

I want to start by making it absolutely clear that although I very much approve of capitalism, I am by no means a free market economist. I've written three books which are very critical of free market economics. The fundamental problem of free market economics in the textbooks is that it offers a very poor description of how capitalism actually operates.

In fact, it is precisely at times when people try to get it to behave like the Platonic idea of a free market that it gets into trouble. Think, for example, of Russia after the fall of the Soviet Union. We've now got the example of the current financial crisis, which has essentially arisen because people started to think that a price could be set for absolutely anything, just like the textbooks say.

Yes, capitalism *is* a market-oriented system. That is its tremendous strength. But the untrammelled operation of markets is usually moderated, mediated by social norms and conventions, by institutional structures, by rules and regulations. This is the setting in which most markets work under capitalism, and in general they work well. As I say, it is especially when people lose sight of this fundamental point that we get problems.

The current financial crisis is of course prominent in people's minds. But the history of capitalism has seen many such crises. It is only in the last decade that politicians and policy makers deluded themselves that there weren't going to be any more.

So I want to take a much longer perspective on what has happened under capitalism. To see what has happened over a long period, smoothing over any particular period of boom and bust. Let's go back to 1900 in fact, over 100 years ago, and see what changes have taken place.

So what has capitalism ever done for us? Well, apart from delivering higher living standards, greater leisure time, increased life expectancy, lower infant mortality – you

know, pretty trivial things like these – the answer is not much, just like the Romans in the *Life of Brian*.

I've got to back these assertions up with facts, so here goes. Let's start with material living standards. Since 1900, material living standards have increased in America nearly 8 times, in Britain nearly 5 times – we were the richest country in 1900. In India, they have risen over 4 times, most of which has taken place since India started to embrace capitalism as late as the 1980s. South Korea is going through a serious crisis at present, but compared to 1900 its income per head is now nearly twenty times higher.

So capitalism delivers the goods. But it also delivers on the finer things in life, like leisure time. My granddad left school in 1909 to work in the mill. He was 12. He was entirely typical of his generation. Now, nearly 50 per cent of young people don't leave the education system until they are 21. Now, whether you think of time spent in education as leisure or not, it's a lot better than going into the mill or down the pit at the age of 12. And of course, retirement ages have come down dramatically as well. So more time at the beginning and end of your life.

And more leisure time while you are at work. The average person in the West – I'm not talking about investment bankers here, though their leisure time is rising pretty quickly at the moment – the average person now works barely a half of the annual hours which he or she did back in 1900 – this is true even in America.

In 1900, a white child born in America could expect to live to be 50. The life expectancy of a black child was only 34. Now, it is 78 for whites and 73 for blacks. Dramatic rises for both groups, and a spectacular narrowing of racial inequality. In 1900, infant mortality in the US was 124 per 1000 – 124 per thousand! – and 140 in the UK. Now, it is just 7 and 5 per thousand respectively.

So in both material well-being and the quality and length of life, capitalism delivers.

It is the only socio-economic system humans have ever invented which delivers such a cornucopia of good things. No other system, hunter-gatherers, pastoralists, feudalism, socialism, you name it, has ever come remotely close to performing as spectacularly well as capitalism.

A crucial feature of capitalism is that it gives decision makers – individuals, firms – lots of freedom to decide for themselves. This is a great strength, people can experiment, try different ways of doing things, see what works and what doesn't. Most things fail, sometime spectacularly as we see in the current financial crisis. But invention and innovation are the key to healthy, dynamic societies and economies. A willingness to challenge existing orthodoxies and the freedom to do so, this is what capitalism both provides and encourages as well as, as I've already said, trivial things like better living standards, more leisure time and longer life. All this is what capitalism is good for.