

Economic freedom

1. Define economic freedom.
2. Define economic freedom in your country: *Romania*
3. Compare your country to another with respect to economic freedom and explain why it matters: *comparison between Romania & Ethiopia*.

1. **Economic freedom** is based on progress, driven by the division of labor, innovation, lower transaction costs and last but not least property rights over private property.

Economic freedom implies freedom from poverty, freedom to criticize, freedom of contract, freedom from interference, freedom to choose an occupation, customer, prices and so on. This leads to economic freedom being based on: personal choice, voluntary exchange (the freedom to choose the best alternative for oneself), freedom to enter and compete in markets, and protection of persons and their privately owned property from aggression by others.

Private property is a cornerstone in a market economy and institutions should protect the rights over this property. The owners are also responsible in keeping the private property in good shape, in order to be used for its proper purpose.

Another important aspect in economic freedom are less-burdensome taxes.

Economic freedom in a market leads to reduced poverty rates, hence higher incomes, proper education that increases literacy rates and increased life expectancy. The economic freedom boosts savings, business and creates better jobs that in the end increase the wealth of individual, which is the main objective of an economy, or at least it should be.

Economic freedom is encompassing free government, free exchange, free expression, free markets and free trade.

Economic freedom is measured in **5 big areas**:

1. Size of government - the increase in government taxation leads to increased control over business and individual, restricting economic freedom in terms of interference, contract etc;
2. Legal system and property rights - protecting the rights over private property is the most important aspect of a government;
3. Sound money - stable money is essential to a free economy, inflation decreasing

the value of earned wages and savings. Unstable money (varying inflation) makes it difficult for people to plan ahead, limiting the use of economic freedom.

4. Freedom to trade internationally - when certain individuals or businesses are restricted from trading internationally, their economic freedom is limited.
5. Regulations - economic freedom decreases as government regulation increase.

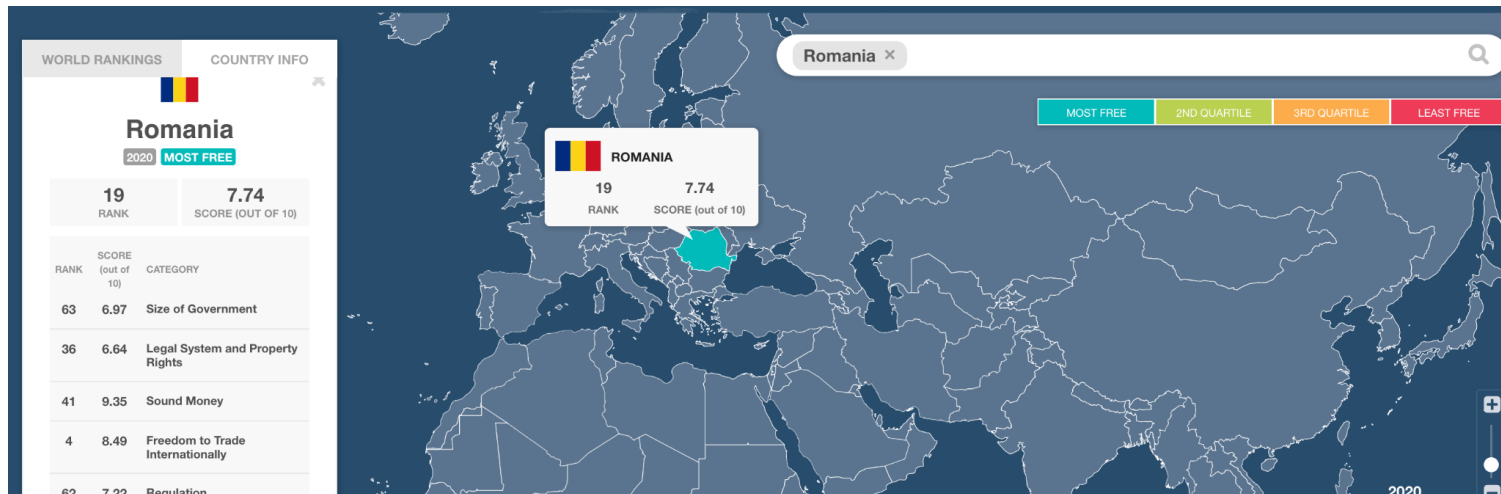
2. Economic freedom in Romania:

Strategically located on the Black Sea, Romania has natural resources and a productive agriculture sector. Challenges include Russia's war against nearby Ukraine, inflation, and post-pandemic recovery.

According to EFW Report in **2020**, Romania ranks 19th in terms of economic freedom compared to the countries of the world and is characterized as one of the 'Most free' countries in this report.

Romania's country score in terms of economic freedom is 7.74 out of 10.

- The overall rule of law is relatively well respected in Romania.
- The process for business registration and operation has been simplified, but efficient bankruptcy procedures have not been fully implemented.
- Labor regulations are quite rigid.
- Due to uneven regulatory system there is a stagnation in dynamic foreign investment;
- The financial sector is growing, mainly driven by banking;
- The foreign trade increases, due to access to free markets;
- Individuals have regained more and more property rights over the properties abusively took by the communists.



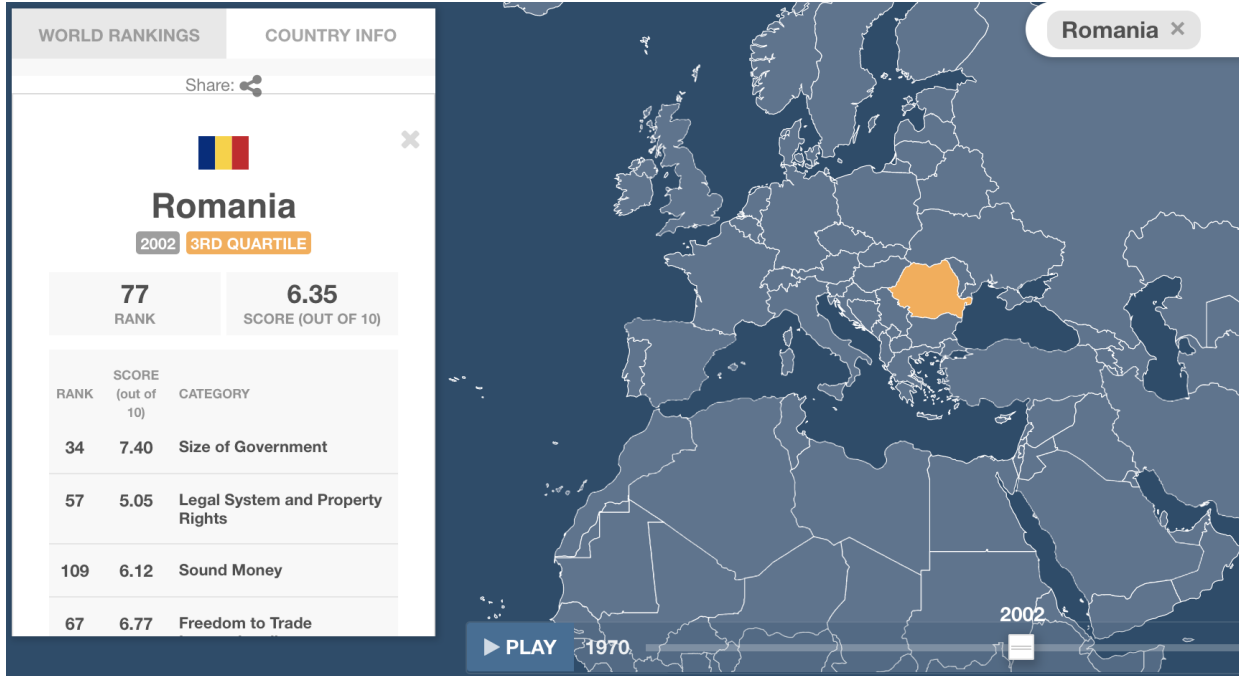
Short history, here are a few milestones in the economical development of Romania:

Romania's economic freedom rate has evolved since the post communist period (1990) when it was 'Least free' to being in the 'Most free' category in 2020.

In the 1990s, after the downfall of communism, inflation ran high due to reform failures. Even though the country was in a democratic state, the government was former communist, the economic freedom was in the 'least free' category. There were no external investors, the so called privatization was badly understood & implemented, communist factories were being sold to former employees, but not producing anything, import was very difficult, even though there was a very high demand on the former communist country for all sorts of goods. Inflation rates increased above 50% until 1996. The capitalism was not being properly implemented by the state institutions. The money was losing their value rapidly. People were afraid of losing their jobs, even though there was no production.

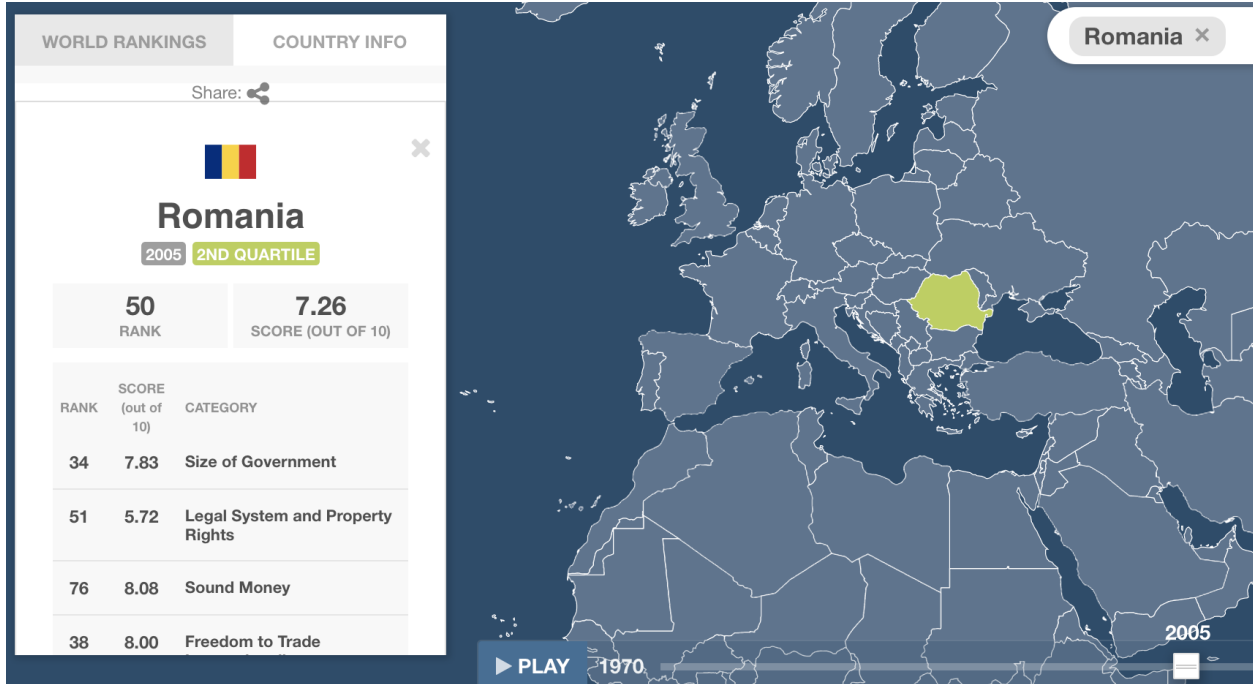
Things started to change in 2002 when a new president from the centre-right political spectrum was elected, leading Romania towards proper democracy. Starting with 2002 this period Romania entered the 3rd quartile in terms of economic freedom.

In **2002** the country was ranked 77 with a score of 6.35 out of 10.

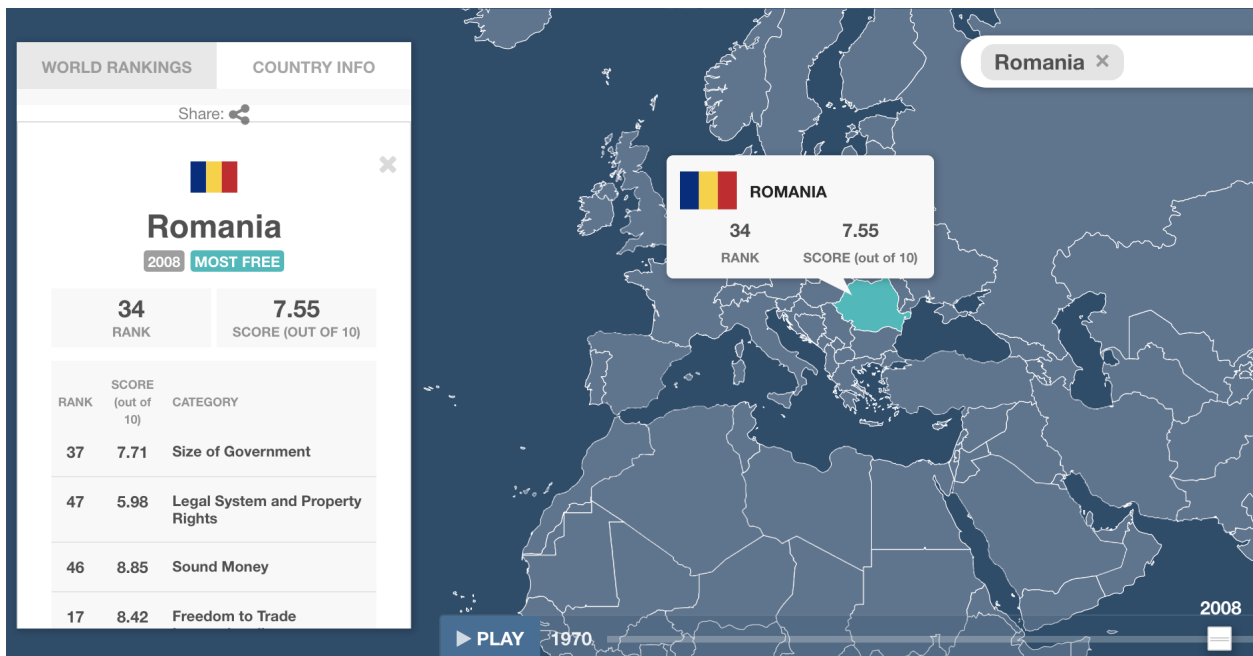


The Romanian leu was briefly the world's least valued currency unit during January - July 2005.

In **2005** the currency denomination (10.000 lei became 1 leu) led to psychologically increasing the purchasing power of the leu. During this year Romania entered the **2nd quartile** of economic freedom, ranking 50 with a score of 7.26 out of 100.



Another important milestone is **2007**, when Romania entered the European Union, moving the country to the 'most free' category, with a rank of 34 and 7.55 score.



This evolution has happened with the proper use of democracy, with increased education, after communism people gained proper access to real education (not only communist propaganda), with the freedom to travel, to work.

The Romanian economy has benefited substantially from its openness and flexibility over the past decade. However, deeper institutional reforms in such areas as the labor market and the management of public finance are still needed. The judiciary remains inefficient and vulnerable to political interference, and corruption continues to undermine long-term economic development. High levels of corruption, bribery, and abuse of power persist

Sources:

[https://www.fraserinstitute.org/economic-](https://www.fraserinstitute.org/economic-freedom/map?geozone=world&year=2005&countries=ROU&page=map#country-info)

[freedom/map?geozone=world&year=2005&countries=ROU&page=map#country-info](https://www.fraserinstitute.org/economic-freedom/map?geozone=world&year=2005&countries=ROU&page=map#country-info)

<https://www.heritage.org/index/country/romania>

<https://www.digi24.ro/special/campanii-digi24/1990-anul-0/1990-anul-0-economia-dupa-revolutie-reforme-sabotate-ideologic-440864>

https://en.wikipedia.org/wiki/Romanian_leu#:~:text=On%201%20July%202005%2C%20the%20I%20eu%20was%20revalued,%20%22denominare%22%2C%20similar%20to%20the%20Englis%20term%20%22redenomination%22.

3. Comparison between Romania & Ethiopia in terms of economic freedom:

The reason for choosing to perform this analysis is because Ethiopia is one of the main suppliers for raw material for the business that I own (coffee).

The political instability in Ethiopia together with the lack of regulations and development of the external trade, pose a risk on importing coffee from Ethiopia.

Ethiopia: located in the eastern part of Africa, is the second largest country in Africa in terms of size and population.

It is one of the top 5 arabica coffee producers in the world.

Ethiopia is often considered as the birthplace of coffee since cultivation began in the 9th century. Ethiopia produces more coffee than any other nation on the African continent. Coffee provides a livelihood for close to 15 million Ethiopians, approx 16% of the population.

According to EFW Report in **2020**, Ethiopia ranks 151 in terms of economic freedom compared to the countries of the world and is characterized as one of the 'Least free' countries in this report.



Political instabilities together with internal fights between local tribes for power and land which led to a civil war in 2020, had led that in some parts of the country the population is at starvation level and many are fleeing their homes. Human rights violations happen frequently. Marriages by abduction are also one important violation.

Bribery and police violence in traffic in a common issue in Ethiopia.

Another aspect that restricted the economic freedom was the war Ethiopia with neighbouring country Eritrea, that has lasted for about 20 years, which stopped in 2018.

Progress toward greater economic freedom has been very uneven, and Ethiopia underperforms in many critical policy areas. The absence of an independent and fair judiciary weakens the rule of law and undermines prospects for long-term economic development. Corruption is pervasive, and government services are inefficient. Open-market policies have advanced only marginally.

The overall rule of law is weak in Ethiopia. The formal labor market is underdeveloped.

Lack of access to financing impedes entrepreneurial growth. The investment environment is undermined by political and security challenges and lacks transparency.

Sources:

<https://en.wikipedia.org/wiki/Ethiopia>

[https://www.fraserinstitute.org/economic-](https://www.fraserinstitute.org/economic-freedom/map?geozone=world&page=map&year=2020&countries=ETH)

[freedom/map?geozone=world&page=map&year=2020&countries=ETH](https://www.fraserinstitute.org/economic-freedom/map?geozone=world&page=map&year=2020&countries=ETH)

<https://www.heritage.org/index/country/ethiopia>