

Economic freedom, our ultimate resource

For want of natural resources, our economy can only be on course for individual freedom to stay as a front-runner in the race for growth despite a burden of remaining controls.

By Eric Ng Ping Cheun

As an impenitent critic of the Mauritian economy, I have been naturally questioned on how it can save its neck. It is easy to level criticism at inconsistent policies and to point at the deterioration of the macroeconomic fundamentals, but what solutions do you propose? On thinking it over, I recall the famous book of Julian Simon, *The Ultimate Resource*, published in 1980 after the Club of Rome had released its primal scream, *Limits to Growth*, which reported that the earth was rapidly running out of everything. The doomsayers' predictions of global famine, \$100 a barrel oil, nuclear winter and other eco-catastrophes were discredited. Instead, the world has seen further improvement in the human condition as evidenced by the rise in per capita GDP, the increase in life expectancy and the decline in infant mortality. These trends vindicate Julian Simon's central premise that people are the ultimate resource: they are resource creators, not resource destroyers.

Now if Mauritius' prosperity is dependent on its people because of an absence of natural resources, then it hinges concurrently on individual freedom. Every magnum opus in the metaphysics of freedom shows that freedom is not merely a preference but also the essential feature of what it means to be a human being. In line with the objective of moving the Mauritian industry up-market, our public and private authorities often make an appeal for creativity, but very rarely do they link it to freedom. Yet, the human mind cannot be creative and ingenious without institutions which foster and protect individual freedom. Therein lies the crux of the sole answer that I can give to my questioners, and I believe it is the right one: our ultimate resource is economic freedom.

Unfortunately, when they lend credence to some liberal ideas, policy makers are subject to the influences of neo-classical economics, which is suitable to the task of applying mathematical formalism to an economic problem in a perfect close-ended capitalistic system, but not to that of analysing the institutional base upon which capitalism rests. Neo-classical economists take for granted the organising institutions of the system and this is a feature that most clearly distinguishes them from Austrian economists for whom the institutional design does bear on economic performance. Theories of development derived from the neo-classical production function would seem to imply that two countries having the same stocks of resources and the same technical knowledge will produce the same

mix of outputs. Surely this is not so from the Austrian perspective because any economic prescription that does not take institutions into account is likely to fail.

Institutions are, broadly speaking, the general rules of behaviour in a society. They are formal rules, namely constitutions, laws and regulations, from which shall follow the rule of law, limited government, respect for private property, enforcement of contracts, free and fair elections and an independent press. They are also informal rules: norms of behaviours, tacit conventions and self-imposed codes of conduct. By a combination of formal and informal rules, humans structure their interactions and frame interpersonal trust. Hence, social institutions may be viewed as capitalized trust. They form a kind of discipline reducing complexity in social relations. Nobel Prize winner Douglas North holds that institutions shape the incentive structure of a society and, as such, provide the underlying determinants of economic growth.

During the present AGOA Business Forum, eyebrows would not be raised whenever U.S. officials praised Mauritius as an example of economic freedom for sub-Saharan African countries, the more so as its GDP growth averaged 5.5% over the last ten years. In its Country Commercial Guide on Mauritius, albeit dated June 2001, the United States Embassy in Port Louis avers that *“Mauritius is an established democracy with a liberal economy”* and with *“a sophisticated and impartial legal system”* which *“protects all property”*, as *“legislative guarantees against nationalization exist and are respected”*.

At the informal level, our ethnic diversity, which the Nobel Prize winner James Meade lamented as a curse in 1961, turns out to create useful linkages of international trade as well as important networks of foreign direct investment with former colonial powers and with our countries of origin. Equally, a free and vibrant press and participatory politics ensure confrontation of ideas, warning of emerging problems and feedback on official decisions, thus bringing out the best in all stakeholders. All these institutions, along with the fillip of preferential trade agreements, have shaped our economic performance.

To avail themselves of the benefits of AGOA, its eligible members are bound to progress continually towards establishing a market-based economy, the rule of law, the elimination of barriers to trade and investment, protection of worker rights, and a system to combat corruption and international terrorism. Mr Rama Sithanen, a former Minister of Finance, once qualified these eligibility requirements as *“political conditionalities”*. Worse still, Mr Cassam Uteem, the former President of the Republic, recently insinuated that AGOA leads the incumbent Mauritian government to kowtow to the U.S. administration’s whims and even to be at its beck and call on sensitive issues of international politics addressed at the United Nations Security Council. Such a statement is tantamount to a shot in the foot for our economic diplomacy when, in fact, AGOA is a much-needed shot in the arm for our economy as testified by the improved trade exports to the United States. Nobody owes us a living, so we should not

bite the hand that feeds us, especially as the benefits of preferential access are not reciprocal. Anyway, it does no harm to promote free enterprise and to root out the evils of terrorism. Undoubtedly, governments must carry out this undertaking to pave the way for a resilient free-market economy.

Merely being an open economy (like some African sluggards) is not good enough: an economy needs institutions that facilitate private entrepreneurship. In his seminal book *The Mystery of Capital* (2000), the Peruvian economist Hernando de Soto argues that poverty persists not because the poor lack capital – the world’s poor own \$9.3 trillion in property – but because inadequate property rights laws fail to recognise their assets. Property rights have two essential elements: 1) the exclusive right of individuals to use their resources as they deem it fit as long as they do not violate someone else’s rights, and 2) the ability of individuals to transfer or exchange these rights on a voluntary basis. From the exclusivity viewpoint, Mauritius has proved to be a model for most post-independent African countries. Indeed, the rule of law and respect for private property have played a positive role in making the island an attractive investment location. Guaranteeing the rights of the sugar owners, who make up the economic elite, instead of nationalizing the sugar sector, has well served the Mauritian economy, contributing to its rapid expansion and diversification.

However, with regard to transferability, Mauritius has still a long way to go on account of the very skew distribution of wealth. To quote Harold Demsetz, an authority on the corporate agency problem (how to get managers to act in the best interests of owners when both have different interests and information), *“extreme inequality in wealth can place so large a fraction of a nation’s wealth in the hands of so few people that time and knowledge limitations undermine their ability to control professional management effectively”*. First and foremost, our stockmarket needs to undergo real structural reforms, one being to increase free float from its current 25% level with a view to expanding the scope of transferability.

Protection of private property, though vital, is only one of the many factors of economic freedom. In compiling their annual Economic Freedom Index, the Heritage Foundation, a U.S. conservative think-tank, and The Wall Street Journal base their rating on a total of ten factors. Economic freedom is defined as *“the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself”*. In the latest survey published on 12 November 2002, Mauritius ranks 72nd place together with the likes of Uganda, Swaziland and Mali, falling into the category of *“Mostly Unfree”*.

In fact, our country lost the status of *“Mostly Free”* that it still enjoyed in 2001. The main reason is that Mauritius’ trade policy is viewed less and less favourably in the context of the liberalisation of the world economy: *“The World Trade*

Organization notes that the government's policy of protecting domestic markets while providing incentives for export enterprises strains government finances." The survey also quotes the U.S. Department of State: "The State Trading Corporation controls imports of rice, flour, petroleum products, and cement, and the Agricultural Marketing Board controls imports of potatoes, onions, corn, and some spices that compete with locally-grown produce." Furthermore, "non-tariff barriers take the form of a large bureaucracy and import licences on numerous products".

As regards government intervention in the economy, the survey qualifies it as "moderate", that is neither low nor high. However, it is doubtful whether this score captures the whole picture because the government actually labels as "private corporations" businesses that it controls through majority shareholding. Government has thus a stake in telecommunication, in commercial aviation, in four banks (*SBM, First City Bank, New Cooperative Bank, DBM*), in insurance (*SICOM*), in real estate and housing, and in restaurants and entertainment activities, and it wields monopoly on public utilities (electricity, water) and on casinos. To crown it all, the government has a long arm through its State Investment Corporation which, in a vacancy advert, boasts that it holds "investments in about 90 companies across all economic sectors in Mauritius".

Despite that, Mauritius is entitled to the Millennium Challenge Account, an assistance programme established by President George W. Bush to distribute U.S. economic aid to developing countries that are determined to "encourage economic freedom". Clearly, institutions and history matter. No Mauritian government has ever nationalized any industry. Against this background, foreign investors can rest assured that whichever of the main political parties in Mauritius come to power will not wipe out all institutional knowledge and traditions of markets accumulated so far. The country's institutional memory of markets is a repository of trust. And it shall be our launching pad for a new height of economic development.