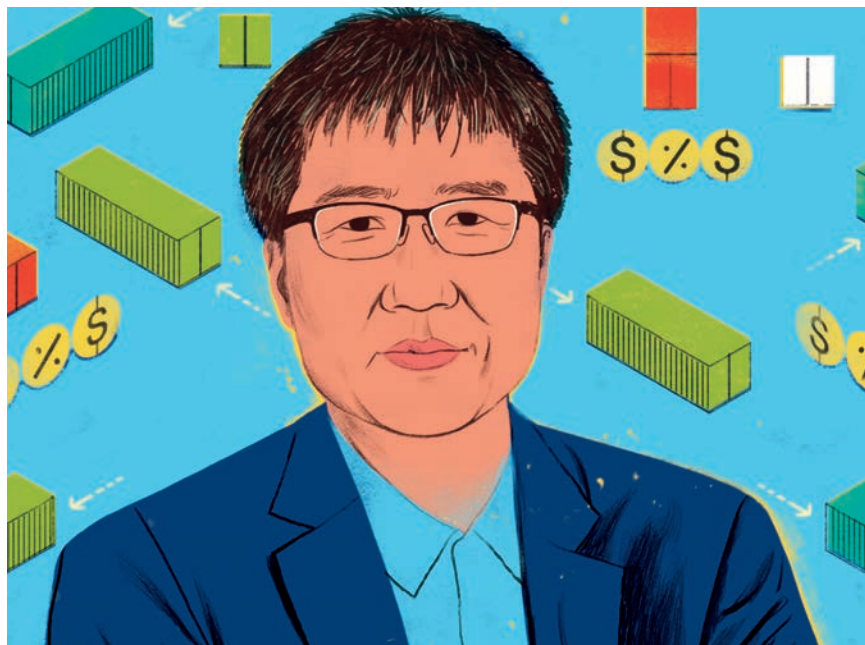


Café Economics

Nurture, Then Prosper



Living through South Korea's "economic miracle" taught **Ha-Joon Chang** a few things about infant industry protection

When the economist Ha-Joon Chang was born in 1963, South Korea was in turmoil. "Life expectancy was 53," the best-selling author told F&D's Bruce Edwards in a recent interview. "Statistically speaking, I should have been dead for the past 10 years." The country was very poor, surviving on exports of rice, fish, and vegetables.

But the early 1960s marked the launch of Korea's economic development drive, with five-year plans focused on industrial policy and nationalization of its banking system. The strategy pushed growth rates into double digits and ultimately improved lives, but the country was under a military dictatorship, and with growth came exploitation and political repression.

Growing up, Chang saw it all play out. "I wanted to make sense of it. How is it possible that all these good things and bad things are happening at once? So I decided to study economics to understand it."

In today's world, where everything is expected to justify its existence in terms of its economic contribution, everyone must know some economics to sustain a healthy democracy, Chang says.

Chang went on to earn a PhD at the University of Cambridge, where he taught for 30-plus years before moving to SOAS University of London in 2022. He is the author of 17 books that have been translated into 46 languages and sold over 3 million copies globally. His latest title is *Edible Economics: A Hungry Economist Explains the World*.

F&D: What was it like to witness South Korea's dramatic transformation firsthand?

HJC: Like riding a time machine. When I wrote my first mass-market book, *Bad Samaritans*, back in 2006, I did a back-of-the-envelope calculation. The material transformation I had seen in the first 43 years of my life was equivalent to what happened in America in the 150 years or so between the time of Abraham Lincoln and the early 21st century. These were huge economic transformations. A country that only grew rice and vegetables was suddenly producing cars and ships and steel. But at the same time repression was all around.

My father, who originally trained as a lawyer but later studied economics while working at the finance ministry, told me, "If you want to understand these things, you need to study economics." Initially I was disappointed because the economics we were taught at university was mostly neo-classical general equilibrium theory. I couldn't take it seriously because the professors were talking about equilibrium while outside was all this violent turmoil. So a lot of us students started studying what might be called "alternative economics," inspired by Marx, Hirschman, Kuznets, and other early development economists.

F&D: Would capitalism work better if more people were familiar with basic economic principles?

HJC: Yes, it's essential that ordinary citizens know at least some economics because, in a capitalist society—espe-

cially today's more market-oriented neoliberal variety—everything is supposed to justify its existence in terms of its economic contribution. And almost all public policies today are made, or at least filtered, by economists. And in that kind of society, unless you know at least some economics, your vote is meaningless. Everyone must know at least some economics to sustain a healthy democracy.

F&D: Much of your early writing was about the benefits of tariffs, especially for developing economies. Do you still believe that?

HJC: That's been the constant theme of my work and still is today. Tariffs, like all other policy tools, can be misused. So the fact that some countries messed up with excessive protection doesn't mean that they're necessarily a bad thing. After studying the economic history of rich countries and the recent record of developing nations, I've concluded that developing countries need a period of protectionism in the beginning to help develop the economy. This is actually an American idea. It was invented by Alexander Hamilton, the first treasury secretary and now the star of a hip-hop musical.

In a 1791 report to Congress on manufactures, Hamilton said that governments in economically backward countries, like the US in the late 18th century, need to protect industries in their infancy from competition from more mature industries from abroad, just as we protect and nurture our kids until they grow up and can compete in the labor market. And the biggest tool that he came up with was tariffs.

But Hamilton went well beyond tariffs. He was a visionary. He talks about government subsidies, infrastructure investment, development of the banking system and government bond market—even the patent system. I call the report history's first ever economic development plan.

If you follow the logic of infant industry protection, you need this first period of protection and nurturing. It happened in all successful economies throughout history. The US for nearly a hundred years was the world's most protected economy. My native South

Korea and several other East Asian economies used heavy tariff protection to provide the initial breathing space for new industries to invest and raise productivity. It worked best in countries where the recipients of state support were well disciplined.

F&D: We're seeing more industrial policy today, in advanced economies generally but especially the US. What do you make of this?

HJC: Throughout most of capitalism's history, industrial policy was a normal government tool. It's only in the past 40 years or so, between 1980 and 2020, that industrial policy became taboo. In fact, two IMF economists published a famous working paper in 2019 called "The Return of the Policy That Shall Not Be Named." But now it's back in fashion.

Industrial policy didn't disappear completely during the neoliberal period. My friend Mariana Mazzucato, of University College London, has pointed out that virtually every piece of technology in the iPhone originated from US government-funded research. The semiconductor was initially funded by the US Navy. The computer and the internet were developed by the Pentagon—and so on. These policies continued, but people did it on the quiet.

The new popularity of industrial policy stems from the fact that many rich countries, especially the US, have experienced deindustrialization. They worry that China is rapidly catching up and have realized that they cannot maintain their position without pulling further ahead in areas where they still have superiority. However, I worry that most of the new industrial policy, especially in the US, is poorly designed and won't work. I call it the geriatric version of infant industry protection.

F&D: I've heard you say that you're not a free-trade economist, but do you see any virtue in trade and capitalism as a means to improve lives?

HJC: Absolutely! There are different types of capitalism. What was the top income tax rate in the US between the late 1940s and mid-1960s? Ninety-one percent. A 19th century American look-

ing at the US might think it resembles a communist society. You cannot own slaves. You cannot hire children. There's a state currency monopoly called the Federal Reserve. There are all sorts of environmental and labor regulations. The point is there are many ways of managing capitalism. Deciding which is best depends on your values and politics.

Capitalism, to paraphrase what Winston Churchill said about democracy, is the worst economic system except for all the others. There's no credible alternative. That's bad news for some people who want to abolish capitalism. But the good news is that there are ways to make capitalism more efficient, more humane, and more sustainable.

Take trade. In my view, there's no economic development without trade. But free-trade economists' biggest sleight of hand is to tell people that the best form is free trade. It's not! The best form is what some people have called "managed trade."

As well as protection for new industries, developing economies need to build export capabilities. Countries like Korea and Taiwan heavily subsidized their export industries because they knew that they needed foreign exchange to import the latest machines and technologies.

F&D: Sticking with the theme of your latest book, *Edible Economics*, what is your recipe for sustainable development?

HJC: Sustainability should not only be about the environment. It should have an economic dimension. It also needs political sustainability because even good growth rates aren't sustainable if they are built on exploitative labor practices, precarious jobs, or rapidly rising inequality, which can all make many people unhappy. And you need social consensus. You can't create that without mass economic literacy and people with some idea of how the economy works. **F&D**



This interview has been edited for length and clarity. Visit www.imf.org/podcasts to hear the full interview.