Exposing The Myths Of Neoliberal Capitalism: An Interview With Ha-Joon Chang

Professor of Economics Ha-Joon Chang. Photo: wikipedia

For the past 40 years or so, neoliberalism has reigned supreme over much of the western capitalist world, producing unparalleled wealth accumulation levels for a handful of individuals and global corporations while the rest of society has been asked to swallow austerity, stagnating incomes and a shrinking welfare state. But just when we all thought that the contradictions of neoliberal capitalism had reached their penultimate point, culminating in mass discontent and opposition to global neoliberalism, the outcome of the 2016 US presidential election brought to power a megalomaniac individual who subscribes to neoliberal capitalist economics while opposing much of its global dimension.

What exactly then is neoliberalism? What does it stand for? And what should we make of Donald Trump's economic pronouncements? In this exclusive interview, world-renowned Cambridge University Professor of Economics *Ha-Joon Chang* responds to these urgent questions, emphasizing that despite Donald Trump's advocacy of "infrastructure spending" and his opposition to "free trade" agreements, we should be deeply concerned about his economic policies, his embrace of neoliberalism and his fervent loyalty to the rich.

C. J. Polychroniou: For the past 40 or so years, the ideology and policies of "free-market" capitalism have reigned supreme in much of the advanced industrialized world. Yet, much of what passes as "free-market" capitalism are actually measures designed and promoted by the capitalist state on behalf of the dominant factions of capital. What other myths and lies about "actually existing capitalism" are worth pointing out?

Ha-Joon Chang: Gore Vidal, the American writer, once famously said that the American economic system is "free enterprise for the poor and socialism for the rich." I think this statement very well sums up what has passed for 'free-market capitalism' in the last few decades, especially but not only in the US. In the last few decades, the rich have been increasingly protected from the market forces, while the poor have been more and more exposed to them.

For the rich, the last few decades have been "heads I win, tails you lose." Top managers, especially in the US, sign on pay packages that give them hundreds of millions of dollars for failing — and many times more for doing a decent job. Corporations are subsidised on a massive scale with few conditions — sometimes directly but often indirectly through government procurement programs (especially in defense) with inflated price tags and free technologies produced by government-funded research programs. After every financial crisis, ranging from the 1982 Chilean banking crisis through the Asian financial crisis of 1997 to the 2008 global financial crisis, banks have been bailed out with hundreds of trillions of dollars of taxpayers' money and few top bankers have gone to prison. In the last decade, the asset-owning classes in the rich countries have also been kept afloat by historically low rates of interests.
In contrast, poor people have been increasingly subject to market forces.

In the name of increasing "labor market flexibility," the poor have been increasingly deprived of their rights as workers. This trend has reached a new level with the emergence of the so-called "gig economy," in which workers are bogusly hired as "self-employed" (without the control over their work that the truly self-employed exercise) and deprived of even the most basic rights (e.g., sick leave, paid holiday). With their rights weakened, the workers have to engage in a race to the bottom in which they compete by accepting increasingly lower wages and increasingly poor working conditions.

In the area of consumption, increasing privatization and deregulation of industries supplying basic services on which the poor are relatively more reliant upon — like water, electricity, public transport, postal services, basic health care and basic education — have meant that the poor have seen a disproportionate increase in the exposure of their consumption to the logic of the market. In the last several years since the 2008 financial crisis, welfare entitlements have been reduced in many countries and the terms of their access (e.g., increasingly ungenerous "fitness for work tests" for the disabled, the mandatory training for CV-making for those receiving unemployment benefits) have become less generous, driving more and more poor people into labor markets they are not fit to compete in.

As for the other myths and lies about capitalism, the most important in my view is the myth that there is an objective domain of the economy into which political logic should not intrude. Once you accept the existence of this exclusive domain of the economy, as most people have done, you get to accept the authority of the economic experts, as interlocutors of some scientific truths about the economy, who will then dictate the way your economy is run.

However, there is no objective way to determine the boundary of the economy because the market itself is a political construct, as shown by the fact that it is illegal today in the rich countries to buy and sell a lot of things that used to be freely bought and sold — such as slaves and the labor service of children.

In turn, if there is no objective way to draw the boundary around the economy, when people argue against the intrusion of political logic into the economy, they are in fact only asserting that their own 'political' view of what belongs in the domain of the market is somehow the correct one.

It is very important to reject the myth of [an] inviolable boundary of the economy, because that is the starting point of challenging the status quo. If you accept that the welfare state should be shrunk, labor rights have to be weakened, plant closures have to be accepted, and so on because of some objective economic logic (or "market forces," as it is often called), it becomes virtually impossible to modify the status quo.

Austerity has become the prevailing dogma throughout Europe, and it is high on the Republican agenda. If austerity is also based on lies, what is its actual *objective?*

A lot of people — Joseph Stiglitz, Paul Krugman, Mark Blyth and Yanis Varoufakis, to name some prominent names — have written that austerity does not work, especially in the middle of an economic downturn (as it was practised in many developing countries under the World Bank-IMF Structural Adjustment Programs in the 1980s and the 1990s and more recently in Greece, Spain and other Eurozone countries).

Many of those who push for austerity do so because they genuinely (albeit mistakenly) believe that it works, but those who are smart enough to know that it doesn't still would use it because it is a very good way of shrinking the state (and thus giving more power to the corporate sector, including the foreign one) and changing the nature of state activities into a pro-corporate one (e.g., it is almost always welfare spending that goes first).

In other words, austerity is a very good way of pushing through a regressive political agenda without appearing to do so. You say you are cutting spending because you have to balance the books and put the house in order, when you are actually launching an attack on the working class and the poor. This is, for example, what the Conservative-Liberal Democrats coalition government in the UK said when it launched a very severe austerity program upon assuming power in 2010 — the country's public finance at the time was such that it did not need such a severe austerity program, even by the standards of orthodox economics.

What do you make of all the talk about the dangers of public debt? How much public debt is too much?

Whether public debt is good or bad depends on when the money was borrowed (better if it were during an economic downturn), how the borrowed money was used (better if it was used for investment in infrastructure, research, education, or health than military expenditure or building useless monuments), and who holds the bonds (better if your own nationals do, as it will reduce the danger of a "run" on your country — for example, one reason why Japan can sustain very high levels of public debt is that the vast majority of its public debts are held by the Japanese nationals).

Of course, excessively high public debt can be a problem, but what is excessively high depends on the country and the circumstances. So, for example, according to the IMF data, as of 2015, Japan has public debt equivalent to 248 percent of GDP but no one talks of the danger of it. People may say Japan is special and point out that in the same year the US had public debt equivalent to 105 percent of GDP, which is much higher than that of, say,South Korea (38 percent), Sweden (43 percent), or even Germany (71 percent), but they may be surprised to hear that Singapore also has public debt equivalent to 105 percent of GDP, even though we hardly hear any worry about public debt of Singapore.

A number of well-respected economists are arguing that the era of economic growth has ended. Do you concur with this view?

A lot of people now talk of a “new normal” and a “secular stagnation” in which high inequality, aging population, and deleveraging (reduction in debt) by the private sector lead to chronically low economic growth, which can only be temporarily boosted by financial bubbles that are unsustainable in the long run.

Given that these causes can be countered by policy measures, secular stagnation is not inevitable. Aging can be countered by policy changes that make work and child-rearing more compatible (e.g., cheaper and better childcare, flexible working hours, career compensation for childcare) and by increased immigration. Inequality can be countered by more aggressive tax-and-transfer policy and by better protection for the weak (e.g., urban planning protecting small shops, supports for SMEs). Deleveraging by the private sector can be countered by increased government spending, as the Japanese experience of the last quarter century shows.

Of course, saying that secular stagnation *can* be countered is different from saying that it *will* be countered. For example, the quickest policy that can counter ageing — that is, increased immigration — is politically unpopular. In many rich countries, the alignment of political and economic forces is such that it will be difficult to reduce inequality significantly in the short- to medium-run. The current fiscal dogma is such that fiscal expansion seems unlikely in most countries in the near future.

Thus, in the short- to medium-run, low growth seems very likely. However, this does not mean that this will forever be the case. In the longer run, the changes in politics and thus, economic policies may change policies in such a way that the causes of “secular stagnation” are countered to a significant extent. This highlights how important the political struggle to change economic policies is.

What is your professional opinion of Donald Trump's proposed economic policies, which clearly embrace neoliberalism and all sort of shenanigans for the rich but oppose global "free-trade" agreements, and what do you expect to happen when they collide with Ryan's austerity budget?

Mr. Trump's plan for American economic revival is still vague, but, as far as I can tell, it has two main planks — making American corporations create more jobs [at] home and increasing infrastructural investments.

The first plank seems rather fanciful. He says that he will do it mainly by engaging in greater protectionism, but it won't work because of two reasons.

First, the US is bound by all sorts of international trade agreements — the WTO, the NAFTA, and various bilateral free-trade agreements (with Korea, Australia, Singapore, etc.). Although you can push things in the protectionist direction on the margin even within this framework, it will be difficult for the US to slap extra tariffs that are big enough to bring American jobs back under the rules of these agreements. Mr. Trump's team says they will renegotiate these agreements, but that will take years, not months, and won't produce any visible result at least during the first term of Mr. Trump's presidency.

Second, even if large extra tariffs can somehow be imposed against international agreements, the structure of the US economy today is such that there will be huge resistance against these protectionist measures within the US. Many imports from countries like China and Mexico are things that are produced by — or at least produced for — American companies. When the price of iPhone and Nike trainers made in China or GM cars made in Mexico go up by 20 percent, 35 percent, not only American consumers but companies like Apple, Nike and GM will be intensely unhappy. But would this result in Apple or GM moving production back to the US? No, they will probably move it to Vietnam or Thailand, which is not hit by those tariffs.

The point is that, the hollowing out of American manufacturing industry has progressed in the contexts of (US-led) globalization of production and restructuring of the international trade system and cannot be reversed with simple protectionist measures. It will require a total rewriting of global trade rules and restructuring of the so-called global value chain.

Even at the domestic level, American economic revival will require far more radical measures than what the Trump administration is contemplating. It will require a systematic industrial policy that rebuilds the depleted productive capabilities of the US economy, ranging from worker skills, managerial competences, industrial research base and modernised infrastructure. To be successful, such industrial policy will have to be backed up by a radical redesigning of the financial system, so that more "patient capital" is made available for long-term-oriented investments and more talented people come to work in the industrial sector, rather than going into investment banking or foreign exchange trading.

The second plank of Mr. Trump's strategy for the revival of the US economy is investment in infrastructure.

As mentioned above, the improvement in infrastructure is an ingredient in a genuine strategy of American economic renewal. However, as you suggest in your question, this may meet resistance from fiscal conservatives in the Republican-dominated Congress. It will be interesting to watch how this pans out, but my bigger worry is that Mr. Trump is likely to encourage "wrong" kinds of infrastructural investments — that is, those related to real estate (his natural territory), rather than those related to industrial development. This not only will fail to contribute to the renewal of the US economy but it may also contribute to creating real estate bubbles, which were an important cause behind the 2008 global financial crisis.