FT Wealth Economics books

The origins of prosperity

Encouraging wealth creators helps to generate economic growth and affluence

Gold standard: the Doi Moi market reforms in Vietnam gained pace in the 1980s © Linh Pham/Bloomberg

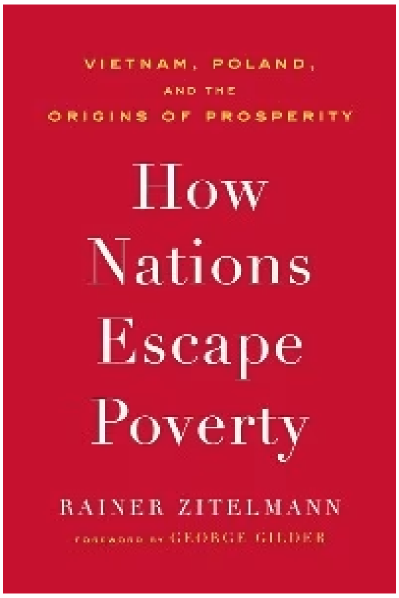
Tej Parikh YESTERDAY

Big government has returned to the western world. The language of subsidies, protectionism and state-led industrial strategy are once again central to political debate. Public attitudes to wealth creators have been souring for a while, too. But, as state interventionism plays a greater role in our economies, it is easy to lose sight of the pivotal role businesses and entrepreneurs have played in generating economic growth and prosperity.

In *How Nations Escape Poverty*, Rainer Zitelmann, a German historian and sociologist, reminds us of the power of capitalism. He outlines how Poland and Vietnam, two nations that were ravaged by war and poor governance in the 20th century, have now become case studies in developmental success.

Since 1960, both countries have experienced a more than fivefold increase in their gross domestic product per capita. Some forecasts suggest that Poland's per capita income could surpass the UK's within the next 10 years. Today, Vietnam is one of the fastest-growing economies in the world. Zitelmann argues that both nations' success is the result of an outright focus on wealth creation and enterprise — and the reformers who enabled it.

After the Polish communist party's monopoly on power ended in 1989, Leszek Balcerowicz became finance minister of the country's new, democratic government, and Zitelmann attributes much of the nation's initial progress to him. He quickly helped stabilise inflation, created institutions such as an independent central bank and stock exchange, and privatised state-owned enterprises. The reforms were intended to help pave the way for individuals and businesses to flourish.



In socialist-ruled Vietnam, the embrace of the private sector was more gradual. After an experiment with collectivised agriculture led to food shortages, market reforms — known as the Doi Moi — gained pace in the 1980s. They enabled price controls, internal customs checkpoints and limits on private businesses to be removed.

In both countries, a greater emphasis was placed on individuals — rather than government or foreign aid — as the source for wealth creation and growth. As private enterprise expanded, so did income and employment. For Zitelmann, alongside the enabling free market reforms, attitudes towards private wealth creators helped.

Rather than viewing the pick-up in wealth inequality that initially came with freer enterprise as a bad thing, many saw it as an aspiration, according to Zitelmann. It brought dynamism to both countries — people saw an opportunity to empower themselves and improve their lot. Zitelmann cites several surveys in his book, which find that Vietnamese and Polish citizens tend to harbour more favourable attitudes to the rich than Americans or Germans, for instance.

In Vietnam, one survey finds that citizens largely attribute wealth creation to risk-taking, special skills and ideas, and industriousness. The word "capitalism" is associated more with progress, innovation and choice, which leads to an ever-expanding circle of gain. Another survey shows that positive attitudes towards liberal economic systems in Poland far surpasses those in most other advanced nations.

Both countries' recent past — under controlling governments that suffocated their economies — helped underscore positive attitudes to free enterprise. The contrast from ration cards and poverty to choice and opportunity, in the space of a generation, is embedded in citizens' memory.

That nations with a longer history of private enterprise show a more negative view of the rich is interesting, too. According to surveys cited by Zitelmann, in Germany, for instance, people tend to associate wealth with inheritance or tax avoidance. Relative to the Polish, the Germans also think the rich are more greedy and self-centred.

Experiences in developed economies of inequality, tax-dodging multinationals and competition from abroad have all soured views towards free markets and given rise to a more "zero-sum" attitude of private wealth creators. Some of these have been used to justify greater state intervention, on top of the rising challenge of ageing populations, national security and climate change.

Perhaps, over time, the wealth opportunities that come with the free market also raise the incentive of individuals to insulate their wealth or look for rent-seeking opportunities. That is where the state can play a role, in encouraging competition and investment in productive resources and innovation. Reforms to channel the energies of capitalism better may be a more apt response than to crowd out business with excessive state intervention.

Neither Vietnam nor Poland is without its problems, either economically or politically. But Zitelmann's evaluation of their emergence is a timely reminder of just what free enterprise can achieve when governments enable it.

How Nations Escape Poverty by Rainer Zitelmann *Encounter Books, £21.99*

This article is part of FT Wealth, a section providing in-depth coverage of philanthropy, entrepreneurs and family offices, as well as alternative and impact investment