23 Things We're Telling You About Capitalism XV [1]

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In our fifteenth thing that we didn't know about capitalism (because the capitalists have been so misinforming us) we get rather flipped over into the absurd. Chang's claim is that we all get browbeaten into believing that poor countries are poor because the people there are not entrepreneurial. He does on to point out, quite rightly, that this is an absurd thing to believe. The poor everywhere are vastly more entrepreneurial than us bourgeois middle class types: they have to be in order to survive. This is as true of poor people in rich countries as it is in poor too. The ducking and diving that goes on to make a life on benefits more pleasant is entrepreneurialism in a raw form. All of which is why no one at all does go around claiming that the poverty of some countries is based upon a lack of that raw entrepreneurialism making that claim something of a strawman.

Chang is also quite right in pointing out that the reason why this greater extent of entrepreneurialism amongst the poverty stricken doesn't then go on to create great wealth is not because of some deficiency in the people themselves. Nor in their ability to do that ducking and diving. The lack is in the institutions in that society that allow the microbusiness to flower into the larger one. This is indeed quite true.

We also know quite a lot about what it is that is lacking in those institutions. Chang mentions things like crooked bureaucrats: the short hand for not having them and their ever changing interpretations of the regulations (and the subsequent opportunities for personal enrichment to turn a blind eye) is the rule of law. There are other things too: Hernando de Soto has pointed out that many of the poor in these poor nations do indeed own property. But they don't own it legally: they hold it informally, by common recognition that they do rather than government recognition of their ownership. This means they cannot borrow against it, mortgage it, leverage their wealth. This can also be known as the absence of property rights. Or at least the absence of the formal recognition, *de jure*, of *de facto* property rights. De Soto has gone on to show that when such rights are formally acknowledged then matters improve.

In the absence of such property rights it's extraordinarily difficult to have a smoothly functioning financial system. The reason microcredit ever worked at all (and Chang is again perfectly correct in pointing out that it's not been quite the success sometimes advertised) was because it replaced that security of the lender being able to call on property for repayment with the security of the social pressure of the guarantors of the loan. Borrowers were in groups: the others in the group could not borrow until the first loan had been paid off. It was the finding of a different form of security, in a society without those formal property rights, that allowed any success at all. But clearly, if we want a financial system that can be used for the financing of the aquisition of property (whether it be a bullock for ploughing, a building to trade from or live in or a factory) then there has to be a system of recognising and transferring the ownership of that property. Backed up by a functioning court system and so on.

So far it looks like I'm agreeing with Chang in this chapter. And I'm not disputing his facts, this is true. But let us recall what the book is about as a whole. The way in which we have been mislead into believing that capitalism and free markets have created the wealth that we enjoy. The application of capitalism and markets to the currently poor being what would make them rich: this is the thesis that Chang wishes to refute. But his facts in this chapter simply show us quite how important and true that thesis is.

For what Chang's actually complaining about, what he's stating is keeping the poor poor, despite their admirable entrepreneurialism, is the absence of capitalism and free markets. For that's what capitalism is: a method of describing who owns productive assets. Markets are a method of exchanging things one with another, under the rule of law. It is the very absence of these things that Chang is identifying as keeping them poor: which is exactly the same as the capitalist and market case for why people are poor. They've not got the institutions that allow entrepreneurialism to flourish. They have, in short, too litle of that law, capitalism and market freedom necessary to get rich.

All of which is why this chapter leads into such absurdity. Chang tells us that the poor don't have this, that and t'other which is what keeps them poor. Yes indeed: but this, that and t'other are what capitalism and free markets are. At its most basic too: the rights to own, transfer and trade legally.

In a sense I am agreeing with Chang. I agree entirely that what blunts the success of that admirable effort and nous shown by the poor is the absence of the institutions that allow it to flourish. But Chang seems to think that this shows that capitalism and markets are not the way forward: when the very definition of the institutions that allows such effort to flourish is capitalism and markets. So how the analysis, that the poor are kept poor by the absence of capitalist institutions, can be used as an example of why capitalist institutions are undesirable for the poor I'm not quite sure. But that is the absurdity that Chang is putting forward.

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