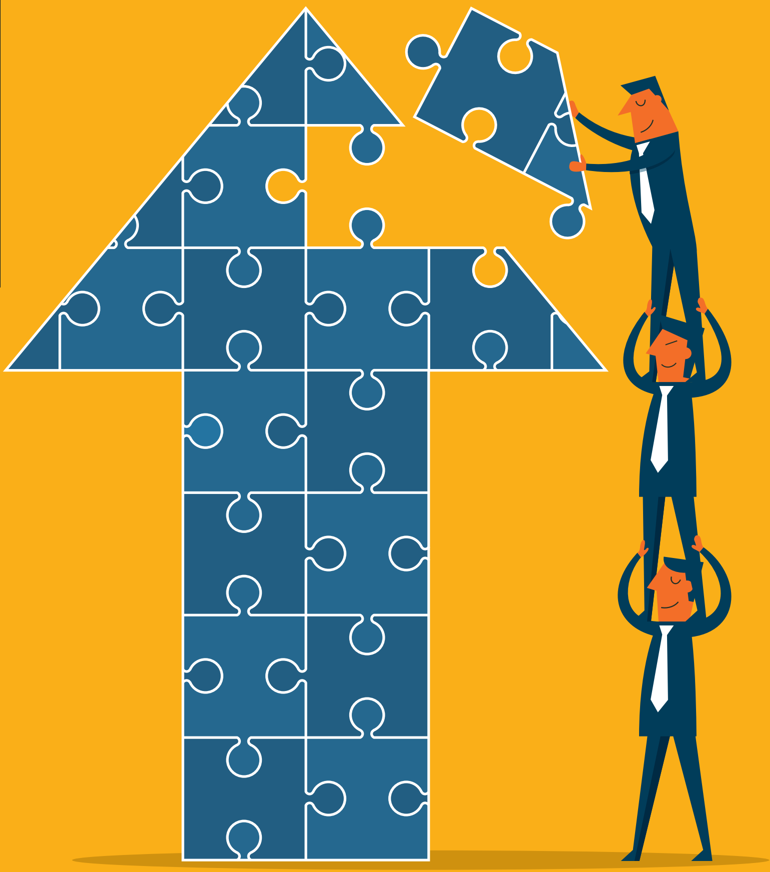
LEGATUM INSTITUTE

ECONOMICS *of* PROSPERITY



AUGUST 2016

From Poverty to Prosperity

The Economic and Moral Case for Property Rights, Open Trade and Competitive Markets

by **Shanker A. Singham and A. Molly Kiniry**

www.li.com
www.prosperity.com

ABOUT THE LEGATUM INSTITUTE

The Legatum Institute is an international think tank and educational charity focused on promoting prosperity. We do this by researching our core themes of revitalising capitalism and democracy. The *Legatum Prosperity Index*™, our signature publication, ranks 142 countries in terms of wealth and wellbeing.

Through research programmes including The Culture of Prosperity, Transitions Forum, and the Economics of Prosperity, the Institute seeks to understand what drives and restrains national success and individual flourishing. The Institute co-publishes with *Foreign Policy* magazine, *Democracy Lab*, whose on-the-ground journalists report on political transitions around the world.

The Legatum Institute is based in London and is an independent charity within the Legatum Group, a private investment group with a 30-year heritage of global investment in businesses and programmes that promote sustainable human development.

ABOUT ECONOMICS OF PROSPERITY

The Legatum Institute's core programme area is dedicated to exploring the drivers of national prosperity. In 2016, the Economics of Prosperity programme will look at how policy-makers can develop legal, economic and governance environments that deliver increased economic activity, generate jobs and lift their people out of poverty. In addition to producing papers, panels and seminars in the following areas, the programme will develop country studies that identify the constraints to economic growth and wealth creation.

The Legatum Institute would like to thank the Legatum Foundation for their sponsorship and for making this report possible.

Learn more about the Legatum Foundation at www.legatum.org.

The Legatum Institute is the working name of the Legatum Institute Foundation, a registered charity (number 1140719), and a company limited by guarantee and incorporated in England and Wales (company number 7430903)

LEGATUM™
FOUNDATION

CONTENTS

1. HUMANS ARE TEMPORAL AND SPIRITUAL BEINGS WITH TEMPORAL AND SPIRITUAL NEEDS

Undertaking the journey from poverty to prosperity has been the primary task of humanity since we first came out of the cave. The ancient Hindu scripture, the Rig Veda, says that: "No one is superior, none is inferior. All are brothers marching towards prosperity."[1]

Conventional wisdom holds that human beings naturally embody twin but separate impulses:

a. the desire for self-enrichment, to move from material poverty towards the satisfaction of physical needs; and

b. the desire to care for vulnerable people and to seek a sense of a higher sense of meaning and purpose.

The first speaks to the need to satisfy temporal needs and wants. This is what most people understand, incorrectly, as a limit of prosperity. The second speaks to man's inherent desire to satisfy a spiritual need. Unlike temporal needs, our spiritual needs are satisfied by giving and service. True prosperity cannot be achieved without it.

In reality, these impulses are deeply intertwined within every human being. They cannot be separated without damaging the integrity of the person. When human beings meet together in voluntary exchange to serve the other's needs, that single transaction has both a temporal and spiritual dimension. The exchange allows both sides the potential to become more materially prosperous *and* more spiritually prosperous; indeed, that is why humans seek such exchanges.

Reducing an exchange to one or the other dimension, or damaging it by putting obstacles in its way, hinders both the temporal and spiritual gains that would otherwise arise. Therefore, the goal must be to reduce to zero—or as close to zero as possible—any obstacles to voluntary exchange. In doing so, non-zero sum growth in both economic and spiritual terms is made possible.

2. HOW CAN THESE NEEDS BE MET?

Humanity has long sought to find institutions, arrangements and other mechanisms to meet these needs. The most successful and durable routes from poverty to prosperity have enabled individuals and groups of individuals to satisfy their intertwined needs in ways which amplify each other. Wealth creation is a crucial pre-condition for prosperity, as wealth creation is critical to ensuring that humanity can feed, clothe and find shelter. But wealth can be created in ways that result in crony capitalism, mercantilism and economic distortions. These methods not only prove ineffective in generating economic gains, but because they are expressions of greed and other vicious behaviours, fail to provide the spiritual fulfilment.

Alternatively, wealth can be produced by a process we refer to as positive wealth creation, where it is produced by a free and open market where interactions are governed by competition on the merits as an organising economic principle. In this scenario, genuine, mutually beneficial economic exchanges take place in which the aim is to enrich—in the broadest sense of the word—both parties.

Throughout history, societies have produced powerful systems for the expression of these impulses. In Western civilisation, it is free and competitive market capitalism which enables the free exchange of goods and services in a manner that benefits the whole community. This system is rooted in a code of ethics that is based on Aristotelian conceptions of virtue which are inherently social. As Aristotle explained in Nicomachean Ethics,[2] nobody is virtuous when they are asleep. We have an inherent desire to act in the world, to interact and exchange ideas and objects with each other, and only by doing so can we achieve virtue. This is what leads to true human flourishing.

It is important to note that elements of free and competitive markets as a means of increasing economic output, creating jobs, lifting people out of poverty, and enhancing spiritual fulfilment, have been embraced by many countries and cultures throughout history. Instances can be found in Ancient Greece and Rome, and in the early history of Islam. For example, Mohammed himself spoke out against early imposition of price controls (as a famine had caused food prices to rise) on the basis that prices “should be in the hands of God”.[3]

3. MEETING HUMANITY'S TEMPORAL AND PHYSICAL NEEDS

As we have noted, wealth creation is the fundamental building block of prosperity. Without wealth, human flourishing is impossible. But without wealth created in the right way, true prosperity and spiritual fulfilment are impossible. Wealth creation is therefore a critical piece of prosperity creation, and we will spend the main part of this paper discussing it. Wealth creation is most important for poorer countries, and poorer peoples.[4] If prosperity is "wealth plus", then the first thing we need to do is come to some understanding of what creates wealth.

Conventional wisdom says that wealth is the accumulation of material things that have some intrinsic value. The truth is that wealth is created—rather than simply being redistributed—when individuals or groups of individuals, such as companies, envision the future, imagine new ways of achieving shared goals, and then put in place the means to bring these goals into existence. Entrepreneurs tend to see what is not there and ask why not. They then create that positive new future by mixing land, labour and capital and drawing on savings. Therefore, wealth is really the result of a combination of ideas, time and savings. It is the entrepreneurial act that creates wealth that is valuable, and which is needed and desired by society.

We believe that there are three universal truths about wealth creation. They can be summarised as follows:

1. Wealth can be created or destroyed;
2. Wealth is much easier to destroy than it is to create; and
3. A market economy based on competition is the best known way to create, sustain, and augment wealth.

The first truth recognises that the individual interactions that make up the global economy are not zero-sum. There is no 'set' amount of wealth to be divvied up, but rather a dynamic system which can be made larger or smaller. The second truth recognises that it is far easier for government actions to make the 'pie' smaller than they are to make it larger. In essence, the system is fragile.

The third truth explains why the free market system has been so successful in creating wealth. A truly free market, with voluntary exchange at its heart, is the only way that the forces of creativity and competition can be unleashed and, critically, constantly resupplied with the capital required to create new wealth. When competition on merit (based on the quality of one's ideas and capacity for hard work) is the normative principle around which the economy is based, then wealth creation, the primary component of prosperity, will be unleashed.

4. POSITIVE WEALTH CREATION: THREE FUNDAMENTAL PILLARS

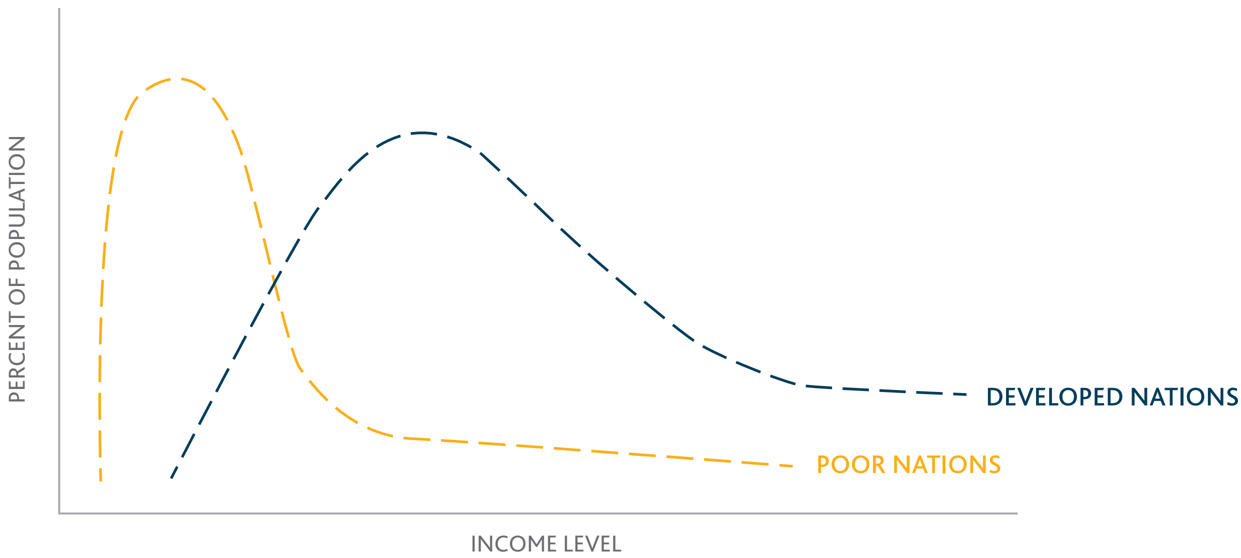
What, then, are the fundamental pillars on which the 'competition on merit' economy is based? We believe there are three, and that they are essential to positive wealth creation:

1. Property rights protection, the foundation of all economic activity;
2. An open, liberal trading environment; and
3. The ability to compete fairly with other actors.

In keeping with the universal economic truths we set out in Section 3, the starting point of the bell curve of wealth distribution can move up or down. While the distribution itself can certainly be changed by policy choices, many decisions that are designed to increase equality result in a destruction of wealth and actually move the poorest one third of the distribution further down.

The figure illustrates typical wealth distribution curves for wealthy and poor nations. It shows that whilst poorer nations are almost inevitably more equal, the living standards for the vast majority are considerably lower than they would be in a developed nation.

Figure 1: Typical Income Distribution Curves for Poor Nations and Wealthy Nations



As a nation becomes progressively wealthier, the bell curve of wealth distribution moves to the right. Governments have a tendency to believe that they can change the fundamental shape of the bell curve by policies that are redistributive. For example, they believe that they can remove the long tail of high earners without moving the entire curve downwards and destroying wealth. However, the shape of the curve cannot be permanently changed as it is set by immutable economic forces. Government actions can move the starting point of the curve up or down, and they can certainly benefit or harm the bottom third of the distribution depending on their policy choices.

The optimised economic system is a dynamic one, but that system is inherently unstable and subject to drift. It is, at best, an unstable equilibrium. The drift to monopoly or cronyism is very strong, and anything (such as a government constraint) that moves the economic system away from this unstable dynamic market equilibrium—which, although inherently uncertain, represents a position that optimises consumer welfare—to one that is distorted will push people away from prosperity into poverty. This is not only economically inefficient but, by reducing the spiritual benefits that would otherwise arise from free voluntary exchange, can fairly be described as immoral.

4.1 PROPERTY RIGHTS

Property rights are the fundamental building block of wealth creation. Without property rights, competitive markets and open trade cannot be effectively accomplished. While competition is one of the most powerful forces that can create wealth, firms and individuals compete using property of every kind—intellectual, physical, spiritual—that they own. Property rights are the foundation upon which firms and individuals compete. Therefore, they are fundamental to a functioning economy because they lead to a higher level of consumer welfare.

> *Property rights are the fundamental building block of wealth creation. Without property rights, competitive markets and open trade cannot be effectively accomplished.*

The importance of property rights has been understood from ancient times. In more recent history, Locke and other moral philosophers expressly recognised the importance of property rights as a mixing of a man's labour with resources, and that this application of labour should be recognised through the property right. Locke's thinking is also the basis for including intangible or intellectual property rights within the overall concept of property rights.

Property rights allow four things to occur: (1) investment to create the property; (2) investment to make the property more productive; (3) exploitation to get the maximum productivity out of it; and, (4) transfer of property to another who might be able to do a better job of the first three instead of the current owner of the property. All these lead to increased productivity, higher incomes, and greater wealth and prosperity.[5]

Hernando de Soto has written about the painful absence of property rights in developing countries; for example, in the *Mystery of Capital*:

> "Without an integrated formal property system, a modern market economy is inconceivable. Had the advanced nations of the West not integrated all representations into one standardised property system and made it accessible to all, they could not have specialised and divided labor to create the expanded market network and capital that have produced their present wealth. The inefficiencies of non-Western markets have a lot to do with the fragmentation of their property arrangements and the unavailability of standard representations."[6]

4.2 OPENNESS TO TRADE

The gains in economic activity derived from free trade are well established. Adam Smith and David Ricardo, who respectively discussed the importance of specialisation and comparative advantage, are often cited as the first to formally illustrate the benefits of trade.[7] However, the benefits of specialisation have long been well-understood: writing in the 1st century AD, St Clement of Rome said "the great cannot subsist without the small, nor the small without the great. There is a kind of mixture in all things, and thence arises mutual advantage".[8]

While Ricardo applied the law of comparative advantage to the special case of international trade (using the example of England and Portugal trading certain products), the law of comparative advantage applies to all human interactions. A firm's comparative advantage depends on its ability to produce a good or service at a lower opportunity cost than its competitors. Therefore, firms can trade with each other even if one firm is better at producing goods or services than the other, as long as one has a comparative advantage in the production of one of the goods or services. Ludwig von Mises, in *Human Action*, conceived this rule more broadly by applying it to all interactions, as opposed to simply the specific case of international trade on which Ricardo's theory was based.[9]

Prior to the reduction of trade barriers under the General Agreement on Tariffs and Trade (GATT) in 1947, they interfered with comparative advantage. GATT was a reaction to the economic and social costs of mercantilism, as exemplified by the Second World War. In attempting to quantify the relationship between openness to international trade and economic growth, economists have found a direct correlation between openness to trade and economic growth.[10]

The process works because exposure to international trade and investment provides incentives for innovation for domestic firms, which is amplified by exposing those firms to potentially more efficient foreign competitors. These forces combine to generate gains in welfare. However, in order for the gains from trade to yield actual benefits to consumers, import competition must not only cross borders but markets must be competitive inside national borders. Where this does not happen, the immediate beneficiaries of trade opening, local distributors and other intermediaries, pocket the gains of liberalisation and domestic consumers do not see the benefits.

Inevitably, some producers lose out as competition increases. However, exporting producers and consumers gain from competition, not only in the market that is opening up to trade but also in global markets, as more efficient production leads to a reduction in prices worldwide. This is particularly true for the global poor, who are most vulnerable to price fluctuations in energy and food. Lower prices in energy inevitably lead to lower prices for foodstuffs and heating, two of the most basic human needs.

The GATT and World Trade Organisation (WTO) system, which helped to produce dramatic growth through trade liberalisation in the post-war period, has been in stasis since the launch of the Doha Development Agenda in 2001. In the meantime, we have seen a torrent of regional and bilateral trade agreements. In order to be compliant with WTO rules, they should apply to all trade, or substantially all trade, and should be trade-creating rather than trade-diverting. However, many of the trade agreements negotiated today fail this test and are, technically, illegal. For example, agreements negotiated by the EU often do not cover agriculture in order to protect the existing EU subsidy regime. However, some of these trade agreements are bona fide ways of delivering more open trading arrangements, especially where they are open to new members rather than protectionist blocs.

Positive wealth-creating free trade agreements can be engines of growth outside their boundaries, especially when the rules-based changes apply to all countries not just those members of the bloc.

> *Opening up to trade opens up a country to the knowledge held by its trading partners, and a more efficient flow of goods leads to a more efficient flow of information.*

They also produce significant indirect benefits in the form of gains in productivity. Opening up to trade opens up a country to the knowledge held by its trading partners, and a more efficient flow of goods leads to a more efficient flow of information. Productivity (measured as total factor productivity) has been shown to increase as trade with highly knowledgeable partners increases.[11] The benefits do not stop there, as indirect knowledge transfers—that is, when knowledge from firms in country A spills into firms in country B and firms in country C access this knowledge through its trade with firms in country B—produce further gains.

4.3 COMPETITIVE MARKETS

As described in the previous section, we understand open trade to mean a more liberal trading environment. During the 1990s and 2000s, significant transitions took place in large national and regional economies: from import substitution to market-based systems in the case of India and Latin America, and from command and control to market-based systems in the case of the former Soviet Union and China. The assumption of policy-makers at the time was that merely opening up cross-border trade would automatically lead to competition inside the border. This, it transpired, was a false assumption. A few key beneficiaries of distortions were well-placed to devour the gains from trade, leaving little behind for consumers.

Competitive markets are those where competition on merit is the defining organising economic principle. Much has been written on what constitutes a “competitive market”. We argue that for a market to be truly competitive, it must optimise consumer welfare in the economic sense of the term. The ordinary forces of supply and demand, conducted via voluntary exchange (where individuals come together to satisfy mutual needs), must be allowed to operate without distortion.

Open trade without competition inside the border has led to the enrichment of the gatekeepers of the economy, who control access to the market and pick winners and losers. Crony capitalism thrives where certain powerful, privileged individuals and firms receive benefits from the government to protect them from competition from both foreign and domestic firms. As Adam Smith also noted, "monopoly of one kind or another, indeed, seems to be the sole engine of the mercantile system".[12] A lack of competition and a protected position for certain incumbents also leads to trade advantages for those firms as their costs are artificially reduced. This powers the engine of mercantilism, as countries embrace a mantra of "exports good, imports bad".

Singham, Rangan, Abbott and Bradley have identified economic distortions, in particular what they have termed "Anti-Competitive Market Distortions" or "ACMDs" as major impediments to growth. Their most recent paper in *Concurrences* shows that the impact of ACMDs on national economies is much more serious than had been previously thought.[13] In a report for the Council on Foreign Relations, Singham notes that the costs of distortions to the US economy could be as much as several trillion dollars.[14,15]

5. THREATS TO ECONOMIC PROSPERITY

True prosperity is threatened by violation of property rights and distortions to open trade and competitive markets. These threats take two forms. The first is crony capitalism, where privileged individuals and firms use legislation and regulation to block competition while actually creating corrosive monopolies. The second is crony government, which is an equal partner in this process and additionally cracks down on civil freedoms in order to prevent changes to the measures enacted to protect or benefit the protected firms. Crony capitalism and crony government are natural bedfellows, as the experience of Russia post-USSR demonstrates. The power of the country's monopolists is derived from and reinforced by the failure of good governance.

Governance—both corporate and political—is an extremely important aspect of creating wealth and supporting and incentivising positive wealth creation. Successful governing institutions and legal frameworks tend to emerge organically from a desire to allow fundamental economic forces to prevail and deliver their many benefits. However, when governance fails and corruption and cronyism creep in, the processes and interactions that lead to positive wealth creation are not possible because property rights are not protected and competition cannot function effectively.

The experiences of reforms in the 1990s and 2000s show that simply transporting Western-style institutions to developing countries will not necessarily lead to the kind of robust governance mechanisms that support positive wealth creation. While trade has been opened up and property rights protection had been partially achieved, many distortions still exist within borders inside the border.

In China, for example, the new competition agency acted to block foreign investment in certain key sectors, justifying its decisions on the basis of enabling Chinese firms to remain 'competitive'. In Kazakhstan, the competition agency moved against a foreign investor in the electricity sector in order to pressure it to negotiate with the state owned electricity company. By contrast, competition agency heads who moved against powerful incumbents were fired, such as Jose Emilio Arcile in Colombia after a ruling averse to Avianca, the national flag-carrier airline. Simply put, these agencies were not robust enough, and were not supported by a national consensus on the benefits of competition.

Institutional leadership is also critical. In Mexico, Eduardo Perez-Motta, the former head of the competition agency, was an example of courageous and virtuous leadership. He took on Telmex and its anti-competitive practices, despite the tremendous power that its CEO, Carlos Slim, wielded. Perez-Motta was equally courageous in dealing with the airline market when he released a report that showed that Mexican consumers had incurred increased flight-costs due to anti-competitive slot allocations at airports. The liberalisation of the Mexican airline industry has led to an additional nine million passengers per year (in 2012 vs. 1998). Routes in Mexico which have at least one low-cost airline operate at an average cost of 40% less than routes where only traditional airlines compete.[16] In choosing the more difficult path, Perez-Motta realised lower prices and increased choice for otherwise voiceless Mexican consumers.

6. THE PROPER ROLE FOR GOVERNMENT

There are many ways in which government actions can distort markets and bring about crony capitalism, but not every action that the government takes reduces prosperity. We believe that there is a role for government in bringing about prosperity. By enforcing property rights, protecting individual security, breaking up monopolies, removing ACMDs and negotiating deep integration free trade deals, government can act as a guarantor of economic freedom.

When governments act outside of these areas, they interfere with the ordinary process of voluntary exchange and reduce the marketplace for non-governmental solutions. This produces economic inefficiencies, as it decreases the number of small scale interactions, which is the most effective way of spreading information about satisfying wants around society. But it is also spiritually inefficient, because it replaces mutual interactions between individuals of equal worth with top down interactions where individuals are coerced by the state.

Government actions which contravene private property rights, interfere with the ordinary rules of supply and demand, artificially increase costs for certain firms, and keep others out of the market, can all lead to anti-competitive, distortive effects. For example, most countries rightly apply a range of prudential regulations to protect human, animal and plant health, but these prudential regulations can go well beyond what is necessary to achieve the regulatory goal, and instead protect certain favoured competitors. The European Union maintains notoriously strict standards for the importation of agricultural, livestock, and fisheries products, prescribing certain antibiotics and genetically-modified products with a stringency that exceeds the balance of scientific evidence. Governments need to be engaged to remove these distortions by ensuring that these prudential regulations are the least anti-competitive possible consistent with the regulatory goal.

By enforcing property rights, protecting individual security, breaking up monopolies, removing ACMDs and negotiating genuine free trade deals, the government can act as a guarantor of economic freedom.

7. SPIRITUAL WELLBEING

Conventional wisdom holds that spiritual wellbeing is separate from economic wellbeing, but as we have shown, allowing voluntary exchange increases both economic and spiritual wellbeing. Positive wealth creation is a necessary pre-condition for prosperity, but it is not sufficient. In order for true prosperity to exist, people must have a sense of social wellbeing. This requires society to have strong social capital, which is measured in the strength of bonds between people. Human beings are social creatures and a sense of belonging is important to us. Therefore, bonds between families and familiar groups are therefore important to us. However, in many ways, bonds between unfamiliar groups are even more important. This type of "bridging" capital leads to more rapid, and therefore more efficient, economic interactions between people and cannot be achieved unless there is a foundation of trust between them.

The speed of transactions has very important wealth creation dimensions. When a society allows for rapid transactions, voluntary exchange operates more effectively through a process of creative destruction that allows companies to be formed and to close in a more efficient manner. The result is positive wealth creation. Societies that have very low levels of "bridging" capital tend to be more cronyist and less trusting in nature, because success or failure tends to be determined by relationships within the tribe and not the quality of ideas and capacity for hard work.

7.1 WHAT CAUSES HUMAN BEINGS TO SEEK TO SERVE OTHERS?

Social capital has another dimension. Strong communities consist of empowered individuals who feel the spiritual need to serve each other, and have the capacity to do so. Serving others is part of the human condition. We serve each other when we meet in mutual exchange or when we give to others our time, talent or treasure in other ways. We also receive something greater when we give. In the context of the voluntary exchange which occurs in the market, the profits we make are a measure of our success in identifying and serving a human need. In alternative forms of service to others we receive into a spiritual rather than a temporal account.

The return on the spiritual account is by itself not enough to explain service. Prosperity consists of individual human beings freed from constraints to do what they *ought* to do, not simply what they *want* to do. This is the difference between true liberty on the one hand and licence on the other. Another way of describing this is that human beings should be freed from government and other constraints to pursue virtue. Human beings serve first their families, friends and tribe, but true virtuous service consists of serving those we do not know, perhaps even those we think we hate.

In the United States, this concept was well-understood by the Founding Fathers, who described "life, liberty and the pursuit of happiness" as an inalienable right. The founders had a very specific definition in mind when they used the word "happiness". The Virginia delegation suggested the inclusion of language on property, as exists in the Virginia Declaration of Rights ("that all men are by nature equally free and independent and have certain inherent rights, of which, when they enter into a state of society, they cannot, by any compact, deprive or divest their posterity; namely, the enjoyment of life and liberty, with the means of acquiring and possessing property, and pursuing and obtaining happiness and safety").

The vision of the Founding Fathers was that nothing should interfere with the pursuit of virtue, especially in the context of safeguarding the fledgling republic. John Adams, while addressing the First Brigade of the Third Militia of Massachusetts, wrote: "avarice, ambition, revenge and licentiousness would break the strongest cords of our Constitution, as a whale goes through a net. Our Constitution was made only for a moral and religious people. It is wholly inadequate to the government of any other."[17]

The founders drew from the ancient Greek tradition in which they had been educated and used the term *eudaimonia*, the Aristotelian concept of wellbeing or the pursuit of virtue. Aristotle believed that human beings could only be happy while pursuing virtue, and that this pursuit inevitably involved being active in the world and serving others.

7.2 EDUCATING VIRTUOUS ACTORS

If it is in the DNA of virtuous actors to serve others, then the question becomes how society can most effectively produce such virtuous actors. Education, which occurs not only in schools, but also homes, families and peer groups, is a critical pathway for producing virtuous actors.

It is this last area that differentiates our view from more conventional wisdom. Conventional wisdom suggests that a good education system delivers young people trained in productive, skilled activities. We believe that a good education system must also deliver virtuous actors. As the Rev. Dr Martin Luther King said: "intelligence plus character, that is the goal of true education."

A true education teaches virtue by focusing on the freedom of the individual. Michael Oakeshott wrote that "a human being is 'free,' not because he has 'free will,' but because he is in himself what he is for himself."[18] Education is then about this process of becoming fully human, and not simply an automaton equipped with the requisite skills to work.

Even if distortions are fully removed, and economic activity generated, if education systems produce economic actors who cannot tell the difference between the virtuous path and the non-virtuous one, the true benefits of prosperity and human flourishing will not be achieved. Teaching young people about the pursuit of virtue, and a purpose-driven life will enable them to distinguish between pursuits that are a net positive for society and those that diminish overall welfare even if they benefit the individual himself or herself.

8. MOVING FROM POVERTY TO PROSPERITY

There is a desperate need to explain the benefits of free and competitive market capitalism and to show how it is both derived from, and contributes to, the pursuit of virtue. It is not well understood that an ethic of service finds its highest expression in voluntary exchange. Indeed, conventional wisdom holds that capitalism is positively destructive of virtue. We agree that this is true of crony capitalism, and crony government too, but truly free markets create more virtuous societies rather than destroy them.

The path from poverty to prosperity is achieved when human beings are free to meet each other's economic needs through voluntary exchange while, at the same time, being able to apply and develop their spiritual capacities through a virtue-driven ethic of service. This can only happen in a society when the fundamentally equal worth of each individual is recognised, and government limits its role to promoting the ability of all individuals to enter into economic, social, political and spiritual exchanges with one another.

Of course, there is a moral dimension to alleviating economic poverty around the world and offering hope and opportunity to all people, but there is also an inherent morality in the process by which we get there. Mankind is on a non-linear journey to prosperity; backward steps are possible and history is replete with examples. The immorality of policies that deviate from these principles must be repeatedly explained from generation to generation otherwise the siren song of cronyism, populism and protectionism will prevail.

The path from poverty to prosperity is achieved when human beings are free to meet each other's economic needs through voluntary exchange while being able to apply and develop their spiritual capacities through a virtue-driven ethic of service.

REFERENCES

1. "More Short Answers to Real Questions". The Hindu American Foundation. Published 14 September 2014. Accessed 8 May 2016. http://www.hafsite.org/hinduism-essentials/qa-booklet
2. "With those who identify happiness with virtue or some one virtue our account is in harmony; for to virtue belongs virtuous activity. But it makes, perhaps, no small difference whether we place the chief good in possession or in use, in state of mind or in activity. For the state of mind may exist without producing any good result, as in a man who is asleep or in some other way quite inactive, but the activity cannot; for one who has the activity will of necessity be acting, and acting well. And as in the Olympic Games it is not the most beautiful and the strongest that are crowned but those who compete (for it is some of these that are victorious), so those who act win, and rightly win, the noble and good things in life." Aristotle. *The Nicomachean Ethics*, Book 1 Chapter 7.
3. Benedikt Koehler, *Early Islam and the Birth of Capitalism*, Rowman and Littlefield
4. Per capita income in the United States is almost 400 times that in the world's poorest country, Somalia. Per capita income in the world's richest domain, Monaco, is over 1,300 times that in Somalia. Over a billion people still earn less than $1.25 per day, whilst richer countries enjoy far higher life expectancy and far less infant mortality and inequality in incomes. This illustrates the basic point that wealth creation yields far greater marginal benefits for the world's poor.
5. Shanker Singham (2007) notes in Chapter 8 of *A General Theory of Trade and Competition* that:
   "From these treatments and others it can be seen that the elements of the property right are the right to own property and the right to transfer it. As long as the two rights are applied without vitiation then prices will properly and efficiently be allocated for goods and services, leading to the smooth functioning of a competitive market."
6. Hernando de Soto (2000). *The mystery of capital: why capitalism triumphs in the West and fails everywhere else*. New York: Basic Books.
7. Smith, Adam. "An inquiry into the nature and causes of the wealth of nations" (1776); and David Ricardo, *Principles of political economy and taxation*. G. Bell and sons, 1891.
8. Chapter XXXVII, *First Epistle of Clement*
9. Ludwig von Mises, *Human Action, Scholar's Edition*, Auburn, Ala.: Mises Institute, 2008, p. 161
10. Lill Anderson and Ronald Babula, "The Link Between Openness and Long Run Growth" (2008).
11. http://www.oecd.org/trade/importsimprovingproductivityandcompetitiveness.htm
12. Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations*, Volume 2. P 129. At the Clarendon Press, 1869.
13. Shanker Singham, U. Srinvasa Rangan, and Robert Bradley. "The effect of anticompetitive market distortions (ACMDs) on global markets", October 2014, *Revue Concurrences* N° 4-2014, Art. N° 69642.
14. Shanker Singham (2012) "Freeing the Global Market: How to Boost the Economy by Curbing Regulatory Distortions", Council on Foreign Relations working paper.
15. Abbott and Singham developed a taxonomy of distortion in "Enhancing Welfare by Attacking Anti-Competitive Market Distortions", and Singham, Rangan and Bradley developed further thinking in this area in "The Effect of Anti-Competitive Market Distortions on Global Markets and Anti-Competitive Market Distortions: Causes, Consequences, and Calculations"
16. Agustin J. A Ros, "Competition Assessment of the Domestic Airline Sector in Mexico and Recommendations to Improve Competition", April 2010.
17. Maria Campbell, "Revolutionary Services and Civil Life of General William Hull". 1848. 255-256.
18. "A Place of Learning," in *The Voice of Liberal Learning: Michael Oakeshott on Education*, ed. Timothy Fuller (New Haven: Yale University Press, 1989), p. 4.

ABOUT THE AUTHORS

Shanker Singham

Shanker Singham is Director of Economic Policy and Prosperity Studies at the Legatum Institute. He is also a trade and competition lawyer as well as an author and adviser to governments and companies. He holds an M.A. in chemistry from Balliol College, Oxford University and postgraduate legal degrees in both the UK and US. He has lectured, written and spoken extensively, including more than one hundred articles and book chapters and the leading textbook on trade and competition policy. He is a frequent contributor on trade issues to major news outlets. Singham has begun work on identifying and quantifying anti-competitive market distortions and how to create the preconditions necessary for wealth creation, competitiveness, and productivity. He is currently the CEO and Chair of the Competere Group, the Enterprise City development company incubated at Babson College. He is based in London.

Molly Kiniry

Molly Kiniry is a Consultant at the Legatum Institute and Chief of Staff to the Legatum Institute Special Trade Commission. She has previously worked with Babson Global, the International Roundtable on Trade and Competition, and the House Committee on Foreign Affairs. Kiniry graduated with honours from the University of Richmond with a Bachelor of Arts in Politics, Philosophy, Economics and Law (PPEL) and French. She has published and presented papers in both English and French, specialising as an undergraduate in Sub-Saharan economic development.

978-1-911125-15-0

9 781911 125150

AUGUST 2016