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# GLOBALIZATION, NEITHER EVIL NOR INEVITABLE

Do we really need to hear more about globalization? Like it or not, we will: both Left and Right justifiably see it as the early twenty-first century's locus of political alignment. The multinational corporations and international agencies that organize global trade and investment have replaced the bourgeoisie as the objects of anticapitalist derision; contempt for free traders is emerging as the dominant feeling on the young and restless left. On the right, disdain for the "hypocrisy" of antiglobal protestors—who smash the windows of Starbucks while clad in clothing by the Gap—has replaced revulsion against Communists who, during the Cold War, used the freedoms of the West to undermine democratic capitalism. And then there are the economistic supporters of globalization, so confident that "quicksilver capital" and the logic of gains from trade make globalization inevitable that they see resistance as futile and the debate over globalization as irrelevant.

This issue of *Critical Review* deals first with the inevitabilist thesis. It is striking that, as public-choice theory has gained ground on the right, it has served to keep alive the deterministic spirit of none other than Karl Marx. Like Marx, public-choice theorists reduce politics to economics; and in that spirit, it is now a right-wing commonplace that the progress of global capitalism is unstoppable. Likewise, many on the left have recovered sufficiently from the shock of 1989 to

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begin hailing Marx's own inevitabilism as evidence of his continued relevance: did not *The Communist Manifesto* presciently note the relentless cosmopolitanism that, a century and a half later, we call "globalization"?

It took no special insight into the future, however, to see what Marx saw. As Barry Eichengreen, Douglas Irwin, Deepak Lal, and Charles Wolf note in these pages, globalization was already a massive, unmistakeable fact in the nineteenth century. Lal even has a name for nineteenth-century global capitalism—the "first liberal international economic order"—against which he contrasts the second "LIEO."

Distinguishing the two LIEOs is crucial, because it draws our attention to something both latter-day admirers of Marx and economistic free-marketeers tend to ignore: the interregnum between the LIEOs. In that period occurred the two world wars and the Great Depression. These were not inevitabilities, any more than were the periods of relatively free international trade and finance that bracketed them. The interregnum was brought on by *politics*: the politics of imperial grandeur, of nationalist protectionism, of interventionist economics, and of antipathy to liberal democracy. These political tendencies culminated in policies and events that smothered the first LIEO.

The commencement of the second LIEO at Bretton Woods, and its continuation in the form of GATT, NAFTA, and—as Jason Sorens demonstrates below—domestic economic deregulation were also political; no economic forces made them inevitable. But the politics that shaped the second LIEO was different than the politics that ended the first one. Imperialism, protectionism, interventionism, and war were truly democratic, in that they appealed to popular passions and misconceptions. The politics of the second LIEO, in contrast, was democratic in name only. Like the now-emerging European megastate, the postwar regime of semifree trade was created by the decisions of political elites who, while democratically elected, pursued a course that would surely have been rejected—had it been noticed in the first place—by the electorates to whom the decision makers were legally accountable.

## *Democracy vs. the Third World*

The economic nationalism of a Hitler or a Peron, or a Perot, always tends to be more popular than the internationalism of an Adam

Smith. In the public mind, economic nationalism seems both more logical than internationalism and more just.

As a matter of logic, the threat that "our" farmers face from "foreign" agriculture, and that "our" workers face from foreign industry, and that "our" economy faces from financial speculators, are compelling because they are tangible and their victims are identifiable. The gains to "our" consumers from foreign trade and global finance are far more amorphous. A large aggregation of small increments of cheaper and better goods and services that are, to begin with, difficult to identify as stemming from free trade is unlikely to be as moving as a single news story about a textile factory shut down by foreign imports. How easy is it to see that the now-unemployed workers of that factory may well gain better jobs in industries that are made possible by the wealth no longer devoted to the less efficiently produced goods they formerly manufactured? The gain in the standard of living thereby made available to those workers' fellow citizens, too, is politically weightless.

For like reasons, attempts to penetrate the brain-numbing thicket of international-finance theory do not, in the political arena, get far enough to make clear the role financial markets play in distributing risk across places and times. And political discussions of currency policy are routinely reduced to simplistic invocations of the tangible benefits of weak currencies, which temporarily boost domestic employment by making "our" goods cheaper abroad.

Such calculations, morever, as difficult as they are to make accurately, take it for granted normatively that the just criterion by which to judge economic policy *is* domestic employment. The fact that globalization subjects First-World employees to competition against low Third-World wages makes a potent political argument, not only because it is easy to grasp, but because of its implicit grounding in nationalism—which attaches such a high value to the well-being of one's conationals that the well-being of "foreigners" barely registers at all. "Us versus them" is the easiest heuristic we have for deciding what to do, in the public as in the private sphere; the loss of "our" jobs to "them"—exemplified in the U.S. debate over NAFTA by the "giant sucking sound" Ross Perot heard emanating from Mexico—usually counts as enough to condemn free trade.

Suppose that the worst case is true: that the net effect of competition from the Third World is to reduce the well-being of the First World, because it subjects unskilled First-World workers to perma-

nent unemployment; and because the higher standards of living delivered to First-World consumers by imports of foreign-made goods do not really matter, because happiness is not enhanced by gains in wealth above a certain minimum (see, e.g., Lane 1991, Scitovsky 1992, and *Critical Review* 1996b). It would then make sense to oppose globalization—but only if we leave out of the picture the wealth that globalization produces for the billions of people in the Third World who are below the hedonic minimum, and who are every bit as human as are residents of the First World who are lucky enough to be above it.

The reason the effects of economic policy on "foreigners" are almost never considered in democratic politics is probably not just that noncitizens, by definition, do not vote in any given polity's elections. It has been shown time and again that voters are usually "sociotropic," aiming not at their self-interest but at the public good (e.g., Lewin 1991, ch. 2; *Critical Review* 1996a). The "public" in question, however, is always defined in subglobal terms: it excludes those who happen to live beyond the borders of one's nation-state—out in the featureless world beyond the edges of the national weather map, where "our" flag does not fly. Presumably, if nationalism had not been invented (see Weber 1976 and Tyrrell 1996), it would have had to be: nationalist norms help people navigate the complicated world of politics. Nationalism points toward egalitarian policies within the borders of a given nation-state (cf. Greenfeld 1983), but it conveniently limits our obligations beyond those borders.

The threat nationalism poses to the second LIEO can be gauged not only by recalling what led to the demise of the first one, but by going back even farther, to the foundations of the Pax Brittanica in the nineteenth century. To take only the example of money, Lal argues that Britain's global financial system worked because it was sufficiently insulated from democracy that it could occasionally be inflationary—but without opening the door to demands for inflation at inappropriate times made by politicians who, like their constituents, were not only economically illiterate, but were nationalistic enough to favor beggar-thy-neighbor monetary policies. In other words, had Britain had a more responsive political system, the gold standard would not have worked; and in the early twentieth century, when the world became more democratic and thus more nationalistic, the gold standard collapsed.

One writer in these pages, Kevin Dowd, takes an inevitabilist posi-

tion, predicting not only that a laissez-faire world financial system would tend to converge on a currency or currencies tied to commodities; but that the same pressure that would lead to that convergence *given* a laissez-faire financial regime—the cost, in inflation and financial insecurity, of floating exchange rates—will (inevitably) lead to such a regime, transforming the current, state-controlled financial system into a free-market paradise. But the latter prediction assumes that those in control of the monetary system understand, and agree with, Dowd's monetary theory. It is one thing to maintain that, under a laissez-faire financial system, people would tend to choose commodity-based currencies because such currencies would be less prone than fiat currencies to lose their value. This prediction assumes merely that people would respond to the superior performance of one currency over another, about which they would receive direct feedback in the form of how much their currency could buy. It does not, however, assume that they would understand the *reasons* for the performance of their currency. It is entirely different to forecast that people will grasp monetary theory sufficiently to understand the appropriate response to the failures of the current regime. If this were a reasonable prediction, one wonders why the first LIEO—which was undergirded by a monetary system quite similar to the one Dowd envisions as inevitable—came to an end. If people grasped the costs entailed by departures from commodity-based currencies, we wouldn't need economists to explain them to us. But people do not, so we should not assume that financial crises will not continue to be blamed on too much laissez faire rather than on not enough of it—or that our LIEO will be any more permanent (or any more laissez faire) than its predecessor.

Economics is a difficult subject, and few people have the time or inclination to specialize in it. Even those who do, such as observer-participant George Soros, can easily be led, by the use loose of such terms as "capitalism" and "laissez faire," to favor—in their normative prescriptions and political agitation—interventionist policies of the sort that they blame—in their empirical analysis—for past financial crises. Dismissing as inherently dogmatic the argument Eichengreen makes below (as does Garett Jones in his more systematic treatment of the issue) that the Asian financial crisis was largely attributable to "moral hazard"—overly risky investor behavior, encouraged by past government bailouts—Soros insists that we live in a laissez-faire dystopia; that "market fundamentalism" rules the world of practice,

just as (he claims) it rules the world of theory; and thus that the only way to prevent future financial crises is to erect even more powerful political institutions than those we now have.

The new institutions, Soros (1998, 109–111) implies, would not only strengthen democracy while weakening the "capitalism" that now reigns "triumphant" (ibid., 102); they would manage to rule more successfully than the institutions now in place. Yet elsewhere Soros (ibid., 121–22, 169, 180–81) himself describes moral hazard as at least a large part of the reason for systemic failures in the status quo. Rather than striking at the root of moral hazard—an IMF that is responsive to the needs of large investors (ibid., 181)—Soros prescribes a somehow-depoliticized IMF that would be as stringent with those who make bad loans as those who accept them (ibid., 182). But if the problem is the politics that leads to moral hazard, solving it by creating new political institutions amounts to assuming the problem away.

Because Soros construes the status quo as nearly devoid of government intervention, he overlooks the anti-interventionist implications of his own narrative of the system's failure through moral hazard encouraged by just such intervention. If the reasoning of as experienced an analyst as Soros can so easily go astray, it is hard to agree with Dowd that the relevant political actors will inevitably understand the political causes of future financial crises and will gravitate toward his solution.

What really does the work in Dowd's laissez-faire vision is the disappearance, from the financial scene, of democratic politics. Democratic governments will only "compete" with each other in a way that might lead to Dowd's monetary reforms if their monetary officials decide to compete; and they will make that decision only because they believe that in so doing, they will advance the national interest (a belief they clearly do not hold at present), or because they feel pressure from their electorates. But electorally generated pressure would require the voters to know what has gone wrong when financial crisis strikes. Dowd is, therefore, asking even more in the way of theoretical sophistication from the economically unschooled public than he is from monetary officials, most of whom would violently disagree with his views.

Similarly, despite his theoretical (and philanthropic) support for democracy, Soros's new global-finance institutions would work only if they were immune from political pressures of the sort that led to past mistakes (and only if they somehow possessed a measure of wis-

dom that has escaped even the shrewdest of the world's finance ministers; Soros 1998, 139). Thus, to preserve a measure of global economic openness, Soros would shift the level of government intervention to such a distant remove from popular politics that it would resemble the Bank of England in its heyday. But this means that his real target is not an imagined regime of global laissez faire, but the pressures for local and global bailouts generated by democratic politics (along with the failure of unelected bureaucrats to rule as wisely as he would rule).

## *The Tainted Idealism of Antiglobalism*

The logic of globalization, which so captivates free-marketeers that they imagine its inevitability, is, in fact, counterintuitive. When we think of financial markets most of us see not order but chaos; and when we take notice of the Third World at all, our hearts are torn by the degradation of the sweatshop, not gladdened that it has replaced even worse working conditions—or no work at all.

Compassion that leaps across national borders is the idealistic basis of the new antiglobalist left. But while the new activists have transcended parochial norms, they have not managed to articulate an alternative to globalization that could realistically be expected to enrich as many people as the billions it is now lifting from poverty. They too readily overlook the question of why so many residents of the Third World choose the drudgery of the sweatshop: to ask the question is virtually to answer it. Working conditions that do not meet our standards are deplorable *to us*—at least when a TV broadcast makes them visible to us. But what is not reported by the mass media cannot be seen, and that includes the conditions supplanted by factories we would never visit, let alone work in: conditions so bad that the people subjected to them clamor for the "sweated" alternative (e.g., Kristof 1998, A1).

Any compassionate person wants to promote alternatives that will help people trapped in such conditions; but which alternatives would really help? If not by working in internationally financed factories—sweatshops like those that, during the first LIEO, created the First World by moving millions of people out of poverty in Britain, the Continent, and the United States—how are the world's impoverished to leave poverty behind? One way would be for them to do so liter-

ally, by moving to places where there is better-paid work for them to do. But that option has been closed off by First-World immigration restrictions. The most important upshot of democratic politics has been nationalist inteference not in the movement of money or goods or capital, but in the movement of people. Having broken with laissez faire by closing the legal gates to most immigrants; and being unwilling to redistribute a significant proportion of their wealth to those in need in the Third World (even if a realistic way could be found to get it to them without undermining economic self-sufficiecy or feeding local kleptocracies); we would seem to be left only with the alternative of unrestricted investment in the Third World and free trade in the goods produced by it.

Why should investment and trade be unrestricted (whether by governments, government-empowered unions, or socially conscious investors)? Because each restriction, by bringing Third-World labor standards above the market-clearing level, reduces some of the competitive advantage that makes job-creating investment in the Third World profitable. Perhaps the best way to think about the difference between the new LIEO and the old one is to notice that, in the more politicized context of the current era, the profit motive, far from being turned loose, has been channeled by democratic states into investments abroad that, being less visible, are less likely to trigger nationalistic resentment than would the mass migrations of foreign workers that, along with the unimpeded flow of investment, characterized the old economic order. Instead of allowing capital and labor to flow to sources of raw material, capital and raw materials must now flow to the source of labor.

Like Soros, Lori Wallach—the closest thing there is to a leader of the antiglobalism movement—considers herself a proponent of greater democracy (Naím 2000, 47); but, pressed on the point, her prescription for a more democratic global economy turns out to involve not the abolition of nation-states and the empowerment of a global electorate, but the exercise of control over existing nation-states, and the international organizations they run, by means of the protest politics in which Wallach specializes. Also like Soros, Wallach acknowledges (if back-handedly) that the "corporate capitalism" to which she objects is grounded in government intervention—transportation subsidies, for instance (ibid., 45)—not in laissez faire. But, again like Soros, rather than opposing at its root the state's power to intervene, she would simply substitute her own list of desirable inter-

ventions (ibid., 45–46), wishing away the question of why democratic politics has produced the "evil" policies she opposes (ibid., 53). The key thing is to put people like herself in charge of First-World states and the international agencies they control; this is desirable not because it would mean a more genuinely populist form of world economic governance, but because people like her are "looking at the public interest, and trying to balance that against corporate interests," whereas the First-World governments that now pull the strings are "basically fronts for their corporate interests" (ibid., 49). If formal democracy is a sham, then real democracy is, for Wallach, rule by the organizers of media spectacles that can create public opinion.

It seems, then, that under the guise of a democratic anticapitalist, what we find in Wallach is an elitist who, were she to be more realistic about the abilities of Platonic guardians like herself, might even end up favoring laissez faire. The (unregulated) market; or (putatively) wise bureaucratic regulators; or the public (and its demagogues): the choices are few, and none are entirely satisfactory.

Nearly the whole disquieting picture is captured in the work of Adam Smith: how nationalism, when married to economic ignorance, produces policies that impoverish in the name of enrichment; how susceptible the voter and the politician are to special pleading; how the logically impeccable case for free trade is less than politically spellbinding; and, most importantly, how the benefits of capitalism flow to the poorest of the poor. In *The Theory of Moral Sentiments*, written long before *The Wealth of Nations*, Smith painted the last point in the image of "the poor man's son," who dreams that wealth will make him happy (IV. i. 8). In pursuit of his dream, the boy makes himself into an entrepreneur who, at the end of his life, discovers—consistent with the findings of contemporary pychology—that, in fact, money does not buy joy. But this does not mean his efforts were wasted: in his quest for luxury, he has employed thousands whose lives might otherwise have been ended by a single bad harvest. The entrepreneur unwittingly sacrifices his happiness to relieve the suffering of the many, supplying from his useless luxuries their distance from poverty.

We of the First World, whether entrepreneurs or wage laborers, are the poor men's sons of the second era of global capitalism. We drive ourselves harder than any taskmaster to get the money we imagine will bring us fulfilment. But the real value of our lives, in economic terms, lies in the fact that our mutual funds invest in factories that

employ the impoverished of the world, who would otherwise live on the knife-edge of starvation; and in the fact that we finance not only the production, but the consumption, of the goods those factories produce. Those moved to action by compassion might be better advised, then, to buy foreign-sewn clothing than to protest globalization. Such protests are not futile attempts to stop the inevitable; their danger is that they may well succeed, further retarding, or even ending for the second time, the relief of suffering that only "capitalism" has yet achieved.

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