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# Old Wine in New Bottles: A Bitter Taste

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The new experiments, as always, are accompanied by confident proclamations, which merit all the respect they deserved in the past.

Recalling again how little is understood, one has to evaluate with care and caution the "neoliberal economies and philosophy [that have] dominated intellectual discourse, radiating out primarily from the United States" (Kelsey, 17), with due attention to the rationale of the argument (such as it is) and to the lessons of past and present history — among them, the cynicism of the intellectual discourse intended to veil "really existing free market doctrine." It makes little sense to ask what is "right" for the United States (or India, or New Zealand,…) as if these were entities with shared interests and values. Within the realm of practical choice, that is rarely true. And what may be right for people in the United States, given their unparalleled advantages, could well be wrong for others who have a much narrower scope of choices, which have to be made in the light of particular historical and socio-cultural contingencies. We can, however, reasonably anticipate that what is right for the people of the United States (or India, or New Zealand,…) will only by the remotest accident conform to what is preferred by the "principal architects of policy," for much the reasons that Adam Smith understood very well.

in the labor market, contrary to the mistaken assumptions of pre-capitalist society, which upheld a misguided "right to live." Those who cannot survive under harsh market discipline may enter the workhouse-prison, or preferably, go somewhere else — not impossible in those days, as North America and parts of the Pacific were being cleared of the native scourge. These are virtual laws of nature, Ricardo and others solemnly explained, as certain as the principle of gravitation.

With the triumph of right thinking at the service of British manufacturing and financial interests, the people of England were "forced into the paths of a utopian experiment," Karl Polanyi wrote in classic work, the most "ruthless act of social reform" in all of history, which "crushed multitudes of lives." But a problem arose. The stupid masses, unable to comprehend the compelling logic of the science, began to draw the conclusion that if we have no right to live, then you have no right to rule. The British army had to cope with riots and disorder, and soon an even greater threat took shape: "factory laws and social legislation, and a political and industrial working class movement sprang into being…to stave off the entirely new dangers of the market mechanism." Chartism and socialist organizing posed even greater terrors. The science, which is fortunately supple, took new forms as elite opinion shifted in response to uncontrollable popular forces, discovering that the "right to live" had to be preserved under a social contract of sorts.

That story too has been repeated over the years, in the United States as well, and in other industrializing societies. Today the social contract that has been gained by popular struggle is once again under attack, primarily in the Anglo-American societies. That is one aspect of what the business press calls "capital's clear subjugation of labor…for the past 15 years."[15]

[15] Liscio, J. [1996] *Barron's*, April 15.



# Contents

ground as its libertarians bail out Electricorp when it gets in trouble.[14]

There is a great deal more to say about these matters, but some conclusions seem fairly clear: as in the days of Smith and later Ricardo, the approved doctrines are carefully crafted and employed for reasons of power and profit. There is no new departure when the "New Zealand experiment" takes the form of "socialism for the rich" as part of the international "triumph of the market" based on a system of global corporate mercantilism in which "trade" consists in substantial measure of centrally-managed intrafirm transactions and interactions among huge institutions, totalitarian in essence, designed to undermine democratic decision-making and to safeguard the masters from market discipline; a system in which "Oligopolistic competition and strategic interaction among firms and governments rather than the invisible hand of market forces condition today's competitive advantage and international division of labor in high-technology industries" (OECD, 1992). It is the poor and defenseless who are to be instructed in the stern doctrines of market discipline.

## -8-

From the origins of the industrial revolution, there have been repeated efforts to implement within the industrial societies themselves the kinds of "experiments" imposed elsewhere, but with only limited success. The first was in England in the early 19th century, when the doctrines of "neoliberalism" were forged as an instrument of class warfare: specifically, the doctrine that one only harms the poor by efforts to help them, and that people have no rights other than what they can gain

[14] Ruigrok, W. [1996] *FT*, Jan. 5.

McQuaid, K. [1994] *Uneasy Partners* Baltimore-London, Johns Hopkins University Press,

illusion, but to ensure that Mexico would be "locked in" to the "reforms" that had made it an "economic miracle" (for U.S. investors and Mexican elites), deflecting the danger detected by a Latin America Strategy Development Workshop at the Pentagon in September 1990: that "a 'democracy opening' in Mexico could test the special relationship by bringing into office a government more interested in challenging the U.S. on economic and nationalist grounds." Despite the rich variety of means available to deter the threat of democracy, the powerful cannot be certain that the plague may not break out somewhere.

Of course, the United States is not alone in its conceptions of "free trade," even if its ideologues lead the cynical chorus. The doubling of the gap between rich and poor countries from 1960 is substantially attributable to protectionist measures of the rich, the UN Development Report concluded in 1992. The practices persist through the Uruguay Round, the 1994 UNDP report observes, concluding that "the industrial countries, by violating the principles of free trade, are costing the developing countries an estimated $50 billion a year — nearly equal to the total flow of foreign assistance" — much of it publicly-subsidized export promotion.[13]

To illustrate with a different measure, a recent study of the top 100 transnationals in the *Fortune* list found that "virtually all appeared to have sought and gained from industrial and/or trade policies [of their home government] at some point," and "at least 20…would not have survived as independent companies if they had not been saved in some way by their governments." One is Gingrich's favorite cash cow, Lockheed, saved from collapse by $2 billion federal loan guarantees provided by the Nixon administration. Again, New Zealand breaks no new

[13] For discussion, see
Toussaint, E. & Drucker, P. eds., [1995] *IMF/World Bank/WTO, Notebooks for Study and Research* 24/5, International Institute for Research and Education, Amsterdam.



## -1-

Just as Jane Kelsey's illuminating study of "the New Zealand Experiment" was about to appear, the Royal Institute of International Affairs in London published the 75th Anniversary issue of its journal *International Affairs*, with survey articles on major issues of the day. One is devoted to "experiments" of the kind to which New Zealand is subjecting itself, and their intellectual roots. The author, Paul Krugman, is a leading figure in international and development economics. He makes five central points, quite pertinent in this context.

His first point is that knowledge about economic development is very limited. Much of economic growth has to be attributed to the "residual" — "the measure of our ignorance," as Robert Solow calls it. In the best studied case, the United States, two-thirds of the rise in per capita income falls within this category. Similarly, the Asian NICs provide "no obvious lessons," having followed "varied and ambiguous" paths that surely do not conform to what "current orthodoxy says are the key to growth." Krugman recommends "humility" in the face of the limits of understanding, and caution about "sweeping generalizations."

Krugman's second point is that, nevertheless, sweeping generalizations are constantly offered by policy intellectuals and planners (including many economists). Furthermore, they provide the doctrinal support for policies that are implemented, when circumstances allow.

Third, the "conventional wisdom" is unstable, regularly shifting to something else, perhaps the opposite of the latest phase — though its proponents are again brimming with confidence as they impose the new orthodoxy.

Fourth, it is commonly agreed in retrospect that the policies didn't "serve their expressed goal" and were based on "bad ideas."

Finally, it is usually "argued that bad ideas flourish because they are in the interest of powerful groups. Without doubt that happens…"[1]

That it happens has been a commonplace at least since Adam Smith condemned the mercantilist theories designed in the interests of the "merchants and manufacturers" who were "the principal architects" of Britain's policies, mobilizing state power to ensure that their own interests were "most peculiarly attended to" however "grievous" the impact on others, including the people of England. It not only happens, but does so with impressive consistency. Today's "New Zealand Experiment" breaks no new ground when "the benefits [of the policies] rapidly accrued to the corporate sector" that had the "manifest…strategic influence" in their design, and "political actors stack the deck in favour of constituents who are intended beneficiaries" (Kelsey, 8, 72–3).

That is the heart of the matter, and I think it calls for some restatement of Krugman's conclusions. The "bad ideas" may not serve the "expressed goal," but they typically turn out to be very *good* ideas for their proponents. There have been quite a few experiments in economic development in the modern era, and though it is doubtless wise to be wary of sweeping generalizations, still they do exhibit some regularities that are hard to ignore. One is that the designers seem to come out quite well, though the experimental subjects, who rarely sign consent forms, quite often take a beating.

The first such experiment was carried out shortly after Smith wrote, when the British rulers in India instituted the "permanent settlement" of 1793, which was going to do wondrous things. The results were reviewed by a British Enquiry Commission 40 years later. It concluded that "The settlement fashioned with great care and deliberation has to our painful knowl-

[1] Krugman, P. [1995]. "Cycles of conventional wisdom on economic development," *Int. Affairs* 71.4, October.



ton's expansion of the Pentagon budget, quickly topped by the congressional "libertarians," was his immediate response to the "popular mandate for conservatism" in November 1994, and was supported by an overwhelming one-sixth of the population.

But all understand very well that democracy is a nuisance to be ignored as long as possible, and that free enterprise means that the public pays the costs under various guises, bearing the risks if things go wrong, while profit is privatized. And in pursuit of these ends, decision-making is to be transferred as much as possible from the public arena to unaccountable private tyrannies, and "locked in" by treaties that undermine the potential threat of democracy.

## -7-

New Zealand's Law Commission is on target in observing that a crucial feature of the international trade treaties is that they "limit in substance the power of the New Zealand Parliament" (Kelsey, 104). That is a good part of their function. In the United States, it is no longer possible to produce the euphoric predictions about the benefits that NAFTA will surely bring, so it is now tacitly conceded by sophisticated elites that the advocates of NAFTA were lying all along. The Clinton administration "forgot that the underlying purpose of NAFTA was not to promote trade but to cement Mexico's economic reforms," *Newsweek* correspondent Marc Levinson loftily declares in *Foreign Affairs*, failing only to add that the contrary was loudly claimed to ensure the passage of NAFTA, while the critics who emphasized this "underlying purpose" were efficiently excluded from the debate.[12]

The main goal of NAFTA, we can now concede, was not to achieve the highly touted wonders of "trade" and "jobs," always

[12] Levinson, M. [1996] *Newsweek*, *FA* March/April.

who were masters at the art, extolling the glories of the market to the poor at home and the service areas abroad while boasting proudly to the business world that Reagan had "granted more import relief to U.S. industry than any of his predecessors in more than half a century" (Secretary of Treasury James Baker, who was far too modest; in fact, it was more than all predecessors combined, as the Reaganites doubled import restrictions). Meanwhile the administration stepped up the transfer of public funds to private power, primarily through the Pentagon system. Had these extreme measures of market violation not been pursued, it is doubtful that such central sectors of industry as steel, automotive, machine tools, or semiconductors would have survived Japanese competition, or been able to forge ahead in emerging technologies, with widely proliferating effects through the economy. That experience illustrates once again that "the conventional wisdom" is "full of holes," Alan Tonelson points out in reviewing the Reaganite record of market interference in *Foreign Affairs*. But the conventional wisdom retains its virtues as an ideological weapon to discipline the defenseless.[11]

There is also no need to explain the doctrines to the leader of today's "conservative revolution" in Washington, Newt Gingrich, who sternly lectures 7-year old children on the evils of welfare dependency while winning the national prize in bringing federal subsidies to his rich constituents, thanks to such paragons of free enterprise as Lockheed, the major employer in his district, and others like it. Or to the Heritage Foundation, which crafts the budget proposals for the congressional "conservatives," and therefore called for (and obtained) an increase in the Pentagon budget beyond Clinton's increase to ensure that the "defense industrial base" remains solid, protected by the nanny state and offering dual-use technology to its beneficiaries, to enable them to dominate commercial markets. Clin-

[11] Tonelson, A. [1994] *Foreign Affairs*, July/August.



edge subjected almost the whole of the lower classes to most grievous oppression," leaving "misery" that "hardly finds a parallel in the history of commerce," the director of the Honorable Company added, as "the bones of the cotton-weavers are bleaching the plains of India."

But the experiment can hardly be written off as a failure. Governor-General Lord Bentinck noted that "the 'Permanent Settlement,' though a failure in many other respects and in most important essentials, has this great advantage, at least, of having created a vast body of rich landed proprietors deeply interested in the continuance of the British Dominion and having complete command over the mass of the people," whose growing misery is therefore less of a problem than it might have been. British investors didn't lose out either. Apart from the enormous wealth that flowed to individuals and companies, India was soon financing 40% of Britain's trade deficit while providing a protected market for its manufacturing exports; contract laborers for British possessions from the Caribbean, to Africa, to Ceylon and Malaysia "replacing earlier slave populations," the Cambridge Economic History of India notes; troops for Britain's colonial and European wars; and the opium that was the staple of Britain's exports to China — not quite by the operations of the free market, just as the sacred principles were overlooked when the useful substance was barred from England.[2]

In brief, the first great experiment was a "bad idea" for the subjects, but not for the designers and local elites associated with them. That coincidence has recurred with curious regularity until the present day. The consistency of the record is no less impressive than the flights of rhetoric hailing the latest "showcase for democracy and capitalism" and "testing area for

[2] For references, see Chomsky, N. [1993] *Year 501* Boston, South End; London, Pluto.

Also: Bayly, C.A. [1988] *The New Cambridge History of India* Cambridge: Cambridge University Press.

scientific methods of development" as a remarkable "economic miracle" — and the consistency of what the rhetoric conceals.

The most recent example is Mexico. It was highly praised for its strict observance of the rules of the "Washington consensus" that guides the thinking of New Zealand's technocrats, and offered with pride as a model for others as wages collapsed, the poverty rate rose almost as fast as the number of billionaires, foreign capital flowed in (mostly speculative, or for exploitation of super-cheap labor kept under control by the brutal "democracy"), and the other familiar concomitants of "showcases" and "miracles." Also familiar is the denouement, the collapse of the house of cards in December 1994, as had been predicted by observers who chose not to watch what was happening through the distorting prism of the "bad ideas" that "flourish because they are in the interest of powerful groups."

## -2-

The historical record offers some further lessons. In the 18th century, the differences between the First and Third World were far less sharp than they are today. Two obvious questions arise:

1. Which countries developed, and which not?
2. Can we identify some operative factors?

The answer to the first question is fairly clear. Outside of Western Europe, two regions developed: the U.S. and Japan — that is, the two regions that managed to escape European colonization. Japan's colonies are another case, in no small part because Japan, though a brutal ruler, did not rob its colonies but developed them, at about the same rate as Japan itself.

What about Eastern Europe? In the 15th century, Europe began to divide, the West developing and the East becoming its



are privatized, for sensible reasons. It was understood that social spending could play the same stimulative role, but it is not a direct subsidy to the high tech corporate sector, and it has inherent unwelcome features. Social spending has democratizing effects: people have opinions about where a hospital or school should be, but not about air defence systems that lay the groundwork for commercial computers. And social spending tends to be redistributive. Military spending has none of these defects, and is also easy to sell, at least, as long as democratic forms can be deprived of substance by deceit and manipulation. Truman's Air Force Secretary Stuart Symington put the matter forthrightly in January 1948: "The word to talk was not 'subsidy'; the word to talk was 'security'." As industry representative in Washington, he regularly demanded enough procurement funds in the military budget to "meet the requirements of the aircraft industry," as he put it. One consequence is that "civilian aircraft" is now the country's leading export, and the huge travel and tourism industry, aircraft-based, is the source of major profits and a hefty favorable trade balance in services. The same pattern prevails in computers, electronics generally, metallurgy, biotechnology, telecommunications and information processing, in fact just about every dynamic sector of the economy.

## -6-

It is a bit hard to keep a straight face when "evangelical libertarian intellectuals and free-market economists" praise the "conservative free-market governments in the U.S. and elsewhere," admiring "Anglo-Saxon laissez-faire" (Kelsey, 10, 17, 19). Such posturing may pass in the doctrinal institutions, but would simply elicit ridicule in the corridors of power, corporate or state.

The story continues to the present. There was no need to explain "really existing free market doctrine" to the Reaganites,

protection at the same time — but against England, not Japan. No such luck, under really existing free market doctrine.[10]

A century after England turned to liberal internationalism — temporarily, and with reservations — the United States followed the same course, for much the same reasons. By 1945, after 150 years of extreme protectionism, violence, and formation of an efficient developmental state, the U.S. had become by far the richest and most powerful country in the world, and like England before it, suddenly came to perceive the merits of liberal internationalism on a "level playing field." But, again, with crucial reservations.

One was that, like Britain, Washington used its power to bar independent development elsewhere. Latin America was permitted "complementary" but not "competitive" development, a harsh condition imposed upon this "testing area for scientific methods of development" in accord with "American capitalism." Aid to newly-independent Egypt and (in complex ways) India was conditioned on similar principles. Attempts to violate the rules have often elicited extreme violence, under Cold War pretexts when they were available, others when they were not.

Another crucial reservation was (and remains) domestic. One fundamental component of free trade theory is that public subsidies are disallowed. But the American business world and leading economists expected a return to the Great Depression when pent-up consumer demand from the war was exhausted and business leaders were aware that advanced industry "cannot satisfactorily exist in a pure, competitive, unsubsidized, 'free enterprise' economy" and that "the government is their only possible saviour" (*Fortune*, *Business Week*). Business leaders quickly settled on the Pentagon system as the optimal device to impose the costs on the public while profits

[10] see [5] Rosen, S. [1995] "Military Effectiveness," *International Security* 19.4



service area, the original Third World. The divisions deepened into early in this century, when Russia extricated itself from the system. Despite Stalin's awesome atrocities and the huge destruction of the two World Wars, the USSR did undergo significant industrialization, as did its satellites. It is the "Second World," not part of the Third World — or was, until 1989. Into the early 1960s, the documentary record reveals, the great fear of Western planners was that its economic growth would allow it to catch up with the West and that the "demonstration effect" would induce others to pursue a course of "economic nationalism." With the Cold War over, most of Eastern Europe is returning to the status quo ante: regions that were part of the industrial West are regaining that status, while typical Third World structures are being restored in the traditional service areas.

The world is more complicated than any simple description, but this is a pretty good first approximation, which tells us more about the question at hand, and also about the Cold War. What it suggests is supported by the observation that, although John F. Kennedy's "monolithic and ruthless conspiracy" dedicated to world conquest is now a fading memory, the Pentagon budget remains at normal Cold War levels and is now increasing, facts that help a rational person to draw some conclusions about the role of the Soviet threat in the thinking of planners; and Washington's international policies have undergone little more than tactical adjustment and rhetorical revision now that past pretexts can no longer be reflexively dusted off the shelf when needed, more facts that help a rational person gain some understanding of the nature of the Cold War.

Returning to question[3], it seems that development has been contingent on freedom from "experiments" based on the "bad ideas" that were very good ideas for the designers and their

[3] Krugman, P. [1995]. "Cycles of conventional wisdom on economic development," *Int. Affairs* 71.4, October.

collaborators. The ability to fend off such measures does not guarantee economic development, but does seem to have been a prerequisite for it.

Let's turn to question[4]. How did Europe and those who escaped its clutches succeed in developing? Part of the answer seems exceptionless: By radically violating approved free market doctrine. That conclusion holds from England to the East Asian growth area today, surely including the United States, "the mother country and bastion of modern protectionism," economic historian Paul Bairoch observes in his recent study of myths concerning economic development. The most extraordinary of these, he concludes, is the belief that protectionism impedes growth: "It is difficult to find another case where the facts so contradict a dominant theory," a conclusion supported by many other studies.[5]

## -3-

Reviewing their programs of economic development after World War II, a group of prominent Japanese economists point out that they rejected the neoclassical economic counsel of their advisers, choosing instead, the editor observes, a form of industrial policy that assigned a predominant role to the state, a system that is "rather similar to the organization of the industrial bureaucracy in socialist countries and seems to have no direct counterpart in the other advanced Western

[4] For references, see Chomsky, N. [1993] *Year 501* Boston, South End; London, Pluto.

Also: Bayly, C.A. [1988] *The New Cambridge History of India* Cambridge: Cambridge University Press.

[5] Bairoch, [1993] *Economics and World History* Chicago: University of Chicago Press.

For more detail on the U.S. case, see Eckes, A. [1995] *Opening America's Market: U.S. Foreign Trade Policy since 1776* Chapel Hill & London, U. of North Carolina Press.



## -5-

In 1846, Britain did finally turn to liberal internationalism, though not without significant reservations. Thus 40% of British textiles continued to go to colonized India, and much the same was true of British exports generally. In the latter part of the 19th century, British steel was blocked from U.S. markets by very high tariffs that enabled the U.S. to develop its own steel industry; the noted pacifist Andrew Carnegie was able to construct the world's first billion dollar corporation thanks to high tariffs, naval contracts, and resort to state violence to block labor organization and impose virtual tyranny on manufacturing towns. But India and other colonies were still available, as they were when British steel was later priced out of international markets. India again is a particularly interesting case; it produced as much iron as all of Europe in the late 18th century, British engineers were still studying Indian steel manufacturing techniques in 1820 "in order to help English steel makers close the technological gap with India," a Harvard military historian observes, and Bombay was producing locomotives at competitive levels when the railway boom began. But "really existing free market doctrine" destroyed these sectors of Indian industry just as it demolished India's textile industry, along with its advanced ship-building industry and others that had made it the world's leading center of manufacture before the British takeover. The United States and Japan, in contrast, could adopt Britain's model of radical violation of market principles. And when Japanese competition proved to be too much to handle, England simply called off the game: the empire was effectively closed to Japanese exports, one significant part of the background of World War II in the Pacific. Indian manufacturers asked for

independent development. New England, in contrast, was able to follow the path of the mother country, barring cheaper British textiles by very high tariffs, as Britain had done to India. Without such measures, half of the emerging textile industry of New England would have been destroyed, the sole inquiry into the topic by an economic historian concludes, with the obvious effects on the many industrial spin-offs.[8]

It is curious that the central question of American economic history seems to be virtually off the agenda, apparently regarded as "politically incorrect."

To be sure, Britain did finally turn to liberal internationalism — in 1846, after 150 years of protectionism, violence, and creation of a strong and efficient state had enabled it to gain more than twice the per capita industrialization of any competitor, so that a "level playing field" looked fairly safe. By 1846, India exported no cotton goods at all, and had to import cloth from England, over four times as much as 10 years earlier. England had, at last, become pre-eminent in textile production, having succeeded in de-industrializing India by force. "It is striking," Mukerjee observes, "that English economists and statesmen became adherents of the doctrine of free trade as the surest way to the wealth of nations after the rise of the Lancashire cotton industry through the tariff and prohibition against French goods, Irish woollen goods and Indian silk and cotton imports." The measures that Britain undertook were extreme, going well beyond extremely high protective tariffs. The contention of ideologues that Adam Smith "convinced England of the merits of free international trade" (George Stigler, Nobel laureate in economics of the University of Chicago) cannot withstand even the slightest exposure to empirical fact.[9]

[8] Bils, M. [1984] *Journal of Economic History*, No. 4.

[9] Stigler, Introduction to the University. of Chicago bicentennial edition of Smith's *Wealth of Nations.* On his misrepresentations of Smith's text, see *Year 501.*)



countries" (Tokyo University economist Ryutaro Komiya). "The 'ideology' of industrial policy during this [early postwar] period was not based on neoclassical economics or Keynesian thinking, but was rather neomercantilist in lineage," one contributor adds, and "also was distinctly influenced by Marxism." Market mechanisms were gradually introduced by the state bureaucracy and industrial-financial conglomerates as prospects for commercial success increased. The defiance of orthodox economic precepts was a condition for the Japanese miracle, the economists conclude.

Turning to Japan's former colonies, the first extensive study of the U.S. Aid mission in Taiwan discovered that the U.S. advisers and Chinese planners, "although versed in Anglo-American economics," disregarded the doctrines and the orders from Washington. The U.S. technical experts in Taiwan chose "to jettison free-market nostrums from the start and collaborate with Chinese officials" in developing a "state-centered strategy," as Taiwan resumed the development of the colonial period. Policy was based on the principle, which still holds, that it must "depend upon the active participation of the government in the economic activities of the island through deliberate plans and its supervision of their execution" (K.Y. Win, 1953). Meanwhile U.S. officials were "advertising Taiwan as a private enterprise success story," much as the World Bank does today with increasing desperation while analysts concerned with the facts detail the crucial and continuing role of the "entrepreneurial state," functioning differently from South Korea but with no less of a guiding hand.[6]

[6] Komiya, R. et al., [1988] *Industry Policy of Japan* Tokyo, 1984; Academic press,

Cullaher, N. [1996] "The U.S. and Taiwanese Industrial Policy," *Diplomatic History* 20.1,

Wei-ching Wang, V. (1995–96) "Developing the Information Industry in Taiwan," *Pacific Affairs* 68.4, Winter.

The central role of state management and initiative in late-developing economies has been well known since the work of Alexander Gerschenkron; it need only be added that the same is true from the earliest moments of the industrial revolution. In these domains, few propositions seem as well-founded empirically.

An ancillary question is how the Third World became what it is today. Bairoch provides a plausible if partial answer: "There is no doubt that the Third World's compulsory economic liberalism in the nineteenth century is a major element in explaining the delay in its industrialization," and, in the dramatic and very revealing case of India, the "process of de-industrialization" that converted the industrial workshop and trading center of the world to a deeply impoverished agricultural society, suffering a sharp decline in real wages, food consumption, and availability of other simple commodities from the 18th century, a "misfortune [that] is unprecedented in the world's economic history," the most detailed modern study concludes.[7]

## -4-

"India was only the first major casualty in a very long list," Bairoch observes, including "even politically independent Third World countries [that] were forced to open their markets to Western products." Meanwhile Western societies protected themselves from market discipline, and developed — with correlations to market interference that are not easy to disregard, as Bairoch and others observe.

[7] Mukerjee, R. [1967] *The Economic History of India: 1600–1800* Allahabad. See Bayly, *op. cit.*, for a briefer review and confirmatory evidence.

Rothermund, D. [1993] *An Economic History of India* London: Croom Helm, 2nd edition

Chandra, B. [1971] *Modern India* National Council of Educational Research and Training, Delhi.



Putting the details aside, it seems fairly clear that one reason for the sharp divide between today's First and Third World is that much of the latter was subjected to "experiments" that rammed free market doctrine down their throats, while today's developed countries were able to resist such measures.

That brings us to another feature of modern history that is hard to miss, in this case at the ideological level. Free market doctrine comes in two varieties. The first is the official doctrine that is taught to and by the educated classes, and imposed on the defenceless. The second is what we might call "really existing free market doctrine": For thee, but not for me, except for temporary advantage; I need the protection of the nanny state, but you must learn responsibility under the harsh regimen of "tough love." Those in a position to make choices typically adopt the second version of free market doctrine, the one that has been a prerequisite to development, so the historical record suggests, though not a sufficient condition for it.

Pursuing the inquiry further, we quickly discover that the effects of state intervention in the economy are much underestimated in standard accounts, which focus narrowly on such special cases as protectionism. The category is far broader.

To select one obvious case, the early industrial revolution relied on cheap cotton. It was not exactly kept cheap and available by worship of the market. Rather, by the expulsion or extermination of the indigenous population of the American south along with slavery, later a near functional equivalent. There were, furthermore, other cotton producers at the time. Prominent among them was India, under colonial rule, so that its resources flowed to England while its own considerably more advanced textile industry was destroyed by the harsh and self-conscious application of "really existing free market doctrine." Another case is Egypt, which was initiating industrial development at the same time as America's New England, but was barred from that course by British force — on the quite explicit grounds that Britain would brook no competition or