

SECOND CARNEGIE INQUIRY INTO POVERTY  
AND DEVELOPMENT IN SOUTHERN AFRICA

Capitalist approach to the  
amelioration of poverty  
by

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## THE CAPITALIST APPROACH TO THE AMELIORATION OF POVERTY

### PART 1 - INTRODUCTORY

In the space available in this paper it is inevitable that a very complex matter will have to be presented with great brevity and therefore subjected to much simplification. There is, however, a mass of literature, much of it very modern, in support of what is here contended, references to which are given at the end of each section.

In brief the contention is that by far the best approach to amelioration of poverty in South Africa (or indeed in any other country) is economic development on the capitalist model. This does not mean merely continuing with what has been done in the past since a number of South African institutions and practices are contrary to capitalist principles and will have to be eliminated if development on a capitalist model is to continue successfully. These include job barriers, particularly those based on race, and all barriers to freedom of geographical movement and barriers to the ownership and transfer of property based on race.

The contention that the best approach to the amelioration of poverty is economic development on the capitalist model is based essentially not on theory but on experi-

ence. The history of the world over the last 200 years shows both that such development is capable of ameliorating and eventually totally eliminating what at present is understood as poverty and that it is more successful in doing so than any alternative system which has been tried or seriously proposed. It must be clearly understood, however, that it is not argued that capitalism will produce or is capable of producing a state of society which is perfect according to any a priori system of values.

It will be necessary to devote part of this paper to criticising the alternative systems, since in all practical human affairs it is necessary to choose between alternatives none of which can be regarded as absolutely ideal so that the shortcomings as well as the advantages of all alternatives have to be assessed. It is entirely futile to contrast the theoretical claims of one system with the historical record of another. What has to be looked at is the historical record of each system to see which can be expected in practice to produce the most satisfactory result.

#### The meaning of poverty and the problem of Equality

In any consideration of a strategy to deal with poverty it is first of all necessary to consider what poverty is. It is in my contention entirely wrong to approach the matter, as is fashionable at present, as if affluence

was a normal human condition and poverty required to be explained. The contrary is the case. Poverty at what would today be regarded as an extreme level has been the lot of the huge majority of mankind for almost the whole of known human history. Non-poverty is exceptional. Poverty is adequately explained by the fact that man comes naked into the world equipped with neither tools nor techniques which enable him to survive. What requires to be explained is that in spite of this fact people not only survive but may under certain conditions achieve a high standard of living. What we have to do, therefore, is to discover what has enabled certain people to become otherwise than poor and see how what they have achieved can be achieved also by those who up to now have not done so.

A great complication in most discussions regarding poverty arises from confusion as to whether poverty is a relative or an absolute concept. Upon an answer to this question depends what problem we are trying to solve when we talk about the problem of poverty. It is quite clear to me that the concept of poverty is relative. For about 99 per cent of the time that human beings have existed on the earth, in the Old Stone Age and before, they lived at a level more similar to that of baboons than to anything which would today be regarded as a human standard of living even in the poorest parts of the Third World. By any present day standards these people lived in abject poverty but as long as it was the only known way of living

it could never have been called poverty. Indeed, it may be that in 5 000 years time the standard of living of the rich today will appear as poverty to the same degree.

From the fact that poverty is a relative concept it can easily be inferred that the problem that has to be solved is not a low standard of living or lack of desirable goods, but differences in income. If nobody was rich nobody would know that they were poor. That is clearly true. Does it follow, however, that this "consciousness" of poverty is the problem which we are trying to solve, or is the problem that some people are not as well-off as they might be or simply that some people, or indeed, all people have unmet needs? Does the impoverishment of the rich actually benefit the poor if the standards of the poor are not raised by it? Does it really not matter if 80 per cent of children die before they reach one year provided this applies equally to everybody? Does it not matter if people starve to death as long as everybody starves to death? Do people actually prefer to live at a low standard where everybody is at a low standard rather than at a high standard where some people have a higher standard still?

The last question can be answered pragmatically. In most modern partially developed countries income differences are far greater in the urban areas than in the rural areas, yet the vast bulk of voluntary movement is from the rural areas to the urban areas in pursuit of an

improvement in the absolute standard of living. Income differences are probably somewhat greater in West Germany than in East Germany and are certainly a great deal more visible yet 5 million people moved voluntarily from East Germany to West Germany and there is a wall to prevent more from doing the same. The case of the migrants who went to the United States in the 19th century illustrates the same point. On the West Coast of Ireland, where either there were no landlords or the landlords were absentees, there was extremely little visible inequality. When the famine came, everybody starved quite literally, approximately equally. Yet millions of Irish migrated voluntarily under conditions of great hardship to the United States where income differences were extreme and extremely visible, and very few of them came back.

It is my contention that equality is not a primary value even subjectively. It is far from clear that most people prefer to live under an equal rather than an unequal society and virtually nobody would be prepared to trade a fall in his absolute standard of living for increased equality, that is to agree to his income being cut on condition that other people's incomes will be cut by more. What people wish for is an increase in their absolute standard of living.

It follows that although poverty is a relative concept the elimination of "relative poverty" is not our objective and is not a worthwhile goal. It may very well be that

as long as progress continues relative poverty must necessarily exist but if the relatively poor are constantly coming to be better off and one period's poverty is better than the previous period's normal standard of living this is acceptable. Certainly it is better than sacrificing an actually available rise in the standard of living for the sake of greater "equality".

#### Capitalism has no ideology

Capitalism is not a system which was invented or planned. It has been discovered and developed in practice over a long period of time. It follows that it has no overriding theory (although there are by now adequate theories explaining how and why it works) and no underlying ideology. The effects of capitalism can be observed in history and those who for any reason approve of these effects will favour capitalism on pragmatic grounds and there is no need that they should agree on their basic values or their ultimate goals. Indeed, one of the great virtues of capitalism is that it does not require that the members of a society should agree on their goals and this is why capitalism permits a degree of personal and intellectual freedom greater than any other basis for the organization of society. This freedom, in turn, facilitates invention, innovation and change which is one of the reasons why capitalism is more dynamic than any other system, more successful in producing both technical and social innovation which in turn is one of the reasons,

but not the only one, why it is more successful in raising the material standard of living.

There is, therefore, no single value system which has to be accepted in order to accept capitalism. For example, capitalism allows a greater degree of individual freedom than in any other system, therefore those in whose value system individual freedom is primary, necessarily support capitalism but those with quite different value systems may still support capitalism on other grounds.

Capitalism is also the most successful system in increasing the total flow of material goods and the actual material standard of living of the great majority. Those who support Bentham's principle "the greatest good for the greatest number" and interpret "good" primarily in material terms will necessarily support capitalism. Those who interpret "good" in other than material terms may also support capitalism, since capitalism's record of spreading education and culture and promoting the arts and promoting human values is extremely impressive. In fact, what are generally regarded as modern standards of humanity have grown up *pari passu* with capitalism in those countries where capitalism has been dominant and can with great confidence be said to be a product of capitalism.

Capitalism does not compel people to pursue material values; it allows them to do so. It also allows them

to pursue other values when they wish. Those who choose to accept low incomes in return for leisure or other special life styles are free to do so. Capitalism also does not compel people to live or act in an individualist way. All kinds of co-operative and group activity from partnerships to co-operatives to mutual insurance companies, to voluntary associations are permitted and accommodated in a capitalist system.

Those who like John Rawls believe that the purpose of society must be, not to provide the greatest good for the greatest number but to optimise the position of the least fortunate may still support capitalism on the ground that this is what it does, or that it comes nearer to doing so than other systems which actually exist.

Finally, those who, contrary to the arguments advanced earlier in this paper, consider that the reduction of income differences is the primary objective of society may still decide to support capitalism on the grounds that the historical record of capitalism in reducing income differences is actually better than that of either coercive or democratic socialism. Certainly the spread of incomes in advanced societies which have been developed under capitalism for a long period (such as the West Germany or Switzerland) is far narrower than it was in these same countries before the rise of capitalism and it is far from clear that it is significantly wider than in either democratic socialist or coercively socialist

countries when proper attention is paid to the form which privilege takes under coercive socialism. It is for example dishonest to make claims regarding income distribution in socialist countries based on cash incomes and official prices ignoring the fact that the privileged can buy at the official prices and the unprivileged cannot. Also in a society where queueing is pervasive exemption from queueing is a real value which has to be taken into account.

If the preoccupation is with the correction of pre-existing differences (caused, for example, by conquest in the past, as in South Africa) rather than producing some preconceived pattern of equality, then the record of capitalism is even more impressive. Capitalism equalizes in terms of existing differences, while it at the same time produces new differences. This fact is particularly well illustrated by the evidence of the present position in the United States of the descendants of people who came there as indigent immigrants. It is discussed in more detail in Appendix A.

## PART 2

### The Historical and Theoretical case for capitalism compared with genuinely available alternatives

The argument that capitalism is the best and indeed the only effective and dependable way of ameliorating poverty can be developed both pragmatically and theoretically. The pragmatic case based on the historical record of capitalism, in itself, and compared with the historical record of alternative systems has the greater validity. This is very important. Socialists often claim that their system is scientific in the mistaken belief that science is essentially a system of abstract theory. Science is, in fact a system of observation, the derivation of hypotheses from observed facts and the constant testing of these hypotheses against new experience. No system which is not prepared to subject its theories to criticism on the base of all known facts, including events which have taken place since the original theory was developed, can claim to be scientific.

Although as has already been stated the economic theory of capitalism is not a prescription but is an attempt to explain and describe a pre-existing system, theoretical analysis can show why capitalist systems sometimes work better and sometimes work less well and thereby derive principles which are normative, in terms of which a

capitalist system can be improved or its deterioration can be opposed. Such theories, however, must also be constantly subjected to pragmatic testing. As experimentation is seldom possible in economies and the case studies available are extremely complex, such testing normally takes the form of seeking a broad correlation between success and the presence or absence of particular characteristics or systems, in accordance with John Stuart Mill's "method of concomitant variations", which can still be applied even when the phenomenon cannot be reduced to statistics which can be tested for statistical correlation.

#### Capitalism has ameliorated poverty

The historical evidence that capitalism ameliorates poverty is simply that wherever capitalism has been applied it has ameliorated poverty. Those countries in the world which have developed under capitalism for a substantial period of time are not only the richest countries on average but are also the countries where the poorest people are the best off. Indeed, when we seek a factor to correlate with wealth or development in the world this is the only one. It does not correlate with natural resources (witness Britain, Japan, the Netherlands, Singapore and Hong Kong versus Brazil; or Japan, versus the Soviet Union.) It does not correlate with an imperialist past (Sweden and Switzerland versus Portugal) it does not correlate with the absence of a

colonial past (the United States, Canada and Australia or Malaysia, Singapore and Taiwan which have become independent since the Second World War versus Afghanistan and Liberia or versus Columbia or Bolivia which have been independent since the 1820's.) It does correlate with the extent to which countries have experienced the capitalist system. The developed world consists of those countries which have developed under capitalism for about 100 years or more. The rapidly developing world consists of those countries which are currently developing under capitalism and have been doing so for a significant length of time.

#### The Main Historical Cases

In considering the superiority of capitalism to centrally planned socialism as a basis of development we can consider a number of very striking comparisons. One of the most interesting is the comparison of the Soviet Union with Japan which can now be taken over a very substantial length of time. Up to the middle of the 19th century both Japan and Russia were feudal societies based on serfdom and very backward compared with Western Europe. Nevertheless we must not fail to notice that Russia was a world power which defeated Napoleon in 1812, held a dominant position in Europe in 1815 and was able to fight the combined power of Britain and France to a draw in the Crimean War of 1854/6. Japan on the other hand was "brought to heel" without firing a shot by a single

American cruiser squadron in 1854.

In the 1860's both countries embarked by the conscious decision of their rulers on development under capitalism and serfdom was abolished in both countries within a year or two with the conscious intention of facilitating capitalist development. Both countries developed rapidly under capitalism until 1914. It is usually claimed that Japanese development was the more successful because Japan defeated Russia in 1905. The claim is scarcely supported by the facts since the war was fought on Japan's doorstep with Russia fighting at the end of a three thousand mile long single track railway. If Japan had invaded the Crimea the situation would have been reversed and it is difficult to believe that Japan could have done so successfully.

Since 1917 Russia has developed under centrally planned socialism and Japan under capitalism. Both countries were devastated in World War 2 but Russia was victorious and was able to plunder and exploit the whole of Eastern Europe while Japan was defeated, and the devastation of Japan was more complete. Currently, notwithstanding Russia's enormously superior endowment of material resources, the per capita income in Japan is approximately double that of the Soviet Union. Japan is an exporter of advanced technology while the Soviet Union is an importer and Japan has a democratic society where civil rights are fully respected and the Soviet Union does not.

Other comparisons showing the superior performance of capitalism to socialism are the comparison of East and West Germany; of North and South Korea; of Hong Kong and the rest of China. The fact that capitalism benefits not only the wealthy but also the poor is graphically illustrated by the movement of five million refugees from East to West Germany followed by the creation and maintenance to the present day of the closed frontier of East Germany of which the best known part and the symbol is the Berlin Wall. Five million people moved from socialist Germany to capitalist Germany in order to be workers there not in order to be capitalists. Some may have built themselves up into capitalists in spite of starting with no capital, for this is perfectly possible. Nevertheless the huge majority of them preferred to be workers under capitalism rather than work under socialism because they believed that workers under capitalism are both better paid and better treated than workers under socialism which is manifestly the case in a comparison between the two Germanies. The continued existence of the wall is concrete testimony to this fact which no theoretical argument can overcome.

In the same way, to the extent that they are permitted to do so, people continue to move from socialist China to capitalist Hong Kong in order to be workers there. There is nothing to prevent the entire population of Hong Kong from moving into China and if socialism is

preferred to capitalism it is an interesting question why they do not do so. It is certainly not in order to enjoy the natural resources of Hong Kong of which there are none, nor to enjoy the capital resources of Hong Kong which have been created there in a few years. At the end of World War 2 Hong Kong had a population of 600 000 almost all engaged in trade and tertiary activities. Today it has a population of 6 million, the majority engaged in manufacturing.

Those who contend that the superior economic performance of West Germany and Japan is attributable to aid have to answer the question why the capitalist powers aided their defeated enemies whereas the socialist power plundered its defeated enemies (and indeed its "liberated" allies as well). Is this not a startling testimony to both the moral and the material superiority of capitalism? The Western powers had both the will and the resources to aid their defeated enemies, the Soviet Union had neither.

The evidence that capitalism helps the very poor even in its early stages is developed in detail in Appendix A. Suffice it here to say that the appearance that capitalism creates poverty arises from the fact that it induces and allows the very poor to move to places where they will be better off, thereby, while improving their conditions, making their poverty more visible and also annoying people who are better off already who

would rather they were not there. So, to take an extreme example, the arrival of the Irish famine refugees on the eastern seaboard of the United States certainly introduced to those states a kind of poverty that had not existed there before, but it did so by alleviating the poverty of the people concerned to the extent that it saved them from death. These people were from the very beginning better off than they had been in Ireland and they showed their awareness of this fact by saving money to send to Ireland to relieve their relatives and to enable them to follow them.

#### Capitalism does more than create material wealth

While we are considering the historical record of capitalism it is worth noting that the achievements of capitalism go far beyond raising the material standard of living or ameliorating poverty. In fact the modern world as we know it is the creation of capitalism, and everything in it which is new can fairly be attributed to capitalism. So, for example, capitalism can claim credit for the rise of democracy. All advanced capitalist countries in the world are democratic. No socialist country is democratic and very few developing countries are democratic. Capitalism can claim credit for the very conception of an open society and for all the developments in terms of which modern advanced capitalist society approximate towards that ideal even if they do not achieve it to perfection. In particular, it can claim credit

for the disappearance of all kinds of caste-or-status-based privilege. This process has been completed in all advanced countries. The final collapse of formal colour discrimination in the United States is one of the latest instances. It is, of course, far from complete in South Africa which is not a developed country but a developing country.

Capitalism can claim credit for the rise of religious toleration which is found consistently in the advanced capitalist countries and not at all in the centrally planned socialist countries. Human rights are essentially a capitalist concept. In earlier history certain states had the conception of "civil rights" that is, rights belonging to a citizen by virtue of his being a citizen of that particular state. The idea that a state should not discriminate between citizens and resident non-citizens except in respect of the vote is a modern and capitalist conception. Marxism does not in fact recognize human rights as the individual is to be subjected in all matters to social expediency as interpreted by his rulers. (This is true not only in Marxist practice but also in Marxist theory.)

It follows that capitalism can fairly be blamed for whatever undesirable characteristics of modern society can be shown to be new or peculiar to capitalist countries. It cannot be blamed, however, for failing to have improved all evils which have existed since time immemorial. So

capitalism can claim credit for having increased the expectation of life. It cannot be blamed for the fact that man is still mortal. It cannot be blamed for war since we know that war has been going on since the Bronze Age and there is no evidence that it has increased in recent times.

Although the technological advances attributable to capitalism have certainly generated more destructive weapons it is not clear that war is either more "frightful" or more destructive than in the past. The idea that the civilian population did not suffer from the war until modern times is false. The burning of crops and the devastation of the countryside as practised in the Boer War and the American Civil War were standard military practice at all earlier times. Tiny armies through these means brought about a reduction in the population of Germany by half in the 30 Years War. Nor is it clear that Troy or Carthage were less thoroughly destroyed than Hiroshima and a higher proportion of the combatants was killed at the Battle of Cannae than at the Battle of the Somme.

In the same way capitalism cannot be fairly blamed for imperialism since conquest for the purpose of exploitation goes back to the most ancient recorded times and has been practised by socialist powers in recent years. It does seem, however, that the form of exploitation of colonies used by capitalist conquerors was less destruct-

ive and less oppressive than in any other form known in human history. (This theme is discussed in detail in Appendix F.)

In the same way to blame capitalism, as is quite frequently done, for homosexuality or mental illness or crime or the fact that people do not enjoy work is simply absurd. We have ample evidence that all these things have existed since the most ancient times (they are all referred to in the Book of Genesis) and no evidence that they have increased in modern times except in proportion to an increase in population. On the other hand, capitalism can be blamed for the rise of the divorce rate since this is new and shows a marked correlation with capitalist development. The only question here is whether it is a price paid for other developments which are favourable such as increased freedom, increased mobility and increased equality.

None of these claims for capitalism would be denied by classical Marxists and many of them were actually made by Marx. The question is, however, whether socialism is a higher state of development which produces further benefits which capitalism cannot produce. There is now ample historical evidence to show that it is not. Insofar as socialism exists in the world it is clearly a poor copy of capitalism surviving by imitating capitalism and to a significant extent, parasitic upon it.

## Socialism is impossible

Socialism as conceived by Marx and the other socialist theorists has proved to be impossible and the attempts to implement it following on the Russian and Chinese revolutions generated disasters seldom paralleled in human history. In order to create the existing centrally planned states which are socialist in the technical sense that the state owns the means of production, virtually all the basic concepts of socialism as propounded by its earlier advocates were abandoned.

The state apparatus was not abolished but strengthened so that the means of production have been not "collectivized" but nationalized or to be more accurate "statized". Income has not been distributed in accordance with any of the various and mutually contradictory socialist theories but on the contrary a rough and ready imitation of the effects of capitalism has been created, distorted (as it also is in actual capitalist states but to a much lesser extent) by privilege derived from political power (for a fuller discussion of this point see Appendix C). The division of labour has not been eliminated or reduced to any extent. So far from money having been abolished a money system directly imitated from capitalism is in full force and to make the economy work a price system is adopted which again is a rough and ready copy of what exists in capitalist economies, so much so that the experience of existing capitalist economies is used for

the purpose of fixing prices.

It is also clear that the creation of imitation capitalist institutions is on the increase in the centrally planned economies where attempts are being made to introduce imitation competition between different factories and other units. It is also clear that in all these countries free markets exist in large areas, in some cases tolerated, in others formally allowed. (For example the private sector in Russian agriculture which is well known to make a contribution to production hugely disproportionate to the proportion of the land which it occupies.)

Contemporary China has gone further by allowing actual capitalist enterprises to be established in certain areas provided they are owned by foreigners. This raises two interesting questions. If capitalism is good why allow it in only some areas? If it is bad why allow it at all? If it is exploitative why is it better for Chinese to be exploited by foreigners than by other Chinese?

There is no area in which the parasitic nature of the socialist section of the world is so evident as in that of innovation and technical progress. Since 1917 the world has been totally transformed by new inventions and technical change and the socialist world has made no contribution. The Soviet Union, 65 years after the Russian Revolution, is an importer of technology from the West in virtually every field and exports no technology whatever. Japan in contrast is both an importer and exporter of technology and is in the forefront of

some very important technical developments. In view of the traditional Marxist assertion that capitalism is geared towards war it is particularly ironical that the only area in which the Soviet Union is able more or less to keep pace with the West is in the development of armaments, suggesting that in probability this is the only area in which the disincentive to innovation created by the system are effectively over-ridden by the sense of urgency.

#### The "state capitalist" states

It is fairly clear that what actually happened in both Russia and China is that the implementation of socialism was found to be impossible and those who had seized power in the name of socialism, wishing to retain it, created another system. This essentially consisted in concentrating the control of capital in the hands of a single monolithic oligarchy which also controlled the state power, and then making the economy work after a fashion by attempting to reproduce the operation of capitalist economies without several of their essential characteristics, in particular, competition and the incentive system. The result was a system which regarded as an economy works, but works very badly. Regarded from the point of view on theoretical socialism it is a total disaster. In fact all the traditional socialist objections to capitalism apply to it more than they do to capitalism.

The Marxist critics of the Soviet Union who have called its system "State capitalism" were probably pretty close to the mark. It is true that in terms of traditional definitions "state capitalism" is a contradiction in terms, but these definitions give rise to grave problems. State ownership of the means of production cannot be an end in itself, it must be a means to other ends. The early socialist theorists were quite clear what these ends were, and would have had no difficulty in saying that the contemporary Soviet Union is not socialist. If, however, we define socialism as the state ownership of the means of production we lay wide open the question what is socialism good for? What are its objectives and why are they desirable? Those who advocate the state ownership of the means of production must show both what their actual goals are and above all why, in the face of historical experience they believe that their means are likely to achieve their ends.

### Social Democracy

It remains to consider the "third alternative" so-called social democracy or the mixed economy. We have to face here the problem that the mixed economy, like capitalism, is not a theory and cannot be criticised in terms of any normative principles. We have also the problem that all economies are mixed to some extent.

The first point to note about the mixed economy is that it has two kinds of advocates. There are those who regard it as a route to the centrally controlled socialist economy preferable to revolution. This is basically the Fabian doctrine. Obviously if a centrally controlled economy is the goal then these people have to face the criticisms of the centrally controlled economy which have already been put forward. It will work no better because it is achieved slowly.

The other school are those who consider that capitalism can be improved upon by tampering with it and that a more satisfactory version of capitalism can be produced by a series of government interventions. It is submitted that the practical record of this system suggests that the price which is paid in terms of impairing the capacity of the economy to innovate and increase wealth is high, that the actual achievements in terms of the ostensible objectives of the system is slight or even problematical and that at the level of poverty and the condition of the most unfortunate there is evidence that the mixed economies actually do harm compared with what would happen under pure capitalism.

#### Welfare Provision

We must first of all make it clear that no objection is intended in this analysis to a system of social insurance to ensure that those who fall on temporary misfortune

are to some extent cared for. This has in fact formed part of capitalist economies since earliest times and I know of no capitalist economy which has ever allowed the unemployed, or disabled to starve or left them to beg.

Those who contrast the provision made for the unemployed under the Poor Law in 19th century England for example with what exists at present implying that they are based on totally different principles and that the one is caring and the other uncaring are entirely missing the point. The extreme harshness of the Poor Law, including harrassment of paupers, was a consequence of the extreme poverty of the society, the very low level of wages and therefore the difficulty of applying the principle of less eligibility to people who were already living at a bare subsistence level.

The modern welfare state still applies the principle on less eligibility, that is that it must not be more advantageous to live on welfare than to work. The fact that this is compatible with a decent "level of provision" follows from the enormous increase in the national product and the enormous rise in wages in the interval. The objection which is taken to the mixed economy does not relate to the welfare system except on some matters of detail, (though they are important). It relates to the massive network of interference with the market system involved in such institutions as rent control, price

control, minimum wages, occupational licensure, many aspects of physical planning and the creation of statutory monopolies, whether ostensibly owned by the government or not, as well as very serious obstructions to the mobility of labour, both geographical and occupational.

There are two problems about attempts to improve on the operation of the market. The one is the technical adequacy of the measures, the other is the good faith of those who implement them. There are two assumptions that advocates of mixed economies always make neither of which can be supported. The first is that a government intervening in the economy can be assumed to be making a bona-fide effort to improve the economy in the public interest. The other is that there are actually ways of improving the operation of the market by means of ad hoc interventions which can be implemented in practice, given the knowledge and apparatus actually at the disposal of governments, or which can in practice be put at their disposal.

#### The State is not in good faith

The first of these two assumptions is the one which is most seriously at fault. There is absolutely nothing in any known political system which ensures or even make it probable that government interventions take place in the public interest. Both elected and non-elected governments are under overwhelming pressure to pay off

their constituency, to reward them for support and in order to survive in politics governments to use whatever power they have for this purpose. The result is an overwhelming probability that interventions in the economy take place in the interests of particular interest groups. Since the very poor are unlikely to be able to organize themselves effectively as an interest group they are likely to get very much less than a fair share in interest group politics. The truly poor are weaker in politics than they are in the market.

A matter of particular concern in any consideration of interventionist measures to alleviate poverty is the way in which actions on behalf of interest groups are rationalised as being allegedly aimed at helping the poor where in fact they may injure the poor and help some other group. This issue has been examined with particular care in relation to the Black Americans.

Minimum wage legislation is an excellent example since it raises the wages of the more strongly placed workers while reducing others to unemployment and above all depriving the currently unemployed of future opportunities. It also reduces the cost to employers of discrimination. Another example is rent control which transfers wealth to existing tenants at the expense of reducing, or cutting off the supply of future dwellings and so creating a group who are totally unhoused.

The examples could be multiplied endlessly. The important point to notice is that a conclusive case has been made against most of the standard interventions. If they are regarded as ways of aiding the poor why do these interventions continue to take place in spite of manifestly creating unemployment, housing shortages etc? The probability, therefore, that they are not undertaken in good faith seems to be overwhelming.

The general historical record of a mixed economy is best seen in a comparison between those countries which have developed under fairly extreme versions of a mixed economy with those which have developed in the same period under relatively extreme forms of capitalism. One of the most striking comparisons is between West Germany and Great Britain from 1945 to about 1970. At the beginning of this period West Germany was ruined and devastated and wages in Britain were not less than double wages in West Germany. By the end of this period wages in West Germany were about double wages in Britain. When one seeks any decisive advantages in Britain purchased at this high price they cannot be found. Income differences were not conspicuously greater in West Germany than in Britain nor were the most unfortunate significantly worse provided for while unemployment was lower.

If the object of the mixed economy is the redistribution of wealth it is fairly clear that it has failed when it redistributes wealth no more effectively than the

market. If its objective is to avoid unemployment it has also failed. If it is claimed that it is a necessary pre-condition for an adequate system of social insurance this is clearly untrue. The standard of social insurance which is possible depends overwhelmingly on the general level of wealth of the society and the route to better social insurance is economic growth.

#### The failure of the mixed economy

Finally, a very strong case has been developed in contemporary literature for the fact that the mixed economy inevitably drives itself in a downward spiral of more and more economically destructive policies until ultimately it reaches a situation where it is no longer capable of economic growth nor can it maintain its existing levels of employment. It would seem probable that beyond this would lie positive long term impoverishment. This, it is suggested, is the stage reached by the countries of the West after 1973.

To blame the rise in the oil price for the economic hardship of the following time is clearly not valid. What was demonstrated by this rise was the massive inability of the mixed economy to adapt itself to change. During the 1970's Japan whose economy is far more capitalist than those of the western countries maintained positive growth, sometimes at quite a respectable rate, while Hong Kong, Singapore, South Korea and Taiwan maintained

a rapid rate of growth in spite of the fact that all these countries are dependent on the importation of all their energy. Britain, on the other hand, with substantial domestic oil resources being either a small net importer or a small net exporter of oil and also possessing domestic natural gas performed exceptionally badly. Switzerland, without domestic oil resources but with far less government intervention, performed best of the European economies.

The case against government intervention in the economy in the hope of improving on the performance of the market may be summarised as follows.

1. No way has been found to operate it in good faith.  
It becomes in practice an open door for the pursuit of sectional interests which are destructive of the public interest, and especially harmful to the poor.
2. There is no evidence that it can be done effectively or at least that we know how to do it effectively.
3. Its actual record in practice is abysmal.

#### Keynesianism and the Great Depression

In support of the last contention it is perhaps necessary to deal with two popular myths. The one is that the prosperity of the world in the 1950's and 1960's is attribut-

able to Keynesian economics, the other that the Great Depression of 1929 is attributable to laissez faire. As regards the first, during the 1950's and the first half of the 1960's Keynesian economics were applied only in Britain. The prosperity of the world was driven by the fantastic growth of Japan and West Germany and the very respectable growth of the United States, in all three of which countries classical economic principles were applied. The world economy started to go sick almost from the day that Keynesian economics were applied in the United States under President Johnson.

The claim that the Great Depression was caused by laissez faire is untrue. Laissez faire was not in place in 1929 in any country in the world. The rise of bureaucracies during the First World War led to an enormous increase in government intervention in economies and this intervention undoubtedly contributed both to causing and prolonging the Depression. The basic cause of the Depression, however, appears to have been quite clearly the destruction of the German and Austrian economies by the provisions of the peace treaties. These treaties, as was pointed out by Keynes in the Carthaginian Peace were based on the obsolete idea that countries can benefit economically by destroying their rivals. The fact is that in a modern trading economy the principal trading rival is usually also the principal customer and the principal supplier. The destruction of a portion of the total world economy leaves the rest of it disrupted and out of balance with

shortages in some area and surplus capacity in others. This lesson was learnt after the Second World War with the highly successful consequences which are now a matter of history.

#### The theoretical case - how capitalism works

Although the claims on behalf of capitalism are based on experience rather than on theory a theoretical exposition of why capitalism works, and particularly why it helps the poorest groups of people, may be helpful.

1. The successful production of wealth is dependent on the successful combination of the factors of production land, capital, labour and management and this successful combination can itself be regarded as a fifth factor of production-entrepreneurship. Because it recognizes the importance of all the factors and rewards each in proportion of its relative scarcity and therefore to relative importance at any particular time, capitalism tends to produce something approaching the optimum combination.
2. By placing capital in private ownership capitalism gives the controller of capital the incentive to use it to the greatest possible extent in the public interest. The owner of capital can only derive income from it by using it in conjunction with labour to produce goods or services which are desired in the

market. Any failure to do so is penalised. The under-utilisation and inefficient utilization of state assets compared with private assets can be observed anywhere. One can predict with great confidence that a vacant and weed-grown site in the middle of a built up area belongs to the state.

3. The creator of entirely new wealth initially obtains most of the wealth for himself but he cannot obtain it all even at the outset. The inventor of a new process, in order to turn it to account, has to employ labour, capital and land. In the process he raises the price of all these things and so redistributes part of the wealth he has created to the owners of these factors. In due course competition has the effect of redistributing the great bulk of the value of any innovation to the consumer in the form of cheaper goods. (This constant cheapening of goods and services is concealed in the present day world by inflation, so that it reports rather as a disproportionate increase in wages compared with the increase in prices. Whichever way it goes, however, it reflects a rising standard of living.)

4. Capitalism secures not only the private ownership of land and capital but also the private ownership of labour. Every individual belongs entirely to himself and can turn his labour and skills to whatever account he sees fit and keep the whole proceeds. Whether

socialism proposes to socialise labour or not is normally left unclear. Insofar as labour is openly conscripted or directed labour has been nationalised but in any case if the state is the only employer of labour and can employ or refuse to employ whom it pleases and set any wages that it sees fit the private ownership of labour has disappeared in reality. This is serious for efficiency as well as from every other human points of view. Nobody can secure as productive use of the capacity of an individual as the individual can secure for himself acting voluntarily for his own purposes. The notorious inefficiency of slave labour is simply a manifestation of this.

5. The market constantly tends to move all assets into the hands of those who can make the most productive use of them, since anybody who can make better use of an asset than its existing owner can offer that owner a price for the asset which is more than it is worth to him. The freedom to hire labour is an important aspect of this principle. Anybody who can make labour more productive than it is at present can offer the owners of that labour, that is the workers, higher incomes than they are at present earning and so there is a constant tendency for labour to move from less productive to more productive occupations having due regard to any disutilities the particular occupation may have. If the more productive occupation is more unpleasant than the less productive

the workers will have to be compensated as otherwise they will not move. Thus employers have a constant incentive to seek to make conditions of work not only more productive but also more attractive.

### Capitalism and Income Differences

Capitalism has a constant tendency to reduce existing income differences and consequently existing inequalities through competition. First of all, as capitalist development goes forward capital is constantly accumulated. Capital becomes more plentiful and labour becomes more scarce so that there is a constant tendency for the reward of capital to fall compared with the reward of labour. In the long term the change in the distribution between the factors of production has been very large.

Secondly, the pockets of privilege arising from particular assets whether material or in the form of scarce skills tend to be eliminated by competition and innovation. If a particular form of labour is scarce capitalists have a motive to make it less so by enabling other people to secure the skill and those workers who do not possess the skill have a motive to acquire it. In the absence of massive government intervention to prevent this the skill will be spread quite quickly. Where particular material assets (such as raw materials) are disproportionately valued there is an enormous incentive to devise

means of replacing or dispensing with them.

The reason why, in the absence of very serious state interference, capitalism will begin, from the very earliest stages, to improve the conditions of the poorest and most unfortunate is quite simple. Capitalists do, as their critics have pointed out, have the incentive to employ the cheapest labour. The cheapest labour will be provided by the poorest people and capitalists will employ the poorest people by preference. The fact that capitalism tends to undermine the privileges of certain groups of privileged workers in the interests of poorer workers has been one of the many causes of hostility to it.

In the same way if there are groups of people who are excluded from the labour market or excluded from certain parts of it as for example, lacking skills, capitalists have an incentive to bring them in. Where the critics of capitalism have gone completely wrong is in assuming that because it is to some extent beneficial to capitalists to have access to poor workers they therefore keep workers poor. The fact is that there is no way in which capitalists can keep workers poor and at the same time benefit from their existence. In order to draw income from capital it is necessary to employ labour. No income can be drawn as a result of leaving labour unemployed. It may be beneficial to capitalists that there should be a reserve army of unemployed but the only way they

can benefit from this army is to draw on it, that is to reduce it, not to maintain or increase it. The only way of increasing the supply of poor labour for employment is in fact to tap new sources of labour, to bring new people into the labour market. This, it is true, may cause great indignation among existing workers but only if the new people entering the market are poorer than the existing workers. Capitalists have no interest in maintaining poverty: only established workers appear to have such an interest.

In a state of static technology this equalising tendency would no doubt eventually produce so high a level of income equality that the capitalist system would no longer work. This, however, will never happen since innovation gives rise to new income differences. It is from innovation that new fortunes are made and it is innovation which creates new areas of scarce skill. (The impact of computers in this matter is now well known.) The long term viability of capitalism therefore depends on continuing progress and those who believe in the concept of long term class interests have to take cognisance of this fact.

It also follows that the ability of capitalism to remove pre-existing inequalities is much greater than its ability to produce absolute equality. The new rich do not necessarily arise from the ranks of the old rich. The importance of this fact in South Africa is obvious.

## The corruption of capitalism

It must be recognized, however, that capitalism does not have built in to it a fully effective system for its own preservation. Capitalism is subject to corruption, which takes the form of the mobilisation of the power of the state to create pockets of privilege, usually taking the form of protecting existing producer groups from competition to the detriment of would-be newcomers and of the consumer. Attempts to bring about the same result purely by means of private organization invariably fail. Mobilisation of the power of the state is crucial.

The root of the problem is the fact that every individual, whether as owner of capital or as owner of labour, is a producer of a relatively small range of goods and the consumer of a very large range. If, therefore, the producer can increase the price of what he produces he will benefit as a producer more than he will lose as a consumer. The measures to increase prices in this way invariably involve restricting supply so that the total wealth of society is reduced. Thus if everybody succeeds in adopting such measures to an equal extent everybody is impoverished and nobody gains. It follows that all such actions are anti-social and the attempts to establish such practices represent internecine struggle of capitalists among themselves and of workers among themselves. So if all capitalists succeed in securing some sort of

monopoly all capitalists (as well as workers) will be impoverished. If all workers succeed in having their wages increased by means of restrictive practices and reduced productivity all workers (as well as capitalists) will be impoverished.

The modern mixed economy is not essentially a welfare state. It is essentially an economy in which this form of corruption of capitalism has gone very far and indeed has gone so far that it can no longer be regarded as an efficient economic system. The type of practices referred to can take the form of actions of capitalists alone, supported by the state, actions of workers alone supported by the state or very much more commonly the actions of the established capitalists and established workers in a particular industry acting in concert and supported by the state to the detriment of potential new entrants, both as capitalists and as workers and of the consumer. State backed cartels, which have become very common in recent years, are of the latter kind. Basically any state action which restricts entry into any occupation either as employer or as a worker is suspect, as also is tariff protection.

#### What has to be done

Unless we are to take a fatalistic attitude that nothing can be done, given that socialism is not a solution but in fact represents the further compounding of the same

evils, it seems clear that we have to attempt to re-establish effective capitalism, or in South Africa to establish it for the first time.

The following are the measures which will be needed in South Africa to do this.

1. The removal of all remaining race discrimination in terms, not only of access to jobs but also of freedom to own and dispose of property.
2. The removal of all restrictions on freedom of movement.
3. The removal of all statutory monopolies whether in relation to state owned enterprises or otherwise, and all forms of licensing which restrict entry into any business. This does not mean that there cannot be qualitative licensing like the licensing of the drivers of motor vehicles, but even there requirements must be scrutinized to ensure that excessive or irrelevant standards are not imposed to make entry unnecessarily difficult.
4. All forms of occupational licensure should be scrutinized to ensure that they are genuinely justified from the point of view of the consumer and that the conditions of entry are not unnecessarily onerous. The only justification for occupational licensure is that the general public need protection against

incompetent practitioners but the demand for occupational licensure almost always comes from the practitioners themselves and the real objective is to create a scarcity at the expense of potential new entrants and the consumer. It is very doubtful whether occupational licensure is justified except in that handful of occupations where practitioners are dealing with the general public and engaged in potentially dangerous activities, such as in the medical profession or in relation to electrical installations. Some occupations which are currently subject to restrictive licensing such as taxi drivers, or potentially important avenues of upward probability for the presently poor.

5. A radical overhaul is required of the agricultural system which has the effect of raising the price of foodstuffs and at the same time leads to the production of surpluses which are exported at a loss which is subsidized by the taxpayer. It is not a valid object of policy to guarantee any particular income to farmers any more than any particular income is guaranteed to anybody else. Farmers, like other owners of capital must earn their livings by serving the consumer in the market.
6. Tariff protection of industry should be scrutinized and most of it phased out in an orderly fashion over a fairly long period. We cannot advocate its immediate abolition as the cost to certain existing industries

would take effect much faster than the stimulated growth of new industries causing great hardship and unemployment in the course of transition. In the same way some of the other reforms here advocated may have to be implemented gradually, but they represent a programme which is at least as feasible as any other programme of reform and has this advantage over all alternative programmes which have been put forward that there is at least good historical and theoretical reason to believe that if these requirements were implemented they would have the intended effect. There would be a rapid rise in the standard of living of nearly everybody in society, with disproportionate benefits to those who at present are poorest.

The residual problem of provision for the people who are totally unable to earn their living in the market - the totally disabled or the insane for example, would still remain and would have to be addressed by other means.

(The appendices to this paper are available on request).

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Quoting (in context) from these preliminary papers with due acknowledgement is of course allowed, but for permission to reprint any material, or for further information about the Inquiry, please write to:

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