



Audit of the Conventional Wisdom

Insights Into Two American Empires

A Conversation with Alice Amsden

MIT Center for International Studies

In *Escape from Empire: The Developing World's Journey through Heaven and Hell* (MIT Press, 2007), Alice Amsden tartly takes on much of the conventional wisdom about the global economy. In this interview, she briefly touches on a few of the book's provocative themes.

You speak of two American empires, post-World War II. Explain what each means.

The first American Empire consolidated its power after 1947, when India triggered a massive wave of de-colonization. The developing world's economies gradually began to grow as never before—or since. Thirty years on, the Empire that presided over this growth collapsed at the hands of Vietnam, the last of Europe's colonies in Asia to gain independence. Whereas the first American Empire raised all boats, the second raised all yachts. Ronald Reagan's Washington adopted the British Empire's ideology of "free trade imperialism" to fight the economies of Japan and its neighbors, ripping open their curtains to create transparency and removing all their barriers to foreign investment and trade. Yet it is probably accurate to say that few industries in the developing world crashed because of market opening, except maybe Latin America's textile and shoe industries, which couldn't compete against those of Asia, and a wide range of Africa's assembly plants, which didn't have the scale to survive. So if not market opening, what differences in imperialism account for generational differences in economic development?

What made the first postwar American Empire great was its embrace of experimentation. Fresh from the catastrophes of the Great Depression and World War II, the first American Empire was open to change. "Experimental" is how President John F. Kennedy's advisor, Arthur Schlesinger Jr., described it (although the U.S. stopped short of experimenting with communism). Washington played around with new Keynesian theories and allowed tinkering abroad to create more jobs. The Third World's controversial import substitution policies and Green Revolution created unprecedented growth rates in output and employment, from Africa to Asia, from factory to farm.

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A Fall of the Conventional Wisdom

What made the machine stop running was not picking losers, or exporting too little, but inexperience in modern finance. Developing countries were pressured by the U.S. Treasury to open their financial markets. They over-borrowed, fell into debt, and wound up in Washington's clutches in order to borrow more money to survive.

This would be the end of the story of why the first American Empire was great and the second was mediocre if it weren't for the fact that much of Asia, including China, continued to grow fast even under neo-liberalism. Simply, the U.S. couldn't monitor its free trade imperialism. Experiments with heterodoxy continued underground in East Asia and in big players like Brazil, Iran, Russia, and Turkey. None of their economic policies was what they were supposed to be. Multinationals wanted laws that sanctioned foreign acquisitions of Third World firms, but the diversified structure of firms like Samsung and Tata, which the U.S. harrasses, protected them from takeovers. The Treasury wanted free and open financial markets worldwide, but following the example of Singapore, Korea monitored every one of its foreign financial flows on a 24-hour basis, ready to pounce if a problem arose. Financial market monitoring changed the meaning of "free."

The World Trade Organization prohibited government subsidies to business, but not for science and technology. The South, from China to Chile, therefore built Science Parks and, like Washington's Department of Defense and National Institute of Health, subsidized a wide range of private businesses behind the scenes. Profitable state-owned enterprises were privatized, but governments like Brazil and India retained control over them through devices such as cross ownership by state firms or "golden shares."

The lesson from the imperial heights is that developing countries do best when left alone, as Japan demonstrated after Admiral Perry turned around and sailed away. Free to choose their own policies, the most experienced latecomers can grow very fast.

An Empire's defense against this is yet more knowledge, but now with reverse brain-drain that brings the highest level of skills to the lowest-wage countries, this strategy doesn't work. Most advanced developing countries now have three types of knowledge, whereas the second Empire has only one: elites from the developing world know the U.S. very well because they study and work there; they know their own countries intimately, which the U.S. does not; and they know how to experiment in mixing the two, assuming they can get away with it.

As top talent returns to the South, the second American Empire is likely to "decline" in the same sense that other modern empires like Britain and Japan "declined": the U.S. will stay rich but it will lose its absolute power. This will enable more Third World development to occur, and so on, in a virtuous circle.

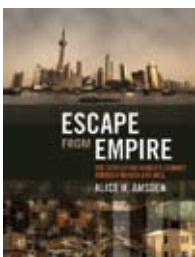
The first American Empire's "laissez faire" approach to development—"do things your way"—could mean a lot of different things in practice. You suggest the successful developing countries combined planning and government intervention with markets. How did such choices come about? Why some and not others?

The most successful developing countries today all had pre-World War II manufacturing experience. Some acquired it from traditional traders and money-lenders, like India and China. Others got it from Chinese or European émigrés, who resettled in countries like Indonesia and Brazil. Still others got it from colonial investors. Japan industrialized its own colonies (Korea, Taiwan, and Manchuria) in preparation for war, and in response, Europe invested in infrastructure and strategic industries in its Asian colonies (Malaysia and Indonesia) to ward off a Japanese attack.

Countries with skills in business after World War II were in a unique position to exploit profitable investment opportunities. *With deep enough know-how, corruption remained a tasty treat but not essential to make money.* Given experience, legitimate channels of money-making could win out over illegitimate ones, and economic development could go on its way.

The developing worlds' economies in the early years were unique in their emphasis on employment. Everyone wanted a job, everyone talked about it, migration to towns intensified demand for it, governments promoted industries in order to increase it, intellectuals

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criticized governments for promoting capital-intensive industries because employment creation was not high enough.

But all this changed when governments were no longer supposed to intervene in the economy. A World Bank history published in 1994 mentions employment only seven brief times in a total of 1,234 pages! The nine-page index of a 2008 book by Paul Collier (former director of the Bank's development research group), *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*, makes no reference whatsoever to "employment," "unemployment," "self-employment," "jobs," or "work." Even China's employment miracle goes unmentioned, as noted by Ajit Ghose, an economist at the International Labour Organization: "What have been the effects of China's rapid industrialization and economic growth on employment? No widely accepted answer to this question is available from the existing literature. Indeed, there are not many studies that even ask the question."

Instead of employment creation, developing countries now try to raise incomes through "poverty alleviation"—siphoning off existing resources for the poorest people. And who could object (forget corruption)? Poverty alleviation is not controversial because enough jobs can never be created in the short run to sustain millions of landless people. In the absence of a redistribution of land, water and credit, poverty alleviation is the only alternative.

But, paradoxically, poverty alleviation can only work in the company of a rapid growth in jobs. After a child is inoculated against disease, her parents need a job to feed her. Once she can read and write, she will starve unless she can support herself or migrate abroad. If she is physically abused by her husband, she must have the wherewithal to be economically independent. Self-employment is touted as the entrepreneurial form of employment, but small-scale enterprises, shorn of Silicon Valley-type skills, usually survive in the non-tax paying "informal sector" by ruthlessly exploiting themselves. It is hard to think of any company emerging from the informal sector that has become a big employer. India's century-old handloom weavers barely lived but never died—their bones were bleached on India's plains, as Karl Marx wrote.

Generally, the politics of poverty alleviation are passionate, as people fight for scarce resources, especially water (in the absence of wells, rivers, and rain). But a society that targets alleviating poverty and not generating jobs is entirely cut off from the process of capital accumulation. By its nature, poverty alleviation has no mechanism to foster savings and investment for economic growth. At the heart of employment is the concept of "capital." An emphasis on jobs raises questions about who controls capital (private versus public), who owns capital (foreign versus national), and who controls its distribution (workers or capitalists). When countries are no longer free to grapple with these questions, when they are absorbed in redistributing rather than increasing society's wealth, there is an inevitable slowdown in economic development, as the comparison of two postwar periods shows.

Academic intellectuals played an extremely active role in the fight for de-colonization and subsequent growth. Then their attention was turned to human rights, or they followed Nobel Laureate Amartya Sen in imagining that economic development could be a "friendly" rather than a "fierce" process (see *Democracy and Development*), with the small guy rather than the steel mill lead-

ing the way. We now know from the economic stagnation of the second American Empire that the friendly approach doesn't work very well. Hopefully, academic intellectuals will once again engage in debate over how to empower the world's poor by raising their savings, investment, and supply of jobs.

How do you reconcile the need for manufacturing as a development goal and the need to suppress the output of greenhouse gases? Is robust manufacturing and sustainability possible in the developing world?

In poor countries, economic growth is necessary to save the environment. But paradoxically, growth will tend to destroy it because at low income levels, "green" stands for money. If a job is located between a nuclear power plant and a naphtha cracking plant, probably 99 out of 100 people will grab it. Environmentalism is in desperate need of a different model for rich and poor countries, and honesty about this.

Because of too little growth, the poor plunder the land for wood, water and other basic necessities. They die inside their huts from using primitive heating fuels that are unsafe; it is safer for them to breathe the fumes from petrochemical plants, an ogre of growth. Their underdevelopment goes hand-in-hand with political weakness, and foreign greed ends in violence. Imperial wars and civil strife over natural resources are probably the Earth's worst enemies—Iraq is an example.

In fact, the type of high-paying jobs that exist at a middle stage of economic development are precisely those that are environmentally hazardous. Latecomers tend to specialize in the big earth-crunchers such as mining, shipbuilding, steel, rubber, leather, chemicals, and cement. Even light industry leaves a huge environmental footprint, as when China bulldozed rice fields as far as the eye could see to build its labor-intensive export-processing zones.

The conflict between growth and the environment can be reduced by technology, especially for energy and heavy equipment, and by contingency planning. But realistically, the intense conflict between growth and the environment boils down to wealth and power. Big foreign-owned mining companies bribe their way out of environmental controls. Denver's Newmont Gold Mining was accused of water pollution throughout the world—dumping human waste in Ghana and arsenic and mercury in Indonesia, for example.

The South's environmental movement has also become cynical by the North's hypocrisy. When developing countries like China and Sri Lanka export to global markets, the poor man is (gladly) doing the rich man's dirty work. Manufacturing is being relocated from affluent suburban sprawls to low-wage countries. And this sprawl has an insatiable demand for consumer goods that keeps exports coming.

All this points toward letting the Third World decide its own environmental policies. East Asia industrialized and only later cleaned up its environment. This model has been excoriated, but it is becoming the norm.

Second-best solutions should be embraced and not disparaged by the environmental community. Cleaning-up the environment

needs money, research and political support, and any false expectations weaken this effort.

The stars in the firmament are the green engineers and environmental leaders of the South, who, like the hedgehog of Aeschylus, know some important things. They know that their slice of earth is fragile, and that their own political base is shaky. Pushing them shouldn't resemble a return to colonialism.

The era of cheap oil may finally be over. Was that era one of the engines of growth? What does it mean for developing countries to face much higher energy prices if they are importers?

Cheap oil was a handmaiden of growth under the First American Empire, but no longer. Expensive oil starts a new era, with big winners and losers.

All the oil-producing countries are booming. Since commodity prices tend to rise in tandem, especially under the influence of Chinese demand, prices of Third World raw materials other than oil are also reaching for the moon—from copper to bananas, from emeralds to cotton. Average growth in the developing world is now sky-high, comparable to what it was during another commodity boom in 1906-1913. For the poorest countries without raw materials, it is more urgent than ever to create a manufacturing base and to re-engineer the Green Revolution.

An experiment begun in 1960 can light the way toward achieving more lasting prosperity from a commodity boom. The teacher is OPEC (Organization of Petroleum Exporting Countries), which extracted higher taxes and royalty payments from the oil giants even before raising prices.

The imperial temper is hottest when control over foreign mines and plantations is threatened. Mexico nationalized its oil industry in 1938, but the marketing of Mexican oil was boycotted by the Seven Sisters until 1974—36 years of punitive imperialism!

OPEC succeeded, although it is still maligned, because it was run by professional engineers and managers (from Venezuela and the Middle East), and because it ultimately created a win-win situation for Big Oil. The developing countries came to own and control the production and distribution stages of the oil business, while foreign companies supplied the most profitable services, such as oil exploration in the deepest, most dangerous and distant locales.

Greater control over their own natural resources will give developing countries more taxes and opportunities for high-end talent to migrate back home. Corruption was contained by OPEC in two ways. OPEC moved its headquarters from Baghdad to Vienna. It

increased the professional management of its financial operations, which made them more transparent.

Any copycat of OPEC will struggle because most political regions have a greater diversity of natural resources than just oil, making cartelization more difficult. *Anti-imperialism* today is also weak—OPEC was borne aloft by popular feelings against foreign domination. But on the bright side, OPEC was started by only two far-sighted government officials, Juan Pablo Perez Alfonzo, Venezuela's Minister of Energy and Mines, who paid a visit to Abdullah-al Tariki, Minister of Energy and Mines in Saudi Arabia. Both agreed that their countries deserved more from their natural resources than they were getting.

Something similar today could happen any minute, especially if prices of natural resources continue to rise.

You and a number of other economists have demonstrated rather convincingly that structural adjustment policies and other “marketization” schemes—the “Washington Consensus”—have been a failure relative to other proven development approaches. Yet it seems that the IMF, World Bank, and the U.S. cling to these doctrines. Is that correct?

History has been unkind to the developmental state, despite its stellar performance. But the misrepresentation of history takes a toll. The historian that lacks integrity over the past can't comprehend the present.

The World Bank's *East Asian Miracle* report (1993) admits that state interven-

tion was pervasive in East Asia's markets. Since these markets grew fast, and since ideologues dislike state intervention, the authors of *East Asian Miracle* faced a tricky problem, exacerbated by a split within the Bank. The Japanese delegation that was paying for the report wanted East Asia's growth to reflect the statist policies that Japan and its neighbors had followed. According to its executive director, Mr. Masaki Shiratori, whenever he visited a developing country he was mobbed by people begging him to get the Bank off their back. As for the U.S., once the American delegation agreed to the report, it insisted on control over it, and since it controlled the Bank through its financial stake, it won final say over what the report said.

The result was a pact with the devil in the form of a counterfactual argument. Readers are told that *if* East Asia had followed market-friendly policies, it would have grown as fast as it grew under interventionist policies—no mention is made of the possibilities that with free markets, East Asia might have grown slower, or *not at all*, or even faster!

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The Audit of Conventional Wisdom

In this series of essays, MIT's Center for International Studies tours the horizon of conventional wisdoms that define U.S. foreign policy, and put them to the test of data and history. By subjecting particularly well-accepted ideas to close scrutiny, our aim is to re-engage policy and opinion leaders on topics that are too easily passing such scrutiny. We hope that this will lead to further debate and inquiries, with a result we can all agree on: better foreign policies that lead to a more peaceful and prosperous world. Authors in this series are available to the press and policy community. Contact: Michelle Nhuch (NHUCH@mit.edu, 617.253.1965)

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Wishful thinking leads to bad judgment. The Washington Consensus failed to anticipate the rapid recovery of East Asia after its financial crash in 1997, imagining that instead of being deregulated too fast, most of the region was mired in corruption. Washington and its allies also underestimated China, by believing that it would be stuck in labor-intensive manufacturing forever, or that it would collapse under divisive regionalism. By downplaying the role of the central and provincial governments in strengthening industry, China's huge stash of dollars and rising technological know-how took them by surprise. So, too, did the second energy crisis and shortages of food, which Asia's expansion triggered.

One suspicion why the British Empire declined hovers over the Economist magazine (1843), whose relentless false advertising about laissez-faire led to Whitehall's misguided foreign policies. In believing its own ideology, the second American Empire is doing itself the same disservice.

Your linking of the U.S. economy to Latin America is informative. What do you make of elections in the past few years bringing to power the left in many countries in Latin America? What does that say about the future of the relationship?

Latin America has of late been one of the slowest-growing regions, although after World War II it had the highest per capita income in the developing world. Asia at the time suffered from communist insurgency (not just in China and Vietnam but also in Korea, the Philippines, Malaysia, and Indonesia), and Latin America was relatively conflict-free. Now, left-leaning countries in Latin America are being heard—most vocally, Venezuela—while Asia is quiet.

Latin America's current economic woes may go back to the Spanish conquistadores, or they may stop at U.S. "neo-colonialism," whose negative influence on Latin America's economies typically attracts the most blame. But now there is reverse causality. What is new is the negative influence that Latin America is exerting on North America. The shoe is on the other foot.

The United States is smaller than life due to its integration with a slow-growing region. Trade among Latin American countries remains a non-starter, and exports and imports continue to take a colonial pattern—from north to south or vice versa, abetted by U.S.-sponsored free trade agreements. Regional investment is growing, but is still small. Besides NAFTA, not much is happening.

China is larger than life due to its integration with the rest of fast-growing Asia. Electronics is an Asian hub, and trade in the region is criss-cross—everyone trades with everyone else. If Malaysia gets its capital goods from Korea, delivery takes hours, whereas if Argentina gets its capital goods from the U.S. or U.K., delivery takes days. Roughly 60 percent of China's inward foreign direct investment is from other Asian countries.

If, like China, the U.S. is to benefit from being located in a prosperous region, it is probably time for it to declare its current economic policies toward Latin America a failure. One new policy could be a Latin American Marshall Plan, where the U.S. spends big on modernizing Latin America's infrastructure, higher education, and science parks. The question is whether or not the U.S. at the moment is too broke to be a kind neighbor.

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