Does The Economy Of Freedom Effect Macroeconomic Performance In A Broken Economy? Empirical Evidence[1]

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A r t i c l e I n f o	*A b s t r a c t*
	This study aims to provide evidence on whether the liberal economy significantly impacts selected groups of countries (the 10 Freest Countries and the Fragile Five Countries). It investigates the macroeconomic impact of economic freedom on price stability based on the consumer price index and Gross Domestic Product per capita. According to the analysis using Panel data analysis for the years 2005-2020, the findings reveal that economic freedoms positively affect economic growth but do not have the expected effect on price stability. These results confirm the Monetarist theory that "Inflation is always and everywhere a monetary phenomenon" and reveal the necessity of combating inflation with tight monetary and fiscal policies rather than regulations that expand economic freedoms. This suggests that policymakers should prioritize price stability in achieving the ultimate goal of economic growth and price stability and that economic growth can be achieved with economic freedoms after price stability is achieved. In the literature, there is no research on whether the macroeconomic performance of countries with fragile economies will be positively affected by economic freedom. This study contributes to the literature in this respect.

Kırılgan Bir Ekonomide Özgürlük Ekonomisi Makroekonomik Performansı Etkiler Mi? Deneysel Kanıtlar[2]

M a k a l e B i l g i s i	*Ö z e t*
	Bu çalışmanın amacı, liberal ekonominin seçilmiş ülke grupları (En Özgür 10 Ülke ve Kırılgan Beş Ülke) üzerinde önemli bir etkiye sahip olup olmadığına dair kanıt sağlamaktır. Çalışma, ekonomik özgürlüğün fiyat istikrarı üzerindeki makroekonomik etkisini tüketici fiyat endeksi ve kişi başına Gayri Safî Yurtiçi Hâsıla temelinde araştırmaktadır. 2005-2020 yılları için Panel veri analizi kullanılarak yapılan analizin sonuçlarına göre, bulgular ekonomik özgürlüklerin ekonomik büyümeyi olumlu yönde etkilediğini ancak fiyat istikrarı üzerinde beklenen etkiye sahip olmadığını ortaya koymaktadır. Bu sonuçlar, "Enflasyon her zaman ve her yerde parasal bir olgudur" şeklindeki Monetarist teoriyi doğrulamakta ve enflasyonla mücadelenin ekonomik özgürlükleri genişleten düzenlemelerden ziyade sıkı para ve maliye politikaları ile yapılması gerekliliğini ortaya koymaktadır. Bu durum, politika yapıcıların ekonomik büyüme ve fiyat istikrarı nihai hedefine ulaşmada fiyat istikrarına öncelik vermeleri gerektiğini ve fiyat istikrarı sağlandıktan sonra ekonomik özgürlüklerle ekonomik büyümenin sağlanabileceğini göstermektedir. Literatürde kırılgan ekonomilere sahip ülkelerin makroekonomik performanslarının ekonomik özgürlükten olumlu etkilenip etkilenmeyeceğine dair bir araştırma bulunmamaktadır. Bu çalışma literatüre bu açıdan katkı sağlamaktadır.

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[1] Kangal, N. ve Eroğlu, İ. (2025). Does the economy of freedom effect macroeconomic performance in a broken economy? Empirical evidence, *Uluslararası Sosyal ve Ekonomik Çalışmalar Dergisi*, 5(2),235-247, *DOI:* 10.62001/gsijses.1586762.

[2] Bu makale birinci yazarın Tokat Gaziosmanpaşa Üniversitesi Lisansüstü Eğitim Enstitüsü'nde hazırladığı *"Ekonomik Özgürlüklerin Makroekonomik Performansa Etkisi: Seçilmiş Ülke Grupları Üzerine Ampirik Bir İnceleme"* başlıklı doktora tezinden türetilmiştir

INTRODUCTION

Economic growth is a necessity for developed countries and a goal for developing countries. The differences in economic growth and welfare levels between countries with similar factor endowments or between regions within the same country have made it necessary for economists to identify different explanatory variables. Since the 1990s, institutions have started to be seen as a source of economic growth. North considered institutions as the important determinant behind the long-term performance of the economy (North, 2010: 139). Economic growth and price stability have an important place among the most important debates in economic theory. While growth theories explain economic growth dynamics, freedom's impact on growth has been considered a stance against state intervention in the market within the classical economic doctrine (Acemoglu and Robinson, 2020: 11). In addition to economic growth as a performance measure of economic policies implemented by countries, another indicator of macroeconomic performance is price stability. Although the relationship between price stability and a libertarian economic structure is of interest, historically, price stability has been attributed to the orderly functioning of monetary policies rather than being the result of a libertarian economy and Friedman's statement that "inflation is always and everywhere a monetary phenomenon" formed the basis of monetarist economic philosophy (Friedman, 1968: 14-16).

The understanding of economic freedom developed in contrast to the interventionist understanding has based the economic differentiation between countries on economic freedoms. How much share do economic freedoms have in the economic structure of countries with similar economic structures? Moreover, how much is the macroeconomic performance of countries with high economic freedom related to economic freedom? The aim of this study is to find answers to these questions. The hypothesis of this study, which aims to explain the effects of economic freedom on the macroeconomic variables of economic growth and price stability with an econometric model, is the assumption that a liberal economy positively affects economic growth and price stability. In accordance with this objective, the 10 freest countries and the Fragile Five Countries will be tested with panel data analysis.

This study contributes to the literature in two ways. First, it measures the relationship between political, legal and economic freedom indicators and macroeconomic performance (in terms of price stability and economic growth). Second, it measures the relationship between the levels of economic freedom of countries and their economic problems (economic vulnerabilities).

The hypothesis of this study, which aims to explain the effects of economic freedom on economic growth and price stability, which are macroeconomic variables, with an econometric model, is the acceptance that a liberal economy positively affects economic growth and price stability. The continuation of the study will include literature review and empirical applications. Finally, the conclusion and suggestions section will be included in the study.

LITERATURE REVIEW

When the studies conducted are taken into consideration; it has been determined that a significant part of the studies in the literature has concluded that economic freedom positively affects economic growth, while in some studies the relationship in question has been found to be insignificant. On the other hand, while some studies have concluded that economic freedom positively affects inflation and increases inflation, in others it has been concluded that economic freedom has no significant relationship with inflation. There are few studies measuring the

relationship between the level of economic freedom and inflation. The literature on the research topic is summarized below.

Pääkkönen (2010) tested the effect of the level of economic freedom, which will be evaluated as an institutional structure, on economic growth using panel data analysis for transition economies using the 1998-2005 period. According to the results of the study, it was concluded that the increase in economic freedoms positively affected both investments and economic growth. Mahmood et al. (2010) analyzed the member countries of the South Asian Regional Cooperation Organization for the period of 1995-2007 in their analysis using the Panel ARDL model. As a result of the analysis, it was determined that the free market approach, as an indicator of economic freedom, positively affected economic growth. In the study conducted by Yalman et al. (2011) for the period of 2000-2006 for countries consisting of Turkey and Latin American countries, the following economic freedom indexes were used: capital freedom index, property freedom index, trade freedom index, investment freedom index and freedom from bribery index. According to the findings obtained as a result of the analysis, it was concluded that freedom of trade, property acquisition and non-bribery positively affect economic growth, whereas freedom of capital and investment negatively affects it.

Williamson and Matters (2011) used panel data analysis in a research group consisting of 141 countries for the period 1970-2004 and analyzed the relationship between economic freedom, culture and economic growth. As a result of the analysis, it was concluded that the cultural structure of the countries and economic freedoms positively affected economic growth. Herrera-Echeverri et al. (2013) also found that the freedom to establish and invest in 87 countries in three groups related to the level of development for the period 2004-2009 had an effect on job creation in developing countries. It was revealed that the job creation power of institutional quality was very high in all country groups. Akın et al. (2014) used panel data analysis in their research conducted for 94 countries with different income levels for the years 2000-2010 and reached the conclusion that economic freedoms positively affected economic growth for every country regardless of income level. Çoban (2020) used panel data analysis on the relationship between economic freedom and economic growth in the group of countries (Visegrad Four) consisting of Czechia, Hungary, Slovakia and Poland during the period 1995-2014. The study concluded that economic freedom has a positive effect on human development. In their study, Barış and Koçbulut (2017) concluded that economic freedoms, consisting of general economic freedom, freedom of enterprise and freedom of investment, positively affect economic growth and employment within the framework of panel data analysis in BRICS-T countries for the period 1995-2016. In addition, Al-Gasaymeh et.al (2020), Gwartney, Holcombe, and Lawson (2004), Heckelman (2000) and Nelson and Singh (1998), Doucouliagos and Ulubaşoğlu (2006) found positive relationships between economic freedom and economic growth in their studies on different periods and country groups.

In addition, Samimi and Shadabi (2011) used liquidity stock, real GDP, inflation rate and economic freedom data for the period 1996-2006 on 17 MENA countries consisting of Middle Eastern and African countries and examined the relationship between inflation and these variables. It was concluded that the change in liquidity stock has an effect on inflation. In addition, no significant relationship was found between economic freedom and inflation. According to these results, although there is a positive relationship between economic freedom and inflation, it was concluded that this was insignificant. In the study, it was determined that the cost of inflation is higher in countries with low levels of freedom. In the study of Kılıç and Arıca (2014), the relationship between economic freedom, inflation rate and economic growth was examined using the data of 23 upper-middle income countries for the years 1995-2010. In the analysis conducted within the scope of panel data analysis, it was determined that economic freedom data had a positive effect on economic growth, while it had a negative effect on

inflation data.

DATA SET AND MODEL

For the years 2005-2020, this study included the 10 Freest Countries (according to 2020 data from the Heritage Foundation Economic Freedom Index: Singapore, Hong Kong, New Zealand, Australia, Switzerland, Ireland, United Kingdom, Denmark, Canada, and Estonia) and the Fragile Five countries consists of (India, Brazil, Indonesia, Turkey, and South Africa).

Table 1: Short Descriptors of Variables

Abbreviation of Variable	Variable	Source	Expected Result	
			ln PCGDP	ln CPI
LnPCGDP	Real Gross Domestic Product Per Capita (2010 US dollar fixed prices)	WDI		
Ln CPI	Consumer Price Index -CPI (2010=100)	WDI		
LnER	Real Effective Exchange Rate (2010=100)	BIS	+	+
DCI	The ratio of Domestic Capital Investments to GDP (%)	WDI	+	
FDI	The ratio of Foreign Direct Investments to GDP (%)	WDI	+	+/-
PX	The ratio of Public Expenditures to GDP (%)	WDI	-	+
LnEFI	Economic Freedom Index	Heritage	+	-
LnMFI	Monetary Freedom Index	Heritage		-
LnPRI	Property Rights Index	Heritage	+	-
LnCFI	Civil Freedom Index	Freedom House	-	+
LnPORI	Political Rights Index	Freedom House	-	+

Source: Created by the authors.

Similar studies in the literature were utilized in determining the variables. Again, the theoretical background on the relationship between variables was also taken into consideration in the choice of dependent and independent variables. Unlike similar studies and considering the purpose of the study, independent variables were included in the model in a comprehensive manner.

METHOD, ANALYSIS AND RESULTS

In econometric analyses, three types of data are used: time series data, cross-sectional data, and mixed data, also called panel data, which combines time series data and cross-sectional data. If the situation of the same cross-sectional unit (individual, country, enterprise, etc.) is observed at a certain time, these are called mixed data, i.e. panel data (Gujarati, 2010: 25). Panel data is defined as a data set obtained by combining different observations of variables with different periods and also by combining cross-sectional and time series.

In panel data analysis, measuring the variables of a certain number of units at regular time intervals provides useful information to reveal the dynamic structures of the units. In panel data analysis, there are NxT observations in the presence of N units and T periods corresponding to each unit. Because the existence of a single dimension is insufficient in some economic and financial analyses, it makes it necessary to analyze cross-sectional and time series together.

Thus, information can be obtained both by period and by unit. The combination of two dimensions provides more information and increases the degree of freedom. With the increase in the number of observations, the relationship in the model will gain more variability and the problem of multicollinearity will be eliminated. Panel data analysis brings together horizontal cross-sectional data for units such as individuals, countries, firms, and households based on a certain period (Davidson and MacKinnon, 1999: 296; Tatoğlu, 2020: 2-3; Hsiao, 2003: 7; Çınar, 2021: 4-5).

Panel data analysis is preferred for three purposes. First, inter-unit variability or the variability of each of the units over time is defined. In this way, the magnitude of certain variables and the course of these variables can be determined. Second, the variables in question are explained in terms of other variables. While these variables (such as gender) may be constant over time, it is also possible that these variables (such as mental state) are not constant over time and change over time. Thirdly, each unit is predicted in terms of the variable in question (Hsiao, 2003: 89).

The panel data analysis method is divided into two: dynamic panel data models and static panel data models. Dynamic panel data models are used to measure the effect of the dependent variable of the previous period on the dependent variable in the current period (Zeren and Ergun, 2010: 76). Compared to dynamic panel data, static panel data do not accept lagged values of the dependent variable in the model. Although static panel data analysis essentially has a linear regression model, it is not correct to apply classical regression analysis to panel data. The reason for this is that the independent variables and error terms must be uncorrelated for the application to be feasible (Gülcemal, 2016: 76-77).

Panel data analysis can also be expressed as a data set containing a time series of more than one unit or cross-sectional data with a time dimension. If panel data sets contain time series observations of equal length for each horizontal cross-sectional unit, such panel data are classified as balanced panel data, while if panel data sets contain time series of different lengths, they are classified as unbalanced panel data (Grene, 2003: 612; Baltagi, 2005: 4).

In the study, 2 different models were estimated to determine the effects of economic freedoms on PCGDP (Model 1) and CPI (Model II) for the country groups determined by using the panel data method.

In line with the above explanations, panel data analysis is used to test the hypothesis of the study. In this context, firstly, the existence of the classical model within the scope of Model I and Model II is investigated with the F test.

When the F test resultsare analyzed, it is understood that there are unit effects in both country groups within the scope of Model I in the absence of unit effects test and therefore the classical model is not valid. For Model II, it is found that there are unit effects in the Fragile Five Countries and the classical model is not appropriate for this country group, while the findings obtained for the 10 Freest Countries indicate that there are no unit effects and the classical model is valid. In the test for the existence of time effects, the findings in Model I show that time effects are insignificant and the classical model is efficient, while in Model II, time effects are present for two country groups and the classical model is not efficient. The next step after

investigating the existence of the classical model is to determine the efficient model among the fixed effects model and the random effects model (Tatoğlu, 2020: 200).

When In the Hausman test for Model I and Model II are examined; the findings for Model I show that the fixed effects model is valid for the Fragile Five Countries, the random effects model is effective for the 10 Freest Countries, and the fixed effects model is effective for both country groups for Model II.

In econometric analyses, heteroskedasticity, in other words, the problem of varying variance, should also be tested (Tatoğlu, 2020: 230). In cases where the fixed effects model is effective, the test can be performed with the Modified Wald Test, while in cases where the random effects model is valid, the Breusch-Pagan Lagrange Multiplier Test and Levene, Brown and Forsythe Test can be applied.

Variance Test results for Model I and Model II indicate that there is a problem of varying variance for the two country groups.

Bhargava, Franzini and Narendranathan's Durbin Watson (DW) Test and Baltagi-Wu's Local Best Invariant (LBI) Test, Lagrange Multiplier and Extended Lagrange Multiplier tests can be used to test for autocorrelation. Among these, Bhargava, Franzini and Narendranathan's Durbin Watson Test and Baltagi-Wu's Local Best Invariant Test can be applied when both fixed effects and random effects models are efficient. Lagrange Multiplier and Extended Lagrange Multiplier tests can only be used when the random effects model is efficient (Güriş, 2015: 73). Autocorrelation tests are an important step in panel data analysis. In this analysis, it was tested whether there was an autocorrelation problem using appropriate tests.

Autocorrelation test findings for the two country groups within the scope of Model I and Model II showed that the autocorrelation was at a severe level for both Model I and Model II.

The independence of error terms across units is one of the general assumptions in panel data models. When the findings for Model I are analyzed, it is found that there is a correlation between the units for the Fragile Five Countries. Again for Model II, it is found that there is a correlation between the units for the Fragile Five Countries. In addition, since random effects are effective the 10 Freest Countries in Model I and Model II and units come from random attraction, correlation between units is not expected to be found (Tatoğlu, 2020: 249). In addition to all these, since there is no unit effect in Model II according to the F test, it is assumed that there is no correlation between units.

Table 2: Model I Resistive Estimator Results

DEPENDENT VARIABLE (LNPCGDP)	TOP 10 FREEST COUNTRY GROUP		FRAGILE FIVE GROUP	
INDEPENDENT VARIABLES	Coefficient	z	Coefficient	t
LNER	-0.0618	-0.33	**0.3110**	**1.95*****
DCI	**0.0062**	**2.09****	**-0.0125**	**-2.79****
FDI	0.0005	0.54	0.0314	1.59
PX	-0,0181	-0.91	0.0228	1.05

LNEFI	**1.0540**	**2.35****	**0.8869**	3.81*
LNPRI	0.0955	0.29	**0.11947**	**1.97*****
LNCFI	**0.4210**	**2.18****	**0.5842**	**5.03***
LNPORI	**-0.8730**	**-4.34***	0.1021	0.98
C	**6.2649**	**2.42****	1.9543	1.59
RESISTIVE ESTIMATOR METHOD	**Arellano (1987), Froot (1989), Rogers (1993)**		**Driscoll and Kraay (1998)**	
R2 –	38.33		98.06	
N	10		5	
OBS	160		80	

(*: Significance at 1% significance level, **: Significance at 5% significance level, ***: Significance at 10% significance level).

Table 2 shows the findings obtained with the resistant estimator for Model I. Since the problems of varying variance, autocorrelation, and inter-unit correlation were encountered for the Fragile Five country groups, the model was estimated with the Driscoll-Kraay resistant estimator, which takes all these problems into account. In addition, for the 10 Freest Countries, the model was estimated with the Arellano, Froot, and Rogers resistance estimator, which takes into account the varying variance and autocorrelation findings.

In Model I, a statistically positive relationship was found between lnER and lnPCGDP for the Fragile Five countries at 10% significance level (a 1% increase in lnER leads to a 0.31% increase in lnPCGDP).. According to this result, it can be said that the fact that an increase in the exchange rate leads to an increase in per capita output for the Fragile Five Countries is also consistent with the acceptance that it plays an important role in reducing the current account deficit problem, which is a common feature of the Fragile Five countries.

on the other hand, there was a positive relationship between DCI and lnPCGDP at the 5% significance level with the 10 Freest Countries (a 1% increase in DCI causes a 0.0062% increase in lnPCGDP) and a negative relationship at the 5% significance level with the Fragile Five Countries (a 1% increase in DCI causes a -0.0125% reduces in lnPCGDP). These findings support Hypothesis 1 for 10 Most Free Countries group. It is considered as a complementary feature that domestic capital investments with a libertarian approach in 10 Freest Countries positively affect GDP in the same direction.

In two country groups between lnEFI and ln PCGDP, the relationship is positive and significant at the 1% significance level for the Fragile Five Countries (a 1% increase in lnEFI causes a 0.8869% increase in lnPCGDP) and 5% for the Freest 10 countries (a 1% increase in lnEFI causes a 1.0540% increase in lnPCGDP). These results confirm the first Hypothesis, which we have constructed as economic freedom affects GDP per capita. These results are also consistent with the findings in the literature (Nelson and Singh 1998; De Haan and Sturm 2000; Pääkkönen 2010). These results show us that regardless of the level of development of the countries - even in countries with fragile economies - it is important to expand the areas of economic freedom in increasing GDP per capita, which is a measure of macroeconomic performance, as in countries with high economic freedom.

A positive correlation between lnPRI and lnPCGDP at a 10% significance level for Fragile Five Countries supports the 1. Hypothesis (a 1% increase in lnPRI causes a 0.11947% increase in lnPCGDP). This situation reveals the importance of the development of property rights in the Fragile Five countries, as well as the implementation of economic policies that are in line with the theory and compatible with the economic problems experienced in improving macroeconomic performance.

Although the sign of the relationship between lnCFI and lnPCGDP for the two country groups is positive and significant (5% in the 10 Freest Countries, 1% in the Fragile Five Countries), the relationship needs to be interpreted in the opposite direction (for the 10 Freest Countries; a 1% increase in lnCFI causes a 0.4210 % increase in lnPCGDP- for the countries of the fragile five; a 1% increase in lnCFI causes a 0.5842% increase in lnPCGDP). As the civil liberties index value increases (civil liberties decrease) for each country group, GDP per capita also increases. These results show that the improvement of civil liberties has a negative impact on the performance related to the economic growth target, which suggests that civil liberties, as well as the economic policies implemented, do not positively affect the achievement of the sustainable and stable growth target as a measure of macroeconomic performance.

A negative relationship exists between lnPORI and lnPCGDP at the 1% significance level in the 10 Freest Countries (a 1% increase in lnPORI leads to a -0.8730% decrease in lnPCGDP). This indicates that an increase in liberal political rights in the 10 Freest Countries (decrease in the index value) makes a positive contribution to GDP per capita. According to these findings, the increase in libertarianism in political rights achieved in the 10 Freest Countries group contributes positively to GDP per capita. The results in the Fragile Five Countries give us clues that economic policies compatible with the targets should be implemented as a priority rather than expanding political rights in order to improve macroeconomic performance.

Table 8, the model was estimated for Model II with the appropriate resistant estimator for each country group. For the Fragile Five Countries, the model was estimated with the Driscoll and Kraay resistant estimator, while for the 10 Freest Countries, the estimation was made using the white estimator. In case the fixed effects model is valid, the Arellano, Froot, and Rogers estimators and the white estimator give the same results (Çınar, 2021).

Table 3: Model II Resistive Forecast Results

DEPENDENT VARIABLE (LNCPI)	TOP 10 FREEST COUNTRY GROUP		FRAGILE FIVE GROUP	
INDEPENDENT VARIABLES	Coefficient	t value	Coefficient	t value
LNDK	0.0514	0.55	-0.104899	-1.34
PX	**0.0042**	**2.17****	**-0.028131**	**-2.14****
LNEFI	0.1705	0.51	**0.694014**	**2.72****
LNPRI	**-0.2878**	**-1.79*****	**-0.484915**	**-2.96***
LNMFI	0.1431	0.69	**-0.540530**	**-2.8****
LNCFI	**-0.0687**	**-4.32***	0.148621	1.37
LNPORI	**0.0745**	**2.54****	0.047677	0.26
C	**4,070**	**5.37***	**6.817725**	**16.35***

RESISTIVE ESTIMATOR METHOD	White (1980)	Driscoll and Kraay (1998)
$R2$ –	81.11	98.06
N	10	5
OBS	160	80

(*: Significance at 1% significance level, **: Significance at 5% significance level, ***: Significance at 10% significance level).

Model II has a positive relationship between the PX variable and lnCPI at the 5% significance level for the 10 Freest Countries (a 1% increase in PX causes a 0.0042 % increase in lnCPI) and a negative relationship for the Fragile Five Countries (a 1% increase in PX causes a -0.028131% reduces in lnCPI). These findings appear as an expected situation for the 10 Freest Countries and show that an increase in public expenditures that narrows the scope of the liberalized economy has an increasing effect on the inflationary process. Although it is not expected that an increase in public expenditure in the Fragile Five Countries will have a disinflationary effect, it increases the expectation that efficient public investments will pave the way for an increase in private investments by supporting infrastructure investments. On the other hand, the relationship between the PX and the lnCPI as an indicator of fiscal discipline in the 10 Freest Countries is significant and positive, revealing the importance of the priority of fiscal discipline in the fight against inflation.

lnEFI and lnCPI for Fragile Five Countries It is seen that the relationship between them is significant at the 5% significance level (a 1% increase in lnEFI causes a 0.694014% increase in lnCPI). This situation indicates that policies aimed at increasing economic freedoms without establishing price stability will not contribute to achieving and maintaining price stability.

lnPRI and lnCPI in the 10 Freest Countries, a negative correlation was found at the 10% significance level and at the 1% significance level in the Fragile Five Countries (a 1% increase in lnPRI causes a -0.484915% reduction in lnCPI). These results show that the development of property rights positively affects the Fragile Five Countries and the 10 Freest Countries, which experience inflationary problems.

A significant and negative relationship was found between lnMFI and lnCPI at the 5% significance level for Fragile Five Countries (a 1% increase in lnMFI causes a -0.540530% reduction in lnCPI), confirming the monetarist economists' assertion that *"inflation is always and everywhere a monetary phenomenon"*. From these results, it is understood that it is necessary to implement appropriate monetary and fiscal policies instead of liberal economic policies in the fight against inflation.

When the relationship between lnCFI and lnCPI is examined, the relationship between the 10 Freest Countries (a 1% increase in lnCFI causes a -0.0687% reduction in lnCPI) is significant at the 1% significance level and the direction of the relationship is negative. This relationship should be interpreted in the opposite direction as in Model I. It can be concluded that the expansion of civil liberties has a negative impact on CPI inflation for the 10 Freest Countries. No significant relationship was found between the two variables in the Fragile Five countries. This result shows that tight monetary and fiscal policy is again a priority in the fight against inflation.

lnPORI and lnCPI are statistically positively correlated at the 5% significance level for the 10 Freest Countries (a 1% increase in lnPORI leads to a 0.0745% increase in lnCPI). Although the sign of the relationship is positive, the relationship should be interpreted in the opposite direction as in the interpretation of lnCFI. In this case, an increase in the political rights index (contraction of political rights) leads to an increase in lnCPI, which is a price destabilizing result. These results are particularly important for the Fragile Five countries, which have obvious inflation problems, as political instability may be the main cause of inflation.

CONCLUSION AND SUGGESTIONS

The fact that liberal economies have positive effects on macroeconomic performance and that countries with more economic freedom face fewer economic problems and have higher levels of welfare has always been a matter of interest. This study aims to provide evidence on whether the liberal economic approach significantly impacts the macroeconomic performance of selected country groups in terms of economic growth and price stability. For this purpose, two separate models are constructed in the study. Model I aims to investigate the impact of economic freedoms on GDP per capita for two different country groups (the 10 Freest Countries and the Fragile Five Countries with troubled economies), while Model II aims to investigate the impact of economic freedoms on the consumer price index in these two different country groups. Within the scope of the study, firstly specification tests were conducted and then Model I and Model II were estimated with appropriate robust estimators. The results obtained from the estimation of the models confirm the first hypothesis that economic freedoms have an impact on GDP per capita. In particular, the positive effect of economic freedom on GDP per capita in both country groups is consistent with the findings in the literature (Gwartney et.al 2004; Nelson and Singh 1998; Doucouliagos and Ulubaşoğlu 2006; Williamson and Mathers (2011)). These results reveal the importance of economic freedoms in increasing GDP per capita, which is a measure of macroeconomic performance, in countries with high economic freedom as well as in countries with fragile economies.

On the other hand, these results do not provide strong evidence to confirm the second hypothesis that economic freedoms have an impact on the Consumer Price Index (CPI) in the two country groups. As a matter of fact, among the analysed country groups, statistically significant results were obtained in the Fragile Five Countries and these results showed that economic freedoms cause an increase in CPI contrary to the second hypothesis. This reveals that economic freedoms, which are considered as the main determinant in the model, are not effective in achieving macroeconomic objectives such as price stability for selected country groups. These results suggest that policies aimed at increasing economic freedoms without achieving price stability will not contribute to the achievement and maintenance of price stability.

In this context, it can be deduced from the results of the analysis that for price stability, tight monetary policy and tight fiscal policy should be implemented with a direct focus on the price stability outcome instead of liberal economic policies in the fight against inflation. The fact that the relationship between lnMFI and lnCPI in Model II is significant and the direction of the relationship is in the opposite direction reveals results that justify this approach in the economies of the Fragile Five countries with high inflation problems. On the other hand, the significant and positive relationship between PX and lnCPI as an indicator of fiscal discipline

in the 10 Freest Countries reveals the importance of fiscal discipline in the fight against inflation for price stability. These findings are supported by the results of similar studies in the literature (Heckelman 2000; Banaian and Luksetich 2001; Samimi and Shadabi 2011; Kılıç and Arıca 2014)

The results of the research reveal that economic freedoms will make significant contributions to economic growth in economies that have achieved price stability, but in economies that have not yet achieved price stability, economic freedoms will not have the desired and expected effect in achieving price stability. This provides evidence to confirm the monetarists' statement that "Inflation is always and everywhere a monetary phenomenon".

As a result, according to the findings, the effect of economic freedoms on macroeconomic performance differs according to the 10 Freest Countries and the Fragile Five Countries whose economies are fragile, and economic freedom indicators positively affect GDP per capita but do not affect CPI positively in the Fragile Five Countries.

According to the results of the study, policymakers should first focus on price stability in a liberal economy and then implement economic policies targeting economic growth with the economic stability brought by price stability.

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