

Renkas Kh.A. Economic Freedom and its Influence on the Convergence of Countries

Annotation

The concept of "convergence" and "economic freedom" is defined. The relationship between growth on quality of life and index of economic freedom in different countries is analysed. The countries and the reasons of their ability to achieve convergence with developed countries are investigated. The magnitude of change in GDP per capita after the market reforms and liberalization of the economy in some post-socialist countries is defined. A comparison of development of countries by level of average income or output per capita in market, planned and mixed economic systems is conducted.

Keywords: convergence, level of economic freedom, quality of life, economic policy, GDP per capita.

Summary

The main goal of any state is living standards improving of its citizens, the most important prerequisite to achieve it – a high and stable level of economic growth. Many times it was proved that the best tool for convergence with the developed countries, namely to achieve rapid and sustainable growth, is a policy based on economic freedom increasing.

The aim of the article is to determine the impact of economic freedom on the ability of states to convergence of countries with different economic policies.

In economic science there is the concept of "convergence", which consists in the fact that the growth rate of poor countries are higher than the growth rate of rich ones. It means that poor countries are catching up with rich ones in terms of average income or production per capita. But this is only a hypothesis. In fact, only a few countries were able to reach the level of per capita income of developed countries and stay on it.

The best examples of states, which in recent decades were able to achieve convergence with developed are Hong Kong, Singapore, South Korea and Ireland. Some Latin American countries showed no convergence to the higher level. Bangladesh, El Salvador, Mozambique and Nigeria have stuck in a poverty trap. And there are countries that have turned from rich to poor, namely Argentina and in the past existing Czechoslovakia in times of socialism.

So there is a question: why do some countries achieve convergence, and others – no. Perhaps the answer can be found in the level of economic freedom. The index of economic freedom is annually calculated by The Wall Street Journal and The Heritage Foundations for most countries.

Hong Kong and Singapore tops the list and is an excellent example of economic freedom during several decades, it is not surprising that their living standards have remarkably increased. There are several advantages: the tax burden is significantly less than in many other countries, more developed capital market and the ease of doing business give result.

Ukraine and Poland – two post-Soviet states, which simultaneously began a formation of market economy and democratic system. In 1990, both countries had similar economies. Now everything has changed dramatically, and according to the

World Bank's GDP per capita in Poland is now nearly four times higher than in Ukraine. The big difference consisted in the policy of free market chosen by Poland, reducing the influence of the state, introducing strict subjugation of law and respect for property rights, privatization was carried out properly, avoiding kleptocracy and corruption, which was accompanied by a transition in Ukraine.

The reason for this difference in growth is greater economic freedom. For Poland Index of Economic Freedom ranks 42nd among 178 countries, Ukraine – 162 th place.

In South America Chile represents a market economic system and Cuba chose planned one. About 55 years of socialism in Cuba and 35 years of liberalization in Chile led to the fact that the living standards in Cuba has deteriorated significantly, and in Chile, by contrast, the market economy has caused a significant increase in welfare. In terms of economic freedom, Chile ranks 7th and Cuba – 177th.

Also North and South Korea by its main economic indicators show a completely different socio-economic opportunities and potentials. If South Korea is one of the largest trading nations of the world, North Korea – the poorest and closed economy in the world. And the index of economic development first takes the 29th place, the second – the 178th, which is the last.

So, in any case, countries with less influence of the state and the free market show far better economic performance, and that, consequently, creates a higher quality of life. Therefore, countries that have increased their economic freedom, were able to show convergence with developed countries.