ECONOMIC FREEDOM IN TRANSITIONAL ECONOMIES AND THE ESSENTIALS OF MORE FREE ECONOMY FOR SUSTAINABLE DEVELOPMENT

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The countries, composing of the former socialist republics under the structure of Soviet Union which are dissolved with Eastern European countries where the market economy is adopted rather than a central planning understanding by putting the socialist system aside that they adopted in the past, are named as transition economies in economic terminology.

The efforts regarding to place the concept of "economic freedom" reflects the basic soul of the market economy during the period of transition to the mentioned market economy in these countries have been remarkably progressing. In some of countries, where the socialist regime lasts almost 70 years, had led the generations, grown up during this period, become stranger to the market process. Especially, being unaware of the individuals about "profit" fact, which is one of the most important factors of the market, has further increased the effects of the "poverty" issue faced during the period of transition. Moreover, in the countries where the labour productivity is extremely dense, the efforts concerning to increase the labour productivity by creating labour competition within the market understanding are so insufficient.

Their request of the countries to establish a new system by totally rejecting the current system can be considered as an advantage for them. However, due to their inexperience on the market economy and "competition" and "profit" they have some problems for establishing an economic structure based on private enterprises. Those, who are neighbour of the European Union countries where the free market economy is strong, have accelerated the period of transition by making effort to adopt the E.U. norms and developing commercial and economic relations with these countries. Estonia, Lithuania, Latvia, Czech Republic, Slovak Republic, Hungary, Slovenia and Poland can be considered as an example to these countries. The mentioned process in the countries except for the above-mentioned one has been operating slower.

The Herigate Foundation is a public research organisation whose "mission is to formulate and promote conservative public policies based on the principles of free enterprise, limited government, individual freedom, traditional American values, and a

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strong national defence."[1] Each year beginning in 1995, the Foundation has published an index of economic freedom for all countries in the world. As the first comprehensive study of economic freedom ever published, the 1995 Index defined the method by which economic freedom can be measured is such vastly different places as Hong Kong and North Korea. Since then, other studies have joined the effort, analysing such issues as trade, corruption, or government intervention in the economy.[2]

The index is based on how countries score on 50 economic criteria that are placed in 10 broad economic categories. Each category is evaluated between 1 and 5 scores and up to these scores the overall scores is reckoned. Scores of the transition economies regarding the year of 2004 are listed in the Schedule 1. Depending on these scores, the countries are classified among themselves according to their economic freedom level, and their sequences in all countries subject to the evaluation are also indicated. The scores of the transition economies between the years of 1995 – 2003 are clearly seen in the Schedule 2.

During the period of transition from the socialist system to the market economy, factors such as the poverty, less development, old infrastructure, public sector continuously growing and overgrowing with a strong and tough command system have differentiated the steps of the transition in these countries. Furthermore, free trade regime and familiarity with developed markets have caused some countries to have most important position during the period of transition. As is clearly seen in the Schedules Estonia, Lithuania, Latvia, Czech Republic, Slovak Republic, Hungary, Slovenia and Poland that are considered among free and most free countries neighbour countries with European Union and utilized their geographical advantages very well and gained a suitable sequence.

Evaluation of Transitional Economies According to Economic Freedom Categories

We can consider each economic freedom category apart. In this point of view, there are many differences between the economic structure and the fiscal policies of transitional economies.

1 National Council On Economic Education, Economic Freedom, Political Freedom: Their Meaning, Their Results, <http://www.econedlink.org/lessons/index.cfm?lesson=EM35>, 21.03.2004.

2 See also James D. Gwartney and Robert A Lawson with Chris Edwards, Walter Park, Veronique de Rugy, and Smita Wagh, Economic Freedom of the World, 2002 Annual Report, Vancouver, Canada: Frazer Institute, 2002; Richard E. Messick, World Survey of Economic Freedom: 1995/1996, New Brunswick, N.J.: Transaction Publishers, 1996.

Schedule: 1Economic Freedom Scores of Some Transition Countries (2004)

	Trade Policy	Fiscal Burden of Government	Government Intervention in the Economy	Monetary Policy	Capital Flows and Foreign Investment	Banking and Finance	Wages and Prices	Property Rights	Regulation	Informal Market	Rank	Overall Score	Category
Estonia	1	2,1	2	2	1	1	2	2	2	2,5	6	**1,76**	Free
Lithuania	2	2,4	2,5	1	2	1	2	3	3	3	22	**2,19**	Mostly Free
Latvia	2	2,6	2,5	1	2	2	2	3	3	3,5	29	**2,36**	Mostly Free
Czech Republic	3	3,9	2,5	1	2	1	2	2	3	3,5	32	**2,39**	Mostly Free
Slovak Republic	3	2,9	2	2	2	1	2	3	3	3,5	35	**2,44**	Mostly Free
Hungary	3	3	2	3	2	2	3	2	3	3	42	**2,60**	Mostly Free
Armenia	2	2,3	3	2	2	1	3	3	4	4	44	**2,63**	Mostly Free
Slovenia	3	3,5	2,5	3	3	3	2	3	2	2,5	52	**2,75**	Mostly Free
Poland	3	3,6	2	2	3	2	3	3	3	3,5	56	**2,81**	Mostly Free
Mongolia	2	4,5	2,5	2	3	3	2	3	4	3	63	**2,90**	Mostly Free
Macedonia	4	2,4	3,5	2	3	2	2	4	4	3,5	73	**3,04**	Mostly Unfree
Bulgaria	4	1,8	2,5	4	3	2	2	4	4	3,5	78	**3,08**	Mostly Unfree
Moldova	2	2,4	2,5	3	4	3	3	3	4	4	79	**3,06**	Mostly Unfree
Albania	4	3	3	2	2	3	2	4	4	4	80	**3,10**	Mostly Unfree
Croatia	4	3,1	2,5	2	3	2	3	4	4	3,5	82	**3,11**	Mostly Unfree
Georgia	4	2,4	1,5	3	3	3	3	4	4	4	91	**3,19**	Mostly Unfree
Bosnia	3	2,5	2,5	1	4	2	3	5	5	5	99	**3,30**	Mostly Unfree
Azerbaijan	3	3,4	3	1	4	4	3	4	4	4,5	106	**3,39**	Mostly Unfree
Russia	3	2,6	2	5	3	4	3	4	4	4	114	**3,46**	Mostly Unfree
Ukraine	3	3,9	3	3	4	3	3	4	4	4	117	**3,49**	Mostly Unfree
Romania	4	3,1	2,5	5	4	3	3	4	4	4	129	**3,66**	Mostly Unfree
Kazakhstan	4	3,5	2,5	3	5	4	3	4	4	4	131	**3,70**	Mostly Unfree
Belarus	4	3,4	3,5	5	4	4	5	4	5	3	145	**4,09**	Repressed
Tajikistan	3	3,5	4	5	4	5	4	4	4	5	146	**4,15**	Repressed
Uzbekistan	5	2,9	4	5	4	5	4	4	5	4	149	**4,29**	Repressed
Turkmenistan	5	3,1	5	4	4	5	4	4	4	5	150	**4,31**	Repressed
Serbia & Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a		**n/a**	

Source: The Heritage Foundation, **2004 Index of Economic Freedom**, <http://www.heritage.org/research/features/index/countries.html>, 24.03.2004.

a) Trade Policy

Trade policy is a key factor in measuring economic freedom. The degree to which government hinders the free flow of foreign commerce can have a direct bearing on an individual's ability to pursue his economic goals.

Tariffs are not only barriers to trade. Many countries impose quotas, licensing requirements, and other mandates or non-tariff barriers to restrict imports. The trade analysis also considers corruption within the customs service. This is an important consideration because, even though countries may have lower published tariff rates and no official non-tariff barriers, their customs officials may be corrupt and may require bribes to allow products to enter their ports. Or customs officials may steal goods for themselves, which also constitutes a barrier to trade. Customs department is the most corrupt institution and customs corruption acts as a non-tariff barrier in most of transition countries.

Uzbekistan and Turkmenistan have the worst scores of trade policy. Turkmenistan maintains a significant number of non-tariff barriers to trade. In addition, the government sets price requirements that lead to import of products and services of low quality. Uzbekistan restricts imports in many ways, including ...requirements for certificates of origin for imported products, licensing requirements for importers and wholesale traders... and limited access to hard currency.

Macedonia, Bulgaria, Albania, Croatia, Georgia, Romania, Kazakhstan and Belarus have worse scores. In these countries, the most common barrier is customs corruption as an obstacle to trade. Public administration in most of these countries remains weak and prone to corruption and the area most affected is customs. Non-tariff barriers, maintaining quotas on some goods, temporary measures such as increased duties and limitations on allowed quantities of goods, administrative barriers, and excessive documentation requirements, slow processing of shipments are the other factor that effect the foreign trade. The government of some of these countries also has a multiple exchange rate system that acts as a non-tariff barrier.

Lithuania, Latvia, Armenia, Mongolia, Moldova have better scores. The Lithuanian government imposes quotas, sanitary and phytosanitary measures, and quality requirements on about 62 products. Latvia requires licenses for the imports and exports of some goods. Most imports are free of prohibitions, quotas, or licensing in Armenia, but businesses complain about cumbersome procedures and bribes solicited by customs officials. Mongolia has an across the board import tariff of 5 per cent but no quotas or onerous licensing requirements. There are significant non-tariff barriers in Moldova too. Estonia has the best score of trade policy. Non-tariff barriers are virtually nonexistent.

Schedule: 2 Economic Freedom Scores of Some Transition Countries (1995-2003)

	1995	1996	1997	1998	1999	2000	2001	2002	2003
Estonia	2,40	2,50	2,50	2,30	2,35	2,20	2,05	1,80	1,80
Lithuania		3,45	3,10	3,00	3,00	2,90	2,55	2,35	2,35
Latvia		3,05	2,95	2,85	2,75	2,65	2,65	2,50	2,45
Czech Republic	2,20	2,20	2,20	2,35	2,20	2,20	2,20	2,40	2,50
Hungary	3,00	3,00	3,00	3,00	2,95	2,55	2,55	2,40	2,65
Armenia		3,75	3,50	3,50	3,45	3,10	2,95	2,70	2,65
Slovenia		3,50	3,30	3,00	2,90	3,00	2,90	3,10	2,85
Poland	3,30	3,10	3,10	2,90	2,80	2,80	2,75	2,70	2,90
Slovak Republic	2,80	3,00	3,05	3,15	3,10	3,00	2,85	2,90	2,90
Mongolia	3,33	3,50	3,35	3,15	3,25	3,15	3,00	2,90	3,00
Croatia		3,60	3,60	3,65	3,60	3,50	3,45	3,40	3,15
Moldova	3,90	3,40	3,40	3,40	3,30	3,20	3,60	3,35	3,20
Macedonia								3,25	3,25
Albania	3,60	3,70	3,60	3,70	3,60	3,70	3,50	3,30	3,35
Bulgaria	3,50	3,50	3,60	3,65	3,50	3,40	3,30	3,40	3,35
Azerbaijan		4,75	4,65	4,30	4,20	4,20	3,95	3,50	3,35
Krygyz Republic				3,80	3,60	3,60	3,65	3,60	3,35
Georgia		3,95	3,85	3,65	3,65	3,65	3,55	3,40	3,40
Kazakhstan				4,00	3,95	3,70	3,75	3,60	3,50
Ukraine	3,70	3,80	3,75	3,80	3,60	3,60	3,85	3,85	3,65
Russia	3,40	3,50	3,55	3,35	3,50	3,70	3,70	3,70	3,70
Romania	3,60	3,65	3,40	3,30	3,30	3,30	3,65	3,70	3,75
Bosnia				4,70	4,70	4,40	4,00	3,90	3,80
Tajikistan				4,25	4,00	4,00	3,95	3,85	3,95
Turkmenistan				4,20	4,30	4,30	4,40	4,40	4,15
Uzbekistan				4,50	4,40	4,40	4,45	4,35	4,25
Belarus	3,70	3,40	3,80	4,00	4,10	4,10	4,25	4,35	4,30

Source: The Heritage Foundation, **2002 Index of Economic Freedom - Global Distribution of Economic Freedom-**, <http://www.lyd.com/programas/economico/2002_world.pdf>, 21.03.2004; **2003 Index of Economic Freedom,** http://cf.heritage.org/index/indexoffreedom.cfm>, 08.10.2003.

b) Fiscal Burden of Government

To measure the fiscal burden a government imposes on its citizens, the authors examined both tax rates and the level of government expenditures. The tax rate confronting an individual is effectively a price paid for supplying economic effort of engaging in an entrepreneurial venture. The higher the price of effort or entrepreneurship, the less of it will be undertaken. Higher tax rates discourage individuals from pursuing their goals in the marketplace.

Government expenditures, measured as a percentage of GDP, capture the true cost of government in a society. When a government expends money, it acquires resources, diverting them away from private choices and private goals. This is true whether the expenditures are to acquire resources for government consumption or for transfer payments among citizens.

The government's method of financing its expenditures, in addition to their absolute amount, has an impact. Whether a given level of government expenditure is financed by taxation, dept issuance, or money creation (or varying amounts of each) has its own impact on the economy and society. The financing method imposes its own burden, but the expenditures are a fiscal burden unto them.

Bulgaria's top income tax rate is 29 percent and the top corporate tax rate is 15 percent. Government expenditures as a share of GDP are 34,5 percent. So, Bulgaria has the best score of fiscal burden of government. Estonia has the second best score. This country has a flat tax rate of 26 percent, which the government intends to reduce to 20 percent by 2006. The corporate tax on reinvested profits is 0 percent. Government expenditures as a share of GDP are 38,5 percent.

The worst score of this category belongs to Mongolia. Top income tax rate is 40 percent and the top corporate tax rate is 40 percent too. Government expenditures as a share of GDP are 35, 3 percent.

The lowest top income tax rate is 5 percent in Bosnia. The lowest top corporate tax rate is 15 percent in Bulgaria. The lowest government expenditures rate as a share of GDP is in Croatia and it is 8,5 percent; the highest is in Bosnia and it is 56,1 percent.

c) Government Intervention in the Economy

This factor measures government's direct use of scarce resources for its own purposes and government's control over resources through ownership. The measure comprises both government consumption and government production. Transfer payments, which consist of compulsory exchange of titles over resources among individuals, are excluded from this measure.

Government consumption consist of net purchases of good, services, and structures (for example, bridges and buildings); wages paid to government employees; net purchases of fixed assets; an inventory changes in government enterprises.[3]

Georgia has the best score of government intervention in the economy. The government consumed 8,6 percent of GDP, and received 0,12 percent of its total revenues from state-owned enterprises and government ownership of property in 2001.

Turkmenistan has the worst score. The government consumed 14,7 percent of GDP. Turkmenistan has one of the lowest private sector/GDP ratios in the region. Privatisation has centred almost entirely on small enterprises in the service sector. The government guarantees employment for every Turkmen citizen.

3 U.S. Department of Commerce, Bureau of Economic Analysis, Survey of Current Business, March 1998, p. 31.

d) Monetary Policy

The value of a country's currency is shaped by its monetary policy. When a government's monetary policy facilitates market pricing, individuals enjoy greater economic freedom. John Maynard Keynes observed, "By a continuing process of inflation, governments can confiscate, secretly and unobserved, an important part of the wealth of their citizens."[4]

Inflation not only confiscates wealth, but also distorts pricing, misallocates resources, and undermines a free society.

There is no singularly accepted theory of the right monetary institutions for a free society. At one time, the gold standard enjoyed widespread support, but this is also no longer the case (though some continue to support that system). What characterizes almost all monetary theorists today, however, is support for low or zero inflation. A good way to gauge the influence of monetary policy on economic freedom is to analyse the inflation rate over a period of time.

Lithuania, Bosnia, Latvia, Czech Republic and Azerbaijan have the best scores of monetary policy. Annual rate of inflation in Lithuania is 0,77 percent, in Bosnia is 1,46 percent, in Latvia is 1,88 percent, in Czech Republic is 2,81 percent, and in Azerbaijan is 2,72 percent. So these countries have almost solved their monetary problems.

Russia, Romania, Belarus, Uzbekistan and Tajikistan have the worst scores in this category. The inflation rate in Russia is 20,16 percent, in Romania is 29,08 percent, in Belarus is 66,95 percent, in Uzbekistan is 42,77 percent, and in Tajikistan is 22,5 percent. It can be cited that these countries have serious monetary problems.

e) Capital Flows and Foreign Investment

Restrictions of foreign investment limit the inflow of capital and thus hamper economic freedom. By contrast, little or no restriction of foreign investment enhances economic freedom; foreign investment provides funds for economic expansion. For this category, the more restrictions a country imposes on foreign investment, the lower the level of economic freedom and higher the score.

Estonia has the best score of capital flows and foreign investment. This country is open to foreign investment, and foreign investors receive national treatment. The government allows foreigners to invest in all sectors, with requirements restricted to non-discriminatory regulation and documentation to establish clear ownership. There are no exchange controls and no repatriation limitations that force investors to keep their capital in the country. Foreigners may own real estate.

Kazakhstan has the worst score. Although Kazakhstan opened its economy to foreign investment during the 1990s and became one of the largest recipients of foreign direct investment among the former communist countries, the government has recently

4 John Maynard Keynes, The Economic Consequences of the Peace, London: Macmillan and Co., Ltd., 1919, pp. 102-103.

undertaken a series of measures that are undermining foreign investment. The system goes very slow because of the heavy bureaucracy and some capital amount restrictions for foreigners.

f) Banking and Finance

In most countries, banks provide the essential financial services that facilitate economic growth; they lend money to start businesses, purchase homes, and secure credit to purchase consumer durable goods, in addition to furnishing a safe place in which individuals can store their earnings. The government controls the more banks, the less free they are engaging in these activities. One consequence of heavy bank regulation is restricted economic freedom; therefore, the more a government restricts its banking sector, the higher its score ant the lower its level of economic freedom.

In developed economies, commercial banks are relatively less important; a higher proportion of credit is supplied in organized securities markets. Over the years, the authors have devoted more attention to the non-banking part of the financial services industry (insurance and securities).

Estonia, Lithuania, Czech Republic, Slovak Republic and Armenia have the best scores of banking and financing. Turkmenistan, Uzbekistan and Tajikistan have the worst scores.

g) Wages and Prices

In a market economy, prices allocate resources to their highest use. A firm that needs more employees may signal this need to the market by offering a higher wage; an individual who greatly values a home on the market offers a high price to purchase it. Price also acts as signals to producers and consumers by conveying information that otherwise would be prohibitively costly to obtain.

When prices are determined freely, resources go to their most productive use for satisfying consumer. As Friedrich A. Hayek put it, "We must look at the price system as...a mechanism for communicating information if we want to understand it real functional function which, of course, it fulfils less perfectly as prices grow more rigid."[5]

Some governments mandate wage and price controls. By so doing, they restrict economic activity and curtail economic freedom. Government control its score and the lower its level of economic freedom.

Belarus have the worst score of wages and prices. The government subsidizes many basic goods and services, including housing and utilities; intervenes directly in agricultural markets; controls most of the economy through state-owned enterprises; otherwise influences prices through its credit policies and purchasing practises; and "retains tight control over the partly privatised retail sector through price regulation. The government mandates a monthly minimum wage and determines wages in the

5 Friedrich A. Hayek, "The Use of Knowledge in Society", in: Individualism and Economic Order, Chicago: University of Chicago Press, 1948, p. 86.

private sector. Private enterprises are not allowed to determine the level of wages and bonuses that they pay employees, but have to follow the elaborate wage scale that governs wages at state-owned enterprises.

h) Property Rights

The ability to accumulate private property is the main motivating force in a market economy, and the rule of law is vital to a fully functioning free-market economy. Secure property rights give citizens to confidence to undertake commercial activities, save their income, and make long-term plans because they know that their income is safe from expropriation. This factor examines the extent to which the government protects private property by enforcing the laws and how safe private property is from expropriation. The less protection private property receives, the lower the level of economic freedom and the higher the score.

Most of the transitional countries laws remain an unwieldy combination of communist-era statutes and internationally imposed reforms. In addition, the judicial system, which is still evolving, does not yet adequately cover commercial activities. There are no commercial/economic courts in some of these countries and no efficient way to resolve commercial disputes.

i) Regulation

Regulations and restrictions make it difficult for entrepreneurs to create new businesses. In some countries, government officials frown on any private-sector initiatives; in a few, they even make them illegal. Although many regulations hinder business, the most important are associated with licensing new companies and businesses. In some countries, as well as many states in the United States, the procedure for obtaining a business license can be as simple as mailing in a registration form with a minimal fee. In Hong Kong, for example, obtaining a business license requires filling out a single form, which can be completed in a few hours. In other countries, such as transitional economies, obtaining a business license requires endless trips to government offices, and the process can take a year or more.

Once a business is open, government regulation does not always subside; in some cases, it increases. In some cases, two countries with the same set of regulations can impose different regulatory burdens. If one of them, for example, applies its regulations evenly and transparently, it lowers the regulatory burden since business can make long-term plans. One the other hand, if a country applies regulations inconsistently, it raises the regulatory burden on businesses by creating an unpredictable business environment. For example, in some countries, an environmental regulation may be used to shut down one business but not another. Business owners are uncertain about which regulations they must obey. In addition, the existence of excessive regulation can support corruption as confused and harassed business owners attempt to navigate the red tape.

j) Informal Market

In some cases, the existence of a black market may appear positive; at least there is some ability to engage in entrepreneurship or to obtain scarce goods and services. As Robert Barro notes, "In some circumstances, corruption may be preferable to honest enforcement of bad rules. For example, outcomes may be worse if a regulation that prohibits some useful economic activity is thoroughly enforced rather than circumvented through bribes.[6] Alejandro Chafuen and Eugenio Guzmán, however, point out that "corruption is the cost of obtaining privileges that only the State can 'legally' grant, such as favouritism in taxation, tariffs, subsidies, loans, government contracting, and regulation."[7]

Black markets are the direct result of some kind of government intervention in the marketplace. A black market activity is one that the government has taxed heavily, regulated in a burdensome manner, or simply outlawed in the past. This factor captures the effects of government interventions not always fully measured elsewhere.

Although many societies outlaw such activities as trafficking in illicit drugs, others frequently limit individual liberty by outlawing such activities as private transportation and construction services. A government regulation or restriction in one area may create a black market in another. For example, a country with high barriers to trade may have laws that protect its domestic market and prevent the import of foreign goods, but these barriers create incentives for smuggling and a black market for the barred products. In addition, governments that do not have strong property rights protection for items like intellectual property, or that does not enforce existing laws, encourage piracy and theft of these products.

For the purposes of this paper, the larger the black market in a particular country, the lower the level of economic freedom; and the more prevalent black market activities are, the worse the score. Conversely, the smaller the black market, the higher the level of economic freedom, and the less prevalent these activities are, the better score.

What Fiscal Policies Make More Free the Transitional Economies

Free market theory; not only defends the superiority of free market ideologically but also depends on a basic belief. This belief is the best solution of a market considered in its own flow in order to solve economic problems and also strong especially for classic theory. The main hypothesis, of which the theory is based upon, is a social structure in which the individual interests are maximized by everyone so that to reach the possible best level, according to the other social preferences, is the structure of

6 Robert J. Barro, "Rule of Law, Democracy, and Economic Performance", in: Gerald P. O'Driscoll, Jr., Kim R. Holmes, and Melanie Kirkpatrick, 2000 Index of Economic Freedom, Washington, D.C.; The Heritage Foundation and Dow Jones & Company, Inc., 2000, p. 36.

7 Alejandro Chafuen and Eugenio Guzmán, "Economic Freedom and Corruption", in: Gerald P. O'Driscoll, Jr., Kim R. Holmes, and Melanie Kirkpatrick, 2000 Index of Economic Freedom, Washington, D.C.; The Heritage Foundation and Dow Jones & Company, Inc., 2000, p. 53.

which the most efficient and total welfare is provided in the best way. Adam Smith believes that the efficiency of the free market depends on price mechanism.[8] He points out the role of the source allocation in the field of economy. "Wealth of nations" is because of the effective usage of their sources and the optimum usage of these sources in different production fields. According to Smith, any of a foreign authority for instance a ruler, cannot provide the optimal source allocation because of the decrees. The existence of a developed co-operation in the society shall provide the optimal source allocation and a trade order that is to say a free ex-change, which is included in the mentioned co-operation.

Capital flows, investments and businesses are very important in developing countries. The barriers on these should be eliminated for sustainable development. For a free trade order, there are so many precautions to do in transitional economies.

Customs tariff rate, income tax rate and corporate tax rate should be decreased in order to improve domestic and foreign trade and investments, which is financed by foreign capital.

There are some different kind of non-tariff barriers at customs as corruption, excessive documentation, slow processing, certification requirement, non-transparent standards, frequent and unpredictable changes, and licensing. They all should be abolished or diminished for the target of a free foreign trade. Also, the governments should reduce all the quotas on foreign trade. Unless these facilitations, it is so hard to establish a free trade order.

The weak government administration should turn to a powerful structure and should not to prone to corruption, in fact should combat with corruption and red tapes.

Frequent and unpredictable changes in customs or in the tax system will make the foreign investors and businessmen uninterested in to invest or to commerce in domestic markets.

The fiscal burden on firms should be decreased. The excess burden of fiscal obligations and the high tax rates also mitigate the desire of investors, traders and businessmen.

The government intervention in the economy is the most important barrier for entrepreneurs. Every kind of government intervention in the economy should abolish or diminish in order to turn the transition process in time.

Privatisation of state-owned enterprises is the other important point on the transition process. Privatisation policies should perform carefully in order to keep balance between private sector and public sector in the economy. Inefficiency problems of state-owned enterprises are solved by privatisation, but not to forget that after privatisation some social problems could occur.

8 See: Adam Smith, An Inquiry into the Nature and Causes of the The Wealth of Nations, New York: Modern Library, 1965 (1776).

To hold foreign exchange accounts for both residents and non-resident should be free in the banking system. There should be no barriers on capital flows. The industrial investment system should be made more attractive for foreign capital. In this point of view, the free flowing of capital is very important. Also the governments carry out some subsidies for foreign and domestic investors. If the new businesses are opened in the country, the more people work there, so government receives the more revenue. It is cited that the government could finance the development if there is enough public revenues.

Law should protect property rights in order to make more free economy. Especially the individual property rights are very important. If the economic system does not supported by individual property rights, it is so hard to understand the meaning of profit by the people.

The informal economy is the other important factor that distorts the competition. The average size of the shadow economy labour force (in percent of the population of working age) of the year 1998/99 in 22 transition countries is 30,2 percent.[9] The social security system of these countries should establish as soon as it is possible. Before this system established, to privatise the state-owned enterprises and to attract the foreign capital are very difficult. In order to combat with undeclared work and illegal work, the government should enact a law for this purpose and forbid these kinds of works.

Conclusion

The more free economy needs a more free political order. In this order, the government should be powerful but not the meaning of intervention or excess regulation in the economy. Free political order brings democratic process together. The voter is the consumer in the same time. If an individual act free in the political order, he can also be free in the economic order. We cannot separate the economic and political system from each other.

If the people believe freedom, they force the government to be free. If the politicians believe the freedom, they force the bureaucrats to turn the system. If the bureaucrats believe the freedom, there is no barrier indeed in order to transit the market economy. If the majority of the people in a country intent to be more free, they have already solved many of problems on the way to prosperity.

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9 Friedrich Schneider, "The Size and Development of the Shadow Economies of 22 Transition and 21 OECD Countries", Prepared for the Round Table Conference: On the Informal Economy, Sofia, Bulgaria, April 18-20, 2002.

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