THE McKEEVER INSTITUTE OF ECONOMIC POLICY ANALYSIS

GOVERNMENT POLICIES TO ENCOURAGE ECONOMIC GROWTH IN VARIOUS ECONOMIC SYSTEMS

I. INTRODUCTION

One of the earliest human remains we have found was a man on a trading trip who was frozen in the Italian alps; he was carrying tools toward a trading outpost when he fell and died. Trading has been a part of our culture since pre-history times because it satisfies many basic human wants: adventure, socialization, diversity of possessions, reducing hunger and enjoying travel, among many others. It's fair to say that the desire for trade and profits is a basic human desire.

Another basic human desire is to be safe. Most groups of people create governments in order to make their lives safer. We expect that our government will prevent foreign invasions and catch criminals and murderers. Sometimes it happens that the government we create to make us safer also encourages our desires for commercial activities. Unfortunately, sometimes the government we create to make us safe interferes with our desires for trade and business activity.

PURPOSE OF THE INSTITUTE

The McKEEVER INSTITUTE OF ECONOMIC POLICY ANALYSIS (hereafter MIEPA) is a small, privately funded organization dedicated to the betterment of mankind through the promotion of sound economic policies.

MIEPA has created a list of government policies which promote both commercial activity and safety when they are followed.

These policies have been compared to actual government performance in several countries; you may read those studies at www.mkeever.com

The policies MIEPA promotes recognize the experience of many countries which have experimented with a wide variety of policy options. MIEPA's policies are based on maximum economic freedom within a country's borders, trade management to prevent foreign currency imbalances and a realistic approach to political systems. MIEPA believes sound economic policies can coexist with a variety of political systems.

These policies produce economic growth within any country. They explicitly allow for both non-GDP wealth creation as well as traditional GDP growth. You are encouraged to forward your conclusions about the recommended polices or the effectiveness of any particular government to MIEPA at the addresses beolw.

BACKGROUND: THE PRIMACY OF THE NATION-STATE

"Nations are not individuals. Nations live in a state of nature. There is no higher authority to protect them. If they do not protect themselves, they die. Ignoring one's interests, squandering one's resources in fits of altruism, is the fastest road to national disaster." Charles Krauthammer, TIME Magazine, May 17, 1993, pp. 74.

While many observers comment that the nation-state has become less relevant to the world economy, in truth most economic activity is conducted within and affected by the nation-state. International economic activity is still primarily a bilateral activity. This may change if different sovereign nations ever agree on a common currency and banking system while retaining separate sovereign rights; until that time, economic policy continues to depend on nation-states. Countries of the European Union are moving toward commonality with the adoption of a common currency and the acceptance of restrictions over national fiscal and monetary policies.

ORGANIZATION OF POLICY ANALYSIS CRITERIA

There are six different groupings of criteria. First, policy criteria are divided between internal policies and external policies. Internal economic policies are those policies that affect people and commerce within a country's borders; external economic policies are those policies that affect trade and relationships with foreign people and governments. Second, policy criteria are divided among Critical criteria, Important criteria and Beneficial criteria.

Critical policy criteria cover those policies vitally important to the well-being and security of the country. Important policy criteria are those policies which are slightly less critical than the first group. Beneficial policy criteria cover policies which are helpful, but not necessary, to the well-being and security of a country's citizens.

POLICY GROUPINGS

* 1. Critical Internal Policies
* 2. Critical External Policies
* 3. Important Internal Policies
* 4. Important External Policies
* 5. Beneficial Internal Policies
* 6. Beneficial External Policies

GROUP 1: CRITICAL INTERNAL POLICIES

Economic policies in Group 1 are policies critical to the well-being and security of the nation-state. The policies in this group are a government's first priority.

Freedom from internal control

Citizens are free from positive or pro-active control by government agencies. They are free to move about and engage in any activity that is not prohibited for good reason. This freedom provides the maximum opportunity to create new enterprises and wealth. Unfree citizens must obtain permission before undertaking any wealth creating activity. Countries wherein citizens are free to move about at their own discretion receive high marks.

Freedom of speech

Citizens are able to express themselves freely without censorship or restriction. This freedom provides potential entrepreneurs with maximum exposure to possible opportunities. High marks to countries with no restrictions on speech or other communication.

Effective, fair police force

Citizens and enterprise managers need freedom from fear of criminals; freedom from fear of crime encourages maximum new enteprise creation.

A police force perceived as fair by all members of a community allows all members to share a sense of responsibility for the society's future. Minority citizens will be more likely to start new enterprises if they feel they will be treated equally. Countries receive high marks when the police force is efficient and fair.

Private property

Laws that protect private property in conformance with local practices so that titles are nationally recognized, instead of extra-legal titles that are recognized locally only, create incentives for individuals to establish wealth creating ventures, producing benefits for the entire economy. Countries where property owning citizens and foreigners alike have clear and court protected rights receive high scores, provided that all property (real, personal and intellectual) is protected. See THE MYSTERY OF CAPITAL: WHY CAPITALISM TRIUMPHS IN THE WEST AND FAILS EVERYWHERE ELSE, Hernando de Soto, Basic Books, 2000

Commercial banks

Commercial banks which lend money to enterprises and in which most citizens leave their cash deposits facilitate commercial activity and employment. Countries receive high marks when the commercial banking system is sound and actively finances business operations while limiting its activities in financial, non-business activities.

Communication systems

An extensive network of communication facilities - telephone, TV, radio, FAX, newspapers, magazines, computer networks and so forth - facilitates the introduction of new ideas and business opportunities into a country. High scores are received when communication facilities are ubiquitous.

Transportation

Good transportation facilitates the movement of merchandise and people, thereby improving the commercial activity of the country. All means are included: roads, rail, air, and ship. All markets of the country should be available by at least two transportation means. Countries receive high marks when all markets and population centers are easily accessible to passenger and freight transportation.

Education

Both the quality and quantity of education is critical to wealth creation. All the schools and universities in a country should prepare students to compete with students from other countries as well as other students within the country. Most children should receive an education sufficient to enable them to function in a modern economy. Countries with high literacy rates, high percentages of children enrolled in secondary schools and at University and whose Universities are world renowned for excellence receive high marks.

Social Mobility

The ability of each individual person in any group in society to advance in earning capacity is critical to wealth creation; barriers to such advancement reduce the society's capacity to create wealth. Jobs in all public sectors must be earned by ability and not given to cronies. Additionally, the education system should provide access by all persons to the tools needed by individuals from deprived backgrounds to join the more elite classes.

GROUP 2: CRITICAL EXTERNAL POLICIES

Economic policies in Group 2 are as critical to a country's well-being as the policies in Group 1. An effective sovereign government manages its external policies as well as it manages its internal policies.

Freedom from outside control

Citizens of any country should be free from control by any citizen or agency of any other country. Countries wherein citizens are subject only to the laws of the home country receive high marks.

Foreign currency transactions

Effective national governments require that only the domestic currency is used as money in the home country. All foreign currencies must be converted to domestic currency to conduct business. This creates a single currency and enables the government's fiscal and monetary policies to be effective. Countries in which all transactions are conducted in the official, national currency receive high scores.

Border control

Effective governments have strong borders. The national government decides which persons and goods shall enter and which shall not. Failure to control a country's borders leaves the wealth creating process inside the country open to any disruption from outside trends. Countries with effective control of smuggling in both directions get high scores.

GROUP 3: IMPORTANT INTERNAL POLICIES

Policies in this group are almost as important to national security as are policies from the first group.

Currency

Use of a single currency as money throughout a country encourages commerce within the country. Use of currencies issued by a variety of banks or other domestic bodies discourages commerce. Use of a single currency allows the economic policies of the sovereign government to have predictable effects. The difficulties are more severe when one or more of the currencies preferred for commerce are foreign currencies. Countries receive high marks when the only currency issued in the country is the official, government approved currency.

Cultural, language homogeneity

More wealth is created among a population that shares common values, language and customs. Introducing minority cultural groups increases the difficulty of conducting commerce and raises the possibility of armed conflict. When minority groups remain relatively small compared to the majority culture, wealth creation can continue. The likelihood of problems increases when the cultural differences are severe and when the various cultural groups are nearly equal in size. High scores go to countries with cultural and language homogeneity.

There is absolutely no justification here for any forced uniformity such as "ethnic cleansing." Any such action is morally reprehensible on its face. Countries with minority conflicts that remain peaceful create more wealth than countries where ethnic conflicts become violent.

Political effectiveness

Good governments recognize and solve problems. This improves the business climate when it extends to all parts of the country, rather than remaining localized in the major population centers. Countries wherein rural areas are governed as well as urban areas create more wealth. High scores accrue to countries wherein the political process does solve problems.

Institutional stability

Countries wherein most organizations remain stable for many years create more wealth than those countries where institutions change frequently. Countries with stable governments, courts, schools, law enforcement and businesses receive high scores.

Honest government

Good governments attract leaders who truly wish to help their subjects while poor governments contain functionaries who use their office for profit. Government leaders who work to limit or eliminate corruption create high scores for their country.

Common laws

Good governments have the same set of non-conflicting laws, justice and dispute resolution throughout the population. Also, the administration and implementation of the legal system is uniform in all parts of the country and for all parts of the population. High scores result when the legal system is effective and when it is equally fair in all parts of the country.

Central bank

Central banks are required to manage the commercial banks in the country and the currency of the country. These banks should be independent of political control and charged with producing the most good for the economy in the long term. A country receives a high score when the central bank manages the country's commercial banks and monetary policy effectively and the central bank is independent of political control.

Domestic budget management

Good governments spend as much money as they collect in taxes. Continuing or increasing budget deficits indicate a weak government that caters to special interests. A balanced domestic budget results in a high score for the country. However, if a country attempts to reach zero inflation, it is likely that wealth creation will be reduced; while inflation must be controlled, wise countries recognize that zero inflation is impossible to achieve and allow limited inflation as an incentive to job creation.

Government debt

Good governments manage their debt to avoid any negative effect on economic growth. Debt paid to foreigners is more of a drain on the economy than debt paid to citizens. It is possible to manage debt to achieve a high credit rating while still producing a negative force on the economy. Countries with total government debt as a low percentage of GDP receive a high score. A country is considered excessively indebted when the present value of its debt service exceeds 50 percent of its GNP.

NOTE: Debt produces a negative effect on the economy because debt service payments take money from wealth creating activities. This is true even if the borrowed principal produces wealth because the total repayment stream will be in excess of the borrowed principal. While inflation reduces the economic cost of borrowed money, inflation creates severe negative effects on the economy and borrowing to finance budget deficits increases inflation. See CONCEPTUAL ECONOMICS.

Economic statistics

Accurate and plentiful statistics produce increased awareness of business opportunities. Poor statistics increase risk and reduce investment. High scores go to countries where plentiful statistics are published, provided that independent observers rate them as accurate.

Protection of public health and safety

Good management of waste, food inspection, infectious disease and other public health issues increases wealth in a country. Countries receive high scores when their public health statistics for indicators like infant mortality and tuberculosis approach the highest world wide standards as collected by the UN.

High wage policies

Countries that encourage high wages have larger domestic markets. Obviously, countries with high wage policies must protect domestic workers from low wage foreign competition or the positive effects of the high wage policies will be destroyed. Countries receive high scores when most of the working people can afford to buy consumer goods beyond basic living necessities.

Environmental protection

Countries that protect their natural environment from harm preserve the value of their resources. Countries which resolve conflicts between resource preservation and resource development receive credit for sound policy making. Countries receive high scores when they protect clean air, water and forests with effective regulation.

GROUP 4: IMPORTANT EXTERNAL POLICIES

This group of external policies shares a high level of importance with the previous group.

Strong army

The national armed forces should be strong enough to protect the country from armed attack by likely hostile neighbors as well as from attack by revolutionaries or bandits within its borders. Small countries do not require armed forces to protect them from large countries; they rely on defense agreements with protector states instead of diverting massive funds to military uses. Countries which have sufficient armed force to protect the nation's borders from attack receive high scores, provided that the cost of the forces is below one-third of the domestic budget.

Foreign trade impact

Well managed countries rely on foreign markets for a manageable share of their economic output. If trade accounts for a majority of the nation's economy, the country is vulnerable to outside forces. On the other hand, if trade accounts for almost none of the country's economy then it is likely that the country will create more wealth for its citizens by increasing foreign trade. Countries where the total of imports and exports (foreign trade) is about one-third of the GDP receive high scores.

Protection of foreign currency earning enterprises

Well managed governments realize that export earnings help the economy and protect such enterprises to a reasonable extent. High scores accrue to countries which encourage and protect exporting industries from foreign competition.

Management of foreign currency budget

Well managed countries recognize that foreign currency surpluses and deficits have multiplied effects on the economy because of the fractional reserve banking system; these countries do not accumulate large surpluses or deficits of foreign currencies. Either imbalance reduces the economy's strength. Countries receive high scores when the combined balance of payments for goods, services and real capital transfers is close to zero.

GROUP 5: BENEFICIAL INTERNAL POLICIES

These policies benefit wealth creation and national security although they are not essential.

Layers of collective action

Countries with a wide variety of collective enterprises develop a tradition of accomplishment and leadership. Elected school boards, city councils and volunteer groups give many people an emotional stake in the country's future and also provide a steady supply of seasoned managers. Countries wherein there are many locally elected bodies that are not dependent on the central government for funding or appointed officials receive high scores.

Pro business climate

If the society places a high value on business, then more people will consider enterprise leadership as a career and more businesses will be created. When business persons enjoy high social status and encouragement from the government the country receives a high score.

Government enterprises

Government owned businesses can contribute to the well being of a country, provided that they are self-supporting. However, some governments establish and maintain enterprises for other reasons; these enterprises destroy wealth when they require government subsidies to continue. If the treasury pays few such subsidies, the country receives a high score.

GROUP 6: BENEFICIAL EXTERNAL POLICIES

These policies benefit any country.

International security agreements

Mutual aid treaties and other agreements that increase a country's ability to counter an armed threat help a country's security. Countries which enter such treaties to protect thier domestic security from attack receive high marks when the treaties are effective.

Protection of domestic enterprises from government mandated costs

When any country imposes costs on its domestic enterprises that are not uniformly imposed by other countries, such as environmental taxes or worker safety regulations, those companies will be at a cost disadvantage in the home market. Countries should protect domestic companies from government imposed cost disadvantages. Countries which impose tariffs to neutralize these costs receive high scores.

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The theoretical foundation for the Policy Analysis Criteria listed in this site are contained in a privately published 72,000 word book by Mike P. McKeever titled CONCEPTUAL ECONOMICS. It is available from MIEPA; please call or write for details.

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