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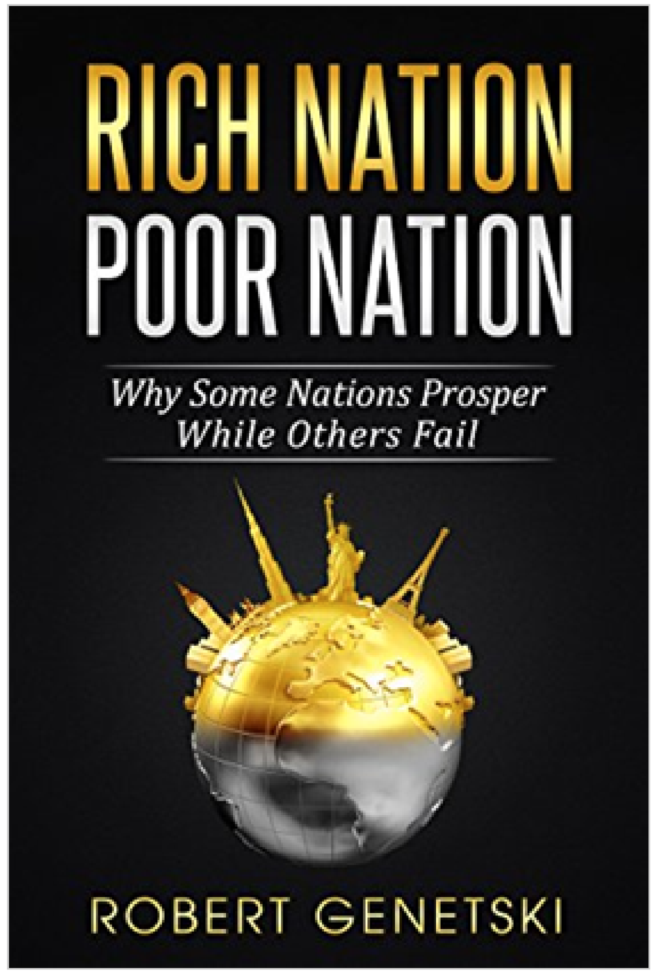
Economic policy and national wealth

Rich Nation/Poor Nation: Why Some Nations Prosper While Others Fail. By Robert Genetski. Campbell, CA: FastPencil Publishing, 2017, 166 pp., $18.95 hardcover.



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A longstanding puzzle teasing the minds of social scientists has revolved around the large variations in the economic performance and wealth of nations. While some countries have managed to evade economic stagnation and expand their output, others have seen prosperity slip from their grip. Early in the 20th century, during the so-called Roaring Twenties, the United States enjoyed a period of unprecedented prosperity, just to see it vanish in the following decade. Toward the close of that same century, another great power, the Soviet Union, imploded economically, eventually disintegrating as a political entity. Experts remain divided about what explains such successes and failures, a lack of consensus due to, among other things, differences in academic perspectives, normative attachments, and methodological choices. In the contemporary economics literature, the question has often been examined within a policy-oriented framework pinning classical economic principles against arguments advocating market regulation.

Rich Nation, Poor Nation, a recent book written by economist Robert Genetski, offers one such account. In it, Genetski attempts to explain spatial and temporal variations in national wealth by assessing the economic effects of two distinct policy approaches. The first, which the author conventionally calls “classical,” extols the virtues of economic freedom, embracing the free-market edicts of authorities such as Milton Friedman. According to this approach, wealth generation and economic prosperity are best served when markets operate with minimal government interference, whereby economic agents and individuals are in full control of their economic decisions. The second approach, which Genetski terms “progressive,” makes a different bet, namely, that government intervention, wealth redistribution, and public spending are important prerequisites for growth and prosperity. An essential part of this policy orientation is the notion that free markets, if left alone, often run amok or fail to deliver, leading to economic downturns, social and income inequalities, and the like.

Genetski is upfront about his philosophical affinities. The book's early chapters make it clear that his theoretical expectations are strongly influenced by the classical tradition. In discussing the wealth-creation process, for example, he asserts that since all wealth is created in the private sector, "the more government expands its power by reaching deeper into the private sector for its funding, the more government limits the creation of wealth." It is this argument that underpins much of the book's historical analysis. Before delving into specific case studies, however, Genetski spends some time defining wealth and economic freedom, mercurial concepts treated differently by different authors. For wealth, he adopts a measure of output per person, adjusted for purchasing power parity, which he sees as a "rough approximation of the average annual wage in a country." By economic freedom, he refers to a condition characterized by modest government spending (with growth not exceeding that in the rest of the economy), low tax rates, unfettered market adjustment to demand and supply pressures, and minimal state regulations on individuals and firms.

The bulk of the book's historical analysis zeroes in on the United States, tracing the ebbs and flows in the country's wealth since 1913. As part of this longitudinal analysis, Genetski identifies five periods (a total of 50 years) dominated by classical economic policies and five periods (a total of 52 years) marked by the progressive agenda. In the course of seven chapters, he presents charts plotting U.S. wages and consumer spending over time, making the case that classical periods outperformed progressive periods on both measures. A brief accompanying discussion leads the reader through the alternating progressive and classical policies of successive U.S. administrations, starting with that of Woodrow Wilson and ending with those of George W. Bush and Barack Obama (up to 2015). Overall, Genetski calculates that classical periods accounted for 87 percent of wage growth during this time span, compared with no growth for progressive periods. The rest is attributed mainly to growth linked to the World War II economy.

The book's remaining chapters briefly review the economic effects of classical policies adopted by various countries around the world, occasionally making cross-national comparisons. The geographical coverage is wide, spanning the regions of Europe, Asia, Oceania, and Latin America. Once again, Genetski offers data visualizations and historical interpretations that purportedly bolster the classical paradigm. Perhaps unsurprisingly, the shining stars in this analysis are Hong Kong and Singapore, which are often singled out as leaders in economic freedom. In 2015, for example, Singapore boasted an output per person estimated at $85,000, about 40 percent higher than that in the United States—an achievement Genetski attributes to the country's observance of a free-market philosophy for over a century. The experiences of other nations discussed in the book are more uneven. In Russia and Venezuela, for instance, massive government intervention has tended to squander wealth and prosperity. In the case of China, a shift toward market liberalization in the late 1970s has produced an economic "miracle," although Genetski notes that, because of demographic realities and limited individual freedoms, the country "has a long way to go before being classified as a wealthy nation."

For the most part, *Rich Nation, Poor Nation* is an accessible read suitable for a broad audience. Genetski presents his arguments clearly, through simple and lucid narratives, and makes an effort to boil down economics data to visual and tabular formats that are easy to grasp. At times, however, this very simplicity leaves the reader asking for more, and I suspect some audiences may find the book's analyses and conclusions skindeep. For example, Genetski occasionally draws a distinction between “good” and “bad” nondefense government spending, but his case studies do not systematically examine the wealth implications of this distinction. The historical narratives are noticeably cursory, raising questions about the completeness of historical interpretation. Given the complexity of the topic at hand, the lack of statistical analyses (with appropriate controls and measures) is also apparent, because it gets in the way of quantitatively disentangling the confounding role of various potentially important variables—from geographical location and demographics, to wars, to human capital, to type and quality of political institutions, just to name a few. Despite these observations, the book could be a worthwhile read even for those skeptical of its arguments, methods, and conclusions. At the very least, it is another interesting salvo in a heated debate that has raged for over a century.