Index of Leftness (Rightness) of Economy and Political Ideologies: Economic liberalization and its impact on human capital development (a comparative analysis of Turkey and Azerbaijan)

Introduction

Intervention by public institutions in economy is a topic discussed in political economy for hundreds of years. Virtually all major economy scholars, ranging from mercantilists to neo-Keynesians, somehow addressed cross-cutting issues of public institutions operation and economic systems. Globalization context specifically keeps up to date the conflicting issues of integration in global economy and national economy protection as well as brings public intervention aspects back to the agenda.

Economic liberalization implies economy going out of the control by the government. Administrative regulation of economic categories, in particular supply and demand, and pricing severely impedes market relations development. Soviet economic system is a vivid example of fully public controlled economy. Public possession of production factors and means of production as well as businesses strongly restricted objective regularities-driven market development, but also was struggling to manage economy in administrative ways. Non-operability of Soviet system and full public administration of the entire economy proved to be incompetent as compared to liberal business management in due course. All Soviet-style economies finally decided to move towards economic liberalization.

Economic liberalization and public intervention

Economic liberalization is definitely not confined with internal application of decontrol schemes. Foreign economic relations should be addressed as well. However, it should be pointed out that liberalization of foreign economic relations is supposed to accelerate market reforms internally and boost integration of the country’s economy into global one. On the other hand, foreign economic relations liberalization should occur in the way that would protect domestic production and market. It happens liberalization of foreign economic relations and domestic market protection are as tied as conflicting issues.

Although public intervention and economic liberalization have been issues of much controversy for many years, the measure and optimum rate of intervention are still on agenda of scientific research. To put it more correctly, present day economic theory does not make quantity measurement of the reasonable public intervention into economy. Yet measurability and identification of optimum rate of public intervention bear scientific and practical importance.
The concept of “public intervention in economy” is perceived in different ways by experts. For instance, by “economic freedom” Heritage Foundation\(^1\) considers 4 key components available under government control and impacting economic environment, namely rule of law, government size, regulatory efficiency and market openness. Rule of law, in turn, includes components of “property rights” and “freedom from corruption” which are evaluated in line with Heritage Foundation-designed methodology. Government size component reports on assessment of “fiscal freedom” and “government spending”. As for regulatory efficiency component, it comprises three factors like “business freedom”, “labor freedom” and “monetary freedom”. The latter component- market openness-addresses comparative evaluation of three liberties- “trade freedom”, “investment freedom” and “financial freedom”.

In an attempt of promotion of comparative evaluation of above-stated factors, Heritage Foundation designed a specific methodology which in fact simply expresses comparative analysis of liberalization rates in selected areas of economy. In this context, economic liberalization does not automatically imply limitations of public intervention. Noteworthy, Heritage Foundation-proposed component of “rule of law” is likely to be unachievable without proper public intervention. Rule of law implementation stands in need for public intervention, moreover, it stipulates for enforcement of public involvement in rule of law protection.

The World Bank-designed “Doing Business” ratings\(^2\) represent limited aspects of comparative evaluation and public intervention in economy. “Doing Business” ranking encompasses 11 indicators, such as “starting a business”, “dealing with construction permits”, “getting electricity”, “registering property”, “getting credit”, “protecting minority investors”, “paying taxes”, “trading across borders”, “enforcing contracts”, “resolving insolvency” and “labor market regulation”. Since these indicators only cover a minor area of business activities the calculated comparative data prevent us from proper evaluation of public intervention rate in its entirety.

Global Competitiveness Index\(^3\) measured according methodology by the World Social Forum strives to assess the extent of the “strength” of the countries in provision of sustainable economic growth. Annually published the Global Competitiveness Report reaches most of countries worldwide and the key conclusions are mainly associated with the fact that highly competitive countries also provide higher welfare for their citizens. In theory, the overall purpose of these reports lies in pushing governments to removing barriers that hinder economic development thanks to finding their position globally in economic development and competitiveness ranking and making necessary comparisons.

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\(^1\) http://www.heritage.org
\(^2\) http://www.doingbusiness.org/
\(^3\) http://www.weforum.org
So, what extent should public intervention reach to in order to protect economic safety of the country and to provide full involvement of the country in global labor division at the same time?

“Strength of public institution and "influence area of public institutions”

Francis Fukuyama discerned “strength of public institutions” and “influence area of public institutions”. By “influence area of public institutions” he understands the functions fulfilled by the state and by “strength of public institutions” efficiency of the functions respectively. State functions are grouped in three categories in his theory- minimal functions, intermediate functions and activist functions. In classification by Fukuyama, minimal functions include defence, law and order, property rights protection, macroeconomic regulation, public health and improving social protection. As regards as intermediate functions, Fukuyama mentions addressing externalities, education and environment protection, regulating monopolies, insurance, financial regulation and social insurance. Activist functions, in turn, include industrial policy and wealth redistribution. Of course, Fukuyama’s classification of the state functions is of general nature. The most intriguing point is, however, Fukuyama’s suggestion to reduce the number of functions but to increase their productivity.

Fukuyama believes that the world countries differ by “state functions” (statehood) and “strength of public institutions” (productivity). In certain countries, like the USSR, state functions are huge as compared to the USA yet public institutions productivity was much lower. Fukuyama says present day Russia retains less functions than the USSR but productivity is low as well. Hence, Fukuyama’s classification distributes countries across four different quadrants and strives to ground the “drift” of countries with less state functions and higher efficiency and more productive activities.

“Leftism” and “rightism” in economy

In sharp contrast to Fukuyama, another economic scholar Nazim Muzaffarli prefers exclusively assessing the forms of public intervention that would lead to political discussions and struggle rather than addressing all forms of intervention in their entirety. Muzaffarli proposes “index of leftism (rightism) in economy” (IL(R)E) which goes beyond simple elaboration of the idea by Fukuyama on eventual correlation between state functions and economic development and allows to reveal a measurable relation between economic activities and core essence of political decisions. The fundamental difference of Muzaffarli-suggested assessment methodology with the model by Fukuyama lies in separation of legal and political functions that “enable the state to intervene” followed by adequate quantitative assessment. On the other hand, aforementioned assessment methodology

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brings ample opportunities for correct measurement of macroeconomic effect of certain state functions in economic fields.

Nazim Muzaffarli suggests comparative analysis through identification of public intervention in economy as rate of implementation of “leftist” or “rightist” ideas respectively. By “public intervention in economy” Muzaffarli generally deems activities by “public institutions”. Precise public institutions do not operate for their own sake but rather have to comply with enforced legislation. Hence, ideological persuasions by decision makers around precise economic challenges resolution are specified in the core essence of the decisions made. For example, if leftist parties constitute majority at the Parliament of any country, leftist ideas will underlie decision making process. And the other way round, rightist ideology will gain the upper hand in decisions made provided the legislation is adopted by the rightist majority. It happens that leftist or rightist insight of decision makers shapes the economic system within a given time. To put it more correctly, “it is precisely politics that constrains or expands public intervention in economy”.

In Muzaffarli’s view, “…leftism and rightism are issues of political and economic system. ... the key aspect that distinguishes these two insights lies in different views around evaluation of essential and satisfactory rate of public intervention in social life and, in particular, in economy: as compared to the rightists, the leftists promote more extensive and strict intervention”. Indeed, bearers of leftist or rightist ideas contribute to emerging fundamentally new system of economic relations pursuant to their political and economic ideologies. For instance, the Bolshevik coup in Russia provoked drastic changes in real economic relations through private property ban, large-scale expropriation and collectivization policies.

Nazim Muzaffarli discerns precise forms of public intervention in economy and grounds measurability of different forms of intervention. He asserts that a certain set of indicators will enable us to make rather valid conclusions on prevalence of leftism or rightism in economy based upon relevant analysis of the above-mentioned set and to provide grounded country-by-country comparison of public intervention rates. The suggested assessment should specify concrete political and ideological forms of public intervention in economy. Among them one might mention the following: 1) public property and public property-based entrepreneurship percentage; 2) redistribution of income through taxation; 3) social programs implementation; 4) price regulation; 5) planning of economy; 6) foreign trade regulation; 7) arrangement of favorable conditions for business activities.

“Index of leftism (rightism) of economy” - IL(R)E

In contrast to the methods reviewed hereabove, Muzaffarli-proposed “index of leftism (rightism) of economy” only encompasses assessment of intervention of

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6 Ibid, p.20
the government in its capacity of regulatory institution in the fields of real economy. As distinct from similar indices, the suggested indicator enables to evaluate correlation between the current economic system and actual political environment. On the other hand, by keeping track of IL(R)E you can elicit development trends in political and economic outlook in any given country. This method also provides opportunities for revelation of the optimum rate of economic development-oriented public intervention.

The index of leftism (rightism) of economy includes seven sub-indices hereunder required for its calculation:

1. **Public funding sub-index** denotes income tax-based redistribution rate and, in turn, is split at two sub-indices of lower rank as follows:
   - Sub-index of tax burden of enterprises (VY) and budget expenditures sub-index (BX). Public funding sub-index is equal to arithmetic mean value of these two sub-indices: \( DM_i = \frac{(VY_i + BX_i)}{2} \)
   - Sub-index of tax burden of enterprises is calculated by indexing relative value of correlation between taxes paid by a modelled private company per annum and annual profit of the modelled company while budget expenditures sub-index is calculated by indexing budget allocations as percentage of GDP.

2. **Social expenditures sub-index** depicts leftism or rightism of economy and calculated as a proportion between different budget articles of expenditures. As zero level of social expenditures is impossible in any state budget no government can fall under extreme rightist values. This sub-index is calculated as a share of social expenditures (SoX) in total budget allocations: \( SX_i = \frac{SoX_i}{BX_i} \)

3. **Price regulation sub-index** expresses the extent of pricing decontrol (rightist position) and, at the same time, state intervention in price setting (leftist position). This index is calculated as arithmetic mean value of lower rank sub-indices, namely pricing discretion sub-index (QA) and monetary freedom sub-index (MA). \( QT_i = \frac{(QA_i + MA_i)}{2} \)

4. **Foreign trade sub-index** is used to compute foreign trade liberalization rate (rightist position) and strict public regulatory measures in this field (leftist position). This index is computed as an arithmetic mean value of three lower rank sub-indices, namely foreign trade freedom sub-index (XTA), import costs sub-index (İİQ) and trade freedom sub-index (TA): \( XT_i = \frac{(XTA_i + İİQ_i + TA_i)}{3} \)

5. **Employment regulation sub-index** is computed by two lower rank sub-indices – employment regulation strictness sub-index (MTS) and discharge costs sub-index (İÇX): \( MT_i = 0,75 * MTS_i + 0,25 * İÇX_i \)
   Of them, the former lower rank sub-index is calculated, in turn, by three indicators, namely employment ease (complexity), strictness of working hours regime regulation and discharge ease (complexity).

6. **Minimum wage sub-index** represents indexed version of proportion of government-set annual minimum wage (MH) to per capita GDP (ÜDM).
Index of leftism (rightism) of economy, all associated sub-indices and low rank sub-indices range 0-1. Zero value implies absolute rightism of economy (public intervention measures scarcity) and “one” depicts total leftism of economy (excessive public regulation).

While calculating the finite index you must firstly identify the shares of the index components from perspective of leftism (rightism). Public funding sub-index and social expenditures sub-index should be addressed in a different way since bearers of leftism or rightism ideologies strongly differ by their attitude towards state-implemented social programs. Essence and calculation techniques, though, provide synergies.

Hence, index of leftism (rightism) of economy is computed in the first option as follows:

\[ \hat{IS}(S)I_t = 0.15*DM_i + 0.15*SX_i + 0.14*QT_i + 0.14*XT_i + 0.14*L_i + 0.14*MT_i + 0.14*MƏH_i \]

The second option of İL(R)E calculation specifies a bigger share value for public funding sub-index (0.30). The remainder of shares is evenly distributed across sub-indices. Hence, the second calculation option computes the index of leftism (rightism) of economy in the following manner:

\[ \hat{IS}(S)I_t = 0.30*DM_i + 0.14*QT_i + 0.14*XT_i + 0.14*L_i + 0.14*MT_i + 0.14*MƏH_i \]

What scientific and practical implications could calculation of İL(R)E or cross-country comparison bring? Practical relevance of the index above lies in feasibility of effectiveness analysis of political and economic decisions made over the given period through index values analysis and detection of index interaction with other economic indicators. For example, 1) once leftist/rightist political and social decision is made (increase/decrease in İL(R)E values as compared with previous years ) and linked with decline in per capita GDP implies ineffectiveness of leftist/rightist decision making and requires appropriate modifications in the decision made; 2) if İL(R)E of any country remain more or less steady for certain timeframe except minor fluctuations (provided no leftist/rightist decisions-generated serious implications are recorded) and other economic indicators experience permanent increase, implementation of political and economic decisions is rather effective; 3) in case of making leftist/rightist decisions (i.e. İL(R)E value goes up/down as compared with previous years) are followed by constant increase in key macroeconomic indicators leftist/rightist decisions are highly effective and should be maintained.

Consequently, availability/non-availability of correlation between İL(R)E of any country and relevant macroeconomic indicators for the given period plays crucial role as political and economic information source for decision-related and post-decision economic projections. For example, by comparison of inter-temporal changes in human development index in Turkey and Azerbaijan respectively for
last 15 years, we can judge efficiency rate of leftist/rightist economic reforms in above-stated countries.

**Human Development Index in Azerbaijan and Turkey**

Human Development Index, known till 2013 as “human potential development index”, represents a composite indicator designed by UN and aimed at measurement of dimensions of living standard, education and life expectancy in any country and making cross-country comparisons. This index calculation methodology was devised by a group of economists in 1990 and ever since has been published in UN reports.

Human Development Index combines three dimensions, namely: 1) life expectancy at birth; 2) education index (mean years of schooling and expected years of schooling); 3) a decent standard of living computed as purchasing power parity (PPP)-adjusted per capita Gross National Income in USD. All these dimensions are calculated separately as sub-indices. For example, life expectancy sub-index is calculated as follows: \( \text{LEI} = (\text{LE}-20)/(85-20) \), where LE is life expectancy at birth in the given country and 20– minimum life expectancy (years).

Education sub-index is computed as \( \text{Eİ} = (\text{MYSİ}+\text{EYSİ})/2 \), where MYSI – mean years of schooling while EYSI is expected years of schooling. Mean years of schooling sub-index, in turn, is calculated as \( \text{MYSI} = \text{MYS}/15 \) and expected years of schooling sub-index is \( \text{EYSI} = \text{EYS}/18 \). As for Income sub-index, the following formula is used for calculation: \( \text{İİ} = \left( \ln(\text{GNIps})-\ln(100) \right)/\left( \ln(75000)-\ln(100) \right) \). Finally, Human Development Index (HDI) represents the geometric mean of aforementioned three sub-indices:

\[
\text{Dİ} = \sqrt[3]{\text{LEI} \times \text{Eİ} \times \text{İİ}}
\]

Human Development Index or human potential development index should not be deemed as abstract ratios. The indices enable to provide quantitative and qualitative assessment of efficiency rate of government-implemented economic policies. For instance, Table 1 hereunder describes changes in human development index in Turkey and Azerbaijan respectively. As it is clearly seen in the Table, index values of Azerbaijan and Turkey are close enough and follow the upward trend for last 13 years. However, the countries above differ by value increase rates. The Chart 1 provides a clear-cut picture of the rates difference as well.

In early XXI century, Human Development Index of Turkey slightly exceeded that one of Azerbaijan. Yet Azerbaijan-related indicator rapidly grew later and finally caught up and surpassed Turkish one. Azerbaijan introduced and launched implementation of State Program on Poverty Reduction for this particular time. Over the period of ten years this indicator rebounded from 0.64 to 0.743, that’s 16.3% increase. Substantial poverty alleviation process was underway at that time as well.

**Table 1**

**Human Development Index changes in Turkey and Azerbaijan**
Neither Turkish nor Azeri indicators experienced drastic changes beyond 2011. Over that period no fundamental leftist/rightist decisions capable to affect Human Development Index were ever made and, consequently, no serious alterations in IL(R)E ever occurred in Turkey or Azerbaijan.

### IL(R)E in Turkey and Azerbaijan

Table 2 also specifies IL(R)E-related changes in Turkey for last 14 years.

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<tbody>
<tr>
<td>DMi = (VYi + BXi) / 2</td>
<td>67,75</td>
<td>53,6</td>
<td>56,3</td>
<td>63,1</td>
<td>63,45</td>
<td>49,25</td>
<td>52,45</td>
<td>51,6</td>
</tr>
<tr>
<td>Tax burden sub-index=VY(^7)</td>
<td>52,8</td>
<td>52,8</td>
<td>44,3</td>
<td>43,3</td>
<td>43,3</td>
<td>40</td>
<td>40</td>
<td>39,7</td>
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\(^7\) http://hdr.undp.org/en/content/table-1-human-development-index-and-its-components

\(^8\) http://www.heritage.org/index/

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Note: This table is drawn up by authors of this article on the basis of statistical data provided by United Nations’ Development Program\(^7\)
| 3 | Price regulation sub-index (QT) | \( \frac{QAI + MAI}{2} \) | 50.9 | 54.4 | 69.55 | 69.45 | 70.7 | 69.5 | 70.75 | 69.7 |
|   | Pricing discretion sub-index | \( MTA \) | 70.0 | 55.0 | 68.3 | 68.9 | 68.7 | 67.1 | 68.2 | 67.6 |
|   | Monetary freedom sub-index | \( MTA \) | 31.8 | 53.8 | 70.8 | 70.0 | 72.7 | 71.9 | 73.3 | 71.8 |
| 4 | Foreign trade sub-index (XT) | \( \frac{XTA + IQI + TAI}{3} \) | 29.03 | 29.30 | 32.58 | 32.61 | 32.26 | 32.26 | 32.52 | 32.02 |
|   | Foreign trade freedom sub-index | \( XTA \) | 7.55 | 7.38 | 6.41 | 7.35 | 7.24 | 7.25 | 7.25 | 7.25 |
|   | Import costs sub-index | \( IQ \) | 4.53 | 4.53 | 4.53 | 4.07 | 4.13 | 4.13 | 5.1 | 4.3 |
|   | Trade freedom sub-index | \( TAI \) | 75.0 | 76.0 | 86.8 | 86.4 | 85.4 | 85.4 | 85.2 | 84.5 |
| 5 | Licensing sub-index* (L) | 48.07 | 48.07 | 47.68 | 53.86 | 53.66 | 56.72 | 60.92 | 62.87 |
| 6 | Employment regulation sub-index (MT) | \( MTS_{0.75} + MTS_{0.25} \) | 43.17 | 43.17 | 43.17 | 20.94 | 20.94 | 20.94 | 20.94 | 20.94 |
|   | Employment regulation strictness sub-index | \( ICX \) | 26 | 26 | 26 | 18 | 18 | 18 | 18 | 18 |
|   | Discharge costs sub-index | \( TACX \) | 94.67 | 94.67 | 94.67 | 29.77 | 29.78 | 29.78 | 29.78 | 29.78 |
| 7 | Minimum wage sub-index (MÖH) | \( MÖH = MH / UDM \) | 0.822 | 0.885 | 0.650 | 0.632 | 0.589 | 0.594 | 0.586 | 0.579 |
|   | Minimum wage=MH , (annual PPP) | 7540 | 10080 | 9769 | 10115 | 10419 | 10701 | 1089 | 1103 |
|   | Per capita GDP , (PPP) | 9177 | 11394 | 15021 | 16001 | 17692 | 18002 | 1859 | 1905 |
| 8 | Integral leftist (rightism) index (II calculation option) | \( IS(S)I^{-2} \) | 44,40 | 40,70 | 44 | 43.78 | 43.98 | 39.98 | 41.73 | 41.53 |

Note: This table is drawn up by the authors of the article on the basis of data provided by The Heritage Foundation, World Bank, Doing Business and Fraser Institute

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9 2000 and 2005 data were not available, so 2006 data were used
10 http://www.heritage.org/index/explore?view=by-region-country-year
11 This indicator does not contain solely data on pricing discretion, but also includes data related to business freedom index. Source: The Heritage Foundation website (http://www.heritage.org/index/explore?view=by-region-country-year).
12 Since no information was available for 2008, 2013 and 2014, crude data of the closest years were used
14 These reports have been produced since 2008 and as they cover biannual period 2008 data were used for 2000 and 2005 and 2012 data were used for 2011
16 In line with Doing Business-produced “Labor market regulation” methodology, it is calculated as mean value of three indicators (total vacation allocated to employees with 1, 5 and 10-year length of service)
17 In line with Doing Business-produced “Labor market regulation” methodology, it is calculated as mean value of three indicators (total vacation allocated to employees with 1, 5 and 10-year length of service)
Table 2 contains computation of IL(R)E and associated indices of Turkey for last 14 years. Analysis of sub-indices and lower rank sub-indices shows Turkish economy passed through various leftist or rightist decisions over the period above. Although public funding sub-index used to tend to rightism, it is found positioned leftward in probability interval ranged 0-100. As regards as foreign trade sub-index, despite of a slight drift towards leftism, it is generally of rightist nature. Price regulation and licensing sub-indices bear undeniable evidence of shift to leftism.

The same applies to economy of Azerbaijan where all sub-indices change diversely. Public funding sub-index, say, tended to rightism yet, in fact, has leftist value as it is still slightly positioned in leftist way in the probability interval ranged 0-100. Leftist trend also dominates in price regulation and licensing sub-indices.

As it is seen from Table 3, economy of Azerbaijan tended to be more “rightist” as compared to economy of Turkey. Although Turkish economy was inclined to more leftward and rightward, the key trend is to range constantly 0.40-0.45. IL(R)E for Azerbaijan ranges 0.35-0.40. Yet both countries demonstrate figures approaching mean value within the probability interval ranged 0-100. It is worth stating, this research findings and conclusions demonstrate strong resemblance to findings and conclusions by Nazim Muzaffarli. He also came to conclusion that Turkey has more leftist economy in comparison with Azerbaijan.

### Table 3

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</thead>
<tbody>
<tr>
<td>1 Public funding sub-index (DM) ( DM_i = (VY_i + BX_i) / 2 )</td>
<td>61.45</td>
<td>66.7</td>
<td>61.9</td>
<td>59.2</td>
<td>55.95</td>
<td>51.85</td>
<td>53.9</td>
<td>52.4</td>
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<tr>
<td>2 Tax burden sub-index=( VY_i )</td>
<td>46.4</td>
<td>46.4</td>
<td>40.9</td>
<td>40.9</td>
<td>40.9</td>
<td>40</td>
<td>40</td>
<td>40</td>
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<tr>
<td>3 Budget expenditures=( BX )</td>
<td>76.5</td>
<td>87.0</td>
<td>82.9</td>
<td>77.5</td>
<td>71.0</td>
<td>63.7</td>
<td>67.8</td>
<td>64.8</td>
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<tr>
<td>4 Price regulation sub-index (QT) ( QT_i = (QA_i + MA_i) / 2 )</td>
<td>62.85</td>
<td>67.7</td>
<td>69.55</td>
<td>68.65</td>
<td>72.75</td>
<td>71.55</td>
<td>71.35</td>
<td>76.15</td>
</tr>
<tr>
<td>5 Pricing discretion sub-index=( QA )</td>
<td>55.0</td>
<td>55.0</td>
<td>62.6</td>
<td>74.6</td>
<td>72.9</td>
<td>68.6</td>
<td>69.2</td>
<td>73.5</td>
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<tr>
<td>6 Monetary freedom sub-index=( MA )</td>
<td>70.7</td>
<td>80.4</td>
<td>76.5</td>
<td>62.7</td>
<td>72.6</td>
<td>74.5</td>
<td>73.5</td>
<td>78.8</td>
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<tr>
<td>7 Foreign trade sub-index (XT) ( XT_i = (XTA_i + \tilde{H}Q + TA_i) / 3 )</td>
<td>21.53</td>
<td>26.27</td>
<td>29.58</td>
<td>29.15</td>
<td>29.16</td>
<td>29.28</td>
<td>29.43</td>
<td>29.30</td>
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<tr>
<td>8 Foreign trade freedom sub-index=( XTA )</td>
<td>5.9</td>
<td>5.92</td>
<td>6.66</td>
<td>6.48</td>
<td>6.54</td>
<td>6.79</td>
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<td>6.79</td>
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<tr>
<td>9 Import costs sub-index( \tilde{H}Q )</td>
<td>3.68</td>
<td>3.68</td>
<td>3.68</td>
<td>3.88</td>
<td>3.85</td>
<td>3.85</td>
<td>4.3</td>
<td>3.9</td>
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20 http://www.doingbusiness.org/Custom-Query/azerbaijan
21 Since no information was available for 2000, 2005 and 2014, crude data of the closest years were used
22 Freiser Institute reports for different years contain slight incompliances. For example, in 2012 report 2005 data were 5.92 and in 2010 report 6.79 while 2013 report denotes 2010 data as 6.48 and 2010 report provides 2005 data as 5.59. since no information was available for 2000, 2005 and 2014, crude data of the closest years were used.
23 http://www3.weforum.org/docs/WEF_GlobalEnablingTrade_Report_2014.pdf (These reports have been produced since 2008 and as they cover biannual period 2008 data were used for 2000 and 2005 and 2012 data were used for 2011)
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<tr>
<td>Trade freedom sub-index=$TA$</td>
<td>55.0</td>
<td>69.2</td>
<td>78.4</td>
<td>77.1</td>
<td>77.2</td>
<td>77.2</td>
<td>77.2</td>
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<tr>
<td>Licensing sub-index (L)$^2$</td>
<td>24.51</td>
<td>24.51</td>
<td>34.63</td>
<td>48.68</td>
<td>48.14</td>
<td>48.00</td>
<td>49.18</td>
</tr>
<tr>
<td>Employment regulation sub-index (MT) $MT_i=0.75<em>MTS_i+0.25</em>IX_i$</td>
<td>20.42</td>
<td>20.42</td>
<td>20.42</td>
<td>18.17</td>
<td>18.17</td>
<td>18.17</td>
<td>18.17</td>
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<tr>
<td>Strictness of employment regulation sub-index=MTS</td>
<td>20.00</td>
<td>20.00</td>
<td>20.00</td>
<td>17.00</td>
<td>17.00</td>
<td>17.00</td>
<td>17.00</td>
</tr>
<tr>
<td>Minimum wage sub-index (Mוש) $MOH_i=MH_i/ÜDM_i$</td>
<td>0.111</td>
<td>0.201</td>
<td>0.156</td>
<td>0.189</td>
<td>0.177</td>
<td>0.188</td>
<td>0.179</td>
</tr>
<tr>
<td>Minimum wage=MH $i$</td>
<td>5.5</td>
<td>25.0</td>
<td>60.0</td>
<td>75.0</td>
<td>85.0</td>
<td>93.5</td>
<td>93.5</td>
</tr>
<tr>
<td>Per capita GDP $i$</td>
<td>593.2</td>
<td>1,494.3</td>
<td>4,603.7</td>
<td>4,753.0</td>
<td>5,752.9</td>
<td>5,966.1</td>
<td>6,258.3</td>
</tr>
<tr>
<td>Integral leftism (rightism) index (II calculation option)-İS(S)-2</td>
<td>36.55</td>
<td>39.48</td>
<td>40.18</td>
<td>40.84</td>
<td>40.36</td>
<td>38.96</td>
<td>39.73</td>
</tr>
<tr>
<td>Minimum wage $=MH_i$</td>
<td>5.5</td>
<td>25.0</td>
<td>60.0</td>
<td>75.0</td>
<td>85.0</td>
<td>93.5</td>
<td>93.5</td>
</tr>
</tbody>
</table>

Note: This table is drawn up on the basis of calculations of the authors of this article

Chart 2

IL(R)E changes in Turkey and Azerbaijan

Chart 1 clearly describes comparative changes in IL(R)E in Turkish and Azerbaijani economies.

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$^2$ Calculated thanks to information provided by State Statistical Committee
Chart 2 shows Turkey is much more leftist country as compared to Azerbaijan in terms of public intervention in economy if we take 2000 as a base year. Later on, specifically in 2005 and 2012 IL(R)E of Turkey and Azerbaijan approached each other. And during the period in between Turkish economy followed leftist trends in economy. Both country indices strongly approximated since 2012.

### Chart 3

**Human Development Index- IL(R)E correlation in Turkey**

![Chart 3](image)

Interestingly, IL(R)E of both states is positioned slightly rightward in 0-1 probability interval and is not subject to fundamental changes over the given period. As it was stated above, sustainable growth in any sector of economy during the period with no visible changes in IL(R)E, including steady growth of human development index, signals about effectiveness of relevant political and economic policy measures.

### Chart 4

**Human Development Index-IL(R)E correlation in Turkey.**

12
IL(R)E by Turkey and Azerbaijan and Human Development do not correlate. Charts 3 and 4 describe there is no correlation between IL(R)E and Human Development Index, neither in Turkey, nor in Azerbaijan.

**Conclusions**

The article describes the nature of liberalization as a specific economic process, which is formed and developed under the influence of changes of the conditions of globalization and integration processes in the society.

Starting 2014, the Institute of Economy of the Azerbaijan National Academy of Sciences has been conducting special research on the Index of Leftness (Rightness) of the Economy - IL(R)E. This Index is the constituent part of the annual reports on comprehensive analysis of the level of the state regulation of economy in different countries – at this stage in Eastern European and the Central Asian states, as well as in some developed countries (37 countries in total). For each country IL(R)E is calculated using seven sub-indexes, and each of them, in turn, is calculated based on several indices.

Leftness and rightness are issues of political and economic system. The key aspect that distinguishes these two insights lies in different views around evaluation of essential and satisfactory rate of public intervention in social life and, in particular, in economy: as compared to the rightists, the leftists promote more extensive and strict intervention. IL(R)E goes beyond simple elaboration of the idea on eventual correlation between state functions and economic development and allows revealing a measurable relation between economic activities and core essence of political decisions. The fundamental essence of the proposed assessment methodology lies in separation of legal and political functions that “enable the state to intervene” followed by adequate quantitative assessment. On the other hand, aforementioned assessment methodology brings many opportunities for correct
measurement of macroeconomic effect of certain state functions in economic fields.

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