

Bringing Production Back into Development

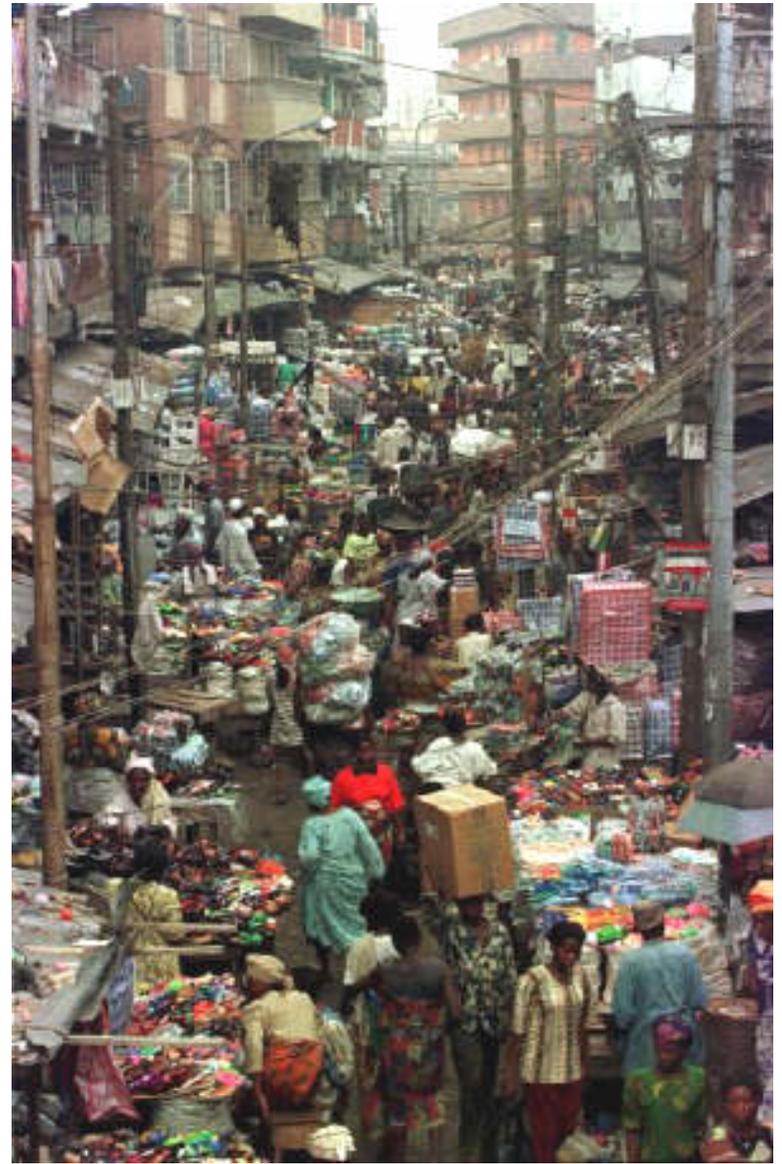
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Who are the entrepreneurs? – Proportion of self-employed people

Rich countries

- Average: 12.8%
- Norway: 6.7%
- US: 7.5%
- France: 8.6% (so, DUBY's comment was a classic case of the pot calling the kettle black)

Poor countries

- Average: 30-50%
- Ghana: 66.9%
- Bangladesh: 75.4%
- Benin: 88.7%
- Rich/Poor ratio: 2-4
- Bangladesh/US ratio: 10
- Norway/Benin ratio: 13

23
THINGS
THEY
DON'T
TELL
YOU
ABOUT
CAPITALISM

'Shocking ...
masterful'
OBSERVER



THE No.1 INTERNATIONAL BESTSELLER

Ha-Joon Chang



Changing Definition of Economic Development

- Until the 1970s, there was a general consensus that economic development is essentially about the **transformation of the abilities to produce – or productive capabilities**, although people fiercely debated how to achieve it.
- However, during the last three decades, the dominant view has become that economic development is basically about poverty reduction and a more widespread provision of basic needs, as reflected in the Millennium Development Goals (MDGs) of the UN.

Development without Development: the MDGs

- Goal 1: Eradicate extreme poverty and hunger.
- Goal 2: Achieve universal primary education.
- Goal 3: Promote gender equality and empower women.
- Goal 4: Reduce child mortality.
- Goal 5: Improve maternal health.
- Goal 6: Combat HIV/AIDS, malaria, and other diseases
- Goal 7: Ensure environmental sustainability.
- Goal 8: Develop a global partnership for development

Neglect of Production I – Neo-Liberalism

- Neo-liberalism is based on, although not synonymous with, neoclassical economics, which is basically about market exchange and has little to say about production.
- In neo-classical theory, the issues surrounding the development of productive capabilities is assumed away, as it takes these capabilities as given (it is assumed that all countries can use any technology).
- Believing in the power of the free market, the neo-liberal discourse criticizes any attempt to deliberately enhance productive capabilities through public policy intervention – which was at the heart of the old development thinking – as being at best futile and at worst counter-productive.

Neglect of Production II – Humanism

- Since the 1980s, there has been a ‘humanist’ reaction against what was seen as the collectivist, materialistic biases of the early development discourse.
 - The early development theories were mainly about transforming the productive structure through policies affecting aggregate variables, like investments and total labour supply.
 - In applying these theories, individuals were forgotten and, worse, repressed in the name of the greater good, called economic development.
- This has made the ‘humanists’ emphasise the need to enhance individual capabilities through health, education, and empowerment, as reflected in the MDGs.

Neglect of Production III – Post-Industrialism

- According to the discourse on post-industrial service economy, rising income has brought about the shift of demand towards services.
- They cite cases like Switzerland and Singapore as examples of service-based prosperity.
- The issue of productive development is almost completely ignored in this discourse, as it is implicitly assumed that even the poorest countries possess the capability to compete in services.
 - The recent Indian success story with services is presented as the proof of this.

**Table 1. Per capita GNP Growth Performance
of the Developing Countries, 1960-80**

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

**Table 2. Per capita GDP Growth Rates
of the Developing Countries, 1980-20010**

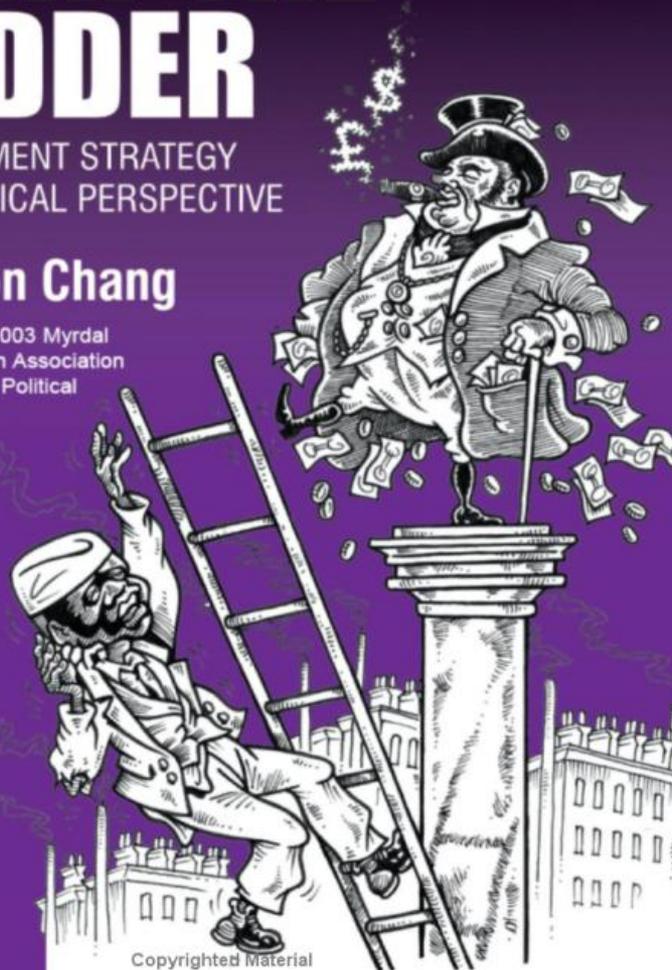
	1980-90 (%)	1990-2000 (%)	1980-2000 (%)	2000-10 (%)	1980-2010 (%)
Developing Countries	1.1	2.3	1.7	4.6	2.7
East Asia and Pacific	5.8	7.0	6.4	8.2	7.0
Europe and Central Asia	1.9	-0.7	0.6	3.9	1.7
Latin Americ a and the Caribbean	-0.6	1.3	0.3	1.8	0.8
Middle East and North Africa	-0.1	1.8	0.8	2.5	1.3
South Asia	3.1	3.2	3.2	5.5	3.9
Sub-Saharan Africa	-1.0	-0.5	-0.7	2.1	0.2
Developed Countries	2.4	1.9	2.1	1.1	1.8

KICKING AWAY THE LADDER

DEVELOPMENT STRATEGY
IN HISTORICAL PERSPECTIVE

Ha-Joon Chang

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



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

'Lucid, deeply informed'
NOAM CHOMSKY



BAD SAMARITANS

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

HA-JOON CHANG

Not enough to enhance individual capabilities I

- As for the ‘humanists’, their problem is not so much that they are not interested in raising productive capabilities, as they are.
- It is that they try to do it mainly by making individuals more capable through investment in health and education.
- However, there are only so many productive capabilities that can be developed through improvements at the individual level.

Not enough to enhance individual capabilities II

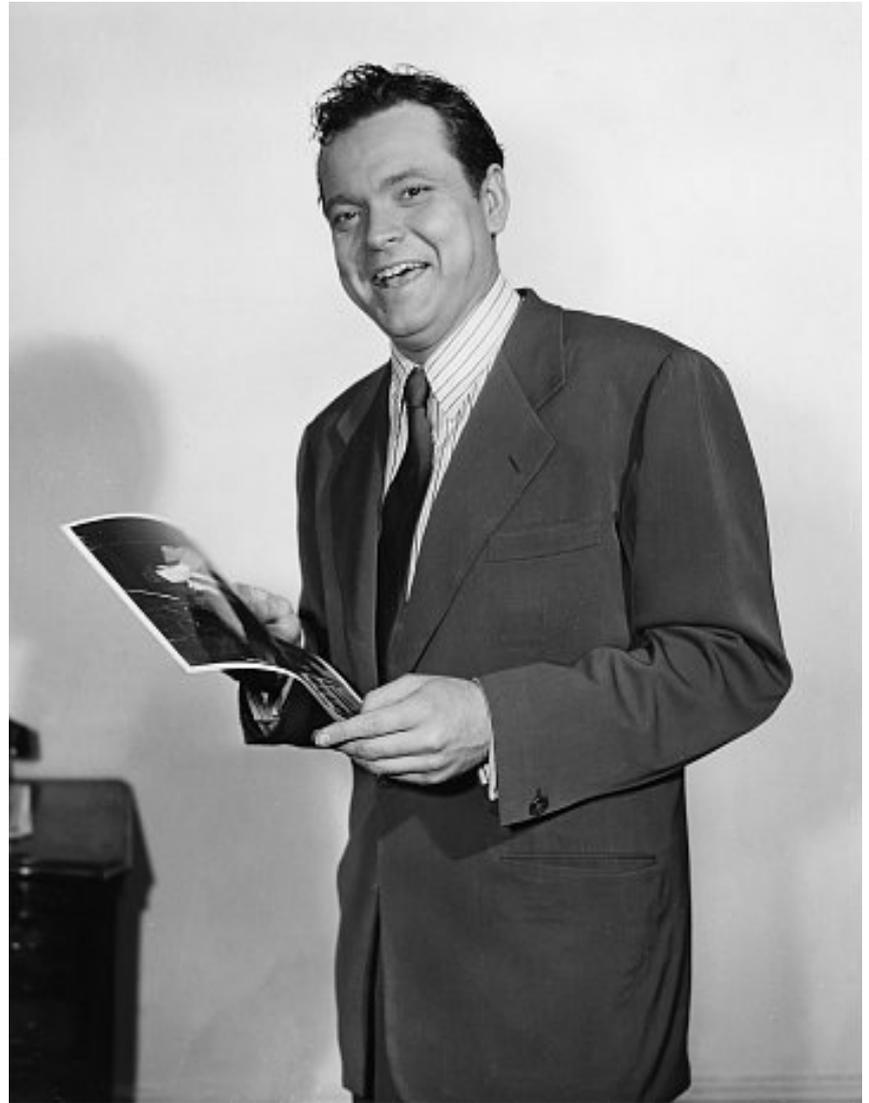
- Developments in productive capabilities mainly occur inside productive enterprises, rather than at the individual level.
- In addition, you need the development of a series of collective institutions that encourage and help different economic actors work together
 - capital-labour collaboration within firms
 - cooperation among firms within and across sectors
 - government-business interaction (including, but not just, industrial policy)
 - industry-academia partnership

Problems with the Post-Industrial Economy Discourse I

- The increasing share of services does not mean that material production is not important any more.
 - We are in fact consuming an ever-increasing amount of material goods.
 - Many countries are producing even more material goods than ever in absolute terms.
 - The rise in the share of services happens mainly because services are becoming relatively more expensive, given the faster rise of productivity in the manufacturing sector.

Problems with the Post-Industrial Economy Discourse II

- A lot of recent productivity growth in service sectors like finance and retail has been illusory.
 - The high productivity growth of the financial sector has been based on dubious asset valuation and has come at huge costs to the rest of the economy.
 - A lot of the increases in retail service productivity in countries like the US and Britain have been bought by lowering the quality of the retail service itself – fewer sales assistants, longer drives to the supermarket, lengthier waits for deliveries, etc..
- Most high-value services – finance, engineering, IT services, consulting, etc. – mainly sell to the manufacturing sector, so they cannot prosper without a strong manufacturing base.



“In Italy for thirty years under the Borgias, they had warfare, terror, murder, bloodshed, but they produced Michelangelo, Leonardo da Vinci and the Renaissance. In Switzerland, they had brotherly love - they had five hundred years of democracy and peace, and what did that produce? The cuckoo clock.”

**(Orson Welles as Harry Lime,
The Third Man)**



Wrong, wrong, wrong, wrong, wrong!

- Five hundred years of democracy?
 - Women were given votes only in 1971.
 - Two rogue cantons refused to give women votes until 1989 and 1991.
- Five hundred years of peace?
 - Wars with Swabia (1499) and France (1515 and 1798)
- Five hundred years of brotherly love?
 - Civil wars in 1653, 1656, 1712, and 1847
- The cuckoo clock was *not* invented in Switzerland.
 - It was invented in Germany.
- Switzerland is *not* an economy living off the black money deposited by Third World dictators and selling cuckoo clocks and cow bells to American and Japanese tourists (or, if you want to be nice to it, a post-industrial economy relying on services like banking and tourism).
- It is the most industrialised economies in the world.

Manufacturing Value Added Per Capita, 2011

(in constant 2005 US dollars; index USA=100)

- **Switzerland:** \$10,110 177 (world ranking: 1)
- **Singapore:** \$8,966 157 (2)
- **Finland:** \$8,097 142 (3)
- **Sweden:** \$7,419 130 (4)
- **Japan:** \$7,374 129 (5)
- **Korea:** \$6,046 106
- **USA:** \$5,714 100
- **UK:** \$3,882 68
- **Mexico:** \$1,482 26
- **China:** \$1,063 19
- **Brazil:** \$779 14
- **India:** \$158 3

How about India?

- India's service trade success story is exaggerated.
 - between 2004 (until then India had deficit in service trade) and 2011, India recorded service trade surplus equivalent to 0.9% of GDP, which covered only 17% of its merchandise trade deficit (5.1% of GDP).
- This means that, unless it increases its service trade surplus by 6 times (an implausible scenario, given that its service trade surplus has *not* even been on a firm rising trend since 2004), India can not maintain its current pace of economic development without a serious balance of payments problem.

Negative Consequences of Neglecting Production I

- Neglect of productive capabilities has made people think that what countries produce does not matter – “It doesn’t matter whether you produce potato chips or micro-chips”.
- This has, in turn, made a lot of developing countries complacent about their dependence on commodities or cheap assembly.
- However, in the long run, different economic activities give different scope for growth and technological development.

Negative Consequences of Neglecting Production II

- The neglect of productive capabilities has also meant that our assessment for policies have acquired short-term biases.
 - Policies that reduce current consumption with a view to increasing long-term productive capabilities, such as infant industry protection or policies to deliberate increase investments, were too easily dismissed.

Negative Consequences of Neglecting Production III

- The collective dimensions of productive development were neglected, making people ignore the issues of how to develop modern firms and other institutions.
 - There is of course a lot of talk of ‘private sector development’ but it is mainly a ‘negative’ agenda in the sense that deregulation and cutting taxes are seen to automatically lead to enterprise development.
- The neglect of production has also led to a very partial view of our individual well-being.
 - Envisaging people as consumers rather than producers, issues of employment, the quality of jobs, and workplace welfare have been ignored.

Reconstructing the Discourse on Economic Development I

- We need to incorporate the insights from the humanist tradition and pay greater attention to non-material aspects of development – like freedom, equality, solidarity, and community.
- We need to take individuals more seriously – BUT not just as consumers (as in neo-liberal economics) nor just as citizens with entitlements (as in the humanist approach) but also as producers, in whose life employment and the contents of their work are very important dimensions.

Reconstructing the Discourse on Economic Development II

- Our understanding of production itself needs to be improved, with attention paid not just to technologies but to organisations, institutions, culture, and even politics.
- Environmental sustainability has to be incorporated.
 - Contrary to conventional wisdom, development of productive capabilities, especially in the manufacturing sector, is crucial in preventing and adapting to climate change.
 - The rich countries need to further develop their productive capabilities in the area of green technologies.
 - Even just to cope with the adverse consequences of climate change, developing countries need to further develop technological and organisational capabilities, many of which can only be acquired through industrialisation.

What is
economics?

What can – and
can't – it explain
about the world?

Why does it
matter?

Ha-Joon Chang teaches economics at Cambridge University, and writes a column for the *Guardian*. The *Observer* called his book *23 Things They Don't Tell You About Capitalism*, which was a no.1 bestseller, 'a witty and timely debunking of some of the biggest myths surrounding the global economy.' He won the Wassily Leontief Prize for advancing the frontiers of economic thought for his book *Kicking Away the Ladder*. He is a vocal critic of the failures of our current economic system.



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HA-JOON CHANG ECONOMICS: THE USER'S GUIDE



A PELICAN
INTRODUCTION

Economics: The User's Guide Ha-Joon Chang

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