Received: 14 November 2009.

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The review is written under the auspices of the project 149032 supported by the Ministry of Science and Technological Development, Republic of Serbia.

Bad Samaritans: The Myth of Free Trade and the Secret History of Capitalism

by **Ha-Joon Chang**

Bloomsberry Press, 2007

As we know, the Parable of the Good Samaritan is one of the parables of Jesus appearing in the *Gospel of Luke*. This is also known as The Good Neighbour. In accordance with the majority view this parable is told by Jesus in order to illustrate that fellow feelings must be available to all, and that fulfilling the spirit of the Law is just as important as fulfilling the letter of the Law.

It is of interest to examine the existence of parable in the economic discourse as well. Economists are often emphasizing the unintended consequences in relation to the parable. For example, James M. Buchanan, winner of the 1986 Nobel Prize in economics, has written an influential essay on the Samaritan's dilemma presenting a challenge to those who want to provide assistance to those in need. He has pointed out that the existence of assistance may induce perverse effects, or rather, an increase in numbers of those in need, and an increasing demand for dependency. His conclusion is that the structure of incentives could reinforce bad conduct rather than inducing just conduct.

On the one hand, the author of this book, Ha-Joon Chang, has followed the similar direction. His book is about the meanings of assistance as well. In addition, we could read about the perverse situations as a consequence of policies that induced dependency throughout this book. On the other hand, Chang has taken an entirely reverse course. As announced in the title, his main figure is the Bad Samaritan who preaches free market and free trade to the poor countries, taking advantage of others who are in trouble. Due to the historical amnesia and established double standards today's Bad Samaritans do not realize that their recommendations of free market and free trade are hurting the developing countries. Bad Samaritans, imposing neo-liberal macroeconomic policies on developing countries, hamper these countries ability to invest, and create jobs in the long run.

Chang is a development economist who has worked as a consultant for the World Bank, Asian Development Bank, various UN agencies and many governments around the world. He is a recipient of the prestigious Leontief Prize. In addition, he has published many articles on the subject, including the critically acclaimed *Kicking Away the Ladder - Development Strategy in Historical Perspective*. In this book Chang launches an attack on neo-liberal economic orthodoxy by focusing on one of the important theoretical conundrums in the discipline of political economy -- the theory of development. The book demolishes the free trade myths that are perpetuated by neo-liberal ideology and the bad Samaritan institutions of the IMF, World Bank and WTO and their supporting governments. The author offers a book in the best tradition of the contemporary heterodox orientation, in which several strands of thought are brought together in order to reach a deeper understanding of the reality underlying the capitalist relations. This is a highly ambitious book; Chang's intention is namely to rewrite the history of capitalism, as well as to highlight the historical roots of double standards concerning the free market. The typical economic perspective of history has often not been offered in written form, but has simply been presumed to be an unproblematic passage from the imperfect discoveries in the past to their improvement in the present. Chang aims to reverse the conventional economic wisdom and logic about development, particularly the official narrative concerning how rich countries became prosperous, and the implications this has on the advice being provided by the IMF/World Bank to developing nations. In this respect, this book presents an alternative story that is written from the perspective of political economy, i.e. from the confines of what nowadays would be called heterodox economics. It profoundly challenges the present world economic order and the standard textbook economics on which this order rests.

The *Bad Samaritans* advances the debate on how developing countries can grow. We could recapitulate the essential message of the book with the following thesis (pp. xxiv):

- Free trade reduces freedom of choice for poor countries.
- Keeping foreign companies out may be good for them in the long run.
- Investing in a company that is going to make a loss for 17 years may be an excellent proposition.
- Some of the world's best firms are owned by the state.
- Borrowing ideas from more productive foreigners is essential for economic development.
- Low inflation and government prudence may be harmful for economic development.
- Corruption exists because there is too much, not too little, market.
- Free market and democracy are not natural partners.
- Countries are poor not because their people are lazy; their people are lazy because they are poor.

The book is structured in nine chapters, with a prologue. In the first chapter, “The Lexus and the olive tree revisited”, Chang begins his analysis discussing the facts and myths on globalization. There is an official history of globalization and according to this history the most important vehicle of development is the adopting of the free market and trade. Great Britain proves to be a central example in this argument. In addition, the history of world could be described in the light of the affirmation of the norms of free market. but there is an unofficial history of globalization that presents a completely changed landscape. Chang tells us this “unofficial” story with the implementation of the tariffs by the developed nations and asymmetric protection used by the developed countries. The final result is embarrassing; there is poor growth record during the neo-liberal globalization in developing countries and the economic instability is increasing during the neo-liberal period. The official history has distorted these facts. Contrary to what the neo-liberals would have us to believe, the successful developing countries after the Second World War succeeded through nationalistic policies, using protection and other forms of government interventions. Swedish economist Gunnar Mirdal was of the opinion that the world trade increases already existing differences in income between the rich and poor countries. The consequences of the neo-liberal globalization affirms this statement. The economic trends have followed the tendencies predicted by Mirdal.

The second chapter, "The double life of Daniel Defoe, How did the rich countries become rich?", depicts the detailed economic development of Great Britain and America describing the misleading views on the causes as well as forms of these developments. Chang has rightly illustrated the practice of protecting infant industries as an indispensable aspect for the development. The argument concerning the infant industry has been elaborated by Alexander Hamilton who has been in actual fact the father of this doctrine. Friedrich List, who is usually treated as the leading promoters of the protection policy, developed this argument only later. Despite being the typical protectionist country throughout the 19th history and up to 1920s, the US was the fastest growing economy. It was only after the Second World War that the US liberalized its trade and started championing the free trade. Therefore, the most successful economies were protectionist. This fact profoundly questions the neo-liberal orthodoxy.

The third chapter, "My six-year-old son should get a job. Is free trade always the answer?", analyzes the problems with unplanned and rapid trade liberalization. As it is well known, many developing countries, having shifted from import substitution to export-led growth, are now classified as emerging markets open to foreign investors. The neo-liberalism, having undermined the previous ideology, has now opened the door for massive privatization and capital decontrols. It is possible that this gradual trade liberalization may have been beneficial, but the last decades have been characterized by blanket trade liberalization. This trade is naturally essential for the development, but the Bad Samaritans are pushing the questionable claim that the free trade is best for development. Chang discusses example countries, such as South Korea and Japan, who followed neo-liberal policy early on in their economic development, and have had their industries would have been wiped out by international competition.

The fourth chapter, "The Finn and the elephant. Should we regulate foreign investment?" evaluates the benefits of having free international movement of capital and liberalized capital markets. As far as his own contribution is concerned, Chang's focus of attention is the limits of the foreign direct investments that are often celebrated as the limitless good by neo-liberals. Using foreign direct investment, capital has penetrated and transformed most developing countries into emerging markets; it has integrated former socialist regimes into the logic of capital; and in the core countries it has imposed its own private regulation while undermining public institutions of welfare and government. With the exception of small enclaves it has managed to subjugate and incorporate the entire world population into its all-encompassing logic. In point of fact, foreign direct investment may help economic development, but only when introduced as part of a long-term-oriented development strategy. This orientation needs balanced strategy as well as mixture between the free trade and protectionist measures.

The fifth chapter, "Man exploits man. Private enterprise good, public enterprise bad?", examines the economic performances of the state-owned enterprises. This perspective developed by Chang is unlike that of conventional political economy. Neo-liberal ideology likes to present capital and state as hostile. It emphasizes that the political power of the state inevitably distorts the mechanisms of the market-based economy. In this blueprint, the ideal political system is one that intervenes the least, and the best way to guarantee minimal intervention is to make politics itself operate as a free market. This theory is the essence of neo-liberalism. Contrary to the picture of the necessarily distorting state, we see in this chapter a lot of successful public enterprises. The well-performing state-owned enterprises do not affirm the neo-liberal wisdom. Chang proves that there are circumstances under which public enterprises are superior to the private-sector firms. Taking into account the pitfalls of privatization, there is a case for state ownership. The goal is not state or free markets, but finding the right balance that delivered durable markets that underpin long term productivity.

The sixth chapter, "Windows 98 in 1997. Is it wrong to 'borrow' ideas?", discusses another important feature of the neo-liberal ideology, intellectual rights. Chang demonstrates that the Trade-related Intellectual Property Section of the WTO agreement (TRIPS), which emerged from the Uruguay Round, strengthens the market power of the advanced Western countries. Third World countries have agreed to accept the obligations of the international intellectual property system, including enforcement provisions, in exchange for promises of better access to the markets of the rich countries for their agricultural produce and for a few traditional manufactures. This relationship results in further technology and wealth inequality. The new system adapted to the neo-liberal ideology, and described as the rent-extracting device, has made economic development more difficult. Chang argues for a balancing between the need to encourage the people to produce new knowledge and the need to ensure that the costs of the resulting monopoly do not exceed the benefits of the new knowledge. This is an urgent task for the economic policy.

The seventh chapter, "Mission impossible? Can financial prudence go too far?", is investigating the inflation, that is often treated as the worst economic phenomenon within the neo-liberal mindset. Inflation is extremely bad for growth; this is the typical neo-liberal assessment. As we recall, neo-liberalism has been attacking the Keynesianism and welfare state as the main sources of the destructive inflation-laden processes in economy. In contrast, there are successful countries despite the existence of high average inflation, such as Brazil. Brazil was one of the fastest growing economies in the world despite the average inflation rate of 42%. Chang does not argue that the inflation is good, but he warns us that inflation below some level does not have any adverse effects on the economic growth. There is no simple correlation between the inflation rate and economic growth. But the recognition of this fact is not included into the neo-liberal orthodoxy.

The eighth chapter, “Zaire vs Indonesia. Should we turn our backs on corrupt and undemocratic countries?”, deals with the peculiar relationship between the corruption and economic growth. This chapter presents two case studies, but its ambition is to generalize the conclusions. Here an argument is made that corruption is evidently bad for the developing countries, but there is a limitation of the popular view propagated by the Bad Samaritans that the corruption is the biggest obstacle to the economic development. For the Bad Samaritans the argument on corruption appears to be a justification for the reduction of their aid commitment, where they are using the corruption as an unwarranted explanation for the failures of the neo-liberal policy that they promoted during the last decades. Moreover, Bad Samaritans say that the best way to eliminate the corruption is to introduce more market forces into the public sector in accordance with the norms of the New Public Management. The relationship between the corruption and economic growth is very complex. We have countries that were corrupt but performed well economically. Futhermore, corruption often exists because there are too many market forces. Consequently, what the Bad Samaritans have recommended have not solved the problems of corruption.

In the last chapter, “Lazy Japanese and thieving Germans. Are some cultures incapable of economic development?”, Chang is concerned with the links between the economy and culture. He criticizes the culture-based explanations popularized during the 1960s, however focuing on the idea that today's Bad Samaritans are using the alleged wrong cultural values of developing countries as the explanation for the failures of the neo-liberal ideology. Thus, in neo-liberal view there are no inherent problems in the ideology of free market but people are determined by the wrong values that diminish the economic effectiveness. If economic success is really determined by cultural values, some people are destined to be more successful than others, and there is not much that can be done about it. But, as Chang shows taking in consideration the historical examples, there are no cultures that are badly suited to economic development. The so-called bad behaviours, as lazyness, are the results of economic conditions. Nevertheless, the neo-liberal economic history is a profoundly Eurocentric history. As an example, Joel Mokyr, the well-known economic historian, pointed out any explanation--whether based on hydraulic oriental despotism or static Confucian culture--that attributes inertia to China's culture falls flat because it does not account for the dynamic of economic growth and technological progress under the Tang, Sung, and Yuan. We should conclude with Chang that the culture is the result, as well as cause of economic development. After all, the culture is not immutable, it can be deliberately changed through economic policy and institutional building.

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In summary, this book provides both a careful sketch of recent economic history, with implications for political and social trends in the globalization, and an application of a novel theoretical perspective, developed by the author in a series of his works. the book takes the reader through the history, assumptions and limitations of mainstream economics and its associated theories of politics. Chang's study imaginatively combines theory with data, and demonstrates how meaning can be teased out of empirical information. Characteristic of his style, the author combines deep historical perspective with a highly interdisciplinary approach to the study of capitalism, as evidenced by continuous references to subjects as diverse as law and literature. The book is geared towards heterodox political economists of all sorts, students of political economy and those outside the university system who are willing to engage with his work. For a subject that can often be heavily sophisticated, Change does a remarkable job of keeping the explanations and examples as simple and clear as possible. Activists and progressives outside the academy who possess the requisite patience and commitment will be able to work their way through it. The argumentation of the book is not based on technical components, thus the reading of Chang's study does not make serious demands of them. In addition, the release of this excellent and comprehensive book is aptly timed, where as the global political-economic crisis unfolds and existing theories and paradigms come into question, a space is created in which new theoretical alternatives will be welcomed. For economics as a discipline, it has become commonplace to accept concepts of analysis uncritically, and not to interrogate their historical and social content. As the famous economist Robert Solow puts it “economic theory learns nothing from the economic history”. This book, in turn, reminds economists that this has not always been true of their discipline, and that the historical content of what they do now is worthy of critical attention through the prism of the past. It demonstrates that the globalization is not the inevitable result of the relentless development in the technologies of communication and transports. There is nothing inevitable in globalization. This is a simple but far-reaching conclusion.

Reading this book has led us to a very interesting, refreshing and fascinating journey, but also, in some important respects, a depressing journey. This is a result of realizing, even more than before we began, how reduced, a historical as well as asocial economic science has become, compared to past eras. At the same time, with this assessment I have taken opposite direction in relation to the Chang's intention: he has found “real hope” in the fact that “the majority of Bad Samaritans are neither greed nor bigoted” (pp. 207). In accordance with his belief we are going along with the wrong policies because it is easier to be a conformist, and we do bad things because they are easiest thing to do. However, these points alone do not give reason for the optimism. As a small indication of the difficulties ahead of us is the fact that, although this book is an exercise in economic thought written by economist, I anticipate that this book will appeal more to heterodox economists, to historians of economic thought, economic historians and other social scientists, than to orthodox economists. Chang's arguments appear to me as a sign of the undervaluation of the strength of ideology. The crucial problem is not with the greed of “bigoted Bad Samaritans”, or with some other psychological trait. On the contrary, we are confronting with the ideology that is deeply embedded in the structure of power.