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Юбилейна международна научнопрактическа конференция

МОДЕРНИЗАЦИЯ НА ИКОНОМИКАТА – МАКРОИКОНОМИЧЕСКИ, ФИНАНСОВИ И СОЦИАЛНИ АСПЕКТИ

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На 6 и 7 ноември 2008 г. в Стопанска академия "Д. А. Ценов" – Свищов, факултет "Финанси" организира и проведе юбилейна международна научнопрактическа конференция на тема: "Модернизация на икономиката – макроикономически, финансови и социални аспекти", посветена на 55 годишнината от създаването на факултета. Участие взеха представители на научната мисъл от осем държави, научни работници от СА "Д. А. Ценов"- Свищов и редица други висши учебни заведения в страната, докторанти, представители на практиката.

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ECONOMIC FREEDOM AS A DEVELOPMENT RESOURCE

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> I believe that free societies have arisen and persisted only because economic freedom is so much more productive economically than other methods of controlling economic activity.
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> (Milton Friedman, Foreword in Gwartney et al., 1996).

One of the most enduring questions in economics is what causes economies to grow. The full title of Adam Smiths An Inquiry into the Nature and Causes of the Wealth of Nations, published in 1776, clearly shows that the causes of prosperity were Smiths primary concern. He concluded that free markets, the protection of private property rights, and a minimal government presence in the economy lead to prosperity. In other words, economic freedom leads to economy growth. A few decades later, David Ricardo advocated the lowering of tariffs to promote free trade as a route to prosperity, supporting his arguments with his famous book, Principles of Political Economy, first published in 1817. Ricardo is perhaps best known for showing how everyone ends up better off when people specialize in the activities in which they have a comparative advantage and trade with others. The arguments of Smith, Ricardo and others brought a reduction in government intervention in Britan and elsewhere, leading to a freer world economy and making the nineteenth century an era of unprecedented economic growth. By focusing on the environment conducive to economic growth, the Smithian view pays less attention to inputs. However, Smith also recognized that the invisible hand of the market, if allowed to work within an environment of economic freedom, will do an effective job of allocating resources. Public policy need not be concerned with the production of capital, the incorporation of technology, or the development of a skilled labour force if that conducive environment is created. The economy will attract investment and provide the incentive both for workers to obtain marketable skills and for the adoption of more advanced technology. . If growth policy focuses on producing an environment of economic freedom, growth will follow.

Economic freedom is complex and multidimensional, but it can be measured:

- Individal choice
- Freedom to trade, domestically and abroad
- Freedom to enter and compete in markets.
- Security of Proprety/Rule of Law.

Using these four cornerstones as a compass, the Economic Freedom of the World (EFW) is designed to measure the consistency of a nations institutions and policies with economic freedom.[1] In order to achieve a high EFW rating, a country must provide secure protection of privately owned property, even handed enforcement of contract, and a stable monetary environment. It also must keep taxes low , refrain from creating barriers to both domestic and international trade, and rely more fully on markets rather than the political process to allocate good and resources. The economic freedom index has been used and citied in over 200 academic articles to study: income and growth, income distribution/ poverty, productivity, happiness, employment/unemployment, stock returns, housing price risk, biodiversity loss, corruption and governance, political freedom/civil liberties/democracy. The index measures the degree of economic freedom present in five major areas: size of Government: Expenditures, Taxes and Enterprises; Legal structure and Security of Proprety rights;access to sound money; freedom to trade internationally;regulation of credit, labor and business.

Individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and they are free to use, exchange, or give their property as long as their actions do not violate the identical rights of others. An index of economic freedom should measure the extent to which rightly acquired property is protected and individuals are engaged in voluntary transactions[2]. Individual freedom means the right to pursue economic activities free from arbitrary control and interference by the state and other individuals. Collective freedom refers to the extent to which the economic system that controls choice reflect the expressed preferences of the majority of the citinzery rather than those of a ruling few.

[1] There are 10 factors that are used to measure overall economic freedoms: business freedom, trade freedom, fical freedom, government size, monetary freedom, investment freedom, financial freedom, property rights, freedom from corruption, labor freedom.

[2] James Gwartney and Robert Lawson et al. Economic Freedom of the World: 1996 Annual Report

It is especially important to understand what is meant by economic freedom as compared to political freedom, and what can be expected from both. While democracy is valuable in its own right, the evidence suggests that democracy by itself makes no contribution to prosperity. Economic freedom produces economic growth; political freedom does not.

People often use "democracy" and "economic freedom"in incorrect ways. Sometimes their incorrect usage may reflect misunderstanding but, in other cases, it is almost certainly a deliberate effort to confuse. Economic freedom and political democracy are not the same thing. In fact, they are substantially different.

Democracy is present when all adult citizen are free to participate in the political process (vote, lobby, and choose among candidates), and when political outcomes are determined by voting in fair and open elections. Economic freedom is about the freedom of individuals to decide how they will develop and use their productive abilities, exchange good and services with others, compete in markets, and keep the fruits of their labor.

A country can be democratic and still severely restrict the economic freedom of its citizens. The experiences of India and Israel during the period from 1960 to 1990 illustrate this point. Correspondingly, it is also possible for a country with very little democracy to have a substantial degree of economic freedom nonetheless. Hong Kong during the last several decades provides an example.

The evidence shows that economic freedom leads to economic growth even where countries have limited political freedom. The reverse is not true: political freedom, without economic freedom, does not bring growth. Therefore, it is vitally important that emerging democracies encourage free markets, protect property rights, provide a stable currency, and minimize the government's role in the economy. There is also evidence that nations with higher incomes tend to be more democratic and more protective of civil liberties and political freedoms. Thus, indirectly, economic freedom leads to political freedom.

Casual (but persuasive) evidence relating economic freedom and economic growth abounds. After World War II, Korea was divided: South Korea fostered a market-oriented economy, while North Korea maintained a centrally planned economy. As this is being written, many citizens of North Korea are starving because their economy is failing, while South Korea has one of the fastest-growing economies in the world. Similarly, after World War II, Germany was divided into East and West Germany, and again the one with the market economy prospered while the one with the centrally planned economy fell behind. Less than a decade ago, East and West Germany were central players in the cold war that threatened to erupt into World War III. East Germany eventually surrendered to West Germany without a shot being fired, because people in the East wanted to have the advantages offered by West Germany's economic system.

In light of their recent prosperity, it is easy to forget that nations like Taiwan, South Korea, Hong Kong, and Singapore were poor only a few decades ago. Nations that shunned the market system in favour of central economic planning, like the Soviet Union, China, and India, had economies that languished. Now that those formerly socialist countries are moving toward economic freedom, their economies have started to grow. The casual evidence is so clear that there is now a worldwide movement toward more economic freedom. Yet, as compelling as this casual evidence is, it still leaves open the question of what, exactly, the components of economic freedom are, and how much effect they have on economic growth.

The 'Index of Economic Freedom' published by The Heritage Foundation and the Wall Street Journal, defines economic freedom as "the absence of government coercion or constraint on the production, distribution or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty". The Heritage Foundation aims to construct a systematic, empirical measure of economic freedom according to this definition.

Using the 2008 Index of Economic Freedom methodology world economic freedom has increased 2.6 points since 1995. Members of the World Bank Group also use *Index of Economic Freedom* as the indicator of investment climate, because it covers more aspects relevant to the private sector in wide number of countries related with economic growth and poverty reduction.

Owing to Estonia's rapid economic development, a liberal taxation system and a favourable location, the country is at the heart of Europe's fastest growing market – the Baltic Sea Region, which has a population of over 90 million. Successive governments have adhered to the principles of Estonia's economic success: a balanced state budget, a stable convertible currency pegged to the Euro (before 1 January 1999 to the Deutschmark) and liberal trade and investment laws. *The Wall Street Journal* and *Heritage Foundation's Index of Economic Freedom 2008* ranks Estonia as one of the freest economies in the World – 12th out of 162 countries.

Worldwide index of economic freedom 2008 - top and bottom 15 rankings.

Rank	Country	Freedom %	Rank	Country	Freedom %
1	Hong Kong	90.3	143	Angola	47.1
2	Singapore	87.4	144	Syria	46.6
3	Ireland	82.4	145	Burundi	46.3
4	Australia	82.0	146	Republic of the Congo	45.2
5	United States	80.6	147	Guinea-Bissau	45.1
6	New Zealand	80.2	148	Venezuela	45.0
7	Canada	80.2	149	Bangladesh	44.9
8	Chile	79.8	150	Belarus	44.7
9	Switzerland	79.7	151	Iran	44.0
10	United Kingdom	79.5	152	Turkmenistan	43.4
11	Denmark	79.2	153	Myanmar	39.5
12	Estonia	77.8	154	Libya	38.7
13	Netherlands	76.8	155	Zimbabwe	29.8
14	Iceland	76.5	156	Cuba	27.5
15	Luxembourg	75.2	157	North Ko	

Source: *The Wall Street Journal* and the Heritage Foundation

Estonia ranks 8^{th} of 141 countries in the *Economic Freedom of the World 2007*. The annual report was composed by the CATO Institute, Canada's Fraser Institute and more than 50 other institutes. Among the EU countries, Estonia is second after the UK. GDP growth of 11.4 per cent in 2006 places Estonia among the fastest growing economies in the region. The economy has grown by an average of about 9 per cent a year since 2000. The continued growth of exports to western markets, integration with Nordic countries, institutional and regulatory reforms have laid a strong foundation for sustainable economic growth. The economy has been forecasted to grow by 6-7 per cent per year in the near future.

Slovenian economy is 60.6 percent free, according to Index2008, which makes it the worlds 75^{th} freest economy. Its overall score is 0.4 percentage point higher than last year, mainly reflecting improved scores in financial freedom from corruption. Slovenia is ranked 33^{rd} out of 41 countries in the European region, and its overall score is lower than the regional average.

Slovenia enjoys high levels of business freedom, investment freedom, trade freedom and freedom from corruption. The average tariff rate is low, although non-tariff barriers include distortionary EU subsidies, and business regulation are transparent. Forein investment is encouraged, and the streamlining of investment rules has left virtually no restrictions on foreign capital.

In Balkan region, Slovenia is the most developed country according to official parameters. Its eastern neighbours call it "Slavic Switzerland" or "Balkan's Germany" as Der Spiegel wrote in the abovementioned article. The reality is quite different from official reports of a happy sub-Alpine nation enjoying an ever-lasting prosperity.

Macedonian economy is 61.1 percent free, according to the Index 2008, which makes it the worlds 71^{st} freest economy. Its overall score is 0.5 percentage point higher than last year, reflecting improved scores in four of the 10 economic freedoms. Macedonia is ranked 31^{st} out of 41 countries in the European region, and its overall score is lower than the regional average.

Macedonia scores above the world average in five areas: business freedom (starting a business takes an average of 15 days, compared to the world average of 43 days and obtaining a business license takes less than the world average of 234 days), trade freedom(import taxes, import and export quotas, some import licensing, non-transparent regulations and standards, and customs corruption add to the cost of trade), fiscal freedom (from January 2007 the individual income tax rate and the corporate tax rate are a flat 12 percent and other taxes include a value-added tax (VAT) and a property transfer tax), investment freedom (foreign and domestic investors receive equal treatment, and non-residents may invest in domestic firms, except in arms manufacturing and narcotics production, and monetary freedom(stable prices which are determinate in the market explain most of the monetary freedom score).

Macedonian government policy is oriented toward Euro-Atlantic membership, particularly membership in the European Union and NATO.

Our conclusion is: Countries that have the most economic freedom also tend to have higher rates of long-term economic growth and are more prosperous than those that have less economic freedom, and countries with the lowest levels of economic freedom also have the lowest standards of living.

Key ingredient for growth is economic freedom. The evidence clearly shows that without an environment of economic freedom, growth will not take place. Economic freedom contains a number of components, all of which must be in place for an economy to grow. An economy must have a stable monetary system, secure private property rights, an impartial legal system, low taxes, minimal government, and low barriers to international exchange. If any of these components are missing, an economy will not grow.

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