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NEW CONCEPT Old Reality

Globalization is a recent term, but the internationalization of markets, people, ideas, and cultures is nothing new

Harold James

GLOBALIZATION triggers odd responses. Although almost everyone who thinks about it today agrees that a revolt against globalization is underway, many consider the fundamental process both inevitable and irreversible.

Is that true? A look back through history helps us understand the dynamics of revolts against globalization—the movement of money, goods, people, ideas, technologies, and cultures across frontiers.

The term globalization—in its modern meaning—was coined in the 1970s to describe the internationalization of markets, especially financial ones, after the oil price increases of the decade, but it reflects a much older reality. The recent period of globalization that seemed ascendant, at least until the global financial crisis, is but one of many such periods—and reversals—that dot human history.

The global financial crisis taught us that it is misleading—and dangerous—to rely on the analysis of economic “trends” derived simply by extrapolating a short data period. We don’t know how unusual or exceptional those data are. We’re also not aware of the complex nature of global interconnection. The shock of the unexpected crisis thus produced a new interest in looking at patterns derived from much longer time periods. Those older and longer patterns can highlight vulnerabilities that help us discover how we should adjust the institutional framework to make globalization more stable, less dangerous—and more just.

Past globalization

Describing the very dynamic global trade of the second half of the 19th and the early 20th centuries is now a standard part of economic historians’ repertoire (O’Rourke and Williamson, 1999). But that era was far from the only episode of



globalization. Archaeological evidence points to the global reach of trade during the Roman Empire, when Roman coins were traded as far from the Eternal City as the coastal regions of Sri Lanka and Vietnam. There were numerous subsequent expansions of global trade and finance. During many of them, ideas from classical antiquity and from the Roman age of globalization (and global rule) were revived, as in the economic rebound of the late 15th and early 16th centuries (the economic backdrop to the Renaissance) or the 18th century, during which improved technology and increased ease of communication opened the way for global empires (for Britain and France).

Technology and globalization are intimately related: we could even describe the phenomenon as “technobalization.” The worldwide interconnection of the 19th century was driven by the steam engine. In railroad locomotives, steam engines opened up new continents and allowed farmers to produce agricultural staples for markets far from home. The steamship then linked continents, and a dramatic decrease in transportation costs spurred market integration. The coordination of transportation required unified information, and the telegraph—which was able to span oceans in 1865, when the first stable transatlantic cable was laid—could relay the information that markets needed to know.

Thanks to communication technology—in this case the spread of print and the newspaper—people were also able to find out more about other countries and compare the harsh realities they experienced in their daily struggle for existence with a mythical El Dorado of abundance and happiness. They were prepared to take on tremendous hardships to make precarious voyages. With a note of realism, they often thought that the promised land might not materialize for them, but was a real possibility for their children.

Safety valves

But migration is more than a search for a better life by individuals. More broadly, it can act as valve to release social pressure in the countries migrants leave. Migration was an answer to problems brought about by technological changes—as well as by trade processes—that made whole categories of economic activity redundant. By migrating, individuals created new lives and new opportunities.

In the case of 19th century globalization, the movement of people away from the very poor periphery of Europe (eastern and Mediterranean Europe and Scandinavia) raised incomes. Especially in the case of Scandinavians, the rise in prosperity was dramatic. Thirty million migrants left Europe for the United States between the middle of the 19th century and the early 20th; some 6.5 million went to Argentina and 5 million to Canada. The share of the U.S. population born abroad was higher on the eve of World War I than it is today.

The political dynamic of emigration was captured by the economist Albert Hirschman—doubtless, in part, a reflection of his experience of flight from political and racial persecution in Nazi Germany (Hirschman, 1970). The easier it is to move (exit), the lower the commitment to the political

society in the country of origin (loyalty) and the less pressing the need to articulate ideas (voice). When exit is stopped, the demand for voice rises.

Recipient countries have an opposite dynamic. Entry produces loyalty, but also economic dynamism. A great deal of American entrepreneurship is—as emphasized by the late Thomas McCraw—a testimony to the inventiveness of migrants (2012).

Sometimes safety valves divert flows and cause flooding elsewhere: that makes migration very unpopular. Backlash against globalization often strikes at the previous safety valve of migration, which is what appears to be happening in many countries today.

Reversals

There are several historical explanations for the backlash against globalization.

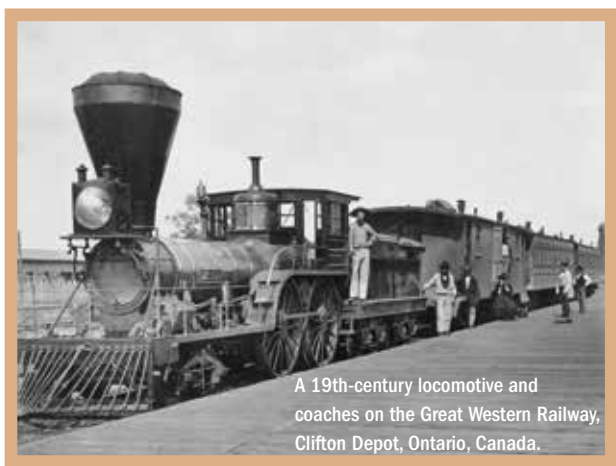
First is *that there is a simple psychological reaction to the unfamiliar*. People are sated with interaction; they withdraw from what is foreign and seek protection from global threats and devastation.

The topic of long-distance trade has often turned into a denunciation of unnecessary luxuries.

The topic of long-distance trade has often turned into a denunciation of unnecessary luxuries. Both the ancient Greek philosopher Aristotle and his medieval Christian successor Thomas Aquinas recognized that some products needed to be traded over long distances, but considered local production more moral, because they believed foreigners would disrupt civic life (Irwin, 1996). Roman philosopher Pliny the Elder complained that Rome was drained by expensive imports of unneeded luxuries from India, China, and the Arabian Peninsula, and poet Sextus Propertius complained that “proud Rome is brought down by her wealth.” Theologian Martin Luther, the seminal figure in the Protestant Reformation, railed against luxurious Italian products that were eroding German homespun goods. The American Revolution also began with a sort of antiglobalization revolt—against British taxes, but also against a luxury product (tea) of English multinational companies.

The backlash against migration has included nativism. In 1882, the U.S. Congress passed the Chinese Exclusion Act, which barred Chinese laborers from entering the country (and required all Chinese persons to present on arrival a certificate declaring their occupation). The law was regularly renewed (and finally repealed in 1943). Bills more generally limiting migration passed as well—and until World War I were regularly vetoed by the president.

History yields a second historical explanation: *globalization breaks down during financial crises*. Finance constitutes the



A 19th-century locomotive and coaches on the Great Western Railway, Clifton Depot, Ontario, Canada.

most volatile of the international linkages. Globalization magnifies the extent of financial crises. One finding of economic history is that during the 19th-century era of gold standard integration, more capital flowed between countries than during the limited financial interconnectedness in the two decades after World War II. But there also were more banking crises under the gold standard. In particular, the big financial crises of 1907 and after 1929 led to a new nationalism, and the financial crises were blamed on foreigners and foreign influence.

A third hypothesis is that *the volatility or breakdown of finance prompts discussion about the operation of the international system* and greater sensitivity to the power dynamics of the global stage. One crisis, in 1907, holds important lessons about the impact of financial crises but also about the way that finance can shift politics. After 1871, the world financial system revolved mostly around Britain and in particular the city of London. The panic of October 1907 showed the fast-growing new industrial powers, especially Germany and the United States, the desirability of mobilizing financial power. The crisis unambiguously originated in the United States, where a high demand for cash caused an interest rate surge that drew in gold imports. But it also caused interest rates to spike elsewhere, placing great strain on banks in Egypt, Italy, and Sweden, as well as in Germany—in short almost universally.

The 1907 experience convinced some American financiers of the need for New York to develop a commercial trading system that could handle securities to finance trade in the same flexible way as that of the mature and deep London market (Broz, 1997; Eichengreen and Flandreau, 2010). Paul Warburg was the central figure in the push for development of an American acceptance market (where short-term instruments, usually used to finance imports and exports, are traded). Warburg became a key player in the design of the Federal Reserve System, the U.S. central bank. He was the U.S. immigrant younger brother of a noted Hamburg banker, Max Warburg, personal adviser to the German autocrat Kaiser Wilhelm II. The two Warburg banking brothers on both sides of the Atlantic energetically pushed for German-American institutions that would offer an alternative to the British industrial and financial monopoly. They were con-

vinced that Germany and the United States were growing stronger year by year and that British power was falling.

Fourth, *global connections are destroyed by wars that arise out of tensions from a geopolitical landscape altered by globalization and also as a response to vulnerabilities and strategic interdependence*. A tradition derived from the French legal thinker and political philosopher Montesquieu sees commerce as breeding peace. The same argument was made by the great 19th-century British free traders John Bright and Richard Cobden. The most famous account of the “peace idea,” that “intangible economic forces are setting at nought the force of arms,” came from Norman Angell’s *The Great Illusion* (1913). Angell aimed to show how the character of rule and empire had changed as a consequence of economic interdependence. He saw in this a fundamental contrast to the imperialism of the Roman model, which relied on the extraction of tribute from subject populations. “Rome did not have to create markets and to find a field for the employment of her capital. We do.”

But interdependence made it possible to use the threat of systemic disruption as an instrument of power policy (Lambert, 2012). The complexity of networks in a globalized world and the way they can be used to propagate influence make them an ideal instrument in the struggle of powers. At the same time, strategies that use network power are not simple: the threat of disruption can easily come back to bite its originator. In World War I, all sides experimented with strategic disruption. Britain started the war with a major blockade, and in 1917 Germany went for unconditional submarine warfare, but in both cases the strategy backfired. By then of course it was too late.

Lessons of globalization

At each stage in the globalization cycle, we tend to extrapolate from current developments and to think that this particular phase will last forever—whether it is the confident upswing or the stagnation and anger of the downward movement. A break in the upward trend then produces profound disorientation and disillusion.

In the aftermath of the recent global financial crisis, a logic similar to that of a century ago drove German and American bankers not only to want to reform their financial institutions, but to think about a new financial and economic shape for the world. The United States, although the original epicenter of the 2007–08 financial crisis, pulled through better than other advanced industrial areas because of the depth and sophistication of its financial system. The experience has prompted broad discussion in Europe and Asia of ways to emulate the sophistication and robustness of the American system, just as Germans and Americans sought to learn from the model of the city of London and the Bank of England after 1907.

As was true a century ago, different parts of the world focus on various lessons taught by instability. For Chinese policymakers, the central focus is on giving their country a much greater role in trade finance, with a rapidly increasing proportion of foreign trade denominated in renminbi. The Chinese are reproducing their version of the American debate at the turn of the last century about the use of New York rather than London trade acceptances.

One lesson for Europeans is the need for a more secure asset and a better market for government bonds, which would involve moving to a standardized European security that resembles the U.S. Treasury bill. This is the equivalent of

A standardized security demands internal political and constitutional changes in the European Union

the German discussion of a hundred years ago in the wake of 1907. Many European economists, as well as outsiders, see the virtue of the early American experience, when founding father Alexander Hamilton built the new republic around a consolidated national debt. But a standardized security demands internal political and constitutional changes in the European Union that may be difficult to contemplate—just as full development of Germany's debt market in the early 20th century would have ultimately required much more extensive constitutionalization.

Zero-sum game

For some other countries, it appears that the primary lesson of the 2008 crisis is that the world is inherently a place of conflict and that the great powers are playing a zero-sum game in a struggle for hegemony (Rachman, 2011). It is hardly surprising that the targets of this intense financial diplomacy look around for alternatives to the dollar and the international financial system. As an immediate response to the financial crisis, Russian President Vladimir Putin, speaking in Sochi in September 2008, conspicuously revived French critiques from the 1960s of the exorbitant privilege of the U.S. dollar—that because of its status as the global reserve currency it is not subject to the same market constraints as other currencies. It is hard to explain Putin's position after 2008 in any way other than as a reflection of the lesson he took from 2008, which at the time seemed to be U.S. vulnerability. A major feature of the Chinese-Russian gas deal in 2014 was that the sales were not priced in dollars—which satisfied China's desire for increased prominence of the renminbi and Russia's goal of reducing reliance on the dollar in international commerce. Migrations too increase after financial crises and after destructive wars and conflicts.

A vision of hope

At the inaugural session of the Bretton Woods international monetary conference in 1944, then U.S. Treasury Secretary Henry Morgenthau expressed his vision:

“I hope that this conference will focus its attention upon two elementary economic axioms. The first of these is this: that prosperity has no fixed limits. It is not a finite substance to be diminished by division. On the contrary, the more of it that other nations enjoy, the more each nation will have for itself.... The second axiom is a corollary of the first. Prosperity, like peace, is indivisible. We cannot afford

to have it scattered here or there among the fortunate or to enjoy it at the expense of others.”

The French word “*globaliser*” has a rather different meaning than it has in English (when French people speak of globalization, they generally use the term “*mondialisation*”). *Globaliser* means to establish links between various issue areas: security and economics, for instance, or more generally between the assessment of different kinds of risks. At the end of World War II, in devising a new order for peace, the United Nations and the multinational economic institutions were designed with a deliberate symmetry: the five most powerful states were the five permanent members of the U.N. Security Council. These also had the five largest quotas, and permanent seats, at the World Bank and the International Monetary Fund. But the political and economic systems moved apart as the Soviet Union failed to ratify the Bretton Woods agreements and the Communist Revolution left the small Republic of China (Taiwan) at first holding the IMF seat. The People's Republic of China took over that seat only in 1980.

The vision of 1944–45 was all about linkages between political and economic areas. But the subsequent separation of the economic and political arenas made issues in both harder—or impossible—to solve. To try to do so requires a revival of the spirit that prevailed at the end of World War II in order to devise institutional settlement that has not only the technical means to soften the blow of financial crises but that can also bring countries together in more general agreement about shared ways of proceeding. ■

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