Bad Samaritans

The Myth of Free Trade and the Secret History of Capitalism

By Ha-Joon Chang

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Chapter One

The Lexus and the olive tree revisited

Myths and facts about globalization

Once upon a time, the leading car maker of a developing country exported its first passenger cars to the US. Up to that day, the little company had only made shoddy products - poor copies of quality items made by richer countries. The car was nothing too sophisticated - just a cheap subcompact (one could have called it 'four wheels and an ashtray'). But it was a big moment for the country and its exporters felt proud.

Unfortunately, the product failed. Most thought the little car looked lousy and savvy buyers were reluctant to spend serious money on a family car that came from a place where only second-rate products were made. The car had to be withdrawn from the US market. This disaster led to a major debate among the country's citizens.

Many argued that the company should have stuck to its original business of making simple textile machinery. After all, the country's biggest export item was silk. If the company could not make good cars after 25 years of trying, there was no future for it. The government had given the car maker every opportunity to succeed. It had ensured high profits for it at home through high tariffs and draconian controls on foreign investment in the car industry. Fewer than ten years ago, it even gave public money to save the company from imminent bankruptcy. So, the critics argued, foreign cars should now be let in freely and foreign car makers, who had been kicked out 20 years before, allowed to set up shop again.

Others disagreed. They argued that no country had got anywhere without developing 'serious' industries like automobile production. They just needed more time to make cars that appealed to everyone.

The year was 1958 and the country was, in fact, Japan. The company was Toyota, and the car was called the Toyopet. Toyota started out as a manufacturer of textile machinery (Toyoda Automatic Loom) and moved into car production in 1933. The Japanese government kicked out General Motors and Ford in 1939 and bailed out Toyota with money from the central bank (Bank of Japan) in 1949. Today, Japanese cars are considered as 'natural' as Scottish salmon or French wine, but fewer than 50 years ago, most people, including many Japanese, thought the Japanese car industry simply should not exist.

Half a century after the Toyopet debacle, Toyota's luxury brand Lexus has become something of an icon for globalization, thanks to the American journalist Thomas Friedman's book, *The Lexus and the Olive Tree*. The book owes its title to an epiphany that Friedman had on the Shinkansen bullet train during his trip to Japan in 1992. He had paid a visit to a Lexus factory, which mightily impressed him. On his train back from the car factory in Toyota City to Tokyo, he came across yet another newspaper article about the troubles in the Middle East where he had been a long-time correspondent. Then it hit him. He realized that that 'half the world seemed to be ... intent on building a better Lexus, dedicated to modernizing, streamlining, and privatizing their economies in order to thrive in the system of globalization. And half of the world - sometimes half the same country, sometimes half the same person - was still caught up in the fight over who owns which olive tree'.

According to Friedman, unless they fit themselves into a particular set of economic policies that he calls the Golden Straitjacket, countries in the olive-tree world will not be able to join the Lexus world. In describing the Golden Straitjacket, he pretty much sums up today's neo-liberal economic orthodoxy: in order to fit into it, a country needs to privatize state-owned enterprises, maintain low inflation, reduce the size of government bureaucracy, balance the budget (if not running a surplus), liberalize trade, deregulate foreign investment, deregulate capital markets, make the currency convertible, reduce corruption and privatize pensions. According to him, this is the only path to success in the new global economy. His Straitjacket is the only gear suitable for the harsh but exhilarating game of globalization. Friedman is categorical: 'Unfortunately, this Golden Straitjacket is pretty much "one-size fits all" ... It is not always pretty or gentle or comfortable. But it's here and it's the only model on the rack this historical season.'

However, the fact is that, had the Japanese government followed the free-trade economists back in the early 1960s, there would have been no Lexus. Toyota today would, at best, be a junior partner to some western car manufacturer, or worse, have been wiped out. The same would have been true for the entire Japanese economy. Had the country donned Friedman's Golden Straitjacket early on, Japan would have remained the third-rate industrial power that it was in the 1960s, with its income level on a par with Chile, Argentina and South Africa - it was then a country whose prime minister was insultingly dismissed as 'a transistor-radio salesman' by the French president, Charles De Gaulle. In other words, had they followed Friedman's advice, the Japanese would now not be exporting the Lexus but still be fighting over who owns which mulberry tree.

The official history of globalization

Our Toyota story suggests that there is something spectacularly jarring in the fable of globalization promoted by Thomas Friedman and his colleagues. In order to tell you what it is exactly, I need to tell you what I call the 'official history of globalization' and discuss its limitations.

According to this history, globalization has progressed over the last three centuries in the following way: Britain adopted free-market and free-trade policies in the 18th century, well ahead of other countries. By the middle of the 19th century, the superiority of these policies became so obvious, thanks to Britain's spectacular economic success, that other countries started liberalizing their trade and deregulating their domestic economies. This liberal world order, perfected around 1870 under British hegemony, was based on: *laissez-faire* industrial policies at home; low barriers to the international flows of goods, capital and labour; and macroeconomic stability, both nationally and internationally, guaranteed by the principles of sound money (low inflation) and balanced budgets. A period of unprecedented prosperity followed.

Unfortunately, things started to go wrong after the First World War. In response to the ensuing instability of the world economy, countries unwisely began to erect trade barriers again. In 1930, the US abandoned free trade and enacted the infamous Smoot-Hawley tariff. Countries like Germany and Japan abandoned liberal policies and erected high trade barriers and created cartels, which were intimately associated with their fascism and external aggression. The world free trade system finally ended in 1932, when Britain, hitherto the champion of free trade, succumbed to temptation and itself re-introduced tariffs. The resulting contraction and instability in the world economy, and then, finally, the Second World War, destroyed the last remnants of the first liberal world order.

After the Second World War, the world economy was re-organized on a more liberal line, this time under American hegemony. In particular, some significant progress was made in trade liberalization among the rich countries through the early GATT (General Agreement on Trade and Tariffs) talks. But protectionism and state intervention still persisted in most developing countries and, needless to say, in the communist countries.

Fortunately, illiberal policies have been largely abandoned across the world since the 1980s following the rise of neo-liberalism. By the late 1970s, the failures of so-called import substitution industrialization (ISI) in developing countries - based on protection, subsidies and regulation - had become too obvious to ignore. The economic 'miracle' in East Asia, which was already practising free trade and welcoming foreign investment, was a wake-up call for the other developing countries. After the 1982 Third World debt crisis, many developing countries abandoned interventionism and protectionism, and embraced neo-liberalism. The crowning glory of this trend towards global integration was the fall of communism in 1989.

These national policy changes were made all the more necessary by the unprecedented acceleration in the development of transport and communications technologies. With these developments, the possibilities of entering mutually beneficial economic arrangements with partners in faraway countries - through international trade and investment - increased dramatically. This has made openness an even more crucial determinant of a country's prosperity than before.

Reflecting the deepening global economic integration, the global governance system has recently been strengthened. Most importantly, in 1995 the GATT was upgraded to the WTO (World Trade Organisation), a powerful agency pushing for liberalization not just in trade but also in other areas, like foreign investment regulation and intellectual property rights. The WTO now forms the core of the global economic governance system, together with the IMF (International Monetary Fund) - in charge of access to short-term finance - and the World Bank - in charge of longer-term investments.

The result of all these developments, according to the official history, is a globalized world economy comparable in its liberality and potential for prosperity only to the earlier 'golden age' of liberalism (1870-1913). Renato Ruggiero, the first director-general of the WTO, solemnly declared that, as a consequence of this new world order, we now have 'the potential for eradicating global poverty in the early part of the next [21st] century - a Utopian notion even a few decades ago, but a real possibility today.'

This version of the history of globalization is widely accepted. It is supposed to be the route map for policy makers in steering their countries towards prosperity. Unfortunately, it paints a fundamentally misleading picture, distorting our understanding of where we have come from, where we are now and where we may be heading for. Let's see how.

The real history of globalization

On 30 June 1997, Hong Kong was officially handed back to China by its last British governor, Christopher Patten. Many British commentators fretted about the fate of Hong Kong's democracy under the Chinese Communist Party, although democratic elections in Hong Kong had only been permitted as late as 1994, 152 years after the start of British rule and only three years before the planned hand-over. But no one seems to remember how Hong Kong came to be a British possession in the first place.

Hong Kong became a British colony after the Treaty of Nanking in 1842, the result of the Opium War. This was a particularly shameful episode, even by the standards of 19th-century imperialism. The growing British taste for tea had created a huge trade deficit with China. In a desperate attempt to plug the gap, Britain started exporting opium produced in India to China. The mere detail that selling opium was illegal in China could not possibly be allowed to obstruct the noble cause of balancing the books. When a Chinese official seized an illicit cargo of opium in 1841, the British government used it as an excuse to fix the problem once and for all by declaring war. China was heavily defeated in the war and forced to sign the Treaty of Nanking, which made China 'lease' Hong Kong to Britain and give up its right to set its own tariffs.

So there it was - the self-proclaimed leader of the 'liberal' world declaring war on another country because the latter was getting in the way of its illegal trade in narcotics. The truth is that the free movement of goods, people, and money that developed under British hegemony between 1870 and 1913 - the first episode of globalization - was made possible, in large part, by military might, rather than market forces. Apart from Britain itself, the practitioners of free trade during this period were mostly weaker countries that had been forced into, rather than had voluntarily adopted, it as a result of colonial rule or 'unequal treaties' (like the Nanking Treaty), which, among other things, deprived them of the right to set tariffs and imposed externally determined low, flat-rate tariffs (3-5%) on them.

Despite their key role in promoting 'free' trade in the late 19th and early 20th centuries, colonialism and unequal treaties hardly get any mention in the hordes of pro-globalisation books. Even when they are explicitly discussed, their role is seen as positive on the whole. For example, in his acclaimed book, *Empire*, the British historian Niall Ferguson honestly notes many of the misdeeds of the British empire, including the Opium War, but contends that the British empire was a good thing overall - it was arguably the cheapest way to guarantee free trade, which benefits everyone. However, the countries under colonial rule and unequal treaties did very poorly. Between 1870 and 1913, *per capita* income in Asia (excluding Japan) grew at 0.4% per year, while that in Africa grew at 0.6% per year. The corresponding figures were 1.3% for Western Europe and 1.8% per year for the USA. It is particularly interesting to note that the Latin American countries, which by that time had regained tariff autonomy and were boasting some of the highest tariffs in the world, grew as fast as the US did during this period.

While they were imposing free trade on weaker nations through colonialism and unequal treaties, rich countries maintained rather high tariffs, especially industrial tariffs, for themselves, as we will see in greater detail in the next chapter. To begin with, Britain, the supposed home of free trade, was one of the most protectionist countries until it converted to free trade in the mid-19th century. There was a brief period during the 1860s and the 1870s when something approaching free trade did exist in Europe, especially with zero tariffs in Britain. However, this proved short-lived. From the 1880s, most European countries raised protective barriers again, partly to protect their farmers from cheap food imported from the New World and partly to promote their newly emerging heavy industries, such as steel, chemicals and machinery. Finally, even Britain, as I have noted, the chief architect of the first wave of globalization, abandoned free trade and re-introduced tariffs in 1932. The official history describes this event as Britain 'succumbing to the temptation' of protectionism. But it typically fails to mention that this was due to the decline in British economic supremacy, which in turn was the result of the success of protectionism on the part of competitor countries, especially the USA, in developing their own new industries.

Thus, the history of the first globalization in the late 19th and early 20th centuries has been rewritten today in order to fit the current neo-liberal orthodoxy. The history of protectionism in today's rich countries is vastly underplayed, while the imperialist origin of the high degree of global integration on the part of today's developing countries is hardly ever mentioned. The final curtain coming down on the episode - that is, Britain's abandonment of free trade - is also presented in a biased way. It is rarely mentioned that what really made Britain abandon free trade was precisely the successful use of protectionism by its competitors.

Neo-liberals vs neo-idiotics?

In the official history of globalization, the early post-Second-World-War period is portrayed as a period of incomplete globalization. While there was a significant increase in integration among the rich countries, accelerating their growth, it is said, most developing countries refused to fully participate in the global economy until the 1980s, thus holding themselves back from economic progress.

This story misrepresents the process of globalization among the rich countries during this period. These countries did significantly lower their tariff barriers between the 1950s and the 1970s. But during this period, they also used many other nationalistic policies to promote their own economic development - subsidies (especially for research and development, or R&D), state-owned enterprises, government direction of banking credits, capital controls and so on. When they started implementing neo-liberal programmes, their growth decelerated. In the 1960s and the 1970s, *per capita* income in the rich countries grew by 3.2% a year, but its growth rate fell substantially to 2.1% in the next two decades.

The Case Against Globalization

A Cambridge economist takes exception to the orthodoxy of free trade.

Reviewed by Paul Blustein
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BAD SAMARITANS

The Myth of Free Trade and the Secret History of Capitalism

By Ha-Joon Chang

Bookstore shelves are loaded with offerings by economists and commentators seeking to explain, in accessible prose, why free-trade-style globalization is desirable and even indispensable for countries the world over. Now comes the best riposte from the critics that I have seen. Readers who are leery of open-market orthodoxy will rejoice at the cogency of *Bad Samaritans.* Ha-Joon Chang has the credentials -- he's on the economics faculty at Cambridge University -- and the storytelling skill to make a well-informed, engaging case against the dogma propagated by globalization's cheerleaders. Believers in free trade will find that the book forces them to recalibrate and maybe even backpedal a bit.

I doubt, however, that the book will win many converts -- and it shouldn't. That's because Chang goes way overboard in advancing his central argument, which is that poor countries can get rich only by doing pretty much the exact opposite of what they are told by the World Bank, the International Monetary Fund and the World Trade Organization -- the "bad" Samaritans to which the title refers.

Chang's model for development is one he grew up in, the South Korean miracle of the 1960s, '70s and '80s. He describes in evocative terms the poverty of his parents' generation, the deprivations of his boyhood (no flush toilet in the family home, for example, even though his father was an elite civil servant) and the high-tech luxuries that today's Koreans take for granted.

In the process of achieving this breathtakingly rapid improvement in living standards, he notes, South Korea departed dramatically from free-market principles. The country set up high barriers to protect its fledgling industries, such as steel and autos, and offered subsidies to help promising firms flourish. Other Asian countries, notably Japan and Taiwan, developed in similar ways.

The dirty secret of capitalism, as Chang explains, is that much the same is true of the modern industrial economies of the West, including Britain and the United States. Although advocates of free trade typically extol the British as the pioneers of open markets, London lowered tariffs in the mid-19th century only after its industries had firmly established their lead over rivals. Likewise, U.S. tariffs remained high throughout America's industrialization. So why, Chang asks, should today's poor nations be required to develop differently?

Chang acknowledges that "the mere co-existence of protectionism and economic development does not prove that the former caused the latter." But, he asserts, "Free trade economists have to explain how free trade can be an explanation for the economic success of today's rich countries, when it simply had not been practiced very much before they became rich." A fair point, and Chang scores some more when he recounts the widespread unemployment and subpar growth that occurred in countries such as Mexico and Ivory Coast after their governments, under pressure from the "bad Samaritans," lowered barriers that were sheltering their industries.

But were the Samaritans "bad" to prescribe such policies? Consider Zambia, a country I visited recently, which followed World Bank advice in the 1990s to open its markets to foreign clothing. Unfortunately, the local industry was woefully uncompetitive, having survived in a protected market by selling shoddy, expensive apparel to the local population and showing no sign of success at exporting. So it quickly collapsed amid a flood of imports, resulting in 10,000 lost jobs. Sad as that was for the workers, millions of Zambians can now afford decent clothing (much of which is used and has been donated by Americans to various organizations, shipped to Africa in bulk and sold cheaply by street vendors). That's probably a very good trade-off for the poor. Did it help put Zambia on the path to prosperity? No, and for that the World Bank should be embarrassed -- for being overoptimistic Samaritans, not bad ones.

Chang counters that short-term benefits such as cheaper clothing should be sacrificed for the sake of long-term development. That means nurturing manufacturers with long periods of protection and subsidies, like the 30 years Toyota got in Japan. He insists that this approach can work even in destitute countries. "A backyard motor repair shop in [Mozambique's capital] Maputo simply cannot produce a Beetle, even if Volkswagen were to give it all the necessary drawings and instruction manuals," he writes. "But this does not mean that Mozambicans should not produce something like a Beetle -- one day. . . . After all, a backyard auto repair shop is exactly how the famous Korean car maker, Hyundai, started in the 1940s."

Lamentably, the book gives short shrift to the debacles that show the pitfalls of industrial planning. India's experience in the 1950s and '60s was a revealing example; its poor are still paying a dreadful price for the government's excessive investment in steel plants, fancy hospitals and universities instead of elementary schools and small clinics. Chang also glosses over the objection that industrial planning is doomed to fail in countries lacking the strengths that Japan, Korea and Taiwan had -- well-educated populations and talented, mostly incorruptible civil servants.

Ironically, in an incisive chapter on privatization, he cites the poor training and low ethical standards among government officials in many developing countries as a good reason to avoid selling off state enterprises that will require effective regulation. "Privatization sometimes works well, but can be a recipe for disaster, especially in developing countries that lack the necessary regulatory capabilities," he writes. Well, if such governments can't regulate properly, how can they successfully oversee the creation of world-class auto industries?

Chang's book deserves a wide readership for illuminating the need for humility about the virtues of private markets and free trade, especially in the developing world. But heaven help Mozambique if the book is taken too seriously in Maputo.

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Kicking Away the Ladder:

How the Economic and Intellectual Histories of Capitalism Have Been Re-Written to Justify Neo-Liberal Capitalism

Ha-Joon Chang (Cambridge University, UK)

There is currently great pressure on developing countries to adopt a set of “good policies” and “good institutions” – such as liberalisation of trade and investment and strong patent law – to foster their economic development. When some developing countries show reluctance in adopting them, the proponents of this recipe often find it difficult to understand these countries' stupidity in not accepting such a tried and tested recipe for development. After all, they argue, these are the policies and the institutions that the developed countries had used in the past in order to become rich. Their belief in their own recommendation is so absolute that in their view it has to be imposed on the developing countries through strong bilateral and multilateral external pressures, even when these countries don't want them.

Naturally, there have been heated debates on whether these recommended policies and institutions are appropriate for developing countries. However, curiously, even many of those who are sceptical of the applicability of these policies and institutions to the developing countries take it for granted that these were the policies and the institutions that were used by the developed countries when they themselves were developing countries.
Contrary to the conventional wisdom, the historical fact is that the rich countries did not develop on the basis of the policies and the institutions that they now recommend to, and often force upon, the developing countries. Unfortunately, this fact is little known these days because the “official historians” of capitalism have been very successful in re-writing its history.

Almost all of today's rich countries used tariff protection and subsidies to develop their industries. Interestingly, Britain and the USA, the two countries that are supposed to have reached the summit of the world economy through their free-market, free-trade policy, are actually the ones that had most aggressively used protection and subsidies.

Contrary to the popular myth, Britain had been an aggressive user, and in certain areas a pioneer, of activist policies intended to promote its industries. Such policies, although limited in scope, date back from the 14th century (Edward III) and the 15th century (Henry VII) in relation to woollen manufacturing, the leading industry of the time. England then was an exporter of raw wool to the Low Countries, and Henry VII for example tried to change this by taxing raw wool exports and poaching skilled workers from the Low Countries.

Particularly between the trade policy reform of its first Prime Minister Robert Walpole in 1721 and its adoption of free trade around 1860, Britain used very *dirigiste* trade and industrial policies, involving measures very similar to what countries like Japan and Korea later used in order to develop their industries. During this period, it protected its industries a lot more heavily than did France, the supposed *dirigiste* counterpoint to its free-trade, free-market system. Given this history, argued Friedrich List, the leading German economist of the mid-19th century, Britain preaching free trade to less advanced countries like Germany and the USA was like someone trying to “kick away the ladder” with which he had climbed to the top.

List was not alone in seeing the matter in this light. Many American thinkers shared this view. Indeed, it was American thinkers like Alexander Hamilton, the first Treasury Secretary of the USA, and the (now-forgotten) economist Daniel Raymond, who first systematically developed the infant industry argument. Indeed, List, who is commonly known as the father of the infant industry argument, in fact started out as a free-trader (he was an ardent supporter of German customs union – *Zollverein*) and learnt about this argument during his exile in the USA during the 1820s

Little known today, the intellectual interaction between the USA and Germany during the 19th century did not end there. The German Historical School – represented by people like Wilhelm Roscher, Bruno Hildebrand, Karl Knies, Gustav Schmoller, and Werner Sombart – attracted a lot of American economists in the late 19th century. The patron saint of American Neoclassical economics, John Bates Clark, in whose name the most prestigious award for young (under 40) American economists is given today, went to Germany in 1873 and studied the German Historical School under Roscher and Knies, although he gradually drifted away from it. Richard Ely, one of the leading American economists of the time, also studied under Knies and influenced the American Institutionalist School through his disciple, John Commons. Ely was one of the founding fathers of the American Economic Association; to this day, the biggest public lecture at the Association's annual meeting is given in Ely's name, although few of the present AEA members would know who he was.

Between the Civil War and the Second World War, the USA was literally the most heavily protected economy in the world. In this context, it is important to note that the American Civil War was fought on the issue of tariff as much as, if not more, on the issue of slavery. Of the two major issues that divided the North and the South, the South had actually more to fear on the tariff front than on the slavery front. Abraham Lincoln was a well-known protectionist who cut his political teeth under the charismatic politician Henry Clay in the Whig Party, which advocated the "American System" based on infrastructural development and protectionism (thus named on recognition that free trade is for the British interest). One of Lincoln's top economic advisors was the famous protectionist economist, Henry Carey, who once was described as "the only American economist of importance" by Marx and Engels in the early 1850s but has now been almost completely air-brushed out of the history of American economic thought. On the other hand, Lincoln thought that African Americans were racially inferior and that slave emancipation was an idealistic proposal with no prospect of immediate implementation – he is said to have emancipated the slaves in 1862 as a strategic move to win the War rather than out of some moral conviction.

In protecting their industries, the Americans were going against the advice of such prominent economists as Adam Smith and Jean Baptiste Say, who saw the country's future in agriculture. However, the Americans knew exactly what the game was. They knew that Britain reached the top through protection and subsidies and therefore that they needed to do the same if they were going to get anywhere. Criticising the British preaching of free trade to his country, Ulysses Grant, the Civil War hero and the US President between 1868-1876, retorted that "within 200 years, when America has gotten out of protection all that it can offer, it too will adopt free trade". When his country later reached the top after the Second World War, it too started "kicking away the ladder" by preaching and forcing free trade to the less developed countries.

The UK and the USA may be the more dramatic examples, but almost all the rest of the developed world today used tariffs, subsidies and other means to promote their industries in the earlier stages of their development. Cases like Germany, Japan, and Korea are well known in this respect. But even Sweden, which later came to represent the "small open economy" to many economists had also strategically used tariffs, subsidies, cartels, and state support for R&D to develop key industries, especially textile, steel, and engineering.

There were some exceptions like the Netherlands and Switzerland that have maintained free trade since the late 18th century. However, these were countries that were already on the frontier of technological development by the 18th centuries and therefore did not need much protection. Also, it should be noted that the Netherlands deployed an impressive range of interventionist measures up till the 17th century in order to build up its maritime and commercial supremacy. Moreover, Switzerland did not have a patent law until 1907, flying directly against the emphasis that today's orthodoxy puts on the protection of intellectual property rights (see below). More interestingly, the Netherlands abolished its 1817 patent law in 1869 on the ground that patents are politically-created monopolies inconsistent with its free-market principles – a position that seems to elude most of today's free-market economists – and did not introduce another patent law until 1912.

The story is similar in relation to institutional development. In the earlier stages of their development, today's developed countries did not even have such "basic" institutions as professional civil service, central bank, and patent law. It was only after the Pendleton Act in 1883 that the US federal government started recruiting its employees through a competitive process. The central bank, an institution dear to the heart of today's free-market economists, did not exist in most of today's rich countries until the early 20th century – not least because the free-market economists of the day condemned it as a mechanism for unjustly bailing out imprudent borrowers. The US central bank (the Federal Reserve Board) was set up only in 1913 and the Italian central bank did not even have a note issue monopoly until 1926. Many countries allowed patenting of foreign invention until the late 19th century. As I mentioned above, Switzerland and the Netherlands refused to introduce a patent law despite international pressure until 1907 and 1912 respectively, thus freely "stole" technologies from abroad. The examples can go on.

One important conclusion that emerges from the history of institutional development is that it took the developed countries a long time to develop institutions in their earlier days of development. Institutions typically took decades, and sometimes generations, to develop. Just to give one example, the need for central banking was perceived at least in some circles from at least the 17th century, but the first "real" central bank, the Bank of England, was instituted only in 1844, some two centuries later.

Another important point emerges is that the levels of institutional development in today's developed countries in the earlier period were much lower than those in today's developing countries. For example, measured by the (admittedly highly imperfect) income level, in 1820, the UK was at a somewhat higher level of development than that of India today, but it did not even have many of the most "basic" institutions that India has today. It did not have universal suffrage (it did not even have universal *male* suffrage), a central bank, income tax, generalised limited liability, a generalised bankruptcy law, a professional bureaucracy, meaningful securities regulations, and even minimal labour regulations (except for a couple of minimal and hardly-enforced regulations on child labour).
If the policies and institutions that the rich countries are recommending to the poor countries are not the ones that they themselves used when they were developing, what is going on? We can only conclude that the rich countries are trying to kick away the ladder that allowed them to climb where they are. It is no coincidence that economic development has become more difficult during the last two decades when the developed countries started turning on the pressure on the developing countries to adopt the so-called "global standard" policies and institutions.

During this period, the average annual per capita income growth rate for the developing countries has been halved from 3% in the previous two decades (1960-80) to 1.5%. In particular, Latin America virtually stopped growing, while Sub-Saharan Africa and most ex-Communist countries have experienced a fall in absolute income. Economic instability has increased markedly, as manifested in the dozens of financial crises we have witnessed over the last decade alone. Income inequality has been growing in many developing countries and poverty has increased, rather than decreased, in a significant number of them.

What can be done to change this?

First, the historical facts about the historical experiences of the developed countries should be more widely publicised. This is not just a matter of "getting history right", but also of allowing the developing countries to make more informed choices.

Second, the conditions attached to bilateral and multilateral financial assistance to developing countries should be radically changed. It should be accepted that the orthodox recipe is not working, and also that there can be no “best practice” policies that everyone should use.

Third, the WTO rules should be re-written so that the developing countries can more actively use tariffs and subsidies for industrial development. They should also be allowed to have less stringent patent laws and other intellectual property rights laws.

Fourth, improvements in institutions should be encouraged, but this should not be equated with imposing a fixed set of (in practice, today’s – not even yesterday’s – Anglo-American) institutions on all countries. Special care has to be taken in order not to demand excessively rapid upgrading of institutions by the developing countries, especially given that they already have quite developed institutions when compared to today’s developed countries at comparable stages of development, and given that establishing and running new institutions is costly.

By being allowed to adopt policies and institutions that are more suitable to their conditions, the developing countries will be able to develop faster. This will also benefit the developed countries in the long run, as it will increase their trade and investment opportunities. That the developed countries cannot see this is the tragedy of our time.