

Chapter 5

Fighting Poverty Through Economic Freedom

The Honorable Obiageli Ezekwesili

This essay is adapted from an address at The Heritage Foundation on October 11, 2011.

A recent World Bank research report, *On the Relevance of Freedom and Entitlement in Development* by Jean-Pierre Chauffour, reviewed the economic performance, good and bad, of more than a hundred countries over the past 30 years. The study found new empirical evidence supporting the idea that economic freedom and civil and political liberties are at the root of reasons why some countries achieve and sustain better economic outcomes while others do not.

The study showed, for instance, that a one-unit change in the initial level of economic freedom between two countries on a scale of one to 10 is associated with an almost 1 percentage point differential in their average long-run economic growth rates. In the case of civil and political liberties, the long-term effect is also positive and significant, with a differential of 0.3 percentage points. The expansion over time of the conditions of freedom—whether economic, civil, or political—also positively influences long-run economic growth. This kind of evidence, and what we call the evidence-based policy approach,

really is at the heart of what we do in the promotion of development choices.

The World Bank conducts hundreds and hundreds of studies every year. For the Africa region, as an example, we produce an average of 20 studies a year. Those who do not follow the Bank closely may not know that the work we do in knowledge generation is actually much more fundamental to the promotion of development than is the financing that the World Bank is able to provide.

In our studies each year, we dwell on and explore all kinds of theories that are linked to growth and to the freedom to pursue economic growth and achieve development. For outsiders and non-Bank watchers, this study that I refer to was seen as something the Bank had done out of the ordinary. In fact, one of the bloggers from a newsletter, commenting on the conclusions that social prosperity is intrinsically linked to economic freedom and to civil liberties, said of the World Bank that “the institution seems to have undergone an epiphany.”

ECONOMIC FREEDOM: A FUNDAMENTAL PILLAR

Well, not quite so. Everything we do in terms of economic development really anchors in a very strong sense that economic freedom is important for fighting poverty. Since our mandate is a world free of poverty, economic freedom is a fundamental pillar for achieving that mandate.

Freedom to produce, to trade, or to consume any good or service that one has acquired without the use of force, fraud, or theft is one of the characteristics we have seen in many of the societies in Africa that have done better than the others. These freedoms are embedded in attention given to the rule of law, to property rights, and to freedom of contract. The sense that the free market is an important aspect of enabling individual choices toward the most efficient allocation of resources is one that would hardly attract too much argument from anyone within the World Bank.

The questions raised by the recent study included:

- Why are certain countries better governed than others?
- Why do certain countries save and invest more?
- Why do some countries have more flexible markets or achieve greater inclusiveness?

A few months after that study was released, we were gathered at the Bank again to launch our annual flagship study, the *World Development Report on Conflict, Security and Development*. One of the reporters covering the launch for Reuters News Agency fired a question. She asked the authors to clarify, “Which comes first in the wake of revolution: bread or freedom? Do the hungry of the world want bread first or freedom first?”

To answer that question, it is important that we should remember that hunger, as we have seen in great proportion in Ethiopia in the 1980s and more recently in Somalia and the greater Horn of Africa, often results from some level of the lack of freedom to own land, to invest, and to be able to make a living out of one’s possession.

It also comes out of the weakness of the institutional and regulatory context under which individual choices are made.

The *Index of Economic Freedom* underlines the positive role that economic freedom plays in enabling prosperity, raising living standards, curbing poverty, and improving economic growth and social well-being. Nelson Mandela, a wise man, puts it most appropriately when he says, “Money won’t create success; the freedom to make it will.” The failed policies that caused the famine in the Horn of Africa and the governance challenges that created the precursor to these policies are similar in outcome to those that have engendered bad governance, corruption, and armed conflict.

PRIORITIZING ECONOMIC FREEDOM

One of the conclusions of this study—aimed at developed countries but also important for African countries—is that prioritizing economic freedom over social entitlements could be an effective way to reform the welfare state that many African countries tried to build post-independence, especially if they want to make their economies more sustainable and equitable in the long run. In other words, deregulation, lower taxes, and effective and measured market interference will make African countries much more prosperous, not less, and would ultimately take away the need for the state to engage in huge, untargeted social spending that is not focused in ways that enable optimality.

The freedom from regulation or other dictates from government or the authorities in economic matters makes the capitalist system of economic freedom a means for efficient allocation of resources. Of course, we must be aware that every good thing comes with downside risks, and we need also to understand the limits of excessive freedom.

We believe that through the work of the World Bank’s *Doing Business* report, we can foster opportunities for countries to work toward higher rankings on important indices of economic freedom. The fact is that many analyses agree that countries which prioritize economic freedom tend to be richer, tend to grow faster,

tend to prosper more, and tend to reduce poverty faster, and their people tend to live longer and to be more educated. Countries which enjoy economic freedom also tend to be less inclined to be caught up in armed conflict or in warfare. They tend to be less corrupt, to respect human rights more, to promote gender equity, and to have more of their people employed. There are countries where people are free to own property; to earn, save, and invest; to pursue their economic dreams with minimum obstruction from government, regulations, taxes, and unfriendly monitoring of fiscal environments.

But lest it be said that we advocate an unfettered freedom, we need to nuance the conversation. We know, of course, that GDP growth is not sufficient to create jobs, reduce poverty, and bring about development, but the other thing that we know for sure is that GDP growth is indispensable for job creation, poverty reduction, and development. Robust average growth across Africa over the past decade has been instrumental in bringing about an average decline in poverty of 1 percentage point annually—a rate that is equal to the poverty reduction levels achieved by India.

In fact, our Africa strategy at the World Bank sets out to help African countries to reduce poverty by at least 12 percentage points over the next decade, as well as to pull at least five low-income countries into middle-income status over the next 10 years. This strategy was the outcome of many months of extensive consultation with thousands of Africans. The over 3,000 Africans that participated in the face-to-face consultative workshops and the thousands more who provided feedback online were very clear about one thing. They said to us that bad governance, the absence of capable institutions, and the dearth of effective professionals, especially within the public sector, to run important institutions are the biggest obstacles standing between the continent and its potential to create growth on an accelerated path, enable jobs, reduce poverty, and achieve development.

PROMOTING ECONOMIC CHOICES

One point that was very apparent in all of the discussions was that Africans were ready

to play in the league of economic choices. For many decades following independence, many African countries chose the path of government being at the commanding heights of the economy. That choice did not result in the greatest of economic achievements. It has taken the past decade's embrace of market principles as well as sound macroeconomic policies for us to see Africa's economic growth trajectory turn entirely positive—so positive that at the height of the economic crisis, most of the countries on the continent sustained their economic reforms, and that enabled Africa to be one of the fastest to rebound from the collapse of growth from 5.7 percent to 1.7 percent back to 4.2 percent the following year. Hopefully, with less tragedy coming out of the current crisis, growth will proceed into 2012 and 2013 at rates of about 4.7 percent and 5.2 percent, respectively.

As China rises as a major global economic giant and as a major trading and investment partner with Africa, with over \$43 billion in investment, some in Africa have been tempted to hold China up as the development model that the continent should emulate. Some of the leaders have even openly called for the “China model” of development. One thing that we say, and with every sincerity, is that it is not our role at the World Bank to tell sovereign governments what development models they should follow, since there are no perfect models, as we see it. But there are certain key fundamentals that we know determine how best to allocate resources to enable efficient growth.

Parts of the China model—those that help to lift millions of people out of poverty—have clearly worked well, and the embrace of market reforms by China delivered big-time impact. Others may not have worked as well, and China will continue to have to deal with the issues of workers' freedom and with environment and sustainability-related issues.

Parts of the Western model that have expanded prosperity beyond everything that we have known in the history of mankind in the past 50 years have also worked well. Others, like those that make nonsense of regulations needed to protect the poor and the vulnerable, have not

worked so well. That which has also not worked so well has been the capture of state regulation by vested interests and powerful elites. That has not worked well in the Western model.

Therefore, it is our role as a development institution to offer options of pragmatic solutions to development, and that is exactly what we do with our African clients. I would dare say that any African leader who would think that conformity is the best way to go would need to be reminded of the statement by President John F. Kennedy who said, “Conformity is the jailor of freedom and the enemy of good.”

AFRICA'S EVOLVING DEVELOPMENT MODEL

We firmly believe that Africa's development model will evolve in line with realities on the continent, and we have, through our own strategy at the Bank, in addition to the foundation of good governance and public-sector capacity, committed to working with governments on cross-sectoral approaches that seek to promote economic competitiveness and employment while buttressing social safety nets and building resilience against shocks—be they economic, manmade, natural, health, or climate-related shocks.

Whatever model African countries choose to follow, it is clear, judging from the success stories on the continent, that economic and political freedoms will form an important part of the foundation for prosperity and poverty reduction. Two of Africa's leading countries in The Heritage Foundation's *Index of Economic Freedom*, Mauritius and Botswana, definitely offer models that are steeped in African realities and probably offer the best examples of how African economies can spread economic freedom.

Mauritius has achieved considerable economic progress thanks to the economic liberties that successive governments have provided. Building on traditional systems of governance that called for consultation, transparency, and accountability, Botswana has prospered on its diamond wealth without falling victim of the Dutch disease syndrome that has wrecked the fortunes of other such countries with huge min-

erals endowments on the continent—my country (Nigeria) being a good example of how not to be a minerals-rich or oil-rich society without the necessary systems and context around which effective management of resources will happen.

With the most populated African countries such as Nigeria, Ethiopia, and the Democratic Republic of Congo ranking very low in the *Index* at 116th, 134th, and 172nd, respectively, we still have a situation where less than the desirable number of Africans live in countries that are free from deep levels of corruption, that uphold the freedom to own property, that uphold investment, fiscal, monetary, and financial freedoms. What this means is that there are opportunities for improvement. There are incredible opportunities in a more open global economic system.

Mauritius, which is Africa's best performer, ranks 8th on the overall global ranking; Botswana ranks 33rd globally; Rwanda is 59th; Cape Verde placed 66th globally; and South Africa, the 5th freest African economy, is ranked 70th in the world. The last five of the top 10 African performers include Madagascar, Namibia, Uganda, Ghana, and Burkina Faso. All of these rank in the top half of the world in terms of economic freedom. It is not surprising that these countries occupy the right neighborhood in the *Index*. Unfortunately, there are quite a number of African countries that are still in the wrong neighborhood, and there is much work that needs to be done.

Our strategy for Africa recognizes, therefore, the importance of advancing freedom. This includes promotion of demand-side governance because, after all, the concept of freedom places the individual at the very epicenter of it.

Thus, as part of our commitment to heralding even a freer environment in which citizens are able to make economic choices to optimize their creativity and freedom to innovate, we have prioritized our work in promoting civil society engagement and true social accountability. We have prioritized our work with individuals through citizens' groups that evaluate development projects and enable public debate of policy choices, and we are committed to consistently bringing civil society and think tanks into the

design, implementation, and evaluation of our programs. We also are committed to using our leverage in the dialogue between ourselves and countries to ensure that enough space is provided for citizens' input into policy choices.

CITIZEN INVOLVEMENT AND GOVERNMENT ACCOUNTABILITY

The greatest antidote to lack of freedom is transparency. Our support for demand-side governance is based on the recognition that corruption and misrule or bad governance are fostered by weak institutions and can be improved by more citizens' involvement. But mere citizens' involvement is not sufficient. Analytically grounded and empirically sound citizens' engagement in demanding accountability from governments would be the fastest way to enlarge the space of freedom in Africa. Corruption and bad governance in most African countries have also been shown to flow from rents in the form of oil, gas, and mining revenues for countries that have been stuck in the Dutch disease. Some of the corruption flows from unconditional foreign aid misused by bad governments. Ensuring that aid and development funding produces results calls for the strengthening of institutions of economic, political, and financial accountability, which we at the World Bank are committed to doing.

The recent World Bank study provided potentially important policy lessons for all countries. For developed countries, it suggests that prioritizing economic freedom over social entitlements could be an effective way to reform the welfare state and make it more sustainable and

equitable in the long run. For middle-income countries, such as those in the middle of the "Arab Spring" and countries in Asia and Latin America, it indicates that the quest for civil and political rights, but also for economic freedom, implies the reduction of existing privileges and entitlements to create new social contracts. For low-income countries as well as the international community at large—especially those of us in the development community—the findings of this study provide an opportunity for all of us to reflect on the potential role of economic freedom in ensuring the achievement of our development goals.

The empirical findings suggest that fundamental freedoms are paramount in explaining long-term economic growth and, by extension, job creation and poverty reduction. For a given set of exogenous conditions, countries that favor free choice, economic freedom, and civil and political liberties over entitlement rights are likely to grow faster and achieve many of the associated proximate characteristics of success. Economic freedom helps countries to produce the right leadership and good governance. It helps them engage with the global economy to get higher rates of investment and savings. It helps to achieve inclusive growth and guarantee access to basic services by the underserved. It even helps while dealing with issues of gender inclusiveness and an attention to the poor and vulnerable.

Above all, economic freedom helps citizens remain at the center of every economic activity. That, ultimately, may be its greatest value.