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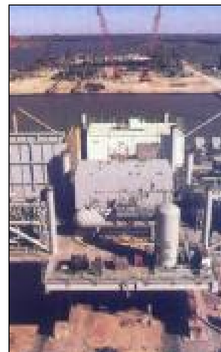
UNDERSTANDING STATE CAPITALISM IN SUB-SAHARAN AFRICA

Richard Garner



Oil production in Equatorial Guinea

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Economic Notes No. 107
ISBN 1 85637 648 6
ISSN 0267-7164

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Richard Garner

The General Success of Globalisation and the African Exception

The brother of South Africa's president, no less, has penned an excellent, though libertarian-lite, piece on the workings of state capitalism in Africa.[1]

Where throughout the world globalisation has been allowed to work—globalisation in the sense of liberalising the economy by removing barriers to entry, ending tariffs, cutting taxes, and reforming land—it has brought prosperity and benefited the poor of the world tremendously. Between 1965 and 1998, the average income of the average world citizen almost doubled, from US$2,497 to US$4,839, corrected for purchasing power and in fixed money terms. And this hasn't occurred through the rich nations simply doubling their income whilst the poor remained the same. During this same period the richest one-fifth of the world's population increased their average income from US$8,315 to US$14,623, that is, by roughly 75%. The poorest one-fifth of the world's population, however, increased their incomes much faster still, with the average income rising from US $551 to US$1,137 in the same period, i.e. more than doubling.[2] And world consumption is more than twice what it was in 1960. Extreme poverty is generally defined as living on less than one dollar a day. Between 1990 and 1998, the number of people experiencing extreme poverty fell from 1.3 billion, to 1.2 billion.[3]

The glaring exception is sub-Saharan Africa. It is in Africa south of the Sahara that we find most of the countries whose per capita GDP has actually fallen since 1960. As the World Bank reported "36% of the region's population lives in economies that in 1995 had not regained the per capita income levels first achieved before 1960. Another 6% are below levels first achieved by 1970, 41% below 1980 levels and 11% below 1990 levels. Only 35 million people reside in nations that had higher incomes in 1995 than they had ever reached before."[4] Between 1990 and 1998 Southern Africa's combined GDP fell by 0.6%.[5]

The Reason: Lack of Capitalism in Africa

Why is this? Moeletsi Mbeki, brother of South Africa's president, has an excellent answer. He plainly understands how free-market capitalism works to create enormous benefits:

> *In a quest for greater security and comfort, the theory goes, private individuals and their households are driven to seek more and more material wealth. This process in turn compels these private individuals to produce more and more and exchange what they produce with other individuals who are also seeking greater security and comfort. The sum total of these acts of production, exchange and consumption constitute the modern capitalist economy. The capitalist economy is therefore inherently driven to produce more and more so that its denizens may get greater and greater security and comfort.*
>
> *For the private individuals to produce more and better, they must generate savings that they plough back into the production process as new and improved techniques, processes and products. This enables these private individuals to constantly produce more products, better products and more diverse products that are capable of exchange with other private individuals who are doing the same.*

In fact, he also points out that Africa arguably has one of the largest private sectors in the world: "Most Africans live and work in private households that populate the African countryside." So why isn't capitalism working there? Why is it the case that "that the great majority of Africans are today experiencing the opposite; less security and comfort and in many instance they face hunger, homelessness, threats of violence and actual violence, and starvation on a daily basis"? The answer is that free-market capitalism has not been allowed to work in Africa:

> *In the model described above the underlying assumption is that private individuals are free to pursue their search for security and comfort and they therefore own and control the means of achieving their objectives. They are assumed to be free to exchange what they produce without let or hindrance and that where they are able to make savings, they are free to retain those savings and plough them back in improved tech-*

> *niques or in other investment avenues as they may wish.*
>
> *This is not the case with the private sector in Sub-Saharan Africa. Africa's private sector is predominantly made up of peasants and secondly, of subsidiaries of foreign-owned multinational corporations. Neither of these two groups has the complete freedom to operate in the market place because they are both politically dominated by others: non-producers who control the state. Herein lay the weakness of the private sector in Africa that explains its inability to become the engine of economic development. Africa's private sector lacks political power and is therefore not free to operate to maximise its objectives. Above all, it is not free to decide what happens to its savings.*

Start with the peasants, for instance:

> *Fundamentally, the political elite uses its control of the state to extract the surplus or savings that if the peasant were free to retain they would have invested in improving their production techniques or to diversify into other economic activities. Through marketing boards, taxation systems and the like, the political elite diverts these savings to finance its own consumption and the strengthening of the repressive instruments of the state.* The Economist *(London, 17th July 2004) made the following observation about Ethiopia's dependence on foreign food donations: "By law, all Ethiopian land is owned by the state. Farmers are loath to invest in improving productivity when they have no title to the land they till. Nor can they use land as collateral to raise credit. And they are taxed so heavily that they rarely have any surplus cash to invest." A great deal of what Africa's political elites consume and what the African state consumes, is however not produced locally but is rather imported. Elite and state consumption therefore does not create a significant market for African producers but instead acts as a major drain of national savings that would otherwise have gone into productive investment in Africa.*
>
> *This is the secret to Africa's growing impoverishment despite its large private sector. The more the African political elites consolidate their power, the more they strengthen their hold over the state, the more the peasants are likely to become poorer, and the more the African economies are likely to regress or at best, to mark time.*

One of the basic problems facing the poor in Africa—but also throughout the world—are property rights, and the absence of them. Property has traditionally been lambasted by socialists as the lynch pin of the capitalist order, and the solution to the social problem, socialists have traditionally said, is to abolish private ownership. On the contrary, though, it is an absence of secure property rights that is to blame for much of the poverty of the world.[6] In Egypt, for instance, if a person wants to acquire and legally register a lot on state-owned desert land, he has to make his way through at least 77 bureaucratic procedures in 31 different public and private agencies. This can take from 5 to 14 years. To build a swelling on former agricultural land can take up to 6 to 11 years of bureaucratic wrangling, and possibly longer. The consequence is that people don't bother to try to acquire land or establish dwellings legally. 4.7 million Egyptians have built their homes illegally. And even after having built the home, the Egyptian cannot own it formally. If, after finishing his home, he wanted to become a law-abiding citizen and purchase rights in it, he risks having the home demolished, paying a steep fine, and serving a ten year prison sentence.[7] So there is no incentive to formally acquire the property and it remains, officially, unowned.

In Cairo people try to get around real estate laws in various ways. Residents of older four-story public housing projects build three illegal stories on top of their buildings and sell the apartments to relatives or other clients. In an effort to stamp out high rent, the government froze rent on various apartments at values now worth less than a dollar. As a result legal tenants subdivide these properties into smaller apartments and lease them out illegally at the market price. So the poor hold numerous assets, but they do so extra-legally, having acquired them illegally, or built on them illegally. So the world's poor actually have access to an enormous amount of wealth, but they don't formally own it. As Hernando de Soto writes,

> *When you step out of the door of the Nile Hilton, what you leave behind is not the high-technology world of fax machines and icemakers, television and antibiotics. The people of Cairo have access to all those things. What you are really leaving behind is the world of legally enforceable transactions on property rights. Mortgages and accountable addresses to generate additional wealth are unavailable even to those people in Cairo who would probably strike you as quite rich. Outside Cairo, some of the poorest of the poor live in a district of old tombs called 'the city of the dead'. But almost all Cairo is a city of the dead—of dead capital, of*

> *assets that cannot be used to their fullest. The institutions that give life to Capital—that allow you to secure the interests of third parties with your work and assets—do not exist here.*

And how much is this dead capital worth? By the tally de Soto and his researchers made with some Egyptian colleagues, the total value of Egypt's dead capital in real estate, is some US$240 billion. This is thirty times the value of all the shares on the Cairo stock exchange, and fifty-five times the value of all foreign investment in Egypt.

The pattern is echoed throughout Africa and in much of the developing world. In Kenya, for instance, people do not own the land they farm, and so have no interest in ensuring its capital value, which they cannot own. They cannot use it as collateral to develop their businesses, and so are kept at a small, undercapitalised level. As Johann Norberg writes,

> *And so poor people are forced to live and run micro-businesses in the informal sector, outside the law. Consequently they have no legal protection and do not dare to invest for the long term, even if they can. Their property is not included in a uniform system of ownership which follows transactions and indicates one owner. Without clarity as to who owns what, how transactions are to proceed, who is responsible for payments and services to the address, the property remains "dead capital". Properties cannot be mortgaged, which would otherwise provide capital for financing the children's education or investments and expansion of the business. Thus the commonest way for small entrepreneurs in affluent countries to obtain capital is cut off in developing countries. Without a registered address and the possibility of having one's creditworthiness investigated, it is often impossible to get a phone or water and electricity supply, and the property cannot even be sold.*

Entrepreneurs can't expand their businesses by selling shares, because they can't prove formal ownership of their businesses. In order to avoid bureaucrats and police they are obliged to keep their businesses small, and so are prevented from utilising economies of scale. They are also prevented from advertising to expand their market and so income. But whilst a leftist may suggest that "this obsession on property as the solution for the poverty in the developing world is mere bourgeois ideology to protect the rich", the opposite is true. It is the rich that benefit the most from the absence of secure property rights. As Norberg writes, on the obstacles that the poor face to working within the law, legally acquiring and developing land, or registering businesses, "To people without big resources or powerful contacts, these are insuperable barriers." In other words, if you are rich enough, you can afford the time it takes to legally purchase land, to register its ownership, to get permission to build on it, to register a business and acquire licenses or permits. Or if you are well connected enough, you can cut through the bureaucracy easily. Or even if you don't do this, you can afford to bribe public officials. This means that the rich and well connected can secure land and resources and permission to operate businesses easily, whilst the poor are shut out. Failure to grant formal property rights provides the rich and powerful with monopolistic privileges.

Another source of problems are agricultural regulations. Many countries have attempted to force industrialisation into being, by taxing and regulating agriculture in such a way that its surplus is transferred to industry. This is done through price controls and delivery requirements, among other means, benefiting urban populations at farmers' expenses. This has had the consequence of destroying agriculture by depriving it of the resources it needs to streamline food production and generate surpluses in the first place. Johann Norberg notes that in many African countries this has created a vicious cycle. Destruction of the surpluses of agriculture, and price controls forcing prices down, destroys incentives to farm and has led to heavy migration into cities and towns. But there is no great demand for industrial goods because the countryside is still poor, and so cannot buy them. Therefore unemployment and poverty increase in the towns, and homelessness, crime and prostitution follow.

Some Examples

Nigeria is a glaring example. This is a huge country, with great potential for natural resources and agriculture. And yet it has remained abysmally poor. On the advice of the IMF and others, various reforms were instituted at the end of the 1980s. But the government dropped these reforms due to their unpopularity at the beginning of the 1990s. Regulations and controls were reintroduced, the credit and exchange market was abolished and interest rates were controlled. The result was inflation and unemployment. Between 1992 and 1996 the proportion of extremely poor in Nigeria rose from 43% of the population to the astounding figure of 66%. Nigeria today accounts for a quarter of all extreme poverty in southern Africa, and per capita income is lower than it was

thirty years ago, falling along with standards in health and education. Mbeki writes,

> *One of the most striking illustrations of this phenomenon is Nigeria. According to a study of Nigeria prepared by the Centre for the Study of African Economies at Oxford University, over the period from 1980 to 2000 per capita GDP (in US$1996 purchasing power parity terms) fell from US$1215 to US$706. The authors point out that growth and poverty are very closely related and that the 40% drop in purchasing power parity understates the size of Nigeria's problem. "First the fall in real per capita consumption was very much greater while the available evidence suggests that inequality rose. This combination of a very large fall in per capita consumption combined with increasing inequality implies a large rise in poverty." According to another source, the number of Nigerians living below the poverty line increased from 19 million in 1970 to 90 million in 2000. This was accompanied by a massive rise in inequality. In 1970 the top 2% of the population earned the same income as the bottom 17% but by 2000, the income of the top 2% was equal to that of the bottom 55%.*

One of the most horrific examples of the tyranny of the strong state in Africa, and indeed in the world, is in Robert Mugabe's Zimbabwe. Under Mugabe Zimbabwe has closed its boarders to foreign imports and services and raised inflation tremendously. Mbeki writes,

> *The one African politician who claims to act in the interests of peasants, Zimbabwe's Robert Mugabe, has reduced the once proud and almost self-sufficient Zimbabwean peasants to paupers who now have to be fed by the United Nations' World Food Programme. Africa's peasants are therefore prey to the forces that have the ability to form political organisation and therefore control the state. The way that peasants are preyed upon by the controllers of the state—the political elite—has been studied extensively not least by the World Bank itself.*

And now the country is in the grip of famine as Mugabe's followers meet out terrorist attacks on his followers, subject them to large-scale expropriation of land, and Mugabe himself uses his nationalisation of food distribution to starve the opposition. Zimbabwe's extreme poverty grew throughout the 1990s by three million people.

Business at the Mercy of the Post-Colonial African Elites

After colonial times, says Mbeki, multinational companies "fell prey to the appetites and whims of the new African political elites who controlled the newly independent African states. The lucky ones were nationalised and there owners were therefore paid compensation; the not so lucky ones were 'privatised' [confiscated by individual politicians without compensation]."

Mbeki goes on,

> *What has been most striking about the political elites in Sub-Saharan Africa has been their aversion to becoming involved in industry whether manufacturing or mining. Foreign owned companies therefore still dominate the private sector in these sectors with parastatals increasingly playing a minor role. A recent study by the World Bank shows that the most productive companies in, for example Nigeria, are those owned by Multinational Corporation or by non-African industrialists: Indians, Chinese, Lebanese etc… All these owners are easy targets as they are not represented within the political elites. In common with the peasants, they are therefore subjected to all sorts of official and unofficial taxes ranging from backhanders for factory inspectors and customs officials through to artificially high electricity tariffs, arbitrary municipal rates and the like. This is another way that the African political elite contributes to fostering Africa's underdevelopment. By obstructing the operations of industry and diverting a large part of its profit to elite consumption and to capital flight, Africa's manufacturing industries are unable to grow and therefore to create employment for all grades of workers.*

Oil and the Elites' Detachment from the Local Economy and Population

This does not mean that there has been no new investment in sub-Saharan Africa, Mbeki is quick to add. There has been great investment in extraction and in petroleum development. But here is a key to part of the problem:

> *The most graphic illustrations of this iron law of African underdevelopment is the role that the oil industry plays in Africa. Oil revenues make it possible for the political elite to literally become detached from the local population and*

economy and therefore to live in an oasis. When this happens there is therefore no need for the political elite and the state it controls to invest in mass education, health care, housing and transportation infrastructure that the population at large needs. Everything thus goes into a state of decay except of course for the welfare of the political elite and the repressive machinery of the state.

This was how The Economist *(London, 25th January 2003) described the impact of oil production on Equatorial Guinea and Gabon: " Equatorial Guinea now pumps more oil per person than Saudi Arabia. Its economy, once negligible, has grown at an incredible 40% annually since 1996, when the oil boom began. A few years ago, the streets of the capital, Malabo, were as quiet as Sao Tome's are today. Now, Malabo's pretty Spanish colonial architecture bristles with satellite dishes, and the streets, bathed at night in an orange glow from gas flared at a nearby methanol plant, are gaudy with sports cars, tropical palaces and prostitutes who flutter in from nearby countries such as Cameroon. And the tiny country's agriculture is blighted: cocoa and snail farmers have rushed to the town to grab at the oil bonanza. Equatorial Guinea was never well governed: Obiang Nguema, the president, seized power by executing his uncle in 1979. But oil has made his regime increasingly paranoid. Several members of the ruling family are thought to want a bigger slurp at the oil barrel. Mr Obiang sees plots everywhere, and arranged periodic crackdowns. Several opposition leaders were jailed last year after a mass trial, to which many defendants turned up with broken arms and legs. Mr Obiang scoffs at western notions of transparency, insisting that how much money his government earns from oil is nobody's business. 'Oil has turned him crazy,' says Celestino Bacale, a brave opposition politician.*

"In next door Gabon, Omar Bongo has been in power since 1967. He is more subtle than Mr Obiang. He does not torture his enemies but buys them off. Decades of oil revenues have corrupted Gabonese society and eroded its work ethic. Citizens aspire to soft billets in the civil service, and turn their noses up at menial jobs like taxi driving and shop-keeping, which they leave to immigrants from poorer places such as Togo and Mali. Agriculture in Gabon, as in Equatorial Guinea, is all but dead."

And, of course, this is where one would expect most foreign support for Africa's state capitalism to come in: from those interested in oil, the oil companies and various members of the US government, for instance.

The Role of " State Capitalism"

Johann Norberg[8] echoes Mbeki's views about the problems in Africa not being the result of out of control free-market policies, but of state intervention at the behest of the nations' elites:

> *The African leaders have been intent on avoiding the policy of the old colonial powers and also the risk of becoming commercially dependent on them, and so they have tried to build self-sufficient economies with draconian tariffs and with nationalisation and detailed control of industry. The economy has been governed by price and exchange controls, and public expenditure has at times run riot. The urban elites have systematically exploited the countryside. Instead of creating markets, countries established purchasing monopolies which paid wretched prices, and they introduced government distribution of foodstuffs. This way the government confiscated the entire agricultural surplus, thereby impoverishing farmers and abolishing the traders' occupation. Production fell and farmers were driven into the informal market. This impeded plan for industrialisation and posed a threat to society when the economic downturn set in during the seventies. After trying to borrow their way out of the crisis, many African states were in free fall by the mid-1980s. Structures collapsed, people starved, there were no medicines and machinery simply stopped when spare parts were missing and batteries went flat and could not be replaced. The fall has stopped since then, but has not yet been followed by an upturn.*

Of course, state capitalism from abroad, specifically the "western" world, adds a great deal to the hardship of the African people. Western governments seem to have grasped Adam Smith's defence of free trade, but not Ricardo's more sophisticated view. Smith should that if I was good at carpentry but not fishing, whilst you were better at fishing but not as good as me at carpentry, then free trade would benefit us both. Ricardo went further. He showed that if I was better than you at *both* carpentry and fishing it would still be to our mutual good to trade. This is because then if I let you do the fishing, even though you are worse at it than me, I could devote my time

to carpentry at which I am *more* better than you. Analogously, then, countries should allow free trade even in things that they are good at, instead of imposing tariffs on things that they can produce themselves.

But it is precisely these areas that the west imposes its tariffs the most. In the big rounds of free trade negotiations tariffs and quotas for the western world's export products have been reduced, but in the areas of most importance to the developing world, textiles and agricultural produce, liberalisation has not appeared. The tariff reductions of the Uruguay Round were smallest for the least developed countries. Asia and Latin America gained a little, but Africa gained nothing at all. Today western duties on export commodities from the developing world are 30% above average. Developing countries are able to export things that we can't supply ourselves, but our governments prevents them from "putting us out of business" by doing things we can do, only doing it cheaper and better. For instance, the western world has low tariffs on cotton, but high tariffs on textiles and machinery. "We may not be able to grow the cotton, so you can sell that to us, but we can damn well weave it ourselves, thank you very much" seems to be the message, ignoring Ricardo's law of comparative advantage and ignoring the fact that western consumers may prefer being able to choose foreign textiles. Duties on processed products from the developing world are no less than four times higher than on corresponding goods imported from industrialised nations. Textile tariffs imposed by the western world average 12% of the value of the goods.[9]

The most shocking protectionism on behalf of the rich countries is in the area of agriculture, one of the areas that a free Africa would have the most potential. Most of the affluent countries are determined to maintain a large-scale agricultural industry of their own even if there were no comparative advantage involved. So they subsidise their own farmers and impose trade barriers to shut out those of other countries.

The Malign Example of the European Union

The EU's Common Agricultural Policy (CAP) involves quotas on foodstuffs and tariffs of about 100% on, for example, sugar and dairy produce. The intention is to shut out processed goods that could compete with European ones, thereby using state intervention to protect the market shares of the big businesses in Europe producing them. This is evident from the fact that coffee and cocoa, two things Europeans cannot produce themselves, can slip through with very little customs mark up. Meanwhile, EU tariffs on meat are several hundred percent!

But the EU's state capitalist mistreatment of the producers of the developing world does not just stop there. Almost half the EU budget goes on subsidising production and transportation for EU farmers. These grants are paid according to acreage or head of livestock, meaning that it is mainly a subsidisation of the wealthiest farmers and of the largest scale operations: some of the foremost recipients being the British royal family! These grants give rise to huge surpluses that have to be disposed of. On way that this is done is to actually pay farmers not to produce: this whilst it is also penalising productive foreign farmers and causing poverty amongst Africa's peasants! Worse still, though, through export subsidies it dumps this surplus on world markets, so that poor countries cannot produce. This means that the CAP not only forbids Third World farmers from selling in Europe, it also knocks them down in their own countries. It is estimated that the CAP causes the developing countries a welfare loss in the region of US$20 billion annually, which is twice Kenya's entire GDP.

It is hard to quantify the loss which developing countries suffer due to protectionism by western economies, but people have tried. The United Nations Conference on Trade and Development Programme (UNCTAD) says that with greater access to the markets of affluent countries exports from the developing countries would grow by something like US$700 billion annually. The British Labour government 's white paper on globalisation issues says that a 50% reduction of import duties in industrialised nations would lead to a growth of prosperity in developing countries of something like US$150 billion. This is three times as much as global development aid. One study, showing that the world economy would gain about US$70 billion from a 40% reduction in tariffs, said that some 75% of these gains would be harvested by developing countries.[9]

Some Cause for Hope: African Exceptions

Evidence that the poverty in Africa is caused by too much socialism—socialism for the rich—and too little free market capitalism can be gleaned by comparing the above to the exceptions in sub-Saharan Africa. Cattle farmers in Botswana were quick to realise that it was in their interest to campaign for more open markets, and this resulted large parts of Botswana's economy becoming exposed to competition

by the end of the 1970s. Through its association with the EU, Botswana was also able to secure for its exports exemption from the EU's duties and quotas. Between 1970 and 1990 Botswana has experienced annual growth levels of more than 10%.

Mauritius is another example. This country reduced military spending, strengthened protection for property rights, reduced taxes, developed a free exchange market and increased competition, and now has growth rates of 5%. Today everyone has access to clean water, and education and health care are expanding.

Ghana is another example. It liberalised its markets and reduced taxes during the 1990s. In particular, agriculture has been deregulated, and tariffs, price controls and subsidies have been abolished. Production consequently has risen fast, above all benefiting the cocoa farmers, but also because they are now able to invest and buy repairs, and goods and services, everyone capable of assisting in this respect has benefited. Extreme poverty in Ghana fell during the 1990s from 35.7% to 29.4% of the population.

Uganda is yet another example where the economy has been liberalised in the past decade or so. Trade has been liberated, price controls abolished, taxes lowered and inflation reduced, whilst steps have been taken towards protecting property rights and deregulating financial markets. This, coupled with extensive development assistance, has lead to an annual growth of more than 5% and a diminishing in inequality. In only six years, extreme poverty in Uganda fell from 55.6% to 44%. It is also the first country where, due to a relatively high degree of openness and the information work of independent organisations, the spread of HIV/AIDS in towns and cities has begin to diminish.

Africa Needs Laissez Faire!

All this shows that poverty and starvation experienced in Sub-Saharan Africa is not the result of the spread of radical laissez faire ideas, proliferated by greedy corporate shills eager to hold off the benevolent hand of state control to tame their exploitative imperialism. On the contrary, poverty in Africa is a result of too little laissez faire and too much state intervention, and this is precisely how the rich elites want it, and it has come with their backing. Both within Africa—through land grabs, theft of agricultural surpluses, and licensing of enterprises—and outside Africa—through the creation of trade barriers to protect the market shares of European and American big business from foreign competition—it has been the rich elites that have championed state intervention. And this, not capitalism, has been the cause of poverty in Africa.

Notes

(1) Moeletsi Mbeki, 'The private sector, political elites and underdevelopment in Sub-Saharan Africa', The South African Institute of International Affairs, 2005, URL (consulted 20th June 2005): http://www.saiia.org.za/modules.php?op=modload&name=News&file=article&sid=500.

(2) Arne Melchoir, Kjetil Telle & Henrik Wiig, *Globalisering och ulikhet: Verdens inntektsfordeling og levestandard 1960-1998*, Oslo, Royal Norwegian Ministry of Foreign Affairs, 2000. Via Johann Norberg, *In Defense of Global Capitalism*, Timbro 2001, p25

(3) Norberg, ibid., p26

(4) Mbeki, op. cit.

(5) Norberg, op.cit., p99

(6) On this, see the excellent *The Mystery of Capital* by Hernando de Soto, Bantam Press, 2000/1. In case de Soto's call for uniform systems of legal ownership might be felt to contradict the premises of market anarchism, see Roderick T. Long at http://praxeology.net/unblog03-04.htm#16.

(7) De Soto, ibid., p20

(8)Norberg, op. cit., p99.

(9)Ibid., p148-9.

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