The Moderating Role of Cross-Cultural Variations in the Relationship between Economic Freedom and Macroeconomic Performance: A Cross-Country Analysis

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Abstract

Economic Freedom is an indicative whole affecting the macro-economic performance of the countries. Economic freedom is about freedom of choice available to individuals to make economic decisions freely and acquire and utilize resources with freedom of choice. Economic Freedom promises a developed economy, empowered citizens, gender equality, improved investor protection rights, and a high-income level (Singh and Gal, 2020). Statistics reveal that per capita income is much higher in economically free countries. Another offshoot of economic freedom is creating more pluralistic societies where empowering people is such that they may exercise more power in their daily lives and increase their capacity to compete for political power and democratization.

It is further hypothesized that people's beliefs significantly impact economic development, thriving democratic institutions, effective governance, and gender equality (World Value Survey). Moreover, distinctive value orientations across cultures and countries are closely linked with socio-economic development.

The current study proposes a moderating role of beliefs and values in the relationship between economic freedom and the macroeconomic performance of the country. The study further suggests taking voice and accountability, rule of law, government effectiveness, and political stability reported by World governance indicators as control variables. The study employs a data set of 109 countries graded in the 2022 Index of Economic Freedom for the period 1996-2020. The panel data estimation technique is employed to conduct the analysis.

Findings of the study reveal that all four components of economic freedom i.e. Trade freedom, business freedom, monetary freedom, and financial freedom play a signifying role in determining the level of economic development and financial stability of an economy. However, the interplay of the degree of economic freedom and macro-economic performance is disturbed when the relationship is tested for the set of countries classified based on Inglehart world cultural map published by, the world value survey (Wave 7).

The results of the study have greater implications for the researchers, academicians, and policymakers. Findings of the study suggest cultural dynamism and cross-country cultural variations as important factors explaining the nexus of economic freedom and macroeconomic performance.

Keywords: *Economic Freedom, Economic development, Trade Openness, Financial Inclusion, Cross-Cultural Variations*

1. Introduction

The Economic Freedom Index measures the extent to which government and institutional policies are consistent with the freedom of individuals to take economic decisions freely. Economic freedom works as a catalyst to stimulate entrepreneurial activity in an economy and encourages individuals to innovate and explore new market opportunities with better jobs hence giving a boost to economic growth.

The world is facing a decline in economic freedom worldwide. Particularly, in the recent wake of, the COVID-19 pandemic many restrictions are imposed by governments on free mobility, and economic activity, which has further affected the worldwide macro-economic performance adversely and destroyed economic opportunity. Nevertheless, every country in the world faces negative growth in 2020. The 2022 Index of Economic Freedom comprising a dataset of 184 sovereign countries reveals that the world economy as a whole remained “moderately free”. Moreover, the score experienced an overall drop of 1.6 points from the previous year. The statistics show that even the U.S. is no exception and dropped to its lowest ranking to date (Heritage Foundation,2022). Despite of declining level of economic freedom worldwide, it is a proven fact that countries can accelerate the pace of economic development by adopting policies that enhance the level of economic freedom by reducing tax rates, eradicating corruption, removing barriers to domestic and international trade, more reliance on free-markets rather than government spending, and improving the regulatory environment which opens the economy for healthy competition.

Since Economic Freedom plays a pivotal role in a country's economic prosperity and growth. Therefore, the current study proposes the relationship between economic freedom and macroeconomic performance indicators such as economic development and financial stability. Moreover, foreign direct investment, remittances, capital investment, labor force, and government spending are taken as other determinants of macroeconomic performance.

Past literature suggests a vast number of empirical and theoretical studies on the factors contributing to long-term economic growth. Economic freedom and governance are considered as most significant factors affecting economic development. The major motivation behind the study is to explore the nexus between economic freedom, governance performance, and economic development. The study in hand takes four facets of governance including rule of law, government effectiveness, voice and accountability, and political stability as proxies of governance performance of a country.

The World Value Survey (WVS hereafter) has over the years demonstrated that people’s beliefs play a key role in economic development, the emergence and flourishing of democratic institutions, the rise of gender equality, and the extent to which societies have effective governance. Cross-cultural variation analysis by Ronal Inglehart distinguishes societies based on two major dimensions of cross-culture variations in the world, i.e. traditional values versus

Secular-rational values and Survival values versus Self-expression values (Inglehart, R & C. Welzel. 2005).

According to Inglehart–Welzel Cultural Map, traditional values emphasize more on religious and family ties, and compliance with societal and family values. The societies embracing traditional values exhibit nationalism and national pride. On the flip side, secular-rational value-based societies give less importance to society and family values and believe more in individual freedom.

Further, survival values-based societies have a more ethnocentric outlook and lie on the low end of the tolerance and trust spectrum. On the other hand, in cultures where self-expression is assigned more weightage, minorities and women are more encouraged to participate in economic and political decision-making. Such societies give high priority to environmental protection and sustainability.

The global cultural map published by WVS scores societies on two dimensions and reflect the shift of societies from one end to the other end of the spectrum. Better standard of living and transit of societies from industrial to knowledge-based economy causes a shift of the society from poor to the rich envisaging role of cross-cultural variations in economic prosperity and greater overall well-being.

The main objective of the study is twofold: to provide empirical evidence support for the theoretical literature on the relationship between economic freedom and economic growth and financial stability of the sample countries. Also, the study aims to explore the role of governance in the relationship between economic freedom and economic growth, and financial stability.

2. Data & Methodology

2.1 Sample

The study employs a data set of 110 countries graded The countries are selected on the classification proposed Inglehart–Welzel Cultural Map which distinguishes societies based on their distinctive culture. The cultural map published by the World Value Survey reflects the political and religious ideas prevailing in a society. Christian Welzel suggests two broader categories of cross-cultural variations:

1. Traditional values versus Secular-rational values and
2. Survival values versus Self-expression values.

2.2 Data & Time-Period

The data for 109 countries have been collected for the period 1996-2020. The sample period is selected based on data availability for all macroeconomic performance indicators and Economic Freedom Indices for the sample countries.

2.3 Variable Measurement

1. **Country Classification on the basis of cultural dimension**

The first data set required grading the countries into four dimensions proposed by Inglehart–Welzel Cultural Map. The sample countries are divided into four sub-sets as proposed by the World value Survey 2022. (List of countries attached category-wise in annexure)

a. Traditional and Survival
b. Traditional and Self-Expression
c. Secular and Survival
d. Secular and Self-Expression

2.3.1 Freedom Index

The economic freedom index scores measure the alignment of national policies and the degree of economic freedom of the institutions. It gives weight to the rule of law, justice and governance effectiveness, voice and accountability, trade openness, monetary freedom, ease of doing business, sound currency, less government spending, financial liberalization, and markets with fewer regulations. Further, Economic freedom is measured using all four dimensions of economic freedom out of 12 components of economic freedom reported by the Heritage Foundation (2022) i.e. Monetary Freedom, Trade Freedom, Business Freedom, and financial freedom indices.

2.3.2 Monetary Freedom

Monetary freedom is primarily measured by inflation rates, stable currency, and no price control. Monetary freedom is a prerequisite for long-term economic growth and value creation. Although there is no single theory of the right monetary policy for an economically free society, widespread barometers of monetary freedom are low inflation and independent central banks so that people may rely on market prices and their savings and investments for the unforeseeable future. Besides, the stability of the currency of a country is significantly influenced by the government's monetary policy.

2.3.3 Trade Freedom

Trade openness is an indicator of market openness that allows citizens to trade freely in domestic and international marketplaces. A stable trade policy is a prerequisite for global economic development. Restrictions such as export taxes, tariffs, and, trade quotas harm trade freedom and cause uncertainty about future trade conditions. Trade restrictions have a micro-level impact on the economic well-being of individuals in an economy. Trade Freedom is measured by the index value ranging between 0-100 reported by Heritage Foundation for the sample period and countries.

2.3.4 Business Freedom

Business freedom allows economic agents, both individuals and firms to do business without undue intervention by the government. Too many stringent regulations impede entrepreneurial activity. Availability of financing to do business, low production costs and fewer regulations by the government are prime indicators of Business Freedom in a country. The regulations hindering business activity like licensing requirements for business start-ups hinder productivity and entrepreneurship in an economy. Business freedom ensures a low regulatory burden and ensures transparency and facilitates long-term business planning. Business Freedom is measured by the index value ranging between 0-100 reported by Heritage Foundation for the sample period and countries.

2.3.5 Financial Freedom

Financial freedom is ease and access to diversified financial services such as saving and investment opportunities, and credit extension to individuals and businesses. One of the yardsticks to measure the level of financial freedom in an economy is financial inclusion which refers to the most efficient channel of financial intermediation between investors, business owners, and households. The effectiveness of financial intermediation largely depends on the quality and timeliness of financial information to market participants and economic agents. The integrity of financial information to the decision makers depends on a strong regulatory system, transparency and disclosure requirements by the regulators, effective internal and external controls, and auditing mechanisms. Besides, banking regulations imposed by the central bank also play a vital role in regulating the institutions and promoting voluntary and involuntary disclosures. Financial Freedom is measured by the index value ranging between 0-100 reported by Heritage Foundation for the sample period and countries.

2.4 Macroeconomic Performance Indicators

2.4.1 Economic Development

Gross Domestic Product (GDP) is an indicator of the state and health of an economy. The seminal work of Milton Firedman (1962) became the stepping stone to establishing the relationship between Economic Freedom and Economic Development. According to Friedman safeguarding the economic rights of economic agents flourishes economic freedom.

In an economically free country, production and consumption functions are carried out by the individuals. Market efficiency is ensured by low interventions and free markets. The current study uses the natural log of Gross Domestic Product (GDP) as a proxy for the level of economic development in a country (Duan, C, (2022)).

$$\textbf{Economic Development} = \ln(\textbf{GDP})$$

2.4.2 Financial Stability:

Financial stability refers to the resilience of the financial system to financial distress. A stable financial system allocates resources efficiently, brings monetary stability, and financial risk management, and eradicates price risk. A stable financial system is less fragile and more pliable to adverse economic movements. Financial stability is a prerequisite for economic growth. In a real economy, transactions are made through the financial system. During periods of turmoil, banks are reluctant to finance even profitable projects. Major fluctuations in the system cause a situation of bank panic and bank run and systematic risk causes the stock market crash. Therefore, banking system stability is a strong indicator of economic and financial stability. The current study uses the banking system Z-score for the financial sector as an indicator of financial stability (Defung, F., & Yudaruddin, R. (2022)).

Financial Stability=Banking System Z-Score

2.4.3 Foreign Direct Investment Remittances and Capital Investment

Foreign Direct Investment (FDI henceforth) Foreign Direct Investment is deemed paramount for economic development. Foreign flows have knowledge and technological spill over effect. It does not only facilitate technology transfer but also improves employability and labour productivity in the host country. FDI flow and capital investment in a country signify its trade openness, this is why economic freedom and more specifically trade freedom is imperative for trade flows in an economy. The study in hand has taken foreign direct investment as one of the determinants of economic development which itself depends on the degree of economic freedom of a country (KUMARI, J. (2022)).

2.5 Rule of Law

The road to economic development depends upon the governance quality of its institution's economic system. The growing interest in the theoretical underpinning of institutional drivers of economic growth has given rise to the literature on the relationship between rule of law and economic development. The literature cites distinct channels of economic development linked to the rule of law, one is property rights and the contract enforcement on trade. It is needless to say that legal enforcement of contracts results in effective resource allocation in an economy. When people living in a society feel secure in terms of investor protection laws, they tend to invest more. Therefore, the integrity of a contract is vital for economic development and growth in a country. Likewise, Foreign flow and trade depend on effective enforcement of cross-border trade agreements between two countries. In a country where rule of law prevails, is considered more secure to invest for both local and foreign investors. It is, therefore, suggested that rule of law is closely tied with the degree of economic freedom and is an important determinant of the economic development of a country (Haggard, S., et. Al. (2008)). Economic Freedom Index (2022) takes into account the following components of the Rule of Law:

1. Government Effectiveness
2. Voice & Accountability
3. Political Stability

2.6 Government Spending

Government invasiveness is considered as the main impediment is in the way of economic freedom. The government spends money in various forms, like government expenditure in development projects, research grants, infrastructure development projects, investment in human capital and social welfare programs, and spending on public goods (Plümper, et al.. (2003)). If government spends too much money has a crowding out effect where the private sector is left with no or low money to spend. Such spending crowding outs economic activity. The private sectors stay less incentivized and distorts market resource allocation. Moreover, faster growth achieved via excessive government spending proves to be temporary. Excessive spending results in a mounting debt burden on next generations, inefficiency and low productivity (Mitchell, D. J. (2005))

2.7 Demographic Variables (Population, Labour Force & Literacy Level)

Most of developing nations are facing the challenge of a growing population at a faster rate on the other hand some countries have negative or low population growth. In a country where population is growing at faster pace than resource availability, scarcity of resources will slow down the process of economic growth. On the flipside, countries where population growth rate is low, it will cause scarcity of the young labour force and at the same time due to better quality of living in such countries, high life-expectancy results in major chunk of the unproductive population utilizing more resources. Both ways, the process of economic growth is deteriorated. The study in hand suggests to take Populations, labour force and primary school enrolment as determinant of economic growth in country (Anderies, J. M. (2003)).

3. Base-Line Model & Econometric Technique:

The unit of analysis in the current study is economies classified on the basis of their cultural values. The study employs panel data analysis techniques to draw results. The model specification for the current study is as follows:

$$ED_{j,t} = \alpha + \beta 1TF_{j,t} + \beta 2MF_{j,t} + \beta 3FF_{j,t} + \beta 4FDI_{j,t} + \beta 5REM_{j,t} + \beta 6ROL_{j,t} + \beta 7GEI_{j,t} + \beta 8V\&A_{j,t} + \beta 10PS_{j,t} + \beta 11FDI_{j,t} + \beta 12REM_{j,t} = + \beta 13CAPINV_{j,t} + \beta 14LABFOR_{j,t} + \beta 15POP_{j,t} + \beta 16GS_{j,t} + \beta 17PRIENROLL_{j,t} + € \qquad \text{eq.1}$$

$$FS_{j,t} = \alpha + \beta 1TF_{j,t} + \beta 2MF_{j,t} + \beta 3FF_{j,t} + \beta 4FDI_{j,t} + \beta 5REM_{j,t} + \beta 6ROL_{j,t} + \beta 7GEI_{j,t} + \beta 8V\&A_{j,t} + \beta 10PS_{j,t} + \beta 11FDI_{j,t} + \beta 12REM_{j,t} = + \beta 13CAPINV_{j,t} + \beta 14LABFOR_{j,t} + \beta 15POP_{j,t} + \beta 16GS_{j,t} + \beta 17PRIENROLL_{j,t} + € \qquad \text{eq.2}$$

Where,

ED=Gross Domestic Product as a measure of Economic Development for country "*j*" at time "*t*"
FS= Banking Sector Z-Score as a measure of Financial Stability of for country "*j*" at time "*t*"
TF=Trade Freedom Index for country "*j*" at time "*t*"
MF=Monetary Freedom Index for country "*j*" at time "*t*"
BF= Business Freedom Index for country "*j*" at time "*t*"
FF= Financial Freedom Index for country "*j*" at time "*t*"
FDI=Foreign Direct Investment as a percentage of GDP for country "*j*" at time "*t*"
REM= Measure of Remittances as a percentage of GDP for country "*j*" at time "*t*"
CAPINV= Capital Investment as a percentage of GDP for country "*j*" at time "*t*"
LABFOR= Labour force in millions for country "*j*" at time "*t*"
POP= Population in millions for country "*j*" at time "*t*"
PRIENROLL=Primary School Enrolment as a percentage of total population eligible for country "*j*" at time "*t*"

4. Results and Discussion

4.1 Traditional and Survival

Table 4.1 shows the relationship between all four components of the economic freedom index and other determinants of macroeconomic performance with economic development and financial stability for the set of countries that are classified as Traditional and Survival based on the Inglehart-Cultural map.

Table: 4.1 The relationship between Macro-Economic Performance and Economic Freedom Index for Traditional and Survival-based Societies

	(1) **Economic Development**	(2) **Financial Stability**
Foreign Direct Investment	-0.0496	-0.520*
	(-1.93)	(-2.06)
Remittances	-0.244***	0.486**
	(-13.95)	(2.83)
Rule of Law	-0.131	4.369***
	(-1.24)	(4.20)
Government Effectiveness	0.905***	0.426
	(8.37)	(0.40)

Voice and Accountability	0.0944	-2.632***
	(1.79)	(-5.08)
Political Stability	-0.0267	0.718
	(-0.49)	(1.33)
Business Freedom	0.00786***	-0.0358
	(3.49)	(-1.62)
Monetary Freedom	-0.00356	0.106***
	(-1.94)	(5.87)
Trade Freedom	0.000822	-0.0324
	(0.41)	(-1.66)
Financial Freedom	0.00145	0.108***
	(0.64)	(4.82)
Capital Investment	0.176***	-0.345
	(5.06)	(-1.01)
Labor Force	-0.813***	-8.484***
	(-5.50)	(-5.83)
Government Spending	-0.0000574	0.00516
	(-0.18)	(1.65)
Population	0.551***	8.234***
	(3.67)	(5.58)
Primary School Enrollment	-0.00126	0.0217**
	(-1.60)	(2.81)
_cons	7.345***	-2.116
	(31.63)	(-0.93)
N	1178	1178
R-sq	0.420	0.233
adj. R-sq	0.400	0.206
F	54.89	23.0

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$, The coefficients of explanatory variables are all β values. Standard Errors are in parentheses.

The findings of the study show a significant and positive relationship between government effectiveness, voice and accountability, business freedom, trade freedom, financial freedom, capital investment, and population with the economic development and financial stability of sample countries. The aforementioned findings are in line with the theory of economic growth and development. Whereas, Foreign Direct Investment, remittances, monetary freedom, labor force, and population poise a negative relationship with economic development and financial stability of traditional and survival-based societies. Due to the high population growth rate in such countries, more labor force is available and due to the high supply side of the labor force, wages are low. Besides, a major chunk of the labor force in such countries is unskilled which adversely affects productivity and economic growth in turn.

The plausible reason for the negative impact of foreign direct investment and remittances on economic development and financial stability is that in such countries foreign flows are mostly politically motivated and thus may not yield conclusive growth. The negative impact of remittances on economic growth has pointed out many structural flaws, although developing countries are receiving a significant number of remittances but its utilization impacts and matters the most. Most of the funds received are utilized for consumption purposes as most of the remittances' recipient families are poor. Thus, it is very likely when the income of such families increases, they increase the consumption of goods and services to enhance their living standards.

Secondly the unavailability of feasible investment opportunities as it is well established that the financial sector of these countries is not well developed and does not provide attractive instruments for financial investment. Further, the major reason for not constructively utilizing the remittance is the lack of the capacity for sterilization and absorption most importantly, the poor governance mechanism and not harvesting the potential benefits associated with foreign capital inflow.

In a society where people live together, individual freedom can never be deemed absolute. An individual's propensity to strive for the well-being of their families cannot be afforded at cost of the others. Therefore, critical and boundary areas of interest having a potential societal impact are constrained by laws and regulations imposed by the government. Government effectiveness is also questionable in the case of traditional and survival-based societies. Therefore, political stability, rule of law, monetary freedom, and financial freedom remained statistically insignificant and meaningless in the case of traditional and survival-based societies.

Furthermore, demographic variables exhibit an interesting case in the case of traditional and survival societies. Most of the countries in the data set are densely populated and due to the high population growth rate more workforce is available. Due to the higher labor supply side, wages and low. On the other hand, most of the labor force in such countries is unskilled. The low income of the unskilled- labour force due to the low wage rate has an insignificant impact on the economic development and financial stability of sample countries.

4.2 Traditional and Self-Expression:

Table 4.2 shows the relationship between all four components of the economic freedom index and other determinants of macroeconomic performance with economic development and financial stability for the set of countries that are classified as Traditional and Self-Expression based on the Inglehart-Cultural map.

Table:4.2 The relationship between Macro-Economic Performance and Economic Freedom Index for Traditional and Self-Expression Societies

	(1) **Economic Development**	(2) **Financial Stability**
Foreign Direct Index	0.146***	1.202**
	(6.55)	(2.97)
Remittances	-0.0657	0.959
	(-1.84)	(1.48)
Rule of law	-0.224*	-0.192
	(-2.38)	(-0.11)
Government Effectiveness	0.261**	-2.439
	(3.10)	(-1.59)
Voice and Accountability	-0.104	3.016*
	(-1.34)	(2.14)
Political Stability	0.205***	-2.417*
	(3.78)	(-2.46)
Monetary Freedom	-0.00211	-0.00952
	(-1.04)	(-0.26)
Trade Freedom	0.0148***	0.0568
	(8.04)	(1.71)

Financial Freedom	0.00217	0.0464
	(1.23)	(1.45)
Capital Investment	0.281***	-1.300
	(4.95)	(-1.27)
Labor Force	-0.0154	1.443
	(-0.24)	(1.27)
Government Spending	-0.0236***	0.210
	(-3.58)	(1.76)
Population	2.434***	31.02***
	(10.27)	(7.22)
Primary School Enrollments	0.00897***	0.0319
	(7.08)	(1.39)
_cons	-1.001	-92.30***
	(-1.41)	(-7.18)
N	346	346
R-sq	0.701	0.442
adj. R-sq	0.676	0.395
F	18.00	53.29

t statistics in parentheses, the coefficients of explanatory variables are all β values.
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

The findings suggest a positive and significant relationship between determinants of macroeconomic performance and economic development and financial stability for the data set of countries classified as traditional and self-expression. These countries are at the transit stage from survival to self-expression where the pace of economic growth is faster compared to the countries which are at the survival stage. Still, institutional quality and government effectiveness are at the development stage in such countries. Therefore, political stability and government effectiveness show a positive link with economic development and financial stability of the sample countries.

The findings of the study suggest an insignificant relationship between voice & accountability. Statistics also show some surprising trends such as the negative role of rule of law in economic development and financial stability. Keeping in view, the cultural dynamics of such societies, the study in hand suggests exploring the contributory role of rule of law in the economic development of such countries.

Government spending also shows a negative relationship with economic development and financial stability. The prime reason could be the nature of government spending in the case of such countries. In such countries, most of the government spending is spent on long-term development projects which do not yield in the short term and hence do not contribute to economic development and financial stability in the short run.

4.3 Secular and Self-Expression

Table 4.2 shows the relationship between all four components of the economic freedom index and other determinants of macroeconomic performance with economic development and financial stability for the set of countries that are classified as Secular and Self-Expression based on the Inglehart-Cultural map.

Table:4.3 The relationship between Macroeconomic Performance and Economic Freedom Index for Secular and Self-Expression Societies

	(1) **Economic Development**	**(2)** **Financial Stability**
Remittances	0.162^{***}	1.814^{***}
	(9.86)	(3.65)
FDI	0.0598^{***}	0.235
	(6.41)	(0.83)
Rule of law	0.0473	-0.865
	(0.61)	(-0.37)
Government effectiveness	0.0521	2.347
	(0.87)	(1.30)
Voice and accountability	0.104	5.881^{**}
	(1.70)	(3.17)

Political stability	-0.108**	-3.566**
	(-2.95)	(-3.21)
Business freedom	0.000520	0.0395
	(0.36)	(0.89)
Monetary freedom	-0.00543***	-0.00622
	(-3.75)	(-0.14)
Trade freedom	0.0115***	-0.110
	(6.05)	(-1.93)
Financial freedom	-0.00115	-0.0485
	(-0.92)	(-1.29)
Capital investment	0.00485	-0.218*
	(1.68)	(-2.49)
Labor force	2.001***	49.30***
	(15.11)	(12.31)
Government spending	-0.0144*	-0.322
	(-2.04)	(-1.51)
Primary school enrollment	0.00364	0.421***
	(1.23)	(4.73)
_cons	5.893***	-93.68***
	(17.27)	(-9.09)
R^2	0.648	0.381
adj. R^2	0.627	0.343
F	92.79	30.97
N	749	748

t statistics in parentheses, the coefficients of explanatory variables are all β values.
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

In a market-based economy, social norms are given more weightage as compared to the law and regulations to streamline behaviors. These norms emerge as society grows and reflect the evolution of society culturally and historically where people learn to live together over the generations. They shape professional and personal relationships and define shared esthetes and ethics and tastes of the people living together.

In the case of secular and self-expression societies, the results indicate a positive relationship between the degree of economic freedom and macroeconomic performance in the case of all four components except monetary freedom. Monetary Freedom Index is such countries possess a negative relationship with Economic development. Interest rates are low in these countries which causes a flow of funds from these countries to those where interest rates are high. The flow of capital from these economies due to flexible and low monetary policy harms economic development

Moreover, the government spending to GDP ratio shows a negative relationship with economic development. The data set of these countries reveals their secular orientation and suggests a welfare state model where most of the government spending is for social welfare. These economies are developed and funds spent by the government are not to make capital expenditure and project funding. Therefore, it has government funding harms economic development.

4.4 Secular and Survival:

Table 4.4 reveals the relationship between all four components of the economic freedom index and other determinants of macroeconomic performance with economic development and financial stability for the set of countries that are classified as Traditional and Survival based on the Inglehart-Cultural map.

Table:4.3 The relationship between Macro-Economic Performance and Economic Freedom Index for Secular and Survival Societies

	(1) **Economic Development**	(2) **Financial Stability**
FDI	0.164***	0.756**
	(5.80)	(2.65)
Remittances	-0.0502***	-0.0391
	(-7.59)	(-0.59)
Rule of law	0.421***	4.953***
	(4.90)	(5.63)

Voice and Accountability	0.179**	-8.788***
	(2.67)	(-12.87)
Political Stability	-0.0992	0.374
	(-1.36)	(0.51)
Business Freedom	0.0167***	0.0153
	(5.82)	(0.52)
Monetary Freedom	0.00400*	-0.0882***
	(2.03)	(-4.34)
Trade Freedom	-0.00369	0.0196
	(-1.29)	(0.68)
Financial Freedom	-0.0107***	0.0251
	(-4.95)	(1.15)
Labor Force	0.435	-7.342*
	(1.23)	(-2.05)
Government spending	-0.00107	-0.0631
	(-0.25)	(-1.45)
Population	-0.645	6.307
	(-1.79)	(1.74)
Primary school enrolment	-0.00127	0.00209
	(-1.68)	(0.27)
_cons	9.129***	8.503**
	(28.65)	(2.65)
R^2	0.759	0.547
adj. R^2	0.734	0.500
F	86.56	32.90

N	395	392

t statistics in parentheses, the coefficients of explanatory variables are all β values.
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

These states are socialist states and both voice and accountability and political stability show a negative relationship with economic development. Most of the enterprises in such countries are state-owned and regimes are mostly long-lasting and authoritarian. Further, democracy does not prevail in its true spirit. Whenever advocates of democracy try to make the system politically stable, it affects economic development adversely. Likewise, financial freedom harms economic development. Unlike, capitalism and free markets, a socialist set-up in such societies would not eliminate poverty and inequality against the claims made.

Conclusion

Proponents of free markets argue that free enterprises can only be sustained by economic freedom in an economy. Besides, sustainable economic growth and environmentally friendly innovation are also linked with economic freedom in a way that economic freedom spurs a healthy, secure, and cleaner society. Further, the countries with higher degrees of economic freedom have a greater capacity to meet environmental challenges and they may spend more on renewable energy projects by promoting green finance.

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Annexure 1:

Country Classification on the basis of Values				
Sr No.	**Traditional and Survival**	**Traditional and Self-Expression**	**Secular-Rational and Survival**	**Secular and Self-expression**
1	Albania	Argentina	Belarus	Andorra
2	Algeria	Colombia	Bulgaria	Australia
3	Armenia	Ecuador	Chile	Austria
4	Azerbaijan	Guatemala	China	Belgium
5	Bangladesh	Haiti	Greece	Canada
6	Bolivia	Mexico	Hong Kong SAR	Croatia
7	Bosnia H.	Montenegro	Latvia	Czech Republic
8	Brazil	Philippines	Lithuania	Denmark
9	Burkina Faso	Poland	Malaysia	Estonia
10	Cyprus	Portugal	Moldova	Finland
11	Egypt	Puerto Rico	N.Macedonia	France
12	Ethiopia	South Africa	Russia	Germany
13	Georgia	Uruguay	Serbia	Great Britain
14	Ghana	Vietnam	Singapore	Hungary
15	India		South Korea	Iceland
16	Indonesia		Taiwan	Israel
17	Iran		Ukraine	Italy
18	Iraq			Japan
19	Jordan			Luxembourg
20	Kazakhstan			Macau SAR
21	Kenya			Mongolia
22	Kyrgyzstan			Netherlands
23	Lebanon			New Zealand
24	Libya			Norway

25	Maldives			Slovakia
26	Mali			Slovenia
27	Morocco			Spain
28	Myanmar			Sweden
29	Nicaragua			Switzerland
30	Nigeria			Thailand
31	Pakistan			USA
32	Palestine			
33	Peru			
34	Qatar			
35	Romania			
36	Rwanda			
37	Saudi Arabia			
38	Tajikistan			
39	Tanzania			
40	Trinidad			
41	Tunisia			
42	Turkey			
43	Uganda			
44	Uzbekistan			
45	Venezuela			
46	Yemen			
47	Zambia			
48	Zimbabwe			