TITLE: 23 Things they don't tell you about capitalism, Allen Lane (Penguin group), London, 2010

AUTHOR: Ha – Joon Chang – Is a Korean by birth, a specialist in development economics, Reader in the Political Economy of development at Cambridge University, winner of a prize for Economic thought and prizewinning author.

OVERVIEW: The author's stated aim is to tell the reader some essential truths about capitalism that free-marketeers won't. The book is set out in 23 chapters each covering a "thing", followed by a conclusion which is a series of recommended changes to the capitalist economic system.

- Thing 1 – "They" tell us that: the overall economic system works best when people are free to make choices within the market.

Free market economic theory is based on the notion that a market is scientifically definable but it cannot be. Consider these products & services: child labour, drugs, firearms, slaves, excessive interest, pornography, worthless shares. Also consider these actions: the rights to pollute or commercially mislead, underpay employees, over-work employees, charge interest. The legality of these offerings and actions differs between countries, governments, people, religions and even eras so the boundaries of markets are politically determined. This reality shows that the concept of the value free "scientifically" defined market so revered by free market economists simply does not exist.

- Thing 2 – "They" tell us that: Shareholders own companies therefore they should be run in the interests of shareholders.

History has shown that shareholders don't care about the long term viability of an enterprise or the interests of the country in which they are located. During the early 1980's the principle of shareholder wealth maximization was generally accepted in Anglo/American countries. Distributions to shareholders grew from around 35% of total profits previously, to 60%. Managements focussed on maximizing short term returns to shareholders and shared in the binge by taking outrageous bonuses and increases in salary packages. Employees, suppliers and the interests of the nation became expendable on the altar of the free market. This abdication of social responsibility did not occur anywhere near the same extent in most other rich countries. One affect was that a larger share of the national wealth finished in the hands of fewer people and culminated in the

GFC which destroyed corporations and weakened nations. This affects are still being played out.

- Thing 3 – “They” tell us that: Only a free labour market can reward people efficiently and justly.

This is wrong when considered internationally. Large differences in wage rates are only possible because of strict and limiting immigration policies. It is also wrong within a single country. The amount of work and value by individuals within a single country is governed by the available technology and the extent of cooperation between people. In essence no man is an island.

- Thing 4 – “They” tell us that: The communications revolution requires individuals, firms and nations to become more flexible.

The affect of communications should be put into perspective. By reducing the time it takes to undertake specific and required tasks, the humble washing machine (and things like it), had a far greater affect on people’s lives then than the internet has had on our lives. Preoccupation with one technology risks undervaluing the common good and can lead in wrong directions.

- Thing 5 – “They” tell us that: We have to assume the worst about people if we are to construct a durable economic system.

The free market economic system is constructed on the assumption that behaviour of the players in markets follows that of the “pathological” “Economic man” who is totally self interested, value free and totally rational. Without this assumption the free market economic model would not work. Ample evidence shows that this assumption is clearly false.

- Thing 6 – “They” tell us that: Control of inflation has laid the basis for long term prosperity.

Lower inflation is one of the three pillar free market policy package embraced by the World Bank, the OECD and western governments, (the other pillars are greater capital mobility and greater job insecurity sometimes called labour market flexibility). In fact anti inflationary policies combined with the use of inflation as the primary measure of economic stability have done great harm to developing economies and have failed to achieve the supposed aim of maintaining economic stability.

- Thing 7 – “They” tell us that: Free market policies make countries rich.

Contrary to what is commonly believed developing countries which followed a policy of state led development have been superior to what they achieved during the subsequent period of market orientated reform. There are examples of state led development failures but there are also examples of free market led development failures. Even free market bastions, including USA and UK, have become rich through policies that are the opposite of free market. They include combinations of protectionism, subsidies and other policies they advise developing countries not to adopt.

- Thing 8 – “They” tell us that: Transnational companies have no nationality.

Most so called international companies usually are usually national companies that trade internationally where high end research and strategies are undertaken at home and major decisions are made by decision makers who are home country nationals.

- Thing 9 – “They” tell us that: We live in a post industrial age and should be focussing on post industrial economic activities.

Manufacturing (a so called pre industrial activity) creates employment, generates research and is an engine for growth in a way that services (a post industrial activity) are not

- Thing 10 – “They” tell us that: Despite its problems the US still enjoys the highest standard of living (SOL) and is a good role model.

The country has a high mal-distribution of wealth, high crime rates but it has cheap services thanks to high immigration and low labour pay rates and employment conditions. Americans work considerably longer than the average European. The USA’s SOL is not unambiguously better than many countries in Europe.

- Thing 11 – “They” tell us that: Cultural, ethnic and structural problems will cause Africa to be propped up by foreign aid.

The requirement to implement free market policies as a condition of foreign aid has been a major reason why nations on the continent have languished.

- Thing 12 – “They” tell us that: Governments can not pick winners.

Governments have been eminently successful in picking winners. This free market ideology is self serving. The worst, most destructive and most obvious failures resulted from decisions made by the private sector, witness the GFC.

- Thing 13 – “They” tell us that: Making rich people richer benefits everyone.

“Trickle down economics” stumbles at the first hurdle. Pro rich policies have failed to accelerate growth during the last three decades. They have also increased the mal-distribution of wealth within countries and between them

- Thing 14 – “They” tell us that: In the US, payments of obscene amounts to top executives is not obscene.

Top US executives are overpriced by any reasonable measure. They receive more than 20 times the remuneration received by top equivalents in other countries. Their rate of remuneration growth has outstripped growth in average wages by a staggering amount. They are not punished for poor performance and have been able to gain such economic, political and ideological power in the US that it can manipulate the forces that determine their pay levels.

- Thing 15 – “They” tell us that: One of the reasons for the lack of economic dynamism in France and those in the developing world is the lack of entrepreneurship.

If entrepreneurship was ever a purely individual thing it has stopped being so for the last 100 years. The assertion also ignores all of the bars that confront developing countries including shortage of technology and internationally imposed destructive free market economic policies.

- Thing 16 – “They” tell us that: We should leave the markets alone.

This is a self interest ideology of those who benefits from free markets. In fact the markets get things wrong as frequently as it gets it right. Read climate change, the GFC and the outcomes of free market development ideology previously highlighted.

- Thing 17 “They” tell us that: A well educated workforce is necessary for economic development.

There is remarkably little evidence to support this assertion. What really matters in determining national prosperity is the nation's ability to organize individuals into enterprises with high productivity

- Thing 18 – "They" tell us that: The Government needs to give the maximum degree of freedom to business.

The concept of "What is good for General Motors is not necessarily good for the USA" is the reality. Business is driven by the profit motive and this can conflict with national and international interests and the laws. Read tobacco, petroleum, coal, GFC, finance, and so on. The concept of "maximum degree" is ambiguous.

- Thing 19 – "They" tell us that: The less Government planning there is the better.

Governments in Capitalist economies plan albeit to a lesser degree than in controlled economies but still plan. The private sector in modern economies is dominated by large hierarchical corporations all of whom plan their activities in great detail just like any large organization needs to.

- Thing 20 – "They" tell us that: People should be given equal opportunity but affirmative action is unfair and inefficient.

Individuals should be rewarded for better performance but the question is whether they are competing under the same conditions. Unless there is some equality of outcomes the concept of "equality of opportunity" is not truly meaningful.

- Thing 21 – "They" tell us that: Big Government is bad for the economy.

A well designed welfare state can actually encourage people to take chances with their jobs and create. Take Europe where the demand for protection is less than in the USA

- Thing 22 – "They" tell us that: The rapid development of financial markets to allocate and reallocate resources swiftly is necessary.

Today's financial markets are too efficient. They have produced so many financial instruments that the sector has generated excess profits for itself and has become a destructive force in the world. Think the GFC.

- Thing 23 – “They” tell us that: Free market policies are doubly good because they are the best (most effective) policies and minimize the room for bureaucrats to make errors.

Good judgement, not good economists is required to make good economic policy. Take the miracle years of Korea and Japan which were run by Lawyers and the China and Taiwan which were run be Engineers. Take note of what Economists achieved in the USA, namely the GFC.

  - Conclusion – The Author puts forward eight proposals to rebuild the economic system on a sounder basis. The proposals aim to mitigate the flaws outlined above.