

Economies: 25 Years After the Fall of Communism

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What is Economic Freedom?

- Key ingredients of economic freedom are: personal choice, voluntary exchange, open markets, and protection of people and their property from aggressive acts by others
- The Economic Freedom of the World index provides a measure of the consistency of a nation's institutions and policies with economic freedom.

How to Obtain a High Economic Freedom Rating

- In order to achieve a high economic freedom rating, a country must:
 - Keep government spending and taxes low
 - Protect property rights, and enforce contracts evenhandedly
 - Provide access to sound money
 - Refrain from imposing trade barriers and regulations that undermine voluntary exchange

Why Do Nations Grow and Prosper?

- Growth results from:
 - Gains from trade
 - Gains from innovation and discovery of new products and lower cost production methods
 - Gains from capital formation (more productive tools, machines and assets)
- Institutions supportive of economic freedom promote these sources of growth.

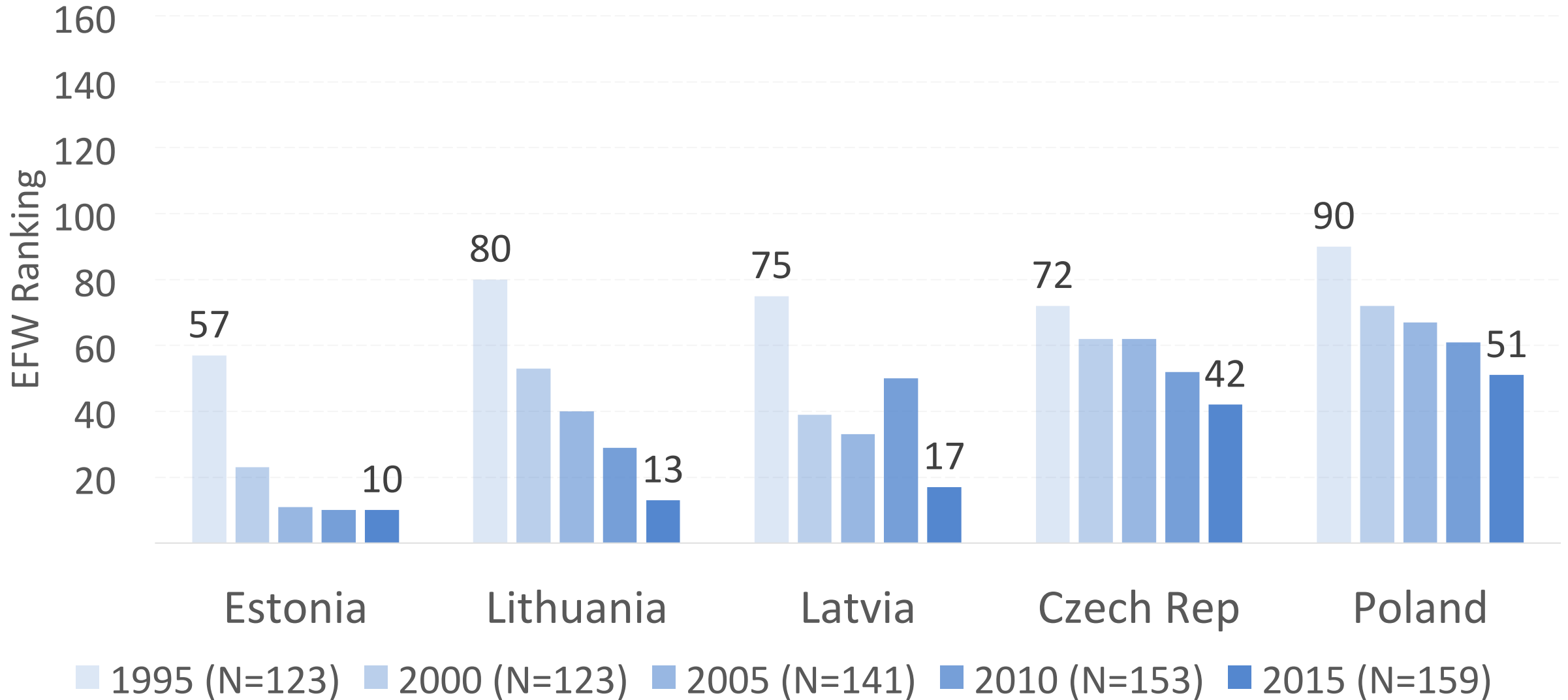
Evidence that Economic Freedom Matters

- South versus North Korea
- West versus East Germany
- Hong Kong and Taiwan versus mainland China
- Cubans in Florida versus those in Cuba
- Chile and Peru compared to Venezuela and Argentina
- Ireland: 1970-1987 compared to the most recent three decades
- India: impact of liberal reforms of the early 1990s
- China: before and after 1978

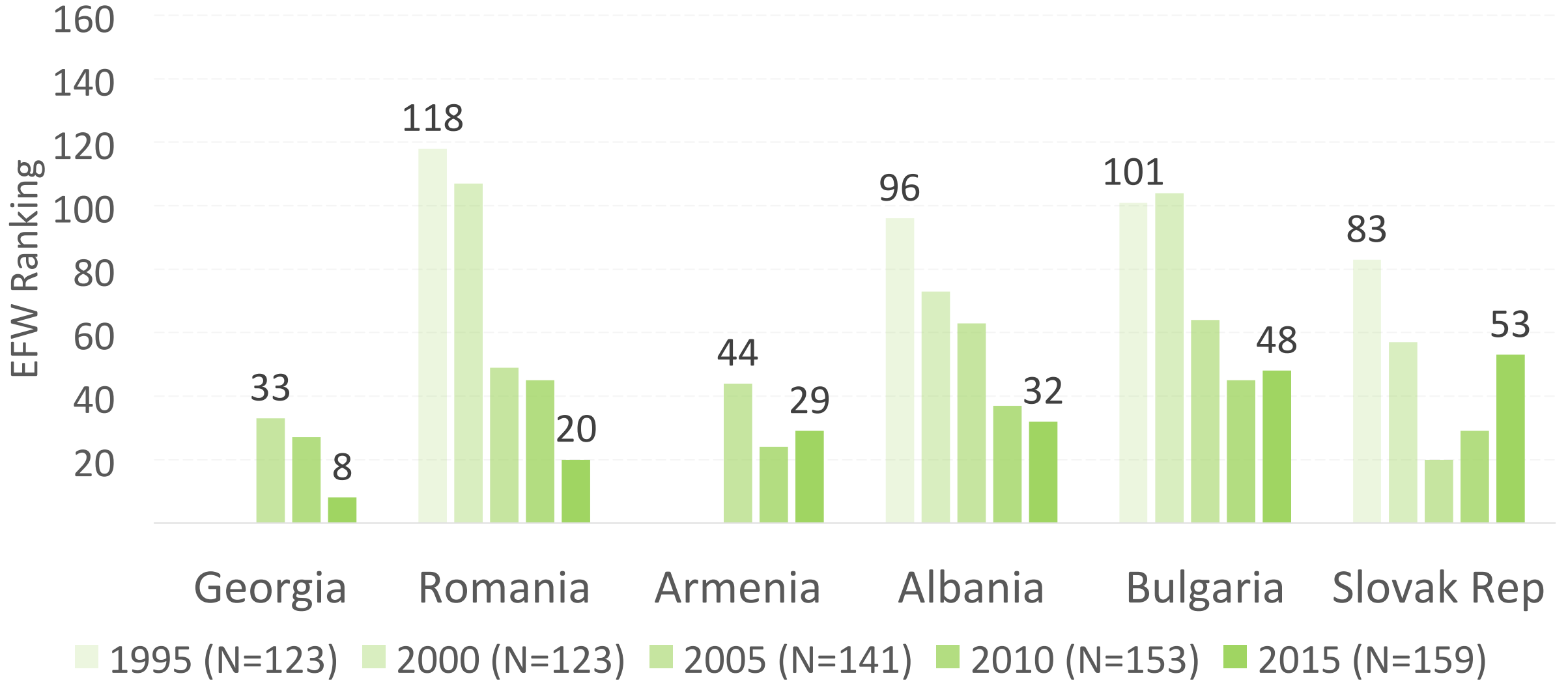
Lessons From the Experience of the Former Centrally Planned Economies (FCP)

- Provides a natural experiment on the impact of alternative policies
- Several countries adopted liberal reforms rather quickly, others eventually, and still others not at all
 - Early reformers: the Baltic states, Poland, and to some extent the Czech republic
 - Late reformers: Romania, Bulgaria, Georgia, Albania, Armenia, and the Slovak Republic
 - Little or no reform: Russia and Ukraine have failed to adopt liberal reforms

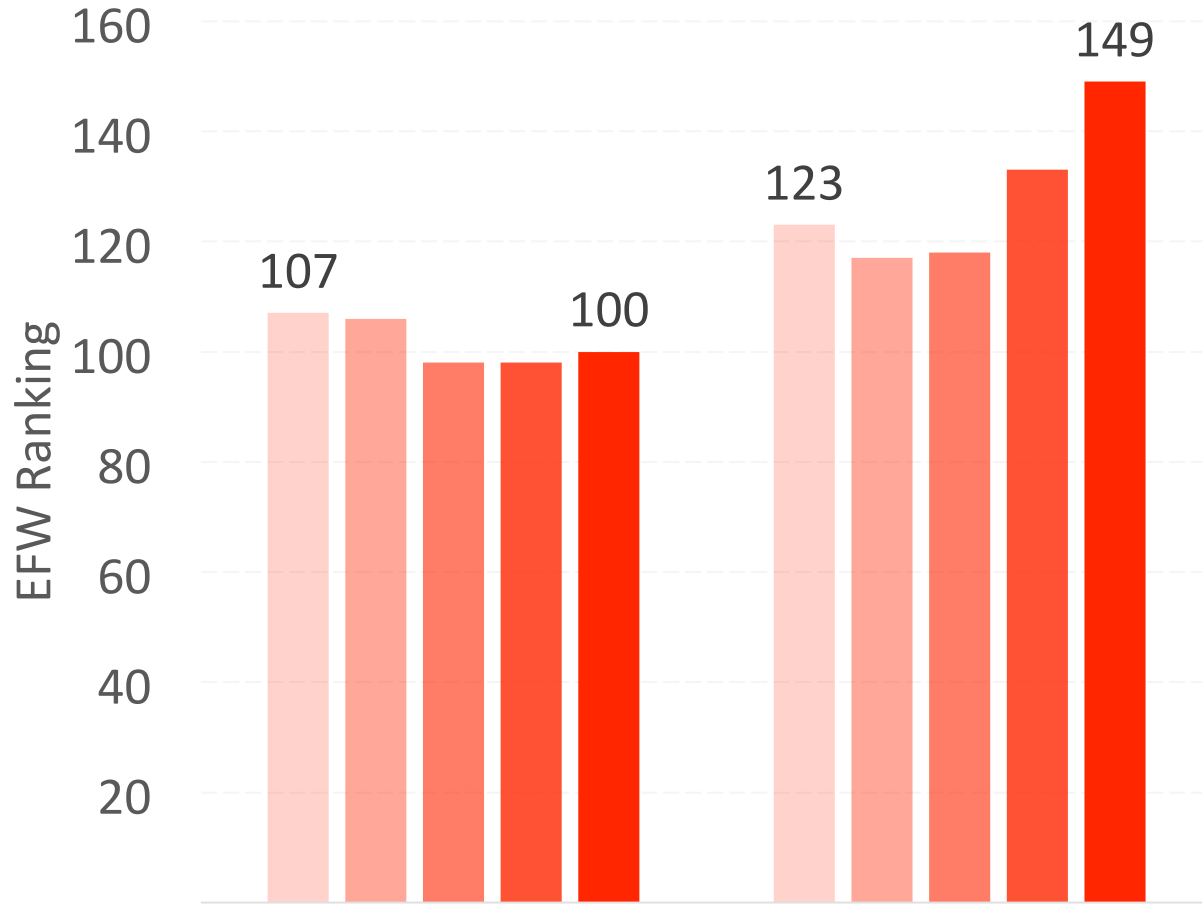
EFW Rankings of Early FCP Reformers



EFW Rankings of Late FCP Reformers



EFW Ranking of Slow Reformers



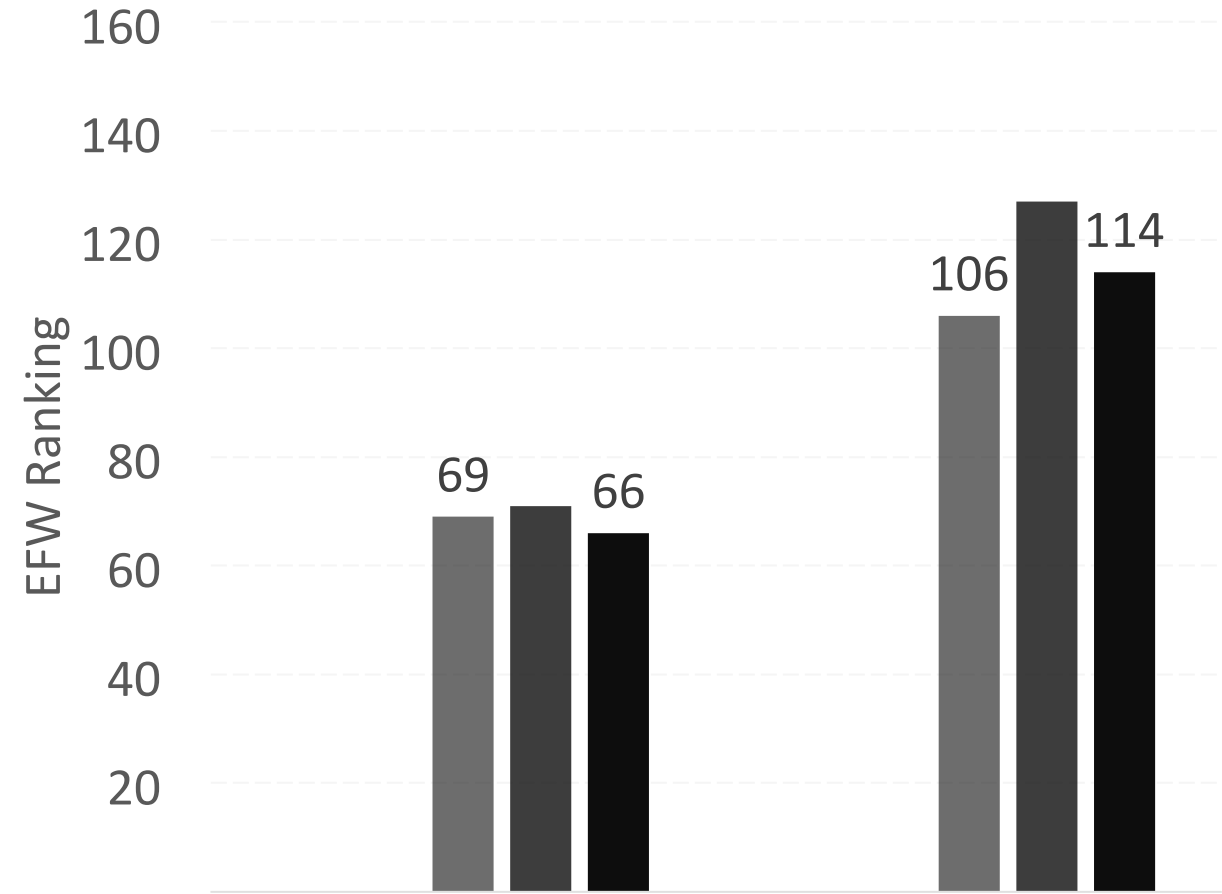
Russia

Ukraine

1995 (N=123) 2000 (N=123) 2005 (N=141)

2010 (N=153) 2015 (N=159)

EFW Ranking of (selected) Special Cases (Oil-Exporters)



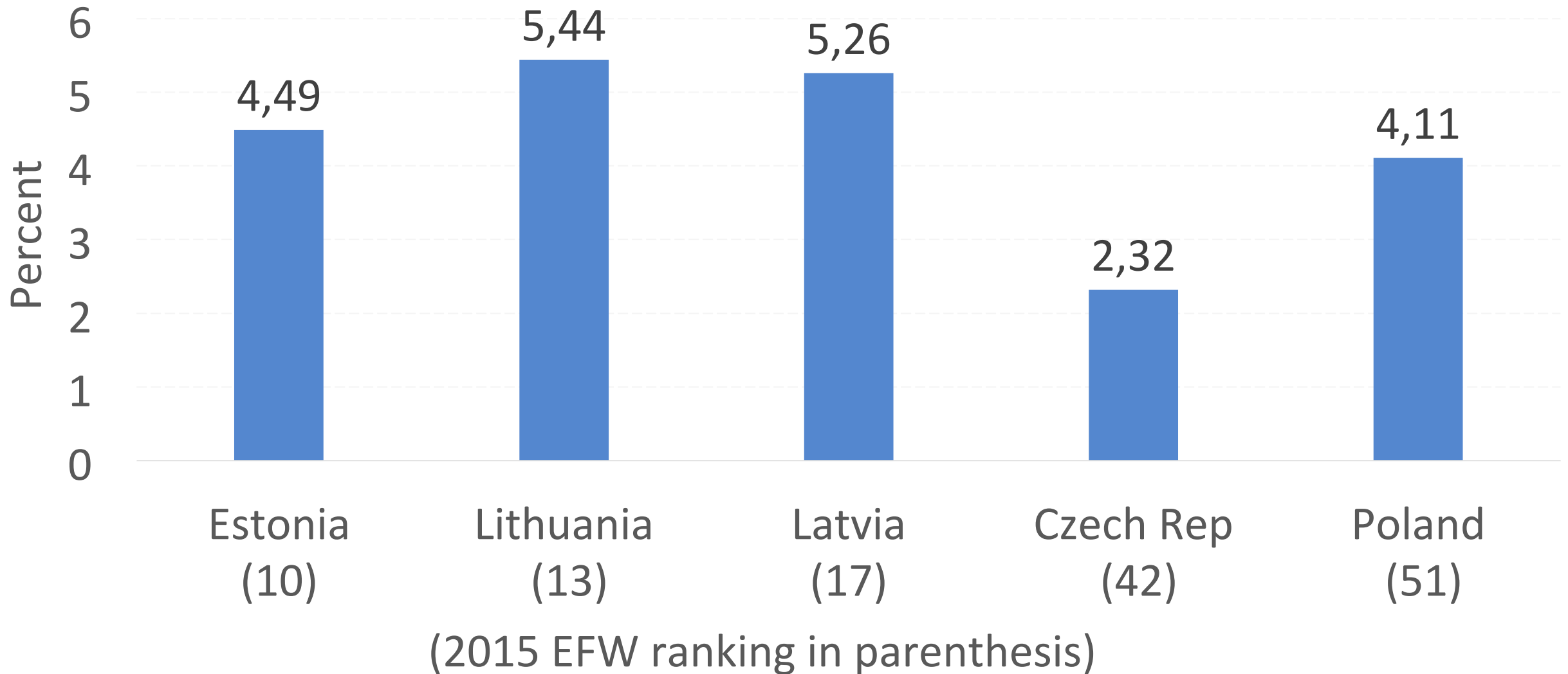
Kazakhstan

Azerbaijan

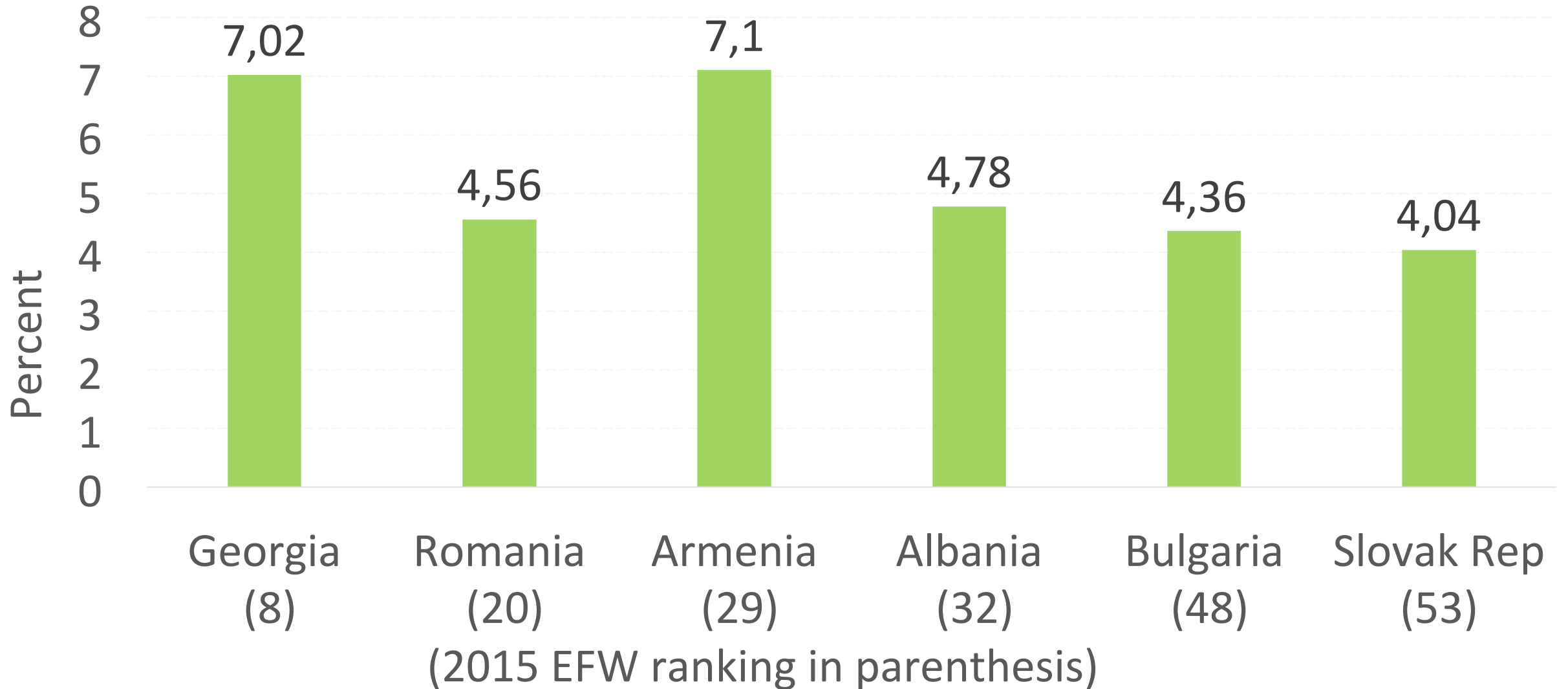
1995 2000 2005 (N=141)

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Annual Growth Rate of Real Per Capita GDP for Early FCP Reformers, 1995-2015



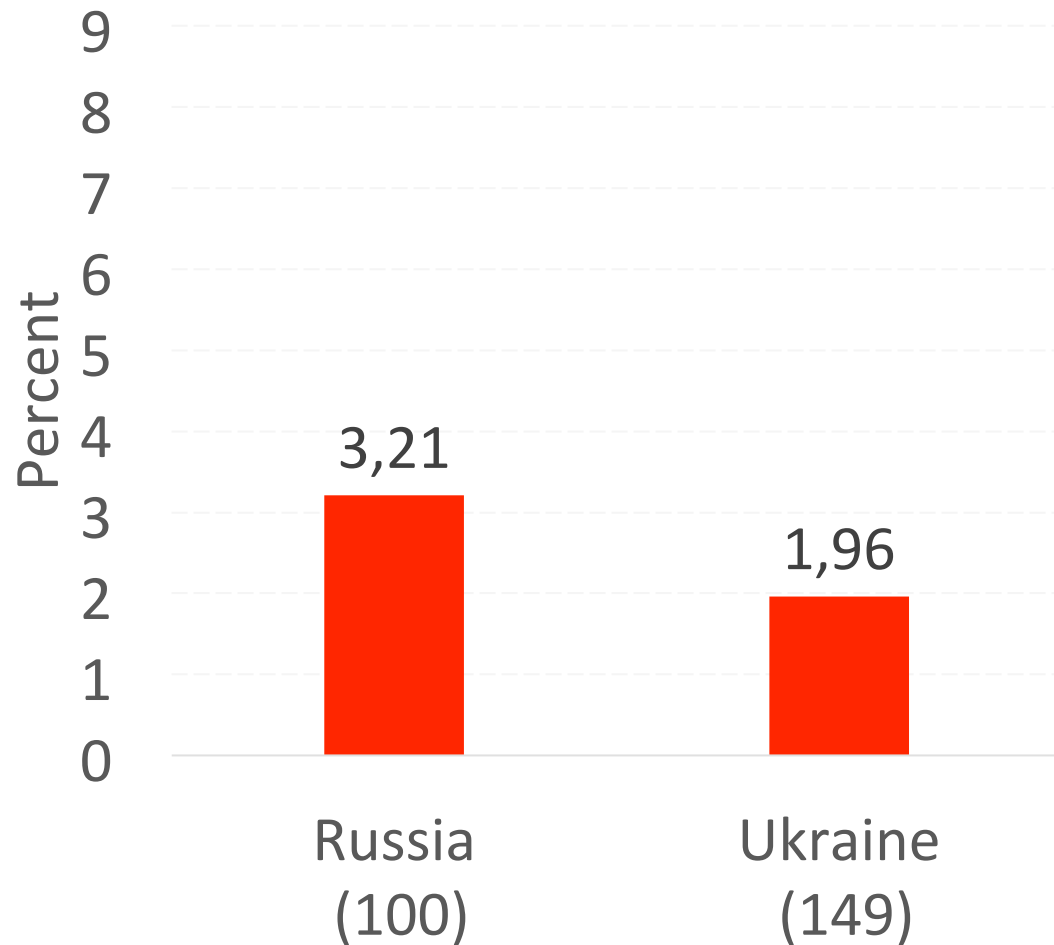
Annual Growth Rate of Real Per Capita GDP for Late FCP Reformers, 2000-2015



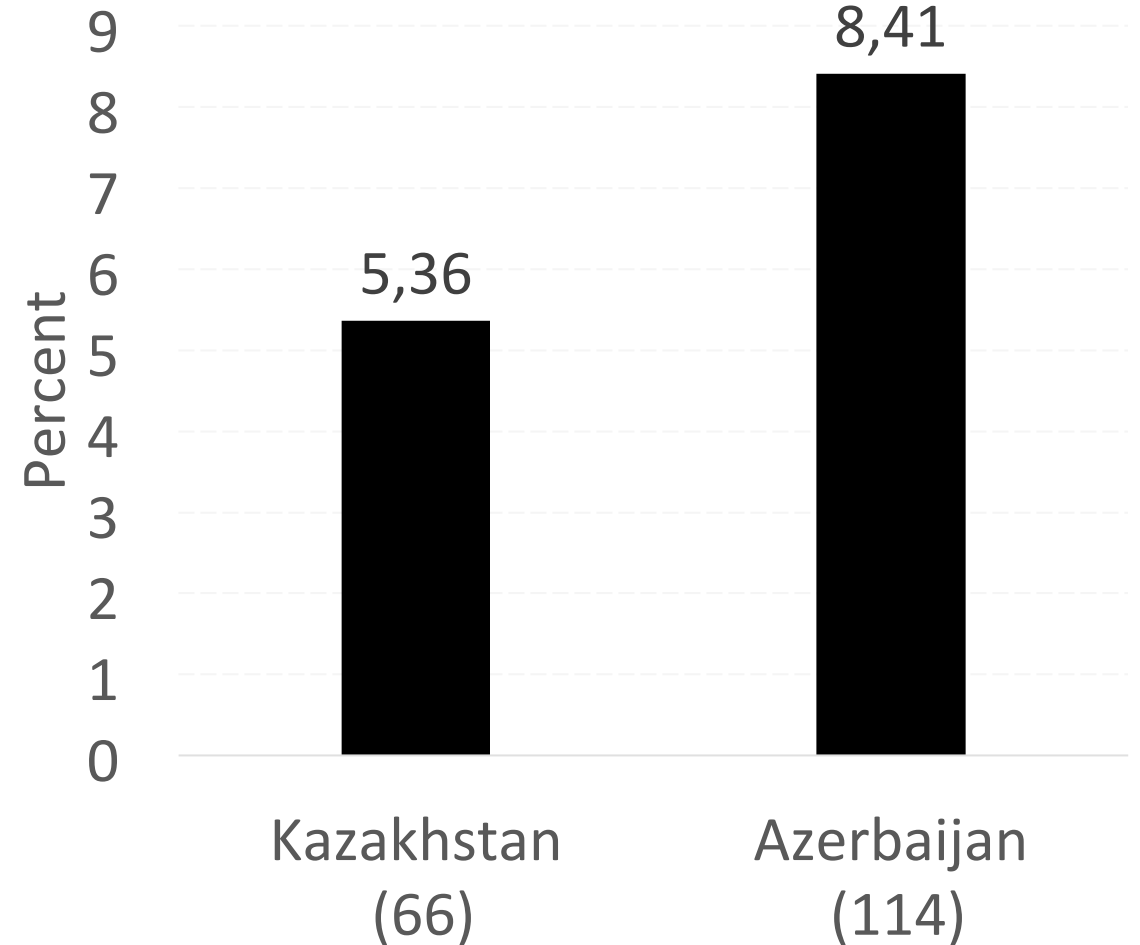
Annual Growth Rate of Real Per Capita GDP, 1995-2015

Selected cases, sorted according to the 2015 EFW ranking (in parenthesis)

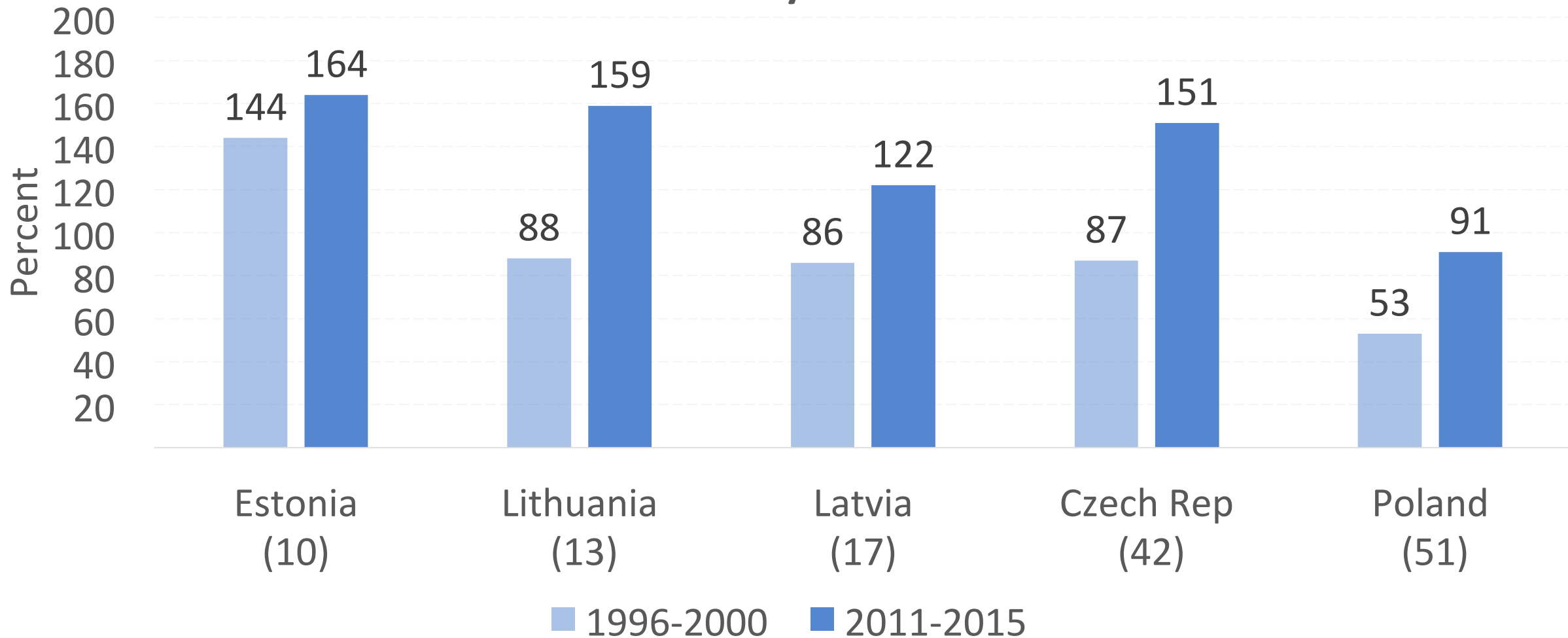
Slow Reformers



Oil - Exporters

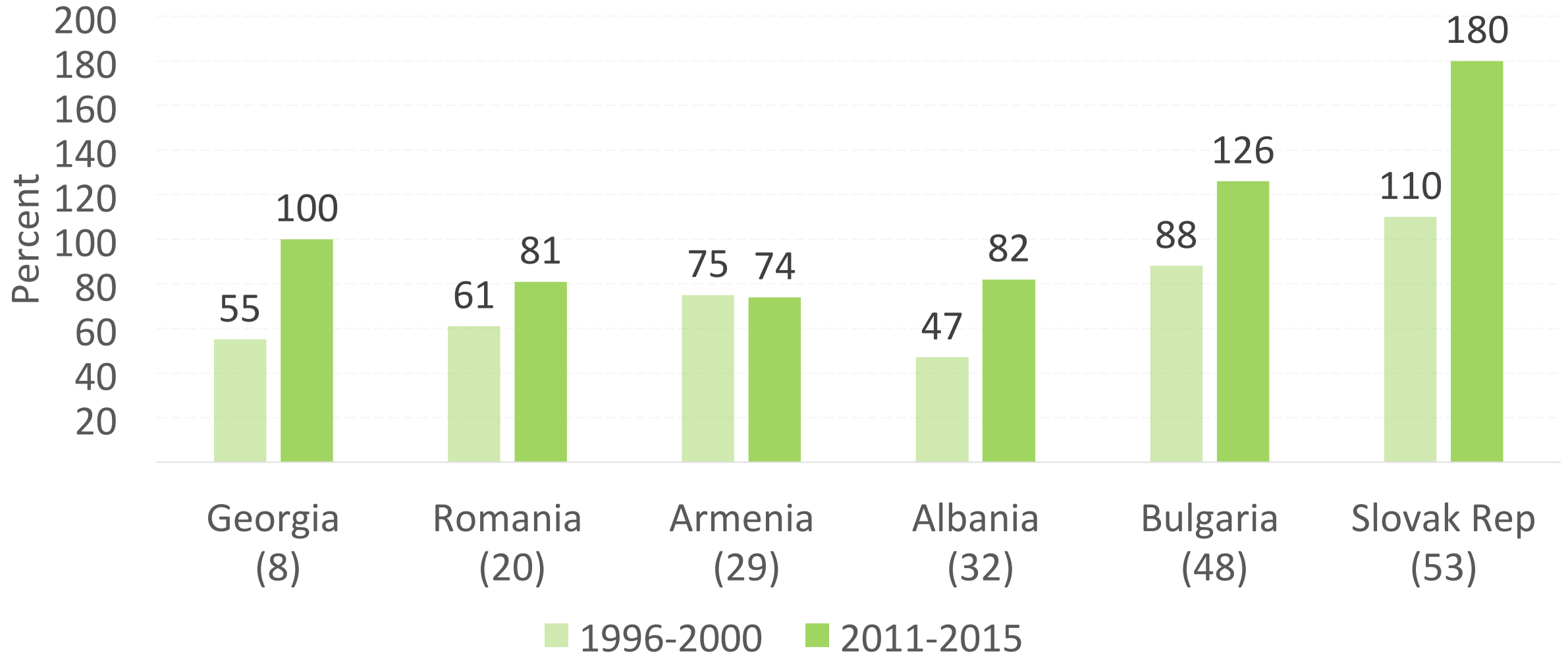


Size of the Trade Sector (as Percentage of GDP) for FCP Early Reformers



(2015 EFW ranking in parenthesis)

Size of the Trade Sector (as Percentage of GDP) for FCP Late Reformers

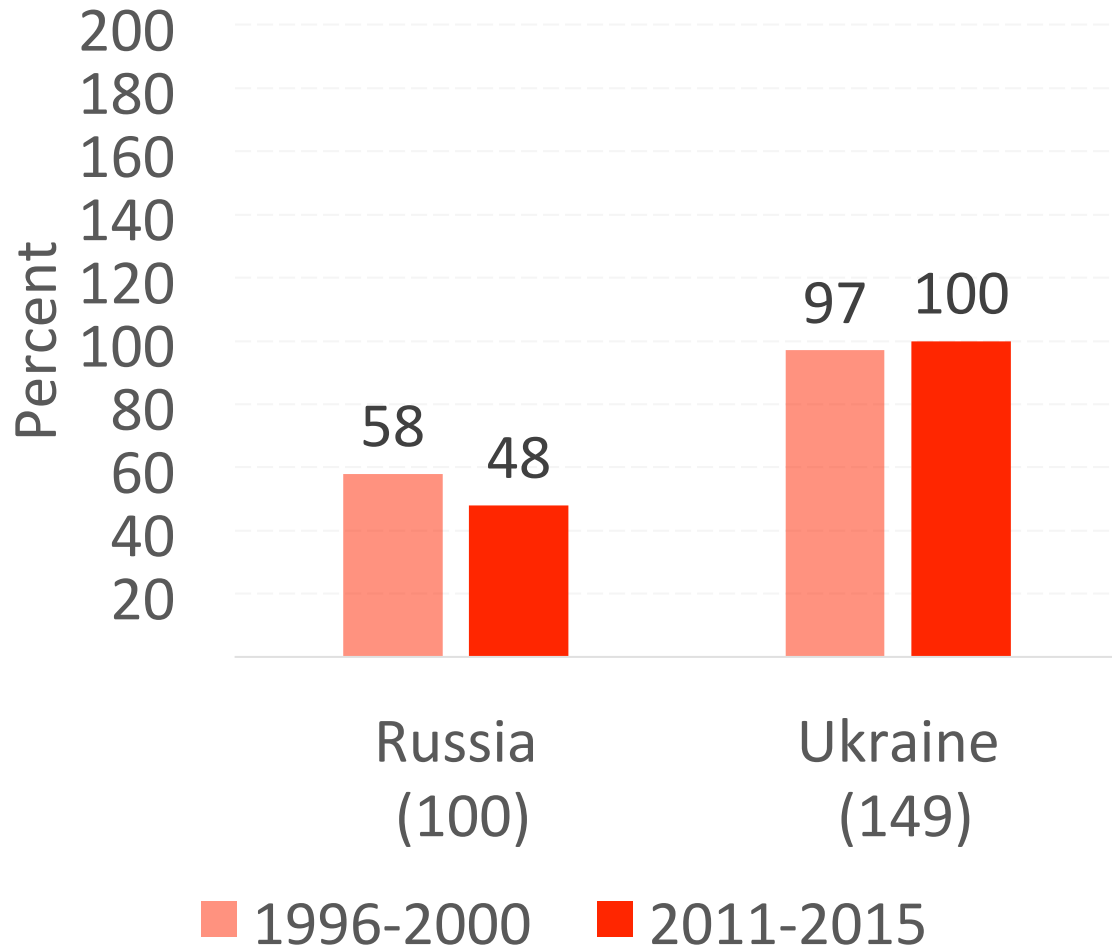


(2015 EFW ranking in parenthesis)

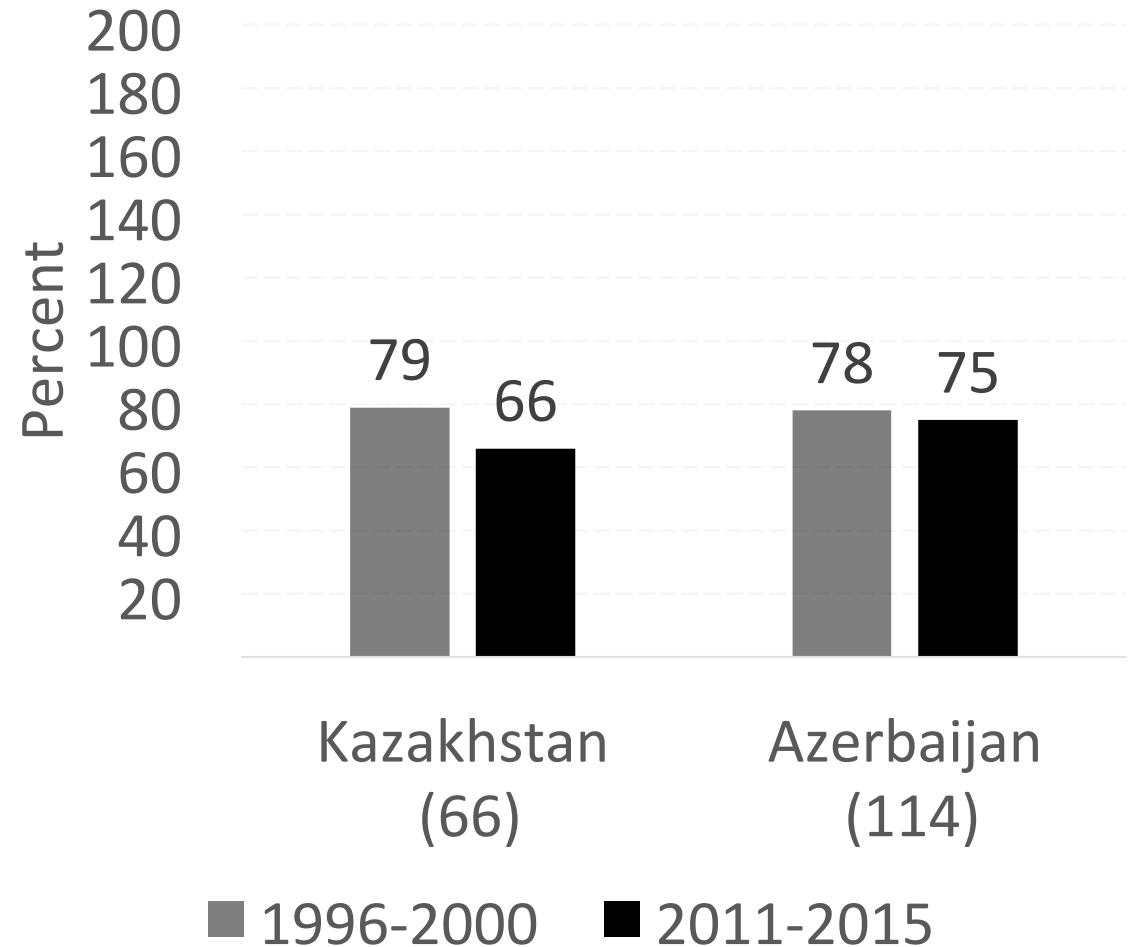
Size of the Trade Sector (as Percentage of GDP)

Selected cases, sorted according to the 2015 EFW ranking (in parenthesis)

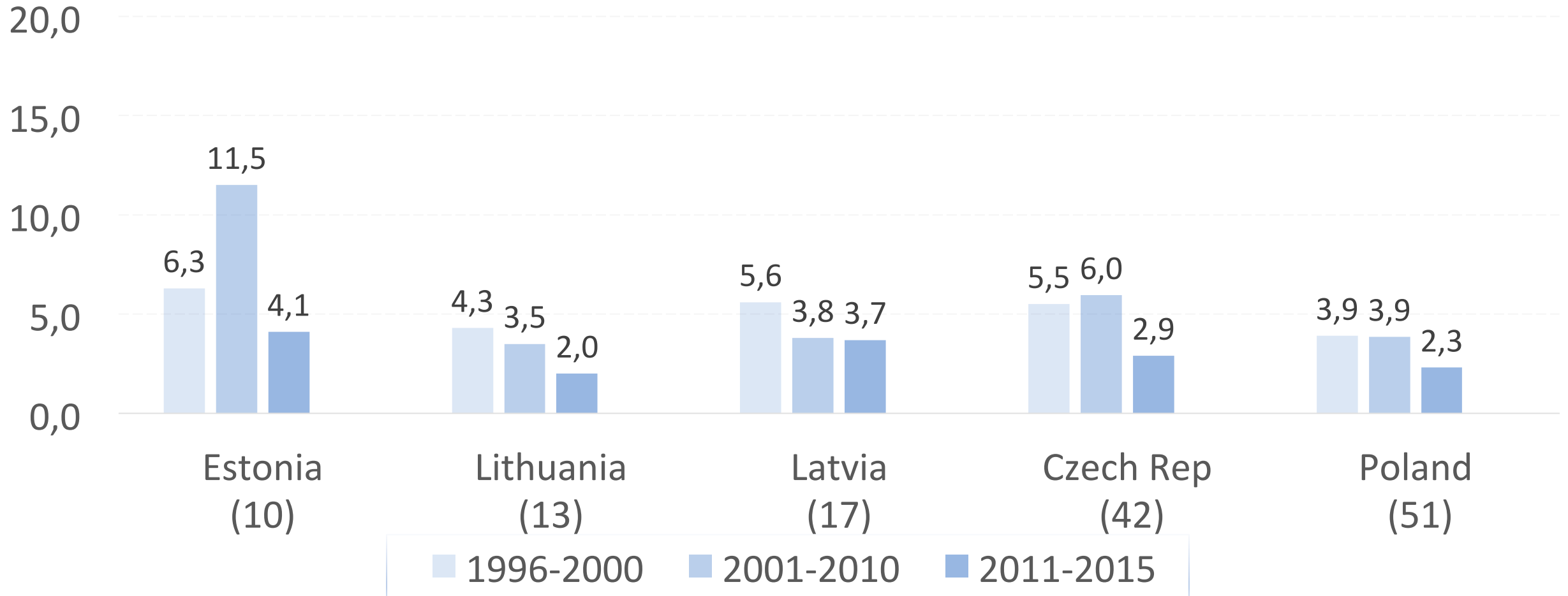
FCP Slow Reformers



FCP Oil - Exporters



Net Foreign Direct Investment (as Percentage of GDP) for FCP Early Reformers



(2015 EFW ranking in parenthesis)

Net Foreign Direct Investment (as Percentage of GDP) for FCP Early Reformers

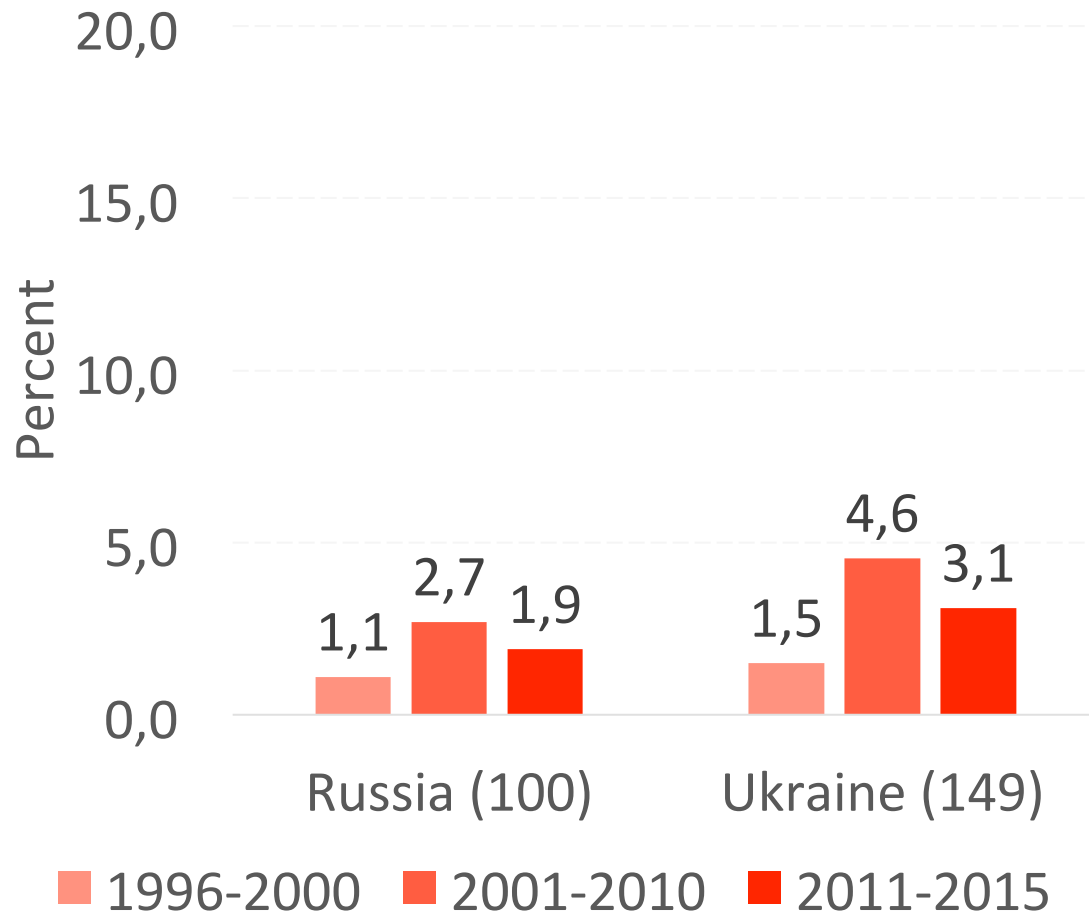


(2015 EFW ranking in parenthesis)

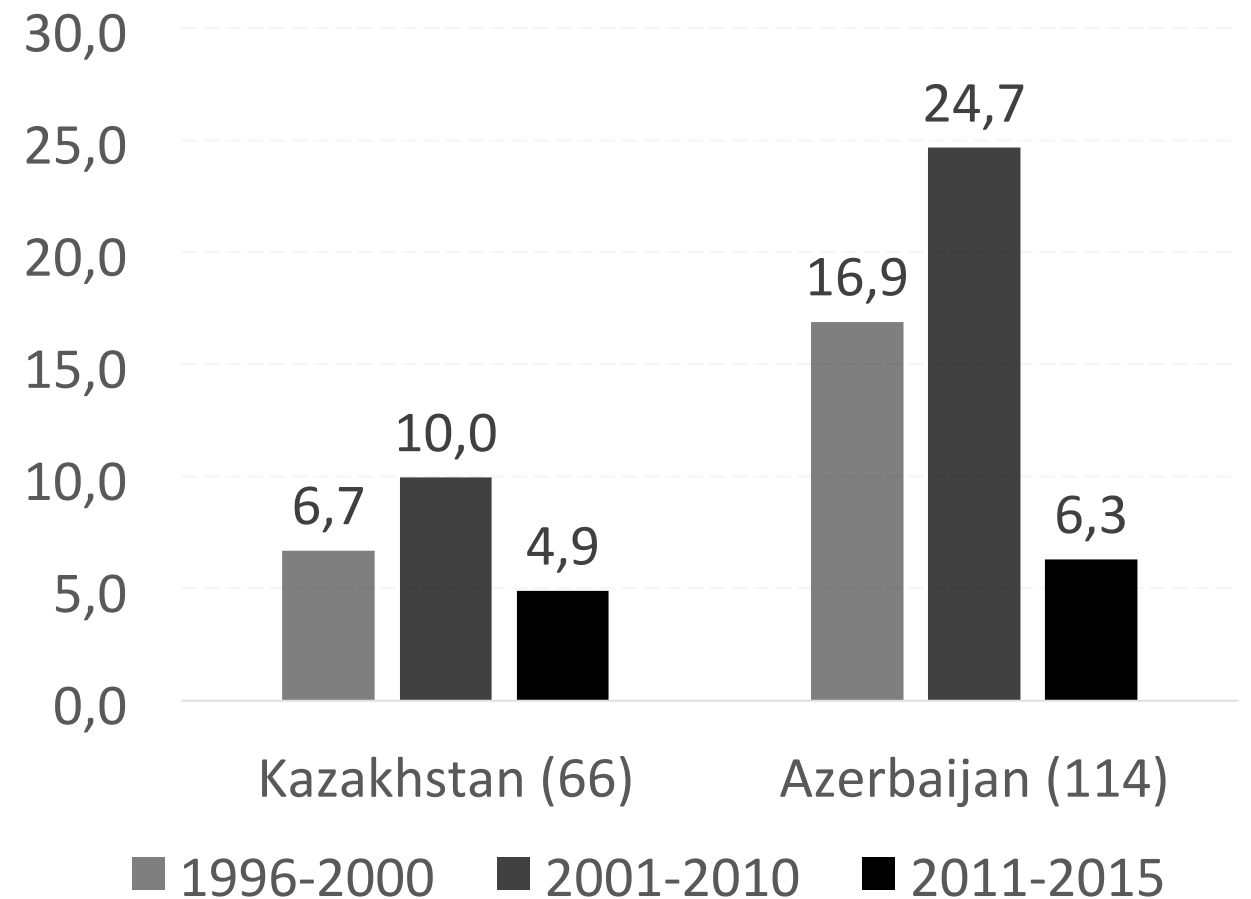
Net Foreign Direct Investment (as Percentage of GDP)

Selected cases, sorted according to the 2015 EFW ranking (in parenthesis)

FCP Slow Reformers



Oil-Exporters

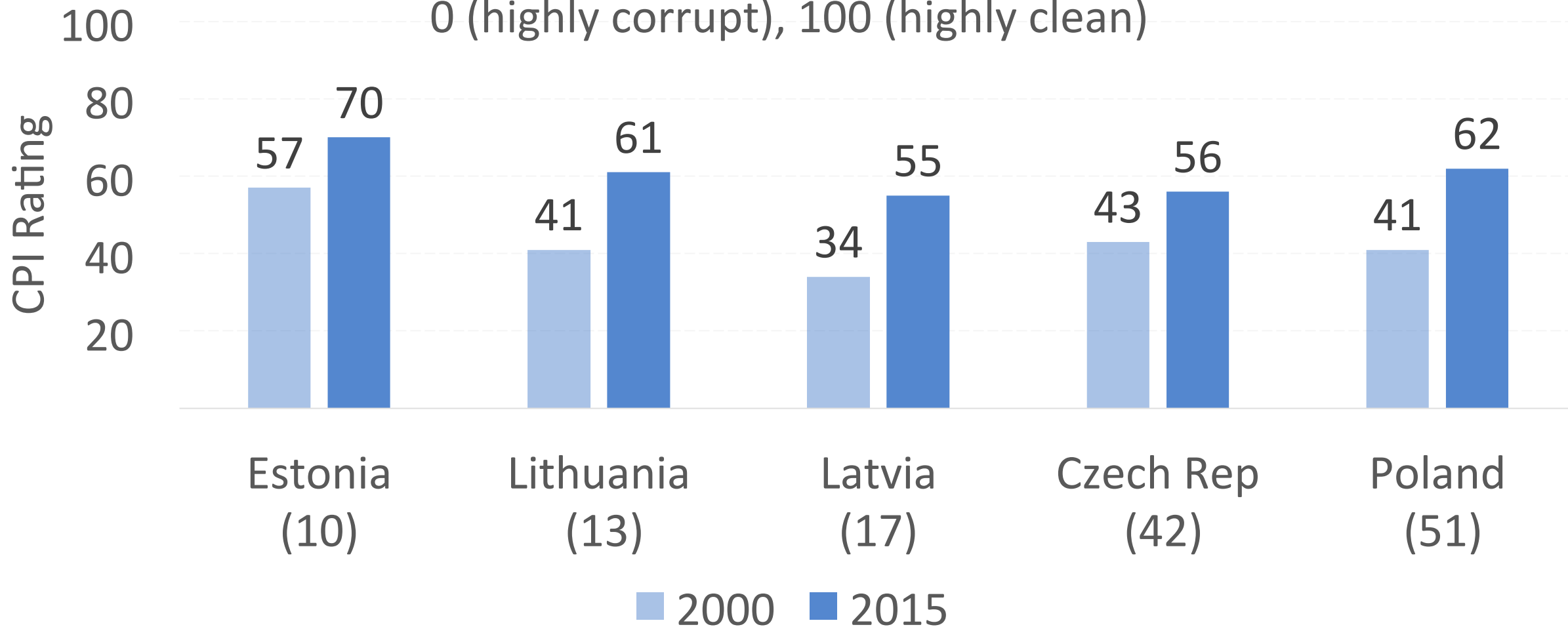


Democratic Political Institutions and Corruption

- The following nine countries had 2015 political institutions most consistent with protection of civil liberties, political democracy, and absence of corruption: Estonia, Lithuania, Latvia, Czech Republic, Poland, Slovak Republic, Hungary, Croatia, and Slovenia.
- In contrast, the political institutions of Kazakhstan, Tajikistan, Russia, and Azerbaijan were most inconsistent with the protection of civil liberties protection, political democracy, and the absence of corruption.

Corruption Perception Index (CPI) for FCP Early Reformers, 2000 and 2015

0 (highly corrupt), 100 (highly clean)



(2015 EFW ranking in parenthesis)

Corruption Perception Index (CPI) for FCP Late Reformers, 2005 and 2015

0 (highly corrupt), 100 (highly clean)

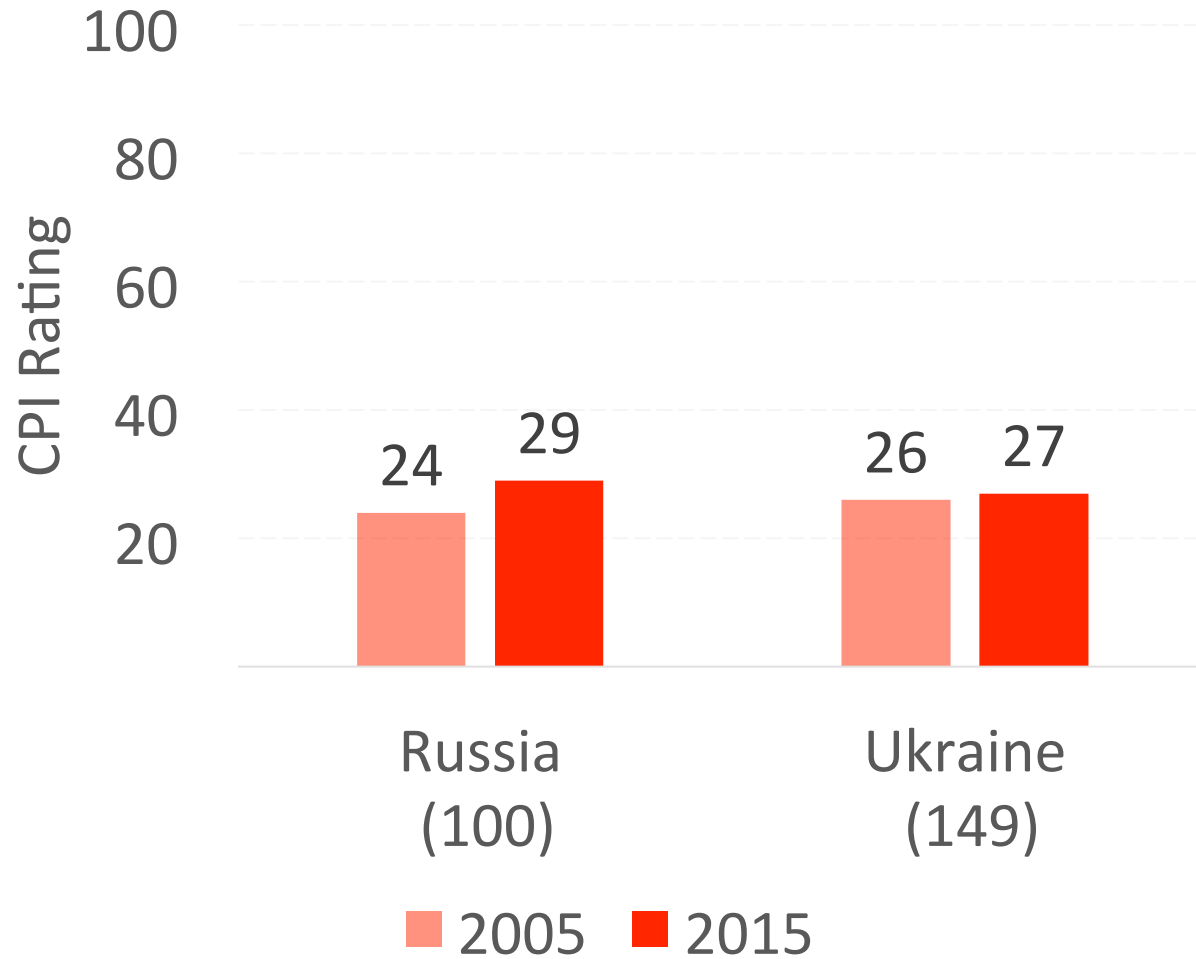


(2015 EFW ranking in parenthesis)

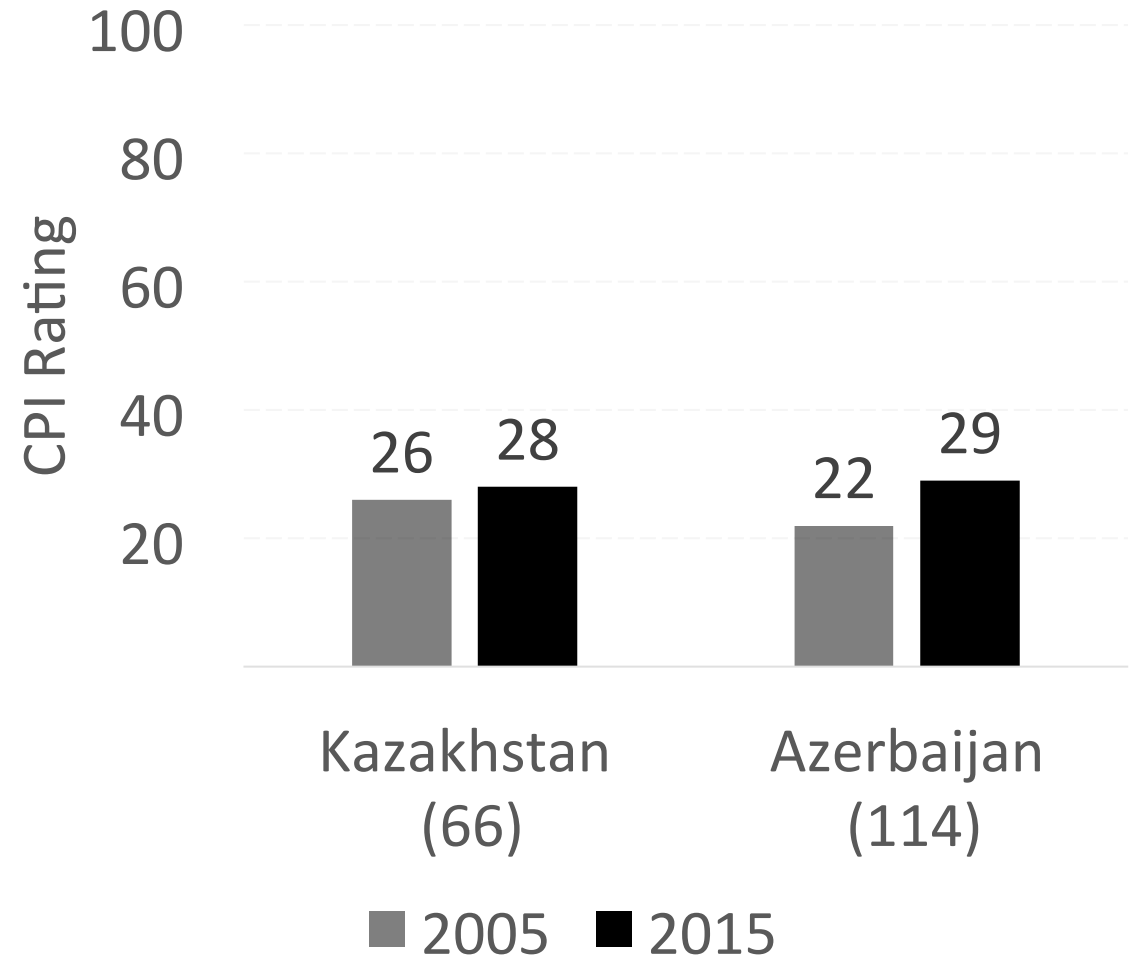
Corruption Perception Index for Selected Cases, 2005 and 2015

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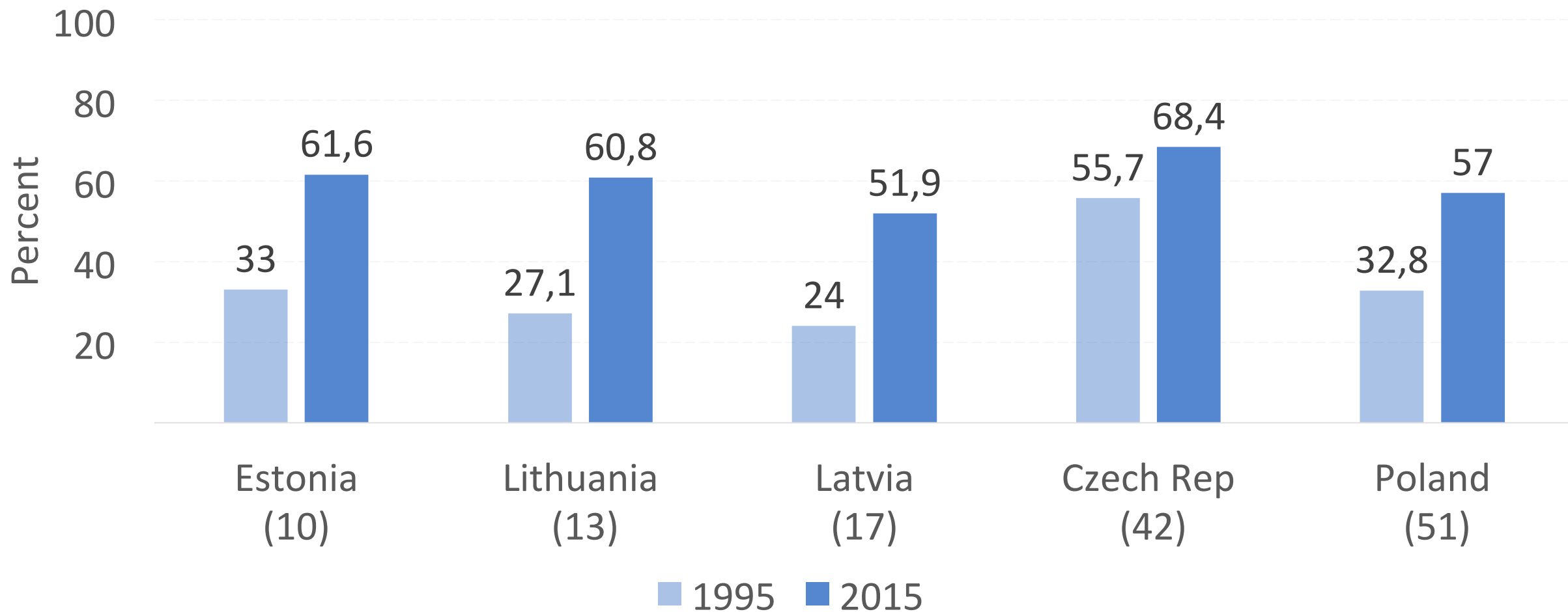
FCP Slow Reformers



FCP Oil - Exporters

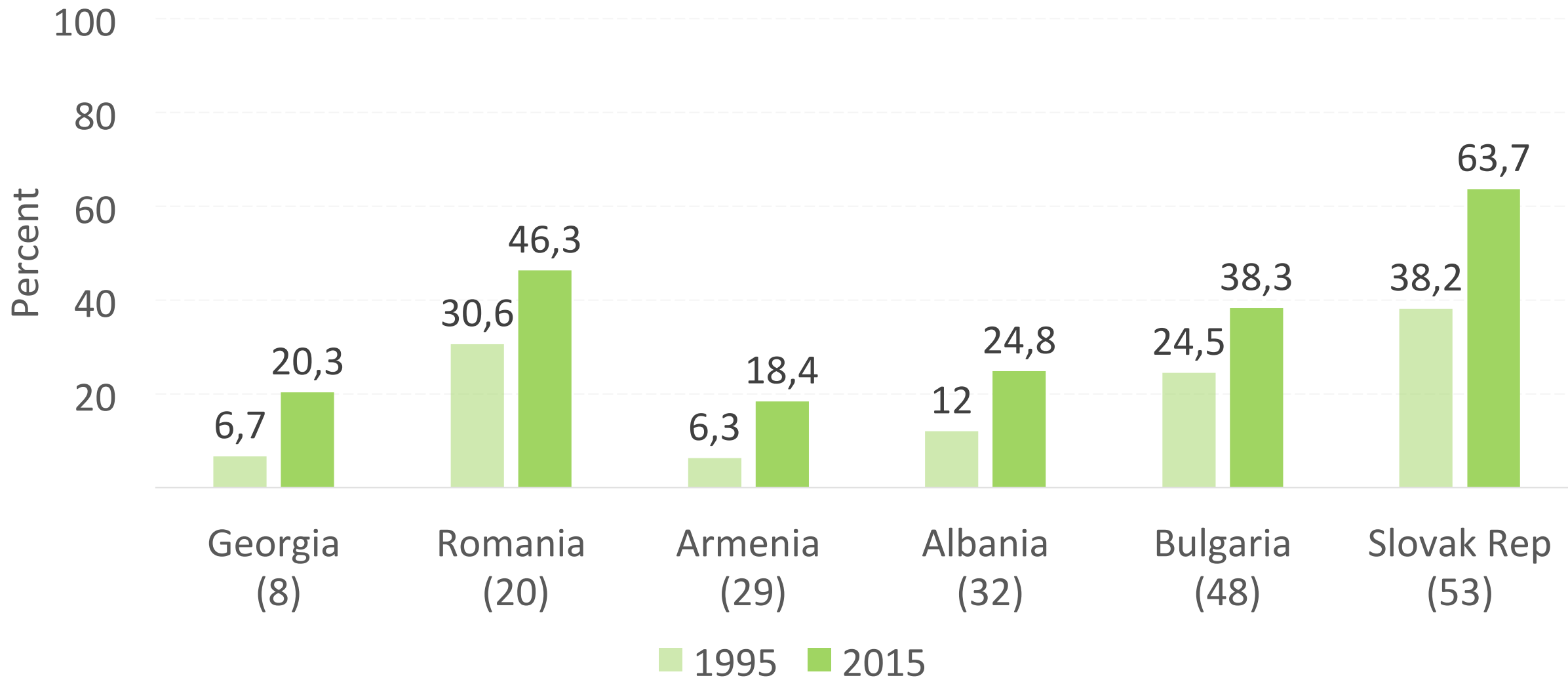


Per capita GDP Relative to the 21 High Income Industrial Countries: Early FCP Reformers



(2015 EFW ranking in parenthesis)

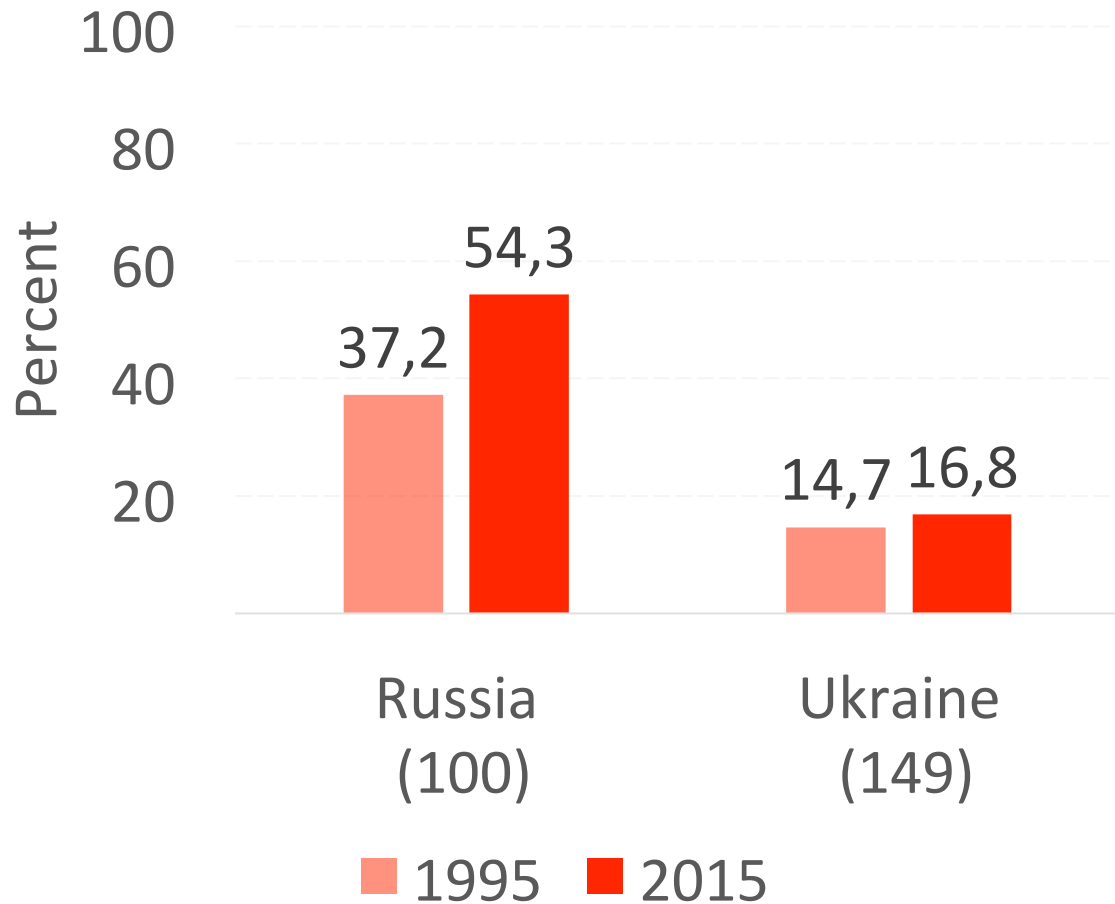
Per capita GDP Relative to the 21 High Income Industrial Countries: Late FCP Reformers



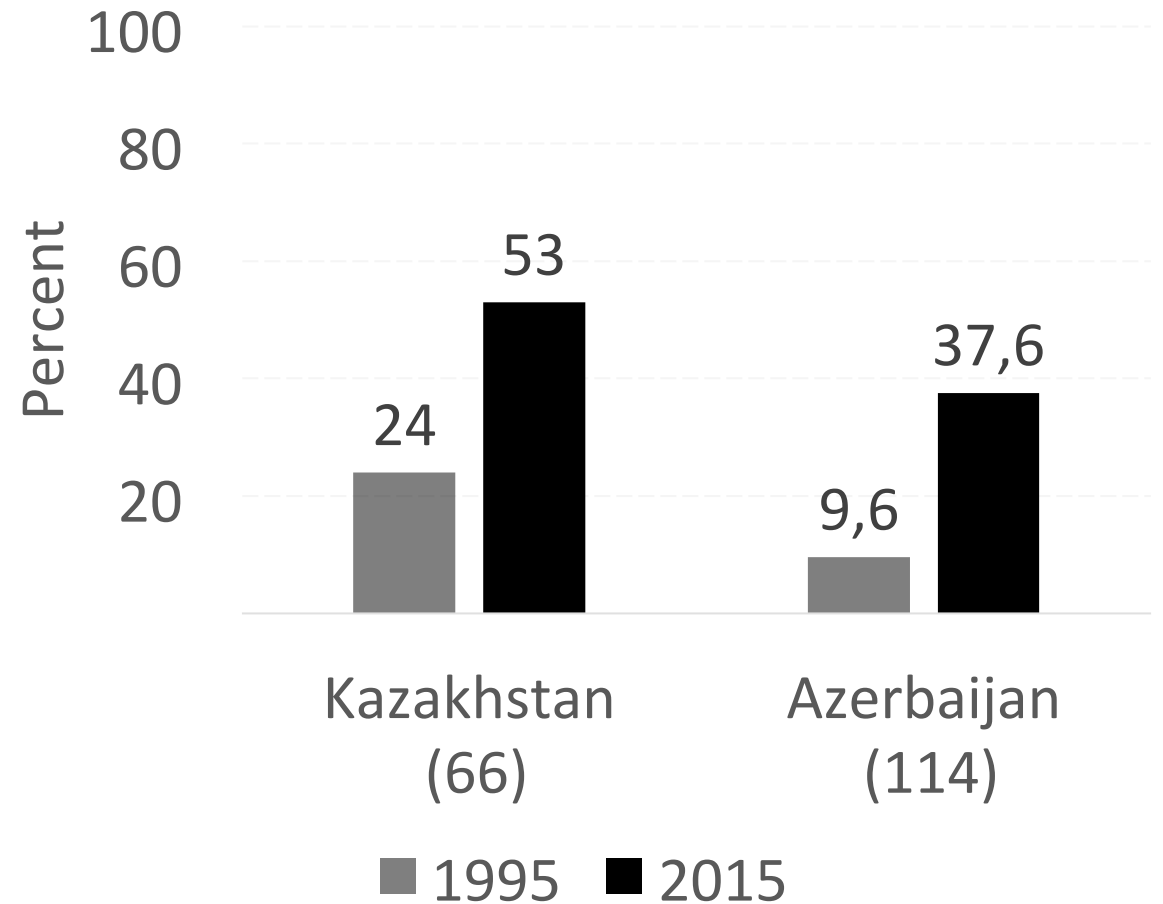
(2015 EFW ranking in parenthesis)

Per capita GDP Relative to the 21 High Income Industrial Countries Selected Cases, Sorted According to the 2015 EFW Ranking (in Parenthesis)

FCP Slow Reformers



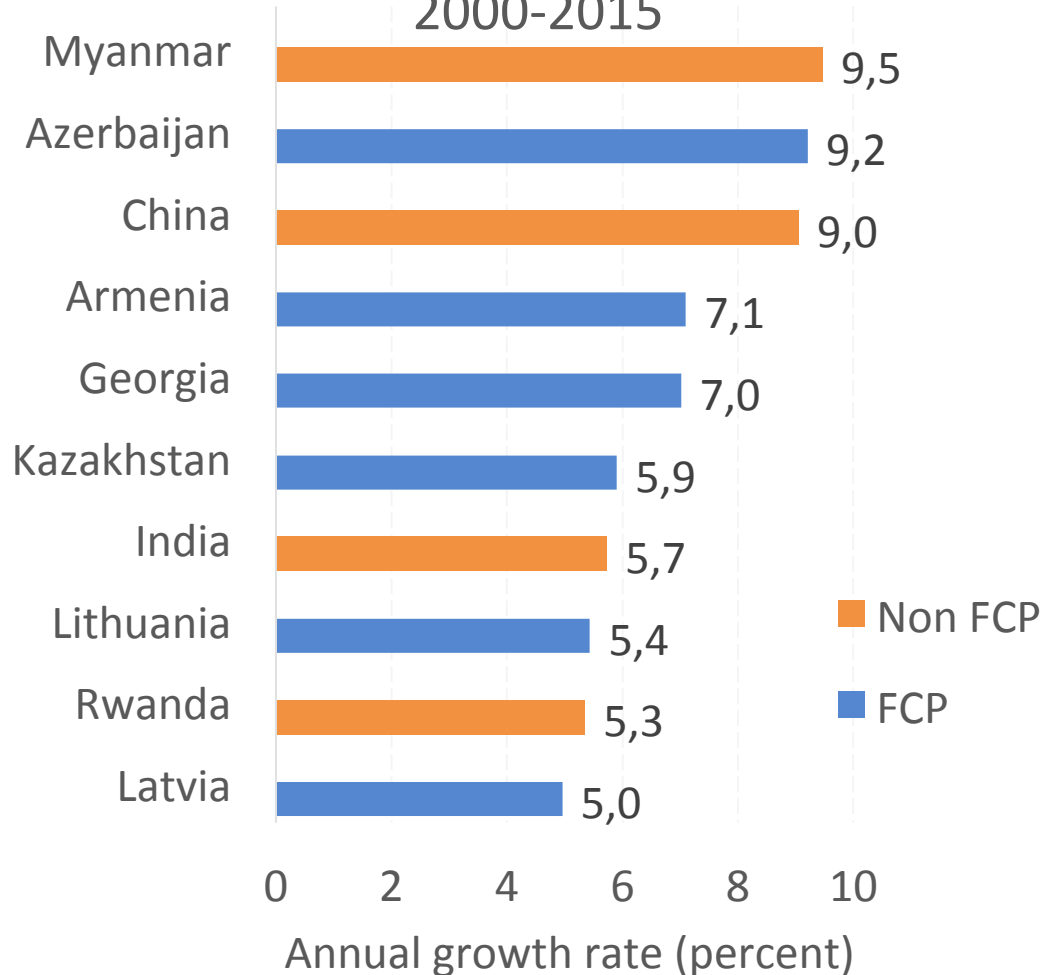
FCP Oil - Exporters



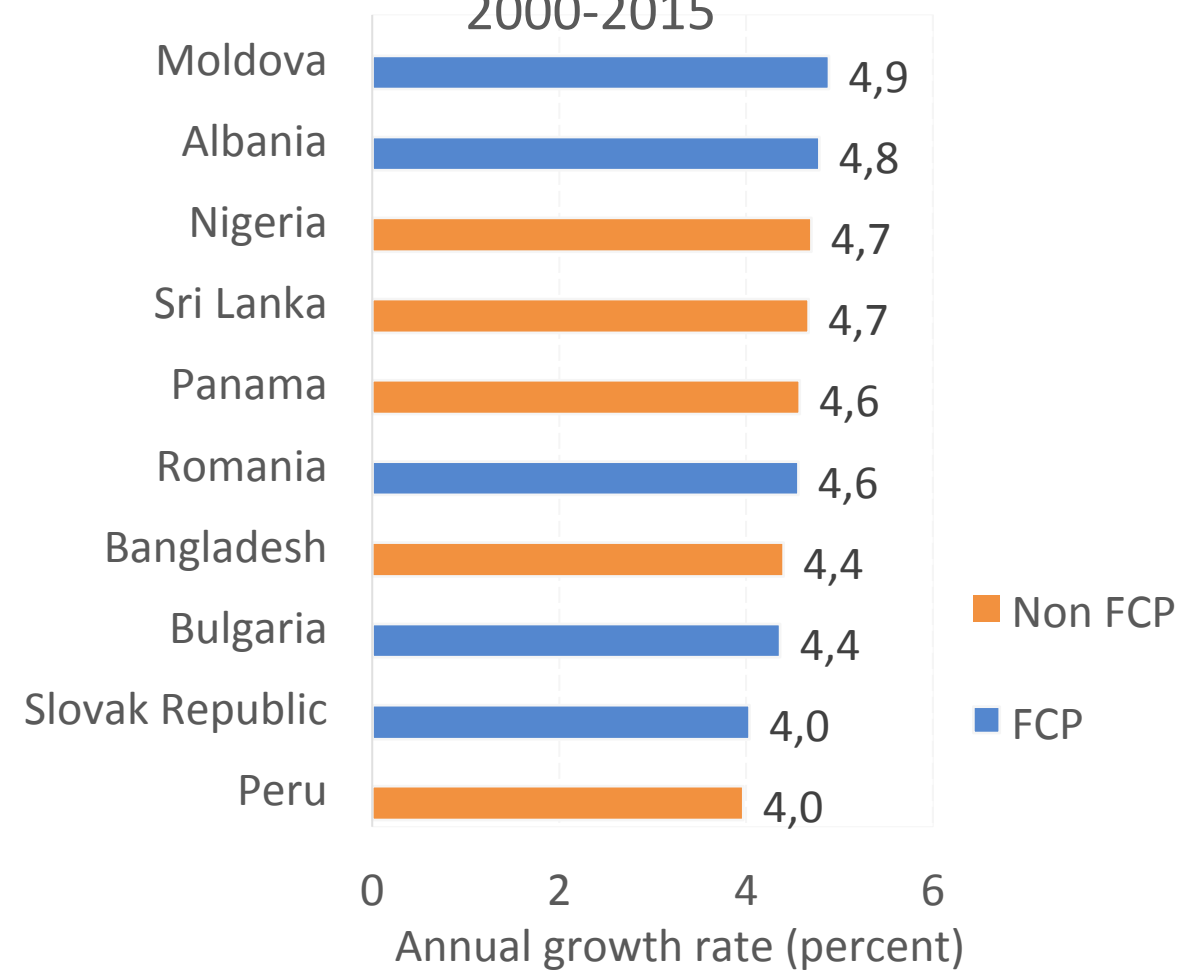
Top 20 Fastest Growing Countries in the World, 2000-2015

6 of the Top 10 and 11 of the Top 20 fastest growing countries were FCP Economies

Top 10 fastest growing countries, 2000-2015

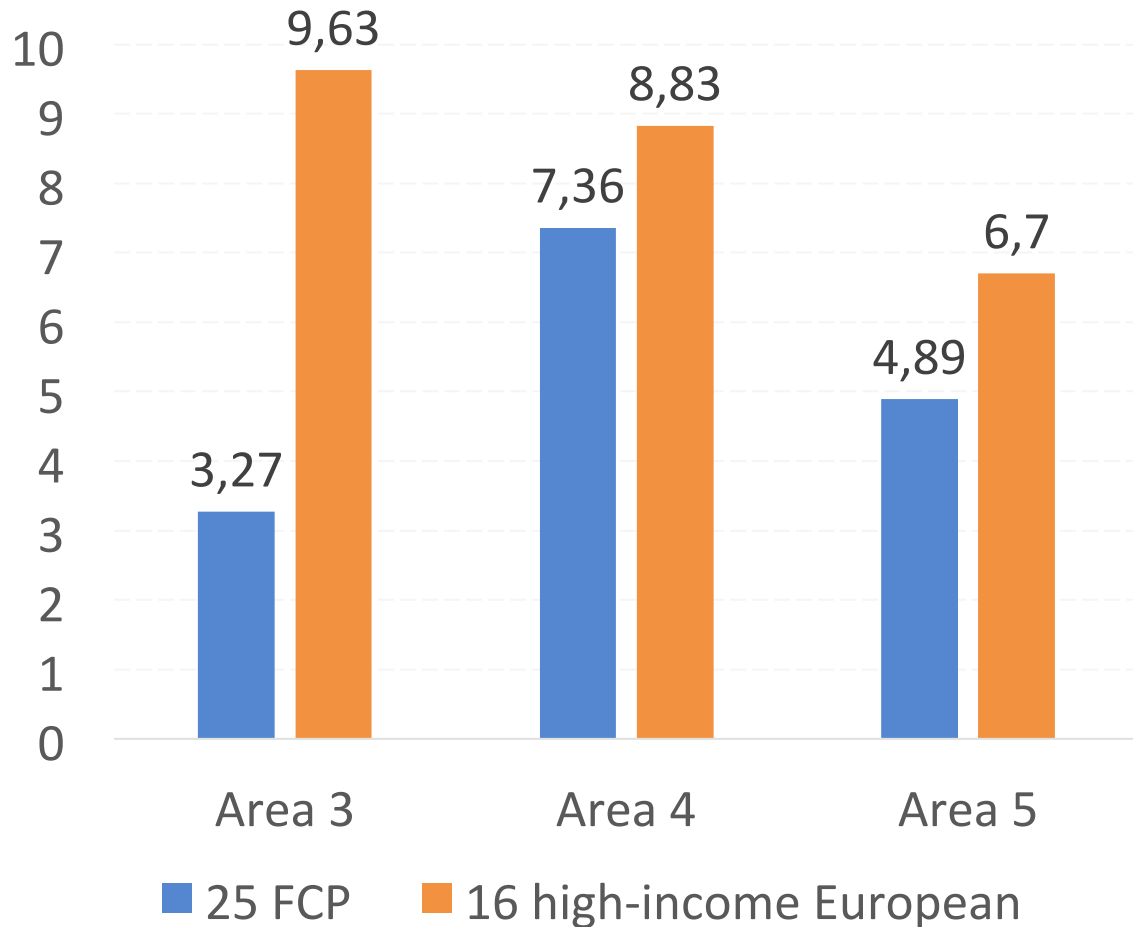


Next 10 (11-20) fastest growing countries, 2000-2015

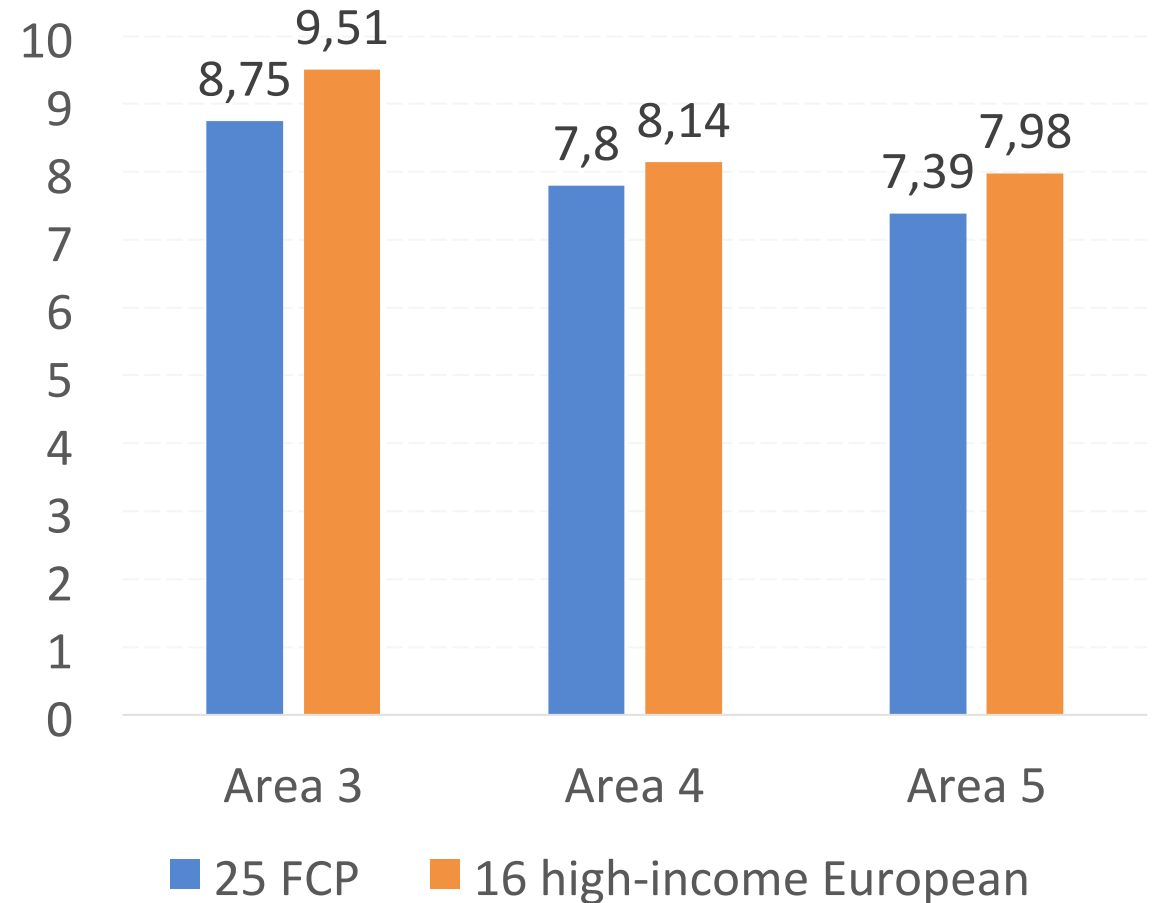


Mean Ratings (Areas 3, 4, 5) For the 25 Former Centrally Planned (FCP) Economies and the 16 High-Income European Countries, 1995 and 2015

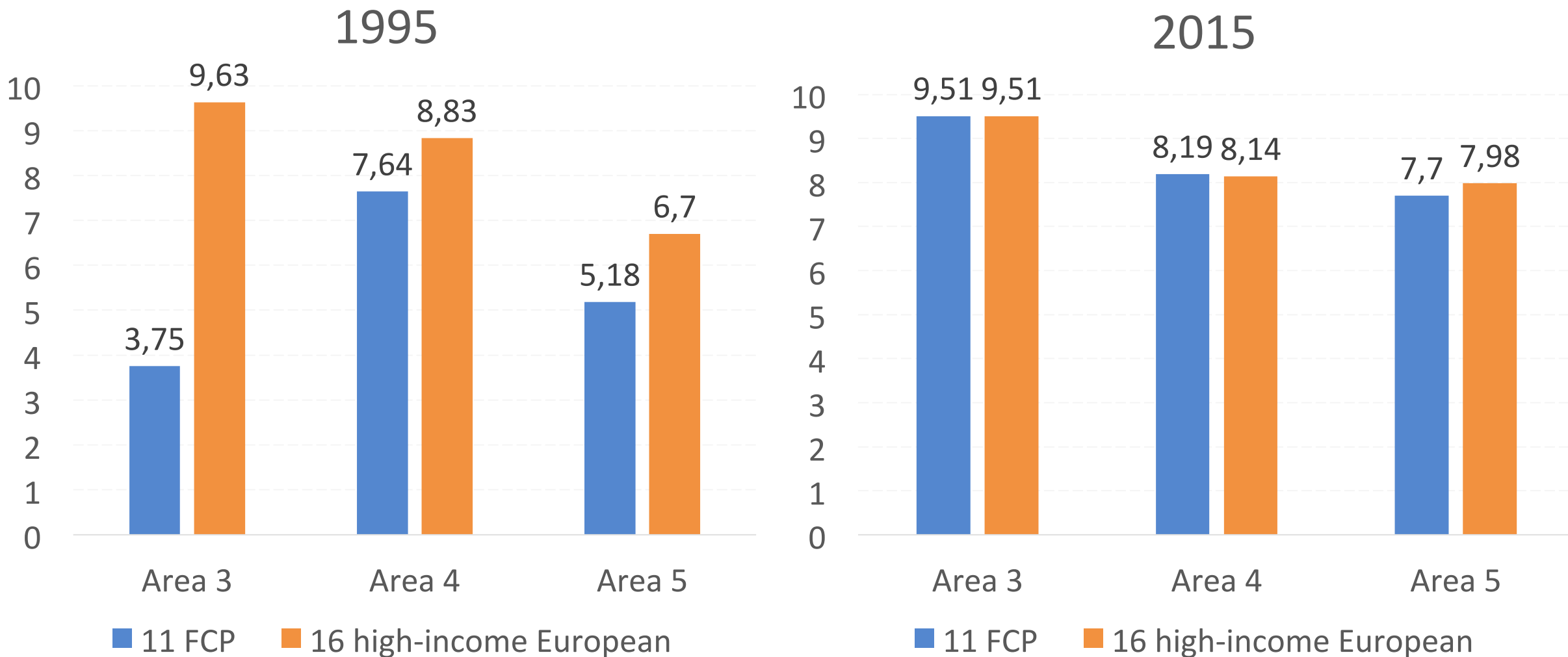
1995



2015



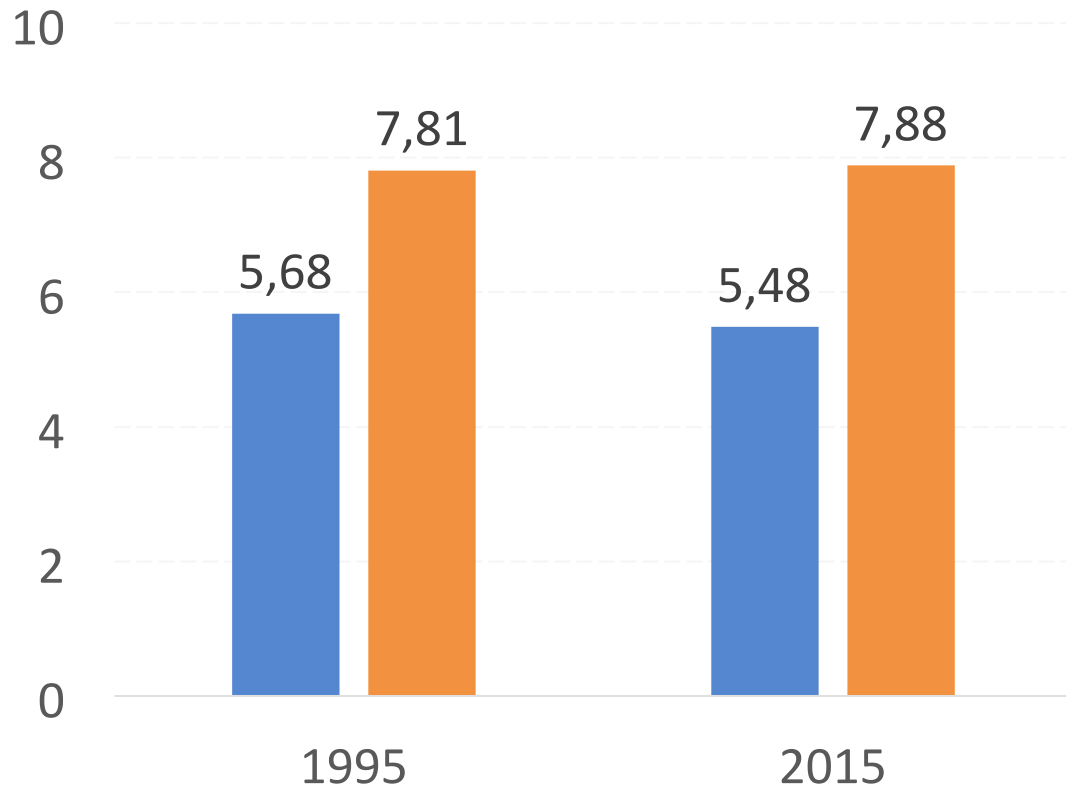
Mean Ratings (Areas 3, 4, 5) For the 11 Former Centrally Planned (FCP) Countries that are Members of the European Union (EU) and the 16 High-Income European Countries, 1995 and 2015



The Legal System is a Challenge in Most FCP Economies

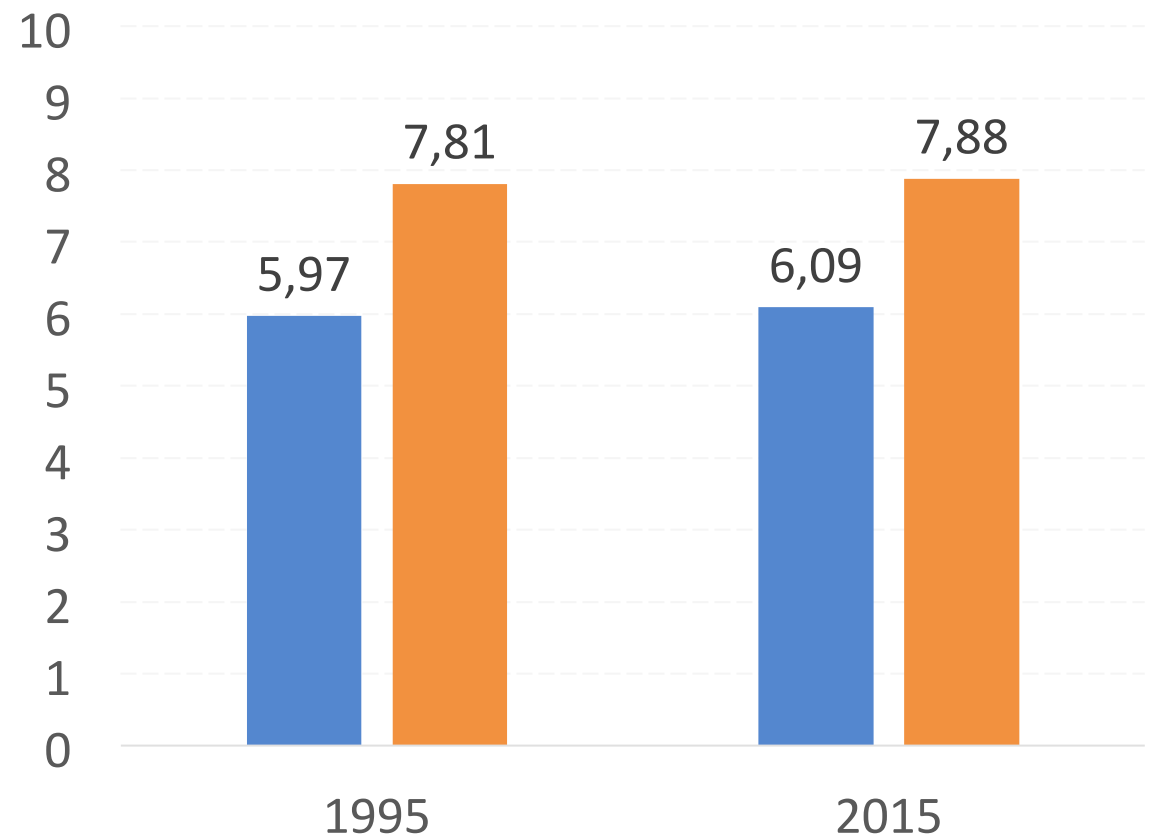
(Mean Area 2 Ratings for FCP Compared to the European 16 Illustrate this Point)

25 FCP versus 16 European



- 25 Former Centrally Planned (FCP)
- 16 high-income European

11 FCP (EU Members) versus 16 European



- 11 FCP (EU Members)
- 16 high-income European

Summary and Area Rankings for the Bottom Three FCP Economies in 2000 and 2015 (Ukraine Highlighted in Red)

Year 2000 (Rank is out of 14 countries)

EFW	Area 1	Area 2	Area 3	Area 4	Area 5
Russia (12)	Ukraine (12)	Russia (12)	Bulgaria (12)	Ukraine (12)	Albania (12)
Romania (13)	Bulgaria (13)	Ukraine (13)	Romania (13)	Russia (13)	Russia (14)
Ukraine (14)	Croatia (14)	Albania (14)	Ukraine (14)	Albania (14)	Ukraine (14)

Year 2015 (Rank is out of 25 countries)

EFW	Area 1	Area 2	Area 3	Area 4	Area 5
Moldova (23)	Montenegro (23)	Ukraine (22)	Russia (23)	Russia (23)	Russia (23)
Azerbaijan (24)	Croatia (24)	Moldova (23)	Ukraine (24)	Ukraine (24)	Tajikistan (24)
Ukraine (25)	Slovenia (25)	Bosnia&Hzgvna (24)	Kazakhstan (25)	Kazakhstan (25)	Ukraine (25)
		Kyrgyz Republic (25)			

What Have We Learned From the FCP Economies?

- Countries that moved toward economic freedom grew more rapidly and performed better than those that failed to reform.
- Poor legal systems are a weakness of the FCP economies.
- Restrictions on economic freedom are the raw material of corruption. Progress against corruption will be limited without economic liberalism.