

Reconomic Freedom in the E.U.

An historical perspective

Davide Viroglio

viroglio@vodafone.it

Agenda

Introduction

Positive correlation between EF and GDP growth

Historical trends

Economic freedom 2009 figures vs. 2005 judgments

Reasons for the decline in economic freedom

Final remarks

Introduction

- The E.U. average economic freedom score rose from 7.21 (out of 10) in 1995 (15 members covered almost the whole of Western Europe) to 7.60 in 2007 (on 1st January 2007 two countries from eastern Europe, Bulgaria and Romania, joined the EU, bringing the number of member states to 27 countries), but fell back to 7.35 in 2008, and to 7.25 in 2009, the most recent year for which figures are available.
- Six European countries are found in the top10 scores worldwide. The United Kingdom, with a score of 7.71, holds the 8th position, the best performer at a European level, followed by Finland and Slovak Rep. Greece, ranking 81st globally, is the worst player with a score of 6.55.
- The last five years have seen only 8 out of 27 countries experiencing an improvement. The majority of these are Eastern European countries. Ireland, Greece and Spain lost more ground throughout the period under consideration (2005-2009).
- This presentation briefly analyzes the historical trends and discusses the reasons behind the latest developments.

Agenda

Introduction

Positive correlation between EF and GDP growth

Historical trends

Economic freedom 2009 figures vs. 2005 judgments

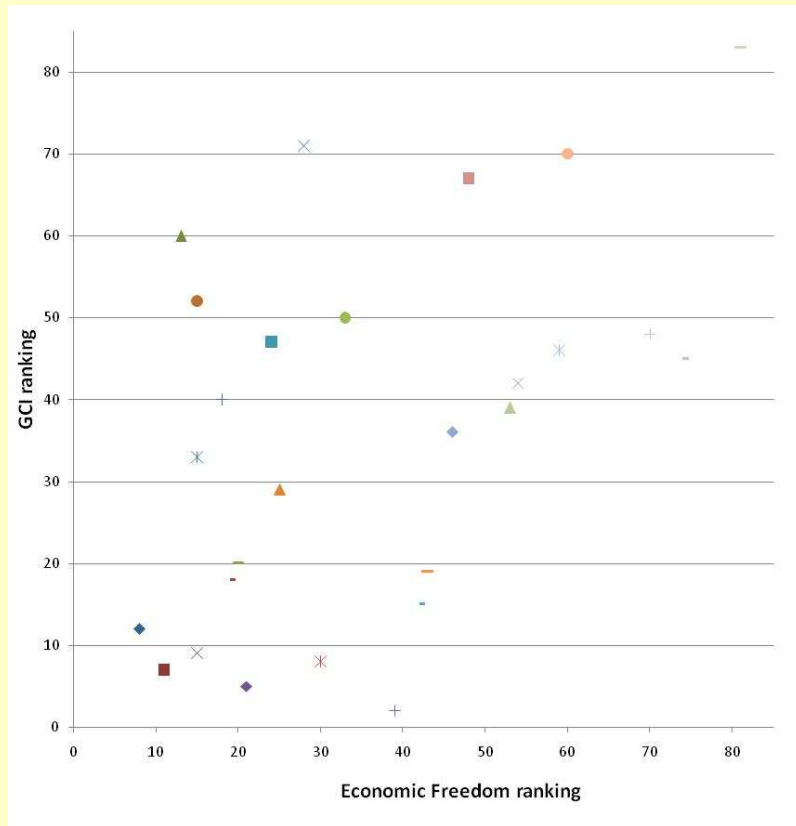
Reasons for the decline in economic freedom

Final remarks

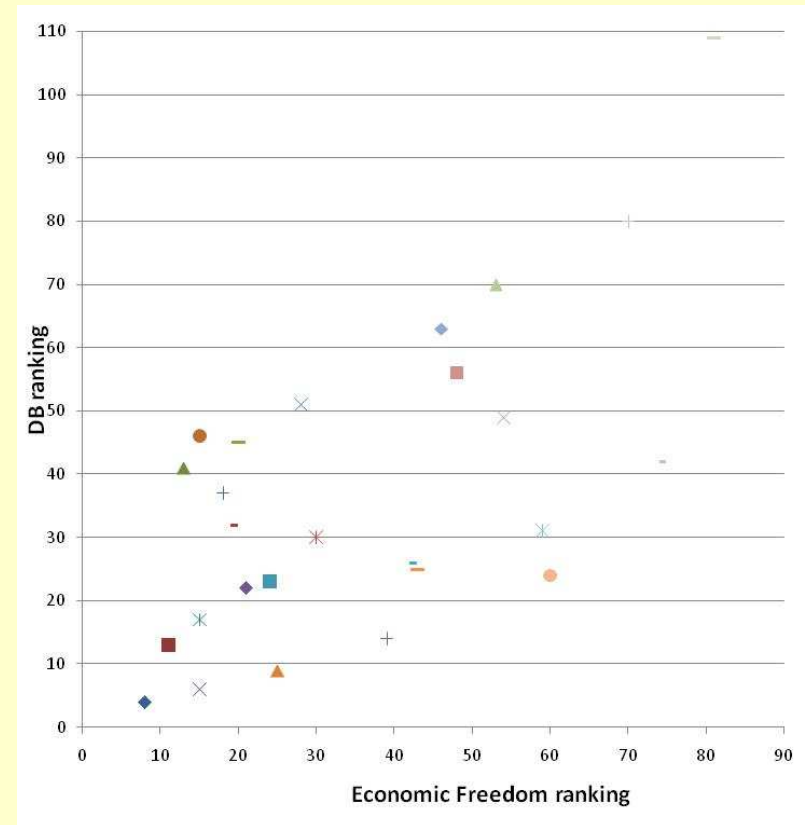
Positive correlation between EF and GDP growth

- Numerous studies have shown that countries with more economic freedom grow more rapidly and achieve more per capita income than those that are less free.
- Higher levels of economic freedom reduces poverty, leads to improvements in living conditions and encourages cooperation and tolerance, promoting understanding, peaceful relations and entrepreneurial business activity.
- Countries with a higher level of economic freedom were in fact able, on average, to face better the consequences of the economic crisis. In the short term economic freedom entails a certain degree of flexibility that might also emphasize the effects of the slowdown. However, in the long term, the positive effect of a good institutional environment should always prevail.
- Let us further consider if the economically free nations out-performed non-free nations in the recent past.

Positive correlation between EF and GDP growth



Economic freedom, competitiveness and business environment



- | | | | | | |
|------------------|---------------|--------------|-----------|-------------|-----------|
| ◆ United Kingdom | ■ Finland | ▲ Slovak Rep | × Denmark | × Estonia | ● Hungary |
| + Cyprus | - Austria | - Luxembourg | ◆ Germany | ■ Lithuania | ▲ Ireland |
| × Bulgaria | × Netherlands | ● Malta | + Sweden | - France | - Belgium |
| ◆ Czech Rep. | ■ Romania | ▲ Poland | × Spain | × Portugal | ● Latvia |
| + Italy | - Slovenia | - Greece | | | |

Agenda

Introduction

Positive correlation between EF and GDP growth

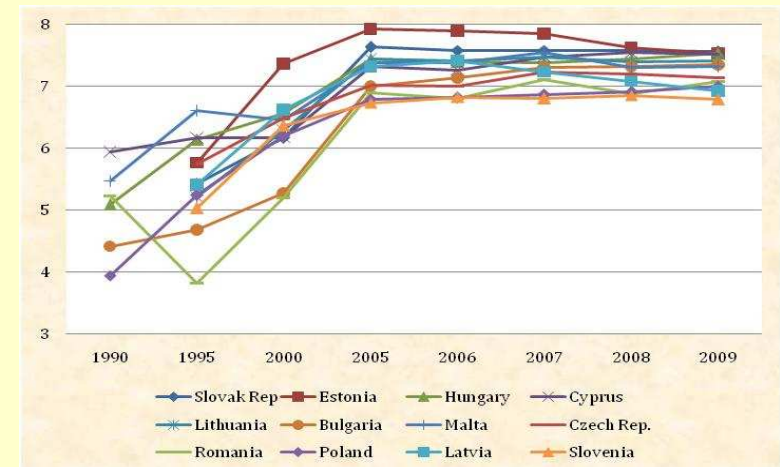
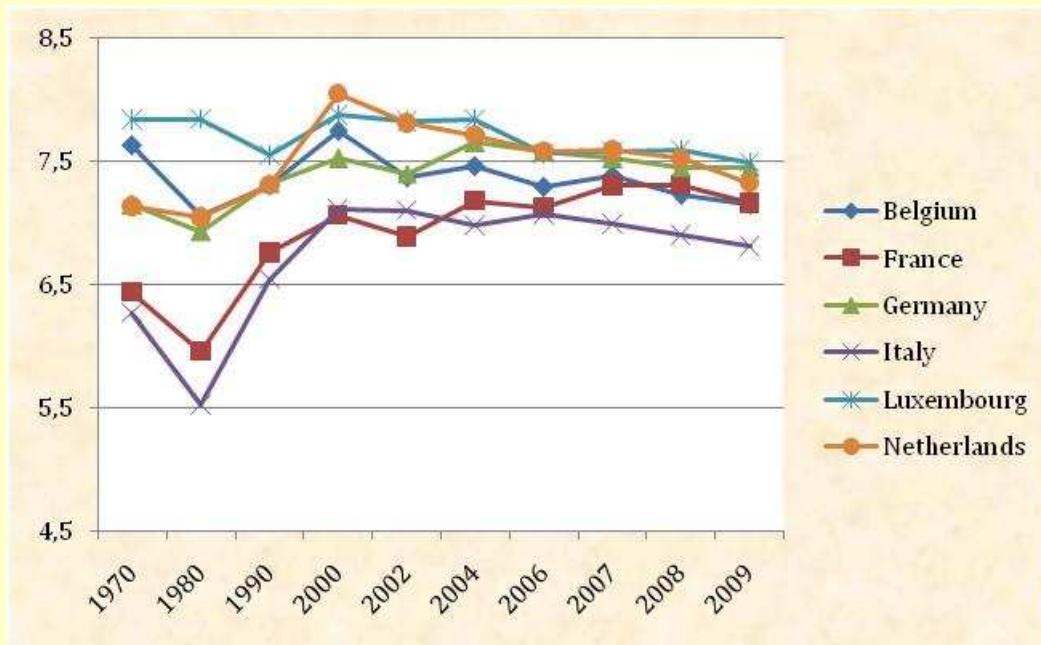
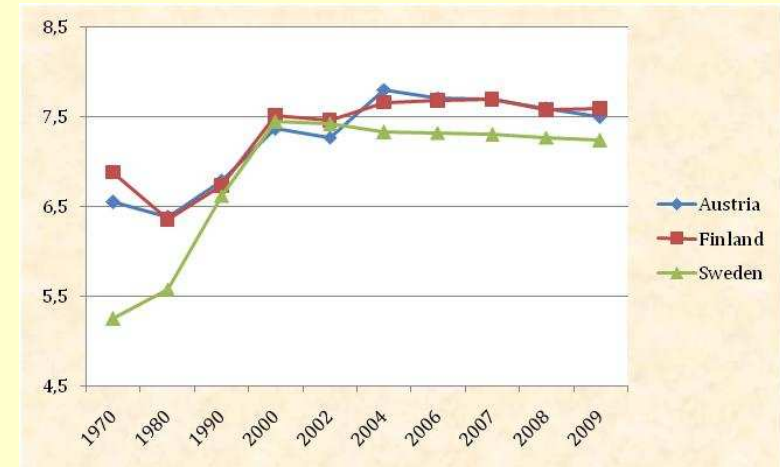
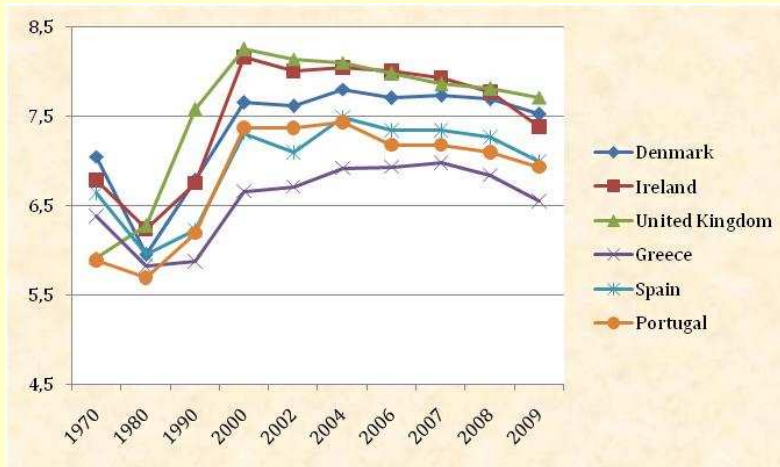
Historical trends

Economic freedom 2009 figures vs. 2005 judgments

Reasons for the decline in economic freedom

Final remarks

Historical trends



Historical trends

- In 1980 the countries for which the statistics are available obtained results between 5.52 (Italy) and 7.84 (Luxembourg). In 2009 all the countries in the EU scored between 6.55 (Greece) and 7.71 (United Kingdom).
- Most of the European countries have experienced a sharp growth in economic freedom from 1980 to 2000, followed by a gradual decrease.
- The original members of Central and Eastern Europe obtain fairly good scores (between 6.78 and 7.41), with significant improvements recorded concerning the 'Size of government' and 'Regulation of credit, labour, and business perspectives'. In particular there is an obvious upward trend before 2007, followed by a marginal decrease in the last few years.

Historical trends – Major changes experienced over the years 1995 - 2009

- *Size of Government:*
 - Unsatisfactory performances Much room for improvement
 - Best players: Slovak Rep, Bulgaria, Hungary and Romania
 - Worst players: Latvia, Malta and Estonia
- *Legal Structure and Security of Property Rights:*
 - The majority of the EU countries experienced a slight fall
 - Exceptions: Estonia, Lithuania, Cyprus and Latvia Upward trend until 2007, followed by a marginal decrease
- *Access to Sound Money:*
 - First-rate growths shown by Slovak Rep, Slovenia, Bulgaria and Estonia, shifting from the 59th, 108th, 112th, 111th position to 3rd, 6th, 29th, 22nd ranking, respectively.
- *Freedom to Trade Internationally:*
 - Met good judgements despite recent gradual decline recorded
 - Slovak Rep (3rd worldwide) is the best performer
 - Lithuania is the worst player: lost 38 positions
- *Regulation of Credit, Labour, and Business:*
 - Exhibited positive trends, with first-rate increases recorded by Romania, Lithuania, Latvia, Slovak Rep and Bulgaria

Agenda

Introduction

Positive correlation between EF and GDP growth

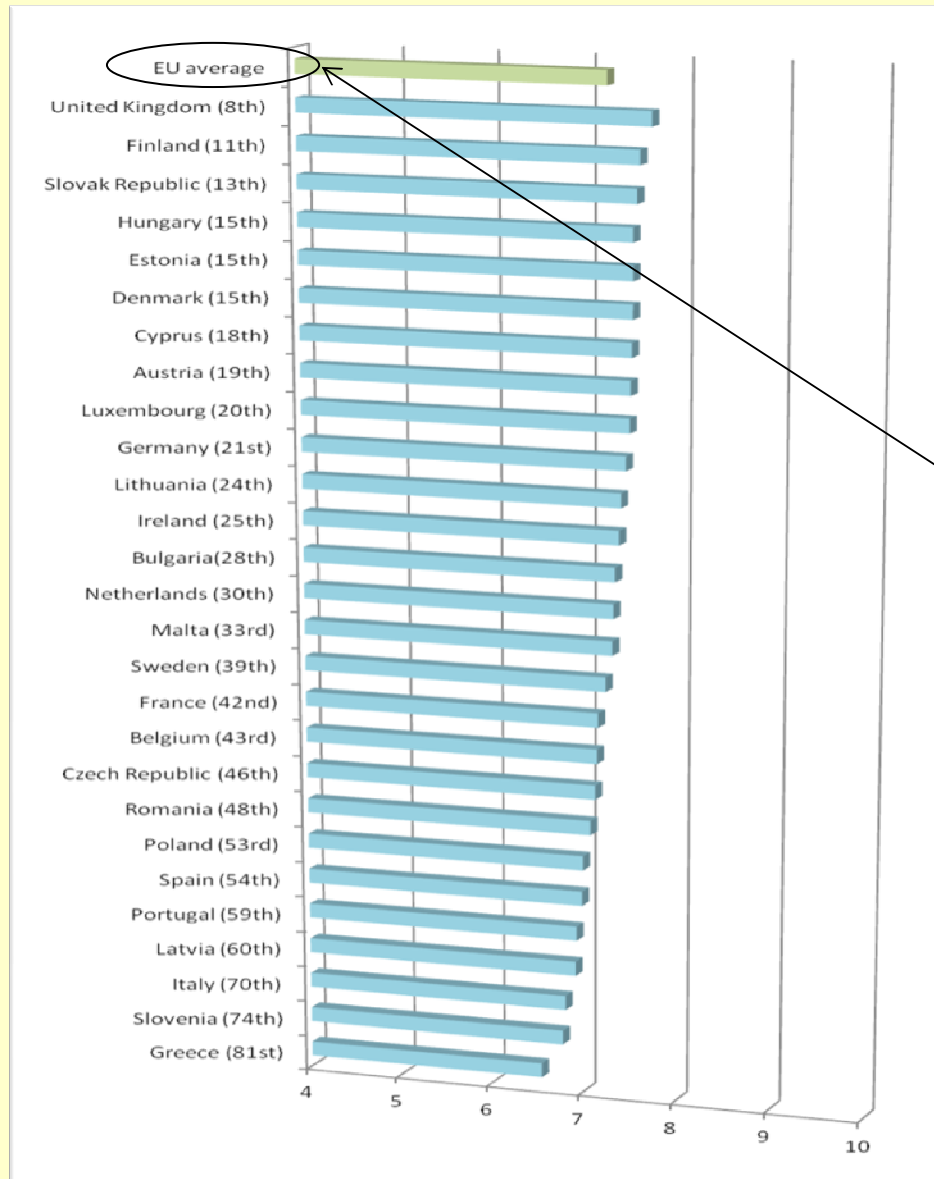
Historical trends

Economic freedom 2009 figures vs. 2005 judgments

Reasons for the decline in economic freedom

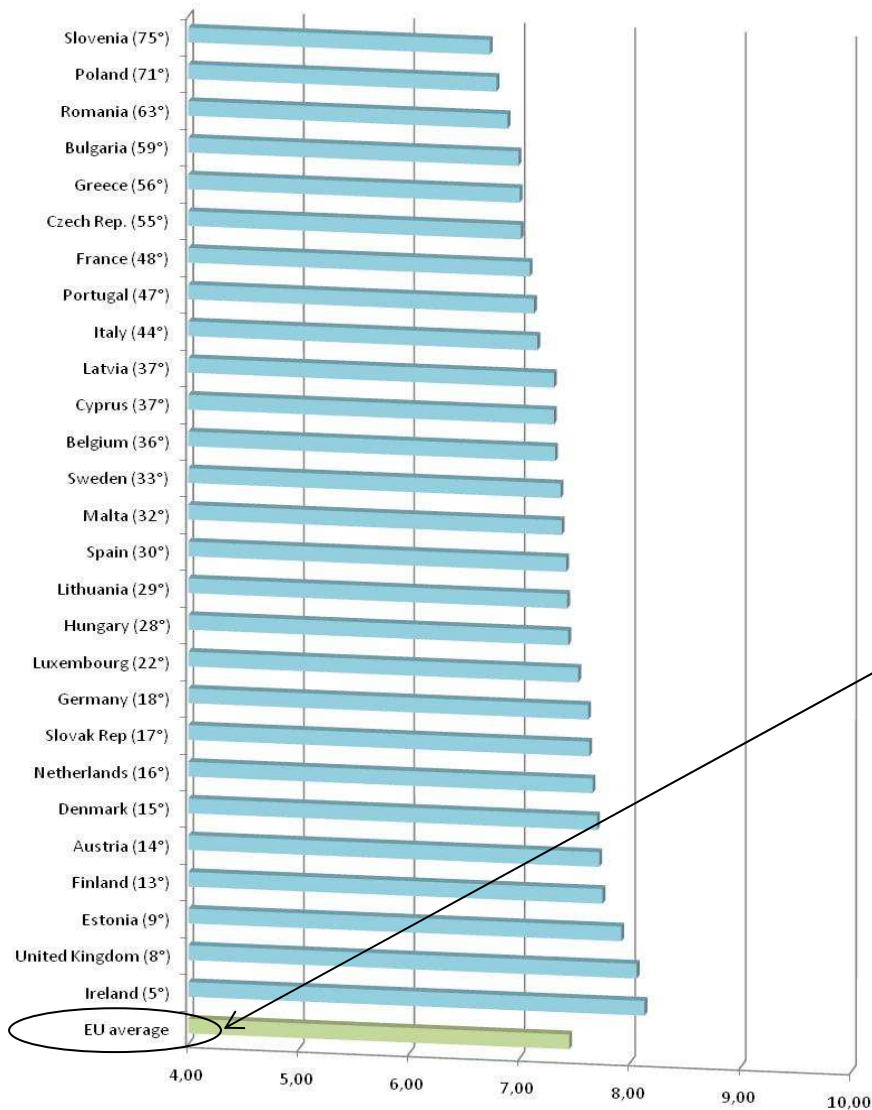
Final remarks

Economic freedom 2009 grades



- The average score (7.25) is considerably higher than the results recorded across Eastern Europe and North Africa: 6.45 and 6.07, respectively.
- Greece is the worst performing, with downward trends recorded across all five different EF areas, with the exception of 'Access to sound money'
- Ireland and the U.K. are the only countries showing consistent worsening performances under the 'Regulation of credit, labour, and business' perspective: both lost almost one point since 2005.

Economic freedom 2005 judgments



- At a European level, the average score was 7.45 vs. 7.25 on 2009.
- Within the EU, Ireland, with a score of 8.13 (compared with the UK score of 7.71 in 2009) was the best performer.
- Slovenia was the worst player. Moderate progress been achieved throughout the last year under the 'Access to sound money' and 'Legal structure and security of property rights' perspectives.

Agenda

Introduction

Positive correlation between EF and GDP growth

Historical trends

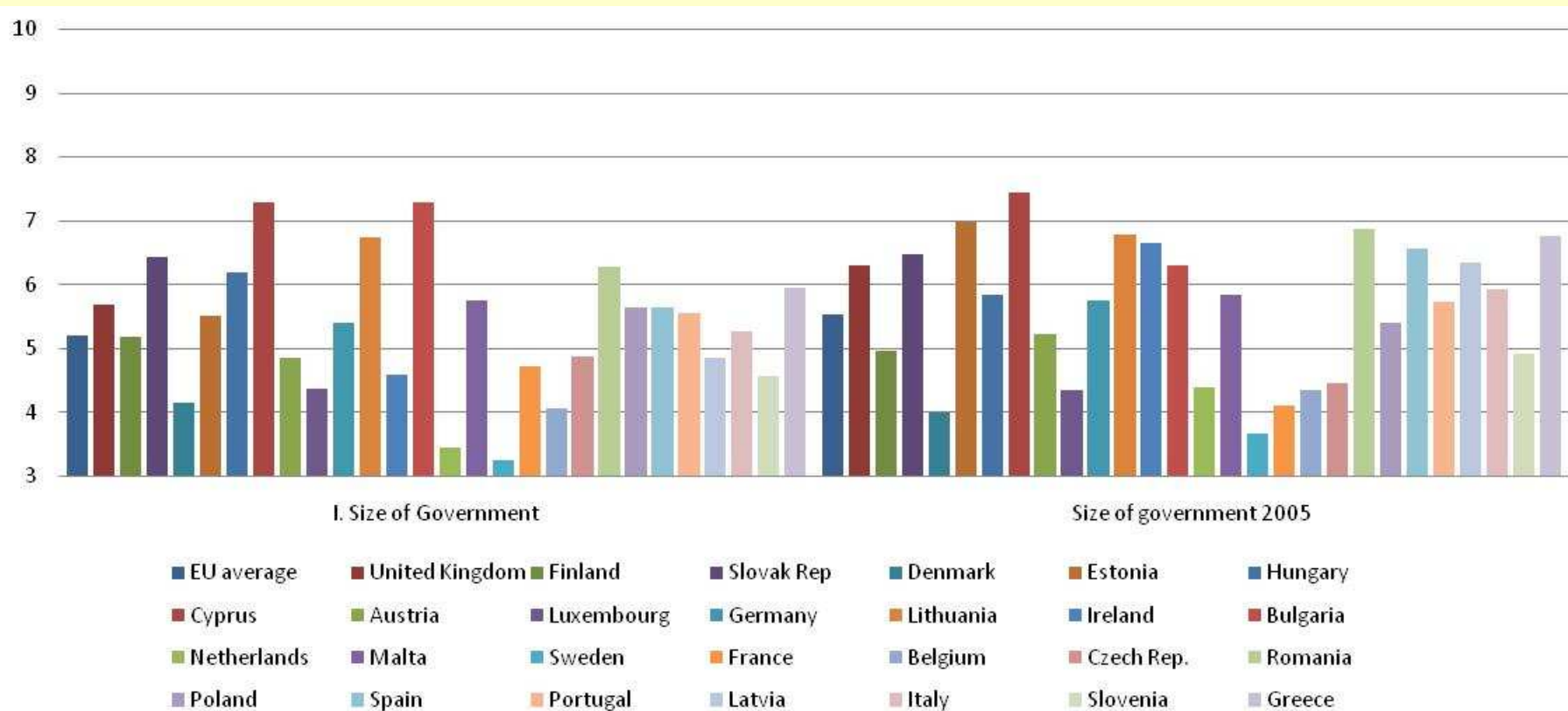
Economic freedom 2009 figures vs. 2005 judgments

Reasons for the decline in economic freedom

Final remarks

The reasons of the decline in economic freedom – Critical areas

Size of Government: Expenditures, Taxes, and Enterprises



2009: Few countries attained sufficient scores: Bulgaria, Cyprus, Lithuania, Slovak Rep, Romania and Hungary

2005: Greece, Latvia, Spain, Ireland, Estonia and U.K. were added to the list

The reasons of the decline in economic freedom – 2009 highlights

Legal Structure and Security of Property Rights:

Mixed results:

- * Scandinavia countries topped the list
- * Four countries (Romania, Italy, Greece and Bulgaria) exhibited a non-sufficient result

Access to Sound Money:

Admirable judgments shown

Lowest grade recorded by Latvia with a score of 8.9, compared with a EU average of 9.55

Freedom to Trade Internationally:

Overall obtained good scores (low tariffs, significant size of trade sector and easy clearance)

Exceptions: Greece, Portugal, Cyprus, Slovenia, Poland and Spain scoring one point less on average base

Regulation of Credit, Labour, and Business

Limited variance recorded across the EU countries

Only Greece and Portugal show inadequate figures

Agenda

Introduction

Positive correlation between EF and GDP growth

Historical trends

Economic freedom 2009 figures vs. 2005 judgments

Reasons for the decline in economic freedom

Final remarks

Final remarks

Policymakers should adopt a coordinated strategy to boost growth:

- A recalibration of fiscal policies: additional effort should be made to establish greater reforms that will improve public finances over time whilst avoiding rapid change (at all costs) that could cause long term problems.. The Size of government area, which has been affected throughout previous years due to the increasing amount of government consumption as a share of GDP, needs a sharp recovery: free choices should be preferred at political decision-making, allowing a sustainable welfare state in the long run.
- Monetary-policy shift: the ECB should give its over indebted members room to adjust, paying greater attention to the path of nominal GDP, rather than just inflation (The 'Access to sound money' perspective could be partially dropped in favour of 'Size of government' improvement).
- A big push on supply-side reforms: a joint commitment to productivity-boosting measures, such as cutting trade barriers or getting rid of excess regulation would benefit the Member Countries, with considerable progresses achievable on the 'Regulation of credit, labour, and business' side.