Department of International Development public lecture

Economics, But Not as You Know It

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Author of Economics: The Users’ Guide and 23 Things They Don’t Tell You About Capitalism

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Suggested hashtag for Twitter users: #LSEeconomics
Economics
– but not as you know it

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What is economics?

What can – and can’t – it explain about the world?

Why does it matter?

Ha-Joon Chang teaches economics at Cambridge University, and writes a column for the Guardian. The Observer called his book 23 Things They Don’t Tell You About Capitalism, which was a no.1 bestseller, ‘a witty and timely debunking of some of the biggest myths surrounding the global economy.’ He won the Wassily Leontief Prize for advancing the frontiers of economic thought for his book Kicking Away the Ladder. He is a vocal critic of the failures of our current economic system.
So, what is different about this book? I

- Nothing that cannot be understood by someone with a secondary education (Hopefully, a lot easier to read than the first ever Pelican paperback, George Bernard Shaw’s *The Intelligent Woman’s Guide to Socialism, Capitalism, Sovietism and Fascism*)
MONTY PYTHON'S

AND NOW FOR SOMETHING COMPLETELY DIFFERENT

THE BEST OF MONTY PYTHON'S FLYING CIRCUS
# Table of Contents

- **PROLOGUE.** Why Bother?: Why do you need to learn economics?
- **INTERLUDE I:** How to read this book
- **PART I.** Getting used to it
- Chapter 1. Life, The Universe, and Everything: What is economics?
- Chapter 2. From Pin to PIN: Capitalism 1776 and 2014
- Chapter 3. How have we got here?: A brief history of capitalism
- Chapter 4. Let a hundred flowers bloom: How to ‘do’ economics
- Chapter 5. Dramatis Personae: Who are the economic actors?
- **INTERLUDE II:** Moving on …
- **PART II.** Using it
- Chapter 6. How many do you want it to be?: Output, income, and happiness
- Chapter 7. How does your garden grow?: The world of production
- Chapter 8. Trouble at the Fidelity Fiduciary Bank: Finance
- Chapter 9. Boris’s goat should drop dead: Inequality and poverty
- Chapter 10. I’ve known a few people who’ve worked: Work and unemployment
- Chapter 11. Leviathan or the Philosopher King?: The role of the state
- Chapter 12. ‘All things in prolific abundance’: The international dimension
- **EPILOGUE.** What now?: How can we use economics to make our economy better?
So, what is different about this book? II

- **Neglected topics:**
  - What is economics?
  - History of capitalism
  - Different schools of economics
  - Production
  - Work

- **Emphasis on ‘real life numbers’**
  - But with due scepticism
  - “Everything factual is already a theory.” (Johann Wolfgang von Goethe)
What is economics? I

• Economics is supposed to be about ….
What is economics? II

• Really, it is supposed to explain ‘Life, the Universe (or at least the World), and (almost) Everything’.
What next?
What is economics? III

• The standard definition: Economics is “the science which studies human behaviour as a relationship between ends and scarce means which have alternative uses” (Lionel Robbins, *An Essay on the Nature and Significance of Economic Science*. 1932)
  – So, there is only one way to do economics – that is, rational choice theory

• But, economics should be defined *not* in terms of its methodology, or theoretical approach, *but* in terms of its subject matter, that is, the economy (money, jobs, transfers, consumption, production).
  – If you follow this definition, there are many different ways of studying economics (biology vs. economics).
Many Different Schools of Economics

• At least nine major schools of economics
  – Classical
  – Neoclassical
  – Marxist
  – Keynesian
  – Schumpeterian (neo-Schumpeterian)
  – Austrian
  – Institutionalist (Old and New)
  – Behaviouralist
  – Developmentalist

• Several smaller schools
  – Neo-Ricardian, Latin American Structuralist, Evolutionary, Feminist, Ecological
We need diverse approaches to economics. 
- ‘The Singapore Problem’ or 
  “Life is Stranger than Fiction.”
Let a hundred flowers bloom

• There isn’t just one right way of doing economics but there are many schools of economics, each with its own strengths and weaknesses.

• No theory, in economics or elsewhere, can explain everything, so we need to let a hundred flowers bloom.

• However, recognising that there are different approaches is not enough.

• The diversity needs to be preserved, or even encouraged.

  – Especially in the longer run, a discipline that contains a variety of approaches can cope with a changing world better than one with a single approach.
Let a hundred flowers cross-fertilise

• I would go one step further and argue that we shouldn’t just let a hundred flowers bloom but need to have them cross-fertilised.

• Different approaches to economics can actually benefit a lot from learning from each other, making our understanding of the economic world richer.
  – Even between schools that we think – and, more importantly, most of the members of the schools think – are incompatible with each other (e.g., Austrians-Marxists on technology, Keynesians-Austrians on uncertainty).

• Don’t be a ‘man (or a woman) with a hammer’
  – Get a Swiss army knife! (and the sense to judge which one to use)
What to do?

• Never trust an economist (and that includes me!)
  – The willingness to challenge professional economists – and other experts – should be a foundation of democracy.

• “Audite et alteram partem” (Listen even to the other side)
  – The need for humility and an open mind

• “Pessimism of the intellect, optimism of the will”
  – Changes are difficult to make, but even big ones are possible, if you try hard enough and long enough.
  – “It always seems impossible until it is done.” (Nelson Mandela)
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