

THE QUEST FOR ECONOMIC FREEDOM

MIERSCOPE

by

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The question of economic freedom is a lively issue. It gives rise to at least two strands of debate. First, there is the question of whether economic freedom necessarily guarantees economic growth. The other is the interesting question of whether political freedom is a precursor for economic growth.

Economic thinking has its phases. The high times of Keynesianism are probably over. But tinges of this tradition still influence policy makers. This tradition still pins much on the role of the state. The state, in this view, has the job of stimulating aggregate demand and of managing fiscal policy.

Keynesians claim that the labour market suffers from downward wage rigidity. There is no room for wage flexibility, in their view. All in all, the disciples of Keynes deny the possibility of spontaneous convergence to full equilibrium.

The collapse of centrally planned economies demonstrates that economies are more like organisms that need to learn and respond. Centralised planning and calculation are not a substitute for the free responses of individuals in an economy.

The disintegration of socialism is the greatest support that history could have given to the superiority of the market over state planning. The market has history on its side, whereas socialist economics has only dry theory to bolster it.

Stated very simply, economic freedom relies on the unrestricted functioning of the market. Proponents of economic freedom take the stand that markets know best, and markets should be allowed to function without obstruction.

Market outcomes are the best encapsulation of information. These outcomes are the reality that planning can try very hard to approach. A thousand equations churned by economists within a planning commission cannot capture the preferences of individuals interacting with firms, and that too in a constantly changing environment.

Personal freedom lies at the heart of economic freedom. Economic freedom implies the freedom to make personal choices, to freely engage in exchanges, to freely own property.

If individuals cannot freely own property, or if they cannot be secure in the thought that the value they create will go to them, then the freedom to choose and to exchange will have little meaning. These freedoms can only be possible if governments play their role in providing the right institutions.

Governments have the responsibility to ensure that a conducive legal framework is available. The government must protect property rights. An individual must have the right to buy and own property. An individual's right to possess property must be respected and safeguarded. The right to own intellectual property must also be protected.

The right to own, to choose, and, to exchange, are the pillars of economic freedom. It is on these pillars that we can add further freedoms or forms of freedoms. These would include the freedom to bodily integrity, the freedom for women to enjoy equal opportunities at the workplace, and the freedom to collectively organise.

The crux of economic freedom lies on the right of the individual to make independent choices. A large or omnipresent government would crowd-out individual choices and private sector initiatives.

In Malaysia, the government has played a significant role in bringing about development. The government has, in some respects, been interventionist. In the same breath, one must also add that the government has tried hard to foster the development of the private sector and to encourage the growth of economic freedom.

The economic and financial crisis of 1997 necessitated a larger role for the government. The federal government operating expenditure had risen from RM46.8 billion in 1998 to RM61.1 billion in 2001. This represents an increase of about 31 per cent. Similarly, the federal government development expenditure had risen from RM18.1 billion in 1998 to RM32.1 billion in 2001, spelling an increase of 77 per cent.

It is not surprising that the ratio of total government expenditure to Gross Domestic Product (GDP) is not negligible in Malaysia. In 1998, in the aftermath of the Asian

economic crisis, total government expenditure was about 36 per cent of GDP. In 2001, this figure reached 44 per cent, attributed mainly to the pump-priming of the economy.

Maintaining the stability of the economy was achieved at the cost of forgoing economic freedom. Economic freedom in a slumbering economy is not a particularly delectable choice.

The figures are more satisfactory when it comes to the composition of final consumption expenditure. Final consumption expenditure is used by some analysts as an indicator of economic freedom.

In Malaysia, private consumption expenditure constitutes a larger share of the final consumption expenditure than does public consumption expenditure. Private consumption expenditure has been known to account for as much as 80 per cent of total consumption expenditure. This indicates that the private sector rather than the government is in a position to fuel consumption expenditure.

Another indicator of economic freedom is access to sound money. The Malaysian record has been fluctuating on this point. Access to sound money was poor immediately after the crisis. Immediately following the crisis the growth of M3 was modest. It was about 2.5 per cent towards the end of 1998 and a mere 2.3 per cent in early 1999. At present there is ample liquidity in the system with a low interest rate regime to boot.

Malaysia performs well with respect to the freedom to trade with foreigners. Malaysia is an export-oriented economy. Close to 40 per cent of exports depend on the electronics industry. The electrical and electronics sectors are very export-driven. So is the case with palm oil. The country needs to preserve its freedom to trade with foreigners, and it does value this freedom.

On the side of institutional arrangements that have been built to encourage economic freedom, Malaysia's system of intellectual property rights is exemplary. The system adequately protects domestic and foreign investors. It covers patents, trademarks, industrial designs, and copyright. There is protection even for layout designs of integrated circuits and geographical indications.

Malaysia is a member of the World Intellectual Property Organisation (WIPO). Malaysia is a signatory to the Paris Convention and the Berne Convention. We are also a signatory to the Trade Related Intellectual Property Rights (TRIPs) Agreement under the World Trade Organisation.

But all is not completely well. There are infringements. The government is aware of the shortfalls in enforcement. The current campaign against pirated CDs is an instance of the government's intent to repair enforcement problems.

One area in particular which makes a dent in Malaysia's high level of economic freedom is the ringgit peg. It is undeniable that a fixed exchange rate was necessary at the time when it was implemented. The fact that it worked fairly well in the past does not necessarily mean that it will work just as well in the future. Investor preference is clearly for a flexible but stable exchange rate.

Malaysia has achieved a commendable level of economic freedom in many areas. Malaysia could build a more resilient economy if it works on a strategy to resolve outstanding issues such as designing a competition policy, resolving the ringgit peg, and allowing labour more freedom. But then, again, whoever said that the peg would remain forever or that labour unions will have their arms twisted.

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