Index of Economic Freedom in Iran: A critical study

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ABSTRACT

To measure of economic freedom, different indices are used that the most of famous is index of economic freedom “by the wall street journal and the heritage foundation and index of economic freedom of the world “which is calculated and offer by Fraser foundation. In present paper, index of heritage foundation’s freedom was investigated, Iran’s economic is discussion and investigate by that and compared by two global freedoms economic with different characteristics and discuss about indicator and solutions improvement of Iran’s indicators.

INTRODUCTION

Economic freedom is a condition in which people can both make effort to act with independence for economic lives and more welfare. Any discussion about economic freedom, inherently within itself is a reflection of the relationship between government and people. Economic freedom is a vital aspect of human freedom that liberty and happiness of people will decrease significantly without the right of human’s life. Hayek is prominent economist who believes that without economic freedom, all of the human freedom will be lost.

In a free economic, each person spends his earned wage. In this economy, people are empowered and also deserving to achieved their dreams through their choice. In an freedom, failures and successes of individuals are based on their own individual’s effort and their abilities. In such economies, institutions never act for benefit of person, group, class, genus, gender and specific religion and only of people’s qualification determines degree of success or failure in their life. In a free economic spread economic decision-making is empowered. Allocation of resources for production are based infrastructure of those indicators which were offered indicators is for freedom economic. To measure of economic freedom, different indices are used that the most of famous is index of economic freedom “by the wall street journal and the heritage foundation and index of economic freedom of the world “which is calculated and offer by Fraser foundation. In present paper, index of heritage foundation’s freedom was investigated, Iran’s economic is discussion and investigate by that and compared by two global freedoms economic with different characteristics and discuss about indicator and solutions improvement of Iran’s indicators. The heritage foundation index of economic freedom, economic freedom is defined as a condition which has an absolute rights of ownership property, the rights of movement of labor, capital, and goods can be found and there is no utterly force and coercion and there is no need to use force and coercion for maintain freedom by citizenship.

Index of economic freedom:

For measuring economic freedom various criteria and indicators are provided. Among them, common index of heritage foundation and the wall street journal as the index of economic freedom is the most credible and the most widely used to measure economic freedom in different countries around the world. this index of economic freedom, has been divided the different countries based on then broad index of economic freedom and to extract data. Statistics of the world economic bank IMF and economist intelligence unit are used. Ten indicators used are:
1-Business freedom: A quantitative scale for measuring ability to start, management and close a business that represent the overall rate effectiveness of the government efficiency regulations in legislative process and affairs discipline.
2-Trade freedom: That is a combinative scale consisting absence governing the tariff and non-tariff restrictions on the export and import of goods and services.

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3-Monetary freedom: The monetary freedom combined one scale of stability price (inflation) with an assessment of price controls, both inflation and price controls uneven markets activity.

4-Government size/spending: This component shows that rate of government costs as a percentage of GDP.

5-Fiscal freedom: A scale that shows fiscal restrictions imposed by the government.

6-Property rights: Indicates the level of individual’s ability to accumulate personal wealth and the level of existence of protection laws and the level of enforcement of laws by government.

7-Investment freedom: There should be no restrictions on the flow of capital investment in a country that is utterly free. individuals and companies will be allowed to import or export their investment in the borders of a country.

8-Financial freedom: A scale of the efficiency of the banking system and also a scale of rating its independence from government and government intervention.

9-Freedom from corruption: Corruption undermine s economic freedom because it enters the uncertainty and lack of confidence in the economic activities. the more corruption, the lower economic freedom will be.

10-Labor freedom: People’s freedom in a country that do whatever they want and works whenever they want. that is a quantitative scale that deals the legal and regulatory aspects of countries related to labor.

For ease of analysis, these ten indicators of economic freedom are classified into four main groups, namely: 1-Rule of law 2-Limited government 3-Regulatory efficiency and Open markets. There are two indicators of property rights and freedom from corruption in groups of rule of law. There are two indicators of fiscal freedoms and government spending in group of limited government. there are three indicators of business freedom, labor freedom and monetary freedom in group of regulatory efficiency. and finally three indicators of trade freedom, investment freedom and financial freedom are also in open markets group.

The situation of Iran in the index of economic freedom 2013:

In the index of freedom provided by the heritage foundation and wall street journal, Iran with a score of 43.2, have ranking 168 among the countries in the middle east. Index of economic freedom in comparison to 2012, increased to 0.9 (figures 1 and 2), but the average index of Iran’s economic freedom is lower than the world average and lower than the average in the region countries (figure 3).

In group of the rule of law, Iran in property right has ranked 165, and in the freedom from corruption has ranked 118, among the countries of the world (figure 4).

In group of the limited government, Iran in financial freedom has ranked 92 and in government spending has ranked 43 among the countries of the world (figure 5).

In group of the effectiveness of regulations. Iran in business freedom has ranked 92, in labor freedom has ranked 112 and in monetary freedom has ranked 171 (figure 6).

In group of the open market, Iran in trade freedom has ranked 174, in investment freedom and financial freedom among the countries of the world (figure 7).

![Score Changes](image1)

**Fig. 1:** Change of Iran status in relation to four main criteria of economic index.

![Comparison the status of Iran economic freedom index in the years from 2009 to 2013.](image2)
Fig. 3: Index of Iran’s freedom in comparison with countries in the region, the global average and average of the free countries.

Fig. 4: Comparison of Iran with the global countries in the rule of law.

Fig. 5: Comparison of Iran with different the global countries in limited government.

Fig. 6: Comparison of Iran with the global countries in regulatory efficiency.

Fig. 7: Comparison of Iran with the global countries in open market groups.

**Interpretation of Iran in the current situation in the index of economic freedom:**

In this reported Iran with score 43.2 acquired ranking of 168th and from perspective of economies freedom it has the lost ranking in among the 15 countries making up the group’s middle east and north Africa. These are the conditions that the global average is 59.6 and the regional average is 61.8. If consider that this index for open economies is 84.5, we figure out that the region’s economies still have a distance to freedom economies. However, in a region where the economies known as the governmental, Iran’s economy is the most public one and only the economies of countries such as Burma, Cuba, Eritrea, Congo, Turkmenistan and guinea known as more free. If consider the regional competition to get foreign investment and economic development, this is no good news.

By taking in to account index of Iran’s economic freedom in recent years indicated current score of Iran’s economy has increased over the previous years (0.9) but yet still in comparison to recent years, it’s value is lower. This index at the end of 90s (70 hijri) increases after years of steady and in 2005 (1384) reaches a maximum.
point and then decreases to its current level fall. The changes of this indicator is affected by both monitoring internal events of internal and external economy and it's intereacting that these fluctuations are aligned the economic development of the country. Improvement and development courses followed the periods of recession and stop the development process. About fluctuation index of economic freedom is more important points as economic perspective.

Until 1384, there programs of first development country were ended although, the implementation of the first, second and third economic development of country have many ups and downs but the development infrastructure of country, development of regional markets starts and continuance of privatized firms process and governmental monopolies cause of development economic activities and volum and size of the private sector in the country, as a result this expansion of economic activities is improved index of Iran's economy freedom and it will reach more than 50, this trend is also visible in other dimension of economic. For example there are evidences that show in this period income gap in society between women and men has been reduced and more job opportunities has been available for the labor force.

There is simultaneous remarkable between improvement between index of economic freedom in Iran and decline in oil revenues. In 1384, only a few years passing since the beginning of the rise oil prices in global markets and more than decade, Iran's economy had to follow replacement for oil revenues. This fact that the index of economic freedom in Iran has a sharp decline since 1384, it represents the powerful public sector by oil revenue, by increasing of oil revenues in Iran, index of economy freedom will decreases and will be stable in its level.

The trend of changes in the foreign trade of freedom of country is also subordinate of fluctuation's price. Take a look at this index, it is shown that in 1384 index of foreign trade activities in Iran freedom activities in Iran was higher than the global average, and it has helped to improve of economic freedom index, but after increase oil revenue, we saw sudden collapse of foreign trade freedom index which has led to reduction of total index. Imposing international sanctions against Iran in recent years has resulted in limited in economic activity and more reduction in index of foreign trade freedom. Dear reader should bear in mind that in the first half of 80s about this index, from over taking from some countries in region including turkey and only after 1384 this index for economic turkey is more than Iran's economy. Following imposed sanctions were other region countries in this field over take from Iran. For example, since 1987 the Egyptian economy got better score in foreign trade freedom or up to now. Iran's economic in this field has been act better or has been moving along the Egypt's economy.

Interesting point about heritage foundation's study report is that indicators did not change in Iran yet. Property rights index and financial freedom index was ever fixed for Iran's economy and in this indicators Iran's economy achieved the lowest possible score. The most important indicators is that index of property rights that was fixed in the past two decades. Iran in the property rights index achieved score of ten that was the lowest possible score since 1387 and after this year because of falling index of property rights in north Korea, Iran ranking is improved without any positive change in its score. Index of property rights in turkey have always been higher than global average and in Egypt despite its fluctuations, it remains in global moderate. The lack of improvement Iran's score in this filed could be partly to not institutionalization property rights in country through legislation and explain the rule of government in the government agencies in this field.

**Discussion and Conclusions:**

In current situation Iran's economy was affected by limited economy of their countries. Especially since last 2009, when the union Europe and American government appeals in the type and level of sanctions, they become tightened. According to the index of economic freedom, the index of Iran’s economic freedom have decreased substantially between 2009 and 2012. So in my opinion, the overall index of Iran's economic freedom in this time was more influenced by political factors than indicators of real economic liberalization because it could have been in this time essential volition exit for foreign trade and exchange (improving index in trade freedom) but have been prevented international political will as reported, investment freedom index in Iran is zero. This fact is related to international sanctions a lot as was discussed, because principle for calculating freedom investment used some criteria such as return on profit, but however we know sanctions banking system has weaken security investment for foreigners. Moreover, the development of international investment is dependent on this subject a lot.

In calculating financial freedom, also one factor for evaluation indicators is opening in a market countries to foreign competition. Although, Iran has ranking of 170 among countries in the world, this subject should be also considered that sanctions and banking system and sanctions against Iran's transport fleet by American and the west have affected the large amounts of opening up our country markets to foreign competition.

About property rights, Iran has ranking of 165 among countries in the world. It should be noted that system of Iran Islamic revolution is the newly-founded. Naturally, in any system of any kind of government, youth structure of economy, lack of experience and imitate the older structures will always cause the economic to more back. Another issue that was introduced is that Iran's economy is in a transition from an complete
The governmental economy to a private economy or semi-private, and yet the huge bureaucracies exit in government agencies on the private sector trade create barriers. In computing monetary freedom, the rate of inflation is one of the key factors. Regarding the inevitable impact of international sanctions on the rate of inflation in inside the country, it should be considered that part of the derivation of Iran ranking in the monetary freedom is related to the sanctions. It would not be far-fetched that the rule of the interest-free banking and considering the fact that banks is part of the government should be reviewed. (monetary policy of the law is defined as imposing control on economy indicators on monetary market except the amount of money. but in macro economy monetary policy is controlling activity the amount of money) generally having a glance at the banks and the banking system in country is considered as an aid for treasury government. Regarding this characteristics, country will face the budget deficit and growth of the money stock.(the rate in developed countries is5.2 and developing countries is14.4 and in Iran is between 27/030 percent)about the index of spending government, Iran’s rating is 43, which is roughly an average position.

There is a large administrative organization, costly, parallel segments in the administrative structure, the economic decisions based on kindness and compassion such as holding down the rate of fuel without regarding the facilities of the country, functions related to political economy but not macroeconomic and as a result of awarded grant to society with different reason are all of factors which spread financial burden of the government.

Single-product revenue source(oil) policy fixing of the rate of exchange as the dignity variable, sale of oil inside the country lower than the level of the world, are factors which cause income to be limited and make the government spending to be grown as well. in this case adoption a new policies in energy and oil sectors and liberalization of their prices can reduce part of government spending and increase the index of economic freedom of Iran.

Based on mentioned articles it can be concluded that for reducing inflation and economic growth and prosperity regardless of financial discipline and money management, the Factors such as technology changes, privatization and development of private sector, the formation of efficient markets reduction of consumers sensitivity to price and overall more structural and institutional factors are interfered by intelligent and timely adoption of fiscal and monetary policies and timely and out of as political tends for economic development is provided and by creating the economic open space and development of private sector and establishment a free market with miniaturization of government potentiality for appropriate investment will be created.

REFERENCES