

The Secret History of Capitalism and the Future of the World Economy

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Keynesianism for the Rich, Monetarism for the Poor I

- Budget surplus in developing countries
 - Korea in 1997/8 crisis: 1% of GDP surplus, then 0.8% of GDP deficits (despite the then second lowest public debt/GDP ratio)
 - Developing countries in 2008 crisis: all have been forced by the IMF to reduce budget deficits (especially, Latvia)
- Budget deficits in rich countries
 - 3% of GDP in Germany in 1991-95
 - 8% of GDP in Sweden in 1991-95
 - 6% of GDP for the EU and 12% or more of GDP predicted for the US, the UK, and Ireland in 2009

Keynesianism for the Rich, Monetarism for the Poor II

- Interest rates in crises
 - usurious rates in developing countries: Korea 30% to Indonesia 80% in 1998
 - extremely low rates in rich countries: 0% in Japan and the US, 0.5% in the UK; 1% in Europe
- Interest rates in normal times
 - high interest rates in developing countries: 8-12% in South Africa, Brazil since the mid-1990s
 - low or negative interest rates in rich countries: -1% in Switzerland to 2.6% in Germany in 1960-73

Trade Policy I

- All of today's rich countries, except for the Netherlands and (pre-WWI) Switzerland used protectionism for substantial periods.
- Britain and USA were the most protectionist economies in the world in their catch-up periods.
- Germany, France, and Japan – the supposed homes of protectionism – were much less protectionist than Britain or the USA.

Table 1. Average Tariff Rates on Manufactured Products for Selected Developed Countries in Their Early Stages of Development
(weighted average; in percentages of value)¹

	1820 ²	1875 ²	1913	1925	1931	1950
Austria ³	R	15-20	18	16	24	18
Belgium ⁴	6-8	9-10	9	15	14	11
Canada ⁵	5	15	n.a.	23	28	17
Denmark	25-35	15-20	14	10	n.a.	3
France	R	12-15	20	21	30	18
Germany ⁶	8-12	4-6	13	20	21	26
Italy	n.a.	8-10	18	22	46	25
Japan ⁷	R	5	30	n.a.	n.a.	n.a.
Netherlands ⁴	6-8	3-5	4	6	n.a.	11
Russia	R	15-20	84	R	R	R
Spain	R	15-20	41	41	63	n.a.
Sweden	R	3-5	20	16	21	9
Switzerland	8-12	4-6	9	14	19	n.a.
United Kingdom	45-55	0	0	5	n.a.	23
United States	35-45	40-50	44	37	48	14

Table 2 . Protectionism in Britain and France, 1821-1913

(measured by net customs revenue as a percentage of net import values)

Years	Britain	France
1821-1825	53.1	20.3
1826-1830	47.2	22.6
1831-1835	40.5	21.5
1836-1840	30.9	18.0
1841-1845	32.2	17.9
1846-1850	25.3	17.2
1851-1855	19.5	13.2
1856-1860	15.0	10.0
1861-1865	11.5	5.9
1866-1870	8.9	3.8
1871-1875	6.7	5.3
1876-1880	6.1	6.6
1881-1885	5.9	7.5
1886-1890	6.1	8.3
1891-1895	5.5	10.6
1896-1900	5.3	10.2
1901-1905	7.0	8.8
1906-1910	5.9	8.0
1911-1913	5.4	8.8

Source: Nye (1991), p. 26, Table 1.

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THE UNITED STATES OF AMERICA

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We the People

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Anna Escobedo Cabral Treasurer of the United States

John W. Snow Secretary of the Treasury

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HAMILTON

DOLLARS

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“Were the Americans, either by combination or by any other sort of violence, to stop the importation of European manufactures, and, by thus giving a monopoly to such of their own countrymen as could manufacture the like goods, divert any considerable part of their capital into this employment, they would retard instead of accelerating the further increase in the value of their annual produce, and would obstruct instead of promoting the progress of their country towards real wealth and greatness.”

(Adam Smith, *The Wealth of Nations*, 1776, the 1937 Random House edition, pp. 347-8).



Regulation of FDI

- US (19th century)
 - regulated FDI in finance (especially banking and insurance), shipping, mining and logging.
 - especially in banking; only American citizens could become directors in a national (as opposed to state) bank and foreign shareholders could not vote in AGMs
- Japan (Korea and Taiwan to a lesser extent)
 - virtually banned foreign direct investment until the 1980s
- Finland
 - classified all firms with more than 20% foreign ownership as “dangerous enterprises”

State Ownership

- Important in Germany (textile, steel) and Japan (steel, shipbuilding) in the early days
- Extensively used in France, Finland, Austria, Norway, Taiwan, and Singapore in the post-WWII period
 - Singapore: 22% of GDP (Singapore Airlines and others)
 - Taiwan: 16% of GDP
 - France: Renault, Alcatel, St. Gobain, Usinor, Thomson, Thales, Elf Aquitaine, Rhone-Poulenc
 - Other examples: POSCO (Korea)

Intellectual Property Rights

- Many countries explicitly allowed patenting of foreigners' inventions (Britain, the Netherlands, USA, France, Austria)
- In the 19th century, the Germans mass-produced fake 'Made in England' products.
- Switzerland (1907) and the Netherlands (1912) refused to protect patents until the early 20th century (Swiss pharmaceutical, Philips).
- The US refused to protect foreigners' copyrights until 1891 (refused to protect copyrights for materials printed abroad until 1988).

"It is a very common clever device that when anyone has attained the summit of greatness, he *kicks away the ladder* by which he has climbed up, in order to deprive others of the means of climbing up after him. In this lies the secret of the cosmopolitical doctrine of Adam Smith, and of the cosmopolitical tendencies of his great contemporary William Pitt, and of all his successors in the British Government administrations.

Any nation which by means of protective duties and restrictions on navigation has raised her manufacturing power and her navigation to such a degree of development that no other nation can sustain free competition with her, can do nothing wiser than *to throw away these ladders* of her greatness, to preach to other nations the benefits of free trade, and to declare in penitent tones that she has hitherto wandered in the paths of error, and has now for the first time succeeded in discovering the truth [italics added]"

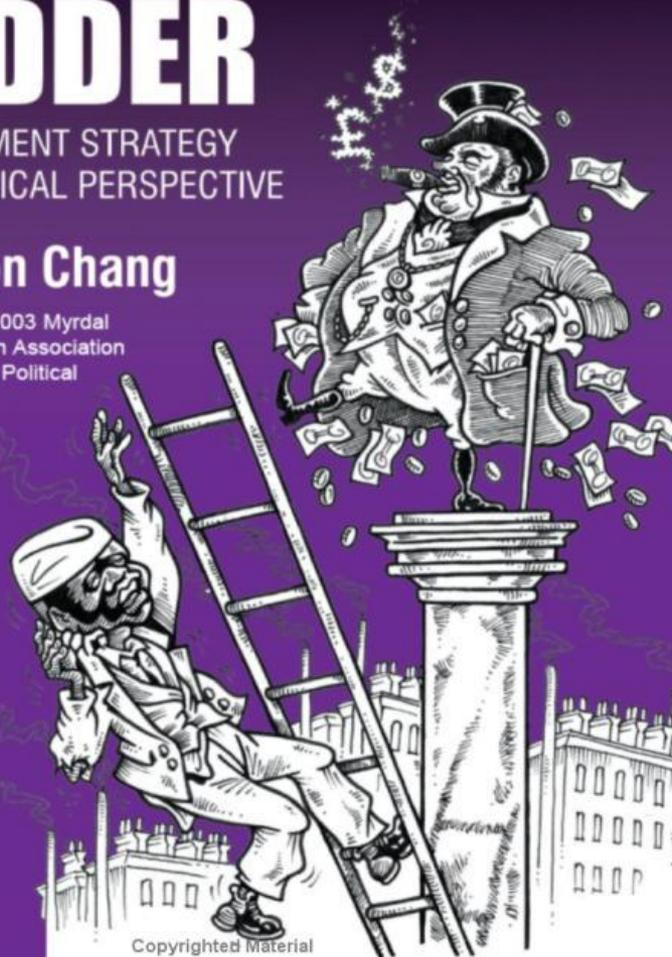
(Friedrich List, *The National Systems of Political Economy*, 1841 [1885 translation], pp. 295-6)

KICKING AWAY THE LADDER

DEVELOPMENT STRATEGY
IN HISTORICAL PERSPECTIVE

Ha-Joon Chang

Winner of the 2003 Myrdal
Prize, European Association
of Evolutionary Political
Economy



'Probably the world's most
effective critic of globalization'
MARTIN WOLF, *FINANCIAL TIMES*

'Lucid, deeply informed'
NOAM CHOMSKY



BAD SAMARITANS

THE GUILTY SECRETS
OF RICH NATIONS
& THE THREAT TO
GLOBAL PROSPERITY

HA-JOON CHANG

BAD SAMARITANS



THE MYTH OF
FREE TRADE
AND THE SECRET HISTORY OF
CAPITALISM

HA-JOON CHANG

Kamenev

Lenin

Trotsky



Lenin



Regulation

Market

Protection



Market



**Table 3. Per capita GNP Growth Performance
of the Developing Countries, 1960-80**

	1960-70 (%)	1970-80 (%)	1960-80 (%)
Low-income countries	1.8	1.7	1.8
Sub-Saharan Africa	1.7	0.2	1.0
Asia	1.8	2.0	1.9
Middle-income countries	3.5	3.1	3.3
East Asia and Pacific	4.9	5.7	5.3
Latin America and the Caribbean	2.9	3.2	3.1
Middle East and North Africa	1.1	3.8	2.5
Sub-Saharan Africa	2.3	1.6	2.0
Southern Europe	5.6	3.2	4.4
All Developing Countries	3.1	2.8	3.0
Industrialised Countries	3.9	2.4	3.2

**Table 4. Per capita GDP Growth Rates
of the Developing Countries, 1980-2000**

	1980-90 (%)	1990-20 (%)	1980-2000 (%)
Developing Countries	1.4	2.0	1.7
East Asia and Pacific	6.4	6.0	6.2
Europe and Central Asia	1.5	-1.8	-0.2
Latin America and the Caribbean	-0.3	1.7	0.7
Middle East and North Africa	-1.1	1.2	-0.1
South Asia	3.5	3.7	3.6
Sub-Saharan Africa	-1.2	-0.2	-0.7
Developed Countries	2.5	1.7	2.1

**Table 5. Annual per capita GDP growth rates,
Latin America and Sub-Saharan Africa**

	‘Bad Old Days’ 1960-80 (%)	‘Brave New World’ 1980-2009 (%)
All Developing Countries	3.0	2.6
Latin America and the Caribbean	3.1	1.1
Sub-Saharan Africa	1.6	0.2

Source: World Bank, United Nations, IMF