2017 Index of Liberalisations: a summary

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The 2017 IBL Index of Liberalisations aims to shed light on the degree of openness of the 28 Member States by examining ten different economic sectors. First published in 2007, the Index began classifying all of the 28 EU Member States in 2015.

The top 3 performers in 2017 are the UK, the Netherlands and Spain, which scored 95, 80 and 78 points, respectively. At the opposite end, the three greatest stragglers are Lithuania, Cyprus and Latvia, which collected 56, 55 and 54 points.

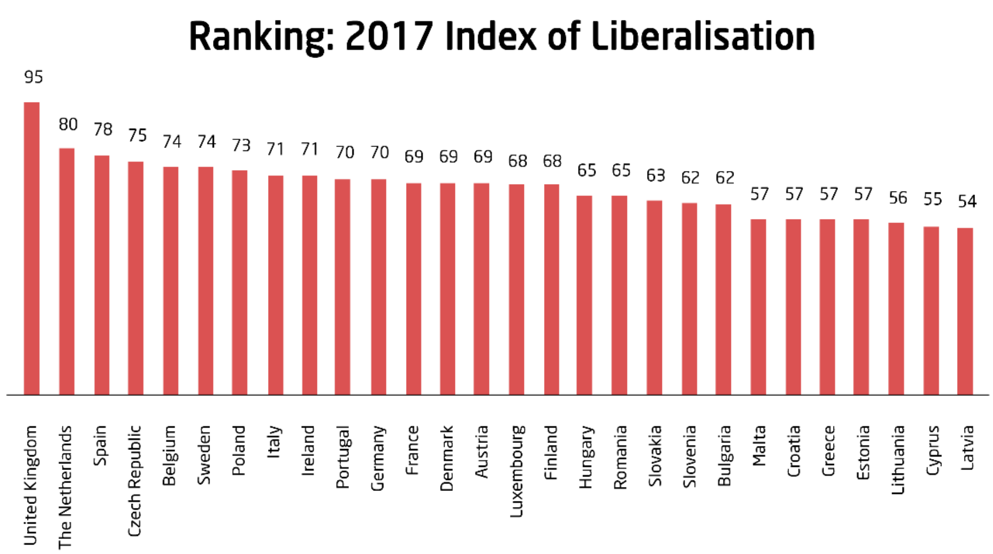
The Index shows that there is still a large divide between the 15 old EU Member States and the 13 southern and eastern European countries that joined the Union in 2004, 2007 and 2013. Among the latter, only the Czech Republic and Poland make it into the top ten in 2017.

Since 2015, Belgium (+6 points), France (+5 points) and Italy (+4 points) are amongst the EU countries that have improved the most. Lithuania (-7 points), Estonia (-3 points) and Sweden (-3 points) are the Member States that have lost ground the most. Taken as a single country, the EU has just slightly improved its position since 2015, moving from 66 to 67 points.

Introduction

EPICENTER's Italian partner, the Istituto Bruno Leoni (IBL), published the 11th edition of its Index of Liberalisations report. The Index, led by Dr. Carlo Stagnaro, aims to shed lights on the degree of openness of the 28 EU Member States. In order to do so, the Index takes into account ten different economic sectors, which include petrol and diesel retail, electricity, natural gas, labour markets, postal services, telecommunications, broadcasting, air transport, rail transport and insurance.

First published in 2007, the IBL Index of Liberalisations has greatly evolved over the years. Between 2007 and 2012, Italy was the only country investigated and analysed against sectoral benchmarks. In 2013, the index methodology was amplified to the EU15, whilst in 2015 the Index began classifying all of the EU28, thus effectively providing economists, politicians and university students with a clear picture of current Europe-wide liberalisation trends.



The Index's methodology is the following: in each category, a country's performance is assessed against a number of benchmarks. The top-performing country, then, receives a score of 100 (the maximum score possible), whilst the other 27 Member States are compared against each sector's best performer. At the end, a country's overall score is calculated by averaging its sectoral results.

Main results

As in the previous two editions of the Index, the top three performers in 2017 are the UK, the Netherlands and Spain, which scored 95, 80 and 78 points, respectively. Note, however, that the IBL Index is an index of relative liberalisation. For example, the UK comes out on top, but this does not mean that the country is a free-market paradise – only that it has experienced a broader and deeper process of liberalisations than the rest of Europe. At the opposite end, the three greatest stragglers are Lithuania, Cyprus and Latvia, which collected 56, 55 and 54 points. In 2016, the three laggards were Greece, Cyprus and Croatia, which gathered 54, 54 and 55 points, respectively.

The Index has now established itself as a valuable policy tool by offering national and European policymakers a comprehensive way to investigate the benefits – still too often underrated – of pro-market reforms.

Degree of Liberalisation	2017	2017 vs 2015	2015
Lithuania	56	-7	63
Estonia	57	-3	60
Sweden	74	-3	77
Latvia	54	-2	56
Malta	57	-2	59
Romania	65	-2	67
Bulgaria	62	-1	63
Austria	69	0	69
Finland	68	0	68
Greece	57	0	57
Luxembourg	68	0	68
United Kingdom	95	0	95
Croatia	57	1	56
Germany	70	1	69
Ireland	71	1	70
The Netherlands	80	1	79
Spain	78	1	77
Portugal	70	2	68
Hungary	65	2	63
Denmark	69	3	66
Slovakia	63	3	60
Slovenia	62	3	59
Italy	71	4	67
Poland	73	4	69
France	69	5	64
Belgium	74	6	68
Cyprus	55	6	49
Czech Republic	75	8	67
European Union	67	1	66

Despite the progress made over the last decade, the path towards liberalisation has differed widely across European countries. On one hand, it is true that the double-dip 2009-2012 recession and the slow economic recovery that followed have reduced the pace of structural reforms in several Member States.On the other hand, it should also be underlined that many countries (e.g. Italy, France, Greece) had never properly reformed their economies prior to the debt crisis.

By highlighting the distance of every single Member State from every sector's top performer, the 2017 IBL Index of Liberalisations suggests that there is still a large divide between the 15 old EU Member States and the 13 southern and eastern European countries that joined the Union in 2004, 2007 and 2013.

Among the latter, only the Czech Republic and Poland make it into the top ten in 2017. By contrast, all of the fifteen old Member States but Greece escaped the bottom ten positions. However, with only 68, 68 and 57 points respectively, the relatively poor performances of Luxembourg, Finland and Greece demonstrate how politically difficult it is for national policymakers to embrace pro-market reforms that bring down domestic barriers, stimulate greater competition and in the medium- to longer-run lead to higher economic growth. Interestingly, Belgium (+6 points), France (+5 points) and Italy (+4 points) are among the countries which have improved the most since 2015. The Czech Republic shows the greatest year-on-year improvement, having seen its score climb from 67 in 2015 to 75 in 2017. On the contrary, Lithuania (-7 points), Estonia (-3 points) and Sweden (-3 points) are the EU Member States that have lost ground over the last three years. Overall, the EU average has just slightly improved, moving from 66 to 67 points in three years.

Thus, as it appears from the 2017 Index, the large majority of EU countries position themselves in the 60- to 70-point range, demonstrating the fact that – with the exception of a few virtuous countries – the initial positive deregulatory impulse promoted by Brussels has petered out over the years.

How does the 2017 Index of Liberalisations relate to other well-known indices?

There is a correlation between the 2017 IBL Index of Liberalisations and other well-known rankings such the Heritage Foundation's Index of Economic Freedom; the World Bank's Ease of Doing Business Report; and the World Economic Forum's Global Competitiveness Index.

It should be noted that the correlation coefficients between these various indices is high but not perfect. This is primarily due to that fact that the economic aspects investigated by the Indices are only partially related to each other. For example, the Global Competitiveness index looks primarily at the quality of infrastructure, the Index of Economic Freedom puts more emphasis on taxation, and the IBL index focuses on liberalisation policies.

Notwithstanding this important feature, the relatively high correlation between the Index of Liberalisation and these other Indices is not an unexpected result. On the contrary, this correlation confirms that the IBL study has consistency with other similar investigations, but at the same time, it has an original value as it measures specific aspects of life and of economic organisation within the 28 EU Member States.

Conclusions

The 2017 IBL Index of Liberalisations leaves us with a an overwhelming message. First, market openness is not an hypothetical horizon: it is a reality in many EU Member States and, where practiced, it works well. In general, at least in the ten markets investigated, the European Union has played an important role in promoting competition. In other cases, EU attempts at regulatory harmonisation have had the effect of persuading the laggards to undertake pro-market reforms. EU Member States with more liberalised markets are typically characterised by better economic performance.

It would be wrong to conclude that liberalisations are a mere technical effort. Ultimately, liberalisations are a political choice: it means exercising an option in favour of innovation and consumer sovereignty but against stagnation, rents and corporatism.

References:

Istituto Bruno Leoni (2017). *Indice delle liberalizzazioni 2017*. Available at: http://www.brunoleoni.it/indice-delle-liberalizzazioni-2017-2-2