

The Interview with **David Boaz**  
The Executive Vice President of the Cato Institute

**Lubelski Portal Biznesowy: Considering the cyclic economic problems, and particularly the recent global crisis, some voices can be heard that liberal capitalism has exhausted its vital powers and should be replaced by another system. What would you say to the people who propagate such ideas?**

**David Boaz:** The crisis can hardly be considered a failure of laissez-faire, deregulation, libertarianism, or capitalism, since it was caused by multiple misguided government interventions into the workings of the financial system. It was and is precisely a failure of interventionism.

Even if there are misperceptions about the causes of the crisis, both the system of capitalism and the idea of liberalism (libertarianism) are going to have more staying power than some pundits would like. There was a time when half the world rejected capitalism, and leading intellectuals in the “free world” worried that the centrally planned economies would obviously outcompete the capitalist countries and that “convergence” on some sort of half-capitalist, half-socialist model was the wave of the future. But after the world got a look at the results of the two systems in East and West Germany, North and South Korea, Hong Kong and Taiwan and China, the United States and the Soviet Union, it became clear that socialism is a clumsy, backward-looking prescription for stagnation at best and tyranny at worst.

Meanwhile, the half-planned economies of the West—Great Britain, New Zealand, the United States, and more—developed a milder version of economic sclerosis. Starting in the 1970s many of those countries began eliminating price controls, removing restrictions on market competition, opening up the economy, cutting tax rates, and reducing trade barriers. It came to be widely recognized—eventually on both sides of the Iron Curtain—that private property and markets are indispensable in organizing a modern economy. A nearly simultaneous cultural revolution opened up society. Women, racial minorities, and gays and lesbians entered the mainstream of society throughout the Western world. Art, literature, and lifestyles became more diverse and more individualized. The Sixties and the Eighties both led us to what Brink Lindsey in *The Age of Abundance* called “the implicit libertarian synthesis” of the United States today.

Is it possible that Congress will choose to pursue policies—tax increases, yet higher spending, continued subsidies for risky decisions, intrusion into corporate decision making—that would slow down U.S. economic growth, perhaps make us more like France, with its supposedly kinder, gentler capitalism and its GDP per capita of about 75 percent of ours? Yes, it’s possible, and clearly there are proposals for such policies. But if we want economic growth—which means better health care, scientific advance, better pharmaceuticals, more leisure opportunities, a cleaner environment, better technology; in short, more wellbeing for more people—there is no alternative to market capitalism. And if we want more growth, for more people, with wider scope for

personal choice and decision-making, libertarian policy prescriptions are the roadmap.

**LPB.: At the moment, some countries devalue their currencies to boost their economies. Are we the witnesses of the world currency war, and if so, what can be the consequences of such policies for the global economic stability?**

**David Boaz:** I am no expert on currency policy. But we know from the study of economics that protectionism doesn't work; it makes the protectionist country poorer. And we know from history that "beggar-thy-neighbor" policies lead to declining economic output in all the countries that participate, and to counterproductive trade wars. And sometimes even to real wars.

It is in every country's interest to pursue a policy of sound money, which enables individuals and businesses to plan for the future and rely on the value of money. But in a world of virtually unaccountable central banks, we don't see sound money in many places. The solution is not to devalue one's currency in a vain attempt to beg other countries to take what we produce. It is for each country to get its own house in order with policies of fiscal responsibility, sound money, free trade, and minimal regulation. Then our citizens will produce useful products, and people will want to buy them.

**LPB.: Is the European Union a serious competitor for the United States? It lags behind the US in many aspects of economic development. What are the EU's real assets?**

**David Boaz:** We shouldn't think of countries as competitors. Competition is between individuals and firms. And it's a competition to serve consumers. I am better off when a firm in any country makes a product or service that benefits me.

But it's true that European firms are serious competitors for American firms in a number of economic sectors. From car-making to finance, European firms continue to perform well in the global marketplace. The differences between many European countries and the United States in terms of productivity per hour worked are minimal.

So most European countries do not seem to lack human capital. Most have free trade, sophisticated financial sectors, strong rule of law and secure property rights – all of which are important for economic growth. In addition, European countries such as Great Britain, Ireland, Estonia and Denmark enjoy high degrees of economic freedom – a prerequisite for a sustained long-term growth.

Overall, however, America is a richer place than Europe. An average European, for example, has an after-tax income that is one-third lower than that of an average American. The problem seems to be the European policy environment, which includes high marginal tax rates that reduce the incentive for additional work, and labor regulations that make hiring too expensive.

To increase their wealth and catch up to the United States, many European countries will have to reform (among other things) their taxes and labor markets, thus allowing all Europeans to fulfill their potential.

**LPB.: What is a true economic power of China at the moment, and what are the perspectives of its future development? Is it on its way to become the world economic leader?**

**David Boaz:** Since it rejected socialism about 1979 and started pursuing more market-oriented economic policies, China has achieved rapid growth. It remains far poorer than Western countries, of course, and will for many years. China is still in a technological catch-up phase. It can grow faster than the West because it started so very far behind. China, with a billion people, may even become the largest economy in the world at some point. But what matters is not the aggregate output of a country but the per capita output. That is, what matters is what standard of living the people have. And China is still very far behind Western Europe, Central Europe, and much of Latin America on that scale.

In any case, economic growth is not a game with winners and losers. When Chinese companies make better products cheaper, and we buy them, we are all better off. It is good that the Chinese people are achieving better lives for themselves, and that they are doing so by making the whole world better off.