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

- **Estonia**: 1995 (N=123) - 57, 2000 (N=123) - 80, 2005 (N=141) - 75, 2010 (N=153) - 72, 2015 (N=159) - 42
- **Lithuania**: 1995 (N=123) - 10, 2000 (N=123) - 13, 2005 (N=141) - 17, 2010 (N=153) - 42, 2015 (N=159) - 51
- **Latvia**: 1995 (N=123) - 10, 2000 (N=123) - 13, 2005 (N=141) - 17, 2010 (N=153) - 42, 2015 (N=159) - 51
- **Czech Rep**: 1995 (N=123) - 10, 2000 (N=123) - 13, 2005 (N=141) - 17, 2010 (N=153) - 42, 2015 (N=159) - 51
- **Poland**: 1995 (N=123) - 10, 2000 (N=123) - 13, 2005 (N=141) - 17, 2010 (N=153) - 42, 2015 (N=159) - 51
EFW Rankings of Late FCP Reformers

- Georgia: 1995 (N=123) 33, 2000 (N=123) 8
- Romania: 1995 (N=123) 118, 2000 (N=123) 20
- Armenia: 1995 (N=123) 44, 2000 (N=123) 29
- Albania: 1995 (N=123) 96, 2000 (N=123) 32
- Bulgaria: 1995 (N=123) 101, 2000 (N=123) 48
- Slovak Rep: 1995 (N=123) 53, 2000 (N=123) 83

Legend:
- Green: 1995 (N=123)
- Light Green: 2000 (N=123)
- Medium Green: 2005 (N=141)
- Dark Green: 2010 (N=153)
- Light Green: 2015 (N=159)
EFW Ranking of Slow Reformers

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

Russia
- 1995 (N=123)
- 2000 (N=123)
- 2005 (N=141)
- 2010 (N=153)
- 2015 (N=159)

Ukraine
- 1995 (N=123)
- 2000 (N=123)
- 2005 (N=141)
- 2010 (N=153)
- 2015 (N=159)

Kazakhstan
- 1995
- 2000
- 2005 (N=141)
- 2010 (N=153)
- 2015 (N=159)

Azerbaijan
- 1995
- 2000
- 2005 (N=141)
- 2010 (N=153)
- 2015 (N=159)
Annual Growth Rate of Real Per Capita GDP for Early FCP Reformers, 1995-2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estonia</td>
<td>4.49</td>
</tr>
<tr>
<td>Lithuania</td>
<td>5.44</td>
</tr>
<tr>
<td>Latvia</td>
<td>5.26</td>
</tr>
<tr>
<td>Czech Rep</td>
<td>2.32</td>
</tr>
<tr>
<td>Poland</td>
<td>4.11</td>
</tr>
</tbody>
</table>

(2015 EFW ranking in parenthesis)
Annual Growth Rate of Real Per Capita GDP for Late FCP Reformers, 2000-2015

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent</th>
<th>(2015 EFW ranking in parenthesis)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia (8)</td>
<td>7.02</td>
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<tr>
<td>Romania (20)</td>
<td>4.56</td>
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<tr>
<td>Armenia (29)</td>
<td>7.1</td>
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<tr>
<td>Albania (32)</td>
<td>4.78</td>
<td></td>
</tr>
<tr>
<td>Bulgaria (48)</td>
<td>4.36</td>
<td></td>
</tr>
<tr>
<td>Slovak Rep (53)</td>
<td>4.04</td>
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(2015 EFW ranking in parenthesis)
Annual Growth Rate of Real Per Capita GDP, 1995-2015
Selected cases, sorted according to the 2015 EFW ranking (in parenthesis)

Slow Reformers

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>3.21</td>
</tr>
<tr>
<td>Ukraine</td>
<td>1.96</td>
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Oil - Exporters

<table>
<thead>
<tr>
<th>Country</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>5.36</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>8.41</td>
</tr>
</tbody>
</table>
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)

- Georgia (8): 55-100
- Romania (20): 61-81
- Armenia (29): 75-74
- Albania (32): 47-82
- Bulgaria (48): 88-126
- Slovak Rep (53): 110-180

Percent Changes:
- 1996-2000
- 2011-2015
Size of the Trade Sector (as Percentage of GDP)
Selected cases, sorted according to the 2015 EFW ranking (in parenthesis)

FCP Slow Reformers

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Russia</td>
<td>58</td>
<td>48</td>
</tr>
<tr>
<td>Ukraine</td>
<td>97</td>
<td>100</td>
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</table>

FCP Oil - Exporters

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>79</td>
<td>66</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>78</td>
<td>75</td>
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</tbody>
</table>
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)
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)

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia (8)</td>
<td>23</td>
<td>52</td>
</tr>
<tr>
<td>Romania (20)</td>
<td>30</td>
<td>46</td>
</tr>
<tr>
<td>Armenia (29)</td>
<td>29</td>
<td>35</td>
</tr>
<tr>
<td>Albania (32)</td>
<td>24</td>
<td>36</td>
</tr>
<tr>
<td>Bulgaria (48)</td>
<td>40</td>
<td>41</td>
</tr>
<tr>
<td>Slovak Rep (53)</td>
<td>43</td>
<td>51</td>
</tr>
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</table>

(2015 EFW ranking in parenthesis)
Corruption Perception Index for Selected Cases, 2005 and 2015

0 (highly corrupt), 100 (highly clean)

FCP Slow Reformers

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>24</td>
<td>29</td>
</tr>
<tr>
<td>Ukraine</td>
<td>26</td>
<td>27</td>
</tr>
</tbody>
</table>

FCP Oil - Exporters

<table>
<thead>
<tr>
<th>Country</th>
<th>2005</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>26</td>
<td>28</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>22</td>
<td>29</td>
</tr>
</tbody>
</table>
Per capita GDP Relative to the 21 High Income Industrial Countries: Early FCP Reformers

Estonia (10) 61.6% 1995 60.8% 2015
Lithuania (13) 27.1% 1995 51.9% 2015
Latvia (17) 24% 1995 68.4% 2015
Czech Rep (42) 55.7% 1995 32.8% 2015
Poland (51) 1995 57% 2015

(2015 EFW ranking in parenthesis)
Per capita GDP Relative to the 21 High Income Industrial Countries: Late FCP Reformers

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia (8)</td>
<td>6.7</td>
<td>20.3</td>
</tr>
<tr>
<td>Romania (20)</td>
<td>30.6</td>
<td>46.3</td>
</tr>
<tr>
<td>Armenia (29)</td>
<td>6.3</td>
<td>18.4</td>
</tr>
<tr>
<td>Albania (32)</td>
<td>12</td>
<td>24.8</td>
</tr>
<tr>
<td>Bulgaria (48)</td>
<td>24.5</td>
<td>38.3</td>
</tr>
<tr>
<td>Slovak Rep (53)</td>
<td>38.2</td>
<td>63.7</td>
</tr>
</tbody>
</table>

(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**

<table>
<thead>
<tr>
<th>Country</th>
<th>1995</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>37.2</td>
<td>54.3</td>
</tr>
<tr>
<td>Ukraine</td>
<td>14.7</td>
<td>16.8</td>
</tr>
</tbody>
</table>

**FCP Oil - Exporters**

<table>
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<tr>
<th>Country</th>
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<tbody>
<tr>
<td>Kazakhstan</td>
<td>24</td>
<td>53</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>9.6</td>
<td>37.6</td>
</tr>
</tbody>
</table>
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
- Myanmar: 9.5%
- Azerbaijan: 9.2%
- China: 9.0%
- Armenia: 7.1%
- Georgia: 7.0%
- Kazakhstan: 5.9%
- India: 5.7%
- Lithuania: 5.4%
- Rwanda: 5.3%
- Latvia: 5.0%

Next 10 (11-20) fastest growing countries, 2000-2015
- Moldova: 4.9%
- Albania: 4.8%
- Nigeria: 4.7%
- Sri Lanka: 4.7%
- Panama: 4.6%
- Romania: 4.6%
- Bangladesh: 4.4%
- Bulgaria: 4.4%
- Slovak Republic: 4.0%
- Peru: 4.0%
Mean Ratings (Areas 3, 4, 5) For the 25 Former Centrally Planned (FCP) Economies and the 16 High-Income European Countries, 1995 and 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

- 1995: 5.68 vs. 5.48
- 2015: 7.81 vs. 7.88

11 FCP (EU Members) versus 16 European

- 1995: 5.97 vs. 6.09
- 2015: 7.81 vs. 7.88

Legend:
- Blue: 25 Former Centrally Planned (FCP)
- Orange: 16 high-income European

Years: 1995, 2015
### 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)

<table>
<thead>
<tr>
<th>EFW</th>
<th>Area 1</th>
<th>Area 2</th>
<th>Area 3</th>
<th>Area 4</th>
<th>Area 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia (12)</td>
<td>Ukraine (12)</td>
<td>Russia (12)</td>
<td>Bulgaria (12)</td>
<td>Ukraine (12)</td>
<td>Albania (12)</td>
</tr>
<tr>
<td>Romania (13)</td>
<td>Bulgaria (13)</td>
<td>Ukraine (13)</td>
<td>Romania (13)</td>
<td>Russia (13)</td>
<td>Russia (14)</td>
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<tr>
<td>Ukraine (14)</td>
<td>Croatia (14)</td>
<td>Albania (14)</td>
<td>Ukraine (14)</td>
<td>Albania (14)</td>
<td>Ukraine (14)</td>
</tr>
</tbody>
</table>

#### Year 2015 (Rank is out of 25 countries)

<table>
<thead>
<tr>
<th>EFW</th>
<th>Area 1</th>
<th>Area 2</th>
<th>Area 3</th>
<th>Area 4</th>
<th>Area 5</th>
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</thead>
<tbody>
<tr>
<td>Moldova (23)</td>
<td>Montenegro (23)</td>
<td>Ukraine (22)</td>
<td>Russia (23)</td>
<td>Russia (23)</td>
<td>Russia (23)</td>
</tr>
<tr>
<td>Kyrgyz Republic (25)</td>
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</table>
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.