THE BLEYZER FOUNDATION
Turning Transitions Into Prosperity

Contrasting Sustainability of Economic Policies

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Drivers	Unsustainable (Populist) Economic Policies	Sustainable Economic Policies
Promoting Economic Growth	To accelerate economic growth, the government should use **demand side** policies (i.e., fiscal and monetary policies) to **give money to people and increase demand**, even if these policies would increase fiscal deficits and public debt.	Fiscal and monetary policies are unlikely to be effective in promoting growth over the long term. To sustain growth, only **supply side** measures can be effective. **This involves providing a business environment that would encourage firms to invest and expand.**
Role of the Government	**The government should play an active and extensive role** in the economy. It needs to protect the poor against abuses. The central government is more efficient and more "fair" in the delivery of goods and services to the population than the private sector, which is greedy. Therefore, basic goods and services should be provided by public/state-owned enterprises, which are needed to ensure that these "basic" goods and services are provided cheaply to people.	**The role of the government should be limited to the provision of public goods and services** that are non-revenue generating and could not be carried out by the private sector (such as national defense). The government trends to be inefficient and wasteful, with very limited effective controls. The role of the central government should be limited to the development of policies and strategies, with the actual delivery of any necessary public goods and public services decentralized to local governments, which can exercise better control by proximity to users. Public/state-owned enterprises are normally inefficient and lead to monopolies. They also are the main sources of corruption.
Fiscal Policies	When the economy is not growing, the government's fiscal budget should be in **deficit** to provide money to people and stimulate demand. This demand will incentivize increases in supply and revive growth.	When the economy has supply rigidities, large deficits **will not generate a supply response** but will just incentivize imports and lead to inflation. Local currency will be experiencing devaluation pressure and prices will be starting to grow. To ensure financial stability (low inflation and stable FX rates), under most circumstances, fiscal budget deficits should be less than 3% of GDP and public debt should be less than 60% of GDP.
	Government subsidies to enterprises are justified because they encourage production. Government subsidies across the board to all people help them to live better.	Government subsidies/payments to enterprises are undesirable because they induce waste, inefficiencies and corruption. They lead to misallocation of scare resources. Also, indiscriminate subsidies lead to excessive fiscal budget deficits. General subsidies to people lead to a lack of work incentives and motivation.

	Government subsidies should be provided to poor people. Also, the government should do more to help the needed.	Subsidies to poor are justified to protect only vulnerable people (such as poor mothers with young children) but should be closely targeted and controlled, to avoid misuse. General government subsidies to high education and health care can also be justified because better human capital is the main engine for growth.
	Income taxes should be more progressive and higher for rich people and large corporations since they have to make a larger contribution to the budget. Multiple taxes are more just. Consumption taxes do not provide any relief to poor people.	Multiple income taxes normally lead to corruption as officials have too much discretion. A single tax for all income of corporations and people is desirable to avoid waste by seeking rents and "exemptions". Moreover, the cost of tax administration will be reduced dramatically with a single tax. Furthermore, it is more economically efficient to minimize income taxes (which dissuade production and investments) and use consumption taxes (ie., VAT, which do not distort investments).
Monetary and Financial Sector Policies	To revive economic growth, **the Central Bank should increase money supply** to give banks more lending power and stimulate consumption.	**Money supply increases are effective only under limited conditions** (significant capacity underutilization). **Over the long term, they will just generate inflation.**
	Monetary incentives such as **subsidized loans and credits** to priority sectors are good because they encouraged new investments.	Monetary incentives to companies and persons -- such as subsidized loans and credits -- are bad and inefficient since they lead to misallocation of resources to **poor projects**.
	The central bank should reduce interest rates to encourage new investments in general and in priority sectors in particular (such as agriculture and exports)	Interest rates should be determined by the market. The central bank's discount rate should normally be positive and about 2%-5% above the rate of inflation
	The central bank should take measures to support growth, including creating public financial institutions to support key sectors and exports.	The central banks should have as its main priority to maintain the value of the national currency and control inflation. Economic growth should not be its objective.
	State-owned commercial banks are good since through them the government is able to stimulate certain sectors of the economy.	In general, state owned banks are less effective than the private ones. Their policies might lead to market distortions and will distribute resources ineffectively.
	The central bank should intervene in the FX markets to ensure the stability of the foreign exchange	Central bank interventions are temporary and will not solve the problem. The only sustainable manner to achieve FX stability is to reduce current account deficits which requires the reduction of fiscal budget deficits and sound monetary policies.
	The central bank should follow policies that are consistent with government policies. Therefore, the government should have a degree of control of the central bank.	The central bank should be autonomous and not influenced by political decisions. The government may follow policies that may help them to win elections; but the central bank should only be concerned about maintaining low inflation rates (through inflation targeting).

Regulatory Policies	Government regulation of businesses is necessary to protect the public interest.	Government regulation of businesses usually does more harm than good. Therefore, government regulations, such as licenses and inspections, should be reduced to the minimum.
	Minimum wages should be increased to provide better income distribution and allow everybody a decent lifestyle. It should be enforced across the country. Also, higher minimum wages stimulate economic development by creating additional demand associated with higher salaries.	Minimum wages that are too high for the area will dissuade hiring and lead firms to move away to other areas. Increased high minimum wage requirements will put additional burden to companies and would lead to higher unemployment, particularly of the young and the less educated. Moreover, the competitive position of companies may worsen, which would depress overall economic growth.
	Wages should be indexed according to past inflation to maintain the purchasing power of the workers.	Indexation of wages to past inflation will just accelerate and perpetuate inflation. If at all, wages should be indexed to expected future inflation.
	Workers are entitled to have job security. Work legislation should ensure that workers are not dismissed easily.	Undue restrictions to the dismissal of workers will dissuade the creation of new firms, and create inefficiencies.
International Trade Policies	Free international trade is harmful because it takes away jobs to other countries. Also free trade gives unfair competition to foreign companies. Free trade increases the costs for domestic companies that have to follow international technical standards	Free international trade is desirable because it increases efficiency in the delivery of goods and permits us to concentrate in our comparative advantages. Free trade increases competition which normally leads to efficiency improvements. Free trade stimulates foreign direct investments.
	Export free trade zones and industrial parks are desirable. The government should finance their full investment requirements. Subsidies should be given to make them attractive.	The government may want to support the creation of export free trade zones and industrial parks, but limit its financing to basic infrastructure. The rest should be privately financed. No subsidies should be given. They should be privately-managed.
	To control large deficits in the current account, the government should restrict imports by imposing higher import duties or imposing quotas on imports.	Large current account deficits can be controlled on a sustainable basis only by reducing aggregate demand through fiscal and monetary policies, which normally means reducing the deficits of the government's fiscal budgets or deficits in financing by the private sector (inadequate private savings vis-a vis private investments).
Political Risks	The best way to minimize political risks and ensure peace is through subsidies to the poor and good diplomacy.	The best way to ensure peace is through a combination or real democracy, military strength and stable economic environment in the home country. Then, a targeted social investment and stabilization fund would be effective and desirable.
Legal/Judicial	The Judiciary should have as a main task to ensure that judgements will support more "equality" in the population.	The Judiciary should have as main task to ensure that judgements will support individual "freedoms" in accordance with the Constitution. The Judiciary should be fully independent but accountable for its decisions, based on transparency. Its decisions should be based on the merits of the issue, regardless of the wealth or the positions of the persons involved.