

Shifting sands

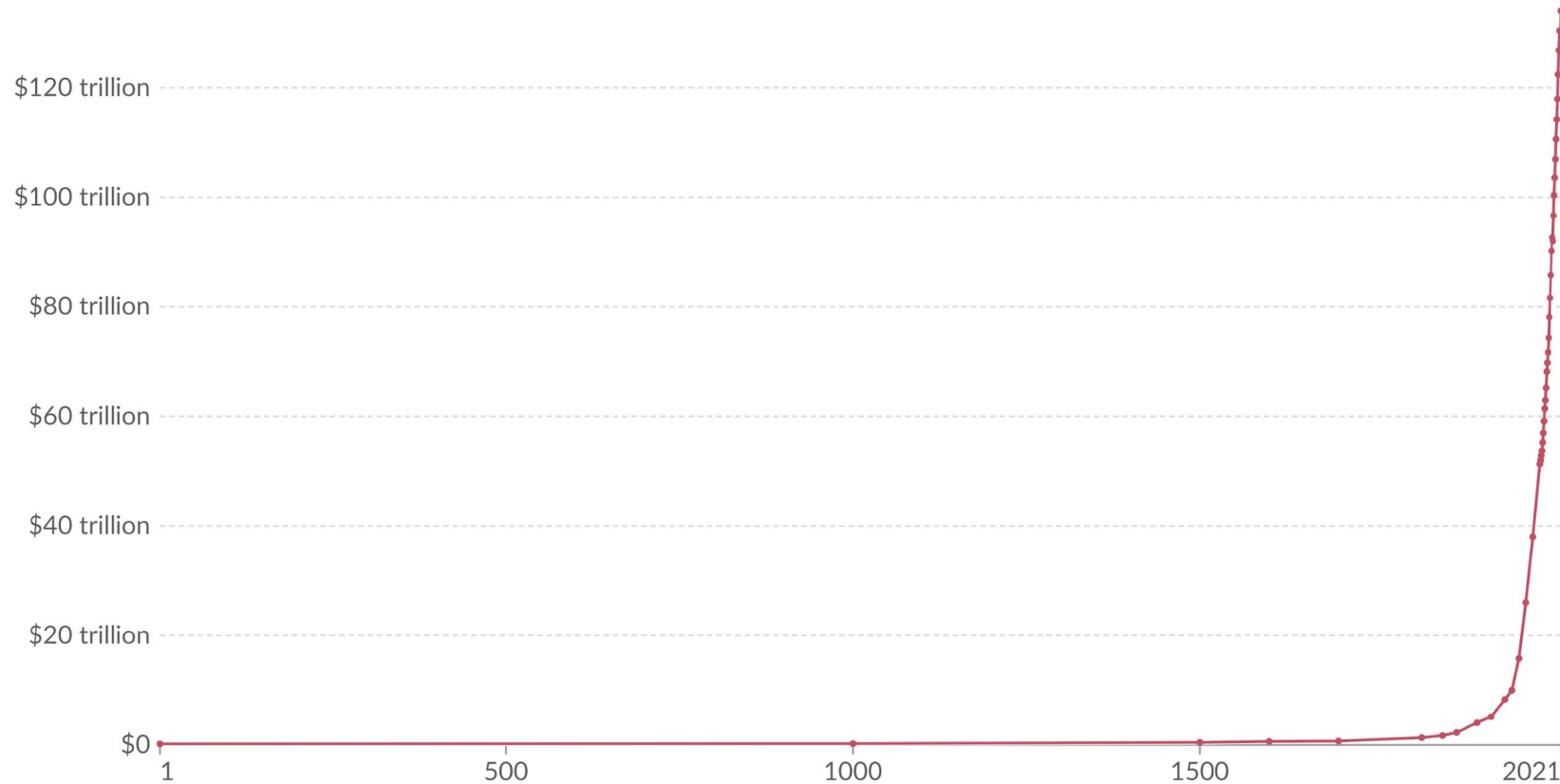
Rather, how do we not stand upon them?

Sustained economic growth is very new in history, only starting in the 18th century

Global GDP over the long run

Total output of the world economy. These historical estimates of GDP are adjusted for inflation.

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Data source: World Bank (2023); Maddison Project Database 2020 (Bolt and van Zanden, 2020); Maddison Database 2010 (Maddison,

Broad agreement (in this room, I hope) that economic freedom is the key to prosperity

- Economic freedom in 'natural experiment' settings explains both growth and stagnation/decline, very strong case for causality
- Collective action and the exercise of power are critical for to create freedom from other collectives – **peace**, and from fellow man - **a tolerable administration of justice**
- Many political arrangements have provided peace and some a semblance of justice
- The hard part is protection from the collective, the power exercising political arrangement itself - **easy taxes** (/rents)

This is why growth is so rare and fragile

- 70,000 years of human existence, only 300 with sustained growth
- 300 years of sustained growth, only 30 countries are rich
- Of rich countries, many have been slowing down in last 2 decades
- Several sustained reversals of growth and low level equilibriums are well documented – Argentina, Brazil, Venezuela, the ‘middle-income trap’

How do the political arrangements that enable growth come about?

- Literature is very fuzzy on this question
 - **Political fragmentation and interstate competition** e.g. Europe with exit options that disciplined rulers; negative cases - unified China, the Ottoman Empire (several authors)
 - **Ideational theories** - McCloskey, Mokyr, North, Farlane, Fischer – ideas <>beliefs<>mental models<>culture<>norms<>rules)
 - **Collectivist / individualist** systems emerging from importance (or lack) of family/kin based systems Greif and co-authors (latest Mokyr)
 - **‘Incentive’ led institutional theories** – extractive vs. inclusive(Acemoglu)
 - Several strands of theory and evidence to suggest culture, ideas, beliefs are important but the story is very messy

Whose culture? Whose beliefs?

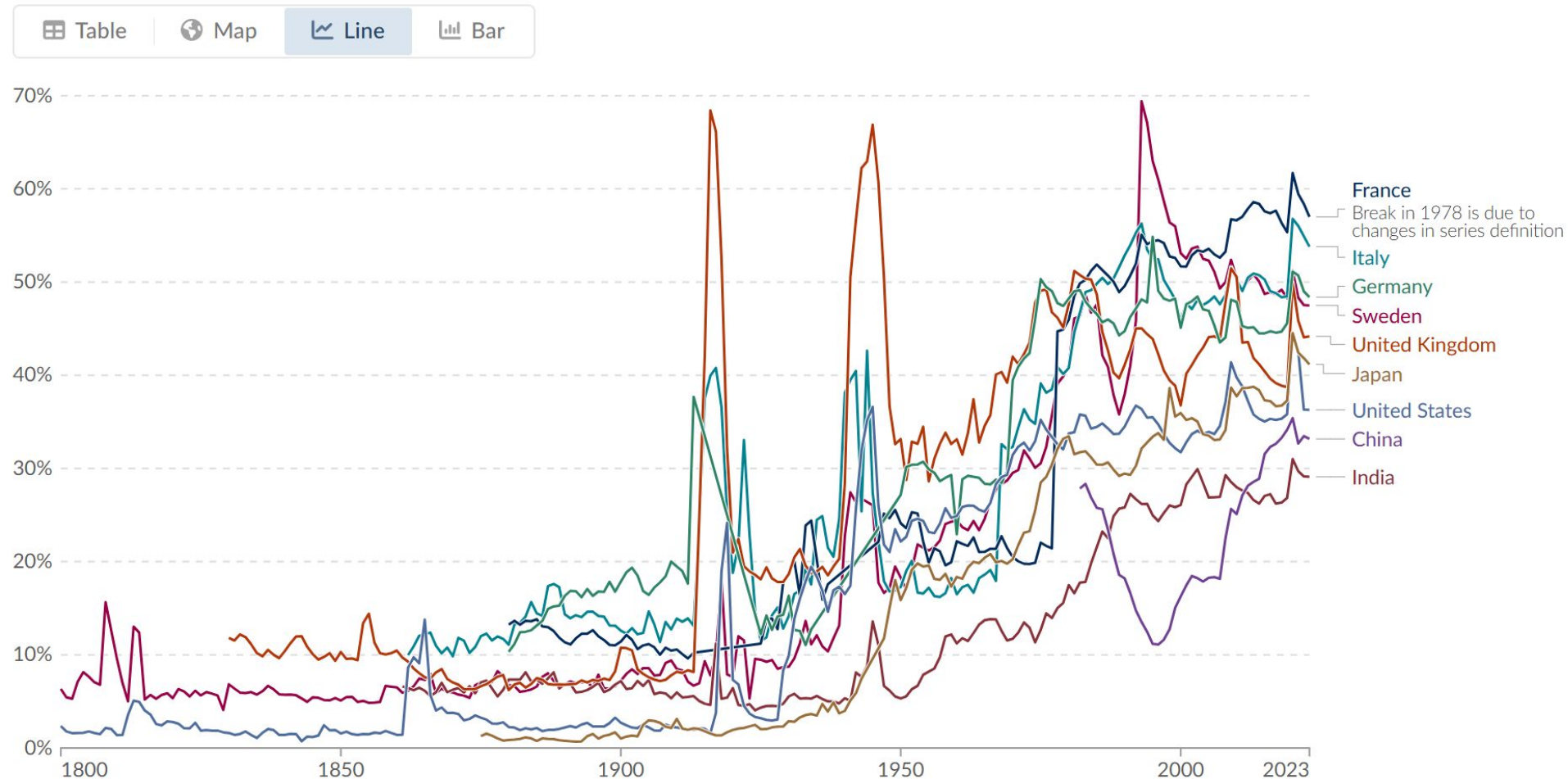
- Elite consensus/action often plays a starring role – UK, US, Singapore, China 1979, India 1991
- Which of these were stable and why? Do beliefs of the populace matter?
- What role did popular origin/permeation/reflection of the elite consensus play in the UK and US (relatively) successfully building and sustaining constrained government, and many other countries (including Latam, India, Africa) failing?
- Public choice theory suggests that politicians should be maximizing chance of gaining and keeping power – beliefs of voters probably important?

The scariest graph in the world (even without rent)

Government spending as share of GDP, 1800 to 2023

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Total government spending, shown as a share of gross domestic product (GDP). It includes interest paid on government debt.



Values surveys are also concerning

- Positive views of capitalism in American 18-29 year olds dropped from 68% in 2010 to 47% (Gallup), socialism steady at 50%
- Academic, political and journalism elites have long been (-ve) capitalism and (+ve) state intervention but the capture is now near complete, even in economics!
- Free markets were popular in developing world back in 2010, but whither goes American culture...
- ~75% of Indians have no memory of life before 1991
- At least among young people (and IAS officers, and politicians) an expanded role for the state is quite popular

The biggest 'regulatory' problems facing India are actually about the appropriate role of power

- Energy markets (lack of) – Subsidisation of consumption
- Labour markets (interference in) – Infringement on contracts
- Tax 'terrorism' (rates, process, stability) – Easy-ness of taxes
- Land markets and land use (broken, restrictive) – Definition and use of property
- Agriculture, education, healthcare markets (large distortions and interference) – Private goods placed in the public domain
- Rent extraction (by design opaque, contradictory and frequently shifting rules of the game with parallel veto structures) – Permission to transact
- Judicial outlook on their role vs/as state
- Several gains that had been made are under threat/reversed – Import licensing, NPS, price controls across sectors, telecom sector regulation, fiscal responsibility

How is the current state of play?

- There is next to no popular discourse or attempt at popular discourse (afaik) on the importance of constraining political power
- There are a few approximate attempts at elite discourse
 - Books - ISOTR, Sixth of humanity(?)
 - Hindi podcast - Puliyaabaazi
 - English podcasts - Seen & Unseen, EiE, Growth is Good
 - CCS ipolicy

Open questions - What can/should be done?

- What are the values/beliefs that matter?
 - The full story is probably too complex!
 - What simple and transmissible value(s) nevertheless will lead to emergent limits on state power? Freedom? Compassion? Universal brotherhood/empathy/trust? Dignity of work?
- What does success look like? Eternal vigilance?
- What channels are worth trying?
 - Reels/Social media
 - Creator engagement
 - Political engagement
 - AI engagement?
 - Education?