

Remarks by Alicia Bárcena, Executive Secretary of ECLAC, on the occasion of the lecture “Building pro-developmental multilateralism — towards a 'new' new international economic order”, by the economist Ha-Joon Chang, at the sixteenth edition of the Raúl Prebisch lecture series

Wednesday, 21 August 2019

ECLAC

Santiago

Ha-Joon Chang, economist, Professor of the University of Cambridge y
and Raúl Prebisch speaker 2019,

Government representatives,

Representatives of the diplomatic corps and of academic institutions,

Representatives of the United Nations system in Chile,

ECLAC colleagues,

Esteemed guests,

Friends,

I wish you all very welcome to ECLAC, the home of the United Nations in Latin America and the Caribbean.

I should like to begin by expressing our thanks to Leonidas Montes, Director of the Centre for Public Studies of Chile, without whose support and collaboration Professor Ha-Joon Chang's visit to ECLAC would not have been possible.

Since 2001, we have been convening this lecture series to honour the memory of Raúl Prebisch. This is the sixteenth of the series, which today pays tribute to one of the world's most influential heterodox economists in the area of development economics: Ha-Joon Chang.

It is a great honour and source of pride for the Commission to have you giving the sixteenth Raúl Prebisch lecture, because this is an ECLAC tradition that pays homage to the vocation of our founder, who welcomed critical thinking by men and women from Latin America and the Caribbean —and from other latitudes— who dared to defy dogmatism. This lecture series has afforded us the opportunity to acclaim the thinking of Celso Furtado, Joseph Stiglitz, Fernando Henrique Cardoso, Rubens Ricuperro, Dani Rodrik, Enrique V. Iglesias, Tulio Halperin, Fernando Savater, Aldo Ferrer, José Antonio Ocampo, Danilo Astori, Luiz Gonzaga de Mello Belluzzo, Rolando Cordera, Mariana Mazzucato and Ricardo French-Davis.

Today, we will have the pleasure of hearing Ha-Joon Chang, Reader at the Faculty of Economics and Director of the Centre of Development Studies of the University of Cambridge.

The Prebisch lecture series is an especially important occasion for ECLAC, on which we take time to reassess our ideas and reflect on the new challenges posed by a rapidly changing international economy. But it is also an occasion to confirm our strong commitment to promoting equality, democracy and development on a sustainable basis.

For these reasons, we are especially glad and honoured to welcome Dr. Ha-Joon Chang, whose intellectual trajectory and contributions are so close to our own concerns. Raul Prebisch alerted us from the very beginnings of ECLAC that the main challenge was to think for ourselves, to look at the specificities of our history and realities and to devise policies based on these, not on abstract models which disregard crucial determinants of underdevelopment. In this, he explicitly followed Keynes, the great Cambridge economist, who stated that the difficulty in economics “lies, not in the **new ideas**, but in escaping from the **old** ones, which ramify ... into every corner of our minds”. Both Prebisch and Chang took up this challenge and set out to devise new analytical answers and policy responses to inequality and divergence.

This lecture series honours this long-established ECLAC tradition of intellectual courage and commitment to changing the reality, rather than reproducing ideas and models that the historical evidence has already dismissed as useless at best (and most often harmful) for dealing with the problems of sustainable development. Indeed, this is the of the key arguments of Dr. Chang's book *Kicking Away the Ladder*, an expression he took from Friedrich List, the great German economist who was an inspiration for the structuralists. The set of policy recommendations that orthodox economists prescribe for developing economies was not followed by the now developed economies when they themselves were in the process of developing. In the words of Dr. Chang, "developed countries did not get where they are now through the policies and the institutions that they recommend to developing countries today".

The implications of taking into account the lessons from history and thinking outside the box are far-reaching. Prebisch noted the gains for development arising from international trade, but emphasized that these gains would not come from free trade nor spontaneously from market forces. He understood the crucial role of a space for development policies, for promoting new sectors in the economy, diversifying exports towards industries with higher technological intensity, and allowing new actors and industries to learn and consolidate, before being exposed to international competition. To encourage global development, the centre

and the periphery, in Prebisch's view, should adopt coordinated policies, consider the tensions and complementarities that arise from the co-evolution of their production structures, and open spaces for building capabilities in the periphery. The importance of this policy space and the role of time in learning have been discussed in Dr. Chang's works. Equally, he affords importance to a new international governance to permit the periphery to foster technical and structural change, and reduce the technology and income gaps vis-à-vis the advanced economies. His contributions to our understanding of the kind of institutions and policies that are required for climbing the ladder of development are outstanding, as is his detailed explanation of how "bad" policies and institutions (from the point of view of orthodox economists) played a positive part in successful development stories. In this respect, we see Dr. Chang as very much part of the same effort ECLAC is making to reshape development policies, at home and in the international arena.

Structuralists have a long tradition of defending industrial and technological policies, and have kept this banner aloft even in a very hostile intellectual environment, when the fad in economics was "the best industrial policy is none at all". The orthodox spirit of the 1990s (what one author labelled "the triumph of neoclassical economics") was diametrically opposed to the economic research mindset called for by Dr. Chang: an open-minded, pluralistic approach to economics —or "let a

hundred flowers bloom” as he suggests, quoting a famous phrase by Mao Zedong, in his book *Economics: The User’s Guide*.

We have advocated for Latin America the very principles Dr. Chang advocates in his book. We favour an open debate, in which the validating criteria are the historical and empirical evidence, not the theoretical purity or lineage of the argument. We have been a voice defending pluralism and a new policy and political dialogue (in the premise of new “compacts for equality”). This is necessary for building —with different countries and actors— the conditions for sustainable development.

A central concern enshrined in ECLAC documents since 2010 has been the problem of inequality. ECLAC has devoted a great deal of effort to showing how inequality compromises growth and economic efficiency, a view that contradicts orthodox trickle-down economics (a view that, indeed, many orthodox economists have themselves now abandoned). Our concerns find resonance in the words of Dr. Chang in his discussion of inequality in *Economics: The User’s Guide*: “high inequality reduces social cohesion, increasing political instability. This, in turn, discourages investments. Political instability makes the future —and thus the returns on investments, which are by definition in the future— uncertain. Reduced investments reduce growth. Greater inequality also increases economic instability, which is bad for growth”. Dr. Chang also makes reference to

the impacts of inequality on health, education and productivity. Again, this is a field of shared concern, and ECLAC research has provided extensive empirical evidence of the negative effects of inequality on economic efficiency for the Latin American economies.

Dr. Chang is a close friend of our institution, not only because of the contents of his contributions, the importance he affords to history and politics in shaping ideas, policies and economic outcomes, or our theoretical affinities —but above all because of his strong ethical commitment to fighting inequality and promoting sustainable development.

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Dr. Chang was born in Seoul, the capital of the Republic of Korea, in 1963. He became a graduate student at the Faculty of Economics and Politics of the University of Cambridge in 1986, having studied economics at Seoul National University, and earned his PhD from Cambridge in 1992 after defending his doctoral thesis “The political economy of industrial policy. Reflections on the role of state intervention”. He has been teaching economics at the Faculty of Economics and the Development Studies programme at the University of Cambridge since 1990.

Dr. Chang’s current position is Director of the Centre of Development Studies, and Reader in the Faculty of Economics, at the University of

Cambridge. Dr. Chang is one of the most influential economists in the heterodox arena and the economics of development. He has written 16 books and edited another 10 with notable co-editors such as Joseph Stiglitz, Peter Nolan, Bob Rowthorn and Gabriel Palma among others. He has also written over 50 articles in leading academic journals and more than 60 chapters in different books about development, institutional economics and analysis of global capitalism. Dr. Chang has also done advisory work for various international organizations, including several United Nations bodies such as the United Nations Department of Economic and Social Affairs, the United Nations Development Programme (UNDP), the United Nations Research Institute for Social Development (UNRISD), the United Nations Labour Organization (ILO) and the United Nations Conference on Trade and Development (UNCTAD), among others; as well as multilateral financial organizations such as the World Bank, the European Investment Bank and the Asian Development Bank. He has advised national governments, private sector organizations and non-governmental organizations.

Dr. Chang's intellectual work has been influenced by a broad spectrum of schools of economic thought, with a boundless sense of critique. Thus, for example, on his website, Dr. Chang states that:

“The Neoclassical school has been the dominant school of economics for the last two generations, so I have also been schooled in it throughout my career. It can provide us with some very useful tools to analyse problems within a given structure, but it is not very good at understanding how the institutions, technologies, politics, and ideas that define that structure evolve over time.”

In this criticism of the neoclassical school, he acknowledges Hayek’s criticism of neoclassicism for its separation of political from economic process and failure to recognize their mutual influence on each other’s determination and dynamics.

At the other end of the ideological spectrum, Dr. Chang recognizes the influence of Marx's political economy, explaining that:

“With the collapse of communism, people have come to dismiss Marx as an irrelevance, but this is wrong. I don’t have much time for Marx’s utopian vision of socialism nor his labour theory of value, but his understanding of capitalism was superior in many ways to those of the self-appointed advocates of capitalism. For example, when free-market economists were mostly against limited liability companies, Marx saw it as an institution that will take capitalism on to another plane (to take it eventually to socialism, in his mistaken view). In my view, 150 years after he wrote it, his analysis of the evolution of labour regulation in Britain in

Capital vol. 1 still remains one of the best on the subject. Marx also understood the centrality of the interaction between technologies (or what he called the forces of production) and institutions (or what he called the relations of production), which other economic schools have only recently started to grapple with.”

Other economists who have influenced Dr. Chang's work, especially in his analysis of the long-run dynamics of capitalism, are Friedrich List, Joseph Schumpeter, Nicholas Kaldor and Albert Hirschman.

Highlights among Dr. Chang's vast written production include his books *The Political Economy of Industrial Policy* (1994), *El papel del Estado en el cambio económico* (1996), *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* (2010), *Economics: The User's Guide* (2014) and *Transformative Industrial Policy for Africa*, his most recent publication (2016), co-authored with Jostein Hauge and Muhammad Irfan. These works all clearly present thematic contents that are highly relevant to the debates on development, globalization and the dynamics of capitalism for Latin America and the Caribbean.

Kicking Away the Ladder has had a significant impact on the discussions surrounding capitalism and development, owing to the profound analysis

that Chang offers through a historical approach, an effort that was recognized in 2003 with the award of the Gunnar Myrdal Prize by the European Association of Evolutionary Political Economy. This historical approach, which redeems the developmental principle that "history matters" (path dependence) shows evident consistence with the structuralist analyses of ECLAC and its most prominent thinkers, who developed similar arguments using what was termed the "structural historical method". The works of Furtado, Pinto, Sunkel, Cardoso and Faletto, for example, argued that the development/underdevelopment dialectic obeyed socioeconomic formations specific to Latin America, rather than general laws by which the path from underdevelopment to development supposedly involves passing through successive stages that every economy must complete (criticism of Rostow and theories of modernization).

Thus, this book develops a robust discourse centred on an impeccable and carefully argued statement: that the central capitalist economies —the current developed countries, in the terms set forth by Chang— have kicked the ladder away to prevent the so-called developing countries from "reaching them". In his 2007 book *Bad Samaritans*, Dr. Chang expands the analysis of *Kicking Away the Ladder* through chapters with such suggestive titles as: "Mozambique's economic miracle: How to escape poverty", "The Lexus and the tree olive tree revisited: Myths and

facts about globalization”, “The double life of Daniel Defoe: How did the rich countries become rich?”, “The Finn and the elephant: Should we regulate foreign investment?”, “Man exploits man: Private enterprise good, public enterprise bad?”, “Windows 98 in 1997. Is it wrong to ‘borrow’ ideas?” and “Mission impossible? Can financial prudence go too far?”. As you can see, the questions posed by Dr. Chang are tremendously relevant to our region and the recent evolution of global capitalism.

In a similar vein, but in an affirmative rather than an interrogative style, in *23 Things They Don't Tell You About Capitalism*, Dr. Chang surprises us with 23 statements that reveal hidden aspects of capitalist dynamics and the "governance" of globalization. For example: (1) There are no free markets; (2) The washing machine has changed the world more than the internet, (3) Greater macroeconomic stability has not made the world economy more stable, (4) Free market policies rarely make poor countries rich, (5) Capital has a nationality, (6) Making rich people richer doesn't make the rest of us richer, (7) People in poor countries are more entrepreneurial than people in rich countries.

Dear friends, if we are to emerge from the harsh economic conditions that prevail today and bring our development path into step with aspirations that revolve around equality —such as those enshrined in the 2030 Agenda for Sustainable Development and the Sustainable Development

Goals— we must pursue economic, industrial, social and environmental policies in an integrated manner aligned with progressive structural change.

On the road towards progressive structural change, social inclusion and economic growth need not be at odds. Rather, policy needs to be rethought together with technological change and sustainable development.

Ha-Joon Chang has made an invaluable contribution to progress along this road with ideas that we hope will continue to flow.

In a world fraught with uncertainty and tension, a world that impels us to action amid ever more prodigious challenges, the thinking of Ha-Joon Chang spurs us to renew our commitment to a better future and to garner a resounding response to the question posed by another great Korean thinker, the poet Kim Kwang-kyu, who meditated in these terms, and I quote:

“Was there anyone who didn't know?

What everyone felt

What everyone went through

Was there anyone who didn't know?

In those days
everybody knew
but pretended not to know
What no one could say
what no one could write
was spoken
in our language
written in our alphabet
and communicated

Was there anyone who didn't know?
Don't speak too glibly now times have changed
Stop and think

In those days
what did you do?"

My dear Ha-Joon Chang, it is with utmost pleasure and warmest thanks that I invite you to take the floor as the speaker of the sixteenth in the Raúl Prebisch lecture series of ECLAC.

Thank you very much.