

## BOOK REVIEWS

### Capitalism

Arthur Seldon

Cambridge, Mass.: Basil Blackwell, 1990, 419 pp.

For more than 30 years, Arthur Seldon has supervised and edited most of the publications of the Institute for Economic Affairs. Over most of those years, I have written some 15 articles or monographs for the Institute. And I can assert that Seldon has been by far the best editor I have ever encountered. This is largely because of his great respect for ideas, their coherence, and their expression. But also because of his unwavering courage in facing the facts, recognizing the fallacies of socialism, and acknowledging the faults but appreciating the marvelous beneficence of free-market capitalism.

It may be difficult for most of the readers of this review to imagine the intellectual climate when Arthur Seldon, along with Ralph (now Lord) Harris started a think tank (the Institute of Economic Affairs) devoted to exploring the ideas of liberal (in the European sense) institutions. The all-but-unanimous consensus was that planning—perhaps some form of “market socialism” in a welfare state—was the wave of the future. Khrushchev had promised to bury capitalism and predicted that soon the Soviet Union would overtake the United States—“We are all planners (or Keynesians or socialists) now.”

Undeterred, nay I would say egged on, by reproofs about the political impossibility of the ideas of a liberal society, Seldon has been quite fearless in his pursuit of the truth. At a conference some five years ago, I heard a distinguished Swedish economist reprove Seldon for his “extremism” in pursuit of market solutions; Arthur took it (rightly) as a compliment.

The present book is a more of a celebration rather than distillation of all those ideas. It is doubtful if anyone knows the literature on the history of the failures of socialism and the triumphs of capitalism better than the author. He draws his evidence from an amazingly broad field—from tombstone inscriptions for some 18th-century schoolteacher to illustrate that fee-paying private education was common, and from the literature of the Brontë sisters to show the efficacy of private competition. I suppose that most economists will claim that Seldon is still an absurd extremist. Yet this book appears at a time when socialism is seen universally to have been a sad and tragic failure—a failure that Arthur Seldon had

always predicted. But Arthur's work is never done. He argues the case for not merely a limited state but for a *minimal state*. In his view, the liberals who believe in a limited state have far too long and complex an agenda for government for that agenda to be allowed.

Seldon (p. 219) sums up:

The argument for democracy over dictatorship is the argument for capitalism over socialism. The real or supposed defects of capitalism—alternation of inflation and unemployment . . . extremes of wealth and poverty, monopoly . . . overcentralization, poor schooling . . . and much else—are not endemic; they are largely the results of overgovernment. . . . They can be removed. The real defects of socialism—suppressed unemployment and inflation, widespread privation and injustice . . . suppression of freedom in economic activity, political rights and cultural life, ingrained nepotism . . . and much else—are endemic. They are parts of the system; without them socialism is unworkable. In the end that is the case for imperfect but perfectible capitalism.

Although I have known Arthur and have been close to the IEA for more than 30 years, I must confess that most of the examples and illustrations of his argument were new to me. Together with his wife, Marjorie, Seldon often illuminates his argument with a telling anecdote of human behavior.

But, like capitalism itself, he is not perfect. One general criticism is that the book does not properly get to grips with the issue of democracy and capitalism, in spite of the excerpt above. A common question in the ex-Communist countries is: Can the reforms to a market economy be carried through with a democratic government? Seldon identifies the central fallacy that democracy is *sufficient* to ensure "popular sovereignty over government or economic life." Democratic tyranny is not an oxymoron; it has been and is a reality in many a sad state. But can a free market exist in a dictatorship? Seldon comes near the nub of the problem when he says: "Even with restricted political democracy, free markets could create the indispensable liberties required for the democratic control of resources." The bald truth is that a free-market economy has often been not only tolerated but actually promoted by dictators, despots, and colonial administrators. Perhaps the most remarkable example is that of Pinochet's Chile—a dramatic reform from Cuban communism to the most free and unfettered market economy in Latin America. The most striking example of tolerance is the astounding development of Guangzhou and much of South China. Capitalism is triumphing with growth rates of over 12 percent during the last decade. Yet the political repressions go on. A rather more long-lasting and, I think, decisive case is that of Hong Kong. No democracy was

ever contemplated in that colony. It was ruled by colonial administrators—albeit with principles that would have delighted Adam Smith.

The question raised by the ex-Communists still remains: Is it *necessary* to have a dictatorship, however distasteful, in order to reform a Communist system? I wish I could confidently assert that a dictatorship was certainly not necessary, but I can find no warrant for such an assertion. The ramblings of our statesmen on this issue may well be a consequence of our “thinkers” being unwilling to face squarely an obvious dilemma.

Finally a grouse. In my view one of the great economists who pulled out a critical lynchpin from the facade of socialist thought was Nobel Laureate Ronald Coase—one of Seldon’s teachers at the London School of Economics in the 1930s. In his magnificent article “The Problem of Social Cost,” Coase (1960) showed that in a competitive free-market system, private costs are the same as social costs and that the market would internalize “externalities” if transactions costs are low. Seldon frequently refers to externalities and often rubbishes the arguments, usually non sequiturs, for government intervention or ownership. But I am at a loss to understand why he did not employ Coase’s lethal weapons against such sophistries.

Unlike most books on economics these days, Arthur Seldon’s book is a good read. Sometimes he charms, sometimes infuriates, but all for the good of the cause—Capitalism.

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## Reference

Coase, Ronald. “The Problem of Social Cost.” *Journal of Law and Economics* 3 (October 1960): 1–44.

### **Marxism and Workers’ Self-Management: The Essential Tension**

David L. Prychitko

New York: Greenwood Press, 1991, 153 pp.

David Prychitko defines the purpose of his book *Marxism and Workers’ Self-Management: The Essential Tension* as follows:

The crucial issue for the Yugoslavs, Gorbachevites, and other Marxists who hold out hope for decentralized, worker-managed socialism is whether the crisis of Yugoslav-style self-management resulted from poor practice and implementation in Yugoslavia, or whether it stems from a more fundamental problem of theory and system that goes all the way back to Marx himself.

The book has six chapters that explore this key issue.