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## *The Weight of the Past*

Near Gorky Park, on the banks of the Moskva River, lies the Graveyard of Fallen Monuments. It is located on the grounds of the New Tretyakov Gallery—a lifeless, white hulk of a building that houses the premier collection of paintings from the school of Soviet Socialist Realism. Stroll the museum’s uncrowded exhibits and you will see such forgotten masterpieces as Yefim Cheptsov’s *Meeting of the Village Communist Cell*, Arkady Platsov’s *Tractor Drivers’ Supper*, and Pyotor Kotov’s *Building the Kuznetsk Metal Works Blast Furnace*. Walk outside, turn left, and you enter the graveyard.

Scattered over a few acres are the toppled icons of the Soviet faith. The star of the collection is the towering statue of Felix Dzerzhinsky, founder of the Soviet secret police, which stood in Lubyanka Square in front of KGB headquarters until it was hauled down after the failed coup of 1991. Statues and busts of Lenin can be found aplenty, and there is even a red marble statue of Stalin—his face partially shattered, staring impassively over a gruesome jumble of stacked stone heads penned in concrete-and-barbed-wire cages.

When I visited it in 1999, toward the end of a warm July afternoon, the graveyard hosted a thin crowd of visitors. Little groups walked quietly along its concrete paths, in and out of small groves of trees; couples sat on park benches in the overgrown, unmowed grass. There was a refreshment stand in one corner, near the museum. A few people sat at umbrella tables; canned gin and tonic was their drink of choice.

In the Graveyard of Fallen Monuments, the soaring ambitions and ruthless power of the Soviet era have been reduced to kitsch. But the mocking spirit of the place wrestles with a deep and heavy sense of gloom. In the hushed stillness and lengthening shadows, the cruel gazes of the fallen leaders still cast a pall—still chill the soul with their inhuman, all-too-human arrogance. The past, though dead, still haunts.

And so it is throughout all of Moscow. The smirk of disillusionment is everywhere in evidence. You can buy McLenin T-shirts in the Arbat or Prime Nostalgia cigarettes in any train station (your choice of Lenin or Stalin on the pack); you can sit in a karaoke bar on Tverskaya and listen to young people singing revolutionary anthems as a comedy routine; you can gaze out at the Kremlin wall over a burger and potato skins from the T.G.I. Friday's just outside Red Square. And yet Lenin still lies in his tomb, the great Stalinist Gothic towers loom on the skyline, a large statue of Marx glowers in Revolutionary Square, and the metro escalators plunge into weird phantasmagorias of socialist triumphalism. Moscow itself is one large Graveyard of Fallen Monuments.

The grip of the failed past is palpable in the former world capital of the Communist revolution, but it can be felt to a greater or lesser extent in every corner of the planet. For Soviet-style communism was but an extreme manifestation of a much broader vision that animated much of the history of the 20th century: the dream of centralized, top-down control over the course of economic development. That dream has now expired in universal failure. It died in the United States and Western Europe during the stagflation of the 1970s. It died in China when Deng Xiaoping declared that "it doesn't matter if the cat is black or white, so long as it catches mice." It died in Latin America during the debt crisis and lost decade of the 1980s. It died in the Soviet Empire with the collapse of the Berlin Wall. And it died in East Asia with the bursting of the Japanese bubble and the financial crisis of 1997–98.

The death of that misbegotten dream, more than any other single factor, has been responsible for the process conveniently summarized by the catchword "globalization."<sup>1</sup> After all, there was really no possibility of anything like a truly global economy as long as large parts of the globe explicitly renounced participation in a worldwide division of labor. But over the past couple of decades, barriers to the free movement of goods, services, and capital have teetered and fallen, and companies, investors, and consumers have rushed to fill the breach. As a result, a larger share of world economic

activity is now exposed to foreign participation and competition than at any other time in human history.

The liberalization of international transactions is only one aspect of a larger pattern of reform. As faith in government controls has dissipated, markets have been given wider play, not only in shaping economic relations between nations, but in shaping them within nations as well. The willingness to subject domestic economic actors to foreign competition has gone hand in hand with the willingness to embrace competition at home. Trade and investment liberalization are thus of a piece with a broad array of market-oriented policies: in particular, the privatization of state-owned industries; commitment to a monetary policy of price stability; elimination of price and entry controls that sustained domestic monopolies and oligopolies; the resurrection of labor markets; the reform of punitive tax systems; and the overhaul of financial institutions to make the allocation of capital more responsive to market returns.

However, the rolling worldwide disenchantment with centralized control has not left market forces with a clear field on which to operate—far from it. The move toward more liberal policies has occurred amidst the ruins of the old order, and so has had to contend with grossly deformed conditions. The transition, as a consequence, has been wrenching and often brutally painful. And the transition is far from complete. The world economy is littered still with the wreckage of discredited systems; everywhere that wreckage constrains the present and obscures the future. Although life has left the old regime, the dead hand of its accumulated institutions, mindsets, and vested interests continues to weigh heavily upon the world.



Most popular accounts of globalization have focused on its novelties. It is an understandable preoccupation: The world economy today is buzzing with the new and unprecedented. Companies scatter their production facilities around the globe: research and development here, components manufacturing there and there, and final assembly and testing somewhere else entirely. “Hot money” sloshes around the world at the click of a mouse. Mind-boggling sums flicker on the computer screens of foreign exchange traders. And, in a world where information moves at the speed of light and capital follows just behind, national policymakers must take heed of events and reactions abroad as never before.

But today's world economy is not all glitter and dazzle. The past still bulks large and casts long shadows. Consequently, any picture of globalization that ignores or misunderstands its larger historical context is at best incomplete, and at worst distorted and misleading.

Both the cheerleaders and the critics of globalization are fond of highlighting the constraints that international competitive pressures impose on national-level political decisions. But their analysis usually misreads how and why those constraints have arisen and, consequently, fails to grasp globalization's true significance. Both sides tend to interpret the present situation as the ascendancy of newly invigorated economic forces over political power, but that view misses the mark. Unfortunately, this shared misconception redounds to the benefit of the anti-globalization cause, for it masks the deep and fundamental weakness of that camp's position.

The friends of globalization, it must be admitted, started all the hype about the powerlessness of governments in the new world economy. Typical in this regard are the breathless titles of two books by management guru Kenichi Ohmae: *The Borderless World* and *The End of the Nation State*. Journalist Thomas Friedman is another prominent exponent of this point of view. In his celebrated book *The Lexus and the Olive Tree*, he writes of the "golden straitjacket" that forces governments to pursue market-friendly policies—or else face the wrath of the "electronic herd" of international investors.

Friedman, like many others, argues that this new state of affairs is due to revolutionary breakthroughs in telecommunications and information technology. An inexhaustible source of catchy metaphors, he identifies "Microchip Immune Deficiency Syndrome," or "MIDS," as "the defining political disease of the globalization era." According to Friedman:

Countries and companies with MIDS tend to be those run on Cold War corporate models—where one or a few people at the top hold all the information and make all the decisions, and all the people in the middle and the bottom simply carry out those decisions. . . . The only known cure for countries and companies with MIDS is . . . the democratization of decisionmaking and information flows, and the deconcentration of power, in ways that allow more people in your country or company to share knowledge, experiment and innovate faster.<sup>2</sup>

Meanwhile, the critics of globalization have taken all the hype and turned it on its head. They see the world as careening out of control. Economic forces, they claim, have broken their traditional bonds and now run

riot around the globe. Like their opposite numbers, the critics tag the computer revolution as the chief culprit for this turn of events. But in their view, the new potency of markets represents, not a “golden straitjacket,” but a mad and immiserizing “race to the bottom.” In the press of unchecked international competition, overwhelmed governments are gutting social protections to keep footloose capital from fleeing. Control must be regained if disaster is to be averted.

Arthur Schlesinger, Jr., an elder guardian of the embattled old order, captures this familiar refrain in particularly vivid terms:

The computer turns the untrammelled market into a global juggernaut crashing across frontiers, enfeebling national powers of taxation and regulation, undercutting national management of interest rates and exchange rates, widening disparities of wealth both within and between nations, dragging down labor standards, degrading the environment, denying nations the shaping of their own economic destiny, accountable to no one, creating a world economy without a world polity.<sup>3</sup>

It is true that international economic integration has reduced the freedom of action available to national policymakers, and that the Internet and other technological marvels have sped that integration. Even the most cursory glance at world events, however, suffices to show that much of the rhetoric from both sides has been ludicrously overblown. Governments continue to assume a massive and enormously influential presence in economic life. Throughout much of Western Europe, government spending as a percentage of national income still exceeds 50 percent. Federal taxes in the United States have claimed a higher share of gross output in recent years than at any time since World War II. Chinese state-owned enterprises continue to employ some 80 million people. Government subsidies in India amount to 14 percent of gross domestic product. The state oil monopoly remains enshrined in the Mexican constitution.<sup>4</sup>

The plain fact is that market pressures—even souped-up, Internet-driven market pressures—exert only modest and occasional discipline on national policies. To borrow Friedman’s metaphor, the “golden straitjacket” is a loose-fitting garment indeed: In other words, the past remains very much with us. The defunct ideas of centralized control exert a waning but still-formidable influence on the shape of the world economy.

By exaggerating the triumph of markets over government, the friends of globalization play into the hands of their opponents. If the present world

situation represents the unchallenged reign of market forces, then that reign has much to answer for. After all, the world today is a very messy place. Those hostile to markets pursue this opening with gusto. The Asian financial crisis, the collapse of Russia, chronically high unemployment in Europe—all these and other legacies of the delusional belief in centralization and top-down control are laid at the doorstep of global capitalism. This shift of blame gains unearned plausibility from all the overstatements of markets' supposedly irresistible power.

Critics of globalization take advantage of their rivals' triumphalist rhetoric in other ways as well. One of their oft-repeated charges is that the world today is in the clutches of ideological extremism—a blind and dangerous faith in laissez-faire that ignores vital social needs. “What is wrong with the Global Economy is what is wrong with our politics,” contends right-wing economic nationalist Pat Buchanan. “It is rooted in the myth of Economic Man. It elevates economics above all else.” Buchanan argues, “To worship the market is a form of idolatry no less than worshiping the state. The market should be made to work for man, not the other way around.”<sup>5</sup>

Financier George Soros has taken a similar tack. In *The Crisis of Global Capitalism*, Soros rails against something he calls “market fundamentalism,” or the belief that “the common interest is served by allowing everyone to look out for his or her own interests and that attempts to protect the common interest by collective decision making distort the market mechanism.” Soros goes so far as to claim that “market fundamentalism is today a greater threat to open society than any totalitarian ideology.”<sup>6</sup>

A number of anti-globalization writers have argued that the current market “idolatry” has ominous historical precedents in the early part of the 20th century. Then as now, they argue, economic forces had slipped all proper constraints; then as now, the ideology of laissez-faire ran roughshod over social needs. The consequences in the past were tragic: The excesses of unchecked markets, with their brutality and volatility, ultimately triggered the catastrophes of totalitarianism, depression, and war. Today, the resurgence of utopian faith in markets threatens a new cycle of disasters.

William Greider adopts this line in his book *One World, Ready or Not*. In particular, Greider cites the historical analysis of Karl Polanyi, author of the 1944 book *The Great Transformation*. Polanyi argued that the catastrophes of his time could ultimately be traced back to the evils of laissez-faire. “[T]he origins of the cataclysm,” he wrote, “lay in the utopian endeavor of eco-

conomic liberalism to set up a self-regulating market system.”<sup>7</sup> Greider contends that we are once again on the road to ruin:

Today, there is the same widespread conviction that the marketplace can sort out large public problems for us far better than any mere mortals could. This faith has attained almost religious certitude, at least among some governing elites, but, as Polanyi explained, it is the ideology that led the early twentieth century into the massive suffering of global depression and the rise of violent fascism.<sup>8</sup>

Greider is by no means alone these days in resurrecting Karl Polanyi: He has emerged in recent years as a kind of patron saint of globalization’s critics. George Soros notes his intellectual debt in his acknowledgments at the beginning of *The Crisis of Global Capitalism*. Dani Rodrik, of Harvard University and author of *Has Globalization Gone Too Far?*, refers to him frequently. John Gray, a professor at the London School of Economics who wrote *False Dawn: The Delusions of Global Capitalism*, titled his first chapter “From the Great Transformation to the global free market.”

The arguments of Polanyi and his latter-day disciples are completely untenable. First of all, their reading of history is an almost perfect inversion of the truth. The tragedies of the 20th century stemmed not from an over-reliance on markets, but from a pervasive loss of faith in them. It was the mistaken belief in the promise of central planning that led to ruinous economic policies around the world; it was that same mistaken belief that lent legitimacy to the hideous tyrannies of totalitarian communism and fascism.

As to the supposed ascendancy of “market fundamentalism” in the present, where are the governments today that toe a strict laissez-faire line? Where even are the opposition parties of any size that do so? Scour the planet and you will be hard pressed to find a single political movement of significance anywhere that advocates anything remotely resembling minimal-state libertarianism.

Certainly the world has moved in leaps and bounds toward more market-oriented policies in recent years, but look who has led the charge—in China, Deng Xiaoping, a committed Communist; in India, P. V. Narasimha Rao, a product of the Congress Party that instituted Soviet-style central planning there; in Argentina, Carlos Menem, a Peronist; in Peru, Alberto Fujimori, an ideological cipher. Yes, there have been reformers who made their case in ideological terms (Ronald Reagan, Margaret Thatcher, Vaclav Klaus) but they have been exceptional. By and large, the worldwide re-discovery of markets has been guided by pragmatism, a rejection of the failed

dogma of centralized control in favor of something, anything, that works. This is a time of idol smashing, not of setting up new gods.

The only place one can find the unchecked and unchallenged domination of market forces is in the fevered prose of writers. Here again, the rhetorical excesses of globalization's promoters boomerang. Because of all the loose talk about the end of the nation state and so forth, members of the anti-market camp are able to pass themselves off as defenders against wild-eyed zealotry. In fact, however, the anti-market forces are the ones in thrall to ideology; they cannot shake the now-defunct faith in centralization.

The "golden straitjacket" and "race to the bottom" schools not only exaggerate the constraints imposed by international competitive pressures, they also fail to see the fundamental reasons why those constraints are tightening. Yes, it is true that technological advances and the growing internationalization of economic activity have enabled market signals to transmit faster and more accurately than ever before. But that fact leaves a deeper question unanswered: Why are governments increasingly deciding to pay attention to market signals?

The usual answer is that the microchip and the Internet have allowed businesses to pick up and move wherever they want, and this mobility gives them the leverage to play national governments against each other. Consider, however, the situation in the developing nations, whose dependence on capital from richer countries makes them especially susceptible these days to pressures from foreign investors. Since when did attracting foreign investors become an economically irresistible proposition for countries of the old Third World? A generation ago those countries spurned foreign investment as neocolonialist; in fact, they often nationalized existing investments and booted the foreigners out. If that attitude still prevailed today, the intervening technological advances would make no difference at all. The truly important change is that many developing-country governments now care about whether their policies are investor-friendly. And why do they care? Because they now realize that investor-hostile policies are self-defeating—that their old development models of "import substitution" and enforced self-sufficiency were disastrously wrongheaded.

However appealing the notion that the two great trends of recent times—the information revolution and globalization—really boil down to the same thing, the spread of more market-oriented policies cannot be explained by crude technological determinism. How computerized was China

when Deng Xiaoping decollectivized agriculture and created the coastal, special economic zones? What did the microchip have to do with Margaret Thatcher's decision to face down the coal miners' union? The Internet was still an obscure Pentagon initiative when the "Chicago boys" transformed Chile's economy and New Zealand's Labour government scuttled protectionism and committed the central bank to price stability.

Adversaries of market-oriented reforms benefit from the popular view that globalization is, at root, a matter of technology. That view allows them to evade responsibility for the failures that created the need for reform in the first place. Anti-market critics can pretend that recent events constitute an external assault on state controls rather than a response to those controls' internal collapse. They can pretend that all was going well before the microchip loosed the globalization genie from the bottle. But that pretense is shattered by a proper understanding of globalization's past.

Globalization is not a simplistic technological imperative. In fact, it is not primarily an economic phenomenon at all. When viewed in the larger historical perspective, it must be understood fundamentally as a political event. Globalization, in the broader view, stands revealed as but one consequence of the death and repudiation of the old ideal of central planning and top-down control. In particular, the greatest recent gains in international economic integration (the ones that have allowed us to talk sensibly of a truly global economy) have come with the demise of communism and various state-dominated systems in developing countries. Those earthshaking political transformations unraveled state controls in both the domestic and international spheres; consequently, they have brought billions of the world's population into the fold of a now planetwide division of labor.

The popular view of globalization has things topsy-turvy. Globalization, the conventional wisdom holds, undermines sovereignty. In fact, however, the more powerful currents of historical causation flow in the opposite direction. It is the retreat of the state that has allowed international market relationships to regain a foothold. This retreat was provoked, not by the impingement of blind economic forces or by transports of libertarian enthusiasm, but by disillusionment. The dream died because it failed: It failed morally in the horrors of its totalitarian variants; and it failed economically by miring billions in grinding poverty and subjecting billions more to unnecessary hardships. Globalization is the fitful, haunted awakening from that dream.



The purpose of this book is to bring globalization to terms with its past. I examine the rise and fall of the old order, whose collapse cleared the way for our current era of worldwide commerce. What were the animating beliefs and defining institutions of the old state-dominated era? What propelled its rise and triggered its demise? What made it incompatible with a global division of labor?

I then survey the lingering presence of the past in today's world economy. To what extent do anti-market policies still impede and distort economic growth? How does the uneasy coexistence of the old and the new create instability? What are the prospects for continued market-oriented reforms in the face of rearguard resistance?

The story of the current episode of globalization has its roots in a prior, failed episode that occurred a century ago. In the decades prior to World War I, the Industrial Revolution made possible a level of international economic integration that rivaled, and in some respects exceeded, our present situation. In that first world economy, unlike in our own, technology was indeed the driving force. Although political conditions grew progressively more hostile, plummeting transportation costs and radically improved communications unleashed worldwide movements of goods, services, capital, and people on an historically unprecedented scale.

But politics, in the end, won out. The spectacular wealth creation of the Industrial Revolution, made possible by the decentralized trial and error of market competition, was widely misinterpreted at that time and afterwards as a triumph of top-down control and central planning. People believed that the giant new industrial enterprises demonstrated the superiority of consolidation and technocratic control over the haphazard wastefulness of market competition. They concluded that the logic of industrialization compelled an extension of the top-down rationality of the factory to the whole of society—in other words, it compelled social engineering.

This tragic error gave rise to a social phenomenon that may be described as the Industrial Counterrevolution: an assault on the principles that brought modern technological society into being and are true to its fullest promise. The belief in technocratic control, especially in vesting that control in the state, began to gain momentum around 1880 and grew increasingly popular with the passing years. Aside from the damage that belief wrought within

national boundaries, its fundamental incompatibility with the liberal international order that developed during the 19th century meant that one of them had to give way. It was the latter that yielded.

As collectivist movements gained momentum at the end of the 19th century, the liberal, cosmopolitan vision of free trade and peace gave way to the dark and dangerous vision of a “struggle for existence” among nations. Although many socialists professed to be internationalists, there was a natural association between the embrace of central planning and the rejection of international markets—an association that won out over time. On a deeper level, collectivism and nationalism both offered the comforts of group solidarity at a time of profound social tumult and stress. It was therefore unsurprising that the two waxed in tandem.

Thus, while technology widened the scope of the international division of labor, politics pushed toward protectionism, imperialism, and militarism. In the end, those destructive forces were overwhelming, and World War I was the tragic result. After the war, attempts were made to rebuild the old system. But the economic shock waves of inflation and debt that reverberated after the war, and the new political realities of social democracy and totalitarianism, rendered a return to antebellum stability impossible. Finally, the Great Depression and the protectionist spasms it provoked rang the death knell of the old liberal order. Indeed, for a dark time it appeared that any future international order would be totalitarian.

In the years following World War II, there was a partial move, led by the United States, Western Europe, and later Japan, back toward a liberal international order. But much of the world remained outside this reborn international economy: The Communist nations and most of the so-called Third World pursued economic policies of autarky and isolation. For the bulk of the world’s population, the ascendancy of the Industrial Counterrevolution continued to squelch participation in an international division of labor.

Only in the past couple of decades has the counterrevolutionary momentum exhausted itself in disillusionment and failure. And, as overweening state control has receded—with the opening of China, the dissolution of the Soviet bloc, and the abandonment by many developing countries of “import substitution”—market connections have been reestablished. The death of the dream of centralized control has marked the rebirth of globalization.

While the belief in central planning has lost its utopian fire, its effects are still very much with us. We live today in the midst of an ongoing and

uncertain struggle between the revitalization of markets and the dead hand of the Industrial Counterrevolution. Call it the invisible hand versus the dead hand. That struggle strains and distorts market and social development and gives rise to occasional, crippling instability. Globalization is, consequently, an uncertain and uneven process, and subject to sudden and traumatic reverses and dislocations. Critics of globalization blame the distortions and volatility on free markets run amok; in fact, however, these problems are overwhelmingly due to the continued bulking presence of anti-market policies and institutions.

The ascendancy of market forces in today's world economy has been grossly overstated—by both partisans and critics of globalization. Centralized control over economic production remains a widespread and deeply entrenched phenomenon. In many countries of the former Communist bloc, state-owned enterprises still dominate the economy; in others, nominal privatization has been undermined by the persistence of massive subsidies, otherwise known as a “soft budget constraint.” In the rest of the world, controls on prices and government ownership of productive assets—the most blatant forms of top-down interference with market competition—are still surprisingly common. They are pervasive in Africa, the Middle East, and South Asia. Meanwhile, suppression of competition continues to disfigure particular industrial sectors around the world: energy, transportation, agriculture, and telecommunications, to name a few prominent examples. In the international sector, protectionism and conflicting national regulatory structures continue to pose formidable obstacles to cross-border competition.

The dead hand reaches to the very core of the capitalist market order—namely, the institutions that direct the flow of capital from savers to investors. Around the globe, those institutions are to a greater or lesser extent characterized by over-centralization and perverse incentives. Decentralized access to capital through bond and equity markets remains pitifully underdeveloped in most countries, not only because of direct regulatory inhibitions, but also because of inadequate legal protection of investors. Consequently, banks generally play the leading role in allocating capital—a role that remains heavily politicized, with uniformly dolorous consequences. In the former Communist bloc, banks are often little more than slush funds for moribund state-owned enterprises. In developing countries, interest-rate controls and high reserve requirements limit the flow of funds into the banking system, while political interference with lending decisions ensures that scarce funds are often wasted. Distortions caused by the promise of govern-

ment bailouts plague even the banking sectors of the advanced nations, as evidenced by the U.S. savings-and-loan disaster and the catastrophic bursting of the Japanese “bubble economy.”

The struggle between the dead hand and the invisible hand cannot be reduced to a conflict between government *per se* and markets. Governments are not merely doing too much; they are simultaneously doing too much *and* too little. At the root of so many problems in developing and transition economies is the failure of governments to provide reliable security for property and contract rights. That failure must be acknowledged as one of the bitter legacies of the Industrial Counterrevolution. Collectivist economic policies created bloated public sectors that served as breeding grounds for corruption. Meanwhile, grandiose top-down development schemes diverted attention away from the mundane but crucial work of building workable market institutions. The consequences of neglect have been dire: The lack of stability and congruence in expectations regarding the present and future disposition of property has seriously undermined the ability to make long-term investments and construct intricate divisions of labor.

The false dichotomy between government and market also crops up with respect to the issue of “safety nets” and “social cohesion.” Critics of globalization argue that competitive pressures are undermining social protections against hardship and dislocation. But there is no necessary conflict between open markets and sound “safety net” programs. Indeed, as globalization makes countries richer, authentic safety nets become more affordable, not less.

Present-day welfare programs are menaced, not by any external threat, but by their own internal contradictions. Those programs, born of the top-down vision of the Industrial Counterrevolution, have become manifestly dysfunctional. In particular, the aging populations of the rich countries have turned their public pension systems into fiscal time bombs. The treasuries of many developing countries also groan under the burden of excessive transfer payments—which too often benefit the relatively affluent at the expense of those most in need of aid.

Meanwhile, much of what passes for social policy is nothing more than naked interference with the market process. Subsidies for failing state-owned enterprises, tenacious protectionism, limitations on labor mobility—all are routinely defended as necessary for “social cohesion.” This is a fraud, and a cruel one. Policies that hobble competitive wealth creation in the name of alleviating hardship merely compound the problem they supposedly address.

There is no social cohesion in economic stagnation or in a corrupt scramble for ever-dwindling spoils. Enlightened social policy begins with the principle that assistance should try to help people cope with change, not prevent change from happening.

Globalization is thus a far messier affair than the prevailing caricature of markets *über alles*. It consists, rather, of an uneasy coexistence between markets and the remnants of the collectivist dream, with the former hindered and diverted at every turn by the latter. The mixture of expanding competition and resistant centralization is a combustible one, sometimes exploding in cataclysmic fashion. The great international financial meltdowns of the 1990s in Mexico, East Asia, and Russia are cases in point. The opponents of liberalization blame those episodes on excessive reliance on markets, but the reverse is actually much closer to the truth.

Admittedly, none of these crises would have occurred if international capital flows had not been liberalized. But liberalization, by itself, was not the problem. Improved access to foreign capital is profoundly beneficial for struggling transition and developing economies; without that access, poor countries would be condemned to fund future growth entirely from their own limited resources. Disaster struck because capital liberalization was not matched by market-oriented reforms on other fronts. In particular, the combination of artificially pegged exchange rates and backward, politicized financial sectors proved catastrophic. The lesson from these debacles: Globalization isn't a parlor game. It is a hard and uncertain struggle against tenacious resistance.



What is the outlook for the ongoing conflict between the invisible hand and the dead hand? Will liberalization continue to gain ground? Or has the worldwide reform of the past couple of decades been a kind of Prague spring, to be crushed sooner or later by a reassertion of anti-market policies in the form of capital controls, protectionism, re-nationalizations, and the like?

By characterizing the anti-market forces as the dead hand, I have already given some clue to my answer: I believe that the long-term advantage lies with the liberal cause. Because the collectivist, top-down ideal is moribund, there is at present only one viable model of economic development—the liberal model of markets and competition. Consequently, the ongoing

struggle is not one between rival ideologies, but between what *is* and what *works*. Those terms of battle consign defenders of the dead hand to a perpetual rearguard action.

Vested interests and sheer inertia will render existing dirigiste policies difficult to dislodge. Consequently, there will be few easy victories. However, as dysfunctional controls and restrictions cause either acute crises and breakdowns or chronic underperformance relative to more open countries, national political leaders will find themselves recurrently under extreme pressure to act. At such points, leaders must move toward either liberalization or ever more heavy-handed interventionism. The current intellectual climate strongly favors the former alternative.

The economic crises of the past couple of years illustrate this dynamic. For the most part economic collapse has accelerated the process of pro-market reform. There have been exceptions (Russia, in the short term at least) but by and large the dominant political response in the crisis-affected countries has been in a liberal direction. What real choice is there?

There is little cause, however, for liberal triumphalism. So-called reforms will all too often turn out to be weak half-measures, debilitated by compromise. At the same time, the sheer poverty and underdevelopment of most of the world afford enormous opportunities for higher-than-Western “catch up” growth rates, even when public policies are far from optimal. The ongoing availability of catch-up growth, and the legitimacy it confers upon even deeply flawed policies, will weaken the incentives for comprehensive reform.

Liberalization’s advances, then, will come in fits and starts. Crisis, reform, euphoria, disillusionment, and crisis and reform again—such is the dialectic of the invisible hand against the dead hand.