Feature Articles

The Economic Freedom of the World 1997 Report
by James Gwartney and Robert Lawson

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The Institute for Economic Freedom is an independent non-political non-profit Bahamian institute that promotes economic growth, employment and entrepreneurial activity. It believes that this can best be achieved with a free market economy and a decent society...one that embraces the rule of law, the right of private property, the free exchange of property and services and the individual virtues of self-control, commitment and good will.

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Dedicated

to

Sloane E. Farrington

1923 - 1997

This issue is dedicated to the memory of Sloane E. Farrington, a Director of the Institute.

His business career spanned employment in the shipping industry, a long association with ESSO Standard Oil Company, Bayshore Marina, Big Q Supermarket and for over the past thirty plus years as a Realtor of high repute.

In the 1940s and 1950s he was a world class sailor who often crewed with Sir Durward Knowles. He won the World Championship in 1947, a Gold medal in the Pan-American Games and an Olympic Bronze Medal in 1956.

Although born and raised in Nassau, Sloane had family ties to the southeast Bahamas. His grandfather, a successful shipping merchant on Fortune Island, appears in The Land of the Pink Pearl (a classic of Bahamian literature published in 1888) as a gracious host to L.D. Powles, the author.

He was a proud Bahamian...well read, articulate and very conscious of how wealth is created. He was a tireless champion of constitutional rights and the right to private property.

We miss his presence.
How to Identify Legal Plunder

“See if the law takes from some persons what belongs to them, and gives it to other persons to whom it does not belong. See if the law benefits one citizen at the expense of another by doing what the citizen himself cannot do without committing a crime.

“Then abolish this law without delay, for it is not only an evil itself, but also it is a fertile source for further evils because it invites reprisals. If such a law—which may be an isolated case—is not abolished immediately, it will spread, multiply, and develop into a system.

“The person who profits from this law will complain bitterly, defending his acquired rights. He will claim that the state is obligated to protect and encourage his particular industry; that this procedure enriches the state because the protected industry is thus able to spend more and to pay higher wages to the poor workingmen.

“Do not listen to this sophistry by vested interests. The acceptance of these arguments will build legal plunder into a whole system. In fact, this has already occurred. The present-day delusion is an attempt to enrich everyone at the expense of everyone else; to make plunder universal under the pretense of organizing it.

“Now, legal plunder can be committed in an infinite number of ways. Thus we have an infinite number of plans for organizing it: tariffs, protection, benefits, subsidies, encouragements, progressive taxation, public schools, guaranteed jobs, guaranteed profits, minimum wages, a right to relief, a right to the tools of labor, free credit, and so on, and so on. All these plans as a whole—with their common air of legal plunder—constitute socialism.”

Frederic Bastiat, The Law, 1850.
The Economic Freedom of the World

1997 Report

by

James Gwartney & Robert Lawson

The following text is the press release for the second edition of the pioneer work on the Economic Freedom of the World, just published by The Fraser Institute of Vancouver.2

**Economic freedom enhances economic growth.**

In the 18th century Adam Smith looked at the economic growth brought by the Industrial Revolution and the associated changes in society. He argued that--

> Individuals will be more productive when they are economically free and

> Greater productivity means greater total wealth.

These ideas were discussed and contested by generations of economists. A quantitative measure of national wealth awaited the development of national income accounting that became widely used after World War II. A quantitative and objective measure of economic freedom was developed over a ten year period and first published in the first edition of this work.

The two main conclusions of this effort are

> Countries with persistently high economic freedom ratings achieved high levels of income.
These included countries such as Hong Kong, Switzerland, Singapore, the United States, Canada and Germany. While this part of both editions is interesting, it is the countries that have changed their Freedom Ratings that is most relevant to the Bahamas.

*Countries with improved Economic Freedom ratings experienced economic growth while those with declining ratings did not.*

The three countries with the largest increases in Economic Freedom for the 20 year period of 1975 to 1995 were New Zealand, Chile and Mauritius. (Refer to Graph I.) Their Real Gross Domestic Product per capita in the ten year period 1986-96 grew at a rate of 3.8% per year. In contrast the three countries with the largest decreases in their Freedom Ratings, an average of -2.3%, were Venezuela, Haiti and Nicaragua. Real GDP per capita here declined at an average of -3.3%.

The performance of the Bahamas places it exactly midway between the best and worst. During the twenty year period its Economic Freedom Rating dropped from 6.5 in 1975 to 6.0 in 1980 and recovered to 6.2. (Refer to Graph II.) During the ten year period 1986-96 its Real GDP per capita remained unchanged, 0.0%.

*The Bahamas - a highly regulated and centrally managed economy.*

The specific comments by the authors on The Bahamas are as follows:³

"In 1995 the Bahamas ranked 35th among 115 countries in our study. At first glance this economy appears to be quite free. Government expenditures and taxes are relatively low. There is no income tax. Direct income transfers and subsidies are small and most businesses are privately owned.

"Probing beneath the surface, however, one discovers that this is a highly regulated and centrally managed economy. The business sector is characterized by a complex and contradictory set of entry restraints, targeted tax breaks, and indirect subsidies. A bureaucratic
**Graph I**


<table>
<thead>
<tr>
<th>Country</th>
<th>Economic Freedom Rating</th>
<th>Real GDP Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Zealand</td>
<td></td>
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<tr>
<td>Chile</td>
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<td>Bahamian</td>
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<td>Nicaragua</td>
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<tr>
<td>Venezuela</td>
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</tbody>
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**Graph II**

The Bahamas:

<table>
<thead>
<tr>
<th>Year</th>
<th>Economic Freedom Rating</th>
<th>Country Ranking</th>
<th>Growth in Real GDP Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>6.0</td>
<td>1</td>
<td>1.1</td>
</tr>
<tr>
<td>1980</td>
<td>6.1</td>
<td>2</td>
<td>-4.3</td>
</tr>
<tr>
<td>1985</td>
<td>6.1</td>
<td>3</td>
<td>0.9</td>
</tr>
<tr>
<td>1990</td>
<td>6.2</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>6.2</td>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>
licensing system restrains entry into many business activities and
exerts political control over the economy. While foreigners are
virtually excluded from the wholesale and retail business sector, they
qualify for attractive tax breaks in other areas (export manufacturing,
light industry, and agriculture, for example). When they meet certain
criteria, new hotels are exempted from property taxes for up to ten
years and granted other tax concessions for even longer periods of
time. The government also uses both its regulatory power and tax
concessions to promote the offshore banking industry.

"Regulations abound in other areas. A residency and work permit
system controls and taxes foreigners. Price controls are imposed on
petroleum and food products. Domestic citizens are not allowed to
maintain foreign currency bank accounts. Foreign exchange controls
limit the movement of capital. Tariff rates vary widely among
product categories, distorting relative prices and reducing the gains
from international trade.

"During the 1980s, the employment of state-operated enterprises
expanded and the government became a major hotel owner and
operator. A reform government elected in August 1992 and re-elected
in March 1997 has privatized the largest part of its holdings."

The hope - deregulation and economic liberalism.

"Nevertheless, state enterprises and excessive regulations continue to
exert a major impact on the economy. While the new government has
speeded the investment approval process, regulations limiting the
entry and development of business remain on the books. Residents
dealing with the government telephone monopoly often confront
lengthy waiting periods. The government-operated airline has 635
employees, while operating only 9 planes. Hopefully, a decade of
economic stagnation is ending and the country will move toward
deregulation and economic liberalism in the near future."

The Institute for Economic Freedom
Nassau, Bahamas
May 26, 1997
Economic Freedom and The FNM

by

Ralph J. Massey

The Economic Freedom of the World 1997 Report describes the Bahamian economy as being "highly regulated and centrally managed", states that the economy stagnated and expresses the hope that it "will move toward deregulation and economic liberalism."

Such comments somehow seem at odds with the accomplishments of the past five years and the optimism of the Speech from the Throne, the FNM's Manifesto II and the 1997/98 Budget Communication. They seem inconsistent with the fact that the FNM has given substance to the old advertising claim "It's Better in the Bahamas." This apparent inconsistency is the subject of this article.

The Cost of the PLP - $10,755 per person per year.

From the late 1950s to the mid-1970s there was substantial economic growth in the Bahamas and a significant improvement in the economic welfare of all citizens. Yet, the reality at the time when the Progressive Liberal Party came to power in 1967 was that the differences in personal income levels between identifiable sectors of society were still large even though they may have been diminishing.

The change in government offered the PLP the opportunity to try to accelerate economic change. It chose to use the full power of the government to re-distribute the wealth of the country...to produce "economic justice" quickly. The measures used included business licensing, work and residency permits, taxation, government employment, government purchase contracts, price controls and corruption. The government also went into business on a large
scale...the utilities, transportation, broadcasting, hotels, agriculture and banking. After 1970 economic freedom declined.

The economic environment changed. The Bahamas had made a successful entry into the international tourism and financial markets in the late 1950s and the country experienced rapid economic growth up to the mid 1970s. The new governing elite, the PLP, in the end managed the nation’s resources for its benefit at the expense of society and their policies of state intervention produced economic stagnation. In a more politicized society everyone sought government favors and protection. A purge of foreign owned and controlled businesses was initiated. Hubert de Santana in discussing the D’Arcy Ryan case reported that “between 1970 and 1972 1,500 companies ceased operations.” The cost of doing business and the rewards to “intermediaries” rose.

When adjusted for inflation, and to the best that one can determine, economic growth over a 15 year period either declined or at best matched the increase in population.

The measure of growth used in the Report is Gross National Product per person adjusted to eliminate inflation. The three countries covered in the study that had the largest increase in economic freedom, New Zealand, Chile and Mauritius, grew at a rate of +3.7%. If the Real GDP of The Bahamas had grown for 15 years at +3.7% per year instead of 0.0%, then the Real GDP per capita in 1993 (stated in 1995 U. S. dollars) would have been $27,000 rather than the $16,222 shown in the Report.

This difference, $10,755 per capita per year or 40% less, is the economic loss associated with 15 years of stagnation. The failure to achieve this higher standard of living, or some portion of it, is the lost prosperity or the cost of the PLP era.

The FNM heritage - the interventionist state.

Since August 1992 the reform government of Prime Minister Hubert Ingraham has concentrated on the elimination of rampant corruption,
the sale of the government owned hotels, investments in the economic infrastructure and the promotion of major private business investments. All of this was done with a degree of openness and public accountability that had long been absent from the political life of the country.

Also the FNM has been mindful of some of the adverse consequences of government. This is seen in the statements that it has “removed political intervention from the issuance of shop, business and restaurant licenses...considerably reduced the red-tape previously associated with the investment approval process...[and] established a ‘one-stop-shop’ for international investors.”


Nevertheless, the FNM does not embrace free markets as an efficient and fair way to organize economic activity. This policy bias will reduce the country’s real economic growth and can be best seen in the Speech from the Throne and Manifesto II.

In this connection the author will examine three groups of statements and then provide the implied economic assumptions associated with each and his comments.

**Group I - consumer protection.**

**FNM Statements.** The government protects consumers from “unscrupulous merchants” and ensures the receipt of “value for money spent on both goods and services”. It will enact laws governing minimum standards and weights and measures, establish a Bureau of Standards and a Standards Council to oversee and regulate consumer services, including construction, maintenance and repair services. It will continue to inspect businesses and prosecute violators of the price control laws.

**Implied Economic Assumptions.** The exchange of goods and services is not free—buyers do not have real alternatives and sellers do not really compete. There is a monopoly profit or “rent” that is on top of the “fair or true” market price. The exchange is a
win/lose exchange (one party wins and the other loses) and not a win/win exchange (both parties win).

Author’s Comments. The government limits competition by reserving areas for Bahamians only and controlling the details of all business operations by the business licensing process. In free markets the protection against monopoly profits is a low cost of entry of new businesses into the market...more competition or the threat of more competition.

*In The Bahamas it is “catch 22”, the government limits competition and then intervenes to protect the consumer from the lack thereof.*

**Group II - worker protection.**

FNM Statements. The government must protect workers from employers. It will set a minimum wage for workers, particularly shop assistants, fast food restaurant workers, unskilled construction workers, domestic workers and security guards. It will ensure “equal pay for equal work” for male and female employees and Bahamian and foreign staff. It will set minimum standards and conditions of employment and regulate health and safety in the work place.

Implied Economic Assumptions. Employers do not operate in a rational manner when choosing between white and black, foreign and Bahamian or male and female job candidates. In private enterprise employment decisions are not made on the basis of ability, attitude, education, training...the expected productivity of the worker...but on the basis of race, sex, nationality or ethnicity. The employer does not see a positive relationship between the conditions of employment and worker productivity, but the Department of Labor does. Furthermore, an employer can and does pay an employee less than his worth.

Author’s Comments. The specific proposals come directly from the United Nation’s Industrial Labor Organization that was
founded in 1919 by Samuel Gompers, head of the American Federation of Labour (AFL). The proposals reflect the planning theory of the post World War II period that was promoted by western governments, the United Nations and the international development banks.

This agenda assumes that government regulation is needed to protect workers from avaricious and unethical businessmen. This suggests a paranoid distrust of business and an extraordinarily naive trust in government. With an act of faith the government builds a bureaucracy in order to produce benefits for the worker.

Such a bureaucracy not only raises the cost of doing business but it also diverts the country’s resources from market and profit making activities to “political” cost avoidance efforts.

Despite the best intentions of the planners markets are ensnared, business is politicized and corrupting opportunities (in economic terms, rent-taking opportunities) are created for government employees. That is the record of the past thirty years in North America, South America and The Bahamas.

Moreover, such legislation tends to reduce employment. This is particularly true of minimum wage legislation that affects the employment opportunities of the least capable, most under-skilled candidates for employment because it affects entry level jobs in the labor force.

In general employers are rational in their choices and weigh the complete cost of employment against the value of work produced. In the case of entry level positions the employer must undertake a considerable amount of on-the-job training. Simple disciplines and productive attitudes must be secured in addition to specific skills. A minimum wage, or an increase in it, raises the cost of employing “entry level” labor without any change in output.

The economic impact is less employment, a result that has been widely documented elsewhere.
In the United States the Fair Labor Standards Act of 1938 was substantially revised in 1950 when its coverage was greatly extended and the minimum raised. "At no time during the three decades after 1950, not even in the most prosperous years, was black teenage unemployment as low as it had been in 1949--a recession year."  

In the 1920s, decades before the establishment of apartheid in South Africa, a coalition government of Afrikaner Nationalists and the South African Labor Party passed legislation designed to reduce the employment of blacks in industry...The South African government...resorted to minimum wage laws expressly in order to price blacks out of jobs that the government wanted reserved for whites."

The second impact of minimum wage legislation is an increased need for government funded job training.

The assumption here is that government efforts at job training are as productive as the private sector, market induced efforts. There is no evidence that this is so. In fact, experience in the United States substantiates the ineffectiveness of such programs. The irony is that the FNM proposes to fund its skill development effort with a new tax on expatriate labor. This is a politically appealing proposal that unfortunately increases taxes and raises the cost of doing business immediately.

**Group III - welfare for entrepreneurs.**

**FNM Statements.** The government must implement a welfare program for disadvantaged entrepreneurs. It will open a "soft loan" window for Bahamian manufacturers at the Bahamas Development Bank and the Bahamas Agricultural and Industrial Corporation, guarantee loans from other banks, permit the duty-free importation of machinery and raw materials and minimize bureaucratic delays in the registration process. Furthermore, it will maximize the use of "Bahamian produced and/or sourced materials, services and products in the construction, outfitting and
operation of all hotels and resorts as a precondition to the grant of Customs duty concessions.”

**Implied Economic Assumptions.** There is an abundance of capital available for new businesses that is held as “idle” balances in commercial banks. The banks prefer to make non-productive consumer loans or they discriminate against blacks in making working capital and venture capital loans. In the absence of a private sector initiative to take such risks, the government must do so. Also in connection with such loans the government must provide other services gratis. Despite the dismal record of the PLP in its management of the government development banks, the FNM will not have the same experience.

**Author's Comments.** Commercial banks are not in the business of making venture capital loans. In most other societies such financing comes from the personal savings of family and friends or financial intermediaries other than commercial banks.

Furthermore, the proposed welfare program for entrepreneurs transfers wealth through subsidies, tax concessions and government protected monopolies. The government takes wealth from all citizens, including the poor, and gives it to specific citizens.

As in all welfare programs the problem is to care for the deserving while not encouraging the undeserving. The dilemma is how to promote virtuous behavior without encouraging vice—how to encourage enterprise without promoting dependency and thieving. Once started such transfers are very difficult to eliminate since they create a “rent-taking” group with a vested interest in their maintenance. The demand for support increases and eventually bribes, not the market, allocate resources among the rent-seekers.

There is no reason to believe that this welfare program for entrepreneurs will have any better record in promoting enterprise in The Bahamas than welfare programs diminished poverty in the United States. In 1962 President John F. Kennedy stated the objectives of his new welfare initiative, “...to contribute to the
attack on dependency, juvenile delinquency, family breakdown, illegitimacy..." In the U. S. the very costly steps designed to relieve misery, in fact, increased it...for the targeted beneficiaries the results were the opposite of what was intended.  

In The Bahamas the welfare program for entrepreneurs is likely to promote dependency and discourage self-reliance, initiative and enterprise.

Rather than follow the failed policies of the past, the FNM should seek private enterprise ways to promote the flow of savings into investment. The most creative ideas in this regard are those that have been pioneered in Latin America. These include the development of competitive free capital markets, the privatization of government enterprises and the creation of private enterprise alternatives to government social security and medical care programs. In the latter case, for instance, the workers become active investors through their private retirement accounts. This is citizen empowerment of the highest order. Such programs can produce a much higher savings rate that leads to much higher levels of enterprise, total output and income.

Race and envy - the effects on economic growth.

It appears from the foregoing discussion that The Bahamas, despite its achievements, is continuing to rely on "state interventionist" policies. It is doing so when the rest of the world has discovered their long term costs.

Collectively and individually what prevents Bahamians from accepting free markets as a method of allocating scarce resources?

Stated in economic terms it is the need to deal with the racial diversity of the country and the perceived distribution of wealth and opportunity. The FNM is dealing with two very powerful human emotions that are embedded in the individual and collective consciousness of this society--race and envy.
This subject is so emotionally explosive that it defies rational analysis and commentary. However, for two decades Thomas Sowell, the eminent conservative black American economist, has analyzed the subject. His books include *Ethnic America* published in 1981, *The Economics and Politics of Race* in 1983, *Race and Culture* in 1994 and *Migrations and Culture* in 1996. Robert Barro, the Harvard University economist, briefly states several recurring ideas that appear in Sowell's work—

"If diversity is great--measured, say, by the inequality in potential earnings--then there is a strong incentive for people to spend their energies in efforts to redistribute income rather than to produce goods...In a democracy this involves voter behavior, whereas in a dictatorship the pressures from interest groups are less direct. But either way, [this] encourages people to expend resources in unproductive ways and leads thereby to poor economic performance."

This is a clear statement of how race and envy can adversely affect an economy. However, race and ethnicity can be a powerful constructive force.

In assessing how race, religion and identity determine success Joel Kotkin in a book titled *Tribes* concludes that in the new global economy “clearly identifiable values--such as a strong ethnic identity, a belief in self-help, hard work, thrift, education and the family--have proved universally successful.” Thomas Sowell states that “the cultural advantages that enable some groups to advance faster--and particularly to advance from poverty to affluence--need not be specific skills...Attitudes and work habits are often more crucial--and take longer to acquire--than do specific skills.”

In short any prime minister must balance short term political needs and long term economic goals. Getting it right is not an easy task. This is why it is so important for the country discuss the proposals contained in the *Speech from the Throne* and *Manifesto II*. 

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Discrimination and the Market

by

Thomas Sowell

As noted in the Endnotes the following is text as it appears in The Economics and Politics of Race: An International Perspective by Thomas Sowell. The semi-outline format and section headings have been added by the Editor.

An international perspective on race and ethnicity means much more than a compilation of minority experiences in different countries. It means an opportunity to test competing beliefs and theories in a way that cannot be done in any given country.  

Differences, economics and politics.

Analysis of either economic or political processes must begin with an awareness of substantial and consequential differences among groups, including racial and ethnic groups. These differences may be in values, in economic performance, in the degree of willingness to obey rules, or in many other characteristics.

From an economic perspective, these differences can create valuable complementarities. A nation of peasant farmers--whether in eastern Europe or southeast Asia--can benefit from the addition of a group of organizers of markets for their crops and sellers of miscellaneous manufactured goods used by peasant families. By the same token, groups like the Jews in Europe and the overseas Chinese in Asia obviously found it to their advantage to migrate to places where they could perform these functions.

But from a political perspective, the more desperately needed these middlemen were, and the more valuable their contributions to the economy, the greater the disparity in income between them and the peasant masses--and the more they were hated as
“exploiters.” The market and the political system often render opposite verdicts on the same situation. Because the political system holds ultimate power over the economy, the political verdict can be used to override the economic verdict—as in the many expulsions of Jews and Chinese at various times and places in history. The economic reality of hardships to the general population caused by the departure of the Jews and the Chinese in many cases forced political authorities to relent and let them back in, or even to try to entice them back.

One of the reasons for the different verdicts rendered by political and economic systems is that political systems give expression to beliefs, often at negligible cost, while economic systems are constrained by the hard realities and thus impose substantial costs for being wrong and confer substantial benefits for being right.

For example, Japanese immigrants to the United States in the early twentieth century were initially paid less than white workers doing the same work in the agricultural fields where they were concentrated. In reality, however, the Japanese workers were harder workers, and this reality made them a better economic bargain for employers. Once the higher productivity of Japanese labor became known throughout the market, this pay differential not only disappeared under competitive pressures, but turned eventually into higher rates of pay for Japanese workers than the white workers received.\textsuperscript{15}

\textbf{Goodwill and illwill in the market.}

One of the enduring misconceptions about the market is that its effective operation depends upon the goodwill of those transacting in it. But no such assumption is implied in economic analysis of markets, nor have market economists relied on any such beliefs.\textsuperscript{16} Adam Smith’s 1776 classic analysis of markets, \textit{The Wealth of Nations}, repeatedly assumed \textit{ill-will} on the part of businessmen.\textsuperscript{17} In early twentieth century America, Jewish and Polish immigrants sought each other out for economic transactions despite seething hatred between the two groups.\textsuperscript{18} The Chinese could never have advanced through the market to prosperity, either in Southeast Asia
or in the United States, if they had depended on the goodwill of the surrounding majority.

IIlwill in the South.

One of the most massive efforts based on ill-will occurred in the American South immediately after the Civil War, and its failure indicates something of the power of market competition. White southern employers and landowners attempted to band together to keep down the pay rates of black laborers and sharecroppers. Since this was perfectly legal at the time, such plans were openly discussed in the southern press. On the face of it, these white employers and landowners had every conceivable advantage: Blacks were destitute, illiterate, wholly inexperienced, unorganized, and the law had little or no concern for their rights. Yet the cold fact is that black income rose at a higher rate than white income in the generation after the Civil War.\textsuperscript{19} Egregious frauds were perpetrated here and there, especially in the first year after the Civil War, when some plantation owners even concealed the Emancipation Proclamation from blacks and continued to work them for nothing,\textsuperscript{20} but what is remarkable is how quickly and completely the cartels broke down.

Even an illiterate worker, unable to count his money, could tell when friends or relatives elsewhere were living better. White employers and landowners who paid more or had better working or living conditions quickly found themselves with a large supply of black applicants, while employers and landowners who had taken the fullest advantage of vulnerable blacks found themselves having great difficulty getting people to work for them. Competition forced wages up and changed working and living conditions to the benefit of blacks.\textsuperscript{21} The southern press was filled with outraged complaints by white employers and landowners that other whites had not stuck by their agreements and that blacks were getting unreasonably high pay as a result.\textsuperscript{22} What these southern whites regarded as excessive pay for blacks was, of course, still the very low pay received by unskilled workers who required much supervision. However, as black workers and sharecroppers accumulated more experience and therefore became more valuable, their wage rates rose at a higher rate than among whites, as might be expected because of their acquisition of
basic human capital that others already had. The terms of sharecropper contracts also changed, as blacks acquired more discretion in managing their farms as they gained more experience.\textsuperscript{23}

In short, competition produced changes that few—if any—whites were in favor of. The effectiveness of a competitive market is in no way dependent upon the goodwill or honesty of transactors.

**Stereotypes, politics and economic consequences.**

That is the whole point of analyzing a market, as distinguished from surveying or averaging the opinions, intentions or stereotypes in the minds of transactors.

In the political sphere, however, popular beliefs carry much more weight.

Where the overseas Chinese or the Jews were believed to be harmful to the economy, they were expelled, regardless of the reality.

Because American laws and ideology limited political intervention in the economy during the nineteenth century, the economic reality of rising levels of capability among blacks was reflected in increased pay, more discretion as tenant farmers, and improving housing conditions.\textsuperscript{24}

By contrast, in South Africa, where political decision making superseded economic decision making to a greater extent, the rise of blacks was far more effectively stopped.\textsuperscript{25}

In both countries, individuals and groups hostile to laissez-faire capitalism were in the forefront of the drive to impose color discrimination politically.

The rise of the populist radicalism in the American South at the end of the nineteenth century marked a sharp decline in the rights of blacks and a sharp rise of discrimination, segregation, and
lynchings. Southern populist politicians who thundered against the banks and the corporations also thundered against the “niggers.” On the west coast of the United States, socialist Jack London and labor union chief Samuel Gompers spearheaded anti-Chinese political campaigns.

In South Africa as well, socialist and trade union leaders (sometimes the same individuals) initiated demands for “color bar” legislation and backed their demands with massive violence. The Nationalist Party of South Africa has long had an anti-capitalist ideology, and Afrikaners considered as “abuses of capitalism” the tendency of the market to allow blacks to rise above their “place” as conceived by whites.

Endnotes

3 Ibid, p. 48.

Sowell, *The Economics of Politics and Race*, p. 139.


Indeed, Milton Friedman has argued against altruism by businessmen. See Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, Chicago, 1962, Chapter VIII.


Ibid, p. 41.


Ibid, pp. 45, 49 - 55.

Ibid, Chapter 3.


Ibid, Chapter VI, passim.


W. H. Hutt, *The Economics of the Colour Bar*, p. 44.