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Identifying Drivers of Economic Reform: A Case Studies Approach

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Abstract
A twenty-five year period beginning in roughly 1980 witnessed a series of significant economic policy and institutional reforms in countries around the world. The primary, but not exclusive, direction of those reforms was toward greater economic liberalism. This paper summarizes and attempts to categorize the drivers of institutional reform based on case studies of the twenty-four countries that undertook the most significant reforms during the period. The ten most common possible drivers of reform are identified and discussed along with implications for future research.

JEL Codes: P11, P52, Z13, N10, O57
Keywords: determinants of institutions, case studies, political economy, institutional change

I. Introduction and Background

A growing body of research has been dedicated to understanding the role that economic institutions and policies play in determining economic and social outcomes. The primary finding of that research, although not universally agreed to by researchers, is that more liberal institutions and policies are positively causally associated with more economic growth (Acemoglu and Robinson 2012).[1] But significant ignorance largely remains in regard to our understanding of how countries achieve and maintain those institutions, and empirical analysis is limited in its ability to illuminate that question.[2] Qualitative, historical, and interdisciplinary analysis is required to better understand how institutions and policies evolve (Boettke, Coyne, and Leeson 2013; Boettke 2011). This paper summarizes the findings of twenty-four country case studies of institutional reform since 1980 in

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[1] For dissenting views, see Sachs (2003) and Chang (2011).
[2] Lipford and Yandle (2015) provide some recent progress on the question.

an attempt to illuminate some of the recurring themes and possible causal factors in significant reform processes.

From 1980 to the middle of the first decade of the twenty-first century, there was a broad worldwide movement toward freer markets and government deregulation, a move away from the trend toward more centralization and planning that had dominated since the Great Depression and World War II. The reforms of the Reagan and Thatcher governments in the 1980s were seen as examples to be followed by some developing countries, and at the end of the 1980s, the collapse of communist systems in Eastern Europe and the Soviet Union led to a widespread period of economic and institutional reform. Reforms of the Chinese communist system begun in the early 1980s and the liberalization begun by India in the early 1990s provide examples of countries not directly in either the American or Soviet spheres that also took part in the trend away from planning and centralization during this period (Yergin and Stanislaw 2002).

This era provides the possibility for historical and comparative study of the factors that lead to institutional and policy change. Although the period under question coincides with a renaissance of economics research concerned with the question of growth, much of that literature has been focused on theoretical models and later empirical analysis rather than case studies of actual reforms.[3] The process of institutional reform and economic growth is so complex and involves so many different actors that one methodological approach, while potentially very valuable, is bound to leave important questions unaddressed. Case studies should simultaneously make it possible to identify areas for more rigorous empirical analysis and possibly shed light on areas that are not as easily addressed empirically, such as the roles of culture, history, the transmission and adoption of ideas, and informal institutions—areas where more interdisciplinary efforts and approaches may be needed. A large body of literature in the social sciences, mostly outside of economics, has demonstrated the importance of these approaches and questions.[4]

[3] See, for example, the vast literature that has been spawned by the work of Lucas (1988), Romer (1986), and, more recently, Acemoglu et al. (2001, 2002).

[4] See, for example, Appleby, Hunt, and Jacob (1994) for a review in American history; for a review in sociology and anthropology, see Walker (2001). French theory has had a huge impact on the non-economically dominated social and human sciences in the United States—arguably more so than it has had in France. A good recent survey is Cusset (2008).

This paper summarizes and contextualizes a much larger project of case studies that identifies the major institutional reforms that have occurred since 1980. It identifies from those case studies some major underling factors associated with the significant reforms of this period, suggests some hypotheses about how they may be related, and identifies significant holes in our understanding that need further investigation. Data is provided on the largest movements in economic institutions (toward, as well as away from, more economic liberalism) and should provide starting-point evidence for scholars in various disciplines interested in determining which countries' reforms should be studied in more detail in future work to begin to build a better understanding of the drivers of institutional reform.

II. Case Study Selection

The period from the very late 1970s and early 1980s up to the onset of the global economic crisis beginning around 2006 was characterized by broad movements globally toward economic liberalism.[5] Countries were examined in three different periods: 1980–2005, 1990–2005, and 1995–2005. This allowed for the inclusion of countries that were late reformers and for those that simply did not exist during the earlier periods, such as countries that became independent after the breakup of the Soviet bloc. The Economic Freedom of the World (EFW) dataset (Gwartney and Lawson 2007), which has been broadly used in empirical studies of economic institutions (Hall and Lawson 2014), was used to identify the most substantial reforms.

First, the absolute size of the institutional change, as measured by the index, was taken into account. Table 1 shows the highest ranked countries for absolute increases in EFW score; those countries that increased their overall EFW score by two or more points are listed.[6] The downside to this approach is that it could bias the countries selected to those that have very low scores at the beginning of the period, as casual analysis of table 1 reveals.

[5] An earlier potential cutoff point for bookending this era of liberalization might be 2001, with the onset of greater questioning of the neoliberal consensus in the United States and globally in the aftermath of the 9/11 attacks.

[6] The EFW index ranks countries by creating a composite score from 0 to 10, with 10 being the most free. Thus, increases in a country's score should correspond with movement toward more liberal economic institutions and policies.

Table 1. Absolute Increases in Economic Freedom

1980–2005		1990–2005		1995–2005	
Ghana	4.0	Zambia	4.0	Latvia	2.5
Israel	3.4	Nicaragua	3.8	Iran	2.5
Uganda	3.4	Uganda	3.7	Estonia	2.4
Hungary	3.1	Poland	3.4	Croatia	2.3
Jamaica	3.1	Peru	3.2	Indonesia	2.3
El Salvador	3.0	El Salvador	2.8	Lithuania	2.3
Iceland	3.0	Israel	2.8	Zambia	2.3
Peru	2.9	Tanzania	2.7	Romania	2.1
Bangladesh	2.7	Albania	2.7	Albania	2.0
Tanzania	2.6	Bulgaria	2.6		
		Hungary	2.6		

Source: Author's calculations based on data from freetheworld.com.

An alternative criterion is the size of change as a percentage of *possible* increase (how much of the existing room for increase was actually captured). This is defined as the change during the period divided by the highest possible score minus the score from the beginning year of the period—essentially measuring how much possible movement at the beginning of the period was captured by a country's subsequent reforms. This method will not be subjected to the low-starting-score bias. The formula used is:

% improve = (2004 score – base year score)/(highest possible score – base year score) (1)

Table 2 gives the biggest increases in EFW based on equation 1 for the three periods: 1980–2005, 1990–2005, and 1995–2005. Table 2 is the table from which the majority of the countries for the case studies were chosen. All the countries from the list of top ten increases for the period 1980–2005 were chosen. They are: Iceland, New Zealand, Israel, Hungary, Ghana, El Salvador, Jamaica, United Kingdom, Peru, and Uganda. Of the top ten movers in the second period, 1990–2005, five were on the list of top ten for 1980–2005 and were already included. They are: El Salvador, Uganda, Peru, Israel, and Hungary. Thus, to include all of the top ten countries for the second period, 1990–2005, only five countries needed to be added to the list: Zambia, Poland, Nicaragua, Kuwait, and Tanzania. The top three countries for 1995–2005, Estonia, Latvia, and Lithuania, were added to the list to capture the more recent movers from the former Soviet Union. Finally, Ireland and Chile, which were ranked eleventh and twelfth in 1980–2005, were included. Prior to the recent economic crisis, Ireland was probably the most frequently cited example of successful neoliberal economic reform in recent years, and Chile, along with the UK, is one of the earliest of the recent wave of reformers, having begun reforms in the late 1970s.

Table 2. Percent Increases in Economic Freedom Relative to Possible Improvement

	1980–2005		1990–2005		1995–2005	
1	Iceland	58.78	Zambia	54.89	Estonia	51.72
2	New Zealand	54.98	Poland	51.38	Latvia	46.26
3	Israel	54.60	El Salvador	50.42	Lithuania	42.52
4	Hungary	54.18	Nicaragua	50.24	Zambia	41.83
5	Ghana	52.39	Uganda	50.19	Iran	37.61
6	El Salvador	52.04	Peru	50.05	Croatia	37.38
7	Jamaica	51.18	Israel	49.21	Slovak Rep.	37.02
8	United Kingdom	50.89	Hungary	49.21	Poland	36.43
9	Peru	48.05	Kuwait	46.42	Cyprus	34.49
10	Uganda	48.05	Tanzania	43.60	Albania	33.35
11	Ireland	47.37	Malta	41.07	Romania	32.87
12	Chile	46.09	Albania	41.03	Bulgaria	31.98
13	Cyprus	45.72	Bulgaria	40.70	Tanzania	31.55
14	Costa Rica	45.03	Iceland	38.33	Madagascar	30.49
15	Mauritius	44.45	Cyprus	37.77	Brazil	30.48
16	Botswana	43.18	Botswana	37.23	Hungary	30.3
17	Malta	42.96	Iran	36.70	Russia	29.98
18	United Arab Emirates	42.80	India	36.68	Nigeria	29.83
19	Portugal	42.72	Portugal	36.36	Uruguay	28.97
20	Iran	42.62	Ghana	35.75	Slovenia	28.68

Source: Author's calculations based on data from freetheworld.com.

To examine the opposite phenomenon, movements away from economic liberalism, several countries that experienced significant declines in EFW scores were included in the case studies. Most countries around the world experienced at least modest increases in their EFW scores from 1980 through 2005, but four countries—Zimbabwe, Venezuela, Myanmar, and Republic of Congo—experienced consistent and large negative changes in their score over all three periods. All four were added to the list of twenty-four countries studied, as shown in table 3. This group is diverse geographically, culturally, religiously, historically, and in terms of economic performance.

Table 3. Case Studies

1	Baltics	12	Myanmar
2	Chile	13	New Zealand
3	Congo, Republic of	14	Nicaragua
4	El Salvador	15	Peru
5	Ghana	16	Poland
6	Hungary	17	Tanzania
7	Iceland	18	Uganda
8	Ireland	19	United Kingdom
9	Israel	20	Venezuela
10	Jamaica	21	Zambia
11	Kuwait	22	Zimbabwe

Source: Author's compilation.

After reviewing the countries chosen, there are a few surprises. Two of the most widely discussed examples of rapid economic growth over the past twenty years are absent. While both China and India increased their EFW scores, neither increased nearly enough to make this list. For 1980–2005, China ranked fifty-sixth in terms of possible increase captured. For 1990–2005, it ranked forty-fifth, and for 1995–2005, it ranked fifty-first. India scored higher; its rankings for the three periods were forty-second, eighteenth, and twenty-seventh, respectively. The United States, while typically considered a leader in the emergence of the neoliberal consensus from 1980 through 2001, did not rank high in any period despite what, at least domestically, are often cited as major reforms beginning in 1981. For 1980–2005, the United States ranked fifty-fourth in terms of possible increase captured. For 1990–2005, it ranked 100th, and for 1995–2005, it did not make the list because its EFW score decreased slightly.

While there are doubtless many other interesting cases of reform in this quarter-century period characterized by the dominance of the neoliberal consensus, these data were used in order to identify countries with the largest shifts in institutional character over the period. These countries can help shed light on why and how institutions and policies change.

III. Summary of Case Studies

Studying the reforms of the twenty-four countries listed in table 3, a number of factors can be identified as potentially important, either individually or in combination with other events and circumstances.

A partial but probably not complete list includes:

1. economic crises
2. political/military crises (including civil war)
3. changing ideas/political trends
4. collapse of the Soviet Union
5. international politics/spheres of influence
6. size/geography
7. international development assistance/lending
8. neighbors/cultural influences
9. ethnic fractionalization
10. autocracy/unconstrained authority

Table 4 summarizes the twenty-four countries by which characteristics were influential in their institutional transition, as explained in the case studies. The numbers at the head of each column correspond with the numbered factors identified at the beginning of this section. As becomes apparent, economic and political crises were the most common factors influencing institutional reforms, followed closely by changing ideas and trends, and international relationships. The others all occur with less, but still significant, frequency.

Table 4. Case Summaries

	1	2	3	4	5	6	7	8	9	10
Baltics	✓		✓	✓	✓	✓		✓		
Chile	✓	✓	✓			✓				✓
Republic of Congo	✓	✓		✓	✓		✓	✓	✓	
El Salvador	✓	✓	✓	✓	✓	✓	✓	✓		
Ghana	✓	✓				✓	✓		✓	✓
Hungary	✓	✓	✓	✓	✓	✓		✓		
Iceland	✓				✓	✓		✓		
Ireland	✓		✓			✓				
Israel	✓		✓	✓	✓	✓				
Jamaica	✓	✓				✓	✓			
Kuwait		✓	✓		✓	✓				✓
Myanmar	✓	✓							✓	✓
New Zealand	✓		✓			✓				
Nicaragua	✓	✓		✓	✓	✓		✓	✓	
Peru	✓	✓	✓							✓
Poland	✓	✓	✓	✓	✓			✓		
Tanzania	✓	✓			✓		✓			
Uganda	✓	✓				✓	✓		✓	✓
UK	✓		✓			✓	✓		✓	✓
Venezuela	✓	✓	✓					✓		✓
Zambia	✓			✓	✓		✓			
Zimbabwe	✓	✓							✓	✓

Source: Author's compilation.

A. Economic Crises

Perhaps the most common thread running through all of the cases explored here is the role or presence of economic crisis. All of the countries included here experienced some form of economic crisis directly connected to their episodes of institutional reform. However, the nature of those economic crises varied greatly, somewhat limiting the lessons discernable from the variable alone. It is possible to identify at least three broad categories of economic crises among this group of countries. The first category is the rich country prolonged downturn. These type of crises occurred in the United Kingdom, Ireland, Iceland, and New Zealand. In these countries, standards of living remained very high relative to global averages, but based on their own recent historical experiences, each country experienced a pronounced departure from the norm in terms of economic performance. While much of the world would have viewed the economic performance of the UK in the late 1970s with envy, at home, it led to the "winter of discontent" and a radical departure from three decades of economic orthodoxy.

Second, long-term decline under socialism led to the economic crises weighing on the countries of the former Soviet bloc, such as Poland, Hungary, and the Baltics. They had enjoyed modest economic success and higher standards of living than much of the world, but lagged significantly behind the OECD countries in terms of economic performance and well-being. Their economic crises, while pronounced at the time of reform, were long in gestation and not new.

The third category is economic crises in poor countries. These countries have never experienced the benefits of economic prosperity and long-term growth, and thus, what amounts to an economic crisis with significant political ramifications in a developed country such as Ireland is not really meaningful in their context. Their histories are characterized by low economic standards of living and relative economic stagnation. While the poor countries discussed here did experience economic crises, they are of substantively different character than those crises in the more developed countries. Much of the difference can probably be thought of qualitatively as a difference in expectations among the population. People in poorer countries are simply more accustomed to economic stagnation and setbacks than are people in wealthier countries. A situation that might lead many individuals to call for a major reconsideration of how economic policy is "managed" in a developed country may cause little change in public attitudes in poorer countries—and thus result in less pressure for change. A related complication is that lack of wealth and financial resources will also prove limiting to those who wish to work for reform.

In addition to the different qualitative aspects of the economic crises discussed here, there are two other problems with viewing economic crisis as a strong explanatory variable on its own. While the two dozen countries here all experienced economic crises, many more countries experienced economic crises during this period and did not undertake significant reforms. Thus, it clearly is not a sufficient condition for institutional reform in isolation. Another potential problem with looking to the concept of economic crisis as an indicator or explanatory factor of institutional reform is its commonness. Questions regarding economic development often approach the topic from the wrong perspective, by asking: Why are some countries poor? Yet, poverty and the absence of economic growth are the global and historic norm, thus development studies should ask the converse question: Why are some countries rich or getting rich? (Rosenberg and Birdzell 1986) Applying that lesson to the question of institutional reform is important. While it may not be sufficient to point out that most major institutional reforms have occurred amid economic crisis, it also appears to be the case that no major reforms occurred during times of economic progress relative to the local norm. Thus, if economic crisis is not a sufficient condition for institutional reform, we cannot reject the hypothesis that it is a necessary condition for such reforms.

B. Political/Military Crises (Including Civil Wars)

Many of the reforms explored in this chapter occurred in conjunction with major disruptions of the political status quo or in the wake of foreign or domestic military conflict. One possible way these crises are important is that they can lead to the types of economic crises discussed earlier as possible important contributors to economic reform. Secondly, such crises have the potential to greatly disrupt the power equilibrium in a society. Interest groups that have enjoyed an advantage in domestic decision making and have used such an advantage to engage in rent seeking behavior may find themselves at a disadvantage during such disruptions, thus opening the way for other competing interest groups to reshape the institutional structure in their favor (Acemoglu and Robinson 2006). Third, major civil or military disruptions may shake the social and cultural preconceptions of the populace to the point where they are more open to alternative institutional arrangements and, indeed, may even demand them. The Central American countries discussed here experienced military disruptions in terms of civil wars or spillover wars from their neighbors that dramatically altered their internal power balance and resulted in reforms. Myanmar and Zimbabwe experienced prolonged political or military disruptions leading into their economic collapses. On the other hand, military victory (in the Falklands crisis) helped the reforming government to remain in power in the United Kingdom.

C. Changing Ideas/Trends

The countries discussed here that experienced increases in EFW scores were the standouts, but they were not alone, and thus they were probably influenced by trends around the world. This period has be characterized by the emergence of a "neoliberal consensus," where worldwide policy and expert opinion moved toward greater faith in markets and away from faith in government. Thus, countries studied here engaged in reform driven by internal factors but also influenced, possibly significantly, by global trends to varying extents. Disentangling such complex relationships would require numerous approaches, including a broader understanding of the sociology of knowledge, how ideas translate across national boundaries and cultures, and how success influences decision makers and idea adoption in other countries.[7]

Two economic ideas that were widely developed and influential in the emergence of the neoliberal consensus were skepticism about the long-run viability of socialism and economic planning as discussed by Hayek (1945, 1960) and the importance of monetary policy in macroeconomic performance associated with Friedman (Friedman and Schwartz 1963; Friedman 1968). The role of these ideas in influencing institutional reforms can be pinpointed in some cases to specific decision makers. Estonian Prime Minister Mart Laar was directly influenced by Milton Friedman, and British Prime Minister Margaret Thatcher famously produced a copy of Hayek's *Constitution of Liberty* at a Conservative party conference and declared it the guiding thought behind her platform. Chile's reforms, as widely noted, were significantly influenced by the "Chicago boys," who had studied monetarist economics at the University of Chicago and subsequently gained influential positions in the Pinochet regime. And

[7] See, for example, Berger and Luckmann (1966) and Williamson (2011).

countries such as New Zealand adopted inflation targeting, a practical application of Friedman's notion of a monetary rule.[8]

The worldwide increase in the area of monetary policy in the EFW index has been significant, suggesting that worldwide, the monetarist idea advanced by Friedman has taken root, not just in theory, but in practice. Other countries seem to have been influenced by the thinkers that guided Thatcher and Laar, as well as many others, but whether directly or indirectly is a mystery. What seems clear is that a large role was played by a sea change in economic thinking that took root in the late 1970s under the influence of the Chicago School and Austrian economics.[9]

D. Collapse of the Soviet Union

The collapse of the Soviet Union looms large over the period of these case studies. The Soviet collapse can be seen as having at least two broad influences on the historical record of institutional reform that followed—one in the political sphere and one in the ideological or intellectual sphere. First and most obviously, the collapse of the Soviet Union and the Soviet bloc created the political opportunity for institutional reform in many countries where it did not exist previously (indeed, some of the countries did not even exist previously). This event allowed, for example, the Baltics and Poland to undergo radical economic reforms that would have been unthinkable under Soviet domination. Of course, many former Soviet republics have not undergone the same type of rapid liberalization. Examples such as Belarus and the Central Asian republics, as well as Russia itself, remind us that the Soviet collapse was not a guarantor of significant economic liberalization (Krueger and Ciolko 1998; Boettke 1994).

The second way the Soviet collapse greatly influenced institutional reform was by transforming the idea space or social discourse surrounding economic institutions and policy. As long as the Soviet system remained, it provided a powerful symbol of socialism that was influential to many governments and intellectuals around the world. Its demise forced previously unwilling minds to face directly the arguments of Hayek, Friedman, and others that had more easily influenced the likes of Thatcher and Laar. Several of the African countries discussed here, such as Zambia, were among a

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[8] See Yergin and Stanislaw (2002) for a discussion of some of these influences.

[9] O'Driscoll (2011) provides some background on the continuing relevance of these debates.

wave of poor countries to abandon their faith in socialism after the Soviet collapse. In Central America, the Soviet collapse and the end of the Cold War led to the decline of the ideas (and elimination of the financial and military support) that had driven a decade of civil war and turmoil from which emerged economic liberalism in Nicaragua, Honduras, and El Salvador.

Israel represents a special place in the story of the influence of the Soviet collapse. It was one of the developing countries that had been losing its faith in socialism prior to 1990, a fact solidified by the demise of the Soviet system. Also, Israel was greatly influenced by a massive influx of Jewish refugees from the former Soviet Union. These refugees brought with them a transformation of Israeli society and strong opinions about life in a socialist state that further influenced Israeli movement toward liberalization.

E. International Politics/Spheres of Influence

Related to the discussion about the demise of the Soviet Union, international politics seems to have played a role in the institutional reforms studied here. For various reasons—economic advantage or strategic military necessity—countries align themselves with more powerful or influential partners. Part of this alignment can take the form of adopting similar institutions.

The Baltic states and other former Soviet satellites were eager to tie themselves into the Western European or American spheres of influences in hopes of avoiding future entanglements with Russia. These hopes likely significantly influenced liberalization in the Baltics and in Poland.[10] Israel similarly sought to closely align itself with the United States for military purposes, and the cooperation of both countries' conservative governments may have sped institutional reform. In Kuwait, reform was clearly influenced by its experience with the Iraq invasion and its American-led liberation in the early 1990s, and it worked to develop more Western institutions in its wake.

On the side of moving away from liberalism, Venezuela represents a stark example of an effort to establish an explicitly anti-American sphere of influence in South America. Now-deceased Venezuelan leader Hugo Chavez advocated the spread of socialism as a counter balance to American influence—similar to the movement

[10] Satisfying criteria for gaining admission to the European Union would be included in this factor.

in Africa following World War II when many newly independent African countries sought strategic alignment with the Soviet Union against their former Western colonial masters. The fates of these leading alliance partners seem to weigh heavily on the choices of their client or aligned states.[11]

F. Size/Geography

Many of the leading reformers in this group are small countries. The Baltics, Jamaica, Ireland, Iceland, and Israel are countries with small areas, limited natural resources, and geographic orientations toward international exchange and openness. Being smaller and more open could make a country more easily influenced by global trends such as the trend toward liberalization post-980. As with many of the factors discussed here, however, there are counter examples: not all small countries undertook significant economic reforms, and their size or geographic characteristics in isolation cannot offer any meaningful insight on the timing of their reforms.

G. International Development Assistance/Lending

The role of international development funds in economic growth has come under increasing skepticism. The original Keynesian notion of international dollars directly jumpstarting the process of growth has been questioned due to decades-long experiments that have resulted in few success stories. Faith in investment-led development has also been shaken because of greater theoretical and empirical understanding of the role of institutions (Skarbek and Leeson 2009). While the direct impact of aid on development is now more frequently questioned (see, for example, Easterly 2003; Ayittey 2012; Sorens 2009; Leeson 2008), the case studies explored here suggest that, at least in a few cases, the desire for aid has influenced some countries to adopt more liberal economic institutions in exchange for aid. Ghana, Jamaica, Tanzania, Uganda, and Zambia all appear to have adopted institutional reforms at the behest of international lending agencies. While it did not lead to institutional liberalization across the board, this conditional lending seems to have led to more stable monetary policy, greater privatization, and more trade openness. It does not seem to have had as much success in other areas, such as property rights and judicial impartiality—areas perhaps more deeply rooted in cultural factors and less easily changed by fiat.

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[11] For a review of some of the relevant theories in this area, see Gourevitch (1978).

While these countries have engaged in institutional reform as a result of conditional lending, two caveats must be noted. First, most countries receiving development assistance have not engaged in this level of reform (or any meaningful reform). Second, while impressive relative to their initial conditions, the institutional regimes created in these countries are still significantly less free and less well-developed than other countries in this study, such as Ireland, New Zealand, and Chile. A counterexample seems to be Republic of Congo, where earlier foreign assistance contributed to its institutional movement away from neoliberalism. Institutional quality and policy is rooted in deep historical and cultural foundations that are not easily displaced by outside interference (Couyoumdjian 2012; Coyne 2008).

H. Neighbors/Cultural Influences

Similar to the discussion of spheres of political/military influence, cultural influences and geographic proximity seem to have played a role in some of the reforms studied here. Ireland had close cultural and economic ties to the United Kingdom and the United States that may have helped influence its transition. The United Kingdom strengthened a clear institutional distinction between itself and continental Europe and more closely aligned with the United States, which was probably partly culturally and historically influenced.[12] On the other hand, Myanmar moved against the tide of economic liberalization that its neighbors in Southeast Asia have been experiencing.

I. Ethic Fractionalization

A growing literature has asked what role ethnic and religious makeup plays in economic and political decision making (Alesina et al. 2003). Myanmar and Republic of Congo represent cases reviewed here where ethnic fractionalization seems to have exacerbated internal conflict and led to economic reforms that decreased economic freedom. Hungary, Iceland, and Ireland, on the other hand, represent relatively homogenous populations that have experienced economic liberalization. The question that remains unanswered is how

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[12] Indeed, these types of deeply rooted historical and cultural ties can influence institutional cooperation and imitation even among countries separated by great distances. For example, the Five Eyes cooperative relationship in espionage and intelligence gathering ties five predominantly Caucasian, English-speaking countries together, to the ongoing annoyance of many of their neighbors and other allies.

important fractionalization is to the construction of trust and social cooperation that will allow voluntary civil society to replace rent-seeking institutions.

J. Autocracy/Unconstrained Authority

Constraints on executive power and constitutional government have often been viewed as important features in promoting and preserving economic liberalization. But several examples in these case studies point to possible exceptions. Chile under the Pinochet regime experienced rapid economic liberalization under an authoritarian government. Ghana and Peru are also examples of increases in EFW scores occurring under relatively authoritarian regimes. Venezuela, Zimbabwe, and Myanmar are examples of movement in the opposite direction undertaken by autocratic governments. The complex interaction of domestic interest groups, regime stability, and institutional reform is an important area in need of much further in-depth analysis (Holcombe and Rodet 2012).

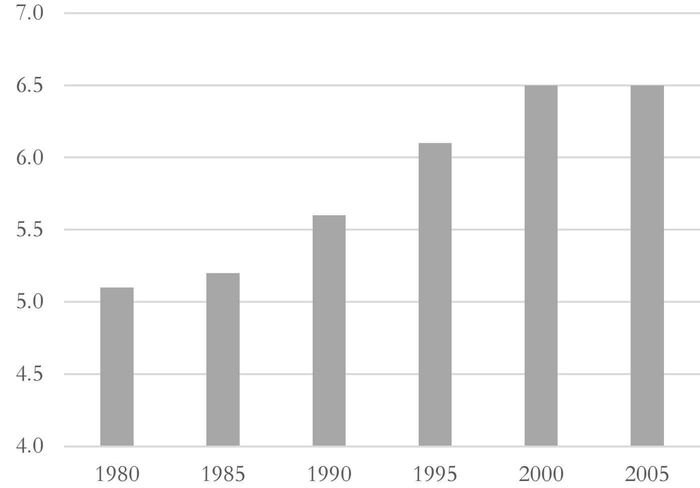
IV. Conclusion

The quarter-century from 1980 through 2005 witnessed profound changes in economic and political institutions among numerous countries worldwide. Many of those changes were part of broader global trends toward greater liberalization, a neoliberal consensus—indeed, only four countries experienced a lower EFW score in 2005 than in 1989: Zimbabwe, Venezuela, Republic of Congo, and Myanmar. As figure 1 indicates, the global average for the EFW index rose from just over 5.0 in 1980 to about 6.5 in 2005.

Looking at the five component areas of the index reported in figure 2 reveals a similar worldwide trend,[13] with only the regulation component not increasing consistently since 1980. These trends indicate that the phenomenon of economic reform was not limited to the countries studied here, as we know already. Thus, the challenge is increased by the need to not only understand the factors that influenced individual countries during this period, but also what factors were working on a global level to spread liberal policies and institutions around the world.

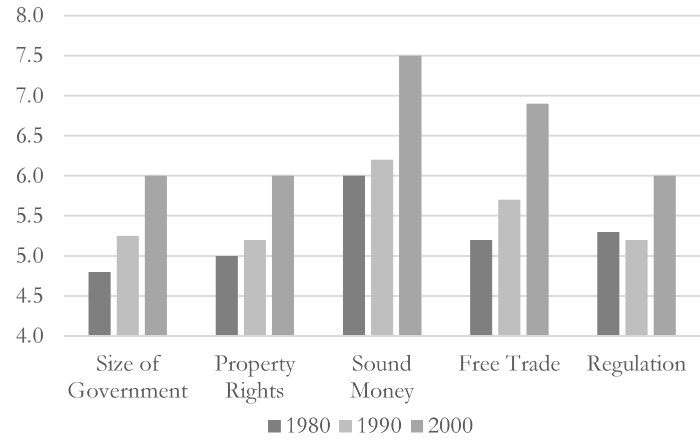
[13] The five component areas of the index are property rights, size of government, monetary policy, international trade, and regulation.

Figure 1. Global EFW Index Average, 1980 to 2005



Source: Gwartney and Lawson (2007).

Figure 2. EFW Area Scores, 1980, 1990, and 2000



Source: Gwartney and Lawson (2007).

This begs the question of whether the role of economic crises discussed previously depends on the policy attitudes prevalent going into the crisis. In the period studied here—1980 to 2005—the world moved significantly away from the faith in planning and centralization common during the first thirty years after World War II. The widespread economic troubles of the 1970s shook the confidence that governments, citizens, and intellectuals had in economic planning, and responses to continued crises tended to be colored by a new appreciation for markets. The opposite happened in the 1930s and the 1960s, when economic reforms and social and cultural attitudes, particularly in the face of crises, moved toward greater planning and centralization. The recent worldwide economic crisis suggests that the pendulum may have swung again, with governments, commentators, and intellectuals asking: Did the neoliberal reforms of the 1980s and 1990s fail to deliver the goods and lead to the current crisis? Given the prevalence of that attitude, we see crisis-driven reform, notably in the United States, moving significantly away from markets and toward intervention. It seems very plausible that the type of reform sparked by economic crisis may be, at least in part, dependent on movement away from the preceding paradigm, be it markets or intervention.

The current study is limited to 1980 through 2005. But, as a result of the economic crisis that began in the middle of the last decade, we see a significant amount of economic turmoil in many of the countries covered in this paper. Iceland's banking crisis and Ireland's real estate collapse are prime examples. How those countries will respond in the mid-term will be a telling continuation of this story and will give us a greater understanding of the role of crises in shaping institutional reform. As the world seems to be entering into a new period of greater acceptance of government intervention into the economy, given recent political and economic developments, the period studied here may represent a unique historical case study on the factors that lead to liberalization. If current trends take hold and reverse many of those institutional changes, future historical analysis may allow us to understand better how such reforms are undone.

While the cases discussed in this paper do not reveal any clear or concise "secret ingredient" for economic reform, there are several broad themes that emerge from the historical analysis that are worth greater exploration. While no one factor seems to have occurred with enough regularity or magnitude to affect major institutional reform in isolation, they may represent factors that in combination create the necessary environment to achieve a tipping-point in institutional reform. Several factors or themes arose in the historical narratives suggesting that they are not just historical flukes, but more systematically potential drivers of institutional reforms, or the necessary if not sufficient conditions after which reforms can occur. These episodes suggest avenues for future research and analysis. And as the economic transitions continue to evolve, they help us identify indicators to study in future cases as well as potential mechanisms to predict where reforms are most likely to occur in the future.

While empirical analysis will provide important evidence relative to the factors explored in this paper, empirical analysis alone is unlikely to prove a definitive arbiter of the question at hand. Given the unique interactions and historical circumstances surrounding each episode of reform, and the relative lack of large numbers of observations, statistical analysis will provide important but limited direction. Additional approaches, such as more in-depth case studies, the sociology of knowledge, and comparative politics and political economy will also be required to further develop our understanding. We want to know not only what variables have a statistically significant impact, but which ones weigh strongly on historical outcomes even absent statistical evidence. We need to understand which factors have what McCloskey (2000) refers to as "oomph."

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