COUNTRY RESULTS

As noted in the "Methodology" section, in calculations of the final Index of Leftness (Rightness) of Economy the higher weight is given to Public Finance Sub-Index:

IL(R)Ei = 0.30*PFi + 0.14*PRi + 0.14*FTi + 0.14*Li + 0.14*ERi + 0.14*MWi

When the tables are interpreted from top to down economies are ranked from more liberal to more dirigiste, and if from bottom to up – then from more dirigiste to more liberal. Higher place of a country in the table means that its economy contains more rightness (self-regulation) and less leftness (governmental regulation). The countries with GDP per capita over 35 thousand international dollars are in colored boxes.

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Table 7. Indices of Leftness (Rightness) of Economy – 2017

Scale 7. Indices of Leftness (Rightness) of Economy (2017)

The rightest economy among the 95 is Singapore's (0.113), where the government intervention in economy is at a minimum. It’s followed by the United Arab Emirates (0.145) and Georgia (0.170). In 8 countries out of 10 most liberal economies per capita GDP exceeds 35 thousand international dollars.

Argentina's (0.465) and Venezuela's (0.400) position, which are located closest to the left pole, remained unchanged in 2017. France (0.375) and Belgium (0.367) are two developed countries with the greatest government intervention in the economy.

The countries are almost equally scattered on the left and right sides from the relative center (0.283) although the majority of the wealthy countries (25 of 33) are righter than the relative center. By the integral index the economies are more centripetal than by the individual sub-indices. The reason is that the rankings of an economy on various criteria of the leftness-rightness somewhat balance each other.

In the ranking of 95 economies from right to left Azerbaijan (0,310) occupies 69th place and from left to right – 27th, and is located to the left from the relative center.

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To evaluate the changes that have occurred over the past four years, the Indices of Leftness (Rightness) of Economy of the 37 countries analyzed in 2014, were restated using the statistical sources and indexing methods of this Report, and the results for 2014-2017 were reduced to a single dimension (*Table 8*).

Table 8. Indices of Leftness (Rightness) of Economy (Eastern Europe and Central Asia, and selected developed countries, ranking from right to left, 2014-2017)

Quite naturally, in such a short period of time there have not been big changes in *general* level of the government intervention in compared economies. Although slightly, the relative center of the leftness-rightness has nevertheless shifted to the right, and from 0.276 in 2014 decreased to 0.272 in 2017.

For a more accurate assessment of changes in the liberalism-dirigizme level of the economy, each country should be analyzed separately, since a change in the same indicator in the same direction (its rise or fall) in different countries can occur for various reasons.

For example, one of the two indicators that the Public Finance Sub-index is based on is the share of budget expenditures in GDP, which can rise both by increasing tax rates (through increasing of the share of budget revenues in GDP), and by improving tax administration and tax collection. It can be achieved also under invariability, and sometimes even a decrease, of tax rates. The share of budget expenditures in GDP, and as a consequence – the Public Finance Subindex, will grow in both cases, regardless which of these two economic policies is implemented, although they are of different nature. But, in the second case, the economy does not move to the left, since strengthening (or weakening) of financial discipline does not add to the economy the characteristic of liberalism or dirigisme (does not apply to model-shaping forms of state intervention in the economy). While a tax rates reduction increases the level of liberalism (rightness) of the economy in any case, even if the volume of tax revenues increases due to a decrease in tax evasion.

Just as in 2014-2016, in 2017 the economies of Singapore, Georgia and Denmark represent the maximum rightness. France's position, as the most dirigiste among the 37 countries analyzed, also remained unchanged. Turkey, Bosnia and Herzegovina, Serbia and Moldova, together with France, constitute the top five of most leftist economies. Ireland consistently moved along the path of economic liberalization and now takes the 4th position among the most liberal economies versus 12th place in 2014. The economies of the United States, Spain, the Netherlands and Italy also somewhat moved to the right. The Japanese economy’s shift to the right was more distinct: in 2014 it was the 4th most dirigiste economy, while in 2017 it approached to the scale’s relative center.

Throughout the period under review, Azerbaijan was located on the left from the relative center, and since 2015 its leftness has even increased. A change of the Price Regulation Sub-index was major "contributor" to the increase of IL(R)E. After two devaluations of the Azerbaijani manat carried out in 2015, the Azerbaijani government for the social protection purposes, in a quite strict manner prevented the consumer prices increase. Azerbaijani manat fell against the US dollar almost twice but domestic prices increased insignificantly: in 2016 inflation was only 12.4%. It caused a significant increase in the deviation of GDP by PPP from GDP in current US dollars. This is what explains the increase of Azerbaijan's Price Regulation Sub-index and, consequently, IL(R)E in 2016 and 2017.

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If on any particular indicator – in this case on the IL(R)E – countries rank "logically", i.e. countries with different level of economic development (say, countries with GDP per capita above and below a certain value, in this study – 35 thou. Int. dollars), are arranged in separate groups, this means that comparisons on this indicator should be carried out within groups: developed countries should be compared with each other and developing countries among themselves. But if the countries rank stochastically, i.e. countries with different level of economic development are arranged mixed, it means that the comparison of any pair of countries with one another is permissible.

In 2017, just as in 2016, in all countries with GDP per capita over 35 thou. Int. dollars (except France, Belgium and Oman) government intervention in the economy did not exceed a certain level and their IL(R)Es were below 0.310. This could be interpreted also in a way that comparatively less government intervention in the economy opens up more favorable prospects for economic development.

However, it should be specially stipulated that some of the countries analyzed in this Report have achieved a high level of economic development (expressed in a high GDP per capita) not by accelerating economic growth due to limited government intervention in the economy, but because of natural resources (oil) exports. In such cases, low values of IL(R)E are not a cause, but a consequence of economic enrichment of the country. For example, Bahrain, the United Arab Emirates, Kuwait, Qatar and some other Muslim countries do not apply income tax (or "charge" it at a zero rate). The fact that it is related to religious reasons is best manifested in Saudi Arabia, whose citizens are not subject to income tax, but they officially pay a Zakat. In all of mentioned countries, GDP per capita exceeds 35 thou. Int. dollars and they belong to a group of high-income countries. But their economic wealth is the result of oil exports, rather than a more liberal economic model, which, in turn, is a consequence, but not a reason of wealth. It is oil wealth that allows them to preserve citizens' and businesses' tax burden at a low level.

Although in developed countries, IL(R)E, as a rule, does not exceed a certain level, the ranking of 95 countries is, in fact, of the stochastic nature: both economically developed and developing countries are located on either side of the relative center. Therefore, this is incorrect to suppose that successful economic development is assured if the government intervention in the economy is above or below a certain level. Singapore and the United Arab Emirates, located on the right pole, France and Belgium that occupy the left-wing position, Japan and the Netherlands, that are placed close to the relative center, are the countries successful both in the economic development, and in improving of public welfare. That is to say, some countries attain better socio-economic results due to the rightness of their economy, others through the leftness.

Collation of Indices of Leftness (Rightness) of 94 economies with a cumulative GDP growth achieved by them over the last 5 years shows that a single value of the IL(R)E, which could be considered optimal for all countries, does not exist. Diagram below shows that relation between IL(R)E and economic growth is weak both in countries with GDP per capita above 35 thou. Int. dollars (intermittent logarithmic curve), and, especially, in all others (solid logarithmic curve)*.

** Venezuela is not included in the Diagram, since in the period under review political crisis in the country had a decisive influence on economic process.*

Theoretically, if other conditions of economic development are constant, in any particular country as the level of the government intervention in economy is approaching its optimal value, economic growth should accelerate, and as is distancing from it, growth should slow down. Or vice versa: if economic growth rates of a country are getting higher, it means that the IL(R)E is getting closer to its optimal value for this country at this time framework.

Poland and Portugal are on approximately similar level of economic development (GDP per capita in 2017 was, respectively, 29.7 thou. and 30.6 thou. Int. dollars). These countries' IL(R)E values also are very close to each other (respectively, 0.313 and 0.302). Meanwhile, the cumulative growth of real GDP achieved in these countries in 2013-2017 varies significantly – 17.5% and 6.4%, respectively. It can be argued that in Poland, which has achieved the higher economic growth, this IL(R)E is closer to its optimum for the country and for the time being.

In terms of GDP per capita (PPP) Australia (50.6 thou.), Uruguay (22.5 thou.), Mexico (19.9 thou.) and Jordan (29.3 thou. Int. dollars) are at different levels of economic development. The intensity of model-shaping government intervention in the economy in these countries also significantly differs: IL(R)Es are, respectively, 0.298, 0.286, 0.270 and 0.280. However, in 2013-2017, these 4 countries achieved approximately the same cumulative real GDP growth – 13.0%, 13.2%, 13.1% and 13.1%, respectively. Collation of these statistical series may well be interpreted in a way that these countries' IL(R)Es are at roughly equal distance from their optimal value.

In some countries accelerated development appears as a result of stricter regulation, while in others – due to liberal reforms. To judge what level of the government intervention in economy is more effective for a country, it is needed to find out the

IL(R)E's optimal value interval for that particular country in a given time. Corresponding studies are underway.

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In Table 9, the distribution of countries by IL(R)E is compared with the real GDP cumulative growth in 2013-2017, based on the groupings both by the IL(R)E ranges and by cumulative growth intervals.

In terms of IL(R)E the largest number of countries (approximately two thirds of them) is in the ranges of 0.250 - 0.299 (36 countries) and 0.300 - 0.349 (22 countries). In countries ranging from 0.250 to 0.349, the average GDP cumulative growth rate is 15.9%, in particular, in countries ranging from 0.250 to 0.299 – 16.8%, and from 0.300 to 0.349 – 15.0%.

The only country located in the Index range from 0.400 to 0.449 is Venezuela. The sharp decrease in its GDP in 2013–2017 was due not so much to economic reasons as to a political crisis and a deterioration in its relations with the most of democratic countries, primarily with the United States. Therefore, it's meaningless to look for the correlation between Venezuela's IL(R)E and pace of its economic development. Only one country is in the range of 0.450 - 0.500, and that is Argentina. Over the past 5 years Argentina's GDP has increased by only 3.1% and this is most likely due to the unreasonably high level of government intervention in the economy. In any case, being in these Index intervals, as well as in the ranges from 0.100 to 0.149 (only 1 country - Singapore) and from 0.150 to 0.199 (only 1 country again - United Arab Emirates), is not typical for the countries of the world.

Table 9. Distribution of Countries by IL(R)E Ranges and by Intervals of Real GDP Cumulative Growth

By IL(R)E, Azerbaijan (0.310) belongs to the central group. However, the cumulative GDP growth of 6.7%, achieved by Azerbaijan in 2013-2017 (8.2% in 2012-2016, and 12.4% in 2011-2015), is noticeably lower than the average of the countries with the medium values of IL(R)E. These comparisons confirm that Azerbaijan's IL(R)E deviated from its optimal value and the acceleration of liberal economic reforms is the urgent task for the next few years.

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Index of Leftness (Rightness) of Economy reveals one of the fundamental changes that have occurred in the global economy over the past 25-30 years. During this period some new states that came out of "socialism" have created economies that are righter than the well-established market economies of some rich countries. Azerbaijan, whose economy just only 27-28 years ago was characterized by extreme leftness, now has a more liberal economy than France, Belgium, Turkey and many other countries.

The economic reforms that were implemented by former "socialist" countries with far left economies differ in content and intensity. IL(R)E allows evaluating and comparing the result of these reforms. For example, it becomes clear that Azerbaijan has built the righter economy than Serbia, but kept government intervention in the economy at the higher level than Georgia – although all these countries attributed the liberal reforms to the main priorities of economic policy for many years ahead.

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One of the main goals of research on IL(R)E is to develop a new classification of economic models based on the measurement of a model-shaping government intervention in the economy. Interval of IL(R)E that an economy is in defines the model that it belongs to (*Picture 1*).

Picture 1. IL(R)E intervals and Economic models

In fact, “purely market” and “purely administrative” economic models (that is, countries that could be located at “0” and “1” points on the Leftness-Rightness scale) do not exist. Even theoretically they are impracticable. The first and last models are included in the classification only to designate extreme poles, and their analysis has only epistemological meaning. All the countries are situated at a certain distance from extreme points.

Some countries analyzed in this Report, namely Bangladesh, Cambodia, Colombia, Dominican Republic, Ecuador, Ghana, Kenya, Lebanon, Malawi, Mongolia, Sri Lanka, Tajikistan, Uganda and Vietnam, are not included in the final classification. The reason, in some cases, is the lack of information, in others - the uncertainty of the political-economic system, in the third - the prevalence of informal interventions in the economy over its formal (legal) regulation. Therefore, only 81 countries are included in the final classification.

Only 3 countries with a dirigiste economic model are reviewed in this Report. The command system of the former USSR or contemporary North Korea also could be considered as variations of this model. In this system, the economy mostly is under state control, and the role of market self-regulation is at minimum.

Thus, the classification of economies based on IL(R)E intervals is presented in *Table 10*.

Table 10. Classification of economies according to their liberalism-dirigisme (81 countries, 2017)

The classification of economic models based on the IL(R)E methodology requires a reconsideration of some “myths” that dominate contemporary economic thought. For example, many economists believe that it was active government intervention in the economy that made it possible for the Scandinavian countries to establish the so-called “welfare state”. Meanwhile, according to IL(R)E estimates Denmark belongs to the countries with a liberal economy, and Norway, Sweden and Finland – with a predominantly liberal one. In other words, these countries have achieved a high level of economic development and public welfare due to less – than in other countries – model-shaping government intervention in the economy.

Many believe that the United States' and the United Kingdom's economies are very likely the most liberal in the world. IL(R)E Studies indicate that their economies belong to the predominantly liberal economic model, and not to a liberal. And UK, moreover, occupies a position close to the boundary between the “predominantly liberal” and “intermediate” economic models.

According to another widely held opinion, despite the reforms carried out over the past 30 years, the Chinese economy is still among the most leftist. This, of course, is not meaningless: China is a member of the predominantly-dirigiste-economies club. Nevertheless, the French and Belgian economies that public opinion usually considers more liberal than Chinese are, as it comes clear from the IL(R)E estimates, more dirigiste in fact.

It is accepted that transitive countries normally have an intermediate economic model. This view also is true only partially. Georgia, for example, enjoys one the most liberal economies in the world, and Kazakhstan’s and Estonia’s economies are predominantly liberal.

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Azerbaijan has established an intermediate economic model. 10 out of 33 countries with per capita GDP over 35 thou. Int. dollars, including Germany, the Netherlands and Japan, and many developing countries such as Hungary, Slovenia and Russia are members of that group.