Anti-establishment revolt and post-truth politics: this twin phenomenon poses a serious challenge to economists. At a time when populism is mounting, it becomes even more difficult to propagate simple economic truths. However, economists do not have to abandon reason to make economics less dismal and more relevant to the average person, for they can connect with people's intellect by appealing to their emotions. To change the way people think about economics, they must reclaim it from the technocratic elites who are responsible for giving it a bad name.

Ignorance of economics is not bliss. In this book, the author tries to debunk many economic fallacies with respect to domestic issues, from entrepreneurship to privatisation, from Ponzi finance to banking regulation, from interest rate to currency manipulation, from flat taxation to income inequality, from trade deficit to real estate. On every topic, he opposes real-world economics to popular economics, sound money to easy money, and free market to political power. The book contains statistical tables within each chapter and press interviews of the author in appendix.

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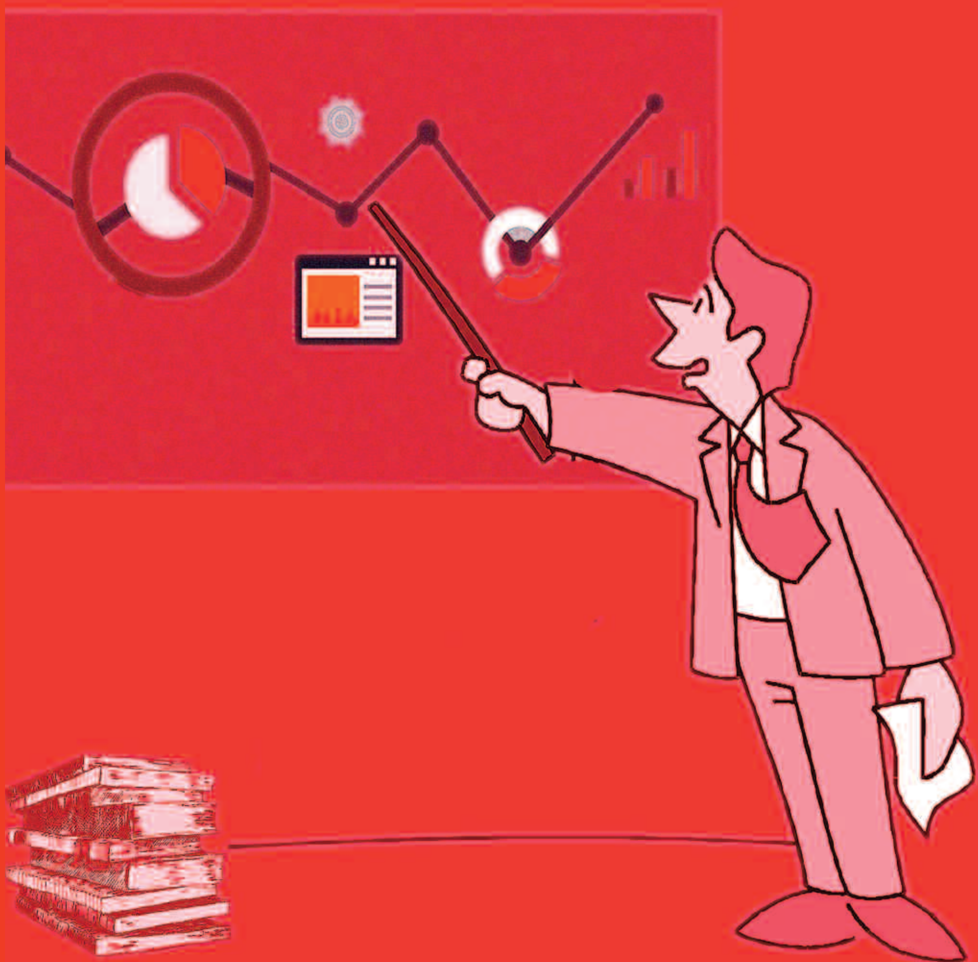
ECONOMIC SENSE



ERIC NG PING CHEUN

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ECONOMIC SENSE

ERIC NG PING CHEUN

Contents

	Introduction: Making Economics Matter	1
	Real-world Economy	
1	Alert Entrepreneur	13
2	Much Ado about Trade Deficit	21
3	Real Estate Readjustment	26
4	Irreducible Income Inequality	32
5	Flat Taxation	38
	Political Choice	
6	Public Interest	51
7	Opportunity Cost	57
8	Workable Privatisation	63
9	Supreme Board	74
10	Independent Central Banker	80
	Sound Money	
11	Meaningless Repo Rate	89
12	The Lure of Stable Prices	93
13	In Defence of Deflation	99
14	Loose Monetary Conditions	105
15	Low-rate Limits	111
16	Currency Manipulation	117
	Financial Extremes	
17	Banking Regulation	125
18	Ponzi Finance	132
19	Financial Privacy	139
20	Financial Vulnerability	144
21	Deposit Banking	153
	Interviews with *Weekly*	165
	Notes	209

List of Tables

Table		Page
1	Number of production units run by self employed persons without any assistance	17
2	Current Account of the Balance of Payments, 2000-2015	22
3	Percentage Distribution of Gross Value Added in 2016	28
4	Gini Coefficient, 1980/81-2012	34
5	Tax Revenue, 2006/07-2015	44
6	Public Expenditure, 2006/07-2015/16	53
7	Retail Prices of Gasoline and Gas Oil, 2011-2017	59
8	Employment in large establishments, 2000-2016	68
9	Share Price of Air Mauritius, February 2016-January 2017	75
10	Governors of the Bank of Mauritius, 1967-2017	81
11	Key Repo Rate, 2006-2016	90
12	CPI Inflation Rate, 2004-2016	94
13	Money Supply Growth, 2008-2016	100
14	Domestic Saving and Investment, 2007-2016	106
15	Banks' Claims on Private Sector, 2005-2016	112
16	Mauritius Exchange Rate Index, 2007- 2016	118
17	Consolidated Profit of Banks, 2008/09-2015/16	127
18	Public Sector Debt, 2005-2016	134
19	Convicted Offences under Prevention of Corruption Act, 2007-2015	141
20	Gross Official International Reserves, 2011-2016	148
21	Private Sector Rupee Deposits with Banks, 2003-2016	158

It is no crime to be ignorant of economics, which is, after all, a specialized discipline and one that most people consider to be a "dismal science." But it is totally irresponsible to have a loud and vociferous opinion on economic subjects while remaining in this state of ignorance.

Murray Rothbard[1]

Economics must not be relegated to classrooms and statistical offices and must not be left to esoteric circles. It is the philosophy of human life and action and concerns everybody and everything.

Ludwig von Mises[2]

The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design.

Friedrich Hayek[3]

There are only good economics and bad economics.

Milton Friedman[4]

The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else.

John Maynard Keynes[5]

Good politics has the capacity to clear up the mess left by bad economics. But will it?

Rameswurlall Basant Roi[6]

Good economics leads to good politics.

Sushil Khushiram[7]

We have to delink politics and economics.

Percy Mistry[8]

We believe the market, if it functions properly, is the best regulator.

Rundheersing Bheenick[9]

There is no such thing as a free meal.

Rama Sithanen[10]

INTRODUCTION

Making Economics Matter

You have probably heard that economics is referred to as the “dismal science”. Granted, economists are rarely upbeat individuals, but that is not the reason why historian Thomas Carlyle coined this phrase. In his 1849 work *Occasional Discourse on the Negro Question,* he argued that continuing slavery would be morally superior to relying on the market forces of supply and demand, and he described the profession of economists who disagreed with him as the “dismal science”. He was actually wrong in predicting that the emancipation of slaves would leave them worse off.

You surely agree with the phrase though. For most people, economics is hard. Yet, it is the only subject that they deal with on a daily basis, and the only field on which they depend without realising it. Everybody here has a view on economic issues: you just have to turn on the radio to hear vociferous unfounded opinions. We speak loudly about the economy while being ignorant of economics. And we lay the blame on economists when economic policies fail to boost growth or employment.

Economic problems are, in fact, the result of bad economics on which politicians focus. As policymakers, they discuss economics in the context of politics, but politics offers only platitudes about economic affairs. Political leaders do not merely reject economics, they disavow economics altogether. They do not frame issues in economic terms, having no interest beyond sloganeering like "*vaste chantier*", "social justice" and the like. They propose the best of all worlds, for instance greater prosperity without real increases in productivity. They advocate things that do not make economic sense but that only an economically illiterate audience would believe possible. They keep people living in a dream world where everything gets better and nothing can go wrong.

Politicians adopt a popular approach to economics, which does not go beyond the political expediency of the moment. They have high time preference: they live for today at the expense of tomorrow. In economics, it means spending, borrowing or inflating today regardless of the consequences tomorrow. When comes the day of reckoning, they will have left office. Anyway voters have short memory. Power, not long-run sustained economic growth, is what elected representatives of the people naturally vie for. They continuously put off structural reforms and sweep economic dislocations under the carpet for future generations to tackle. Yet, as an editorial rightly put it, “for the vulnerable small island state that we are, at all times it is the economic agenda that must have priority over the political agenda”[11].

Politicians have no scruples about promising a plethora of benefits and freebies. One main reason why economists do not swallow such promises is scarcity, which is an inescapable fact. Scarcity is to economics what gravity is to physics: a law that we cannot defy. Resources are always scarce against unlimited wants. It would have been so easy to eradicate poverty by printing money (financial resources), but money created out of thin air would find its way into asset bubbles which would eventually burst, thereby causing painful contractions of the economy. There is no solution to scarcity. There are only trade-offs at the margin, where things are given up in exchange of other things. And the great merit of market prices is that they convey information about what people want to buy and what others want to sell.

In sum, the political class proposes free lunches, and many gullible voters fall for such economic nonsense. As a nation, we have chosen to wilfully ignore economics. Mauritians are simply not interested in the details or in the accuracy of the economic pronouncements of those who govern. Economics is not a popular topic among the population. The entire subject seems to be lost on the average Mauritian. People do not spend their free time reading economic papers. On social media, they talk about everything but economics. Parents would be alarmed if their children were unable to perform basic algebra, but they would not mind sending them out into the world without any knowledge of basic economics, leaving them at the mercy of demagogues and charlatans.

However, as a crisis of expectations sets in, people get disillusioned. To appease an angry public, those in government point fingers at insensitive economists, awful capitalists, greedy bankers, free markets and you name it, except at themselves. Note that attacks on economists are as old as economics itself. The eighteenth century British political orator Edmund Burke remarked: “But the age of chivalry is gone. That of sophists, economists and calculators has arrived.”[12] Yet Burke was an admirer of Adam Smith, the founder of economic science, with whom he claimed to agree on almost every subject.

Today the widespread ignorance of economics that plagues our political landscape allows politicians to get away scot-free for the very economic problems caused by the state and its central bank in the first place, like unemployment and inflation. The same falsehoods are repeated by politicians in the media year after year until they are accepted as plain truths by large numbers of people. Journalists also join the fray, being deeply suspicious of economic liberalism.

That political gamesmanship has tarnished the reputation of economists, but they have only themselves to blame. In the past, economists were seen as the intellectual roadblock to popular misconceptions, bad ideas and wrong government policies. Nowadays most economists work for governments and state-funded agencies such as the World Bank, the International Monetary Fund, central banks and academic institutions where they have to toe the official line to progress in their career. Economic consultants who earn a living on public contracts do not seek truth but serve an agenda. Economic analysts in private sector organisations do not defend ideas but pursue the interests of their corporate members keen to remain in the good books of government.

To conceal their political bias, contemporary economists use a technical language known only to them. They are infatuated with mathematical models, borrowing techniques from the physical sciences. But economics is not purported to be a hard science. As South Korea-born economist Ha-Joon Chang quipped, “the economics profession is like the Catholic clergy. In the old days, they refused to translate the Bible, so unless you knew Latin you couldn’t read it. Today, unless you are good at maths and statistics, you cannot penetrate the economic literature. How has this wonderful subject we call economics become so narrow-minded? I find that really sad.”[13]

American economist Paul Romer has also accused mainstream economists of embracing “mathiness” – the use of mathematics to cover up implausible research. It is not with actual observed measurements but with made-up theoretical values that they construct an econometric model that makes their theory look nice. The problem with modelling is that the parameters are not constant, most of the variables are interrelated with constantly changing interrelationships, and important variables such as expectations and confidence are omitted because they are immeasurable. Moreover, it is difficult to distinguish between correlation and causation, or to determine correctly the direction of causation. That is why economic forecasters are often wrong in their quantitative predictions[14].

Economic activity revolves around the actions of individuals, which cannot be modelled like reactions in a biology experiment. Men act purposively with different subjective ideas, values and goals. Economics is not an equation to be balanced, or a model to be filled with statistics. The human elements of consciousness and volition differentiate economics from mathematics and physics. No economic problem can be posed in mathematical language. Austrian-born economist Ludwig von Mises does not see economics as a mathematical exercise but understands economics as praxeology, the study of human action.

By treating economics like calculus, experts render it inaccessible to everyday people who, in consequence, rebel against the elites. The current state of economic ignorance is fomenting the revolt against the establishment and its court of intellectuals. Anti-establishment sentiments are gaining currency in a world which is said to be post-truth, an adjective defined by the Oxford Dictionaries as “relating to or denoting circumstances in which objective facts are less influential in shaping public opinion than appeals to emotion and personal belief”.

In this peculiar context, we must demystify economics and make it approachable for intelligent laymen. Once they view economics as the very stuff of life, they will grasp that all human action is economic action in that it involves scarcity and choice, means and ends, costs and benefits. We must make the case that economics is for everyone and that practical knowledge of economics can help even the uneducated to prosper. This is not post-truth economics as populists like it, but economics couched in realities.

To make economics matter, we need to change our mindset by telling economic truths and by sticking to economic principles. Above all, one can be an entrepreneur only in a market-oriented economy, not in a state-controlled one (chapter 1). Most local entrepreneurs have to import to create wealth, but as long as they are engaged in productive activities, there is no reason to worry about trade deficit (chapter 2). It will rather be a matter of concern if economic growth is fuelled by an inflated real estate market (chapter 3), especially in a country beset by increasing income inequality (chapter 4). Relative poverty cannot, however, be reduced simply by a progressive income tax when flat taxation has actually made the Mauritian economy more resilient in the face of the global financial crisis (chapter 5).

The real problem is that politics often meddles in the normal operation of a market economy under the guise of public interest (chapter 6), without taking into account the opportunity costs of big public projects (chapter 7). In that respect, government gives little consideration to privatisation (chapter 8) in order to better control public boards, but they are expected to act independently (chapter 9) in as much as a central bank stays above politics (chapter 10).

Thus, the Bank of Mauritius should not allow its monetary policy be influenced by the ministry of finance, not least because the Key Repo Rate is ineffective (chapter 11). Stable prices may lure the central bank into lowering interest rates (chapter 12) whereas deflation resulting from monetary contraction can restore a healthy economy based on sound money (chapter 13). Conversely, loose monetary conditions are not conducive to real economic growth (chapter 14), for low interest rates encourage unproductive investments and can bring about financial instability (chapter 15). Monetary expansion due to currency devaluation may also do harm to the financial sector (chapter 16).

Also at the core of financial stability are adequate banking regulation (chapter 17) and early detection of any Ponzi finance arrangement in its true sense (chapter 18). This is not a call for over-regulation that goes as far as violating financial privacy (chapter 19) in a context where the Mauritian economy is financially vulnerable to international capital outflows (chapter 20) as its banking system rests crucially on deposit financing (chapter 21).