

CATO INSTITUTE

BOOK FORUM

"THE RACE TO THE TOP:
THE REAL STORY OF GLOBALIZATION"

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Moderator:

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With Remarks by the Author,

Tomas Larsson

And with Comments by:

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P R O C E E D I N G S

MR. VASQUEZ: Welcome to the Cato Institute. My name is Ian Vasquez. I direct the Project on Global Economic Liberty. This is the first forum that the Cato Institute is having this year. And for some of you who have been here before, you will notice on your name tags the number 25, the new Cato logo for this year, because we are pleased to be celebrating 25 years. This is our 25th anniversary. We are happy to be celebrating that. On May 9th of this year, we are going to have a big gala celebration here in Washington.

Negative depictions of globalization in the press tend to outweigh positive images. In part, that is because economists don't know how to tell a good story oftentimes, even if they do know how to catalog the dramatic ways in which globalization has benefited humanity in terms of poverty reduction, longevity, the elimination of diseases, reduced infant mortality, and so on, and some increased prosperity. But perhaps a more important reason for a sometimes unwholesome image of the global economy in the public mind is that journalists find themselves often in the position of having to tell a captivating story but not always with a sound grasp of the economics.

Anecdotes of people losing their jobs are far more dramatic than the steady reduction of poverty in East Asia, say,

over several decades. The worsening economic crisis in Argentina is a reminder that journalists sometimes get the story wrong, however compelling it may be. A recent Washington Post article, for example, correctly identified as a central cause of the country's crisis uncontrolled government spending, and then went on to refer to that time period in which government continued to grow as one characterized by unbridled free markets.

Of course there are many challenges that globalization poses, both at the national and at the international level, that have to be taken seriously and where serious people can disagree. Numerous policy books have been published addressing those issues.

Less common, however, are accessible accounts of how globalization is providing unprecedented opportunities for millions of ordinary people around the world. We are pleased today to be celebrating the publication of one such book by Swedish journalist Tomas Larsson, who has managed to combine his skills as a reporter with his knowledge of sound economics.

"The Race to the Top: The Real Story of Globalization" turns the favorite metaphor of the anti-globalization crowd on its head and challenges those critics' assumptions based on direct observation. We will be hearing from Tomas today about what his experiences in Asia and elsewhere around the world have led him to conclude.

We are also pleased to have another leading journalist, with much expertise on the global economy, who will be providing his thoughts on the importance of getting the globalization story right. And it is important. Indeed, I don't think anybody on this panel believes in the inevitability of the spread of the global economy or of global markets. This is not the first time that the world has lived in an era of global capitalism. There is much left on the agenda in countries around the world on the reform agenda, and we need to be alert to the factors that could possibly bring this era to an end.

As my colleague Brink Lindsay says, it is much earlier than the triumphalists think.

Let me then introduce Tomas Larsson, to hear what his views are on globalization. Tomas has spent 10 years living in Thailand, and reporting there, for numerous journals. He was a correspondent for Business Asia, which is a Hong Kong-based newsletter published by the Economist Intelligence Unit. And he has written for numerous Swedish dailies, as well as Vagabond, the Financial Times, and the Far Eastern Economic Review.

Please help me welcome Tomas Larsson.

(Applause.)

TOMAS LARSSON, AUTHOR,

"THE RACE TO THE TOP:

THE REAL STORY OF GLOBALIZATION"

MR. LARSSON: Thank you, Ian. And thank you all for coming here.

Two days ago, when I was thinking about what to say to you, I went online to visit Amazon.com, and I made a book search on the word "globalization." The computer spat out a total of 904 titles, with my book being one of them. That is pretty intimidating. The question that the self-doubting author asks is, of course: What do I have to say that you can't find in the other 903 books?

Well, obviously I haven't read all of them, but I certainly hope that I can provide a somewhat unusual perspective, also for people who are familiar with the literature. In my short remarks here, in which I will speak for approximately 20 minutes, I would like to frame the book for you. I will do this by talking a little bit about its background, when and why was it written, and who do I hope to reach. After that, I will briefly explain why I see globalization as a story not of a race to the bottom but, as the title says, a race to the top.

First of all, this book is an expanded and updated version of a book that was written and published in Sweden in

early 1999. So that is three years ago. However, because of a series of rather unfortunate events and trends, I believe that the U.S. version of the book is, in many ways, more topical than the Swedish original was.

In the globalization debate, history can be divided into two time periods -- before and after the Battle of Seattle, when the anti-globalization movement made its real debut on the world stage. The Swedish version of this book came out before the WTO ministerial meeting in Seattle. So, in one sense, the book came out too early. But while my writing was not directly stimulated by the drama of the globe-trotting protestors, who then went on to visit many more cities around the world, the book does address and challenge the world view of many of the protestors and of their sympathizers.

So my goal was, and is, to counter what was then becoming a fashionable image of globalization -- today it has become more like orthodoxy in some circles -- but this view can be summarized as follows. First of all, globalization is not chosen; it is imposed. It is imposed either by foreigners or by conspiring elites to the exclusive benefit of giant multinational corporations. Secondly, globalization destroys local communities and cultures. And, thirdly, globalization is incompatible with principles of democracy and social justice. So, in short,

globalization leads to what in the United States is referred to as a race to the bottom in every imaginable dimension.

European intellectuals have used other metaphors. In a couple of influential German books, globalization was equated with Brazilianization, by which the authors were referring to the growth of extreme economic inequalities. And they suggested that Brazil was kind of a microcosm of global capitalism. And John Gray wrote about a new Gresham's Law, where, in the same way as bad money drives out good money, so does bad capitalism drive out good capitalism.

Whatever the metaphor, the basic idea is roughly the same -- free trade and free capital flows favor a particular kind of capitalism, namely, the worst kind of capitalism. And the worst kind of capitalism may be North American or South American, but it is always American.

Well, my fears about globalization were somewhat different. I was afraid that the wave of popular anti-globalization outpourings in books and journals could lead to a race to the bottom in the global marketplace of ideas; that this new negative view of globalization would generate a real backlash. This view of globalization did not at all resonate with my personal experience living and working in Asia before, during and after the Asian economic crisis of 1997 and 1998. There I had met so many people, ordinary people of simple and

privileged backgrounds, who, thanks to the opportunities offered by global markets, had been given a chance to better their lives. So I thought it would be very, very unfortunate if these opportunities were to be foreclosed by a political reaction against trade liberalization in the rich countries, in Europe and in the United States primarily.

Now, I am not suggesting that globalization is the solution to all our problems or that it will lead to instant bliss for everyone. But, from my perspective, it seemed self-evident that the social and economic problems that no doubt can be found in many parts of Asia and in other parts of the world could not be mitigated by economic isolationism. If anything, such restrictions on economic exchange across borders were the very source of many of the worst imbalances.

I would also like to add that, as I was initially writing for a Swedish audience, I was particularly afraid that the Swedish labor union movement and the Swedish Social Democrat Party would abandon their traditional principled advocacy of freer trade in response to these popular currents. So I was fearing a policy shift in Sweden.

Perhaps one could say that I was fearful that the Swedish politics would become Americanized. And by that I mean that we would see growing political polarization over trade policy as labor unions and Social Democrat legislators abandoned

the ambition of freeing trade in general, and of freeing trade with developing countries in particular. So, as strange as it may sound, an important ambition with this book was and is to reach directly or indirectly people of the left who think or are beginning to think that opposing global economic integration is the right and the progressive thing to do. And since this appears to be a rather popular notion in this country, I hope that the book will travel well.

So, how then to make the case for globalization? Well, professional economists, as Ian mentioned, have provided us with a wealth of economic theory and fine charts and figures which explain why and how economic integration raises living standards, in much the same way political scientists can tell us about the role that international trade plays in reducing the risk of war between nations, and they teach us about the links between economic openness, economic growth, democratic progress, and democratization. All of this is great intellectual ammunition, but abstractions are not enough. We also need to convey images of real people whose lives have been touched in a positive way by globalization.

So what I tried to show is that an open world economy is creating opportunities for empowerment in the most unlikely of places -- the jungles of Borneo, the slums of Brazil, and the public schools of Thailand. And you might be curious about it,

so I would like to illustrate, with a few snapshots from the book, individuals and communities that are responding in unexpected ways perhaps to these opportunities.

In Taiwan, there is Mason Su, who was born in 1958 when Taiwan was as poor as many African countries. He is the founder of Iwill, an endearing name for a company, which makes computer boards and exports these all over the world. He and his company is a shining example of Taiwan's remarkable ability to use the drive of small entrepreneurs to create and spread an amazing level of prosperity throughout the Island in a few short decades.

In Brazil, I visited Rio de Janeiro, where I was so surprised to find that it was in the favelas, or the shantytowns, that the positive effects of globalization could perhaps most clearly be seen. In the largest shantytown, Rocinha, you can nowadays buy refrigerators from Asia and mobile phones from Finland. Most important, though, is the fact that many families who went hungry 10 or 15 years ago today can afford not only refrigerators but also to stock them with food and drink.

That sounds great. But I must admit that life in Rio was not getting better for all. I spoke to some members of the middle classes there. For example, a taxi-driver, who hated his new job, complained that, for 20 years he had worked in a comfortable middle-class job in a plastics factory, and then something happened. As he explained it, Brazilian politicians

opened up the borders to imports, and the company he was working for was promptly put out of business by international competition.

So, after Brazilian reforms put a stop to hyperinflation and lowered barriers to trade, it seemed that the purchasing power of the urban poor in Rio had increased quite dramatically, while it fell or stagnated for many members of the wealthy middle-class. So the undeservedly rich lost some of their privileges, while the poor got richer. Now, this can be political dynamite, as I think the case of Argentina more recently illustrates, in the absence of economic growth, what the consequences can be. But it does not strike me as an example of the great injustice brought by global markets.

Moving on to Thailand, I interviewed an angry mother who was fighting corruption and nepotism in the public school system. She told me that she wanted to prepare her daughter, and other Thai children, for globalization. She wanted to make them able to compete with people from all over the world. And by restricting the ability of sort of deserving kids to get into the best schools, the school system wasn't doing that. So she was anxious for the public schools to convey the right values to the children, and teaching them that it is hard work and individual achievement that count, not what your last name is or how much money your parents have. She believed that in the old days,

perhaps a system based on corruption and nepotism could work reasonably well, but not in today's global economy.

In South Korea, I met with a lawyer who wanted to reform South Korean capitalism, a reform effort that received a big boost in the wake of the Asian financial crisis. The lawyer had helped build one of the country's fastest-growing social movements. It's called People in Solidarity for Participatory Democracy, and it was fighting crony capitalism by advocating the rights of minority shareholders. While many pundits have concluded that the Asian crisis shows that market forces must be restrained so that they don't wreak havoc, representatives of this civic movement were saying that the problem in South Korea was that market forces were too weak. So they were trying to strengthen market discipline by weakening the ties between big business and the state.

Not surprisingly, this movement against the privileged position of big business was receiving support from foreign investors, those nefarious corporate giants from the West. But -- and this is the more interesting point -- this effort was also supported by Korean small business. So my argument is that the threats and opportunities created by globalization is motivating activists to strengthen the often weak and unjust political institutions that are clouding the future of their children.

Let me take one last example. In the jungles of Borneo, I visited a longhouse. And that is a sort of tribal apartment building that is home to an entire village; and it's one building. There the Iban families were sustained not by subsistence agriculture or working on logging operations or migrating to the cities, which was the common form of getting by there. Instead, the women in the longhouse were weaving for the world market. They were creating beautiful fabrics.

And they were weaving not for any old market but for the art markets of Paris, London and New York. So these women were plugged into the world economy, but they didn't even have telephones or even radio links with the outside world. All communication was by boat, up and down the tributary of the Rajang River on which they lived. So, in this way, globalization had given these villagers a chance to sustain a traditional way of life and to revive a threatened craft and culture.

The larger point I want to make with these snapshots is that the so-called neoliberal policy changes associated with globalization has had tremendously beneficial effects in many unexpected ways. And I also want to emphasize that many of the aspirations and values of the anti-globalization crowd can be in fact, and are in fact, promoted through international exchange. So rather than demonizing globalization and taking a patronizingly negative view of the capacities of the poor and

downtrodden, we ought to recognize that people all over the world can and often do make creative use of the opportunities that are provided by economic openness -- opportunities for economic, political and cultural entrepreneurship.

The question then for Europeans and Americans is whether our economic policies hamper or help liberate this creativity. And, in many ways, our policies do just that, but more could and should be done. And in this respect I particularly want to point a bit of an accusing finger at some of the injustices that can be found in the global trading regime.

I am thinking of the way in which the richer economies have biased tariff structures against products in which most poor countries have a comparative advantage -- that is, agricultural products and labor-intensive industry. I am also thinking of the abuse of anti-dumping tariffs. And I am thinking of the rather shameful use of agricultural export subsidies that depress the incomes of peasants in developing and formerly socialist countries. Eliminating these unjust arrangements is probably one of the toughest but also most important and urgent political challenges that concerned citizens and policy entrepreneurs here in the United States and in other countries are currently facing.

I will stop there. I look forward to the comments by Adrian, and I look forward to your questions later on in the question-and-answer session. It was a pleasure to talk to you.

(Applause.)

MR. VASQUEZ: Thank you, Tomas.

Adrian Wooldrige, our next speaker, has been The Economist's Washington Correspondent since November 1999. Mainly he has covered politics and social policy. He has been with The Economist since 1988. He is the author of numerous books, including "Measuring the Mind: Education and Psychology in England from 1860 to 1990," "The Witchdoctors: Making Sense of the Management Gurus," and, with relevance to this book forum, he is the coauthor of "A Future Perfect: The Challenge and Hidden Promise of Globalization."

We oftentimes concentrate on what the anti-globalization crowd is up to and what it thinks, but one of my favorite lines from his book, "A Future Perfect," is "Globalization's main problem is not the ideologues who hate it, but that familiar old villain, the pragmatic politician." His writings are full of insights of that sort, and they have appeared in newspapers around the country and around the world.

Please help me welcome Adrian Wooldrige.

(Applause.)

ADRIAN WOOLDRIGE,
WASHINGTON CORRESPONDENT, THE ECONOMIST

MR. WOOLDRIGE: Thank you very much for that introduction.

I gather from this piece of paper that I am supposed to provide another journalist's critical perspective, and I am not qualified to do that, since I agree with almost every word in Tomas' book. So we are not going to have a great clashing of egos or of perspectives here.

The first thing I would like to say about this book is that I am very glad that it has happened, I am very glad that it has been published, and I am very glad that people who believe in globalization are actually sitting down and writing books. Because I think one of the real things that has gone wrong with the whole globalization debate is that the pro-globalization people, most of the pro-globalization people, actually don't think it is worth defending globalization. Because they think that globalization is either a fait accompli or something that is automatic; it is something that is driven by technology; it is something that cannot be reversed, and therefore you don't need to defend it. Defending it is rather like defending the fact that the sun comes out every day -- you don't need it; it's a fact about the world.

And I think that is really profoundly wrong, and dangerously wrong, for at least three reasons. The first is the nature of globalization itself. I think globalization is a complex and contradictory process that has all sorts of undercurrents which go against the mainstream. Just to give one example from my own profession, I think that what you see with globalization is not only the creation of global television channels like MTV and CNN, but the proliferation, for exactly the same technological reasons, of lots and lots of local television channels.

I notice, by watching my own television, that there is not one I think but two channels which are devoted to nothing other than the proceedings of the Washington, D.C. Town Council. Which, since Marion Barry retired, are not quite as interesting as they used to be. And I think that tends to trap a lot of people in a much, much more local perspective than you would expect. And I find this particularly with journalists. Now you are getting newspapers that are much more geared to local and particular markets and to national markets.

When I talk to my colleagues in London, I am quite often surprised by their perspective, because they are involved in debates and in issues which are completely unrelated to the sort of issues and debates that I am involved in, in Washington, D.C. Their perspective is profoundly local.

If you look at the Financial Times, for example, which should be one of the great engines of global journalism, the Financial Times in London is significantly different from the Financial Times in the United States. It puts a different array of things on its cover. I think all of that pushes intelligent, educated, informed people, to actually becoming in some ways quite parochial about their concerns. And that is driven by exactly the same sort of technological flexibility that MTV and CNN are also driven by.

The second real problem with that argument is what might be termed the politics of globalization. And that is that all politics, as has often been said, is local. People get involved in local politics and they have a local perspective. There is a very nice story in Adam Smith's other great work, "The Theory of Moral Sentiments," in which he compares the pain that you would feel if you cut your little finger with the pain that you would feel if the entire nation of China were to be destroyed.

He said you would be very upset about all those millions of people in China. You would probably cry about it. You would be worried about it. And Smith said, you would actually calculate the impact of this terrible disaster on your own personal finances. But, he said, how many people would actually go about and sacrifice their little finger in order to

save all those people in China? They would probably just expect somebody else to do that. He is saying that local sentiments are much more powerful and much more pressing. And I think this is always the case with globalization.

Clinton's great back-down in Seattle was because he wanted to give a better chance to Al Gore to win the election. Clinton could talk as well as anybody about the great big arguments in favor of globalization, but when it came down to it, he was really a national politician, involved in delivering something to his then-friend.

And a third thing, I think, is the lessons of history. The lesson of history, very, very powerfully, is that globalization is not an inevitable process. It is a process that can be reversed. We are not living, of course, through the first age of globalization; we are very much living through the second age of globalization. If you look at the world before 1914, it is in many ways a more globalized world than the world we have today. People could move around the world without the necessity of a green card or a passport. The Gold Standard meant you essentially had a global universal currency. You had huge flows both of capital and of goods.

There is a very nice passage, and I am sure many of the people here are familiar with it, in Keynes' great work, "On The Economic Consequences of Peace," when he has this image of the

typical middle-class Londoner of the time, lying in bed, in about 1912, sipping his tea, reading his newspapers, making investments in every part of the world that you can think of, in the confident expectation that those investments would bear fruit; ordering things by telephone from all around the world, in the confident expectation that the products that he had ordered will be delivered in the next few days or weeks to his door. And his only thought about the future is that the world will go on getting more integrated, that this business of lying in bed and ordering things or investing money will go on being more and more easy, more and more ruminative, and more and more civilized.

He just did not understand the world that was about to hit him. And I think there is a similarity between that tea-drinking gentleman and the latte-drinking people in Silicon Valley. The notion is that globalization is a fact about the world, and we are just going to go on getting more and more of it because it is driven by technology. I just think that is not true. Globalization rests upon a political consensus, upon political arguments, and we need to keep articulating the case for globalization. Which is why we need more books like this.

And I think what I liked about this book was, in particular, the way that it mixes very sound economics with stories, with anecdotes. Again, we have, I think, a problem in communication about globalization. Many of the arguments in

favor of globalization are made by economists, who essentially spend their lives talking to each other. They don't understand how to talk to ordinary people. And they do not even understand their degree of jeopardy -- or they didn't not very long ago -- understand the degree of jeopardy in which this process is caught at the moment.

I remember interviewing Stanley Fischer several years ago, in 1998. This was before Seattle. And I asked him what he thought about the growing backlash against globalization. And he looked at me and said: I don't really think it is all that important, because all the people that I meet at international conferences are all in favor of globalization.

And I think that is a world view that we really need to worry about amongst the sort of economically literate elite. And on the other side of the equation you have the people who are very good at anecdotes, and perhaps in the journalistic community, who tend not to know very much about economics. And if they do, they are still more seduced by the terrible image of the plant that is being closed down in the "Deerhunter"-style town in the United States than they are with the much more amorphous benefits of globalization globally, both for consumers and for producers in the rest of the world.

So I think we need more of this attempt to mix anecdotes with sound economics. We need more attempts also to

change the story. I think one of the many things that the anti-globalization people are good at is weaving together a compelling story by using compelling phrases. And I like the way that we have here the phrase "the race to the bottom" replaced by "the race to the top," which I think is a much more accurate account.

And I very much like, on the back of the book, P.J. O'Rourke asking: How much support would anti-dumping legislation get if it were called, as it should be, 'anti-shopping legislation'? How much attention would we give to journalistic pundits moaning about the problem of globalization if the journalists titled their stories, 'the problems of having more fun, freedom and money'? And how much sympathy would the WTO protestors get if they chanted slogans such as 'hey, hey, ho, ho, everything you love in life has got to go'?

And I think we need to be moving towards the P.J. O'Rourke vision of things. And I think it is very interesting, if one goes back to the first age of globalization, to the dawn of the first age of globalization, this was actually a pre-democratic age. It was an age in which the political community was very small. But, nevertheless, the politicians of that period were actually much better at making the argument for globalization to ordinary people than today's politicians are.

Gladstone, Disraeli, Peel, and the rest of them, they stumped around the country, making five-hour-, six-hour-long speeches to eager audiences. And one of the reasons why the audiences were so eager is that they constantly linked the case for globalization not to big, abstract theories about comparative advantage but to things like the phrase of the time, the "free breakfast table." They would talk about how much cheaper the Englishman's breakfast table was because of free trade. They would talk about globalization as being seamlessly linked to the great tradition of English liberties. They would talk about the cultural enrichment that came from globalization. And the result of that was that you had a huge mass movement in favor of repealing restrictions on trade.

And it is very interesting that, in the 1840's, London was invaded by people who were protesting about free trade. But those people were not protesting, like these anarchists and the rest of them, against globalization; they were protesting in favor of the repeal of the Corn Laws. Because they understood that the Corn Laws were penalizing ordinary people and benefiting the then-aristocracy.

So I think it is possible, if you have the right arguments, and if you are willing to make the right arguments, actually to create a popular consensus in favor of globalization. That consensus probably more exists now in the developing world

than it does in the advanced world. So I don't think we should simply ignore the anti-globalization people. I think we need to go head to head with them and make better arguments and use better anecdotes, better examples.

One of the many points I liked about this book, and I agreed with in this book, is the notion, in Brink Lindsay's phrase, that it is earlier than we think. I think one of the things that the anti-globalization people have gotten a lot of mileage out of is that we live in a globalized world and therefore all the many manifold problems that we see in the world are the result of globalization. And what is demonstrated here, and also demonstrated in Brink Lindsay's book, is actually that the world is not anywhere near as globalized as we think it.

We have the example in this book of Sweden, which is I think number 23 in the list of open free economies. If Sweden is number 23, with a very, very, very high punitive level of taxation, a very interventionist state, what do you think of the countries that are number 100 or 120? In other words, we have not got towards a globalized world, and many, many of the problems that are routinely ascribed to globalization result not from globalization but from its opposite -- from the state's habit of intervening in order to protect industries, in order to keep out competitive products, in order to give resources and opportunities to cronies, to favored people.

And I think we need to keep on really hammering away at this point, that many, many problems that are routinely ascribed to globalization belong not to globalization but to the opposite of it. And again, in this book we have the very nice example of Brazilianization. Most of the polemics against globalization that you read have Brazil as the prime example of the sort of society that we will have if we have a globalized economy and a globalized world. That is phooey. The point that is very forcefully made in this book is that most of Brazil's problems result from protectionism, from government intervention, and from government intervention very malignly, quite often, designed to protect the interests of the powerful and the wealthy.

Again, this reinforces the point that the way forward is to have more globalization, not less globalization, more free trade, not less free trade. That is the way to advance the interests of the poorest people in the world, as well as most other people's interests.

I think there is a very snobbish, sort of English, thing that people like to say when the question is: What do you think of American civilization? The reply is: I think it would be a good idea.

(Laughter.)

MR. WOOLDRIGE: And I think the same could be said of globalization. If people ask me, what do I think of

globalization, I think it would be a very good idea; I wish we had more of it. So, probably of the 900 books or more that were referred to on globalization, most of them are either incomprehensible university texts, written by one economist or another, or, if they are well written, if they are full of anecdotes, almost all of them are probably written by the anti-globalization people. And I think we need more books like this, really forcefully making the point coherently, and in an economically literate way, but in a way that is also illuminated by anecdotes and stories about the empowerment that comes to ordinary people through globalization. We need more of these.

Thank you.

(Applause.)

MR. VASQUEZ: Thanks very much, Adrian.

We have time for questions and answers. Please, if you have a question, raise your hand and identify yourself and your association. Yes, we have a question here.

AMBASSADOR HANNIBALSSON: My name is Jon Hannibalsson. I am Ambassador of Iceland.

I noticed that you, Mr. Larsson, said that your first Swedish version of your book was basically written for the benefit of Swedish Social Democrats and the labor movement, trying to stiffen their back in keeping up their traditional

policy of free trade and being positive to globalization. My question is, did you succeed?

And secondly, if I may, because you took all the examples from the developing countries, can you say a few words to explain the apparent success of the Swedish welfare state, with its strong public sector, strong government intervention, but being at the same time at the forefront in the information revolution in Europe? Does Sweden also, with that type of social structure, benefit from globalization?

MR. LARSSON: I don't think that it was I who succeeded in stiffening their backs, but rather, as you say yourself, that they found out that the large welfare state was in fact compatible with globalization. There were some doubts about that in the early nineties, when we suffered a severe financial and economic crisis. But, in essence, the Swedish welfare state survived that model. Whether or not we like it, it did. And I think that stiffened the backs of the Swedish Social Democrats and of the Swedish labor union movement in continuing to argue for globalization.

MR. VASQUEZ: Yes.

MR. PREEG: Ernie Preeg, Manufacturers Alliance.

I have a comment and a question actually, not so much on the substance of the presentation, which I agree with, but more on the emphasis and priorities. Because the title is "The

Race to the Top," well, the U.S. is at the top, so it sort of implies everybody else sort of catches up with us. That can make us feel a little uneasy, particularly because we have a big trade deficit and most of the policy emphasis is on what more we should do to open our markets. Whereas my assessment is that it's far, far more important what developing countries do in an emerging market to open their economies than for us to go further. The NAFTA is an example. What Mexico did really makes a difference.

We import 70 percent of apparel and 90 percent of footwear. What is left is mostly high-tech fashion stuff. So there is this asymmetry of sorts. And it seems that when you get not only your book, from what I understand, but the Financial Times, they are always saying, well, what needs to be done is anti-dumping for textiles and apparel, and agriculture obviously should do this, but it should be more balanced, not only because that is where the real globalization should go forward and the gains are greater in relative, but also politically.

And I was uneasy with the outcome of Doha, where all of it was what we should do further, and industrialized countries the same things. And I was at Punta and I was in the Uruguay Round; there is a lot more this time at Doha, on non-reciprocity for developing a dependent differential. And these are developing countries, like China and others in East Asia, that

are far, far more competitive than they were in the mid-eighties, at Punta.

So all I am asking is, shouldn't there be more of a balance, so that the tough decisions that will do the most for globalization and gains in trade are in these emerging market economies? And it has to be a balanced approach, certainly, if we are going to get that political consensus and understanding that we all need.

MR. LARSSON: For certain, there is much more to be done in the developing world in terms of liberalizing markets. At the same time, though, I think that given the trend in recent years, it appears to me that most developing countries are liberalizing, and they are tending to do it unilaterally. There are many examples of that around the world. And most of the developing countries today have, in effect, lower tariffs than what they have negotiated in various GATT and WTO forums.

On another note, I think that the interesting shift that has occurred here in the past decade is that if you look back at what was written about global economic integration in the late sixties and early seventies, most of the tomes, the sort of anti-globalization literature, was produced in developing countries, Latin America being a prominent example of that. Whereas today, you don't find very much of that being produced in

the developing world, but here, in the U.S. and in Europe, that is where it is produced.

So, in some sense, I feel that in the developing world it is moving in the right direction. I am fearful that we are not moving in the right direction here and in Europe, particularly not in terms of winning public opinion.

MR. VASQUEZ: Yes, another question.

MR. PRESTOWITZ: I am Clyde Prestowitz, of the Economic Strategy Institute.

Adrian, you referred to the first golden age of globalization, which, you rightly pointed out, was in many respects more global than we have today. Yet it fell apart. What did they miss? Was it that Gladstone and the other guys who were making the six-hour speeches actually didn't explain it well enough, or was there something there that they didn't understand? And if there was, is that same thing there today and we're not handling it?

I guess I am trying to get at, is this just a matter of explaining globalization better, or is there something about globalization that the explainers, both then and now, are maybe not fully grasping?

MR. WOOLDRIGE: I think it would be hard to think of a more difficult question to answer. I think if I could answer

that question really successfully, I should be given at least a chair in history at Harvard.

Some of the foundations of that golden age of free trade were obviously problematic, not least the fact that Britain had a large imperial presence in India and elsewhere. The fact that in encountering and in trying to trade with poor, less developed countries, we were sort of sucked in to actually becoming administrators of those countries, that inevitably created a great deal of resentment.

I think also, in the problem of Germany, there was a huge problem there -- simply that Germany, at the center of Europe, felt encircled, it felt threatened, it felt envious of Britain's extraordinary economic power, and it sought to change the balance of power in the world, eventually by military means. So there is a question of the balance of power in the world. And there is a question about how you go on maintaining your hegemony.

So I think America hasn't been tempted to have a formal empire. What is going to happen in Afghanistan, I'm not sure. But I think America is very, very, historically, and because of the circumstances in which the nation was born, is very reluctant to accept that sort of responsibility. And although it might look tempting in the short term, I think they are right to be worried about that and resistant to that. And I think they need

to be cautious about formal involvement. Because, in the long term, it breeds either dependency or resentment, or, quite often, a mixture of the two of them. So, empire, I think, should be out.

The second thing is it is a game really of giving enough room for countries to grow economically and, to some extent, militarily. And I think if there was any comparison here between -- there is no Germany at the moment -- but the potential area in which I think there is a real potential tension in the longer term is with China. And I think that will have to be played out. It depends to some extent on the nature of the regime in China and the way that it develops. But we need to remember that the ruling class in Germany at that time was not particularly pro-free trade. It was pro-protectionism. It was pro-state intervention in all sorts of ways. There was a much closer relationship between Germany's leading companies and the state than was the orthodoxy in Britain.

And I think, if one looks at the trajectory, at least, of China, it is moving much more towards a free market model than to the sort of Prussian model in Germany. But I do think, though, that there is a serious worry with how to accommodate the legitimate demands of nations which are becoming more economically powerful and therefore more militarily assertive. Britain, I am not sure we could have handled it better, but

Britain didn't handle it well in 1914. And I think that is going to be the test of America in the future.

I am sorry it's not a good answer, but it is an incredibly demanding question.

MR. VASQUEZ: Yes, right here.

QUESTION: It seems that to some extent barriers have fallen between individual countries but they have increased between trading blocs. For instance, the European Community and their ability to shut out products, for instance, from African individual countries, it is getting greater. How do you see this playing out with your concerns?

MR. LARSSON: Well, if it is true, it would be a great concern. But I am not entirely convinced that that is in fact happening and that it is becoming harder for these countries to export. Perhaps Adrian has something to add.

MR. WOOLDRIGE: One of my biggest worries about the world is the division of the world into regional trading blocs. And I think there are two impulses really at work in Europe. On the one hand, there is a genuine desire to liberalize trade and to have the advantages of bigger markets. But on the other hand, the other impulse, which I as a British person and associate naturally with the French, is the desire to sort of build a fortress which is big enough to capture all the advantages of free trade but which will, nevertheless, have barriers against

the evils of American culture and American free market capitalism and the free flow of money, particularly hot money, around the world. And I think that is a real debate within the European Union.

I think the real fear is that they might half be right, that they can actually, as a large trading zone, get many of the advantages of free trade and also build up barriers around themselves. And for the world in general, but particularly for the developing world, I think that would be a huge problem.

MR. VASQUEZ: Yes, right here.

MR. PINZON: My name is Victor Pinzon, of the Americas Foundation.

The issue of globalization and government institution reform and the people's in the emerging markets, which is about 5 billion, compared to a billion people in the developed countries, continues to be, in places in Latin America, with governments that don't have the interest apparent to address those issues of institutional/governmental change. Consequently, most of the people, 60 percent or more of the population in the countries of Latin America, continue to be underachieving and under-productive. We see the case of Argentina and Colombia, and even Brazil, where there is no reform and no interest in trying to empower educationally, economically and also politically, so that they could enter into that globalization of markets so that

they would produce more effectively, incomes will grow, and they will be able to have disposable income to buy, to really play a competitive game in globalization.

Would you give your opinion as to how this process of government reform could start proceeding and if it is important to you?

MR. LARSSON: One of the important drivers of such change I think is, in a sense, the opportunity costs. How much are you losing and how much benefit are you forsaking from integration with the global economy if you do not build these political institutions which establish the rule of law and private property rights and all these things? And what is happening I think in the past 30 or so years is that it has become clear for many countries in the developing world, with the reduction of transportation costs and with barriers to trade coming down, that the cost of not putting those institutions in place is increasing. So, in that sense, the incentive for creating those type of institutions can be promoted by liberalization in other countries. So that is what I think we have seen in many countries, and we will continue to see it.

Of course, it is a very difficult problem, and it takes a long time to build institutions. You don't just put them in place. So it will be trial and error. But I think quite many countries also in Latin America are also moving in that direction

and a growing number of people and political activists are driving change in that direction.

MR. VASQUEZ: Yes, in the back.

QUESTION: Maybe if both authors can comment on what I've noticed is sort of a paradox around the world. Why is it that U.S. foreign investment seems to create so much anger around the world -- McDonald's and Coca-Cola? The French are always protesting the McDonald's stores, and yet, when you look at the statistics, and traveling around abroad myself, you notice that European and Japanese multinationals are every bit as much penetrating into foreign markets. Toyota cars are everywhere and the Nestle Corporation is everywhere as well. Why is it that the American companies seem to create the anger and not the European companies?

MR. LARSSON: First of all, the fact that they are expanding so much abroad is not because people are angry at them but because they get consumers there and they're hugely successful in attracting consumers. So, of course, there is some anger. But I don't think that that can explain their tremendous success.

Now, I can only really speak from a Swedish perspective, or that is the one I am most familiar with. And one of the interesting differences there is that Swedish industry is generally not so much a consumer-driven industry. There are a

few exceptions, but a lot of Swedish industry is sort of low profile, selling high-tech products to other companies. So the problem, if one could state it that way, with American corporations is that they are consumer companies and they are very much in the face of people everywhere. Whereas the Swedish industrial tradition, for example, has not created that type of company.

So, in a sense, the short answer then would be that it is because of the pattern of U.S. industrialization and the creation of particular types of U.S. industries.

MR. WOOLDRIGE: I think the fact that those companies are there is driven by the fact that there is consumer demand. The resentment is not so strong that people don't buy the goods. I think most of the resentment really does come from the cultural elites, particularly in Europe. And that is driven really by two things. First of all is the resentment about America being on top of the world, whereas we really know that in the natural order of things Europe should be on top of the world.

(Laughter.)

MR. WOOLDRIGE: And there is a mixture of anger that America is in that sort of position. Also, there is a sort of self-loathing about Europeans, that they have not played the game quite as successfully as the United States has. So a lot of European cultural elites are really filled with resentment, and

the resentment is not really about Coca-Cola or McDonald's but about their relative status and weight in the world.

The second thing I think from the cultural elites is about a loss of power internally. What America represents to them is really the lower classes, the lower orders, the popular tastes. I think if you see the excellent film at the moment, "Gosford Park," you see the American who comes into it is represented very much as the force of democracy, as the force that is going to destroy the highly stratified world and is going to bring liberation to the servants through their popular culture. So I think it is both resentment at power and also resentment at the vulgarity and presumptions of the European lower classes.

MR. VASQUEZ: Yes.

MR. CASSAM: My name is Mohamed Cassam. I'm in the development business.

One of the problems of democracy is the fact that you have now a permanent welfare class, called the agricultural sector. And this seems to be a pernicious development in every mature, and even not so mature, democracy. But the fact is that a couple of senators can have a lot of clout, and the subsidies flow. In the U.S., I think the subsidies are -- well, officially -- the Department of Agriculture is \$16 billion a

year. But by the time you add up all the other goodies and the reclamation, you know what, it's about \$30 billion.

This creates surplus production. It creates inequities within the domestic situation. Ewg.org will tell you who the recipients are, especially in the President's county. It has of course tremendous impact on the rest of the world as stuff is dumped. Where do you see agriculture protection and globalization departing company?

MR. LARSSON: It is certainly the big challenge, or one of the very big challenges, ahead here. What I would pin a bit of hope on is the fact that in spite of these huge subsidies, even in Europe, you have had massive structural change. The number of people who are employed in agriculture has dropped dramatically over the past 40 years. So I would hope that the political logic would start to reverse itself and that the political clout of the senators would become slightly reduced in time as this structural change is allowed to go on.

And then of course there is the real opportunity I see here now -- and this also goes to an earlier question -- is that there is a growing awareness of this. And I think, also among the anti-globalization crowd, there are people who are very much angry about this state of affairs. So perhaps one could get sort of a political current working against that. Nothing is certain,

but I sure hope, and I think, that it will get better with time here.

MR. WOOLDRIGE: I think it is obviously a huge problem. And it is no coincidence that the agricultural interests, almost uniformly around the world, are hugely over-represented politically. And I wonder how many of the States that voted for George Bush here are actually agricultural States. And indeed, he spends some of his time at least as a rancher, so it is a symbolic problem.

And I feel this particularly in Britain, because we spent much of our time in the 19th century actually solving our agricultural problems -- repealing the Corn Laws and having a productive, self-sufficient agricultural sector. And now, because of the EEC, things are going into reverse. So we are having to fight 19th century battles over again.

I particularly think that the problem of agriculture is going to be huge, and not just because of the power of agricultural lobbyists, but also because of the power of the anti-technology, anti-globalization lobbies, because of the huge promise of biotechnology and GM-modified foods. And I think that that could really revolutionize the productivity of the agricultural sector throughout the world, particularly in the developing world. And we are going to see a lot of resistance to

that sort of thing from vested interests and also from certain consumer groups.

But I think, in the end, one needs to try and separate support for the countryside, which can be widely regarded properly as a public good, from support for particular lobbying groups, particularly farmers, and also to try and end this crazy situation in which we are actually subsidizing the mass production of low-quality food, which is a huge problem. Many of the biggest problems in Europe over the last few years have been about BSE and various infected foods which come precisely because we are subsidizing and encouraging people to overproduce bad food. So it is a gigantic mess and it is something that we have to work out.

I saw the European Agriculture Minister making a speech about this very subject a couple of years ago. And all I can say is I don't expect the solution to come from him.

(Laughter.)

MR. VASQUEZ: Yes, a question here.

QUESTION: Most, I would think, of those against globalization think of themselves as advocating on behalf of the poor and the people in the developing countries, however erroneously they may do so. And yet a few of the NGO's in that milieu have recognized the need for lower tariffs for the

products of least developed countries. And I am thinking of Oxfam in particular and World Vision and a few others perhaps.

And I have heard it raised, but not quite as the cause perhaps it should be -- but it makes a nice slogan -- zero tariffs for LDC's; zero tariffs, that is, for the least developed countries. Because the anti-globalization cause sees itself as a cause and it is not motivated the same way that people at many seminars are -- they need that kind of moral foundation behind them -- is that something that has potential to (a) educate people more to the actual benefits of globalization and (b) of course, actually accomplish greater liberalization?

MR. LARSSON: I think it is possible. One of the purposes of writing this book is to try to channel the energy and the passion that has to date been sort of directed against globalization and try to channel it into these more productive directions. I think that you do what you can do when you can do it. Of course, there are a lot of other things that also need to be fixed and there is a certain asymmetry in the current debate. But the very success of these organizations in highlighting the problems with the imbalances in the global economy can be channeled, exactly as you say, in the direction of further liberalization.

MR. WOOLDRIGE: I agree entirely. I think we have to be very careful, and we haven't been as careful as we should have

been today, about branding all people who have worries or concerns about globalization with the same brush, and saying that they are all basically members of the Taliban. It is not the case. And I think World Vision is a very good example of people who are worried and concerned about inequality, concerned about some of the inequities which they see as being associated with globalization, but think that a better solution is more globalization more sensitively applied.

I also think when the anti-globalization people say that there is something worrying about the WTO and that there is too much leverage given to corporate interests, I think they are absolutely right. I think it is concerning that you have bunches of companies acting in their own interest and trying to get trade deals done in order to promote their concerns. I don't think that the anti-globalization people are right about the best solution. I think the best solution is to have as simple and free a system as possible. Because the best way to deal with the power of powerful multinational companies is to have more competition and more free trade.

But I think certainly the notion that multinational companies do not conspire together and do not have their own interests at heart and wouldn't try and turn the system into something that benefited them and kept competitors out would be incredibly naive. Of course they do. And we need to guard

against giving them too much say in this process. Not that putting a bunch of NGO's in the same room would make that a better thing. I think as few rules as possible and as open a system of trading as possible is the best way of dealing with that.

MR. VASQUEZ: We have time for a couple more questions. We will take one in the back.

MR. MILIKAN: Al Milikan, Washington Independent Writers.

I was interested in how you would compare the anti-globalization forces in the United States and those in Europe and those in the rest of the world. I am particularly interested in how do you see Europeans viewing the anti-globalization forces in the United States?

MR. LARSSON: I think there is a huge variety of groups and a huge variety of perspectives on this. Certainly in Europe some have been greatly inspired by the writings of many Americans who have written against globalization, so there is a certain attraction there. But then, when I look within Europe, I also see huge differences in how the anti-globalization message is tailored to different audiences.

One prominent example is this new organization called ATTAC, which originated in France and is advocating for the so-called Tobin tax on global financial transactions. And there

you can see how, as that has spread across the continent, it has actually been tailored so as to suit the sentiments in different countries.

In Sweden, for example, that means that certain parts of the original message have been deleted -- for example, support for the common agricultural policy and things like that. So they are usually created in localizing the message.

MR. VASQUEZ: One more question here in the front.

MR. HERSHEY: I am Bob Hershey. I am a consulting engineer.

To what extent are consumers getting behind the globalization effort to secure lower prices and more variety and opposing these anti-shopping pieces of legislation?

MR. LARSSON: I honestly don't know to what extent the organized consumer organizations are doing that. I don't know, but it certainly seems to me that consumers are voting with their money.

MR. VASQUEZ: I want to thank our author today, and also Adrian Wooldrige for coming and providing his thoughts on the new Cato book. It is available right outside the auditorium at a reduced price. And I would like to thank you as well for joining us.

Please help me thank both of our speakers.

(Applause.)

MR. VASQUEZ: Please join us for a luncheon upstairs in our Wintergarden.

(Whereupon, the Cato Institute Book Forum concluded.)