

Review of: "Liberalism Caused the Great Enrichment"

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Potential competing interests: No potential competing interests to declare.

This article explores the question of which main factor is able to explain the great “enrichment”, that is, the exponential growth of global economic output since the beginning of industrialization in Europe. It argues that all the well-known explanations ranging from capital accumulation, natural resource endowment, culture, and exploitation to institutional aspects such as property rights, rule of law, or the role of the state are insufficient because they are either entirely wrong or not going far enough to get to the original cause that enables economic growth. The “secret sauce” to growth and development is the “liberal society, especially in its economic culture” including free speech and a culture of energetic enterprise, which “gives people a go”. Liberalism allows for not only “routine innovation” but triggers human creativity and true innovation that no policy can replicate.

I do not agree with this explanation, which tries to be comprehensive. But I acknowledge the article’s quality, consistent storyline as well as the wealth of details and examples.

My criticism comes, first, with the selection and interpretation of examples that supposedly support the hypothesis that liberalism caused the great enrichment. Let us consider a few cases, out of many others, where growth and liberalism were not aligned:

- Economic growth in today’s industrial countries was very high in the 1960s and 1970s, declined to a lower level after the oil shocks, and further diminished after the financial crisis of 2008 to turn into something called ‘secular stagnation’ (Summers, 2015) or ‘the long depression’ (Roberts 2022). However, we have not observed a similar decline in liberalism with people having ‘less of a go’. Quite the opposite, we have witnessed the era of neoliberalism with government controls and economic policy interventions being reduced while leaving more and more space to markets. Why do we observe declining rather than increasing growth rates?
- The Soviet Union eventually failed for various reasons. But whether this authoritarian system was a success or a failure in terms of living standards is not easy to assess. It turned an feudalist, agricultural area into an industrialized society. In the beginning, the Soviet Union was poorer than Argentina, in the end it was richer.
- The article argues that China experienced strong economic growth once the government (partially) abandoned economic planning. Yet, this simplistic argument dismisses important aspects. First, even under Mao’s rule, despite all the failures experienced, the economy grew at around 5 percent per year. This is faster than what we see in most liberal societies, whether rich or poor. Second, even throughout the liberalization period, there has not been free speech in China and the role of the state in economic planning is still far stronger than the United States or most countries in Western Europe have ever experienced. This strong role of the state goes along with the fastest process

of enrichment and poverty eradication the world has ever seen. Third, there is a crucial aspects that proponents of the more-liberalization-means-more-growth story in China oversee: China's traditional way of ruling involves reacting to pressure and dissatisfaction in the population as well as to design policy in a way to avoid protests and anger that could get out of control. This requires a strong and agile state which is why, even after liberalization started, there has never been a business class strong enough to challenge the state. The government decides on which sectors are priority sectors and there is no business class, which can block this policy and force the government to increase their own profits (see Goldberg, 2015). This is very different from western liberal society where lobbying by the financial sector or industrials usually defines the direction of economic policy. Yet, China's growth rate is higher.

- The cases of South Korea and Taiwan, which are also referred to in the article, are similar. In the period of highest growth rates, there was neither democracy nor a discrete state. Instead, the government's economic planning controlled the financial sector, decided on credit allocation, forced corporates to merge and reorganize, and used subsidies and tariffs (Chang, 2006). These policies allowed South Korea to jump from a level poorer than average Africa in the 1950s to be an industrial country; similar story for Taiwan.

My second main point to criticize the article's hypothesis concerns the fact that it cannot be proved or disproved. Hence, it is about plausibility. So in line with the above examples that do not support the hypothesis, we may suggest a different hypothesis and check whether it is more or less plausible than the liberalism story. This hypothesis is equally generic and can be applied throughout economic history. It goes as follows: for a private-sector economy to grow, conditions need to be met. The first condition is a sufficient profit rate (the author also acknowledges this in a similar way with the variable R). This is borrowed from classical economics (Marx 1894/2004). Without an expectation of profits, nobody is going to produce anything in capitalism. The second condition is Keynes's (1936/1997) powerful principle of effective demand. Profitability can be high, but profits can only be realized if goods are actually sold, that is, if there are consumers with sufficient incomes to buy the goods. These two conditions are the engines of growth. The relationship between them is dynamic and often conflicting. Certainly, innovation and productivity growth help in fulfilling both conditions: they allow for both growing profits and increasing wages (the main component of effective demand) at the same time. Based on this, we can explore the following aspects:

- Liberalism is certainly a good thing because who does not want a free society? But historical liberalism was not textbook liberalism. There is the argument that it was liberalism for the elite only. Even Marx favored liberalism, but a liberalism for everyone (Losurdo 2010). Real liberalism did go along with exploitation, colonialism, and human right violation. Large parts of the global population did and still do not 'have a go'. Obviously, the conditions of profit rate and demand were sufficiently met at that time, which is why economic growth took off. But was it liberalism or rather the other phenomena of human exploitation, colonialism and oppression that created the foundation for high profits and sufficient demand?
- As the author points out, many innovations at the beginning of industrialization were reinventions from earlier epochs and other places in the world. So why is it liberalism that is the cause of everything? Why do we not trace back to the original places of these innovations? Maybe those were liberal societies and maybe not. But certainly, the engines of growth were not there. The conditions of profitability and demand were not met, which is why the enrichment did not

happen earlier. Maybe liberalism was lucky to be in the right place at the right time to contribute to continued economic growth. But it was sitting on more materialist foundations. In the end, we cannot answer the question whether a different regime in the 18th and 19th century in Western Europe would have delivered an even faster enrichment than the one that includes the “secret sauce” of liberalism.

- Most importantly, the conditions of profitability and effective demand can basically be met in any economic policy regime. And, crucially, if they are not met, other regimes than liberalism are better able to overcome these barriers. The government can make investment even if there is no profitability. This explains the success stories of East Asian countries: they used the state to actively deal with the engines of growth by either overcoming them via public investment where they were barriers, or by triggering them via subsidies and other planned resource allocation policies. These policies were also able to push the strive for innovation because innovation rewards you with profits. The government can guide you there. By contrast, while liberalism may contribute to innovation and creativity when profitability and demand are sufficient, a liberal system is stuck in stagnation in the opposite case.
- Liberalism as described in the article implicitly assumes that profitability and demand are given in a market system where everyone “has a go”. But why should they? It is a mere assumption that the growth engines run at maximum speed in a laissez-faire regime. Historical examples prove otherwise.

I believe that exploring the question of what factors drive economic activity, coming together with innovation and capital accumulation, is more a promising way to consistently account for economic growth experiences around the world. Studying the conditions of profitability and effective demand is a more robust approach than the vague concept of liberalism. Again, where liberalism supports freedom of speech and a good life for everyone (as opposed to the liberalism for the few), its value should not be denied. But its historical contribution to economic growth is more controversial. In this sense, I would adjust the hypothesis in the title from

“Liberalism caused the great enrichment”

To

“Liberalism *contributed* to the great enrichment in some periods and some places.”

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