

Why I still love capitalism

Even when ranked with the swine flu and nuclear incidents capitalism is likely to be highly rated on the ugh–list. One of the most successful young financial entrepreneurs tells us why the free economy has not deserved this.

Guest Editorial by Christian Angermayer

To stand up for more – and not less – capitalism today, is probably not the fastest way to make yourself popular at a party. To fresh are the scares the global financial crisis left every individual. However, now more than ever capitalism and the inseparably with it connected globalization need support. As both together are the most effective answer humanity has for really important global issues.

Four reasons, why we should appreciate and stand up for capitalism and one suggestion for improvement. They are:

Repeatedly the globalization- and capitalism critics try to suggest that poverty is a phenomenon of the modern times, stirred up by the excesses of the capitalistic system. The contrary is the case. Prosperity and not poverty is the novelty of our period.



The United Nations Building in New York: a witness to the significant increase in living conditions that has happened in the past decades

East-African Rwanda offers a good example. While for many Europeans only the pictures of the gruesome genocide of the Tutsis 1994 is still present, the small country has orientated itself within 15 years towards a market based economy and globalization. Today the Rwandan companies are able to sell their products and services outside of their domestic market, this applies to tea and coffee products as well as the most different services. It is able to exchange these for products which cannot be produced efficiently in Rwanda. The economic growth rate for 2009 is still above 5%. More important: The level of prosperity in Rwanda is growing steadily; poverty and hunger are on the retreat.

Rwanda is no exemption. Never before has there been a comparably drastic increase in living conditions worldwide.

Here a couple of facts, which are enlisted in different United Nations researches:

During the past 50 years poverty has declined faster than during the last 500 years before. The average income in developing countries has doubled over the last 30 years. Only during the past 2 decades the proportion of absolute poverty, the proportion of the world population which earns less than one dollar a day, has decreased from 31 to around 20 per cent. During the past 30 years the proportion of people starving in development countries was decreased from 40 to only 17 percent. Child labor has been cut in half.

The world is not advancing thanks to socialistic allocation. It is improving through economic growth. Growth creates wealth and values which can also be distributed.

Sadly the human being is a creature of habit and rapid fast achievements and comforts soon become standard. Not quite innocent from this aspect is the media which prefers to highlight the problematic cases rather than the success stories. Next to war, crisis and catastrophes are pictures of poverty still considerably better sellers than an article about positive developments in Rwanda. Sadly, that is how a distorted picture of the situation is generated.

Distribution kills prosperity

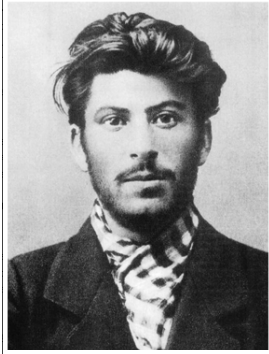
Over the past 50 years more than USD 2 trillion have been invested in Africa. A tremendous effort of redistribution. Only very randomly these funds generated a real economic boost. More than that: these unconventional efforts to distribute have destroyed the entrepreneurial initiatives of the Receiver-countries, which have repressed the more important private investments and therefore supported market distortion, corruption and weak institutional structures.



The typical capitalistic instrument proved more effective: increased credit lending to small entrepreneurs – so-called microfinance – and the supply of more venture capital have improved the living conditions considerably over the past few years. And the clever Receiver-countries, like Rwanda are currently in discussions with their donor countries how gradual dehabitation via clear differentiation and temporal limitation of development aid could look like. Voices for less capitalism and globalization, as have become almost consensus in Europe, would be met with complete incomprehension in Rwanda.

For Democracy capitalism is stringent

The basis of capitalism is liberal thinking. Free enterprises cannot develop where there are not free thoughts and approaches to solutions for the unknown. Freedom enables people to establish companies and to be able to buy and sell merchandise and services at the markets. Therefore capitalism is the basis and nutrient for democracy. And not the other way around.



Brotherly love? A young Josef Stalin in 1902 after being arrested for stealing secret documents

Democracy can only work if the liberal ideas and ideals are already deeply seated in people's minds. Alienation from capitalism inevitably means an orientation towards antidemocratic structures. The communist voices forget too easily that the worst dictatorships of the past 100 years – from Stalin's USSR over Pol Pot's Cambodia to Stasi's East Germany – were committed under the cloak of communistic brotherly love.

Capitalism is our only chance to solve global problems

Like the saying "When it rains, it pours" humanity is standing in front of one of their major challenges. The biggest is probably the climate changes. Every day it is becoming more urgent, as it is becoming clearer every day that the adapted measures aren't sufficient.

In their distress the politicians turned to the only working mechanism: capitalism. As pure command and restraint state control is too inefficient, to stop the climate changes. The CO₂ trade mechanism established in the Kyoto Protocol is an example of how an economic stimulus has a positive, material impact.

An easy consideration: it is more cost-efficient to save a ton of CO₂ in developing countries than in already energy-efficient industrialized countries. Now instead of reducing the CO₂ emissions in the Western industrial countries the reduction of CO₂ emissions in the developing countries could be set against the Western emissions reduction obligation. Thereby a new, booming trading sector – thanks to capitalism – has developed: international investors are investing in projects for CO₂ reduction. This mechanism creates employment in developing countries, helps the environment and is highly lucrative for investors.

The pro-capitalism list could be continued indefinitely. At the end one could say the same about capitalism as about democracy, it may not be a perfect economical form but versatile and adaptive; it is by far the best economical form we have got. In particular Germany showed that in a successful system, humanity, consideration and intelligent economic activities don't have to exclude each other. All efforts to implement or invent a different economic system concluded in the economical ruin of not just individuals but of whole countries too.

And still even the most convinced believer in capitalism must admit that during the past 10 years not everything went right. Considering *the* capitalism as such does not exist, any suggestion for improvement may be welcome.

Capitalism's strongest weapon, which normally was able to free capitalism itself from difficult situations, has become weak, as it hasn't been nursed. We are talking about entrepreneurship. During the past ten years the urge to strive for more was equal to successful globalization. Privately owned, small-scale businesses – production as well as the

financial services industry – were declared to be an obsolescent model or just considered to be decorating accessories. But these companies and the entrepreneurs who are behind these companies are what make capitalism successful.

Many issues which in the current environment lead to an anti-capitalistic attitude are the very same issues which bother every real capitalist just as much. For example for an entrepreneur it is just as bewildering to receive or pay out high payments without the risk been carried in return or an according performance. Entrepreneurs, who invested all their fortune into the company, do not work for the next balance sheet and the analysts' satisfaction, they want to leave a solid company to later generations – they would not have allowed the excesses nor the unforeseeable risk taking seen over the past years.

Therefore my plea: Trust capitalism – and definitely more entrepreneurship!

(Source: Warum ich den Kapitalismus immer noch liebe, Quality Magazine, October 2009)

About the author:

Christian Angermayer (31) is the founder of the *Angermayer, Brumm & Lange* group of companies, one of Germany's largest and fastest growing independent financial services groups. The company employs approx. 350 employees and 16.000 Independent Financial Advisors, is active in 12 countries and manages total assets of approx. USD 8 billion.

Besides his entrepreneurial activities, Christian Angermayer is active in several social responsibility initiatives with a special focus on climate change and Africa. He is inter alia a member of the Economic Advisory Council for His Excellency President Paul Kagame of Rwanda.