

“ECONOMIC GROWTH AND NOT REDISTRIBUTION IS THE ONLY WAY TO FIGHT AGAINST POVERTY. YOU SEE IT ALSO WHEN YOU COMPARE AFRICA AND ASIA. IN AFRICA, THEY RECEIVED BILLIONS IN DEVELOPMENT AID. DID IT HELP THEM? NO. AND THERE ARE A LOT OF ECONOMISTS WHO HAVE MADE IT CRYSTAL CLEAR THAT IT HURTS THEM. THE ONLY PEOPLE IT HELPS ARE CORRUPT ELITES FROM THE GOVERNMENT WHO COULD BUY NEW WEAPONS OR EXPENSIVE CARS OR WHATEVER. BUT ORDINARY PEOPLE REMAIN POOR AND CANNOT EVEN BUY A MATTRESS TO SLEEP ON. SO, THIS IDEA ABOUT REDISTRIBUTION, THAT RICH PEOPLE SHOULD GIVE MONEY TO POOR COUNTRIES, IS AN ABSOLUTELY STUPID IDEA”

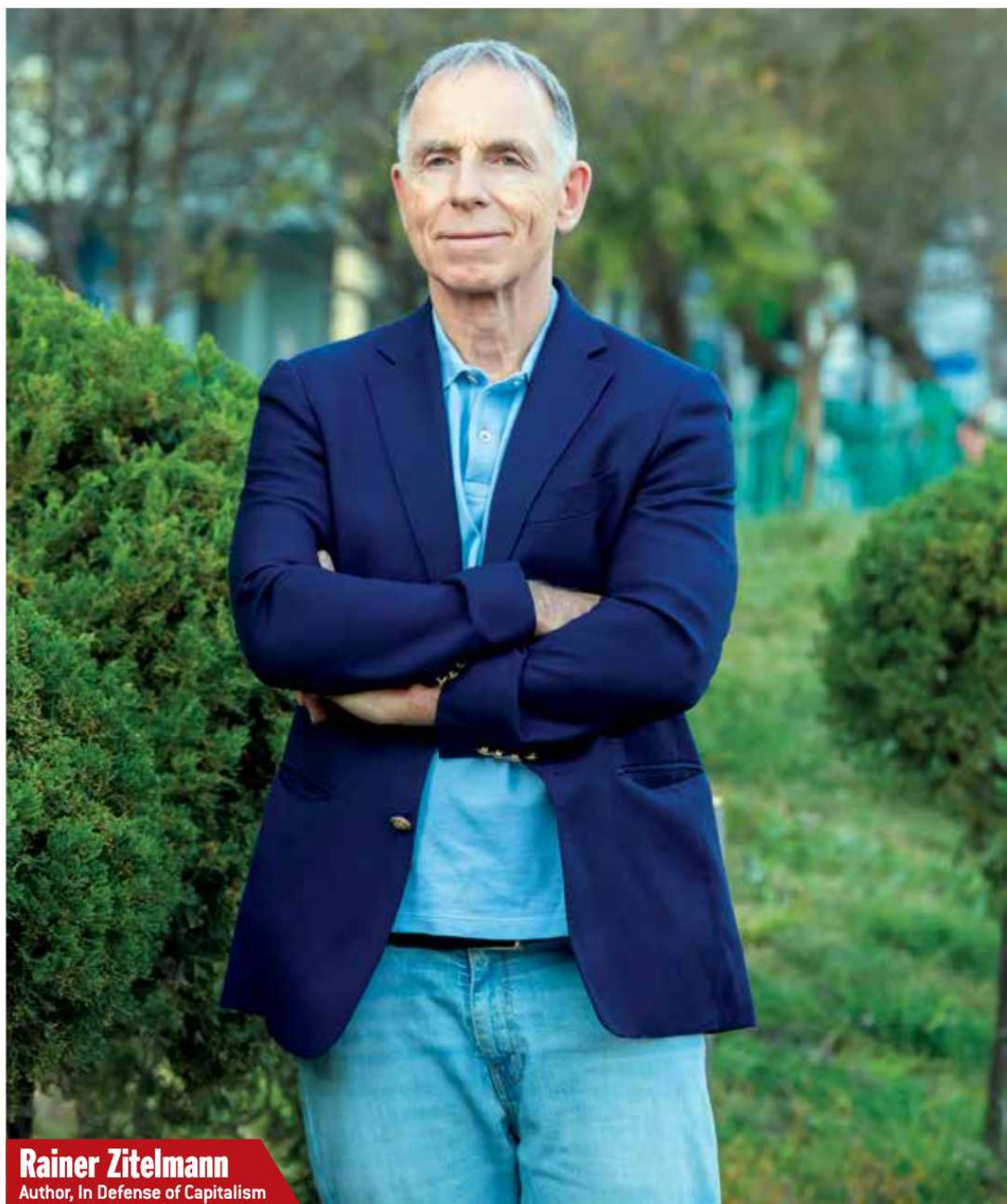
Rainer Zitelmann is a German author who has written and edited 29 books, which have been published in more than 30 languages. He also writes articles for The Wall Street Journal. He is also a historian, sociologist, management consultant and real estate expert. Zitelmann was in Kathmandu recently to launch two of his books ‘Set Yourself Bigger Goals’ and ‘In Defense of Capitalism’. The latter has been translated into Nepali as well. The books have been published in Nepal by WeRead, a new publishing branch of Kathalaya.

During the book launch, Zitelmann shared that ‘In Defense of Capitalism’ has elaborated the disagreements on the view that capitalism leads to hunger and poverty, rich people become richer and the poor become poorer. The book further elaborates on the environmental destruction and climate change wars. Zitelmann put forward historical evidence and facts to justify that it is not capitalism that has failed but the anti-capitalist experiments done for a century.

During his visit, **Business 360** caught up with Zitelmann to understand the core principles and the benefits of a capitalist economy, especially in the context of Nepal. Excerpts:

How would you define capitalism and its key principles?

When I distinguish between capitalism on one hand and planned economies on the other hand, I think the most important thing is capitalism



Rainer Zitelmann
Author, *In Defense of Capitalism*

means economic freedom. It means democracy in economy. Consumers decide every day what is produced and what is not. Entrepreneurs make the decision but, in the end, it is the consumer's choice. When people buy your product, you will be successful and make, hopefully, money. If they don't buy you will get nothing. It is the consumer's decision, not someone else's decision and not definitely any politician. It is a democracy. In a planned economy it is the other way around. Politicians and government officials decide what you could choose. They think they know that better than the consumers. And the thing is there is no pure capitalism and there is no pure socialist anywhere in the world. All systems are in reality, mixed systems. Even socialist countries like in North Korea, you have a little bit of private property and market. And in capitalist countries like the United States, we also have a lot of socialism. So, I compare it with a test tube, with two ingredients. A test tube market and state, or capitalism and socialism. Then I look at it as a historian. What happens if you add more market and what happens if you add more state. This is what I am doing.

Could you tell us some benefits of capitalism compared to other economic systems?

The first aspect deals with poverty. Capitalism is the only system that can abolish poverty. For around thousands of years a majority of people all over the world lived in poverty. Before capitalism, that is about 200 years ago, 90% of the worldwide population lived in extreme poverty. Today it is less than 9%. However, half the reduction happened over the last decade. Even in the beginning of the 80's, 43% of the worldwide population lived in extreme poverty. And wherever you look, capitalism reduces poverty. This is the reason why in countries that have a lot of socialism, the socialist countries, people

leave the country. You can see it now in Nepal. I think thousands of people have left Nepal. You can see it in my country too. We had socialist East Germany and capitalist West Germany. Two-and-a-half million people went from the East to the West. The East had to actually build a wall and shoot people down, so that people don't go away. The situation is the same in Korea. In the North if they wouldn't force them to stay there, people would of course go to South Korea. And you see that now in where 7.5 million people have fled from the country. This is 25% of the population.

But it was never the other way around. Have you heard of people going from South Korea to North Korea to have a better living. Or people go from West going to East Germany or maybe people coming from Singapore to Nepal to have a better living here. No, it doesn't happen. So, you see capitalist means democracy in the economy and it means that you have your own choice; what to do with your life, how to be successful. In socialism the only way to have a better living is to agree always with the party and look at whether you can make a career inside the party. This is the only thing. In capitalism you don't have to agree with the government necessarily. The only thing you have to do is you have to produce something that people need, that people want. And if they buy it, you become rich. There are many other important things but this is the most important thing about capitalism.

Are there any drawbacks and limitations of capitalism that need to be addressed.

Capitalism is not a fixed system like socialism. Capitalism is an ongoing revolution. It always adapts to different societies. It is not that there are politicians that have to be adapted. Capitalism itself is a very flexible system that adapts to different times, different situations, different countries. Capitalism can coexist with your religion; it

can coexist with Muslims, with Christians, with any religion. Capitalism can exist in Asia and in Latin America. When the environment changes, then capitalism too changes. This is the reason why capitalism is so successful.

But I don't believe in the ideal that there are politicians who are smarter than millions of consumers and they have to fix it. I will give you one example. I think here in Nepal you are not allowed to sell a product with more than 20% profit margin. This is actually a crazy idea, and I have never heard of it in any other country. There is no example where it works. What does it mean, it means there was someone 60, 70 years ago who thought he is smarter than you, than entrepreneurs, than consumers, smarter than everyone else. I don't know why it is 20%. Why is it not 12%, or 15% or 30%. So, that person thought they are smarter than everyone else. Of course, it is a crazy idea that they are smarter than everyone else. And this is a big problem when politicians think they are smarter than everyone else. I don't believe so, I don't think they are smarter.

How does capitalism contribute to economic growth and innovation?

If you look at the index of economic freedom of the Heritage Foundation, at the top you have Singapore and Switzerland and at the bottom you have North Korea, Cuba, Venezuela. And if you compare this index of economic freedom and GDP per capita, it is crystal clear that the countries that are more economically free, their GDP per capita is much higher than the countries that are suppressed. This is not only true for GDP per capita but it is also true for environmental standards. For example, if you compare the index of economic freedom with the Environmental Performance Index from Yale University, you can see the countries that are more economically free have much better scores in the Environmental Performance

Index than the repressed countries.

You see it all over the world. I will give you another example; Venezuela was, back in the 70s, one of the 20 richest countries in the world. Then they started with a lot of crazy regulations, similar with the regulations that you have. Labour market regulations, this is what I was talking about, politicians talk like they are smarter than consumers and entrepreneurs. And what happens to them, then they made a big mistake and voted for a socialist regime in 1998-1999. Left wing intellectuals all over the world were really enthusiastic. They called it the socialism of the 21st century, and it promised a lot. What happened in the first two years was not so bad because oil prices increased and you could spend a lot on welfare. Then they started with all these crazy things, nationalisation of private property and so on. The result they had some years ago was an inflation rate of 1,000,000%. Today 25% of the population have fled. The rest of the population lives in poverty. And by the way, they punished democracy. They abolished freedom of speech, freedom of press.

This is what the socialists did. In the last hundred years, there's not a single example where a socialist has made a better life for ordinary people. They tried it in so many ways, in China in another way, then in the Soviet Union, East Germany, Yugoslavia, Cuba, North Korea, Vietnam and Bulgaria. But they all have one thing in common. They failed without any exception, and more than 100 million people died in this time. For example, in China from 1958 to 1962, with the so-called Great Leap Forward, 45 million people died. This is a tragedy that people don't know anything about.

I have given lectures all over the world. I just came from Latin America and I was in Argentina, Paraguay, Chile and Colombia. I speak in the United States very often. I speak in

all European countries and in Asian countries such as South Korea, Mongolia, and now here. And wherever I speak, I ask people, "Have you ever heard about the greatest socialist experiment in history, the so-called Great Leap Forward where 45 million people died". Wherever I speak, whether it is to 20 or 200 or 2,000 people, only a very few people raise their hand. Sometimes no one. So, they haven't heard about it and this is a terrible thing. They should hear about it.

I have a chapter in my book 'The Power of Capitalism' about the Great Leap Forward and what happened to China after this, the economic progress. Maybe you would like to publish it one time because this is the way why socialism is so popular today again? Because people do not know anything about history. They do not know what happened to the Russian Revolution. They do not know what happened to Kampuchea. They don't know what happened in Poland and in Hungary. They have not heard about it at school. Teachers in most countries all over the world are mostly left wing. They tell them a lot about how bad capitalism is, but they don't tell them the truth about socialism. This is the reason for my mission to go all over the world and to speak about it, to write about it, so that people learn something about history.

What about capitalism and social inequality and environmental sustainability?

Let's speak first about the environmental issues and then about social issues. I just mentioned with the environment that if you compare the index of economic freedom and environmental performance from Yale University, the countries that have more economic freedom have better standards. I come from Germany, and previously there was West Germany and East Germany. That is a good thing to compare because there were fundamentally the same countries, the same people,



same history, same language, only a different economic system. If you look at the environment or climate issues, CO2 emissions in East Germany were three times higher than West Germany and for other airborne pollutants it was even worse. For example, Sulphur Dioxide was ten times higher in East Germany than West Germany. So, you can compare. If people think we should, some so-called climate activists say we should abolish capitalism to solve the problem of climate change then you will make things worse. We saw it in all the countries with the planned economy. There was no country in the whole world with so bad environmental standards than Soviet Union. So, it is an absolutely crazy idea.

If we speak about social issues, it depends whether we focus on poverty or inequality. These are two very different aspects and some people confuse it. They mix it. I spoke about poverty, and I think it's crystal clear that capitalism is the best system against poverty. I will give you a couple of examples. Let us focus on Poland which was one of the poorest countries in Europe

in the 80's. It was poorer than Ukraine and its GDP per capita was only half of that of the Czech Republic. Poland was very poor. And then in 1990 they started with free market reforms and within three decades they are one of the most prosperous countries in Europe.

Another example is Vietnam, which in the 90's was one of the poorest countries in the world. It was poorer than all African countries. First, they went to war, not only one war with the United States but they were at war before with France, Japan, China, with almost everyone. And what was not destroyed by the wars was destroyed by the planned economy. However, they were smart and towards the end of the 80's they started with the so-called Doi Moi reforms, opening the economy and the success they have achieved is amazing. I have been there several times and my next book will be about Vietnam. I know a lot about it. They call themselves socialist and yes, the party politics is communist but I think it is easier to find a Marxist at Harvard University in the United States than at

any university in Vietnam. I know it because they invited me for a lot of lectures at the universities. They don't believe in socialism anymore and it is only lip service. They talk about Marxist and communist, but in reality, they believe in capitalism, in entrepreneurship.

So, it is crystal clear capitalism is the best system against poverty. But if we speak about equality, maybe people in China, in Mao's time, were more equal than they are today. I think so, because at that time there was not a single billionaire. Maybe Mao was a billionaire. I don't know, because everyone had to buy his books. But there was not a single billionaire in China. Today you have as many billionaires in China as no other country in the world, with the exception of the United States. Even some years ago, there were some more billionaires in China than the United States. If you talk about the standard of living, in 1908, 88% of people in China lived in extreme poverty. Today it is less than 1%.

When I am in China, where I have been several times, no one has told me, 'Let's go back to Mao's time because you are

more equal'. I found no one in Vietnam who told me, 'Let's go back to the 80's because we were more equal'. I think this equality issue is for envious people. It is like people saying someone has more than I and you should take something away from that person. There is a different kind of reaction. If you see that there is a gap between you and the situation for someone who is rich, there are two possibilities to react.

I will tell you with an example. Jeff Bezos, founder of Amazon, is one of the richest men in the world and some years ago, they positioned a guillotine, the type used to kill people during the French Revolution, in front of his house in Washington, DC. The protesters who positioned the guillotine in front of his house, I would say were envious people. They hated him because he is rich. But then there is someone else who gave an order to Amazon to send them the biography of Jeff Bezos. That person wanted to learn something from his life. Maybe not to be so successful as Bezos is but to learn some lessons as an entrepreneur. What do you think? Who will be most successful in five years? The people who positioned the guillotine or the one who bought the book about the life of Jeff Bezos?

So, this equality idea is a crazy idea because if a society escapes poverty, the first thing is inequality increases. And this is logical because not all can become rich at the same time. This is what Deng Xiaoping understood in China. He said let some people become rich first and then later the situation will improve for the others. This is what happened.

This is what Adam Smith understood, that economic growth and not redistribution is the only way to fight against poverty. You see it also when you compare Africa and Asia. In Africa, they received billions in development aid. Did it help them? No, and there are a lot of economists who have made it crystal clear that it hurts

There is no pure capitalism and there is no pure socialist anywhere in the world. All systems are in reality, mixed systems. Even socialist countries like in North Korea, you have a little bit of private property and market. And in capitalist countries like the United States, we also have a lot of socialism. So, I compare it with a test tube, with two ingredients. A test tube market and state, or capitalism and socialism. Then I look at it as a historian. What happens if you add more market and what happens if you add more state.

them. The only people it helps are corrupt elites from the government who could buy new weapons or expensive cars or whatever. But ordinary people remain poor and cannot even buy a mattress to sleep on. So, this idea about redistribution, that rich people should give money to poor countries, is an absolutely stupid idea. You can see it in Asia too. Both South Korea and North Korea were very poor countries in the 60's, as poor as African countries today. North Korea had this planned economy and people are still poor. South Koreans adopted capitalism and they are doing great. Everywhere, where there is capitalism, the situation has improved for the people, but of course not for everyone at the same time.

The most famous critique of capitalism today is the French economist Thomas Piketty,

who in his book, 'Capital in the 21st Century' mentions that for most of the time in the 20th century, inequality had been reduced. The question is why. It was due to the First World War and Second World War after which taxes were made much higher and a lot of things were destroyed. So, equality was better. According to Piketty, the bad times started towards the beginning of the 90's because then inequality became bigger. He says that was a bad time but for me it was the best time in human history because there was no other time when poverty had been reduced so much. So, you see this is a different focus. Piketty focuses on inequality whereas I focus on poverty. And you have to decide. You could say you do not care about poverty and only equality is important. Then you can implement socialism. But if you care about poverty then you need capitalism.

I think for Nepal the problem is not inequality but poverty. This 20% profit margin cap is a crazy idea which I believe exists nowhere else in the world. And then you have huge tariffs on automobiles which runs up to 200%. This basically makes an automobile out of reach for the majority of the people but I guess the politicians ride in expensive cars. The country has to abolish such high taxes. I even heard that it takes more than a year to actually receive a driver's licence. Why? Is it because of the bureaucracy? These are questions that should be raised because you should be getting your driver's licence in a day. What is the reason behind this delay? As citizens you should be raising such critical questions.

As a result of all these political and bureaucratic inefficiencies and the hassles that people face so many smart people are leaving Nepal. Thousands of young smart people are going abroad which is bad. This is what happens in socialism. This happened in East Germany before. There are only two possibilities to stop that trend in Nepal. The

first is to build a wall like they did in East Germany and block people who want to leave that economy. The other is to have more capitalism so that people have the opportunity in their own country and stay back. And I can guarantee you when there is capitalism, people will come back. It has happened in China and also in Thailand. People love their country. I don't believe people are leaving Nepal because they hate the country. In their hearts everybody loves their country. They love their family and do not want to go away. They go away because they do not have opportunities here.

It would be wonderful if Nepalis who have gone abroad come back with the skills and knowledge they have acquired. The other thing required for a developing nation is foreign investment. But I heard there is a list of sectors where foreign investment is restricted. Since the country does not have enough financial resources for all the work that is required to be done the only option is to get foreign investment. You should do everything possible to attract foreign investment and you should appreciate it.

You need to do it like China did in Shenzhen. From a small village with around 50,000 poor people, it has become a paradise for capitalists with a population of nearly 17 million people at the moment. There are so many such examples. You do not have to reinvent the wheel. You just need to analyse what they did to become a prosperous nation. People here need to start discussing about it.

I think maybe the mistake in Nepal has been too much of a focus on the constitution. I believe you have had seven different constitutions in the last 70 years or so. Look at the United States, it is the same constitution for the last 250 years. You don't need a new constitution. It should not always be about politics. People need to start focusing on economics. This is the best thing that could happen in Nepal. **B**