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9 Conclusion

Geoffrey Garrett, Frank Dobbin, and Beth Simmons

The concurrent rise of liberal politics and free market economics around the world was a defining feature of the latter part of the twentieth century. The social sciences were not well positioned to explain this global phenomenon. Models of policymaking and political change had privileged domestic factors for at least half a century. From Lipset's view of democracy as the product of economic modernization within countries to Shonfield's division of the world into divergent national capitalisms, the underlying meta-model of political and policy change was one of unconnected domestic processes.[1]

As democracy and markets swept to the four corners of the globe, the limitations of purely domestic models became increasingly apparent. Countries democratized that Lipset would have considered too poor to do so. Chile and the United Kingdom, countries that Shonfield would surely never have associated as kindred capitalist spirits, led the world in privatization and deregulation. Phenomena such as these led pundits to propose common exogenous forces as the driver of global political and economic change. Globalization, fueled by technological innovations lowering costs to international exchange of goods, services, capital, and information, was seen as forcing governments to embrace the market and as undermining economically inefficient authoritarian regimes – leading to "the end of history," in Fukuyama's famous formulation.[2]

But the grandiose claims about the ubiquity of liberalism soon came to be challenged by events, notably anti-globalization protests and anti-modernity terrorist attacks. At the same time, social scientists have also moved toward a middle ground in terms of the balance between forces of change that are internal and external to countries. The "common stimulus, mediated response" model has been used to reconcile the broad trend toward liberal markets with substantial national variations in the speed and the end points of change. Big global forces, such as the faster,

[1] Lipset 1959 Shonfield 1965. [2] Fukuyama 1989.

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freer, and cheaper movement of capital and goods, and information and ideas, are seen to create pressures for liberalization. But these pressures are channeled, modified, and sometimes blocked by conditions within countries such as government partisanship, public opinion, and socio-economic structures.[3]

The point of departure of this volume is our conviction that even the best expositions of the common stimulus, mediated response model still fail to capture important causal processes in the recent trend towards democracy and markets, as well as deviations from this trend. Broad common stimuli like globalization certainly do matter; so too do the domestic conditions that mediate their impact in different countries. But irrespective of how sophisticated in conception or well executed in practice, this model is inherently incapable of coming to grips with the interdependent decision making among countries that we consider to have been a central element in the spread of liberalization in recent decades.

The challenge the authors in this volume have faced has been to bring rigor both theoretically and empirically to the notion that markets and democracy have "diffused" among countries as a product of interdependent decision making, as well as to delineate the precise causal pathways through which this has happened.

With respect to theory, we have outlined four basic mechanisms of interdependent decision making: coercion, competition, learning, and emulation. These have then been tested empirically against different facets of liberalization – democratization, increasing the rights of women, cutting taxation, public sector downsizing, privatization, bilateral investment protections, and capital account liberalization – using cutting-edge statistical techniques analyzing data for large numbers of countries over several decades. Each chapter has been disciplined by the same protocols of inquiry by first taking into account all the non-diffusion causal processes that might plausibly have shaped the policy under analysis; and then by comparing the explanatory power of the different diffusion mechanisms political scientists, sociologists, and economists have proposed.

In this conclusion, we begin by assessing what we have learned from the empirical chapters about the likely drivers of the diffusion of liberal policies. There is ample evidence that each of the mechanisms has played some part in the trend to liberalism (and its limits). Rather than privileging any one of the contending meta-approaches to the world underpinning

[3] Keohane and Milner 1996.

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our mechanisms – realism for coercion, materialism for competition, rationalism for learning, or constructivism for emulation – most of the studies in this volume underscore the great utility of incorporating insights from all these diverse analytic frameworks into models of interdependent policymaking.

We then move on to a broader discussion that places the recent wave of liberalism in historical context (both backward looking and forward looking). We also make some judgments about the likely power of diffusion processes outside the time period and policy areas on which this book has focused.

We do not have a naively teleological view of liberalism. The trends we have witnessed towards democracy and markets in recent decades have slowed down and there have been significant backlashes against them. We cannot rule out the possibility that the world may significantly reverse course against liberalism. However, as the world get "smaller" with the shrinking of time and distance in all aspects of human endeavor, we believe that diffusion processes will likely become even more important than they have been in the recent past with respect to the spread of markets and democracy – and that the utility for social scientists of analyzing countries as interdependent rather than independent actors will only increase.

Four diffusion mechanisms

The chapters in this volume subject the four approaches to diffusion to close empirical scrutiny, and with explicit controls for the common stimulus, mediated response null hypothesis. We are thus confident in the results of these studies. They generate two principal findings. On the one hand, neither coercion nor learning has been particularly important to the spread of political and economic liberalism. Notwithstanding the appeal of traditional realist perspectives as well as Marxian notions of dependency, the studies in this volume do not adduce much support for the coercion hypothesis. The informational and inferential requirements are just too high for rational learning to play out in practice the way it is conceived in economics textbooks.

On the other hand, our chapters generate strong support for both competition and emulation. Countries that compete with each other for investment from footloose global capital must take seriously the policies of their competitor nations in those cases where investors can draw strong and direct connections between government policies and their rates of return – taxation, investor protections, and capital account policy. At the same time, the cause and effect of policies is not always so clear, even in cases such as public sector downsizing and privatization where

economists have united behind the "more markets" position. In these cases, however, epistemic communities such as those among the fraternity of professional economists can have a marked impact on what governments do, by influencing what they consider the right thing to do in a world clouded by uncertainty. Thus, the logic of appropriateness highlighted by sociologists and constructivists with respect to "soft" issues such as human rights treaties are just as apparent in some issues of "hard" economics as well.

Coercion

Powerful countries have sometimes imposed political and economic liberalism on their vanquished foes. The United States' rebuilding of Germany and Japan largely in its own image after the Second World War is widely considered the paradigmatic – and essentially benign – example of such coercion. In the contemporary era, the US has often explicitly referred to these examples in its efforts to build democracy and markets in Afghanistan and Iraq.

Since Lenin's *Imperialism: The Highest Stage of Capitalism*, Marxian scholars have argued that inter-state coercion is likely to take subtle forms in an interconnected world where economic power is at least as important as military might. According to this view, rich countries exert their will over poor countries through the use of economic carrots and sticks. Much attention has been focused on the International Monetary Fund (IMF) in recent years, in particular the attaching of specific conditions about economic policy (the "Washington consensus" around liberalization, stabilization, privatization, and deregulation) to bailout packages for developing countries facing financial crises.

One can also argue, however, that the European Union practices a very soft form of coercion – and unlike IMF conditionality, one that tends to be lauded even in countries subject to it. Countries that wish to join the EU must first convince the existing members that they have stably democratic political systems and also must accept the EU's *acquis communitaire* of economic regulations as well as the right of the European Court of Justice to rule in economic disputes among member states.

Turning to the chapters in this volume, it should not be surprising that neither Gleditsch and Ward nor Wotipka and Ramirez adduced evidence of north–south coercion through IMF conditionality in the diffusion of democracy and human rights respectively. As they point out, though the IMF is probably supportive of liberal politics in a normative sense, it has shied away from attaching conditions regarding political reforms to its loan packages.

One would expect things to be different in the realm of economic policy. While IMF effects were moot in the Swank and Lee and Strang chapters that focused solely on Organization for Economic Cooperation and Development (OECD) countries, Elkins, Guzman, and Simmons and Kogut and Macpherson found evidence that countries subject to IMF loan programs were more likely to sign bilateral investment treaties and to privatize state-owned enterprises respectively. Given the emphasis the IMF attaches to the building of private capital markets as an essential element of creating robust market economies in developing countries, these effects should have been expected.

In both cases, however, the authors suggest that IMF linkages might not actually be evidence of coercion in the strict sense. Kogut and Macpherson contend that there is at least some volition involved in countries' being under IMF programs, and that the resulting good housekeeping seal of approval has a positive impact on the value of privatized assets – creating incentives for countries to privatize. Elkins, Guzman, and Simmons suggest that the correlation between IMF obligations and Bilateral Investment Treaties (BITs) may be more coincidental than causal. Countries that are willing to undertake IMF obligations are also more likely to be interested in investment treaties with developed economies, and there may be efficiencies involved in undertaking both simultaneously.

Quinn and Toyoda did not find any link between IMF lending and capital account liberalization. But the authors are quick to point out that the IMF has never formally embraced capital account liberalization as a necessary policy reform for developing countries, and indeed has backed off even further since the Asian financial crisis of 1997–1998. Instead, the IMF tends to view the development of strong private capital markets as a necessary precondition for capital account liberalization. But Quinn and Toyoda demonstrate a strong connection between accession to the European Union and the opening of capital accounts – since the EU in the late 1980s made capital account openness mandatory among existing and aspiring members.

Moving from the kinds of coercion associated with international organizations, some might have expected also to see that the US "imposed" its policy preferences, or at least became a crucial focal point for coordination on, lower taxes and public sector downsizing among other OECD countries. But both Swank and Lee and Strang argue that this was not the case, focusing instead on competition and emulation as forces for policy diffusion in the economic policies of OECD countries.

Gleditsch and Ward do, however, make a compelling argument about the role of regional power resources in the development of democracy. They observe significant regional clustering of transitions to democracy, not only in the postwar period but since the third quarter of the

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nineteenth century. This effect shows up in the quantitative analyses even when domestic factors are controlled. Gleditsch and Ward's interpretation of this clustering is that backers of democracy need support from neighboring countries to effect change. Regional powers can thus retard democratization (as with the USSR in East Germany in the years before 1989) or the move to democracy (Brazil's role in Paraguay in the late 1980s). Their case studies provide suggestive evidence of the importance of regional power resources.

In sum, the evidence for the role of coercion in the diffusion of liberalism around the world in recent decades is at best mixed. Gleditsch and Ward make the novel argument that regional power resources play an important role in democratization. Elkins, Guzman, and Simmons and Kogut and Macpherson were able to isolate effects of IMF lending, but they were reticent to label these effects "conditionality" in the conventional sense. In marked contrast with the foreign policy of the G. W. Bush administration to try to generate markets and democracy in the Middle East via "the barrel of a gun," the studies in this volume suggest that the ability of the rich and powerful to impose their policies on the poor and the weak was not likely to be the primary engine of the diffusion of liberal policies in the past half century.

Competition

The hypothesis of diffusion by competition rests on the notion that countries liberalize to compete with each other for international market share and global investment. In the areas of taxation (Swank), investment protection treaties (Elkins, Guzman, and Simmons) and capital account openness (Quinn and Toyoda), our authors found clear evidence of this diffusion by economic competition mechanism.

Swank shows that after the US tax reform in 1986, other OECD countries moved in the direction of the new American model of "market-conforming" corporate taxation – in which the marginal rate of taxation on corporations was reduced while the tax base was broadened and loopholes were eliminated. He argues that countries followed the US lead for a very pragmatic reason: to attract investors with freedom to choose where and when to invest and interested in the higher rates of return that lower marginal corporate tax rates delivered. Swank's argument is similar to the argument about "go-it-alone" power originally developed by Gruber.[4] The OECD countries may not have wanted to change their

[4] Gruber 2001.

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corporate tax systems, and they did not have to – so long as the US did not act. But once the US enacted their reforms, other countries had little choice but to follow suit.

Elkins, Guzman, and Simmons argue that when it comes to investment liberalization, countries signing bilateral investment treaties do not "follow the leader" but rather follow their economic competitors. They demonstrate that countries are more likely to sign BITs if others with similar trade partners have done so, because countries with similar trade partners tend to compete both in export markets and for foreign investment in similar sectors. But the underlying logic of competition is the same. BITs diffuse because of global competition among countries for mobile capital. Quinn and Toyoda find a similar game of follow-your-peers with respect to capital account liberalization, particularly among OECD countries. OECD countries do follow the lead taken by their major capital competitor, even if developing countries do not.

Corporate taxes, investment protection treaties, and capital account openness all have a direct impact on the bottom line of global firms and investors. Capitalists know what they like, and they can directly infer links between government policy and their rates of return. This is precisely the environment in which we would expect – and the studies in this volume find – diffusion by competition to be most powerful.

It might be tempting to think that this competitive dynamic would extend to all facets of economic policy in the contemporary global economy. But this is not the case, because the connection between policy and outcomes is not always direct or clear. This is the argument Lee and Strang and Kogut and Macpherson make in their studies of public sector downsizing and privatization. Notwithstanding the messianic "more market" rhetoric of some pundits, there is actually not much evidence that government downsizing and privatization increase rates of return in national economies. Hence it is not at all clear that governments need to engage in a competitive race to the bottom in these policy areas.

Ex ante, we had little reason to expect competition to be a powerful diffusion mechanism with respect to liberal political reforms, and this is borne out in the two studies of this phenomenon. The studies on democracy (Gleditsch and Ward) and on women's rights (Wotipka and Ramirez) find no evidence that political liberalization has spread by means of competition. One might have expected countries to compete for trade and foreign capital investment via political liberalization, if traders and investors had a strong preference for democracies over dictatorships. But for many years democracy and the promotion of human rights in developing nations was thought to put foreign capital

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at risk of various forms of expropriation and instability more generally. As a result, many believe that authoritarianism (and certainly its more benevolent strands) may be better for the economy at early stages of development.

Taken together these studies suggest that competition does stimulate countries to adopt policies that promise directly to influence rates of return and hence the investment and location decisions of mobile capital, notably policies governing capital taxes, investment, and capital accounts. Policies that might influence investment only indirectly and with uncertain effects – downsizing and privatization – were not noticeably shaped by competition. Democratization has been associated with the rise of free market competition, but investors have not routinely favored it.

As a result, political liberalization cannot readily be explained by the same competitive mechanisms that likely underlie policies to attract investment capital and increase product market share. This finding may help explain why economic liberalization does not lead in a lock-step fashion to political liberalization. A crucial bottom-line incentive – the policy moves of competitors – does not have the same power to pry open the doors of political liberalization as is the case with market-friendly innovations.

Learning

The notion of diffusion by learning has not been tested rigorously in previous studies. Proponents have often been content to demonstrate that some countries follow the lead of others, but there are plausible reasons for this (for example competition and emulation) that do not entail any learning from experiences, either direct or vicarious. In contrast, the chapters in this volume take a more stringent approach to testing for learning by examining whether the spread of a liberal policy to a new country was based on revealed evidence that it had the desired effects in other comparable nations.

With respect to domestic economic policy liberalization, both Swank and Kogut and Macpherson rule out learning effects in their policy domains. In the case of corporate tax reform, Swank shows that countries adopted the new American approach even though there was evidence that it *did not* work and *would not* work for them – because of overwhelming competitive pressures to curry favor with the markets. Kogut and Macpherson found that privatization was not undertaken as a tool for deficit reduction, and that there is little evidence that selling off state-owned assets has proved a successful strategy for stabilizing the state budget.

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Lee and Strang do offer some evidence of learning with respect to public sector downsizing, but they do so in the context of a modified theoretical approach emphasizing the role of global communities of experts. They demonstrate that positive evidence that downsizing improved economic performance contributed to future downsizings in other countries. Interestingly, however, Lee and Strang also show that negative evidence did not discourage future downsizings. This implies that evidence-based learning is shaped by current economic thought. After the idea of government workforce reduction caught on as a liberal policy prescription, countries internalized positive but not negative evidence of its efficacy. This adds an interesting twist, suggesting that learning is conditioned on the presence of a theory that links cause to effect.

The two studies of foreign economic policies come to similar conclusions about the effects of learning on liberalization. Quinn and Toyoda show that "successful" capital account opening – defined as the growth record for countries within the region that have already liberalized – increased the probability that other countries in the region themselves subsequently liberalized. Elkins, Guzman, and Simmons similarly find evidence that governments emulate policies that "work." Using the beta coefficient for the effect of the number of BITs on capital inflows (controlling for growth), they found governments were more likely to sign BITs when evidence of their payoffs in terms of investment flows was strongest. It is likely in this case that the global policymaking environment, while noisy, allowed policymakers to draw at least tentative conclusions from existing natural experiments. One difference between these two studies, it should be noted, is that Quinn and Toyoda assumed lessons would be drawn from regional experiments, while Elkins, Guzman, and Simmons assumed lessons can be drawn from global experience.

With respect to political liberalization, Gleditsch and Ward demonstrate that countries are more likely to move toward democracy when their near neighbors have made the policy work. In the case of Paraguay, for instance, military leaders learned from their neighbors that the transition from military dictatorship to democracy need not result in a bloodbath and need not depose the existing party, and that free elections brought greater, not lesser, political stability. But in contrast, Wotipka and Ramirez did not find any evidence of learning in the spread of women's rights treaty, largely because they did not explicitly test for it. In the case of women's rights, learning models would be difficult to test as there are no clear predictions about measurable benefits, economic or otherwise. Where the policy in question is not a "well established

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technology" linked with clearly observable results, learning theory may not be directly applicable.

Our interpretation of the limited support presented in this volume for the strictly rational version of diffusion by learning hypothesis is that its informational and inferential requirements are very high, much higher than theoretical economists tend to assume – and often too high to sway the behavior of governments in important policy areas. Consider the case of privatization. For many years economists considered Thatcher's initial privatizations a successful natural experiment from which other countries learned, updated their priors about the efficacy of nationalized versus privatized industries, and sold off their state-owned enterprises. In fact, it has proved very hard to demonstrate that privatization "works," either in terms of making an individual firm more profitable, or a national economy more productive. Rational learning is highly compatible with game theoretic approaches to social change, but this volume suggests that its utility in explaining national policy change may be limited.

Emulation

Diffusion by emulation suggests that policies and practices spread through a process of socially-informed mimicry. The "world polity" approach suggests that new policy approaches are constructed as "appropriate" at the global level based on the histories and theories of leading nations. Constructivists argue that epistemic communities of experts may act as missionaries facilitating the transfer of policy ideas among countries. Most previous research on emulation has focused on areas like human rights and the building of state bureaucracies rather than on economic reforms or broader political reforms like democratization.

In keeping with this prior work, Wotipka and Ramirez find strong evidence of emulation in the spread of women's rights treaties around the world. Though domestic factors have clearly had an impact on this indicator of political liberalization, the popularity of women's rights ratifications abroad as well as national membership in international organizations had marked effects on the likelihood that a country would ratify the world's most comprehensive women's rights treaty. They interpret these effects in a world polity framework in which countries motivated by the desire to act "appropriately." Skeptics of course may argue that this kind of diffusion is not very consequential, because the tangible costs of violating human rights are low, and hence the threshold for signing them is not high.

What is perhaps most surprising in this volume, however, is the strength of emulation-style mechanisms in several policy areas, including

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economic policies, that traditionally are analyzed in strictly rationalist and materialist terms. Three studies in the economic policy arena provide powerful evidence the impact of diffusion by emulation in the global spread of market-oriented policies.

Kogut and Macpherson highlight the role of epistemic communities of experts dispersed around the world but bound together by a common world view regarding policy in their area of expertise. They argue that it was the global dispersion of American-trained economists – initially from the University of Chicago but then from all leading economics department as the Chicago School became more dominant in the profession – that resulted in the spread of privatization to all corners of the globe. The more American-trained economics Ph.Ds. in a country, the more likely it was that their countries enacted privatization programs. Kogut and Macpherson are careful to show that this effect was exogenous, that is, that it was not simply the case that countries that wanted to privatize hired pro-privatization American economists. They also make a strong case that local conditions and conflicts also shaped the embrace of privatization – mediating the process of construction occurs with each and every adoption.

Lee and Strang also focused on the global epistemic community of economists in their study of public sector downsizing. They demonstrate, however, that the power of the epistemic community supporting downsizing worked principally through how governments interpreted developments in other countries. Governments were more likely to reduce their own public sector employment not only when countries they viewed as peers downsized, but also when it seemed that such policies worked in terms of improving macroeconomic performance. In marked contrast, however, governments tended to ignore evidence that increasing public sectors were good for the economy. The epistemic community in favor of downsizing served to frame how governments viewed developments in other countries – it was not a process of rational and objective learning.

Quinn and Toyoda also argue for the impact of epistemic communities with respect to the spread of capital account liberalization. But the community they identify is very different from the pro-market elite of the economics profession in the privatization and downsizing cases. They argue that global anti-capitalist sentiments expressed by political elites, and reflected in global support for Communist parties, has had a strong negative effect on capital account openness. As the epistemic community of economists promoted capital account openness, the community of anti-capitalist political elites successfully countered that trend. The stronger this anti-capitalist sentiment in other countries, the less likely a given nation was to open its capital account.

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Perhaps the most important feature of this argument is that, contra the broad sweep of "world polity" arguments about the propagation of Western/liberal policies around the world, Quinn and Toyoda demonstrate the impact of contrary anti-capitalist and anti-Western sentiments on developing countries in particular. They thereby counter the prevailing imagery of a world in which new ideas flow seamlessly from core to periphery.

All in all, international organizations and policy elites appear to have strong effects on policy liberalization, both economic and political. It may be that policy elites prepare the ground for learning in the economic arena, causing national leaders to recognize evidence consistent with theory and to neglect evidence that is inconsistent. It also seems that the same processes of the articulation of appropriate policies by central figures and promotion by international organizations that promotes political liberalization also promotes economic liberalization. In the case of political reform, the experts are human rights advocates and lawyers and the international organizations that orbit around the United Nations. In the case of market reform the experts are economists who gravitate to the international financial institutions.

The future of liberalism

If we had been writing this book a decade ago, we would probably have concluded that the processes driving more markets and more democracy around the world would continue into the indefinite future. Today there is good reason to be more circumspect. We strongly believe, however, that this says more about political and economic liberalism as an outcome than it does about diffusion as a process. We are agnostic on the future of liberalization. But we are convinced that the processes of international diffusion we have chronicled in this volume will be of increasing importance to economic, political, and social change around the world – regardless of whether these lead to the further propagation of liberalism, a backlash against it, or unrelated waves of global change.

When the history is written, the mid 1990s might come to appear the high point of the spread of economic and political liberalism around the world. The post-Communist countries of Eastern and Central Europe were in the midst of pro-market economic revolutions with strong public support in their fledgling democracies. China was joined by India on the path to radical economic reform, making markets an increasing reality for two-fifths of the world's population. Latin American leaders finally decided to take their Washington Consensus medicine, sometimes with considerable enthusiasm. The World Trade Organization (WTO) was

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created to entrench and preside over a global economy founded on strongly liberal principles.

Indeed, the Washington Consensus was all the rage not only in developing countries but in the developed world as well. Europe moved toward the creation of the euro on the backs of fiscal discipline and tight monetary policy, coupled with privatization and deregulation within member states. Australia and New Zealand took the baton from Thatcher in the marketizing vanguard, under nominally leftist governments. The Clinton administration's core economic goals were to balance the budget and "to end welfare as we know it." The focus on the market economy was so powerful that it replaced international security at the top of the foreign policy agenda, as president Clinton's administration bailed out Mexico and Russia to defend their efforts simultaneously to create democracy and markets.

But cracks soon appeared to slow down the marketization and democratization juggernauts. Large-scale and rolling protests against the global economy occurred with increasing intensity wherever and whenever leaders gathered at major G8, IMF, World Bank, and WTO meetings from Paris to Seattle to Genoa. Citizens in former Communist countries and in Latin America grew disenchanted by the mismatch between what they had been promised democracy and markets would bring and what seemed to be a far less appealing reality of gaping chasms between globalization's winners and losers. Europe's leading continental economies remained happy to talk the talk of more markets, but their governments were unwilling to walk the walk amid widespread popular resistance and resentment.

Just six weeks after the bloody and violent Genoa protests against the G8, Islamic jihadis crashed two planes into the twin towers of the World Trade Center in New York, expanding the backlash against markets and democracy into a backlash against modernity writ large. The five years since September 11 have witnessed a pitched battle between the West and the rest, not only in the war on terrorism but also in economics and politics. Populist politicians promising to protect their citizens against the vagaries of the market have flourished in Eastern and Central Europe and in Latin America. Citizen support for democracy in these countries has waned dramatically. Deep regional divides between those who have benefited from globalization and those who have not pervade countries as different as China, India, Mexico, and the United States. The ironically named Doha "development round" of WTO talks has stalled because of insuperable divisions over agriculture. Western governments steadfastly committed to protecting their tiny farming sectors are charged with the height of hypocrisy by developing countries with massive populations supported by subsistence agriculture.

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Sober analysis with the benefit of hindsight will show that this slowdown in the march of liberalism was probably inevitable. The spread of markets and democracy exhibited a strong S-curve dynamic. At some point in the late 1990s or early 2000s, the process was bound to slow down simply because most countries had liberalized most facets of their economies and polities. In addition to this numerical logic, the spread of markets exacerbated the divide between haves and have nots both within and among countries, causing citizens to question the merits of the democratic institutions associated with turning this gap into a gulf.

Moreover, it was likely that increasing interconnections among countries would generate the need for increasing public sector interventions in economic affairs. Issues as diverse as environmental degradation and the piracy of intellectual property are global in scope and cannot simply be addressed by more markets without the careful construction of international agreements among governments to regulate them.

But while all these considerations suggest that a slowdown in marketization and democratization was to be expected, they do not necessarily suggest that a complete reversal of direction is imminent. The question is a live one of whether the slowdown in the penetration of economic and political liberalism into all facets of life in all countries will ultimately be followed by an illberal epoch.

Economic historians are quick to point out that the last great era of international economic openness collapsed into a spiral of depression, protectionism, and fascism in the first half of the twentieth century, with the implication that it could easily happen again because the same troubling preconditions are evident today. The counter view is that the contemporary forces of globalization – above all technologies that shrink time and space – are a genie that cannot be put back in the bottle. On this view, the world of the market is here to stay, and for some this is a good thing for democracy as well. The first half of the last century can even be seen through rose-colored glasses as an unfortunate blip – albeit a long and devastating one – on Fukuyama's path to the end of history.

We choose to remain agnostic on the question of whether the course of the twenty-first century will repeat the last hundred years. But this is orthogonal to the principle focus of this volume: on the process of international diffusion itself. We have analyzed the spread of markets and democracy because of their global preeminence in the last decades of the twentieth century. The question for us is whether the diffusion processes we have analyzed in this book will continue to be of great consequence for economic, political, and social change, irrespective of the directions and manifestations of that change. Our answer to this question is an unequivocal "yes."

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The future of international diffusion

At its core, the process of globalization concerns the more widespread and more rapid movement across national boundaries not of only capital, goods, and services but also of ideas, information, and people. In recent decades, the tendency has been to associate this free movement with liberalization. But it is clear that free movement can fuel anti-liberalism as well. The increasingly global phenomena of protests against the international economic institutions as well as international terrorism have been made possible by cell phones, the Internet, and the freer movement of people – the other face of the globalization the protesters and terrorists have been mobilized against.

Irrespective of whether one considers the trend toward ever freer global movement an unalloyed good or not, it is increasingly clear that it is very difficult, if not impossible, for governments to reverse it – and in particular to counteract through policy the technological innovations that have shrunk time and space. Government regulations on different types of capital flows tend only to stimulate more creativity in the markets regarding how to use derivatives and other innovative transactions to circumvent them. Efforts by China to close off access to the Internet, much like American efforts to curb offshore gambling and pornography, tend to be more symbolic than effective. Smuggling of people and products lessen the effects of formal barriers to migration and trade.

The result is a smaller and more connected world in which the two diffusion mechanisms that this volume has shown to be most prominent in the recent past – economic competition and social emulation – will likely become more powerful, not less. The greater the opportunities executives have to shop around the globe for investment and production venues, the more national governments will have to pay attention to what others are doing in the competition for business. The denser person-to-person networks of communication become, not only face-to-face but using the dizzying array of new communications technologies, the more likely it is that policy ideas – liberal, illiberal, or having nothing to do with liberalism – will flow across political boundaries.

Notwithstanding post-9/11 US foreign policy in Afghanistan and Iran, we do not expect coercion to become a more prominent mechanism for diffusion because it seems out of step with our world, characterized by a mosaic of decentralized networks beyond the control of public officials. In contrast, hegemonic ideas may continue to flow via experts and advocates around the world. But ideas are theorized, touted, and legitimated; they are not well enforced at gun-point. They seem not even to be enforceable at loan-point by the IMF. Indeed, coercive efforts tend to

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spawn effective resistance, much as we have seen since the mid 1990s with respect to the rise of both anti-globalization and Islamic extremism.

There is also little reason to believe that well-informed learning will become more widespread. The studies in this volume have shown that it was very difficult for governments clearly to discern cause and effect from liberal policy experiments in other countries in the last decades of the twentieth century. The task will only become more complicated in the future as the world in which policies operate becomes ever more complex and multidimensional. This raises the danger that undesirable trends will spread in the future by processes of more or less "unreasoned" mimicry without a real performance check, either in response to what economic competitors are doing or because of the practices among self-identified peer nations.

Even if the world deviates from its liberal trajectory and into trends such as nationalism, expropriation, protection, and authoritarianism, diffusion would likely play a pivotal role. Coercion might be more prominent in any such wave than was the case for liberalism because overt uses of force have historically been more common in establishing authoritarian regimes than democratic ones. Protection provides short-term "competitive" advantages for some producers. Governments might learn that certain forms of expropriation are tolerated by investors, and retreat from their increasingly liberal treatment of Foreign direct investment.

Certainly, illiberal policies can and may diffuse in the future, as they have in the past. Many people believe that the nature of humanity's interconnectedness is inherently biased in favor of liberalism. While we hope from a normative standpoint that this is the case at least for political liberalism, from the positive perspective as social scientists we cannot rule out the possibility of resurgent illiberalism. Either way, we believe that the diffusion mechanisms we have identified in this volume will play critical roles in the future of global policy and political change.

Conclusion

Let us conclude by underlining two lessons learned from this volume regarding core issues in the contemporary social sciences. First, a theoretical duality that sets up an exclusive juxtaposition of material and ideational explanations is largely passé. Almost all of the studies in this volume have emphasized that material incentives can and do coexist with less rational, more subjective influences on decision-making. Governments may decide to sign a women's rights treaty because of the social pressures emanating from UN conferences *and* to access development assistance; they may privatize to realize competitive advantages over

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their trade partners *and* because Chicago-trained economists influence policymaking; they may liberalize the capital account because "it works" *and* to curry favor with investors by accelerating the pace of liberalization. Governments clearly respond to multiple stimuli and for different reasons, both material and otherwise.

Second, national governments do not operate in splendid isolation from each other. It is much easier to do social science research assuming governments are independent actors reacting to exogenous "constraints" inside and outside their borders. But this volume has shown that this independence assumption is violated over and over again, and that only by building models of interdependent decision making among governments can we understand some of the most important phenomena of our time.

Domestic explanations are only a part – and in some cases, a small part – of the explanation for the spread of liberal policies this past half century. Closed-polity models that focus exclusively on domestic institutions, coalitions, and interests are therefore missing much of the action, even if they consider these variables as filters on an external environment characterized by common exogenous shocks. Statistically, proceeding on the basis of domestic politics alone or "common stimulus, mediated response" models risks introducing massive omitted variable bias into our understandings of policy. The risk is that by making the apparently innocuous simplifying assumption of countries as independent actors, we will greatly misunderstand how the world really works. By examining the diffusion mechanisms that have facilitated the spread of liberalization in the twentieth century, these chapters have contributed to a more comprehensive understanding not only of the policies that have contributed to our more thoroughly globalized world but also to the underlying interdependence of the international system.

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