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

Review of Ha-Joon Chang's Book

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Bad Samaritans – The Myth of Free Trade and the Secret History of Capitalism. Ha-Joon Chang. Bloomsbury Press, New York, 2008.

Every now and then a 'prize' of a book comes along that includes all the elements of good writing. *Bad Samaritans* is one of them. Using straightforward language that generally avoids using the lexicon of economists, and explains it well when it is used, Ha-Joon Chang writes a strong narrative about the ills of the capitalist world. It is a combination of anecdotal history and comparative history that uses many good statistical elements to support his common sense arguments. Most chapters begin with an interesting anecdotal tale that illustrates the theme of that chapter, and all chapters end with an effective summary of his arguments. His title is most appropriate as he readily supports his position that free trade is a myth, and a realistic presentation of the history of capitalism demonstrates the reality behind the myth.

The main underlying position that demolishes the myth of capitalist free trade and its supposed successes with globalization is that all the current wealthy countries achieved their wealth not through free trade, but through the use of highly protective tariffs and effective use of subsidies and laws that regulated foreign business within their own country. He starts with his own country, Korea.

According to the neo-liberal economists – the supporters and apologists for free trade capitalism – Korea succeeded because "it followed the dictates of the free market." The combination of this belief with Korea's export success created a "popular impression" of this 'truth'. As clearly explained by Chang, "The Korean miracle was the result of a clever and pragmatic mixture of market incentives and state direction." Extending the same argument further he states what is his main theme on the history of capitalism as being "so totally rewritten that many people in the rich world do not perceive the historical double standards involved in recommending free trade and free market to developing countries."

Chang then starts his journey around the globe. Along the way, he exposes this double standard, as well as debunking myths about democracy as an accompaniment to free trade and economic development, and also eliminates culture as a reason for success or lack thereof, and corruption as an excuse for failure. Using per capita income as his measure, rather then the neoliberals' cherished GDP figures, he journeys through Hong Kong, Africa (with its "damning indictment of the neoliberal orthodoxy"), on to Taiwan, Singapore, China, India and Chile to sum up that "the truth of post-1945 globalization is almost the polar opposite of official history…peddled in order to mask the failure of neo-liberal policies."

Using Britain, and an anecdotal tale of Daniel Defoe (author of Robinson Crusoe), to answer the question "How did rich countries become rich?" Chang concludes "Britain adopted free trade only when it had acquired a technological lead over its competitors 'behind high and long lasting tariff barriers.'" The next step is to the United States and an examination of the policies of Alexander Hamilton, Lincoln, and Henry Clay where "*Despite* being the most protectionist country in the world throughout the 19th century and right up to the 1920s, the US was also the fastest growing economy." Both Britain and the U.S. had the highest tariff protection of all countries ever (except for Spain in the 1930s).

From these leading examples and conclusions it is easy to further the argument that free trade is not working because it forces developing countries to eliminate the very same protective barriers that the rich countries used to gain their wealth. Mexico is the main example at this point, before Chang turns to more 'pure' arguments on free trade theory and carefully deconstructs them. Rather than free trade, the argument turns to support the idea of using protective tariffs and subsidies in areas where undeveloped countries need them, in order to grow their economies as the rich countries initially did.

At this point the reader also needs to consider the tendencies of "full spectrum dominance" both militarily and economically as an imperial tendency of the United States. There is no real desire on the part of the American neo-liberals (nor their counterparts elsewhere) to actually aid the world. In geographical terms it becomes a heartland – hinterland relationship with the poorer countries remaining poor and supplying raw materials to the gathering wealth of the heartland. There is no genuineness for the current western governments to help developing countries become economically stronger and more competitive.

The arguments against free trade then become more specific concerning different aspects of the arguments. First, the regulation of foreign investment is considered, with the prime example being Nokia in Finland. The free trader arguments are reversed and applied common-sensically – if the rich countries believe in free trade so much, why not let the developing countries decide if they want to restrict foreign investment or not rather than impose non-restrictive regulations through trade agreements? Ending back on Nokia, which was protected for 17 years and is now a world leader in communications, Chang concludes that restricting regulations of foreign investment "is likely to hinder, rather than help, their economic development."

Looking more specifically at private versus public enterprise, and again journeying around the world via Singapore, Korea, Taiwan, China, Europe, South America, a strong case is made for public enterprise and highlights some of the "pitfalls of privatization." In sum, "State-owned enterprises are often more practical solutions than a system of subsidies and regulations for private-sector providers…[and]…may be superior to private sector firms."

The next focus is on intellectual 'rights', the idea of borrowing ideas. Once again, historical examples show that the rich countries previously copied much information and technological information while denying protection to foreign ideas in order to create their own wealth. Simply put, if the neoliberals truly believed in promoting development they would make it easier to acquire the information needed to do so rather than prevent its acquisition.

Democracy’s relationship with economic prosperity takes a strong hit, with a discussion of corruption and its various forms (bribery, employment, voting). Chang, using examples from America to Zaire, effectively argues against the neoliberal excuse that poor countries are poor because of corruption, citing several examples to show the converse, that “economic development does not automatically reduce corruption”. He extends the argument into democracy, saying that the “market runs on the principle of one dollar, one vote,” rather than the democratic one man, one vote. He concludes that democracy and markets, rather than being inseparable as argued by the neoliberals, actually “clash at a fundamental level.” As he has already demonstrated by this time that free markets “are not good at promoting economic development” by extension there is no “virtuous circle linking democracy, the free market and economic development.”

In fact, “The Bad Samaritans have recommended policies that actively seek to undermine democracy in developing countries,” with a corollary that “it is unlikely democracy will promote economic development through promoting the free market.” In other words, given a democratic choice, the people of the world would choose something other than the ‘free market’ as envisioned and dictated by the wealthy neoliberal supporters of the world. Chang provides two strong examples of re-directing government spending away from military spending to education, health, or infrastructure development, or promoting economic growth through creating a welfare state (which supports working mothers, children, education, hospitals, retirement and all those other nasty socialist ideas that the people of the world want but the neoliberals say hinder development). It all depends on your definition of development – more GDP for the transnational corporations, or more security and safety for the general populace.

Chang’s final conclusion is that if the neoliberals truly believed in creating economic wealth and development within the developing world, it would be in their best interest to “accept those ‘heretical’ policies.” While Chang holds out hope for changing the minds of neoliberals, I cannot be as optimistic, as the cumulative entrenched interests would require a strong midcourse correction from some major event – a catastrophic war, a major financial downturn….hmmm.

I would hope that peaceful persuasion as per Chang would succeed, but the state of the world today does not hold hope for optimism on this front. The rhetoric of free trade continues, while the wars to back it up and the unequal and oppressive regulations to control it continue to defy its very basic premise of freedom and democracy.

A wonderfully accessible work, *Bad Samaritans* should be read by anyone and everyone paying any attention to either national or global political affairs. Those wishing to refute free trade have a readily accessible volume. Those supporting “The Myth of Free Trade” had better take a second look at how their own wealth developed…if they did not already know the “Secret History of Capitalism.” An excellent work, it should become a cornerstone of the discussion moving forward to a more democratic and equal world.

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