Sustainable development: a market-liberal vision

James A. Dorn*

*Vice President for Academic Affairs, Cato Institute, and Professor of Economics, Towson University
Email: jdorn =a= cato.org (replace =a= with @)

The conventional approach in thinking about the nature of "sustainable development" is to focus on how to achieve long-run economic growth, as measured by increases in real per capita income. That is certainly a relevant issue, but a more fundamental question is: "Growth for whom?" State-led development may achieve growth, but only by suppressing economic and personal freedom. In this article, I argue that such illiberal growth is inconsistent with sustainable development understood in the liberal sense as an expansion of choices open to individuals. The collapse of the Soviet system of comprehensive central planning is a stark reminder that institutions that protect property rights and increase opportunities for exchange are more likely to advance human development than those that deny fundamental rights to liberty and property.

Freedom as the End and Criterion of Development

In the early post-World War II era, the conventional wisdom was that poor countries had no way to escape the "vicious circle of poverty" without external aid and state-directed investment. Comprehensive central planning, compulsory saving, protectionism, and foreign aid were the widely accepted instruments for achieving economic growth. It was commonly assumed that poor people could not and would not save, that large-scale capital accumulation was a critical precondition for development, and that only the state could provide the "big push" needed to escape the "poverty trap". By the late 1950s, most development experts accepted "central planning as the first condition of progress" (Myrdal 1956: 201).

In contrast to Gunnar Myrdal and others who promoted state-led development, Peter Bauer, a pioneer in development economics, argued that "the principle objective and criterion of economic development" is to extend "the range of choice" – that is, to expand "the range of effective alternatives open to people" (Bauer 1957: 113). Unlike those who favoured planning, Bauer (1984: 5) did not see the poor as "lifeless bricks, to be moved about by some master builder." Instead, he sought to increase economic and personal freedom to give the poor new alternatives to move from subsistence to exchange. Like Adam Smith, his focus was on widening the scope of markets so that more individuals could realise the gains from trade.

The Meaning of Freedom

The market-liberal vision of sustainable development rests on the principle that individuals have a natural right to be free to pursue their happiness provided they respect the equal rights of others. Freedom is therefore qualified by respect for private property rights. The role of the state is to preserve freedom by preventing injustice, not to pursue some arbitrarily defined notion of "social justice" by violating people's liberty and property. The essence of liberalism, in the classical sense, is to "do no harm" – not to "do good" with other people's money.

The fact that economic freedom enhances real per capita income is an important effect of a system based on markets and prices, but is *secondary* to the moral case for freedom. Central planning and state ownership suppress individual freedom by restricting alternatives: the poor are forced to work for the state; free-market exchanges are illegal; access to foreign markets are either outlawed or narrowly limited to a few privileged state-owned enterprises; economic life is politicised; and corruption is rampant.

To be poor does not mean to be unfree. Both the rich and the poor can enjoy the benefits of freedom, properly understood as the right to be left alone; the right to one's "property" in the Lockean sense of "life, liberty, and estate." When government power is limited to the protection of property, people are free to choose – to work, save, invest, travel, study, move, and pursue their dreams.

History shows that people prefer freedom to tyranny, which is why the Berlin Wall fell and why millions of emigrants have risked life and limb to escape oppressive regimes.

Too often, however, freedom is confused with power or opportunity. People can be free to choose among alternatives, but those choices are always constrained by scarcity. From a classical liberal perspective, freedom simply means the right to be free from coercion, with the only just use of force being to defend one's fundamental rights to life, liberty, and property. All people can enjoy that right – just as they can enjoy the right to free speech and other so-called negative rights – without depriving others of their equal rights. Development as freedom, in the classical liberal sense, requires no increase in government power beyond the power to safeguard liberty and property.

Bauer recognised early on that attempting to achieve greater economic equality by expanding the meaning of freedom to include positive rights – such as the right to an education, the right to health care, the right to a minimum income, or the illusory right to be free from want – would increase the inequality of power. Government would become more powerful, and favoured groups would increase their command over scarce resources at the expense of other groups. Bauer observed that differences in wealth do not necessarily imply differences in power. In a free-market society with limited government, a rich person has no control over a poor person: "freedom from control or dictation is a function of access to independent alternatives, and not of equality of wealth or incomes conventionally measured" (Bauer 1957: 125n).

Nobel Laureate economist Amartya Sen, in his book *Development as Freedom*, agrees that one should go beyond looking at increases in real income as the end and criterion of development and, instead, look at "freedom." But his definition of freedom includes "the extent to which people have the opportunity to achieve outcomes that they value and have reason to value," such as "the freedom to live long" and "the opportunity to have worthwhile employment" (Sen 2000: 291). He would thus use the power of the state to create "social opportunities" to expand "human capabilities" (Sen 2000: 144). Doing so, however, would undermine the true meaning of freedom and confuse it with opportunity. The difference between Bauer and Sen is that Bauer thinks people have a property right in what they earn as a result of voluntary exchanges in free markets, whereas Sen does not accept a market-process theory of justice (Bauer and Sen 1982: 43).

The problem is that enabling people to "achieve various lifestyles" via the power of government, as Sen (2000: 75) advocates, is totally inconsistent with freedom in the liberal sense of expanding "the range of choice." Sen's concept of freedom as "capability" can only be realised by restricting the alternatives open to those whose property rights have been violated. So while Sen values the efficiency of the market, his willingness to override the principle of nonintervention (i.e. the principle of freedom under the law) would undermine the spontaneous market process.

In sum, although both Bauer and Sen see freedom as the end and criterion of development, only Bauer's concept of freedom can be universally applied: the freedom to choose depends on the right to trade and to own property, rights that can be extended to everyone without diminishing the freedom of anyone. It is this liberal concept of freedom that is the essence of sustainable development.

The Process of Development

If one judges development policy in terms of its impact on freedom – that is, on "the range of alternatives open to people" – the "process by which development is promoted" is crucial (Bauer 1957: 113). Rules and institutions that are consistent with freedom of choice will be valued over those that restrict choice and increase the power of the state. Improving institutions, limiting government, lowering transactions costs, and widening markets are thus the only legitimate or just means to sustain development from a classical liberal perspective.

In a free society there is no predetermined optimal growth rate that can be known by central planners; the optimum is whatever market participants freely choose based on their preferences, including their preferences for leisure and for present versus future consumption. One of the basic insights of classical liberalism is that the absence of trade perpetuates poverty, while free trade based on private property creates wealth.

The beauty of a market-liberal order is that it "minimizes the power of individuals and groups forcibly to restrict the choices of other people" (Bauer 1984: 25). Bill Gates is wealthy not because he made the poor worse off but because he gave people new alternatives and more choices. Meanwhile, he is free to use his riches to help improve the lives of the poor in Africa and elsewhere.

Economic freedom is an important component of personal freedom. Those countries that restrict economic liberties may achieve economic growth through forced saving and government planning. But if people are not free to choose, then "development as freedom" is hindered.

Bauer was critical of post-war development models that gave a predominant role to capital accumulation but paid little attention to institutions and the process by which development occurred. He argued that capital investment is endogenous to the development process rather than exogenous: "It is more meaningful to say that capital is created in the process of development, rather than that development is a function of capital" (Bauer 1957: 119). Forcibly reducing current consumption by taxes and other measures (such as export duties and marketing boards) to promote large-scale public investment diverts capital from private uses, reduces freedom, and leads to "a great inequality in the distribution of power" (Bauer 1957: 114–24).

Although Bauer recognised that investment in infrastructure could be beneficial, he thought such investment would naturally accompany the development process as per capita incomes increased: "It is unhistorical to envisage an elaborate and expensive infrastructure as a prerequisite for economic advance" (Bauer 1991:190). His careful study of the development process in Southeast Asia and West Africa, from the late 19th century through the early post-World War II era, led him to conclude that success was largely due to "the individual voluntary responses of millions of people to emerging or expanding opportunities created largely by external contacts and brought to their notice in a variety of ways, primarily through the operation of the market" (Bauer 1991: 191). Bauer notes that those "developments were made possible by firm but limited government, without large expenditures of public funds and without the receipt of large external subventions."

In sum, the institutional infrastructure is more important than the physical infrastructure in the process of development. Internal and external trade will spontaneously develop if people are free to own their own businesses, free to save and invest, and free to work and travel. The importance of institutions – especially the role of property rights – in the development process is now widely accepted.[1] Economic freedom indices exist to measure the range of effective choices open to people, and those indices correlate closely with measures of human well-being, even after accounting for possible reverse causality (Easterly 2006: 33).

The Case for Economic Liberalism

In 1776, Adam Smith wrote that when "all systems either of preference or of restraint" are removed "the obvious and simple system of natural liberty establishes itself of its own accord." The result is that "every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men." The role of government is threefold: (1) to defend against foreign invasion; (2) to establish "an exact administration of justice" by "protecting, as far as possible, every member of the society from the injustice or oppression of every other member"; and (3) to provide "certain public works and certain public institutions" (Smith 1776 [1937]: 651).

In such a "great society," based on private property and freedom of contract, each individual pursuing his own self-interest will also promote the interests of others through a myriad of mutually beneficial exchanges, as resources flow to where they have the greatest value to consumers (Smith 1776: 423). This "invisible hand doctrine" or "principle of spontaneous order" is central to understanding the case for economic liberalism.

Smith was among the first to recognise the benefits of freedom under the law and the futility of state-led development. When government is limited to the prevention of injustice, private industry can flourish because entrepreneurs have the incentive to search for the most profitable uses of their capital. In advocating capital freedom, Smith (1776: 651) argued that, in a market-liberal system,

> "the sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society."

The delusions Smith noted are evident in the failure of comprehensive central planning and in the advice given to less-developed countries by economists like Paul A. Baran of Stanford University, who wrote, "The establishment of a socialist planned economy is an essential, indeed indispensable, condition for the attainment of economic and social progress in underdeveloped countries" (Baran 1957: 261).

When the sovereign or central planner violates the "laws of justice," both freedom and prosperity will suffer. If "people do not feel themselves secure in the possession of their property" and "the faith of contracts is not supported by law," then "commerce and manufacturing can seldom flourish long" (Smith 1776: 862).

Economic freedom has increased the prosperity of many nations and widened the range of choice. China's economic reforms, which began in late 1978, have made that country the world's third largest trading nation and substantially decreased absolute poverty (Bergsten *et al.* 2006). The coastal areas, in particular, have benefited from trade liberalisation, low taxes, and the growth of the private sector. But the state still has a strong grip on the financial sector and personal freedoms are repressed. China's high growth rates therefore are not wholly consistent with development in the sense of freedom. Nevertheless, China has made substantial progress, and a policy of engagement is the most sensible way to move China toward a free society, as opposed to a policy of destructive protectionism (Dorn 2006).

No one has made a stronger case, on both moral and practical grounds, for economic liberalism than the 19th century French economic journalist Frederic Bastiat. In his famous essay "The Law," Bastiat (1850 [1964a]: 65) argues,

> "When law and force confine a man within the bounds of justice, they do not impose anything on him but a mere negation. They impose on him only the obligation to refrain from injuring others. They do no infringe on his personality or his liberty or his property. They merely safeguard the personality, the liberty, and the property of others. They stand on the defensive; they defend the equal right of all. They fulfill a mission whose harmlessness is evident, whose utility is palpable, and whose legitimacy is uncontested."

Like Smith, Bastiat (1850: 94) held that "the solution to the social problem [i.e., how to direct individual self-interest toward the social good] lies in liberty"; not in the sense of unlimited freedom, but freedom bounded by just laws.

Thus, Bastiat (1850: 94) wrote: "It is under the law of justice, under the rule of right, under the influence of liberty, security, stability, and responsibility, that every man will attain to the full worth and dignity of his being, and that mankind will achieve, in a calm and orderly way ... the progress to which it is destined." Conversely, when the state attempts to use the law for "egalitarian, philanthrophic, industrial" and other uses, the "fixed limits" and certainty of justice will be replaced by "vagueness and uncertainty" (Bastiat 1850: 91–2). "Legal plunder" – now known as "rent seeking" – will lead to corruption and waste. Instead of justice, the law will be perverted and "social injustice" made universal (Bastiat 1850: 55). In the end, people will lose sight of the true meaning of freedom and justice (Bastiat 1850: 56), and the state will become the master of the people rather than their servant.

Trying to plan the market or to achieve some vague notion of "social justice" is, as F.A. Hayek (1988) warned, a "fatal conceit." A surer path toward freedom and prosperity, and thus sustainable development in the liberal sense, is to return to first principles and provide a framework for the protection of property and contract so that a spontaneous market order can emerge in underdeveloped countries. To do so, however, requires an understanding of what Hayek (1982) calls the "rules of just conduct."

Rules of Just Conduct and Development

Free markets depend on well-defined private property rights that give owners exclusive use and the right to sell. A market system is simply a network of contracts (formal and informal) in which individuals exchange ownership rights and bear the consequences of increases or decreases in the value of those rights. Relative prices reflect the various trade-offs and help coordinate the decisions of buyers and sellers. The spontaneous coordination that takes place in a market order does not occur in an institutional vacuum. Indeed, "wherever a Great Society has arisen, it has been made possible by a system of rules of just conduct" that safeguard a person's fundamental rights to property and contract (Hayek 1982: vol. 2, 40).

With its emphasis on just rules rather than outcomes, the classical liberal view of development is fully consistent with freedom. Economic and social harmony is brought about by consent, not coercion. The "central concept of liberalism", writes Hayek (1967: 162), "is that under the enforcement of universal rules of just conduct, protecting a recognizable private domain of individuals, a spontaneous order of human activities of much greater complexity will form itself than could ever be produced by deliberate arrangement."

Long before indices of economic freedom were available, Bastiat (1851 [1964b]: 467] observed, "Liberty tends to bring all men closer together and to provide them with a constantly rising standard of living." In brief, "freedom is harmony." But freedom is not unlimited; it is limited by the rules of just conduct. John Locke (1690 [1955]: 44) recognised the relation between law and liberty when he wrote, "The end of law is, not to abolish or restrain, but to preserve and enlarge freedom… . For liberty is to be free from restraint and violence from others; which cannot be where there is no law."

Central planning and government intervention destroy the market order because they destroy freedom. Countries such as Hong Kong that limit government, follow the rule of law, protect private property rights, and liberalise trade have experienced a vast increase in the choices open to people and in the overall standard of living. Hong Kong's adherence to the principle of "big market, small government" has helped it become the freest economy in the world. More important, Hong Kong's success has given other emerging market economies a strong incentive to follow suit. Indeed, it is the existence of developed countries with liberal institutions that makes it easier for underdeveloped nations to reduce poverty through the free movement of goods, capital, technology, and people (Weede 2006).

If free countries depart from their liberal principles, development will slow not only for them but also for poor countries that depend on the international division of labour and the gains from trade. Moreover, as development occurs – and markets expand – the chances for individuals to prosper will increase. Bastiat (1851: 83) stated this simple but powerful idea eloquently, "The more prosperous the place in which he is situated, the better the chances a man has to prosper."

In the age of globalisation, Bastiat's simple principle should not be ignored. Interfering with markets, as Adam Smith told us, limits the division of labour and, hence, diminishes the wealth of nations. Redistribution, planning, and foreign aid weaken, rather than strengthen, the institutional infrastructure of a market-liberal order.

A Return to First Principles

True freedom and justice are mutually beneficial and part of what Bastiat (1851: 83) calls the "natural social order." To generate and maintain that order, government must stay within the bounds of justice by protecting private property and freedom of contract. A return to the liberal principles of property, justice, and freedom would help sustain development in Bauer's sense of "an increase in the range of effective alternatives open to people."

Sen's broadening of the concept of freedom to include the "opportunity aspect" and to use government to give individuals "the opportunity to achieve outcomes that they value and have reason to value" (Sen 2000: 291) would substantially interfere with the principles of a liberal social order by attenuating private property rights and violating the rules of just conduct. Instead of promoting development, the quest for "social justice" would retard it.[2]

It is surprising that after all the failures of development planning and foreign aid in the post-World Word II era, some prominent economists still talk about the "poverty trap" and the need for a "big push." The "vicious circle of poverty" idea is seen most vividly in Jeffrey Sachs's best-selling book *The End of Poverty*.[3] He argues that collective action is needed to help lift "the poorest of the poor" out of poverty because "they are too poor to save for the future and thereby accumulate the capital that could pull them out of their current misery" (Sachs 2005: 56–7). Yet Bauer (1991: 187–92) has clearly shown that even illiterate peasants in Malaya (now Malaysia) and in British West Africa had the foresight to save and invest, and that within several decades the smallholders and traders lifted themselves out of poverty. They did so through their own sacrifices, by expanding trading links, and by attracting foreign direct investment.

What matters most for economic development is the *freedom* to develop, and that depends primarily on institutional and other factors, not on the amount of capital or natural resources. Physical capital may assist in the process of development but, ultimately, "Economic performance depends on personal, cultural, and political factors, on people's aptitudes, motivations, and social and political institutions. Where these are favourable, capital will be generated locally or attracted from abroad" (Bauer 2000: 29).

Democracy, in the sense of universal suffrage, does not ensure development. In fact, it can harm sustainable development in the liberal sense if majority rule violates private property rights and increases uncertainty via legal plunder. The rights of Africans living under so-called democratic regimes are less secure than the rights of people living in Hong Kong. As Bauer (2000: 118) notes, "It is arguably more important whether government is limited or unlimited than whether it is elective or non-elective." Of course, a free people should have the right to elect their representatives, but we should not expect that right to automatically generate a market-liberal regime.

Fifty years ago most of the world's poor were concentrated in Asia, not Africa. The transition from state-led development policies to market liberalisation has been the key to Asia's success. That transformation is especially evident in China. Poor households save a large percentage of their meagre incomes and rely on family and friends to pool their savings. Small traders have grown rich by "jumping into the sea of private enterprise," and the government has allowed the private sector to flourish. The National People's Congress has amended the constitution and passed legislation to protect private property, but those protections are limited by the absence of an independent judiciary, and land is still state owned. However, China today is far different and freer than during the time of Mao Zedong, who admonished the people to "Strike hard against the slightest sign of private ownership" (Becker 2000: 157).

The success of China and other emerging market countries vindicates Bauer's critique of conventional development economics. He was also correct to say in a 1992 lecture at the Cato Institute, "The misery in Ethiopia, Sudan, and elsewhere in Africa is not the result simply of unfavourable weather, external causes, or population pressure. It is the result of enforced reversion to subsistence conditions under the impact of the breakdown of public security, suppression of private trade, or forced collectivization" (Bauer 2000: 8). Those countries in Sub-Saharan Africa that have increased economic freedom, in particular Botswana, have shown that development is possible without massive external aid or state-led development.[4]

The challenge for the United States as the leader of the free world is to reinforce the principles upon which a "great society" rests – namely, the sanctity of property and the right to pursue happiness. Liberty under the "law of justice" is still the best solution to the "social problem." Equality of rights, not equal opportunities or outcomes, is the hallmark of a free society. As constitutional scholar Roger Pilon (1983: 175) writes,

> "The free society is a society of equal rights: stated most broadly, the right to be left alone in one's person and property, the right to pursue one's ends provided the equal rights of others are respected in the process, all of which is more precisely defined by reference to the property foundation of those rights and the basic proscription against taking that property. [Moreover,] the free society is ... a society of equal *freedom*, at least insofar as that term connotes the freedom from interference that is described by our equal rights."

Property in the broad sense means "every thing to which a man may attach a value and have a right; and *which leaves to every one else the like advantage*" (Madison 1792 [1906]: 101). Essentially, property is a bundle of rights with correlative obligations, the most important of which is not to interfere with the equal rights of others to their "lives, liberties, and estates."[5] As such, property, freedom, and justice are inseparable.

Government does not create the right to property; that right pre-exists the state. The primary function of a just government is to "protect property of every sort," including the property an individual has "in the safety and liberty of his person" and "in the free use of his faculties and free choice of the objects on which to employ them" (Madison 1906: 101–2). As the Declaration of Independence states, our "unalienable rights" to "life, liberty, and the pursuit of happiness" do not derive from the power of government; rather, "governments are instituted" by the "consent of the governed" to protect and "secure these rights."

Human dignity comes from limiting the power of government, being in control of our lives, and taking responsibility for our actions. When the state usurps our property rights, broadly conceived, we lose our independence, freedom, and dignity. The first principles upon which America is based should be a beacon for underdeveloped countries to follow in the process of development. In the long run, it will be the idea of liberty and its beneficial effects in expanding the range of human choices that will convince others to abandon state-led development, not conditional foreign aid or attempts at nation building.

It is therefore critical that the United States practice the principles it preaches, especially the principle of free trade, which has been so successful in rising living standards. Indeed, the importance of trade liberalisation and globalisation cannot be underestimated. As Nobel laureate economist Michael Spence (2007) points out, "There are no examples of sustained high growth in the post-war period that do not involve integration into the global economy."

Conclusion

A liberal global economic order is one that is built on the foundation of private property and free trade – in goods, resources, and ideas. Spontaneous co-operation through market exchanges leads to mutual gains and help foster peaceful relations among nations. Sustainable development in the liberal sense means development consistent with freedom – not freedom from want, which is a false and impossible freedom, but freedom from the illegitimate use of force.

When the state steps beyond its just function of safeguarding property, broadly conceived, and tries to impose an artificial or planned order on the spontaneous market order, the "simple system of natural liberty" suffers as freedom and justice give way to power.

Rich countries that adhere to the principles of a market-liberal order can help poor countries more by sticking to those principles than by adopting policies designed to achieve some vague concept of "social justice." The West should also recognise that limited government is more important for sustainable development than democracy, in the sense of universal suffrage.

The freedom to exchange is an important human right as well as being a practical means to coordinate economic life. Free markets based on private property rights allow individuals to take full responsibility for their actions and to fully utilise existing information. The adaptability of markets means that errors seldom accumulate. Prices and profits will reflect new information, and firms that cannot compete will go bankrupt.

The failure of state-led development is now evident. At the end of the 20th century, with all its collectivist experiments, the World Bank (1997: 1) noted, "State-led intervention emphasized market failures and accorded the state a central role in correcting them. But the institutional assumptions implicit in this world view were, as we all realize today, too simplistic." The substitution of plan for market led to an increase in the inequality of power and widespread corruption in poor countries that choose socialism over liberalism.

One such country was India, the world's largest democracy. That country was devoted to state-led development for many years before it began to liberalise. B. R. Shenoy, a leading Indian economist who was influenced by Bauer's work, argued against foreign aid and in favour of economic liberalism. In 1970, he wrote:

"Individual freedom is worth having not only for its own sake; economic development is apt to be in proportion to the freedom which the individual has in the choice of his occupation, in the disposal of his income, and investment of his savings. If the individual is deprived of these economic freedoms – and we have been engaged in this nefarious business under the guise of planning – how different would such an individual be from a slave? Under the policy measures mis-called planning, we forgo both freedom and progress." (Shenoy 2004: 100)

That market-liberal vision of sustainable development was largely lost sight of until the failure of central planning made it impossible to ignore the superiority of the market. But the case for freedom as a moral force for development has yet to be fully understood and embraced.

Notes

1. See, for example, Heitger (2004); Gwartney, Holcombe, and Lawson (2004); Prasad *et al*. (2003); and Easterly and Levine (2001).
2. See Hayek (1982: vol. 2), *The Mirage of Social Justice*.
3. For a detailed analysis of Sachs's book, see Easterly (2006).
4. Botswana's economic freedom rating in 2004, the most recent year for which data is available, was 7.1 out of a possible 10, the same as South Korea's. In 1980, Botswana's rating was only 4.9, using the chain-linked index (Gwartney and Lawson 2006: 19–21).
5. On the right to noninterference as a fundamental moral right, see Pilon (1979:1185).

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