

Financial Freedom and Socially Responsible Market Economy: An Analysis from Rawls's Theory of Justice

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Using Rawls's theory of justice, this paper addresses the empirical question of whether the socially responsible market economy can help explain the current situation in financial freedom, as well as its recent variation across countries. Utilizing annual data from selected countries of Middle East, North Africa, Asia and Oceania, and static panel estimation techniques, we provide evidence which suggests that many Socially Responsible Market Economy (SRME) components are statistically significant determinants of Financial Freedom (FF). Our findings reveal that three factors of SRME, namely, organization of the market and competition, welfare regime and private property have a positive significant relationship with FF. Legislative bodies are advised to legislate impartial rules, through which they can develop the necessary grounds for financial liberalization and subsequent transparency of financial information in financial markets.

Keywords: Financial Freedom, Socially Responsible Market Economy, Rawls's Theory of Justice, Governments.

JEL Classification: G18, G19

1 Introduction

The capital market is a symbol of balanced finance development and direct resources as well as the country investments from unproductive markets such as the car trade, housing, and gold, to the production markets, especially in developing countries (Mishkin, 2001). On the other hand, the capital market is a symbol of capitalism. The basic question is that what kind of policies the government can make, to create a balance between the interests of investors and the majority of common people, by intervening in macroeconomic level and consequently in capital markets. The state is the largest institution,

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organization, actor and the most important element of a society's political system and practically it is difficult to imagine cumulative life without the government. Because the government is not the only representative of a set of institutions, but it also includes the attitudes and modes of behaviour and actions which are exclusively named civility and are considered as part of the civilization (Criste & Lupu, 2014).

This research is done with the assumption that government intervention in macroeconomic issues according to the defined limits is a reasonable matter. We review the role and position of the capital market based on the research literature in the field of financial economy. The capital market is surrounded by the governmental and nongovernmental areas by the two influential dimensions of good governance and corporate rule in which the former is concerned about the states' social responsibility in the economy and the latter is concerned about the role of enterprises in their domestic and foreign structure.

Society means a set of people who live together and display a variety of communications, cultural, economic and political exchanges and have a simple and complex structure. Contemporary industrial and complex societies and also, the past simple and wide societies are common in this respect and have not emerged from the mere gathering of people; in fact, each of them has its own social structure differentiates from other imagined social forms. The basic structure of the society included institutions that determine the way people access to resources to meet their diverse needs. Philosophy of community formation is human consciousness of the fact that he/she can meet his/her basic needs better within the community (Coase, 1960; Rachdi & Saidi, 2015). In capitalist societies based on welfare state model, due to inequality in wealth and assets and monopoly of political - economic power, serious damages hit the structure of democracy and fair equality of opportunity. Rawls states that the compatibility between freedom and equality in an economic system based on private ownership, requires wider distribution of properties and assets and it would make the creation of an alternative political-economic system necessary and inevitable.

In most of the industrial nations, governments still offer a major part of all goods and services which, in several cases constitutes between 40-50 percent of GDP. As a result, the expectation towards the organizations to operate with a sense of social responsibility is also applicable for public sector organizations. Given the size of the government institutions and bodies and their semi-monopoly status in many service areas, the possibility of their effectiveness in the community is often at a level beyond any large separated

company. The result is that demand of responsible behaviour and responsiveness from government agencies has increased. As organizations of the private sector are forced to be more responsive in their reporting and communication with people, nowadays we are also seeing a sustained increase in use of the common tools of governments' social responsibility such as inspections and social reporting in state institutions. Social responsibility is a relatively newly formed concept in the literature of service, economic and media organizations; and since 80's, its works can be found in public and private organizations (Zubairi & Karimi Moghari, 2014). Many government agencies, in addition to inclusion of social responsibility in their operations, play an active role in promoting it in their sphere of influence.

This study examines the relationship between the development factors in social responsibility of governments in the economy with financial freedom, in selected countries of the Middle East, North Africa, Asia and Oceania according to Rawls's theory of justice. Rawls's belief in the principles expresses both economic freedom and also the linkage between economic and political freedom linkage. It evaluates government economic function and analyses the market effectiveness or ineffectiveness.

The organization of this research is as follows: Section 2 provides theoretical background and hypotheses development. Section 3 explains the data, measurement and design. Section 4 describes the empirical results. Section 5 renders discussion, contributions, governmental implications, limitations and further research and conclusion.

2 Theoretical Background and Hypotheses Development

The separation of economic policy and social policy implicitly assumes that it is possible to objectively define an economic sphere that should (and does) operate according to some scientific economic logic and a social sphere where we may want to (but are normally advised, by those hard-nosed economists, not to) over-ride the economic logic with ethical considerations (such as income distribution, employment creation, protection of human rights, etc.) despite the inefficiencies that such action is going to create. Traditionally, societies seek to develop comprehensively in competition with other communities and nations. Neither economic sciences nor political sciences alone can explain the process of modern social development. The truth is that developed countries always have developed economy and political sphere, and with this possibility, the link between their economy and politics should be an essential component in their development process (North et al., 2006). Smith argues that human social life is based on the exchange. The exchange will

allow the public to benefit from efficiency increase due to expansion of the work division. The realization of any exchange also requires some cost acceptance to render the extent of exchange that is fully dependent on transaction costs. Coase (1960) has defined the transaction costs as costs for using price mechanisms and says that the market mechanism requires some spending. Some of these costs are the costs of searching to find out the just right prices. In addition, the costs of negotiating and concluding a separate contract for each exchange of the market should be considered. So, study of the factors that socially affect the transaction cost, can lead us to the factors affecting financial freedom. Financial freedom is a measure of entity efficiency as well as a measure of independence from government control and interference in the financial sector. State ownership of firms and other financial institutions such as insurers and capital markets reduces competition and generally lowers the level of available services. Financial freedom can improve the quality of financial reporting (Setayesh & Daryaei, 2017).

2.1 Rawls's Theory of Justice

Rawls's Theory of Justice is one of viable theories of contemporary philosophy that has affected various aspects of thought, including the impact and the role of social institutions on economic and social behaviour of people. From the perspective of political philosophy, justice is social institutions' adjective, not an individual's adjective and his actions. This means that social institutions must fairly distribute rights and responsibilities, powers, privileges and opportunities. But, the real question is that what is fairness? The question has two dominant answers in the western political philosophy: first, justice is supposed to gain mutual benefits on the basis of agreement and contract.

The motivation to act justly is to provide individual long-term benefits; and second, justice means impartiality which means that people can defend their behaviour without inferring their interests (Bashiriyeh, 1999). Systems based on market economy can include people who on the one hand can coexist with each other based on the principle of participation and individual responsibility and on the other hand, can participate in cases where their fellow human beings, because of personal disability, needs support from society, by using the solidarity principle in elimination or modification of their problems. So, in systems based on market economy existence of a structure that would be able to follow economic liberalization and the financial freedom (FF) by making a responsible government is important. Rawls's justice will not be

achieved unless the governments and social institutions accept their responsibility for the economic activities of citizens.

Certain sense of John Rawls's justice, states two principles: one of them is ruling on fundamental freedoms and the other is ruling on fundamental social and economic benefits, which in another term for equality, and the first principle is prior to the second principle. In these principles, he emphasizes on people's freedom and right to equality. These are two known principles of Rawls's justice:

The first principle states that every person should have an equal right to the most extensive total system of fundamental freedoms that is compatible with freedom system and vice versa. The second principle states that social and economic inequalities should be formulated in a manner that: (a) it provides the largest benefit to the least profited ones, so as to be compatible with the principle of fair savings and (b) jobs and positions will be open to all people, under conditions provided by equality of opportunities. The basic question is that whether we can reach the Rawls principles without a fair government?

In other words, even if governments accept these principles, their involvement limits are not defined. The concept of Socially Responsible Market Economy (SRME) refers to factors such as rule of law and stability of democratic institutions, political and social integration, level of socioeconomic development, organization of the market and competition, currency and price stability, private property, welfare regime and sustainability (This index analyzes and evaluates whether and how developing countries and countries in transition are steering social change toward democracy and a market economy. Guided by a standardized codebook, country experts assess the extent to which a total of 17 criteria have been met for each of the 129 countries. These experts ground the scores they provide in assessments that comprise the country reports, all of which are available online. A second country expert then reviews these assessments and scores. In a final step, consistency is assured by subjecting each of the 49 individual scores given per country to regional and interregional calibration processes. Standardizing the analytical process in this way makes targeted comparisons of reform policies possible. www.bti-project.org). Those mentioned factors are in line with achieving social freedom which leads to FF.

Rawls in his theory used the first principle to guarantee freedom and in his second principle tried to provide a framework for limits of human equality; so that human freedom is not sacrificed for equality and human equality is not overlooked under the pretext of freedom. According to the first principle, everyone should have an equal right and also access to fundamental freedoms.

Rawls has named this as the principle of equality. Based on this principle, human beings naturally should have a series of inalienable rights; citizens should have equal opportunities which are not temporary or dependent on the family, ethnic and particular political situation.

A democratic principle should be in effect that provides citizens enough freedom in their choices (Przeworski et al., 2000). This equality is compatible with others' rights i.e. it doesn't violate the rights and legal limits of other citizens. The second principle of justice is implemented with regard to the political–social situation of nations which tied them by incentive to create equality and provide human rights, and trampled citizens' rights as well as their social dignity. Accordingly, Rawls is aware of this point that ingenuity and entitlements of citizens may be victim of this principle and make them artless. So, Rawls states second principle of justice as: social inequalities must be set in a way that greatest benefit must be reaped by the least profited people, and secondly, positions and jobs will be under equal opportunity system available to everyone. This is known as respecting the interests of all stakeholders in the theory of stakeholders.

2.2 Stateness and Political Participation

Stateness is the opposite word for 'fragile state'. In other words, there is an inverse relationship between stateness and state fragility. So, more stateness is accompanied with less fragility and vice versa. The governments' fragility and stateness are calculated by three charts (Power, capacity and legitimacy) (Carment et al., 2010). Generally, power means the state's ability to enforce justice and security in its territory. Similarly, capacity means the state's ability to manage and distribute used resources and legitimacy means the nature of citizens' support for government and the state's recognition in the international community. If the market is able to socially achieve optimum allocation of resources, there is no need for government intervention in economic activities. However, market failure and concern for providing social justice are two intellectual and economic reasons that justify government intervention. But also, this should be noted that there is no guarantee that such interference must benefit the community (Jafari Samimi et al., 2009). The truth is that applicability of government failure can also be as much as applicability of market failure.

The challenge is that some measures should be taken so the governments perfectly and correctly understand the political process and incentive structure and improve social welfare in action. This can be manifested through political participation. Many studies have underlined the direct relationship between

political participation and economic development (Milenkovic, 2014). The concept of political participation is not necessarily in the field of participation in political fate determination, because the political fate is a reason for economic fate. Investing in the stock market is better in an environment where there is more political security and that means a direct relationship between the stateness and political participation in a stock market boom (Mahdavi & Daryaei, 2017).

2.3 Financial Freedoms

Investigating the determinants of financial market's performance in the stock exchange could identify the explanatory variables for performance and ultimately, improve the investors' decisions and the optimal allocation of resources. Indeed, by specifying determinant factors for performance of financial markets, investor's mentality will be modified in factors affecting changes of financial markets performance and due to adoption of the right policies, the attractions of the capital market will increase and market will develop. In particular, foreign investors invest upon factors that are considered in this study as an indicator of the social market economy.

According to the index presented by the Heritage Foundation and to measure economic liberalization in any country, a group of researchers and experts in the economic field of organizations and institutions in different countries, studied the status of 50 different economic variables that ultimately will be summarized to 10 most important factors of economic liberalization (Jafari Samimi et al., 2009; Amoli Diva & Jafari Samimi, 2010). This study focused on the FF index. FF Index evaluates efficiency and independence of national financial sectors. 'The FF index evaluates the extent of government regulation of financial services, the degree of state intervention in banks and other financial firms through direct and indirect ownership, the extent of financial and capital market development, government influence on the allocation of credit and openness to foreign competition. Higher index values denote higher banking efficiency and independence from government control and interference in the financial sector'. In the present study, based on research literature, factors that could affect the FF index have been assessed that could help in the development of academic literature in this area.

2.4 Socially Responsible Market Economy

2.4.1 Rule of Law and Stability of Democratic Institutions

High quality institutions in society, efficiency in the application of the rule of law and safety in private property rights, as a component of the rule of law,

affect the economic growth and development. This issue confirms Hernando de Soto's speech: The existing level of economic richness and progress in the developing world is closely related to the quality of its legal entities.

Stock market development is a multidimensional concept and usually the size of stock market, liquidity, volatilities, concentration, integration with global capital markets and the rule of law (regulations) is one of the evaluation criteria in development. Although economic growth may not be the aim of the law, the fact that growth is subject to law structure cannot be denied. While conventional models assume the neoclassical growth of provisional law 'without authority' in the economy but now it has become clear that growth actually occurs in the institutional environment (North, 1990). Democratic institutions strengthen response mechanisms at the level of macro-economic cause to micro-level response. Micro-level are the companies that make up capital market infrastructure and this means that development of positive factors which are manifested in the capital market are subject to the authority of democratic institutions.

2.4.2 Social and Political Integration and Level of Socio-Economic Development

Social integration refers to a situation in which components of the society are connected to each other to make a meaningful and effective whole. Zubairi and Karimi Moghari (2014) show that social integration has an important and positive effect on the per capita growth, technological innovations, effectiveness of state institutions, the quality of development policies and finally, political and social stability. Analysis of the dynamics of political systems shows that while the routes to democracy are different, but when it will be stable for any reason, democracies will survive in economically developed countries.

Despite long-standing arguments, the political regimes don't affect the rate of growth in total revenue and the rate of investment. But since the population in tyrannies grows more rapidly, per capita income in the democracies will increase faster (Przeworski et al., 2000). The economic growth needs long-term support by civil and political liberties. A simple and well-functioning democracy can positively lead to a stable economic growth as seen after the revolution in some countries (Rachdi & Saidi, 2015).

Socio-economic development of a country is a complex problem continuously described during the past few decades. A country's welfare analysis cannot be limited to either social or economic factors. It should be determined by a combination of both factors (Milenkovic et al., 2014). The regional development that has been the program of most developing countries

since 1960's have put welfare and safety of people, inequality reduction, poverty, and fair distribution of life opportunities at the center of its goals. In fact, the regional development effort aims to provide the best facilities and conditions for people and minimize differences in quality of inter-regional and intra-regional life and ultimately moderate it. Evidence of development patterns in non-industrialized countries and third world suggest that a majority of the population in these countries is in struggle against poverty and do not have the basic accommodations. Social inequality has been intensified. Social integrity includes social correlation, strong structure basis and culture of acceptance.

If communities promote social integrity through learning policies that reduce poverty and economic inequality, development will last to change to a richer society. Social integrity is the process of creating unity, correlation and participation at all levels of society within individual diverse characteristics, so that each person is free to be as he/she wants. Personal characteristics include: socio-economic level, age, sex, political thoughts, ethnic and cultural characteristics, religion, citizenship (National Root) and the geographical area of origin, etc. (Cruz-Saco, 2008). Political scientists have been mainly interested in the question of whether democracy is a prerequisite for economic development or vice versa (Gupta et al., 1998). Therefore, the development level of social economy is an important step in creating wealth for public and this wealth can respond to people's economic concerns and prepare them for democratic process. Ensuring economic stability allows people to invest in capital markets and expect a reasonable return and this would lead to capital market liquidity.

2.4.3 Organizations of Market, Competition, Currency and Price Stability

Competition in market operation, strengthening innovation, productivity and growth create wealth and reduce poverty. However, markets do not always work well, and non-competitive markets are more important for the poor. Describing direct and indirect and often complex relations between competition, competition policy, private sector development, growth and poverty reduction have been the subjects of many studies (Godfrey, 2008). However, the issue of competitive strategy is particularly important for companies. Competitive strategy indicates that an organization must protect their strengths as well as using integrated and combined strategies such as market penetration, services development, product development and making corporate partnerships and etc.

The core of any strategy is to identify the main opportunities and focus organization resources on them and whether or not put strategic issues on this concept in line with the organizational actions. Usually in organizations, along with the main strategy, there are other strategies which shape the organization integrated strategy with a set of comprehensive communications. At the macro level, countries creating a competitive environment for firms' products and services can also help create the needed conditions for competitive economy.

This important issue is formed by strategies based on market-oriented economy. In this regard, stable financial instruments such as exchange rate have a decisive role. A stable currency is a currency that successfully does its functions as exchange tool, accounting unit and value store because its purchasing power is stable. Despite tax income and public costs repartition, inflation redistribution is not the basis of a democratic decision and is blind and possibly unfair. People who have confidence in the stability of the currency are its major victims. The conflict between price stability and financial stability is also reflected by a different time horizon for which they are designed. Monetary policies are usually determined for a 3 year-long period which is consistent with economic cycle, while risks and imbalances in the financial system accumulate through a longer period and creates financial cycle that may include several economic cycles. The solution to this dispute may be widening of time scale for the purpose of price stability (Criste & Lupu, 2014).

Financial markets are affected by a variety of factors, including changes in currency. Change in exchange rate is accompanied by uncertainty and so activity in the financial market that requires long-term planning is faced with uncertainty and affects choice. Hence, changes in exchange rates which could have consequences on the financial market have been focused by policy makers and entrepreneurs in developed and developing countries. Mussa et al. (2000) suggests that organizing the exchange in developing countries is dependent on economic development level, financial skill level and spreading the conflict with the global economy.

Aghion et al. (2009) suggest that the financial sector development is an important factor that affects the relationship between exchange rate fluctuations and the growth. Detragiache (1998) believes that the financial crisis may be more because of exchange rate fluctuations. So, this dependence between currency instability and economic growth which has been seen in the past research, can affect government's economic policy. And the policies will affect the country's economic pillars such as capital market.

2.4.4 Property of the Private Sector and the Welfare System

Tangible and intangible items owned by individuals or companies who have exclusive legal right includes: land, buildings, money, injection of evil, patents and etc. Private property can only be transferred as per owner satisfaction or by legal trend such as the sale or gift. These assets are affecting the public welfare. Therefore, much reform is made in the field of public welfare development. Although welfare reforms are commonly called equality in the history, but the main goal of all welfare states is income maintenance and social protection, not class structure deformation.

Only in the last decades of the twentieth century, we can identify policy change in favour of equalization of opportunity structure. This will be done on the one hand, through education reforms and efforts to reduce children poverty and on the other hand, through policies aimed at promoting women's employment and more gender equality. And certainly, such a change in social democratic regime is far stronger than the other places (Esping –Andersen, 1990). Thus, the welfare of many people in the community can show itself in economic mechanisms such as financial markets. If there is a relative prosperity in the community, capitalization market will be more efficient because the legislative bodies responsible for the welfare of the people will have more supervision on corporate performances through enactment of appropriate laws.

2.4.5 Economic Performance and General Government Revenue

Existing economic indicators and indexes assess economic activity but no single indicator measures the general macro-economic performance of a nation, state, or region in a methodologically simple and intuitive way. This paper on basis of data bank that is used proposes a simple, yet informative metric called the Economic Performance Index (EPI) (Khramov & Lee, 2012). The EPI represents a step toward clarity, by combining data on inflation, unemployment and government deficit into a single indicator. In the political economy, politicians, and even expert policy advisors, often lack the tools to properly assess current macroeconomic performance relative to last month, last year, or a previous generation.

Also, Governments collect revenues mainly for two purposes: to finance the goods and services they deliver to citizens and businesses and to fulfil their redistributive role. Comparing levels of government revenues across countries, as a share of GDP or per capita, provides an indication of the importance of the public sector in the economy in terms of available financial resources. The total amount of revenues collected by governments is

determined by past and current political decisions. This indicator is measured in terms of thousand USD per capita and as a percentage of GDP.

2.5 Sustainability

Economic growth is one of the goals that governments try to achieve through various policy makings. Investment is measured as a major factor affecting the economic growth process when successful. Macroeconomic policies are laid in a safe and stable atmosphere. So, one of the objectives of government policies is to create stabilization and confidence into the future. If policies cause instability and uncertainty because of mismanagement, investment cannot perform well. The necessity and importance of macroeconomic stability after submitting a report by the World Bank, in 1991, has been focused by many economists.

The report examined the performance of countries in the 70s and 80s that had economic stability and executed government policies properly and constantly, outperformed the destabilized countries (World Bank Report, 1991). Economists such as Rodrik (1998) and Stulz (1999) express that economic stability can increase capital market liquidity and distribute risk between countries. Also, Mishkin (2001) believe that economic stability could lead to renewal of financial market structure, reduce problems of information asymmetry, reduce the possibility of bad choices and moral hazards, and the efficiency of capital market may increase. Barriers to capital mobility may be reduced by deregulation but loss of control over the capital may occur. The research concept model is shown in Figure 1.

Given the theoretical and empirical evidence, our hypotheses about FF are specified as follows:

H1: There is a significant relationship between the SRME components and financial freedom in Middle East, North Africa and Asia and Oceania.

H2: There is a significant difference between the Middle East and North Africa with Asia and Oceania about relationship between the SRME components and financial freedom.

3 Data, Measurement and Design

3.1 Data and Measurement

We employ transformation index BTI for selected countries. The transformation Index is based on a qualitative expert survey in which written assessments are translated into numerical ratings and examined in a multi-stage review process so as to make them comparable both within and across

regions. This method enables those factors of political and economic development that elude purely quantitative assessments to be captured in the experts' qualitative appraisals (<http://www.bti-project.org>). Also, FF is extracted from theglobaleconomy.com that offers interactive data tools for over 200 countries with data from The World Bank, the United Nations, the International Monetary Fund, the U.S. Energy Information Administration, UNESCO, the World Economic Forum, and many other sources. Top 5 countries in socially market economy and FF index, also, SRME components are shown in figures 2, 3 and 4.

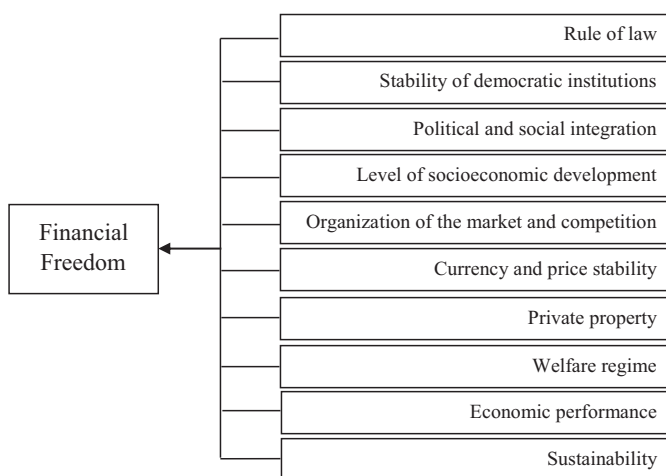


Figure 1. The conceptual model.

Source: Research Findings.

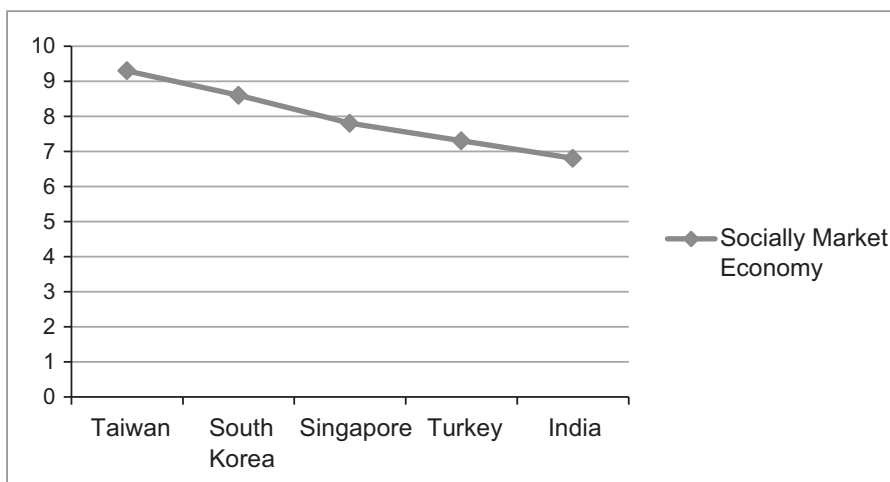


Figure 2. Top 5 countries in socially market economy.
Source: World Bank Data.

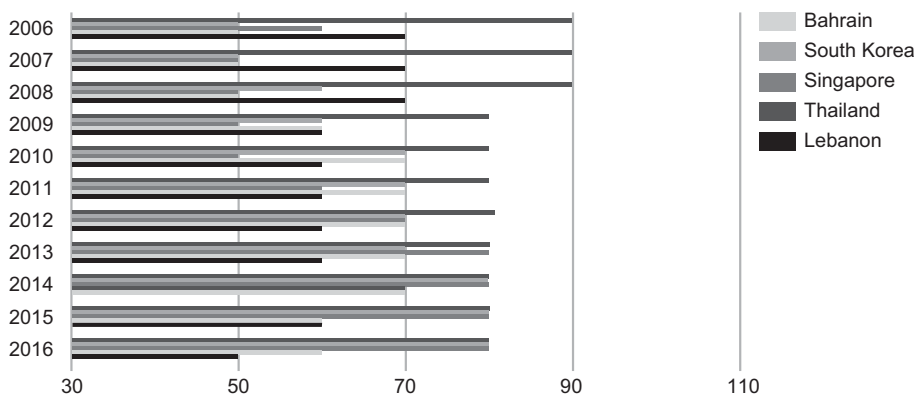


Figure 3. Financial freedom index (0-100).
Source: The Global Economy.Com. World Bank

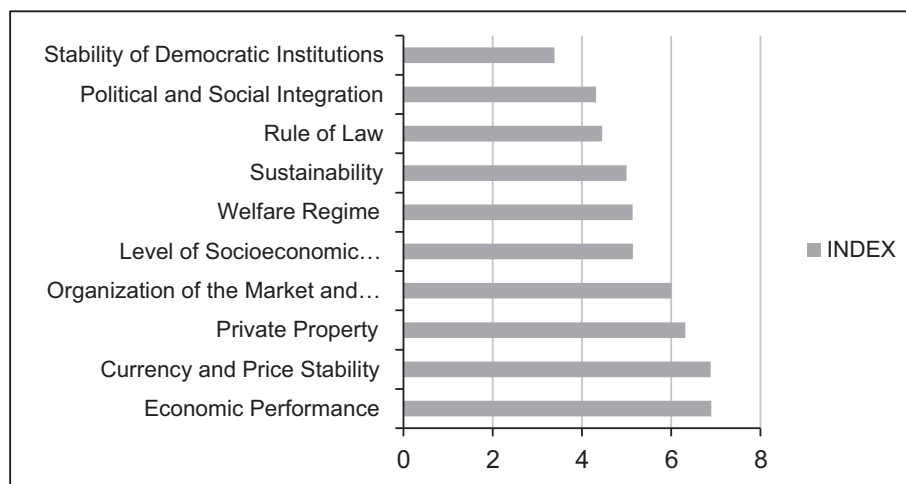


Figure 4. Socially responsible market economy components.

Source: Research Findings.

3.2 Design

To test the hypothesis, we use the empirical model in (1):

$$FF_{it} = \alpha_{it} + \beta_1 RL_{it} + \beta_2 SDI_{it} + \beta_3 PSI_{it} + \beta_4 LSD_{it} + \beta_5 OMC_{it} + \beta_6 CPS_{it} + \beta_7 PP_{it} + \beta_8 WR_{it} + \beta_9 EP_{it} + \beta_{10} SU_{it} + \beta_{11} POP_{it} + \beta_{12} GGR_{12} + \mu_{it} \quad (1)$$

where FF= financial freedom is extracted from World Bank, RL= rule of law, SDI= stability of democratic institutions, PSI= political and social integration, LSD= level of socioeconomic development, OMC= organization of the market and competition, CPS= currency and price stability, PP= private property, WR= welfare regime, EP= economic performance and SU= sustainability as decuples dimensions of SRME is extracted from <http://www.bti-project.org>. Also, POP= population and GGR= general government revenue (% gross domestic product). The study employ panel data fixed effects regression for the 35 selected countries including Middle East, North Africa, Asia, and Oceania to estimate the relationship between the SRME components and FF and access to the road map for development in specified countries.

Prior literature, (North et al., 2006; Rachdi & Saidi, 2015; Setayesh & Daryaei, 2017) presents a significant relationship between the SRME components and FF. In the first primary and secondary hypotheses, ten

dimensions of SRME are fitted with FF. We employ two variables: population and general government revenue as control variables. A number of techniques are utilized to test our measures of FF and given that the data are in a panel, we must first determine whether the fixed-effects or random effects model is appropriate.

The general fixed-effects model may be written:

$$Y_{it} = \alpha_i + X_{it} + \mu_{it} \quad (2)$$

where $i=1, \dots, N$ countries, $t=1, \dots, T$ time periods with k regressors in x_{it} and u_{it} is a normal error term and y_{it} is FF. The constant α_i represents unobservable individual country-specific effects which differ between countries and are time invariant. In a random effects model, however, the constant is a random outcome variable which has a cross section specific error component which is uncorrelated with the errors of the regressor variables. Thus $\alpha_i = \alpha + \varepsilon_i$ and ε_i has a zero-conditional mean. The Hausman specification test enables us to differentiate between random and fixed effects models by testing for correlation between the x variables and the individual random effects ε_i . It is a test of strict exogeneity. If there is no correlation, random effects should be used but if correlation exists, fixed-effects should be used (McKnight & Weir, 2009). For example, in model 1, with FF as dependent variable, the Hausman test gave a χ^2 of 111.19 ($p = 0.000$) so we reject the null hypothesis of no correlation and accept the fixed-effects model.

To test the second hypothesis, following prior literature (Fisher, 1921), there is a need to determine the following statistical function Z . In the present study to compare the relationship between dependent and independent variables in a community with other independent community, function Z is used as follows:

$$r' = (0.5) \log_e \left| \frac{1+r}{1-r} \right|, \quad z = \frac{r'_1 - r'_2}{\sqrt{\frac{1}{n_1-3} + \frac{1}{n_2-3}}} \quad (3)$$

where:

r_1 = Correlation coefficient for first sample n_1 = number of first sample
 r_2 = Correlation coefficient for second sample n_2 = number of second sample

If there is a significant difference between the two independent groups, then comparison of the correlation coefficient between the two groups approves or rejects the hypothesis.

4 Empirical Results

Table 1 reports the mean, median, maximum, minimum, standard deviation, skewness, and kurtosis for FF, RL, SDI, PSI, LSD, OMC and CPS. The mean FF is 44.15, which is semi-equivalent with that reported in other studies. The mean and median values of many SRME components and other variables have similar distribution compared with prior literature. Correlation variables are shown in Table 2.

Table 1

Descriptive Statistics

	FF	RL	SDI	PSI	LSD	OMC	CPS
Mean	44.15842	4.520050	3.420792	4.358911	5.188119	6.076238	6.943069
Median	40.00000	4.300000	2.000000	4.000000	5.000000	6.300000	7.00000
Maximum	90.00000	10.00000	9.500000	9.000000	10.00000	10.00000	10.0000
Minimum	10.00000	1.000000	1.000000	1.000000	1.000000	1.000000	1.00000
Std. Dev.	17.20623	1.942419	2.554610	1.877212	2.059865	1.922434	1.748625
Skewness	0.245861	0.676871	1.046561	0.385551	0.544020	-0.501001	-1.103156
Kurtosis	2.599452	3.316160	2.599337	2.460551	2.958615	3.139197	4.813422
Cross sections	35	35	35	35	35	35	35

Source: Research Findings.

Table 2

Pearson Correlation between Socially Responsible Market Economy Component and Financial Freedom

	1	2	3	4	5	6	7	8	9	10	11	12
1. RL	1.00											
2. SDI	-0.11	1.00										
3. PSI	0.24	0.69	1.00									
4. LSD	-0.12	0.21	0.26	1.00								
5. OMC	0.15	0.12	0.10	0.19	1.00							
6. CPS	0.11	-0.14	0.19	-0.23	0.16	1.00						
7. PP	-0.25	0.17	0.06	0.10	-0.12	0.10	1.00					
8. WR	0.07	0.10	-0.11	-0.13	0.09	0.12	0.04	1.00				
9. EP	0.13	0.16	0.07	0.18	0.12	0.05	0.11	0.10	1.00			
10. SU	0.45	0.29	-0.51	0.16	0.35	-0.35	0.41	0.20	-0.54	1.00		
11. POP	0.51	0.19	-0.32	0.32	0.48	-0.44	0.15	0.41	-0.31	0.35	1.00	
12. GGR	0.17	-0.16	-0.16	0.16	-0.09	1.00	0.35	0.35	0.18	0.30	0.13	1.00
13. FF	0.53	0.21	-0.34	0.22	0.33	-0.44	0.19	0.37	0.22	0.35	0.41	0.18

The bold-faced values indicate statistical significance at the 10% level.

Source: Research Findings.

Table 3

Levin, Lin & Chu t, Null: Unit Root (Assumes Common Unit Root Process)

Variables	Statistic	Prob*
FF	-7.23108	0.0000
RL	-4.91582	0.0000
SDI	-4.13602	0.0000
PSI	-8.98430	0.0000
LSD	-2.08419	0.0186
OMC	-14.0648	0.0000
CPS	-8.13347	0.0000
PP	-15.8594	0.0000
WR	-10.7855	0.0000
EP	-7.36460	0.0000
SU	-11.5032	0.0000
POP	-3.8359	0.0001
GGR	-11.9188	0.0000

*Probabilities for Fisher tests are computed using an asymptotic Chi-square distribution. All other tests assume asymptotic normality.

Source: Research Findings.

We use socially responsible market economy index and financial freedom index for sample countries. It is found that, referred indicators show some countries, such as Algeria, Turkey and China have an increasing trend in SRME index and countries such as Iran, Yemen and Pakistan have a downtrend and countries such as the Philippines, Taiwan and Singapore are relatively stable. After data collection, we must insure of its stationarity and non-stationarity to avoid false regression. Since the applied regression method is an ordinary data, so the Levin, Lin and Chu tests are used. Results are shown in Table 3. Test results of combined data regression are also provided in Table 3 for the total sample and its breakdown to Middle Eastern and North African countries and Asian and Oceania countries.

Table 4
Panel Data Regression between Socially Market Economy and Financial Freedom

Variables	Dependent Variable	Middle East and North Africa	Asia and Oceania
		Dependent Variable	Dependent Variable
	FF	FF	FF
RL	-0.23 (-0.24)	1.31 (1.21)	-1.90 (-1.58)
SDI	-0.17 (-0.32)	-0.21 (-0.22)	1.09 (1.97)
PSI	-0.19 (-0.18)	0.86 (0.67)	1.48 (1.19)
LSD	-0.32 (-0.41)	1.17 (1.22)	-2.21 (-2.28)
OMC	2.17** (2.06)	3.88*** (2.96)	-1.29 (-1.13)
CPS	-0.50 (-0.77)	-1.04 (-1.6576)	-1.63 (-2.16)
PP	3.46*** (3.42)	1.65 (1.33)	4.36 (4.32)
WR	1.56** (2.02)	-1.57* (-1.78)	9.79 (10.49)
EP	-0.42 (-0.44)	-0.98 (-1.45)	0.06 (0.13)
SU	-1.70** (-0.75)	0.11 (0.12)	-4.66 (-5.34)
POP	-2.49** (3.41)	-4.39** (-2.54)	-0.68 (-0.58)
GGR	-15.44* (-1.88)	-10.59 (-1.38)	-2.11 (-2.11)
Intercept	31.65*** (4.65)	36.26 (3.44)	27.09 (3.25)
Fixed Effect	Yes	Yes	Yes
Adj.R ²	23%	35%	32%
Total observations	209	83	84

note. *Sig. at 0.10, **Sig. at 0.05, ***Sig. at 0.01.

Source: Research Findings.

Table 4 shows the estimation results for model (1) using panel data regression between the SRME components and FF. We first discuss the results for all of the sample countries (first column). The coefficient on OMC is positive and significant (2.17; t-statistic= 2.06). The coefficient on SU is negative and significant (-1.70; t-statistic= -2.14). The coefficient on PP is positive and significant (3.46; t-statistic= 3.42). The coefficient on WR is positive significant (1.56; t-statistic= 2.02) and POP is negative and significant (-2.49; t-statistic= -2.48).

Concerning the significant negative relationship between sustainability, one can state that politics and democracy levels of the sample countries differ. Countries like Malaysia and South Korea with a higher level of democracy, and countries like Bahrain and North Korea with a lower level of democracy have different attitudes towards sustainability and consequently towards its relationship with FF. As long as the attitudes of these countries towards concepts such as democracy, political and social integration, and FF are not

strengthened, one cannot expect the basic functions of these concepts to be the same in all countries.

Efficient and powerful financial markets are considered as the most important mechanisms in the economic arena. Without an efficient financial sector, one cannot achieve financial development and subsequent economic development. In fact, the optimal functioning of the economic system in any society depends on the existence of two efficient real and financial sectors, which are powerful and complementary. The cooperative activities of these two sectors are necessary and sufficient condition for the economic system. Given that FF and its effect on financial development are important issues in economic policy; price and currency stability is important in achieving FF and, consequently, the efficient financial markets. However, a significant negative relationship between price and currency stability and FF reflects the failure to formulate appropriate and responsible social government policies to regulate the coordination between responsible domestic and foreign policies and to understand the consequences of the deliberate manipulation of prices and national currency.

This result can be interpreted as the relationship between justice and politics leads to formation of political justice concept as one of the most important aspects of social justice. Social and political cohesion in light of political justice and based on Rawls's theory is a concept that emphasizes on equitable distribution of wealth among all classes of people. Rawls, in the prologue of the first edition of the book 'theory of justice', states that his conception of justice as fairness forms the most appropriate moral basis for a democratic society. This means that a democratic society in which the foundations of social and political solidarity are reinforced can be expected to have Financial Freedom. In general, there is a positive relationship between the social-political solidarity and FF that reaffirms the universality of Rawls's theory of justice.

To test the second hypothesis, the sample is divided into two groups of Middle Eastern and North African countries and Asian and Oceania countries. Like Fisher (1921), z statistics for both groups are calculated as follows based on the correlation coefficient:

$$r'_1 = (0.5) \log_e \left| \frac{1+r}{1-r} \right| = (0.5) \log_e \left| \frac{1+\sqrt{0.59}}{1-\sqrt{0.59}} \right| = 0.6766$$

$$r'_2 = (0.5) \log_e \left| \frac{1+r}{1-r} \right| = (0.5) \log_e \left| \frac{1+\sqrt{0.56}}{1-\sqrt{0.56}} \right| = 0.6320$$

therefore:

$$z = \frac{r'_1 - r'_2}{\sqrt{\frac{1}{n_1 - 3} + \frac{1}{n_2 - 3}}} = \frac{0.6766 - 0.6320}{\sqrt{\frac{1}{17 - 3} + \frac{1}{18 - 3}}} = 0.3760$$

Thus, considering z statistics are equal to 0.3760, i.e. there is no significant difference between the two groups of countries. The second and third columns of Table 5 shows that, in some cases, the coefficients of independent variables have increased in relation to the whole sample. For example: RL in Middle East and North Africa countries or WR in Asia and Oceania countries. Also, due to the homogeneity of the two sampled countries, the coefficient of determination has been partially improved. However, as previously stated, there is no significant difference between the two groups of countries regarding the aspect of the coefficient of determination.

5 Discussion

Experience shows that, social justice is one of the main challenges and the agenda of macroeconomic policies in developed countries, and as they become more advanced, this issue is addressed with a more serious and rigorous approach. The discussion of what kind of economic policy can include Rawls's philosophical system approach has been studied by many (Esping-Andersen, 1990). Today, social responsibility goes beyond its old concepts, like philanthropy and humanitarian assistance, and encompasses a wide range of government activities at local, national, and international levels (Przeworski et al., 2000). Information asymmetry between government and citizens reduces the happiness of those who bear the cost of public service but does not affect the happiness of public service beneficiaries (Yamamura, 2012).

As the governments have social responsibilities in different areas, economic policy should be made in relation to issues such as social rights, health, private sector activities, and the role of companies in economic development. Therefore, the government can assume more social responsibility that, first, has infrastructure capabilities, and, second, can use its capabilities in relation to its social responsibility towards the society and the structure of power in the country. Ten dimensions of SRME, which are examined in this study, show that law, political and social integration, and the stability of prices and currency are the dimensions that have a significant relationship with Financial Freedom. These relationships are justifiable in the context of definitions and the role of governments in the economy. Based on

the Rawls's theory of justice, the social role of governments has been shown in this research.

5.1 Contributions

This paper makes several theoretical contributions: it defines and describes a logical and theoretical relationship among policy, sociology and economics with Rawls' Theory of Justice, SRME and FF proxies. The socially responsible aspect is of particular importance because SRME means that responsible governments provide dynamic economics and consequently social welfare.

5.2 Governmental Implications

Governments must create institutional and legal infrastructure and information transparency in the financial market to benefit from the effects of FF on financial development. Moreover, as the results of this research show, governments must develop just laws and regulations to be able to move towards financial freedom. Legislative bodies are advised to reinforce just rules, through which they can develop the necessary grounds for financial liberalization and before that, transparency of financial information in financial markets. Developers of educational programs at universities and higher education institutions are advised to include sociological concepts based on the theories of justice such as Rawls's Theory of Justice as an educational backing for economics in their curriculum in form of a course called 'Sociological Economics.'

5.3 Limitations and Further Research

The following limitations appeared throughout this study:

- 1) Non-availability of some characteristics of the countries.
- 2) Undisclosed factors by the country, which affect their future events.
- 3) Limitations of the panel data techniques.

The study makes the following suggestions:

- 1) Investigating the effect of economic policies on the financial freedom.
- 2) Ranking SRME factors among other variables affecting the financial freedom.
- 3) Studying the effect of SRME on stock market index.

5.4 Conclusion

Justice is the most basic concept in human rights. According to Rawls, economic inequality in society is unavoidable, but due to the limitations on

the path to economic and social development, through Rawls's view, one can achieve relative justice. From the perspective of this research, relative justice is economic justice with the proxy of financial freedom. The results of the fit of the research models show that relationship between rule of law and FF is positive and significant. The coefficient on political and social integration is negative and significant. And there is a negative and significant relationship between currency and price stability and FF. This could be due to differences in the political systems of the sample data.

Therefore, as three factors of SRME, rule of law, political and social integration and currency and price stability have a significant relationship with FF. The results confirm Rawls's theories in the field of economic and social justice. Rawls offers a selective framework of social justice that makes sense in a social order and shows that in today's society, without civil law, one cannot establish relative economic equality, which means strengthening the SRME. Previous studies (Setayesh & Daryaei, 2017) have also shown that democracy and economic development have a significant relationship. In this regard, this study shows that economic development has social dimensions and one of its goals is to reduce inequality in society and create economic prosperity.

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