Review: 23 Things They Don't Tell You About Capitalism

Anarcho

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Ha-Joon Chang, while an economist, is not of the mainstream neo-classical brand. This becomes very obvious reading his extremely useful book *23 Things They Don't Tell You About Capitalism*. It also becomes very clear that Chang is no socialist, stating that his book is "not an anti-capitalist manifesto" and that being "critical of free-market ideology is not the same as being against capitalism." Rather, he aims to "tell you some essential truths about capitalism" and argues that free-market capitalism "is not the only way to run capitalism, and certainly not the best." (xv)

As such, *23 Things* follows on from his previous books on economic development (*Kicking Away the Ladder: Development Strategy in Historical Perspective* and *Bad Samaritans: Rich Nations, Poor Nations and the Threat to the Developing World*) but with a wider scope. He discusses various myths used by the defenders of neo-liberalism and debunks them by a devastating combination of facts and logic. While it would be easy to dismiss his book as being pro-capitalist and, consequently, of little interest to libertarians that would be a mistake. First, because he gathers together evidence which anti-capitalists can use and, second, because he reminds us that our modern world "was no accident or the outcome of an irresistible force of history" (xvii) but the product of conscious political decisions.

As such his book is a welcome alternative to the "free-market ideology that says that whatever exists must be there because it is the most efficient" (155) Capitalism has changed, will change again and, hopefully, this book will encourage more people to view it (to quote Proudhon's words) as "inadequate and transitory" and seek "the negation of political economy and the end of property."

Chang does not hold his punches, stating that the current crisis "has ultimately been created by the free market ideology that has ruled the world since the 1980s" (xiii) and that the "result of these [neo-liberal] policies have been the polar opposite of what was promised" namely "slower growth, rising inequality and heightened instability" (xiv) He provides numerous facts to support this. For example, the rich countries have seen per capita income growth dropping from 3.2% in the 1960s and 70s to a mere 1.4% during the 1990s and 2000s. (61) The so-called Third world has particularly suffered under neo-liberalism. For example, "after nearly thirty years of using 'better' (that is, free-market) policies" per capita income in Sub-Saharan Africa "is basically at the same level as it was in 1980" (119)

In America, while per capita growth has more than halved the top 1% "more than doubled their share of national income," from 10% to 22.9% between 1979 and 2006 while the top 0.1% saw it more than triple, from 3.5% to 11.6%. (144–5) Wealth has flooded upwards. The top 10% "appropriated" 91% of income growth between 1989 and 2006 in the USA, with the 1% taking 59% (146) This allowed the perverse situation to arise when a CEO in America now gets 300–400 times what the average worker gets, up from 30–40 times in the 1960s. Meanwhile, the average worker has seen their hourly wage rate increase by 13% in 33 years, a 0.4% growth per year. So worker pay has "been virtually stagnant since the mid 1970s" and while family income *has* rising more, this was only because "more and more families have both partners working." (150–1) This rising inequality has also harmed equality of opportunity (the only equality American politicians can admit to wanting!) with Scandinavian countries having "higher social mobility than the UK, which in turn has higher mobility than the US. It is no coincidence that the stronger the welfare state, the higher the mobility." (220) To use an obvious analogy, it is easy to climb a hill than a mountain. In short, to live the American dream be a Swede.

So "Trickle-down" economics (i.e., "pro-rich policies") "have failed to accelerate growth in the last three decades" (137) He points out the obvious – increased deregulation has increased instability. This is not only in terms of financial instability (more economic crises) but also in terms of rising job insecurity, so "making the world more unstable for most of us." (61)

His account is also useful for skewering some basic assumptions. "If some markets look free," he reminds us, "it is only because we so totally accept the regulations that are propping them up that they become invisible." (3) Most obviously, from a libertarian perspective, this includes state defence of capitalist property rights – which most defenders of capitalism simply do not recognise as state intervention at all. He rightly notes that "saying that the domain of the market should be expanded" means "that those who have money should be given more power in that area, as the market is run on one-dollar-one-vote principle." (10)

To provide another example, Chang makes the valid point (and it should be stressed!) that even if America does have a higher average income it "does not necessarily mean that all US citizens live better that their foreign counterparts." This because it depends on inequality and as the US has the worse income distribution then average "overstates the actual living standards of more of its citizens than in other countries." Moreover, as US workers have "much less job security and weaker welfare supports" and "work for lower wages and under inferior conditions" for "longer hours" then the higher average income looks less appealing (107–9) Proudhon springs to mind: "There is no such liar as an average."

This relates to ***Thing 2***, which discusses the negative impact of top-level managers running companies in the interests of share-owners (and giving them incentives, such as share-options, to ensure it). While this ensured that CEOs and the major share-owners became extremely wealthy, it was "financed by squeezing" workers who could "share in the (apparent) prosperity only through borrowing at unprecedented rates." Worse, "the ever-increasing share of profit in national income since the 1980s has not been translated into higher investment" and a lower growth rate of per capita income. In America, it fell from around 2.6% in the 1960s and 70s to 1.6% during 1990–2009 while in Britain it fell from 2.4% to 1.7%. In short, "running companies in the interest of the shareholders does not even benefit the economy in the average sense (that is, ignoring the upward income redistribution)." (18–9)

He reminds us that while China and India are ritualistically invoked as successes of the neo-liberal era they "refused to introduce full-blown free-market policies" (xv) and that "in an economic downturn" the "best way to boost the economy is to redistribute wealth downward, as poorer people tend to spend a higher proportion of their incomes." (146) He (rightly) stresses that while some decisions may make sense in the short-run, they harm both the companies and the economy in the longer-term (and so, in effect, urges the state to play its role as protector of the capitalist system *as a whole*). In ***Thing 22*** he debunks the notion that financial efficiency is automatically for the best, summarises the confusing financial securities invented for mortgages (238) and discusses how the people who created them also did not comprehend them – and seemed surprised when they destroyed the global economy. He also stresses (***Thing 3***) the social basis for individual activity, echoing Kropotkin by stating that workers are only "as productive as they are only because of the socio-economic system they are operating in" (30) and returns to the subject in his critique of the "visionary individual entrepreneur" myth (***Thing 15***). ***Thing 5*** is also of note, given that he stresses how alien the neo-classical notion of humanity is and how, if it were true, "the bottom line is that companies, and thus our economy, would grind to a halt if people acted in a totally selfish way, as they are assumed to do in free-market economics." (46–7)

He also has some choice words for mainstream economists, noting how they "played an important role in creating the conditions of the 2008 crisis (and dozens of smaller financial crises…) by providing theoretical justifications for financial deregulation and the unrestrained pursuit of short-term profits" and advancing policies "that have led to slower growth, higher inequality, heightened job insecurity and more frequent financial crises." They "supplied arguments that insist that all those economic outcomes that many people find objectionable in this world" are "really inevitable, given (selfish and rational) human nature." (247–8) In short: "economics has been worse than irrelevant. Economics, as it has been practised in the last three decades, has been positively harmful for most people." (248)

Chang notes that while those economies that have collapsed the most were "touted as examples of a new finance-led business model for countries" for some "the recent collapses" have "not been enough reason to abandon a finance-led economic strategy." (235) Why should it? It is a religion, not a science (anyone studying the rise of neo-classical economics cannot help notice its ideological nature, seeing it ignore reality time and time again to justify and rationalise class inequality). Sadly, thanks to neo-classical economists and numerous well-funded right-wing think-tanks, we have reached the stage that to proclaim the common-sense position that we need a "broader conception of living standards than what the average income of a country will buy" (110) now appears radical.

Although Chang explicitly skews the socialist label, Marx is discussed in the chapter on planning (*Thing 19*). It is rightly argued that capitalism is marked by extensive planning, both by governments and by companies. In terms of the former, for all America proclaiming itself the home of the free-market, it is "notable that most industries where the US has an international technological lead are the industries that have been receiving major government R&D funding" through military programmes and health projects (206) In terms of the latter, "more and more areas of the economy have become dominated by large corporations" and so "the area of the capitalist economy that is covered by planning has in fact grown." We exist in an organisational economy, not a market one.

So Chang is right to suggest that "the question is not whether you plan or not. It is about planning the right things at the right levels." (200) This is something anarchists can appreciate with our ideas on free association and federalism being suggested precisely to accommodate the reality of a complex economy and society. As with technology and the scale of production, most Marxists have forgotten Chang's common-sense position. We should not be assuming large-scale planning and production are automatically the best, rather it is the appropriate level that counts. As Chang explains, businesses plan their activities and that was where "Marx got his idea of centrally planning the whole economy." (208) Thus from planning being carried out by bigger and bigger capitalist firms, "a unified plan" would become necessary economy-wide which resolves any failure in co-ordination "before it happens" as "the economy will produce only exactly is needed." (202)

Ignoring the difficulties in predicting the future (an uncertainty capitalism makes worse but does not invent), Chang correctly notes that Marxists "may have been right in thinking that the development in productive forces, by increasing interdependence among different segments of capital, makes it more *necessary* to plan centrally" but "they failed to recognise that it also makes the economy more complex, making it more *difficult* to plan centrally." (203) Equally, Marx never really questioned whether planning by larger firms was only possible because it was undertaken based on one measure of success – profit. Thus we need to add the impossibility of boiling down social decision making into one criterion under socialism to the already insurmountable problems of uncertainty and complexity for central planning. This does not mean it cannot work, just that it will not meet the high-hopes placed in it by Marxists for meeting all of our diverse needs while producing a classless society.

Simply put, a part of the "anti-capitalist" movement (more accurately, its state-capitalist wing) is lumbered with a utopian notion of central planning inspired not by a real understanding of how an economy works but rather a few scattered comments by Marx and Engels. This, in turn, was inherited from the worse of the so-called Utopian Socialists, Saint-Simon (who was particularly keen on this aspect of capitalism and wanted society-wide planning by the elites of industry!). Indeed, it is questionable whether Saint-Simon was a socialist at all given his hierarchical views and his argument that individuals should be rewarded unequally in terms of their talent, labour and capital invested (Proudhon's critique of the Utopians in *What is Property?* and *System of Economic Contradictions* is extremely relevant here).

There are echoes of Saint-Simon in Chang's book with its calls for a better regulated economy which is still marked by hierarchies and inequalities based on different remuneration based talent, labour and investments. Significantly, he points out that in Latin America many countries "have been run by economists" but "their economic performance has been much inferior to that of the East Asian countries" who were run by other members of the well-educated ruling elite. (245) Perhaps unsurprisingly, he seems to prefer redistribution by enlightened state officials (via taxation and a welfare state) than workers organising unions to stop the wealth flooding upwards in the first place by keeping more of the wealth we produce in our own hands.

While Chang urges "active economic citizenship" (xvii) he at no time discusses industrial democracy nor the contradiction between an economy alleged founded upon freedom (capitalism) but which requires workers to part with it to gain access to the means of production (wage-labour). He *does* note that the Japanese production system "exploits the goodwill and creativity of the workers by giving them responsibilities and trusting them as moral agents" by giving them "a considerable degree of control over the production line" and allowing them "to make suggestions" to management, so leading to the highest "production efficiency and quality." (47) This is as close as he gets to workers' self-management yet it is not difficult to see that, in spite of its benefits compared to the Anglo-Saxon model, it is simply getting workers to participate in their own exploitation.

It is rightly noted that neo-liberalism has been "geared towards the interests of the holders of financial aspects" (60) and that inflation was "the bogeyman that has been used to justify policies that have mainly benefited the holders of financial assets, at the cost of long-term stability, economic growth and human happiness." (61) Chang, in contrast, wishes state policies to bolster industrial capital rather than finance capital with the (unstated) assumption that such a focus will help working class people more. Perhaps this is true to some degree, but while unregulated finance capital may be parasitic on both industrial capital and the working class, it is the exploitation of the latter that enables industrial capital to exist and grow. This common interest is particularly of note as most large companies have substantial financial interests and subsidiaries.

Ultimately, it is the case the state-managed capitalism is better than the unregulated neo-liberal version (it would not be hard) but it is still *capitalism*. Increasing the role of bureaucrats and politicians at the expense of CEOs and large share-holders (or vice versa) does not get to the root of the problem – that both the state and capital are authoritarian and hierarchical systems which exist to benefit the few rather than the many. That one version makes surviving under capitalism easier than another should not make us forget the key issue, namely that we are still *surviving* under the (economic and/or political) rule of others rather than *living* as free individuals working together as equals within a universal association.

So Chang is trapped within what is possible *within* capitalism and (thanks to the failures of Marxism, undoubtedly) cannot see beyond it. For example, many of the things Hang wishes the (capitalist) state to do to blunt the edges of capitalism, anarchists would consider the natural domain of a federation of workers' associations and communes (an agricultural-industrial federation, to use Proudhon's term) assuming they still needed to be done in a post-capitalist economy. For all his stressing of the importance of institutions, organisations and collective entrepreneurship, he fails to discuss any genuinely alternative ones to capitalism which are developing within it but which point beyond it (regardless of their limitations). Thus, while rightly debunking micro-credit, he only mentions in passing European farmers forming co-operatives to invest in joint processing facilities (166) nor is they any discussion on working class organisations and struggles (the neo-liberal onslaught on unions is mentioned in passing). However, it is fair to say that such a ***thing***, while essential from a libertarian perspective, is somewhat out of scope for the book given its author's politics!

Which brings us to the issue of getting the reforms he wishes, a major topic he seems to forget. The New Deal or the (so-called) Keynesian capitalism of the post-war period was not a gift of enlightened politicians and intellectuals. It was a product of social movements, workplace and community organising and struggles, of working class self-activity on an often epic scale. This would need to be reproduced today to secure the reforms he wishes yet why go through all those battles to repeat the same mistake of reforming capitalism rather than abolishing it?

So an interesting book, filled with useful facts and arguments. Yet in this day-and-age, simply stating the facts and suggesting that free market capitalism is not the best possible form of that system is enough to get you labelled radical and anti-capitalist. Yet while Chang is keen to stress his support for capitalism, actual socialists will gain something from his book. Unsurprisingly, though, it does not address the most important ***thing*** you need to know about capitalism – that it can, and must, be replaced!

Ha-Joon Chang
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