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Ha-Joon Chang, *Kicking Away the Ladder: Development Strategy in Historical Perspective*, Anthem Press, London, 2002, 187 pages, $22.50 (Paperback)

Economists like to believe that they deal only with hard facts and cold logic, but after reading Ha-Joon Chang's little book, it is obvious that much of the discipline's conventional wisdom on economic development is based on mythology. Chang sets out to challenge the view that today's rich countries (for which he coins the epithet "now-developed countries", or NDCs) developed on the basis of "good policies" such as free trade and limited government intervention in the economy, as well as "good institutions" such as democracy, efficient bureaucracies, protection of intellectual property rights, and autonomous central banks. This version of economic history is used to pressurize developing countries into adopting the same policies and institutions. On the basis of an impressive array of sources, Chang shows that the actual historical record is rather different, and that this pressure amounts to rich countries "kicking away the ladder" on which they have ascended to their present affluence, so as to prevent poorer countries from following them.

Beginning with industrial, trade and technology (ITT) policies, Chang shows that even Britain, the land of Smith and Ricardo, had a long history of industrial protection and promotion. As early as the 14th century CE, Edward III promoted the woollen industry by banning the import of wool cloth from the more efficient producers on the Continent, bringing in Flemish weavers to raise the technological capacity of the English industry, and even adopting a *swadeshi* touch by wearing only English cloth so as to set an example for his subjects. The Tudor monarchs of the 16th century pursued similar policies, and also limited and eventually banned the export of raw wool to rival Continental producers. Wool was the mainstay of British proto-industrialization and exports until the better known Industrial Revolution of the 18th century, but even this was not brought about by a miracle of the market plus a clustering of innovations by gifted individuals, as is sometimes made out in popular accounts. In the early decades of the century, import duties on raw materials were reduced or removed while those on finished products were raised, duty drawbacks and subsidies made available for export promotion, export duties abolished, and regulation of export quality introduced to protect the reputation of British exports. As Chang notes, these policies "were uncannily similar to those used by Japan, Korea and Taiwan during the postwar period" (p.22). Not until Britain had achieved industrial domination in the second half of the 19th century did it adopt free trade.

The United States now champions free trade (although it does not practice it consistently), so it is ironic that the infant-industry argument for protection was advocated by the American Secretary of the Treasury, Alexander Hamilton, in 1791. The US, in attempting to catch up with Britain, heavily protected its industries during the 19th century, and in contrast to their present-day successors, several leading American economists advocated protection. In doing so, they ignored the advice of Adam Smith, for Chang digs out a telling quotation from *The Wealth of Nations*, in which Smith warns Americans that attempts to protect their industries from European imports "would obstruct instead of promoting the progress of their country towards real wealth and greatness"! Chang also points out that one of the causes of the American Civil War was Abraham Lincoln's support for industrial protectionism, which alarmed the agricultural producers of the southern states more than his feeble opposition to slavery. Germany is widely regarded as another example of successful protectionism, but here Chang points out that tariffs were actually on the low side, and industrial promotion by the Prussian state under Frederick the Great in the 18th century took the form of granting monopoly rights, export subsidies, capital investments, recruiting foreign artisans, and setting up model factories. Both the US and Germany poured public resources into education, research and development, and infrastructure. The entire range of promotional measures, along with successful public-private partnership in infrastructural and industrial development, was employed by Sweden – which also protected its industries from imports, despite being the archetypal small open economy.

Not only did the NDCs promote their own industries, they also actively sought to discourage the emergence of potential competitors. Britain's policies towards India were preceded by measures designed to retard industrial development in her American and Irish colonies. Also mentioned are the unequal treaties imposed by the imperial powers on nominally independent states like China, Persia, Turkey, Japan, and the countries of Latin America, depriving them of tariff autonomy. Rivalry between the European powers themselves took the form of restricting the emigration of skilled workers and the export of machinery, while promoting industrial espionage and the recruitment of foreign workers.

Chang's impressively documented study thus shows that the NDCs are now trying to prevent the LDCs from implementing the kind of ITT policies that they themselves initiated at similar levels of development. With institutional reforms, on the other hand, they are attempting the reverse; getting the LDCs to create within a short span of time institutions that they themselves evolved over generations, usually starting at a much later stage of development. Once again, Chang's canvas is both wide and detailed. On representative government, he documents how the right to vote was limited by gender, race, or property qualifications until well into the 20th century; the absence of secret balloting; evidence of electoral fraud, intimidation, vote buying, legislative corruption and misuse of public officials in the leading NDCs in the 19th century. Almost all LDCs that have democratic systems introduced universal suffrage at a much lower level of development than did the NDCs. On the need for an independent professional bureaucracy, he gives examples of nepotism and widespread sale of public offices in the NDCs. Patent laws were introduced early but enforcement was lax in most of them; bankruptcy and corporate disclosure laws were of poor quality until well into the 20th century (and one might add that the example of Enron shows that they remained wanting even at the threshold of the 21st). Competition policy, the latest front opened by the NDCs at the WTO, was introduced in the US by the Sherman Act of 1890, but not in any of the European countries until after the second world war. It is ironic that the European Union is now leading the charge to have cartels declared illegal everywhere, for in the late 19th century, cartels were encouraged by the state in Germany and restrictive agreements between firms were enforceable by law in Britain and France. Regulations governing banks, child labour, and adult working hours were introduced only in the late 19th century. Even amongst the NDCs, institutional innovations spread very slowly, inhibited by lack of resources, incomprehension of their working, and opposition from vested interests.

The anachronism of introducing many of these institutions in present-day LDCs is dramatically brought out in a table in which Chang uses Angus Maddison's computation of historical per capita incomes in the NDCs to compare them with today's LDCs. Indian readers would find the comparisons in the following quotation revealing: "The UK in 1820 was at a somewhat higher level of development than India today, but it did not have many of many of even the most 'basic' institutions that exist in India, such as universal suffrage (the UK did not at that point even have universal male suffrage), a central bank, income tax, generalized limited liability, a 'modern' bankruptcy law or meaningful securities regulations" (pp.120-121). Chang is quick to clarify that he is not claiming that these institutions are not desirable even at low levels of development. Thus, "India may be at a similar level of development to that of the USA in 1820, but that does not mean it should re-introduce slavery, abolish universal suffrage, de-professionalize its bureaucracy, abolish generalized limited liability, abolish the central bank, abolish income tax, abolish competition law, and so on" (p.138). He believes that latecomers have an advantage in not having to reinvent desirable institutions, but they should not be expected to establish in a few years the high standards that took decades to attain in the NDCs. In fact, he believes that most LDCs already have higher quality institutions than did the NDCs at a comparable stage of development, and that these relatively good institutions helped the LDCs to record much higher growth rates when they were allowed to use 'bad' (interventionist) ITT policies in the 1960s and 1970s, than the NDCs had done a century earlier.

Although I am not an economic historian, I found Chang's argument to be fairly convincing. He is careful to acknowledge alternative points of view and cases that do not fit his general thesis, such as Switzerland and the Netherlands. However, it is unsatisfactory to claim, as he does, that these two countries did not need to adopt similar interventionist policies since they were already on the technological frontier. This begs the question of how they got there. Also, although he makes a powerful case against current neo-liberal development orthodoxy, I would like to play devil's advocate and enter several caveats against using his analysis to endorse a return to equally simple-minded dirigistic policies. To begin with, I would have liked to see some speculation on the political economy of state activism. What enabled states run by autocratic monarchs in England, property-owning white males in the United States, and aristocrats-turned-bureaucrats in Germany and Japan to succeed, when attempts by several Third World regimes of various political complexions to implement a similar range of policies led to chronic inefficiencies, fiscal crises, and enclave-type development in the second half of the twentieth century?

In order to answer this question, one has to ask a few more. First, even if the NDCs have climbed the ladder successfully with the help of certain policies, is there enough room left at the top, in terms of the earth's limited resources, for others to climb up behind them? Second, and connected to this, was not state-promoted industrial capitalism inextricably linked to colonial expansion, which Chang mentions occasionally, but which is foreclosed to present-day developing countries? Third, were there no failures – 'infant industries' that refused to grow up – to mar the generally successful record of industrial policy in the

NDCs? Fourth, were such policies feasible only in the context of the extremely restrictive and limited democracy that prevailed in the NDCs at the time? Fifth, along with Maddison's heroic estimates of per capita income, it might have been instructive to assemble human development indicators and data on inequality for the NDCs in the 19th century. Chang does document the relatively late advent of social legislation on pensions, health care, and unemployment benefits. (Bismarck's Germany was a pioneer, but most NDCs set up the relevant institutions only in the early 20th century, with universal health care even now unavailable in the USA.) But these are in the nature of input measures; the use of outcome measures would have enabled one to judge whether the NDCs' strategy led to 'development' in a broader sense.

Finally, the wealth of evidence marshalled in this book will not be of much comfort for those who seek a blanket endorsement of India's pre-reform strategy. For there is no historical evidence here of any of the NDCs using import and investment licensing, reservation of products for small-scale industries, or of the 'commanding heights of the economy' for the public sector (although there are several examples of the state pioneering particular industries and technologies, which were soon transferred to the private sector). None of the countries surveyed seems to have engaged (at least in the 19th century) in extensive nationalization of industries, or instituted restrictions on the ability of firms to close down or to lay off workers. Nor is there evidence of restrictions on technology import; if anything, as my summary above shows, they actively sought foreign know-how in order to improve upon it. Average tariffs on manufactures in the 19th century United States, the most protectionist of the late industrializers, remained below 50%, and Germany and Japan did not rely on protectionism. I was unimpressed by Chang's argument that today's developing countries need much higher levels of protection because of the much larger gap in productivity between them and the NDCs. Does this mean they should try to neutralize completely the cost advantages that are the basis for international trade?

Having said all that, it must be reiterated that Chang has established that successful development in the NDCs depended on maintaining an autonomous economic sphere for domestic industry while continuing to engage with the world economy, and also a variety of domestic interventions. Also, there was no "one size fits all" strategy in the NDCs, and clearly today's LDCs are even more heterogeneous. These lessons should be taken seriously by votaries of the currently-fashionable neo-liberal policies in developing countries, and constitute a standing reproach to mainstream economists whose support for these policies is based on a willful disregard for economic history, which has been ejected from the curriculum in most Anglo-American universities. It is a pity that Chang's book comes from a publishing house that is little-known in developing countries; did more 'respectable' publishers find it too subversive? I hope he ties up with publishers in developing countries for low-cost editions that will have the wider distribution it deserves.

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