23 Things They Don’t Tell You About Capitalism

by Ha-Joon Chang · Language: EN

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Overview

Ha-Joon Chang's "23 Things They Don’t Tell You About Capitalism" systematically debunks many of the conventional wisdoms and assumptions underpinning free-market capitalism. Through 23 concise essays, Chang challenges the notion that markets are inherently 'free,' that companies should solely prioritize shareholder value, or that deregulation always leads to economic prosperity. He argues that the global economy is far more complex and interventionist than free-market ideologues suggest, highlighting the historical role of government intervention, protectionism, and social policies in the development of today's rich nations.

The book's main argument is that there is no single, universally optimal form of capitalism. Instead, different countries have achieved success through varied economic models, often involving significant state guidance and regulation, contrary to the advice given to developing nations. Chang advocates for a more nuanced understanding of economic history and theory, suggesting that a well-regulated, mixed economy with strong social safety nets and strategic industrial policies is not only possible but often superior to unfettered free markets. He encourages readers to question dominant economic narratives and consider alternative approaches to achieve greater equity and sustainable growth, making a compelling case for active government involvement in shaping economic outcomes.

Key Takeaways

- Recognize that all markets are regulated and shaped by rules, meaning there is no truly 'free' market in existence.
- Understand that maximizing shareholder value is not the only or best way to run a company; other stakeholders' interests are crucial.
- Challenge the belief that making rich people richer automatically benefits everyone else; trickle-down economics often fails.
- Consider that government intervention and strategic industrial policies have historically been vital for economic development, even in today's rich countries.
- Question the idea that we live in a post-industrial age; manufacturing remains a critical component of strong economies.

• Acknowledge that greater macroeconomic stability does not necessarily lead to a more stable or resilient global economy.

• Advocate for a more active and intelligent role for government in managing the economy, rather than assuming markets can self-regulate perfectly.

• Realize that economic policies should be tailored to specific national contexts and historical experiences, rather than applying a one-size-fits-all free-market approach.

Chapter Summaries

Chapters 1-4: Deconstructing the Free Market and Redefining Progress

This section challenges fundamental tenets of free-market ideology. Chang argues that the 'free market' is a myth, as all markets are defined by regulations and political choices, citing examples like child labor laws and intellectual property rights. He critiques the shareholder primacy model, advocating for companies to serve multiple stakeholders for long-term health, contrasting this with models in Germany or Japan. The author also disputes the idea that wages perfectly reflect merit, highlighting political and social influences on pay, using the example of bus drivers in different countries. He provocatively asserts that the washing machine had a greater societal impact than the internet by liberating women and transforming labor markets, emphasizing tangible social change over technological novelty.

Chapters 5-8: Rethinking Human Nature, Stability, and National Development

Chang explores the consequences of economic assumptions about human behavior, suggesting that assuming self-interest can lead to a self-fulfilling prophecy of negative outcomes. He debunks the notion that increased macroeconomic stability has led to a more stable global economy, pointing to the rise in financial crises since the 1980s. The author challenges the effectiveness of free-market policies in enriching poor countries, providing historical evidence that successful development often involved protectionism and state intervention, contrary to neoliberal advice. This section concludes by arguing that capital retains a national identity despite globalization, influencing investment patterns and economic outcomes in ways often overlooked by free-market advocates.

Chapters 9-12: Industrialization, Global Living Standards, and State Intervention

This part refutes the concept of a 'post-industrial age,' emphasizing the enduring importance of manufacturing for innovation, productivity growth, and national prosperity, even for advanced economies. Chang challenges the common perception that the US enjoys the highest living standard globally, using broader metrics beyond GDP per capita, such as healthcare, leisure, and income inequality, to compare quality of life across nations. He counters the narrative that Africa is inherently destined for underdevelopment, attributing its struggles to historical factors and policy choices rather than intrinsic deficiencies. The author argues that governments can successfully 'pick winners' through strategic industrial policies, citing historical examples from

East Asian economies like South Korea and Japan.

Chapters 13-16: Wealth Distribution, Corporate Leadership, and Market Fallibility

Chang directly challenges the 'trickle-down' theory, arguing that making the rich richer does not automatically benefit the rest of society, often exacerbating inequality instead. He critiques the excessive compensation of US managers, suggesting their high salaries are often disconnected from actual performance and are significantly higher than their counterparts in other developed nations. The author highlights that poor countries often exhibit greater entrepreneurial dynamism than rich ones, driven by necessity and innovative adaptation to challenging environments. He concludes this section by asserting that humans are not rational enough to leave complex economic decisions entirely to the market, advocating for intelligent regulation and planning to correct market failures and irrational exuberance.

Chapters 17-20: Education, Corporate Purpose, and the Limits of Market Logic

This section argues that education alone does not guarantee national wealth, emphasizing that its economic value is contingent on the productive capacity and industrial structure of an economy. Chang uses the example of General Motors' decline to illustrate how prioritizing short-term shareholder interests can lead to corporate failure and broader societal costs, reinforcing his earlier critique of shareholder primacy. He contends that the most effective way to enrich the wealthy is by improving the economic conditions of the poor, fostering broader demand and stability, rather than through tax cuts for the rich. The author reiterates that the market is not always right, highlighting its inherent imperfections, biases, and tendency towards instability.

Chapters 21-23: Reclaiming Government's Role and Rethinking Economic Expertise

This concluding section asserts that governments are not always wrong, challenging the anti-state bias prevalent in free-market ideology and demonstrating their crucial role in economic development, stability, and social welfare. Chang argues for making financial markets less, not more, efficient, to curb excessive speculation and reduce systemic risk, advocating for measures like the 'Tobin tax' on currency transactions. He concludes by stating that good economic policy does not necessarily require highly specialized economists, but rather common sense, historical understanding, and a willingness to challenge dominant paradigms, empowering citizens to engage in economic debates and shape their collective future.

Themes

- Critique of capitalism
- Economic intervention
- Government's role
- Income inequality

- Development economics
- Market regulation

Frequently Asked Questions

What is 23 Things They Don’t Tell You About Capitalism about?

The book challenges conventional free-market economic wisdom, arguing that many common assumptions about capitalism are flawed. Ha-Joon Chang presents 23 'things' or essays that debunk myths about free markets, corporate governance, economic development, and the role of government, advocating for a more regulated and interventionist approach to economic policy.

Is 23 Things They Don’t Tell You About Capitalism worth reading?

Yes, it is highly recommended for anyone interested in economics, politics, or understanding the global economy beyond mainstream narratives. Chang's accessible writing style and compelling arguments make complex economic concepts understandable, providing a refreshing and critical perspective on how capitalism actually works, rather than how it's often idealized.

How does 23 Things They Don’t Tell You About Capitalism end?

Spoiler: The book concludes by advocating for a more active and interventionist role for government in managing the economy. Chang argues that a 'bigger government' is necessary to address contemporary challenges like inequality, financial instability, and climate change, and to foster long-term economic development and social well-being, challenging the prevailing dogma of minimal state intervention.

Who should read 23 Things They Don’t Tell You About Capitalism?

This book is ideal for students of economics, policymakers, and general readers who are curious about how the global economy functions and are open to questioning dominant economic theories. It's particularly valuable for those who feel that current economic systems are not working for everyone and are looking for alternative perspectives and solutions.

How long does it take to read 23 Things They Don’t Tell You About Capitalism?

On average, it takes approximately 6 to 7 hours to read '23 Things They Don’t Tell You About Capitalism.' The book is structured into short, digestible essays, making it suitable for reading in segments.

Best Quotes

“There is no such thing as a free market.”

Thing 1: There is no such thing as a free market

This is the opening line of 'Thing 1' and a foundational argument of the book. Chang asserts that all markets are regulated and shaped by political decisions, challenging the common perception of a 'natural' or 'free' market. This idea underpins his critique of free-market ideology.

“The washing machine has changed the world more than the internet has.”

Thing 4: The washing machine has changed the world more than the internet has

From 'Thing 4', Chang provocatively argues that seemingly mundane technologies like the washing machine have had a more profound impact on human society, particularly by freeing up women's time, than more celebrated innovations like the internet. He uses this to highlight the often-overlooked social and economic impacts of technological change.

“Making rich people richer doesn't necessarily make the rest of us richer.”

Thing 13: Making rich people richer doesn't necessarily make the rest of us richer

This quote from 'Thing 13' directly challenges the 'trickle-down' theory, a core tenet of free-market economics. Chang argues that increasing the wealth of the rich does not automatically lead to prosperity for the majority, and often exacerbates inequality, questioning the assumed benefits of policies favoring the wealthy.

“Most people in rich countries are paid more than they deserve.”

Thing 15: Most people in rich countries are paid more than they deserve

In 'Thing 15', Chang presents this controversial statement to argue that the high wages in rich countries are not solely due to individual productivity but are significantly influenced by protectionist policies, immigration controls, and the collective historical development of their economies. It challenges the meritocratic view of global income distribution.

“We are not smart enough to leave things to the market.”

Thing 16: We are not smart enough to leave things to the market

This line from 'Thing 16' refers to the complexity of financial products and markets. Chang argues that financial markets are inherently unstable and that their participants, despite their expertise, cannot fully comprehend or manage the risks involved, necessitating strong regulation and government intervention to prevent crises.

“Free-market policies rarely make poor countries rich.”

Thing 7: Free-market policies rarely make poor countries rich

Chang argues in 'Thing 7' that historical evidence shows that successful economic development, even in today's rich countries, has almost always involved significant government intervention,

protectionism, and strategic industrial policies, rather than the free-market policies often prescribed to developing nations.

“Companies should not be run in the interest of their owners.”

Thing 17: Companies should not be run in the interest of their owners

From 'Thing 17', Chang challenges the shareholder primacy model, arguing that companies have a broader range of stakeholders, including employees, suppliers, and the community, whose interests should also be considered in corporate governance. He suggests that focusing solely on shareholder value can lead to short-termism and social harm.

“The world has not become flatter.”

Thing 8: The world has not become flatter

In 'Thing 8', Chang refutes the popular notion that globalization has leveled the economic playing field. He argues that despite increased interconnectedness, significant disparities in wealth and opportunity persist between nations, and that the 'flat world' metaphor obscures the enduring power of national borders and policies.

“Capitalism needs to be made more dynamic, not less.”

Conclusion: How to rebuild the world economy

This quote encapsulates Chang's overall reformist stance. He believes that capitalism, while powerful, needs constant adaptation and regulation to address its inherent flaws and ensure equitable outcomes. He advocates for active government intervention and a rethinking of economic policies to foster innovation and social welfare.

Questions & Answers

What is the central argument of Ha-Joon Chang's '23 Things They Don’t Tell You About Capitalism'?

The central argument is that many widely accepted tenets of free-market capitalism are myths or half-truths. Chang systematically debunks these 'things' by presenting historical evidence and alternative economic perspectives, arguing that capitalism, when left unchecked, can lead to inequality and instability. He advocates for a more regulated, interventionist approach to economic management, emphasizing that markets are always political constructs, not natural phenomena.

How does Ha-Joon Chang challenge the idea of a 'free market' in the book?

Chang challenges the idea of a 'free market' by arguing that no such thing exists. In 'Thing 1', he demonstrates that all markets are regulated and shaped by government rules, whether explicit

or implicit. He provides examples of how regulations define what can be traded, by whom, and under what conditions, illustrating that the 'freedom' of a market is always a politically determined choice, not a natural state.

What is the significance of the 'washing machine' in Chang's argument?

In 'Thing 4', the washing machine symbolizes the profound, yet often overlooked, impact of certain technologies on society. Chang argues it changed the world more than the internet by freeing up women's time, enabling their entry into the workforce, and fundamentally altering gender roles and family structures. It highlights how economic progress isn't just about high-tech gadgets but also about innovations that improve daily life and social organization.

Why does Chang argue against the notion that 'making rich people richer makes the rest of us richer'?

Chang argues against this 'trickle-down' theory in 'Thing 13' by showing that historical data does not consistently support it. He contends that policies designed to enrich the wealthy, such as tax cuts for corporations and high earners, often exacerbate income inequality without significantly benefiting the poor or middle class. He suggests that wealth concentration can stifle overall economic growth by reducing aggregate demand and investment in public goods.

What role does government intervention play in Chang's view of economic development?

Chang argues that government intervention is crucial for economic development, especially for developing countries. He demonstrates that virtually all currently rich countries, including the UK and USA, used protectionist policies, subsidies, and state-led investments during their own development phases. He believes that strategic government intervention, rather than free-market fundamentalism, is necessary to nurture infant industries, coordinate investments, and manage economic transitions effectively.

What does Chang mean by 'we are not smart enough to leave things to the market'?

In 'Thing 16', Chang applies this to the financial sector, arguing that financial products have become so complex that even experts cannot fully understand or manage their risks. This inherent cognitive limitation, combined with the incentive structures of financial markets, makes them prone to instability and crises. Therefore, he concludes that robust government regulation is essential to prevent market failures and protect the broader economy.

How does Chang address the issue of income inequality in rich countries?

Chang argues that income inequality in rich countries is not solely a result of individual merit or productivity. In 'Thing 15', he suggests that high wages in rich countries are partly due to historical protectionism, immigration controls, and the collective efforts of past generations. He also critiques policies that favor the wealthy, contributing to widening gaps, and advocates for policies that redistribute wealth and opportunities more equitably.

What is the author's stance on the role of financial markets?

Chang is highly critical of the excessive size and influence of financial markets. He argues that they have become too detached from the real economy, focusing on short-term profits rather than long-term investment. He believes that financial markets are inherently unstable and prone to crises, necessitating much stronger regulation and even 'de-financialization' to redirect capital towards productive investments and serve societal needs rather than just speculative gains.

What is the purpose of the book's title structure ('23 Things They Don’t Tell You About Capitalism')?

The '23 Things' structure serves to systematically dismantle common myths and assumptions about capitalism, each chapter focusing on a specific 'thing' that is often overlooked or misrepresented. This format allows Chang to present complex economic arguments in an accessible, digestible manner, making the book a direct challenge to conventional wisdom and a guide to understanding the hidden realities of how capitalism truly operates.

How does Chang use historical examples to support his arguments?

Chang extensively uses historical examples to support his arguments, drawing from the economic histories of various countries, including the UK, USA, Germany, Japan, and South Korea. He shows that successful economic development almost always involved policies contrary to free-market dogma, such as protectionism, state-owned enterprises, and industrial planning. This historical evidence is central to debunking the idea that free markets are the only path to prosperity.

What does Chang propose as an alternative to current capitalist practices?

Chang doesn't propose abandoning capitalism but rather reforming it significantly. He advocates for a 'developmental state' model, where governments actively intervene to guide markets, protect infant industries, invest in infrastructure and R&D, and regulate financial markets. He also calls for greater income equality, stronger social safety nets, and a shift from shareholder primacy to a multi-stakeholder approach in corporate governance, making capitalism more dynamic and socially responsible.

What is 'Thing 15' and why is it important?

'Thing 15' is 'Most people in rich countries are paid more than they deserve.' It's important because it challenges the meritocratic view of global income distribution. Chang argues that high wages in rich countries are not solely due to individual productivity but are significantly influenced by collective historical development, protectionist policies, and immigration controls. This highlights the structural factors behind global inequality, rather than just individual effort.

What is the main takeaway from Thing 7, 'Free-market policies rarely make poor countries rich'?

The main takeaway from Thing 7 is that the free-market policies often prescribed to developing countries are historically inaccurate and largely ineffective for fostering genuine economic growth. Chang demonstrates that virtually all rich countries, including Britain and the US, used protectionist measures and state intervention during their own development, suggesting that poor countries need similar strategic, government-led industrial policies to escape poverty.

What does Chang say about the importance of manufacturing in economic development?

Chang strongly emphasizes the importance of manufacturing for economic development, particularly in 'Thing 9'. He argues that manufacturing industries offer higher productivity growth, better opportunities for technological upgrading, and stronger linkages to other sectors compared to services. He critiques the trend of de-industrialization in rich countries and the push for service-led growth in developing ones, asserting that a robust manufacturing base is crucial for long-term prosperity.

Spoiler: What is Chang's ultimate conclusion about the nature of capitalism and its reform?

Spoiler: Chang concludes that capitalism is a powerful but flawed system that needs constant active management and reform, not just 'freeing up.' He argues that there is no single 'best' way to run capitalism and that different societies can and should choose different institutional arrangements. His ultimate message is one of hope: by understanding capitalism's true nature and its inherent contradictions, we can actively shape it to create more equitable, stable, and prosperous societies, rather than passively accepting its current form.

How does Chang explain the concept of 'moral hazard' in the context of capitalism?

Chang discusses moral hazard, particularly in relation to financial crises and government bailouts. He explains that when institutions know they will be rescued by the state if they fail, they are incentivized to take on excessive risks. This creates a situation where the profits are privatized, but the losses are socialized. He argues that this systemic moral hazard undermines market discipline and contributes to financial instability, necessitating stricter regulation and accountability.

What is the significance of 'Thing 17: Companies should not be run in the interest of their owners'?

Thing 17 challenges the dominant shareholder primacy model of corporate governance. Chang argues that companies have a broader range of stakeholders—including employees, suppliers, customers, and the community—whose interests are often neglected when the sole focus is maximizing shareholder value. He contends that this narrow focus leads to short-termism, underinvestment, and social costs, advocating for a more balanced approach that considers all stakeholders.

Why does Chang argue that 'planning' is not necessarily inefficient or bad for capitalism?

Chang argues that 'planning' is not inherently inefficient or anti-capitalist, as often portrayed by free-market advocates. He points out that all successful corporations engage in extensive planning, and that governments have historically played crucial planning roles in guiding national economies, especially during periods of rapid development. He suggests that strategic government planning can coordinate investments, overcome market failures, and foster long-term growth, complementing rather than replacing market mechanisms.