



MASTER IN BUSINESS ADMINISTRATION

**ECONOMIC FREEDOM AS KEY FACTOR FOR THE SOCIAL AND
INTEGRAL DEVELOPMENT OF COUNTRIES**

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ABSTRACT

TITLE: ECONOMIC FREEDOM AS KEY FACTOR FOR THE SOCIAL AND INTEGRAL DEVELOPMENT OF COUNTRIES

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The Project will be an analysis of the political and economic freedom measures that countries can adopt, as key drivers to reach integral development and an increase of the human standard of living. The investigation will be adopted taking into consideration the four factors of the Heritage Foundation Economic Freedom Index as described below:

- **Rule of Law**
(including property rights, government integrity, judicial effectiveness).
- **Government Size**
(including government spending, tax burden, fiscal health).
- **Regulatory Efficiency**
(including business freedom, labor freedom, monetary freedom).
- **Open Markets**
(including trade freedom, investment freedom, financial freedom).

Economic freedom is often seen as a money center system where the opportunities are only benefiting the largest companies, while leaving behind the people that doesn't have a larger capital to take advantage of the free market policies, whereas in this study, we will see that open economic measures benefits the less privileged people as much as the wealthiest ones. The human development and quality of life criteria is going to be key in the work approach.

Therefore, this Project can help to measure the influence of freedom policies in the social and humanitarian development of countries, by providing the people a better quality of life, as one of the diverse factors that takes nations to success.

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CHAPTER I
INTRODUCTION

1. APPROACH OF THE PROBLEM

Although there is still poverty and lack of basic humans needs in this world, there's seems to be a correlative relation in between the political and economic freedom policies that the countries are assuming and a comprehensive increase in the status of the overall human standard living.

The criticism of the economic freedom policies continues to be rampant in the detractors of the model. For them, the main issue is how the wealthiest people are the only ones that can take advantage of the freedom framework and continues generating and accumulating more capital, whereas the less privileged people doesn't have access to the benefits of the policies because capital is needed to participate in a "money-oriented" model.

During the present investigation, we are going to analyze if it's true that the economic freedom policies benefit only the wealthiest ones, or if the less privileged people are improving their life status too. For this purpose, the approach of the problem is taking place in the theoretical and academic approach from one side, and from an empirical approach with a quantitative and qualitative analysis of the studied countries.

Therefore, we need to analyze what are the drivers that take the countries to a better situation, then, contrast them with the economic freedom policies to check for possible relations and causalities between the two variables. To make this possible, we really need to first understand what are the objective factors that take nations to development and what are particularly the policies that countries are adopting through their history.

Once we have defined the factors for integral and social success in countries and the factors that contribute to an economic freedom model, we can make the quantitative and qualitative relationship between them. And if we find a correlation, we could suggest as a conclusion of this paper, the implementation of political and economic freedom policies in the agenda for the overall countries of our planet.

2. HYPOTHESIS

The economic freedom policies motivate the social and integral development of countries by given the people and companies the adequate framework to work in generating wealth, so having more freedom-oriented countries will give a better life for people in every condition, regardless of their socioeconomic status.

3. OBJECTIVES

3.1. GENERAL OBJECTIVE

Demonstrate the positive relationship between liberal economic and political measures and the social and integral development of countries. Then, demonstrate the causality behind the relation.

3.2. SPECIFIC OBJECTIVES

To reach the general objective of the present Project, we have to identify the key specific goals we need to achieve in order to lead its fulfilment.

- Establish a relation between liberal measures and the social and integral development of countries around the world.
- Check how Rule of Law, Government Size, Regulatory Efficiency and Open Markets are key metrics on how to make a country prone to success and how they are related to each other.
- Identify drivers and brakes of the countries development path by analyzing their macroeconomic and microeconomic environment before and after the liberal measures adopted by their governments.
- Compare the case of most economic opened countries with less economic opened countries and study how the people are living in those scenarios to gain insights of where the people are having a better quality of life.
- Exhibit the economic consequences of political measures and their relationship with social development.

4. JUSTIFICATION

4.1. SCIENTIFIC JUSTIFICATION

The proposed research has significant scientific and practical implications as a justification for the selection of the correct policies among the countries. The contribution of scientific works for the basis of policies frameworks will avoid politicians to be misjudging in utilizing non-proved arguments that can take away the pollution freedom of election and work that can deprive them from a better quality of life.

4.2. SOCIAL JUSTIFICATION

This research will serve as a drive motor for countries decision making analysis, focusing on the drivers that takes the countries to a better situation, this will create a correct framework for politicians to improve their overall population quality of life.

A dignified standard of living is a right for the overall population of this planet, and the only way to achieve it is through good decisions in the government spheres. The politicians have in their hands the conditions to make this world a better place. To manage this, you need to know which direction to take.

4.3. PERSONAL JUSTIFICATION

Personally, I witness through almost all my adult life a government in my country with a centralist and authoritarian way of exercising the power, together with corruption scandals and a closed and highly regulated economy and the only result from the social policies taking place in Bolivia are poverty and misery for the overall population.

This is why I chose this topic and I hope to get a conclusion that can help the countries to fight for the freedom to choose a better life without any government abuse.

5. METHODOLOGY

5.1. INVESTIGATION MODEL

The model is exegetical or mixed because it analyzes the economic and political measures adopted by countries from a doctrinal and theoretical point of view, as well as from a practical point of view on their application and their consequences. Quantitative and qualitative analysis will be taking place to achieve the goals of the investigation.

We will break down the different factors that integrate economic freedom from a conceptual perspective to analyze how they can work as a positive or negative incentive for doing business as a development key. Then, we will adopt a practical point of view by analyzing different real case applications of these factors with examples of countries.

5.2. INVESTIGATION TYPE

It is inductive because it starts from specific measures to reach general conclusions regarding their macroeconomic and microeconomic effects. Studying solutions that countries adopted can be taken into perspective to reach an overall understanding on how to manage the economies and which policies to adopt to reach development.

From the study of the real cases in countries and how they achieved an improvement in their macro and micro economic measures, we can induct that other countries with similar economies can adopt that same policies to achieve the same results.

5.3. INVESTIGATION METHOD

There is going to be a correlative analysis between the economic freedom measures and the social and integral development. To achieve it, we will be breaking down both concepts into objective factors to make a quantitative and qualitative approach.

Once we identify the objective factors that integrates the economic freedom for one side and the development factors for the other side, we will make a quantitative correlation analysis to see if they are related among the countries, and then, we will investigate from a circumstantial approach how they are really working.

5.4. INVESTIGATION TECHNIQUE

The technique is documentary and field work, since the work will be supported by books, documents, articles, economic and legal provisions, as well as the study of statistics and data that will be analyzed from a qualitative and quantitative point of view. The academic point of view is going to be key in the investigation

technique since this is an investigation that is supported by the truth and knowledge.

CHAPTER II

THEORETICAL FRAMEWORK

1. CHAPTER INTRODUCTION

To correctly assess the hypothesis of the present investigation we need to first agree the concepts that we will be working on, so if we are trying to measure if the economic freedom policies motivate the social and integral development of the countries, we need to define economic freedom and development before trying to break down a possible correlation.

We need to consider that concepts like development and economic freedom are very broad and complex, so for the sake and objectivity of the investigation we will define, based in authors, some key elements that can absorb the whole concepts, therefore, we can work with tangible factors to prove the correlation between the variables. This way, we will avoid any biased or subjective approach. Different concept approaches will be taken into consideration.

Then, if needed, once we define the factors and elements that economic freedom and development conglomerates, we are going to define those factors too, so we can have a complete and acknowledged concepts for the present investigation. If possible, we need to digest them in to the most objective and concrete form. To this end, helped by the definition of authors and think tanks we can subtract some factors or metrics that assess the development for one side, and the economic freedom for the other side, to break them down during the main body of this investigation. In the ideal scenario, we can subtract some specific and objective metrics of each concept so we can compare them to each other.

2. DEVELOPMENT

The concept development has various meanings to different people and can be explained in different contexts. Development should be seen as progress towards complex goals such as the eradication of poverty, the provision of employment and the guarantee of human rights. Development nowadays, goes beyond economic metrics and gets into to the real situation on how the people is living day to day. (Abuiyada, R., 2018)

To frame the analysis, next we are going to analyze concepts of development provided by different authors and institutions, and at the end of the section we are going to choose and justify the one that fits the most for the purposes of this investigation.

For the United Nations, "*Development is a multifaceted endeavor aimed at raising everyone's standard of living. Sustainable development includes social development, economic development, and environmental protection as linked and mutually supporting elements*". (General Assembly, United Nations, 1997)

For the UN, all countries' economic and social progress depends on sustained economic expansion, especially on developing nations. Countries will be able to raise the standard of living of their citizens through the elimination of poverty, hunger, disease, and illiteracy, the provision of adequate housing and stable

employment for all, and the preservation of the environment through such growth, which should be broadly based to benefit everyone.

Democracy, respect for all human rights and fundamental freedoms, including the right to development, transparent and accountable governance, and administration in all sectors of society, and effective participation by civil society are also an essential part of the necessary foundations for the realization of social and people-centered sustainable development.

Development can also be defined as a “*social and practical process that aims at the liberation of human potential. It enables people to acquire maximum socially feasible and practical control over all available resources necessary for the realization of basic human needs and security*”. (Anderson, B., 1983)

“*Economic development refers to the structural transformation of an economy by introducing more mechanized and updated technologies to increase labor productivity, employment, incomes, and the standard of living of the population. It involves improvements in infrastructure, social factors, political stability, and institutional frameworks to facilitate the transformation of the economy*”.(Panth, P., 2020)

“*Development refers to a multifaceted phenomenon and a continuously evolving process that includes dimensions such as health, education, natural resources, good governance, and human rights. It is no longer solely defined in terms of income per capita but emphasizes well-being and poverty reduction*”. (Vaggi, G., 2018)

“*The concept of development for countries encompasses multifaceted processes that involve economic, social, and political transformations. It includes improving living standards, reducing poverty, enhancing education, and promoting sustainable practices. Scholars and policymakers explore various theories and practices related to development*”. (Willis, K., 2011)

In summary, among our mentioned definitions above, economic development aims to enhance the well-being of a country’s citizens by fostering growth, eradicating poverty, and improving overall living conditions. Education and health are also taken into consideration. The concept of development has grown to encompass aspects like human rights, natural resources, health, education, and good governance. The overall standard of living is a key factor.

As we can see in the different definitions of development, the concept raises from an integral and comprehensive view where the money by itself it’s not that relevant as the complex factors that takes a human to a level of dignity and a minimum standard of life. For the purposes of this investigation, we are going to choose the definition of the United Nations as the one to work with, because it’s the one that integrates the majority of the concepts and spectrums, and also, in this way the present investigation will be taking into consideration the goals and knowledge of the ultimate institution in terms of helping countries to achieve development through all this years. In this way, and paraphrasing the UN, we will divide our concept of development into five factors, education, health, quality of

life, poverty, and employment. Therefore, we will be taking into consideration, not only how you live and with how much you live, but we will also measure the tangible opportunities you have to reach a better position. These five metrics are the ones that we are going to put into perspective with the metrics of economic freedom to try to find a correlation.

2.1 ASSESSING DEVELOPMENT

Now that we already theorize and understand development as a concept and defined what are the five factors that we are going to take in consideration based on the United Nations concept, we need to understand them and know how we can be measured or assess the quantity and quality of these metrics. This will help us with our correlation aims. There are some indexes that measure the development metrics among countries. This part is critical, because it's the one that is going to provide us with the correct metrics that we are going to put into perspective with the metrics of development.

Therefore, we need to find how we can measure education, health, quality of life, poverty, and employment in a quantitative way, so we can compare them to the metrics of economic freedom.

2.1.1 EDUCATION, HEALTH, AND QUALITY OF LIFE

“Education refers to the process of acquiring knowledge, skills, values, and attitudes through formal or informal instruction, training, and experience. It encompasses both academic learning and personal development”. (Anderson, B., 1983)

“Quality of life refers to the extent to which a person obtains satisfaction from life. It encompasses various dimensions, including physical well-being, material well-being, social well-being, emotional well-being, and development”. (Felce, D., Perry, J., 1995)

“Public health is an empiric and multidisciplinary field whose goal is to assure conditions in which people can be healthy. It encompasses efforts to promote and protect the health of entire populations, addressing not only disease prevention but also social, economic, and environmental factors that influence well-being”. (Huber, M., Knottnerus, J. A., Green, L., van der Horst, H., Jadad, A. R., Kromhout, D., Schnabel, P., 2011)

As we can see, even on the definitions of education, health, and quality of life we can find development in an explicit and implicit way, confirming our theory. Now, we need to find a way on how we can measure and quantify the amount of education, health, and quality of life that a country has, lucky for the purposes of this investigation, there is an index that takes into consideration these three variables, which is described next.

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and having a decent standard of living. The HDI is the geometric mean of normalized indices for each of the three dimensions.

The health dimension is assessed by life expectancy at birth, the education dimension is measured by means of years of schooling for adults aged 25 years and more and expected years of schooling for children of school entering age. The standard of living dimension is measured by gross national income per capita. The HDI uses the logarithm of income, to reflect the diminishing importance of income with increasing GNI. The scores for the three HDI dimension indices are then aggregated into a composite index using geometric mean. (UNDP, 2024)

The HDI can be used to question national policy choices, asking how two countries with the same level of GNI per capita can end up with different human development outcomes. These contrasts can stimulate debate about government policy priorities, precisely this last part, can give us insides about our investigation and support the idea that economic growth doesn't always lead to better conditions of life.

2.1.2. POVERTY

“Poverty is a condition in which resources, usually material but sometimes cultural, are lacking. It is common to distinguish between absolute and relative definitions of poverty. In absolute terms, poverty refers to a state in which an individual lacks the resources necessary for subsistence”. (Lipina, S. J., Colombo, J. A., 2009)

The World Bank, as an institution that has the goal of eradication of poverty, has a headcount ranking of countries in terms of poverty. For purposes of this investigation, we will be using the world bank ranking of poverty for correlation matters.

2.1.3. EMPLOYMENT

“Employment refers to the state of being engaged in paid work or occupation, where an individual provides services or labor in exchange for compensation. It encompasses various forms of work, including full-time, part-time, temporary, and contract-based employment”. (Smith, J., 2020)

The Organization for Economic Co-operation and Development (OECD), as an international organization that works to build better policies for better lives, has a headcount ranking of countries in terms of employment rate. For purposes of this investigation, we will be using the OECD employment rate raking for correlation matters. (OECD, 2024)

3. ECONOMIC FREEDOM

The concept of economic freedom is very complex and has different meanings depending on the perspective you want to study it from. So, to continue with our scheme, we are going to use the same method that we used for the Development

definition in the previous section. To frame the analysis, next we are going to analyze concepts of economic freedom provided by different authors and institutions, and at the end of the section we are going to choose and justify the one that fits the most for the purposes of this investigation.

“Economic freedom refers to the agency of individuals to make economic decisions without interference or limitations by the government or protection of anti-market behavior in favor of powerful groups. These groups may abuse their power to limit market choices for others. In simpler terms, economic freedom allows individuals, families, and businesses to make their own economic choices free from coercion. It encompasses the protection of property rights acquired without force, fraud, or theft, as well as the freedom to use, exchange, or give property without violating the identical rights of others”. (McMahon, F., 2024).

“Economic freedom refers to the ability of individuals to make their own economic decisions without government interference or limitations. It involves the absence of restrictions on market choices and protection against anti-market behavior by powerful groups”. (Anderson, B. 1983)

From a neo-liberal perspective, *economic freedom and negative freedom are components of their concept of freedom, while excluding positive freedom. They argue that the attainment of moral and ethical ends does not justify violating freedom. The neo-liberal concept of freedom is distinct from other historical conceptions. It draws from fundamental assumptions in neo-liberal economics, advocating for: Economic freedom over equality. Voluntary choices over centrally planned actions. Individuals over communities. Rationality over moral and ethical principles.* In the end, they take economic freedom as the absence of external constraints from governments on the personal decision making for living. (Filip, B. 2020)

“Economic freedom is about individual autonomy: the freedom of choice that individuals enjoy in acquiring and using economic goods and resources. The underlying assumption of those who favor economic freedom is that individuals know their own needs and desires best and that a self-directed life, guided by one’s own philosophies and priorities rather than those of a government or technocratic elite, is the foundation of a fulfilling existence. Independence and self-respect flow from the ability and responsibility to take care of oneself and one’s family and are invaluable contributors to human dignity and equality”. (Heritage Foundation, 2023)

“Economic freedom refers to the degree to which individuals and businesses can operate in a free market environment without undue government intervention. It encompasses various aspects, including the ability to own property, engage in voluntary transactions, and make economic decisions without excessive regulations or restrictions. Economists often measure economic freedom using indices that consider factors such as property rights, rule of law, and ease of doing business”. (Njoya, W. 2021)

For the Fraser Institute, *“the cornerstones of economic freedom are personal choice, voluntary exchange coordinated by markets, freedom to enter and*

compete in markets, and protection of persons and their property from aggression by others. Individuals have economic freedom when property they acquire without the use of force, fraud, or theft is protected from physical invasions by others and they are free to use, exchange, or give their property if their actions do not violate the identical rights of others. Individuals are free and cooperate with others and compete as they see fit". (Fraser Institute, 2016)

To summarize and keep ourselves with a mixed concept among the different ones above, we can say that, in a market-oriented economy, the goal of economic freedom is more than the absence of government coercion or constraint: The goal is the creation and maintenance of a mutual sense of liberty for all. Some of the government action is necessary both for the citizens of a nation to defend themselves and to promote the peaceful evolution of civil society, but government action that goes beyond the minimal necessary level will inevitably infringe on someone's economic or personal freedom. The first step you take beyond these limitations is the first step you take into the violation of the people's freedom; this can generate a negative incentive. It's all about creating the perfect framework for doing business. We must ask ourselves, where do we feel more like to take our company, where we are constrained or where we are feeling free.

The Heritage Foundation concept is relevant for us because it's not only the most complete but is the one that takes into final consideration human dignity, a concept we are trying to maintain with development. Also, with the definition we can imply that governments are the ones that need to fulfil that need, but instead, they act as high intervenors of the economy causing lower productivity, economic stagnation, and diminishing the overall competitiveness.

3.1. ASSESSING ECONOMIC FREEDOM

Now that we already theorize and understand economic freedom as a concept, we need to know how it can be measured or assessed, so then, we can take specifically the factors that the actors take into consideration to measure the quantity of freedom. This last part will help us with our correlation aims. This part is critical, because it's the one that is going to provide us with the correct metrics that we are going to put into perspective with the metrics of development.

So, in this section, we are going to get deep into how economic freedom is measured and what factors and metrics we can get from there to use them for correlation purposes of the investigation. There are some indexes that measure economic freedom among countries, this helps us with the objective quantification.

3.1.1. THE INDEX OF ECONOMIC FREEDOM (HERITAGE FOUNDATION)

The Index of Economic Freedom takes a comprehensive view of economic freedom. Some of the aspects of economic freedom that are evaluated (for example, the extent of an economy's openness to global investment or trade) are concerned with a country's interactions with the rest of the world. Most, however, focus on policies within a country, assessing the liberty of individuals to use their

labor or finances without undue restraint and government interference. Regardless of being more political or economic oriented.

Each of the measured aspects of economic freedom plays a vital role in promoting and sustaining personal and national prosperity, but all are complementary in their impact, and progress in one area can easily reinforce or even inspire progress in another. Similarly, repressed economic freedom in one area (for example, a lack of respect for property rights) can make it much more difficult to achieve high levels of freedom in other categories.

The 12 aspects of economic freedom measured in the *Index* are grouped into four broad groups:

- *Rule of law (property rights, judicial effectiveness, and government integrity);*
- *Government size (tax burden, government spending, and fiscal health);*
- *Regulatory efficiency (business freedom, labor freedom, and monetary freedom); and*
- *Market openness (trade freedom, investment freedom, and financial freedom).* (Heritage Foundation, 2023)

3.1.2. THE HUMAN FREEDOM INDEX (CATO INSTITUTE)

The Human Freedom Index presents the state of human freedom in the world based on a broad measure that encompasses personal, civil, and economic freedom. Human freedom is a social concept that recognizes the dignity of individuals and is defined here as negative liberty or the absence of coercive constraint. Because freedom is inherently valuable and plays a role in human progress, it is worth measuring carefully. The Human Freedom Index is a resource that can help to observe relationships more objectively between freedom and other social and economic phenomena, as well as the ways in which the various dimensions of freedom interact with one another. (VASQUEZ, MCMAHON, MURPHY, SUTTER, 2023)

The Human Freedom Index (HFI) presents a broad measure of human freedom, understood as the absence of coercive constraint. This ninth annual index uses 86 distinct indicators of personal and economic freedom in the following areas:

- *Rule of law*
- *Security and safety*
- *Movement*
- *Religion*
- *Association, assembly, and civil society*
- *Expression and information*
- *Relationships*
- *Size of government*
- *Legal system and property rights*
- *Sound money*
- *Freedom to trade internationally*
- *Regulation*

The findings in the HFI suggest that freedom plays an important role in human well-being, and they offer opportunities for further research into the complex ways in which freedom influences, and can be influenced by, political regimes, economic development, and the whole range of indicators of human well-being.

The report is copublished by the Cato Institute in collaboration with the Fraser Institute.

3.1.3. THE INDEX OF ECONOMIC FREEDOM (FRASER INSTITUTE)

The index measures the degree of economic freedom present in five major areas: Size of Government; Legal System and Security of Property Rights; Sound Money; Freedom to Trade Internationally; Regulation. Comprehensive data are available only with a two-year lag, so the index itself has a two-year lag.

Within the five major areas, there are 26 components in the index. Many of those components are themselves made up of several sub-components. In total, the index comprises 44 distinct variables. All variables come from third party sources, such as the *International Country Risk Guide*, the *Global Competitiveness Report*, and the *World Bank's Doing Business project*, so that the subjective judgments of the authors do not influence the index. This also creates transparency and allows researchers to replicate the index. The index for past years is updated with each new edition to take account of revisions in the underlying data. The total components are listed next: Size of Government, Government consumption, Transfers and subsidies, Government enterprises and investment, Top marginal tax rate, Top marginal income tax rate, Top marginal income and payroll tax rate, State ownership of assets, Judicial independence, Impartial courts, Protection of property rights, Military interference in rule of law and politics, Integrity of the legal system, Legal enforcement of contracts, Regulatory costs of the sale of real property, Reliability of police, Business costs of crime, Gender Disparity Adjustment, Money growth, Standard deviation of inflation, Inflation: most recent year, Freedom to own foreign currency bank accounts, Freedom to Trade Internationally, Tariffs, Revenue from trade taxes (% of trade sector), Mean tariff rate, Standard deviation of tariff rates, Regulatory trade barriers, Non-tariff trade barriers, Compliance costs of importing and exporting, Black-market exchange rates, Controls of the movement of capital and people, Foreign ownership / investment restrictions, Capital controls, Freedom of foreigners to visit, Regulation, Credit market regulations, Ownership of banks, Private sector credit, Interest rate controls / negative real interest rates, Labor market regulations, Hiring regulations and minimum wage, Hiring and firing regulations, Centralized collective bargaining, Hours regulations, Mandated cost of worker dismissal, Conscription, Business regulations, Administrative requirements, Bureaucracy costs, Starting a business, Extra payments / bribes / favoritism, Licensing restrictions, Cost of tax compliance. (Fraser Institute, 2016)

4. CHAPTER CONCLUSIONS

Reaching the conclusions of the present chapter, we can stipulate the following:

- Development is a complex concept that today is way over the monetary aspects and has become a practical process that aims at the liberation of human potential. It enables people to acquire maximum socially feasible and practical control over all available resources necessary for the realization of basic human needs and security.
- Based on the United Nations definition, the factors and key elements that conglomerate the development for the practices of this investigation are the following:
 - Education
 - Health
 - Standard of living
 - Eradication of poverty
 - Employment
- Once we define the metric of the development and conceptualize each of them, we reach to the conclusion that we need a method of quantification of the amount of the education, health, standard of living, poverty, and employment among the countries, for this purpose, we find the following indexes that measure them:
 - Human Development Index from United Nations (Education, Health and Standard of Living)
 - Poverty Headcount Ratio Index from World Bank (Poverty)
 - Employment Rate Index from OECD (Employment)
- Economic freedom is a complex political and philosophical concept that can be traduced in economic and political freedom for the auto realization of the human being based on life, freedom, and search for happiness. A small government and big human empowerment are critical for the concept because it generates a positive incentive to the natural people and companies to develop their activities and invest in human and enterprise capital.
- Once we analyzed the theoretical concept of Economic Freedom, we needed to know how to assess it and measure, in other words, how to quantify the amount of freedom, for this matter, we analyzed three indexes and ranking of countries from different institutions that measures the economic freedom among the countries.
- For the purpose of this investigation, we have chosen the Index of Economic Freedom from Heritage Foundation because it's the one that has a better organization among their own metrics diluted in only four pillars. Also, it's the one that considers a complex view and integral in between their metrics, this will help our investigation in their cohesive purpose between all the factors.

- The factors and key elements that conglomerate the Index of Economic Freedom of the Heritage Foundation for the practices of this investigation are the following:
 - Rule of Law (including property rights, government integrity, judicial effectiveness).
 - Government Integrity (including government spending, tax burden, fiscal health).
 - Regulation efficiency (including business freedom, labor freedom, monetary freedom).
 - Open markets (including trade freedom, investment freedom, financial freedom).

- Now that we correctly defined Development and Economic Freedom and diluted their general and wide concepts into objective and practical metrics, the challenge for the main body is to assess if there is a direct correlation between the increase of the Economic Freedom and the increase of Human Development and Employment and the decrease of poverty.

CHAPTER III
MAIN BODY

1. CHAPTER INTRODUCTION

Economic freedom policies have been considered as the desired scenario for the economic development of the countries worldwide, providing the best possible framework for doing business by getting a strong rule of law, an open market, a regulatory efficiency with low intervention and the smallest government size possible. However, considering the low government intervention in the economy, the main critic of the economic freedom is labeling the system as a money-oriented one, where the only ones taking advantage of the framework are the capitalized people and companies leaving behind the less privileged people without protection or incentives to get to a better situation.

As we have seen in our theoretical framework, development is not only about money and economics, is a comprehensive and integral concept that targets social, political, economic and livelihood situation of the people around the countries, therefore, if we are trying to get drivers or brakes for taking the economies to develop, we must assess an approach that takes into consideration all these integral concepts and not only a money-oriented system, being these the education, health, quality of life, money power and employment.

The identification of drivers and brakes for development will be analyzed from a quantitative and qualitative approach, being the quantitative a correlation analysis with a visual and a statistical technique. For the qualitative one, we will have a theoretical breakdown of the main factors of Economic Freedom framed on the theoretical approach and analyzing how they represent a positive or negative incentive for development, and also, a empirical analysis with real examples of countries that adopted or not adopted the metrics and what was their outcome.

We will begin with the quantitative to determine if there is a direct relation between economic freedom and development, and if so, then, we will analyze it from a qualitative point of view to answer why this relation has taken place.

2. QUANTITATIVE ANALYSIS

The quantitative analysis will be taken down with a correlation between the economic freedom variables and the development variables we chose from the previous chapter. To this purpose, we will begin with a practical and statistical approach, where we are going to analyze the first twenty countries in the Economic Freedom Index of the Heritage Foundation, and then, we will compare the ranking with some other indexes that measures the development in comprehensive way, being the Employment Ranking provided by the OECD, The Poverty Ranking provided by the World Bank and the Human Development Index provided by the United Nations, this last one takes into account the education, health and the human quality of life. This way, we are going to see if there are matching countries in the first places of the list that gave us a visualization of the correlation.

Added to that, we will utilize a correlation method formula from Microsoft Excel to measure exactly how much correlated the list from the Economic Freedom Index in relation to mentioned indexes that carries the factors of development. This way,

we will have an exact number of correlations to assess the interdependence between the different variables we are taking into consideration.

2.1. INDEXES CORRELATION ANALYSIS

To begin the quantitative approach, in this section, we will put into perspective the Economic Freedom Index of the heritage foundation with the Human Development Index from the United Nations, the Poverty Index from the World Bank and the Employment Rate Index provided by the OECD. Specifically, we will graphically put the first twenty countries in the different indexes and compare them to see if they are any repeated patrons between the lists.

Then, with the help of the correlation formula of Microsoft Excel we will calculate the exact amount of interdependence between the different indexes, and we will show the results on a scatter plot graphic to visually showcase the possible data correlations.

2.1.1. ECONOMIC FREEDOM VS HUMAN DEVELOPMENT

Table 1: Economic Freedom vs Human Development Index Top 20 Comparison

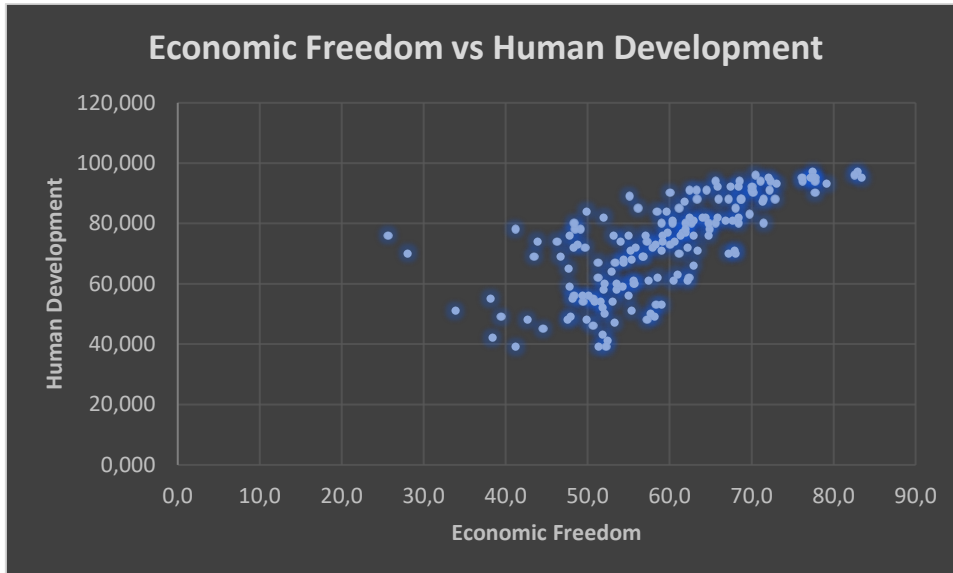
Economic Freedom Index	Human development Index
Singapore	Switzerland
Switzerland	Norway
Ireland	Iceland
Taiwan	Hong Kong
Luxembourg	Denmark
New Zealand	Sweden
Estonia	Germany
Denmark	Ireland
Sweden	Singapore
Norway	Australia
Netherlands	Netherlands
Finland	Belgium
Australia	Finland
South Korea	Liechtenstein
Lithuania	United Kingdom
Canada	New Zealand
Cyprus	United Arab Emirates
Germany	Canada
Mauritius	South Korea
Latvia	Luxembourg

Source: Index of Economic Freedom, Heritage Foundation, Human Development Index, United Nations.

On the left, we have the top 20 countries of the Economic Freedom Index and on the right side the top 20 countries of the Human Development Index, in other words, the most opened economies and the most advanced in terms of human development. As we can see, highlighted in yellow, there are 14 out of 20

possibles repeated countries in the both lists, representing a strong indicator of a possible direct correlation between both indexes.

Figure 1: Economic Freedom vs Human Development Correlation Assessment



Correlation = 0,701331

Source: Index of Economic Freedom, Heritage Foundation, Human Development Index, United Nations. Self Made.

As we were imagining, the correlation of between the Economic Freedom Index and the Human Development its 0,70, this means that there is interrelation in which the more the country has Economic Freedom, the higher the Human Development they can achieve.

2.1.2. ECONOMIC FREEDOM VS POVERTY

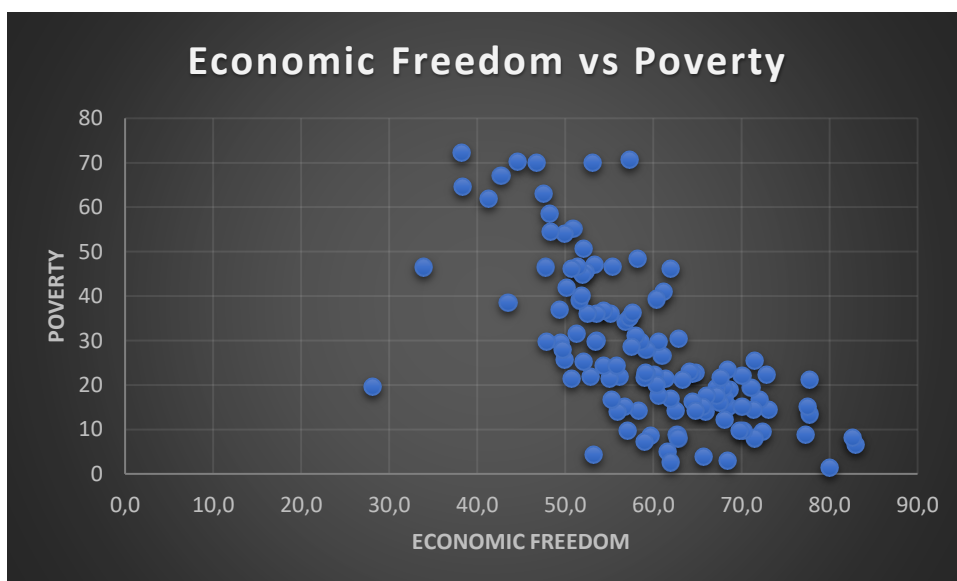
Table 2: Economic Freedom vs Poverty Index Top 20 Comparison

Economic Freedom Index	Less Poverty in Countries
Singapore	Iceland
Switzerland	Luxembourg
Ireland	Slovenia
Taiwan	Finland
Luxembourg	Switzerland
New Zealand	Cyprus
Estonia	Germany
Denmark	Ireland
Sweden	Netherlands
Norway	Taiwan
Netherlands	Belgium
Finland	United Arab Emirates
Australia	Czechia
South Korea	Denmark
Lithuania	France
Canada	Norway
Cyprus	Canada
Germany	United Kingdom
Mauritius	Malta
Latvia	Poland

Source: World Bank, Poverty headcount ratio.

On the left, we have the top 20 countries of the Economic Freedom Index and on the right side the top 20 countries of the Poverty Index (the ones with less poverty numbers), in other words, the most opened economies and the countries with less poverty. As we can see, highlighted in yellow, there are 8 out of 20 possible repeated countries in the both lists, representing a strong indicator of a possible direct negative correlation between both indexes.

Figure 2: Economic Freedom vs Poverty Correlation Assessment



Correlation = -0,67355

Source: *Index of Economic Freedom, Heritage Foundation, Poverty headcount ratio, World Bank. Self Made.*

As we were imagining, the correlation of between the Economic Freedom Index and the Poverty Index its -0,67, this means that there is negative interrelation in which the more the country has Economic Freedom, the less they had poverty among their population.

2.1.3. ECONOMIC FREEDOM VS EMPLOYMENT

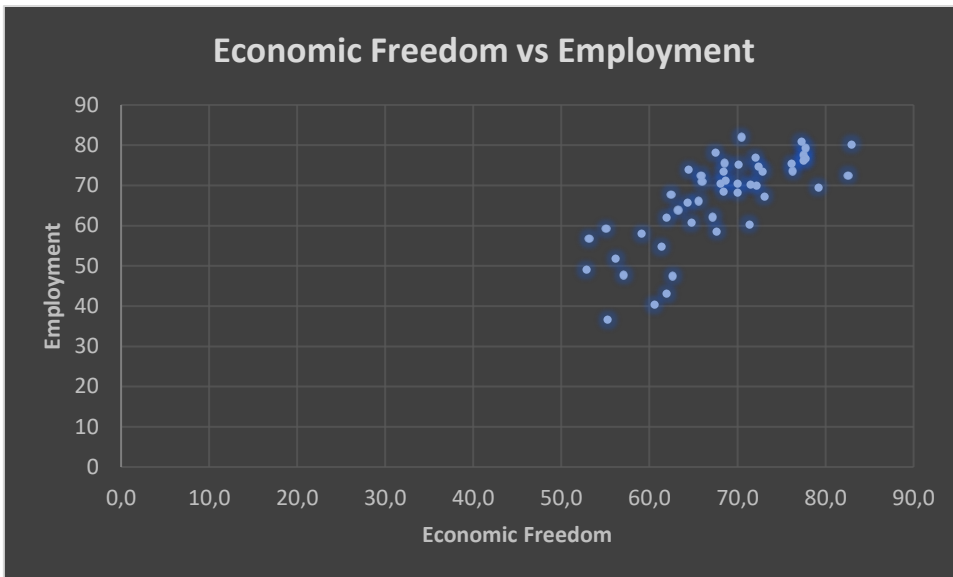
Table 3: Economic Freedom vs Employment Rate Index Top 20 Comparison

Economic Freedom Index	Employment Rate
Singapore	Iceland
Switzerland	Netherlands
Ireland	Switzerland
Taiwan	New Zealand
Luxembourg	Japan
New Zealand	Norway
Estonia	Australia
Denmark	Sweden
Sweden	Germany
Norway	Denmark
Netherlands	Estonia
Finland	Canada
Australia	Czechia
South Korea	Hungary
Lithuania	Austria
Canada	Finland
Cyprus	Ireland
Germany	Lithuania
Mauritius	Portugal
Latvia	Slovenia

Source: *Index of Economic Freedom, Heritage Foundation , Employment Rate, OECD.*

On the left, we have the top 20 countries of the Economic Freedom Index and on the right side the top 20 countries of the Employment Rate Index, in other words, the most opened economies and the countries with more people employed. As we can see, highlighted in yellow, there are 12 out of 20 possibles repeated countries in the both lists, representing a strong indicator of a possible direct correlation between both indexes.

Figure 3: Economic Freedom vs Employment Correlation Assessment



Correlation = 0,763399

Source: Index of Economic Freedom, Heritage Foundation, Employment Rate Index, OECD. Self Made.

As we were imagining, the correlation between the Economic Freedom Index and the Employment Rate Index is 0,76, this means that there is interrelation in which the more the country has Economic Freedom, the higher the Employment rate they can achieve.

2.2. QUANTITATIVE ANALYSIS CONCLUSIONS

As we can see in the different comparison of indexes, there is correlation between the countries that have more economic freedom and the ones that have better conditions in health, education, employment, wealth, and quality of life.

- Economic Freedom vs Human development: **Correlation = 0,701331**
- Economic Freedom vs Poverty: **Correlation = -0,67355**
- Economic Freedom vs Employment: **Correlation = 0,763399**

Nevertheless, taking in to account possible casualties and margin of errors, we need to find the causality relation to be more incisive on the analysis, so we will break down all the four main factors for being a country with a high economic freedom and how they are related to the comprehensive concept of development. We will adopt this analysis of the factors from a theoretical perspective and from a practical perspective, considering real examples of the different countries around the world.

The qualitative analysis that will perform next will give us insides about the correlation approach, to find the causality of the data. This way, we will eliminate any possible margin of error of casualties.

3. QUALITATIVE ANALYSIS

3.1 RULE OF LAW (Including property rights, government integrity, judicial effectiveness)

“The rule of law signifies “the empire of laws and not of men”: the subordination of arbitrary power and the will of public officials as much as possible to the guidance of laws made and enforced to serve their proper purpose, which is the public good of the community”. (Bingham, T., 2011).

The rule of law is required at the federal level to establish the conditions for supplying sustainable livelihoods and ending poverty. Disempowerment, marginalization, and prejudice are common causes of poverty. The rule of law promotes development by giving people's voices more weight, ensuring due process, opening doors to justice, and creating channels of recourse for rights violations. To protect themselves from rights breaches, the impoverished can be empowered and enabled by contracts, tenure security, and means of subsistence security. Beyond just offering legal recourse, legal empowerment promotes improved economic prospects. In other words, giving access to justice to the less privileged.

For nations to develop a framework that guarantees due process, gives everyone access to justice, and puts a stop to breaches of human rights, the rule of law is essential. Beyond merely providing legal protection, legal empowerment also promotes greater economic prospects by removing the need for people to spend money on expensive legal defense.

These asseverations go beyond legal of the population, it's also very important for business because giving the correct framework to operate gives companies' certainty while doing business, investing on a country that haves a high level of rule of law means avoiding underlying costs that are not planned.

3.1.1. JUDICIAL EFFECTIVENESS

The area of economic freedom that may be most crucial for setting the framework for economic progress is judicial effectiveness, particularly for emerging nations. Deviations from the effectiveness of the legal system may be the earliest indications of major issues in developed economies that will cause the economy to deteriorate. Developing economies are needed for investment, to provide jobs, get taxes, they can't afford being neglected to provide a clear rule to the business world.

Fundamentally, people in Denmark trust one other, not just their neighbors but also the government and the country's entire social structure. Denmark has been a leader in innovation in the legal system since a significant revamp, and it has responded to citizen requirements by expanding its court network. The Danes made the decision to detach its courts from the Ministry of Defense, the government agency that had previously overseen them. As a result, Denmark has the most independent legal system in the region—at least among the Scandinavian nations. The Danish judicial system also has Review Boards and

Special Courts, which are intricate components. To guarantee complete transparency, judges are closely examined, and their records are open to the public. (Nomad, C., 2024)

To reflect this in transparent way, the ONG World Justice Project has a ranking of Rule of Law within all the countries and Denmark is number one among all the economies. Denmark is the country that mostly respects the law above all the things. (W. J. Project, 2024)

Transparency is key for Denmark Justice and openness to the overall public attention leaves barely any room for corruption, this means that the whole population have access to justice, and the companies can trust the legal framework to have their operations in the country. The result is that is the 8th country with less poverty, the 5th country with more employment and the 5th country with more human development measures, in honor to the cited indexes above.

3.1.2. PROPERTY RIGHTS

One of the main drivers of capital accumulation for investment and overall working force is property rights. Enabling natural resources for commercial use, releasing the wealth contained in real estate, and offering security for investment finance all depend on secure titling. Additionally, societies prevent *the "tragedy of the commons"* a situation that results in the exploitation and deterioration of jointly owned property for which no one is held accountable by extending and defending property rights. Property rights need to be guaranteed to give an incentive to people to work for their own benefits, in the end, it's all about that.

The Property Rights Alliance has The International Property Rights Index (IPRI), which scores the underlining institutions of a strong property rights regime among the countries, including physical rights and their registering process, but also the intellectual protection with trademark, copyright, patent, and IP protection. The access to financing for property is also taken into consideration. The Number one country in the list is Finland, which is 14th place in the Human Development Index and the 15th country with less poverty. (P. R. Alliance, 2024)

3.1.3. GOVERNMENT INTEGRITY

"There is a direct relationship between the extent of government intervention in economic activity and the prevalence of corruption. Excessive and redundant government regulations provide opportunities for bribery and graft, which in turn are detrimental to economic growth and development. In addition, government regulations or restrictions in one area may create informal or black markets in another. For example, by imposing such burdensome barriers to the conduct of business as including regulatory red tape and high transaction costs, a government can incentivize bribery and encourage illegitimate and secret interactions that compromise the transparency that is essential to the efficient functioning of a free market". (Heritage Foundation, 2023)

Having a big government size gives big opportunities to corruption, it's a logical consequence, the more you have power, the more you open to door to the abuse of that power. This increases transparency and transaction costs, becoming a negative incentive for the investors that generates employment and helps to overcome poverty.

We can see some examples of the consequences of government integrity in countries like Uganda, where there are some of the examples uncertainty and arbitrariness including the rampant murders and threats to life, land dispute between Makerere University and the locals in occupation of Katanga Valley land, Kikuube Land dispute, disobedience of court orders, teachers strike over salary disparity, Soroti By-election, increased deaths and injuries caused by road accidents, violation of the right to human dignity and protection from inhuman treatment as well as the State of the right to food and nutrition in Uganda. In March 2022 Report, the Human Rights Watch exposed cases of enforced disappearances, arbitrary arrests, unlawful detention, torture, rape, extortion, forced labor, and other ill-treatment by the police, army, and military intelligence. This action lead the Biden administration on October 2023 to warn the US companies and citizens that they face heightened risks and conflicting legal obligations when doing business in Uganda, citing endemic corruption and human rights restrictions exacerbated by the recently passed anti-homosexuality law. (U. L. Society, 2022)

The US issued a “business advisory” on the potential “financial and reputational risks resulting from endemic corruption” in Uganda, as well as “violence against human rights activists, media members, health workers, members of minority groups, LGBTQI+ persons, and political opponents.” It said that the anti-homosexuality act, passed in May, increased restrictions on human rights, including “restrictions on freedom of expression, peaceful assembly, and exacerbates issues regarding the respect for leases and employment contracts.” (U.G. Business, 2023)

As we saw with the Bidens warning, a strong rule of law not only gave opportunities to the people to have universal access to justice, but this is a mandatory factor also that investors and companies take into consideration when deciding the country market, they will invest in. Investors seek stable environments with reliable legal protections. A strong rule of law encourages private sector investment and economic activity.

3.2. GOVERNMENT SIZE (including government spending, tax burden, fiscal health)

Government size refers to the amount of regulation and intervention that states have over the economy and livelihood of a country and their citizens. The governments that have large government sizes, high taxation, and high government spending defend themselves by claiming that, because of their social and humanitarian programs, they are helping the less fortunate people. Therefore, they must continue to pursue capital, and the only practical way to do

so is by taxing the working and business classes. However, spending a lot of money on government is one thing; using resources efficiently to accomplish the desired outcome is quite another. Governments that try to stimulate their economies by imposing high taxes typically have the opposite effect, making their economies worse and creating a never-ending cycle of taxation that starts with one problem, then increases to solve subsequent ones. It's a snowball effect.

Investment drives economic growth. When investors find an attractive tax environment, they allocate resources efficiently. A healthy investment climate contributes to job creation, innovation, and overall prosperity. In terms of our investigation, helps with employment and economic resources, this is traduced in more education, health, and quality of life.

3.2.1. GOVERNMENT SPENDING

A low government size also serves as a strong incentive for investors to invest in a country and use their operations to create jobs and development, as we saw with the rule of law. A nation that maintains lower corporate tax rates attracts more foreign investors. They consider it to be an ideal setting for doing business. Investors can keep a bigger percentage of their profits due to lower taxes. They are then inspired to make larger investments as a result. Low government size is a positive incentive for local and foreign investors.

For investors, predictable tax laws provide a sense of security. They feel more secure knowing that their tax liabilities won't increase unexpectedly. Long-term investment is encouraged when one is confident in the stability of tax laws. Projects and enterprises have a higher chance of attracting investors. Same thing as with the Rule of Law, certainty it's a critical factor for doing business.

Government spending such as expansionary fiscal policies can lead to inflation too, this directly hurts the purchase acquisition power of the less privileged people, to take an example of this, let's review the Argentinian case; according to data released on Tuesday, Argentina's monthly inflation rate dropped precipitously to a single digit rate in April for the first time in six months. This is a carefully monitored measure that supports President Javier Milei's strict austerity policy, which is intended to stabilize the country's struggling economy.

“Argentine government statistics agency, prices increased by 8.8% last month. This is far less than the 25% monthly growth that occurred last December, when Milei took office and vowed to curb Argentina's absurdly high inflation, which is among the highest in the world”. (DEBRE, I., 2024)

After the cuts on government spending by Milei, the inflation is going down and becoming more stable, trying to balance the purchase power of the Argentinian people.

3.2.2. TAX BURDEN

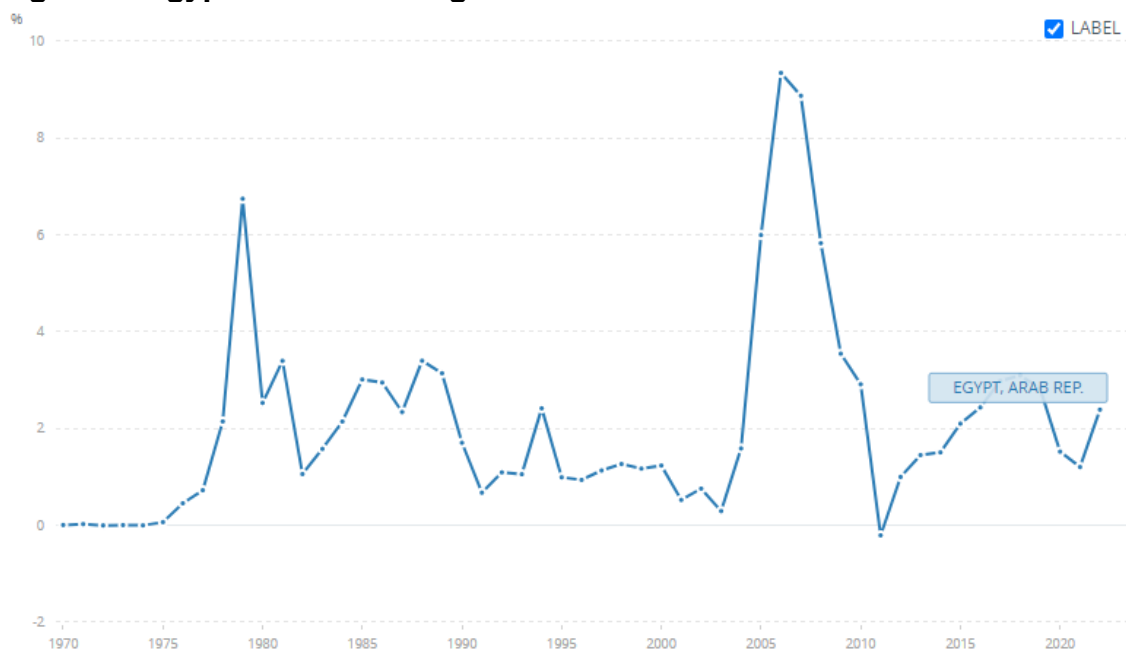
Economies market themselves as locations that are favorable to investments by providing reduced tax rates. Investors evaluate tax policies beyond national borders. A country may have a competitive advantage over others if its tax burden

is minimal. Businesses can optimize their after-tax profits when taxes are reduced. This encourages them to invest in expansion and extend their operations. Investors look for chances where taxes do not substantially reduce their returns. Low taxes transmit into being a competitive nation, it's a competitive environment like the one with the companies.

Another interesting point is about tax avoiding and black corporate economies, because when tax rates are excessively high, companies may resort to tax evasion or profit shifting to minimize their tax liability. Lower tax burdens reduce the incentive for such practices. Investors prefer transparent and legal avenues because the risk is much lower and doesn't represent an incentive for a law violation. High taxes are a direct incentive to avoid the law.

“A new income tax law (Law No. 91 of 2005) came into force in Egypt on 10 June 2005. Its main aim was to simplify the tax system, improve vertical and horizontal equity and remove tax obstacles to investment and growth. This law lowered the maximum corporate income tax rate from 40 per cent to 20 per cent and abolished the totality of the income tax exemptions provided in the investment guarantees and incentives law No. 8 of 1997 for establishments incorporated after entry into force of the law.¹² It also unified the corporate tax rates across industries and simplified tax procedures. Although it still premature to evaluate the impact of the abolishment of the tax incentives on FDI performance, available FDI data for the first six months of the fiscal year 2005-2006 (provided by the Egyptian Ministry of Finance) suggest that FDI flows almost double in absolute value compared to last year”. (Clark, S., Cebreiro, A., & Bomer, A. (2007).

Figure 4: Egypt Historic Foreign Direct Investment



Source: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates.

3.2.3. FISCAL HEALTH

Widening deficits and a growing debt burden, both of which are direct consequences of poor government budget management, erode a country's overall fiscal health, disturbing macroeconomic stability, induce economic uncertainty, and thus limit economic freedom because the governments tend to increase the taxes to reduce their own bad management. Private sectors pay for the mistakes of the public sector.

Debt is an accumulation of budget deficits over time. In theory, debt financing of public spending could contribute to productive investment and economic growth. Debt could also be a mechanism for positive macroeconomic countercyclical interventions or even long-term growth policies. But high government deficit doesn't only translate into more taxes, on the other hand, high levels of public debt can lead to higher interest rates, crowd out private investment, and limit government's flexibility in responding to economic crises. Higher interest rates lead to minus credits, leading to minus investments, leading to minus jobs.

"Switzerland's fiscal policy has changed within the past few years. The prevailing notion today is that a government's fiscal policy should both help to promote sustainable development and smooth economic oscillations, however in the past Keynesian fiscal policies were the most popular. The budgetary data of communes and cantons demonstrate this paradigm shift, but it is most noticeable at the federal level. The Swiss federal budget has historically shown an economically unbalanced pattern, with deficits accruing during recessions not being offset by matching surpluses during periods of economic expansion. As a result, the public debt grew steadily, reaching a peak of CHF 108 billion in 2000 from CHF 11 billion in 1970. The federal debt-to-GDP ratio climbed from 11.6% to nearly 26% during that same time frame. In the second part of the 1990s, a significant portion of this increased debt was utilized to pay off existing debts, such as those resulting from the repair and refinancing of the Swiss National Railway, or to cover accrued deficits".

"The goal of preserving a balance between sustainability and economic assistance became the central component of Swiss fiscal policy after the debt brake was implemented in 2003. Then, in Switzerland's public budget debt ratio in 2014 was less than 35%, a substantial decrease from the 60% Maastricht debt ceiling. Since 2003, when Switzerland's gross debt to GDP ratio was slightly less than 54%, the debt ratio has been steadily declining". (Hausner, K., 2015)

3.3. REGULATORY EFFICIENCY (including business freedom, labor freedom, monetary freedom)

"Inappropriate regulations can affect the productivity performance of an economy in many ways. They can influence the productivity of existing firms by altering the incentives to invest, adopt the leading technologies available in the market and innovate. They can raise entry costs, curbing competitive pressure and hindering the reallocation of resources across sectors producing different goods and

services and, within each sector, across firms with different productivities. To the extent that a lack of competitive pressure results in higher prices, this can generate trickle-down effects into downstream sectors by raising the costs of intermediate inputs, particularly in services industries where import competition is limited. Regulation can also have differential effects on different industries and firms depending on specific technological and market factors as well as on their position relative to frontier production techniques". (Arnold, J., Nicoletti, G., & Scarpetta, S., 2008)

As we can see from the precedent paragraph from the OECD paper, rampant regulations can work as a negative incentive for business due to the increase of underlying costs for the companies, atmospheres with few regulations can optimize the operations and making it simpler to launch and operate a firm which promotes innovation and entrepreneurship, which leads to more employment and more prosperity for the overall population.

"Transparent and accountable governance ensures that public resources are used efficiently. When corruption is minimized, public trust increases, leading to a conducive environment for investment and development". (Yang Z., Vitenu-Sackey PA., Hao L, Tao Y., 2023)

Countries with corruption generate a lack of trust in the overall system, the clear regulations and regulatory efficiency open countries to international trade can access new resources, markets, and technologies. It promotes specialization, competition, and cheaper consumer costs. Trade freedom promotes development and increases economic efficiency.

While many rules impede the efficiency and profitability of enterprises, the ones that most impede entrepreneurship are frequently those related to the licensing of new ventures. The process of getting a business license can be as easy as mailing in a registration form together with a little fee in certain nations and states in the United States, Australia or New Zealand establishing a business requires just one to four days maximum. The procedure of getting a business license can be far more drawn out and include numerous travels to government offices as well as frequent interactions with obnoxious and occasionally dishonest bureaucrats in other economies, such those in some parts of South America. For example, it would take up to 97 days to set up legally a business in Haiti and in Venezuela open a business can take up to 230 days. This clearly represents a total negative incentive to the companies and individuals to select their investment target. (World Bank Open Data, 2018).

3.3.1. BUSINESS FREEDOM

"Business freedom refers to the autonomy and flexibility that businesses have in making decisions, managing operations, and pursuing opportunities. It encompasses the ability to operate without undue restrictions or interference from external entities" (Ruiz, M., 2001).

The capacity to launch and manage a business without excessive intervention from government is critical for the prosperity of companies. Regulations raise

costs which lead to an increase in the final cost of the products, this directly affects to the final consumer. Lets imagine that the food industry have high taxes, high regulations, this represents an increase in the marginal cost for the food that is taking prices high because in the end, the companies are not willing to loose money, otherwise it wouldn't make sense at all.

Consistency in the regulations is very important for business freedom, a country that changes their regulations inconsistently and fast in time generates an unpredictable business climate that the companies prefer to avoid.

One clear example of business freedom is the subscription of Free Trade Agreements, which simplifies the government intervention in regulation and tax matters between one or more countries, to see an example lets analyze the European Union Free Trade Agreements in the agriculture field and their affects below.

EU FTAs with Mexico (2000), Switzerland (2002 and 2005) and South Korea (2011). Mexico as one of the earlier, more basic FTAs focusing on tariff and quota reduction. Switzerland as the largest, neighboring trading partner for food and agri products. And South Korea as one of the most ambitious and far-ranging EU FTAs.

The second message is that the FTAs have had a strong, positive effect on the EU's economy. The Commission estimates that these three FTAs alone have increased EU agri-food exports by more than €1 billion and supported at least 20,000 jobs in the agri food sector and around 8,000 jobs in related activities. The FTAs impacted mostly in the areas one would expect – tariff concessions; rules of origin; regulatory harmonization; import procedures; and dispute resolution. (Norton Rose Fulbright, 2017)

As we seen the job generation of free trade agreements is big and haves an impact for the opportunities for the overall population in terms of access to monetization purposes.

3.3.2. LABOR FREEDOM

The labor market is not different from the stock market or the general market where products and services are offered and acquired, when government enters with regulations and interventions it distorts the natural flow of the prices. For example, minimum wages or other wage controls, restrictions on hiring and firing practices, limitations on the number of hours worked, or other workplace conditions. Unions are a powerful force for more labor freedom or an obstacle to the smooth operation of labor markets, depending on the nature of their activities. They play a significant role in regulating labor freedom in many countries.

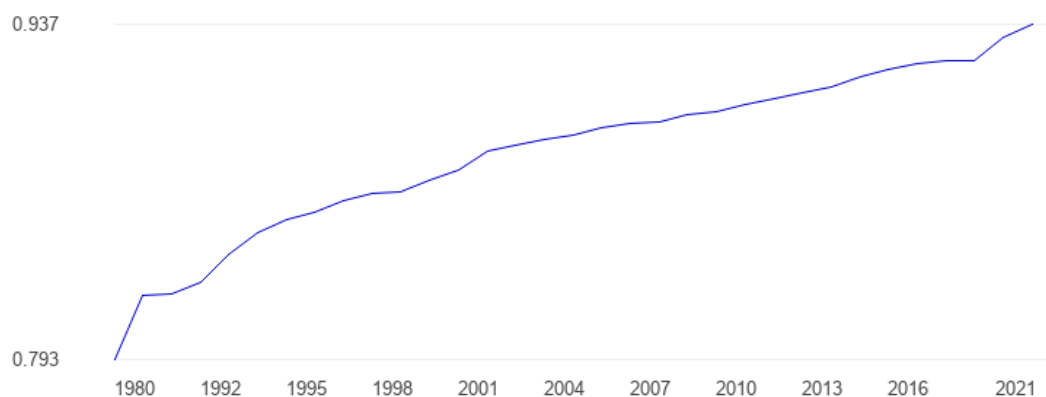
Highly costly labor laws penalize not only businesses but the workers themselves, for example, a very high minimum wage can affect employment rate directly, because if the worker doesn't represent that amount of productivity for the company, its not going to hire that person. Rigid labor regulations prevent employers and employees from freely negotiating changes in terms and conditions of work, and the result is often a chronic mismatch of labor supply and

demand. The workers are the ones that need to decide if the payment is worth it or not, sometimes, a worst payment is better than no payment at all.

Business freedom and labor freedom are the core principle of any economically free market, voluntary exchange. This is just as true in the labor market as it is in the market for goods. Again, and repeating the outcome for previous sections, a lack of labor freedom leads to a negative incentive for companies which leads to unemployment and lack of resources generation.

To take an example, let's see New Zealand case, in 1984, price controls started to be eliminated. Following the adoption of these kiwi dollar stabilization measures, the New Zealand Labor government concentrated on implementing structural reforms, including tax simplification and reduction, trade liberalization treaty signing, increased labor flexibility, and a decrease in public spending. The result is shown below.

Figure 5: New Zealand Historic Human Development Index Evolution



Source: United Nations, Human Development Index (2021)

3.3.3. MONETARY FREEDOM

Prices set by the market and a stable currency are prerequisites for monetary freedom. The monetary policy of a nation's government can have a big impact on how much its currency is worth. Soon, citizens may rely on market pricing thanks to a monetary strategy that aims to combat inflation, uphold price stability, and protect the country's wealth. With greater assurance, they can save, invest, and make other long-term plans. In contrast, an inflationary policy misallocates resources, distorts prices, and increases the cost of conducting business. It functions as an unseen tax, seizing wealth. In this scenario, monetary freedom gives a country a competitive advantage in terms of stability and strongness of their own currency, at the end price controls corrupt market efficiency.

Making sure that everyone has access to banking services is one way that monetary independence encourages financial inclusion. People and small businesses are empowered when they have access to credit, savings accounts,

and investment options. This facilitates access to this support for those who are less fortunate.

For example, “in 1983 the newly elected Labor government, with Bob Hawke as Prime Minister and Paul Keating as the Treasurer moved the Australian dollar onto a floating exchange rate. This meant that the dollar was now valued through the supply and demand of money within world currency markets”. (National Museum of Australia, 2024). Since this measure, the market has determined the value of the Australian dollar, and the price development has been obviously positive for the local currency, while the inflation rates gradually were declining over time, this helped out the acquisition power of the overall people in Australia benefiting the less privileged people.

Figure 6: Australian Historic Inflation Rate



Source: Australian Bureau of Statics (2024)

3.4. OPEN MARKETS (including trade freedom, investment freedom, financial freedom)

“An open market is an economic system characterized by minimal barriers to free market activity. These barriers can include tariffs, taxes, licensing requirements, or subsidies. In an open market, prices for goods and services are primarily determined by the principles of supply and demand, with limited interference from large conglomerates or governmental agencies. Open markets align with free trade policies, which aim to eliminate discrimination against imports and exports”. (Wheeler, G., 2020)

Free markets are essential for encouraging investment and propelling national economies. Relatively open economies typically grow at a faster rate than closed markets. Open markets generate new opportunities for consumers, businesses, and labor. At all levels of development, this dynamic improves economic performance and eventually lifts millions out of poverty. This works in an international and local way of investment.

“Trade has contributed significantly to reducing global poverty. The share of the world’s population living on less than \$1.90 per day fell from around 35% in 1990 to less than 10% in 2015. Evidence shows that changes in trade openness

correlate strongly with improvements in the real income of the bottom 20% of the population in developing countries". (OECD, 2024)

"Open markets attract foreign direct investment (FDI), leading to spillover effects such as improved management practices and technology transfer. These benefits contribute to overall economic growth and job creation". (World Bank, 2018)

World Bank and OECD, two of the biggest ONG's that fights for the development of countries accepts that open markets are critical for countries to assess job creation and eradication of poverty purposes as it creates a positive incentive for investment.

Unprecedented access to products and services is made possible by open marketplaces. For example, over the years, aggressive trade liberalization initiatives have resulted in a dramatic fall in the cost of television sets. Low-income households gain from lower prices since they spend more on heavily traded goods like clothing and food. Globalization plays a key part in this scenario. Now, people that are less privileged have access to things that they couldn't afford years ago with a more closed economy.

3.4.1. TRADE FREEDOM

The degree to which governments obstruct unrestricted international trade directly affects people's capacity to achieve their financial objectives and optimize their well-being and productivity. Tariffs, for instance, drive up the cost of imports for local consumers while also distorting the incentives for local producers to create, leading them to either produce more of a protected good than is economically optimal or a good in which they lack a comparative advantage. Growth, employment, and overall development are hurt by this. This can also lead to unnatural monopolies of the local industry because there is no outside competition.

In many cases, restricting trade also means limiting the productive development of local entrepreneurs by putting advanced-technology products and services beyond their reach. For example, if local traders are competing with outside products, they can enter a healthy competitive career that will benefit the final consumer with better quality products with a lower price.

To put an example of the trade freedom and the tariffs lets analyze the China case, the collectivization and economic planning programs left China extremely impoverished. China started to think about reversing course when Deng Xiaoping assumed power in 1978. The establishment of the so-called Special Economic Zones (ZES), which allowed for the development of a capitalist economic framework in contrast to the communist system still in place throughout the rest of the nation, was the first notable shift.

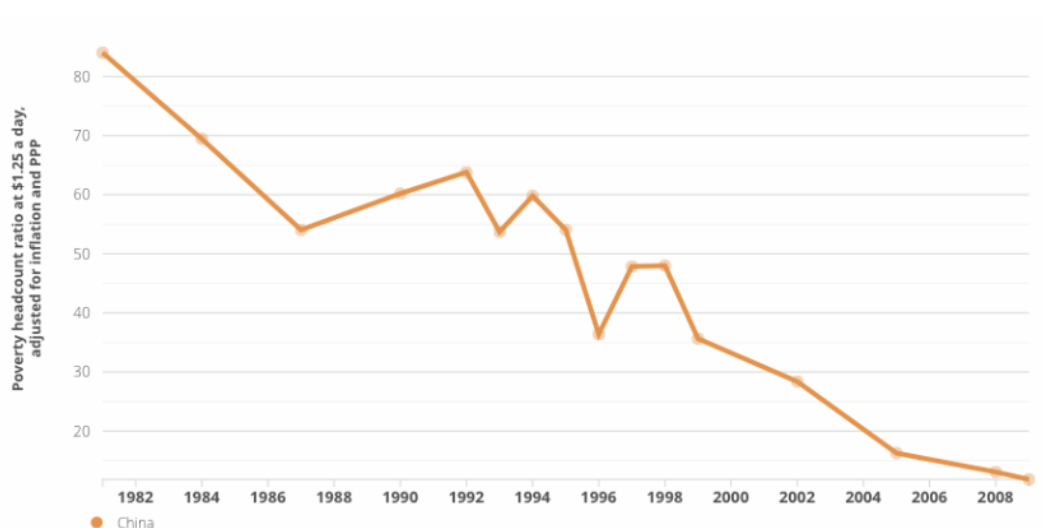
In keeping with this, the Communist Party's authorities started outlining a new framework for trade relations with the outside world that was characterized by an openness to the outside world intended to encourage the entry of foreign

investment and the growth of export sectors. China started to participate in international trade gradually because of globalization.

“The average tariff had already fallen below 30% at the start of the 1990s, however it remained below 20% in the middle of the decade and failed to reach 5% at the start of the 21st century. Joining the WTO protected these developments and marked the beginning of a new, internationally accessible China”. (De la Cruz, D., S., 2017)

World Bank data confirms that these initial reforms were enormously successful in reducing poverty. Between 1980 and 2010, the poverty rate (adjusted for inflation and purchasing power) fell from 80% to 10%, an unprecedented drop in history. An incredible success thanks to the open markets and trade freedom policies, as shown below.

Figure 7: China Historic Poverty Headcount Evolution



Source: World Bank Poverty Headcount ratio (2024)

3.4.2. INVESTMENT FREEDOM

In closed or restricted investment freedom, domestic or foreign capital flows are restricted because they make it more difficult to allocate resources efficiently and because they lower productivity. Cross-border investment restrictions have the potential to restrict capital inflows as well as outflows, which would reduce market size and growth prospects. This directly affects the employment and creation of wealth.

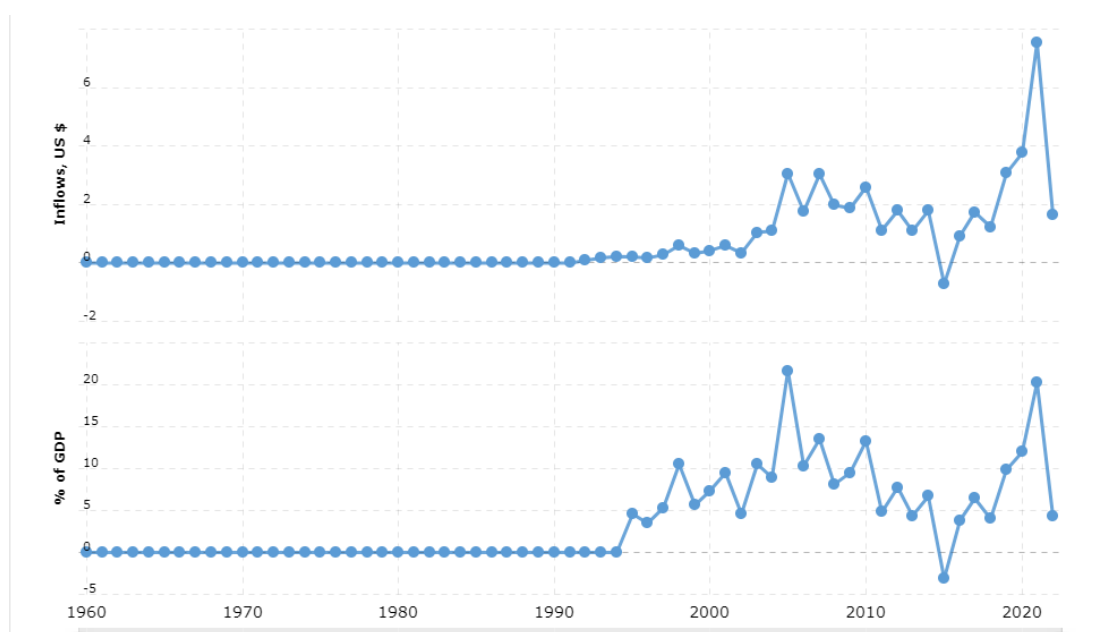
By contrast, when individuals and companies are free to choose where and how to invest, capital can flow to its best uses: to the sectors and activities where it is most needed, and the returns are greatest. State action to redirect the flow of capital and limit choice restricts both the freedom of the investor and the freedom of the person seeking capital. The greater the number of restrictions a country imposes on investment is, the lower its level of entrepreneurial activity will be.

This is even beneficial to the governments because their tax income will increase with the cash flows generated.

Let's see an example with Estonia, this was a country part of the Soviet Union with a closed and highly regulated economy, but, after the Soviet Union dissolution, the price liberalization began in 1989 and was nearly finished in 1992, which is significant considering that the Communist system affected Estonia's economy for nearly fifty years. It could be difficult to completely restructure the economy. (Gaspirini, A., 2021)

In the nation, free enterprises operating under a non-intervention governmental economic model gained widespread acceptance. Except for the transportation, telecommunication, and energy sectors, privatization moved quickly in response to the liberalization of other industries, and by the end of 1996, almost all of the major businesses had been sold. Naturally, this contributed to Estonia's increased appeal to foreign direct investment, modernization of its manufacturing system, and overall efficiency. In this case, they open their economy with lower tariffs and taxes and the result was that over the years, FDI in many Estonian businesses has proven clearly satisfactory, as shown next:

Figure 8: Estonia Historic Foreign Direct Investment Evolution



Data source: World Bank

3.4.3. FINANCIAL FREEDOM

Diverse savings, credit, payment, and investment services are made available to people and businesses through an easily accessible and well-run formal financial system. An open banking environment fosters competition by increasing financing opportunities and entrepreneurship. This, in turn, leads to the most effective financial intermediation between investors and entrepreneurs as well as between households and businesses. At the end, the final consumer is the one

that gets advantage of the financial freedom because it generates better alternatives for them to choose within the overall banking competition.

Other financial services are beginning to supplement banks' pivotal position by providing different means of raising capital or spreading risk. Like the banking system, the government can effectively regulate these institutions by encouraging the disclosure of assets, obligations, and risks as well as by guaranteeing transparency and integrity. It opens a wide option that helps with wealth creation for the ones that don't have access to large amounts of capital.

State banking and financial regulation that goes beyond assuring transparency and honesty in financial markets can promote inefficiency, increase the costs of financing entrepreneurial activity, and limit competition. If the government intervenes in the stock market, for instance, it contravenes the choices of millions of individuals by interfering with the pricing of capital—the most critical function of a market economy. When the government's attempt to enter the financial system, they tend to distort it and generate the opposite effect that they attempt to.

“Of the seven countries which have fewer than 100 bank accounts per 1000 adults, five are in Africa —Congo D.R., Burundi, Madagascar, Mauritania, and Ethiopia. High income countries exhibit the greatest levels of deposits penetration with an average of over 2000 accounts per 1000 adults”. (Kendall, J., Mylenko, N., Ponce, A., 2010)

Having a little number of banks causes no competition in between them which leads to oligopolies that can manipulate and increase prices due to the lack of options. This can translate into a very poor access to financing, especially for the less privileged people that can afford high interest and doesn't have capital or access to leverage with. In the case showed of Congo, Madagascar, and the other African countries they are in the bottom of the Poverty Index.

CHAPTER IV
CONCLUSIONS AND
RECOMENDATIONS

CONCLUSIONS

- Development isn't just about money and finance, it's an integral and comprehensive concept that includes education, health, quality of life, economic resources, and employment access. Development as a money-center concept is an obsolete approach nowadays, nevertheless, the economic side must be taken into consideration because is the way that the population has to access to the basics needs in coordination with the government, must be a joint effort.
- As conclusion of the quantitative analysis, we saw that 14 out of 20 of the twenty firsts places of the Economic Freedom Index are repeated on the twenty first places of the Human Development Index, 8 out of 20 repeated on the twenty first places of the Poverty Rate Index and 12 out of 20 are repeated in relation to the Employment Rate Index. This indicates that there is a high chance of correlation due to the similarity of the ranking's top countries. Nevertheless, to make the statistical approach to be more precise in the quantitative relation, we calculate the independence of the indexes with a correlation formula in Microsoft Excel having these results:
 - Economic Freedom vs Human development: **Correlation= 0,701331**
 - Economic Freedom vs Poverty: **Correlation= -0,67355**
 - Economic Freedom vs Employment: **Correlation = 0,763399**

Therefore, we can conclude that there is direct positive correlation and interconnection between the economic freedom and the variables of development such as employment and human development (education, health and quality of life), and a direct negative correlation in relation to poverty.

- The qualitative analysis from the theoretical point of view gave us insight into how the distinct regulations of the countries in political and economic matters can work as positive or negative motivators. In the case of closed and highly regulated economies the investors are not likely to follow because their costs are increased unnaturally.
- Economic freedom-oriented countries has a direct positive correlation in relation with employment, education, health, and quality of life, and also, they have a negative correlation with poverty, therefore, as we defined these factors as the drivers for the development in countries, we can conclude that economic freedom is a need for countries in order to achieve success in their development goals.
- Having a strong rule of law gives the overall population fair access to justice regardless of their income and possibilities, this gives a framework of wellbeing for citizens. Also, improves the economy of the less privileged because the justice system will cost less because there will be less bureaucracy and less corruption.

- One of the indicators that companies take into account when deciding to invest in a country is a strong rule of law, traduced in strong and independent institutions because in that scenario, the companies will be in a certainty framework that allows them to focus entirely on their business instead of the government policies. A weak rule of law can be critical and can make a company to directly not enter a country.
- Being a small size government gives a competitive framework for companies to develop their activities in the sense the private market will be act freely and without coercion. The cost of the transactions are reduced and the time to conduct operations are reduced too.
- Having an overall open market approach in the economies of the countries is benefiting the local and foreign investment, this will be traduced in more companies and more opportunities of employment for the population. Also, with foreign investment there will be knowledge from outside that will be adopted by the local economy, this will generate better skilled people and a higher human capital development.
- The practical examples of countries showed that political and economic liberal policies are directly related to the increase of the integral development of countries, taking into consideration the factors defined in the theoretical framework, education, health, standard of living, poverty, and employment. The examination of the before and after of the countries proved the way path that the countries can take to reach development.
- The investment from internal or external sources translates into more business and companies, which translates into more employment for the overall population that gives a better quality of life to their families.
- The countries with more closed economies tend to be less competitive, which translates in lower quality products and higher prices in the products and services, which leads to the decrease in power acquisition of the overall population. This not only works for first need products, this works even for access to financing, in the case of the African countries we analyzed, the lack of competitiveness in the banking system due to high regulated environments causes the hard access to capital for the population.
- Some regulations that aim for the protection of the less privileged people such as high laboral regulations tends to cause the opposite effect by leading to unemployment because due to the lack of flexibility of negotiation between the workers and the owners of the business. The best example is the setting of a very high minimum wage which generates a negative incentive for owners to hire people because the work provided doesn't generate the same amount of money. From the point of view of a family head with children, sometimes is better to work for less than being unemployed at all.

- The general objective of the present investigation is proven, demonstrating that there is a positive relationship between economic freedom policies and the social development of countries, also, the causality between the correlation has been proved with a qualitative analysis in a theoretical and empirical way. The countries with more economic freedom have better measures of human development, wealthiness, and employment and because the freedom framework works as an incentive for sustainable growth.

SOCIAL IMPACT

This investigation purpose serves the social in terms of providing the tools and knowledge to the country governments to pursue policies of economic freedom that leads to create a better education, health, quality of life, wealthiness, and employment for the overall population. This will impact directly on the development of the nations that carries multiplication effects to make a better world.

RECOMMENDATIONS

- In honor of the conclusions obtained in the present investigation, we recommend the countries adopt more economic freedom-oriented policies in the political and economic field to achieve high development standards for the overall population among the countries. Open markets with free trade agreements, rule of law with a strong property rights and stability, regulatory efficiency in terms of business freedom along with a small government size in terms of taxes and regulations need to be consider providing the correct framework to the increase the development in between the countries in terms of education, health, quality of life, employment and money resources.

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