A Market–liberal Vision

Wednesday 3rd, August, 2011
Meeting 25
Econ N171 Economic Development
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China vs. America: Which Is the Developing Country?

- By Robert Herbold, retired COO of Microsoft
- July 9th 2011 Wall Street Journal

- Let's face it—we are getting beaten because the U.S. government can't seem to make big improvements. Issues quickly get polarized, and then further polarized by the media, which needs extreme viewpoints to draw attention and increase audience size. The autocratic Chinese leadership gets things done fast (currently the autocrats seem to be highly effective).
Today

- Sustainable development: a market–liberal vision
  - James A. Dorn

  - The Electronic Journal of Sustainable Development, 2007
“Growth for whom?”

- “State-led development may achieve growth but only by suppressing economic and personal freedom.”
- The liberal definition of sustainable development is “an expansion of choices open to individuals”
- Main point: illiberal growth is inconsistent with sustainable development
- Comprehensive central planning fails because it denies fundamental rights to liberty and property
Opposing Camps (post WW-Il)

- Only the state could break the vicious circle of poverty (Gunnar Myrdal 1898 – 1987, Nobel Prize, 1974)
  - Comprehensive central planning, compulsory saving, protectionism, and foreign aid

- Peter Bauer opposed that view
  - “the principal objective and criterion of economic development is to extend range of effective alternatives open to people”
  - And on widening the scope of markets so that more individuals could realise the gains from trade.
The market-liberal vision of sustainable development rests on the principle that individuals have a natural right to be free to pursue their happiness provided they respect the equal rights of others.

“My freedom to swing my arm ends where your nose begins”
The role of the state is to preserve freedom by preventing injustice, not to pursue some arbitrarily defined notion of “social justice” by violating people’s liberty and property. The essence of liberalism, in the classical sense, is to “do no harm” – not to “do good” with other people’s money.

'It takes all the wisdom of the wise to undo the harm done by the merely good.’ – Buddhist saying
Development as Freedom

- The moral case for freedom is independent of the side-effect of increasing prosperity
- Freedom is not the same as power or opportunity
- People are free to choose but within constraints
- Freedom is the right to be free from coercion
- Development as freedom, in the classical liberal sense, requires no increase in government power beyond the power to safeguard liberty and property.
Expanding the meaning of freedom . . .

- Right to education, the right to health care, the right to minimum income, the freedom from want
- Attempting to achieve greater economic inequality by expanding the meaning of freedom to include positive rights would increase the inequality of power
Robbing Peter to pay Paul guarantees Paul’s support

The power of people is a perfect substitute for the power of the government

The government that is big enough to give you everything you want is big enough to take everything you have
Bauer observed that differences in wealth do not necessarily imply differences in power. In a free-market society with limited government, a rich person has no control over a poor person: “freedom from control or dictation is a function of access to independent alternatives, and not of equality of wealth or incomes conventionally measured”
Sen would use the power of the state to create “social opportunities” to expand “human capabilities”

The difference between Bauer and Sen is that Bauer thinks people have a property right in what they earn as a result of voluntary exchanges in free markets, whereas Sen does not accept a market-process theory of justice.
Tibor Scitovsky (1910 – 2002)

- Hungarian Economist
- Stanford University 1946 – 1948
- UC Berkeley (1948 – 1968)
- Stanford till he retired in 1976
Getting back to Justice

- Justice is at the core of human civilization
- Conceptions of justice define societies
- The conception changes with time
Rawls’ Theory of Justice

- John Rawls 1921 – 2002
- “A Theory of Justice”, 1971
- Justice as Fairness
- *Original position* in which everyone decides principles of justice from behind a “veil of ignorance”
Rawls’ “Veil of Ignorance”

"no one knows his place in society, his class position or social status, nor does anyone know his fortune in the distribution of natural assets and abilities, his intelligence, strength, and the like. I shall even assume that the parties do not know their conceptions of the good or their special psychological propensities. The principles of justice are chosen behind a veil of ignorance."
Liberal Development Policy

- How development policy impacts freedom is crucial

- Improving institutions, limiting government, lowering transactions costs, and widening markets are thus the only legitimate or just means to sustain development from a classical liberal perspective.
Discuss this

“Bauer was critical of post-war development models that gave a predominant role to capital accumulation but paid little attention to institutions and the process by which development occurred. He argued that capital investment is endogenous to the development process rather than exogenous: “It is more meaningful to say that capital is created in the process of development, rather than that development is a function of capital.”
Resulted from “the individual voluntary responses of millions of people to emerging or expanding opportunities created largely by external contacts and brought to their notice in a variety of ways, primarily through the operation of the market”

Those “developments were made possible by firm but limited government, without large expenditures of public funds and without the receipt of large external subventions.”
Compare to Stiglitz’s view

- What do you think?
“the institutional infrastructure is more important than the physical infrastructure in the process of development. Internal and external trade will spontaneously develop if people are free to own their own businesses, free to save and invest, and free to work and travel. The importance of institutions – especially the role of property rights – in the development process is now widely accepted.”