

CATO INSTITUTE

BOOK FORUM

AGAINST THE DEAD HAND

The Uncertain Struggle for Global Capitalism

(John Wiley & Sons, 2002)

Tuesday, February 5, 2002

Moderator:

Edward Crane, President, Cato Institute

Featuring the Author:

Brink Lindsey

With comments by:

Robert Zoellick, U.S. Trade Representative;

Sebastian Mallaby, The Washington Post; and

Douglas Irwin, Dartmouth University

The Cato Institute

F.A. Hayek Auditorium

Washington, D.C.

P R O C E E D I N G S

DR. CRANE: Good afternoon. My name is Ed Crane. I'm President of the Cato Institute. And I would like to welcome you to our Book Forum today. We have an excellent turnout for an excellent book.

Brink Lindsey has written an outstanding book, "Against the Dead Hand: The Uncertain Struggle for Global Capitalism." I had the privilege of reading the manuscript early on, and maybe one or two of my 100 suggestions got into it. It is a fine publication, and Cato is very proud of Brink for having produced it.

First, let me say that those of you who follow sports probably know that I am the coach of my 10-year-old daughter's basketball team. And they have a practice today, so I will be leaving at 5:30 whether the program is over or not. I apologize in advance to everyone involved for that fact. If I'm not at practice, chaos reigns.

The way we are going to do this is to ask Robert Zoellick to make opening comments. He has a very tight schedule today and will be leaving after his comments. That will be followed by a presentation by Brink, and then the commentators will be Doug Irwin, followed by Sebastian Mallaby.

With that, let me introduce our first speaker, Robert Zoellick, who is of course the U.S. Trade Representative, the 13th in that position. As USTR, Bob is a member of President Bush's Cabinet, with the rank of Ambassador, and he serves as the President's Principal Trade Policy Advisor and of course Chief Trade Negotiator.

During the senior President Bush's administration, Bob Zoellick served with Secretary of State Jim Baker as Under Secretary of State for Economic and Agricultural Affairs, as well as Counselor to the Department. He was the lead State Department official in the negotiations on the North American Free Trade Agreement, the Uruguay Round, and the creation and launch of the Asia-Pacific Economic Cooperation Group.

Bob Zoellick received the Distinguished Service Award, which of course is the State Department's highest honor. The German Government awarded him the Knight Commander's Cross for his role in developing the U.S. strategy toward German unification and his service as senior U.S. official in the 2-Plus-4 negotiations.

Bob Zoellick received his graduate degree from Swarthmore. He has a J.D. from Harvard Law School, and a master of public policy from Harvard's Kennedy School of Government. He has a philosophy on trade that endears him to the Cato Institute. I would just quote this one item that he has written:

Free trade is about freedom. It's important for our economy, but also for America's other interests and values throughout the world. I've always believed that openness is America's trump card. It makes us stronger as a people and it makes us more dynamic as a nation.

The Cato Institute could not have said it better.
Please welcome Robert Zoellick.

(Applause.)

ROBERT ZOELICK,
U.S. TRADE REPRESENTATIVE

MR. ZOELICK: Let me apologize in advance for being here so briefly. I am contending with two struggles today. One is a virus and the second is that I am facing two days of congressional testimony.

And for those of you who have an interest in trade, it is always an interesting observation about American trade policy to go watch the testimony. Because while you might think we will be discussing issues like the strategy to move ahead the Doha and our Free Trade Area of the Americas or bilateral agreements, you will find the discussion has a much more grounded nature. And actually, it is a wonderful commentary about the political system because of how you fuse the two. Obviously, members of Congress

are representing local constituents' interests and I am trying to help them with those while also promoting the values of openness. And that is the delicate dance.

But I wanted to make sure that I was here for Brink Lindsey's new book, "Against the Dead Hand," for two reasons. One is I wanted to first thank Brink and Ed for all the work that they have done, individually but also Cato as an institution, in terms of promoting free trade, and, to be even more parochial, promoting our efforts for trade promotional authority last year. As you all know, we got through the House of Representatives and the Senate Finance Committee by a vote of 18 to 3, but now we need a push here to cross the final finish line.

I also, frankly, think that this is an extraordinarily fine book. And the reason that I personally liked it a lot -- and obviously I have read a lot on trade -- is that, as I started to get into it, Brink basically built the book around two things that are at the heart of good reading for me. One is history, which is my true love, and second is ideas. And he draws the blend of ideas over history. As I was thinking about coming over here, I was reminded of another book that I have been reading. I am through some I think 500 pages of Roy Jenkins' book about Winston Churchill, which, if you haven't read it, is another excellent read -- after you get this one done, I'm sure, because it's a little longer.

And Jenkins, as you probably know, and as Sebastian would know, served in a number of British cabinets, and he has written a number of excellent books. The other one that I read not long ago was his biography of Gladstone. But he brings the insights of a policymaker to history. And in a sense, I think another one of the things that this book is doing is, by drawing together the clash of history and ideas and how it shapes policy, it leads to a very interesting book.

Now, Jenkins also reminds us of another aspect of the story that Brink has told, which is that, as probably many of you will recall -- at least from some distant recollection if you have an interest in history -- was that Churchill first left the Conservative Party and joined the Liberal Party over the issue of free trade. And early in the book there are some wonderful passages -- as I have shared with Josette Shiner so we could try to bring it in our speeches -- in Churchillian rhetoric, about the benefits of free trade. But I will also share with our friend, Sebastian, that it was also possible for a good free trader like Sebastian to come back into the Conservative Party, as Churchill did, and do noble and useful things with his time.

And I have a particular running interest in trying to convert Sebastian because, as Ed mentioned, the last time I was in government I was the U.S. representative in the 2-Plus-4 process for German unification, and I had the honor to work with

Sebastian's father, who was then the British Ambassador to Germany.

The reason that I also think that this book is particularly important at this time is that I am a big believer that ideas matter. A lot of what government is about, obviously -- and I've had my share of it today -- is working through interagency processes and coordinating this bureaucratic and that bureaucratic element, and so on and so forth. But, at least I've always felt, it is the responsibility of a president and his or her cabinet to be able to be constantly pushing the intellectual agenda.

And indeed, in a small way, one of the things that I, with Josette's help and others, tried to do is come up with a series of speeches over the course of last year where we are making the case for NAFTA, which people didn't do for seven or eight years, and explaining, whether on economic grounds, freedom grounds, other grounds, diplomatic grounds, why it is an extraordinary success, or making the case for opening markets abroad, or making the case for a new relationship with India, based on openness, and across the agenda, making a case for why China's accession to the WTO is an important part of the transformation of China.

Sometimes making public arguments gets you a little bit in trouble, but that is why Doug Irwin wrote a book about free

trade, called "Against the Tide," because the argument for free trade is not an easy one to explain to people. One of the real sad elements of my advocacy for free trade is, I have to acknowledge -- there is no way around it -- if you look at Abraham Lincoln's writing, he was a protectionist. In fact, he had some excellent words about protectionism. But we can at least explain that in that he was looking at a continental market at the time. And I think the United States might have actually done a free trade agreement with Canada during that period, in the 1850's, and it expired about that time. So that was before Lincoln.

I think what is very important today, as in any time period, is that people will make the case about the ideas for trade. Now, the part about Brink's book that I found to be richest, I think, was the notion that there is no inevitability about this. And in the process of transformation of societies, one place to start to look is in the legal framework and the core institutions of a society. And it reminded me of another policymaking incident, in that in the autumn 1989, when I was at the State Department, I went over with Alan Greenspan to the then-Soviet Union as they were just starting to struggle through their process of economic reform. And there were only three of us together, because Secretary Baker asked me to go along with

Chairman Greenspan. And we were talking to the Russians about economic reform.

And I remember, on the way back, talking to Greenspan, and saying different types of economic knowledge that would be useful. And I said: Chairman, what I think would be actually the best thing we could give to Russia is some books on economic history. Because setting aside the macroeconomic reforms, the banking reforms, all the things that needed to be done, they needed to understand the building blocks about how you try to create a private market economy, and the contracts, the property rights and the basic institutions that mediate these things. And I think Brink's book does a real service, by showing that a legal framework can be used against development in economics in society, but it is also the fundamental part. And I was pleased for him, and obviously for these ideas, that even the New York Times -- but it was the Business Section, and Virginia Postrel -- wrote very glowingly about this approach.

I also think that one of the challenges -- and the book, through its historical perspective, does this in a very fine fashion -- is this blend between the institutions and the freedom of markets. And let me again just share with you another personal anecdote about how I have thought about this recently. As many of you know, I have had a very close working relationship with Pascal Lamy, the Commissioner of Trade for the European

Union. He is someone who I have known for a long time, who I respect and who has been an excellent partner to work with.

There is a lot of things that we agree on, but there is a number of things we disagree on. And in fact, since we have known each other, in government and outside of government and again in government for so long, I have sometimes reflected, what is it that leads a French socialist and an American nationalist/capitalist to work together on these issues? And there are many points of commonality, but one that I always feel veers a little bit is that, with Pascal's wonderful Cartesian view of life and society, he always wants to have a structured global order. So "global governance" is a term that comes back to him more and more and more.

Now, just as Brink has talked about, I do believe it is very important to have certain types of rules, as we had in the GATT and the WTO system, but I also believe that you can create rigidities and create blockages to development if you over-institutionalize and create too much of a burden. And so the analogy that I make to Pascal -- and you can imagine, he immediately accepted it because it's a European source -- is to talk about von Hayek's notion of spontaneous order, so that we do create an order, but it is one that comes out of the spontaneity of the market.

So this again is something that I have to say that I feel that Brink's book is a real contribution to ideas, but there is another part that I felt an affinity for. And that is the book emphasizes a caution, in that sometimes people who believe in free markets and capitalism, as I do, also convey, oddly enough, a certain Marxist sense of economic inevitability. And if you look at the course of the 20th century, that certainly turned out to be the case, but with some pretty big dips in between. And indeed, as the book points out and as I have summarized, the second half of the 20th century, in some ways, was necessary to overcome the mistakes of the first half of the 20th century. So, given the life span of human beings, it can go off course for a long time.

There is no inevitability in our work. And, believe you me, I certainly feel that every day. But, on the other hand, I do have a cautious optimism. Because I do believe that the ideas behind markets, behind liberty, behind freedom, do take hold, and you see them driving in the most fascinating ways.

About two weeks ago I was in Morocco, talking about trade and economic reform. And I stopped at a micro-loan site, which was primarily women borrowers actually. And you could see that the average loan was like \$225-\$226, and yet there had been 40,000 loans that had been created. And when I talked to the women who had set up these small businesses -- and often they

were self-employed or one or two people -- you can just see how this transformed their life.

And so, I don't care where you are from, but once you have that opportunity, with a legal structure, to start to create something, to build something, to have some more independence, to look for something for your future, it does take hold. And it will take hold in China, and it will take hold in Russia. But, as a policymaker, I have to worry about those intervening decades in between, when a lot of things can go wrong. And so I share, frankly, his sense of a long-term optimism, but a caution about how we try to address these things.

I really just wanted to stop by because I am delighted to be with him. I am delighted to be with you. I appreciate the efforts that I hope all of you in this room are making for free trade. And Sebastian even keeps me honest now and then when I start to slip on some of these topics.

So I thank you, and I apologize for having to run out. Good work.

(Applause.)

DR. CRANE: Thank you, Bob, very much for your excellent comments.

We will now have our star, our guest of honor, Brink Lindsey, the author of "Against the Dead Hand." Brink is Director of Cato's Center for Trade Policy Studies. He

originally came to Cato many years ago to do regulatory work for us. At the time, he was a young attorney, doing trade legal work. And I said to him at the time: I can't pay you what they are paying you at the law firm now, but down the road it is going to be even a bigger gap.

(Laughter.)

DR. CRANE: And he said: Oh, don't worry about that. So he came on board. And a few years later he realized that the gap was serious and went back to law. But luckily for the Cato Institute, he determined that policy work was his true calling.

His writings have been published in the Wall Street Journal, the Financial Times, the New Republic, National Review, Weekly Standard, the Journal of World Trade. He is ubiquitous on television -- CNN, MSNBC, CNBC, BBC, NPR, and so forth. Brink has become, I think, one of the leading advocates of free trade in the nation.

He has a bachelor's degree from Princeton and a J.D. from Harvard Law School. He has, in a very short period of time, with his talented colleagues at the Center for Trade Policy Studies, turned it into what I view as one of the most important centers for trade policy analysis and support for free trade in the nation.

Please welcome Brink Lindsey.

(Applause.)

BRINK LINDSEY, AUTHOR,

"AGAINST THE DEAD HAND:

The Uncertain Struggle for Global Capitalism"

MR. LINDSEY: Thanks, Ed. And thanks to all of you for coming today.

While I was writing this book, the fact that I was writing it would often come up in conversations with friends and colleagues. And inevitably they would ask: What's the title of your book?

And that question always induced in me a moment of dread, because I knew that my answer would precipitate a follow-up that then would require a much longer answer. "Against the Dead Hand: The Uncertain Struggle for Global Capitalism," I would say, and after a moment or two of silence, I would get the follow-up: What in the world is the "Dead Hand"?

From one of my sons I actually got a better follow-up question. I wrote most of this book at home, which required frequent forays out into the hall to tell my boys, who are now ages 11, 8 and 5, to quiet down so daddy could work on his book. And once, one of my boys asked, for the umpteenth time: What's the name of your book, daddy? And I told him. And he cocked his head and squinted and he said: Is it a scary book, daddy?

(Laughter.)

MR. LINDSEY: And I said: Yes, it kind of is.

(Laughter.)

MR. LINDSEY: So what is the "Dead Hand" I'm talking about? The expression "dead hand" comes from the legal term mortmain, which refers to property given in perpetuity for some established purpose and which cannot be sold or used for any other purpose. From that origin, the expression has now come to have a more general meaning.

Quoting Webster's, that meaning is: The oppressive influence of the past. And there it is, in a nutshell, the gist of the story that I have tried to tell about the much debated but little understood phenomenon of globalization -- the oppressive influence of the past.

In the conventional wisdom, both that of the most fervent cheerleaders as well as that of the most hysterical detractors, globalization is portrayed as an immensely powerful and well-nigh irresistible force in world affairs, a kind of genie that has been set loose by the microchip or the Internet and is now bending the world to its will. But that conventional wisdom of the unchallenged ascendancy of market forces, whether for good or for ill, seems to me to be egregiously wrong-headed.

The thesis of my book is that it is impossible to make sense of the emerging global economy of recent decades without

giving due weight to the dead hand, the oppressive influence of the past. And specifically, the collective influence of the collectivist past, the dismal but persistent legacy of a century-long infatuation with central planning and state-dominated economic development.

My book consists largely of history and analysis, as Ambassador Zoellick indicated, but I have tried at various points to illustrate my argument with a little bit of storytelling. And I want to share some of those stories with you here this afternoon, some stories of my personal encounters with the dead hand of the collectivist past.

I saw the dead hand in the Russian rustbelt city of Magnitogorsk, some 800 miles east of Moscow, in the Ural Mountains. It is now an obscure and squalid place, but, once upon a time, believe it or not, its bright promise beckoned to people a half a world away. In 1932, in the depths of the Great Depression, a 20-year-old American named John Scott dropped out of the University of Wisconsin and headed off for the Soviet Union.

Something seemed to be wrong with America, he wrote in his memoirs. I decided to go to Russia to work, to study, and to lend a hand in the construction of a society which seemed to be at least one step ahead of the American.

Scott worked for the next five years in the giant new steel mill at Magnitogorsk, one of the great symbols of the Soviets' breakneck industrialization drive and the jewel in the crown of Stalin's first five-year plan.

In Magnitogorsk, I was precipitated into a battle, Scott wrote. I was deployed on the iron and steel front.

The gun in 1929, Magnitogorsk, was modeled after U.S. Steel's Gary Works, then the largest and most advanced steel mill in the world. In spite of appalling conditions, the mill rose from the Ural steppe in just a few short years, a testament to the audacity and brutal determination of the new social order. Money was spent like water. Men froze, hungered and suffered, Scott recounted, but the construction work went on with a disregard for individuals and a mass heroism seldom paralleled in history. The payoff came in World War II, when half the tanks of the Soviet Red Army were made from Magnitogorsk steel.

Today the romance of blast furnaces and five-year plans is long dead. The Soviet Union, the country into whose service John Scott enlisted, has ceased to exist. But Magnitogorsk is still there and still making steel. The dream of a centrally planned workers' paradise has been put to rout, but the dead hand of its influence still holds Magnitogorsk in its grip.

When I visited in the summer of 1999, the place was quite literally an assault on the senses. When you stood on the

west bank of the Ural River and looked across, and stood at the foot of this colossal statue of two brawny, sword-wielding socialist heroes, the mill on the other side was so huge that it sprawled across your entire field of vision. And belching out of the smokestacks were plumes of black, orange, blue, and gray smoke, although, by the afternoon, the winds had swirled them all together into a single kind of smear of brown.

I went with my brother-in-law, Chuck Holmes, who was then Moscow correspondent for Cox Newspapers. We had made appointments to interview the mill's management and have an official tour of the plant. But when we arrived, we were informed by local government officials that those interviews and that tour had been cancelled. After a lot of back-and-forth, they finally explained to us that the mill people were afraid that we might be spies.

In the end, it didn't matter that much. We hired a local taxi driver, who had worked at the mill for many years, to give us a driving tour of the plant, although it took some time for us to convince him to do it, because he couldn't imagine why anyone would possibly want to expose themselves to the fouled air on the other side of the river.

As we drove around the huge hulking works and past dingy and decrepit worker housing and out to the old abandoned iron ore mine, your eyes and throat quickly began to burn from

the fumes in the air. My brother-in-law had carried along a brand-new satchel, with shiny brass fittings. By the end of the tour and by the time we came back to the other side of the river, all of those brass fittings were visibly tarnished, in just an hour or two.

And yet, as we learned, things used to be a lot, lot worse. Many of the old, filthy open-hearth furnaces had been replaced in recent years by more modern furnaces. In the old days, Yelena Sherbakova, a retired mill worker, told us the snow used to be black when it fell. Now it falls white and then just turns black.

Yelena Sherbakova was a stirring portrait of Magnitogorsk's quiet desperation. We met her outside of the local post office, where she was carrying around a photo album with snapshots of the open-casket funeral of her Afghan war veteran son, who had his throat slit in some gangland dispute. She was eager to tell her story. She told us that she currently lived on a pension of \$25 a month, and that she got by, by growing vegetables in her garden and never eating meat.

The Magnitogorsk mill has struggled to make its way in the new post-communist world. Domestic demand for steel fell by 70 percent after 1990. And consequently, Magnitogorsk has had to turn to foreign markets to survive. But built to be far away from potential invaders, it is equally remote from potential

customers. The nearest port is 1,200 miles away, so transportation costs are a major problem. Meanwhile, the Asian crisis, and then protectionism by both the European Union and the United States, have posed further obstacles. Despite everything, though, the mill now manages to export more than 60 percent of its production.

Magnitogorsk has been officially privatized, but its ownership structure and finances remain murky. It has reported profits in recent years, but what exactly that means when more than 40 percent of its domestic sales are barter transactions is really hard to say. In November 2001, a deputy of the state Duma was stripped of his legislative immunity and charged for skimming off profits in the privatization of the mill a decade before. Surely other similar tales remain to be told. And surely it was fear that we would dig up such tales that accounted for our frosty reception.

Magnitogorsk has plowed billions of dollars into modernizing its facilities. Old open-heart furnaces have been replaced with modern converter shops, and new rolling mills have been built. But the weird distortions of the post-communist Russian economy have survived the modernization drive. Workers are paid half in cash and half in credits at company-approved stores. The companies honor the workers' plastic cards in

exchange for free electricity from the steel mills' generator and also from other barter goods.

We spoke with Faik Mukhametzianov, who was a member of the local Duma, or city council, who was quite defensive about these barter arrangements. In America, you use credit cards all the time, he said. And I tried to explain to him that, in the U.S., credit cards are used to expand purchaser's options, not to restrict them, but the point was lost in translation.

Magnitogorsk is a typical case in today's past-haunted global economy, an awkward straddle of the Stalinist past and the globalized present, trying to reach out and participate in international markets, but rebuffed by persistent protectionism in the supposedly borderless world.

I also saw the dead hand in Nakhon Sawan Province, in Thailand, about 120 miles north of Bangkok, where Michael Wansley, a 58-year-old Australian accountant with Deloitte Touche Tohmatsu, was killed for his excessive scrutiny into the seamy world of crony capitalism. When the Asian financial crisis hit and Thailand's economy imploded under a mountain of bad debts, Wansley and his firm took a leading role in cleanup efforts.

In particular, in early 1999, a Thai bankruptcy court appointed him to supervise the debt restructuring of Kaset Thai Sugar Company and two affiliated mills. The three companies, all of which were controlled by the Siriviriyakul family, owed

creditors a combined \$450 million. The court-ordered restructuring was seen as a test of Thailand's bankruptcy process.

At Kaset Thai, Wansley apparently uncovered evidence of massive fraud. According to police reports, factory managers had been looting the company, to the tune of tens of millions of dollars and shifting the funds to shell companies or private bank accounts. On March 10, 1999, Wansley and four colleagues headed up to the sugar mill, near the small town of Takhli. As their black Toyota minivan neared the factory gate, a motorcycle pulled up alongside them, and a gunman seated on the back shot Wansley eight times at close range. He died instantly.

Police eventually apprehended five suspects: the driver of the motorcycle, the man who supplied the motorcycle, two mid-level factory managers, and Pradit Siriviriyakul, one of the mill's owners and the alleged mastermind of the conspiracy. The driver was quickly convicted and sentenced to life in prison, but the actual gunman has never been apprehended, and the prosecution of the other accused plotters has turned into a total fiasco. A year into the murder trial, only two of 50 planned witnesses had yet to testify.

Meanwhile, Pradit, the alleged ringleader, is free on bail, amid allegations that the judge who granted him bail received a half-million-dollar bribe from him. The judge was

actually removed from office, following a Justice Ministry investigation, but the bail was not revoked, and Pradit remains at large. The trial is still proceeding at a glacial pace, and is expected to drag on through much or all of 2002.

Meanwhile, the restructuring of Kaset Thai and its sister mills sputtered as well. After Wansley's death, his firm presented creditors with debt restructuring plans for the three companies. The proposals called for a thorough housecleaning, a near total write-off of the debt and of the firm's capital, and replacement of the firm's management. But small creditors, mostly sugar growers, were afraid that if this plan were approved, they would never get any of their money back, and so they were opposed.

Although major creditors, including one French bank and several large Thai banks, held 83 percent of Kaset Thai's outstanding debt, Thai bankruptcy law at the time -- it has subsequently been changed -- held that at least 50 percent of creditors, by number, had to approve the restructuring plan. Small creditors had the strength of numbers, and so they vetoed the plan by a vote of 2,910 to 63. Faced with this impasse, the bankruptcy court could have ordered the firms liquidated, but instead it simply terminated court supervision of the matter altogether, leaving the Siriviriyakul family still in charge and

creditors to try all over again to reach some kind of accommodation.

Finally, in June 2000, the bank settled on a much more modest deal. They agreed simply to stretch out repayment periods for 10 years. No debt write-offs, no write-down of capital. And although the banks gained the right to appoint representatives to the management team, the Siriviriyakul family retained ultimate control.

On a beautiful Sunday afternoon in November of 2000, I set out with a friend to retrace Michael Wansley's fateful last trip. Finding the sugar mill wasn't easy. It is hidden at the end of a maze of progressively deteriorating roads that snake and tangle their way off the main highway and through rice paddies, scrub brush and sugarcane fields. There was only one beaten-up, discolored sign, in Thai only of course, that offered any guidance along the way. After stopping more than a few times to ask for directions, we cut off on to one more bumpy dirt road that cut through chest-high brush on either side. And just as we were convinced that we had made yet another wrong turn, the mill loomed into view.

Somewhere along that road, I thought, Michael Wansley had been murdered. On the day I visited, there was no evidence of the violence and horror of that time. Everything was drowsy and peaceful. A few chickens and roosters strutted back and

forth across the road, and a couple of guards lounged behind the factory's shuttered gate. The factory itself was closed. It is open only a couple of months a year, right after the sugarcane harvest. The only break in the silence was, eerily enough, the sound of a motorcyclist, who buzzed up and down the road repeatedly.

Along that far-away, out-of-the-way dirt road, the lie was put to all the blather about the triumph of footloose capital and the tyranny of Western finance. The Wansley case shows vividly that, at Kaset Thai Sugar Company at least, the dead hand of crony capitalism still clings tenaciously to power. The company saga offers an especially egregious example of the breakdowns in investor protection that are all too common in much of the developing world: the looting of minority shareholders, the lack of transparency, the unworkable bankruptcy procedures. As long as these breakdowns remain common, the term "emerging markets" will simply evoke nostalgia for the naive 1990's, as opposed to describing any current or future state of affairs.

I found the dead hand as well in rural northern India, where government policies are so misguided that it is actually cheaper to make your own cars by hand than it is to buy modern, mass-produced ones. To find this strange state of affairs, I set out with a colleague and a driver one morning in February of last year to brave India's infamous rural roads. We left Delhi in the

morning, while it was still murky from the wood and dung smoke of the previous night's home fires, and headed south, down the Delhi-Agra Highway, and weaved our way through a chaos of cars, trucks, buses, motorcycles, three-wheeled Vikrams, tractors, ox carts, and camel carts. I even saw a man walking along the side of the road with a bear on a leash. He was a traveling entertainer who worked his way from town to town.

My colleague told me that this highway was actually a showpiece by Indian standards. At least it had a median strip. As we ventured on to smaller roads, I quickly understood what he meant. With traffic on the two-lane roads undulating back and forth to avoid slower-moving tractors or camels or avoid potholes the size of bomb craters, it was like being in a video game come to life.

Particularly harrowing was dusk. Indians are frugal people and don't turn on their headlights until it becomes absolutely pitch-black. So, for an hour or so, the experience was comparable I think, and the only thing I can think of, to Luke Skywalker's ride through the Death Star at the very end of "Star Wars," except I was actually in the vehicle.

All along the way, vehicles were overflowing with passengers, people sitting on the top of a jeep or standing on the floorboard of a van with the back door swinging open, or crammed into the back of a truck or a camel cart. With a billion

people, India only has about 40 million vehicles, and that is two-, three- and four-wheeled combined. It is a desperately poor country, of course, but in this respect the poverty is a matter of explicit policy. Vehicle prices are grossly inflated by punishingly high taxes. Total duties on used cars, for instance, are 180 percent.

Although American, Japanese and Korean auto companies assemble vehicles in India, those vehicles are well out of the financial reach of ordinary Indians. And so with admirable ingenuity and initiative, rural Indians have taken matters into their own hands. They are now building their own automobiles. Known alternately as a jugaad or a maruta or a boogi, this vehicle offers basic bare-bones transportation for Indian farmers. It doesn't have a roof. The 10- to 14-horsepower engine has to be hand cranked, and it maxes out around 15 miles an hour. And the driver sits on a wooden bench. But the rear compartment, which is a plywood bed with wood-panel sides, has plenty of room for passengers or cargo. And at a sales price of about \$1,000, it is an unbeatable bargain.

We found boogi manufacturers in the remote village of Toda Bhim, in eastern Rajasthan. There were no assembly lines, no factories at all, just three small mechanics garages spaced out along the semi-paved road that runs through the village. The mechanics buy minivan spare parts -- wheels, axles,

transmissions, gearboxes, steering -- from markets in Delhi. They get their engines, made to power water pumps, from Agra. And they pick up steel for the chassis and wood for the framing from Jaipur. They cut and fit the framing and weld the chassis themselves, and then assemble the rest. According to the mechanic we spoke with, they can turn out four or five boogis a month.

Technically, the vehicles are illegal under India's Motor Vehicles Act. They are not officially registered. They have no license plates. And they are supposedly subject to seizure by the Highway Patrol whenever encountered. But the law is roundly ignored. In addition to the mechanics at Toda Bhim who actually make the cars, we spoke with a dealer of these cars in the nearby town of Mahwa, as well as several satisfied customers, and none reported any problems with the police. We even saw boogis pattering along the main Delhi-Agra Highway, not 60 miles from the capital city.

The production of boogis is part of India's enormous informal sector, unsanctioned economic activity that is nonetheless tolerated by the authorities. You don't have to venture to out-of-the-way Toda Bhim to see the informal sector in India. Just drive around the streets in Delhi and it will confront you at every turn and every traffic light.

At red lights, your car will be accosted by merchants hawking their wares. Tissue paper is especially popular, but also balloons, maps, and even toy-sized snake charmer baskets. You will whiz past street-side fruit and vegetable stands, and, with inexplicable frequency, pyramid stacks of motorcycle helmets for sale on the curbside. On weekends, impromptu markets spring up. One I saw specialized in secondhand clothes. And in the depressingly common garbage heaps along the side of the road you will see scavengers rooting through them to find things that can be recycled.

The informal sector dominates India's economic life. Only around 30 million people, or 9 percent of the labor force, work in the official organized economy. Everybody else, the other 91 percent, work informally. It is a breathtaking statistic. Ninety-one percent of Indian workers operate off the books and outside the law. Those 91 percent don't have the proper permits or licenses. Most don't pay taxes. And few show up in the official economic statistics.

At the same time, many are subject to incessant extortion by corrupt officials. Few have any access to courts for legal redress. And virtually none are eligible for bank loans or any other type of formal finance.

So what do these strange vistas of out-of-the-way places tell us about the global economy? They tell us that the

supposed triumph of market forces, touted by globalization's promoters and bewailed by its critics, is a myth. How exactly are market forces triumphant in Magnitogorsk, where the steel mill barter much of its output and has to pay its workers in script, or in Nakhon Sawan, where corporate insiders loot their company with impunity, or in Rajasthan, where entrepreneurs have to live as outlaws?

The fact is that globalization has a long, long way to go, and it pushes forward only in the face of fierce resistance. The invisible hand of the market has indeed made real headway in the past couple of decades, but the dead hand of failed ideologies and policies remains a powerful and disfiguring influence on the world economic scene.

Now, to be realistic and clear-eyed about the power of the dead hand is not to deny the epical importance of events over the past couple of decades. The Soviet empire has fallen. China is now communist in name only. India, which for decades followed Soviet-style central planning, has now turned towards liberal reform. The populist corporatism of Latin America was dealt a crushing blow by the debt crises of the 1980's. Privatization swept the mixed economies of Western Europe. And economic deregulation in the United States has broken open a host of industries that were previously encased in restrictive controls.

These events mark a sea change in the world of ideas. In rich and poor countries alike, the prevailing consensus of informed opinion now holds that that central planning as a general principle is a failure. It has been tried exuberantly and repeatedly and found wanting. People have learned that competitive markets with privately owned enterprises function better than state-owned monopolies. They have learned that money has to maintain a relatively stable value if markets are to work. They are learning as well that markets require an underlying infrastructure of fairly enforced property and contract rules. And they are beginning to learn that capital markets allocate resources better than bureaucrats, and that social policies work best when they supplement the market rather than crushing it.

By and large, these lessons have been learned not because of some new ideological enthusiasm but, rather, in spite of emotional or pecuniary attachments to old ones. Consistent, unswerving allegiance to the principles of economic liberalism remains, unfortunately, a decidedly minority taste. As a result, lessons are often applied grudgingly and incompletely.

Nonetheless, the changing intellectual climate is real and it is enormously important. The popular appeal of the various failed alternatives to the liberal path of markets and competition rested crucially on the presumption that collectivism was progressive, that it was the wave of the future;

specifically, that it would give the masses a better life. And so Bismarck offered to lift up the workers. The Bolsheviks promised land and bread for the peasants. The Nazis put the jobless back to work. Mussolini made the trains run on time. And the various statist leaders of the Third World held out the prospect of industrialization and modernization and accelerated development.

But in the past couple of decades, collectivism's failure to live up to its promises finally became undeniable. In short, it didn't deliver the goods. The now crumbling institutions of the collectivist era still have their defenders, but they are on the defensive. The weight of opinion is against them when they maintain that theirs is the true path to material abundance. They have lost the mantle of the future and become the shrill, bitter voices of reaction.

Hence, my characterization of anti-market forces as the dead hand of the past. They no longer represent a living and vital interpretation of modernity. They no longer offer a plausibly workable vision of the future to guide the reform or overhaul of existing policies and institutions. And so anti-market forces today are consigned to clinging to the past, not proposing their own changes but merely opposing and resisting liberal changes. They are still formidable, but they are sterile.

There is at present only one viable model of economic development, the liberal model of markets and competition. It is neither widely loved nor widely understood, but it is all there is. And so when existing institutions break down so badly that changes becomes unavoidable, leaders in search of a template for constructive action turn by default to the liberal model. In this way, the dead hand yields bit by bit to the invisible hand of the market.

Thank you very much.

(Applause.)

DR. CRANE: Thank you, Brink.

I think we have the entire book outside, and we are going to make it available at retail to this audience.

Our next commentator will be Douglas Irwin. Doug is Professor of Economics at Dartmouth and a Research Associate of the National Bureau of Economic Research. He also serves as a member of the Advisory Board of the Cato Institute's Center for Trade Policy Studies.

His latest book, "Free Trade Under Fire," will be published by Princeton University Press, and I am told it is going to be available in about three weeks actually. Doug is also author of "Against the Tide: An Intellectual History of Free Trade" and "Managed Trade: The Case Against Import

Targets," as well as many articles on trade policy in books and professional journals.

Doug was previously on the faculty of the University of Chicago's Graduate School of Business, and has been a visiting professor of economics at MIT. He also served on the staff of the Council of Economic Advisors during the Reagan administration, and as an economist in the International Finance Division of the Federal Reserve Board in Washington.

He has an undergraduate degree in political science from the University of New Hampshire and a Ph.D. in economics from Columbia University.

Professor Irwin.

(Applause.)

DOUGLAS IRWIN,

PROFESSOR OF ECONOMICS, DARTMOUTH UNIVERSITY

PROFESSOR IRWIN: Thank you very much.

Ambassador Zoellick briefly mentioned Abraham Lincoln, and I cannot resist the following anecdote about Abraham Lincoln's trade policy. Supposedly -- I think it's apocryphal -- but Lincoln said: I don't know much about trade, but I do know this much -- that when an American buys a foreign hat, we get the

good but they get the money. But if an American buys an American hat, we get the good and we keep the money.

To which an economist is reported to have said: Of all you said, President Lincoln, only the first six words are correct -- I don't know much about trade.

(Laughter.)

PROFESSOR IRWIN: At any rate, it is a pleasure to be here to discuss Brink's new book. And I enjoyed it as well as Ambassador Zoellick for its historical perspective on many of the issues that it deals with. In this book, not only do we get an economic history of recent decades, but I think what makes it particularly rich is its intellectual history. That is, we learn a lot about the intellectual milieu in which notions of centralization, collectivization and state control arose, and just how popular and widespread these notions were in the early 20th century.

And what is humbling, I think, that I learned from his book is that many social commentators drew exactly the wrong lesson from many of the phenomena that they were confronted with. So, in seeing the rise of big business, the conclusion was that centralization was the efficient solution. In observing the Great Depression, the conclusion was that capitalism had failed. And in looking at the problem faced by many developing countries, the conclusion was that state planning and industrialization were

the key to growth. And all of these conclusions were wrong, and we are still feeling their effects today, as Brink has pointed out.

What is even more disturbing, I think, in the sense that I learned from Brink's book, is that in learning these wrong lessons, we sort of imply, or at least my initial presumption would be, that the motives of these social commentators would be innocent and good. And yet Brink often exposes that sometimes the motives are not so innocent. That is, the centralization of power was not sought because it would be the efficient way of doing good but, rather, it was sought just because obtaining power was viewed as an end onto itself. So we have Bismarck introducing social insurance and social security not just because of an altruistic concern for workers, but really as a way of making workers dependent upon the state and binding workers to the state. That made for a disturbing reading.

I am in broad sympathy with the book, needless to say. It is full of insights, and I recommend it to you. What I would like to focus on is just the one thing, the striking thing, that I took away from his book that I appreciate a little bit more after having read his book. And that is just how utterly misleading the term "globalization" is, in terms of its common usage. The implications of the term as it is commonly used I

think is wrong. The inference that we use and draw from the term I think is also wrong.

We commonly think that globalization is some external force that has entered onto the scene and is displacing the power of the state, that the markets have sort of intruded and pushed aside the state, that it is this autonomous, monolithic force that has just entered the stage. If I could just quote from Brink's book for a moment on this point, he says:

When the swirl of contemporary events is placed in proper context, it becomes clear that globalization is not some demonic force unleashed upon the world. Rather, it has been a deliberately chosen response to worldwide failures of central planning. It is not the case then that globalization has been forcing governments to adopt market-friendly policies against their will. On the contrary, the breakdown of failed collectivist policies and decisions by governments faced with that breakdown to explore market-friendly alternatives are the preconditions that have made globalization possible. The popular understanding of globalization, shared by cheerleaders and doomsayers alike, thus has the main direction of the historical causation precisely backwards.

I think that is an insight that has certainly changed my view of it. When we think about globalization as an abstraction, as this autonomous force, then we are more apt to

pose questions such as: Is globalization good or is globalization bad? Does globalization harm the environment? Does globalization lead to increased income inequality across countries?

And I think each one of these is not just an ill-informed question, but deflects attention and concern for precisely the critical questions that we should be focused on. That is: What is the appropriate role of the state in economic affairs? What is the appropriate role of government policy with respect to certain problems, certain industries, or what have you?

So if we ask the question, "What is the impact of globalization on developing countries?" what we are not asking is: What is it about developing countries' economic policies that poses a barrier to economic development?

And I would like to consider the case of India, which Brink mentioned in his talk and mentions in his book. I think it is a fascinating country because, in the early 1990's, there was actually quite an important shift in economic policies in India. If you asked the question, "What has globalization done to India?" or "What is it doing to India?" you are starting precisely from the wrong premise.

What you should be asking is: What are the costs and the benefits of India's industrial policies, their economic

policies, their trade policies, their government spending policies? These are things that India can control. These are things where a change in policy can affect the livelihoods and the well-being of tens of millions of people.

Since independence in the 1940's, India has been a classic case of pervasive top-down bureaucratic controls and micromanaging of the economy. Many of these policies, fortunately, were changed in the early 1990's, with astounding results. For the first time, India now has an enormously large middle-class. People have been moved away from the knife edge of poverty, to where they can actually enjoy some semblance of a standard of living.

And on this, I think just to reinforce Brink's point, I would like to point out a book called "India Unbound: A Personal Account of Social and Economic Revolution." This is a book not by a political philosopher such as Hayek, not by an economist like Adam Smith, not by a politician like a Thatcher or a Reagan, but by a simple businessman who observed, over the course of his life, what India's economic policies had done to India and how the system worked.

And what he says is that India, after independence, tried to have a mixed economy, combining the best features of capitalism with the best features of communism. And, he said, the mixed economy ended in combining the worst features of

socialism and capitalism -- the controls of socialism with the monopolies and lobbies of capitalism -- and we got the worst of both worlds. And he said there were five fatal flaws with our socialism. We adopted an inward looking import substitution path rather than an outward looking export promotion path. And thus we did not participate in world trade and prosperity that trade engendered in the postwar period.

We set up massive inefficient, monopolistic public enterprises to which we denied the autonomy of working efficiently. We over-regulated private enterprise with the worst case-by-case controls in the world, and thus diminished competition in the home market. We discouraged foreign capital and denied ourselves the benefit of technology. We pampered organized labor, and that led to extremely low productivity.

And, he said, each of the assumptions which was really behind the adoption of these policies, that India did not have a sufficient entrepreneurial base, that India could not raise enough domestic capital to finance industrialization, that the state had to do these things, each of these assumptions proved to be wrong. And, he said, with the 1991 reforms, it has fundamentally changed what is going on in India.

And, he says, most people remember the state of emergency declared in the mid-1970's because it represented a generalized loss of liberty and democracy. They do not

understand that by suppressing economic liberty for 40 years, we destroyed growth and the future of two generations. For the average citizen, it was a great betrayal. Lest we forget, we lived under a system where a third of the people went hungry and malnourished, half the people were illiterate, while the elites enjoyed a vast system of higher education, and 1 in 10 infants died at childbirth. Our controls and red tape stifled the entrepreneur and the farmer, and the command mentality of the bureaucrat, which fed the evil system, continues even today to frustrate every effort at reform.

If ever there was a case where the dead hand of the past continues to exert and cause problems for today, India I think is a tremendous case. India also, I think, indicates what hope there is when countries change their policy.

So I think it is a diversion to think about globalization as this autonomous force, and it distracts us from the real positive questions that can be asked to actually promote economic reform and the betterment of people in the society. As a byproduct of thinking about globalization as this entity or this concept is a tendency to rehash old policies that will supposedly deal with the purported ills of globalization. So, for example, at Davos on the Hudson recently, we have U2's Bono and Microsoft's Bill Gates teaming up to confront Secretary of

Treasury Paul O'Neill about America's lack of foreign aid for developing countries.

If you view globalization as a cause of worldwide income inequality, then the question is: What policies can we undertake to reverse globalization or remedy this ill that is associated with it? Well, I think this is fundamentally the wrong way to think about it. First of all, when countries are falling behind in terms of their income vis-à-vis other countries, almost surely the biggest part of the story is the responsibility of that country's own policies for that problem, and these are things that foreign aid cannot touch, cannot remedy.

Brink had a wonderful piece in the New Republic just a few weeks ago on the countries of the Middle East and the economic problems that they are facing. He noted that most of these countries are not members of the WTO. They have not embraced globalization. They do not want to change. This is their choice. Globalization is not something forced upon them, and economic aid, foreign aid, would be a waste in these cases if these countries are not willing to fundamentally consider changes to their policies.

In a continent which over the past two decades there has been very little good news, Africa, Uganda has been growing at 6 percent over the past 10 years, because of changes in

Uganda's economic policies domestically. Globalization did not have good impacts on some countries and bad on others; it is that certain countries had certain policies. And countries that have changed -- India, Uganda and others -- have actually done reasonably well. And Vietnam as well.

The second problem with sort of the Bono-Bill Gates approach is that development foreign aid has been tried in the past and it failed. We need to look no further than World Bank economist William Easterly's book, "The Elusive Quest for Growth," where he says: It's not the lack of capital that is the problem in economic development. It is something much more fundamental. Countries are not cars with empty gas tanks. If you just tank them up with foreign aid, with gasoline, then they will go. That is not what the problem is.

Now, where Bono and Gates may be right a bit is that a targeted approach of foreign aid to certain development economic problems, such as eliminating diseases such as malaria, may actually be more appropriate. Here more money may be the answer. But we have to recall that we have had something called the World Health Organization for many, many years. Reason Magazine recently published a devastating expose on what the World Health Organization is doing, putting up seatbelt signs in Mozambique, when children are not even able to make it to maturity because of basic diseases. The problem, once again, may not be money but

what institutions do we have that are not responding to the problems at hand.

One can ask those things about the World Bank as well, but the World Health Organization, to the extent that Bill Gates wants to eradicate disease, the World Health Organization has contributed very, very little. So we have to rethink some of the institutions that are associated with globalization as well.

Let me conclude with this note. The economist Paul Krugman wrote a very famous essay a few years ago, attacking the idea of competitiveness. He said that competitiveness is a dangerous obsession. This idea that countries are in economic competition with one another is a bad idea that diverts policymakers from more constructive pursuits. The idea that trade is a zero-sum game, that countries are engaged in a win-lose competition with one another fundamentally misrepresents what international trade is all about.

I think Brink Lindsey has done a great service in pointing out that the term "globalization" as it is commonly used is also a dangerous obsession. It is a failed abstraction when it is viewed as an abstraction or an autonomous force that may bring good or ill to a certain country. Because it diverts our attention from the much more constructive approach of what domestic government policies can do to improve the standard of living of its citizens, what policies bring ill to those

citizens, what should the government do that it is not doing, and what is it doing that it should not be doing.

When we think about globalization as this force, inflicting its will on countries, we forget about that fundamental fact. Domestic government policies are critically important, and we are living with the dead hand of those failed policies in the past.

Thank you.

(Applause.)

DR. CRANE: Thank you, Doug.

That quote from Paul Krugman was before he went to work for Enron, I'm sure.

(Laughter.)

DR. CRANE: Our final speaker is Sebastian Mallaby, a member of the Washington Post Editorial Board. He was at Cato just a few weeks ago at one of our forums. He writes a weekly op ed column that appears on Mondays in the Post, and his interests cover a wide variety of domestic and international issues, including globalization, international development, the Internet, and U.S. economic policy.

In his own columns and in his contributions to Post editorials, he has been a strong and principled voice for free and open trade. In particular, like the Cato Institute, he has not been afraid to take issue with U.S. trade barriers. His

repeated exposes on the U.S. anti-dumping law have doubtless earned him a high place on the U.S. steel industry's enemies list, as all of our Trade Policy Center people are on.

Sebastian joined the Post in 1999, two and a half years ago, after 13 years with The Economist. While at The Economist, he worked in London, Africa, Japan, as well as Washington, D.C. He has written for many other publications and is the author of "After Apartheid: The Future of South Africa."

Sebastian Mallaby holds a degree in modern history from Oxford. He is eminently qualified to comment on Brink Lindsey's book.

Sebastian.

(Applause.)

SEBASTIAN MALLABY,
THE WASHINGTON POST

MR. MALLABY: Thanks. It's a great pleasure to be here.

I have known Brink for a while, and he is a great dispenser of advice, in person and on the telephone, on the intricacies of 201, 301, CBD, and so forth. So it was a great pleasure, and not an inevitability, to discover that he is even more charming and persuasive in book form than he is in

person. It is not every former Washington lawyer who will stand up here and tell you intricate stories about trips to India and trips to Thailand and obscure Russian steel factories. So I think this intellectual combination of a first-class lawyer's mind with the self-destructive urges to travel to far-off places that are normally associated with journalists is quite rare, and it is a great book.

Some of the reasons why it is great have already been listed. You get hit smack between the eyes right at the start with this idea about the conventional wisdom on globalization that is back to front. Globalization is not this ineluctable force pushing governments into their straightjacket. It is, rather, that governments have been out there trying to do various economic policies, have completely messed them up, have realized their own mistakes, come back into their shell, and it is that vacuum that has allowed globalization to happen.

And I think I agree with the other speakers that this is a good way to start. It grabs you. And the grabbing continues with these stories about going to Moscow and discovering the McLenin t-shirts on sale, the Prima Nostalgia cigarettes, with pictures of Marx on the side, and then the historical suite that others have commented on, too.

The thing which particularly struck me is this comparison, which I think really was audacious -- and I say that

even as a journalist, and journalists are well-known for thinking that two data points equal a trend -- but anyway, Brink grabbed the atmosphere in Europe in August 1914, on the eve of the First World War, and leapt straight to the Seattle protests at the failed World Trade Summit in 1999, and said, basically, these are the same kind of phenomena. It is the same self-destructive urge to go out and attack globalization, which had been progressing very rapidly prior to 1914, and seek spiritual solace almost in utopian collectivism.

Now, if that is not an audacious historical comparison, what is? And I think everyone here would enjoy very much reading this.

So the short point thus far is it is a great book and you all ought to read it. The next question is: Is it right?

I think the easy part of the answer is to say that, as an analysis of the past, it is right. Clearly there is a relationship between the rise and fall, on the one hand, of the collectivist idea and the fall and rise of globalization on the other. These two have sort of swung in opposing rhythms, so that the late 19th century globalization ended in the early part of the 20th century with the rise of the collectivist idea, and then it was the collapse of that collectivist idea, and the Berlin Wall, that allowed globalization to follow after that. I think that is a very neat historical way of looking at it, one which is

welcome in a town which sometimes regards history as bunk, and that I have no difficulty in agreeing with.

What about the future, though? Is it right to say that the dead hand will indeed recede further? You are a cautious optimist is the bottom line.

Will the dead hand recede or will it carry on, waving at us annoyingly? Here I suppose I roughly agree that, because of the intellectual bankruptcy of some of the old collectivist ideas, the dead hand probably will recede a bit more. But since endless agreement on the panel is incredibly boring, I think I might try and take issue a bit here and ask whether we might be more pessimistic and expect the dead hand to stick around a bit longer.

It seems to me that your optimism is basically premised, first of all, on the notion that if the idea of cutting back the government is analytically right, then it will triumph. But I am just not so optimistic that that's right. Often good ideas do not triumph. And you concede this along the way, but, as I say, just to stir things up, I might try and use your conclusion and forget your qualifications and go after your conclusion.

Is it really right that a good idea is going to win? Well, you talk about East Asia in your book. And since the financial crises of 1997 and 1998, which exposed the shortcomings

of crony capitalism and the residue of a policy of extremely pervasive state-directed lending in an economy like South Korea, it is true that the shortcomings of that statism was exposed in that crisis, but I am not so sure it is true that the statism, as a consequence, has been rolled back.

South Korea happens to be a country I know a bit about, having written about it when I was at *The Economist*, when I lived in Japan and covered South Korea as well. And that epiphany about the shortcomings of too much statism happened really in about 1980. They were trying, the policy community there, which includes a lot of extremely smart people -- and Seoul is packed full of think tanks, and some of them have a tenor not unlike Cato, and there is no shortage of people making these arguments there -- but they have not been able to escape, certainly not up until their own financial crisis in the late nineties and I don't think even now, the legacy of state-directed lending and unhealthy links between the government and the big chaebol conglomerates.

What about the rest of Southeast Asia? Is it really the case that the workouts in Indonesia and Thailand have led to a substantial difference in the economic structure there? I am not sure, and I doubt that it has been a total breakthrough.

What about the developing world more generally? The idea that you need to look at the broad economic policy climate

to understand why these countries aren't developing has been absolutely conventional wisdom, at least since the 1980's, in the World Bank, which was often writing the economic programs of the aid recipient countries. And 20 years of trying to push these ideas has only yielded mixed success. And to some extent Doug has talked about this, but it seems to me that there is more to development than simply having your ideas right, which I think sometimes brings hope. You can have your ideas right and simply lack enough qualified people to implement them, or the idea is open to enough question that you never totally win the argument and therefore you get stopped. Or you get stopped by vested interests.

And you can extend this argument beyond the developing world, and in fact right here into Washington. One of the central insights I think about the way that Washington works, popularized by my friend Jonathan Rausch, is that interest groupsglom onto the modern state in a way that makes it extraordinarily difficult for conservatives to actually cut the size of government spending as a share of GDP. We've had Reagan and we've had Gingrich, and it didn't make all that much difference.

We've had Mrs. Thatcher in Britain, and that also, if you look at the sheer numbers -- I know Bill Niskanen always has these in his head and he will wave a chart under my nose in a second if I get this wrong -- but I think I'm right in saying

that there has not been a substantial dent in the size of government, notwithstanding a lot of effort by conservatives who have been successfully elected.

So I think just as you rightly reject techno-determinism, the idea that the Internet is driving globalization inevitably forward, I would rather agree with that, and say that there is nothing deterministic about this. And ideas alone are not enough to win the argument. And this brings in also this point about August 1914, which is a great illustration of the way that people, for absolutely no logical reason at all, can take a prosperous world of growing economic integration and globalization and mess it up and greet the declaration of war in August 1914 with widespread celebrations all across Europe, welcoming this chance to go and die. As Brooke said, the poet, and you quote him: Come and die. It'll be great fun.

And when you have this capacity in human nature for perversity, I'm not sure that good ideas alone will win the day.

There is another reason, though, to doubt that the dead hand will recede as much as you hope. And that has to do with what the dead hand actually consists of now. And here I'm talking really not about the developing world but more about the United States and perhaps other G-7 countries. In some respects, government is doing too little as well as too much. And Brink

makes this point very well. He talks about the lack of a good legal framework to make private sector enterprise happen. And so that's one area where we would see government expanding. Well, we might not count that as a dead hand, so we'll set that aside.

Of course defense spending is going to go up now in this post-9/11 climate. And maybe we don't count that as the dead hand, but still it is another area where government is going to get bigger I think, rather than smaller.

There is then other areas, like health and education, where we could have a debate about whether we want to privatize more of these functions or not. But I think that as a matter of political fact, even if you did privatize Social Security, you would continue to have quite a lot of government regulation. So the notion of whether this really rolls back the dead hand, I personally doubt it.

It seems to me if you look at politics around HMO's in this country, which are extraordinarily politicized, the notion that you will get people's retirement savings not being politicized in the same way as HMO's have been strikes me as implausible. And you just have to look at the Enron fallout over 401(k)'s to see some of this happening. So I think that the dead hand could be pushed back apparently by privatizing Social Security, for example, but I am not sure that the reality would be that much of an advance.

And what you really have is the residual dead hand, which we can all agree on, that is industrial policy. But thanks to the Uruguay Round and the advance of trade agreements, there is only some areas of the world economy where this still continues to be a really egregious problem. One of them is agriculture.

Supposing that Bob Zoellick was successful in pushing the Doha Round of trade talks through to conclusion. And supposing that you were able to, for example, cut worldwide agricultural subsidies by half, which I would regard as a wonderful triumph, or even all of it. All of it would be about \$300 billion a year. And I think that is less than 1 percent of world GDP. So the scope for pushing back the dead hand really dramatically, at least in the G-7, seems less than perhaps sometimes you imply in your argument.

I want to set that final point in the context of your own introduction, where you say that people are making a mistake when they say that globalization has swept all before it, that everything is globalized, and there is large chunks of the world that aren't globalized still, and insofar as we have perverse policy outcomes, the fault lies in that lack of globalization. It seems to me that there is a danger in thinking that we can make advances by simply advancing globalization a lot, because there is a certain wall that you bump into. And therefore, in

order not to set up an argument that then dooms you to disappointment, it may be necessary to conceive of advance more in terms of the quality of policies, the quality of government, and less the overall size of it in the next decade.

(Applause.)

MR. LINDSEY: Ed is off in pursuit of sport and glory, so I will handle Q&A. There will be someone with a microphone who will come up to you after I recognize you. Please give your name and affiliation, and address your question to one or more of us and we will proceed from there.

MR. MILLIKAN: Al Millikan, Washington Independent Writers.

Isn't much of what you're analyzing in the past when you would relate it to the future of China, when you are talking specifically about the state of their legal system and how good and strong their institutions are, doesn't this predict some trouble ahead for China?

MR. LINDSEY: Yes. I talk about China at some length in the book, and I think it's a perfect example of this broader phenomenon of disillusionment with the centralizing ideologies of Marxist-Leninism, but the oppressive influence of that ideology still on the present. In particular, China continues to have an enormous state-owned enterprise sector, which I call a kind of zombie economy. Most of it is insolvent. But it acts as a kind

of mini-welfare state. It supplies schools and hospitals and of course employment and, directly, support for more than 100 million people. So closing down those insolvent enterprises in any kind of short order would cause massive dislocations.

Furthermore, in addition to this top-down intrusion of the state into economic life, there is a profound absence, or vacuum, of bottom-up institutions of property and contract rules. There is really very little in the way of a rule of law in China. It is shot through with corruption. The fact is that China was starting at such a low base that by removing the boot heel from the peasantry in the countryside and allowing people to form village and collective, and even private, enterprises, and welcoming foreign investment and allowing participation in the global economy, you were able to see enormous economic gains.

But I think we are coming closer and closer to the point where those easy, low-hanging-fruit gains are gone, and we are now in a period of time where the second half of the transition of China, from total state domination of economic life to a real rule of law-based market economy is going to be very, very dicey indeed. So far there hasn't been a single country on earth that has made the transition from state domination to a pure liberal model without some intervening cataclysm. And China has walked the tightrope successfully for a couple of decades, and I wish it luck in the years ahead.

MR. JOHNSON: Gordon Johnson, from the Center for Privatization, retired.

The developing countries complain bitterly about our dead hand in the form of textile protection and sugar, dairy products, the agriculture that Mr. Mallaby was talking about. Should we change our dead hand first or tell them first they have to change their form of governments? I guess you and Cato talk about economic freedom. The World Bank talks about forms of attributes for governance. Should they change first and then we relax, or do we have to relax to get them to change?

MR. LINDSEY: My preferred course is that we both clean up our acts at the same time. It is I think undeniable that our trade barriers against agricultural and textile goods from the developing countries is disgraceful and imposes a serious obstacle to development in those countries. And we ought to get rid of them. And it is terribly damaging to our credibility as spokesmen for free markets and free trade around the world to cling tenaciously to these protectionist policies while at the same time lecturing and hectoring other countries to get rid of their trade barriers. Our moral high ground is really shot when we pursue a "do what I say, not what I do" policy.

That said, I think even if the U.S. got rid of all of its remaining trade barriers, that would be no panacea for the developing world. And furthermore, if certain developing

countries really cleaned up their act and adopted sounder policies and established better institutions, the rich markets of the world are free enough for countries to experience dramatic economic gains. The countries of East Asia went from West African levels of poverty to Southern European levels of affluence in a generation with relatively protected American and European markets. They penetrated them sufficiently effectively to use export-oriented growth as a catalyst for tremendous economic gains.

So I don't think that, standing alone, our protectionist policies are a bar to fantastic gains in the developing world with better policies. But at the same time, I think they are an obstacle, they are baseless, they are unjustifiable, and they ought to go.

MR. HUTCHINSON: Martin Hutchinson, United Press International.

I wonder whether in fact you believe that the dead hand is really dead, in view of, for example, Enron, where they seem to have been engaging in a corporate structure that I've only seen personally in Bulgaria and in view of certain market liberalizations such as that in the City of London, which, by liberalizing the market, managed to destroy entirely the British system of the merchant banks that had been built for 200 years.

MR. LINDSEY: I try at all times in the book to not make utopian claims for markets. I think they are the best institutional arrangement we have at our disposal. But like all human institutions, they are run and operated by human beings who have the full panoply of vices as well as virtues, and those vices were on full display at Enron. And it may be that particular policies allowed this kind of criminal conduct to go unchecked, and those policies need to be revisited.

If there is a silver lining as far as the United States is concerned, it is that the Enron blowup is a scandal here, whereas in fact that kind of non-transparency and that kind of looting by insiders of shareholders and other investors is business as usual in most of the rest of the world.

MR. HUTCHINSON: It's a scandal as soon as the government changes, anyway.

MR. LINDSEY: It's a scandal as soon as it goes belly-up. And I think many commentators have pointed out that if Enron had happened in many other countries -- Japan, for example -- it would have been bailed out, and all of this would have been covered up and we would never have heard about it.

MR. HIZON: My name is Ernie Hizon, International Law Institute.

I decided to raise my hand because I heard so much talk about developing countries, and since I came from a developing

country I decided to give a comment. I think the problem really isn't too much globalization, but really too little globalization. Because the problem with developing countries is that even if there is a desire to embrace globalization, the structures within that society, whether political structures, economic structures, corruption in government, or government bureaucracy, don't allow it to happen. And so when the people who are not touched by globalization don't get three meals a day, then they become very resentful.

Now, my question is: Can it possibly work in those countries which do not have those structures to allow it to happen?

MR. LINDSEY: I think the technological improvements, the reduction in transportation costs, the reduction in communication costs, which make possible ever tighter international economic integration, won't do a bit of good, or will do precious little good, to hundreds of millions, or billions, of suffering people in the poorest countries on earth so long as those people are trapped in political and economic systems with terrible institutions and terrible policies. If you look at those countries at the bottom of the heap, they are located disproportionately in Africa, in the Middle East, and in South Asia, where participation in global markets is at a world

low and where state domination of economic life continues to be very high.

We know very much about the communist example in the Soviet Union and elsewhere, and we forget about the Nasserite Arab socialism which swept in the Middle East in the fifties and sixties and imposed state-owned industries and price controls throughout economic life. But that part of the world has never had a reformer, never had anyone who has come through and systematically tried to pull the country out of its failed collectivist experiment.

And throughout those regions in particular, institutions, basic protection of legal rights, is miserably ineffective and shot through with corruption. To the point in Africa where you have kleptocracies that just are basically criminal enterprises masquerading as governments, or, even worse, the just complete Hobbesian chaos of civil war, where hundreds of thousands, or even millions, of people are dying with very little attention paid to it by the rest of the world.

So, no, globalization isn't this fairy dust that falls on the world and makes everything good. My point throughout the book is that globalization is just a generalization for a process that occurs on a country-by-country level. It is a bottom-up phenomenon. It does its good deeds through institutional and policy changes at the national level.

MR. PREEG: Ernie Preeg, Manufacturers Alliance.

I look forward to reading the book, based on your comments. I wonder whether you would comment a bit on Mexico as quite a dramatic and important example of the dead hand perhaps receding in a definitive way. Just 10 or 15 years ago the movement toward political as well as economic freedom was quite striking. And also, the later comment might be what you might call the effects elsewhere, particularly in the hemisphere, and maybe one comment on the Brazil relationship, which has been getting comparative comment, that 20 years ago Mexico and Brazil had low comparable levels of manufactured exports and now Mexico has five times as many as Brazil. Twenty years ago they both had comparable levels of per capita income; today Mexico has twice the per capita income of Brazil. And Brazilians are talking about this. So I see this as part of the impact of Mexico.

MR. LINDSEY: I agree with the analysis implied in your question. I think that Mexico is another case study of the phenomena that I think is generally taking place around the world. The Mexican Revolution in the early years of the 20th century fully embraced state domination of economic life and shunned participation in international markets as neo-Colonialism. That economic centralization went hand in hand with political centralization, in the form of the perfect dictatorship of the PRI.

And all of this has come unwound through the failures of those policies, as manifested in bankruptcy and the debt crisis of 1982, leading to fitful half measures of reform, and then crisis, and then another burst of reform, and then crisis, and then political changes, and so on and so forth. So that you have in Mexico now some real progress, development of a real internationalized, productive business sector that is unlike anything that has ever existed in Mexico before. You have a class of people who think about their relationship to political bosses and their relationship to the economic future in ways totally different from ever before. And yet the dinosaurs remain quite powerful in some localities and in the south, so it is a tough slog.

Brazil's nickname is the country of the future and always will be. It has avoided the cataclysmic blowouts of some countries like Mexico and has maintained the kind of muddling along strategy. It has moved significantly, but ultimately halfheartedly, away from old models and towards more liberal models. It has tremendous resources that it can fall back on and cheat on, so that it doesn't need to have as good policy as to maintain a certain level of economic performance. So it is a less dramatic story than in Mexico.

I think I will wind it up with one more question, but first I want to just say a word about Sebastian's comments. When

you invite people to come over and talk about your book, you expect them to find something to agree with. But what I think was particularly heartwarming is that, in finding something to disagree with, you had to strain so hard.

(Laughter.)

MR. LINDSEY: Because in fact the main message of my book is, I think, an anti-triumphalist one, that even though there have been dramatic changes in policies around the world over the past 20 years, the assumption that markets have triumphed and that market forces are this juggernaut that are irresistible I think is to be strongly resisted.

When you force me to a conclusion at the end, and ask, "On net, will things be better a generation from now than they are today?" I will say, "Yes, I think so." Because I think policies have changed dramatically over the past generation. They have changed because the old policies didn't work. Political systems, although they are nowhere near as efficient as the discovery process of the market, do seem to have enough feedback mechanisms to have produced the change we have experienced thus far. And so I hold some wane confidence that over the years and decades to come we will move a little bit closer towards the liberal ideal. But I think the dominant mood is a cautionary one and not a terribly optimistic one.

Last question?

MR. HINSON: Steve Hinson, from the Institute for Research on the Economics of Taxation.

You've mentioned a number of instances where countries have managed to make some improvements internally and reform themselves internally, against their own domestic dead hands. But there are some dead hands that are on the international front.

Just to name a few, I think the push for Kyoto out of Europe is really more of an effort to get the United States to operate as badly as they do in Europe and to keep the Third World from perhaps getting ahead; the OECD call for tax harmonization, which keeps capital from flowing to the developing world; the imposition of the same restrictions that the developed countries have in many ways to developing countries that can't afford it. This is kind of a dangerous trend. This is a dead hand across national borders.

Do you see any way around that problem?

MR. LINDSEY: I think at least some of the things you talk about represent the general trend of kind of government cartels that represents a real threat to the continued progress of liberal reform. In imagining mechanisms that explain the positive changes of the past couple of decades, I suggest that a kind of international demonstration effect does provide some feedback mechanisms, for good or for ill.

When 19th century Bismarckian Germany seemed to be at the cutting edge of economic life and also was highly centralized, it really did provide ammunition for collectivists in Great Britain, the United States and elsewhere that this is the model of the future. Likewise, when the Soviet Union was apparently growing, or at least industrializing, during the thirties, while the West was languishing in the Great Depression, it provided a real impetus to collectivist policies in the West. And likewise, in recent decades, when countries have turned away from more dirigiste models towards more market-oriented models and prospered, that has helped.

I think the rise of East Asia was a major factor in disillusionment with import substitution models in Latin America and elsewhere. So to the extent that international agreements that stop policy competition take effect, then that kind of demonstration effect is going to be squelched, and therefore one of the mechanisms for beneficial policy change will have been undermined.

I think there are some international agreements and some international institutions that help push in a more liberal direction. I think the WTO, on balance, is one. But many of the international institutions today, the IMF and the World Bank, I think, on net, are actually harmful for the progress of liberal economic reform.

With that, thank you very much for coming. And please join us upstairs for a reception.

(Applause.)

(Whereupon, the Cato Institute Book Forum concluded.)