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MASTER'S THESIS

AN EMPIRICAL ANALYSIS OF LIBERAL DOCTRINE AS A DEVELOPMENT AND POLITICAL PROJECT

Erol Türker TÜMER

Supervisor

Assoc. Prof. Dr. Yeşim ÜÇDOĞRUK GÜREL

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University	: Dokuz Eylül University
Graduate School	: Graduate School of Social Sciences
Name and Surname	: EROL TÜRKER TÜMER
Title of Thesis	: An Empirical Analysis of Liberal Doctrine as a Development and Political Project
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Supervisor	: Assoc Prof.Dr.Yeşim ÜÇDOĞRUK GÜREL

EXAMINING COMMITTE MEMBERS

Title, Name and Surname	University	Signature
Assoc Prof.Dr.Yeşim ÜÇDOĞRUK GÜREL	DOKUZ EYLUL UNIVERSITY	....
Prof.Dr.Adnan KASMAN	DOKUZ EYLUL UNIVERSITY	....
Assoc Prof.Dr.Umut HALAÇ	YAŞAR UNIVERSITY	....

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The thesis titled as "**An Empirical Analysis of Liberal Doctrine as a Development and Political Project**" prepared and presented by EROL TÜRKER TÜMERis accepted and approved.

Prof.Dr. Utku UTKULU
Director

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I hereby declare that this Master's Thesis titled as "**An Empirical Analysis of Liberal Doctrine as a Development and Political Project**" has been written by myself in accordance with the academic rules and ethical conduct. I also declare that all materials benefited in this thesis consist of the mentioned resources in the reference list. I verify all these with my honour.

…/…/……

Erol Türker TÜMER

Signature

ABSTRACT

Master's Thesis

An Empirical Analysis of Liberal Doctrine as a Development and Political Project

Erol Türker TÜMER

Dokuz Eylül University

Graduate School of Social Sciences

Department of Economics (English)

Economics Program

Since 1980s, world economy has been shaped under neoliberal ideas. Parallel to this, liberalization of economic and political structure has become the dominant strategy in economic development policies over the last three decades. Up to date, many economists have considered free market and democracy as prerequisites for sustaining economic development. However, poor economic performances of many backward countries reveal the fact that following neoliberal economic recipes is not a sufficient condition to achieve higher development level. In this respect, the appropriateness of current development strategies and policies relying heavily on liberalization theme has gone into reconsideration recently. In line with these discussions, this thesis examines the impact of liberal economic policies and institutional arrangements on economic development process of countries. Analyses based on panel data of 185 countries over the 1995-2013 period show that liberal policies are not as beneficial as liberal economist have thought. Although pooled data analyses imply a positive relationship between liberal institutional arrangements and economic development, empirical evidences based on regional data suggest that democracy and economic freedom do not play any significant role in majority of regions' economic development process. Indeed, some regions have experienced slowdowns in the pace of economic progress due to liberalization efforts in economic and political structure. Also, it is found that same policies do not produce same economic outcomes in different regions, pointing out the role of

region-specific factors in development. Overall, these evidences show that applying common set of policies without considering regional factors is not always followed by rapid economic development. Accordingly, this thesis concludes that rather than adopting common set of neoliberal policies, policy makers and economists should design more specific development strategies to support economic development process in backward countries and regions.

Keywords: Economic Development, Liberalization, Institutions

ÖZET

Yüksek Lisans Tezi

Liberal Öğretinin Bir Gelişme ve Politika Projesi Olarak Ampirik Analizi

Erol Türker TÜMER

Dokuz Eylül Üniversitesi

Sosyal Bilimler Enstitüsü

İngilizce İktisat Anabilim Dalı

İngilizce İktisat Programı

1980'li yıllardan bu yana dünya ekonomisi neoliberal fikirler doğrultusunda şekillendirilmektedir. Buna paralel olarak son otuz yıllık süreçte ekonomik ve politik yapının liberalleşmesi ekonomik kalkınma politikalarında hakim strateji olarak ortaya çıkmıştır. Bugüne dek birçok ekonomist serbest piyasa ve demokrasiyi ekonomik gelişmeyi sağlamanın ön koşulları olarak düşünmüştür. Ancak birçok geri kalmış ülkenin zayıf ekonomik performansı neoliberal politikaları uygulamanın daha yüksek bir ekonomik gelişme seviyesine ulaşmak için yeterli olmadığı gerçeğini ortaya koymuştur. Buna bağlı olarak, günümüzde uygulanan liberal kalkınma stratejileri ve politikaları son zamanlarda yeniden gözden geçirilmeye başlanmıştır. Bu tartışmalara paralel olarak, bu tez liberal ekonomik politikaların ve kurumsal düzenlemelerin ekonomik kalkınma üzerindeki etkisini incelemiştir. 185 ülkenin 1995-2013 dönemi verileriyle yapılan analizler liberal politikaların liberal ekonomistlerin düşündüğü kadar faydalı olmadığını göstermiştir. Her ne kadar toplulaştırılmış verilerle yapılan analizler liberal kurumsal düzenlemelerle ekonomik kalkınma arasında pozitif bir ilişki olduğunu gösterse de, bölgesel verilerle elde edilen ampirik bulgular demokrasi ve ekonomik serbestliğin bölgelerin çoğunun ekonomik kalkınma sürecinde önemli bir rol oynamadığını ortaya koymuştur. Hatta, bazı bölgelerde ekonomik ilerleme hızı ekonomik ve politik liberalizasyon sonucunda düşüşler yaşamıştır. Ayrıca, çalışma benzer politikaların bütün bölgelerde benzer ekonomik sonuçları doğurmadığını ve bunun da bölgeye özel faktörlerin kalkınmada oynadığı role işaret ettiğini

göstermiştir. Genel olarak, bu bulgular bölgesel farklılıkları göz önüne almadan uygulanan genel geçer politikalara her zaman hızlı bir ekonomik kalkınmanın eşlik etmediğini ortaya koymaktadır. Dolayısıyla, bu tez, bir takım yaygın neoliberal politikaları uygulamaktansa, politika yapıcıların ve ekonomistlerin geri kalmış ülkelerde ve bölgelerde kalkınmayı destekleyebilmek için özel kalkınma stratejileri tasarlaması gerektiği sonucuna ulaşmıştır.

Anahtar Kelimeler: Ekonomik Kalkınma, Liberalizasyon, Kurumlar

AN EMPIRICAL ANALYSIS OF LIBERAL DOCTRINE AS A DEVELOPMENT AND POLITICAL PROJECT

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CHAPTER THREE
EMPIRICAL RESULTS

ABBREVIATIONS

CEE	Central and Eastern Europe
CL	Civil Liberties
EAP	East Asia and Pacific
EECA	Eastern Europe and Central Asia
GDP	Gross Domestic Product
GMM	Generalized Method of Moments
HDI	Human Development Index
IMF	International Monetary Fund
LAC	Latin America and Caribbean
LDC	Least Developed Countries
MENA	Middle East and North Africa
OECD	The Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PWC	Post Washington Consensus
PR	Political Rights
SA	South Asia
SSA	Sub-Saharan Africa
UNDP	United Nations Development Programme
US	United States
WB	World Bank
WC	Washington Consensus
WENA	Western Europe and North America

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INTRODUCTION

Economic development and income disparities among countries have always been an issue for economists and policymakers. Throughout history, many theories and strategies have been developed to puzzle out cross-country differences in prosperity, and to provide an appropriate framework to stimulate development process. In recent years, however, the problem of economic development begins to attract increasingly more interest in literature due to continuous setbacks in development process of many nations and worsening figures of income gaps across countries as well as regions. In 1990, for instance, the ratio of per capita income level of the richest country to poorest one was only 140.[1] This ratio increased to 260 for the year 2000, and, in 2013, it reached approximately 271, suggesting rising income inequality over the last two decades. In addition to such large welfare differences among individual countries, data does not provide any evidence in favor of regional convergence as well. Per capita income difference between European and Sub-Saharan African countries has increased by more than threefold in absolute terms during the era between 1980-2013.[2] Moreover, except from four East Asian countries, namely Taiwan, South Korea, Singapore and Hong Kong no other backward nation has yet succeed to catch up with income level of industrialized countries since 1950s (De Rivero, 2003: 103). These figures and historical facts together with the growing body of empirical evidences indicate that economic development is still an unsolved problem for many countries, and much more effort is needed to find a way of designing adequate policies for accelerating pace of economic progress in developing nations.

Given the fact that existing disparities among advanced and developing countries have deepened over the last three decades, current development strategies and policies dominated by neoliberal doctrine have gone into reconsideration recently. Today, many economists argue that ongoing set of neoliberal policies and institutions based on free market notion are mostly unfavorable for development process of backward nations, as such policies weaken economic growth potential of countries through limiting their government's instructive role in the economy. For

[1] Author's own calculations based on IMF database.
[2] Author's own calculations based on IMF database.

instance, most developing countries that follow market-based policies suggested by Bretton Woods institutions do not have enough political freedom to apply selective and protective economic policies, which lower their ability to overcome market failures and support new industries (Öniş and Şenses: 2005: 285). Also, it is claimed that standardized neoliberal development strategies such as Washington Consensus (WC) or Post-Washington Consensus (PWC) do not give due importance to country-specific factors, and hence, fall short of generating expected benefits. To exemplify, evidence show that liberalizing trade regime and capital flows without considering economic structure of the countries mostly increases vulnerability of domestic economy to external shocks and interrupts development process by creating crises, rather than bringing about higher growth rates and rapid development via efficiency gains.

Parallel to these ideas, considerable amount of work in literature reports negative impact of neoliberal reform packages on economic as well as social and political measures of development. Recent studies demonstrate that most nations in Latin America and Sub-Saharan Africa regions have experienced higher growth rates on average between the years 1960 and 1980-when they were applying interventionist and import-substitution industrialization policies-in comparison to 1980 and 2000 period, throughout which they were following market-based reform programs suggested by International Monetary Fund (IMF) and World Bank (WB) (Rodrik, 2009: 16; Chang, 2009: 42). Research on the success of East Asian countries also reveals the supremacy of selective industrialization policies over free market applications in stimulating growth process (Şenses, 2009: 244-245; Öniş and Şenses, 2005: 265-266; Rodrik, 2009: 20-32, Lall, 2009: 484-499). Moreover, some studies put forth that implementation of neoliberal reform packages stimulate social and political conflict among citizens of countries and pave the way for a civil war within national borders (Hartzell et al, 2010: 349-354). The progressive poverty problem and unplanned urbanization in many developing nations are also linked with neoliberal restructuring process in the existing literature (Davis, 2010: 184-208). In the light of these facts, opponents of liberal policies mention that structural transformation of economies towards a freer market environment is the fundamental cause of the economic inertia in many nations and widening income inequality across countries and regions.

On the other hand, the advocates of neoliberal thinking state that free economic environment, supported by an appropriate institutional framework is a prerequisite for stimulating development. According to this view, income disparities among countries mostly stem from differences in their ability to develop liberal economic and political institutions that organize and discipline functioning of markets. On the basis of Adam Smith's invisible hand theorem, neoliberal economists believe that free market environment based on price mechanism and property rights promotes development process by creating investment and production incentives to economic actors, and enhancing resource allocation in the economy. As government interventions to economic activities are seen as the major causes of market distortions and inefficiencies in the economy, this approach suggests a limited role for governments in the economy. To ensure faster growth, governments should only focus on facilitating operation of markets, rather than directly interfere into them via selective economic policies. From this point of view, neoliberal orthodoxy sees removal of government intervention to economic activity and liberalization of markets together with the construction of market-based institutions are key polices to promote development in backward countries.

Besides economic liberalization, political freedom is seen as another crucial factor to prompt economic development by neoliberal economists. It is argued that higher political freedom that enables individuals to vote ongoing policies and participate in decision-making processes increases institutional quality and thereby helps countries to create virtuous circles to achieve higher prosperity. In addition, several influential authors suggest that inclusive political institutions that limit extravagant usage of political capacity by specific power groups prevent exploitation of economic resources, and thusly, induce construction of inclusive economic institutions and policies, which together promote development in the long run (Acemoglu and Robinson, 2013: 79-83). To this respect, neoliberal approach regards democratization of political environment and formation of inclusive political institutions as important as economic freedom in development issue.

In sum, supporters of neoliberal doctrine propound that countries should design policies and institutions in line with the free market notion and democracy to achieve higher prosperity levels. This means that nations that follow neoliberal suggestions such as ensuring macroeconomic stability, lowering government involvement in the economy, removing barriers to enter into markets, opening up borders to international financial and trade flows, securing property rights, improving bureaucratic quality and forming democratic regimes are likely to experience faster development process than others, and hereby, catch up welfare level of industrialized nations in the course of time.

As mentioned above, there are two contradicting views on the impact of neoliberal restructuring process. While some argues that neoliberal policies and institutions are the main causes of decelerating pace of economic progress in many countries, others see transformation of economies and societies into a more liberal framework is the only way to sustain rapid development. This heated debate among economists brings along questions about the relationship between market friendly policies and economic development. Does liberty in economic and political environment really contribute to development process of countries? If so, which policies and institutional frameworks are the most effective ones? Do effectiveness of market-based policies and institutions vary across countries or regions? Which sets of policies and institutional arrangements are more rewarding ones for specific countries or regions?

Having a look at existing literature demonstrates that although numerous papers examine the link between liberalization and economic prosperity, foregoing questions still remain unanswered. Empirical as well as anecdotal evidence presented in previous studies are mostly conflicting and indeterminate, making things difficult for economists to draw definitive conclusions about the influence of neoliberal reforms on economic progress. However, finding satisfactory answers to those questions are very important for academicians as well as policy makers to be able to design and carry out appropriate development strategies. For the very reason, this thesis aims to explore the effects of free economic and political environment on development process of countries. The central contention of this thesis is that one-size-fits-all logic embodied in neoliberal reforms is an inadequate strategy to ensure rapid welfare increases in every country, as regional and country-specific elements play important roles in policies' impact on development process. Regarding this, the principal goal of the study is determined as identifying sets of beneficial policies and institutions for specific regions or country groups.

In doing so, three challenging arguments are tested empirically: (1) Do economic and political freedoms facilitate development as suggested by advocates of neoliberal policies? (2) How particular components of economic liberty is linked with development? (3) Does freedom-development nexus vary with regions or same policies bring about similar economic outcomes all around the world? In order to address these issues, this study analyses annual panel data of 185 countries over the period 1995-2013. Both descriptive analyses and dynamic panel estimation methods are used to examine the relationship between economic freedom, political freedom and development. Besides revealing interactions among these variables, this thesis has two main contributions to the literature. First, following arguments of Rodrik (2009) that imply local factors such as norms, culture, history and socioeconomic environment determine effectiveness of institutions and policies, countries in the dataset are grouped into seven regions based on World Bank classification with the intention of accounting region-specific factors in analyses, and thereby making cross-regional comparisons. This procedure provides opportunity to identify varying impact of neoliberal policies among regions and, therefore to draw regional policy implications. Second, index of economic freedom produced by Heritage Foundation is decomposed into four broad categories on the purpose of investigating which specific types of liberalization measures accounts for economic advancement. Following such a practice makes it possible to unveil most development-friendly market-based applications for countries in specific regions and correspondingly provides guidance to their development strategies.

The remainder of the thesis is organized as follows. In Chapter 1, both a brief summary of historical evolution of development policies and a review of theoretical as well as empirical studies on the freedom-economic development relationship is presented. Chapter 2 introduces data and descriptive analyses together with the brief explanation of methodological strategies followed in panel estimations. Following this, Chapter 3 displays and discusses results of dynamic panel data regressions estimated for both all country data and particular regions. The final section concludes thesis with summarizing main results and delivering several policy implications based on empirical findings.

CHAPTER ONE
LITERATURE REVIEW

1.1. HISTORICAL EVOLUTION OF DEVELOPMENT THEORIES AND POLICIES

In the widest sense, the issue of development and welfare are as old as human history. Since the early ages, almost all human communities have been in an endeavor to overcome two fundamental problems: (1) how to meet their basic necessities such as nutrition, sheltering and clothing in a reasonable sense and (2) how to advance their social welfare and living standards. In this context, development issue, per se, has always been of vital importance for survival of societies. As a natural consequence, it has always attracted a great deal of attention from intelligentsia, politicians as well as ordinary people. Throughout history, many scholars from several fields have developed a wide variety of theories, strategies and approaches to find appropriate answers to above questions and thereby to shed light on development process. In the following paragraphs, the evolution of ideas and their reflections in development strategies are summarized briefly with the intention of forming a theoretical and historical basis for understanding today's economic policies that is mostly shaped under neoliberal ideas.

Considerations on development can be traced back to 16^{th} century, when a set of mercantilist views began to dominate world politics and international trade. At that time, it was believed that a nation's welfare level is directly related to the amount of money or precious metals that it has. Therefore, in order to achieve higher prosperity, nations should follow economic policies that encourage gold saving activities, such as promoting exports and domestic production via state subsidies or tax exemptions, and restraining imports-especially the import of industrial goods that can be produced at home rather than that of raw materials essential to domestic industries-through import duties. It was thought that the surplus on the balance of trade that would occur as a result of these policies culminate in accumulation of gold within national borders, and thusly, enhance national wealth. In this sense, mercantilist doctrine regarded protectionist commercial policies and state intervention to economy as main strategies for increasing and maintaining welfare of nations (Screpanti and Zamagni, 2005: 32-38; Scully, 1988: 653-654).

These arguments of mercantilists had ruled economic policies and strategies over the period between 16th and 18th centuries. However, with the beginning of the 18th century, major events such as the Enlightenment and the Industrial Revolution brought about fundamental changes in philosophers' way of thinking. Liberal views based on individualism and rationalism principles began to dominate social, political and economic areas. In response, economic theories and policies had experienced a transformation from a state-led mercantilism to an individual-based laissez-faire approach. Although many philosophers, including John Locke, David Hume and James Steuart Denham contributed to this liberal revolution, it was not until Adam Smith published his influential book *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), that liberalization became the prevailing approach in designing economic policies. In his book, Smith argued that free markets in which price mechanism guides act of self-seeking agents would enhance efficiency in allocation of resources and thereby increase aggregate production and total welfare. According to him, the only way to scale up collective benefit is forming a competitive free market environment supported by property rights that enables every person to pursue his or her own interest and accumulate capital (Scully, 1988: 654). Government should not involve in economic activities via selective trade policies or monopoly practices, which mostly hamper functioning of markets and create economic inefficiencies. In the sense of development perspective, these arguments implied that liberalization of domestic markets and international trade would automatically bring about improvements in living standards of societies. Accordingly, it was stated that nations should abolish mercantilist strategies and follow policies based on free market notion to achieve economic success.

With the beginning of 19th century, these liberal ideas began to prevail development strategies across the continental Europe. Although there were differences among countries, majority of industrialized nations set out to apply economic policies in line with classical doctrine, or at least removed mercantilist practices from their policy agenda. Abolishing entry barriers to markets, liberalizing international trade regime, protecting property rights and lowering government size were the common policy practices throughout the period between 1820-1913. At the same time, global economic order was shaped under liberal arrangements such as constitution of a gold standard and establishment of regulations for free flow of goods, labor and capital across borders (Chang, 2009: 90-93). However, these policies and institutional formations based on laissez faire notion collapsed abruptly by 1920s, as a result of successive developments in political, social and economic spheres. The First World War and its devastating effect on social and political environment together with the outbreak of a depression in the world economy in late 1920s undermined ongoing liberalization process. In the meantime, the continual failure of multiple markets, worsened socioeconomic situation and enhanced unemployment problem in majority of industrialized countries cast doubt on rationality of self-regulating free market system. On international stage, collapse of international payment system and gold standard as well as the upward trend in anti-globalization practices that restrain trade and capital flows across borders weakened faith in orthodox economic policies. As a matter of course, these developments stimulated studies on alternative theories and ultimately conduced to a paradigm shift in the way of economic thinking (Polanyi, 2013: 57-70).

By the mid 1930s, Keynesian economics appeared as an alternative to classical laissez-faire approach. In his groundbreaking book *The General Theory of Employment, Interest and Money (1936)*, Keynes claimed that active government policies could be more successful in smoothing the path of economic progress in comparison to laissez-faire approach suggested by classical doctrine. According to him, market systems could sometimes come short of overcoming failures due to price rigidities in the economy. Especially, in time of severe economic crisis during which output and employment decline devastatingly as a result of a downfall in aggregate demand, self-regulating market mechanism mostly falls short of restoring economic balance spontaneously, as price rigidities and economic actors' tendency to behave irrationally restrain output production via inhibiting new investments. In a word, free market system, per se, is generally incapable to cope with setbacks in economic activity. Accordingly, Keynes thought that policy makers should monitor economic situation and design policies to deal with market failures for the purpose of stabilizing fluctuations in aggregate output. He suggested that during recessions, governments should follow demand-enhancing policies in order to induce consumption, investment and production activities. Otherwise, market failures and inadequate demand may collectively deepen the economic downturn and thereby aggravate recovery process. In a nutshell, Keynesian theories indicated that in a time of a crisis states should get behind the wheel of the economy and apply active policies to rebalance aggregate demand and output level.

Keynesian arguments matching with economic and political conjuncture of 1930s attracted many support from intellectuals and policy makers in hegemon countries. In consequence of this, the entire period beginning from the late 1930s to the end of Second World War had witnessed a major shift in economic policies, and particularly, in development strategies. The market-based approach of previous decades was replaced with Keynesian state-driven policies in most of the industrialized countries. Furthermore, in the course of interwar period, war economy practices prevailing in majority of the developed nations together with relatively successful state-led industrialization experiment in the Soviet Russia, began to highlight the notion that government could play a directive role in the economy. In the context of development, these circumstances set ground for the idea that economic planning led by the government may bring about faster development process compared to market mechanism. Although Keynes, himself, did not stand up for state-led industrialization or development, his ideas about market failures and role of governments in policy design gave inspiration to establishment of state-based development strategies (Toye, 2009: 57).

With respect to these developments, state-driven development theories become quite popular in 1940s and 1950s. Many studies including Rosenstein-Rodan's big push theory (1943), Nurkse's balanced growth model (1953), Rostow's take-off model (1956) and Leibenstein's critical minimum effort theory (1957) propounded that active government involvement to economy is a prerequisite for development, especially in backward countries. The common point in these theories was that ongoing coordination problems, uncertainties and war conditions in many countries collectively create a risky economic environment in the context of new investments, which in turn lowers incentive of private agents to engage in productive activities. Consequently, level of private sector investments mostly remains lower than the required level, and hence fails to foster growth and development process in the third world nations. On that account, governments should take a leading part in resource allocation and investment activities. The fundamental contention of these theories was that in many underdeveloped countries, state-led industrialization programs could be more effective than that of free market mechanism, as establishment of new industries generally contains higher private marginal costs vis-à-vis social costs, making private agents more reluctant to invest capital into new areas (Rosenstein-Rodan, 1943: 204-210). Under these economic conditions, state-supervision is a necessity to set up and amplify new industries. Governments should follow active development strategies to cope with market distortions, and correspondingly to increase investments and productive activities in the economy. In brief, the theoretical prescription of these studies for stimulating development in backward nations was to implement state-led industrialization strategies which, by establishing and protecting selective industries and reallocating resources, would ultimately scale up production and income level. Without intervention, developmentalist economists believed that self-regulating market mechanism would bring about at most a sluggish development process due to unfavorable investment conditions in low-income countries.

Parallel to those theoretical arguments, state-driven development idea penetrated into policy agenda of numerous countries in the post war period. By the beginning of 1950s, many underdeveloped and newly independent nations embarked on implementing development policies based on widespread state intervention. The main objective of these practices was allocating investments into most rewarding areas within the framework of economic planning and thereby giving a boost to industrialization and growth process. On that purpose, most governments in backward nations applied inward-oriented industry strategies supported by import-substitution practices and protectionist policies. Majority of the states in Latin America, Africa and Eastern Europe regions funneled money into large investment projects, took the initiative to establish and shield new industries, controlled international capital flows, manipulated internal prices of selective goods and services, and implemented several protectionist trade policies, including restrictive licensing systems, exorbitant tariff regimes and multiple exchange rates. As a result of these efforts, many backward nation achieved success in mobilizing resources into new investment areas and igniting at least a rudimentary industrialization process. Despite the fact that some of these policies created ineffective state-monopolies generally remembered with failures and corruption, they also helped these countries to set up their own industries, to train their own human resources and to specialize in production of variegated goods and services, which collectively contributed to their productive capacity (Thorbecke, 2006: 3-10).

As mentioned above, throughout the years between 1950s and 1960s, bulk of economic theories and policies mainly focused on economic growth, income level and industrialization to solve development problem. The rationale behind these practices was that development is an economic issue, relies heavily on technical and economic progress. That is, development could be achieved automatically via accelerating investments, industrial transformation and economic growth. This indicated that rapid industrialization and growth would ultimately bring higher prosperity to the citizens of underdeveloped nations. The other socioeconomic indicators of development such as employment, income inequality, poverty, access to basic necessities as well as to health care and education services, quality of human life and urbanization were mostly thought would get better along with the improvements in income level. However, this unsophisticated belief of those years ultimately failed with simultaneous deteriorations in many development indicators in the late 1960s. Especially widened income gaps among and within countries, ascended unemployment and urbanization problems together with the regular deteriorations in poverty measures revealed that development is a far more complex process than its limited economic meaning (Thorbecke, 2006: 10-11).

Accordingly, the concept of development, and in particular, the appropriateness of ongoing strategies began to be discussed in a more comprehensive manner. With the early contributions of Seers (1969: 2-7), the meaning of development has been enlarged with embracing the human-side of the progress. By the mid 1970s, scholars widely accepted that approaches solely focusing on growth rate of output or income are incapable to solve development problem of backward countries, as they miss out the social side of the subject. In time, this emphasize on social development formed a basis for the idea of measuring human oriented-development level and gave birth to Human Development Index (HDI)-published by United Nations Development Programme (UNDP)-in the beginning of 1990s. In HDI, definition of development was advanced by including quality of human life and access to knowledge, in addition to income figures. In this sense, HDI revealed much more accurate measurement of development than per capita income levels. Later on, Sen (2004: 17-18) upgraded this approach with putting freedom notion into the definition of development concept. He stated that development concept should be understood as a means to accomplish higher freedom in human life. Even though achieving higher growth rates can contribute to this process by increasing income level and thereby facilitating the life of humans, it is not sufficient to ensure development in the context of freedoms. Therefore, he suggested that development strategies should be redesigned within the scope of freedom and quality of life rather than that of growth or income.

Although these efforts had created awareness about the broadness of development concept in time, it was not until early 2000s that they partially exerted their influence over hegemonic development strategies. As it will be shown in subsequent lines, the substantial paradigm change in development strategies from state-led industrialization to neoliberal restructuring in the beginning of 1980s, interrupted evolution of human-based development policies and delayed their penetration into policy agenda for almost twenty years.

Apart from those arguments about the measurement and definition of development concept, the national developmentalism approach had dominated economic policies in much of the third world in the post war period. Until late 1970s, a bulk of backward countries applied autarkic economic policies to execute industrialization and development tasks. This process is supported by the socio-political conjuncture of these years that is mostly shaped under cold-war dynamics. Easy access to international credit facilities provided by western countries and Bretton Woods institutions, together with the rapid recovery process in the global economy in the aftermath of the Second World War enabled developing countries to finance and maintain their inward-oriented industrial policies for many years (De Rivero: 2003: 12). However, a set of interconnected events appeared in 1970s reversed this conjuncture, and ultimately caused a radical change in approach to economic policies and theories. The momentous stagflation and balance of payment problems occurred subsequent to the breakdown of international monetary system and the oil shocks, led up to economic recessions in majority of industrialized countries. Due to the fact that Keynesian fine-tuning policies remained incapable to pass over these problems, interventionist economic practices and government's role in the economy began to be criticized scholarly by the mid 1970s. This, in turn, paved the way for the neoliberal transformation process beginning with the 1980s. Under the leadership of Ronald Reagan and Margaret Thatcher, much of the advanced countries began to implement supply-side liberalization policies in the lieu of state-driven practices. Liberalizing economic structure, limiting government size via privatizations, removing barriers on international capital and trade flows, ensuring integration with global markets and deregulating financial markets were introduced as fundamental strategies to re-assure economic progress. The common notion in these policies was that free market mechanism is superior to state intervention, as the latter mostly causes distortions in the economy through creating inefficiencies in resource allocation and productive activities. In this respect, economic policies should focus on deregulating markets and limiting role of government in productive activities to enhance efficiency gains and thereby economic growth.

Concurrently with these theoretical and political developments occurred in western countries, a large number of developing nations experienced economic and financial crisis beginning with the 1970s-mostly as a consequence of their heavy public debts and balance of payment problems stemming from populist policy applications and narrowed international credit and foreign aid facilities. These facts together with the escalated market fundamentalism in hegemonic countries started a heated debate on appropriateness of national developmentalist strategies prevailing in developing countries. It was believed that discretionary economic policies led by governments are the major causes of increased internal and external imbalances in those countries. Specifically, economic troubles such as high budget and balance of payment deficits, permanent poverty, unemployment and inflation problems as well as the sluggish pace of growth and development are thought as natural consequences of state-driven policy applications freezing market forces and private sector agents out of the market. On that account, international institutions and their technocrats suggested that backward countries should focus on implementing market-based reforms, including removal of government interventions from productive activities, liberalization of international trade regime and deregulation of capital markets to be able to overcome their economic bottlenecks. The main argument of the supporters of neoliberal policies was that eliminating old-fashioned developmentalist practices and replacing them with liberal reforms is a prerequisite for ensuring a rapid development process in backward nations. Without market-oriented reforms, economic structure of these countries cannot sustain long-term growth and development process. In addition, neoliberal thinkers were considering that inward-oriented industrialization and import-substitution policies are the main sources of currency crisis and unsustainable budget deficits in majority of developing countries. For that reason, they pronounced that these practices should be replaced with outward-oriented pro-export policies in order to handle foreign exchange shortcomings and budget crisis. In the light of these ideas, neoliberal economists suggested that liberalization process and integration with global markets should be given a much greater weight in policy agenda of indebted countries comparison to development objective on account of the fact that setting up a free market economy would instinctively contribute to development process.

With respect to these arguments, the 1980s witnessed a significant shift in economic policies and development strategies of backward nations. By the means of structural adjustment programmes suggested by IMF and WB, majority of the third world nations reshaped their economies following a standardized list of liberalization reforms called Washington Consensus. The set of market-oriented reforms advised by WC were ensuring fiscal discipline, redirecting public expenditures towards health care, education and infrastructure fields, reforming tax practices, liberalizing interest rates, maintaining a competitive exchange rate, liberalizing international trade regime, opening up economy to foreign direct investments, privatizing state-enterprises, deregulating markets and securing property rights (Williamson, 2000: 252-255). The central tenet of this programme was that minimum state intervention to economic activities together with determination of prices in a free market environment would raise efficiency in resource allocation and thereby increases productive capacity of the economy. This implied that carrying out liberal policies would bring about higher prosperity to the citizens of developing nations through escalating output production and national income. Within this framework, the economic role of state was limited to some basic objectives, such as securing law and order, providing a stable macroeconomic environment and supplying physical infrastructure that collectively facilitate functioning of markets (Öniş and Şenses, 2005: 263). The core idea behind this was that development puzzle of third world nations would be solved automatically after implementation of market-oriented policies, as these policies would lay the groundwork for a rapid growth and development process through eliminating pre-existing imbalances, inefficiencies and obstacles in the economic structure associated mostly with populist/interventionist policies led by the governments. In other words, neoliberal orthodoxy remarked that market-oriented economic environment would be more development inducing compared to one with shaped under dirigism (De Haan and Sturm, 2000: 216).

As mentioned above, the 1980s were ruled by a framework relied on an unbounded faith in effectiveness of market mechanisms as well as an absolute unreliableness in government actions. Nevertheless, this naïve belief in superiority of market forces over government practices-in the context of development-declined with the 1990s due to the fact that neoliberal structuring process prevailed in 1980s and 1990s have generated unstable macroeconomic performances as well as financial crises in many countries. For instance, most developing nations in Latin America, Africa and Eastern Europe that follow neoliberal agenda fell short of the expectations in terms of growth and development performance (Rodrik, 2006: 974). Furthermore, deteriorations in socioeconomic figures such as increased poverty, widened income inequality among and within nations and lowered living standards that have come up with liberalization efforts run counter to promised rewards of neoliberal development prescriptions (Öniş and Şenses, 2005: 265-271). Correspondingly, by the mid 1990s, development theories based on the framework suggested by WC began to be reconsidered among economists.

Three main issues have been argued vastly on the purpose of improving WC. First, many economists implied that opening up financial and capital accounts without considering economic as well as financial structure of countries may not be an appropriate advise, as these policies mostly end up with massive short-term capital outflows in hard times that ultimately leads or contributes to successive economic crisis (Öniş and Şenses, 2005: 268-271). The outbreak of financial crises in Argentina, Turkey and East Asian nations were expressed as examples of devastating impact of excessive capital account liberalization and financial market deregulation. With respect to these evidences, it was argued that unconditional liberalization in financial accounts should be replaced by a gradual liberalization agenda that follows formation of a regulatory infrastructure and legal safeguards in the economy (Birdsall and Fukuyama, 2011: 46-47). Second, it was affirmed that neoliberal policies mostly disregard social consequences of transformation process. In majority of the countries that applied structural adjustment programs, income inequality, poverty and social unrest have increased due to disproportionate negative impact of policies on low- and middle-income groups (Hayami, 2003: 55-58). For this reason, neoliberal restructuring policies were generally considered as major causes of income inequality and the poverty problem in the eyes of citizens of backward nations, which lowers social support to implementation of reforms and ultimately curtails their chance of success. Lastly, it was mentioned that deficiencies of developing nations in terms of their institutional quality and governance were the main causes of low performance of neoliberal reforms in those countries. Many economists declared that the success of neoliberal restructuring is conditional upon not only implementation of defined policies but also formation of adequate institutions. In this respect, they suggested that policy agenda should be enlarged by taking account of the fact that developing new institutions or improving quality of existing institutional framework in backward countries are as important as designing and implementing policies for accomplishing rapid development objective (Rodrik, 2009: 18-20).

Besides these arguments, two important theoretical approaches that came into view in the late 1980s have influenced the way of thinking in development strategies. The first one was the endogenous growth theory proposed by Romer (1986) and Lucas (1988) that emphasized the role of human capital in developing new technologies and sustaining high growth rates. According to this approach, technological progress is not a completely exogenous process as defined in neoclassical growth theories. Instead, it can be determined endogenously by designing policies centered on improving human capital endowment and knowledge. More specifically, it is claimed that nations that invest greatly in health care, education, training and research and development activities, would be more successful to advance their technological and innovational capacity, which by fostering their productivity, would bring along higher economic growth. Within the context of development, this assertion simply indicates that backward countries can achieve higher prosperity levels via directing their resources to the human capital enhancing practices (Romer, 1986: 1014-1034; Lucas, 1988: 17-39; Gwartney et al., 1999: 643; Thorbecke, 2006: 15-16).

The second important approach that emerged by the beginning of 1990s was the new institutionalism that underlined the importance of institutional foundations of economies in development process. According to this view, institutions are the set of formal and informal rules, norms and constraints that organize the way of economic, social and political interactions among humans. In this sense, they determine the structure of all kind of incentives and motivations that influence behavior of individuals. For that reason, it was thought that institutional set-up of economies is one of the key factors that underpin the development trajectory of nations. Countries that accomplish to form good institutions that encourage individuals to engage in economic activities such as producing, investing, trading, working and innovating would be likely to experience faster economic progress compared to those that fail to construct a promotive institutional framework. In a word, new institutionalism revealed that economic success of countries is directly related to their institutional quality (North, 2010: 9-19; Greif, 2006: 3-14).

Following these arguments, many scholars turned their attention towards identification of institutional arrangements that facilitate development process. For instance, Acemoglu and Robinson (2013: 73-83) propounded that inclusive economic and political institutions such as well-defined and well-enforced property rights, freedom to contract and exchange, regulations that prohibit fraud and corruption, an unbiased legal system, a state that supplies key public goods and a pluralistic but centralized political structure are essential to create a fair and competitive market environment, which provides a basis for economic development.

They argued that above-mentioned institutions that restraint monopolistic practices in economic and political fields obstruct exploitation of economic resources by small power elites. Therefore, they create an inclusive market framework in which individuals interact with each other on equal basis and pursue their own interests depending on created and shaped incentives, which collectively enhance efficiency in usage of existing resources and support development. In addition to these benefits, they pointed out that inclusive institutions influence economic progress through stimulating educational activities and technological breakthroughs as well. It was stated that in a society that is surrounded by inclusive institutions individuals would be more enthusiastic to educate themselves and develop new ideas since they know that potential rewards of education and innovations are guaranteed by property rights and laws. For that reason, nations that have better institutions would likely to be the ones that have higher innovative and technological capacity, which go hand in and glove with development process. In contrast, extractive institutions that are constructed with the intention of transferring resources from one interest group to another would mostly impede economic progress by lowering incentives of individuals to participate in economic as well as political activities, develop new ideas and educate themselves. On that note, it is presupposed that countries that have extractive institutional arrangements such as insecure property rights, biased legal systems or absolutist political regimes would likely to experience economic stagnation or at most draw back in international development race.

In sum, institutionalist views implied that institutions matter for economic development. Policies without appropriate institutional support would fail to create desired economic outcomes. Therefore, besides designing policies, nations and development community should think over constructing an institutional framework that is promotive for economic activities.

By the virtue of new theoretical contributions and raised criticisms against the standardized policy agenda, an upgraded version of WC, labeled as Post Washington Consensus, has emerged as the prevailing development strategy with the beginning of 2000s. Briefly, the key tenets of PWC can be summarized as maintaining a discreet liberalization process, building institutions that are conducive to operation of markets, reactivating role of state in development-related issues and implementing direct policies to cope with social problems such as poverty and income inequality. Considering these principles, it can be said that PWC presents a much more comprehensive model to deal with development problem compared to WC that rested heavily on narrow-scoped liberalization practices aiming at increasing market efficiency to promote growth and development. For instance, instead of the market-based trickle down approach of WC, PWC suggested a direct strategy led by state to handle poverty and income inequality problems. In order to overcome social problems and enhance human development, PWC induced states to follow active policies such as social welfare and income redistribution programs, poverty alleviation plans, provision of primary education and health care services, supply of physical infrastructure, and development and dissemination of information and technology (Öniş and Şenses, 2005: 275-276).

Besides all, PWC offered a set of institutional reforms along with the standard policy package of WC to stimulate development. In line with the suggestions of neo-institutional theories, PWC underlined the importance of establishing effective political and economic institutions to reduce state and market failures. In political realm, it asserted that establishment of democratic institutions that increase accountability and transparency of governments would support development via lowering corruption activities, enhancing efficiency in decision-making process and bringing along good governance practices. Similarly, PWC postulated that engendering institutional arrangements in economic area such as rule of law, well-defined property rights and well-regulated markets that improve business climate would nourish long-term private investments and thereby contribute to economic progress. In sum, new consensus mainly stressed the fact that countries should construct an institutional framework consistent with market economy to enlarge benefits of liberalization policies and hence to facilitate long-run development process. Without an appropriate institutional structure that creates necessary incentives for economic actors, liberal reforms would likely to remain incapable to make a significant contribution to prosperity of nations, as it was the case in most Latin American and Sub-Saharan African countries that followed neoliberal restructuring programmes (Wayenberge, 2009: 320-323).

Lastly, in contrast to WC, PWC developed a prudent attitude towards liberalization process, especially in the areas of international capital flows and financial markets. This new approach accepted that a full-scale liberalization of international capital account and excessive deregulation of financial markets collectively increase fragility of economies and ultimately cause economic crises alike in the East Asia case (Gamra, 2009: 401). For that reason, it implied that countries should follow progressive liberalization agenda that is supported by well-regulated financial markets to sustain development. In a similar vein, PWC envisaged a shift in privatization policy away from an unbounded scheme to a strategy that basically focuses on competitiveness notion without considering ownership structure. The main argument was that privatization at all cost is not the only way to enhance efficiency of state-enterprises. Instead, these institutions can be reformed under government control by creating competitive incentives. This indicated that it is possible to increase profitability and efficiency of state-enterprises via market-like competitive arrangements. In this sense, PWC did not consider privatization as a core strategy to ensure efficiency in the economy.

To sum up, it can be said that PWC is an augmented version of WC. In some respects, this consensus brings along some innovative designs to cope with particular development problems. However, it does not show any radical deviation from neoliberal orthodoxy within the context of reliance on market-oriented practices. As mentioned above, liberalization of economic environment and construction of market-oriented economic and political institutions are the fundamental tenets of PWC, without which development is thought unachievable. This revealed that although there have been some improvements and innovations in designation of development policies; neoliberalism has been the prevailing ideology in PWC. Pro-market policies and liberal institutional arrangements are still the focal points of today's development strategies. Notwithstanding, the impact of these practices on development performance has been an open question among scholars, since many countries fail to achieve higher welfare levels under liberal practices. For that reason, many researchers have strived to explain the link between neoliberal policies, institutional reforms and economic development. In the subsequent part, the results of these efforts are summarized briefly to shed light on the empirical interactions between these variables and provide a basis for comparison of estimation outcomes of this thesis with previous evidence.

1.2. EMPIRICAL LITERATURE

Following the emergence of neo-institutionalist theories by the late 1980s, many scholars have devoted close attention to the role of liberal institutions in countries' development process. Accordingly, last three decades have witnessed an upsurge in number of empirical studies on the nexus between institutional framework and development. In the succeeding lines, results of these analyses are presented briefly to gain insight about the empirical relationship between market-oriented institutions and economic performance of nations.

In essence, the common purpose of earlier studies is testing the neo-institutionalist hypothesis that presumes construction of liberal institutions such as democratic regimes, market-oriented economies, private property rights and rule of law is a sine quo non condition to sustain economic progress. To this end, many economists have used various proxies or indices to examine the empirical interactions between several institutions and key indicators of economic performance. While some studies have investigated economic impacts of overall economic or political measures, others have focused their attention on the links between specific areas of institutional arrangements and economic growth. Also, many others scrutinize multilateral connections between economic and institutional variables to provide a better understanding of the tangled relationship between these elements.

However, before presenting results obtained from previous studies, it should be noted that preliminary works that aim at analyzing influence of liberal reforms and institutions over economic activity mostly suffered from unavailability of comprehensive data related to economic institutions. This fact prevents economists from divulging empirical relationships between market-oriented institutions and economic performance for a long time. Due to this shortcoming, empirical studies, mainly, come in sight by the second half of 1990s, when thorough indices related to economic freedom has begun to be published by research centers such as Fraser

Institute and Heritage Foundation. Before that date, economists mostly employed several political and economic indicators to examine the relationship between institutional foundations and economic success.

In one of the earliest studies, for instance, Scully (1988: 657-661) employed Gastil's (1982) political freedom and economic system measures to investigate whether institutional differences account for variations in growth performance and economic efficiency among nations. By using data of 115 countries over the period 1960-1980, he finds that free societies that are surrounded by liberal institutions had recorded better growth and efficiency numbers compared to their unfree counterparts. According to estimation results, nations that promote higher degree of political and civil liberties as well as greater economic freedom had grown almost three times faster than nations, in which freedoms are restrained by government interventions. Moreover, the evidence suggests that free political and economic environment support economic progress via enhancing efficiency in production. Analyses show that nations that have liberal institutions are almost two times as efficient as societies that have closed political regimes, restricted civil rights and state-driven economic structures. As a result, the author remarked that establishment of liberal institutions is a key to achieve higher economic prosperity.

In a more recent study, De Vanssay and Spindler (1994: 362-366) seek out whether economic liberalization and constitutional freedoms exert any impact on economic performance. Empirical analyses imply that institutional improvements in political, legal and social framework have no significant economic impact, while liberalization of markets directly enhances economic development. Accordingly, they propose that countries that intent to achieve higher development should focus on economic reforms rather than laboring over comprehensive constitutional amendment packages. Mauro (1995: 695-706) conducts a quite different study that aims to explain the connection between bureaucratic quality and growth. Analyses reveal that there is a negative relationship between degree of corruption and economic performance: a widespread corruption lowers private investments and thereby slowdowns the pace of economic progress. In contrast, the author's findings indicate that bureaucratic efficiency improves country's growth performance. Nations with relatively efficient bureaucratic systems tend to have higher investment ratios and better growth rates. In sum, the author articulates that good governance is a necessity for stimulating economic progress.

In order to provide further evidence on the nexus between institutional arrangements and economic performance, Torstensson (1994: 235-242) examines the impact of property rights on growth performance of nations. Using data of 68 countries over the period 1976-1985, he shows that there is a significant and negative correlation between arbitrary seizures of property and growth rates, implying adverse affects of insecure property rights on investment and production incentives. Barro (1994: 10-12) discloses that institutional quality within the context of efficiency of legal system plays a significant role in countries growth performance. His estimation results indicate that countries with lower rule of law scores generally grow slower than those that have relatively higher scores. Supportively, Knack and Keefer (1995: 12-19) exhibit that institutions that provide secure environment for property rights have positive influence over investments and growth rates. In the same manner, Knack (1996: 213-223) proposes that institutional arrangements of high quality such as secure property rights, effective legal systems and good governance are conducive to economic growth. He shows that countries that are devoid of adequate institutional framework fail to improve their technological capacity and ultimately fall short of achieving economic success. In addition to this, empirical evidence purport that better institutions are generally associated with higher investment in both human and physical capital, which supports development process. In light of these findings, study concludes that economic convergence is conditional upon individual country’s ability to develop effective institutions. Furthermore, Acemoglu et al. (2000: 18-30) show that institutional differences play a decisive role in explaining income differences among former colonies. Using mortality rates of colonial settlers as a proxy for institutional quality, they find that countries, in which former colonial administrations developed inclusive institutions, have higher per capita income levels compared to former colonies where extractive institutions have prevailed for ages. Later on, Rodrik et al. (2004: 138-158) also documents that institutional arrangements such as property rights and rule of law positively affect per capita income level of countries even after controlling geographical indicators and trading activities. In contrast, Glaeser et al. (2004: 279-298) reveal that empirical evidence does not provide any robust relationship between institutions and economic performance. After identifying deficiencies of institutional measures that are used by previous studies, they show that constitutional rules that indicate level of constraints on political executives have no significant impact on economic growth. In fact, their estimations ascertain that human capital is the driving factor of economic as well as institutional development. To this respect, they claim that institutions do not cause economic growth; instead, they are the results of improvements in economic wellbeing and human capital. That is, the causality runs from development to institutional quality, not the other way around.

Apart from those studies that aim to examine the effect of institutional quality on economic progress, some researchers directly focus on the relationship between market-oriented institutions and economic prosperity. For this purpose, they have used aggregate economic freedom indices provided by several institutions to evaluate impact of liberal arrangements on several economic measures. Parallel to majority of empirical findings outlined above, studies that use overall freedom indices find supportive evidence for the view that market-based institutions are associated with better economic performance. For instance, Gwartney et al. (1999: 646-655), Heckelman (2000: 81-88), Heckelman and Stroup (2000: 537-543), Carlsson and Lundström (2002: 340-343), Ali and Crain (2002: 419-426), Dawson (2003: 484-494), Vega-Gordillo and Alvarez-Arce (2003: 209-212), Weede (2006: 512-521), Doucouliagos and Ulubasoglu (2006: 66-78) and Justesen (2008: 649-657) put forward that liberal market structure has a positive effect on economic growth. Berggren (2003: 196-206) and De Haan et al. (2006: 170-178) respectively supplies further support to this inference by documenting empirical findings presented in earlier works, which generally demonstrate a positive relationship between market freedom and economic performance. In a recent study, Cebula and Clark (2014: 17-24) also show that economic freedom is a key determinant of income diversity among nations. Their empirical analysis based on data of 29 OECD members over the period from 2003 to 2007, reveals that economic freedom has a robust and positive influence on per capita income level of countries. Furthermore, they put forth that besides freedom, higher regularity quality and lower taxes that promote economic efficiency play a significant role in countries’ economic welfare. By contrast, however, De Haan and Strum (2000: 228-238), and Strum and De Haan (2001: 841-843) note that level of economic freedom, per se, has no significant influence over country's economic performance. They assert that instead of freedom level, institutional improvements that lead changes in countries' economic freedom scores are the driving factors of economic growth and development.

In addition to these evidences, Grubel (1998: 289-303) shows that market liberalization is highly correlated with better socio-economic measures. Using descriptive analysis, he reveals that higher economic freedom scores are generally associated with higher income per capita levels, lower unemployment rates and superior human development grades. Accordingly, he states that freer economic environment is a prerequisite for achieving higher welfare level. Along the same lines, Stroup (2007: 59-63) finds that broader economic freedom has positive impacts on fundamental development measures such as health, education and disease prevention.

Besides these studies, several scholars investigate whether particular components of freedom indices are effective on country's economic progress. In comparison to above papers that generally point out a robust and positive relationship between overall freedom score and economic prosperity, empirical evidence on the influence of specific types of economic freedom is, at best, mixed and inconclusive. Most studies that have used constituent components of economic freedom indices demonstrate that the impact of freedom on economic performance varies considerably with the area under consideration. While some underlying components are found conducive to economic growth, results generally do not suggest any clear pattern for the relationship between particular freedom types and economic progress (Ayal and Karras, 1998: 331-335; Heckelman, 2000: 81-88; Heckelman and Stroup, 2000: 533-537; Carlsson and Lundström, 2002: 340-343; Dawson, 2003: 484-494; Justesen, 2008: 649-657, Gorlach and Roux, 2013: 9-13).

On the other hand, some economists examine the relationship between liberal market structure and economic progress in several developing countries. Broadly speaking, empirical evidence on backward nations indicates that market-oriented environment is generally conducive to economic development. For example, Nelson and Singh (1998: 683-692) and Gwartney et al. (2006: 260-271) report that economic freedom has a significant and positive impact on economic growth in Least Developed Countries (LDC). Likewise, Farr et al. (1998: 255-261) shows that free market practices enhance economic well-being in both industrialized and non-industrialized countries. Similarly, Assane and Grammy (2003: 1813-1817) suggest that economic freedom along with a good institutional framework promotes efficiency and thereby increases growth rate of income in industrialized as well as less developed nations. Analyzing data of 18 Latin American countries for the period 1970-1999, Bengoa and Sanchez-Robles (2003: 537-543) also find evidence of growth-enhancing impacts of economic freedom. More recently, Peev and Mueller (2012: 393-399) reveal that several type of freedom measures, namely trade freedom, monetary freedom and freedom from corruption lead to higher growth rates in transition countries. However, they also note that these market-oriented practices are beneficial only in regular times. Analysis shows that when an external shock like 2007-2008 global crisis hits these nations, liberalization process creates adverse effects on economic development process. Using panel data of 12 South African nations over the period 2000-2009, Gorlach and Roux (2013: 9-13) also discover that overall freedom index and its sub-components are positively related to growth performance, suggesting that liberalization helps to economic development process in South African region. On the contrary, Klein and Olivei (2008: 865-874) ascertain that capital account liberalization and financial deepening has no significant contribution to growth performance of developing countries. Gamra (2009: 392-402) draw quite similar conclusions by analyzing data of 6 emerging East Asian nation for the 1980-2002 period. His estimations based on various panel data methods indicate that full-scale liberalization in financial sector has significantly negative influence over growth rates, while moderate level of liberalization mostly bring about some economic gains. Supportively, Menyah et al. (2014: 390-393) find out that trade liberalization and financial development have no considerable impact on economic growth in majority of African countries.

As it is briefly summarized above, existing literature generally points out a positive connection between market-oriented institutions and economic performance, albeit several studies provide some contradictory evidence. This indicates that there is a strong empirical support for the hypothesis that liberalization of markets and construction of inclusive economic institutions are key elements of development process. On the other hand, some studies stand out that along with the economic structure, political institutions also play a decisive role in economic progress. Given the fact that political realm formalize economic environment via establishing rules and regulations as well as conducting policies, many scholars believe that there is a theoretical link between political structure and economic outcomes. One group of economists including Acemoglu and Robinson (2013) assert that inclusive political institutions such as pluralistic and centralized democratic regimes in which political and civil liberties are buttressed, are conducive to economic development, as such institutions inhibit rulers from exercising redundant political power so as to exploit economic resources, and force them to conduct effective economic policies or to establish inclusive economic institutions i.e. well-defined property rights or well-organized markets (Acemoglu and Robinson, 2013: 79-83). By contrast, they state that extractive political institutions like authoritarian regimes are inimical to economic progress, as these institutional arrangements tend to develop extractive economic institutions with the intention of using national resources to entrench political and economic power of a small elite at the expense of the whole society, which ultimately creates inefficiencies and impairs economic activities. In a few words, these scholars hypothesize that democratic polities are more rewarding for development compared to authoritarian regimes. That is, there is a positive relationship between democratization of political environment and economic performance.

This theoretical assertion that inclusive political structure lead to higher economic prosperity draw considerable interest in literature. Many economists conduct empirical analysis to examine the link between political institutions and economic outcomes. In an early study, Pourgerami (1988: 127-139) analyze the causal relationships between development, democracy and economic growth by using Political Repression Index as a proxy to democratic quality. His estimations based on the data of 92 countries indicate that development level is positively related to quality of political regime. In addition to this, he provides supportive evidence for institutionalist views that claim inclusive political institutions matter for economic growth. Cross-sectional analyses conducted by the author show that higher quality of democracy had brought along better growth rates to nations during the period 1965-1984. Accordingly, he concludes that democratic political realm and higher degree of individual freedoms are contributory to development process of nations. Supportively, Nelson and Singh (1998: 683-692), and Anwar and Cooray (2012: 977-980) show that broadening political and civil freedoms are associated with better growth rates. Vega-Gordillo and Alvarez-Arce (2003: 209-212) also reach similar results by examining data of 45 countries over the period 1975-1995. Their empirical analysis based on Granger Causality test implies that there is a two-way positive relationship between economic growth and political freedom. Quite differently, Rodrik and Wacziarg (2005: 51-55) test whether democratization process produces any adverse impact on economic performance of countries. Evidence suggests that democratic regimes do not have any significant negative influence over growth rates. Indeed, their analyses demonstrate that democratic transitions are generally accompanied with enhanced economic performance, suggesting a positive relationship between participatory political regimes and economic activity. Likewise, by analyzing democratization experience of Asian countries, Rock (2009: 943-949) reveals that there is no supportive evidence for the view that economic growth has decelerated under democratic regimes. Empirical results point out that democracy variable has a significant and positive impact on economic growth. In addition to this, he denotes that there is no significant difference in growth performance between democratic and autocratic practices, refuting arguments that propose authoritarian regimes are superior to democratic systems within the context of promoting economic development. Lastly, Klomp and De Haan (2009: 313-321) report that democratic institutions contribute to long-run development process by lowering economic volatility and stabilizing political environment.

As shown above, many empirical studies conclude that a participatory political regime, i.e. a representative democracy, promotes economic well-being of societies by empowering political and civil liberties, and generating public policies that support economic activities. However, there are some theoretical as well as empirical objections in literature to the presumption that there is a positive association between democratic institutions and development. Some scholars argue that democracies may not foster economic development, as democratic governments are more responsive to demands of citizens compared to authoritarian regimes, which mostly force them to follow short-run policies such as increasing consumption expenditures or implementing excessive welfare and redistribution programs, that ultimately lowers amount of economic resources to be devoted to productive investments or growth enhancing areas (De Haan et al., 2006: 180). That means, due to its voter-sensitive structure, participatory regimes may not be as successful as authoritarian practices to prompt economic growth and development. Parallel to that view, Przeworski and Limongi (1993: 60-66) state that there is no reason to believe that democratic regimes are better than authoritarian ones in terms of growth performance, or its just the opposite, as both theoretical suggestions and empirical findings are inconclusive about the link between political regimes and economic progress. After documenting some theoretical approaches to the interplay between polities and economic outcomes, they assert that rather than the type of a regime, implemented policies matter for economic performance.

Several papers support this theoretical statement. To illustrate, Barro (1994: 25-26) displays that freedom in political realm has no significant effect on economic growth, suggesting democracy is not a determinant factor for economic development. Analogously, Farr et al. (1998: 255-261), Gwartney et al. (1999: 655-658), and Ali and Crain (2002: 419-426) find out that political freedom does not have any considerable impact on economic performance. Empirical results presented in these papers mostly imply either an unstable or an insignificant relationship between political freedom and economic measures. Additionally, by conducting a sensitivity analysis of the relationship between democratization and economic performance, Krieckhaus (2004: 638-654) discovers that economic impact of democracy varies substantially with methodological preferences such as employed proxies for democracy and growth, selected control variables and covered time period. In respect to this finding, he affirms that there is no straightforward relationship between democratic institutions and economic outcomes. Tavares and Wacziarg (2001: 1354-1372) go one-step further and reveal that democratic regimes by and large have negative impacts on economic growth. Their estimations based on various specifications show that although democracy has some growth-enhancing potency via its positive influence over human capital and income equality, it mostly hampers development process by lowering physical investments and stimulating government's consumption expenditures. Peev and Mueller (2012: 385-399) report similar results for transition economies. Their analyses demonstrate that democratic regimes that enable governments to maintain large budget deficits and high consumption expenditures have detrimental impact on economic growth. But, they also propound that democratic institutions may promote development process indirectly via improving quality of economic institutions. Investigating effect of democratization efforts on economic volatility, Yang (2011: 251-256) finds that democratic regimes are fruitless to ensure macroeconomic stability. In fact, there is some supportive evidence for the view that political liberalization evokes larger fluctuations in economic activity. As a result, he concludes that if countries aspire to gain stability in economic progress they should focus on reforming economic structure initially and then strive at liberalizing political environment.

In a broad sense, empirical studies on the nexus between political freedom (or democracy) and economic prosperity reports mixed results. Compared to economic freedom, existing literature do not suggest any unidirectional or robust relationship between inclusive political institutions and economic performance.

Besides these studies that measures the effect of institutional quality on economic outcome, some authors underline the role of political instabilities and market distortions to explain variations in growth performance of countries. Theoretically, it was believed that continual upheavals in political environment and widespread state interventions to markets with the intention of reallocating resources among pressure groups or manipulating market prices would ultimately result in lower investment level and slower growth rates, as these practices generally jeopardize protection of property rights, increase expropriation risk and harass private agents about rewards of their investments in human as well as physical capital (Gurgul and Lach, 2013: 190; Barro, 1989: 17-20). On that account, it is sometimes voiced that stability of political structure and free market applications are integral parts of economic progress. In order to test this hypothesis, Barro (1989: 15-23) documents effect of several political and economic measures on nations' average growth rates for the postwar period. He finds out that political instabilities measured by the number of revolutions and coups per year, and number of political assassinations, have negative and statistically significant impact on investments and economic growth. Moreover, he presents some evidence that imply high levels of government consumption, manipulation of market prices by state applications, and socialist economic structures weaken economic progress. Depending on these results, he propounds that state-led market distortions, which create crowding-out effects, and political instabilities that provide an insecure environment for property rights have detrimental influence over private investments, and in turn, over economic development. A few contemporary studies scrutinize the relationship between political instability and economic performance as well. For instance, Jong-A-Pin (2009: 21-26) examines the impact of four different political instability measures on growth, respectively. He shows that only instability of the political regime has a statistically significant and negative influence on economic performance. Analyses indicate that other three dimensions of political instability, namely politically motivated violence, mass civil protest and instability within the political regime has no detrimental effect on growth, suggesting a weak empirical support for theoretical arguments that imply a negative correlation between political instability and economic progress. Lately, using panel data for a set of Central and Eastern European (CEE) countries over the 1990-2009 period, Gurgul and Lach (2013: 196-199) demonstrate that propensity for a government change, especially for a major one, has a robust and negative influence over growth rates. Hence, they conclude that frequent changes in political environment that enhance political uncertainties are inimical to development process of transition countries.

All in all, considering empirical results suggested by previous studies reveals two main issues. First, it can be said that empirical studies that investigate the relationship between liberal institutions, i.e. free markets and democratic regimes, and economic performance are far from providing a clear understanding of economic effects of institutional arrangements. For example, although previous studies generally imply a robust and positive relationship between economic freedom and economic progress, the question of which specific liberalization areas contributes more to development still remains unanswered, as different papers have reported different results up until today. The impact of democratization (or liberalization in political sphere) on economic prosperity is a much more complicated issue, since both theoretical and empirical studies have not reached any consensus on the significance as well as direction of the relationship between these two variables. In this regard, it is safe to say that empirical interactions between liberal institutions and economic development have not been examined thoroughly in literature yet.

Second, previous studies mostly conduct empirical analyses by using pooled data of a number of countries without taking regional or developmental differences into account. In addition to this, even some studies carry out analyses by directly concentrating on specific country groups or regions, they generally fall short of providing sufficient information on cross-regional or cross-country disparities. Indeed, up to today, there has not been any empirical study that presents detailed evidence on economic consequences of particular neoliberal policies and institutional arrangements in different regions. On that account, one can clearly state that earlier studies generally come short of examining impacts of regional as well as country-specific factors on the relation between liberalization process and economic development.

These two shortcomings of earlier studies reveal that there is still need for new empirical studies. Within this context, this thesis aims to contribute existing literature by providing further and deeper evidence on developmental impacts of neoliberal institutions. In Chapter 3, empirical results based on panel data analyses and their interpretations are presented to give insight into that subject. Before this, next chapter introduces the data and methodology used in empirical analyses.

CHAPTER TWO
DATA AND METHODOLOGY

2.1. DATA AND DESCRIPTIVE ANALYSIS

This section introduces the dataset used in empirical analyses and presents some descriptive statistics to give insight into the relationship between economic development and liberalization process. As mentioned before, the primary concern of this thesis is testing the hypothesis that whether the construction of liberal institutions, namely, free markets and democracy, helps countries to achieve higher economic prosperity. For that purpose, this thesis employs a large dataset that comprise data of 185 countries over the period 1995-2013. Table 1, presents the list of variables used in empirical analyses and their mathematical definitions.

Table 1: The Set of Variables Used in Empirical Analyses

Dependent Variable	**Definition**	**Source**
Relative Income (RI_{it})	(per capita GDP_{it}) / (per capita GDP_{USt})	IMF Database
Independent Variables	**Definition**	**Source**
Trade Openness ($TRDOPEN_{it}$)	($Import_{it}$ + $Export_{it}$) / GDP_{it}	Worldbank Database
Financial Deepening (FD_{it})	$M2_{it}$ / GDP_{it}	Worldbank Database
Gross Capital Formation ($CAPITAL_{it}$)	Gross Capital $Formation_{it}$ / GDP_{it}	Worldbank Database
Political Freedom ($POLFREE_{it}$)	(Political Rights (PR) $Rating_{it}$ + Civil Liberties (CL) $Rating_{it}$) / 2	The Freedom House Database
Economic Freedom ($ECOFREE_{it}$)	Overall Economic Freedom $Score_{it}$	The Heritage Foundation Database
Rule of Law ($RULE_{it}$)	(Property Rights $Score_{it}$ + Freedom from Corruption $Score_{it}$) / 2	The Heritage Foundation Database
Limited Government ($LMTDGOV_{it}$)	(Fiscal Freedom $Score_{it}$ + Government Spending $Score_{it}$) / 2	The Heritage Foundation Database
Regulatory Efficiency ($REGEFF_{it}$)	(Business Freedom $Score_{it}$ + Monetary Freedom $Score_{it}$) / 2	The Heritage Foundation Database
Open Markets ($OPENMRKT_{it}$)	(Trade Freedom $Score_{it}$ + Investment Freedom $Score_{it}$ + Financial Freedom $Score_{it}$) / 3	The Heritage Foundation Database

As shown in the table, the Relative Income (RI_{it}) ratio, which is defined as proportion of a particular country's per capita GDP level to that of United States

(US), is employed as a dependent variable in empirical model. In the literature, most of the studies have used growth rates or per capita income levels to measure economic performance of countries (Scully, 1988: 657-660; Barro, 1994: 5-25; De Vanssay and Spindler, 1994: 362-366; Ayal and Karras, 1998: 329-334; Farr et al., 1998: 252-257; Dawson, 2003: 484-489; Gwartney et al., 2006: 260-265; Justesen, 2008: 645-657; Cebula and Clark, 2014: 5-24). However, these variables generally fall short of providing sufficient information about nations' economic development process, since they only reflect absolute changes in a country's income level without considering performance of others. That is, they do not contain any direct information about a country's relative development performance. For that reason, using growth rates or per capita GDP levels may not be an appropriate way to evaluate cross-country differences in economic development process. In this regard, this thesis proposes normalized income levels as a proxy for countries' economic performance. As illustrated in the table, each country's income level is subjected to a standardization procedure by using per capita GDP level of the US. The main rationale behind following such a procedure is gauging countries' *real* development performance over time. Since, relative income ratio standardizes income figures across nations and captures only relative changes, it makes it possible to carry out evolutions of how successful a particular country is in increasing its income level compared to the US as well as to other countries, which reflects its actual development pace. In other words, using rescaled income levels enables one to directly observe whether the convergence gap among nations is *really* widening or closing, or whether an individual country or a specific region is *really* outperforming its counterparts within the context of economic progress. In this respect, relative income variable provides a more practical and detailed information about development patterns of countries than simple growth rates or income figures. As a consequence, unlike majority of the previous works that have used traditional economic measures, this thesis performs empirical analyses by using relative income level of nations as an indicator of economic performance.

Subsequent to the relative income ratio, Table 1 introduces independent variables that are used as determinants of economic development. The first three of them, namely, $TRDOPEN_{it}$, FD_{it} and $CAPITAL_{it}$, are the standard control variables that are included into model inasmuch as many previous studies have shown that these variables have some explanatory power on countries' economic performance (Ayal and Karras, 1998: 331-335; Nelson, and Singh, 1998: 685-690; Gwartney etal., 1999: 646-654; Doucouliagos and Ulubasoglu, 2006: 72-78; Klein and Olivei, 2008: 871-874; Hassan, 2011: 92-100). The $TRDOPEN_{it}$, which indicates a country's openness degree to international trade activities, is measured as a percentage of total trade volume in GDP. This variable is plugged into the model to examine whether higher degree of participation to international trade activities bring better development performance to nations via enhancing competitiveness and efficiency of their domestic sectors, as suggested in liberal doctrine. The second variable, $FD_{it,}$ stands for financial development, which is computed as proportion of money and quasi money (M2) to GDP. Empirical model comprises this variable to assess the role of financial sector development in economic progress. Last variable that is incorporated into empirical framework as a control variable is the $CAPITAL_{it}$ that measures a country' gross capital formation level. From the standpoint of growth theories, investment in physical capital is seen as an integral part of economic growth. To date, this presupposition is widely supported by empirical studies that have reported a significant and positive relationship between investment level and economic performance. Correspondingly, this thesis employs $CAPITAL_{it}$ variable to evaluate the impact of physical investments on economic development as well as to keep away from a possible omitted variable problem, which may influence regression results unfavorably.

The remaining variables in Table 1 deserve more comprehensive introduction since they represent institutional characteristics of economies-the core subject of this study. In this thesis, two main variables, namely political freedom ($POLFREE_{it}$) and economic freedom ($ECOFREE_{it}$), are incorporated into empirical model to be able to examine the role of liberal institutional arrangements in countries' development performance. The political freedom variable, which is created by using data published by the Freedom House, represents a country's institutional quality in political realm. The underlying reasoning of employing $POLFREE_{it}$ is testing the neo-institutionalist hypothesis that supposes democratic political regimes are associated with higher economic performance as they lay the groundwork for an institutional structure that brings along more inclusive practices in economic sphere. For that reason, the coefficient of political freedom variable is of particular importance, as it directly reveals whether institutional quality in political environment matters for economic development. As shown in the table, this variable is constructed by averaging each country's political rights (PR) and civil liberties (CL) ratings. The Freedom House's survey on PR and CL assigns countries a numerical score for each category, which varies between 1 and 7, with 1 representing the highest freedom level and 7 implying the lowest. Since the $POLFREE_{it}$ variable is the average of PR and CL ratings, it also ranges from 1 to 7, with lower ratings pointing out a more democratic political environment and higher scores denoting a more restricted political structure. Using terminology of Acemoglu and Robinson (2013), smaller $POLFREE_{it}$ scores indicate that citizens of a country live in a more "*inclusive*" political environment, while higher scores contrarily imply a political structure that is shaped under a more "*extractive*" institutional framework.

The second variable that is related to institutional structure is the Heritage Foundation's Index of Economic Freedom, which quantifies liberalization degree of countries' economic environment. In this index, the overall freedom level of a country is determined by using ten different aspects of freedom: property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labor freedom, monetary freedom, trade freedom, investment freedom and financial freedom. The composite freedom index for each country is computed by simply averaging individual scores of these ten components. The summary index as well as each of its underlying elements is measured on a scale ranging from 0 to 100, with higher numbers representing a more market-friendly economic structure. That means, the higher the freedom score is, the greater the degree of liberalization in the economy (The Heritage Foundation, 2013: 477-488).

The $ECOFREE_{it}$ variable is integrated into empirical model to address one of the main questions of this thesis: Do liberalization of economic structure and construction of market-friendly institutions make any meaningful contribution to countries' economic well-being? Although answering this question, per se, is of vital importance since it will help to demonstrate that whether liberalization practices are of no avail or relevant, using only composite freedom index as a proxy for institutional framework does not shed light on the fact that which aspects of economic freedom are more conducive to economic development. In this respect, to gain further insight into the relationship between economic freedom and development as well as to examine the marginal impact of particular policies and institutional arrangements on countries' economic performance, this thesis put four different freedom measures into empirical analyses in addition to summary index. Each of these measures and their definitions are illustrated at the lower part of Table 1. As indicated in the table, all four sub-indices are demonstrated by using ingredients of overall freedom index. The calculation of each sub-indices as well as the classification of underlying components are done by following Heritage Foundation' broader categorization scheme that focus on four fundamental dimensions of economic structure. The first sub-index that appears in Table 1 is the $RULE_{it}$ that is defined as a combination of property rights and freedom from corruption indices. This variable simply measures the effectiveness level of a country's legal and bureaucratic system. Since many institutionalist economists underline the importance of effective legal and bureaucratic systems in facilitating economic activities, $RULE_{it}$ is expected to have a positive impact on economic development measure.

The second sub-index, $LMTDGOV_{it}$, is related to size of government involvements in the economy. As shown in the table, this variable is generated by averaging fiscal freedom and government spending scores, and measures the freedom degree of an economy from state-led burdens. On the contrary to $RULE_{it}$, the expected sign of $LMTDGOV_{it}$ is ambiguous as there is no consensus in literature on the optimal size of government. However, it should be noted that since many liberal economists think that high degree of government involvement in the economy causes market distortions and depresses private activities by increasing burden of taxes, one could anticipate a positive relationship between limited size of government and economic development.

The $REGEFF_{it}$ that stands for the level of regulatory efficiency in business environment and monetary policy is the third sub-index used in empirical model. Although Heritage Foundation defines regulatory efficiency by including labor freedom index besides these two indices, this thesis only considers business freedom and monetary freedom scores to construct $REGEFF_{it}$ variable in so far as data on labor freedom is only available after 2005. From the neoliberal point of view, $REGEFF_{it}$ is expected to enter into equation with a positive sign, as free business environment that is supported by a low level of inflation tend to provide a favorable setting for private investments and economic activities.

The last sub-index is the $OPENMRKT_{it}$, which is composed of trade freedom, investment freedom and financial freedom indices. This variable is used as a proxy for the level of freedom from restrictions on international trade and capital flows as well as from government interference into financial markets. Due to the fact that liberal doctrine suggests restrictions on free flow of goods, services, capital and finance creates economic inefficiencies by distorting allocation of resources, one may presume a positive association between $OPENMRKT_{it}$ score and economic development. However, this assumption may not be appropriate since some economists have documented consequential losses of full-scale liberalization in trade and capital accounts (Gamra, 2009: 400-401). On that account, similar to $LMTDGOV_{it}$, a priori sign of $OPENMRKT_{it}$ is quite ambiguous.

Finally, as stated before, one of the fundamental objectives of this thesis is identifying regional differences in liberalization and development nexus. In line with this aim, countries are categorized into seven geographical regions following WB classification and panel regressions are run separately for each region as well as for all country dataset.[3] Although following such a procedure is open to criticism, as countries that belong to a particular region do not necessarily have identical economic structures or development patterns, it enables one to observe economic consequences of liberalization process in different regions, and thereby provides further information about neoliberal development strategies. Moreover, using such a strategy makes it possible to draw some inference about role of regional factors such as culture, traditions, socioeconomic structure or historical experience in effectiveness of institutional arrangements. Correspondingly, this thesis conducts empirical analyses by classifying countries according to their geographical location with the intention of building on existing literature.

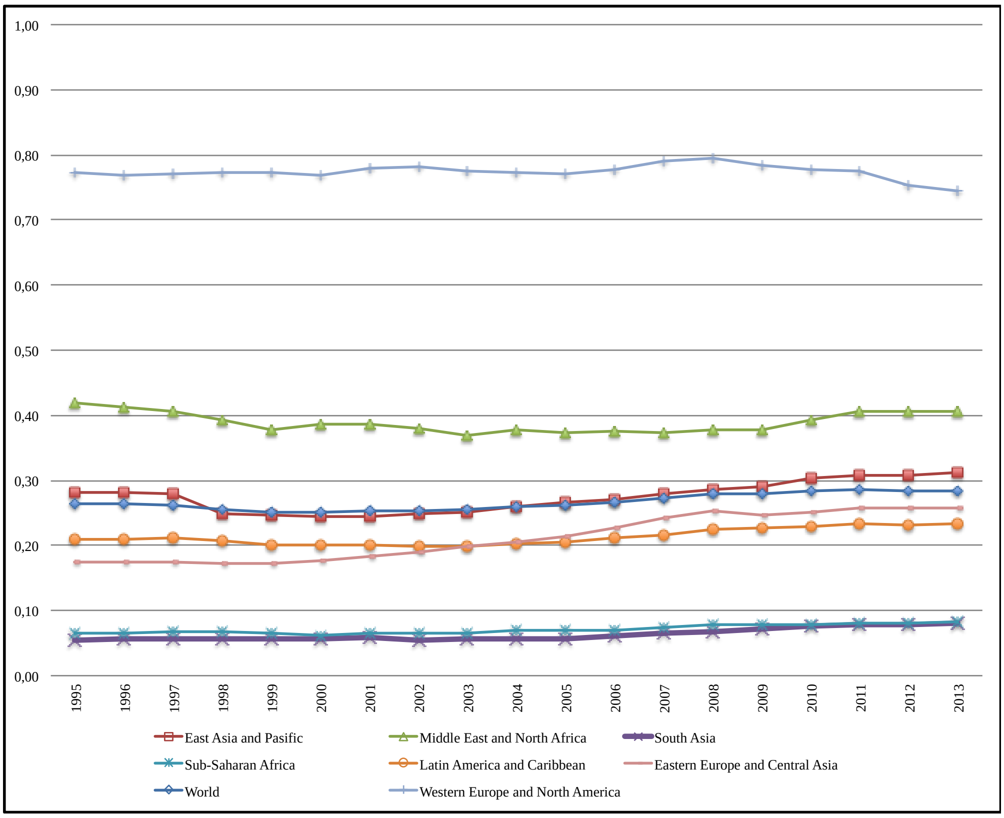
[3] The list of countries and their regional classifications are presented in Appendix Table 1.

Before introducing methodological issues and the results obtained by panel estimations, it is fruitful to discuss descriptive characteristics of raw data to explore interactions between liberal institutions and economic performance. In line with that purpose, following lines give wide coverage to descriptive analyses of data on some of the key variables.

Figure 1 depicts average relative income level of each region for the period 1995-2013. As illustrated in the figure, relative income level varies substantially across regions. While Western Europe and North America (WENA) region has recorded a period-average income ratio at around 0.80, Sub-Saharan Africa (SSA) and the South Asia (SA) regions, respectively, has an income ratio lower than 0.10. Moreover, Figure 1 indicates that only two regions, namely Western Europe and North America, and Middle East and North Africa (MENA) regions, have consistently higher income levels than world average. In particular, the mean income level of WENA region is approximately two and a half times more than the global average, and almost two times more than the second richest region, MENA, suggesting a large income inequality across regions. The East Asia and Pacific (EAP) region that has an income ratio equal to 0.27 is the third richest region in the world. The Latin America and Caribbean (LAC), and Eastern Europe and Central Asia (EECA) regions, which respectively records slightly lower income levels than global average, come immediately after EAP region. As expected, Figure 1 reveals that the Sub-Saharan Africa and the South Asia are the poorest regions in the world. The period-average relative income ratio of both regions is almost four times less than the world average and accounts only one-tenth of the mean income level of WENA countries. Overall, the figure demonstrates that there are large income differences between different parts of the world.

Furthermore, Figure 1 also shows that development performance of regions is not homogenous over the same period. Between 1995 and 2013, five of seven regions have experienced an increase in their relative income ratio while the remaining two have recorded a fall. Among all regions, EECA region shows the most successful development performance by increasing its relative income ratio from 0.17 in 1995 to 0.26 in 2013, almost a fifty percent rise in living standards. The EAP, which has increased its relative income level by more than 3 points, is the second most successful region in the world. In comparison to the EECA and the EAP regions, the LAC, the SSA and the SA regions have shown relatively moderate development performance. The relative income ratio has ascended by 2.5 points in Latin America and Caribbean region, and has increased by slightly lower than 2 points in both Sub-Saharan Africa and South Asia regions. On average, the relative income level of the world has shown a step up as well. The world's average income ratio has risen by 2 points, from 0.26 to 0.28 between the years 1995 and 2013. Contrary to these facts, the WENA and the MENA regions have experienced a downfall in their relative income levels during the same period, while the decrease was more significant for the former one. The relative income ratio of the WENA and the MENA, the two richest regions, has fallen from 0.77 and 0.42 in 1995 to 0.74 and 0.41 in 2013, respectively.

Figure 1: Relative Income Ratio, 1995-2013, by Regions[4]



[4] All figures presented in this chapter are based on author's own calculations

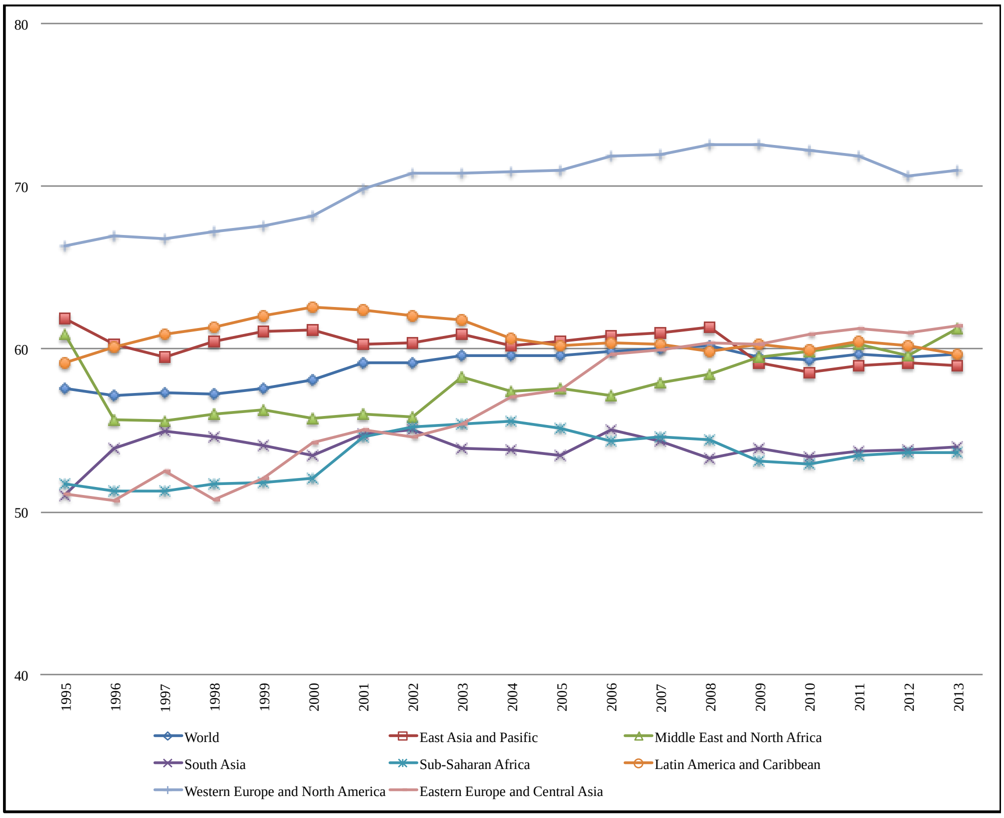
These evidences suggest that there is convergence among relatively developed and underdeveloped regions of the world between 1995 and 2013, at least when measured by relative income ratio. While richer nations' average income level has decreased over time, the relatively poor regions have managed to grow faster than both the US and other relatively developed regions and thereby have ascended their income levels. However, Figure 1 shows that income convergence mostly emerges after 2007, when the global economic crisis hit most of the developed countries. Before 2007, majority of the regions' relative income level was either lower than or equal to the level recorded in 1995, except for Eastern Europe and Central Asia region, which had already succeeded to enhance its income level by 7 points until that year. Briefly, this evidence implies that most regions do not experience any rapid catch up process between 1995 and 2007. For that reason, it should be noted that convergence phenomenon illustrated in Figure 1 is partly assisted by the faltered growth performance of the developed world in the aftermath of the global crisis.

Besides income levels, institutional characteristics of regions are examined as well. Figure 2 and Figure 3 depicts economic and political freedom scores for different regions, respectively. Similar to Figure 1, both of these figures demonstrate that there are considerable variations in institutional structure on regional basis.

Figure 2 shows the economic freedom level of regions over the 1995-2013 period. According to this figure, the WENA region has the highest economic freedom level in the world. The period-average economic freedom score of the WENA region is 70, which is 10 points higher than any other regions, suggesting countries in this region have the most inclusive economic environment in the world. Besides WENA, the period-average economic freedom scores of other regions are mostly clustered between the range of 50 and 60. The EAP and the LAC regions, which respectively have an average freedom score at around 60, come after the WENA region. Again, one can observe that the SSA and the SA regions have the most exclusive economic environment in the world. The average freedom score of these two regions are generally lower than the global average as well as than the score of other regions.

The most noticeable fact emerging from Figure 2 is the rapid liberalization experience of Eastern European and Central Asian countries. In 1995, the freedom score of this region was only 51.1, the second lowest score among regions. By 2013, however, the average freedom measure has risen to 61.4, an increase more than 10 points over the course of less than two decades. Following this sharp change in the economic environment, EECA becomes the second freer region in the world in 2013.

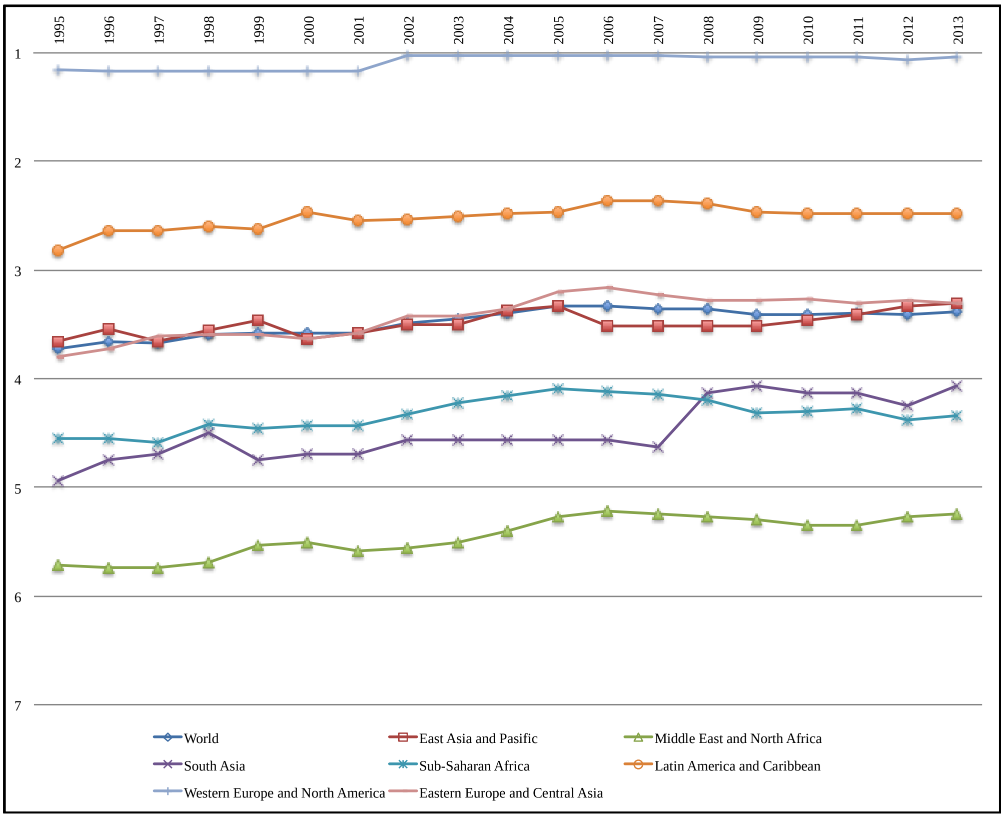
Figure 2: Economic Freedom, 1995-2013, by Regions



In general, Figure 2 points out that there is an ongoing liberalization process in the world economy. As shown in the figure, average freedom score of the world has increased by 2 points (from 57.6 to 59.6) between 1995 and 2013. In addition to this, all regions except EAP has recorded higher freedom scores in 2013 compared to 1995. This fact reveals that liberal applications are not only limited to a particular area or a country group; instead, all regions in the world has experienced almost the same liberal transformation period, although the speed and extent of liberalization varies with regions.

Along the same lines of Figure 2, Figure 3 shows the average political freedom ratings for seven regions during the 1995-2013 period. In analogy to above findings, Figure 3 demonstrates that WENA region has the most democratic political environment in the world. The period-average political freedom rating of this region is almost equal to 1, the highest possible degree of freedom in political sphere. Once again, this evidence indicates that Western nations have the most inclusive political structure among other countries. The LAC region, which has a period average equals to 2.5, is the second freer region within the context of political realm. The remaining five regions that follow the WENA and the LAC regions have relatively undemocratic political structures. Among these five regions, the Middle East and North Africa region has recorded the worst political freedom scores between 1995 and 2013. Although there are some improvements lately, the period-average freedom rating is approximately equal to 5.4, implying a highly restricted and undemocratic political structure according to categorization scheme of Freedom House.

Figure 3: Political Freedom, 1995-2013, by Regions



When democratization process of regions is scrutinized, the performance of South Asian countries catches the attention. The average political freedom score of this region has decreased from 4.9 in 1995 to 4.1 in 2013, pointing out a significant progress in political environment. Although not as striking as SA region, all other regions have also improved their institutional quality in political sphere over the last two decades. As a consequence, it can be stated that the world as a whole becomes more democratic between 1995 and 2013, although the degree of democratization is not homogenous across regions and countries.

After presenting regional differences in institutional framework and economic structure, the next step will be to analyze interactions between some of the key variables. In order to do that the pairwise correlations between institutional measures and economic development are calculated. Table 2 presents computed figures for each region over the 1995-2013 period. To provide convenience in interpretation, the calculated correlations between relative income (RI) and political freedom (PF) as well as between political freedom (PF) and economic freedom (EF) are multiplied by (-1). Hence, a positive correlation coefficient appeared in Table 2 always points out a positive relationship between variables under consideration.

Table 2: Correlations Between Key Variables, 1995-2013, by Regions

Region	**Cor (RI-EF)**	**Cor (RI-PF)**	**Cor (EF-PF)**
World	0.52	0.53	0.91
East Asia and Pacific	-0.64	0.40	-0.48
Middle East and North Africa	0.31	-0.41	0.50
South Asia	-0.09	0.87	0.06
Sub-Saharan Africa	0.18	0.36	0.83
Latin America and Caribbean	-0.69	0.28	0.00
Western Europe and North America	0.29	0.15	0.88
Eastern Europe and Central Asia	0.97	0.85	0.90

The hypothesized signs for pairwise correlations between income ratio and institutional measures are positive, since theoretical approaches claim that inclusive institutional arrangements-either in economic or political environment-are associated with better economic performance. In a similar vein, the anticipated sign for the correlation between economic freedom (EF) and political freedom (PF) is positive as well, as many institutionalist economists propose that better political institutions bring along more inclusive structure in economic environment.

In general, the figures presented in Table 2 suggest that economic performance is generally associated with better institutional structure. Moreover, there is evidence of a positive relationship between democratization and economic liberalization. But, Table 2 also shows that the sign as well as the magnitude of correlation coefficients is not homogenous across regions, suggesting that regional differences play a decisive role in determining the relationship between institutional structure and economic development.

In order to provide convenience in analyses and facilitate cross-regional comparison, pairwise correlations shown in Table 2 are displayed as bar charts in Figure 4, 5 and 6 respectively.

Figure 4: Correlation Between Relative Income and Economic Freedom, 1995-2013, by Regions

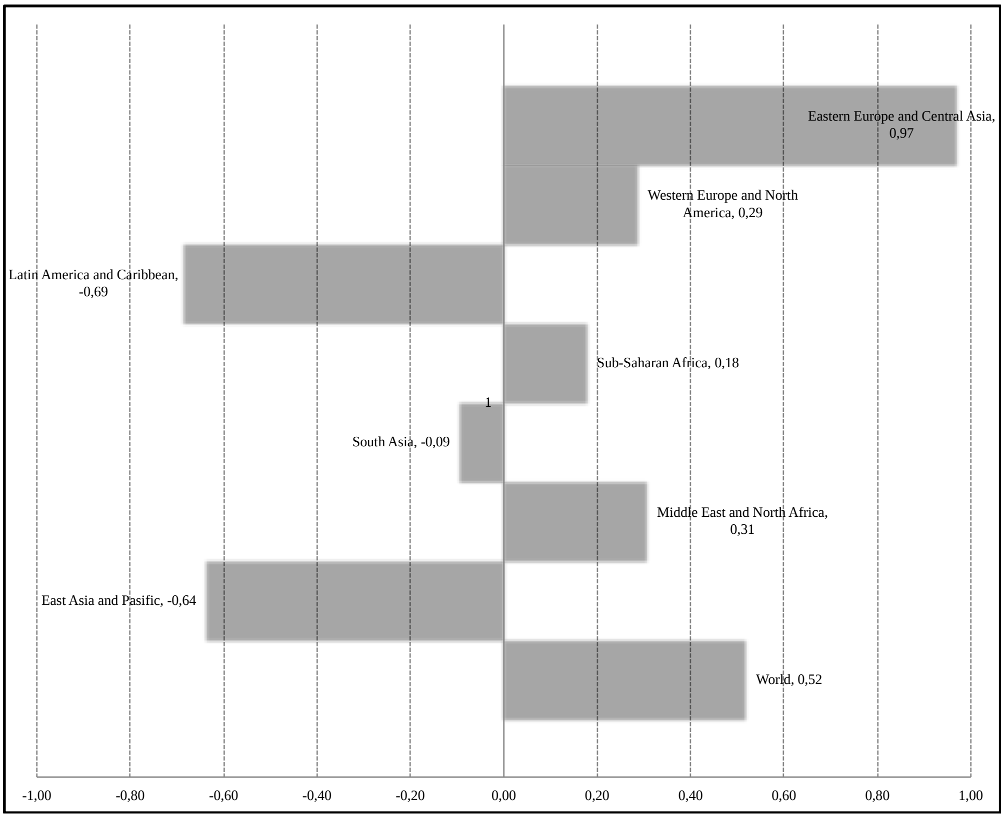
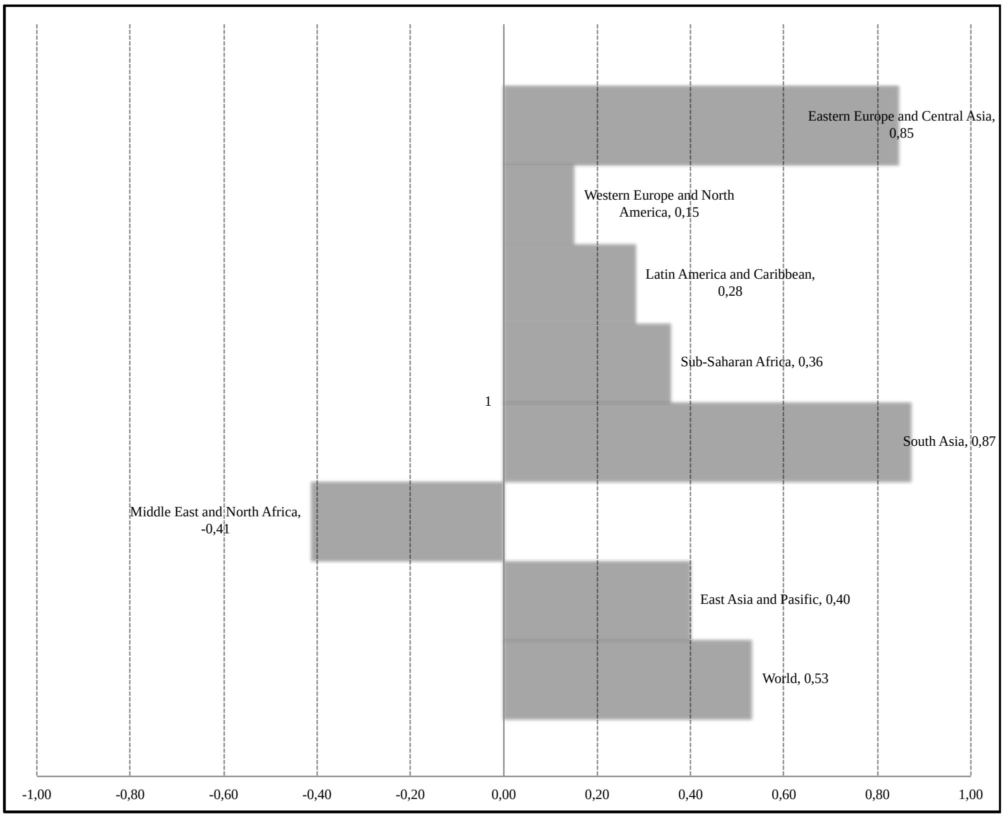


Figure 4 depicts the relationship between relative income ratio and economic freedom for each of the seven regions and the world as a whole. As the figure illustrates, there is a strong relationship between the extent of economic freedom and income level in the world. The pairwise correlation computed for the entire population of countries is 0.52, indicating that liberalization of economic structure and economic development is positively related to each other. However, the figure shows that there are some differences on regional basis. To illustrate, the correlation between relative income and economic freedom is positive only in four out of seven regions, suggesting that liberalization process does not always go hand in hand with economic development. Additively, the strength of this relationship is also region-sensitive. While some regions provide evidence of a highly strong collaboration between economic freedom and development performance, i.e. EECA region (cor = 0.97), others report that this relationship is relatively weak, i.e. SSA region (cor = 0.18). Furthermore, data on some regions imply that economic liberalization is associated with lower relative income ratios. For instance, there is a considerably negative relationship between RI and EF in the LAC region (cor = -0.69) as well as in the EAP region (cor = -0.64).

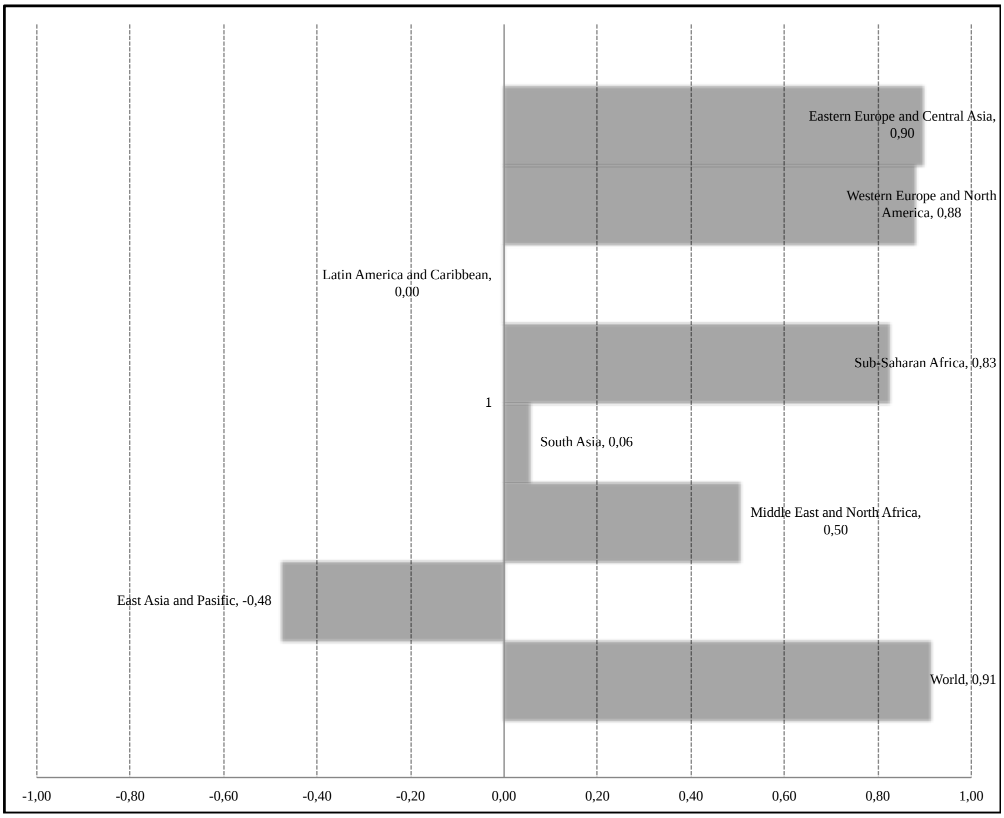
Quite differently from Figure 4, Figure 5, which displays the relationship between relative income level and political freedom, reveals that there is a well-established association between democratization and economic development. As the figure indicates, among seven regions, only MENA region implies a negative relationship between democratization and economic performance. The other six regions show supportive evidence for the view that more inclusive political environment is associated with higher income level. Of these six regions, SA and EECA regions have the highest correlation coefficient (0.87 and 0.85 respectively), reflecting a close relationship between political freedom and economic development in recent years. The EAP, the SSA, the LAC and the WENA regions follow these two regions in sequence, whereas the WENA region has the lowest correlation coefficient. These evidences imply that initial level of democracy is a key determinant for the nexus between democracy and development. In Figure 4, it is illustrated that the two most democratic regions, namely WENA and LAC, have the lowest correlation coefficient, suggesting that more political freedom after a threshold level does not contribute to development process as much as it does before. Moreover, evidence implies that democratization of the political environment in partly free regions such as EECA, SA, SSA and EAP are generally associated with better economic performance, supporting the idea that enhancing freedoms in a relatively autocratic regime is conducive to economic development. All in all, Figure 5 indicates that political freedom and economic development has a positive relationship, in line with the expectations of institutionalist economists.

Figure 5: Correlation Between Relative Income and Political Freedom, 1995-2013, by Regions



The relationship between two institutional variables, economic freedom and political freedom, is depicted in Figure 6. As shown in the figure, there is a strong and positive relationship between economic and political freedom in the world. Taking all countries into account, the pairwise correlation between these two institutional variables is computed as 0.91, which divulges the fact that neoliberal restructuring process in economic and political sphere has been going hand in hand over the last two decades. However, the most apparent fact emerges from this figure is that there are sharp differences between geographical regions. In some parts of the world, including EECA, WENA and SSA, evidence implies a strong relationship between economic liberalization and democratization, whereas in other regions such as LAC and SA, pairwise correlations do not suggest any considerable interaction between these two freedom proxies. More than that, some regions, i.e. EAP region, show that there is a negative relationship between democratization of political structure and economic freedom, confirming the fact that most countries in EAP region have been applying inclusive economic policies under relatively autocratic regimes.

Figure 6: Correlation Between Economic Freedom and Political Freedom, 1995-2013, by Regions



Broadly speaking, results based on correlation analyses show that when entire population of countries is considered, there is evidence of a positive relationship between liberalization indicators and economic performance. Additively, it is documented that two freedom types are generally supportive to each other: higher the liberalization degree in economic environment, more the level of freedom in political realm. On the other hand, analyses conducted on regional basis demonstrate that these results are not robust for particular regions in the world. As presented in Table 2, the sign and magnitude of correlation coefficients are sensitive to regional changes. While some regions show a significant and positive association between institutional reforms and development performance, others indicate a little or negative correlation between these variables. In sum, these findings imply that regional differences play some role in development process. As shown above, one-size-fits-all type liberalization in political and economic structure, which generally ignores role of region-specific factors, does not always bring along better development performance to countries. Accordingly, it can be said that correlation analyses provide supportive evidence for one of the main hypothesis of this thesis that suggests standardized liberalization practices, which do not take regional differences into account, may fall short of generating expected development thrust.

Up to this point, analyses generally lay stress on the role of regional differences in economic and institutional development. Although this type of analysis is useful, it provides little evidence on the relationship between liberal practices and development performance, since countries in the same geographical region show significant variation in terms of their economic and political structures. Hence, conducting analyses on regional basis does not shed light on the fact that whether liberal institutional arrangements are supportive to economic development. On that account, analyses are elaborated below by using several institutional categorization schemes to gain further insight into the relationship between institutional foundations and economic development.

By classifying countries with respect to their degree of economic liberalization, Table 3 presents some evidence on the nexus between development performance and economic structure. In this table, countries are divided into two groups, namely economically free and unfree, according to their overall economic freedom score. Since Heritage Foundation categorizes countries with freedom score lower than 60 as "*mostly unfree*" or "*repressed*", and countries with freedom score higher than 60 as "*moderately free*", "*mostly free*" or "*free*", the cutting line between free and unfree economies is determined as 60. Hence, in this analysis a nation is considered as a free economy when its freedom score of a particular year is higher than 60, and is considered as an unfree economy when its freedom score of a certain year is lower than this threshold value. To compare economic performance of free and unfree countries, average relative income ratio of each group is calculated separately over the 1995-2013 period. Results are summarized below.

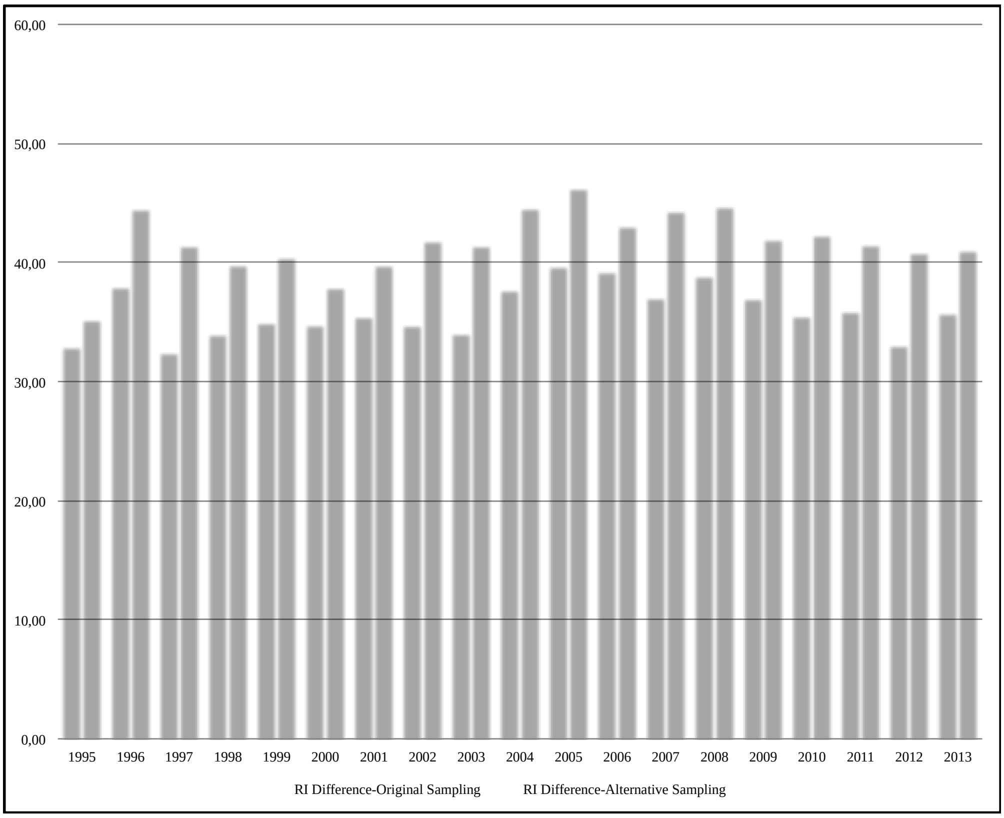
Table 3: Relative Income Ratio and Economic Freedom, 1995-2013

Year	Average RI Ratio All Countries	Average RI Ratio Economically Free Countries	Average RI Ratio Economically Unfree Countries	RI Difference Between Free and Unfree Countries
1995	25.71	43.21	10.27	32.94
1996	29.27	49.13	11.16	37.97
1997	28.06	45.57	13.11	32.45
1998	26.43	44.94	10.94	34.00
1999	26.39	44.47	9.46	35.01
2000	26.66	44.85	10.03	34.83
2001	27.82	44.86	9.38	35.49
2002	27.88	45.94	11.18	34.75
2003	27.89	45.69	11.63	34.06
2004	28.43	48.90	11.17	37.72
2005	28.60	50.67	10.94	39.73
2006	28.84	49.10	9.84	39.26
2007	29.61	48.51	11.44	37.07
2008	30.23	49.06	10.14	38.92
2009	28.30	48.07	11.06	37.01
2010	28.63	46.61	11.07	35.54
2011	28.97	46.63	10.69	35.94
2012	28.70	44.95	11.88	33.07
2013	28.77	47.28	11.49	35.80

The first impression emerging from Table 3 is that there are large income disparities between free and unfree countries. According to figures shown in the table, average income level of free countries as a group is four times more than the average income level of unfree countries. In addition to this, during the whole period free nations have shown consistently higher income ratios compared to global average, whereas economically unfree countries have recorded significantly lower ratios than an average country in the world. Besides these disparities in the level of development, the speed of economic progress in free and unfree countries is also quite different from each other. Figures imply that freer countries have shown much better development performance compared to their unfree counterparts between 1995 and 2013. While free countries' average relative income ratio has increased from 43.21 in 1995 to 47.28 in 2013, economically unfree nations have recorded a relatively gaunt rise from 10.27 to 11.49 in the same period. Depending on these numbers, the income gap between these two groups have widened as well. As shown in the last column of the table, the relative income difference between free and unfree nations have increased by almost 3 points (from 32.94 to 35.80), suggesting higher freedom levels help countries to achieve better development performance.

In order to check robustness of these findings as well as to control sampling biases, these figures are recalculated after removing nations that have economic freedom score between 57.5 and 62.5 from analysis. In general terms, results do not show any significant change.[5] Indeed, the income disparities between free and unfree nations become sharper after using this alternative sampling scheme (see Figure 7).

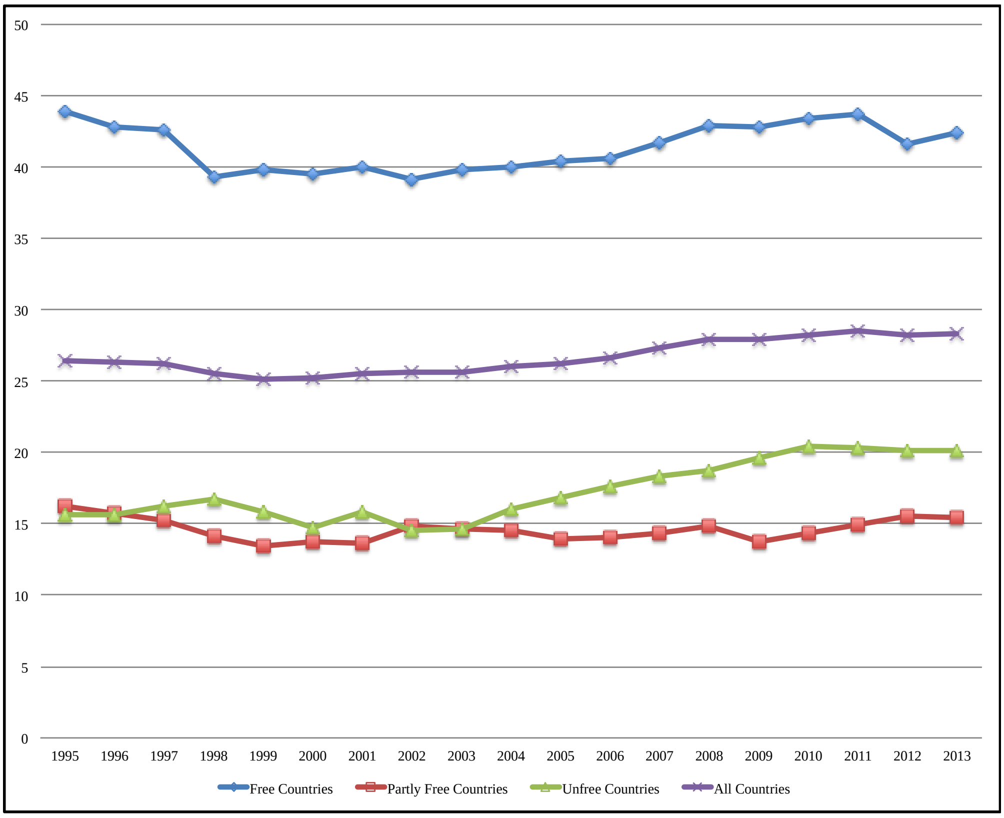
Figure 7: Relative Income Ratio Differences, 1995-2013, Free and Unfree Countries



[5] Results obtained by using period average freedom levels as a criterion to classify countries also demonstrate similar patterns (see Appendix Table 2 and 3).

In a similar manner, the relationship between political liberalization and economic development is examined as well. Figure 8 shows development performance of countries with respect to their level of freedom in political structure. This time, countries are classified into three groups according to their average political freedom ratings. Following Freedom House's classification scheme, countries that have an average freedom score between 1 and 2.5 is considered as free, whereas countries that have a freedom score between 5.5 and 7 is evaluated as unfree. The remaining countries, which have an average freedom score between 3 and 5, are classified as partly free nations.

Figure 8: Relative Income Ratio, 1995-2013, by Political Freedom Level



Similar to results presented above, Figure 8 demonstrates that institutional quality is positively related to economic development. As shown in the figure, free countries have better average income levels than partly free or unfree countries, implying that democratic political environment is supportive to economic development. Furthermore, results indicate that the period-average income level of this group is roughly 2.4 times higher than unfree countries, and almost 2.8 times higher than partly free countries, suggesting that democracy and development have a close relationship. However, the most interesting result appeared in Figure 8 is the success of politically unfree countries. According to results, unfree countries have recorded higher income ratios than partly free countries in 16 out of 19 years. In addition to this, development performance of unfree countries is much better than partly free countries over the period 1995-2013. The relative income ratio of unfree countries has increased by more than 4 points between 1995 and 2013, whereas partly free countries have recorded a fall at around 0.8 during the same period. These findings provide some support for the claim that autocratic regimes are more successful than moderately democratic regimes in terms of enhancing economic well-being when initial development level is relatively low. The development performance of democratic countries is also far from expectations. Indeed, this group of countries recorded the worst economic performance among other groups. Estimations imply that relative income ratio of politically free nations has decreased by 1.5 point between 1995 and 2013. Once again, this evidence suggests that after a certain point, democratization of political structure does not sustain rapid development performance. In fact, if a country is wealthy enough and has a solid democracy, expanding political freedoms may lower pace of economic progress.

In brief, descriptive analyses reveal three major facts. First, when entire population of countries in the dataset is considered, it is found that liberal institutions and economic development have a strong and positive relationship. In general, results based on correlation analyses imply that greater freedom in political and economic environment is associated with higher income levels. However, the direction and significance of this relationship is open to question since descriptive analyses do not provide any information about these issues. Second, there are large differences in institutional and economic structure across regions. Additively, evidence show that these regional differences matter for the relationship between liberal institutional arrangements and economic performance. Third, inclusive economic and political environment goes hand in hand with the level of economic development, although the relationship between the speed of economic progress and liberalization is quite complicated. But, evidence generally suggests that freedom in economic and political sphere is positively related to income levels. Once again, this finding should be evaluated by care since analyses fall short of determining the direction of this relationship.

Overall, descriptive analyses presented in this section provide some information about the nexus between economic and political freedom and economic development. However, these findings should be considered as a preliminary preparation to deeper analyses since simple correlations or categorization of cross-sectional units do not take other factors into account. That is, descriptive analyses shown here are mostly unconditional. To be able to examine the relationship between liberal institutional arrangements and economic development in a more formal way, one should use regression analysis, which controls impact of other factors as well. The following chapter aims to do that with conducting analyses based on dynamic panel models.

2.2. METHODOLOGY

In order to analyze the relationship between liberal institutional arrangements and economic development, this thesis employs an unbalanced panel data of 185 countries over the period 1995-2013. The baseline model that is constructed for panel estimations is as follows:

$$RI_{i,t} = \alpha_i + \beta RI_{i,t-1} + \delta X_{i,t} + \gamma POLFREE_{i,t} + \theta ECOFREE_{i,t} + \tau_t + \varepsilon_{i,t} \quad (1)$$

where $RI_{i,t}$ is the relative income ratio in country *i* at time *t*, $X_{i,t}$ is a vector of control variables including trade openness (TRDOPEN), financial development (FD), and capital formation (CAPITAL). $POLFREE_{i,t}$ is the indicator of political freedom level in country i at time *t*, $ECOFREE_{i,t}$ is the measure of the degree of economic freedom in country *i* at time *t*, and $\varepsilon_{i,t}$ is the error term. Additively, α_i and τ_t stands for country fixed and time fixed effects respectively.

This baseline model is estimated for pooled data as well as for each of the seven regions. From a liberal point of view, all coefficients except γ are expected to show positive sign. The coefficient of $POLFREE_{i,t}$ variable is supposed to be negative since increases in political freedom ratings points out less democratic political structure. However, as mentioned before, it is possible to observe negative or insignificant relationships between economic freedom variable and relative income ratio since regional factors play a decisive role in the nexus between liberal applications and economic performance.

Subsequent to estimation of this model, economic freedom variable is replaced by four sub-indices to analyze which types of liberal arrangements are more conducive to economic development. The augmented version of the baseline model is as follows:

$$RI_{i,t} = \alpha_i + \beta RI_{i,t-1} + \delta X_{i,t} + \gamma POLFREE_{i,t} + \emptyset F_{i,t} + \tau_t + \varepsilon_{i,t} \qquad (2)$$

where $F_{i,t}$ is a vector of sub-index variables including rule of law (RULE), limited government (LMTDGOV), regulatory efficiency (REGEFF), open markets (OPENMRKT). Along the same lines with model 1, equation 2 also includes a lagged value of relative income ratio, a set of control variables, and time and country fixed effects. Again, this model is estimated for each region as well as all country dataset. Similar to Equation 1, each variable but political freedom is expected to effect economic development positively. Once again, this is only due to liberal considerations. As discussed above, some components of economic freedom may show different signs or significance levels. Also, the impact of these variables can vary substantially across regions since differences in economic and institutional structure are quite large between particular regions and therefore may effect the sign and magnitude of the relationship as shown in descriptive analyses.

These dynamic models presented here are estimated by using system GMM (Generalized Method of Moments) technique proposed by Blundell and Bond (1998: 115-138). In the literature, it is revealed that dynamic panel models, in which the past values of dependent variable is included into the model as an independent variable, generally suffer from an endogeneity problem stemming from the correlation between lagged dependent variable and error term. In this respect, using ordinary least squares (OLS) methodology to estimate this type of models produces biased estimators of parameters. Due to the same considerations, employing random or fixed effects methods also remain incapable to report unbiased coefficients (Tatoğlu, 2013: 66-75).

The first remedy offered by previous studies to overcome this problem is applying a differencing procedure. Arellano and Bond (1991: 278-293) show that transforming level equation by taking first differences of each variable, and then, including past level values or the lagged differences of dependent variable into the model as instrument variables can control the endogeneity problem. However, this estimation method has some drawbacks as well. For instance, when the time period (T) is relatively short and the number of cross-sections is quite high (that is, when T < N) first difference transformation method causes loss of valuable information, especially in unbalanced panels (Klomp and De Haan, 2009: 316; Tatoğlu, 2013: 85-86; Roodman, 2009: 104). Also, differencing procedure drops time invariant regressors from models, which restrain researchers from estimating models with cross-sectional fixed effects. Moreover, studies show that if explanatory variables are not strictly exogenous or shows persistency over time, instrumenting them with their own lagged values would not solve endogeneity problem since the lagged values of these variables may still be correlated with error term (Klomp and De Haan, 2009: 316; Roodman, 2009: 104).

In order to overcome these problems, Blundell and Bond (1998) developed an estimation technique called system GMM. In this methodology, it is proposed that transforming instruments-rather than original regressors-is a more appropriate way to obtain variables that are exogenous to the fixed effects (Roodman, 2009: 114). More than that, their analyses reveal that constructing a model consisting of both transformed and untransformed variables, and estimating it as a unique system, leads improvements in efficiency of GMM estimator, especially in “small T, large N” unbalanced panels. Accordingly, they state that system GMM is more effective than Arellano-Bond type first-differenced GMM or than non-linear GMM approach for estimating dynamic panel data models with relatively short time period and large number of autoregressive variables (Blundell and Bond, 1998: 138).

Due to the fact that dataset employed in this thesis shows “small T, large N” features and previous studies show that system GMM is favorable to any other method to estimate dynamic models, this thesis employs system GMM approach to conduct empirical analysis on the relationship between economic development and liberal practices. The following chapter presents results based on this estimation procedure.

CHAPTER THREE
EMPIRICAL RESULTS

3.1. POLITICAL FREEDOM, ECONOMIC FREEDOM AND ECONOMIC DEVELOPMENT

Table 4 shows results of system GMM estimations for all country dataset as well as for each of the seven regions. Although year dummies are included into all regressions to control universal time effects, they are not reported in the table to save space. The numbers appeared in brackets stand for estimated standard errors for each coefficient.

The second column of Table 4 reports estimation outcomes for pooled dataset. In line with the expectations, all regressors except financial development have positive sign. In addition, each coefficient is statistically significant at 1 percent level. As it is shown in the table, lagged value of relative income ratio has significantly positive impact on the dependent variable, implying persistency of economic development process. In particular, this finding indicates that economic development process is highly dependent on the previous level of development. If a country has a high-income level in advance, it is more likely for it to record better income ratios in the following years, which is logical in economic sense. Besides lagged values of dependent variable, Table 4 shows that trade openness and capital formation, respectively, has a strong and positive relationship with relative income ratio. The positive and significant coefficients of these variables demonstrate that participating in international trade activities along with investing in physical capital enhances income level of countries, and thereby supports their economic development process. Quite contrarily but not surprisingly, estimations point out that financial development (or deepening) is negatively related to relative income ratio. This evidence suggests that developing a sophisticated financial sector does not foster economic development; indeed analysis implies just the opposite: financialization of economy hampers development process.

Table 4: Political Freedom, Economic Freedom and Relative Income Ratio, Regression Results by Regions (System GMM)

Region/Variable	World	East Asia and Pasific (1)	Middle East and North Africa (2)	South Asia (3)	Sub-Saharan Africa (4)	Latin America and Caribbean (5)	Western Europe and North America (6)	Eastern Europe and Central Asia (7)
L.1 RI	.93879 ***	.97354 ***	.91981 ***	1.05293 ***	1.05923 ***	1.12587 ***	.98656 ***	1.06968 ***
	(.01411)	(.01670)	(.02098)	(.00728)	(.0132754)	(.02918)	(.00801)	(.01239)
TRDOPEN	.00036 ***	.00017 ***	-.00062 ***	.00001	.00016 ***	.00014 ***	.00002	.00006 *
	(.00003)	(.00003)	(.00019)	(.00001)	(.00003)	(.00004)	(.00004)	(.00003)
FD	-.00015 ***	-.00002	-.00059 ***	-.00003 ***	-.00007	-.00021 ***	.00011 ***	-.00045 ***
	(.00004)	(.00004)	(.00011)	(.00001)	(.00006)	(.00005)	(.00002)	(.00009)
CAPITAL	.00084 ***	-.00001	.00152 ***	.00013 ***	.00024 ***	.00044 ***	.00188 ***	.00075 ***
	(.00010)	(.00018)	(.00053)	(.00003)	(.00008)	(.00016)	(.00031)	(.00010)
POLFREE	-.00354 ***	-.00382 ***	-.00188	-.00006	-.00021	.00466 ***	-.00739 *	.00007
	(.00040)	(.00098)	(.00190)	(.00012)	(.00041)	(.00141)	(.00382)	(.00078)
ECOFREE	.00061 ***	-.00014	.00237 ***	-.00021 ***	-.00020 **	-.00036 ***	-.00017	-.00022 ***
	(.00019)	(.00037)	(.00048)	(.00004)	(.00008)	(.00012)	(.00014)	(.00006)
Wald chi2(22)	501570.47 ***	158659.54 ***	15139.62 ***	71719.79 ***	17693.65 ***	51000.37 ***	61355.84 ***	87359.23 ***
Arellano-Bond (AR1)	-14.59 ***	-4.30 ***	-6.03 ***	-2.66 ***	-5.48 ***	-5.74 ***	-4.12 ***	-2.04 **
Arellano-Bond (AR2)	-2.10 **	-4.97 ***	1.34	-0.47	-10.20 ***	-2.18 **	-1.92 *	-5.14 ***
Sargan test chi2(67)	634.36 ***	194.09 ***	212.36 ***	102.30 ***	406.09 ***	147.62 ***	282.59 ***	181.00 **

***,**,* refers significance at 1%,5%,10% respectively

Note: Dependent variable is Relative Income Ratio (RI).

Table 4 demonstrates that institutional measures have significantly positive impact on income level of countries. According to estimations, lower political freedom ratings, which stand for more inclusive political environment, are associated with higher income ratios, suggesting higher degree of democracy is conducive to economic development. Similar to political freedom, results imply that liberalization of the economic structure is also supportive to country's development performance. In line with the liberal theories, the coefficient of economic freedom variable is significant and positive, which reveals that economically free countries tend to record better income ratios compared to their unfree counterparts, as shown in descriptive analyses. In sum, pooled data regression produce supportive evidence for the view that construction of liberal institutions and applying policies based on neoliberal ideas is key to sustain rapid development process.

Nevertheless, regression results for geographic regions are not as clear as the pooled data estimations. In general, regional analyses imply that coefficients of control variables are compatible with the ones obtained in whole data regression. As it is presented in columns 3 to 9, lagged values of dependent variable is positively related to income ratio in all regions. That is, even on regional basis, previous years' income level is one of the major determinants of economic development process. Similarly, it is found that high levels of capital formation prompt economic development. The coefficient of capital variable is significant and positive for all regions but EAP, confirming the fact that higher investment levels are associated with faster development performance. On the other hand, the estimated coefficients for trade openness show some variation across regions. According to Table 4, trade openness fosters development process only in 4 of 7 regions, which are EAP, SSA, LAC and EECA, whereas it lowers pace of development in MENA region. The regressions for SSA and WENA imply that higher degrees of openness do not produce any significant reward to countries in these regions. Among these seven regions, the highest positive coefficient for trade openness belongs to EAP, which underlines the important role of international trade activities in rapid development process of many East Asian and Pacific countries. In a nutshell, these results reveal that benefits of international trade vary with regions. While some regions gain large profits from participating in international trade, others do not obtain significant benefits, and indeed, some regions, i.e. MENA, suffer from engaging in more trading activities with the rest of the world.

Similar to results of pooled data regression, financial development has significant and negative impact on development process in majority of regions. Except WENA and EAP regions, the coefficient of financial development is significant and negative for all regions. Higher development level of financial sector is associated with better economic performance only in WENA region. These evidences recommend that financial sector development is not one of the main pillars of economic development, when other factors are taken into account. Instead, results suggest that enhancements in financial sector brings along economic gains only if countries have relatively developed economic structure, as it is the case in WENA region. Regarding this, it can be said that focusing on financial development in the early stages of economic development is generally inimical to economic progress.

The impact of institutional variables on economic development performance of regions is quite different from the one that is suggested in all country regression. According to Table 4, political freedom contributes economic progress only in two regions, EAP and WENA. Contrary to theoretical suggestions as well as to descriptive analyses presented before, political freedom does not show any significant impact on economic development in majority of regions. For 4 of 7 regions, the coefficient of political freedom is insignificant, pointing out the fact that more democracy is not always promotive to economic development. In particular, results for LAC region indicate that higher political freedom level is associated with lower income ratio, parallel to claims of some economists.

The results for economic freedom is even more contradicting with the liberal theories. Regional analyses reveal that economic liberalization is generally detrimental to economic development. In four regions, namely SA, SSA, LAC and EECA, freedom in economic environment has significant and negative effect on income ratios. This result implies that liberalization of economy, per se, does not help countries to enhance living standards of their citizens. More interestingly, contrary to descriptive analyses, evidence shows that the rapid development experience of EECA countries is not directly related to economic and political liberalization. After controlling other factors such as capital formation, trade openness and financial development, empirical results demonstrate that neither political nor economic freedom has significantly positive impact on economic development performance of this region. In fact, more economic liberalization inhibits economic progress in EECA region, as it does in majority of other regions.

According to the figures in the table, more economic freedom fosters development only in MENA region. Remaining two regions, EAP and WENA, show negative but insignificant coefficients for economic freedom level, which is again in contrast to liberal theories.

In brief, estimations based on regional data do not provide any supportive evidence for the view that construction of liberal institutions is conducive to economic development. Broadly speaking, results imply that level of democracy or degree of economic liberalization has no discernable positive influence on relative income ratio of countries. Parallel to descriptive analyses, this evidence reveals that regional differences have been dominating the relationship between liberal arrangements and economic development.

3.2. POLITICAL FREEDOM, INDIVIDUAL ECONOMIC FREEDOM INDICES AND ECONOMIC DEVELOPMENT

This section presents estimation results for the augmented model, in which economic freedom variable is replaced by four sub-indices. Table 5 displays regression outcomes for whole data set as well as each geographical region. Again, estimations are conducted by considering year dummies.

The results for pooled data regression are illustrated in the second column of Table 5. Similar to results presented in Table 4, estimations indicate that all control variables have statistically significant impact on relative income ratios. As show in the table, lagged dependent variable, trade openness and capital formation are positively related to economic development, whereas financial development enters into equation with a significantly negative coefficient. The sign and magnitude of estimated coefficient for each of these variables are almost same with the ones reported in Table 1, suggesting robustness of obtained results.

Table 5: Political Freedom, Individual Economic Freedom Indices and Relative Income Ratio: Regression Results by Regions (System GMM)

Region/Variable	World	East Asia and Pasific (1)	Middle East and North Africa (2)	South Asia (3)	Sub-Saharan Africa (4)	Latin America and Caribbean (5)	Western Europe and North America (6)	Eastern Europe and Central Asia (7)
L.1 RI	1.01319 ***	.93060 ***	.91421 ***	1.04701 ***	1.05342 ***	1.04258 ***	.95226 ***	1.10369 ***
	(.01336)	(.02057)	(.02125)	(.01537)	(.01445)	(.01822)	(.00958)	(.01647)
TRDOPEN	.00027 ***	.00019 ***	-.00072 ***	.00001	.00019 ***	.00014 ***	.00008 **	.00007 **
	(.00003)	(.00003)	(.00019)	(.00001)	(.00004)	(.00004)	(.00004)	(.00003)
FD	-.00014 ***	-.00004	-.00053 ***	-.00004 **	-.00009	-.00013 **	.00013 ***	-.00039 ***
	(.00004)	(.00004)	(.00010)	(.00002)	(.00006)	(.00005)	(.00002)	(.00009)
CAPITAL	.00091 ***	.00031	.00138 **	.00015 ***	.00010	.00062 ***	.00180 ***	.00072 ***
	(.00010)	(.00020)	(.00054)	(.00003)	(.00008)	(.00015)	(.00030)	(.00011)
POLFREE	-.00240 ***	-.00092	.00018	-.00017	-.00166 ***	.00010	.00783 *	-.00042
	(.00037)	(.00101)	(.00278)	(.00014)	(.00044)	(.00066)	(.00428)	(.00065)
RULE	-.00018	.00081 ***	.00097 **	-.00010 ***	-.00028 ***	-.00012	.00050 ***	-.00052 ***
	(.00013)	(.00026)	(.00038)	(.00003)	(.00007)	(.00010)	(.00010)	(.00008)
LMTDGOV	-.00001	-.00033 **	.00064 ***	-.00010 **	.00035 ***	-.00001	-.00025 ***	.00017 ***
	(.00004)	(.00013)	(.00024)	(.00004)	(.00005)	(.00005)	(.00005)	(.00006)
REGEFF	-.00004	-.00040 **	-.00025	-.00005 **	-.00020 ***	-.00008	.00055 ***	-.00013 **
	(.00005)	(.00017)	(.00038)	(.00002)	(.00006)	(.00007)	(.00015)	(.00005)
OPENMRKT	-.00012 ***	-.00011	.00096 ***	-.00004 ***	.00004	.00016 **	-.00061 ***	.00015 ***
	(.00004)	(.00011)	(.00029)	(.00001)	(.00005)	(.00008)	(.00010)	(.00006)
Wald chi2(22)	752591.20 ***	174313.72 ***	21532.43 ***	75268.51 ***	25295.31 ***	98205.33 ***	71372.68 ***	105199.42 ***
Arellano-Bond (AR1)	-14.72 ***	-4.10 ***	-6.05 ***	-2.66 ***	-5.44 ***	-5.93 ***	-4.14 ***	-2.25 **
Arellano-Bond (AR2)	-2.31 **	-5.06 ***	1.33	-0.44	-10.09 ***	-2.26 **	-2.64 ***	-4.47 ***
Sargan test chi2(67)	616.44 ***	188.31 ***	208.53 ***	96.09 ***	373.30 ***	173.46 ***	244.20 ***	167.67 ***

***,**,* refers significance at 1%,5%,10% respectively

Note: Dependent variable is Relative Income Ratio (RI).

Besides control variables, it is found that political freedom is significantly related to economic development. In line with the expectations, the coefficient of political freedom is negative. Once again, this finding provides additional support for the view that democratization of political structure prompts economic development.

In contrast to previous results, Table 5 shows that components of economic freedom are not strongly related to relative income ratio of countries. Among four sub-indices, three of them, namely rule of law, limited government and regulatory efficiency, have statistically insignificant coefficients, suggesting freedom in these areas is not supportive to economic development. Interestingly, only significant sub-index, open markets, is negatively correlated with relative income ratio, implying that liberalization of international accounts along with deregulation of financial markets impair economic development process of countries.

Estimations results for geographical regions are presented in columns 3 to 9. Similar to results illustrated in Table 4, evidence indicates that lagged dependent variable and capital formation is generally associated with higher income ratios. Furthermore, results imply that trade share has a significant and positive impact on economic development in all regions but MENA and SA. Again, it is found that financial development fosters economic well-being only in WENA region. Evidence on other regions reveals that financial development is negatively related to income ratio, although the estimated coefficient is statistically insignificant in two of these regions.

When the impact of institutional variables is examined, it is found that the sign, significance level and magnitude of institutional measures vary substantially across regions. For instance, regional analyses demonstrate that political freedom level is not directly related to economic development in majority of region. According to results, more democracy stimulates economic performance only in Sub-Saharan Africa region. In other regions, estimations do not produce supportive evidence for the claim that being a democracy is a prerequisite for sustaining rapid development process. Indeed, more political freedom reduces relative income ratio of countries in WENA region.

The impact of each sub-index on development is as diverse as the effect of political freedom variable. For example, Table 5 illustrates that rule of law index has a significant and positive influence on income ratio in EAP, MENA and WENA regions, whereas it slowdowns development process in SA, SSA and EECA. Similarly, while smaller government size fosters economic performance in MENA, SSA and EECA regions, the estimated coefficient of government variable is significant and negative in EAP, SA and WENA regions. On the other hand, Table 5 shows that regulatory efficiency is mostly destructive to development process of relatively backward regions, contradicting with predictions of neoliberal theories. According to results, higher regulatory efficiency brings about lower income ratio in 6 of 7 regions, although this impact is statistically significant for only four of these regions. The only exception is WENA region. Analysis indicates that high quality of legal regulations and stable macroeconomic environment supports investment and production activities in Western countries. Lastly, estimations show that opening up domestic markets is associated with higher income ratio in MENA, LAC and EECA regions, while it directly lessens income level of countries in SA and WENA regions, respectively.

To summarize, evidence presented in this section implies that the impact of sub-indices and political freedom show large variations across regions. That is, same liberalization policies do not produce same results in different countries and regions. This reveals that institutional needs of particular regions are different from each other. For instance, improving quality of legal and bureaucratic institutions, limiting government size and opening up markets enhance income level of countries in MENA region. On the contrary, same policies together with improvements in regulatory efficiency bring damage to development performance of South Asian nations. Moreover, results show that some regions benefit only some forms of liberalization practices. As Table 5 shows, only democratization of political environment and inhabitation of government interventions to economy promote development process in SSA region. Other types of liberalizations, i.e. rule of law and regulatory efficiency reduce average income level of Sub-Saharan African countries. Similarly, more open market structure is the only institutional arrangement that stimulate development process in LAC region, whereas EAP region benefits only from improvements in rule of law.

All in all, these analyses suggest that policymakers and economists should consider region-specific factors when they design policies. As shown above, applying a full-scale liberalization policy that involves every aspect of economic and political sphere does not guarantee higher economic development in each region. In fact, some policies that are not compatible with specific needs of regions or countries have negative impact on economic progress. On that account, results presented in this chapter indicate that policy makers should keep away from acting on impulse when they prepare development plans. To be able to sustain development, both economists and politicians should think over institutional needs of economies, and then implement policies.

CONCLUSION

As previously mentioned, the primary objective of this thesis is examining the impact of neoliberal policies and institutional arrangements on development performance of countries. In line with that purpose, both descriptive and panel data analyses are conducted by using annual data of 185 countries over the period 1995-2013. The main findings are summarized as follows.

First, evidence shows that institutional framework matters for economic progress. Both descriptive analyses and panel data estimations based on pooled data of countries reveal that economic liberalization and political freedom spur economic performance, and thereby support development process of countries. This finding is generally in line with the predictions of neo-institutionalist views that propound inclusive institutional foundations, i.e. democratic regimes and market-driven economies are conducive to economic development.

Second, when analyses are conducted on regional basis, estimations imply quite different results. Contrary to pooled data evidence, it is found that impact of liberal institutions on economic performance varies considerably across geographical regions. For instance, estimations show that political freedom does not have any significant and positive effect on economic development in majority of regions. In fact, higher political freedom is associated with lower economic performance in some regions such as Latin America and Caribbean region. In addition to this, results show that the sign and significance of the coefficient of political freedom vary with regressors included into model, suggesting that political freedom is not a robust determinant of economic performance.

Besides political freedom, evidence shows that influence of economic liberalization on development is also dependent on regional factors. According to results, only Middle East and North African countries profit from higher degree of economic freedom. In 4 out of 7 regions examined, evidence contrarily implies a significant and negative relationship between overall economic freedom index and economic performance measure, pointing out adverse effects of economic liberalization on development process.

Third, results demonstrate that regional differences are even larger for sub-categories of economic freedom. For instance, panel data estimations suggest that secure property rights and low level of corruption enhance living standards in EAP, MENA and WENA regions, whereas the same institutional arrangements lower pace of development in SA, SSA and EECA regions. In a similar vein, the size of government has different impacts on economic progress in different regions. Evidence shows that limited government supports development process in MENA, SSA and EECA regions but not in EAP, SA and WENA regions, implying that optimal size and role of government in the economy varies with regions. Among four sub-indices, regulatory efficiency is the most detrimental one to economic development. Contrary to liberal suggestions, empirical findings indicate that higher regulatory efficiency scores are associated with lesser income levels in four of seven regions. More interestingly, it does not have any significantly positive impact on economic performance of other regions except WENA. Finally, it is found that open market environment, which is one of the main pillars of liberal development strategies bring about different economic consequences for each geographical region. Analyses imply that whereas opening up markets is associated with higher income ratios in MENA, LAC and EECA regions, following such a policy is inimical to economic performance in SA and WENA regions.

In sum, all these evidences show that pooled data regressions overestimate impact of liberal institutions on economic performance. The main findings summarized above imply that liberalization of economic and political structure is not supportive to economic development in majority of regions. Per contra, many regions that apply neoliberal policies and form "*high quality*" institutions such as representative democracies or free market economies experience a decline in their income levels. This fact indicates that economic performance is not directly related to construction of right institutions or implementation of standardized policies relying heavily on liberalization theme. Instead, the empirical evidence presented in this thesis suggests that region-specific factors play a decisive role in economic development pattern of countries. As shown above, effectiveness of liberal institutions vary with regions, implying that differences in regional factors such as culture, tradition, norms, socio-economic circumstances and historical experiences are influential over economic impacts of institutions arrangements. Broadly speaking, this means that economic development is not a linear function of adopting liberal institutional arrangement or policies. Quite contrarily, results suggest that following a common set of liberal policies is not associated with rapid development performance.

In light of these findings, two things can be stated clearly. First, neoliberal development strategies suggested by IMF and WB are mostly ill-formed, as these one-size-fits-all type policies do not take regional differences into account. Therefore, countries should abandon following such *de facto* strategies that miss out role of endemic factors in economic development and endeavor to find policies that are compatible with their economic, social and political structure. Second, in order to prompt economic growth, and thereby to speed up development process, policy makers should focus on designing policies unique to countries or regions. As stated before, applying common liberal practices without considering particular needs of economies will bring at best a tardy development performance. In this respect, politicians and economists should identify policies that are supportive to economic activity. Although there is not any single way to explore such policies, the experiences of other countries and academic studies may give some tips about strategies conducive to development process.

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APPENDICES

APPENDIX 1: List of Countries by Regions

Appendix Table 1: List of Countries by Regions*

Western Europe and North America**	**East Asia and Pacific (EAS)**	**Eastern Europe and Central Asia*****	**Middle East and North Africa (MEA)******	**South Asia (SAS)**	**Sub-Saharan Africa (SSF)**	**Latin America and Caribbean (LCN)**
1. Austria	1 Australia	1. Albania	1. Algeria	1. Afghanistan	1. Angola	1. Argentina
2. Belgium	2. Cambodia	2. Armenia	2. Bahrain	2. Bangladesh	2. Burundi	2. Bahamas, The
3. Canada	3. China	3. Azerbaijan	3. Djibouti	3. Bhutan	3. Benin	3. Barbados
4. Cyprus	4. Fiji	4. Belarus	4. Egypt, Arab Rep.	4. India	4. Burkina Faso	4. Belize
5. Denmark	5. Hong Kong SAR, China	5. Bosnia and Herzegovina	5. Iran, Islamic Rep.	5. Maldives	5. Botswana	5. Bolivia
6. Finland	6. Indonesia	6. Bulgaria	6. Iraq	6. Nepal	6. Cameroon	6. Brazil
7. France	7. Japan	7. Croatia	7. Israel	7. Pakistan	7. Cabo Verde	7. Chile
8. Germany	8. Kiribati	8. Czech Republic	8. Jordan	8. Sri Lanka	8.Central African Republic	8. Colombia
9. Greece	9. Korea, Dem. Rep.	9. Estonia	9. Kuwait		9. Chad	9. Costa Rica
10. Iceland	10. Korea, Rep.	10. Georgia	10. Lebanon		10. Comoros	10. Cuba
11. Ireland	11. Lao PDR.	11. Hungary	11. Libya		11. Côte d'Ivoire	11. Dominica
12. Italy	12. Macao SAR, China	12. Kazakhstan	12. Morocco		12. Congo, Dem. Rep.	12. Dominican Republic
13. Liechtenstein	13. Malaysia	13. Kosovo	13. Oman		13. Congo, Rep.	13. Ecuador
14. Luxembourg	14. Micronesia, Fed. Sts.	14. Kyrgyz Republic	14. Qatar		14. Equatorial Guinea	14. El Salvador
15. Malta**	15. Mongolia	15. Latvia	15. Saudi Arabia		15. Eritrea	15. Guatemala
16. Netherlands	16. Myanmar	16. Lithuania	16. Syria		16. Ethiopia	16. Guyana
17. Norway	17. New Zealand	17. Macedonia, FYR	17. Tunisia		17. Gabon	17. Haiti
18. Portugal	18. Papua New Guinea	18. Moldova	18. United Arab Emirates		18. Gambia, The	18. Honduras
19. Spain	19. Philippines	19. Montenegro	19. Yemen		19. Ghana	19. Jamaica
20. Sweden	20. Samoa	20. Poland			20. Guinea	20. Mexico
21. Switzerland	21. Singapore	21. Romania			21. Guinea-Bissau	21. Nicaragua
22. United Kingdom	22. Solomon Islands	22. Russian Federation			22. Kenya	22. Panama
23. United States	23. Taiwan	23. Serbia			23. Lesotho	23. Paraguay
	24. Thailand	24. Slovak Republic			24. Liberia	24. Peru
	25. Timor-Leste	25. Slovenia			25. Madagascar	25. St. Lucia
	26. Tonga	26. Tajikistan			26. Malawi	26. St. Vincent and the Grenadines
	27. Vanuatu	27. Turkey			27. Mali	27. Suriname
	28. Vietnam	28. Turkmenistan			28. Mauritania	28. Trinidad and Tobago
		29. Ukraine			29. Mauritius	29. Uruguay
		30. Uzbekistan			30. Mozambique	30. Venezuela, RB
					31. Namibia	
					32. Niger	
					33. Nigeria	
					34. Rwanda	
					35. Senegal	
					36. Seychelles	
					37. Sierra Leone	
					38. Somalia	
					39. South Africa	
					40. Sudan	
					41. Swaziland	
					42. São Tomé and Principe	
					43. Tanzania	
					44. Togo	
					45. Uganda	
					46. Zambia	
					47. Zimbabwe	

* Countries are classified according to World Bank's categorization scheme.

** Western Europe and North America region is formed by combining North America (NAC) region, Malta, and European countries that are not classified in Central Europe and the Baltics (CEB) or Europe and Central Asia (ECA) regions.

*** Eastern Europe and Central Asia region is formed by combining Central Europe and the Baltics (CEB) region, Europe and Central Asia (ECA) region and Russian Federation.

**** Middle East and North Africa (MEA) region does not include Malta.

APPENDIX 2: Relative Income Ratio and Economic Freedom

Appendix Table 2: Relative Income Ratio and Economic Freedom, 1995-2013, Results After Dropping Countries

Year	Average RI Ratio All Countries	Average RI Ratio Economically Free Countries	Average RI Ratio Economically Unfree Countries	RI Difference Between Free and Unfree Countries
1995	24.21	44.03	8.79	35.24
1996	30.84	55.05	10.52	44.54
1997	28.76	51,21	9.76	41.46
1998	26.87	47.74	7.89	39.85
1999	27.12	48.02	7.55	40.47
2000	27.43	46.68	8.76	37.92
2001	29.32	48.59	8.76	39.83
2002	30.20	51.14	9.27	41.87
2003	30.68	51.07	9.62	41.45
2004	31.66	54.71	10.10	44.60
2005	30.47	56.14	9.87	46.27
2006	29.49	52.42	9.33	43.09
2007	31.68	54.36	10.03	44.33
2008	31.89	54.79	10.06	44.73
2009	30.79	52.80	10.81	42.00
2010	31.58	53.17	10.84	42.34
2011	31.54	52.02	10.50	41.53
2012	31.16	52.17	11.30	40.87
2013	31.03	52.27	11.23	41.04

Appendix Table 3: Relative Income Ratio and Economic Freedom, 1995-2013, Results with Period Average Classification

Year	Average RI Ratio All Countries	Average RI Ratio Economically Free Countries	Average RI Ratio Economically Unfree Countries	RI Difference Between Free and Unfree Countries
1995	25.71	43.03	10.42	32.61
1996	29.27	50.18	10.20	39.97
1997	28.06	49.63	9.65	39.98
1998	26.43	48.83	9.16	39.67
1999	26.39	49.03	8.75	40.28
2000	26.66	49.03	8.66	40.37
2001	27.82	49.44	9.37	40.07
2002	27.88	49.20	9.65	39.55
2003	27.89	49.36	9.75	39.61
2004	28.43	49.85	9.89	39.96
2005	28.60	49.95	10.11	39.84
2006	28.84	50.79	10.29	40.50
2007	29.61	51.85	10.81	41.04
2008	30.23	52.52	11.39	41.13
2009	28.30	50.88	11.92	38.95
2010	28.63	51.52	12.03	39.49
2011	28.97	52.03	12.07	39.96
2012	28.70	51.28	12.15	39.13
2013	28.77	51.20	12.17	39.03

APPENDIX 3: Relative Income Ratio and Political Freedom

Appendix Table 4: Relative Income Ratio and Political Freedom, 1995-2013

Year	Average RI Ratio All Countries	Average RI Ratio Politically Free Countries	Average RI Ratio Politically Partly Free Countries	Average RI Ratio Politically Unfree Countries
1995	26.39	43.91	16.26	15.69
1996	26.31	42.86	15.78	15.63
1997	26.26	42.56	15.23	16.21
1998	25.55	39.32	14.11	16.77
1999	25.14	39.86	13.45	15.83
2000	25.26	39.51	13.73	14.72
2001	25.57	40.03	13.61	15.85
2002	25.59	39.15	14.79	14.54
2003	25.63	39.78	14.60	14.66
2004	26.04	39.97	14.51	16.06
2005	26.19	40.44	13.90	16.83
2006	26.64	40.59	14.00	17.62
2007	27.37	41.69	14.36	18.38
2008	27.97	42.92	14.81	18.72
2009	27.90	42.82	13.75	19.60
2010	28.22	43.43	14.33	20.41
2011	28.54	43.68	14.91	20.30
2012	28.27	41.65	15.57	20.15
2013	28.29	42.44	15.42	20.12