Heterodox Political Economy in Asia: a Personal View
Interview with Ha-Joon Chang

Ha-Joon Chang, Pierre Alary and Elsa Lafaye de Micheaux
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This interview has been conducted with the kind help of Robert Boyer and Agnes Labrousse

Ha-Joon Chang has taught at the Faculty of Economics, University of Cambridge, since 1990. In addition to numerous articles in journals and edited volumes, Ha-Joon Chang has published 14 authored books (five of them co-authored) and 10 edited books (six of them co-edited). His main books include The Political Economy of Industrial Policy (1994), Kicking Away the Ladder (2002), Bad Samaritans (2007), and 23 Things That They Don’t Tell You About Capitalism (Penguin, 2010, and Bloomsbury USA, 2011). By the end of 2014, his writings will have been translated into 34 languages in 38 countries. Apart from his academic activities, Ha-Joon Chang has worked as a consultant for numerous international organisations (including various UN agencies and the World Bank), governments, private sector firms, and NGOs. He is the winner of the 2003 Gunnar Myrdal Prize and the 2005 Wassily Leontief Prize.

RR. What kind of economist are you, Ha-Joon Chang?

The Origins: From Seoul to Cambridge

Ha-Joon Chang: My intellectual interests were forged in my university days in the early 1980s (I entered university in 1982). That was the time when my native South Korea was going through a huge transformation – rapid economic growth, growing demands for democracy against a military dictatorship, and massive changes in social norms and culture.

Unfortunately, the economics that most of my then professors taught us – that is, Neoclassical economics – was very bad at explaining these big structural changes and tended to justify the status quo. So I and many of my friends got interested in more ‘structuralist’ approaches, such as Marxism, the Dependency Theory, and (traditional) Development Economics (that is, the kind of economics practiced by people like Albert Hirschman, Gunnar Myrdal, and Arthur Lewis). Many of the questions that I was made to ask by studying these schools – although not necessarily the answers they gave – still
shape the way I see the world.

After arriving in Cambridge as a graduate student in 1986, I was exposed to even more different schools of economics – the Keynesians, of course (especially the works of Nicolas Kaldor and Michal Kalecki, who wrote a lot on development-related issues), but also the works of Herbert Simon, Joseph Schumpeter, and Friedrich von Hayek. Bob Rowthron (my PhD supervisor), Ajit Singh, Peter Nolan, Gabriel Palma, and John Sender were my teachers in Cambridge who trained me to think rigorously but never to lose touch with the reality.

Alice Amsden and Robert Wade were both important influences on my work on East Asia. In writing my PhD, which was partly about East Asia, I learned a lot from their important works. Alice’s work has taught me the importance of understanding technological trends and the evolution of business enterprises in understanding the development process. Robert’s work has helped me develop a more sophisticated understanding of the way in which state bureaucracies and the political systems work in the development process.

My first encounter with the Régulation school must have been through books by Alain Lipietz, which were popular in the late 1980s, when I was a graduate student. I have also read some things by Michel Aglietta and Benjamin Coriat, but mostly I have read many things written by Robert Boyer and learned a lot from them. Robert’s work has sharpened my understanding of economic institutions and helped me develop a better framework for comparing different economic systems. I don’t see any fundamental difference between the research programme of the regulation school and my research. The differences are only in emphases and the terminologies.

Main contributions in the field of development economics

First, through a series of works starting with my 2002 book, Kicking Away the Ladder, I have played a key role in bringing history back into development economics. I not only have found a lot of new information on the development history of today’s developed countries – the nature of trade, industrial, and agricultural policies they used as well as the evolution of their institutions – but I have also developed some new methodologies in applying historical lessons for today’s problems.

Second, I have made important contributions to the debates on trade and industrial policies, especially (but not exclusively) in relation to developing countries. This covers not just the more ‘traditional’ issues like tariffs, subsidies, privatisation, and regulation on foreign direct investment but also a number of ‘new’ issues like intellectual property rights and the (alleged) rise of the service economy.

Third, I have developed some original insights into the workings of institutions (including markets, which, contrary to the common misconception, are also institutions) and culture in the developmental process. I have developed a theoretical approach, called, Institutionalist Political Economy, and have also conducted a range of empirical studies.

Fourth, I have made important contributions to the debates surrounding the East Asian experience – not only the East Asian miracle but also the East Asian financial crisis of 1997.

Forging an heterodox Institutionalist Political Economy

In the last several years, I have tried to develop better theories for the evolution of institutions and their relationships with economic development. This is a difficult topic, so the progress has not been fast, but I have had a big debate on it in a special issue of Journal of Institutional Economics in 2011; I wrote the ‘Target article’, which was commented upon by 16 people (most of them hostile), to which I responded (you can find
my ‘Target article’ and reply on my website).

I have also done quite a lot of work developing arguments that we need to ‘bring back production into economics’. In this connection, I have teamed up with some engineers in Cambridge and formed the ‘Babbage Group’, named after the 19th-century Cambridge mathematician, engineer, and economist, who is known as the inventor of the concept of computer (which he called the ‘difference engine’ and the ‘analytical engine’). This group has tried to bring together engineers and economists who are interested in production.

Most recently, I have also become interested in promoting the idea of methodological pluralism and cross-fertilisation between different schools of economics. I have written an introductory level chapter on this for my forthcoming book, Economics: The User’s Guide (provisional title, to be published in May 2014), and I am planning to do more academic work in this regard.

9 RR. What about you and capitalism? / On capitalism and the role of the state

Ha-Joon Chang: Capitalism and free market were more or less synonymous in the early days of capitalism, but at least since the Great Depression, the two have become different. They need to be distinguished from each other.

There are of course no pure free-market capitalist economies any more, but there are some capitalist countries that operate more like free-market capitalism than others do – many poor developing countries, which look like 18th century European countries and, among the rich countries, the US and (to a lesser extent) the UK. Most rich capitalist countries do not run their economies as free-market capitalism any more – with a huge welfare state, strong regulation of the labour market, anti-monopoly laws, financial regulation, (in many countries) industrial policy.

As I say in my book, 23 Things They Don’t Tell You About Capitalism, I think capitalism is the worst economic system – except for all the others.

Capitalism has many problems – prioritising money over other values, tendency to generate high inequality, commodification and alienation of work, etc. Nevertheless, all these problems can be mitigated through tax, regulation, trade union movement, community actions, and other measures. Capitalism’s rough edges can also be, and has been, softened by the use (within the capitalist framework) alternative forms of economic organisation (e.g., cooperatives, charities) and alternative principles (e.g., non-profit-seeking business, corporate social responsibility), although these ‘alternatives’ have clear limits.

I don’t think we have yet invented an economic system that can beat capitalism, as so dramatically illustrated by the collapse of the central planning system and testified to by the confinement of alternative organisational forms like cooperatives to limited areas.

In all aspects of our lives, from how we organise our personal lives on a daily basis to the space programme, we need planning. The only question is where to plan and where to leave things to spontaneous interactions of different agents – mostly in the market but also in other areas of life (e.g., spontaneous organisation of activities in local communities).

In almost all countries, the government is the single most important economic actor, handling resources (producing, consuming, and transferring) equivalent to 30-50% of GDP and employing 15-25% of workforce. Like any big organisation, governments plan most of their activities internally, rather than relying on market mechanisms. Most governments are also deeply involved in the planning of private sector activities, through their support
for R&D and investment in infrastructure.

Even in the private sector, most of the activities these days are planned, in the sense that the bulk of private sector activities are conducted according to plans formulated in corporations, rather than through market mechanisms. Just to give you one example, anything between 30-50% of international trade are actually trade within the same corporations, conducted according to internal plans. They are not really trade between different nations, mediated through markets, any more.

When you think about it, planning is not only compatible with capitalism but it is a product of capitalism. After all, Marx got his ideas about planning by watching how capitalist firms organise their activities.

*From Korean specific features to theorizing the role of the State in industrial development*

It is true that my earlier work started from theorising industrial policy as practiced in East Asia between the 1950s and the 1980s (not just Korea but also Japan, as Korea’s ‘teacher’, and Taiwan), but my theories are applicable to many more contexts. I would even say that my analytical framework is general – applicable to all capitalist countries, and not just economies in particular regions.

Having said that, all theories are constructed on the basis of (often implicit) particular contexts (e.g., country, sector industry), so it is not as if there could be a theory that is free from real world societies. And this applies even to very general theories. For example, even the general equilibrium model is based on societies where there are clear private property rights, which cannot cover all societies.

My later work has indeed revealed that many of the industrial policies of Korea and other East Asian countries were copied – sometimes deliberately, sometimes unwittingly – from the industrial policies of today’s rich countries in the past, including the supposedly free-market, free-trade Britain and the US.

The ‘traditional’ developmental system of Korea was already dismantled to a significant extent by the mid-1990s – actually the financial deregulation and capital market opening of the early 1990s was largely responsible for the 1997 crisis. However, the reforms after the 1997 crisis have all but destroyed it.

Since then, the Korean economy has been run mostly on neo-liberal lines. Most of industrial policy, except for supports for high-tech R&D, has been dismantled. The financial system has become highly open and deregulated. The resulting increase in the power of floating shareholders has reduced the ability of firms to invest with retained profits because it has increased dividend pay-outs enormously (thus reducing retained profits, the main source of investment finance for larger firms) and reduced the availability of business loans (as banks concentrate more on consumer loans). The labour market, which had always been highly deregulated, has become even more so after 1997.

The result has been a significantly lower growth, rapidly rising inequality, the most insecure jobs in the OECD (60% of the workers don’t have permanent contract – the highest rate in the OECD), the unhappiest people in the OECD (according to many of those ‘happiness’ surveys), the highest suicide rate in the OECD (30 out of 100,000 deaths, as against the OECD average of 10). It has not been a happy story.

I have used the term ‘the developmental state’ as a descriptive tool, but I don’t think you can call me a proponent of the theory of the ‘developmental state’.

With that proviso, yes, China is in the lineage of the states trying to promote economic development through active intervention, which started with 18th-century Britain, as I explain in my books, *Kicking Away the Ladder* and *Bad Samaritans*. However, China is so
unique, especially in terms of its size, that the way it has done it is rather different from what other East Asian ‘developmental states’ have done.

14 RR. Beyond HJC: some limits to the influence of heterodox theories – and Asian countries trajectories – on contemporaneous capitalism

15 An influential heterodox Economist in a fast changing Asia

16 Ha-Joon Chang: I have a big popular following in Korea, with my books having been sold more than one million copies there. This, however, has had influence on policies only indirectly, as most policy-makers have been completely beholden to American-style free-market economics.

Outside Korea, I have had significant influences on international trade negotiations, as my notion of ‘Kicking away the Ladder’ has been used to crystallise the developing country opposition against the rich countries’ attempts to impose free trade through the WTO. In terms of individual countries, I am told that my arguments are very well known and influential in policy-circles in, in alphabetical order, Argentina, Brazil, Ecuador, South Africa, and Uruguay, while they have a certain degree of visibility in countries like, once again in alphabetical order, Indonesia, Mexico, Malaysia, Namibia, Singapore, Turkey, Venezuela, and Vietnam.

With my recent book, 23 Things They Don’t Tell You About Capitalism, my visibility outside the developing countries has increased. The French media has always given me some attention, following the publication of my book, Kicking Away the Ladder in 2002, but more recently I have been interviewed by news media from a wide range of European countries – Germany, the Netherlands, Belgium, Italy, Spain, Greece, Poland, Austria, and Iceland. By the end of 2014, my books will have been translated into 34 languages in 38 countries. Worldwide, my books have sold nearly 1.5 million copies.

I have talked about the subprime crisis and the Euro issues in many newspapers articles (especially The Guardian, where I write regularly), magazine articles, and TV and other interviews. Most of these can be found in my website, www.hajoonchang.net

Unfortunately, heterodox economics in Asia has been declining.

Japan used to be a bastion of heterodox economics – especially Marxism but also the German Historical School, Schumpeterian economics, post-Keynesianism and so on – but even there Neoclassical economics has become much stronger, perhaps even dominant, in the last couple of decades.

In Korea, there was a brief rise of heterodox economics among younger scholars in the 1980s, as I mentioned earlier, but it has gone into decline in the last couple of decades and now is marginal in the academia, although it still retains some influence in the civil society movements. Academic economics in Korea is almost completely dominated by American-trained free-market economists.

In Singapore, heterodox economics has been weak in the academia – probably even weaker than in Korea – but heterodox thinking is very influential in the government, so it is an interesting case. There are even fewer heterodox economists in Taiwan and Hong Kong.

17 The likely reconfiguration of the world economy under the impact of Asian capitalisms

18 It is too early to tell. I am yet not sure whether the world economy will necessarily be reconfigured under the impact of Asian capitalisms.

As for China, the biggest challenge is the growing social tension, thanks to income inequality rising to unprecedented levels – now it is similar to that found in the US, which is truly remarkable when you remember that only 30 years ago China was one of the most
egalitarian societies in the world. Unbeknownst to the outside world, there are literally hundreds of thousands of industrial strikes, local riots, and demonstrations every year in China. Unless China addresses its inequality problem, including the building of a citizenship-based welfare state, its economic growth may be undermined through social and political instabilities.

Today, China accounts for not even 10% of the world economy and India less than 3%. Even when you include Japan, we are talking of less than 25% of the world economy. And this is on the assumption that these three – and other Asian – countries share some fundamental 'Asian-ness', which in my view does not really exist.

Of course, if China and India keep their current growth rates for another two, three decades, Asian economies may become dominant, but that is a rather bold assumption. Also, you should bear in mind that, even if Asia becomes big in size, it – outside a few richest countries (Japan, Singapore, Korea, and Taiwan) – will still be way behind the US and Europe in terms of the level of technological development.

NOTES

1. Voir aussi le compte rendu, dans ce dossier par J. Cartier-Bresson, de la position de Ha-Joon Chang et de la controverse qui s'en est suivie. See also in this number, the book review of J. Cartier-Bresson about Ha-Joon Chang’s position and the subsequent debate.