

## *Reflections*

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### **A Conversation with Ha-Joon Chang**

#### **Maha Abdelrahman**

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Ha-Joon Chang is the Director of the Centre of Development Studies and a Reader in the Political Economy of Development in the Faculty of Economics at the University of Cambridge. He grew up in South Korea where he completed his undergraduate degree in Economics at Seoul National University before moving to England where he completed his MPhil and PhD in Economics at the University of Cambridge. His research covers a range of interests such as institutional economics, political economy, industrial and trade policy, globalization, technological progress, the East Asian economies and economic development in historical perspective.

Ha-Joon's books, including *Kicking Away the Ladder: Development Strategy in Historical Perspective* (2002); *Bad Samaritans: Rich Nations, Poor Policies and the Threat to the Developing World* (2007); *23 Things They Don't Tell You About Capitalism* (2011) and *Economics: The User's Guide* (2014), have been translated into almost 40 languages. In 2003, Ha-Joon was awarded the Myrdal Prize by the European Association for Evolutionary Political Economy and in 2005 he received the Leontief Prize from Tufts University. He is a member of various editorial and advisory boards of academic journals, including the *Cambridge Journal of Economics*, *European Journal of Development Research* and *World Economic Review*. Recently, he has been appointed as a member of the Committee for Development Policy of the United Nations Economic and Social Council.

***MA: South Korea in the 1970s and 1980s was undergoing major economic and political transformations. What was it like to be a young person during this time and how has growing up in this context shaped some of your ideas about the world?***

H-JC: The country certainly was in a state of transition. Of course, I am remembering it now from my point of view today, after 30 years of research in development economics, so I think I am partly 'retrofitting' what it was like, but it was very exciting both in good and bad ways. As you know, Korea

was a very poor country in the early 1960s, with per capita income half that of Ghana.<sup>1</sup> Life expectancy, when I was born in October 1963, was 53 years which is similar to a country like Haiti. So, I have exceeded all expectations — in theory, I should be dead by now, as I am 55! In fact, I would have been part of the infant mortality statistics had I been born one year earlier. In May 1964, when I was seven months old, I developed a life-threatening condition called intussusception.<sup>2</sup> I only survived it because the sole surgeon in the whole of Korea who could operate on it had come back from the United States in 1963. I grew up in a middle-class family. My father worked as a civil servant for the Ministry of Finance. My mother was a teacher before she got married (that was the time when a woman had to resign from her job when she got married). We were comfortable, but not rich.

For primary school, I went to a private school but the gap between private and public schools back then was not large. The state school in my neighbourhood probably had 90 children in each class while we had 65 in my private school. The private schools where the richest people would send their children had 40 students in the classroom. Private schools were private only in the sense that they were owned by private foundations or individuals, but they were all controlled by the government and what students learnt was the same. My secondary school — we had lower secondary, upper secondary, what Americans call high school — which was supposedly a private one, was no different whatsoever in terms of quality of buildings and teachers to public schools. In fact, the teachers in state schools might actually have been better. In general, there was no pretence anywhere that you were getting quality teaching. Many schools had 100 children per class with teachers working double shifts, even triple shifts. This is how the country raised literacy rates from 22 per cent when the Japanese colonizers left in 1945, to 70 per cent in the early 1960s, and to basically 100 per cent by the early 1970s. Like most children of middle-class families at the time, I received a bit of private tutoring, an industry which existed even back then but on a much smaller scale compared to today.

Growing up in Korea, I saw how economic development worked in action. For example, you could see that everyone was eating more. You also could observe the spread of technology like television sets. Apparently, when I was little my family was the only family in the neighbourhood with a television set. By the time I was 11 or 12, most people in urban areas had a television — well, a black and white one anyway. You could see people's lives constantly improving, although at the time, I did not realize how significant this improvement was. I gained this level of comparative perspective only after coming to the UK and studying the experiences of other countries and visiting them.

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1. In 1962, Korea's per capita income was US\$ 87.

2. Intussusception is the most common cause of bowel obstruction in children aged 3 months to 6 years. It is the inversion of one portion of the intestine with another.

At the same time, Korea was a very tense and conflict-ridden place to grow up in because of the confrontation with North Korea, which gave the military governments an excuse to be repressive in the name of anti-communism and defending the nation against communist aggression. The country was defined by two very significant events: in 1973, General Park staged what Latin Americans call an *autocoup*, where he basically cancelled the constitution and introduced a new one to guarantee him a lifetime presidency. Before that and since he staged his initial coup in 1961, Park was of course a repressive ruler but he was at least pretending to play by electoral rules. Elections were a total sham but he claimed he would serve for three terms, according to the constitutional limit, and then leave. When the time came, he could not let go. In the middle of huge political turmoil, mass mobilization and martial law, General Park was shot dead by his own chief of secret police in October 1979. This assassination brought in a brief ‘Spring of Seoul’, which was brutally crushed by another even more hard-line military government in May 1980, following the massacre of hundreds of protesting civilians by the paratroopers in the city of Gwangju, the base of the pro-democracy opposition. This was a real shock to people like my family. While the military announced that it was only a handful of people who died, and that they were all communist agitators and North Korean spies anyhow, we knew better. My father comes from Gwangju and he had relatives who told us how they saw innocent people being killed, beaten to death and bayoneted.

When I entered Seoul National University, university campuses were boiling amid political turmoil. All our lectures were monitored by plainclothes policemen. We were aware of them and they did not exactly try to hide their identity. They wanted everyone to know they were there. There were almost daily demonstrations at universities, where students threw stones at the police and the riot police shot tear gas back at them and beat them up with truncheons. Many students were organized in underground cells for this or that revolutionary movement.

In the middle of all this political turmoil, many of our professors were teaching neoclassical economics, which says that everything will be in equilibrium, except for very short runs. They taught us that, even if there is an external shock and the economy is no longer functioning properly, it will get back to an equilibrium sooner or later. I just could not take it seriously. That is where I think I developed my critical attitude towards neoclassical economics. Of course a lot of ‘subversive’ books were banned, including everything written by Marx and Lenin. You could go to prison for being in possession of those books. Luckily, we had a thriving illegal photocopying business at the time. Someone would get a copy of one of the banned books in the US or Britain, and the photocopying shops would produce beautifully pirated copies, so we could actually access a lot of critical literature. Through this system, I read and informally studied dependency theories with my friends, as well as Marxist theories and a lot of economic history. That gave me a foundation in critical thinking and deeply influenced what I think.

Of course, it was only after I came to England and studied development economics seriously and started looking at the experience of other countries that I understood the full significance of my personal experience for what I think and what I do. Growing up in Korea during the economic miracle and later studying its policies in a comparative perspective made me, above all else, a pragmatist.

***MA: You often refer to yourself as a pragmatist, what does this actually mean?***

H-JC: First of all, I take the view that economic growth, unless it is grossly inequitable as it is in countries like Equatorial Guinea, is very important when you are a poor country. This is because at the earliest stages of economic development growth, it is not about just owning another handbag or a new mobile phone, but about eating one more bowl of rice or being able to visit a pharmacy or hospital once more. So, growth at this stage is literally a matter of life and death. I get very angry when people try to dismiss the importance of growth.

Of course, saying that growth is important in the earlier stage of development is not to say that everything is fine as long as there is good growth. I am also very aware of the conflictual nature of the economy, especially when you are going through economic development, when there are a lot of structural changes in terms of your material base, class composition, living space, gender roles and so on, which generate a huge range of conflicts. While I cannot take seriously people who argue that economic growth is not important, I also cannot take seriously people who think that development is all about finding a ‘technocratic’ formula according to which you put ingredients in the machine and expect to get a predictable result.

When I started learning about other countries, sporadically while I was in Korea but more systematically after I arrived in Cambridge, I realized how eclectic the actions of the Korean government had been and, similarly, what the Japanese government had done. Even though the Korean government officials repeatedly declared their allegiance to a ‘free market economy’ during the country’s economic miracle, later I realized how much of what they had done was influenced by economic theories other than free-market economics.

Our General Park himself was a Marxist when he was young — he was in fact arrested and tried for his communist mutiny in the South Korean army in 1949. He saved his skin only by spilling the beans on his comrades. Later, he and his lieutenants did not think in terms of price incentives and equilibrium, as neoclassical economists would, but thought ‘we need accumulation, we need to extract surplus from the countryside and we need to develop heavy industries’ — very similarly to what Stalin did for Soviet economic development. The Korean policy makers were also very much

influenced by the German Historical School via Japan, a country which also had a strong tradition of Marxist economics (although it was rather a scholastic variety). At the same time, Park and his military government also drew on some the ideas of early Western development economists, such as Albert Hirschman, Arthur Lewis, Gunnar Myrdal and Simon Kuznets, people whom we were taught about at university.

So what they did was very eclectic. Despite their acceptance of the capitalist system and engagement with the international economy, they knew they had to protect infant industries while using public policy to develop infrastructure, education and skills. Sometimes they would use state-owned enterprises when no private agents wanted to step in, even while the majority of enterprises remained in the private sector. It was a very pragmatic approach — in line with Deng Xiaoping, the former leader of China, who (later) said he did not care if the cat is black or white as long as it catches mice.

I guess my pragmatic approach also developed partly because of my experience with my contemporaries who were in radical student movements and who were fighting too many pointless ideological battles as far as I was concerned. When debating, you win the argument if you can cite Stalin more often, or claim that you are truer to Marx's teaching than others. I just did not have time for that. But even pragmatism needs some foundational beliefs and commitments. For me, as far as certain policies make a society better off, more equitable, and more stable, I do not really care what their theoretical provenances are.

***MA: You arrived in Cambridge as a graduate student in 1986. Why did you choose Cambridge and what was your experience there like?***

H-JC: Well, I chose Cambridge specifically because I wanted to study something other than standard neoclassical economics. At the time, economics in Cambridge was very different from that in most other universities, especially for development economics. I had applied to a number of other universities, such as Amherst and Michigan in the US, which had a few non-mainstream economists, but Cambridge was really where I wanted to go because you had a concentration of non-neoclassical development economists, like Ajit Singh, Peter Nolan, Gabriel Palma and John Sender.

Initially, I was accepted only for the diploma programme in Development Studies. But after a few months I was upgraded, along with three other students, to the MPhil programme, which was then called MPhil in Politics and Economics of Development, located in the Faculty of Economics and Politics (as the Faculty of Economics was called then). It was much less interdisciplinary compared to the MPhil in Development Studies that we have in Cambridge today — it was 75 per cent economics and 25 per cent sociology and politics, but it was great. I could finally study what I wanted to study.

What I am really grateful for to the above-mentioned teachers who taught me during my MPhil programme and, later, to my PhD supervisor, Bob Rowthorn, is that they taught me how to think critically and to question everything. I guess I had a tendency towards critical thinking before, because otherwise I would have tried to get into Harvard or Princeton to study neoclassical economics. However, what — or rather how — I was taught at Cambridge shocked me. When I first started writing essays for my teachers in Cambridge they would say ‘we want to know what you think’, ‘don’t keep quoting Karl Marx, Adam Smith, John Maynard Keynes and hide behind them’. That was a cultural shock. In Western countries, even when you copy other people, you pretend that your work is original and that you are a genius. In the East Asian countries, even if you have an original idea, you were supposed to say ‘this was all said by Karl Marx (or Adam Smith, or whoever) and I am just saying it slightly differently’.

Life in Cambridge at the beginning, however, was not great. I could not even speak English well back then and I could only read very slowly. In the beginning it took me up to 30 minutes to read a single page of English text. It meant that I had to study twice as long as the other students, but what else could I do? I also did not know it could rain so often. Not so much the volume of rain because, in terms of sheer quantity of rain, we have more rain in Korea. I remember in June 1987, when I had just finished my MPhil exams, it rained 28 out of 30 days. The food was also awful!

***MA: Cambridge is well known historically for its heterodox economic schools. To what extent would you say that you see yourself as working within a continuation of some aspects of this tradition? And to what extent does working in the contemporary climate lead you to employ different approaches?***

H-JC: To begin with, ‘heterodox’ is quite a problematic term. Think about it, if you are a member of the Greek or the Russian Orthodox Churches, the Pope is the heterodox guy in the story, so it is all relative. At least in development economics, the kind of economics I do now used to be orthodox in the 1960s and the 1970s. Therefore, I try to say ‘non-neoclassical’ instead of heterodox. By calling ourselves heterodox, we are already conceding the ground.

Anyway, Cambridge actually produced both neoclassical and non-neoclassical traditions. Alfred Marshall was the grandfather of neoclassical economics, while Arthur Pigou invented welfare economics, a sub-branch of neoclassical economics. Then we had John Maynard Keynes and his associates, like Richard Kahn, Joan Robinson and Nicholas Kaldor, and we also had Marxists, like Maurice Dobb and Bob Rowthorn. When I first came to the university, the economics faculty was very diverse. Even though one half was neoclassical, the other half was taking Keynesian, Marxist

and other approaches. I would not call myself Keynesian, because Keynesianism is mostly about macroeconomics, such as business cycles, unemployment, monetary policy and so forth, which I don't work on. If I did macroeconomics, I would do it the Keynesian way, but I don't do it, so I am not a 'practising' Keynesian.

Actually, it is not clear what I am! Even while being extremely critical of neoclassical economics, I use some neoclassical economics, which has some useful and interesting insights. Even though I hate his politics, I have read quite a lot of Friedrich von Hayek and other economists from the Austrian school of economics, who had some profound things to say. I have also been influenced by institutionalism, Marxism and all the early development economists I mentioned above.

I can add another intellectual hero of mine, Herbert Simon, the founder of the behaviouralist school. Simon's original insight was that mainstream (neoclassical) economic theories assume that people have what he calls Olympian rationality — a god-like rationality that allows them to make optimal decisions about everything at the same time, however many decisions they are faced with. He said that we only have 'bounded rationality' and that in fact a lot of what we do — developing personal habits, setting rules and building institutions and organizations — are basically means to save on our limited rationality (Simon, 1962).

In theory, if you are fully rational, you should make complicated calculations about everything about your life. When you wake up, you should debate what to eat for breakfast this particular morning, given what you did last night and given what lies ahead in the day. When you are going to work, you have to deliberate on the route you take to drive to work given the weather, the state of the road and what you hear on the radio about traffic conditions. When you are driving to work, you need to decide what the benefit is of jumping the traffic lights, what the chance of being caught by the police is, and what the cost of punishment is likely to be. And so on. But we do not do that. We say it is morning, so I will eat oatmeal or avocado or whatever. We go through the same routine, we follow the same rules without questioning. We don't do those cost-benefit calculations all the time.

Given this, Simon said that we have to understand the world in a completely different way. His view is that basically we create structures in which most people most of the time follow the rules without questioning them, without making those 'rational' cost-benefit calculations all the time. And only then are we able to apply our limited rationality to some issue that requires more 'rational' engagement. This is a very different way of looking at the world from neoclassical economics.

So, I have been influenced by so many different schools — neoclassical, Marxist, Austrian, institutionalist, developmentalist and behaviouralist. When I say I am a pluralist, it is not a political ploy. I genuinely believe that all these different schools have useful things to say and people should learn

from all of them. I am not carrying the torch for the Cambridge Keynesians, but I guess I am carrying the torch for critical thinking.

***MA: You are well known as an academic economist who writes books for interested lay people that provide critique on the received wisdom perpetuated by the economic mainstream. Why have you chosen this path? How difficult is it to balance between the roles of an academic and a ‘popularizer’?***

H-JC: I have made the decision to do this because I believe it is important for academics to communicate with the general public. I basically became an academic in order to influence economic policies and change society — of course, to the extent that one can as an academic. I realized that the best way to bury one’s ideas was to publish books with one of the academic publishers — 400 copies priced £ 95 each. This might look good on your curriculum vitae but no one is going to read it. I do not want to publish a book that only six people will read.

So, I first began to write for some Korean newspapers. I wrote for a year for a small financial newspaper called *Naeway Kyungje* (which roughly translates as ‘Internal and External Economy’) in 1995, but I started in earnest with *Hankook Ilbo* in 1999. By 2015, I had written on a regular basis for virtually all Korean newspapers and then for *The Guardian* newspaper in the UK. I have also made occasional contributions to newspapers around the world, including Brazil, France and the US.

The main shift was in 2003, when I decided to write a popular book, initially with Duncan Green, a prominent NGO activist working on development issues. Well, we had this idea to try to send it to a non-academic publisher but they said they are not going to read anything that is not submitted through a literary agent. So, we tried to find a literary agent. We soon found out that literary agents do not meet with authors unless they are introduced to them by someone they already know. It is a very closed world! Luckily, a few years later I was introduced to a literary agency by a friend. It was lucky because this literary agency was a newly established outfit and was actively looking for authors. In the meantime, Duncan Green had joined Oxfam and was busy in his new position, so he pulled out of the project. I wrote my first mass-market book, *Bad Samaritans*, in 2006 and it was published in 2007.

Writing as an academic is different to writing for the general public. When I started working with my agent on *Bad Samaritans*, I produced lots of drafts of chapters, which my agent kept throwing away. He could completely understand those arguments because, unlike most literary agents who studied literature or history, he had studied economics and politics in Dublin and was also a businessman who for a while headed the news agency *Reuters* in Scandinavia. However, he told me to try to think of the book as if I were going to give it to a 16-year-old nephew or to a friend’s girlfriend who

studied French literature. The way I was writing, he said, they would fall asleep and, he asked, what is the point of writing a book that people won't read? So I had to train myself to write in a different style and realized that I actually enjoyed this new style of writing. Then I published *23 Things They Don't Tell You About Capitalism* in 2011, which has become an international bestseller, translated into 34 languages (four more to come) and sold more than 800,000 copies worldwide.

***MA: Following the financial crisis in 2008, there was much criticism of professional economists from many quarters, including even the Confederation of British Industry (CBI), with complaints that too much neoclassical economic theory and modelling is too far removed from reality. Do you think it is possible to influence the curriculum of economics departments from within? Or do you think that the decision to split economics departments into traditional, neoclassical departments and a pluralist department is a feasible course of action?***

H-JC: This split has been tried in some places, such as Australia, but I don't think it works very well because, once you do that, the mainstream economists can be even more dismissive of non-mainstream economics, on the (false) ground that it is not even economics. We also have to remember that there is a whole structure supporting the kind of economics being taught in most economics departments today. There is a system of professional assessment based on one's publications in the so-called top journals that are controlled by US-based neoclassical economists. If you do not publish in these journals, maybe because you are a Marxist or work in the tradition of institutional economics, your work can easily be dismissed out of hand. This bias against non-neoclassical economics is further strengthened in countries like the UK, where university funding is determined by research 'quality', in large part determined by central authorities according to how many publications you have in the top mainstream journals. Some universities now may want to hire Marxist economists because students demand a broader curriculum, but they have to calculate what these economists are able to contribute to the department's next Research Excellence Framework (REF) exercise, which determines its future funding. And, on top of that, mainstream economists have more influence because they are favoured by financial newspapers and governments, which give them bigger platforms in policy debates and more research grants. We cannot change all of this unless the whole political structure changes.

Economics has reached a point where you can no longer make internal changes using academic arguments. This makes me more interested in talking to the general public because, unless the general public demands a different kind of economics, things are not going to change. That is why I also became involved in the student-led movement Rethinking Economics (which aims

to reform economics teaching) and with other movements that are trying to increase mass economic literacy.

***MA: Tell us more about this student-led movement and how it relates to other student movements which became active in the last decade.***

H-JC: Rethinking Economics started in Britain in 2011–12 in the aftermath of the global financial crisis.<sup>3</sup> Students are calling for reform of economics education in a way that I would support. They basically emphasize three main points. One is pluralism in theory. They want to be taught not just by neoclassical economists but by others, including Marxists, feminists, institutionalists and Austrian school thinkers. The second issue they promote is the need to make what they learn relevant to the real world. Actually, I am going to speak with the Dutch branch soon (mid-May 2018),<sup>4</sup> where students have produced a very detailed, critical analysis of economics courses across Dutch universities. Their findings basically show that in the vast majority of cases there is no reference to the real world.

Finally, the third thing this movement calls for, especially in Britain, is interdisciplinarity. In Cambridge this is relatively better than in other universities because in the first year, economics students have to do some (British) politics and economic history as compulsory subjects. In other universities you could end up doing only mathematics for the three years of your degree. So the students are demanding to be taught a range of subjects and not only as appendages, but as an integral part of the course, as we do in Development Studies, which is truly interdisciplinary.

I think the education sector has the potential to be a catalyst for change because it is a sector with a lot of clever people with flexible schedules, so they have time to actively organize things compared with people in other sectors. Unfortunately, it is also a sector that has very fluid populations, because students leave after three or four years, when they graduate. Actually, one of the good things about the Rethinking Economics movement is that its members are very conscious that today's students are tomorrow's ex-students and that student movements in the past faded away after a few years when the key figures in the movement graduated. So they are developing different ways to pass on organizational knowledge and maintain continuity.

I have been supporting those students for years now by endorsing what they produce and by going to their conferences. And it is not just me. There are a lot of 'heterodox' economists such as Robert Skidelsky (Warwick University) and Victoria Chick (University College London) who do that.

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3. It now has branches in many countries and is part of the international network, the International Student Initiative for Pluralism in Economics (ISIPE), which includes over 80 universities in 31 member countries.

4. At the time of the interview.

The problem is that there are so few non-neoclassical economists around that it is becoming a struggle. I receive so many invitations from this, and other, student groups and I simply cannot accept all of them.

***MA: While engaging with student movements and the public audience, your work often addresses policy makers. What do you think is the link between academics and the world of policy?***

H-JC: To begin with, I think economists should not have too much of an exaggerated view of themselves. From the policy makers' point of view — and believe me, I talk to a lot of them — academics are dispensable, you can 'buy' them. I am not saying that you can bribe individual academics to make them say what you want, but what I mean is that there are always some academics who can provide you with the view you want. So, unfortunately, it is a market where demand dictates supply more than the other way around. At the same time, I think there is value in academic research gearing itself towards influencing policy makers. We cannot treat them as if they are all stupid or seeking to pursue their own interests. Some of them can actually be persuaded to do things differently, so we must try to write academic articles with a view to influencing policy.

When I talk about reaching out to policy makers, I do not mean doing consultancy work for a particular government, which, incidentally, I do and which I think more academics should do. What I mean is that unless you have some kind of a strategy or an approach to making your research accessible and useful for policy makers, in a way you are wasting your time, because your research is going to have no impact on the real world. I do not mean that all academics should write articles concluding with a section on policy implications. This can be done at many levels. Not necessarily at the level of how to design a conditional cash transfer programme in Bolivia, for example, but it can be at the level of influencing the way policy makers see the world, telling them about different policy regimes that exist and work well in other countries.

One thing you notice when you talk to policy makers in developing countries is that they think that all the rich countries follow the same developmental model (basically a highly idealized — and often inaccurate — version of the US model). They argue that alternatives such as African socialism or Soviet central planning have failed, so what is the alternative to the US model? But when you tell them about Scandinavian, Dutch or French models or about the Korean experience, they begin to see that there is an alternative — or rather there is more than one alternative — to the US model. Again, I am not saying everyone should engage with policy makers, NGOs, or student activists in the way I do. There should be room in academia for people doing very abstract research or pontificating on philosophical issues. However, academia as a whole should be in touch with real world policy makers, businessmen, and social activists.

***MA: In your work you tend to address policy makers as if they were a neutral category whose members can be made to see sense and realize the failure of neoliberal policies. Surely, the class position of this group and the interests they represent is part of the problem. How does class analysis fit in your work then?***

H-JC: Well, I take politics in the broad sense very seriously. For example, three years ago I started teaching a new course for undergraduate economics students called Economics as a Political Subject. In my work I am very aware and keen on examining political and power relations. However, I am not sure whether this political analysis should necessarily be based on class analysis alone because there are many other things that are relevant for politics which often get overlooked. For example, Marxists have always been dismayed by the fact that nationalist feelings often seem to trump class consciousness. There are gender issues that cut across the political spectrum. In this regard, the leftist parties sometimes have been as bad as the right-wing parties in terms of restricting women. I think that class is only one of the axes through which power is formed and exercised.

When I speak of making policy recommendations, I am not forgetting that people are likely to be in positions to implement those policies exactly because they have particular class conditions. Your question is very legitimate but in my view, first of all, a lot of people do overcome their own class background. Even if you are the son of a capitalist, you can still have radical ideas and even if you are the son of a worker, you might be the worst kind of a neoliberal. Policy makers I talk to may be from the elite classes, or owners of plantations or whatever themselves. I still say these things in the hope that some of them can overcome their class position and do things that may actually be bad for their own class. I don't have illusions about how many of these people will be able to overcome it, but sometimes it is important to say these things as if these people's class position does not matter. If you present something as a general argument, there is a higher chance that these people might forget about their class position and buy into it.

***MA: The increasing financialization of the economy draws a lot of criticism. In your work, you often speak of the need for alternative financial institutions. You are also extremely critical of some of these alternatives, such as microfinance, for example. What other possibilities are there?***

H-JC: I have written quite a few critical pieces about the financial industry. A lot of people think I am anti-finance, but I am not. I believe that, without the modern financial system, we would still be living in a world of Adam Smith's pin factory, where workers laboured to produce something useful but relatively insignificant because there were no banks and stock markets

that could finance large-scale modern industries.<sup>5</sup> Before the late 19<sup>th</sup> century there were few companies that had the ability to issue stocks, as it was a special privilege granted by the government which only the largest firms, like the East India Company, enjoyed. The bankruptcy law was basically all about punishing unsuccessful businessmen and squeezing every penny out of them, instead of wiping the slate clean and allowing them to restart their businesses. It is only because now we have banks, stock markets and bankruptcy laws providing businesses with a second chance that our societies have this level of prosperity.

More recently, however, the financial system has become geared more towards extracting surplus from companies in the real sector and making short-term profits. This tendency is most advanced in the US and the UK, but it is spreading to other countries. In this new financial system, stock markets do not finance long-term business projects any more. Shareholders buy shares in companies in order to extract money from them, rather than to supply them with long-term finance, as textbooks say they do. A lot of companies are giving away almost all of their profits to shareholders, through dividends and share buy-backs (a practice in which companies buy their own shares to push up the share price), even if it means lower investments for the future — in the last couple of decades, the top US and UK companies have given away 85–95 per cent of their profits to shareholders. As a result, most stock markets are taking out more money from the corporate sector than they supply it — they have become ATM machines for financial investors.

I know finance needs quick movement, so, when I criticize the short-termist tendencies prevalent in the current financial system, I do not mean that the financial sector has to be as long-term oriented as sectors producing airplanes for instance. However, the degree of short-term orientation has reached unprecedented levels. For example, in Britain, the average period of shareholding used to be around five years in the 1960s, but on the eve of the financial crisis in 2008 this had fallen to something like six months. You might be officially one of the owners of the company but you have no interest in the future of the company beyond six months. These shareholders put pressure on companies to maximize their profits by squeezing their workers and suppliers as much as possible and to give out the highest possible proportion of those profits to shareholders through dividends and share buy-backs. If the managers cannot do that, they will be happy to sell the shares and bring the share prices down, or they will support another set of managers who will be able to do that more effectively. In this kind of system, professional managers, especially in the US and UK, have bought into the short-term oriented agenda of shareholders and delivered huge profits and dividends. To them, and to the short-term shareholders who back them, it does not matter what the company will look like in five years. Companies no

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5. Adam Smith's famous pin factory is discussed in the very first chapter of his book, *The Wealth of Nations* (1776/1991).

longer invest enough in research and development (R&D), they demoralize their workers and outsource functions to the extent that quality begins to suffer. All these managers care about is profit while they hold their seat for two years so they can get multi-million dollar compensation packages.

Moreover, the financial sector has also become overly complex. You have all those financial instruments that no one really understands. These were behind the 2008 financial crisis. In the financial sector, there is a complexity which hides a lot of nasty things behind what they are trying to sell. And when critics point out this excessive complexity, the answer is that this is financial innovation. The argument also is that the system exists and what exists must be good, as otherwise it would have been wiped out by competition. Of course, the limits of these defences have been plainly exposed by the 2008 financial crisis.

Some of the supposedly ‘alternative’ tools in finance, like microfinance, are in fact part of the same system. What microfinance does is lend small amounts of money to poor people ostensibly to help them get out of poverty by their own effort through setting up small businesses. However, those lenders are charging interest rates of at least 50 per cent. Some of them are even charging as much as 100 and 200 per cent. What kind of business makes that kind of money? So very often the reality is that those microloans are used for consumption smoothing: your daughter is getting married, so you need extra cash for the wedding; your husband got injured on the construction site and cannot work, so you need extra cash to tide you over; that sort of thing.

Thus seen, microfinance companies are like payday loan companies that you have in the UK, though mostly not as nasty. They are essentially part of the ‘financialization of everything’ package, which has been hugely oversold as a solution to the world’s poverty. Every politician praises and endorses microfinance and the Grameen bank — and its founder, Muhammad Yunus, even got a Nobel Peace Prize. It is a scandal! You have to ask yourself if microfinance could actually deliver this result. The reality is that microfinance was never going to help poor people fundamentally. I am sure a lot of people got into that industry with good intentions but the set-up was such that it was never going to work. The goal was ostensibly to create viable livelihoods in the long run, but there was very little understanding of how you do that. If you really think you can create viable livelihoods by helping people to sell fried noodles, then there is something seriously wrong with you.

In terms of real alternative financial institutions, at the microfinance level, you actually have a lot of credit cooperatives in the European countries. Rabobank, the best run bank in The Netherlands, is still a credit cooperative, originating from the agriculture sector. Some countries like Germany have banks owned by local government or communities that serve customers based in the region. A lot of agricultural cooperatives work as a way of pooling resources to purchase collective inputs, like the creamery and slaughterhouse in countries such as Denmark, Germany and The Netherlands.

There are also workers' credit cooperatives. These are genuinely alternative financial institutions that do not operate on a profit-making basis, unlike microfinance institutions, and already exist and work well in many countries. So, people thinking that the Grameen bank style of microfinance is the only model of microfinance are actually wrong. Academics writing on microfinance rarely talk about credit cooperatives.

At a higher level of financial institutions, you have development banks, like Kreditanstalt für Wiederaufbau (KfW) — Reconstruction Credit Institute — in Germany, the Development Bank of Japan (DBJ), Korea Development Bank (KDB) and the Banco Nacional de Desenvolvimento Econômico e Social (BNDES) — National Bank for Economic and Social Development — in Brazil. These serve financial needs of projects at the national level but are not likely to make money in the short run. There are lots of alternative financial institutions. It is only because people do not want to know about them that they do not know about them.

***MA: The World Bank has always strongly opposed selective industrial policy, arguing that governments should not select winners. However, all successful late industrialization, as you point out, has followed this route. Do you think there has been a change in mainstream thinking about industrial policy?***

H-JC: Of course it depends on how you define it, but industrial policy and its implementation has been debated at least since the 18<sup>th</sup> century, starting with the debate on so-called infant industry protection. This was theorized by Alexander Hamilton, the first US treasury secretary, and later developed by various American and German economists and their ideas were pitted against the British classical economists' view that free trade is the best system. The Soviet debate on industrialization focused on questions of how you can artificially start industrializing in a country full of poor peasants: how to transfer surplus and workers from the agricultural sector to the industrial sector? Whether you should first make investments in the capital goods sector so that the economy could expand even faster at a later stage or whether to focus on consumer goods at the beginning. With the emergence of development economics in the 1950s and 1960s, the debate moved on to discussions about the big push and linkages. Theories on what kind of things the state, or society in the broader sense, should do to promote industrial development in post-colonial societies emerged. And finally, we had debates in the 1980s and the 1990s about the so-called East Asian economic miracle. One group of economists, myself included, pointed out that these economies really used extensive industrial policy in order to engineer their economic growth and development. Others denied that these countries developed because of industrial policies and argued that they developed despite these policies and not because of them. Unfortunately, with the rise of neoliberalism, between the late 1980s and the mid-2000s,

industrial policy was basically not a topic that you could discuss in polite company. Advocating industrial policy was considered outrageous like — I don't know — recommending that we eat babies for breakfast!

Fortunately, since then things have changed a little bit. At the theoretical level, a number of mainstream economists like Dani Rodrik (Hausmann and Rodrik, 2002) and Justin Lin (2012) started advocating some form of industrial policy. In terms of practice, especially since the 2008 financial crisis, many developed countries, such as the United States under Obama, launched a number of industrial policy programmes in an attempt to revive the manufacturing sector. The Germans have also come up with the idea of Industry 4.0, which would help them get into new industries before others. Rich countries may not be targeting sectors in the traditional sense, but they are targeting very specific technologies, such as alternative energy technology or certain types of new material.

At the same time, a number of developing countries have pursued industrial policy with some success, despite the generally hostile environment. Ethiopia had success with its targeted policy in textile, shoes and leather industries. Also, Uzbekistan has had surprising success with the automobile industry. Vietnam has targeted the shipbuilding industry and had some success in developing it, while China is applying targeted policies even at the firm level because of the large number of its state-owned enterprises. China is proving to be even more selective in their policy than Japan and Korea were.

Now that industrial policy is more accepted and more practised than before, it is no longer a taboo. However, there is reluctance to fully promote it. Justin Lin, the Chinese former chief economist at the World Bank, confessed to me in 2008 that 90 per cent of his economists are against even his mild version of industrial policy. Even those mainstream economists who now accept industrial policy try to argue that developing countries should not do things too drastically. For example, Lin (2012) has famously recommended that countries should use industrial policy to emulate countries that are two or three times richer than they are. If you are Burundian, for example, try to get into something that the Ethiopians are doing and if you are Ethiopian try and get into what Sri Lankans are doing, and so on.

Mainstream economists are also recommending that industrial policy should largely be general rather than selective. Basically, the idea is that governments need to provide inputs which markets are not good at providing, such as education, R&D and infrastructure. These inputs, the thinking goes, will evenly benefit all industries. Governments should do this rather than pick winners, as the popular expression goes, and try to promote particular industries.

I find this argument highly problematic because, first of all, the so-called market failure does not happen in relation to things that are generally applicable across different sectors. Often, problems are very sector-specific and require particular types of intervention. For example, you may need to

intervene in a sector to secure certain raw materials of the right quality, sometimes you need to work on export marketing, and sometimes your problem is shortage of skilled labour. These problems are very specific and cannot be addressed by general policies. This separation between selective and general industrial policy is very artificial. In the end, everything is sector- or industry-specific. You may say we are supporting R&D as a general policy and will be providing subsidies to all private sector R&D activities but then some sectors, especially in developed countries, do not do any R&D, so they are not going to benefit from this policy. You may also say we are promoting education in general, but education above lower-secondary level needs to be specialized. You cannot produce a generic engineer who can work in any sector. Instead, you need to decide whether you want to produce chemical or mechanical engineers, depending on the industries you want to develop.

Infrastructure is also very location-specific and different types of infrastructure have different implications for different industries. You are either building railroads between copper mines and seaports or using the same money to build airports in flower-cultivating regions so that you can transport your flowers to the US or from The Netherlands more quickly. So, in the end you have to choose and everything is selective.

Interestingly, people who advocate general industrial policy are the same ones who tend to support targeted rather than universal approaches when it comes to social policy. The argument they make is that we have limited resources and cannot give money to everyone, so we have to concentrate it where it is most needed. My question is why they don't do the same in industrial policy! My view is that the differences between individuals are much smaller than those between industries, so actually industrial policy needs to be more targeted than social policy and not the other way around. Maybe this position comes from the fear that if industrial policy is too specific then it would be more liable to corruption and capture. However, if this is actually the real reason for opposing selective industrial policy, then it should be stated as such.

***MA: How do you see the future of development studies?***

H-JC: There is a lot of tension in the field of development studies. Recently, I was involved in a departmental review at a major development studies programme in the UK, where I saw a lot of tension between two groups of people doing development studies. There are those trained in disciplines like economics, anthropology or political science but who believe in the idea of interdisciplinary development studies, and there are those, mainly US-trained, who see themselves only as political scientists or economists but who happen to work on developing countries. There is a lot of tension between the two.

With the increasing neoliberal — or more precisely, neoclassical — takeover, development is being reduced to an exercise in increasing

incomes, or worse, getting people out of poverty. The so-called Millennium Development Goals, for example, were about getting people out of poverty, focusing on basic needs, throwing in a little bit of female empowerment and then you have development. I totally object to this view of development. It does not call for fundamental transformation of social relations so that industrialization can start, land reform can take place, workers can organize and poorer countries can upstage richer countries. It is promoted by the establishment because it is a very inoffensive agenda that makes people think about development in a way that is the least disruptive to the status quo.

I do not define development as purely a matter of raising the income level. I see it as a transformative process, based mainly on material transformation, and one which has huge consequences. Not only does it make people richer, but it changes social relations, the living environment, gender relations and every aspect of society. What I see as real development is an agenda which allows us to talk about land reform, government intervention, protectionism, labour rights, bringing down barriers to female employment. It is very disruptive.

If development inevitably brings about broad, complex and interconnected transformations in different spheres of life, this cannot be studied by separate disciplines, be it economics, political science or anthropology. If we recognize this, it becomes difficult to defend the view of development studies as an alliance of independent disciplines studying ‘developing’ societies over the view of development studies as an inherently inter disciplinary subject studying the complex and related transformative process called ‘development’.

***MA: Finally, I would like to ask you about a recent chapter you published which makes a link between science fiction and economics. Isn't this a strange leap?***

H-JC: I have been an avid reader of science fiction from a young age. In 2015, I was invited to a conference at the Political Economy Research Centre at Goldsmith College in London on ‘Economic Science Fictions’. I found the topic very interesting to talk about. Science fiction is actually a very good way of doing thought experiments about society. I have a materialist view of the world and I believe that technology is the most fundamental thing that shapes societies. Science fiction explores worlds with different technologies, which give shape to different individuals and different institutions, which in turn result in very different societies. In a way, studying countries at different levels of material development is a bit like science fiction. From the point of view of a very poor rural economy, what goes on in Korea and the US is like science fiction: very different technologies, completely different ways of existing and relating to other people. Conversely, from the point of view of people from rich countries, going to those poor countries is like going back in history, or in science fiction terms, it is more like ending up in a dystopian

world after a nuclear holocaust or something similar, where all technologies have been destroyed, leading to a very different society and different people. If you take this one step further, you realize that studying history is also a bit like reading science fiction. When we study history, we look at societies with fundamentally different material bases that created different individuals and institutions. It is a good way of thinking about different possibilities.

Science fiction can open up people's imagination, and I think imagination is what we lack when thinking about alternatives. In the last 30 years, we have been brainwashed into thinking that there is only one possible way of living and we have been told to either adapt or die. But if, like when you read science fiction, you begin to think about different worlds, with different technologies, different institutions and different individuals, more possibilities open up. This also allows you to think about the possible disastrous consequences if we do not take action and do something about the way the world is run by people in Silicon Valley.

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**Maha Abdelrahman** (mma49@cam.ac.uk) is a Reader in Development Studies and Middle East Politics at the University of Cambridge, UK. Her research focuses on state–civil society relations, opposition politics and social movements in the Middle East.