
Topic: An Essay on Adam Smith's Legacy: Tracing the Roots of Liberalization, Neo-liberalization, and Globalization

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Essay on Adam Smith's Legacy: Tracing the Roots of Liberalization, Neo-liberalization, and Globalization

In the contemporary discourse surrounding economic policies, the concepts of Liberalization, Neo-liberalization, and Globalization often evoke images of modernity and globalization. However, delving into the annals of economic thought reveals that these notions are not as novel as they may seem. In fact, they find their roots in the seminal work of Adam Smith, the Scottish moral philosopher hailed as the "Father of Economy." Published on March 9, 1776, Smith's magnum opus, "An Inquiry into the Nature and Causes of the Wealth of Nations," serves as a foundational text in economics. In this groundbreaking work, Smith expounds upon the core thesis of prosperity, famously elucidating the concept of the "invisible hand" guiding economic activity towards the betterment of society as a whole. This notion laid the groundwork for the liberalization of markets and the emergence of capitalist systems. Smith's ideas were revolutionary in their time, as they challenged the prevailing mercantilist system that dominated economic thought. His advocacy for free trade, competition, and the division of labor paved the way for the industrialized capitalist system that would reshape the global economic landscape. Despite the profound impact of Smith's ideas, the contemporary manifestation of Liberalization, Neo-liberalization, and Globalization is not without its controversies. Critics argue that these policies exacerbate income inequality, exploit labor markets, and undermine national sovereignty. The rise of multinational corporations and the erosion of local cultures are also

cited as adverse consequences of globalization. In light of these contentious issues, it becomes imperative to revisit Smith's legacy and reevaluate the principles he espoused. While Smith's insights laid the groundwork for modern economic theory, it is essential to recognize that the application of these principles must be tempered with considerations for social welfare, environmental sustainability, and equitable distribution of wealth. Moreover, the evolving nature of globalization necessitates a nuanced approach to policy formulation, one that acknowledges the interconnectedness of the global economy while safeguarding the interests of all stakeholders. Smith's emphasis on the role of government in ensuring a just and equitable society provides valuable insights into the challenges posed by globalization in the contemporary era. In conclusion, while Liberalization, Neo-liberalization, and Globalization may appear as modern phenomena, their roots can be traced back to the seminal work of Adam Smith. As we navigate the complexities of the global economy, it is imperative to draw upon Smith's timeless wisdom to foster a more inclusive and sustainable future for all. By embracing the principles of prosperity and social welfare, we can strive towards a more equitable and prosperous world, honoring the legacy of the "Father of Economy" in the process.

In today's competitive world in the context of economic activities, Liberalization, Neo-Liberalization and Globalization are the most popular and used words. All of these words are related to the concept which works to promote international trade by lessening the various trade barriers and ruling the global market. First of all, the concept of globalization came into existence in 1959 but was recognized popularly only after 1985. Globalization was generated from the word global, which means worldwide. So, globalization can be understood in the sense that the industry is making an influence in the worldwide economic trade and industry. The concept of globalization was also proposed by Adam Smith in his document Element for Universal Prosperity. On the third element of the document, he had proposed free-market principles, keeping taxes low and allowing free trade across borders by eliminating tariffs. He pointed out that tariffs and other taxes only succeeded in making life more expensive for the people while also stifling industry and trade abroad. This concept suggested making the trade easy and low, so that this can make the industrial product global by making the life of people easy and cheaper.

Talking about globalization, the development of electronic communication has extended the cross-border trade, investment and migration which have lifted globalization a step forward. Thus, Thomas Friedman said that today globalization is farther, faster, cheaper and deeper because of the great movement of the wave of globalization. For example, due to globalization of trade, it is possible that the cotton cultivated in India, procured in China, fabricated by Thailand is exported to Europe and US through Malaysian ships. This is possible only due to globalization. Thus, globalization is the process of increased inter-connectedness among countries mainly in the sector of trade and communication. Globalization has helped the people to improve technology in transportation and telecommunications, movement of people and capital and spread out of the knowledge, experience and research. This concept of Adam Smith is correlated with the concept of Trade Liberalization which is the reverse process of protectionism. While liberalizing trade, the governments decided to move back toward free trade in the second half of the twentieth century. This process of liberalization was accompanied by liberalization of international capital markets and by substantial international migration of people. Gradually, international agreements and conventions also supported the liberalization process. The outcome of this liberalizing process is globalization of trade. However, in the 20th century such concept of classical liberalization was replaced by the social market economy where states started to guide and enact rules. In contemporary situations, globalization has been more influenced by the policies of open economies domestically and internationally. Today's economy focuses on reducing tariff and non-tariff barriers to make trade easier by negotiating with governments. The US and China officials conduct inter-country meetings from time to time to negotiate to uplift the protectionist approach implemented by the US. This shows that countries with higher industrial development are more focusing on liberalization of trade. Neoliberalism was also proposed by various philosophers in the late 1900s for economic development. They focused on privatizing the industrial sectors where the government may not interfere and power may be transferred from government to private sectors. This concept was totally based on the capitalist approach for economic and trade development.

In adopting Neo Liberalization, countries are limiting subsidies, making reforms to tax laws which are expanding the tax base and opening market to trade. It also seeks to abolish fixed exchange rates and permit privatization of businesses run by state. The core concept of NL is to

reduce the state influence on the economy in the form of trade barriers, rules and regulations and provide the power to the market economy where market control the price and promotes the free market and free trade. NL is characterized by free markets, free trade, and strong individual property rights which denote government regulation in the market. The same concept is dominant in the world's market. This is the notion of Liberalization, Neo-liberalization and Globalization which is deemed as a modern; however, this impression has already been mentioned by Adam Smith in the “Invisible hand for the prosperity”. He has listed three elements to bring about universal prosperity. First of all is “enlightened Self-Interest”. This means natural tendency toward self-interest. Smith suggested that the people should work hard and enlighten self-interest. It would promote greater prosperity of people. He believed that if supplier of market does not supply at reasonable price, customer won't go to him to buy, which may kick his business from market. Therefore, it is in supplier's interest to sell the product at reasonable price. In this way, smith believed that ability of suppliers to think long term would stop most businesses from abusing customers because of risk of getting kicked out from market due to no profit. When such market forces fail to prevent customers' abuse, smith sought government intervention.

Second element proposed by Smith was “Limited Government Intervention. When the suppliers ignore self-interest by being focused on short term interest and abuse the customers, the government needs to react and enforce laws against such fraud and other crimes. He focused on the responsibilities of the government as being limited to defense of the nation, public works, enforcement of legal rights and the punishment of crime. In this element too, he elaborated the concept of self-interest and tried to explain that the government should not intervene if the supplier is working in long term interest and not abusing the customers. When government intervention is limited, it fosters free trade without any barrier which promotes liberalization and Neo-liberalization. The third element of Smith is “Solid Currency and Free-Market Economy”. Smith proposed to use solid currency to restrict the government from artificial depreciation of currency by circulating more. This also checks spending. He also proposed to follow free-market principles by keeping taxes low and allowing free trade across borders by reducing tariffs. This helps to promote international trade. Free market economy is characteristic of Liberalization and Neo-liberalization. Moreover, he also proposed the concept of Unfettered Trade which means

free- trade for prosperity as invisible hands. He argued to give everyone freedom to produce and exchange products in the domestic and international market. He considered automatic pricing and distribution mechanisms in the economy as major components of invisible hands which promotes unfettered trade. Invisible hands are proactive when the consumers and producers are engaged in commerce. It is also considered as one of the chief justifications for free-trade ideologies.

Smith suggests that the government should not intervene in the market forces until customers are abused. Instead, the government should act only as a facilitator. This is because when the government interferes with this process, unwanted shortages and surpluses tend to occur. Such less intervention of government in trade and production helps to foster the private industries which are the core character of Neo- Liberalization. Less intervention of government is the state of moving towards Liberalization and Neo-liberalization from the government regulated and controlled markets. Smith also tried to promote international free trade by focusing on the theory of competitive theory over Mercantilism. He used an example for production of Wine in Scotland and France and argued that the country which has the competitive advantage of producing one goods over the competitive advantage of other countries for producing the same goods, should only produce the goods having higher competitive advantages and export it. If it has no competitive advantage in producing the goods it should import such goods rather than producing it. Such a concept of competitive advantage helps to encourage liberalization of the trade. This is because the country is encouraged to export the surplus products and import the deficit or the product in which it is not having competitive advantage. Here, free flow of trade is promoted. From this analysis and information we can say that the notion of Liberalization, Neo-liberalization and globalization has already been mentioned by Adam Smith; through his core thesis; the elements of prosperity. As we know that these industrialist capitalist systems like liberalization and neo liberalization have overthrown the mercantilist system, it has various global impacts. Globalization has helped the people to improve technology in transportation and telecommunications, movement of people and capital and spread out of the knowledge, experience and research. Although globalization helped to increase the average income growth of people, it has also caused the gaps between rich and poor countries and rich and poor people within countries.

Positive aspects like developing countries got a chance to economically succeed and increase their living standard; encouragement for creativity and encouragement were there. Developing countries were able to use the current technology. Inter- country cooperation helped to foster development. However, there are also negative impacts of globalizations. Globalization promoted free movement of capital and human resources internationally. But the developing countries and underdeveloped countries were less benefited from such movement because labor moved from developing countries like Nepal to developed countries. It caused outsourcing. It took away jobs from other countries, leaving many without opportunities. Various issues have been raised in globalization issues. Panama Paper was exposed which is the exposition of 214000 offshore transaction and financial details of the shell company. 7.8 trillion US dollars was found cloaked as an illegal form. It is reported that such illegal actions were supported by globalization because citizens of one country were able to cloak capital in the other country illegally. Similarly, Malaysia's 1MDB scandal (over missing billions from Malaysian state-run development fund 1MDB) led the powerful Swiss Bank to fall. The scandal affected Swiss bank BSI where it was forced to close after over 140 years of trading. It is considered a globalization issue because due to the globalization effect Malaysia was able to utilize the fund. Hence, the scandal that occurred in Malaysia affected the bank of Switzerland.