

## [23 Things We're Telling You About Capitalism III](#) [1]

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In the third chapter of the report from the Cambridge Economics Department Chang tells us that people are not in fact paid according to their individual productivity. He uses the examples of Sven and Ram, Swedish and Indian bus drivers respectively, the first getting some 50 times the annual wage of the second.

Of course Chang is correct in that the individual does not get paid the value of their own productivity. No, even if we consider the time value of the people on the bus, which will indeed be much higher for Sven than Ram, that isn't the reason for the higher income. Nor, actually, is it the barriers to immigration which explain it all: that being what Chang blames it all upon.

The average wages in any economy will be determined by the average productivity in that economy. Another way of putting very much the same point is that wages are determined by not the job that is actually being done by the worker, but by the next one that could possibly be done by that worker. Ram may indeed drive just as well as Sven. But if Ram's alternative employment is peasant destitution then he'll be paid like a destitute peasant for driving. If Sven can go to Ericsson (or Nokia) and make gumboots (or phones) then he'll be paid to drive a bus very much like a phone maker.

And I'm afraid that it's this very point that Chang gets so horrendously wrong. He does in fact say this:

"It is not simply, or even mainly, because they are cleverer and better educated that some people in rich countries are hundreds of times more productive than their counterparts in poor countries. They achieve this because they live in economies that have better technologies, better organised firms, better institutions and better physical infrastructure - all things that are in large part products of collective action taken over generations."

A point with which I would most certainly agree. But don't forget, Chang is writing a book about how capitalism and the free market just aren't all they're cracked up to be: if so, then how did we end up with the better technologies, better institutions, better firms and infrastructure? Could it, possibly, have anything to do with the fact that we've been largely capitalist and free market for a couple of centuries?

We should be rather harsher than that too. Everywhere, anywhere, that has been roughly free market, roughly capitalist, for the past century is so stinking rich that the bus driver does get paid 50 times what a better one in India gets paid. That's actually the point of the entire socio-economic structure: it makes even bus drivers rich by any global or historical standard.

This isn't confined to any one group or set of countries either. Just since WWII, Hong Kong, Japan, Taiwan, S. Korea have all joined the nations that enjoy that distinction. China is catching up fast. Those countries that haven't: like, for example, the bureaucratic and planned Licence Raj in India which still impoverishes Ram.

This is why the lucky people like us at the ASI, born into a rich country and gloriously happy that this did happen to us, argue so strongly that everywhere else should embrace the joys of free market capitalism. Precisely and exactly because it's the only way anyone has as yet found to make bus drivers gloriously

rich.

Perhaps Cambridge just doesn't do irony: or they push all those capable of it off into Footlights or something. For here's what Chang's actual argument in this chapter is. The average person in rich countries is rich because of the institutions, infrastructure and better organised firms in rich countries. This shows that capitalism and free markets don't work because those institutions have been formed by capitalism and free markets. We'll be proving that black equals white next and get ourselves killed on the next zebra crossing.

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