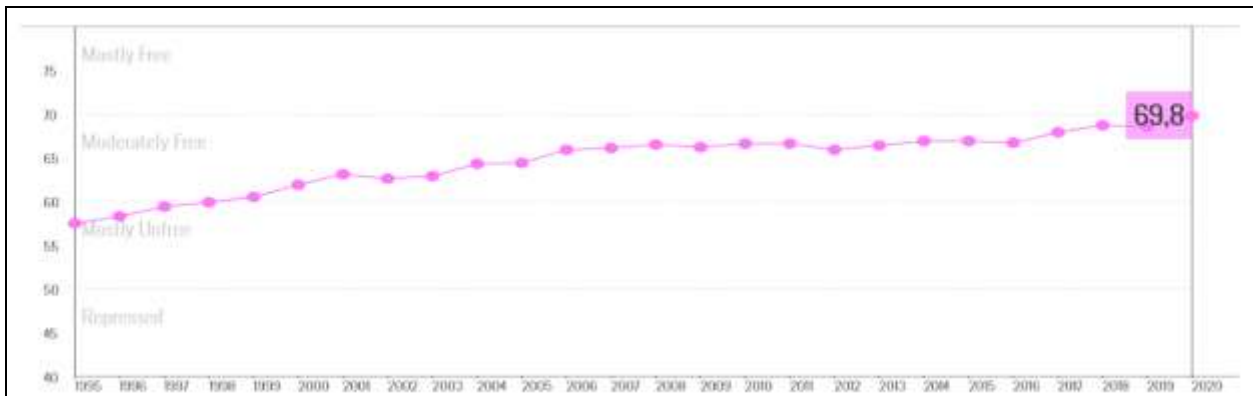


Figure 2. Index of Economic Freedom in Europe from 1995-2019

Source: Heritage Foundation, *Index of Economic Freedom in Europe-2020*, link available at: <https://www.heritage.org/index/visualize>.

Obviously, in the last 25 years the economic stability in Central and Easter Europe has encountered obstacles; however, together with the acceptance of governments' limits, its restabilization has been achieved.

In figure 3 it may be observed that Italy and Poland had the smallest fluctuations of the score, as opposed to Bulgaria and Romania which have been much more affected by the old doctrines of the Soviet block.

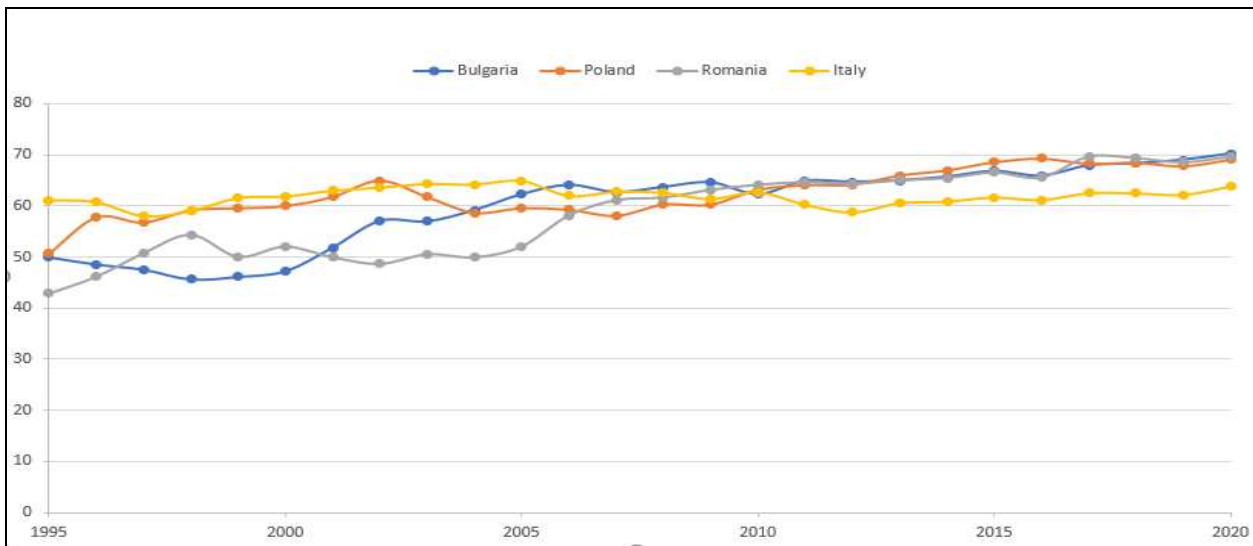


Figure 3 Index of Economic Freedom for 1995-2019 for Bulgaria, Romania, Italy and Poland

Source: Heritage Foundation, *Index of Economic Freedom in Europe-2020*, available link at: <https://www.heritage.org/index/visualize>

It could be observed throughout the years that economic freedom was the one that sustained the economy dynamism to an efficient transition, and all these things are possible only through a low tax rate, monetary stability, though the recognition and the support of private property, though the reduced involvement of the state but also through the orientation towards partnerships among the states and the attainment of external trade.

According to Freedom House Institute the countries that consider themselves in the year 2020 as being part of the transition process are still the ones in Central and Eastern Europe and are divided in categories based on the types of governance: semi-democratic regimes, consolidated, transition hybrid regimes, authoritarian, and consolidated authoritarian regime (figure 4).



Figure 4 Countries in transition in the year 2020

Source: Freedom House, *Nations in transit-2020- Dropping in Democratic Facade*, link available at: [https://freedomhouse.org/sites/default/files/2020-04/05062020\\_FH\\_NIT2020\\_vfinal.pdf](https://freedomhouse.org/sites/default/files/2020-04/05062020_FH_NIT2020_vfinal.pdf), p14

The map reflects the conclusions published by Freedom House in the report Countries in transition – 2020, where the developing process of democracy in 29 countries from Central Europe to Asia is evaluated. The score is measured on a scale from 1-7 and is divided as follows: consolidated authoritarian regime (1.00-2.00), semi-consolidated authoritarian regime (2.00-3.00), transition regime (3.00-4.00), semi-consolidated

democratic regime (4.00-5.00) and consolidated democratic regime (5.00-7.00).

In figure 5 is presented the Democracy Index which focuses on analyzing the governance in each transition country, the way in which the election process is carried out and the quality of civic society, the freedom of the press, the judicial independence and not in the least the corruption level.

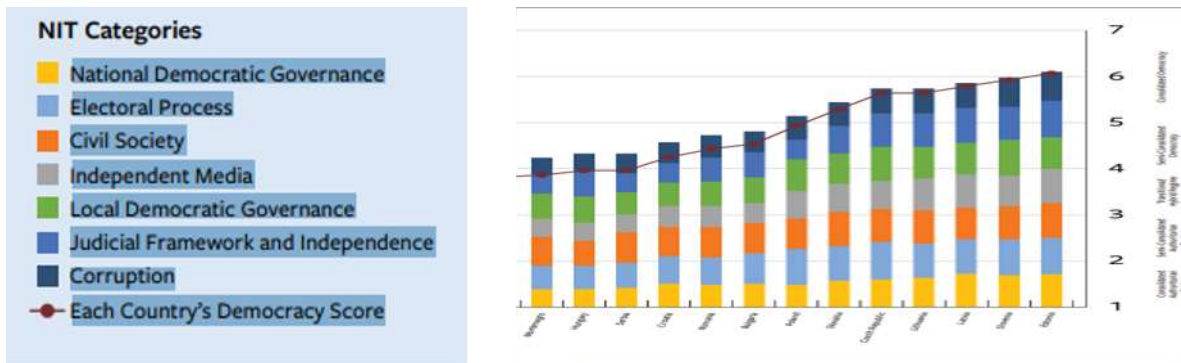


Figure 5 The score of the democracy index for the countries in Central and Eastern Europe Source: Freedom House, *Nations in transit-2020- Dropping in Democratic Facade*, link available at: [https://freedomhouse.org/sites/default/files/2020-04/05062020\\_FH\\_NIT2020\\_vfinal.pdf](https://freedomhouse.org/sites/default/files/2020-04/05062020_FH_NIT2020_vfinal.pdf), p20.

We can observe that countries such as Bulgaria, Romania, Hungary and Serbia belong to the category of semi-consolidated democratic regimes with a score between 4.00 – 5.00, compared to the Czech Republic, Lithuania and Slovenia that have achieved a score that has placed them in a consolidated democracy.

At the same time another index that presents the situation of Romania from the economic as well as from the social and political point of view is the one conducted by the Heritage Institute which specifies that the political situation together

with the legislative instability, the unpredictable decisions made by the governance as well as the low quality of institutions affects the economic status of the country.” Institutional fragility, seen from the perspective of the reform option adopted by decision makers, in favor of a social market economy, did not lead to the dismantling of the old system, thus causing stagnation, confusion and chaos.” (Iacobuță Andreea and Frunză Ramona, 2006)



The work force is fairly absent from the labour market which is controlled in any case, *figure 6*.



Figure 6 **Index of Economic Freedom conducted by the Heritage Institute**  
Source: Heritage Foundation, *Index of Economic Freedom - 2019*, link available at:  
<https://www.heritage.org/index/country/romania#regulatory-efficiency>

The global system has over time been shown to need peace for the economy to thrive, so only an increase in the movement of consumer goods could compensate for the slowdown in global mobility and then avoid an economic catastrophe. At present, the biggest concern is to block the movement of goods and reduce the number of exports.

## CONCLUSIONS

In the past 30 years, together with the increase of economic freedom major improvements have been acknowledged in objectives that stipulated the decrease of poverty, hunger and the improvement of life quality. There is a close connection between development and a free economy as it has been demonstrated that people from the free societies live longer, are capable of being more productive and more innovative. It could be observed that in the past years the dependence of economy on politics seems real. What needs to be highlighted is the fact that the political environment continues to influence business by allocating resources.

The investors are mainly interested in infrastructure, in the level of qualification and the costs of the work force. However, the political climate, the level of corruption and the way in which political decisions may influence the economic environment are similarly important. Starting from the paper hypotheses we have reached the conclusion that the key impetus for economic competitiveness is represented by the economic liberalism, based on innovation.

In this process we propose three factors that need to be taken into consideration for the reinstatement of the freedom and democracy in Romania:

a) Renewing the Citizens Agenda in order to guarantee the respect for their interests and preoccupations, through improvement brought in the tax economic model, in social services, in unemployment as well as in fighting poverty.

b) The increase of trust in formal institutions because citizens tend to associate corruption, instability and favoritism with key institutions such as the Parliament and the political parties.

c) Rethinking what "European" means. We could observe in the course of time that Romania has been a country that has been influenced and that borrowed values and habits from the other member states.

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