

VIEWPOINT

Is Prosperity The Objective? Trade Is Far Better Than Aid

BY JAMES A. DORN

Economic freedom and limited government under the rule of law are crucial for peace and prosperity in the 21st century. Globalization has helped spread market institutions and foster political reform, as in South Korea and Taiwan.

Countries that have cut themselves off from the global economy, such as North Korea, have failed to develop. Critics of globalization have good intentions — to alleviate poverty and close the gap between rich and poor countries — but those ends are more likely to be achieved by economic freedom than by government intervention.

Interfering with free trade, dictating massive government-to-government aid programs, imposing burdensome environmental standards, fixing wage rates and penalizing successful entrepreneurs are not in the long run interests of poor countries. A policy of engagement is the best strategy to increase living standards, improve the environment and reduce the risk of war.

Beijing Knows

China is the foremost example of the positive effects of opening to the outside world and establishing permanent normal trade relations. Trade liberalization has helped China grow the nonstate sector, dramatically increase per capita incomes and invigorate civil society.

The market-liberal order is both natural and ethical. Former Czech President Vaclav Havel, in his "Summer Meditations," noted that naturalness when he wrote that the free-market economy is "the only natural economy, the only kind that makes sense, the only one that can lead to prosperity, because it is the only one that reflects the nature of life itself."

The market-liberal order is also ethical, in the sense that it is based

on freedom under the law.

As Zhang Shuguang, an economist at the Unirule Institute in Beijing, stated: "In the market system . . . the fundamental logic is free choice and equal status of individuals. The corresponding ethics . . . is mutual respect, mutual benefit and mutual credit."

The failure of central planning has left the market economy as the only viable alternative in today's global economy. Emerging market economies, if they are to survive and prosper, must make a credible commitment to economic freedom and limited government.

The problem is how to establish and maintain an institutional framework that protects private property rights and freedom of contract. The challenge is to create a constitutional order of freedom in which self-interest is in harmony with the general welfare. The market order and the political order will then be compatible.

Removing legal restrictions on exchange (both domestic and foreign) and reducing the size of government will increase economic freedom and prosperity. In a study of OECD countries and 60 other nations published in the *Cato Journal*, James Gwartney, Randall Holcombe and Robert Lawson found an inverse relation between the size of government, as a share of GDP, and economic growth — but a "strong positive correlation between the security of property rights and economic growth."

The first step toward strengthening emerging market economies is to think clearly about ways to depoliticize economic life. Restrictions on trade, labor mobility, capital flows and prices need to be examined with awareness of the social gains to be had by deregulation. If small cracks can be made in government controls, formal markets will emerge and corruption decline.

The next step is to embark on legal changes that reduce transaction costs by limiting the power of government to intervene in markets that are opening. New property-rights arrangements that correspond more closely to private than to state ownership are likely to emerge in the development process. As people gain wealth through markets, they will have an incentive to acquire more secure property rights and demand legal reform.

This process is now occurring in China, which will amend its constitution in March to give greater protection to private property.

Liberalizing foreign trade is perhaps the surest way to expand the market sector, bring about legal reform and reduce the relative size of government.

Trade also produces dynamic gains through the spread of new ideas and the development of civil society, as domestic enterprises adhere to international trade norms and learn the importance of the rule of law for economic progress and social development.

Curbing The State

Expanding the global network of free markets will help check government power. The more open markets are, the more alternatives people will have to escape heavy taxation and regulation. Capital will move to where it is protected, not to where it is legally plundered.

Globalization has increased economic freedom and helped move reluctant governments in the direction of market liberalism. Lowering trade barriers, cutting marginal tax rates, limiting government spending and preventing inflation are positive steps toward prosperity.

Trade, not aid, is the key ingredient in fostering freedom and prosperity in the 21st century.

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