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THEME -Wealth Creation

Features

FREEWAY

The Glass

Is Zambia's glass half empty or half full? We in ZIPPA regard it as half full. That is the positive attitude, which will help us raise the level further.

The economist Peter Bauer was once asked, "What are the causes of poverty?" He replied, "There are no causes of poverty; there are only causes of wealth". How right he was! Poverty is man's natural state; wealth has to be created.

Of course, we should not ignore poverty. We should hate it, out of love for the poor. But the only way to destroy poverty is to create wealth. So our focus must be on wealth creation, on adding to what is already in the glass.

There is a trap here – aiming to create wealth for others. Wealth creation policies are usually on a large scale; they swallow huge sums of money, and most of them achieve little or nothing. It is far safer for individuals and groups to try to make money for themselves and their families. Why? First, because people take more care when risking their own resources, and whatever losses they make will fall on them, not on others. Second, because it is in the nature of things that the best way to create wealth for oneself is by providing the wants and needs of others.

This issue of the Journal concentrates on wealth creation. That is a vast subject, impossible to cover in a handful of articles. So we shall continue with it in the January-March 2009 issue. This will give readers the opportunity to send in their own contributions.

But if wealth can be created, it can also be destroyed. Wealth destruction is much in the news today, and it cries out for comment. So we include under the title 'America's Crisis – an African Assessment' a perceptive discussion of the current situation in America.

Without freedom we have nothing

by Temba A Nolutshugu

In virtually all spheres of human endeavour, freedom is the dividing line between progress and failure. But freedom is one of the most misunderstood concepts. Especially so in the arena of public policy, where interest groups lobby for the enactment of laws which they say will enhance freedom of choice or protect the freedom of those they represent. In the economic sphere particularly, the term is often invoked in support of alleged 'rights' to houses, jobs, medical care and so on. It is argued that the lack of these goods limits the freedom of the people.

Mark Twain is said to have cautioned “It ain't what you don't know that gets you into trouble. It's what you know for sure that just ain't so.” Freedom is simply the capacity to act according to one's own will in any given set of circumstances, without artificially imposed constraints. Freedom should not be equated with material welfare. It does not equate with benefits of any kind, be they material or otherwise. The benefits that might accrue from one's choices should not be misconstrued as freedom in itself but as the **consequences** of the exercise of freedom

Freedoms are circumscribed by the moral principle that in the exercise of our freedom we do not cause harm to our fellow human beings. Freedom brings responsibility, in the sense that in exercising it we should not knowingly harm our fellow men and women. It also requires that we should be responsible for the consequences of our own actions. This principle is widely understood by most people, irrespective of their cultural backgrounds. Interestingly, it is the point of departure for common law.

The ancient Greeks were perhaps the first to articulate the benefits of freedom. The Greek historian Thucydides (460 BC – 396 BC) once said, “The secret of happiness is freedom. The secret of freedom is courage”. “Of all the varieties of virtues, liberalism is the most beloved,” wrote Aristotle. (Aristotle here means liberalism as it denotes freedom and not liberalism in its modern sense.)

The exercise of individual freedom drives the creation of wealth. When people are free to act upon their aspirations and make choices informed by rational self-interest, they will do so. They may make mistakes along the way, but they will learn from their mistakes. Generally, they will engage in economic activities that are calculated to uplift them from circumstances that they find inadequate. They do this for themselves. In pursuit of their objectives, they will of necessity interact with others who are similarly motivated. Thus, in a market economy, consumers become the very raison d'être of producers. There would be no point in producing goods or services if there was no one who wished to consume them. Conversely, without producers, consumers would have nothing to consume. The relationship between the two is symbiotic. Yet they need not even know one another. In most cases they do not. Likewise, employers need employees and vice versa. The owners of capital need labour in order to set their capital to work. Again the symbiotic relationship means that capital and labour do not merely co-exist, but find that their co-existence is defined by their mutual interests. There is no other option. This is how wealth is created in a market economy.

Once individuals begin to reap the fruits of their economic endeavours they are encouraged to further enhance their productivity. When individuals are free to pursue their endeavours without artificially imposed impediments, such as cumbersome state policies, the spirit of enterprise explodes. The seminal Economic Freedom of the World and the Index of Economic Freedom studies, which measure economic freedom and correlate it with various socio-economic indicators, demonstrate empirically that freedom delivers. The more economically free countries reflect higher economic growth rates per capita; longer life spans; lower unemployment levels; improvements in health care and higher levels of education. The converse is also true. The lower the level of economic freedom, the lower the economic growth rate per capita; life spans are shorter; health care is poorer and levels of education are lower.

So how is freedom, especially economic freedom, eroded? David Hume's insight is very relevant to this question. “It is seldom that liberty of any kind is lost at once.” Though Hume was born in 1711, his words easily find resonance in the contemporary world. In democratic countries the erosion of liberties is of special concern because it is insidious and incremental and therefore does not raise alarm. Protection of liberties requires constant vigilance

Well-known author and expert on security, Bruce Schneier, born in 1963, maintains “Terrorists can only take my life. Only my government can take my freedom.” In democracies and dictatorships alike, it is generally the government that curtails the liberties of individuals. But in democracies, curtailment of liberty is often not the purpose of government but merely the by-product of interventionist policies that are formulated with the best of intentions.

The economist Friedrich Hayek identified what he called "the fatal conceit" – which is the belief held by many politicians and government officials that they have the necessary knowledge and wisdom to direct the lives of others – as the main genesis of bad policy. Afflicted with this conceit, policy makers are wont to conceive of comprehensive policies, programmes or master plans, grand designs that seek to encompass a huge and diverse range of economic activities as though they comprised a single composite whole. They fail to apprehend that knowledge is dispersed amongst millions of individuals, who act in their own rational self-interest and in their own idiosyncratic ways, with diverse and shifting priorities. It is naïve to think that a handful of policy makers and bureaucrats could know what is best for everyone involved in such a complex web of individual circumstances.

In this way, the state grows at the expense of individual liberties. In the name of the common good, it enacts laws and regulations that further erode liberty. When the laws do not seem to work, or prove counterproductive, they are not repealed but instead are reinforced by even more complex and cumbersome regulations and so the spirit of enterprise is further curtailed and productivity drops.

As Ronald Reagan quipped some years ago: "Government's view of the economy could be summed up in three short phrases. If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidise it." Policy makers should take heed.

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Creating Jobs Versus Creating Wealth

by Dwight R Lee

Government policies are commonly evaluated in terms of how many jobs they create. Restricting imports is seen as a way to protect and create domestic jobs. Tax preferences and loopholes are commonly justified as ways of increasing employment in the favored activity. Leaders point with pride to the number of jobs created in the economy during their administrations. Supposedly the more jobs created the more successful the administration. There probably has never been a government spending program whose advocates failed to mention that it creates jobs. Even wars are seen as coming with silver lining of job creation.

Now there is nothing wrong with job creation; for jobs, understandably, are an important way for people to create wealth. So the emphasis on job creation is an understandable one. But it is easy for people to forget that creating more wealth is what we really want to accomplish, and jobs are merely a means to that end. When that elementary fact is forgotten, people are easily duped by arguments that portray job creation as an end in itself. While these arguments may sound plausible, they are used to support policies that destroy wealth rather than create it.

The purpose of all economic activity is to produce as much value as possible with the scarce resources available, including human effort. But no matter how far we push back the limits of scarcity, those limits are never vanquished. Scarcity will forever prevent us from securing all the things we desire. There will always be jobs to do – far more than can ever be done. So creating jobs is not the problem. The problem is creating jobs in which people produce the most value.

This is the point of the apocryphal story of an engineer who, while visiting China, came across a large crew of men building a dam with picks and shovels. When the engineer pointed out to the supervisor that the job could be completed in a few days, rather than many months, if the men were given motorized earth moving equipment, the supervisor said that such equipment would destroy many jobs. "Oh," the engineer responded, "I thought you were interested in building a dam. If it's more jobs you want, why don't you have your men use spoons instead of shovels?"

An advantage of market wages is that they force employers to consider the opportunity cost of hiring workers – their value in alternative jobs – and to remain constantly alert for ways to to eliminate jobs by creating the same value with fewer workers.

All economic progress results from being able to provide the same quantity of improved goods and services with fewer workers, thus eliminating some jobs and freeing up labor to increase production in new, more productive jobs. The failure to understand this source of increasing prosperity explains the widespread sympathy with destructive public policies
.
It is important to employ workers to produce as much of value as possible. However, using the jobs-creation justification, politicians commonly enact legislation that increases the effort required to produce a given amount of value.

One of the arguments for restricting imports is that this will create, or protect, domestic jobs. True, it will create domestic jobs. But import restrictions, like a break in a rail line, also make it more costly to obtain valuable products. The only reason a country imports products through foreign trade is when this is cheaper than by producing them directly. In this way trade is like a technological advance, freeing up workers and allowing them to increase the production of other goods and services.

Import restrictions create jobs in the same way as dynamiting our railroads, bombing our factories, and requiring that workers use shovels instead of modern earth moving equipment. Always keep in mind that creating jobs is a means to the ultimate end of economic activity, which is creating wealth.

Adapted from Dwight R Lee's *Creating Jobs Versus Creating Wealth*

Barry on the Invisible Hand

by Murray Sanderson

How can a poor country like Zambia become rich? That is a hard question. Most people assume that wealth creation requires united efforts in response to central direction. Not at all. Recent history shows that most national development plans end in dismal failure. Examples include Russia and Eastern Europe under communism, China under Mao, North Korea, and most African countries since independence.

Why is this? The answer can be found in a book written 20 years ago by the economist, Norman Barry. In 'The Invisible Hand in Economics and Politics' Barry points out that there are two conflicting explanations of how society works – 'end-state theory' and 'process theory'. End-state theory, which has a long history, is political. It envisages an ideal goal, a development target, for which a country and its people must strive. The more recent 'process theory' is economic. It envisages society as a never-ending 'process' of decentralized interaction between buyers and sellers. This produces a better harmonization of human activity than government action designed to create a pre-determined end-state. It is accompanied by a constant incentive to discover, resulting in unending 'development'.

What is the incentive? Money. Every person spends money to pay for his or her own wants, and obtains it by supplying the wants of others. And our choice of what product to sell or buy, what service to perform or demand, depends mainly on price, the quantity of money. This is not selfishness, but informed self-interest, which in matters economic guides us all. The price incentive of 'process theory' is the fuel for the millions of human engines of growth and wealth creation which comprise society.

The incentive of 'end-state theory' is votes – the votes of those same millions – for which politicians strive. In order to obtain votes politicians offer a 'general good' called development, prosperity or 'social justice'. This is an 'end-state' which everyone desires, but which is hard to specify, harder still to produce, and impossible to agree upon. Such a united goal could have been practicable, albeit at subsistence level, for small tribal or family groups, but not for today's nation states.

Barry's title, 'The Invisible Hand in Economics and Politics', refers of course to Adam Smith's great book, 'The Wealth of Nations'. Smith understood wealth creation. He saw it as the result of men responding to an 'invisible hand', which offered them incentives for action, expressed as prices.

We can all agree in general terms that we want 'social justice' or the happiness of the greatest number of our fellow countrymen. But agreement on what constitutes these goods, or on how to bring them about, is quite another matter. Even if substantial agreement could be reached, it would have to be imposed on minorities by dictatorship, as happened in many countries under communist and socialist regimes, with terrible consequences for human rights.

The argument of the book leads Barry to conclude

'The 'Invisible Hand' produces different results in the political process and the market process. In the market process the motive of self-interest by maximising *profit* ....produces benefits for which others will knowingly pay as consumers. In the market the exercise of 'selfishness' by individuals unintentionally produces mutual benefit. In the political process the pursuit of self-interest by maximizing power is most effective when it provides benefits for the organized few for which others - the unorganized many – are made to pay unknowingly as taxpayers. In politics 'selfishness' tends to produce harm to others.'

'Wealth is not easy to create on a national scale. Barry makes it clear that we should not expect it from central direction, but from individual effort, in response to price incentives, and in competition or cooperation with others. A country's prosperity depends not on national goals, but on a socialprocess.'
Author: Murray Sanderson is Executive Secretary of ZIPPA.

Nashville in Africa

By Alec van Gelder and Mark Schultz

The city of Nashville is nicknamed 'Music City USA'. It was once a struggling city in one of the poorest regions of the United States. Policymakers pinned the city's economic hopes to industrial development founded on access to raw materials and large public works projects. Nashville found success another way – through creative industries. Today it is home to a multi-billion dollar country music industry, employing tens of thousands of people.

Nashville serves as an encouraging example of how creative industries can make much from little. They offer great potential as drivers of economic development, since they require relatively low levels of technological, physical, educational or financial infrastructure. Let's consider how Nashville might serve as a model for economic development in Africa.

The development of the country music business was not the product of detailed plans orchestrated by a central authority. Rather, initial events hinged on the private actions, skills and insights of a handful of talented individuals. They came to see that the unique musical tradition of the rural south might be converted into a strongly commercial art form. They then sent out scouts to find local musicians, to record their songs and to pay much better money than was available for unskilled labour.

Just as the recording of country music attracted Tennessee's workers, creative industries can offer an alluring alternative to workers in poor countries. Michael Porter has pointed to the success of 'clusters' of economic activities, such as the country music cluster in Nashville. Other examples are microelectronics in Silicon Valley, fashion shoes in Italy and wine in South Africa. Poor country examples are Congolese soukous music, Haitian painting and Jamaican Reggae. The Jamaican music industry employs some 2,500 musicians and 1,700 sound system operators, while the island has some 200 recording companies. In Africa Mali has a 600-year-old musical tradition, South Africa has famous singers like Hugh Masekela and Miriam Makeba.

There is also Zambia, the home of Mondo Music Records. There has been exponential growth in the amount of Zambian music being produced in recent years, and also in the demand for it. Mondo's founder, Chisha Folotiya, says "We want Zambian music to contribute towards the economic development of our country".

Unfortunately these hopeful examples remain isolated. African music has yet to become a successful export industry. When African musicians succeed, this rarely produces economic benefits for their home country. For example, most African music is recorded in either London or Paris. Yet the popular music industry in Africa has vast potential. Why are there no "African Nashvilles"? What are the barriers to their development, and how might they be removed?

The failure of Africa to produce healthy creative clusters is disappointing. It is certainly not for lack of entrepreneurial talent. But most African musicians are hampered by local policies and practices. Among the major obstacles to the emergence of successful clusters in Africa are difficulties in enforcing copyrights against piracy, government control of copyright collection agencies, and unreasonably burdensome taxation.

Ineffective enforcement of copyright has led to a host of unintended consequences, including pushing the production of African music out of Africa. A significant part of the problem is that many Collective Rights Organizations are run by governments or are government-sanctioned monopolies.

We recommend that governments:

- Enact, implement and enforce effective copyright laws
- Reduce interventions in royalty collection
- Reduce taxes and regulatory burdens.

Creativity is mankind's most abundant resource, but it does not come free. Protecting property rights is an essential component in the development of knowledge-intensive industries.

Creative industries, especially popular music, are 'low-hanging fruit' that could greatly benefit African economies if the right circumstances were achieved. Their development requires relatively little investment and almost no government oversight. Given slightly better conditions, creative and entrepreneurial individuals can and will do most of the hard work of building a prosperous industry.

Although a thriving popular music industry would help only a small proportion of Africans lift themselves from poverty, its success would be an important moral, economic and cultural victory for African entrepreneurs.

***Note:** This is a much shortened version, approved by the authors, of the detailed article of this title published by The International Policy Network, UK. The full article is available as a booklet from IPN and by email from ZIPPA*.

Quotations

The wealth of a nation is not in material things, but rests on the integrity, courage and conviction of its citizens. - **Shiv Khera.**

Cultural and political factors are generally much more important than the factors singled out by development economists, such as the volume of (monetary) investment, the supply of education, or the presence or absence of natural resources. – Basil Yamey

If we learn anything from the history of economic development, it is that culture makes all the difference. Witness the enterprise of expatriate minorities – the Chinese in East and Southeast Asia, Indians in East Africa, Lebanese in West Africa, Jews and Calvinists throughout much of Europe, and on and on.

Yet culture, in the sense of the inner values and attitudes that guide a population, frightens scholars. It has a sulfuric odour of race and inheritance, an air of immutability. In thoughtful moments, economists and social scientists recognize that this is not true, and indeed salute examples of cultural change for the better while deploring changes for the worse.

- David Landes

America's capitalism on trial? – an African assesment

On 24th September James Shikwati, Director Iren Kenya, sparked an interesting debate with his article,Financial Crisis puts Capitalism on Trial'. Here it is, slightly shortened.

The financial crash in America and Europe has put capitalism on trial. The collapse of housing prices in America and the move by the Bush administration to bail out private corporations has excited anti-capitalism pundits to wake up from their long slumber that followed the collapse of communism and the Berlin wall.

A cartoon in one of the local dailies depicted a capitalist on the beach oblivious to a threatening tsunami-like wave as he sipped his wine (labelled greed). An editorial cried out — "regulate or perish".

For African governments that have always cringed at IMF and World Bank prescriptions that force them to privatise state corporations that have long served as an avenue for rewarding cronies, the Washington signal on state intervention offers an excuse to stall reform.

The $80 billion bail out of an insurance giant AIG and mortgage finance companies Fannie Mae and Freddie Mac by the US government gives the wrong impression that governments are generators of wealth. Capitalism operates on the basis of individual and private generation of wealth. Individual interest for self-preservation and corporations' quest for profits spur them to offer services and products that improve peoples' standards of living. The government, on the other hand, is empowered through a social contract (constitution) to regulate and protect its citizenry from possible harmful activities that might be caused by individuals and corporations.

But such protection must be based on a sound strategy that does not appear to reward failure. A business that reaches bankruptcy is most likely to be pursuing activities that do not contribute to real wealth but rather squander wealth through making losses. When a government bails out a business,it simply serves to perpetuate and prolong a loss-making venture. On the other hand, given the fact that governments do not generate wealth but simply utilize the wealth created by citizens in the form of taxes;bailing out failed companies does not increase the wealth of a country, but simply redistributes existing wealth.

Is capitalism guilty? No, it is the referee (government) who slept on his job and let the wrong team(underperforming companies) take home victory. In the short run, a government bail out of an underperforming private firm might appear sensible, since it will save jobs, but in the long run it might well prolong the suffering of tax payers. African governments ought to be cautious not to fall into the US government trap of sleeping on its job and engage in statist submerging of private enterprise.

“James”, responded Eustace Davie of South Africa's Free Market Foundation, “I don't know who chose the title 'Financial crash puts Capitalism on Trial', because your article provides a number of reasons why it is not capitalism but statism that is responsible for the mess. It is true that many commentators are erroneously blaming capitalism. If we use Walter William's definition of capitalism, free markets, or whatever term you choose to describe economic freedom, the claims are not justifiable. The definition, as I recall it, is 'Voluntary exchange between individuals, free of third party intervention'. Can anyone seriously claim that government fiddling with home loans and the Federal Reserve's fiddling with interest rates has nothing to do with the crisis, and that the whole thing was a consequence of 'voluntary exchange, free of third party intervention'. Government intervention was at the root of the problem. However, more fundamentally, the real underlying problem is that in all affected countries the provision of the currency is a government monopoly, subject to constant political manipulation. The solution to the problem of booms and busts is, as Hayek and other Austrian economists have been telling us for many decades, private competing currencies.”

Rejoice Ngwenya from Zimbabwe came in with

“You're right, of course. This whole episode of shameless electioneering in the name of 'moral obligation to protect American jobs and global markets' leaves us free market evangelists exposed to crude ridicule from socialist fundamentalists. I mean, if Lehman Brothers and their likes have failed to stand the heat in the free market kitchen, for crying out loud, let them evaporate. Why protect them? …. What next - bailing out Boeing, Washington Redskins or Hollywood?”

Eustace's colleague, Leon Louw commented

There is, however, a complication. Were the crisis, as almost everyone assumes, 'market failure', we'd all say "Let it fail. More precisely, let those individuals who failed pay the price".

As an aside, there is no such thing as 'market failure'. Markets do not fail, individuals do, and governments should not plunder people who succeed to reward people who fail.

The subprime crisis challenge is that it was caused by the US government creating the two core entities (Fannie Mae and Freddie Mac), initially financing and underwriting them with taxpayers' money, and then leaving the enduring impression that it backed them (against which Alan Greenspan, among others, warned).

All decent people agree that people who are responsible for someone else's loss should normally pay the price, but the government has no money . All it can do is plunder taxpayers to bail out victims of the mess it created, and that we don't want. Is there a realistic alternative? A possibility that comes to mind that the US government should do what anyone with debt, no cash and lots of assets must do, liquidate assets. The US government can privatise some of its vast assets and use the proceeds to compensate for the losses it caused.

Amongst the curiosities regarding our kindred spirits in the US are that, none that I have seen have:

a) provided a clear explanation of the cause, namely the US government directing hundreds of billions of dollars into subprime mortgages for decades

b) recommended funding the government bail-out by the liquidation of government assets.

Having said that, I agree with you that the US government should certainly not plunder taxpayers to bail victims out of the mess it created.

There is something really perverse about this crisis. The extent to which victims (financial institutions worldwide) are to blame is that they invested in manifestly unsound 'securitized' mortgages. Why did they do something so seemingly crazy? Well, because they assumed that the US government would bail them out when, as was inevitable, the bubble burst, although it had no legal obligation to do so. Perversely, it turns out that they were right, the government is plundering taxpayers to compensate them.

What this means is that 'the market' has been extraordinarily efficient; it was right (from a purely self-interest perspective) to expect bureaucrats and politicians to protect subprime investors at the expense of the general public.

Cheers, Leon

Workshops or talk-shops ?

ZIPPA has just held a second 'Away with delay!' workshop – on 19th September in Kitwe. Why delays? Because success here can achieve a double impact. If administrative delays, mostly in government offices, can be effectively tackled, that will improve service to the customer. It will also reduce opportunities for corruption, and so kill two birds with one stone.

But aren't most workshops mere talk-shops? True enough. But these ones will be different. Why? For four reasons.

1. There was good attendance from government, together with signs of a real wish to effect change. We invited nine government representatives to speak in Kitwe, of whom eight came.

2. There are now three governmental institutions with customer service charters. This Cabinet Office initiative deserves our full support. Surely, every governmental institution needs such a charter.

3. Civil society participants who attended the workshops are very keen to work with chartered institutions to help monitor performance.

4. ZIPPA will provide a centre for sharing information, discussing ideas and coordinating action.

There is a burning desire for 'national development', but we shall not achieve it unless we get things moving at the level of the individual. That is a vital process in which we can all take part.

zippawiki.org

We have replaced the dreary website with a working wiki. Do visit it at the address above. It contains a wealth of interesting facts, quotes, news and views. ZIPPA members are welcome to make additions or amendments, and to raise issues for debate. Zippawiki.org works like Wikipedia, which has the same software. If wikis are new to you, have a go! Just click 'help' for guidance. If you need more help or have a suggestion to make, phone the Secretary on 0955-902553.

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