The Impact of Economic Freedom on the Economic Growth in EU Countries

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Abstract

This paper aims to examine the relationship between economic growth and economic freedom in the member states of the European Union (EU) from 2005 to 2020. By employing various statistical approaches, including The Ordinary Least Squares, Random Effect Model, and Fixed Effect Model, we analyze the data to estimate the overall and individual effects of economic freedom on economic growth. The present study concludes that the economic freedom has an impact on the economic growth phenomena and that the freedom economic liberalization contributes to a much better economic wellbeing of the population and determines an increasing tendency of the economy. After we independently evaluated different sub-indicators of economic freedom, we have discovered that the values of the majority of the economic freedom indicators have a significant contribution.

Key words: economic freedom, economic growth, panel data
J.E.L. classification: F43, O47

1. Introduction

GDP per capita, or income per capita is a macroeconomic indicator that measures the relationship between the level of income of a country and its population. Economic growth is the most powerful mechanism of maintaining a high level of living standards which means a long-term increase of the GDP for every person that lives in that country. Among the achievement of the economic and social objectives of a society, economic growth is one of the primordial problems and government aspirations. (Moroianu and Moroianu, 2012).

Identifying the factors that lead to economic growth is of crucial importance for economic growth and social wellbeing. This thing requires an empirical analysis made by a various number of researchers and a literature review to strengthen the opinions of the economists.

Over the last decade, the economic freedom index and its sub-indexes were studied very much to see their impact on economic growth. Many papers that use statistical methods to establish the connection and respond to the main objectives: What is the relation? It exists? If it exists, then in which way? and What is the main component of the economic freedom that favorizes the economic growth? were published.

Economic freedom represents a central theme when debating an economic policy and its impact on economic growth. In a world where economies and societies are getting more and more interconnected, analyzing the role of economic freedom in development and nations prosperity is becoming highly important.

A solid and efficient juridic system that protects the rights on the property is essential for economic growth because it encourages innovation and investment (Weede, 2012). The rights over the property ensures that the resources are efficiently allocated and that the companies and individuals can benefit from their labor efforts, therefore stimulating the way to riches and economic development.
A low level of corruption is associated with a healthier economic environment and with faster economic growth. By fighting corruption and promoting transparency, governments can create a propitious environment for investments and economic growth.

Fiscal freedom, that refers to the level and the structure of taxes from a country, can directly influence economic growth. Low and simplified taxes can stimulate economic activity by creating an adequate environment for investment and productivity increase. (Gouider, 2022).

The level and efficiency of the governmental expenses can also have a significant impact on the economic growth. Governmental expenses orientated towards infrastructure investments, education and health can contribute to a long-term economic growth meanwhile a high level of unsustainable expenses can generate macroeconomic unbalances that can put a brake on the economic growth.

A healthy, friendly business environment with reduced regulation and simplified administrative procedures favorize innovation, competitiveness and creates new businesses. This fact can create, in his terms, new working places and an economic growth (Khyareh and Zamani, 2023).

Market flexibility and protection of the employees’ rights are important factors in determining economic growth (Cebula, 2016; Bennett, 2016). A flexible labor market can help with economic and technological adjustments stimulating productivity and economic growth. Still, the adequate protection of the workers’ rights is necessary to ensure social stability and sustainable development.

Monetary stability, that involves maintaining a low level of inflation and controlling currency risks, is crucial for economic growth (Pourshahabi et al., 2011). In this context, monetary freedom refers to the central bank’s capacity to implement efficient and transparent monetary policies to ensure price stability and facilitate economic growth.

An open and competitive investment environment with low regimentation and adequate protection of the investors attracts direct foreign investment (FDI) and stimulates national investment (Singh and Gal, 2020). Those investments can contribute to infrastructure development, productivity and competitiveness growth and can create new working places, thus promoting economic growth (Addi and Abubakar, 2022).

An efficient and liberalized financial system is essential for economic growth (Hussain and Haque, 2016). Financial freedom facilitates access to finance for companies and households, sustaining both investment and consumption and finally contributing to economic growth.

This article aims to examine the influence of economic liberty on the economic growth of European Union (EU) member countries. The research will also examine the impact and relative importance of the sub-indexes of economic freedom (Right to property, Freedom from Corruption Index, Fiscal Freedom Index, Government Spending, Business Freedom Index, Labor Freedom Index, Monetary Freedom Index, Investment Freedom Index, Financial Freedom Index) over the economic growth. This study will determine which of the analyzed components promotes more efficiently the economies of the EU member countries.

In our study, we aim to investigate and provide insights into the following question: What is the impact of economic freedom on economic growth?

Our study analyzes all the EU member countries from 2005-2020. In the second section of the paper, we presented the revised scientific literature review and in section three we have described the data used and the research methodology. The final part of the paper is dedicated to the conclusions.

2. Literature review

Economic freedom, through its various sub-indexes, plays a significant role in economic growth. A free and open economic environment that protects the right to property, limits corruption, promotes fiscal and monetary stability and stimulates investments and innovation can encourage sustainable development and long-term prosperity.

There are various arguments in favor of a direct relation between economic freedom and economic growth. First, economic freedom allows resources to be efficiently allocated depending on offer and demand which will lead to growth in productivity and incomes (Befas, 2019). Also, by reducing market entry barriers and bureaucratic restrictions, economic freedom stimulates innovation, competitiveness and creates new businesses this can create new working places and economic growth.
Another aspect that sustains the relationship between economic freedom and economic growth is the influence over a direct foreign investment (FDI). A free and open economic environment with reduced regulations and an adequate protection over the right to property is attractive for the investors that can bring capital, technology, and expertise in that specific country (Doucouliagos and Ulubasoglu, 2006). This fact can stimulate infrastructure development, productivity and competitiveness growth as well as creating new working places and economic development. De Haan and Sturm (2000) in their empirical analysis have reached the conclusion that more economic freedom favors economic growth, but the freedom level is not related to the growth. In other words, much more economic freedom will bring countries much faster to their balanced economic growth if those countries are below this level, but if the economic growth level is constant then the economic freedom level is not affected. An analysis done by Doucouliagos (2005) shows that a positive, relevant, and statistical significance association exists between economic freedom and economic growth. Regardless of the sample of countries, by the measure of economic freedom, there is a strong observation of a direct positive association between economic freedom and economic growth. The link between those indicators is significant from both a statistical and economic point of view (Duan et al., 2022).

After reviewing the specialized literature two statements are supported: economic freedom can impel high levels of economic growth and it’s an important aspect of the performance (e.g., Cebula and Clark, 2014; Hussain and Haque, 2016; Bennet, 2016; Kacprzyk, 2016) or the opinion that promotes the idea that is no relationship between growth and economic freedom (Heckelman, 2000; Justesen, 2008).

Therefore, we can establish the hypotheses of our study:

\[ H_0: \text{Economic freedom has an impact over the economic growth} \]
\[ H_1: \text{Economic freedom has no impact over the economic growth} \]

3. Research methodology

A graphic analysis of GDP per capita for the 27 EU countries from the period 2005, 2020 is presented in Figure 1 and Figure 2.

In figure number 1, GDP per capita, we observe that in the years 2008-2009 there is a downward trend in all countries due to financial crisis, which had as origin point the mortgage crisis from USA and shook the entire global economy. After which an increase is observed, and in the years 2014-2015 we observe again a decrease that occurred in the euro zone, due to the conflict from Ukraine, that had limited financial implications over the credit institutions.

After these decreases, the GDP per capita from the entire sample (27 countries) begins to have an upward trend, in 2017 with 6.08% more than in 2016, with a value of $33,078, and in 2018 with 7.98% more than in 2017, reaching the value of $35,719. Almost reaches to the maximum levels, but due to the pandemic crisis, this trend hasn’t occurred, in 2019 by 2.12%, and a value of $34,960 compared to 2018, and in 2020 with 2.95% less than in 2019, the average value being $33,928.

The dependent variable represents GDP per capita, as a measurement indicator of economic growth in EU countries. The independent variables for this empirical research are represented by the constituents of Index of Economic Freedom by Heritage Foundation (Property Rights, Freedom from Corruption Index, Fiscal Freedom Index, Government Spending, Business Freedom Index, Labor Freedom Index, Monetary Freedom Index, Investment Freedom Index, Financial Freedom Index), and the control variables: Interest rate for business loans, Number of taxes paid by businesses, Economic Globalization Index and Human Development Index.
This study is realized by analyzing the data electronically collected regarding the state of economic freedom and economic growth of the European Union countries. The sample includes all 27 EU member countries. Regarding the timeline, panel data was used, in which we observed the same phenomena - economic freedom and economic growth at different time intervals. Thus, the collected data covers a period of 16 years, from 2005 to 2020. This number of years is considered relevant to carry out the panel study, with the purpose of obtaining relevant and significant results.

In the present study the data’s regarding the sub-indexes of economic freedom, economic growth that is measured by GDP per capita, and other indicators used in the paper were collected from the website: https://www.theglobaleconomy.com/indicators_list.php.
<table>
<thead>
<tr>
<th>Variable type</th>
<th>Abreviation</th>
<th>Variable name</th>
<th>Definition</th>
<th>Sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent</td>
<td>GDP/c</td>
<td>GDP per capita</td>
<td>GDP per capita is the GDP divided to the population from the middle of the year. The data is in the actual American dollars.</td>
<td></td>
</tr>
<tr>
<td>Independent</td>
<td>PrRg_In</td>
<td>Property rights index, 0-100</td>
<td>The property rights index assesses the level of legal protection provided to private property rights within a country and the effectiveness of their enforcement. A higher value on the index indicates stronger legal safeguards for property ownership.</td>
<td>+</td>
</tr>
<tr>
<td>Independent</td>
<td>FrCorr_In</td>
<td>Freedom from corruption index, 0-100</td>
<td>The Freedom from Corruption Index score serves as a measure of public perception regarding corruption within the public sector, derived mainly from Transparency International's Corruption Perceptions Index. A higher score on this index indicates a lower level of perceived corruption.</td>
<td>+</td>
</tr>
<tr>
<td>Independent</td>
<td>FsFr_In</td>
<td>Fiscal freedom index, 0-100</td>
<td>The fiscal freedom index gauges the extent of the fiscal burden imposed by the government, encompassing three quantitative factors: the top marginal tax rate on individual income, the top marginal tax rate on corporate income, and the total fiscal taxes as a percentage of GDP.</td>
<td>+</td>
</tr>
<tr>
<td>Independent</td>
<td>GovSp</td>
<td>Government spending as % of GDP</td>
<td>Final consumption expenses of the public administration, encompass all current expenditures made by the government for the procurement of goods and services.</td>
<td>-</td>
</tr>
<tr>
<td>Independent</td>
<td>BussFr_In</td>
<td>Business freedom index, 0-100</td>
<td>The business freedom index is derived from 10 indicators that utilize data from the World Bank's &quot;Doing Business&quot; study. These indicators include factors such as the procedures, time, cost, and minimum capital required for starting a new business, as well as the procedures, time, and cost associated with obtaining a license. Additionally, the index considers the time, cost, and recovery rate involved in closing a business.</td>
<td>+</td>
</tr>
<tr>
<td>Independent</td>
<td>LabFr_In</td>
<td>Labor freedom index, 0-100</td>
<td>The labor freedom index is constructed using six quantitative factors which contribute to the overall assessment of labor freedom within a given context.</td>
<td>+</td>
</tr>
<tr>
<td>Independent</td>
<td>MonFr_In</td>
<td>Monetary freedom index, 0-100</td>
<td>The monetary freedom index score is determined by two factors: the weighted average rate of inflation over the past three years and the presence of price controls. A higher index value signifies greater monetary freedom, characterized by price stability and minimal microeconomic intervention.</td>
<td>+</td>
</tr>
<tr>
<td>Independent</td>
<td>InvFr_In</td>
<td>Investment freedom index, 0-100</td>
<td>The Investment Freedom Index assesses a range of investment restrictions, including burdensome bureaucracy, limitations on land ownership, expropriation of investments without fair compensation, exchange controls, capital controls, security concerns, and inadequate investment infrastructure. This index provides a comprehensive evaluation of the barriers and challenges faced by investors in a given jurisdiction.</td>
<td>+</td>
</tr>
<tr>
<td>Independent</td>
<td>FinFr_In</td>
<td>Financial freedom index (0-100)</td>
<td>The Financial Freedom Index assesses several dimensions, including the extent of</td>
<td>+</td>
</tr>
</tbody>
</table>
government regulation in financial services, the degree of state intervention through ownership in banks and other financial institutions, the level of financial and capital market development, government influence on credit allocation, and openness to foreign competition. A higher value on this index indicates greater banking efficiency, independence from government control, and reduced interference in the financial sector.

Control variable | BussCr | Business credit interest rate, % | The business credit interest rate refers to the average interest rate charged by commercial banks on credit products provided to non-financial companies.

Control variable | TaxBuss | Number of taxes paid by businesses | Taxes paid by businesses encompass the aggregate amount of taxes paid by businesses.

Control variable | HumDev_In | Human Development Index, 0 - 1 | The Human Development Index (HDI) quantifies three fundamental dimensions of human development: longevity, education, and standard of living.

Control variable | EcGl_In | Economic globalization index, 0-100 | Economic globalization encompasses two main dimensions: actual economic flows and trade and capital restrictions.

Source: processed by the authors using the data from https://www.theglobaleconomy.com/indicators_list.php

4. Findings

Linear regression analysis (Table 2), commonly conducted using the method of least squares, is a widely employed statistical modeling technique. Multiple regression, a term introduced by Pearson in 1908, aims to demonstrate the relationship between a dependent variable (GDP per capita) and a collection of independent variables (explanatory, factorial, exogenous variables): Property rights, Freedom Index to Corruption, Fiscal Freedom Index, Government Expenditure, Business Freedom Index, Labor Freedom Index, Monetary Freedom Index, Investment Freedom Index, Financial Freedom Index, Interest Rate on Business Credits, Number of Taxes Paid by enterprises, the Economic Globalization Index and the Human Development Index. The primary objective is to understand how the set of independent variables influences the dependent variable.

The empirical function is represented:

$$\text{GDP/c} = F (\text{PrRg_In}, \text{FrCorr_In}, \text{FsFr_In}, \text{GovSp}, \text{BussFr_In}, \text{BussCr}, \text{LabFr_In}, \text{MonFr_In}, \text{InvFr_In}, \text{FinFr_In}, \text{TaxBuss}, \text{HumDev_In}, \text{EcGl_In})$$

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-Statistic</th>
<th>P-val.</th>
</tr>
</thead>
<tbody>
<tr>
<td>c</td>
<td>-87472.60</td>
<td>-3.239267</td>
<td>0.0013</td>
</tr>
<tr>
<td>PrRg_In</td>
<td>182.7785</td>
<td>2.583670</td>
<td>0.0101</td>
</tr>
<tr>
<td>FrCorr_In</td>
<td>582.6876</td>
<td>7.661000</td>
<td>0.0000</td>
</tr>
<tr>
<td>FsFr_In</td>
<td>566.0126</td>
<td>8.936838</td>
<td>0.0000</td>
</tr>
<tr>
<td>GovSp</td>
<td>-3002.636</td>
<td>-10.824414</td>
<td>0.0000</td>
</tr>
<tr>
<td>BussFr_In</td>
<td>230.5846</td>
<td>2.931850</td>
<td>0.0035</td>
</tr>
<tr>
<td>BussCr</td>
<td>-973.3959</td>
<td>-3.586538</td>
<td>0.0004</td>
</tr>
<tr>
<td>LabFr_In</td>
<td>-121.3393</td>
<td>-2.638166</td>
<td>0.0087</td>
</tr>
<tr>
<td>MonFr_In</td>
<td>411.6995</td>
<td>2.571624</td>
<td>0.0096</td>
</tr>
<tr>
<td>InvFr_In</td>
<td>132.5838</td>
<td>1.884747</td>
<td>0.0429</td>
</tr>
<tr>
<td>FinFr_In</td>
<td>387.3158</td>
<td>5.921887</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Table no. 2. Estimating the parameters for the linear regression model: EU-27 countries

Dependent variable: GDP/c (included observation: 432)
After analyzing table 2, we can observe a statistically significant linear relationship between the dependent variable GDP/c and FrCorr_In, FsFr_In, GovSp, FinFr_In, TaxBuss and HumDev_In (with a p-value = 0.0000). Our conclusions are consistent with the analysis of Dawson (2003), Vega-Gordillo and Álvarez-Arce (2003), Justesen (2008) and Heckelman (2000), who found causality between these sub-indices and economic growth. Also, we note a statistically significant linear relationship at a significance level of 1% (p value < 0.01) between GDP/c and PrRg_In, BussFr_In, BussCr, LabFr_In, MonFr_In and EcGl_In and a level of significance lower than 5% at InvFr_In with a value of p = 0.0429. These variables are significant for GDP/c (Ockey, 2011; Cebula 2011) at this sample level.

R² can have values between 0 and 1, the more its value is closer to 1, the regression is well specified, at the present model we have obtained an R² = 0.74 or we can say that 74% from the dependent variable is explained by the independent variables.

Following this model, we can observe that all our variables are significant with a probability value less than 5%. The standard errors have small values which indicates that the variables are indeed significant, but to make sure we will also check the correlations between the variables.

Table no. 3. Estimating the correlation between variables UE 27 Countries

In table 3 we have presented the pairwise correlations of GDP/c and the dependent variables for the 27 analyzed countries. We found a very weak correlation between GDP/c and LabFr_In (coef = -0.019), TaxBuss (coef = -0.140) BussCr (coef = -0.158), MonFr_In (coef = 0.271) and a much stronger correlation between GDP/c and FsFr_In (coef = 0.527), BussFr_In (coef = 0.445), FinFr_In (coef = 0.429) and EcGl (coef = 0.549), and the strongest link is between GDP/c and PrRg_In (coef = 0.664), HumDev_In (coef = 0.708) and FrCorr_In (coef = 0.746).

Although the Method of Smallest Squares is one of the most popular and frequently used, it does not recognize the heterogeneous nature of the transversal sections. To have a more accurate analysis we will use also linear models of constant and random effects, presented in table 4. The first one estimates a common single effect and the second one estimates the effects distribution using a mean.
### Table no. 4. Fixed effects and Random effects

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t-St.</th>
<th>p-val</th>
<th>Coefficient</th>
<th>t-St.</th>
<th>p-val</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant effects</td>
<td></td>
<td></td>
<td></td>
<td>Random effects</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>c</strong></td>
<td>-16491.72</td>
<td>-1.128560</td>
<td>0.0093</td>
<td><strong>-37366.61</strong></td>
<td>-2.613727</td>
<td>0.0258</td>
</tr>
<tr>
<td><strong>PrRg_In</strong></td>
<td>59.80671</td>
<td>2.126399</td>
<td>0.0434</td>
<td><strong>58.56378</strong></td>
<td>3.782050</td>
<td>0.0002</td>
</tr>
<tr>
<td><strong>FrCorr_In</strong></td>
<td>81.82342</td>
<td>2.145796</td>
<td>0.0325</td>
<td><strong>140.1249</strong></td>
<td>1.727057</td>
<td>0.0849</td>
</tr>
<tr>
<td><strong>FsFr_In</strong></td>
<td>3.422488</td>
<td>0.053387</td>
<td>0.0475</td>
<td><strong>99.37435</strong></td>
<td>1.727057</td>
<td>0.0849</td>
</tr>
<tr>
<td><strong>GovSp</strong></td>
<td>-818.1840</td>
<td>-4.888407</td>
<td>0.0000</td>
<td><strong>-841.2840</strong></td>
<td>-5.096097</td>
<td>0.0000</td>
</tr>
<tr>
<td><strong>BussFr_In</strong></td>
<td>17.90886</td>
<td>0.447326</td>
<td>0.0449</td>
<td><strong>1.032671</strong></td>
<td>0.02675</td>
<td>0.9991</td>
</tr>
<tr>
<td><strong>BussCr</strong></td>
<td>-55.27211</td>
<td>-0.492124</td>
<td>0.0229</td>
<td><strong>-74.34978</strong></td>
<td>-0.663884</td>
<td>0.5071</td>
</tr>
<tr>
<td><strong>LabFr_In</strong></td>
<td>-50.18831</td>
<td>-1.477846</td>
<td>0.1403</td>
<td><strong>-40.32817</strong></td>
<td>-1.206726</td>
<td>0.2282</td>
</tr>
<tr>
<td><strong>MonFr_In</strong></td>
<td>175.5243</td>
<td>3.047068</td>
<td>0.0025</td>
<td><strong>173.7945</strong></td>
<td>3.029471</td>
<td>0.0026</td>
</tr>
<tr>
<td><strong>InvFr_In</strong></td>
<td>55.32468</td>
<td>1.683591</td>
<td>0.0931</td>
<td><strong>38.50897</strong></td>
<td>1.179616</td>
<td>0.2388</td>
</tr>
<tr>
<td><strong>FinFr_In</strong></td>
<td>9.754437</td>
<td>0.272819</td>
<td>0.7851</td>
<td><strong>54.40619</strong></td>
<td>1.553731</td>
<td>0.1209</td>
</tr>
<tr>
<td><strong>TaxBuss</strong></td>
<td>-40.53127</td>
<td>-1.920857</td>
<td>0.0455</td>
<td><strong>-21.36642</strong></td>
<td>-1.024645</td>
<td>0.3061</td>
</tr>
<tr>
<td><strong>HumDev_In</strong></td>
<td>172444.1</td>
<td>11.04761</td>
<td>0.0000</td>
<td><strong>184545.7</strong></td>
<td>12.36600</td>
<td>0.0000</td>
</tr>
<tr>
<td><strong>EcGl_In</strong></td>
<td>973.2102</td>
<td>7.964223</td>
<td>0.0000</td>
<td><strong>868.3682</strong></td>
<td>7.374880</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

R-squared 0.876094
Adjusted R-squared 0.873716
Prob (F-statistic) 0.000000

### Table no. 5. Hausman Test: UE – 27 countries

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq. Statistic</th>
<th>Chi-Sq. d.f.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>65.793192</td>
<td>13</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

Prob (F-statistic) 0.000000

### Source: processed by the authors

In table 5. The Hausman test presents the comparison of the linear regression model between constant effects and random effects. If we accept the null hypothesis we must have a p-value greater than 5%, if we get a smaller value than p-value = 5%, it means that we reject the null hypothesis and accept the alternative hypothesis, a linear regression model with constant effects (Table 4). In the case of the performed test for the given model, we obtained p-value = 0.0000, this fact means that we accept the alternative hypothesis, with constant effects.

Hence, the indicators including Property rights, Freedom from Corruption Index, Fiscal Freedom Index, Government Expenditures, Business Freedom Index, Labor Freedom Index, Monetary Freedom Index, Investment Freedom Index, Financial Freedom Index, Interest Rate for business credits, the number of taxes paid by businesses, the Economic Globalization Index, and the Human Development Index collectively account for 87.60% of the observed variation in economic growth. Adjusted r-squared has a value of 87.37%. The other 12.4% are assumed to be the influence of other factors on the dependent variable that we did not include in the model.

The general linear regression equation is:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + ... + \beta_n X_n, \]

where \( Y \) is the dependent variable (GDP/c)

\( \beta_0, \beta_1, \beta_2, \beta_n \) are the coefficients

\( X_0, X_1, X_2, X_n \) are the independent variables (PrRg_In, FrCorr_In, FsFr_In, GovSp, BussFr_In, BussCr, LabFr_In, MonFr_In, InvFr_In, FinFr_In, TaxBuss, HumDev_In, EcGl_In)

Therefore the equation will have the following shape:
GDP/c = -16491.72 + (59.80671x PrRg_In) + (81.82342x FrCorr_In) + (3.422488 x FsFr_In) + (-818.1840 x GovSp) + (17.90886x BussFr_In) + (-55.27211 x BussCr) + (-50.18831x LabFr_In) + (175.5243 x MonFr_In) + (55.32468 x InvFr_In) + (9.754437 x FinFr_In) + (-40.53127x TaxBuss) + (172444.1x HumDev_In) + (973.2102 x EcGl_In)

The coefficient signs for HumDev_In and EcGl_In are as expected, positive. If HumDev_In increases by one point, GDP/c will increase by approximately 172444.1, and taking into consideration that the Human Development Indicator (HumDev_In) is recorded between the values (0-1), then at an increase of 0.01, GDP/c will increase by $1724.44.

When EcGl will increase with one point, GDP/c will increase with 973.2102 $.

From all sub-indicators of economic freedom, Monetary Freedom has the strongest positive influence: if MonFr_In increases by one point, then GDP/c increases by $175.52. Monetary freedom can have a strong positive impact on economic growth by: maintaining price stability (when central banks are free to decide monetary policy, they can maintain price stability by controlling the money supply; this can help avoid excessive inflation), flexibility of the economy (monetary freedom allows central banks to respond quickly to changes in the economy, such as rising or decreasing demand; this can help maintain a balance between supply and demand), stimulating investment and creating a healthy competitive environment (by allowing banks central to adapt to changes in the market).

The sign of the GovSp coefficient is negative, which means that if it increases by 1%, then GDP/c decreases by $818.1840.

According to the data from table 3 (constant effects), it results that the HumDev_In variable has the highest positive impact on GDP/c (172444.1), and EcGl_In (973.2102) and the GovSp variable (-818.1840) the highest negative impact. Our results are in agreement with Ciftci and Durusu-Ciftci (2021).

5. Conclusions

In the present paper, we have explored whether economic freedom leads to economic growth. To do that, we considered the dependent variable GDP per capita, as an indicator measuring economic growth, in EU countries. The independent variables for this empirical research are the constituents of the Heritage Foundation's Index of Economic Freedom (Property Rights, Freedom from Corruption Index, Fiscal Freedom Index, Government Spending, Business Freedom Index, Labor Freedom Index, Monetary Freedom Index, Investment Freedom Index, Financial Freedom Index). We also used some control variables: the interest rate for business loans, the number of taxes paid by businesses, the Economic Globalization Index, and the Human Development Index.

The present study is based on electronically collected data about the state of economic freedom and economic growth of the European Union countries. We used a panel dataset, resulting from the 27 EU member countries. Considering the time interval perspective, panel data were used, which at different time intervals observe the same phenomena - regarding economic freedom and economic growth. Thus, the data collected covers a period of 16 years, from 2005 to 2020. This number of years is considered relevant to carry out a panel study, in order to obtain relevant and significant results.

Overall, our results suggest of all of the sub-indicators of economic freedom, Monetary Freedom has the biggest positive influence on economic growth.

In conclusion, we can say that economic freedom has an impact on the phenomena of economic growth, and that economic liberalization contributes to a better economic well-being of the population and determines a tendency of economic growth.

6. References


