

The Failure of Neoliberalism and the Future of Capitalism

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Advocates of neo-liberalism I

- There is no need for regulation of derivatives because these products are mainly traded by “largely sophisticated financial institutions that would appear to be eminently capable of protecting themselves from fraud and counterparty insolvencies” (1998, Larry Summers, Deputy Treasury Secretary)
- “[P]roblem of depression prevention has been solved” (Robert Lucas, 2003, 1995 Nobel Laureate)
- “Great moderation” (Ben Bernanke, 2004, as the Chairman of the Council of Economic Advisors)

Advocates of neo-liberalism II

- While there are “signs of froth in some local markets ... a ‘bubble’ in home prices for the nation as a whole does not appear likely”. (Alan Greenspan, June, 2005, Chairman, Federal Reserve Board)
- The 25% increase in home prices in the previous two years “largely reflect strong economic fundamentals”. (Ben Bernanke, October, 2005, Chairman, the Council of Economic Advisors)
- “It is hard for us, without being flippant, to even see a scenario within any kind of realm of reason that would see us losing one dollar in any of the [CDS] transactions.” (Joe Cassano, the Chief Financial Officer, AIG)

Records of neo-liberalism: Inequality

- According to an authoritative study by Andrea Cornia, between the 1950s and the 1990s, within-country inequality rose in two thirds of the 73 countries reviewed.
- The 2008 ILO report, *The World of Work*, shows that, between 1990 and 2000, inequality increased in 16 of 20 rich countries studied and in 41 out of 65 developing countries studied.
- Global inequality (treating the world as a single unit) *may* have fallen slightly, but it does not really matter that much (inequality is defined only in relation to a **reference group**)

Records of neo-liberalism: Instability I

- Prince instability has fallen in many, although not all, countries since the 1980s, but other forms of instability has increased.
- Numerous financial crisis
 - 1982: Chilean banking crisis
 - Late 1980s: the S&L crisis (bail-out equivalent to 3% of US GDP)
 - Late 1980s – early 1990s: Scandinavia
 - 1994-5: Mexico
 - 1997-8: Asia (Korea, Malaysia, Indonesia, Thailand)
 - 1998: Russia (LTCM debacle)
 - 1999: Brazil
 - 2002: Argentina

Records of neo-liberalism: Instability II

- Between the Second World War and the mid-1970s: virtually no country in banking crisis
- Between the mid-1970s to the late 1980s: 5-10% of countries (weighted by their share of world income) in banking crisis
- Mid-1990s: 20%
- A few years in the mid-2000s: 0%
- After the 2008 crisis: 35%

- Reported in C. Reinhart & K. Rogoff, *This Time is Different*

Records of neo-liberalism: Growth I

Per capita GNP Growth, 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

Records of neo-liberalism: Growth II

Per capita GDP Growth Rates, 1980-2010

	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 America 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

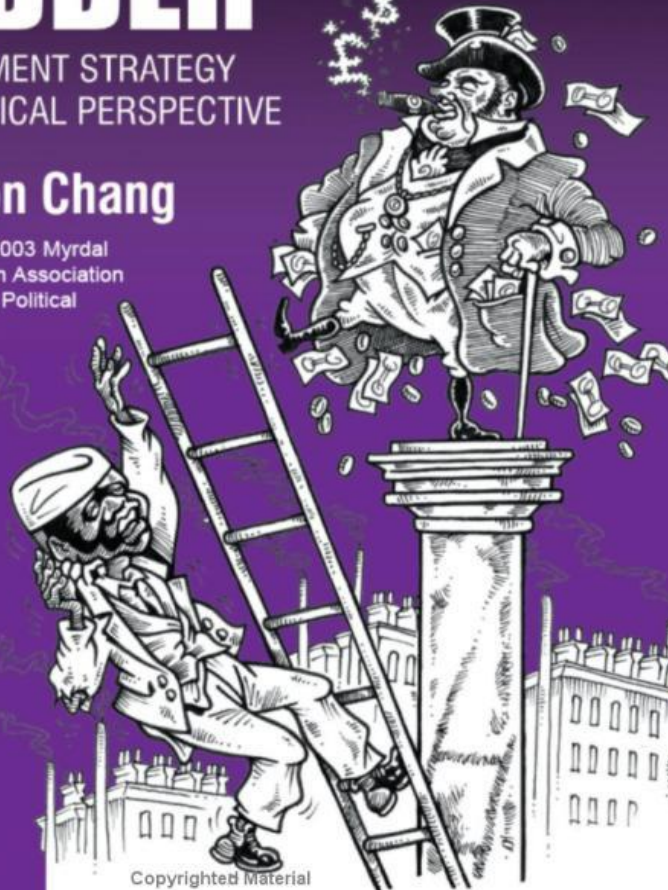
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KICKING AWAY THE LADDER

DEVELOPMENT STRATEGY
IN HISTORICAL PERSPECTIVE

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