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## **Book Review** **by Richard M. Ebeling**

*Economic Freedom and Development: An Essay about Property Rights, Competition, and Prosperity*

by Wolfgang Kasper (New Delhi, India: Centre for Civil Society, 2002); 132 pages; \$12.95.

The Centre for Civil Society, headquartered in New Delhi, India, was founded in 1997, with the purpose of advancing the cause of classical liberalism, economic freedom, and the rule of law under limited government. Its president, Dr. Parth Shah, is a graduate of Auburn University and formerly taught economics at the University of Michigan at Dearborn. For the past five years, he has attempted to move Indian economic policy in a more free-market-oriented direction. The Centre sponsors conferences and seminars and publishes a wide variety of books and monographs meant to educate the political and intellectual leaders in India about the benefits from a more open society.

“Civil society,” as espoused by the Centre,

is an evolving network of associations and institutions of family and community, of production and trade, and of piety and compassion. Individuals enter into these relationships as much by consent as by obligation but never under coercion. Civil society is premised on individual freedom and responsibility, and on limited and accountable government. It protects the individual from the intrusive state, and connects the individual to the larger social and economic order. Civil society is what keeps individualism from becoming atomistic and communitarianism from becoming collectivist.... We champion limited government, rule of law, free trade and competitive markets. These principles promote civil society — peace, harmony and prosperity.

One of the most recent works published by the Centre for Civil Society is *Economic Freedom and Development*, by Wolfgang Kasper. Kasper is emeritus professor of economics at the University of New South Wales in Australia and a senior fellow at the classical liberal Centre for Independent

Studies in Sydney, Australia. He is the coauthor (with Manfred E. Streit) of *Institutional Economics: Social Order and Public Policy* (1998), a thorough and highly readable textbook in the theory of the nature, evolution, and importance of certain social, economic, and political institutions for the preservation and improvement of a free society.

In *Economic Freedom and Development*, Kasper explains the essential institutional prerequisites if less developed countries such as India are to provide opportunity and rising standards of living for their citizens. His starting point is that the countries of the world differ in the degree of freedom and prosperity they have and that these differences are not purely random or chance occurrences. The fact that some countries are richer and some are poorer can be traced to the institutional orders in which the peoples in these nations work and live out their lives.

What are “institutions”? Kasper explains:

They form, figuratively speaking, the cement that holds communities together and allows us to conduct ourselves as members of society. Indeed, shared institutions define our culture and our society. The institutions are central to how people define themselves. . . . An institution is a rule of human conduct whose violation normally carries some sort of a sanction. They serve to make repetitive actions and reactions more predictable.... A society’s institutional foundation sometimes consists of formal laws enforced by courts and the legitimated use of force by certain government agents. But more often than not, social interactions are based on institutions that evolve and are spontaneously enforced within a community: ethical norms, customs, conventions, work practices, and professional standards. These rules are enforced in informal, but nevertheless powerful ways, such as peer pressure or the fear of losing one’s good reputation.

Kasper emphasizes that the importance of “internal,” or spontaneously evolved, institutions comes from the fact that they have emerged as the cumulative outcome of generations of human interaction and discovery concerning ways for men to find ways of associating with each other. They possess an adaptability and flexibility that reflects changing knowledge and circumstances as individuals find better and more effective rules and procedures for mutual cooperation in their various social and market transactions.

“External,” or deliberately legislated, institutions may be essential to support and enforce rules of interpersonal conduct but they involve a greater degree of formality and rigidity than the spontaneously generated institutions, and they possess the additional element of the right of sanctioned and legitimized use of coercion to prevent their being broken.

## **Institutional rules**

What makes good institutional rules in society? Kasper asks. They should be *general, abstract, and universal in their application*. They should cover a broad variety of human interactive circumstances and they should not discriminate between citizens in their application and enforcement.

The institutional rules should have *a high degree of certainty*. The citizenry should be able to clearly know and understand the rules and have confidence that they will not be frequently and unpredictably open to change or reinterpretation.

*Institutions and rules should be open*, that is, broad and general enough for citizens to have the latitude to experiment with and improve upon the ways in which they attempt to more effectively interact with others for mutual gains from trade and association.

In the free society, Kasper points out, the institutional rules will possess the widest degree and combination of these qualities when they are simply “prohibitive” or “negative” in their content. In other words, universal, general, abstract, and certain rules are those that are structured to inform people of the “thou shalt nots.”

You will not kill, you will not steal, and you will not bear false witness (lie or cheat). As long as a person does not invade or abridge another person’s freedom by killing, stealing, or lying and cheating, he is free to follow whatever peaceful course he believes will be more useful and beneficial to attain those goals and ends he wishes to attain.

Arbitrary or rigid institutional rules in society restrict and inhibit the ability and the incentives for persons to use their knowledge in ways that both serve their own ends and, through the institutions of the market, improve the circumstances and opportunities of others in the society as well.

Thus, when Kasper reviews the history and policies of a variety of countries in underdeveloped parts of the world, what he finds are numerous cases in which governments have been the leading stumbling block to economic growth and human betterment. He summarizes these effects:

The experience with development policy around the third world is replete with the costly and wasteful cases of ill-informed and discriminatory actions of the government’s clumsy “visible hand.” Donated or borrowed money was used to build capital cities, ports and infrastructures for which there was no demand. Bureaucrats picked “winners,” promoted import-substitution industries that were

profitable for foreign equipment exporters, administrators and politicians, but costly to consumers. Import protection simply became a privilege, which corrupt politicians sold to the highest bidders at home and abroad. No wonder corruption spread. Agricultural prices were controlled and kept low to benefit politically more important urban populations at the expense of the farmers. No wonder city slums grew fast with migration from impoverished rural areas, and rural areas remained depressed. . . . In most new ventures, even small informal enterprises were subjected to complicated licensing requirements, which no poor young entrepreneur could ever hope to meet. No wonder that black markets and personal insecurity rose, and small traders found it hard to become big traders and employers.

What, then, should governments do, both in developing countries and in the nations of the West? Kasper is clear in his prescription. Governments should cease their interventionist policies, protect private property, enforce the rule of law, and leave the market participants to generate their own spontaneous order of supply and demand.

But he also emphasizes that such a market-oriented institutional order cannot be artificially imposed by foreign powers coming from outside or by well-intentioned despots within countries. The market order and the political institutions that can support and protect it can arise only from a shift in the values and preferences of the members of the society. People must come to see the benefits from and the desirability of individual freedom, equality before the law, gains from voluntary trade, and the advantages from private initiative and creative experimentation through an open competitive process. An appreciation of them cannot be socially engineered. It must come from the people themselves, one person at a time.

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