THE EFFECTS OF THE ENLARGEMENT OF EU ON THE ECONOMIC FREEDOM LEVEL OF TRANSITIONAL ECONOMIES

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Abstract

The 2004 and 2007 enlargement of European Union (EU) mostly covers eastern European transition economies. These countries have carried on their structural transformation after their preparatory period for full membership. In this paper, the changing level of economic freedom of transition economies is undertaken by the preparatory period and after full membership for EU countries and the others. Mostly the EU countries have the best scores for economic freedom types. They adopt their system to EU economic order. Especially they are freer than the other countries in the field of property rights and financial system. Freedom from government and fiscal freedom levels of other countries are higher than EU countries. It is because of the interventionist system of EU governments and fiscal institutions.

Key Words: Economic Freedom, European Union, Transitional Economies

AB'NİN GENİŞLEMESİNİN GEÇİŞ EKONOMİLERİNİN EKONOMİK ÖZGÜRLÜK DÜZEYİ ÜZERİNDEKİ ETKİLERİ

Özet

Avrupa Birliği (AB)'nin 2004 ve 2007 yılındaki genişlemesi daha çok Doğu Avrupa'daki geçiş ekonomilerini kapsamaktadır. Bu ülkeler tam üyelik sürecinde çeşitli yapısal reformlar gerçekleştirmişlerdir. Bu çalışmada, AB'ne katılan geçiş ekonomilerinin tam üyelik öncesi hazırlık süreçleri ile tam üyelik sonrasındaki ekonomik özgürlük düzeylerindeki değişim, diğer geçiş ekonomileriyle birlikte ele alınmıştır. AB ülkeleri ekonomik özgürlük düzeyi açısından en iyi skorlara sahip bulunmaktadır. Bu ülkeler AB'nin ekonomik düzenine kendilerini adapte etmişlerdir. Bu ülkeler daha çok mülkiyet hakları ve finansal sistem açısından diğer ülkelerden daha özgür durumdadırlar. Kamu bürokrasisi ve mali yükümlülükler açısından bakıldığında ise diğer ülkeler AB üyesi olanlardan daha bağımsız görünmektedir. Bunun nedeni ise, AB üyesi olanlarda kamu bürokrasisinin ve mali kurumların daha müdahaleci bir yapıda olmasıdır.

Anahtar Kelimeler: Ekonomik Özgürlükler, Avrupa Birliği, Geçiş Ekonomileri.

1. Economic Freedom and Transition

The countries, composing of the former socialist republics under the structure of Soviet Union which are dissolved with Eastern European countries where the market economy is adopted rather than a central planning understanding by putting the socialist system aside that they adopted in the past, are named as transition economies in economic terminology.

The efforts regarding to place the concept of “economic freedom” reflects the basic soul of the market economy during the period of transition to the mentioned market economy in these countries have been remarkably progressing. In some of countries, where the socialist regime lasts almost 70 years, had led the generations, grown up during this period, become stranger to the market process. Especially, being unawareness of the individuals about “profit” fact, which is one of the most important factors of the market, has further increased the effects of the “poverty” issue faced during the period of transition. Moreover, in the countries where the labour productivity is extremely dense, the efforts concerning to increase the labour productivity by creating labour competition within the market understanding are so insufficient.

Their request of the countries to establish a new system by totally rejecting the current system can be considered as an advantage for them. However, due to their inexperience on the market economy and “competition” and “profit” they have some problems for establishing an economic structure based on private enterprises. Those, who are neighbour of the European Union (EU) countries where the free market economy is strong, have accelerated the period of transition by making effort to adopt the EU norms and developing commercial and economic relations with these countries. Estonia, Lithuania, Latvia, Czech Republic, Slovak Republic, Hungary, Slovenia and Poland can be considered as an example to these countries. The mentioned process in the countries except for the above-mentioned one has been operating slower.

The Herigate Foundation is a public research organisation whose “mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a strong national defence.”(National Council on Economic Education, 2004: 1). Each year beginning in 1995, the Foundation has published an index of economic freedom for all countries in the world. As the first comprehensive study of economic freedom ever published, the 1995 Index defined the method by which economic freedom can be measured is such vastly different places as Hong Kong and North Korea. Since then, other studies have joined the effort, analysing such issues as trade, corruption, or government intervention in the economy (See: Messick, 1996).

The *Index of Economic Freedom* is a simple average of 10 individual freedoms, each of which is vital to the development of personal and national prosperity. The fundamental right of property, for example, has been recognized for centuries by the great philosophers of liberty such as Locke and Montesquieu as a bulwark of free people. Over time, scholars and practitioners have recognized many other freedoms as essential to economic liberty, including free trade, investment rights, and labour freedom. (Beach, Kane, 2007: 37)

The *Economic Freedom Inde*[1]*x* is converting to a 0-100 scoring scale that both translates more easily into percentages of freedom and ends the use of discrete brackets (1, 2, 3, 4 and 5) in favour of a continuous scale that allows an economy in many cases to receive, for example, a score of 83,3 percent instead of an 80 or 90 (The Heritage Foundation, 2007: xv). A score of 100 signifies an economic environment or set of policies that is most conducive to economic freedom. The grading scale is continuous, meaning that scores with decimals are possible (Beach, Kane, 2007: 39).

Economic freedom is that part of freedom that is concerned with the material autonomy of the individual in relation to the state and other organized groups. An individual is economically free who can fully control his or her labour and property. This economic component of human liberty is related to—and perhaps a necessary condition for—political freedom, but it is also valuable as an end in itself. (Beach, Kane, 2007: 37)

During the period of transition from the socialist system to the market economy, factors such as the poverty, less development, old infrastructure, public sector continuously growing and overgrowing with a strong and tough command system have differentiated the steps of the transition in these countries. Furthermore, free trade regime and familiarity with developed markets have caused some countries to have most important position during the period of transition. As is clearly seen in the Schedules Estonia, Lithuania, Latvia, Czech Republic, Slovak Republic, Hungary, Slovenia and Poland that are considered among free and most free countries neighbour countries with EU and utilized their geographical advantages very well and gained a suitable sequence.

2. The EU Enlargement and Evaluation of Transitional Economies According to Economic Freedom Categories

The 2004 Enlargement of EU consists of 10 countries. Eight of these countries are transition economies. They are: Poland, Czech Republic, Hungary, Slovak Republic, Lithuania, Latvia, Slovenia and Estonia. In the beginning of 2007, Romania and Bulgaria are joined into the EU. Today, Croatia, as a transition economy, is waiting for his date of full membership with Turkey.

We can consider each economic freedom category apart. In this point of view, there are many differences between the economic structure and the fiscal policies of transitional economies. There are 28 transitional countries are tabled below. 10 of them are full member of EU. The definitions below the subtitles are mostly quoted from the *2007 Index of Economic Freedom* which is published by the Heritage Foundation.

2.1. Overall Freedom

Overall economic freedom, defined by multiple rights and liberties, can be quantified as an index of less abstract components. The index uses 10 specific freedoms, some as composites of even further detailed and quantifiable components. (Beach, Kane, 2007: 38)

[1] In order to learn more about the methodology of the *Economic Freedom Index*, see: William W. Beach & Tim Kane, “Methodology: Measuring the 10 Economic Freedoms”, in: *2007 Index of Economic Freedom*, The Heritage Foundation, Dow Jones & Company, Inc., Washington, D.C. 2007, pp. 37-55.

There are 8 E.U. members in the first 10 countries. In the preparatory period, these countries took successful steps on the way to market economy. So, a regular progress can easily be seen on their economic freedom level by years. But the most important point is on the changing of the economic freedom level of other countries. Some of these countries make appreciably progress on their levels. Moldova, Azerbaijan, Bosnia and Herzegovina, Ukraine and Uzbekistan are the sample countries for this respectable progress.

Table: 1 – Overall Freedom of Transition Countries over the 1995 – 2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Estonia	65,2	67,4	71,2	72,6	75,8	74,2	79,0	79,5	79,4	79,0	76,6	75,9	78,1
Lithuania	N/G	47,4	56,3	60,9	62,8	63,3	65,7	67,2	68,2	70,9	69,5	73,0	72,0
Czech Republic	71,8	72,1	70,4	68,9	72,3	71,6	70,9	66,6	67,2	66,8	66,6	70,0	69,7
Armenia	N/G	38,9	43,0	48,7	55,7	62,4	65,7	67,0	67,0	67,7	67,7	74,6	69,4
Georgia	N/G	40,1	42,8	44,8	49,3	51,1	53,7	51,1	53,3	56,2	55,6	64,8	68,7
Slovak Republic	58,9	55,3	53,5	53,5	51,6	52,7	60,1	59,6	59,2	64,2	64,7	69,2	68,4
Latvia	N/G	54,6	61,9	62,4	63,3	63,0	64,9	64,3	65,0	66,2	63,0	69,2	68,2
Hungary	58,2	58,9	58,4	58,8	59,8	66,4	67,3	64,6	63,3	63,0	63,4	67,1	66,2
Slovenia	N/G	46,3	53,5	58,6	59,2	56,2	59,2	56,2	58,6	62,2	60,9	63,5	63,6
Bulgaria	47,8	48,2	47,2	47,2	45,0	50,4	52,7	55,9	55,6	57,1	59,9	64,3	62,2
Albania	46,4	50,8	54,2	54,4	51,5	51,0	53,1	53,2	53,2	56,0	56,6	62,0	61,4
Romania	42,9	47,7	52,1	55,7	53,1	55,3	48,3	46,0	47,7	48,4	50,8	58,9	61,3
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	53,2	54,0	55,2	55,6	60,7	60,8
Kazakhstan	N/G	N/G	N/G	39,1	44,8	47,5	48,1	50,2	50,0	47,3	51,1	61,2	60,4
Mongolia	48,7	48,6	52,7	59,0	59,4	59,4	58,1	58,5	59,8	58,0	60,1	63,2	60,1
Kyrgyz Republic	N/G	N/G	N/G	49,0	52,2	53,2	52,2	50,5	54,7	55,7	54,7	62,8	59,9
Moldova	33,0	50,1	46,6	51,4	54,0	58,1	51,0	55,1	57,5	54,8	55,1	59,6	59,5
Poland	52,3	58,5	57,5	61,3	62,2	63,0	62,6	64,8	61,5	58,7	59,0	61,6	58,8
Tajikistan	N/G	N/G	N/G	39,2	39,2	42,9	44,8	44,2	43,1	44,8	49,9	55,8	56,9
Azerbaijan	N/G	27,2	31,7	40,7	44,9	47,1	47,5	51,0	51,3	49,9	52,5	54,0	55,4
Croatia	N/G	46,6	47,8	53,2	54,6	52,7	52,7	50,8	52,5	52,9	52,5	56,2	55,3
Bosnia and Herzegovina	N/G	N/G	N/G	28,8	24,0	40,5	34,0	33,6	40,1	43,9	49,5	56,9	54,7
Russia	49,7	49,6	45,9	50,9	52,9	50,1	48,0	47,3	49,1	51,1	50,1	54,3	54,0
Ukraine	33,7	34,5	40,6	39,7	42,9	47,4	46,1	45,4	49,7	51,8	53,7	55,5	53,3
Uzbekistan	N/G	N/G	N/G	29,0	30,7	35,5	34,9	36,7	38,0	39,0	44,2	50,4	52,6
Belarus	41,2	41,7	40,8	37,9	35,3	37,8	34,1	37,8	33,9	41,6	45,3	48,5	47,4
Turkmenistan	N/G	N/G	N/G	33,6	34,7	36,8	40,9	41,3	47,0	46,2	43,7	43,9	42,5
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	31,7	39,5	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

2.2. Business Freedom

Business freedom is the ability to create, operate, and close an enterprise quickly and easily. Burdensome, redundant regulatory rules are the most harmful barriers to business freedom (Beach, Kane, 2007: 38). Regulations and restrictions make it difficult for entrepreneurs to create new businesses. In some countries, government officials frown on any private-sector initiatives; in a few, they even make them illegal. Although many regulations hinder business, the most important are associated with licensing new companies and businesses. In some countries, as well as many states in the United States, the procedure for obtaining a business license can be as simple as mailing in a registration form with a minimal fee. In Hong Kong, for example, obtaining a business license requires filling out a single form, which can be completed in a few hours. In other countries, such as transitional economies, obtaining a business license requires endless trips to government offices, and the process can take a year or more.

Once a business is open, government regulation does not always subside; in some cases, it increases. In some cases, two countries with the same set of regulations can impose different regulatory burdens. If one of them, for example, applies its regulations evenly and transparently, it lowers the regulatory burden since business can make long-term plans. One the other hand, if a country applies regulations inconsistently, it raises the regulatory burden on businesses by creating an unpredictable business environment. For example, in some countries, an environmental regulation may be used to shut down one business but not another. Business owners are uncertain about which regulations they must obey. In addition, the existence of excessive regulation can support corruption as confused and harassed business owners attempt to navigate the red tape.

Lithuania has the best score for business freedom. Starting a business takes an average of 26 days, compared to the world average of 48 days. The relatively sound business environment has encouraged entrepreneurial activities. Obtaining a business license is relatively simple, and closing a business is easy. The overall freedom to start, operate, and close a business is protected by the national regulatory environment. Armenia and Estonia have better scores too.

As it is seen at the table, before the year of 2004, the candidate countries of EU did their reforms and made free their trade system. The policies which promote entrepreneurship became more important for all of these countries in 1990s. They have changed their business system as well in order to attract foreign investments. As a result of these policies, most of these countries' economic freedom level rises up after 2000. The only dispensation of this process is Turkmenistan and Czech Republic.

Turkmenistan still keeps its conservative structure on the business system. The non-transparency of the entire regulatory system is a great challenge to entrepreneurial activities in Turkmenistan. Businesses have difficulty getting copies of laws and regulations as government officials routinely refuse even to provide them. Personal relations with government officials often help to determine how and when government regulations are applied. Considering the private sector a competitor, government entities use regulations as an excuse for restricting private business. The overall freedom to start, operate, and close a business is seriously restricted by the national regulatory environment.

Czech Republic had the highest scores in the beginning years of economic freedom searches. But recent system for business life reduces its scores down. Starting a business takes an average of 24 days, compared to the world average of 48 days. Entrepreneurship should be easier for maximum job creation. Obtaining a business license can be difficult, and closing a business is very difficult. General regulatory frameworks are consistent with a market economy, but bureaucracy and red tape are still problems. The overall freedom to start, operate, and close a business is limited by the national regulatory environment.

Table: 2 - Business Freedom of Transition Countries over the 1995 – 2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Lithuania	N/G	50	50	50	50	50	50	50	50	50	50	87,0	86,4
Armenia	N/G	30	30	30	30	30	30	30	30	30	30	79,7	84,5
Estonia	70	70	70	70	70	70	70	70	70	70	70	82,0	80,0
Georgia	N/G	30	30	30	30	30	30	30	30	30	30	70,9	78,9
Latvia	N/G	50	70	50	50	50	50	50	50	50	50	90,4	76,8
Slovenia	N/G	50	50	50	50	50	70	70	70	70	70	65,6	74,2
Mongolia	50	50	50	50	30	30	30	30	30	30	30	74,6	73,1
Hungary	70	50	50	50	50	50	50	50	50	50	50	72,2	71,2
Slovak Republic	70	50	50	50	50	50	50	50	50	50	50	69,7	71,0
Romania	30	30	30	30	30	30	30	30	30	30	30	74,5	70,9
Moldova	50	50	50	50	50	50	30	30	30	30	30	75,0	70,0
Bulgaria	30	30	30	30	30	30	30	30	30	30	30	69,0	66,9
Russia	70	50	30	30	30	30	30	30	30	30	30	66,1	66,6
Kazakhstan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	66,1	66,5
Uzbekistan	N/G	N/G	N/G	10	10	10	10	10	10	10	10	68,6	66,1
Kyrgyz Republic	N/G	N/G	N/G	30	30	30	30	30	30	30	30	76,2	61,4
Czech Republic	90	90	90	70	70	70	70	50	50	50	50	58,3	61,2
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	30	30	30	30	54,9	60,9
Azerbaijan	N/G	10	30	30	30	30	30	30	30	30	30	57,2	58,0
Poland	50	50	50	50	50	50	50	50	50	50	50	67,4	56,1
Albania	50	50	50	50	50	50	50	30	30	30	30	57,7	56,1
Belarus	50	50	50	30	30	30	10	10	10	10	10	53,9	54,5
Ukraine	30	30	30	30	30	30	30	30	30	30	30	53,3	54,0
Bosnia and Herzegovina	N/G	N/G	N/G	10	10	10	10	10	10	10	10	54,8	53,8
Croatia	N/G	30	30	30	30	30	30	30	30	30	30	54,0	53,8
Tajikistan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	54,9	53,2
Turkmenistan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	30,0	30,0
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	10	10	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

2.3. Trade Freedom

Trade freedom is a composite measure of the absence of tariff and non-tariff barriers that affect imports and exports of goods and services (Beach, Kane, 2007: 38). Trade policy is a key factor in measuring economic freedom. The degree to which government hinders the free flow of foreign commerce can have a direct bearing on an individual's ability to pursue his economic goals.

Tariffs are not only barriers to trade. Many countries impose quotas, licensing requirements, and other mandates or non-tariff barriers to restrict imports. The trade analysis also considers corruption within the customs service. This is an important consideration because, even though countries may have lower published tariff rates and no official non-tariff barriers, their customs officials may be corrupt and may require bribes to allow products to enter their ports. Or customs officials may steal goods for themselves, which also constitutes a barrier to trade. Customs department is the most corrupt institution and customs corruption acts as a non-tariff barrier in most of transition countries.

Ideally, free trade should be pursued multilaterally: i.e., among many countries. Broad trade liberalization minimizes the potential impact of trade diversion over trade creation and maximizes the growth opportunities of trade (Vamvakidis, 1999: 42-68).

Over the past five decades, the GATT/WTO framework has dramatically reduced global barriers to trade; but even though GATT/WTO has been very effective in lowering trade barriers, its members are not required to engage in free trade. Members merely agree to lower existing barriers on specified products, not to eliminate them. (W.T.O., 2003)

Although Turkmenistan had the worst score of trade policy up to 2003, after this year the government have changed the system and the trade freedom level rose up two times. The most common barrier is customs corruption as an obstacle to trade in transition economies. Public administration in most of these countries remains weak and prone to corruption and the area most affected is customs. Non-tariff barriers, maintaining quotas on some goods, temporary measures such as increased duties and limitations on allowed quantities of goods, administrative barriers, and excessive documentation requirements, slow processing of shipments are the other factors that affect the foreign trade. The government of some of these countries also has a multiple exchange rate system that acts as a non-tariff barrier.

The transition economies of EU have the best scores of trade freedom after 2004. The EU's order improves the trade system of these countries. The customs among EU countries had removed and full mobilization of goods had secured. Also some quality requirements on about different products had implemented. These factors affect the trade freedom level constructively.

Table: 3 – Trade Freedom of Transition Countries over the 1995 – 2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Croatia	N/G	64,0	75,8	75,8	78,7	62,0	66,6	63,8	67,8	60,4	60,4	73,4	77,8
Czech Republic	91,0	90,0	91,0	72,4	94,8	87,0	67,8	68,0	68,6	68,4	71,8	77,4	76,6
Estonia	92,0	89,0	89,0	98,0	100,0	100,0	100,0	100,0	99,2	99,2	99,9	77,4	76,6
Hungary	56,0	54,0	54,0	56,0	58,2	71,6	72,8	75,0	71,0	71,0	65,0	77,4	76,6
Latvia	N/G	70,0	60,0	76,0	76,0	76,0	75,0	75,0	73,6	74,8	75,0	77,4	76,6
Lithuania	N/G	60,0	74,0	96,0	96,0	96,0	97,8	97,9	75,4	75,2	79,0	77,4	76,6
Poland	52,0	52,0	64,6	88,0	88,0	89,8	72,6	73,8	65,2	65,4	74,2	77,4	76,6
Slovak Republic	90,0	90,0	88,0	68,0	68,0	66,2	75,2	74,7	67,8	67,8	67,8	77,4	76,6
Slovenia	N/G	54,0	54,0	54,0	54,0	68,6	62,4	59,2	57,2	80,2	76,8	77,4	76,6
Armenia	N/G	64,0	78,0	90,0	90,0	92,0	92,0	96,4	96,2	75,0	75,0	75,6	75,6
Moldova	32,6	70,0	70,0	70,0	70,0	70,0	71,4	71,0	75,4	75,4	72,2	74,4	74,4
Turkmenistan	N/G	N/G	N/G	40,0	40,0	40,0	40,0	40,0	80,0	80,0	76,6	74,2	74,2
Romania	94,0	76,6	88,0	89,0	89,0	89,0	68,5	69,3	55,2	52,6	65,4	63,4	74,0
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	78,0	51,0	52,4	52,4	63,8	73,4
Ukraine	50,0	61,0	61,0	68,0	68,0	85,0	65,0	66,0	69,6	69,4	71,2	72,2	72,2
Kyrgyz Republic	N/G	N/G	N/G	60,0	60,0	60,2	60,0	60,0	64,4	64,4	64,4	71,4	71,4
Bosnia and Herzegovina	N/G	N/G	N/G	64,4	64,4	64,0	62,6	67,6	73,2	66,8	66,8	70,2	70,2
Mongolia	50,0	60,0	63,6	100,0	100,0	90,0	90,0	86,0	90,0	90,0	92,0	72,0	70,0
Uzbekistan	N/G	N/G	N/G	50,0	50,0	50,0	50,0	50,0	42,0	42,0	71,6	68,2	68,2
Azerbaijan	N/G	50,0	50,0	50,0	50,0	50,0	61,8	69,4	66,6	64,2	64,2	67,6	67,6
Tajikistan	N/G	N/G	N/G	63,4	63,4	70,0	64,0	64,0	64,0	64,0	63,4	65,8	66,0
Kazakhstan	N/G	N/G	N/G	56,0	56,0	62,0	60,0	60,0	60,0	60,0	60,0	64,2	64,2
Albania	54,0	54,0	74,0	74,0	52,8	52,8	58,8	58,5	51,2	56,4	55,2	57,4	63,2
Russia	52,0	52,0	46,0	58,7	53,2	52,4	52,2	57,4	57,4	63,2	63,2	62,6	62,6
Belarus	55,0	55,0	72,2	74,0	52,6	52,6	65,1	70,4	61,0	60,8	64,0	62,2	62,2
Georgia	N/G	64,0	64,0	64,0	64,0	64,0	70,6	74,3	59,8	60,2	60,2	62,6	61,8
Bulgaria	67,4	66,0	66,0	64,1	41,9	64,8	52,2	55,2	57,4	58,2	77,0	60,8	60,8
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	0,0	68,4	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

2.4. Monetary Freedom

Monetary freedom combines a measure of price stability with an assessment of price controls. Both inflation and price controls distort market activity. Price stability without microeconomic intervention is the ideal state for the free market (Beach, Kane, 2007: 38). The value of a country's currency is shaped by its monetary policy. When a government's monetary policy facilitates market pricing, individuals enjoy greater economic freedom. John Maynard Keynes observed, "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens." (Keynes, 1919: 102-103)

Inflation not only confiscates wealth, but also distorts pricing, misallocates resources, and undermines a free society. There is no singularly accepted theory of the right monetary institutions for a free society. At one time, the gold standard enjoyed widespread support, but this is also no longer the case (though some continue to support that system). What characterizes almost all monetary theorists today, however, is support for low or zero inflation. A good way to gauge the influence of monetary policy on economic freedom is to analyse the inflation rate over a period of time.

Inflation in relatively unfree countries is high. Relatively high and unstable prices explain most of the monetary freedom score. A system of subsidies, price controls, and free provision of utilities underpins the governments' economic policies, and the governments also influence prices through numerous state-owned utilities and enterprises.

The EU members of transition countries are mostly free than the others. This is because of the necessity of the Maastricht Criterions about the monetary policy and inflation rate.

Table: 4 – Monetary Freedom of Transition Countries over the 1995 – 2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	77,1	80,9	83,3	86,6	88,1	91,1
Czech Republic	69,2	72,5	74,4	75,9	76,4	75,0	81,2	82,2	81,9	84,6	88,9	85,9	86,2
Estonia	0,0	17,3	55,5	62,3	70,3	74,9	80,6	87,0	85,7	82,1	85,4	84,6	83,0
Lithuania	N/G	3,8	33,0	53,9	65,1	72,4	84,9	87,7	88,1	90,1	90,1	90,4	81,2
Bosnia and Herzegovina	N/G	N/G	N/G	0,0	0,0	83,3	75,2	77,2	77,9	82,4	84,5	86,1	81,1
Albania	22,1	42,6	62,9	67,7	57,8	59,6	71,8	86,1	85,8	79,6	85,0	85,3	80,7
Poland	48,7	52,4	55,3	59,6	63,6	66,9	70,9	70,5	73,5	78,1	82,3	79,5	80,3
Armenia	N/G	0,0	0,0	0,0	55,5	69,1	77,8	91,0	81,8	84,5	82,0	79,7	79,7
Croatia	N/G	0,0	0,0	61,7	72,1	69,9	71,7	75,7	76,2	79,5	81,5	81,3	79,3
Slovenia	N/G	49,7	64,0	68,3	70,8	71,9	73,5	72,0	76,7	77,3	79,1	81,7	79,0
Georgia	N/G	0,0	0,0	0,0	50,9	67,5	61,1	67,4	74,7	75,6	75,9	75,2	77,9
Kyrgyz Republic	N/G	N/G	N/G	41,1	56,9	65,0	55,7	60,0	67,6	76,1	78,8	77,9	77,1
Azerbaijan	N/G	0,0	0,0	0,0	37,8	70,7	65,1	78,8	84,8	80,2	80,4	75,5	76,8
Hungary	64,2	66,6	63,1	63,8	66,3	69,6	73,3	74,7	70,6	73,7	75,6	74,3	76,7
Slovak Republic	63,3	62,1	68,1	72,7	74,0	73,9	70,8	68,8	71,3	80,7	78,1	77,8	76,7
Bulgaria	26,3	30,0	36,5	25,2	0,0	0,0	26,2	75,8	77,5	78,7	83,1	80,5	75,7
Mongolia	0,0	14,5	34,5	48,1	62,1	69,4	69,6	72,5	83,7	82,0	87,7	79,6	74,3
Latvia	N/G	41,1	57,4	65,9	72,9	78,6	83,2	84,5	85,0	85,7	84,7	80,8	74,1
Kazakhstan	N/G	N/G	N/G	0,0	46,5	62,6	66,2	68,6	70,5	73,1	73,9	73,6	72,9
Romania	0,0	11,9	39,1	52,1	27,0	38,1	41,4	46,6	50,9	56,8	62,6	66,6	69,7
Ukraine	0,0	0,0	0,0	0,0	39,3	63,0	62,3	58,2	64,0	74,5	76,2	72,8	68,4
Moldova	0,0	0,0	10,4	46,3	65,9	69,9	55,9	54,7	63,4	71,3	70,0	68,4	68,0
Tajikistan	N/G	N/G	N/G	0,0	0,0	25,6	46,6	48,9	46,9	56,3	58,6	65,1	67,2
Turkmenistan	N/G	N/G	N/G	0,0	0,0	15,4	51,9	62,5	63,3	65,6	68,3	69,4	65,9
Russia	0,0	0,0	0,0	24,3	50,3	57,5	38,9	51,3	57,1	63,4	65,6	68,1	62,8
Belarus	0,0	0,0	0,0	0,0	15,9	32,5	0,0	0,0	14,1	31,6	42,7	49,8	61,4
Uzbekistan	N/G	N/G	N/G	0,0	25,7	48,5	44,9	42,4	41,3	42,3	53,4	61,8	58,6
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	41,2	32,9	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

2.5. Freedom from Government

Freedom from government is defined to include all government expenditures -including consumption and transfers- and state-owned enterprises. Ideally, the state will provide only true public goods, with an absolute minimum of expenditure (Beach, Kane, 2007: 38-39). This factor measures government's direct use of scarce resources for its own purposes and government's control over resources through ownership. The measure comprises both government consumption and government production. Transfer payments, which consist of compulsory exchange of titles over resources among individuals, are excluded from this measure.

Government consumption consist of net purchases of good, services, and structures (for example, bridges and buildings); wages paid to government employees; net purchases of fixed assets; an inventory changes in government enterprises (U.S. Department of Commerce, Bureau of Economic Analysis, 1998: 31).

The scores of freedom from government indicate that the EU countries' levels are lower than the others'. The economic system of EU seems more interventionist than CIS2 countries. Also Croatia, the candidate country of EU, has the worst score. Total government expenditures in Croatia, including consumption and transfer payments, are very high. In the most recent year, government spending equalled 51.6% of GDP, and the government received 4.1% of its total revenues from state-owned enterprises and government ownership of property. Privatization has progressed slowly. In fact, this slow privatization process is the main handicap for freedom from government and it reduces the economic freedom scores of these countries.

Table: 5 – Freedom from Government of Transition Countries over the 1995 – 2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Armenia	N/G	0,0	31,9	71,0	79,2	84,4	83,8	78,8	87,6	91,1	89,5	84,3	91,6
Georgia	N/G	54,9	79,3	94,7	84,4	84,6	87,9	84,8	91,3	92,2	92,5	92,0	91,3
Tajikistan	N/G	N/G	N/G	87,5	87,5	88,9	90,7	90,4	94,2	92,7	88,3	86,9	86,8
Azerbaijan	N/G	40,3	55,1	85,9	85,4	72,6	89,3	90,0	84,9	79,6	85,8	79,2	86,6
Kazakhstan	N/G	N/G	N/G	83,4	87,9	86,0	90,3	86,6	87,6	84,8	86,6	85,6	85,9
Turkmenistan	N/G	N/G	N/G	81,5	91,0	76,7	76,7	78,8	86,8	77,6	89,3	91,2	82,9
Albania	23,3	42,9	53,6	69,9	74,5	69,7	71,4	68,5	72,4	74,4	73,8	78,0	77,7
Lithuania	N/G	68,7	66,3	67,9	72,4	71,2	78,1	75,6	76,7	75,9	71,8	71,0	76,6
Kyrgyz Republic	N/G	N/G	N/G	68,1	81,0	84,1	84,6	67,9	91,3	85,4	82,6	83,9	76,3
Romania	44,3	70,5	70,3	69,3	70,0	68,6	82,9	52,6	56,1	80,0	74,8	74,2	74,9
Moldova	67,4	67,4	36,5	44,8	47,6	82,6	72,3	79,1	79,8	77,6	74,1	72,0	71,7
Russia	61,7	61,0	51,6	61,9	59,5	67,9	67,9	65,9	70,9	71,5	65,4	68,9	71,6
Latvia	N/G	42,6	64,8	64,8	65,8	57,8	72,7	61,0	66,8	69,8	44,8	61,3	69,2
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	56,1	87,6	58,6	60,2	71,4	67,8

[2] CIS: Commonwealth of Independent States, consisting of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Uzbekistan, and Ukraine.

Belarus	46,7	33,3	47,8	56,8	57,4	52,6	54,7	50,3	53,3	50,3	49,4	46,4	66,9
Estonia	57,1	67,8	64,9	41,7	59,6	41,1	74,0	64,9	66,7	64,4	69,1	65,4	66,8
Uzbekistan	N/G	N/G	N/G	49,2	44,6	59,1	59,1	64,2	68,1	72,4	51,6	53,3	66,1
Bulgaria	42,3	40,9	46,4	56,6	54,1	60,1	73,4	58,4	64,8	69,2	60,8	58,0	65,6
Ukraine	38,3	38,3	40,6	42,9	33,5	33,5	41,5	52,3	74,3	79,6	82,0	79,6	61,9
Slovak Republic	9,3	9,0	9,0	24,6	3,9	13,9	51,8	44,0	38,7	53,7	54,5	60,5	60,8
Mongolia	33,1	33,1	51,8	58,1	66,9	69,4	57,2	62,0	59,9	53,8	50,9	56,0	56,9
Slovenia	N/G	23,7	25,6	26,9	29,4	26,9	38,3	31,6	52,7	52,9	56,8	55,9	56,8
Poland	32,8	47,0	41,6	46,6	49,3	47,9	55,2	60,9	57,0	48,2	44,8	51,6	55,3
Czech Republic	51,2	51,2	49,1	52,0	56,4	60,0	61,0	48,3	57,3	53,3	33,3	50,0	52,7
Bosnia and Herzegovina	N/G	N/G	N/G	45,9	2,8	44,8	0,0	0,0	32,3	35,1	40,0	47,5	45,6
Hungary	29,0	29,0	29,0	29,0	29,0	50,6	52,8	42,3	38,4	36,7	41,1	42,5	41,8
Croatia	N/G	60,5	61,1	52,5	51,8	53,5	48,5	42,0	44,0	39,6	41,8	37,0	36,5
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	70,6	87,4	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

2.6. Fiscal Freedom

Fiscal freedom is a measure of the burden of government from the revenue side. It includes both the tax burden in terms of the top tax rate on income (individual and corporate separately) and the overall amount of tax revenue as portion of GDP (Beach, Kane, 2007: 39). To measure the fiscal burden a government imposes on its citizens, the authors examined both tax rates and the level of government expenditures. The tax rate confronting an individual is effectively a price paid for supplying economic effort of engaging in an entrepreneurial venture. The higher the price of effort or entrepreneurship, the less of it will be undertaken. Higher tax rates discourage individuals from pursuing their goals in the marketplace.

Government expenditures, measured as a percentage of GDP, capture the true cost of government in a society. When a government expends money, it acquires resources, diverting them away from private choices and private goals. This is true whether the expenditures are to acquire resources for government consumption or for transfer payments among citizens.

The government's method of financing its expenditures, in addition to their absolute amount, has an impact. Whether a given level of government expenditure is financed by taxation, dept issuance, or money creation (or varying amounts of each) has its own impact on the economy and society. The financing method imposes its own burden, but the expenditures are a fiscal burden unto them.

Table: 6 – Fiscal Freedom of Transition Countries over the 1995 – 2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Kyrgyz Republic	N/G	N/G	N/G	81,5	81,8	79,5	79,1	81,7	84,4	90,3	90,0	93,3	95,1
Turkmenistan	N/G	N/G	N/G	70,8	71,6	88,9	89,7	90,0	92,5	92,3	92,3	93,8	94,4
Georgia	N/G	92,0	92,0	94,5	94,2	93,9	93,9	93,8	93,7	93,7	93,3	96,0	94,2
Tajikistan	N/G	N/G	N/G	71,6	71,8	71,7	72,0	74,4	82,7	90,0	89,8	94,1	93,2
Armenia	N/G	75,8	87,1	87,2	86,9	86,2	87,9	92,2	92,6	93,3	93,2	93,3	93,1
Slovak Republic	57,7	66,4	66,4	66,4	68,7	69,9	72,9	74,0	78,4	79,0	87,9	93,0	93,0
Romania	57,9	59,8	61,1	60,8	61,5	72,2	71,7	76,3	79,4	79,9	80,1	91,7	91,7
Albania	87,8	87,8	87,7	88,1	88,6	86,8	86,3	86,2	89,2	89,1	88,9	87,4	91,5
Bulgaria	64,0	67,1	65,9	69,0	78,7	78,6	72,1	78,8	81,6	87,4	86,9	92,3	91,3
Lithuania	N/G	84,4	83,7	80,5	81,6	80,3	80,6	82,7	85,9	88,5	88,5	88,6	91,0
Moldova	47,1	83,4	72,7	71,8	72,3	70,5	69,6	85,4	87,6	87,7	89,7	93,2	90,4
Bosnia and Herzegovina	N/G	N/G	N/G	78,8	78,8	82,0	78,0	77,8	77,4	90,8	90,8	90,2	90,0
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	87,3	86,8	89,7	89,1	87,0	90,0
Uzbekistan	N/G	N/G	N/G	71,6	66,3	71,7	70,2	70,1	83,4	85,8	87,0	84,8	90,0
Estonia	88,0	82,1	81,0	81,5	81,9	81,7	86,4	86,7	86,9	89,2	88,6	89,2	89,7
Latvia	N/G	87,5	85,3	85,0	84,8	84,5	83,6	84,5	85,5	88,2	89,1	89,0	89,3
Ukraine	45,2	41,0	74,1	76,2	75,3	74,9	75,9	77,4	78,1	78,3	88,7	93,5	89,1
Belarus	59,5	56,9	56,9	60,5	61,5	72,2	77,3	78,8	76,8	83,6	84,2	85,9	87,9
Kazakhstan	N/G	N/G	N/G	82,2	82,5	87,0	86,1	86,2	85,3	84,7	88,4	87,7	87,6
Azerbaijan	N/G	64,2	69,8	80,2	81,0	80,9	81,2	85,6	85,6	85,6	86,1	86,7	87,2
Russia	83,7	83,7	85,1	82,8	82,8	83,1	83,1	89,9	93,7	94,4	94,3	93,9	86,3
Mongolia	65,0	60,0	74,7	74,6	75,8	76,1	76,3	76,1	74,5	72,9	82,4	84,6	81,0
Croatia	N/G	84,9	82,9	78,8	78,9	79,3	77,9	78,8	85,1	78,2	72,9	79,7	79,9
Czech Republic	64,5	65,0	69,1	69,8	72,8	72,1	78,4	77,9	78,1	78,0	78,8	79,2	79,9
Hungary	64,5	70,5	69,6	70,5	75,0	75,9	77,1	77,0	77,0	77,0	78,6	78,8	79,2
Poland	67,3	65,3	66,3	67,7	68,8	72,1	74,2	76,8	77,1	76,6	78,9	79,1	79,1
Slovenia	N/G	79,5	67,6	67,9	68,3	68,6	68,5	67,9	68,7	69,6	70,4	76,0	69,7
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	93,2	86,5	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

The EU countries have the highest income tax rates. Slovenia's top income tax rate is 50%, Croatia's is 45% and Poland's is 40%. Top corporate tax rate is changing between 15% and 25% in the EU countries. Corporate tax rate is 0% in Estonia.

Table: 7 – Fiscal Burden of Transition Countries in 2007

Countries	Income Tax Rate	Corporate Tax Rate	Total Tax Revenue (% of GDP)
Albania	20	20	21,7
Armenia	20	20	15,3
Azerbaijan	35	22	14,4
Belarus	30	24	18,6
Bosnia & Herzegovina	10	30	22,4
Bulgaria	24	15	22,3
Croatia	45	20	24,2

Czech Republic	32	24	37,6
Estonia	23	0	31,9
Georgia	12	20	18,2
Hungary	38	16	37,7
Kazakhstan	20	30	23,6
Kyrgyz Republic	10	10	23,1
Latvia	25	15	27,5
Lithuania	27	15	19,8
Macedonia	18	15	30,8
Moldova	18	15	29,8
Mongolia	30	30	32,3
Poland	40	19	34,3
Romania	16	16	27,1
Russia	13	24	36,1
Serbia and Montenegro	n/a	n/a	n/a
Slovak Republic	19	19	18
Slovenia	50	25	37,6
Tajikistan	13	25	15,2
Turkmenistan	10	20	18,3
Ukraine	13	25	29,1
Uzbekistan	29	12	22,7

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

2.7. Property Rights

Property rights are an assessment of the ability of individuals to accumulate private property, secured by clear laws that are fully enforced by the state (Beach, Kane, 2007: 39). The ability to accumulate private property is the main motivating force in a market economy, and the rule of law is vital to a fully functioning free-market economy. Secure property rights give citizens to confidence to undertake commercial activities, save their income, and make long-term plans because they know that their income is safe from expropriation. This factor examines the extent to which the government protects private property by enforcing the laws and how safe private property is from expropriation. The less protection private property receives, the lower the level of economic freedom and the higher the score.

Most of the transitional countries laws remain an unwieldy combination of communist-era statutes and internationally imposed reforms. In addition, the judicial system, which is still evolving, does not yet adequately cover commercial activities. There are no commercial/economic courts in some of these countries and no efficient way to resolve commercial disputes.

Table: 8 – Property Rights of Transition Countries over the 1995 – 2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Estonia	70	70	70	70	70	70	70	70	70	70	70	70	90
Czech Republic	70	70	70	70	70	70	70	70	70	70	70	70	70
Hungary	70	70	70	70	70	70	70	70	70	70	70	70	70
Latvia	N/G	50	50	50	50	50	50	50	50	50	50	50	50
Lithuania	N/G	50	50	50	50	50	50	50	50	50	50	50	50
Moldova	50	50	50	50	50	50	50	50	50	50	50	50	50
Poland	50	70	70	70	70	70	70	70	70	50	50	50	50
Slovak Republic	70	50	50	50	50	50	50	50	50	50	50	50	50
Slovenia	N/G	30	50	70	70	70	70	50	50	50	50	50	50
Albania	50	50	50	30	30	30	30	30	30	30	30	30	30
Armenia	N/G	50	50	50	50	50	50	50	50	50	50	50	30
Azerbaijan	N/G	30	30	30	30	30	30	30	30	30	30	30	30
Bulgaria	50	50	50	50	50	50	50	50	50	30	30	30	30
Croatia	N/G	50	30	30	30	30	30	30	30	30	30	30	30
Georgia	N/G	30	30	30	30	30	50	30	30	30	30	30	30
Kazakhstan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	30	30
Kyrgyz Republic	N/G	N/G	N/G	30	30	30	30	30	30	30	30	30	30
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	30	30	30	30	30	30
Mongolia	70	70	50	50	50	50	50	50	50	50	50	30	30
Romania	30	30	30	30	30	30	30	30	30	30	30	30	30
Russia	50	50	50	50	50	50	50	30	30	30	30	30	30
Tajikistan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	30	30
Ukraine	30	30	50	30	30	30	30	30	30	30	30	30	30
Uzbekistan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	30	30
Belarus	50	50	50	30	30	30	30	30	30	30	30	30	20
Bosnia and Herzegovina	N/G	N/G	N/G	10	10	10	10	10	10	10	10	10	10
Turkmenistan	N/G	N/G	N/G	30	30	30	30	30	30	30	10	10	10
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	30	30	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

The EU countries have the best scores for property rights. In the EU system, mostly judiciary is independent and insulated from government influence. Property rights and contracts are enforced by the courts, and the commercial code is applied consistently. As part of their ongoing effort to strengthen their judicial procedures since gaining EU membership, these countries adopted a new code of criminal procedure one by one.

2.8. Investment Freedom

Investment freedom is an assessment of the free flow of capital, especially foreign capital (Beach, Kane, 2007: 39). Restrictions of foreign investment limit the inflow of capital and thus hamper economic freedom. By contrast, little or no restriction of foreign investment enhances economic freedom; foreign investment provides funds for economic expansion. For this category, the more restrictions a country impose on foreign investment, the lower the level of economic freedom and higher the score.

Mostly EU countries have the best scores of capital flows and foreign investment. These countries are open to foreign investment, and foreign investors receive national treatment. The governments allow foreigners to invest in all sectors, with requirements restricted to non-discriminatory regulation and documentation to establish clear ownership. There are no exchange controls and no repatriation limitations that force investors to keep their capital in these countries. Foreigners may own real estate.

Table: 9–Investment Freedom of Transition Countries over the 1995–2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Estonia	90	90	90	90	90	90	90	90	90	90	90	90	90
Czech Republic	70	70	70	70	70	70	70	70	70	70	70	70	70
Hungary	70	70	70	70	70	70	70	70	70	70	70	70	70
Latvia	N/G	50	70	70	70	70	70	70	70	70	70	70	70
Lithuania	N/G	50	70	70	70	70	70	70	70	70	70	70	70
Slovak Republic	70	70	50	50	50	50	70	70	70	70	70	70	70
Slovenia	N/G	30	50	70	70	50	50	50	50	50	50	70	70
Albania	70	70	70	70	70	70	70	70	70	70	70	70	60
Armenia	N/G	30	30	30	30	50	70	70	70	70	70	90	60
Bulgaria	70	70	50	50	70	70	70	70	50	50	50	70	60
Georgia	N/G	50	50	50	50	50	50	50	50	50	30	50	60
Mongolia	70	50	50	50	50	50	50	50	50	50	50	70	60
Bosnia and Herzegovina	N/G	N/G	N/G	30	30	30	30	30	30	30	30	50	50
Croatia	N/G	50	50	50	50	50	50	50	50	50	50	50	50
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	50	50	50	50	50	50
Poland	70	70	70	70	70	70	70	70	50	50	50	50	50
Romania	70	70	70	70	70	70	50	50	50	30	30	50	50
Kyrgyz Republic	N/G	N/G	N/G	50	50	50	50	50	50	50	30	50	40
Azerbaijan	N/G	10	10	30	30	30	30	30	30	30	30	30	30
Kazakhstan	N/G	N/G	N/G	30	30	30	30	30	30	10	10	30	30
Moldova	30	50	50	50	50	50	50	50	50	30	30	30	30
Russia	70	70	50	50	50	50	50	50	50	50	30	30	30
Tajikistan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	30	30
Ukraine	50	50	50	50	50	50	50	50	30	30	30	30	30
Uzbekistan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	30	30
Belarus	50	50	30	30	30	30	30	30	30	30	30	30	20
Turkmenistan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	10	10
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	10	10	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

2.9. Financial Freedom

Financial freedom is a measure of banking security as well as independence from government control (Beach, Kane, 2007: 39). State ownership of banks and other financial institutions such as insurer and capital markets is an inefficient burden, and political favouritism has no place in a free capital market.

In most countries, banks provide the essential financial services that facilitate economic growth; they lend money to start businesses, purchase homes, and secure credit to purchase consumer durable goods, in addition to furnishing a safe place in which individuals can store their earnings. The government controls the more banks, the less free they are engaging in these activities. One consequence of heavy bank regulation is restricted economic freedom; therefore, the more a government restricts its banking sector, the higher its score ant the lower its level of economic freedom.

In developed economies, commercial banks are relatively less important; a higher proportion of credit is supplied in organized securities markets. Over the years, the authors have devoted more attention to the non-banking part of the financial services industry (insurance and securities).

Table: 10 –Financial Freedom of Transition Countries over the 1995 – 2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Estonia	70	70	70	70	70	70	70	90	90	90	90	90	90
Czech Republic	90	90	90	90	90	90	90	90	90	90	90	90	80
Lithuania	N/G	30	50	50	50	50	50	50	70	90	90	90	80
Slovak Republic	50	50	50	50	50	50	50	70	70	90	90	90	80
Albania	50	50	30	30	30	30	30	50	50	50	50	70	70
Armenia	N/G	50	50	50	50	70	70	70	70	90	90	90	70
Georgia	N/G	30	30	30	30	30	30	30	50	50	50	70	70
Latvia	N/G	50	70	70	70	70	70	70	70	70	70	70	70
Bosnia and Herzegovina	N/G	N/G	N/G	10	10	30	30	30	50	70	70	70	60
Bulgaria	50	50	50	50	50	50	50	50	50	70	70	70	60
Croatia	N/G	50	50	50	50	50	50	50	50	70	70	70	60
Hungary	50	70	70	70	70	70	70	70	70	70	70	70	60
Kazakhstan	N/G	N/G	N/G	30	30	30	30	30	30	30	30	70	60
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	70	70	70	70	70	60
Mongolia	50	50	50	50	50	50	50	50	50	50	50	70	60
Romania	50	50	50	50	50	50	30	30	50	50	50	50	60
Kyrgyz Republic	N/G	N/G	N/G	50	50	50	50	50	50	50	50	50	50
Moldova	10	50	50	50	50	50	50	50	50	50	50	50	50
Poland	50	50	50	50	50	50	50	70	70	70	70	70	50
Slovenia	N/G	70	70	70	70	50	50	50	50	50	50	50	50
Ukraine	50	30	30	30	30	30	30	30	50	50	50	50	50
Russia	50	50	70	70	70	30	30	30	30	30	30	30	40
Tajikistan	N/G	N/G	N/G	30	30	30	30	30	10	10	10	30	40
Azerbaijan	N/G	30	30	30	30	30	30	30	30	30	30	30	30
Uzbekistan	N/G	N/G	N/G	10	10	10	10	10	10	10	10	10	20
Belarus	50	70	50	50	30	30	30	30	30	30	30	30	10
Turkmenistan	N/G	N/G	N/G	10	10	10	10	10	10	10	10	10	10
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	30	30	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

EU countries have the best scores for financial freedom. Financial sector is the strongest and most developed one in EU. Before their accession to the EU, transitional countries dramatically reformed their financial systems. The central bank may not lend to the public sector, and the government has no stake in any bank in these countries. Foreign financial institutions are welcome, and the insurance sector is dominated by foreign firms in most of these countries. Credit is allocated on market terms, and foreign investors may obtain credit freely. The stock exchange is small but active.

2.10. Freedom from Corruption

Freedom from corruption is based on quantitative data that assess the perception of corruption in the business environment, including levels of governmental legal, judicial, and administrative corruption (Beach, Kane, 2007: 39).

In some cases, the existence of a black market may appear positive; at least there is some ability to engage in entrepreneurship or to obtain scarce goods and services. As Robert Barro notes, "In some circumstances, corruption may be preferable to honest enforcement of bad rules. For example, outcomes may be worse if a regulation that prohibits some useful economic activity is thoroughly enforced rather than circumvented through bribes (Barro, 2000: 36). Alejandro Chafuen and Eugenio Guzmán, however, point out that "corruption is the cost of obtaining privileges that only the State can 'legally' grant, such as favouritism in taxation, tariffs, subsidies, loans, government contracting, and regulation." (Chafuen & Guzmán, 2000: 53).

Black markets are the direct result of some kind of government intervention in the marketplace. A black market activity is one that the government has taxed heavily, regulated in a burdensome manner, or simply outlawed in the past. This factor captures the effects of government interventions not always fully measured elsewhere.

Although many societies outlaw such activities as trafficking in illicit drugs, others frequently limit individual liberty by outlawing such activities as private transportation and construction services. A government regulation or restriction in one area may create a black market in another. For example, a country with high barriers to trade may have laws that protect its domestic market and prevent the import of foreign goods, but these barriers create incentives for smuggling and a black market for the barred products. In addition, governments that do not have strong property rights protection for items like intellectual property, or that does not enforce existing laws, encourage piracy and theft of these products.

For the purposes of this paper, the larger the black market in a particular country, the lower the level of economic freedom; and the more prevalent black market activities are, the worse the score. Conversely, the smaller the black market, the higher the level of economic freedom, and the less prevalent these activities are, the better score.

Table: 11 – Freedom from Corruption of Transition Countries over the 1995 – 2007 Period

Countries	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Estonia	50	50	50	70	70	70	70	57,0	56,0	56,0	55,0	60,0	64,0
Slovenia	N/G	30	50	50	50	50	50	55,0	52,0	60,0	59,0	60,0	61,0
Hungary	50	50	50	50	50	70	70	52,0	53,0	49,0	48,0	48,0	50,0
Lithuania	N/G	30	30	30	30	30	30	41,0	48,0	48,0	47,0	46,0	48,0
Czech Republic	50	50	30	50	50	50	50	43,0	39,0	37,0	39,0	42,0	43,0
Slovak Republic	50	50	50	50	50	50	50	35,0	37,0	37,0	37,0	40,0	43,0
Latvia	N/G	50	30	30	30	30	30	34,0	34,0	37,0	38,0	40,0	42,0
Bulgaria	30	30	30	30	30	50	50	35,0	39,0	40,0	39,0	41,0	40,0
Croatia	N/G	30	50	50	50	50	50	37,0	39,0	38,0	37,0	35,0	34,0
Poland	50	70	50	50	50	50	50	41,0	41,0	40,0	36,0	35,0	34,0
Mongolia	50	50	50	50	50	50	50	50,0	50,0	43,0	43,0	30,0	30,0
Romania	10	30	30	50	50	50	30	29,0	28,0	26,0	28,0	29,0	30,0
Armenia	N/G	50	30	30	30	30	30	25,0	25,0	25,0	30,0	31,0	29,0
Bosnia and Herzegovina	N/G	N/G	N/G	10	10	10	10	0,0	0,0	0,0	33,0	31,0	29,0
Moldova	10	30	30	30	30	30	10	26,0	31,0	21,0	24,0	23,0	29,0
Macedonia	N/G	N/G	N/G	N/G	N/G	N/G	N/G	0,0	0,0	33,0	23,0	27,0	27,0
Belarus	10	10	10	10	10	10	10	41,0	0,0	48,0	42,0	33,0	26,0
Kazakhstan	N/G	N/G	N/G	10	10	10	10	30,0	27,0	23,0	24,0	22,0	26,0
Ukraine	10	30	30	30	30	30	30	15,0	21,0	24,0	23,0	22,0	26,0
Albania	10	10	10	10	10	10	10	0,0	0,0	25,0	25,0	25,0	24,0
Russia	10	30	30	30	30	30	30	21,0	23,0	27,0	27,0	28,0	24,0
Georgia	N/G	10	10	10	10	10	10	0,0	0,0	24,0	18,0	20,0	23,0
Kyrgyz Republic	N/G	N/G	N/G	30	30	30	30	25,0	25,0	25,0	21,0	22,0	23,0
Azerbaijan	N/G	10	10	30	30	30	10	15,0	20,0	20,0	18,0	19,0	22,0
Uzbekistan	N/G	N/G	N/G	10	10	10	10	24,0	27,0	29,0	24,0	23,0	22,0
Tajikistan	N/G	N/G	N/G	10	10	10	10	0,0	0,0	0,0	18,0	20,0	21,0
Turkmenistan	N/G	N/G	N/G	10	10	10	10	0,0	0,0	0,0	0,0	20,0	18,0
Serbia and Montenegro	N/G	N/G	N/G	N/G	N/G	N/G	N/G	0,0	0,0	N/G	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

Corruption is perceived as widespread because of the weakness of governance in Central Asian transitional countries. But the EU members have done some reforms at bureaucracy, customs etc. They still combat with corruption in order to establish good governance system.

2.11. Labour Freedom

Labor freedom is a composite measure of the ability of workers and businesses to interact without restriction by the state (Beach, Kane, 2007: 39). In a market economy, prices allocate resources to their highest use. A firm that needs more employees may signal this need to the market by offering a higher wage; an individual who greatly values a home on the market offers a high price to purchase it. Price also acts as signals to producers and consumers by conveying information that otherwise would be prohibitively costly to obtain.

When prices are determined freely, resources go to their most productive use for satisfying consumer. As Friedrich A. Hayek put it, "We must look at the price system as...a mechanism for communicating information if we want to understand it real functional function which, of course, it fulfils less perfectly as prices grow more rigid." (Hayek, 1948: 86)

Government interventions in the labour market are not limited to wages or hours; they also affect hiring and firing practices, workplace rules, safety, and even the kind of language allowed. In various ways, the interventions also decide how, with what, where, and when people work. Government also affects pricing through taxation and trade union privileges, notably collective bargaining. Finally, governments often mandate social insurance systems, such as pensions. Unlike many other government programs, regulatory structures normally impose costs that are invisible to the public simply because they do not show up on government budgets. (Munkhammar, 2007: 29)

Table: 12 – Labour Freedom of Transition Countries over the 1995 – 2007 Period

Countries	2005	2006	2007	Countries	2005	2006	2007
Georgia	76,5	81,2	99,9	Slovak Republic	61,9	63,3	62,5
Tajikistan	81,3	81,1	81,7	Romania	57,0	59,8	61,4
Armenia	67,5	72,0	80,9	Moldova	61,0	59,7	61,2
Kazakhstan	78,1	82,4	80,5	Albania	58,0	59,3	60,6
Czech Republic	73,7	77,4	77,2	Lithuania	58,0	59,1	60,1
Uzbekistan	74,1	73,9	74,7	Macedonia	65,2	64,4	58,1
Kyrgyz Republic	70,5	73,8	74,4	Bosnia and Herzegovina	59,7	58,7	57,3
Bulgaria	72,2	71,4	71,5	Poland	53,9	55,6	56,2
Russia	65,8	65,6	66,2	Croatia	51,7	51,4	52,0
Hungary	66,0	67,3	66,1	Ukraine	56,3	52,1	51,8
Mongolia	65,0	65,3	65,9	Estonia	47,8	50,4	51,2
Azerbaijan	70,5	64,4	65,4	Slovenia	47,2	48,6	48,7
Belarus	70,4	64,2	64,7	Turkmenistan	30,0	30,0	30,0
Latvia	58,5	63,1	64,1	Serbia and Montenegro	N/G	N/G	N/G

Source: The Heritage Foundation, Index of Economic Freedom, http://www.heritage.org, 18.02.2007.

3. Differences between the EU Transitional Economies and the Others

Europe is the birthplace of the modern industrial economy. It also served as the testing ground for the two great economic philosophies of the past century and witnessed the collapse of Communism. The European continent produces one-quarter of the world's economic product and is doubly more active in export and import than other regions. A majority of the world's 20 freest countries are in Europe, which is the only region to have a distribution of economies that is skewed toward freedom. (Kane, 2007: 61-63)

Free market theory; not only defends the superiority of free market ideologically but also depends on a basic belief. This belief is the best solution of a market considered in its own flow in order to solve economic problems and also strong especially for classic theory. The main hypothesis, of which the theory is based upon, is a social structure in which the individual interests are maximized by everyone so that to reach the possible best level, according to the other social preferences, is the structure of which the most efficient and total welfare is provided in the best way. Adam Smith believes that the efficiency of the free market depends on price mechanism (See: Smith, 1776). He points out the role of the source allocation in the field of economy. “Wealth of nations” is because of the effective usage of their sources and the optimum usage of these sources in different production fields. According to Smith, any of a foreign authority for instance a ruler, cannot provide the optimal source allocation because of the decrees. The existence of a developed co-operation in the society shall provide the optimal source allocation and a trade order that is to say a free ex-change, which is included in the mentioned co-operation.

Liberal trade policy is a key component of economic freedom and contributes to long-term, stable economic growth by increasing efficiency and reducing costs for producers and consumers. Yet resistance to trade liberalization remains strong in both developed and developing countries. (Hulsman and others, 2005: 37)

Capital flows, investments and businesses are very important in developing countries. The barriers on these should be eliminated for sustainable development. For a free trade order, there are so many precautions to do in transitional economies. All of these countries take into account this point and open the way to foreign capital.

Customs tariff rate, income tax rate and corporate tax rate should be decreased in order to improve domestic and foreign trade and investments, which is financed by foreign capital. The EU countries harmonize their tax system with EU’s general system. But the other countries are mostly engage in tax competition. They reduce tax rates and execute tax exemptions and fiscal immunities.

The thought of losing sources of tax revenue scares government officials from high-tax nations, who vociferously condemn tax competition and would like to see it reduced or eliminated. On the other hand, protecting and preserving the right to engage in tax competition should be a key goal for economic policymakers, particularly those interested in promoting economic development in poorer nations. If international bureaucracies succeed in destroying or limiting tax competition, governments will have much less incentive to behave responsibly. The absence of competition would undermine countries’ opportunities for creative economic reform and reduce individual freedom. (Mitchell, 2007: 25-26)

There are some different kind of non-tariff barriers at customs as corruption, excessive documentation, slow processing, certification requirement, non-transparent standards, frequent and unpredictable changes, and licensing. They all should be abolished or diminished for the target of a free foreign trade. Also, the governments should reduce all the quotas on foreign trade. Unless these facilitations, it is so hard to establish a free trade order.

The weak government administration should turn to a powerful structure and should not to prone to corruption, in fact should combat with corruption and red tapes.

Unfortunately, the other countries still struggle with these problems. The EU countries had many advantages at the preparatory period to EU and they had a successful fight against corruption.

Frequent and unpredictable changes in customs or in the tax system will make the foreign investors and businessmen uninterested in to invest or to commerce in domestic markets. In this setting, the stabilization of fiscal system is the most important point. The stable order of EU gives many advantages to EU countries.

The fiscal burden on firms should be decreased. The excess burden of fiscal obligations and the high tax rates also mitigate the desire of investors, traders and businessmen.

The government intervention in the economy is the most important barrier for entrepreneurs. Every kind of government intervention in the economy should abolish or diminish in order to turn the transition process in time.

Privatisation of state-owned enterprises is the other important point on the transition process. Privatisation policies should perform carefully in order to keep balance between private sector and public sector in the economy. Inefficiency problems of state-owned enterprises are solved by privatisation, but not to forget that after privatisation some social problems could occur.

To hold foreign exchange accounts for both residents and non-resident should be free in the banking system. There should be no barriers on capital flows. The industrial investment system should be made more attractive for foreign capital. In this point of view, the free flowing of capital is very important. Also the governments carry out some subsidies for foreign and domestic investors. If the new businesses are opened in the country, the more people work there, so government receives the more revenue. It is cited that the government could finance the development if there is enough public revenues.

Law should protect property rights in order to make more free economy. Especially the individual property rights are very important. If the economic system does not supported by individual property rights, it is so hard to understand the meaning of profit by the people.

The informal economy is the other important factor that distorts the competition. The average size of the shadow economy labour force (in percent of the population of working age) of the year 1998/99 in 22 transition countries is 30,2 percent (See: Schneider, 2002). The social security system of these countries should establish as soon as it is possible. Before this system established, to privatise the state-owned enterprises and to attract the foreign capital are very difficult. In order to combat with undeclared work and illegal work, the government should enact a law for this purpose and forbid these kinds of works.

4. Conclusion

The more free economy needs a more free political order. In this order, the government should be powerful but not the meaning of intervention or excess regulation in the economy. Free political order brings democratic process together. The voter is the consumer in the same time. If an individual act free in the economic order, he can also be free in the political order. We cannot separate the economic and political system from each other.

EU makes significant contributions to newcomer transitional economies from Union Budget. Moreover, fundamental revisions are made on public administration of these countries in order to accord their political system to European Union's System. European countries have enabled their industrial framework in 300 years. Now, some changes on superstructure accelerate the economic growth easily. Most of the newcomer transitional economies of EU have their own industrial infrastructure. They required to renovate their technologies and in order to realize this renovation they needed capital too. In this setting, the EU funds are met their capital requirements. As a cost of these funds they have to adopt EU system on their economic and political order together.

Most of the transition economies which were joint the EU after 2004, have a regular improvement on their level of economic freedom. But Croatia, that is in the preparatory period, has deterioration some of economic freedom types. The formalistic and interventionist frame of EU order restricts some of economic freedom types such as freedom from government and fiscal freedom for newcomer transitional countries.

However, the other countries are extensively free for fiscal freedom and freedom from government types. But their economic growth rate is slower than EU countries. Shadow economy and corruption cause public income loss, hereupon the government expenditures for prosperity decline. Income inequality is still the first economic problem in these countries. The low welfare level and less public investment expenditures have bad effects on the city life. The people who ease their economic situation search a way to immigrate other wealthy countries. So, even financial and human capital losses are extremely big in the other transition economies.

If the people believe freedom, they force the government to be free. If the politicians believe the freedom, they force the bureaucrats to turn the system. If the bureaucrats believe the freedom, there is no barrier indeed in order to transit the market economy. If the majority of the people in country intent to be more free, they have already solved many of problems on the way to prosperity.

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