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Globalisation: Past, Present … And Future?

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Executive Summary

This is an extended review of two books published last year: D. M. Smick's *The World is Curved* and G. Steingart's *The War for Wealth*. Each in their different ways questions both the past practices and the future of the current phase of globalisation, and has been acclaimed by prominent figures. The aim of this review is to consider their analyses and contentions in the light of more recent reports in the mainstream popular literature; however, lack of time, space and other factors means that the present treatment must be rather superficial.

Globalisation (Section I) has come along way since the time of mercantile capitalism and entry into the Industrial Revolution. It was initiated by the unsustainable colonial

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empires of Europe, whose manufacturing industries produced too much goods and thus had to search for foreign markets for the excess. The same pattern was repeated with the emergence of the United States onto the global scene, to progressively supplant the European powers in the period leading up to the Great Depression. The major, most recent phase of globalisation was made possible by liberalisation of the capital markets in the 1980s; this facilitated the expansion of entrepreneurial capitalism which, together with the vast pool of labour made available with the collapse of the Soviet bloc and rapid development in communications and other technologies, led to the rapid growth of developing economies and the emergence of an increasingly integrated global market. Nevertheless there have been calls, mainly in the West and especially recently, for deglobalisation and a reversion to a more nation-oriented world economic system.

The recent rapid changes occurring as a result of globalisation need to be considered in the light of the biological and socio-cultural history of the human race (Section II). Thus, individuals have a limited capacity to relate to progressively larger social units without turning to 'selfish' behaviour, in the absence of any common, unifying force. However, both individuals and societies are plastic: they are flexible and thus can adapt to changing circumstances at least to some extent. On the other hand, the past development of such unifying forces has created considerable historical baggage, which serves as an impediment to the development of new, alternative ways of unification. This means that there are socio-political barriers (conscious or otherwise) of competitive non-cooperation and distrust, which serve to slow down or put a brake on the globalisation process.

The recent phase of globalisation was largely made possible by the entrpreneurial form of capitalism, which accelerated advances in communications and other technologies and has allowed a democratisation of the markets (Section III). In turn, these changes were made possible by a liberalisation of financial markets and the development of new financial instruments, which greatly increased global liquidity and thus the funds available for investment. Smick (2008) concludes that these changes have made the world less 'flat' in the sense that financial markets are now less transparent and predictable, and thus more fragile. In the goods and services markets, Steingart (2008) concluded that, whilst the world has indeed become 'flatter' for businesses, differences between developed and developing countries with regard to welfare systems mean that emerging economies are at an advantage because their labour costs do not include the 'hidden' expenses of these social support systems. This means that there are threats to the jobs of the lower-paid in the 'rich' developed world.

The present global economic crisis arose out of the lack of transparency of the financial markets, and thus their being open to abuse by bankers and other marketeers (Section IV). It has served to emphasise the fact that the central banks can no longer control the global economy. The spread of the crisis to include goods and services has had a severe impact on world trade, leading to a 'double recession' in East and Southeast Asia, which has meant that the latter's markets were not able to de-couple themselves from those of the developed world. This means that jobs are now threatened, and many of those in developing countries who had managed to escape from poverty will return to that state. The possible threat of social unrest has meant that many of those governments which can afford to do so have taken fiscal measures to maintain employment. As a result – and contrary to what has been prescribed previously by the 'Washington Consensus' for developing economies in difficulties – governments and their central banks in the United States and elsewhere have intervened to prop up financial institutions, to rescue them from the consequences of their previous ineptitude: the aim is to avoid a repeat of the Japanese banking crisis and that nation's resultant 'lost decade' of stagnation and recession in the 1990s.

The path into the future is unclear (Section V). Comparisons with the period leading up to the Great Depression would seem to be unwarranted, or at least premature. The past reliance on the US dollar as a reserve currency is grossly iniquitous, but various pressures mean that it is likely to remain thus for the foreseeable future, provided that there is not the threat of the dollar's collapse. Whilst there is an obvious need for regulatory changes to the global system of markets, there are two major problems: the need for an international leadership which can stand above competing national interests, and the need for the development of regulations which maintain a global unity of the markets. Developed nations are confronted with the fact that their established welfare systems place them at a disadvantage with regard to emerging economies: a problem which is compounded by their ageing populations and (apart from the United States) their barriers to entrepreneurship. On the other hand, the dominant emerging economy, China, has its own problems: asymmetries between different regions in development, together with the abolition of much of the social welfare system and an economic contraction (which has the potential to get much worse), mean that continued economic development is jeopardised, raising the spectre of social unrest; the situation is made worse by the fact that China's need for high growth rates is creating bubbles which, if poorly controlled, are likely to burst with profound implications not just for China but also for the rest of the world. Internationally, some observers have seen cause for future concern regarding the risk of military adventurism and conflict in the region and elsewhere. The effects of the present economic crisis have served as a distraction, to some extent at least, from dealing with the ongoing, even more threatening environmental crisis.

I. Globalisation and the Striving for an Ideal World … but for Whom?

Industrialisation, partly as a result of technological innovations, set the stage for the first steps towards globalisation in the latter portion of the nineteenth century, with 'the West' as the main driving force. A diversity of factors have been proposed to account for these events occurring where they did – for example, Protestant Christianity with its work ethic (see Section II), the Enlightenment or the subsequent development of science and the 'invention of inventing' which initiated a chain reaction – but it is likely that these and other factors acted in concert (Steingart, 2008).

As a result, industrial capitalism emerged, similar to that seen in developing countries today. Steingart's (2008) recent overview noted that systemic inefficiencies meant that factories started to overproduce goods for the local market. One set of consequences was to put downward pressure on workers' wages and threaten their job security; in turn, their purchasing power was reduced and there was attendant increasing social instability. Another consequence was that, rather than cutting back industrial output, manufacturers turned to exporting the surplus, including to their colonies as captive markets. This early phase of globalisation was thus characterised by naked imperialism, including the partial dismemberment of imperial China (Steingart, 2008).

However, for the most part, colonialism was an economically (as well as morally) misguided venture in the search for export markets as well as for sources of increasingly important commodities. The over-riding problem was that business and foreign trade were secondary to the political concerns of as yet undemocratic European (and, latterly, Japanese) governments: the ruling classes strove for further power and wealth whilst fearing that they might lose what they already had, whether to their competitors or to the indigenous people in their own colonies (Steingart, 2008). Thus the demands of holding an empire placed large political and economic strains on Great Britain, in particular, through drains of capital in order to obtain colonies and then hold them together. From being the dominant power of the time, it went into decline, and the United States started its ascendancy to overtake Europe after the First World War.

In turn, the subsequent growth and industrialisation of the United States led to an overproduction of goods, with the onset of an economic war and the Great Depression. This served as the death-knell for the first phase of globalisation, and also promoted a shift towards the development of a more social form of capitalism in countries in the West. Thus, partly as a result of the development of unions which sought to debrutalise the prevailing model of capitalism and reduce social abuses in the predatory pursuit of profit for a few at the expense of the rest (the effects on other nations, and especially the colonies, rarely featured), there was the erosion of traditional class structures and democratisation in Europe, together with the taming of monopolistic 'robber barons' and the development of social security systems there and elsewhere in the West. Put somewhat simplistically, the result was the emergence of two major competing economic and political ideologies: a more liberal form of capitalism *vs*. the start of experiments with Marxism.

The Second World War served to give the necessary boost to United States' economy to complete its recovery from the Depression, allowed it to further established itself as a superpower, and led to the next attempt at globalisation. Thus, the subsequent Cold War – with its clashes between the free-market ideologies of capitalism and the Marxist-communist ideology of centralised command-and-control economics – led to competition by the major players on each side to bring the other, 'Third World' countries under their repective spheres of influence through military and other forms of support.

The subsequent implosion of the Soviet bloc, epitomised by the collapse of the Berlin Wall in 1989, is generally considered to mark entry into the latest, major and much more general phase of globalisation (Friedman, 2006). However, the ground was already prepared by liberalisation of the capital markets in the 1980s, with increased funds available to support entrepreneurship (Smick, 2008).[2] Thereafter, partly as a result of technological and other advances which, for example, have made communications (including transport) both faster and cheaper, it has become possible for so-called developing countries to accelerate their economic and social development as emerging economies which are increasingly effective at competing with the estabished rich countries of the developed West and Japan.

However, there has been a recent popular discontent with the results of globalisation, at least within segments of the population in the developed world, leading to increasing calls for deglobalisation: for national politicians to put in place measures which reverse what some see as the threatening, rather than just disruptive, effects of the trends which have emerged to date.

The foregoing, and Section III onwards, is based on an extended review of two recent books (Smick, 2008; Steingart, 2008) which in their different ways question both the past practices and the future of the current phase of globalisation. Smick's book, *The World is Curved*, has favourable blurbs by a number of financial luminaries (including Greenspan and Soros) on its cover; although it lacks explicit citations, it draws on the experiences of the author both as a financial consultant and as editor and publisher of *The International Economy*. The book by Steingart (a journalist), *The War for Wealth,* had a complimentary blurb on its cover by Kissinger

[2] In turn this was the result of political responses to the bear market with bad inflation, stagnation and high unemployment in the West during the 1970s; which was itself a product of the Kennedy-Johnson tax cuts in the 1960s to boost employment (as part of a 'Great Society' drive for social improvement) and the Vietnam War (Smick, 2008).

(amongst others), also lacks explicit citations and it is not clear whether it was written in pursuit of a Western (pro-European), potentially political agendum.

Section III onward further considers the points made in these two books in the light of their arguments and that of the recent dramatic events which have beset the world economic system: lack of time, space and other factors means that the present treatment must be rather superficial.

Before returning to the material covered in these books, it is perhaps apposite to turn briefly to a subject which many economists are only recently beginning to seriously consider: the fact that economies are made up of individual, very human beings.

II. Globalisation and the Human Factor

The ideals of globalisation must be considered in the light of the size of the world's population, which presently stands just short of 7 billion, and is growing by the day. Each of these individuals is striving to better their own particular lot in life as best they can; thus, each has a personal horizon which creates limitations in grasping the broader picture. Furthermore, different people have different views of their own individual 'worlds', with perspectives based on their own personal history as well as on their cultural background.

a. The Human Condition

Cities and states are recent human inventions. For much of human history, life was spent as small hunter-gatherer groups, until the discovery of agriculture 10,000 years ago[3] opened up the possibility of more sophisticated social systems; the time since then has been sufficient for different populations of humans to acquire genetic modifications to adapt them physiologically to their particular environments (Ward, 2009). Although many of the claims of evolutionary psychology[4] are controversial,[5] Dunbar (2005) has used a variety of information to conclude that the average social group size in modern humans – 150 friends – is comparable with that in prehistoric times, a constraint imposed by our (genetically-determined) limited capacity to handle information. Thus, whilst we have been able to adjust to and become integrated into city life through social networks and also into nations through means which promote patriotism, the individual human finds it increasingly difficult to identify with successively larger groupings: the desire to act for the greater good becomes progressively more diminished at the expense of that to act for the immediate benefit of oneself and one's friends.[6] As a result, social and thus political

[3] Only a fraction of our more than 200,000-year evolutionary history as a distinct species: Mithen (1996)

[4] Which proposes that our present behavioural adaptability reflects, and thus is constrained by, genetic influences which were selected for over previous generations.

[5] Buller (2009) has identified four fallacies intrinsic to 'pop' evolutionary psychology, one of which is the overly simplistic idea that "our modern skulls house a Stone Age mind".

[6] And, by extension, members of a wider social grouping such as a class.

systems which have evolved to try and ensure national cohesion are difficult to adapt to integration on a broader scale, never mind worldwide.[7]

Landes (1999) concluded that culture, with its associated practices and moral values, was the main determinant of national development, rather than a country's environment or other intrinsic factors; declines have been initiated through internal failures, with a lack of self-criticism and an inertia to respond to change. Nonetheless, the development of societies and the consequent evolution of their associated cultures can be expected to be profoundly affected by the nature of the local environment. This can be expected to have fundamental effects on these societies' responses to globalisation and the increasing primacy of entrepreneurship, and thus their ability to adapt to the changing conditions which have caused the earthquake which is restructuring the economic landscape (and thus not necessarily making it flatter: see Section III).

Pioneering studies by Nisbett (2003) and colleagues have provided an intriguing insight into average psychological differences between Eastern cultures (Chinese, Japanase and Korean) and the 'Anglo-Saxon' cultures of north-western Europe peoples (including Nordics and white North Americans): 'Germanic' and 'Mediterranean' peoples were intermediate. Perhaps because of geographical features (the broad floodplains of much of Asia, compared with the much more fractured environment of isolated drainage systems in most of western Europe: Landes, 1999), there are fundamental differences between the two populations in terms of psychological outlook. For example: as broad generalisations, the 'Anglo-Saxons' tend to be individualistic, whilst members of Eastern cultures are more group-oriented and willing to accept authority; 'Anglo-Saxons' tend to be more analytical and categorical in their thinking (and thus arguably over-simplistic), compared with the more holistic and non-deterministic approach of Easterners; and 'Anglo-Saxons' tend to try to control a situation (and thus may be overly confrontational), whilst Easterners tend to try to adjust to it or seek a middle way. It is important to realise that such differences relate to population-wide averages: they provide no insight into the thinking of the respective leaderships.

Nisbett related these to social and philosophical differences between the mercantile Greek city-states and agricultural Imperial China in ancient times, together with the consequences of profound differences in linguistic structure between the two different types of culture. However, today, the differences within Europe have been more readily related to differences in religious upbringing: the largely Protestant north-western 'Anglo-Saxon' area (now extending to North America) compared with the mainly Roman Catholic remainder. These reported differences reflect a population-wide difference in attitudes: this is most clearly illustrated, in economic terms, in attitudes towards risk-taking, saving and investment. Intriguingly, it reflects the ongoing

[7] Religions are notable exceptions to this generalisation, with their capabilities as transnational unifying forces; the problem is that, to be effective as such, there would seem to be the implicit need for a counterforce ('non-believers': *i.e.* those with a different system of beliefs) to maintain cohesion.

dichotomy in the responses of member countries towards their prescribed obligations to the European Union (Sapir, 2005). However, it is again important to realise that such differences relate to population-wide averages, and that each individual has both independent and interdependent attributes (which can be both primed and reinforced by the immediate environment: people with the typical Eastern or 'Anglo-Saxon' mind-set can alternate with the other, depending on the situation): they thus provide little insight to the behaviour of the general populace in response to particular suites of circumstances.

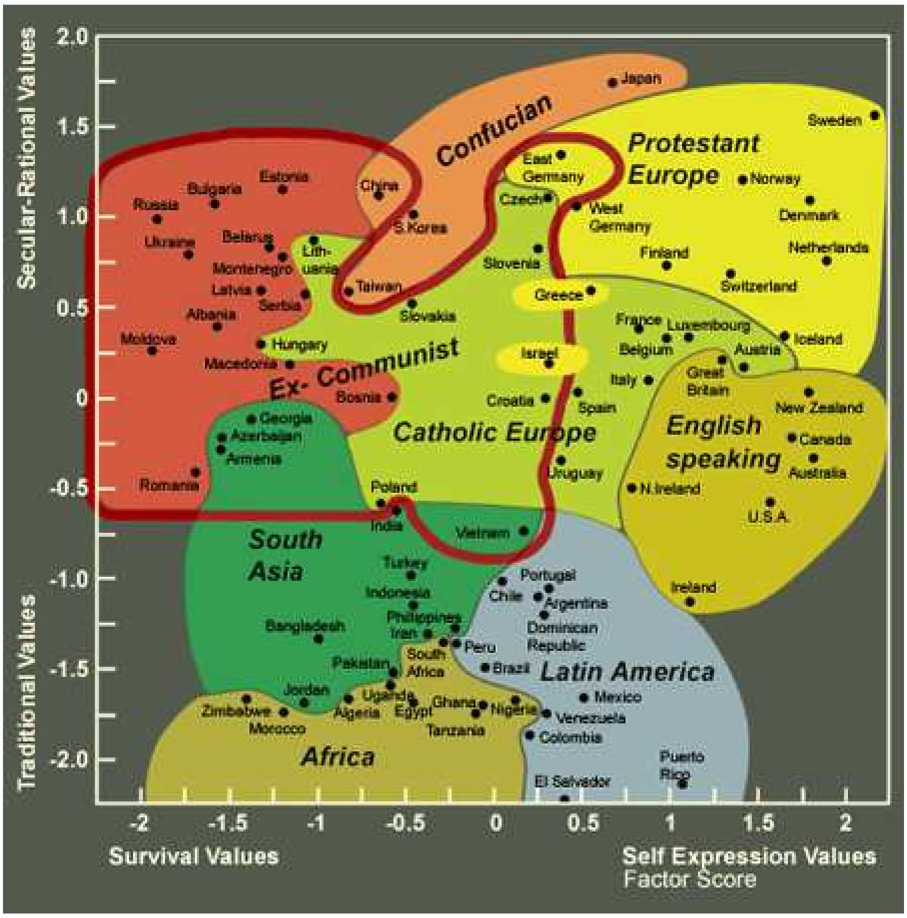

Figure 1 The 'Inglehart Values Map' plots the values obtained from questionnaire surveys in a large number of countries in two-dimensional space, which together explain 70% of the total variance.[8]

In an alternative approach, the World Values Survey (WVS)[9] has examined a much broader spread of cultures, based on surveys of attitudes to religion, politics and economic and social life. These led them to identify two principal components which serve to distinguish between different countries (fig. 1). One of these axes – 'Survival/Self-expression' – separates societies based on their upholding of traditional values, as against their tolerance and trust of others together with expecting participation in decision-making. The other – 'Traditional/Secular-Rational' – reflects whether a society attaches importance to religion, family values,

[8] http://www.worldvaluessurvey.org/library/set_illustrations.html
[9] http://www.worldvaluessurvey.org/

authoritarianism, and nationalism (*i.e.* it is 'traditional') or not. Intriguingly, whilst they do separate out apparent clusters including 'Confucian', 'Catholic Europe', 'Protestant Europe' and 'English-speaking', their results match with those of Nisbett only for the pattern of distribution of these clusters along the 'Survival/Self-expression' axis: scores on the other, 'Traditional/ Secular-Rational' axis are higher for 'Confucian'[10] and 'Protestant Europe' than for the other two. It is interesting to note that Vietnam has been classified in the heterogeneous (both geographically and with regard to religion) 'South Asian' cluster (fig. 1), in a region of the graph where there are some other seemingly anomalous placings (*e.g.* Uruguay and Portugal).

Based on an analysis of their surveys, the WVS proposed that industrialisation was associated with movement from more Traditional to more Secular-Rational scores, and thus from a society which is parochial and sets store by religious and communal norms and deference to authority; to one which has 'materialist' or 'modern' values (associated with industrial economies) with greater expectations about laws and rights and which is more open to outside influences, including the media. This has been followed in some countries by a movement to higher Self-expression scores associated with the transition into 'postmaterialist' or 'post-modern' societies (post-industrial: service- and knowledge-based economies) where individualism is set above authority (Inglehart and Baker, 2000; see also Parker, 2009). 'Modern' and 'post-modern' societies show a progressive growth of the middle-classes,[11] whose heterogeneity in terms of jobs and interests (and thus individual concerns) acts as a moderating political influence compared with the more narrow-minded interests of the upper and lower classes; however, as stakeholders, they tend to be liberal and risk-averse, and more likely to suffer during a recession (Parker, 2009).

As a result of a series of three surveys over the period 1981-1998 of up to 65 countries, Inglehart and Baker (2000) concluded that there is an ongoing shift across the generations from an outlook based on physical and economic security (characteristic of industrialisation) to one based on well-being, self-expression and quality-of-life, which is emphasised in post-industrial societies. However, the trajectory of these transitions depends on a country's historical and cultural background (*e.g*. Protestantism *vs.* Catholicism *vs.* Confucianism *vs.* Communism); and they are reversible in the face of deteriorating conditions.

b. Conclusions

Cultural evolution has occurred as a result of geographical differences combined with the development of different characteristics which have proved effective for a society to form and function. The resulting differences between cultures have created barriers historically, during the

[10] Note that this philosophical system attaches importance to family values and respect for authority.

[11] Defined as comprising those people who have income which exceeds that for day-to-day living; they have risen from about a third to more than a half of the population in emerging economies since 1990, and are the real power behind economic growth as well as political change (and subsequent stability): Parker (2009).

process of nation-building (with the necessary accentuating of differences between 'us' and 'them').

However, whilst biological evolution has set various constraints on the individual, human flexibility and adaptability has made it possible for societies to change on a relatively short time scale: the WVS has identified differences within countries between different age groups which match what might be expected given recent societal changes, and Nisbett's studies have indicated a similar plasticity at the individual level. Thus, there are no overt interpersonal barriers in the pursuit of globalisation.[12]

The main impediment to globalisation is the need for individuals to align themselves with an entity with which they can identify: this is traditionally the nation, or some regional component of this, which has created historical baggage which potentially makes any sort of supranational evolution (in the sociological rather than the biological sense) more unlikely. Thus there has been a long history of enmity and conflict in the region (for example, post-Angkorean Cambodia has been trapped at the cultural interface between the expansionist centre of Theravada Buddhism in what is now Thailand and the southward extension of Sinicisation in Vietnam: Chandler, 2008; and between an expansionist post-Meiji Japan and its neighbours in the period leading up to the Second World War: Darwin, 2008), which has served to create socio-political barriers of competitive non-cooperation and distrust. Also, the colonial period – including the military expansion of the Japanese in the first half of the last century – has led to at least some degree of animus by many of those in the countries which had been colonised, again erecting (not necessarily consciously) these self-same barriers.

In conclusion, the human factor can be distilled into the intrinsic need for individuals to identify with something (be it family, class, nation or whatever) in order to create a sufficiently resilient social fabric. This in turn has split up society at large into distinct smaller groups who have, and still often are, at variance with each other. These groups' histories have created a potential impediment to future progress towards working together: political leaders and others can appeal to what might be identified as a 'Grudge Factor' which has been engendered by past experiences, and which blights the future realisation of globalisation as a human ideal. This factor, and the resultant increased polarisation of social groups, would appear to be a largely ignored component of most economic analyses and idealistic (*i.e.* naïve) future projections.

III. Flat Worlds, Curved Worlds and Evolving Perceptions of Globalisation

In today's world, as historically, four basic types of capitalism[13]can be recognised, according to one classification (Baumol *et al*., 2007): entrepreneurial,[14] 'big firm',[15] state-

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[12] Although one should never ignore the power of the unconscious: *e.g.* as revealed by the Race Implicit Aptitude Test (www.implicit.harvard.edu).

[13] Defined as systems of government which recognise private ownership of property.

controlled[16] and oligarchic.[17] No individual country can be identified as a 'pure' example of any one of these categories; instead, most economies comprise a blend of at least two. Baumal *et al.* argued that a mix of the first two – entrepreneurial and 'big firm' – is the best; and that the latter two, characteristic of many emerging economies, represent 'bad capitalism'.

The quarter century since 1980 has been associated with an overall decrease in global poverty, associated with an increase in democracy (from 25% to 58% of 147 countries)[18] over about the same time-frame; this contrasts with the preceding 30 years, where poverty increased, despite the influx of funds from the World Bank and elsewhere (Smick, 2008). Entrepreneurial capitalism, in particular, has played a fundamental role in this transition. The United States pioneered the development of an entrepreneurial economy, but entrepreneurship is being democratised to the rest of the world by a combination of the personal computer, the mobile phone and the internet (Wooldridge, 2009). However, Europe and Japan have to a greater or lesser extent been left behind, retaining their previous big business (and big labour) models.

The dramatic decrease in poverty has been used by proponents of globalisation to promote their cause: that the world has become 'flatter' through cheaper global telecommunications and transport systems, thereby allowing free markets to spread out and embrace communities worldwide. However, others have argued that there is another side to the global coin which needs to be taken into consideration in order to gain an overall perspective. The problem is in trying to obtain a balanced view.

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[14] Involving small firms which may be either replicative or radical: the latter are innovative, reacting to new opportunities and creating and trying to fill new niches (thus creating bubbles as competitors move in), leading to change not just in products and services but also in the business environment

[15] Large public companies dominate a some or all markets in a mature system (*e.g.* continental Europe, Japan and Korea); their large size and thus mass-production capabilities mean that only a few competitors can survive through economies of scale; whilst such oligopolies have higher profit margins and thus the wherewithal to invest in research and development (*e.g.* the Japanese car-giants and some Korean chaebols), complacency means that they often tend to stagnate and thus seek to maintain their status through anti-competitive measures.

[16] Essential for public goods for all countries; when seen in other areas of economic activity (including banking), governments rather than market forces determine which are favoured industries and firms within these; such a strategy can be very successful in the short-term, helping to attract foreign direct investment and providing a focus for the development of infrastructure (including education) and the promotion of export-led growth; however, in the longer term, there are problems related to inertia with lack of innovation and slow responses to changing market demands, making the wrong choices and over-investing in them, the risk of corruption, and the misguided belief that the growth process can be maintained forever.

[17] A political elite seeks to maximise their own gains and those of their cronies, rather than the country's economic growth, as is seen in various resource-rich countries (*e.g.* Russia); the attempts to constrain the development of the vast majority of the population leads to 'informal activity', where private individuals and companies conduct otherwise legal activities, but without the necessary official approval, consequently leading to corruption.

[18] An alternative set of data indicates that democracies have risen to attain an almost steady 1995-2008 plateau of about 120 countries: *The Economist* 17th January, 2009, p. 55.

a. Financial Markets

Finance is the 'brains' of the economy: it can direct resources to where their productivity is maximised.[19] Prior to the 1980s, financial markets were largely national, with cross-border cash-flows mainly in exchange for goods; they were thus relatively easy for governments to monitor and try to control. However there were various flaws in the system, so that progressive financial deregulation and liberalisation measures were implemented in order to iron these out and improve market efficiencies, starting with the abolition of the gold standard and the floating of the dollar in 1971.[20] This led to the abolition of capital controls on the flow of money across borders, the opening up of financial markets to foreign firms, and development of financial futures markets, and; thereafter, ever more sophisticated methods were devised, such as the development of risk management, options and swaps. The end result of the development of these various vehicles was that it became easier for households and businesses to get access to credit facilities.[21]

This liberalisation of the markets combined with the advent of electronic transfers to create worldwide liquidity and global investment opportunities. Thus capital was "no longer confined to separate … pools but had combined into a massive borderless ocean of money" (Smick, 2008). The subsequent flows of capital across borders led to (rather than resulted from, as was the norm previously) a similar exchange of goods and services, in the most recent stages of globalisation. In turn, this led to wealth-creation and an associated greatly increased liquidity; the result was that funds and opportunities for investment were competing to match up with each other (Smick, 2008). Thus the boom in goods and services was born (see Section III.b), aided by the increased support for entrepreneurial capitalism.

Investors seek one of two mutually-exclusive options, depending on their balance between fear and greed: high yields or high security (Steingart, 2008). Governments and other big investors prefer the cautious option of high security (their fear exceeds their greed, so that they prefer predictability, not least because of their accountability to others – the electorate or shareholders), whilst individuals tend to be more adventurous. Nowadays, the amount of savings in the world far exceeds the capacity for making safe and reliable investments, so that the excess has accumulated in central reserves, and most especially as cash or in bonds in the United States: as the reserve currency today, the dollar has become its main export[22] (see Section V.b). Thus, learning from their experiences during the financial crisis of 1997-1998, the Asian economies have sought to link themselves more closely with that of the United States through boosting exports and storing their reserves in dollars; this has resulted in an undervaluing of their currencies against the latter, which, together with cultural differences and other considerations,

[19] *The Economist* 20th September, 2008, pp. 13-14 and 87-88;
[20] *The Economist* 18th October, 2008, pp. 71-73.
[21] *Ibid.*
[22] Albeit one which does not create jobs, but rather destroys them: Stiglitz (2006).

has meant that there has been no increase in domestic consumption, furthering the trade imbalance. This large liquidity of dollar reserves has led to a rapid decline in long-term interest rates and thus a rise in the prices of assets such as stock and real estate, leading to inevitable bubbles (Smick, 2008).

For those seeking high yields, various new instruments were devised to facilitate access to capital, together with increasingly sophisticated risk management strategies, as part of the opening up of financial system. Securitisation, where investments are packaged so as to spread and thereby reduce risk, was one important instrument for extending finance to small potentially risky entrepreneurial business propositions (Smick, 2008). However this spreading of risk served as moral hazard for lenders, who could pass the onus of any bad investment decisions (such as those in the subprime mortgage fiasco) on to others who will bear the consequences of their bad judgement (see Section IV).

Prior to globalisation, the largely national pools of capital and the associated markets were much simpler to try and manage, with standard instruments available to effectively 'pour oil on troubled waters'. However, the ability of rich countries to control the global economy has been dwarfed by four new financial 'power brokers' which are increasingly driving the global financial system: [23] investors from oil-exporting countries (including their sovereign-wealth funds), Asian central bankers and their sovereign-wealth funds, hedge funds and private equity funds. Thus the central banks have been waning in their ability to control their economies amid the swirling global 'ocean of capital' (Smick, 2008). The capability of central banks to act as lenders of last resort is also now much diminished, given that reserves are dwarfed by the massive volumes of long-term securities[24] which are held (and can be rapidly moved around) world-wide. Thus central bankers have acquired more of a role-playing responsibility than an interventionist one during recent crises (Smick, 2008), and global financial markets are becoming increasingly uncontrollable and potentially unstable (see Section IV).

Smick (2008) therefore concludes that the world is not flat[25] with regard to financial markets. They are lacking in transparency and thus are unpredictable; the uncertainty and incompleteness of information have greatly increased with their globalisation and the associated development of increasingly complex financial instruments. This has resulted in a system which is inherently fragile with incomplete information making investment decisions fraught with uncertainty; thus the world is becoming increasingly 'curved', so that it is difficult to see over the horizon into the future (Smick, 2008).

[23] http://www.mckinsey.com/mgi/publications/Power_Brokers_Gaining/index.asp.
[24] $100 trillion, according to Smick (2008).
[25] Note that he is using the word in a different sense from that originally used by Friedman (2006), who used the term in the sense of leveling the playing field.

Nevertheless, as noted above, the progressively increased liquidity (until recently) has served to open up markets for goods and services, as well as expanding them through the funding of entrepreneurial innovations.

b. Goods and Services

From a corporate perspective, there is evidence that the world has become flatter: there is a growing number of companies from emerging countries (especially the BRICs: or at least the BICs) appearing in *Fortune 500* rankings: they now constitute about 12% of listings, giving lie to the claim that globalisation is really Americanisation (Bishop, 2008).[26] The emerging markets, with their increasing middle-class (Parker, 2009) and thus rising consumer demand for cheaper and smaller or more basic products,[27] are opening up a new niche: this is creating opportunities for manufacturers in these local markets, as well as new avenues for established multinationals such as IBM. Multinationals are now becoming truly globalised entities, fully integrated without the need for a central head office; the challenge for these and other businesses has shifted from labour productivity to resource productivity, especially with recent increases in commodity prices prior to the current economic crisis (Bishop, 2008).

Nevertheless, Steingart (2008) argues that globalisation has not realised the win-win scenario proclaimed by its proponents: rather, it has proved to be a two-edged sword. On the one hand, those in the developed world have benefited from cheaper goods (and thus lower inflation) and a proportion of those in the developing world have benefited from employment in factories to produce these goods. On the other hand, similar factories in the developed world have lost their jobs,[28] and the recent[29] increase in the prices of oil and other commodities has affected the developed and much of the developing world alike (Steingart, 2008).

According to Steingart (2008), for example, the crux of the problem is the difference between developed and developing countries in the role of the state in the redistribution of wealth and power. In developed countries, some of the earned wealth is channeled to the consumption of less-productive members of society (the old and the young, *etc.*) through the welfare state. In China, on the other hand, much of the welfare state was abolished at the same time as state-owned industry;[30] this ensures a supply of cheap labour, but means that families provide the only safety

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[26] Recalling a similar conclusion regarding modernisation and cultural change by Inglehart and Baker (2000); instead they found that the United States deviated from the predicted norm in certain respects (see also figure 1).

[27] Exemplified by the recent launch of the 'Nano' car in India.

[28] Note, however, that technological innovation has destroyed more jobs in developed countries than have been lost through outsourcing (*e.g.* Bishop, 2008).

[29] Now largely dissipating.

[30] Most of these village and town enterprises are not collectively-owned, according to a review of Huang Yasheng's 'Capitalism with Chinese Characteristics: Entrepreneurship and the State' in *The Economist* (4th October, 2008, pp. 85-86).

nets.[31] Similarly, the need to be competitive means that India has failed to set up a system of welfare. The lack of a welfare state not only minimises costs whilst maximising profits but also means that the development and increase in prosperity of developing countries is more uneven, being restricted to certain segments of the population based on constraints such as geography or education (Steingart, 2008). Moreover, emerging economies can further trim costs through paying little heed to workers' rights or the environment.[32]

Steingart (2008) argues that this is having profound implications for the global labour market: the sudden, massive increase in the pool of unskilled – and also, increasingly, skilled – workers since the 1980s has devalued labour as a commodity. This means that the short-term benefits to the West from cheap imports are offset by the fact that it is effectively exporting many of its jobs in domestic production. The development of the welfare state has put developed economies at a disadvantage because it adds to the monetary costs built in to the price of labour: a product of social evolution has become an albatross, in part because of consumers' desire to obtain the best deal in the purchasing of goods whilst ignoring the social costs of their decisions. Thus he concluded that naked (often state-run) capitalism has re-emerged at the expense of the softer, more socially responsible version which has developed in the West.

Proponents of globalisation had anticipated this problem, but had assumed that there would be an orderly evolution of the global economic system with developing economies taking over much of the basic unskilled manufacturing industries and developed economies moving on to more specialised manufacturing niches as well as continuing into knowledge- and services-based ones (*e.g.* Friedman, 2006). However this hope has not been realised (Smick, 2008; Steingart, 2008), although it should be noted that China remains a major exporter of low-technology goods, whilst being a net importer of high-tech ones (its high-tech exports are predominantly from foreign-owned concerns).[33] Thus China and India, in particular, are also developing their services sectors – as a necessary adjunct to the basic manufacturing sector in the case of China – and are thereby coming into direct competition with the already-developed rich economies, which they are undercutting on the wage-front. As will be considered further in Section V.d, this will have adverse consequences in the long-term if alternative jobs for the workforces of developed countries are not created in the presupposed new industries; the result will be a continuing shift in the balance of power from the West to Asia, aided by the latter's investment in education and research, together with a social decline in the ageing populations of the West (Steingart, 2008).

[31] This is somewhat of an oversimplification, since there are still some safeguards for the rural population in China, mainly as hangovers from the Maoist era: *The Economist* 31st January, 2009, pp. 27-30.

[32] The same caveat applies for this conclusion of Steingart (2008) as for the previous footnote with respect to China.

[33] *The Economist* 21st February, 2009, pp. 62-64.

c. Conclusions

There is a clear polarisation between the rich of developed and developing nations, on the one hand, and the general populace, especially in developed countries. Thus, an evaluation of the results of globalisation to date depends on the observer (Steingart, 2008).

Business executives and others in the upper echelons, together with aspiring entrepreneurs, have rose-tinted spectacles, because they are able to find and use the cheapest sources of labour in order to maximise productivity, and thus profits for their shareholders (and their own salaries also, of course: thus there has been a recent increase in disparities in Japan,[34] as elsewhere in the developed world).

On the other hand, Steingart (2008) considers that blue- and white-collar workers in developed countries are taking an increasingly dimmer view of the evolving economic picture, with wages frozen and threats to jobs and social safety nets; the new jobs which are appearing are lower paid, leading to – in his view – consumer debt as people try to maintain a semblance of their previous lifestyle. Where jobs have not been threatened, cheaper imported goods have led to increasing purchasing power regardless of changes in income. The end result has been increasing inequalities in the West: the poor and, latterly, many of the middle-classes have been left behind, resulting in the emergence of a poor, apathetic underclass (Steingart, 2008): the nations' social development is being dissociated from economic growth, raising the spectre of future social unrest and 'class warfare'. As considered in Section V, the same is possible also in emerging economies such as China, where there is a new rich and middle class: there is the risk of resentment by those left behind in the progression towards industrialisation and further development or who suffer from the consequences of the deteriorating natural environment.

Steingart (2008) considered that the success of the Asian economic model of controlled markets casts doubt on the Western model which presupposes free markets with private enterprise operating in a democratic system based on the rule of law.[35] Thus, he argued that China's emergence refutes the Western belief that market economies need democracy, rather than authoritarianism: indeed, the latter is the norm when running a business, which is based on inequality rather than the equality of the welfare state. On the other hand, Baumol *et al.* (2007) have note that, whilst state-controlled capitalism may be effective in the short-term, it tends to be inflexible and susceptible to corruption, with the government pumping money into what it (rather than the market) deems to be the most appropriate industries and firms; these become bloated and unresponsive to changing market demands (so that lack of innovation means stagnation). Thus they considered that state-control is a form of 'bad capitalism'.

[34] *The Economist* 18th October, 2008, pp. 77-78.
[35] In their own countries, at least; standards may be more relaxed overseas (Perkins, 2008).

It is to be expected that this polarisation of the consequences, and thus perceptions, of globalisation has been greatly affected in one way or another by the present global economic crisis.

IV. The Present Global Economic Crisis

The global economic crisis, which started in 2007, is difficult to grasp, in part due to the underlying opacity of the financial markets (Smick, 2008).

a. The Crisis and its Ongoing Consequences

The so-called Great Credit Crisis ('Credit Crunch') arose because of the greedy irresponsibility of bankers and investment (merchant) bankers who set up parallel off-the-balance-sheet conduits (or 'structured investment vehicles') to do part of their business 'undercover'. Because these did not appear in the books of the parent bank, it was possible to make loans without the need for a bank to hold a reserve of uninvested capital as an insurance against the risk. Thus banks could enter into the mortgage market as part of a 'shadow banking system', to take advantage of the inflating housing bubble, as chronicled by Smick (2008).

As a result of securitisation, banks then hid bad subprime mortgage loans – 'toxic waste' – amongst other more respectable loans and divided the resultant mix up for distribution as mortgage-backed securities to unknown 'beneficiaries', supported by positive 'low risk' credit ratings from supposedly reputable, responsible agencies (Smick, 2008).

However, when these rating agencies started to revise their original evaluations, the opacity of securitisation and other modern financial instruments – and thus the resultant uncertainty about where the 'toxic waste' had ended up – led to a crisis of trust in the whole asset-backed securities market of the global credit system (Smick, 2008). This lack of mutual trust led to global financial insecurity and a cessation in loans; the end result was a drastic decrease in liquidity, with funds being diverted to three-month U.S. Treasury Bills. This meant that financial institutions confronted with problems resulting from these toxic assets were forced to deleverage. The resulting sale of their assets led to a drop in the value of the latter, affecting other companies and leading to a bursting of the asset markets' bubble, including the collapse of house prices (with loss of collateral on other loans) as part of an evolving vicious cycle.

As a consequence, the shadow banking system became insolvent and thus in need of infusions of capital. In the end, it was governments who have had to try to clean up the unholy mess, as lenders of last resort. Thus, for the first time in its history, the Federal Reserve had to intervene to try to prop up investment banks and other non-bank financial institutions (Smick, 2008). One of the many knock-on consequences (Carr, 2009) was that established investment (or merchant) banks went under (*e.g.* Lehman's) or were sold (*e.g.* Merrill-Lynch) or taken over by a government (*e.g.* Bear Stearns); another was that the American International Group had to be rescued because of its large insurance backing of financial products through credit-default swaps.

To help contain the unknown risk associated with these toxic assets, the Troubled Asset Relief Program (TARP) was set up – with subsequent attempts at its revision[36] – to buy the contaminated securities so as to help recapitalise the banks; this is open to abuse, since the culpable sellers will try to minimise the losses due to their stupidity and thus maximise the lot-prices at the tax-payers' expense (so that, even if it works, it is politically dangerous: the voters will perceive that the villains of the piece have got off the hook at the taxpayers' expense).[37]

The economic crisis has affected those countries which opened up their markets most.[38] The increasing powerlessness of policy-makers and the central banks in regulating the global financial system (see Section III.a) is illustrated by the way in which interest rates were adjusted by the United States Federal Reserve in order to try and control inflation and the fall of the dollar (Smick, 2008). Cutting them rapidly or slowly could achieve the desired effect, whilst minimising the consequences of the slump in housing prices and the bank lending crisis; the dilemma was that either could instead have the opposite effect, depending upon how the international markets interpreted the signals being sent out. In fact, the markets took the decision out of the Federal Reserve's hands: collapses elsewhere forced them to sharply reduce interest rates (Smick, 2008).

The sale of toxic assets has exposed many European banks. However, the lack of any unified response by the European Union (EU) as a whole raises serious questions about how this body will emerge from the evolving crisis;[39] the recent expansion eastward of the membership is adding to problems, now that these ex-communist economies are tottering.[40] Attempts to resolve the issue have been confounded by ideological issues, where many EU countries appear to be taking a position regarding different forms of capitalism (a long-term strategic problem), rather than trying to adopt a common tactical approach to contain the current problem.[41] Thus, the EU's relevance on the international scene is compromised by individual countries' calls for protectionism regarding agriculture and other activities.[42]

The decrease in liquidity is also affecting other businesses as well as private individuals. Americans' personal savings averaged about 9% over the period 1950-1985, but subsequently, during the 'Great Moderation',[43] the overconfidence inspired by bubbles in housing and shares meant that savings dropped to about zero in 2008.[44] The present crisis means that savings rates are now expected to increase, which will result in Keynes' 'paradox of thrift': an increased emphasis on savings will mean that people spend less, trade will be depressed and this will destroy

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[36] *The Economist* 14th February, 2009, pp. 77-78.
[37] *The Economist* 27th September, 2008, pp.71-73
[38] *The Economist* 21st February, 2009, pp. 59-61.
[39] *The Economist* 11th October, 2008, p. 63; 18th October, 2008, p. 79; 22nd November, 2008, pp. 56-57; 17th January, 2009, pp. 46-47; 24th January, 2009, pp. 46-47 and 47-48.
[40] *The Economist* 28th February, 2009, pp. 11, 24-26 and 50.
[41] *The Economist* 4th October, 2008, pp.53-54.
[42] *The Economist* 18th October, 2008, p. 57.
[43] Characterised by low rates of both inflation and interest and relatively stable business cycles.
[44] *The Economist* 22nd November, 2008, p. 41-42; 6th December, 2009, pp. 77-80.

companies and jobs. Thus a short-term increase in spending would be the prefered response to the present crisis, so as to restore demand and thereby boost the economy to keep it from entering a deflationary spiral and then stagnating: the resultant increased unemployment would be likely to lead to political instability and xenophobia.[45]

For this reason, the global slump in the economy has led the Chinese[46] and many other governments to provide a massive fiscal stimulus through tax cuts and increased government spending on labour-intensive infrastructure development projects.[47] Thus this year's deficit for developed countries is projected to rise to 7% of GDP, compared with 2% two years ago; whilst the previous budget surplus of emerging economies is likely to turn to a 3% deficit.[48] This is supported by the sale of government bonds: although their interest rates are low, they are still attractive as a safe retreat for worried investors. In addition, there is the possibility of printing more money (reflecting the decrease in government income from tax receipts) to stoke a brief pulse of restorative inflation.[49] However, the situation is much complicated, compared to previous major recessions, by the ageing populations of the developed countries,[50] and the fact that other countries will face a devaluation of their dollar-holdings if inflation is used as an instrument to rescue the United States from its current predicament.

As expected, the financial crisis has led to a drastic decrease in world trade.[51] Thus, contrary to previous ideas that the Asian economies would be spared the consequences of a Western financial crisis (because they had become 'decoupled' and could rely on regional trade to insulate themselves), many of them have been adversely affected, in part through a decrease in their export markets and the global credit squeeze.[52] As a result, after a fast expansion, there has been a rapid contraction in China's manufacturing base (some even suggest a recession, although this would seem unlikely), which is partly the result of decreased exports, in part because of a reputation for poor quality (which is acceptable in the heavily protected domestic market); additional causes of the slowdown are reduced house-construction, in an attempt to deflate a possible bubble.[53] This has been further compounded by increasing costs, especially for labour; the increase in the latter is in part because of recent laws on wages, benefits and rules for the workplace, which have since been made more flexible in order to try and restore China's competitiveness.[54] Elsewhere in Asia, the worst affected have been financial centres such as

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[45] *The Economist* 14th March, 2009, pp. 63-65.
[46] *The Economist* 24th January, 2009, pp. 27-28.
[47] A move which appears to have the support of most economists: *The Economist* 10th January, 2009, p. 65.
[48] *The Economist* 6th December, 2009, pp. 77-80; 31st January, 2009, pp. 71-72.
[49] *The Economist* 1st November, 2008, pp. 71-71.
[50] *The Economist* 31st January, 2009, pp. 71-72.
[51] *The Economist* 28th March, 2009, pp. 65-67.
[52] *The Economist* 31st January, 2009, pp. 67-70; 14th February, 2009, p. 75-76.
[53] *The Economist* 24th January, 2009, pp. 27-28; 21st February, 2009, pp. 62-64.
[54] *The Economist* 31st January, 2009, pp. 27-29.

Singapore and Hong Kong,[55] together with export-dependent Taiwan.[56] The Asian economies have also shown a decrease in internal consumption, and thus imports (including from elsewhere in the region), partly in response to the recent increases in food and energy prices and partly in response to recent monetary measures to control inflation.[57] Thus a domestically-driven recession has coincided with the global one, to override any potential decoupling of the markets. In this regard, it is important to note that emerging markets' exports to developed economies have remained stable since at least the start of this century, with most of the growth being in exports to other developing countries; thus there is the potential for a more rapid recovery of many emerging markets in Asia (and also South America, to a lesser extent) than is likely for the rich countries.[58] For industrialised Asian nations, this recovery will be aided by the collapse in commodity prices (reflecting the recent decrease in inflationary pressure), together with their current-account surpluses and low public debt.

The economic crisis is thus leading to a jobs crisis, which is already under way in the United States; the situation is made worse by the collapse in housing prices, because to sell and move to a job elsewhere would involve considerable losses for many.[59] The effects will extend to other developed economies (with Singaporean employers being particularly gloomy, reflecting its entrepot economy), and a large proportion of those employed in manufacturing in emerging economies may be forced back into poverty (or worse) and back onto the land. The problem is compounded by the fact that, after a steady rise, commodity prices have plummeted, so that not just oil-producers but also mining and agricultural exporters have been severely affected: whilst this has benefited importers of raw materials, it has been a cruel blow to those in the export sector who had been beginning to enjoy better times.[60] The economic crisis has also affected those countries which had benefited from the increase in tourism.[61] Another problem for many poor and developing countries is that foreign aid is likely to fall,[62] together with capital flows from private overseas investors and remittances from migrant workers overseas.[63] The reduction in capital flows from banks will mean that they are likely to recover more in debt repayments from emerging economies than they make in loans to them, further adding to the burden of developing countries.[64]

[55] *The Economist* 22nd November, 2008, pp. 35-36.
[56] *The Economist* 14th February, 2009, pp. 34-36.
[57] *The Economist* 31st January, 2009, pp. 67-70.
[58] *The Economist* 10th January, 2009, pp. 61-62.
[59] *The Economist* 31st January, 2009, pp. 61-62; 21st February, 2009, pp.59-61; 14th March, 2009, pp. 11 and 63-65; health insurance issues are an additional damper: *The Economist* 21st March, 2009, pp. 33-34.
[60] *Ibid.*
[61] *The Economist* 21st February, 2009, pp. 59-61.
[62] Thus the once much-vaunted Millennium Development Goals look ever more unlikely to be realised.
[63] *The Economist* 17th January, 2009, pp. 53-55; 14th March, 2009, pp. 54-55.
[64] *The Economist* 21st February, 2009, pp. 59-61.

b. Conclusions

The original immediate source of the present crisis has been the collapse of house prices, in the United States and elsewhere. Attempts to solve the resulting problem of mortgage foreclosures have proved ineffective:[65] in order to help rescue the financial system, there is the need for a more effective follow-up, based on a better diagnosis of whether the main problem relates to an inability of defaulting mortgagees to meet the step-up in payments, or because the devaluation of mortgagees' investments has caused them to cut their losses in the face of negative equity (despite the consequences for their credit-worthiness). How fast the economic system recovers will depend on the policy choices made, but is nevertheless likely to be delayed due to the much greater underlying complexities (including the shadow banking sector) compared with previous crises.[66]

More generally, the main threat now is the risk of deflation and stagnation, rather than inflation as was recently feared. The important thing is to avoid a repeat of the Japanese banking crisis, when a surge in the yen against the dollar in the late 1980s led to bubbles in stock market and real estate prices. Thereafter, the bubbles burst in 1990 and the economy stagnated, partly as a result of a delayed and inadequate government response, which was made worse by its inappropriate interference with the banks in order to try and contain the threat of increased unemployment and the continued strength of the yen; [67] the delayed lowering of interest rates led to a 'liquidity trap' which resulted in the economy's 'lost decade', from which it is still recovering (Smick, 2008).[68] However, the present banking crisis in the (mainly household, rather than corporate) debt-ridden United States threatens to be worse than that experienced by Japan when it was a rich creditor nation:[69] thus, its occurrence against the background of a global economic crisis means that depressed demand, coupled with the parallel collapse of the shadow banking sector, complicates attempts to stimulate a recovery.

Liquidity is based on confidence in the markets themselves and in the (increasingly ineffectual) actions of governments (Smick, 2008). The subprime fiasco has meant that the United States financial system has lost transparency, and thus the trust of others; the problem is compounded by calls for protectionism and tighter bank regulation in the United States, thereby eroding others' confidence in its political and financial governance and the American commitment to the ideals of globalisation. If implemented, this will mean that it will be less attractive for

[65] *The Economist* 21st February, 2009, pp. 39-40.
[66] *The Economist* 14th February, 2009, p. 75-76.
[67] *The Economist* 14th February, 2009, pp. 75-76.
[68] Smick considers that Japan provides an example about how an economy should not be run in the present globalised world: policy mis-steps led to stagnation for all companies other than the multinationals, and a full recovery will require further economic reform, together with efforts to promote an entrepreneurial ethos in the face of an ageing society with excessive debt burdens; see also *The Economist* 18th October, 2008, pp. 77-78; and 31st January, 2009, pp. 71-72..
[69] *The Economist* 14th February, 2009, pp. 75-76.

investment in the future; in turn, this will mean that the economy will be more exposed than previously, when it was insulated from the consequences of misguided policies by a high background of capital inflows (Smick, 2008).

As a result of the leakage of toxic waste and its global consequences, the present liquidity crisis is making conflicting demands of consumers. On the one hand, there is the need to stimulate consumer spending in these economies and elsewhere (with tax rebates as one instrument), in order to minimise the recession which is in progress; yet, on the other hand, those in Western economies need to reverse their spendthrift behaviour and save more money (including that from tax rebates), so that this will help to replenish banks' reserves. There is evidence that American households have indeed now saving some of their disposable income.[70]

In the meantime, governments have had to step in and prop up financial markets, as well as to take steps to keep manufacturing industries functioning and thus maintain employment. This will inevitably give governments greater regulatory powers in the immediate future (so that some banks have been partially nationalised, in effect[71] – something hypocritically counter to the uncompromising prescriptions of the International Monetary Fund during the Asian financial crisis about a decade ago: Stiglitz, 2003), with additional, negative implications for the ability of markets to bounce back from recent events. Inevitably, economists are not happy with this,[72] but paradoxically state intervention may be necessary in the short-term for the long-term promotion of free-market capitalism: whilst it creates moral hazard and may be subject to political abuse (including through fuelling cronyism and class wars), it is in the public interest because it is likely to be at a lower cost than the alternative.[73] This calls into question the presumptions of the 'Washington Consensus' on deregulation with privatisation (as applied during the Asian financial crisis and at other times): this recalls previous criticisms of the 'Consensus', where it was argued that there has since emerged a 'Post-"Washington Consensus" Consensus' (Stiglitz, 2006).

After the tacticians have managed (hopefully) to contain the fires resulting from the present ongoing crisis,[74] it will be up to the strategists to come up with ways to reduce the chances of a similar implosion occurring again: there is the need to ensure that liquidity will be maintained in future scenarios. This important not just (or even) for those in the various financial institutions and their immediate beneficiaries. Much more numerous, the individual man in the street or in the fields has already started to pay the consequence for the financial marketeers' gross irresponsibility; many of those who have climbed out of poverty are likely to fall back down

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[70] *The Economist* 14th February, 2009, p. 75-76.
[71] *The Economist* 28th February, 2009, pp. 12 and 67-70.
[72] Nor presumably will be the finance marketeers, who proclaim the primacy of free markets (including low taxes which they then try to avoid) … until boom turns to bust, of course, when they expect tax-payers to come to their rescue (and have a tantrum if they don't get a free lunch). Whilst profits lead them to espouse capitalism, losses mean that they yearn for socialist solutions. We are all only human.
[73] *The Economist* 18th October, 2008, p. 15.
[74] *The Economist* 20th September, 2008, p. 89.

again, to be joined by others who had previously considered themselves secure. This, together with other factors, is likely to have profound political (and thus economic) consequences in the future.

V. Whither Globalisation? – To Wither Now, or to Go Onward and Upward?

Although globalisation, despite its flaws (often unforeseen), has served to greatly increase the generation of wealth, the problem is that politicians and civil servants have been left behind whilst trying to keep up, never mind being able to see into the future (Smick, 2008). Nations are becoming powerless to look after their own people in the face of irresistible global forces (Steingart, 2008). Also, the dynamicism of the new environment poses a constant threat to established corporations from newcomers, amongst whom there is also intense competition. Yet, despite the growing uncertainties, it is only human nature to try and see into the future, based on experience and what can be learned from our present understanding of the past.

a. Is History Repeating Itself?

Today's economy – with trade liberalisation and volatile international capital markets, low interest rates and a surfeit of cash in search of investment opportunities – bears a close resemblance to that of the period from the late 1870s to 1914, when a succession of crises failed to mar the general prosperity (Smick, 2008). Furthermore, some have compared the political situation today – with the emergence of China and India amongst others – with that which prevailed in the run-up to the First World War (Steingart, 2008; see also Section VI.f). Thus many commentators have sought to consider the possible outcomes of the present global economic crisis in the light of the what happened in the first portion of the last century.

The outbreak of the First World War has been attributed to instabilities due to competition between the existing and rising powers, in the mercantilist (*sensu lato*) sphere and thus in the political arena (Darwin, 2008; Smick, 2008). Thereafter, distrust between nations prompted them to enforce currency controls to limit cross-border capital flows. This led to a collapse in trade: as a consequence, falling prices resulted in excess in savings which acted as a contractionary mechanism to weaken the whole system; it also meant that companies' profits dwindled and their loan repayments lapsed. This resulted in bank closures, initiating a vicious cycle by further reducing credit and thus putting more pressure on those companies still in business (Smick, 2008). The end result was the 1929 Stock Market crash.

The subsequent Great Depression of the 1930s is now generally considered to have its roots in the bad economic policies from before 1929. As a further development of these, the United States' Federal Reserve created, or at least augmented, a banking crisis by continually increasing interest rates (a failure of monetary policy), whilst recovery was retarded by a tight fiscal policy with reduced government spending. The protectionist Smoot-Hawley tariffs legislated in 1930 also greatly reduced international trade, exacerbated by triggering retaliatory beggar-thy-neighbour responses on the part of other countries. Roosevelt's New Deal of increased government spending is often considered to have pulled the United States out of the Depression, although the evidence is equivocal; the main stimulus for recovery was the boost to industry provided by the Second World War (Smick, 2008).

Most commentators have concluded that comparisons of the situation today with the makings of the Great Depression are unwarranted, or at least premature:[75] for example, money can still flow across borders in search of novel opportunities for investment, epitomised by the fact that the United States' dollar is the world's reserve currency. However this free flow is threatened by protectionist pressures and other market distortions (Smick, 2008). Thus, there is a growing realisation that much depends on how the world responds to the present situation.

b. The Future of the American Dollar

The past central role of the United States in the process of globalisation means that the dollar has become an intrinsic part of the process of financial integration. As a result, it has gained investors' confidence because it has generally been strong and highly liquid, and there are no obvious alternative global reserve currencies[76] (the euro is an unlikely – and would be an unwilling – contender, despite proving to be stable since it was first launched, including during the present crisis).[77] This has led to a serious global imbalance in current account deficits (with excessive United States' borrowing), which may be the underlying cause for the present financial crisis.[78]

However, dollar bonds have very low interest rates, compared with other less secure investments,[79] so that investors[80] have suffered an 'opportunity cost' because they could have gained more elsewhere (albeit at a greater risk). A consequence is that, by their buying dollars and creating an artificial surplus of the latter, the United States can use this 'borrowed' money for its own investment[81] and to finance its own (and thus its population's)[82] ever-increasing debts.[83] To date, the willingness of China and others to buy dollars is the United States' saving grace (Stiglitz, 2006) – or, alternatively, they may have provided the rope with which it could hang itself.[84]

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[75] *e.g.* Smick (2008); *The Economist* 27th September, 2008, pp.71-73; 4th October, 2008, p. 79.
[76] *The Economist* 24th January, 2009, pp. 65-67.
[77] *The Economist* 3rd January, 2009, pp. 50-52.
[78] *The Economist* 24th January, 2009, pp. 65-67.
[79] At least until recently.
[80] National or otherwise: governments have to put up matching reserves to cover major private projects.
[81] Assuming that the resultant returns exceed those that have to be paid out as interest to those who bought their dollars or treasury bills.
[82] The 'twin debt' problem, where fiscal deficits are accompanied by trade deficits.
[83] This is at the expense of global aggregate demand, and thus weakening the global economy: other governments are denied the full benefits of their earnings, and thus the development of their populations suffers to the benefit of the United States, which can live beyond its means at the expense of others (Stiglitz, 2006).
[84] *The Economist* 24th January, 2009, pp. 65-67.

Thus there has been criticism of retaining the US dollar as the reserve currency, with proposals for a neutral alternative, truly global rather than national one (*e.g.* 'global greenbacks': Stiglitz, 2006). Such a supranational currency would increase stability because it would not be subject to the wild fluctuations which can occur with the dollar or other national currencies in response to a decrease in the underlying fundamentals or speculative attacks by investors. It would also ensure that other countries got value for their own money, rather than sustaining the United States and other spendthrift nations: the latter would also be encouraged to save rather than parasitise the earnings of others, as has recently been the case. Moreover, in the long run, it would be better to find an alternative to a national currency as the global reserve currency; otherwise, there will be a repeat of the bubble which led to the subprime crisis.

Whilst such proposals would have long-term benefits,[85] they would be likely to have destabilising consequences in the shorter term for the United States economy (Steingart, 2008). Thus, although China recently called for a new, global reserve currency (sparked by worries that the United States' printing of dollars to meet the present crisis – to provide an inflationary pulse to try to override the existing deflationary climate[86] – will devalue other countries' holdings), the United States would resist this because of the consequences for its financing of its budget and current-accounts deficits.[87]

It might be argued that China, as a major holder of dollars, could pose a threat to the economic independence of the United States by suddenly selling them off. However Smick (2008) considered that the fact that the United States dollar functions as a global reserve currency means that no single country – not even China – has a controlling position in financing the present American current account deficit. Thus, any attempt by Chinese or other central banks to threaten the dollar[88] would be self-defeating, leading to the devaluation of their own dollar holdings. Further, Smick (2008) argued that decoupling of other nations' financial systems from the United States dollar through increased domestic consumption would seem to be unlikely, given the demographics of countries such as China: ageing populations are less likely to spend rather than save. Thus (as also noted by Steingart: see Section III), the problem of savings and the fragility of the present financial system is accentuated by the fact that countries with large amounts of reserves to save are likely to further increase these reserves because they have poorly-developed welfare systems: their peoples are encouraged to save rather than spend (Smick, 2008).

Stiglitz (2006) has pointed out that that existing reserve currency system (whether dollar or otherwise) is unsustainable: increased holdings in a reserve currency (*e.g.* the dollar) will lead

[85] For example, to prevent a recurrence of the borrowing- (and thus lending-!) fuelled bubbles which led to the present crisis

[86] *The Economist* 1st November, 2008, pp. 71-71.

[87] *The Economist* 28th March, 2009, pp. 70-72.

[88] *The Economist* 21st March, 2009, pp. 25-28.

to increasing indebtedness of the 'host' country (*e.g.* the United States),[89] thereby undermining confidence because a small increase in inflation or other sources of volatility can devalue the debt for those who 'lent' the money in the first place. Thus, there is a potential crisis of confidence.[90] Accordingly, Steingart (2008) believes that the recent perceived value of United States government bonds and stocks rests on the blind faith of investors (sustained by the confidence of others and growth statistics) that their value will be sustainable in the long-term. However, reported growth rates are artificially elevated because of high levels of public and private borrowing: the national deficit now accounts for much more than half of economic growth. Thus (as implied above), although the purchase of bonds stimulates government consumption and that of stocks stimulates corporate and thus private consumption, the resultant increased growth is founded on increasing debt rather than on increased production and savings. Developing his theme, Steingart (2008) argues that if self-correction of the financial markets initiated a collapse in the dollar, interest rates would have to be increased to try to prevent further declines. As with the current credit crisis, this would have a rapid effect to decrease the value of private investments, with saving being promoted, leading to a contraction of the economy with bankruptcies and increased unemployment.[91] The end result would be a severe global economic crisis. A crisis in confidence, through fear of being left behind with much devalued dollars, would lead to a rapid exodus from dollar holdings; such a hard landing can only be reduced or avoided by the United States reducing imports and increasing savings (Steingart, 2008).

Which of these two alternatives – Smick's stability[92] or Steingart's instability – (or possibly a third) could come about depends on at least three factors:

i. whether it is possible to come up with an underlying international system of rules and agreements in order to contain financial crises, given that the markets are now too big to be influenced by governments' attempts to restore stability;
ii. whether the United States (and other developed) economies can recover, and climb out of the quagmire into which the financial marketeers have blindly led them in pursuit of personal gain; and
iii. whether China, as the most important emerging economy, can steer its future development into the longterm.

c. Trying to Tame the Beast of Globalisation without Killing It

Modern markets rest on the assumption of an unrestricted global flow of capital, without political interventions (*e.g*. Friedman, 2006; Smick, 2008). There is abundant evidence that open

89 Since the fact that there are countries with current-account surpluses means that there must also be those which have deficits.
90 *The Economist* 24th January, 2009, pp. 65-67.
91 Steingart (2008) states that the present published unemployment rates are artificially low estimates of the real situation in the United States.
92 See also *The Economist* 24th January, 2009, pp. 65-67.

economies have performed better than closed ones in the past (Bishop, 2008). Although some recent commentators (*e.g*. Behravesh, 2008; Bishop, 2008) remain upbeat about the future prospects for globalisation, others (*e.g*. Smick, 2008; Steingart, 2008) are more cautious in their (re-)appraisals of the evolving situation.

Thus, Smick (2008) has observed that globalisation has meant that the standard economic and financial models of the past are no longer relevant. Given the highly interconnected nature of today's markets, even the slightest evidence that this free flow is being constricted – for example, by nascent American protectionism, due to a continuing misconception by policymakers that they can control the global economy – could have profound effects on confidence and thus liquidity, as the ocean of capital rapidly migrates to more promising (or less threatening) shores. Thus politicians should be aiming to set up a new international financial order, rather than appealing to national populist sentiments to set up barriers against capital flows and trade.

Carr (2009) considers that the financial-services industry, which is essentially a gambling operation and is now in ruins, needs to shrink from the bloated beast that it has become, whilst trying to get new capital to make up for shrinking asset values: especially important is the need for capital by the banking system.[93] Thus he advocates that the system needs to return to its primary role, as a lending market, where borrowers can have access to savers' money, to the benefit of the latter rather than the greedy middlemen. To do so will require that the system regains the trust of the savers and investors who have had their fingers burned. It will also require a recognition and acceptance of the limitations of financial models such as collateralised-debt obligations and of banks' value-at-risk measures (Carr, 2009).

The extending of the original safety net which underlay Reserve-regulated banks to include other financial institutions has future potential implications regarding moral hazard, and thus government regulatory powers to protect the public interest and prevent abuse of the system (Smick, 2008). As a consequence of ongoing events, it was noted in Sections III.a and IV.b that there is a need for new regulations to try and anticipate future problems in the financial markets: there is a need a concerted international effort to devise and implement a financial regulatory structure which makes them to be more transparent and thus less susceptible to self-serving manipulation. Smick notes that such regulations clearly are needed to make off-the-balance-sheet vehicles illegal; and that other necessary steps include those to increase transparency and thus the reliability of risk evaluation, whilst reducing moral hazard and excessive leveraging. Further additions to such a wish-list[94] could include the need for a more cohesive system (rather than the existing fragmented one in the United States, for example); the introduction of new reforms in emerging markets to cope with capital flows; better cushioning against the extremes of a boom-

[93] *Ibid.*
[94] *The Economist* 20th September, 2008, pp. 13-14 and 87-88; Carr (2009).

bust cycle, with an improved evaluation of risk (especially regarding derivatives and other such instruments), and a closer supervision of large 'hubs' to prevent their failure.

However, Smick (2008) cautions that the possibility of such tighter regulation is likely to affect market liquidity and thus either drive many of the affected funds elsewhere or oblige them to seek ways around the imposed constraints: the likely rewards of doing so provide a strong motivation, compared with the much smaller wages earned by the restricted number of government regulatory officers who will always be a few steps behind.[95] Furthermore, a return to tighter regulatory controls would be likely to stifle the funding of entrepreneurs by sources of liquidity other than banks, which would put a brake on growth through evolution and innovation given banks' poor record in lending to start-ups due to their lack of imagination (Smick, 2008).

The investment by sovereign wealth funds in a country's high technology and other 'strategic' industries is also being seen as a potential future threat: a Trojan horse, where reserves are used as an extension of state capitalism, according to an underlying political agendum reminiscent of the government-backed mercantilist system of a century and more ago (Bishop, 2008; Smick, 2008) and still being used today by the United States and other western governments, in the eyes of some at least (Perkins, 2009). Thus, the recent attempt by Singapore's Temasek Holdings to buy a major stake in the Thai telecommunications giant Shin provoked considerable controversy in Thailand, in part because of the strategic interests involved.[96] Similarly, the vast liquidity of recent years has led to large overseas investments in the United States, which has been perceived as a threat to the latter's national integrity. However many of these concerns are inward-looking reactions which will jeopardise future such investments (Smick, 2008), and are hypocritical: in the past, the United States has indulged in 'Coca-Cola imperialism',[97] where its multinationals set up factories and subsidiaries in other countries to open up markets and establish political influence, with the benefits accruing to their home base (Steingart, 2008); furthermore, American banks bought up troubled Asian ones during the Asian economic crisis (Bishop, 2008). In the present credit crisis, sovereign wealth funds provided essential capital to help rescue western governments and financial institutions,[98] reflecting their greater reserves compared with the central banks and the IMF (Smick, 2008). In the future, if western countries thwart attempts by sovereign wealth funds to invest in their 'strategic' industries in the interests of national security, it is not clear how the affected countries will respond.

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[95] Also, while regulators may have the legal power, the finance industry has political power and thus can always find ways to get their own way (Carr, 2009).

[96] http://en.wikipedia.org/wiki/Sale_of_Shin_Corporation_to_Temasek_Holdings.

[97] Ironically, the first victim of China's recent anti-monopoly laws has been Coca-Cola's take-over of a fruit-juice company, although the implications of this decision are not clear – it might represent the desire to make a one-off political point, or it may be the first step in also excluding foreign investment in 'non-strategic' sectors of the Chinese economy: *The Economist* 21st March, 2009, pp. 60-61.

[98] Temasek has suffered a marked drop in assets, as a result of its recent dealings with ailing Western banks: *The Economist* 14th February, 2009, p. 80.

In the case of trade markets, it is possible that today's international agreements and the existence of global supply chains[99] will make protectionism less likely than in the past (since governments will also harm their own producers), despite the continuing failure of the latest Doha round of negotiations. However, democratically-elected governments will be under political pressure from their electorates; moreover, after becoming marginalised in the late 1970s, there is likely to be a resurgence in trades unionism to protect workers.[100] Thus there is the likelihood that countries will raise tariffs:[101] since the latter are currently lower than the ceiling set by the World Trade Organisation (WTO), there is some latitude for this. [102] Already, exhortations to 'buy local' are growing not only in the West[103] but also in Asia, with some countries (*e.g.* India, Vietnam) increasing tariff barriers.[104] In addition, there is the risk of the erection of nontariff barriers, especially by emerging economies based on recent trends. Developed countries, on the other hand are tending towards domestic subsidies to prop up major industries: it is difficult to get these overturned by the WTO. Such protectionist measures are encouraged by a desire that, when a government provides a fiscal stimulus to its economy, the money which enters the system should not leak out to benefit other countries: this could be miminimsed by intergovernmental cooperation, so that there would be balancing counter-leaks for mutual benefit.[105]

There is thus the need for governments to establish a formal international system of rules and regulations for the global trades marketplace through democratic capitalism and the collective power of consumer nations, so as to set common standards, rather than the informal, ad hoc processes put in place by business sector at present (Steingart, 2008).

Any such attempts at a unified global reform of financial and trade systems to improve them and minimise the risk of protectionism will require active and positive leadership, by example as well as by advocacy. An international strategic approach by policymakers would serve to try to minimise the problems attendant upon the increasingly fragile, potentially unstable financial markets (Smick, 2008). However, the existing structure of the United Nations is increasingly outdated and divorced from the realities of the modern world. Whilst the fossilised G7 has been replaced by a more relevant G20, the latter's effectiveness has yet to be demonstrated. In the past, the United States would have been an automatic candidate for a leadership role as the world's trail-blazer and trend-setter. However, it would appear to have excluded itself as the natural leader of political pressure for global reform, as a result of many of

[99] The extensive development of these has probably contributed to making the present recession worldwide, just as it has done for the previous period of global growth.
[100] *The Economist* 14th March, 2009, pp. 57-58.
[101] Which could lead to cumulative increases as a result of global supply chains: *The Economist* 14th March, 2009, pp. 57-58.
[102] *The Economist* 28th March, 2009, pp. 65-67.
[103] *The Economist* 31st January, 2009, p. 37; 21st February, 2009, p. 43.
[104] *The Economist* 14th March, 2009, pp. 59-60.
[105] *Ibid.*

its practices and responses in the period after the end of the Cold War (Mahbubani, 2005, 2008; Zakaria, 2008). Thus, whilst the present initiatives of the Federal Reserve and, latterly, the new United States' government have global implications, they cannot be considered to be anything other than self-serving, especially when seen in the light of the recent emergence of calls for protectionism by politicians. Similarly, Japan's continuing economic problems in the aftermath of the 'lost decade', together with its continuing political weaknesses,[106] would seem to rule it out.

This means that the current lack of a clear leader, combined with the emergence of China, India and Russia in particular, threatens to create a crisis of confidence: attempts to avoid potential future financial problems, and to solve those which do arise, will be based on individual countries' self-interests in the absence of any unified approach (Smick, 2008). The situation is made worse by the fact that the United States' past practices has set an example and a precedent for others to follow. Thus, in the absence of a responsible, acceptable and transparently accountable supranational leadership, the world faces the same problems in attending to the present credit crunch and deteriorating financial environment as it does with trying to deal with the threat of global climate change and the deteriorating physical environment (Munro, 2008)

If reactionary political counter-pressures cannot be contained, Smick (2008) warns that short-sighted protectionist and other such reflexive national responses will be implemented at the expense of a more long-term, reflective international approach. The situation is complicated by the fact that there is a mutual lack of understanding by politicians and those in the financial markets regarding each other's worlds. Thus hedge funds and private equity firms are the politicians' *bêtes noirs*, despite the fact that, Smick (2008) argues, hedge funds can be considered to have contributed to market stability through weeding out market inefficiencies; and private equity markets are a product, not a cause, of the existing financial climate.

A major worry is that the failure of attempts to seek a consensus and introduce a global regulatory system might lead to a splitting of a common financial market into two or more components (Smick, 2008): one comprising the more tightly regulated economies of today's 'rich' world, condemned to slow growth because constraints on financing entrepreneurial risk; and the other comprising the emerging economies, whose savings use a wider range of instruments to maximise their growth and further development. The end result would be that the 'rich' countries would lose their existing financial dominance; this would be accelerated by differences in approach to environmental issues, including global warming (Smick, 2008).

Finally, with regard to markets in the trade of goods, it is useful to take a step back and consider historical precedents as a possible source of insight into the future. Steingart (2008; see also Section I) has observed that previous forays into globalisation were prompted by local over-production – first in Europe and then in the United States – and the need to seek out new markets.

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[106] *The Economist* 31st January, 2009, pp. 31-32.

Thus, he (see Section III.b) and also Smick (2008) have noted that, if the governments of emerging economies continue to push for growth of their manufacturing sectors, this will lead to overcapacity and increased competition for resources, and thus to inflation (as has been the case historically in Europe and the United States: Section I). The resultant decrease in the profitability of the manufacturing sector will stimulate expansion into the services sector (as the West did in response to Japanese industrial growth in the latter part of the last century), leading to oversupply in this portion of the economy also. Thus, both Smick (2008) and Steingart (2008) conclude that the end result would be pressure for protectionism in both the manufacturing and services sectors, by developing Asian countries as well as by developed countries. Such precedents suggest that there is, again, the possibility of a switch from the current balance of power (both economic and also political).

d. The Decline and Fall of the Developed World?

The importance of the dollar as a reserve currency and thus as a prop for the United States' economy was considered above (Section V.b): hence, the use (or the creation) of an alternative would have clear implications for the future functioning of the American economy relative to that of other nations. However, whilst that possibility might not seem to be imminent, other threatening scenarios are lurking over the horizon.

The fluidity of both jobs and investment in today's globalising society means that there is an inevitable instability and thus insecurity regarding everyman's income and (for those who are lucky enough) savings and pensions. Thus the dream of ambitious developing nations is the nightmare of the increasingly marginalised lower classes – and, latterly, many of the middle classes – in the declining developed ones (Steingart, 2008). As a consequence (see Section III.b), their development of national welfare systems has put the developed economies at a disadvantage in the present climate, a problem which is likely to be exacerbated in the current crisis. And the problem can only get worse, given the ageing of these societies.

The manufacturing crisis is leading to expectations that the governments of developed countries, in particular, should also bail out affected companies in their industrial heartlands in anticipation of the next election (with the promise of campaign funds as bribes by lobbyists; and the need to keep or win over voters in the threatened districts).[107] Standard economic theory would argue against such interference: not only is government intervention too slow to respond to the dynamics of the marketplace, but also it fails to correct the underlying cause of the problem and merely treats the symptoms. Thus market forces would be much the more efficient in addressing the ails of the ageing giants of the American car-manufacturing sector (for example), with their sclerotic and short-sighted (rather than hypermetropic) attempts to keep up with a fast-changing world: unlike the humans who run them, they have the capacity for rejuvenation and

[107] *The Economist* 21st February, 2009, pp. 13 and .

even eternal life (if they can adjust to the threat of global warming and uncompetitive prices). In addition, supply chains should also be flexible in order to insulate themselves in anticipation of future fluctuations, rather than narrowly specialised through tunnel-vision: they must be diversified rather than overly-specialised down a potential evolutionary dead-end.[108]

Faced with the rapid changes which are occurring in developing economies, the developed world cannot afford to be complacent: change and evolution, leading to further development, are needed if they want to try to maintain their present relative status – especially in the modern system of markets with their increased volatility and potential instability (Smick, 2008; Steingart, 2008). The further evolution of globalisation depends on whether voters in developed countries can accept that its local downsides are more than compensated for by its overall benefits (Smick, 2008). Smick (2008) considers that the political situation is complicated by the fact that many of the voters (and thus also the financial marketeers) have not experienced the problems faced by national economies in the 1970s; instead, they have only enjoyed the benefits of the early stages of the latest phase of globalisation, and may now be deterred by the perceived drawbacks which are emerging as globalisation progresses. However, the age-profile in many developed countries is such that the older voters are becoming more important (*i.e.* politically powerful as a special-interest group), with their concerns about pending old age and fears about money and the threats to present pension plans.[109] Thus, there could be political pressure from many for protectionism and a breakdown of trade and other relations with the rest of the world.

For voters to accept these downsides, there is the need for globalisation to fulfill its promise of creating new jobs in the developed countries to replace those which have been lost through technological advances and, to a lesser extent, off-shoring. Thus, if the developed countries are to remain competitive on the international scene and hold their own in a globalised world, then they have no choice but to try and maximise their attractiveness as a target for entrepreneurial investment capital.[110] This would likely require a change in the business environment in Europe and Japan, with a shift away from their more 'big firm' and state-controlled models of capitalism (Baumal *et al.*, 2007).

However, this may not be as easy as it would seem, even without considering the negative impact of the present financial crisis on investment (Smick, 2008). First, politicians have problems relating to the entrepreneurial system because it is unpredictable (and thus uncontrollable), involving individuals from outside the established order: indeed, as the ultimate form of meritocracy, it introduces a dynamic instability which means that the existing order is but

[108] *Ibid.*

[109] *The Economist* 1st November, 2008, pp. 29-31: note that average life expectancy is now much greater than when retirement ages and pension plans were introduced in the 1930s.

[110] In addition, they would need to find niches in manufacturing and other sectors which the people of the rest of the world would want to pay for, and which they could afford.

transitory (Smick, 2008). In addition, there is also a popular resentment of entrepreneurs in many developed countries, although this ignores the fact that the latter help society to solve existing problems (as well as providing a strong incentive for existing companies to also be innovative), and thus help to drive progress forward toward new frontiers to the ultimate benefit of all. Smick (2008) has written about the renewal of insidious class wars in the United States[111] – inspired by criminal activities such as Enron and crass banking practices, and fuelled by the politics of envy[112] together with the popular resentment of entrepreneurs – leading to calls for measures to contain corporate and financial marketeers' greed. However, he notes that there is the danger of an over-reaction (epitomised by passage of the Sarbanes-Oxley Act in response to the Enron scandal), which would destroy the favourable economic environment for entrepreneurs which has prevailed since the 1980s. Moreover, the tendency to tax them reduces incentives for entrepreneurs: these geese will either fail to produce their golden eggs, or they will opt to fly to greener pastures in order to better realise their ambitions (Smick, 2008). The end result is that attempts to micromanage wealth distribution will have the unintended consequence of stifling innovation – witness the demise of communism, despite the amount invested by the former USSR in scientific research.

The problem is serious for Europe, which has stagnated with little structural change in the goods and services sector: there have been relatively few new companies set up and growing, and existing businesses have been readjusting instead, so that investors' money has migrated elsewhere (Steingart, 2008). Thus Baumol *et al.* (2007) note that all of the 25 largest firms in Europe in 1998 were already large in 1960, whereas eight of their counterparts in the United States did not exist or were very small 38 years previously; this was interpretted as an example of the limitations of the 'big firm' model of capitalism, combined with overly protective workers' safety nets which serve as a disincentive for European companies to modernise. Problems are compounded by the existing mechanisms regarding the declaration of bankruptcy in Europe: insolvency is often treated harshly (with no equivalent of the United States' Chapter 11 safeguards to prevent seizure of assets whilst protecting creditors' rights), which retards recovery.[113]

In the case of Japan, there is the problem that it is still suffering a hangover from the 'lost decade' of the 1990s (see Section IV.b). Although its banks seemed ready to step into the breach during early phases of the present financial crisis,[114] the continuing dependence of the economy on exports is a debilitating factor,[115] as is the decrease in savings rates which may be attributable

[111] A legacy of Nixon's strategy for gaining power: *The Economist* 20th September, 2008, p. 52.
[112] Including the drop in income of much of the United States lower and also middle classes; see also Steingart (2008).
[113] *The Economist* 3rd January, 2009, pp. 45-46.
[114] *The Economist* 27th September, 2008, p. 81.
[115] *The Economist* 4th October, 2008, p. 33; 6th December, 2008, p. 85; 21st February, 2009, p. 34.

to the fact that the population is ageing[116] (a problem which is even more extreme than for other developed countries). As a result, it has plunged into a new recession (with the risk of the return of deflation), reflecting its big-firm dependence on cars and consumer technology (amongst the biggest losers in the current crisis). This has meant that the previous gains made during its recovery (which should have insulated its economy against the externally-induced problems of the credit crunch, to which the banks were little exposed) have been wiped out.[117] Japan's problems are compounded by its political weaknesses, with frequent changes in the top positions compromising any possibility of a steadfast approach to dealing with existing and threatening problems.[118] The evidence indicates that the previous economic model (reminiscent of emerging economies) which centred on exports to other developed economies is facing problems, which are compounded by Japan's huge national debt in the face of an ageing society.[119]

Thus the past world-order is clearly under threat, through a number of self-engendered limitations. This raises the question: will the new world-order which seems to be emerging be any more stable than what has gone before? This can be addressed at at least two levels – Section V.e considers the purely internal dynamics of the pre-eminent emerging competitor and thus its threat to the old world-order; whilst Section V.f takes a broader perspective and considers geopolitical factors.

e. China: An Accident Waiting to Happen?

China's entry into the global marketplace was made possible by the reforms initiated by Deng Xiaoping to produce a rapidly growing economy; farmers were the first to benefit, but the subsequent development of industries (especially in special economic zones along the southern coast) has created internal tensions which Beijing seeks to try to control. [120] Thus, with previous economic growth largely confined to its coastal provinces, China is now confronted with a huge challenge in extending this inland: not to do so runs the risk of social problems and 'class wars'.

This means that China is confronted with a paradox: it needs to expand as fast as possible to create jobs and thus contain the threat of political and social tensions; but such rapid growth creates the threat of an inflationary bubble with concomitant economic and financial instability … and thus, again, internal unrest (Smick, 2008).

On the social front, there is discontent about land-ownership and the fact that farmers have been left behind in the economic race after being the early leaders: a shift in focus to the 'Shanghai model' (with its emphasis on urban development supported by large resource-intensive

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[116] *The Economist* 7th March, 2009, p. 72.
[117] *The Economist* 24th January, 2009, pp. 72-74.
[118] *The Economist* 24th January, 2009, pp. 72-74; 31st January, 2009, pp. 31-32.
[119] *The Economist* 24th January, 2009, pp. 72-74
[120] The usual minimum required figure given is 8% annual growth, but this may be an overestimate: *The Economist* 15th November, 2008, pp. 76-78; 24th January, 2009, pp. 27-28.

state-owned enterprises and large multinationals) has meant that taxes have reduced rural income growth and poverty eradication, together with the closure of rural schools and hospitals.[121] Amongst those who have migrated to the cities from the countryside, pollution is harming the environment and people's health, contributing to the poor living conditions of many of the migrants: moreover, the migrants' situation has been getting worse as a result of recent job-losses arising from the large drop in exports.[122] Levels of unemployment in China are an unknown quantity, since the official rate does not include workers who were laid off when the state-owned enterprises were slimmed down between 1996 and 2002 (which left millions destitute); also excluded are migrants to the cities.[123] Thus an economic slow-down, never mind a crisis, might lead to much higher levels of real unemployment than existing figures might predict, with threats of social upheaval. As a result, whilst the current leadership has been introducing social reforms, the present crisis has made them cautious in implementing them:[124] attempts to continue reforming state-owned enterprises have been slowed down to avoid protests, and the rural reform of communal agricultural land has been postponed in order to limit migrations to the cities.[125] Thus, there is also the need for China to expand employment opportunities away from manufacturing into the more labour-intensive services sector; this would increase consumption and diminish China's trade surplus.[126] In the longer term, China's one-child family policy of the 1970s and 1980s will create increasingly profound demographic problems in the near future: by 2045, about one in every three Chinese will be over 65, meaning that the labour supply will be decreasing faster than the population, so that standards of living will decline as a result of decreased returns on capital and thus a fall in capital stock. Such events will inevitably further exacerbate underlying social tensions (Smick, 2008).

On the economic front, Smick (2008) has painted a gloomy picture regarding possible future trends. He considers that the reforms initiated by Deng Xiaoping have led to a rapidly growing economy which is now beyond the control of the 'shadowy' nine-member State Council responsible for all main policy decisions, the situation being made worse by the absence of adequate monetary policy instruments. Smick further notes that state-run industries have made some seemingly irrational decisions, including the stockpiling of iron ore and greatly increasing steel production: China produces much more than is necessary for its own use, which will potentially destabilise the world market, especially during a downturn of the global economy.

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[121] Review of Huang Yasheng, 'Capitalism with Chinese Characteristics: Entrepreneurship and the State': *The Economist* 4th October, 2008, pp. 85-86.

[122] *The Economist*, 15th November 2008, p. 40.

[123] *The Economist*, 29th November 2008, p. 79.

[124] *The Economist*, 13th December 2008, pp. 29-31.

[125] Also, they have promoted the formation of party-run trades unions in order to restore the grassroots lost in the aftermath of closure of state-run enterprises and increasing privatisation (*The Economist*, 29th November 2008, p. 79); there is also a large standing army, in order to act as a deterrent for rural unrest (Smick, 2008).

[126] *The Economist*, 29th November 2008, p. 79; *cf.* Steingart's (2008) take on the issue (see Section III.b).

Similar stockpiling of other commodities has contributed to inflation and raises similar concerns of bubbles due to increasing global overcapacity. He concludes that such actions appear to be the result of a single-minded, short-sighted desire to capture the world's export markets in various products, as Japan sought to do in the 1960s (Smick, 2008).

Inflation is a particular cause for concern because the government-run banks have large numbers of non- and underperforming loans (Smick, 2008): whilst these are being kept in the minority by active pursuit of new loans, there is a looming potential crisis when rising inflation reduces the taking out of further new loans.[127] Furthermore, the communist-run banks have little conception of risk-management, and lack transparency because they are organs of government; they are thus inefficient and often corrupt, and it is difficult for entrepreneurs to get loans (Smick, 2008). Thus local entrepreneurs are mainly supported by foreign investment.[128] Smick argues that the main source of current and future problems is the zero or negative interest rates, after allowing for inflation: government control has kept these too low, which has again fed a bubble in the stock market, as well as in commodities, real estate and other assets in the face of an uncontained rise in inflation. In this regard, the present situation in China thus recalls that of Japan during the bubble years of the late 1980s and early 1990s, except that there are not the shock-absorbers of large multinationals to buffer the rest of the economy in the face of economic difficulties (Smick, 2008).

If the Chinese economic and financial bubble collapses, as such bubbles are wont to do, Smick (2008) warns that the need to dump products together with any remaining stockpiles on the world markets will lead to a fall in commodity prices, which is likely to be precipitous because they were artificially elevated previously by speculators who will now want to cut their losses. As a result, deflation would wreck business plans and result in increased unemployment elsewhere, with threats of protectionism leading to stock market collapses as funds are moved into bonds; this in turn would lead to collapse of pension funds, together with the threat of economic stagnation (Smick, 2008). As an alternative scenario, Smick (2008) posits a situation where the threat of social unrest prompts the Chinese leadership to act irrationally and withdraw their dollar reserves to invest in domestic programmes; this could instead lead to inflation, as other central banks increase interest rates and recoup China's bond holdings. Regardless of the scenario, protectionist barriers would likely be raised against China, leading the latter to retaliate against the holdings of foreign firms based there (Smick, 2008).

In conclusion, China faces a variety of internal pressures which threaten to destabilise it; these pressures have been accentuated by the present economic crisis (although the ogre of

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[127] Note that others are more optimistic about the state of the banking sector: *The Economist*, 15th November 2008, pp. 76-78.

[128] Review of Huang Yasheng, 'Capitalism with Chinese Characteristics: Entrepreneurship and the State': *The Economist* 4th October, 2008, pp. 85-86.

inflation would seem to have been removed from the situation). The situation is complicated by the fact that the United States and China share an unusual co-dependency in their ecomomic relations, related to the dollar as a reserve currency (Smick, 2008; see Section V.b): they can be regarded as the G2 of the world economy,[129] with one borrowing on environmental capital and lending to the other (Steingart, 2008). However, on the international front, such mutual interdependence is increasingly likely to be perceived by both parties as a source of weakness, and thus provoke attempts to wean themselves from the relationship and/or insulate themselves against the potential negative consequences (*cf.* Section V.b).

f. International Relations or International Clashes?

The absence of any mutually acceptable mechanisms for supranational global governance or any other commonly-accepted global leadership (see Section V.c), which could seek to try and reconcile conflicts of interest and thus defuse potential or actual conficts, means that the future is fraught with uncertainty (Munro, 2008). Instead, historical baggage (see Section II) would seem to constrain the pursuit of a unified global approach to the present economic crisis, just as it undermines the hope of averting the portended environmental crisis.

Whilst economic strength does not automatically lead to being a local or a global power, it is a necessary prerequisite through forming the basis for acquiring political and military muscle (Steingart, 2008). However, advocates of globalisation (*e.g.* Friedman, 2006) have proposed that trade and economic cooperation promote peace. Contrariwise, Steingart (2008).has argued that, whilst peace indeed creates trade, the latter does not ensure continued peace: the growing global economic interdependence – *e.g.* for commodities – stimulates the pursuit of wealth and power. Thus changes in national interests, especially in the face of competition, may mean that politicians push aside the interests of businessmen and take control: in such circumstances (whether opportunist or mercantilist), he argues that the concept of 'political economics' becomes an oxymoron. However, a counter-argument would be that the presentday development of global supply chains should act as a brake on purely political adventurism, to some extent at least.

At the regional level, there is the possibility of increased tensions between various Asian nations, as increasing self-confidence lets them contemplate new possible roles on the world stage; as a result, there have been bilateral arms (especially navy-related) build-ups to match their increased national geopolitical ambitions. Steingart (2008) noted that such militarisation has been a reliable, undisguisable predictor of future wars in the past; and that these and other, less obvious changes recall those which took place in Europe in the decades prior to First World War, a war which was characterised by no immediate objectives to justify it. Accordingly, he considered that, in the absence of a single natural regional leader (given the region's turbulent history), different

[129] *The Economist* 21st March, 2009, pp. 25-28.

nations are jockeying for position and forming alliances and counter-alliances[130] to try to overcome a mutual mistrust which has underlain historic and recent Asian relations.[131] Thus, Steingart (2008) speculated that tomorrow's Asian equivalent of Europe's Sarajevo for sparking a regional war could be on the Korean peninsula, in Kashmir, around Taiwan or in the South China Sea. Whilst it is easy to dismiss this as scare-mongering, the possibility should not be dismissed out-of-hand by those who promote the idea of Asian unity.[132] The situation is further complicated by the fact that the potential for internal social problems, especially in China (see Section V.e), raises the possibility that military adventurism might be seen as the only way to contain domestic political problems or avoid civil unrest (as was recently the case with Thailand: see footnote 135).

On a broader scale, the difficulty of obtaining a unified, world-wide approach to the growing problems of globalisation has meant that various nations have sought to set up regional associations: the hope must be that this is a halfway house towards truly global ones, but there is little reason to hold one's breath. For example, in an attempt to contain the United States' influence in the region (based in part on its so-called 'War on Terror'), China and Russia have formed an alliance with various Central Asian states to form the Shanghai Organisation ('OPEC with bombs' to some, with other countries such as Iran, India and Pakistan as associate members); apart from a political rationale for the alliance, there are good economic reasons related to China's need for oil and also for military hardware (Steingart, 2008).

From Russia's point of view, this alliance may serve as a counterpoise to NATO's attempts to extend eastwards into the erstwhile Warsaw Pact countries, with proposals to set up a missile-defense shield against the threat of Iranian nuclear missiles, although it is not clear what Russia's attitudes are to the Shanghai Organisation. There has been a recent rise in Russia's military activity, as a result of increasing confidence and nationalism. Whilst some have considered that this is not likely to be a direct threat to world peace,[133] others are less optimistic.[134]

China's growing self-confidence and a resurgence of nationalism has meant that it is becoming more assertive of what it considers to be its rights on the global stage.[135] The recent

[130] Recalling the Triple Entente of Britain, France and Russia *vs*. the Central Powers of Germany, the Austro-Hungarian Empire and, latterly, the Ottoman Empire

[131] From antipathies between neighbouring nations before and in the aftermath of western colonisation, to Japanese colonial adventurism, to the business activities of Chinese emigrés in Indonesia and elsewhere.

[132] The recent clashes between Cambodia and Thailand regarding Preah Vihear provide a case in point, which flew in the face of the spirit of ASEAN; being petty and motivated by political rather than economic considerations, it was rapidly resolved, but the same cannot be predicted for other more fundamental differences in the pursuit of essential commodities – for example, oil in the South China Sea.

[133] In contrast to its use of the energy 'weapon' and selling materiel to third party countries: *The Economist* 17th January, 2009, pp. 47-48, 48 and 49.

[134] *The Economist* 20th September, 2008, pp. 63-64; Ostrovsky (2008).

[135] *The Economist*, 8th November 2008, pp. 73-74; 21st March, 2009, pp. 25-28.

spat[136] between the Chinese and United States' navies near Hainan (home to China's submarine fleet, including nuclear ones) presumably reflects China's donation to the new president's honeymoon period (thus being a toned-down version of the spy-plane incident which greeted the previous president): a posturing statement rather than a response to a real threat. However, there is the need to bear in mind that they are aiming to build a blue-water capability with aircraft carriers, as a direct regional, and ultimately global, challenge to the United States' overwhelming naval superiority on the world's oceans. Thus, the Chinese navy is an active presence in the Gulf of Aden off Somalia, and there is growing concern, in the United States as elsewhere, about China's long-term military ambitions.[137]

g. Climate Change on the Back-Burner?

Munro (2008), in a review of the competing demands of globalisation the need for a coordinated response to the worldwide deterioration of the environment (including the global threat of climate change), concluded that there was the need for urgent concerted and coordinated action; but, in reality, this would be unlikely. The environmental situation has not got any better in the short time since the last review: if anything, it has got worse. For example, the United Kingdom's government chief scientist has predicted that growing world population will cause a "perfect storm" of food, energy and water shortages by 2030; climate change will make matters worse in unpredictable ways.[138]

A critical question is whether the present preoccupation with primarily economic concerns can be counterbalanced by other, now secondary concerns regarding dealing with the economic and other effects of the increasing threat of global climate change. Thus the economic downturn has put a potential damper on the drive to develop greener technologies, including alternative energy sources.[139] For example, the latest details of China's proposed economic stimulus indicate that environmental concerns have become less important.[140]

On the other hand, the economic crisis has led to proposals to link government spending to stimulate the economy with investment in renewable energy and other green technologies, and thus simultaneously attend to the problem of global warming. However, these need to be treated with caution: traditional economic theory maintains that it would be better to ensure efficiency by leaving the market to identify the most appropriate means. Thus, whilst the new government in the United States is moving towards a cap-and-trade scheme rather than a carbon tax to try to reduce greenhouse gas emissions (despite worries about the consequences for the rate of the economy's recovery), their plans would seem to be compromised by a desire to favor particular

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136 *The Economist* 14th March, 2009, p. 29.
137 *The Economist* 24th January, 2009, p. 28.
138 http://news.bbc.co.uk/2/hi/uk_news/7951838.stm
139 *The Economist*, 21st March 2009, pp. 25-28.
140 *The Economist* 21st March, 2009, pp. 25-28.

technologies with subsidies, thereby distorting the market and adding to the economic costs in the short-term and the political ones in the longer term.[141]

h. Conclusions

Far from being the 'end of history', globalisation and the present economic crisis promise interesting times ahead, at least for those with an academic inclination. Whilst some have sought to make analogies with economic events in the first portion of the last century as portending a second Great Depression, this would seem unlikely (Section V.a), assuming that developed countries can take appropriate steps to strengthen their economies (Seection V.d) and China can maintain a steady course in its development: in other words, assuming that globalisation can continue to develop unimpeded and for maximal benefit of all (Section V.c). On the other hand, especially given the conditionalities of the preceding sentence, others have made historical analogies portending the possibility of, in the worst case scenario, a Third World War (Section V.f).

Whatever transpires, change is inevitable. As noted in Section II, Landes (1999) concluded declines in societies were initiated through internal failures, with a lack of self-criticism and an inertia to respond to change. At this stage of globalisation, we are still a world of nations: for each of these to survive will thus require some constructive self-criticism (involving the population at large in democracies) and an active follow up by their governments in terms of policy-making and implementation. Only in this way can individual nations try to keep their seats on the globalisation roller-coaster (for the present crisis indicates that a smooth ride is not to be expected in pursuit of the economists' nirvana).

However, here the limitations of the average human's perspectives (Section II) and thus those of democracies look likely to throw a spanner into the works. As noted by Munro (2008), the governments of democratic nations are primarily behoven to their electorates; international issues are secondary to domestic ones, so that the overall desirability of globalisation as a concept is marginalised by its immediate implications as a local reality. Whilst this need to take their populations' requirements into consideration might seem to be of lesser importance in countries where democracy is less developed, this is not necessarily the case for large countries, which could face the possibility of regional fragmentation; and other countries which are already threatening to fracture along religious or other lines. Ironically, globalisation can lead to deglobalisation as people align themselves and develop closer ties with those they can most relate to (Section II) – those who are also threatened by the changes which globalisation has set in motion[142] – rather than trying to relate to some nebulous otherworldly ideal in the indeterminate future.

[141] *The Economist* 14th March, 2009, pp. 14-15 and 25-26.
[142] *e.g.* for various religious sects.

Thus it would be political suicide to try to remove a major constraint on the competitive further development of the developed economies – the fact that they have to subsidise a welfare system through their taxation systems – in the absence of any bipartisan attempts to seek the common good in the face of a greatly changing global environment (Section III.c). It would seem that the only option is for 'rich' countries to actively seek to create new business niches. Whilst the United States is relatively well prepared in this regard (through its development of an entrepreneurial economy and the current status of its dollar as the global reserve currency), there is still the need to face up to the necessity for pro-active policies to promote change (Section V.d).

On the other hand, it is possible that the growth of the middle-class in other economies (see Section II), together with the possible threat of working-class unrest (*e.g.* Section V.e), will mean that emerging economies are forced to implement welfare systems (such as Singapore has been progessively implementing in the decades since its independence), thereby increasing their operating costs to some extent. But the catch is that these self-same emerging markets will thus surrender their unskilled manufacturing jobs to other, less-developed countries, whilst ramping up the competition with the 'rich' economies for market-share (and thus jobs) in more sophisticated sectors.

The threat posed by the environmental crisis, including increasing evidence for global warming, is likely to be exacerbated by the present economic crisis; and thus could have a profound effect on international relations. On the one hand, developing countries (in particular) are likely to be more resistant to taking steps to reverse environmental deterioration, with its physicochemical, biological and social consequences (*e.g.* Munro, 2008). On the other hand, whilst increased environment standards set by developed countries would create a new source of demand, it could be a source of tension between nations, if it is abused[143] as a protectionist measure to exclude goods from developing countries through the erection of trade barriers.

VI. General Conclusions

The present review centres on two books, one by an American financial specialist and the other by a German journalist based in the United States. It has sought to consider their writings in the context of more recent reports and analyses, mainly from *The Economist*. There is an obvious lack of balance: it would have been better to consider, compare and contrast the analyses of Smick (2008) and Steingart (2008) not just with each other but also with a bird's-eye view from, for example, a mainstream Chinese economist; and to consider them in the light of a broader spectrum of sources of news and opinion. Unfortunately, no such counterbalancing overviews of developing nations' economic priorities were to hand; and a variety of factors conspired to preclude accessing a range of alternative sources of information to that based on *The Economist*'s school of thought.

[143] Or at least (conveniently) perceived to be so.

Smick (2008), in his insightful text, is in favour of a unified approach to confronting the financial problems facing the world. In an ideal world, there would be a supranational global leadership to steer the world as a whole through the troubled waters and hidden reefs towards true globalisation and Friedman's (2006) flat world. However, as reviewed in Section V.c and Munro (2008), this remains a pipe-dream. Important constraints are basic human nature, together with the inevitable historical baggage (Sections II and V.f): this suggests that some sort of 'Grudge Factor' (Section II)[144] needs to be incorporated into future economic models of globalisation. Past economic models are notorious for ignoring basic human nature (instead relying on an idealised '*Homo economicus*' or its like); they need to try to expand their horizons and attempt to factor in increasingly intangible variables if they are going to live up to any claim for relevance to the real world which we actually have to live in. It is not clear how Smick would circumvent these problems: for example, he recognises the threat of a previously unified financial market splitting, and he contemplates the possible problems posed by the growth of China, but he does not attempt to map out any roads into the future (never mind take into consideration the problem of environmental deterioration). However Smick's lack of any concrete prescriptions can be understood in the light of his underlying thesis: that the globalisation of financial markets is out of control, and that any attempt to try to rein them in would be self-destructing. Thus, we are confronted with the horns of a dilemma, made worse by the fact that the present stage of globalisation renders all previous economic models redundant.

Steingart (2008), on the other hand, has gone so far as to propose a trans-Atlantic alliance to produce a 'United States of the West' (foreshadowed in President John F. Kennedy's proposal for a 'Declaration of Interdependence' on July 4, 1962): an alliance founded on common interests and building on the relatively flat world which existed in their relations, especially prior to the fall of the Berlin Wall and globalisation, and the fact that they are facing a largely common future. Other nations who agreed to abide by a common set of goals and guiding principles could join this confederation (Steingart, 2008). These goals would include a global agreement on cross-border trade which takes into account the need for what he calls a moral dimension,[145] where issues such as concern for the environment and for property and human (including workers') rights have economic consequences (see Section III.b).[146] According to this perspective, politics is inextricably linked with economics on an international scale just as at a national level or lower. However the realities of international politics (see Section V.f) again suggest that he may be whistling in the winds of change, trying to retain a historic status quo in the face of fast-changing

[144] As distinct from the more usual fudge factor.
[145] Not to be confused with the recent call for morality by British prime-minister Gordon Brown.
[146] Thus, short-term savings through the purchase of cheaper imported goods have long-term hidden economic costs in terms of job losses and pressure to increase taxes to cover the increased need for social welfare and to cover increasing current account deficits caused by increasing divergences in the balance between imports and exports.

circumstances: whilst his ideas are idealistic, they can be easily portrayed as recidivist by the new players who want their due time centre-stage.

And that is the ultimate challenge presented by globalisation: *plus ça change*. The question is: can we learn from past experience and continue our social evolution, both individually and collectively? Or have we hit a speed-bump, with a major hiccup in the otherwise relatively smooth (if very rapid) progress of recent societal evolution?

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