

Liberty and Prosperity

Liberal economics for achieving universal prosperity

Gopi Krishna Suvanam

Series in Economics



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Preface

As a result of the financial crisis of 2008 and various governments' responses to that, there is a disillusionment amongst different segments of the society concerning the role of governments and central banks. The bailout of banks by governments is seen as a regressive move and central banks are no longer seen as know-all, wise entities. There have been several counter-movements because of this disillusionment including the tea party movement, occupy wall street movement. Although it is clear that what governments and central banks are doing right now is not perfect, people are not clear about the alternative framework that could work. This book is an attempt to illuminate an alternative policy framework using liberal economic policies. It has evolved over the years based on my personal and professional experience looking at economies around the world.

As the book is more of a book on economics and does not intend to be political in nature, recent events and current policies are not discussed in detail, but the principles elaborated in the book have direct applicability in the current world. The ideas discussed are intended for countries in different stages of development and are not restricted to either developed countries or emerging economies. The main aim of the book is to examine what we as a society can do to achieve universal prosperity. The recurrent topic in the book is that liberty and prosperity are intertwined as without prosperity man cannot have true liberty and on the other hand, the best way to achieve universal prosperity is through providing liberty to all.

The book does not necessarily bring out new research but identifies the right measures from existing liberal theories that could work in the long term. Thus the book can be said to be in continuation in the tradition of classical liberalism. Having said that there will be a few contrarian ideas that will be discussed especially on taxation and money. There are a few books that aim to prescribe economic solutions to the problems in the post-2008 world. Some of those books take the approach of the free market, liberal economic policies that the current book takes. Most of the ideas presented in those books are innovative but many of them may not be practicable immediately. I do not intend to bring out radical, futuristic ideas, but stick to well thought out solutions from classical liberal economic frameworks. There are some other popular books in economics recently published, that do not look at economics from a (classical) liberal lens. Many of them have an interventionist approach and also give micro-level recommendations rather than discussing macro-ideas. On the other hand, classical books, published

several decades ago, like Henry George's *"Progress and Poverty"* and F. A. Hayek's *"Constitution of Liberty"* contain liberal, macro ideas. I will revisit a lot of those ideas in the current context.

One set of audience for the book will be people who understand the economy and business a little bit but do not have an in-depth understanding of economics. Another set of audience will be students who want to get an overview of classical macroeconomic principles. A few chapters contain contrarian/novel ideas, which will be of interest to professional economists as well. These chapters can initiate new debates, which can guide economic thought and policy frameworks. The language of the book is kept simple with minimal jargon so that the reader can walk through the ideas without much background knowledge. The book slowly builds on various ideas and some ideas are recurrent to drive them home. There are embedded references to economists, authors, and other books so that readers can dig deeper into specific topics. Hopefully, the book can create awareness about classical liberal economics to battle current day problems.

Part 1: Introduction

Chapter 1

On the conspicuous absence of universal prosperity

It aches me to see, even after decades of economic and industrial growth, a significant portion of the human population still living in absolute or relative poverty when the premise of growth is that it brings prosperity to all. This is in spite of using scientific methods to manage economies starting with Adam Smith in the eighteenth century. I'm not contesting the fact that there have been significant improvements in human life and there are many things to look forward to, including a drop in absolute poverty levels, improvement in infant mortality rates, and the rise in life expectancy. Nevertheless, the pursuit of economists should not stop until every human being has enough prosperity to fulfill all of her (reasonable) aspirations and not just the basic need for food and protection. Of course, it can be said that the aspirations will keep increasing, but looking at the current state of affairs, humans are still way behind reaching a state where most of them can be said to be able to achieve their reasonable aspirations and lead a happy life by any measure.

When one walks in the streets of slums in Mumbai or visits the favelas of Rio de Janeiro or dwells in the villages of sub-Saharan Africa, the fact that we need to achieve much more becomes quite obvious. That is not the end of it, even New York City and London or the perfectly manicured urban spaces of Dubai and Singapore have residents who are in poverty - some in absolute poverty and a lot in relative poverty. Where billionaires are being made from the trade of oil or diamonds or financial securities, or of late building technology solutions, the poor and also the not so poor struggle to lead a happy life on a daily basis. Where people spend \$1,000 or more on a meal, there are people living on less than \$1 a day. This is an extreme case of disparity but even on a more moderate level, drastic inequalities are visible everywhere, even if one chooses to ignore them or get used to them.

The cause of this persistent ailment has baffled some economists, but most of them have brushed it aside arguing that with growth there will be prosperity for everyone - eventually. But the time has now come to question if that hypothesis is true. And if that hypothesis is true, why are we not growing fast enough to make prosperity for everyone imminent? It can be fairly argued that past decades of liberal economic policies around the world (after World War II) have shown secular growth and have created enough wealth at an

aggregate level. But the question - why are we not growing fast enough for us to be already prosperous - remains, and other related questions arise: even if growth could solve the problem of poverty and create universal prosperity, are there any other policy measures that could be taken to spread the effect of growth to everyone faster? The rest of the book tries to answer these two questions: How do we grow faster? Other than fostering economic growth, what else is needed for quickening the journey to universal prosperity?

The first of the questions is similar to what economists call the problem of efficiency and the second is similar to what they call the problem of equity/distribution. I would use these terms sparingly, as firstly they carry a legacy of left-wing versus right-wing debate, and secondly, they may not fully represent the nuances of universal prosperity the way I have phrased it above. Also both the questions may be intricately related to each other - perhaps without achieving equity we may not get full efficiency and vice versa. Some economists focus solely on efficiency and ignore the problem of equity and some the other way round. This may not serve the purpose of either of the objectives fully. The last century has validated free-market economics and liberal policies for achieving high growth, especially in emerging economies. But this century is seeing the effects of some policy mistakes. Policy mistakes accumulated towards the end of the twentieth century, have led to asset bubbles, wealth disparities, and emanating slowdown in growth. As a result, the world is moving towards a protectionist approach, rather than fixing what is wrong with free-market economics. That seems like a step backward.

A shortcut answer some economists give for the question of lack of prosperity is the rapid growth in population. That would be a lazy approach though, as for several decades the world economy has been growing at a faster rate than its population. Besides, it may seem that having fewer people to share nature's resources would make more available to each one of them, but it can also be argued that having more population, with an abundance of capable workforce, can increase overall production in the economy. "Demographic dividend" is a fancy name given to this. Countries like India have a demographic dividend for some time without reaping many benefits out of it yet, not because of a lack of natural resources or capital but because of a lack of opportunities to deploy the workforce, the resources, and the capital.

Here one could argue that the effects and opportunities offered by free-market economics have not been able to reach the grassroots level. This may not be because of some fundamental flaw in liberal economic theory, but because of certain deficiencies in the real world, which are assumed away by economists, including monopolization of land, frictions in the movement of goods and capital, etc. The approach I'm going to take in this book is not to question already established liberal economic theories, as recommendations

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