

A Market-liberal Vision— Part 2

Thursday 4th, August, 2011
Meeting 25
Econ N171 Economic Development
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Continuing from Yesterday

- ▶ Sustainable development: a market-liberal vision
 - James A. Dorn
 - *The Electronic Journal of Sustainable Development*, 2007

Institutions matter

- ▶ “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.”

Was Development Assistance a Mistake?

- ▶ William Easterly. New York University
- ▶ Development assistance is the combination of money, advice, and conditions from rich nations and international financial institutions
- ▶ Development assistance was based on three mistaken assumptions
 - We know what actions achieve economic development
 - Our advice and money will make those correct actions happen
 - We know who “we” are

Quote

- ▶ In the new millennium, a remarkably broad group of academics and policymakers seem to agree that, after all that, maybe we don't know how to achieve development, although reluctant to say so exactly. The World Bank (2005) was either giving up or offering instantaneous non-falsifiability: “different policies can yield the same result, and the same policy can yield different results, depending on country institutional contexts and underlying growth strategies.”

- ▶ Similarly the Barcelona Development Agenda (2004) agreed a Who's Who of leading economists concluded that: “there is no single set of policies that can be guaranteed to ignite sustained growth. Nations that have succeeded at this tremendously important task have faced different sets of obstacles and have adopted varying policies regarding regulation, export and industrial promotion, and technological innovation and knowledge acquisition.”

But . . .

- ▶ This does not mean that economists know **NOTHING** about development, or know nothing about the many little pieces that contribute to development. . . Economists are reasonably confident that some combination of free markets and good institutions has an excellent historical track record of achieving development (as opposed to, say, totalitarian control of the economy by kleptocrats). It is just that we don't know how to get from here to there, which specific actions contribute to free markets and good institutions, how all the little pieces fit together, that is how to achieve development.

Development Assistance Was a Mistake

▶ Conclusion:

- We don't know what actions achieve development, our advice and aid doesn't make those actions happen even if we knew what they were, and we are not even sure who "we" are that is supposed to achieve development.
- <http://dri.as.nyu.edu/docs/IO/11783/Wasdevelopmentassistanceamistake.pdf>

Classical Liberalism

- ▶ **Classical liberalism** is a philosophy committed to the ideal of limited government, liberty of individuals including freedom of religion, speech, press, assembly, and free markets.
- ▶ Not the same as the ‘liberals’ one hears about in the media in the US. They are into “democratic state welfarism”

Economic Freedom and Well-being

- ▶ Index of Economic Freedom
- ▶ Correlation between economic freedom and well-being (causation is likely)
- ▶ 2011 Index of Economic Freedom (The Heritage Foundation)
 - Top 10: Hong Kong, Singapore, Australia, New Zealand, Switzerland, Canada, Ireland, Denmark, United States, Bahrain
 - Bottom members: India (124), China (135), Argentina (138), Russia (143), Ethiopia (144), Nepal (146), Burundi (148)

The Case for Economic Liberalism

- ▶ The arising of ‘spontaneous order’
- ▶ Adam Smith on a market-liberal system
- ▶ “. . . the sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society.” (1776)

Frédéric Bastiat (1801 – 1850)

- ▶ Bastiat held that “the solution to the social problem [i.e., how to direct individual self-interest toward the social good] lies in liberty”; not in the sense of unlimited freedom, but freedom bounded by just laws.

Just Law

- ▶ “When law and force confine a man within the bounds of justice, they do not impose anything on him but a mere negation. They impose on him only the obligation to refrain from injuring others. They do not infringe on his personality or his liberty or his property. They merely safeguard the personality, the liberty, and the property of others. They stand on the defensive; they defend the equal right of all. They fulfill a mission whose harmlessness is evident, whose utility is palpable, and whose legitimacy is uncontested.”

Frédéric Bastiat

Democracy and Liberty

- ▶ Alexis de Tocqueville pointed out over two centuries ago that liberty and democracy are not the same thing. Indeed, there is sufficient evidence over the centuries that democracy has existed to show that democracy can be the enemy of liberty. India's government is elected by the people. But being popularly elected as a democratic government does not mean that it cannot also be a tyranny and deny the people freedom. The subjugation of the population can be as real in a democracy as in a despotic rule.

(<http://www.deeshaa.org/2011/04/13/the-illusion-of-freedom/>)