

# Free Markets and Economic Development

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**Abstract:** The free market is in retreat around the world, as many have found the growth response to “free market reforms” disappointing. This paper argues that the free market case has been undermined both by its over-promising friends and its too-quick-to-judge enemies. Both groups make the mistake of taking GDP per capita growth performance as the criteria for judging the success of free markets, and have unrealistically high expectations for growth. This paper argues that economists know little if anything about how to achieve high growth rates in the short to medium run. The free market should be judged in the long run by its relationship to the LEVEL of GDP per capita, where there is strong evidence that free markets cause prosperity. Success under free markets is characterized by unpredictable “big hits” in exports and in private business, which is one reason why growth rates are so unpredictable and inexplicable (and also why there is so much inequality under free markets). Yet the huge uncertainty about what will be a “big hit” is itself one of the strongest arguments for free markets, under which there is a decentralized search for success by entrepreneurs and a system for scaling up success and purging failures. Even then, “hits” are rare so economy-wide growth rates under markets seldom reach the exalted expectations of development economists. Free markets must be the very worst way out of poverty, except for all the other ones ever tried.

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<sup>1</sup> Comments received at a related talk (without a paper) for the D. Gale Johnson lecture at the University of Chicago were very helpful.