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Preface — Why I Wrote This Book

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

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

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

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

been Jacques Derrida. ential pied piper was probably Herbert Marcuse. More recently, it seems to have ation, spreading their havoc upon the innocent young. In the 1960s the most influbefore, during and after the Second World War. But they return in every gener-These, I later discovered, were the kind of people George Orwell had attacked liberal democracies provide, while doing everything they can to undermine it. Worst among them were those intellectuals who benefit from the freedom only discovered, too, that these values had many enemies, some open and some covert. terested search for truth were infinitely precious and frighteningly fragile. I by a 'liberal' – and less of a social democrat or 'social liberal,' as time passed. 2 I though I became more of a classical liberal what I mean throughout this book simple human decency. I have never rebelled against the values of my parents, moral. I also learned from my no less remarkable mother the abiding value of learned that enlightenment ideals of freedom, democratic government and disin-My father was the most important influence upon me, both intellectual and

> plucian, 1 July

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

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 switched from the study of classics to politics, philosophy and economics in 1967. Fortunately, I discovered more positive things at Oxford, especially when I

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

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

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

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

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

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

democrats and moderate conservatives are on the same side in the great battles against religious fanatics, obscurantists, extreme environmentalists, fascists, but how best to govern and regulate it. all those who fall within these broad categories, and will, I hope, largely convince Sane people's belief in the planned economy and state ownership. Liberals, social capacity of an intrusive government. Today, however, I would consider my differof personal freedom, but because of an abiding scepticism about the wisdom and them that a global market economy is highly desirable. The big issue is not that, Marxists and, of course, contemporary antiglobalizers. This book is addressed to themselves) to be small. This is partly because the death of socialism has killed all $\frac{1}{2}$ ences from social democrats (or, in the United States, liberals, as they call I remain such a liberal today, not only because of my belief in the supreme value This set of convictions shifted me from social democracy to classical liberalism.

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

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

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 market-oriented reforms of the 1990s. India's chief economic adviser, both of whom played significant roles in India's

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

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

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

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 By the late 1970s, I had concluded that, for all the good intentions and abilities of

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

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

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

and clothing exports of developing countries. 16 It was an invaluable lesson not only study of the system of quotas operated by advanced countries against the textiles last two years at the Bank. With a colleague, Donald Keesing, I wrote a substantial and the multilateral trading system. I had first come into contact with it during my irrationality of some trade policy regimes. comparative advantage of the poor, but also in the mixture of complexity with in the hypocrisy with which the world's richest countries have responded to the Hugh Corbet, had won a deserved reputation for its work on trade liberalization of post-war international trade theory. The Centre, under its energetic director economy is not to defend the International Monetary Fund, the World Bank, the successful development, has stayed with me to this day. To defend a liberal world Centre, as director of studies, a post once held by the late Harry Johnson, a giant think tanks. In September 1981, I joined the London-based Trade Policy Research me to leap from the cocoon of the Bank to the comparatively uncertain world of reformed or discarded - on their merits. At that stage, this realization persuaded World Trade Organization or any specific institution. These must be judged – and economy might fail, even though integration was an important element in The realization that the institutions designed to oversee aspects of the globa

studies was to question the long-standing reluctance of developing countries to studies on the role of developing countries in the trading system. The aim of these Hudec, a distinguished scholar of international trade law, then working at the treatment. The most important study on this theme was by the late Robert E. negotiate on a reciprocal basis, insisting, instead, on 'special and differential tions on services. But my most important contribution was a programme of University of Minnesota." The Centre played a substantial role in developing the agenda for trade negotiations, subsequently known as the Uruguay Round, which finally began in 1986 the work was aimed at promoting an eighth round of multilateral trade negotia-I was director of studies at the Centre for six years. During that time, most of

journalist. But it seemed an irresistible challenge. So I joined the FT in September written several articles for the paper, I had never been – or intended to become – a economits leader writer. This was a heroic gamble on his part. Although I had by the then editor of the Financial Times, Geoffrey Owen, to become chief long afterwards. As I was looking for new work, in 1987 I was invited, out of the blue, it was becoming evident that the Centre was likely to fold, as was to happen not so Alas, the finances of think tanks are chronically fragile, at least in the UK. By 1986

economies to achieve given real outcomes had been shattered by the stagflationary many revolutionary changes. The naive Keynesian faith in the ability to fine-tune 1970s. It was replaced by the search for monetary stability. This was to result in By this time, the conventional wisdom on economic policy had undergone

> Trade Organization in January 1995. Round than in any previous one. This culminated in the creation of the World Partly for this reason, developing countries did play a greater role in the Uruguay failure of inward-looking trade policies and the wisdom of trade liberalization. development. Most directly relevant to me was the widespread acceptance of the fiscal and monetary policies and greater reliance on market forces in economic the British economist John Williamson - emphasized the importance of sound the world. The so-called 'Washington consensus' of the 1980s - a term invented by the UK in 1979. Privatization began in the UK in the early 1980s and then swept everywhere. Exchange controls had been abolished by the Thatcher government in Scott in the 1970s. Dirigisme and protectionism had gone out of favour almost widespread adoption of inflation targeting - an idea I first heard from Maurice

> > " Error of

that we have choices. We can choose a better world – or a worse one. survival, so putting to an end what historians will almost certainly view as a golden society. He was right in this. But the enemies of liberalism could still threaten its At worst, disorder could again engulf the world. If history teaches anything, it is history would not be repeated, in one form or another, in the centuries to come. age. Nor did this thesis mean that the follies and crimes which mar most of human democracy had proved to be the only way to run an advanced economy and who have unfairly caricatured it. What Fukuyama argued was that liberal even proclaimed the end of history. This viewpoint has been condemned by those economic policy. Socialism was dead. The American analyst, Francis Fukuyama, surprise of my life – appeared to confirm the global transformation in politics and collapse of the Soviet empire between 1989 and 1991 - the most pleasurable market relationships, had been reborn after a long collectivist hiatus.12 The It appeared then that the idea of an integrated world economy, founded on

standing by states of their long-run interest in a co-operative global economic order. Justifying these propositions is the kernel of the book. co-operative global governance. I am not arguing for the replacement of states. too little. We can do better with the right mix of more liberal markets and more marriage between the two, one has contemporary liberal democracy, incompa-That would be both senseless and damaging. I am arguing for a better under-The problem today is not that there is too much globalization, but that there is far rably the best way to manage a society. Its blessing need to be spread more widely. are no rivals. But markets need states, just as states need markets. In a proper most powerful institution for raising living standards ever invented: indeed there highly beneficial to the vast majority of the world's inhabitants. The market is the starts from the proposition that a world integrated through the market should be This book is therefore a work not of academic scholarship, but of persuasion. It

which my parents' generation suffered so much. The lives of billions of people The ruin of the first liberal order led to the thirty years of catastrophe from

Part I

The Debate