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AGAINST THE DEAD HAND

The Uncertain Struggle for Global Capitalism

BRINK LINDSEY

AGAINST THE DEAD HAND

What's the most powerful, dynamic, and irresistible force at work in the 21st-century economy? If you said globalization, millions of people agree with you—and all of you might be wrong. In *Against the Dead Hand*, Brink Lindsey looks at the realities of globalization and concludes that the genie is not yet out of the bottle.

A senior fellow at the Cato Institute and Director of the Institute's Center for Trade Policy Studies, Lindsey is in a position to know that much of the triumphalism that followed the collapse of the Soviet Union and the emergence of world markets was premature. He demonstrates that international economic integration has faced—and will continue to face—a daunting array of obstacles still in place after the worldwide failure of top-down economic control.

Against the Dead Hand traces the rise and fall of the central-planning ideologies that dominated the 20th century, from the extreme of Soviet Communism to social democracy in the West to the protectionism seen virtually everywhere. It reveals the remarkable extent to which the "dead hand" of the old collectivist dream still shapes the contours of today's world economy, and it explains the complex political and economic dynamics that drive globalization forward in spite of the obstacles.

This provocative book combines historical perspective and analytical insight

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*The Uncertain Struggle
for Global Capitalism*



BRINK LINDSEY



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For Matthew, Michael, and Jack



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Preface

In the popular view, globalization is an immensely powerful, almost irresistible force in contemporary affairs. It is commonly portrayed as a kind of genie that, having somehow escaped from the bottle, now bends the whole world to its will. National governments in particular have supposedly lost much of their sovereignty to globalization's new imperium.

This view of things transcends ideological divisions. Both friends and foes of globalization portray it as the more-or-less unchecked triumph of markets over governments—of economic forces over political power. Whether the victory is to be celebrated or mourned is, of course, hotly disputed, but not whether it has in fact occurred.

This book takes a contrarian position. In it, I argue that the popular image of globalization amounts to a gross distortion of reality. What that image lacks, most fundamentally, is any sense of historical context. This book sets out to address that deficiency; it attempts to reconnect globalization with the past from which it has arisen.

When the swirl of contemporary events is placed in proper context, it becomes clear that globalization is not some demonic force unloosed upon the world. Rather, it has been a deliberately chosen response to the worldwide failures of central planning and top-down control. Over the past couple of decades, governments around the planet have been confronted with serious economic ills—both acute crises and chronic underperformance—that were caused by decades of dysfunctional anti-market policies. They have reacted to those ills by removing government controls over economic life and expanding the scope of market competition. In particular, one result of the general liberalization has been the reduction of barriers to international trade and investment. Most dramatically, vast populations that were previously cut off from the rest of the world—in the Soviet bloc, China,

India, and many other developing countries—have opened up and rejoined the international market economy. As a result, it has become possible, for the first time in the better part of a century, to speak of a truly global division of labor.

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 historical causation precisely backwards.

But if globalization arose out of a break with the collectivist past, that break has not been a clean one. For all the crowing on one side and teeth-gnashing on the other, the triumph of markets is nowhere in sight. The world is only just beginning to overcome a century-long infatuation with state-dominated economic development; market competition continues to be hindered by a wretched excess of top-down controls, and at the same time undermined by a lack of supporting institutional infrastructure. The invisible hand of markets may be on the rise, but the dead hand of the old collectivist dream still exerts a powerful influence.

Furthermore, the advance of markets has occurred more by default than by anything else. There have been exceptions, but most of the national leaders who have instituted pro-market reforms have done so, not because of any ideological commitment to economic liberalism, but out of sheer pragmatism—in other words, for lack of any plausibly viable alternative. Consequently, reforms have all too often been half-hearted, and therefore tentative and incomplete.

The present episode of globalization is thus best understood as a transitional era—a turbulent but hopeful interregnum between the dashed hopes of centralized control and the full promise of economic freedom. During this period, elements of past and future strain against each other, and the tensions sometimes erupt in spectacular upheavals. The financial crises that have upended East Asia, Russia, and Latin America in recent years are testaments to the instability of the present state of affairs.

As director of the Center for Trade Policy Studies at the Cato Institute, I monitor international trade and investment policies in the United States and elsewhere and make recommendations as to how those policies can be improved. My job therefore puts me squarely in the middle of the current

furor over globalization: the North American Free Trade Agreement, the World Trade Organization, and the like are the subjects I deal with for a living. And, prior to assuming my present position with the Cato Institute, I served as an international trade lawyer for a number of years, representing mostly East Asian companies that exported goods to the United States. That experience, which entailed spending three or four months a year in various spots along the Pacific Rim, gave me a more direct and personal exposure to the dynamism and disappointments of life in the global economy.

In my professional capacity, I have confronted again and again the historical myopia that afflicts the public debate over globalization. Both sides blithely assume that free markets are in the saddle and riding the world. It is therefore all too easy for opponents of market-oriented policies to blame them for all the world's harshness and heartache. The influence of the past on present-day conditions is too often unacknowledged; the miserable failures that preceded pro-market reforms are too often forgotten; the continuing harm inflicted by remaining anti-market policies is too often ignored. The prevailing misconceptions about globalization thus contribute to the controversy surrounding it—thereby increasing the likelihood that the advance of desperately needed economic liberalization will be slowed or even reversed.

I have written this book in an effort to set the record straight—to tell the story of globalization properly and to offer a clear-eyed assessment of its progress and prospects. In undertaking this task, I have had to stray far beyond my professional expertise in law and public policy and delve into the realms of history, economics, sociology, and political science. While I have done my best to get the details right, I have no doubt that specialists will wince occasionally at my forays into their disciplines. I beg their indulgence and defend myself on the ground that a large canvas calls for broad strokes—and the past, present, and future of the world economy is a very large canvas indeed. My hope is that getting the big picture right will excuse any minor lapses on details.

I owe a debt of gratitude to many people. First of all, Ed Crane, president of the Cato Institute, was unfailingly supportive from the very start. Without his confidence in me and his generosity in providing me with the time and resources I needed, this book would not have been possible. Let me also acknowledge at the outset Matt Holt, my editor at John Wiley & Sons, for believing in my work and helping me through all the twists and turns of the publishing process.

In doing the research for this book I traveled to various, far-flung parts

of the globe, and was aided along the way by a number of people who helped me plan itineraries, schedule interviews, and get to out-of-the-way places. I would like to single out in particular Byeong-Ho Gong, Nohyung Park, Jeff McDonald, Tomas Larsson, Pornprom Karnchanachari, Chuck Holmes, Barun Mitra, Jal Khambata, Gerardo Bongiovanni, and Fernando Bach. Virginia Postrel, David Frum, Doug Irwin, Razeen Sally, David Boaz, Tom Palmer, Ian Vásquez, David Henderson, and José Piñera were kind enough to review various preliminary drafts. The end product benefited greatly from their helpful comments and criticisms; of course, I absolve them from all responsibility for any errors that remain. Scott Lincicome, my research assistant, was invaluable in tracking down sources, checking citations and end-notes, and compiling the list of references.

My wife Debbie deserves a medal for her superhuman exertions at home while I was even more distracted than usual. And finally, let me give a verbal hug to my three sons: Matthew, Michael, and Jack. This book is dedicated to them—and to the messy, tragic, wonderful world that they and all our children will inherit from us.

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