



Theme: Markets and Governments (2)

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Freeway

Still far to go

In introducing this 3rd Quarter issue on 'Markets and Governments' we cannot avoid quoting the last two paragraphs from the article in our 2nd Quarter journal on the same topic. In that article, entitled 'Leave business to business and let government govern' Herman Mashaba, Chairman of South Africa's 'Free Market Free Market Foundation', wrote:

'Corruption in this country has increased enormously. South Africa will not prosper so long as this state of affairs continues. Whenever a government official has the power to make a decision that can make someone rich, there is the possibility of corruption. The best way to reduce corruption, therefore, is to reduce the discretionary powers of the executive branch of government.'

That article continued, 'If everyone in this country could rely on the proper application of the rule of law and proper functioning law courts, many of our problems would disappear. We need government to concentrate its

attention on carrying out its own functions properly and to spend less time trying to tell business people how to run their businesses. We need greater economic freedom. We need the private sector, and especially small businesses, to thrive if the economy is to grow. That is the only way that unemployment and poverty can be rapidly reduced.'

This Third Quarter issue of the Journal contains articles on the appropriate functions of a democratic government and on the merits of the market. There is also an article from 'The Economist' magazine which warns against the dangers of following the example of Turkey's supposedly democratic president. Zambia still has a long way to go towards achieving the proper balance between market and government.

The Appropriate Role for Government in Zambia

By Henry Kyambalesa

I wish to share my views concerning the appropriate role of government for Zambia. Let us first briefly examine a point of view advocated by the founders of the free enter-

prise ideology, that a government should have very limited functions.

In their view, “That government is best which governs least.” Essentially, they advocated a government whose functions are limited to the following: protecting private property, providing for public safety and security, enforcing business and other forms of contract among individuals and/or institutions, inducing (rather than performing) commercial and industrial activities, and, among other things, facilitating the provision of quality education and health care.

Among many other factors which may lead to an increase in the functions of a country’s national government are increases in the country’s population, an unprecedented number of demands by various interest groups for government involvement in addressing their needs and problems brought about by a multitude of human-induced and natural calamities.

These and other factors can put pressure on a government to expand existing public services and facilities and/or to introduce new ones. Franklin D. Roosevelt, United States president between 1933 and 1945, must have had these and/or similar kinds of factors in mind when he said: “As new conditions and problems arise beyond the power of men and women to meet as individuals, it becomes the duty of ... government[s] ... to find new remedies with which to meet them.”

Nevertheless, the proper governmental role in a free-market economy, as Michael E. Porter advised in an article entitled “The Competitive Advantage of Nations should be that of serving as “a catalyst and challenger ... to encourage—or even push—companies to raise their aspirations and move to higher levels of competitive performance.”

42nd President of the United States of America, Mr. William J. Clinton, espoused this point of view in general terms when he wrote “[We need to] build a government that [functions as] ... a catalyst for new ideas, and, most of all, a government that gives ... people the

tools they need to make the most of their own lives.”

In serving the business community and other segments of society a government needs to provide adequately for guarantees, inducements and essential services and facilities, such as the following:

1) A well-developed transportation infrastructure and adequate transportation services to industrial, commercial, and residential areas to facilitate the distribution of production inputs and finished products;

2) Adequate public services (including police protection, fire protection, public utilities, and decent housing), as well as telecommunications, educational, vocational, health, and recreational facilities;

3) Equitable sales, corporate, and other taxes, as well as tax concessions and inducements that are more attractive for investment than those in alternative countries or regions.

4) Political and civic leaders who are fair and honest in their dealings with private business institutions, and stable economic policies (including assurances against nationalisation of privately owned business undertakings)

5) Political and civic leaders who are resolute in their fight against corruption in governmental and non-governmental settings;

6) Less bureaucratic licensing, import, export, and other procedures, and adequate information about investment and marketing opportunities;

7) A system of justice that is fair, impartial and independent; and

8) A social safety net reliably designed to cater to the needs of economically disadvantaged members of society.

These inducements, services, facilities, and guarantees, among a host of other things, can enable economic units, for example, to operate more efficiently and eventually deliver

economic and social outputs to society at reasonable costs and prices.

As Alassane Ouattara (current President of Ivory Coast) once advised in an article entitled “Africa: An Agenda for the 21st Century, there is an urgent need for national leaders to re-define the roles of their governments away from direct involvement in commercial and industrial activities toward the provision of inducements, guarantees and essential public services and facilities.

Along these lines we can realize the benefits of independence, democracy and economic liberalization, and we can succeed in our quest to create a more democratic, more peaceful, more prosperous, more egalitarian, and more environmentally sustainable society.

Henry Kyambalesa

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Essential services are too important to be left to the private sector

By Dr. Madsen Piri

The assumption here is that state provision somehow guarantees that essential services will be delivered. In reality it is the important things that we should keep out of the public sector. The public sector is characterized by high costs, by inefficiency, by lack of responsiveness to consumers, and by a propensity to interruption.

Because they are financed out of taxation, the public services do not have to attract customers, or to satisfy them. They gain extra funds by putting pressure on government through lobbying or union militancy. Since the public usually does not have viable alternatives to turn to, the state services can put their needs as secondary to those employed in them or in political control over them. They respond to their managers and employees, rather than to the general public.

Private firms cannot behave like this or they lose customers and revenue. Their workers are less ready to strike in case their jobs go to rival firms as a result. Private firms, moreover, have to keep their products and services up-to-date, and to incorporate new advances in case their rivals steal a march on them. They have to keep efficient or costs will eat into their margins. None of this applies to state services, which seem everywhere less efficient, less modern and less responsive.

The message is clear; it is that important services should be kept out of state control. We can imagine what might have been done to our supply of food or clothing if we had been dependent upon a nationalized monopoly, with no competitors bidding against each other to improve quality and efficiency, and no competitors bidding against each other to improve quality and efficiency, and no alternative to turn to when strikes occurred. Some things are just too important to be left to the public sector, and any important services still there should be taken out of it.

From ‘Freedom 101’ by Dr. Madsen Piri, with permission from Adam Smith Research Trust 2007, info@adamsmith.org

Majoritarianism

Zombie democracy

A note to Turkey’s prime minister, among others: winning elections is not enough
‘The Economist 22nd June 2013 with permission’

“BUT I’ve won three elections!” Recep Tayyip Erdogan, Turkey’s embattled prime minister, growls at his critics. On the face of it, his case is compelling: surely, many people in Turkey and beyond would agree, popularly elected leaders can govern as they please? That’s what democracy means. Well, no. Majoritarianism—the credo of an expanding group of elected but autocratic rulers around

the world, which holds that electoral might always makes you right—is not true democracy, even if, on the face of it, the two things look alike. It is worth explaining why.

To begin with, democratic legitimacy isn't merely a correlative of a ruler's share of the vote. Few candidates in the West nowadays win more than half of the votes, still less a majority of the electorate. Most are obliged to govern with slim electoral mandates. That doesn't, of itself, make them illegitimate. Indeed, huge landslides of the kind "won" by, say, Alexander Lukashenko in Belarus are often undemocratic. They tend to be achieved fraudulently; even when they are not, they can be precursors to persecution by the regal "victor" of opponents or to triumphal overreach, as in the case of Viktor Orban, Hungary's authoritarian prime minister. Mr Erdogan's party took almost 50% of the vote at Turkey's 2011 election: impressive, but not absolute proof of democratic virtue.

If broad support does not automatically qualify a leader as a democrat, nor does strong opposition disqualify him. Margaret Thatcher's reforms were contentious, to say the least. The heat and vitriol of politics have intensified in the Fox News, shock-jock, bile-blogging era: Barack Obama is often lambasted as tyrannical or traitorous. Tough decisions, such as spending cuts or tax rises, can provoke widespread anger, as the past few years have demonstrated. Bold reforms, which *The Economist* applauds, often do the same. That doesn't make the leaders who impose them undemocratic, either.

The issue is how the relationship between supporters and opponents is managed. In part this is a matter of rules and institutions to constrain a leader's power and to allow the aggrieved to find redress. These should include a robust account of citizens' basic rights, independent courts to enforce them and free media to monitor them. From a democratic perspective, these are the areas where Mr Erdogan has most seriously erred: not in introducing controversial or wrong-headed policies (that is his prerogative), but in capturing the courts, silencing media critics and attacking peaceful protesters. His talk of

tinkering with the constitution to perpetuate his own rule, as both Venezuela's Hugo Chávez and Russia's Vladimir Putin did, is another warning sign.

Beyond documents and institutions, the difference between crass majoritarianism and democracy resides in the heads of the mighty. Democrats have a bedrock understanding that the minority (or often majority) who did not vote for them are as much citizens of their country as those who did, and are entitled to a respectful hearing; and that a leader's job is to deliberate and act in the national interests, not just those of his supporters. Turkey's protesters took to the streets because they believed Mr Erdogan was not just hostile to their interests but deaf to their complaints. By demonising them as terrorists and foreign agents, and pulverising them with tear gas and water cannon, he has vindicated this belief. The contrast with Brazil, where Dilma Rousseff has insisted that demonstrators have a right to protest, is striking

Heartless

The basic idea of a democracy is that the voters should pick a government, which rules as it chooses until they see fit to chuck it out. But although voting is an important democratic right, it is not the only one. And winning an election does not entitle a leader to disregard all checks on his power. The majoritarian world view espoused by Mr. Erdogan and leaders of his ilk is a kind of zombie democracy. It has the outward shape of the real thing, but it lacks the heart.

The Market

By Ludwig von Mises

It is customary to speak metaphorically of the automatic and anonymous forces actuating the 'mechanism' of the market. Such metaphors disregard the fact that the only factors directing the market and the determination of prices are the purposive acts of man. There is no automatism; there are only men consciously and deliberately aiming at ends chosen.

The market is a social body; it is the foremost social body. Everybody in acting serves his

fellow citizens. Everybody is both a means and an end in himself, an ultimate end for himself and a means for other people in their endeavours to attain their own ends. Of his own accord the individual integrates himself into the co-operative system. The market directs him and reveals to him in what way he can best promote his own welfare as well as that of other people. The market is supreme. The market alone puts the whole social system in order and provides it with sense and meaning.

Consumers

To assign to everybody his proper place in society is the task of the consumers. Their buying and abstention from buying is instrumental in determining each individual's social position. The consumers determine ultimately not only the prices of the consumers' goods, but no less the prices of all factors of production. They determine the income of every member of the market economy. The consumers, not the entrepreneurs, pay ultimately the wages earned by every worker, the glamorous movie star as well as the charwoman. It is true the various consumers have not the same voting right. The rich cast more votes than the poorer citizens. But this inequality is itself the outcome of a previous voting process.

The consumers make poor people rich and rich people poor. They determine precisely what should be produced, in what quality, and in what quantities. They are merciless bosses, full of whims and fancies, changeable and unpredictable. They do not care one whit for past merit and vested interests.

Profit and loss are the device by means of which the consumers exercise their supremacy over the market.

The Market – A Treatise on Economics by Ludwig von Mises

What Benefits should Governments Provide?

By Murray Sanderson

The Question

What can we expect from governments? What benefits should they provide? Ought governments to concentrate on basics, like national defence, the rule of law and physical infrastructure? Or ought they to extend their responsibilities so as to plan and direct the economy, to care for the people, to create jobs and eradicate poverty?

Demands from Government

The first thing most of us look for is security, which means protection against violence, theft and fraud, together with the enforcement of contracts.

But then what? Should governmental activity not be indefinitely expandable, subject to decision by the democratic process? That sounds reasonable. Yet to take majority rule as the unquestioned justification for government actions is risky, for it implies accepting any decision of the majority, and of the politicians they elect, including the persecution of minorities, expropriation of property and confiscatory taxation. In short, the coercive power of government is open to misuse. So government activity has to be constrained, which is why we must entrench individual rights in our constitution.

Restraints

Constitutional prohibitions can restrain governments from doing their citizens deliberate harm. But is that enough? Should governments have the right to undertake any action which they consider will be of general benefit?

Regulations of many kinds can have serious effects on the freedom of individuals to engage

in the production, distribution or consumption of goods and services, and upon economic freedom in general, which makes up a large part of personal freedom. In this area the economist, Amartya Sen, maintains that we tend to judge the state's actions only in the light of their intended consequences, and to ignore the case for individual liberties as the basis for delineating the admissible and desirable scope of government activity.

Proper Functions

In many countries, including Zambia, people expect the government to create employment and to promote economic development. Certainly it is today a generally agreed function of governments to maintain a sound and stable currency and to provide basic infrastructure for transport and communications. However, recent research has shown that economic development depends most of all upon certain vital elements of economic freedom which allow people access to opportunities for wealth creation. Key among these are secure rights to property and freedom to engage on their own terms in transactions inside and beyond a nation's borders.

Government Spending

Citizens are often blind to the drawbacks of high government spending. They demand more and more from the government without realizing that higher provision entails higher taxation, either directly or indirectly through the inflationary printing of money. Governments cannot give more without taking more. That sounds obvious, yet it is often overlooked. Voters commonly fail to see that higher government spending is bound to drain their own pockets.

Government Organizations

Another common mistake is to assume that governments will perform more efficiently than individuals or private sector organizations, and

will act with more devotion to the public interest. Here we should ask ourselves the question, 'would I rather spend money myself for my own purposes, or give it to someone else to spend on my behalf?'

Efficiency in government owned organizations is a major consideration. In Zambia we have only to look at some of them – ZESCO, ZAMTEL, Indeni, Nitrogen Chemicals – to realize that we would be far better served if the functions that such companies are paid and protected to perform were provided by private businesses, competing with one another in order to satisfy the customer.

Nor would greater efficiency be the only benefit. Most government organizations are staffed by armies of officials and need to be subsidized from public funds, while privately run enterprises have to be lean and cost-effective in order to survive. If they lose money through waste, theft or abuse of office, the losses are not a charge on the public purse, but are borne by their shareholders.

Local Government

Efficiency is also vital in local government. For it is local authorities which perform – or fail to perform – some of government's most vital functions. Public health, cleanliness, water supply, refuse and sewage disposal, road repair, street lighting and the provision of facilities for recreation – these essential services are required by all communities. The country whose central government is in good shape, but whose local authorities are in a mess is not well governed.

Conclusion

Zambia today has an odd mixture of over-government and under-government. Central government is a self-important, top-heavy busybody. Yet local government is a threadbare, incompetent nobody, unable to perform even the most essential tasks. What

Zambians most need from their government is the identification and effective provision of priorities.

Murray Sanderson, Executive Secretary, ZIPPA.

How Deng Xiaoping ignited China's capitalist revolution

By Temba A Nolutshungu

For many, the most important political event of the twentieth century is considered to be the implosion of socialism in Eastern Europe, when, from 1989 onwards, a series of chain reactions followed the collapse of the Berlin Wall.

But, another event happened more or less concomitantly which fiercely contests this title. Deng Xiaoping, "Paramount Leader" of the People's Republic of China from 1978 onwards, working in concert with the other so-called Eight Elders, ushered in radical free market reforms that sparked off the economic revolution which released China from the suffocating stranglehold of socialism. The resultant phenomenal economic growth and socio-economic improvements for the greatest number of people have occurred in the shortest time ever recorded.

"The market is not an invention of capitalism. It has existed for centuries. It is an invention of civilisation," said Deng Xiaoping. He could have added that the market is a reflection of human nature. Like language, it evolved spontaneously in primitive times when people, motivated by what they perceived to be in their best interest, bargained to exchange goods such as crops, furs, metals, weapons and other manufactured goods, and hired skilled people to carry out certain functions. These exchanges were rational and self-serving and were calculated to leave the transacting parties in a better state than before.

Deng Xiaoping was a politician and very well-schooled in the diplomatic art of selling the unsellable. Through consensus, compromise and persuasion, he succeeded in selling capitalism to communists. This seemingly impossible feat makes him one of the greatest

statesmen of modern times. He allowed capitalism to flourish and implemented concomitant reforms without calling them capitalism.

Even before the disastrous Cultural Revolution (1966 to 1976), Deng Xiaoping had the foresight to say, "It does not matter if the colour of the cat is black or white so long as it catches the mice." To him, it did not matter what economic system was implemented so long as it was the one that could deliver the socio-economic results that people aspired to. Later on, as head of the Communist Party, he was instrumental in unleashing market forces in China that made its policies comparable to those of Hong Kong, its small island neighbour, which, for decades, had boasted the freest economy in the world.

Situated just across the border from Shenzhen, in Guangdong Province, China, Hong Kong was first a British colony and then later a British Dependent Territory from 1841 to 1997. Britain concerned itself only with the political administration of the territory and did not interfere in any way with the economy. By default, therefore, it allowed the spontaneous order of free markets to operate. Deng Xiaoping, it seems, cast his eye across the border, and witnessed the demonstration effect of free market policies. .

Deng Xiaoping's market reforms began in the late 1970s with the de-nationalisation and de-collectivisation of agriculture. This allowed entrepreneurs, first in agriculture, and then in other sectors to establish private enterprises and turn certain areas of the country into attractive destinations for foreign investment. The city of Shenzhen, in Guangdong province, was the centre of these reforms and designated as a Special Economic Zone, along with other areas such as Guangzhou and Shanghai.

The economic expansion of Shenzhen was phenomenal. During the 1970s, it was a small town with 300,000 residents. In 2010 Shenzhen recorded a per capita GDP of US\$ 14,615. The following year, 2011, saw the per capita GDP soaring to US\$ 20,000. The national average for the whole of China posted per capita GDP of US\$ 5,414 (China Daily 09/24/2012).

During the second wave of the market revolution in the late 1980s and 1990s, massive privatisation of state-owned industries was implemented in the designated Special Economic Zones and to some extent in parts of the country outside of these areas. Simultaneously, price controls, onerous regulations and protectionist policies were phased out and in many cases abolished in one fell swoop. By the year 2005 the private sector in China, largely concentrated in special economic zones, already accounted for 70% of China's GDP.

The Chinese quickly embraced the boundless opportunities that a market economy presented and heeded Deng Xiaoping's words that "it is glorious to be rich" (directly translated from Chinese as "wealth is glorious"). Within two decades, China had become the second biggest economy in the world, and it is predicted that it will be the biggest by 2015. Between 1978 and 2010 China's economy grew at an average of 9.5% per annum.

The empirical evidence regarding Special Economic Zones (SEZs) worldwide shows that the majority by far have been failures and, to be maintained, have required substantial injections of additional government (taxpayer) funding. Some of the successes are Shenzhen, Mauritius and the Tema Free Zone in Ghana. It is noteworthy that by 2011 the Tema Free Zone accounted for 28, 899 jobs created (Eleanor Whitehead and Robert Green 1 May 2012). Even a cursory study of the success cases, globally, illustrates that, if SEZs are to succeed, they must be free market enclaves.

If the policies pertaining to successful SEZs were implemented wall-to-wall for entire country economies, the economies concerned would take off. In the process, the largest number of people would be lifted out of miserable socio-economic conditions in the shortest possible time.

It is important to understand that China's phenomenal socio-economic success is primarily accounted for only in those areas where the most radical free market reforms have taken place, such as Guangdong Province. The experiment is now being widened to cover more geographical areas. It

boggles the mind what the results could be if the whole of China adopted such policies.

The first business licence in China was awarded in 1979. The recipient was nineteen-year old Zhang Huawei, the daughter of state factory workers who started out humbly selling trinkets from a table in the city of Wenzhou. Today, she is a millionaire in dollar terms and heads the Huamei Garment Accessory Company (2008 Jeffrey Hays). Her story exemplifies the wisdom of another of Deng Xiaoping's exhortations, "Markets are good ... Let a part of the population get rich first."

A sad blot on Deng Xiaoping's brilliant diplomacy, pragmatism and fixity of purpose is that the tragedy of Tiananmen Square took place during his watch. Deng Xiaoping's route to the free market revolution was grounded in common sense, rather than theory. The Chinese people, allowed space, spontaneously gave practical effect to economic freedom.

In their book, *Mao: The Unknown Story*, historians Jung Chang and Jon Halliday detail the misery that the practice of communism visited on China. Taking advantage of access to recently opened Chinese and Russian archives and interviewing hundreds of people who were close to Mao Tse Tung, they record the deaths of at least 70 million Chinese, that were primarily caused by the famine which resulted from the devastating interventions introduced under the supposed "Great Leap Forward".

An observation made by the philosopher, economist and sociologist Ludwig von Mises was that "capitalism needs neither propaganda nor apostles. Its achievements speak for themselves". By introducing free market principles, Deng Xiaoping turned things around. If China succeeds in keeping up its current rate of economic growth, there can be no doubt the Chinese dragon will create the largest economy in the world.

Temba A Nolutshungu is a Director of the Free Market Foundation.

Quotations

The great virtue of a free market is that it enables people who hate each other, or who are from vastly different religious or ethnic backgrounds, to cooperate economically. Government intervention can't do that. Politics exacerbates and magnifies differences. - Milton Friedman

Once we give license to the politicians to interfere in the spontaneous order of the market for the benefit of particular groups, they cannot deny such concessions to any group on which their support depends. They thus initiate that cumulative process which by inner necessity leads...to an ever-growing domination over the economic process by politics. - A Hayek

The point of a market is that competition brings innovation. - 'The Economist' 26 May 2007

There exists no more democratic institution than the market. - Joseph Schumpeter

Economic textbooks have much to say about theoretical imperfections of the market. But the practical failures of government are far more pervasive and less corrigible. - Ralph Harris

There is no art which one government sooner learns from another than that of draining money from the pockets of the people. - Adam Smith - 'The Wealth of Nations'

The inflation tax is the most covert and obscure form of taxation. It is a breach of trust. It is inconsistent with the fundamental democratic principle that taxes should be voted in parliament. It redistributes money arbitrarily from creditors to borrowers, the old to the young, the financially ignorant to the adept and those who trust government to the suspicious of it. It destroys trust and destabilizes society. It is nothing short of grotesque to believe that good government, still more social democratic government, depends on it. - Martin Wolf - 'Why Globalization Works'

Topic for September 2013 Issue

The Rule of Law. Readers are encouraged to send articles to The Editor at zippamail@zippa.com

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