

Is Minus Government the Solution to Market Economies?

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Executive Summary

An ongoing debate in the United States and in Europe is whether there must be less government or more government. This means that there are proponents of the government extending its sphere of influence into all sectors and opponents of this view who see this as socialism creeping into the West. In other words, the debate is over whether the governments in the West have to assume powers over the functioning of the economies or let the private sector do its job without governmental interference. The genesis of this debate dates back to the 1970s when neoliberalism as an ideology first appeared on the scene. The proponents of free markets and governmental non-interference carried the day as those on the other side of the debate lost in the battle of ideas. Since then the West has been an exemplar for how the private sector and free markets work without governmental interference. However, the global economic crisis of 2008 brought the issue back into focus because many experts saw the crisis as a manifestation of how neoliberalism failed as an ideology. Further, the fact that big banks and financial institutions along with manufacturing behemoths had to be bailed out by the government provided impetus to the argument that free markets left to themselves create mayhem and chaos and hence, there has to be governmental supervision and regulation in the market economies.

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I. THE DEBATE BETWEEN NEOLIBERALISM AND SOCIALISM

A. A Case for Governments and the Private Sector to work hand in hand

Without taking sides in this debate, it needs to be mentioned that markets left to themselves totally are not the solution and at the same time, total governmental control over the economy is not the answer as well. Therefore, the considered view being propagated here is that governments and the private sector both have a role to play in ensuring that markets work to the advantage of the people and in the best interests of the countries. For instance, in both China and India, capitalism is managed with active governmental assistance and in other Asian countries as well, the government and the private sector works hand in hand to steer the economies and ensure that social welfare and social justice remain on the high priority of the economies. Further, the fact that markets need to be guided and regulated is borne from the statement that though the invisible hand of the market is supposed to make them self-correct, sometimes a moderation and a steadying of the invisible hand is needed to ensure that markets do not go out of control.

B. The Return of Capitalism minus the Negatives

Having said that, it must be remembered that free markets and market-based economies have until now been left to themselves and as mentioned earlier, the triumph of neoliberalism as an ideology has led to many positive contributions to society. Of course, the recent trends indicate that free market ideologies far from being buried are staging a comeback in the West and the net result of the crisis has been a chastening of the private sector in the sense that it has learnt not to overdo the neoliberal experiment. Apart from this, the fact that there is no serious competitor to capitalism as an economic system means that there is no alternative to the world except for capitalism. As one expert noted, one can predict the end of the world but one cannot predict the end of capitalism. This is the core idea that has ensured that market economics around the world has taken deep roots and hence, a balance between the unrestrained capitalistic tendencies and the need for social welfare and social justice has to be maintained. Finally, the recent crisis has also served to highlight the fact that one needs to separate the locusts from the bees when it concerns capitalism. In other words, just as a bee contributes productively to the ecosystem and the locust is like a parasite on the ecosystem, there are both good and bad things about capitalism and hence, one must take the good and leave the bad parts out.

II. ARE ASIAN ECONOMIES COMMANDED FOR A RECURRENCE OF THE 1997 ASIAN MONETARIST DISASTER?

A. Go-slow in China

There has been a noticeable slowdown in the Chinese economy over the last few months. Coupled with a draining of the excess liquidity that was introduced into the economy through massive monetary stimulus in the wake of the global economic crisis, the Chinese economy suddenly looks vulnerable. Added to this is the fact that the Chinese economic model is driven by exports and low domestic consumption which means that as the target countries of the West to which China exports slow down, there is going to be a corresponding slowdown in the Chinese economy as well. Further, the fact that the Chinese economy has been pump primed heavily meaning that the Central bank engaged in massive monetary stimulus has only exacerbated the problem wherein it is now engaged in an exercise to control inflation. Moreover, the statistics put out by the Chinese government about its economy are suspect leading to doubts over whether there is really growth happening now or it is just creative accounting, which is a euphemism for window dressing of statistics.

B. Japanese Style Monetary Easing

The Great Japanese experiment in Quantitative Easing or pumping extraordinary amounts of money into its economy looks like it is a failure, as the growth that was expected has not materialized. In other words, despite massive monetary stimulus, the GDP (Gross Domestic Product) hardly registered an increase and this was the reason why many experts are predicting that the present policies of the Central Bank of Japan would be a failure. Apart from this, there has been a noticeable slowdown in other Asian economies with only a few countries being the exception. These Vietnam, Cambodia, and Malaysia are now being considered as the additions to the list of emerging markets. The point here is that despite many Asian countries indulging in monetary stimulus, the effects are hardly visible and though many experts blame the global slowdown for this, the fact remains that the Asian countries are still in a situation where the economies are not mature enough to handle high deficits and inflation. Of course, Japan cannot be considered as part of this since it is considered a developed country. However, the fact remains that Japan has been unable to manage its economy properly leading to many observers questioning whether it has its priorities right.

C. Repeat of the 1997 Asian Financial Crisis?

The preceding discussion indicates that a repeat of the 1997 Asian Financial crisis cannot be ruled out, as the conditions now are similar to the conditions at that time. In other words, with high deficits, falling currencies, and rampant inflation, Asian economies are also beset with high levels of corruption and crony capitalism. All these factors make for a lethal cocktail of dangerous dimensions that can easily translate into a crisis of the highest order. This is the reason why many experts believe that despite the claims of the policymakers in the Asian countries, the reality might be otherwise. The irony of the situation is that the Asian economies do not seem to have learnt the lessons from the previous crises and are going down the same path that they have taken earlier. This is the tragic situation as it exists and therefore, one must be wary and weary of the claims made by the policymakers in these countries. Added to this is the fact that all these countries have gotten used to cheap money flowing from the US courtesy the Federal Reserve with its loose monetary policy. Therefore, any tapering off the Quantitative Easing in the US will lead to serious repercussions in Asia. Finally, whether there is going to be a repeat of the 1997 Asian financial crisis or otherwise, the fact remains that the people of this region are paying the price for the perverse macroeconomic policies pursued by the policymakers. Therefore, it is high time the policymakers did something that is in the interest of the ordinary citizens of these countries.

III. THE AGE OF AUSTERITY IN THE WEST IN RESPONSE TO THE GLOBAL ECONOMIC CRISIS

A. The Age of Austerity

The gloomy economic conditions all over the world have prompted governments to cut back on social spending and curtail budgetary expenditures on sectors like health, education, and provision of basic services. The intention behind this entire pullback from spending is to promote fiscal discipline and impose austerity on the peoples of the world. This age of austerity means that citizens in the developed west including the US and the Europe can no longer look to the state to take care of all their needs and to provide them with social security nets as well as

subsidized services. This has major repercussions as until now Europe and the US were held up as role models for providing basic services at dirt-cheap rates. The situation is especially dire in Europe where for much of the 20th century, the people were used to the state looking after their needs. Therefore, the latest round of austerity has not gone down too well with the people of Europe who are protesting in large numbers in almost all the peripheral countries of the Eurozone where Austerity is being implemented. This has led to prolonged periods of social unrest punctuated by strikes and large-scale protests by labour unions and citizen movements.

B. Arguments for and Against Austerity

The argument made for austerity is that the good times are over and especially so when one considers the rather easy life that many in the West got accustomed to, the point being made by the governments is that it is time to buckle up, tighten belts, and ensure that growth is given priority over reckless spending. However, the same argument is being contested by the people who point to the fact that they got used to the welfare state model and hence, did not plan for this situation where they are being forced to contend with unemployment, reduced salaries, and cutbacks to social schemes. The case of unemployment is especially telling as many youth are without jobs and without state support, which is turning into a deadly cocktail that can degenerate into social chaos and spell trouble in these countries. Further, the people are also angry at the prevailing situation, which they blame on the bankers and the governments who got them into the present sorry state of affairs. Whichever side one belongs to, it is clear that the Age of Austerity is here to stay and therefore, the people in the West have to get used to an austere lifestyle where most luxuries that they took for granted earlier have now been taken away from them.

C. Need for Austerity

Apart from this, Austerity is also needed from a fiscal prudence perspective as well as from the diminishing returns from growth perspective. To take the latter aspect, it is clear by now to many people the world over that the growth rates seen in earlier decades are not going to be actualized anytime soon because of depleting resources, overpopulation, and a general rate of return that follows the law of diminishing returns where growth hits limits and even productivity jumps cannot make up for it. As for the fiscal prudence angle, countries that have overspent their money and indebted the future generations are now realizing that more debt is not the answer to existing debt and hence, they must cut back on spending and ensure that their budgets are balanced and in tune with the harsh economic realities. This is the crux of the argument that governments in the West are trying to tell their people that for the sake of future generations, they must sacrifice something now. Finally, the austerity versus spending debate has only intensified in recent months and we would be looking at the theoretical basis for the debate as well as the social consequences of the same in subsequent articles. It would suffice to state here that once people get used to an easy life, it is difficult to make them adjust to hardships and hence, the governments and the policymakers must take this into account when try to impose austerity on their citizens.

IV. INCLUSIVE GROWTH AND ITS IMPORTANT

We often hear the term inclusive growth in the papers and in various media where experts pronounce that while growth is good, there must be what is known as inclusive growth as well. So, what does the term inclusive growth mean and why is it so important? To start with, inclusive growth refers to the phenomenon where the benefits of a country's growth are shared equally by all sections or at least in a fair and just manner.

A. Nature of Capitalism

Indeed, while economic growth always leads to some sections and people prospering more since capitalism by its very nature tends to concentrate profits in the owners of capital rather than the workers, it would be fair to say that as long as those in the middle and especially the bottom benefit, then inclusive growth is said to have been actualized. As mentioned when a country grows, the benefits are likely to be more for those who own the means of production like industrialists, owners of companies that are doing well, and entrepreneurs who have succeeded in their venture. Indeed, one cannot expect the employees or the rank and file workers to earn as much as the owners make profits since the latter own the companies and hence, hold a major stake whereas the former even with stock options and bonuses would always make lesser money.

B. What is Inclusive Growth?

Having said that, it must also be noted that if those at the top make hundred or more times what those at the bottom make, then essentially we have a situation where there is mismatch between the incomes of the top 1% and the bottom 50%. Similarly, when countries grow and a tiny elite benefits more than those at the lower income levels, then a similar situation manifests where there is gross disparity and inequality between the classes that can lead to resentment and bitterness from the lower income levels which can also result in social unrest and chaos.

C. Why is Inclusive Growth Important?

Indeed, this is the reason why many experts talk about inclusive growth wherein they mean that unless all sections of society benefit from faster and more economic growth, the social conditions in such countries can deteriorate and lead to violence and chaos. This was what happened in the years following the 2008 global economic crisis wherein the people at the bottom realized that before the crisis and especially after the crisis, they were the ones who were the worst affected while those at the top continued to be comfortable and secure.

D. Perils of Inequality

This led to mass uprisings like the Arab Spring and the Occupy Movements where the inequalities and the inequities of the capitalist system were out in full glare and hence, the bottom half decided to take matters into their own hands and express their resentment at the injustice of the top 1%. Slogans such as we are the 99% were in display which were meant to symbolize the non-inclusive nature of growth across the world.

E. Inclusive Growth is the Answer

So, if there is growth that is exclusive in the sense that it benefits only a few, then inclusive growth is the answer as ultimately, the purpose of growth must be for the overall benefit of society. Indeed, while this might sound radical and veering too much to the Left, the fact remains that unless there is inclusive growth, the voters tend to punish those parties that they perceive as being exclusive growth oriented. This happened in places as diverse as Greece and Iceland and in India as well where the recent elections in the states were supposed to have been a vote against the prevailing economic model where only a few benefit at the expense of the many. Indeed, this is a reminder about the power of democracy wherein the voters have a chance to elect those parties whom they believe would deliver the goods for them and not only for tiny elite.

F. Resist Populism as well as Inequality

Having said that, the temptation to be populist must also be avoided wherein parties with a view to include more sections distribute largesse in the form of subsidies and free power as well as goodies that the people do not have to pay for. Indeed, this is the reason why many countries including India adopted market reforms as the perception was that socialism with its emphasis on distributing goods and services for free resulted in inefficiencies and wastage of public money leading to bankruptcy.

D. Challenges for Inclusive Growth

Therefore, the challenge is to find the middle ground between growth that benefits only a few and the temptation to throw money after subsidies and giveaways. This is the realization that many erstwhile socialist as well as current capitalist countries are having in the present context where the competing interests of the owners of production and those who work for a wage have to be balanced so that everyone is better off in the end. To conclude the discussion, it is important to note that a middle ground must be found wherein the owners of the means of production do not walk away with the benefits and at the same time, the workers are also not pampered. Similarly, countries must also ensure that investors and industrialists have incentives to invest and at the same time, growth benefits those at the bottom as well. This can be done through carefully designed social security and social safety nets as well as encouraging industrialists and owners of capital to do more for society.

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