

Why Globalization Works

Martin Wolf

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Preface — Why I Wrote This Book

Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular.
Thomas Macaulay, 1824!

Ideas matter. That is perhaps the most important of the lessons I learned from my father, the late Edmund Wolf. He was an Austrian Jewish refugee from Hitler who came to Britain before the Second World War. A playwright and passionate intellectual, he taught me how the insane ideas of the Nazis and the almost equally insane ideas of the communists had destroyed, or were still destroying, civilized life in large parts of the world. Since I was born just after the Second World War, in 1946, these dangers were not ancient history. Germany had been defeated only a year before my birth. By the time I was aware of the outside world, I already knew that ideas mattered a great deal. I understood, for example, that both my parents were refugees from an armed idea. I learned that, although the immediate families of both my parents had survived by fleeing Europe, the great majority of their relatives had perished in what is today called the Holocaust, though I think of it by its Hebrew name — the Shoah, or destruction. My mother, who came from a Dutch-Jewish family, told us that nearly thirty of her aunts, uncles and cousins perished under the Nazis. I also soon discovered that communist dictatorships had divided Europe and still threatened the freedom and tranquillity of the country in which I was growing up.

Because my father was an honest man and writer, he thought and wrote of people not as they might be but as they were. He was, for this reason, never attracted to communism, unlike so many of his contemporaries. He condemned communism as a Procrustean bed upon which ideologically motivated despots tortured people in the name of humanity. He was always pro-democracy and anti-communist. Many intellectuals then considered anti-communism to be more than a little shameful. His opinion was the exact opposite. But, as was true of most intellectuals at that time, he was inclined towards socialism, though of a moderate and cautious kind. Social democracy was then his natural intellectual home. I do not know what he would have thought of Tony Blair, the man. But he would have liked

his politics. Throughout a lengthy career as a journalist, broadcaster and writer (he was, among other things, programme organizer for the German service of the British Broadcasting Corporation in the 1950s, London correspondent and later columnist for the distinguished German weekly, *Die Zeit*, and a documentary filmmaker and author of prize-winning plays for German television between the 1960s and 1980s) he returned repeatedly to the importance of liberal democracy. This, it should be remembered, was at a time when many German intellectuals flirted with varieties of radical Marxism.

My father was the most important influence upon me, both intellectual and moral. I also learned from my no less remarkable mother the abiding value of simple human decency. I have never rebelled against the values of my parents, though I became more of a classical liberal — what I mean throughout this book by a 'liberal' — and less of a social democrat or 'social liberal', as time passed. I learned that enlightenment ideals of freedom, democratic government and disinterested search for truth were infinitely precious and frighteningly fragile. I discovered, too, that these values had many enemies, some open and some covert. Worst among them were those intellectuals who benefit from the freedom only liberal democracies provide, while doing everything they can to undermine it. These, I later discovered, were the kind of people George Orwell had attacked before, during and after the Second World War. But they return in every generation, spreading their havoc upon the innocent young. In the 1960s the most influential pied piper was probably Herbert Marcuse. More recently, it seems to have been Jacques Derrida.

In October 1965, I went up to Corpus Christi College, Oxford University, to read classics. This was just before a wave of protest swept across my generation. Some of those protests — particularly against the war in Vietnam — seemed then and still seem now justified. The demand for personal liberalization I sympathised with, though now I feel that it did both great good and great harm, as is often the case with revolutions. But many of the protests took the form of an infantile leftism against which I had been inoculated. I met many sub-species of Marxist. They seemed to believe the differences among them were important. I was reminded of what Samuel Johnson said when asked to distinguish the merits of two minor poets: there is no settling the point of precedence between a louse and a flea. I already knew that all the varieties of Marxism were both wicked and stupid. The hostility to liberal — or 'bourgeois' — democracy they shared I found contemptible. History has since more than vindicated my responses, learned so early from my parents.

Fortunately, I discovered more positive things at Oxford, especially when I switched from the study of classics to politics, philosophy and economics in 1967. The chief lesson relevant to this book concerned the damage caused by the collapse of liberalism in the late nineteenth and early twentieth centuries under

My father's Jewish background
Dicks
Communism
to father

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1946-48
Derrida

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gives

Derrida

the assault of assorted collectivist ideologies – imperialism, militarism, socialism, communism and, finally, fascism. But I also learned that good economic policy – then thought, wrongly, by many Oxford economists to consist of little more than a wise Keynesianism – could help sustain a liberal society and economy against such attacks. Political stability and social harmony were in great danger once an economy failed, as it had done in the 1930s. Economics was about far more than prosperity, significant though that was. It was also important if we were to sustain civilization. Once people are deprived of hope of a better life for themselves and their children, societies based on consent are likely to founder.

When I went up to Oxford I was, under the influence of my father, still a social democrat in the tradition of the then recently deceased leader of the Labour Party, Hugh Gaitskell. I had been active as a staunch anti-Marxist in the Labour Party's Young Socialists since I was sixteen. In Oxford, I joined the Labour Club. At the end of my first term, I was involved in forming a breakaway club, the Oxford University Democratic Labour Club, since Marxists opposed to the then Labour government of Harold Wilson dominated the old Labour Club. In 1967 I became chairman of the Democratic Labour Club, which we had founded in early 1966. I continued to be an active supporter of the Labour Party until the early 1970s.

In 1969 I went to Nuffield College, Oxford, to study for what is now called the Master of Philosophy in economics. There I learned, principally from three teachers – Ian Little, Maurice Scott and Max Corden – the importance of international trade for prosperity, above all for developing countries. Max Corden had then completed his important work on effective protection and was teaching trade theory in a way particularly valuable to the mathematically challenged (such as myself).³ The other two men (together with Tibor Scitovsky of Yale University) published in 1970 one of the most influential books on economic development of the past half-century, *Industry and Trade in Some Developing Countries*.⁴ This brilliant book – a *Wealth of Nations* for our time – summarized a multi-country study of trade policy and economic development organised by Professor Little for the Development Centre of the Organization for Economic Co-operation and Development. It was a counterrevolutionary manifesto, arguing for the importance of outward-looking trade regimes, against import substitution, and for the market economy, against *dirigisme*. Subsequently, this approach became the conventional wisdom. At the time, it challenged a damaging orthodoxy.

This book cemented my conversion to belief in the superiority of the market economy over any available alternative. It was to apply Winston Churchill's wise words about democracy, the worst of all economic systems, except all the other forms that have been tried from time to time. That shift in perspective was strengthened by my writing a short thesis on British housing policy. From this I discovered the disastrous consequences of rent control and the growth of council (or public) housing. I was persuaded by Colin Crouch, then also at Nuffield

College, subsequently at the London School of Economics, to write a short pamphlet on this topic for the Young Fabians. The pamphlet was rejected out of hand by an anonymous reader. I later learned he was the former cabinet minister Richard Crossman. This helped persuade me that the Labour Party had become intellectually moribund, wedded to an out-of-date and unworkable statism. This conviction was subsequently strengthened by my failure to persuade the vastly more intelligent Anthony Crosland of the need for a radical change in the country's calamitous housing policies.

Subsequently, the works of Friedrich Hayek, particularly *The Road to Serfdom* and *The Constitution of Liberty*, convinced me that a market economy was also a necessary condition for a stable and enduring democracy. The market may not be a sufficient condition for such a democracy. But it was a necessary one, because the concentration of power inherent in a planned economy was incompatible with effective pressures from below. Markets also allowed people to express their personal choices. They were a dimension of freedom.

This set of convictions shifted me from social democracy to classical liberalism. I remain such a liberal today, not only because of my belief in the supreme value of personal freedom, but because of an abiding scepticism about the wisdom and capacity of an intrusive government. Today, however, I would consider my differences from social democrats (or, in the United States, liberals, as they call themselves) to be small. This is partly because the death of socialism has killed all the same people's belief in the planned economy and state ownership. Liberals, social democrats and moderate conservatives are on the same side in the great battles against religious fanatics, obscurantists, extreme environmentalists, fascists, Marxists and, of course, contemporary antiglobalizers. This book is addressed to all those who fall within these broad categories, and will, I hope, largely convince them that a global market economy is highly desirable. The big issue is not that, but how best to govern and regulate it.

In my last year at Nuffield, I applied to join the World Bank as a young professional. The then head of the Bank's economics department, David Henderson, strongly influenced this decision. Ironically, he was to fall out with the Bank's president, Robert McNamara, shortly afterwards. He then left the Bank to return to the United Kingdom. He was subsequently to be the chief economist of the Organization for Economic Co-operation and Development in the 1980s. Another warrior in the liberal cause, whom I met at the same time, was Deepak Lal, then research fellow in the college.

I started my professional career at the World Bank in 1971 in the division run by a remarkable British economist, Stanley Please. I did so because this seemed a fascinating and rewarding opportunity, but also because I believed then, as I do now, that raising the incomes of the poor countries was the most important contemporary challenge for economists. It turned out to be a superb education. I

Worries as decisions
are made

also made many lifelong friends. Some of them went on to play important roles in their home countries. Among my earliest colleagues were Montek Singh Ahluwalia, later a reforming finance secretary of India, and Shankar Acharya, later India's chief economic adviser, both of whom played significant roles in India's market-oriented reforms of the 1990s.

Working as an economist on east Africa between 1972 and 1974 and then on India between 1974 and 1977, I learned first-hand of the damage done by *dirigiste*, inward-looking economic policies. This was not only because of the grotesque inefficiency, but also because of the epidemic of corruption they caused. Throughout my ten years at the Bank, I was principally engaged in arguing for greater reliance on the market mechanism and trade.

My first big report for the World Bank was on the private sector in Kenya. Shortly afterwards, I worked on the anti-agricultural bias of policies adopted in Zambia. Both experiences depressed me greatly, since these countries were going over an economic cliff with the support, more or less enthusiastic, of the World Bank. But my longest period was spent working on the inordinately anti-trade and interventionist policies of India, which World Bank assistance also sustained, albeit to a smaller extent, because of the size of the country. I have never forgotten the consequences of a licensing system dedicated to telling companies what to produce and with what technologies and inputs. This work culminated in a book on India's exports.⁵ During my time working on India, I had the opportunity to make a number of friends. The most impressive of these was Dr Mannohan Singh, then the government of India's chief economic adviser and later India's reforming finance minister.

My work at the World Bank also included a year as a team member for the very first World Development Report, published in 1978. This was one of the most imaginative initiatives of the then Bank president, Robert McNamara, and was run by Ernest Stern, who had by then been selected to be the operational head of the Bank, a role he played for almost two decades. Again, my personal focus was trade. During my time at the Bank, an important influence was the late Bela Balassa, of Johns Hopkins University and the World Bank, who worked tirelessly to promote export-oriented trade policies.⁶ Other important intellectual influences were Jagdish Bhagwati, then at the Massachusetts Institute of Technology and now at Columbia, and Anne Krueger, then at the University of Minnesota and now first deputy managing director of the International Monetary Fund. Both of these scholars published summary volumes of a classic study of foreign trade regimes and economic development in the late 1970s.⁷

By the late 1970s, I had concluded that, for all the good intentions and abilities of its staff, the Bank was a fatally flawed institution. The most important source of its failures was its commitment to lending, almost regardless of what was happening in the country it was lending to. This was an inevitable flaw since the institution could

hardly admit that what it could offer – money – would often make little difference. But this flaw was magnified by the personality of Robert McNamara, former US Defence Secretary, who was a dominating president from 1967 to 1981. McNamara was a man of ferocious will, personal commitment to alleviating poverty and frighteningly little common sense. By instinct, he was a planner and quantifier. Supported by his chief economic adviser, the late Hollis Chenery, he put into effect a Stalinist vision of development: faster growth would follow a rise in investment and an increase in availability of foreign exchange; both would require additional resources from outside; and much of these needed resources would come from the Bank. Under his management, the Bank and Bank lending grew enormously. But every division also found itself under great pressure to lend money, virtually regardless of the quality of the projects on offer or of the development programmes of the countries. This undermined the professional integrity of the staff and encouraged borrowers to pile up debt, no matter what the likely returns. This could not last – and did not do so. As Montek Ahluwalia once told me, the Bank was a growing business in a dying industry. It was certain to reach the limit to its growth. It did so soon after McNamara's departure.⁸

By that time I had had enough. I had worked on India as senior divisional economist for three years. During that time, my chief function, so far as the Bank was concerned, was to justify the provision of significant quantities of aid, even though this money was helping the government of India avoid desperately needed policy changes. As it turned out, those changes were made in the midst of a deep foreign exchange crisis in 1991, almost two wasted decades later. The changes were made under the direction of Mannohan Singh, then finance minister, with the assistance of Montek Ahluwalia as economic secretary and later finance secretary. This experience confirmed three lessons: policy changes could make a huge difference to economic performance; such changes could be put into effect by relatively small teams of intelligent, motivated and well-disciplined individuals; and, most important of all, those changes could not be imposed from outside.

Unfortunately, lending too much was not the Bank's only fault. It also had to lend to governments. This had two undesirable consequences: it had to assume that the government represented the interests of the country; and it reinforced an unjustifiably collectivist view of that national interest. Bank lending made it easier for corrupt and occasionally vicious governments to ignore the interests and wishes of their peoples. By the end of my time at the Bank, I came to the conclusion that its borrowers fall into three categories – those that did not need the help; those that would not use the help; and those that needed the help and would use it. The Bank was constitutionally incapable of concentrating its efforts on this third, often quite small group. As a result, its efforts were often either unnecessary or wasteful. I therefore came to agree with most of the criticisms of aid that had long been made by the late Peter (Lord) Bauer.⁹

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were blighted by those mistakes. Now we all – or almost all – know better. The ideas which undermined faith in the liberal order were wrong. Socialism does not work. Communism and fascism were crimes, as well as blunders. Imperialism was a blind alley. Militarism and nationalism destroyed European civilization. Now we have, by luck as much as by judgement, recreated a better liberal international order – one that extends opportunities to the world as a whole. It is our duty to our descendants not to throw away this golden opportunity once again.

Part I **The Debate**