Cultural Impact on Economic Freedom in OECD Member Countries

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Abstract

The new institutional economic theory working with the concept of transaction costs assumes a quality setting of formal and informal institutions for an effectively functioning economic system. In an economic freely environment, we can assume a lower level of transaction costs. The main aim of the presented article is to identify Hofstede’s cultural dimensions that have a combined impact with the Human Development Index on economic freedom measured by The Heritage Foundation Index of Economic Freedom in OECD member countries. We used instruments of quantitative analysis, namely correlation and multiple regression analysis. We confirmed a negative impact of power distance and uncertainty avoidance on The Heritage Foundation Index of Economic Freedom. Countries with higher values of the Human Development Index achieve better score in The Index of Economic Freedom. In literature review and discussion we open the question of cancel culture in context of economic freedom for further research and we recommend the application of the concept of economic freedom in accordance with the principle of subsidiarity. However, the importance of economic freedom appears differently for diverse groups of countries.

Keywords: The Heritage Foundation Index of Economic Freedom, culture, Hofstede, Human Development Index, cancel culture

JEL Classification: E02, O17, O44

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Introduction

The new institutional economic theory represents an alternative economic approach to the main economic concepts (e.g. Mlčoch, 2005). The subject of economic research is in this case a transaction in the sense of an exchange and not in a classical transformation approach of production (more specifically Wallis and North, 1986). Economic prosperity is affected by transaction costs, and it is inherent that in economic systems with a lower level of transactions costs is an institutional environment more efficient (e.g. Kittová and Steinhauser, 2017). This quality is influenced by the setting of formal and informal institutions, e.g. the quality of laws or culture. One of the most important authors of this economic concept and the whole economic theory is R. H. Coase (1937), who underlined the role of transaction costs for the very existence of companies. O. E. Williamson (1990) further disseminated this theory and described economic reality with its imperfections, that must be mitigated by governance structures. This is mainly due to the possibility of opportunism, imperfect information, and assets specificity. Later, H. De Soto (1989 in Marquez, 1990) in “The Other Path” emphasized the practical application of this concept and the importance of the informal sector (informal housing, trade, and transportation) in economic development. In other words, when formal institutions fail, informal institutions gain importance for the well-living being of the people. H. De Soto demanded true economic freedom in the sense of freedom from bureaucracy. The Other Path became an inspiration for the World Bank Group Doing Business Index (ild.org, 2017). We have several possible indicators that we would use to quantify and estimate the number of transaction costs in the economy. Unfortunately, some indices turned out to have a problem with independence and subjectivity. The problem of subjectivity in expert assessment is well known (e.g. Coduras and Autio, 2013). Even the Doing Business is suspended at the time of our manuscript preparation (WBG, 2021). For our analysis, we used The Heritage Foundation Index of Economic Freedom. However, this indicator also has its limitations like any other composite index. One of the problems is the use of equal weights in the ranking-building (The Heritage Foundation, 2020b). The authors I. Dialga and T. Vallée (2021) propose to use advanced methods of weighting individual index components, namely principal components analysis or the method of the benefit of the doubt. On the other hand, the authors mention the importance of the index in public debates and policies. J. Ott (2018) proposes omitting the Size of Government sub-index from the Index of Economic Freedom, while increasing the degree of correlation with other indicators, e.g., with a level of Happiness. In addition to economic freedom, the value of transaction costs, according to new institutional economic theory, can also be expressed using other indicators and
indices to compile an analysis of institutional environment quality (e.g. Okruhlica, 2013).

Similarly, culture can be quantified through the approaches of different authors. We can mention F. Trompenaars or G. Hofstede (e.g. Knapik and Zorkócirová, 2006). In addition, J. Graafland (2020) applied the World Value Survey and the European Value Survey database. A. Chizema and G. Pogrebna (2019) used language as a measure of individualism, specifically the use of the personal pronoun “I”. All approaches have their strengths as well as weaknesses. G. Hofstede (1996) criticized the competitive approach and methodology of F. Trompenaars using correlation and factor analysis, but similarly M. Minkov (2017) tested Hofstede’s methodology and emphasized the need to update his database. Certainly, an interesting alternative is the application of the World Values Survey database (WVS, 2021), but we decided to accept the limitations and chose a publicly available and in the scientific literature widely used database by G. Hofstede. This methodology does not require further processing and enables greatly simplifies quantitative analysis and comparison with other studies. For this reason, we will deal with the relationship between cultural informal institutions and economic freedom quantified by The Heritage Index of Economic Freedom.

The current crisis caused by the Covid-19 pandemic also highlights the need to discover sources of competitiveness. This can be defined following M. Porter (1990) and P. Krugman (1994) in the light of productivity (we use labour productivity). We expect that in a better institutional environment, we expect greater economic freedom and thus an environment for establishing healthy competitiveness. In a similar manner, D. Steinhauser (2021) compared the labour productivity of the EU member states and the Asian and Pacific Belt and Road Initiative (BRI) member states in relation to the Human Capital Index, the Global Innovation Index, and The Heritage Index of Economic Freedom. The author showed only a weak direct correlation between labour productivity and economic freedom for the EU countries, but for the BRI countries Kendall’s correlation coefficient was higher than 0.6, so there is a moderate strong direct correlation.

In the discussion, we will try to point out a new phenomenon which, also occurs according to measurements in the most economically free countries and which has a cultural expression, which we propose to examine to economic freedom. Specifically, this is the issue of cancel culture. The issue of cancel culture is in current scientific literature relatively new. The evidence represents the number of scientific articles in the Web of Science database (WoS, Clarivate, 2022). As of January 10, 2022, after searching for “cancel culture” with quotes on the WoS, only 37 articles appeared, of which 8 in year 2020 and 29 in year 2021. In addition to updating and comparing the results with other papers with
a similar topic, the present study may contribute to the discussion on cancel culture in the context of economic freedom, culture, and competitiveness. In addition to opening up the discussion question, this study aims to contribute to the literature examining the relationship between culture and economic freedom.

1. Literature Review

L. Guiso et al. (2006, p. 23) defined culture: “as those customary beliefs and values that ethnic, religious, and social groups transmit fairly unchanged from generation to generation.” The authors mentioned that such a definition of culture may have an impact on economic outcomes. For this reason, we can find a wealth of literature that has used cultural dimensions and economic freedom in various applications. J. Graafland (2020) examined the role of the generalized trust between the UNDP Human Development Index and the Economic Freedom of the World by the Fraser Institute. J. Graafland and N. Noorderhaven (2020) focused on the analysis from a microeconomic perspective, i.e., the impact of long-term orientation on corporate social responsibility. Y. Bayar and O. F. Öztürk (2019) examined the impact of economic freedom by the Fraser Institute and globalization by the KOF Swiss Economic Institute Globalization index on shadow economy in the European Union transition economies, D. Singh and Z. Gal (2020) and W. Lu et al. (2020) dealt with the impact of economic freedom on foreign direct investment in different regions of the world. K. Gehring (2013) confirmed the positive impact of economic freedom on subjective well-being, I. Brkić et al. (2020) and L. Mura et al. (2017) examined economic freedom and economic growth. C. Williamson and R. L. Mathers (2011) also examined the impact of economic freedom and culture on economic growth. They found an interesting fact that, although economic freedom and culture have an influence on economic growth, they may be substitutes for each other: “One possible explanation for this finding is that when private property rights and contracts are not formally enforced, individuals rely on informal norms, such as trust and respect, to substitute for this function (Williamson and Mathers, 2011, p. 326).” This statement is in theoretical line with “The Other Path” from H. de Soto (1989 in Marquez, 1990).

J. D. DeBode et al. (2019) published an article on a sample of 52 countries according to the availability of databases, in which they examined the relationship between Hofstede’s cultural dimensions and the economic freedom of The Heritage Foundation. We consider this study to be similar to our presented paper, while we differ in the specification of the model and the sample of countries. Nevertheless, the study is key to comparing our results in the discussion. In addition,
the authors added to the variables such determinants as the ratio of Catholics, Protestants, and Muslims, or the legal origin. Thus, among informal institutions and factors that significantly influence culture, we can also include religion. For example, in the Catholic Church, there is a social doctrine, the influence of which is also examined in the economic literature (compare Gómez-Bezares and Gómez-Bezares, 2021). J. D. DeBode et al. (2019, p. 68) state: “These results suggest that Catholics are the most accepting of a free-market economy with fewer restrictions than Protestants, who, in turn, are more accepting than Muslims. As a result, one would expect the greatest economic freedoms in countries with proportionately more Catholics than any other religious affiliation, followed by Protestants and to a lesser extent, Muslims.” The perception of freedom from the point of view of faith is closely related to this issue: “Anyone who promises the better world that is guaranteed to last for ever is making a false promise; he is overlooking human freedom. Freedom must constantly be won over for the cause of good. Free assent to the good never exists simply by itself. If there were structures which could irrevocably guarantee a determined – good – state of the world, man’s freedom would be denied, and hence they would not be good structures at all (Benedict XVI., 2007).” The findings of these studies have led us to formulate our conclusions more carefully and per the principle of subsidiarity. This assumption was studied and applied to Lombardy by J. Baroš (2017), which is part of the Catholic social doctrine.

These ideas have led us to think about cancel culture, we provide a brief overview of current creditworthiness studies on this topic. Author E. Ng (2020, p. 623) defined cancel culture as: “the withdrawal of any kind of support (viewership, social media follows, purchases of products endorsed by the person, etc.) for those who are assessed to have said or done something unacceptable or highly problematic, generally from a social justice perspective especially alert to sexism, heterosexism, homophobia, racism, bullying, and related issues.” The modern phenomenon of cancel culture, J. C. Velasco (2020, p. 6) likened to historical practices of humiliation: “History has shown that humanity has devised a multitude of creative yet gruesome ways of shaming an individual for alleged social and legal infrastructures e.g. public flogging, wearing a dunce cap, forced public exposure, and public caning.” P. Norris (2021) asks whether this phenomenon exists at all and tries to explain it based on sociological background. The author mentions the thesis Noelle-Neumann’s spiral of silence, which talks about the gradual prevalence of majority values in society and the displacement, or even the suppression of competing beliefs. The author also argues that there may be evidence of a cancel culture phenomenon, where scholars do not express their moral beliefs publicly until they conform to the views of the environment. Of course, it
is not possible to defend immoral or illegal statements and speeches or to condemn sound activism. On other hand exists a danger of self-censorship and censorship. Lesson for our situation can be the experience of former Central and Eastern Europe socialist countries, including Slovakia. P. Matejovič (2013) studied the work of the Slovak writer V. Mináč and the influence of censorship on his work. The author states that immediately after the onset of the totalitarian regime, there was no institutionalized censorship, but there was already self-censorship, which also changed the character of the author’s work, which ceased to be the result of authentic work. In our opinion, the motivation for self-censorship is a possible fear of being punished by expressing one’s own beliefs or striving for conformity.

D. Sailofsky (2021) investigated cancel culture based on 1000 messages on the Twitter network, which were related to one sports controversy. One cultural dimension, which G. Hofstede also examines, provoked negative reactions. This is masculinity, in which extreme and often vulgar manifestations can provoke a “cancel” response: “The responses to this situation point to questions regarding the proper consequences for inappropriate actions and acceptable masculinities among athletes” (Sailofsky, 2021, p. 2). It is known that the phenomenon of cancel culture is associated with the left-wing of the political spectrum (e.g. Lewis, 2020), which has its collectivist origins. From these facts, we can conclude that in an environment with a higher level of masculinity and individualism, which we can measure using Hofstede’s cultural dimensions, we assume more frequent manifestations of cancel culture. Masculinity and individualism can provoke reactions associated with cancel culture, in addition individualism in society can enable them because, in individualistic societies, people enforce their freedom more. The current pandemic situation caused by Covid-19 has also demonstrated this assumption. The authors C. Chen et al. (2021) dealt with the relationship between compliance with anti-pandemic measures and culture, in particular individualism. Indeed, it has been confirmed that these measures, which the authors called lockdown rules, were less complied within places with a higher degree of individualism. It is also possible to shift cultural characteristics in specific countries from individualism to collectivism. However, cultural change is a long-term process, especially in the field of education (Akanji, 2017). For this reason, it is interesting that we encounter abundant culture in academia (e.g. Berghel, 2021). However, we offer verification of assumption about cancel culture for further research, as this is not in line with the main objective of this study. However, these socio-political issues may also affect economic activity.

Specification of our regression analysis influenced seven formulated hypotheses, which were inspired by the conclusions of D. Mornah and R. J. MacDer-
characterized by high Power Distance and Masculinity are more corrupt. Individualism, Long Term Orientation, and Indulgence, in most cases, have a negative effect on corruption. The effect of Uncertainty Avoidance is unclear.” We allow our analogy because the Heritage Foundation Index of Economic Freedom (IEF) contains a quantification of corruption too, and at the same time we consider the authors’ study to be a quality analysis using modern econometric methods. In the case of Uncertainty Avoidance, we can use our own consideration on the impact on economic freedom. P. Knapik and O. Zorkócirová (2006) state that in societies with a higher value of Uncertainty Avoidance are prepared precise plans, or stricter government regulation. For this reason, we are inclined to believe that such societies are less economically free:

H1: Power Distance will have a negative impact on economic freedom, i.e., the higher value of this dimension will be correlated by lower values of the IEF.
H2: Individualism will have a positive impact on the economic freedom, i.e., the higher value of this dimension will be correlated by the higher value of the IEF.
H3: Masculinity will have a negative impact on economic freedom, i.e., the higher value of this dimension will be correlated by lower values of the IEF.
H4: Uncertainty Avoidance will have a negative impact on economic freedom, i.e., the higher value of this dimension will be correlated by lower values of the IEF.
H5: Long Term Orientation will have a positive impact on the economic freedom, i.e., the higher value of this dimension will be correlated by the higher value of the IEF.
H6: Indulgence will have a positive impact on the economic freedom, i.e., the higher value of this dimension will be correlated by the higher value of the IEF.
H7: Countries with a higher Human Development Index will achieve higher value of the IEF.

2. Methodology

The main aim of the presented article is to identify Hofstede’s cultural dimensions that have a combined impact with the Human Development Index on economic freedom measured by The Heritage Foundation IEF in OECD member countries. To achieve our main aim, we applied a quantitative analysis of one dependent (DV), several independent variables (IV), and one control variable (CV), which can be seen in Table 1. All partial components of The Heritage IEF, variables from 10 to 21 were used only in correlation analysis. In the case of correlation analysis, it is not necessary to mark dependent or independent variables, but we assume the impact of culture on the IEF subindices. We included
these variables due to the methodological reservations of I. Dialga and T. Vallée (2021) and J. Ott (2018) on total index calculation. Inspired by the questions in these two studies, we have included a macroeconomic indicator of labour productivity that plays a special role in our analysis. It aims to verify the assumption that the IEF is indeed an adequate measure of the level of transaction costs in the economy and whether it assesses the level of national competitiveness itself. This variable was also analysed only by correlation analysis. The choice of years was influenced by the IEF methodology (The Heritage Foundation, 2020b). The 2020 report evaluates part of the years 2018 and 2019. For this reason, we have selected the control variable Human Development Index (HDI) from 2018.

**Table 1**

| No. | Variable | Description |
|-----|----------|-------------|
| 1.  | IEF_2020 | The Heritage Foundation Index of Economic Freedom from 2020 (DV) |
| 2.  | LProd_2019 | Labour productivity as GDP per person employed (constant 2017 PPP USD) |
| 3.  | HDI_2018 | UNDP Human Development Index from year 2018 (CV) |
| 4.  | PDS | Hofstede’s Power Distance (IV) |
| 5.  | IND | Hofstede’s Individualism (IV) |
| 6.  | MAS | Hofstede’s Masculinity (IV) |
| 7.  | UA | Hofstede’s Uncertainty Avoidance (IV) |
| 8.  | LTO | Hofstede’s Long Term Orientation (IV) |
| 9.  | IDG | Hofstede’s Indulgence (IV) |
| 10. | PR_2020 | Subindex Property Rights from report 2020 |
| 11. | JE_2020 | Subindex Judicial Effectiveness from report 2020 |
| 12. | GL_2020 | Subindex Government Integrity from report 2020 |
| 13. | TB_2020 | Subindex Tax Burden from report 2020 |
| 14. | GS_2020 | Subindex Gov’t Spending from report 2020 |
| 15. | FH_2020 | Subindex Fiscal Health from report 2020 |
| 16. | BF_2020 | Subindex Business Freedom from report 2020 |
| 17. | LF_2020 | Subindex Labor Freedom from report 2020 |
| 18. | MF_2020 | Subindex Monetary Freedom from report 2020 |
| 19. | TF_2020 | Subindex Trade Freedom from report 2020 |
| 20. | IF_2020 | Subindex Investment Freedom from report 2020 |
| 21. | FF_2020 | Subindex Financial Freedom from report 2020 |

*Note: IV – independent variable; DV – dependent variable; CV – control variable.*
*Source: Own processing from The Heritage Foundation (2020a), The Hofstede Centre (2019), UNDP (2020), WBG (2022).*

We verified the formulated hypotheses in chapter Literature review mainly by correlation and multi-regression linear analysis, the equation of which had the form:

\[
IEF_{2020} = b_0 + b_1 \times x_1 \pm b_{n-1} \times x_{n-1} \pm b_n \times x_n + u
\]

where \(x_1, x_{n-1}, x_n\) are independent variables, \(b_0, b_1, \text{ and } b_{n-1}\) are parameters and \(u\) mean a random error (compare Lukáčik et al., 2011).
In the case of correlation analysis, R. Hanák (2016) recommends compiling the Pearson correlation coefficient only if the variables are normally distributed. Table 2 contains the results of the test of the normally distribution of variables. Numerous p-values of the four tests, which were less than 0.05, determined the choice of Kendall’s tau correlation coefficient. We tested the normal distribution of variables in the PAST software (Hammer et al., 2001), as well as descriptive statistics and correlation analysis.

Multiple regression analysis was compiled and tested in software GRETL (Cottrell and Lucchetti, 2021), with input data prepared in Microsoft EXCEL. The results were interpreted in accordance with the econometric literature (Lukáčik et al., 2011). Table 3 contains descriptive statistics of the basic dataset indicators. The explanatory ability of the model was influenced by the missing value of the cultural dimension of Indulgence, specifically Israel. We used the database by The Hofstede Centre (2019), while the original research of cultural dimensions comes from G. Hofstede et al. (2010). We also processed the data of the IEF by The Heritage Foundation (2020a), and the HDI by UNDP (2020).

Table 2

| Normality Tests of Variables | Shapiro-Wilk W | Anderson-Darling A | Lilliefors L | Jarque-Bera JB |
|-----------------------------|----------------|-------------------|-------------|---------------|
| IEF_2020                    | 0.335          | 0.137             | 0.048       | 0.563         |
| LPProd_2019                 | 0.000          | 0.000             | 0.028       | 0.000         |
| HDI_2018                    | 0.007          | 0.023             | 0.092       | 0.006         |
| PDS                         | 0.423          | 0.311             | 0.140       | 0.545         |
| IND                         | 0.067          | 0.061             | 0.124       | 0.320         |
| MAS                         | 0.310          | 0.365             | 0.611       | 0.612         |
| UA                          | 0.184          | 0.172             | 0.089       | 0.431         |
| LTO                         | 0.110          | 0.133             | 0.052       | 0.348         |
| IDG                         | 0.188          | 0.089             | 0.187       | 0.680         |
| PR_2020                     | 0.004          | 0.003             | 0.017       | 0.079         |
| JE_2020                     | 0.059          | 0.055             | 0.027       | 0.315         |
| GI_2020                     | 0.006          | 0.004             | 0.040       | 0.180         |
| TB_2020                     | 0.184          | 0.205             | 0.112       | 0.409         |
| GS_2020                     | 0.660          | 0.588             | 0.513       | 0.722         |
| FH_2020                     | 0.000          | 0.000             | 0.003       | 0.011         |
| BF_2020                     | 0.861          | 0.798             | 0.502       | 0.683         |
| LF_2020                     | 0.174          | 0.267             | 0.309       | 0.394         |
| MF_2020                     | 0.016          | 0.063             | 0.097       | 0.003         |
| TF_2020                     | 0.000          | 0.000             | 0.000       | 0.011         |
| IF_2020                     | 0.019          | 0.019             | 0.004       | 0.051         |
| FE_2020                     | 0.005          | 0.000             | 0.000       | 0.749         |

Source: Own processing from The Heritage Foundation (2020a), The Hofstede Centre (2019), UNDP (2020).

Table 3 shows descriptive statistics of variables. We can identify countries with the minimum and maximum values of variables that later served as a database for regression analysis: Austria (11) reached the minimum value of PDS,
and Slovakia (100) achieved the maximum value. The most collectivistic country from OECD members is South Korea (18) and the most individualistic nation is USA (91). Sweden (5) achieved the minimum value in dimension MAS and the maximum value reached again Slovakia (100). Denmark (23) and Greece (100) are two thresholds of UA. Austria (21) is a society with the lowest value of LTO and South Korea (100) with the highest value. The last cultural dimension is IDG with extremes Latvia (13), Mexico (97), and Israel, which is missing its value. In terms of the control variable, Mexico has the lowest HDI score (0.767) and the nation with the highest HDI is Norway (0.954). In the case of the dependent variable, Greece (59.9) and New Zealand (84.1) reached the minimum and maximum IEF. The rest variables were used mainly in the correlation analysis and represent the illustration of the overall situation. These are sub-indices of the IEF and represent the composition of the overall index.

Table 3
Descriptive Statistics

|          | N  | Min  | Max  | Mean | St. dev | Skew. | Kurt. |
|----------|----|------|------|------|---------|-------|-------|
| IEF_2020 | 36 | 59.90| 84.10| 73.19| 5.90    | -0.27 | -0.63 |
| LProd_2019 | 36 | 44 968.96 | 244 352.80 | 98 320.31 | 36 145.02 | 2.20 | 7.29 |
| HDI_2018 | 36 | 0.77 | 0.95 | 0.90 | 0.04 | -1.19 | 1.64 |
| PDS      | 36 | 11.00| 100.00| 46.36| 19.55 | 0.47 | 0.26 |
| MAS      | 36 | 5.00 | 100.00| 47.69| 25.52 | 0.02 | -0.74 |
| UA       | 36 | 23.00| 100.00| 67.17| 20.80 | -0.28 | -0.86 |
| LTO      | 36 | 21.00| 100.00| 52.97| 21.59 | 0.32 | -0.98 |
| IDG      | 35 | 13.00| 97.00 | 51.23| 20.23 | -0.14 | -0.59 |
| PR_2020  | 36 | 57.00| 93.30 | 79.81| 9.98 | -0.96 | 0.16 |
| JE_2020  | 36 | 34.70| 86.10 | 65.48| 14.28 | -0.38 | -0.97 |
| GI_2020  | 36 | 36.70| 96.10 | 75.03| 16.93 | -0.69 | -0.68 |
| TB_2020  | 36 | 42.00| 84.90 | 66.07| 11.51 | -0.39 | -0.73 |
| GS_2020  | 36 | 4.50 | 80.80 | 46.79| 18.71 | -0.29 | -0.24 |
| FH_2020  | 36 | 54.30| 99.90 | 87.29| 11.89 | -1.25 | 0.80 |
| BF_2020  | 36 | 55.30| 94.70 | 77.06| 9.20 | -0.28 | -0.36 |
| LF_2020  | 36 | 44.10| 87.90 | 63.83| 12.40 | 0.37 | -0.80 |
| MF_2020  | 36 | 66.10| 87.00 | 80.38| 4.39 | -1.17 | 2.05 |
| TF_2020  | 36 | 78.00| 92.20 | 85.62| 2.81 | -1.07 | 1.74 |
| JE_2020  | 36 | 55.00| 95.00 | 80.28| 7.92 | -0.83 | 1.58 |
| FF_2020  | 36 | 50.00| 90.00 | 70.56| 10.13 | -0.29 | -0.13 |

Source: Own processing from The Heritage Foundation (2020a), The Hofstede Centre (2019), UNDP (2020), WBG (2022).

3. Results and Discussion

Table 4 contains statistically significant correlation coefficients. IEF achieved a medium-strong relationship to PDS, UA (both negative impact), and weak positive linkage to IND and IDG. That means, that with increasing of PDS and UA is expected increasing of IEF. The impact of IND and IDG on IEF will evaluate
only after regression analysis. We found very similar results using the HDI variable. Table 4 does not contain the correlation coefficient of IEF and HDI, but the value of Kendall’s tau is 0.46 (medium-strong positive linear relationship). Even in this case, we can assume that with rising of HDI, IEF will increase. It is interesting from the other variables a moderate-strong negative relationship between PDS, UA and PR, JE, GI, and between UA and FF. Also noteworthy is the positive link between IND and FF. With the increase of IND, we expect medium-strong growth of FF. Given the accepted objective of the article, we want to prove the combined impact of independent variables on the dependent variable. For this reason, it is necessary to compile a multiple regression analysis and in conclusion verify our hypotheses.

| Kendall’s tau | PDS | IND | MAS | UA | LTO | IDG | LProd_2019 |
|---------------|-----|-----|-----|----|-----|-----|------------|
| IEF_2020      | -0.47 | 0.30 | -0.51 | 0.33 | 0.21* |    |            |
| Prod_2019     | -0.35 | 0.31 | -0.26 | 0.27 | -    |    |            |
| HDI_2018      | -0.53 | 0.33 | -0.40 | 0.37 | 0.56 |    |            |
| PR_2020       | -0.49 | 0.33 | -0.44 | 0.38 | 0.38 |    |            |
| JE_2020       | -0.51 | 0.40 | -0.45 | 0.40 | 0.43 |    |            |
| GI_2020       | -0.50 | 0.30 | -0.42 | 0.39 | 0.41 |    |            |
| TB_2020       |       |     |       |     |     |    |            |
| GS_2020       |       |     |       |     |     |    |            |
| FH_2020       | -0.24 |     | -0.25 | -0.31 |      |    |            |
| BF_2020       | -0.36 | 0.26 | -0.25 | -0.38 | 0.36 | 0.24 |            |
| LF_2020       | -0.27 | 0.26 | -0.25 | -0.29 | 0.36 | 0.24 |            |
| MF_2020       |       |     |       |     |     |    |            |
| TF_2020       |       |     |       |     |     |    |            |
| FF_2020       | -0.37 | 0.45 | -0.47 | 0.37 | 0.29 |    |            |

Note: * p-val. > 0.05.
Source: Own processing from The Heritage Foundation (2020a), The Hofstede Centre (2019), UNDP (2020).

The correlations between labour productivity from 2019 and other variables brought interesting results. There is only a weak direct correlation between this variable and the economic freedom of OECD countries. This may support results of I. Dialga and T. Vallée (2021) and J. Ott (2018), which encourage The Heritage to improve the index’s methodology. On the other hand, there are countries that show moderate direct dependence between labour productivity and economic freedom. These were selected BRI countries (Steinhauser, 2021). Thus, it is possible that The Heritage IEF has different informative values for developed and developing countries. The reason may also be H. de Soto’s theory that in countries with worse formal institutions, the informal ones are gaining in importance. However, it should be noted that the Index of Economic Freedom evaluates both formal, legal institutions, but also informal, cultural ones. Among
the informal we can include corruption rate. As for the individual sub-indices, we have accepted a possible slight time discrepancy here, as the 2020 report is compiled for the period 2019 and partly 2018 (The Heritage Foundation, 2020b). Nevertheless, it is interesting that in countries with higher Judicial Effectiveness (JE) and Government Integrity (GI) values, higher values of labour productivity.

Table 5 shows the results of multiple regression analysis. The count of an asterisk means the statistical significance level by p-value. One asterisk is 90% significance level, two 95% and three asterisk 90% significance level of parameter’s estimation. We also tested the possibility of the presence of collinearity (Adkins et al., 2015). All values in model 1 by the Variance Inflation Factors method were below the critical value of 10. On the other hand, the condition index of the Belsley-Kuh-Welsch test reached a value of up to 124.44. For this reason, we also compiled model 2, from which we omitted the control variable HDI. In this case, we succeeded to reduce the condition index to a value close to 30, namely 31.14. However, after the logarithmic transformation (model 3), we were not able to reduce the high value of the condition index even after omitting HDI. On the other hand, we accept favourable values of Variance Inflation Factors (max. VIF value by ln_UA 2.45 < 10). In Table 5 it is also possible to observe the basic diagnostic tools of the econometric model, F-statistics with numbers of independent variables and degrees of freedom in parentheses, White’s test of heteroskedasticity, coefficient of determination (R-squared), individual p-values related to Student’s statistics (t-statistics). We believe that the model meets the basic econometric assumptions.

### Table 5

| Model 1 | Model 2 | Model 3 |
|---------|---------|---------|
|        | IEF_2020 | p-val. | IEF_2020 | p-val. | IEF_2020 (ln) | p-val. |
| const  | 59.44 | 0.02** | 86.13 | 0.01*** | 5.18 | 0.01*** |
| PDS    | −0.10 | 0.08* | −0.13 | 0.02** | −0.04 (ln) | 0.19 |
| IND    | −0.05 | 0.41 | −0.03 | 0.57 | −0.03 (ln) | 0.39 |
| MAS    | 0.01 | 0.69 | 0.01 | 0.80 | 0.01 (ln) | 0.38 |
| UA     | −0.13 | 0.02** | −0.14 | 0.02** | −0.10 (ln) | 0.44 |
| LTO    | 0.02 | 0.67 | 0.04 | 0.39 | −0.02 (ln) | 0.51 |
| IDG    | 0.03 | 0.60 | 0.04 | 0.42 | 0.68 (ln) | 0.46 |
| HDI_2018 | 30.25 | 0.24 | | | | |
| R-squared | 0.62 | 0.60 | 0.57 | 0.68 (ln) | 0.44 ** |
| F-statistics | 6.34 (7.27) | 7.04 (6.28) | 5.08 (7.27) | 5.08 (7.27) |
| White’s test (p-val.) | 0.01 | 0.40 | 0.80 |

Source: Own processing from The Heritage Foundation (2020a), The Hofstede Centre (2019), UNDP (2020).

In general, the estimation did not change significantly in comparison with model 1. Constant is statistically significant in both models, PDS with 90% probability in model 1 and 95% probability in model 2, and UA with 95% probability
in both cases. Other variables are estimated insignificant. Based on multiple
regression analysis (model 1), we expect with an increase of PDS by 1 point
a marginally decrease of IEF by 0.1 points, and with one point growth of UA, we
expect a slight decrease of IEF by 0.13. Since these are really small estimations
and with regard to hypothesis 7, we compiled the multiple regression analysis in
logarithmic form with the results as elasticity (model 3). We found that with an
UA increasing by 1% we expect a decrease in IEF by 0.10% (**), but with an
increase in HDI by 1% we expect an increase in IEF by 0.68% (**) with the
coefficient of determination (R-squared) 0.57. With some limitations, we can
then confirm the positive impact of HDI on IEF without further quantification.

In contrast to our study, J. D. DeBode et al. (2019) applied correlation and
linear multi-regression analysis to 52 countries, using Hofstede’s cultural dimen-
sions as well as the characteristics of world religions and the legal origin and
their impact on the 2018 Economic Freedom Index. “Specifically, countries with
more feminine cultures, on average, had greater economic, business and trade
freedom. [...] long-term-oriented and indulgent societies, respectively, were ar-
gued to be positively related to the measures of economic freedom [...] Instead,
short-term-oriented cultures were predictive of greater business freedom, while
more restrained cultures were associated with greater business and monetary
freedoms. Consistent with expectations, more individualism was predictive of
greater monetary freedom (DeBode et al., 2019, p. 77).” The authors did not
prove a statistical effect of power distance and uncertainty avoidance. Interest-
ingly, our regression analysis proved the negative impact of these two Hofstede’s
cultural dimensions on the Economic Freedom Index of 2020. These two varia-
bles also had a predominantly moderately negative effect on the individual sub-
indices of economic freedom.

Hofstede’s cultural dimensions are widely exploited in the literature. Even the
dimensions themselves have gone through their inner dynamics. M. Minkov
(2017) tested Hofstede’s model quantified for 56 countries with the World Values
Survey database. The author draws attention to a specific sample of Hofstede’s
initial research (the IBM database), and that a robust cultural dimension appears
only to the revised dimension of IND. Based on the analysis, author has reserva-
tions about the other dimensions. For example, in the case of LTO, the author
refers to previous studies, including his own, and proposes a new dimension
called flexibility vs. monumentalism as well as citing previous research on other
dimensions, e.g.,, UA-studies were focused on European countries and the Asian
region was not respected. Despite these concerns we draw attention to the target-
ed OECD sample, a group that represents a relatively heterogeneous dataset.
Although among the members we can find Asian, South American, European,
etc. countries. In any case, the results of M. Minkov’s study represent a serious limitation in the use of Hofstede’s data.

If we look at the internal structure of The Economic Freedom Index, we will find that the state intervention, for example in the form of public spending, reduces the score of the measurement. P. Krugman (2020, p. 213), in response to the Covid-19 crisis, calls for rising of government spending: “I hereby propose that the next US president and Congress move to permanently spend an additional 2% of GDP on public investment, broadly defined (infrastructure, for sure, but also things like R&D and child development) – and not pay for it.” Such an approach leads us to the idea that economic freedom itself can be perceived differently and can be greatly influenced by ideology. Personally, we are in favour of rational state spending, and we strictly adhere to the principle of subsidiarity, we agree with the author that state spending itself should be spent on coherent goals, such as research and development, etc. An answer is offered from non-economic spheres, where freedom is good if it is not enforced and any enforced good would become immoral (e.g. Benedict XVI., 2007).

More and more often in the mainstream media, we can encounter the issue of so-called cancel culture. In 2020 was published “A Letter on Justice and Open Debate” (harpers.org, 2020). The letter called on 150 personalities to oppose restrictions on the right to freedom of expression: “The letter denounces “a vogue for public shaming and ostracism” and “a blinding moral certainty” (bbc.com, 2020).” The author does not agree with all statements in the document, but this issue is in connection with the topic of our article. In our opinion, this issue may have an impact on economic freedom in the short term, and this impact remains scientifically poorly covered and especially in the case of abuse of this topic. From the very title of the issue cancel culture, it is evident, that this problem is useful to process withing research of cultural impact on economic freedom.

Our article provided an analysis of the impact of selected determinants on economic freedom. The next step raises the question of how to adjust developments in individual countries in a supportive direction in terms of economic freedom improving. B. Akanji (2017, p. 3) claims, “a culture change, which can be a slow and difficult process, but not an impossible one.” The author underlines in this context the role of education.

**Conclusion**

The main aim of the presented article is to identify Hofstede’s cultural dimensions that have a combined impact with the Human Development Index on economic freedom measured by The Heritage Foundation Index of Economic
Freedom in OECD member countries. This aim is formulated in a way required by the application of quantitative methods. Using correlation analysis through Kendall’s tau, we found a possible negative medium-strong impact of PDS and UA on IEF. The positive impact of IND and IDG on IEF was uncertain. The correlation coefficient between IEF and HDI was positive and medium-strong. Based on multiple regression analysis, we confirmed the negative effect of PDS and UA on IEF, but the estimation was marginal. The effect of HDI on IEF was to our surprise in this specification statistically insignificant. Encouraged by the result of the correlation analysis, we compiled an additional multiple regression analysis in logarithmic form, which confirmed, on the one hand, the marginal effect of UA on IEF, but on the other hand a significant HDI impact on IEF. For this reason, we can confirm hypotheses 1, 4, and 7 (overview in Table 6). We did not collect sufficient evidence for other hypotheses confirmation.

Table 6
Evaluation of the Impact of Independent Variables on Economic Freedom

| Hypothesis | Assumption | Kendall’s tau | Regression analysis |
|------------|------------|---------------|---------------------|
| 1 – PDS    | Negative   | Medium-strong negative | Marginal negative |
| 2 – IND    | Positive   | Weak positive | Insignificant |
| 3 – MAS    | Negative   | Insignificant | Insignificant |
| 4 – UA     | Negative   | Medium-strong negative | Marginal negative |
| 5 – LTO    | Positive   | Insignificant | Insignificant |
| 6 – IND    | Positive   | Weak positive | Insignificant |
| 7 – HDI    | Positive   | Medium-strong positive | Positive |

Source: Own processing.

The creation of this article led us to deep considerations about economic freedom already at compiling a literature review. At the same time, we also came across the issue of cancel culture. By analogy, we assume that in countries with a high value of individualism and masculinity, we may encounter manifestations of this phenomenon more often. However, we offer verification of this assumption for further research, and we consider it reasonable to analyse in this context the prevailing political spectrum of the right, or the left, or the prevailing conservatism vs. liberalism. In our opinion, this trend of cancel culture may have a negative potential for economic freedom already in the short term. In this area, we call on deeper analysis, especially in the field of social sciences.

The limitations of our research include, on the one hand, the mentioned different influences of economic freedom on some countries. This fact affects the explanatory ability of the indexes. The additional correlation between The Heritage Index of Economic Freedom and labour productivity (an indicator of national competitiveness) was only weak. We see two possibilities of this result. On the one hand, it is potential to update the index methodology, on the other hand, there are
mostly developing countries that show stronger correlations between economic freedom and labour productivity. D. Steinhauser (2021) studied selected BRI member states. On the other hand, represent a limitation disputable fidelity of Hofstede’s cultural dimensions, which some authors request to revise and validate. Of course, economic freedom is one of the factors determining national competitiveness. Among other things, it is important to monitor cost competitiveness, such as labour, energy, and costs of other inputs (e.g. Zábojník et al., 2020). In any case, we recommend to the decision-making sphere to improve the position of countries according to individual sub-indices of economic freedom, which is in line with the new institutional economic theory and the reduction of transaction costs.

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