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Globaloney 2.0

CHAPTER 9

THE FUTURE OF GLOBALIZATION (AND GLOBALONEY)

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The ideas of John Maynard Keynes were much in the news in the wake of the Crash of 2008. Economists and policy-makers found themselves looking back to Keynes's writings from the era of the Great Depression for guidance and inspiration. Keynes wouldn't be surprised at his belated intellectual resurrection.

"The ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood," he wrote in *The General Theory of Employment, Interest, and Money*. "Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist."[1] Keynes believed in the power of ideas—good ones and bad ones—to direct our actions and to shape our world.

So do I. I've seen how flawed ideas become convincing, even compelling, when they are embedded in persuasive stories. Intelligent men and women "connect the dots" these stories create, drawing universal conclusions based on attractive images, selective evidence, and engaging metaphors. Guided by this globaloney they are led to make mistakes, disastrous mistakes, as we have all seen.

It is pretty clear that globalization is not a stable, secure economic process. Globalization is unexpectedly delicate, in fact, especially global finance. It yields many benefits—that's why we embrace it—but it creates risks and disrupts existing human arrangements—that's why the embrace is so awkward. Guided by what I call Financial Globaloney, however, individuals, businesses and governments pretended that the costs and risks just didn't exist. Their actions, as I discussed in chapters 2 and 3, made the risks even greater and the collapse even deeper.

It is clear, at least to me, that globalization is a highly diverse phenomenon. Globalization reflects its *terroir*, as the French would say—it takes different forms in different places depending upon local politics, culture, and other factors. That's why globalization is so uneven, why some people and places are so tightly connected to global networks while others are "off the grid," both literally and figuratively. The world isn't flat, even if parts of it display a sometimes uncomfortable sameness—airport hotels, for example, hamburger restaurants and shopping malls. Spend enough time in these places and you'll start to think that all the world is the same. But you have only to raise your eyes just a bit to see that Golden Arches Globaloney isn't really true.

The problem with the Golden Arches view is that it suggests that global diversity doesn't exist and the logical next step is to conclude that maybe it shouldn't exist or won't exist in the future. It denies the fact of and need for diverse political, social, and economic arrangements. By saying that everything is the same it undermines the argument for diversity.

Globalization doesn't homogenize, exactly. It is more accurate to say that globalization, because it is driven by capitalism, tends to rationalize, to encourage efficiency, as Weber and Ritzer argued. The rationalization process proceeds at many levels, not just the global one, and indeed the global element may be the least powerful and important. Efficiency is a good thing, up to a point, but it too has costs. The rationalization of finance, through financial engineering, for example, was one of the reasons huge risks could be taken as if there was no risk at

all. And rationalization does lead to a certain sameness in some things in the name of efficiency.

Grassroots Globaloney tells us that these processes are total, complete, universal, and that there is nothing you can do about them. This is globaloney, too, since it is obvious that at least sometimes people are able to seize the power to shape important elements of their lives and to balance efficiency and diversity, shaping globalization to fit their needs and desires. More than this, there is the fact of "Slow-balization," where clever social entrepreneurs use globalization to resist globalization's negative effects and sometimes reverse them.

I think globalization can be a very good thing, but we've seen that it can be a very bad thing, too. Globalization collapsed in the wake of the Crash of 2008, but this didn't solve the underlying problem. The world doesn't need *less* globalization, it needs *better* globalization, globalization with fewer risks and greater diversity, globalization that people will find a bit easier to embrace because they recognize their ability to mold it into a form that suits their needs.

This chapter tries to uncover some principles on which to rebuild globalization in a form that will be both economically feasible and politically sustainable. This is not a simple task and there is no guarantee of success but it is necessary to try, if only because the consequences of failure are so high. The first step is to consult theory to help us narrow down the field of possible global arrangements. Two famous political economists will provide the framework we need for this task. Then comes the hard part—we will need to consider what is really important, what (and whom) globalization is for. Once that choice is made, the outline of feasible, sustainable globalization becomes clearer, although the difficult problem of actually constructing it remains.

FEASIBLE GLOBALIZATION: THE MUNDELL TRILEMMA

The first step to rebuilding globalization is to think seriously about its economic architecture. We can imagine all sorts of global arrangements, but many of them have hidden flaws, unseen contradictions. What are the economically feasible options?

Robert Mundell, the Columbia University professor who won the 1999 Nobel Prize in Economic Science, gives us a place to start with what is sometimes called the Mundell Trilemma or the "Unholy Trinity"

of international economics.[2] Although Mundell's theory was developed fifty years ago, international economists recognize it as a powerful tool for understanding the trade-offs and tensions in globalization today.

What is a trilemma? A trilemma is a set of three mutually exclusive options. Each choice has its own logic and, while they are pairwise compatible they can't all three work at once. Choose any two and the third is impossible.[3] To take a trivial example, consider the lunchtime trilemma at a busy food court with multiple vendors or food stations. You would probably want a meal that is good, fast, and cheap, but it is hard to get all three. If it is good and cheap then there is probably a long line to get it—not fast. If it is fast and cheap then it probably isn't very good—otherwise there would be a long line. And if it is fast and good then it probably is relatively expensive. If not, what's keeping the lines of hungry diners away?[4] The trilemma doesn't hold all the time, of course—if the food court is almost empty you can probably get cheap and good without a long wait. But when things get busy the contradictions appear.[5]

Mundell's brilliant insight was to see that the lunchtime problem applies to international finance. Instead of good, fast, and cheap, a nation might want to have a stable exchange rate, international capital mobility, and domestic economic sovereignty. Each of these three economic arrangements has certain benefits. A stable exchange rate promotes international trade and investment and minimizes some of globalization's disruptive effects since unstable foreign currency prices get transmitted through the domestic economy, causing instability there as well.

International capital mobility allows for the free movement of investment flows into and out of a country. This opens a country to the risks of global finance, of course, but also to its benefits, and encourages full integration into the global economic system. International capital mobility is necessary if a nation wants to achieve "thick globalization"—economic integration through both trade and finance—as opposed to "thin globalization" through trade alone.

Finally, domestic economic sovereignty refers to a nation's ability to intervene independently in its domestic economy to deal with inflation, unemployment, or other problems as needed. There are no "golden fetters" to prevent independent action as there would be if international agreements limited domestic actions.

Although it is possible to have all three of these policy options at once when the economic system, like a near empty food court, is not

under stress, tensions and trade-offs reveal a trilemma when things get hot. Suppose, for example, that inflation begins to rise. If you increase interest rates to fight it, this will bust the pledge of exchange rate stability because higher interest rates will attract foreign capital, pushing the exchange rate higher. You can raise interest rates and keep exchange rates stable, but you have to stop capital from flowing in and out (capital controls). Or you can keep capital mobility and exchange rate stability, but you won't be able to raise interest rates (the loss of domestic economic sovereignty) and so will have to let inflation run its course. It's a difficult situation . . . a trilemma. What are you willing to give up?

Since you can only have all three options so long as there are no troubles—and trouble happens in the global economy, as we have seen—it follows logically that there are three different sorts of economically feasible solutions to the trilemma problem.

- *Thick Globalization*. This is the system adopted by Japan and the United States that brings together high levels of international trade and financial flows (thick globalization by my definition), but without fixed exchange rates. Domestic economic sovereignty is retained. Capital mobility is necessary for these two countries, since Japan has a huge trade surplus that it needs to invest abroad and the U.S. has a mirror-image deficit it needs to finance. Given this first choice, the trade-off is either giving up a stable exchange rate or giving up domestic economic sovereignty. Both countries choose to retain unfettered use of their economic tools and let their currencies ride with market forces. This works for them, more or less, because exchange rate effects are small in these economies relative to domestic market forces. Better to be able to have the tools to stabilize the domestic economy rather than give them up to keep a stable exchange rate. That said, exchange rate effects can be very unsettling for trade-sensitive or dependent sectors of the economy. This is thick globalization for countries that are wary of its economic consequences.
- *Really Thick Globalization*. Really thick globalization is a strategy that takes maximum risk to try to get the maximum globalization return; it is the policy that Argentina adopted before its economic crisis a decade ago. The Argentinean government wanted to get full advantage of thick globalization so it opened its capital

markets to foreign investors and guaranteed them a fixed exchange rate (one peso per U.S. dollar). To accomplish this, however, they had to give up domestic economic sovereignty and import their economic policy moves from Washington, D.C. If U.S. interest rates went up, so did Argentinean rates, in order to keep the fixed currency pledge. The "golden fetters" of the exchange rate commitment effectively handcuffed the Argentinean economic authorities. This system worked for a while until the differences between the economic problems of the U.S. and Argentina grew too great. A single economic policy didn't fit two such different countries and economic and political collapse ultimately occurred. This is globalization for countries that are willing to take big risks to get big gains. Or don't consider the risks. Or don't think they have any choice.

- *Thin Globalization.* The final option puts stability ahead of financial globalization's potential benefits. It gives up international capital mobility (putting restrictions on cross-border investment flows) in order to have stable exchange rates and the domestic economic tools necessary to maintain a stable local economy. This is an interesting choice. China has for some years chosen thin but stable globalization. Its trade activity has been intense, of course, but international investment flows have been highly regulated, with layers of protective government controls. This allowed the Chinese government to control the exchange rate and to keep a tight lid on domestic economic problems. Thin globalization did not prevent China from experiencing contagion from the Crash of 2008, of course, since the collapsing global economy necessarily affected China's export flows and since falling global financial markets necessarily affected China's foreign investments. But the effects were less than they might have been and the choice to retain domestic economic sovereignty meant that China was free to provide massive economic stimulus to its economy.

One peculiar feature of the current system (or non-system) of economic relations is that it allows each nation to make its own Mundell Trilemma choice, so while the U.S. and Japan opt for thick globalization, other countries choose really thick globalization and some, like China, make a thin globalization selection. Thus globalization has been

governed by multiple and sometimes incompatible logics. It is perhaps no surprise that attempts to piece together this policy patchwork have been problematic at times and panic-prone at others.

There is another name for thin globalization as defined here: the Bretton Woods system. Economic leaders of the Allied nations met in Bretton Woods, New Hampshire, in 1944, while the battles of World War II were still raging, to draft a plan for the postwar economy. Having watched the thick globalization of the 1920s collapse and spread across the map as contagion in the 1930s, the representatives wanted to avoid past errors, to rebuild globalization on a more stable foundation. So they opted for thin globalization—free trade, but not free investment flows. Capital controls were the order of the day and lasted until the breakdown of the system in the 1970s.

Security and stability were the highest priority at Bretton Woods, which is understandable after the global economic crisis of the 1930s and the fears of depression's return at war's end. Bretton Woods-style thin globalization was intended to be a more secure (I'm tempted to say Fail Safe) alternative. Each nation's economy was supposed to be secure because of domestic economic sovereignty, stable exchange rates, and the lack of destabilizing investment flows. The system was supposed to be secure, too, because national problems would be contained. Contagion damage was strictly limited. Thin globalization was less globalization in terms of the potential theoretical benefits, but with less risk of national or systemic financial collapse.

Mundell's Trilemma tells us which globalization options are economically feasible and which are desirable but impossible. Which ones are *sustainable*? Hmmm. That's a more complicated question, since it involves more than the technicalities of international economics.

RODRIK'S TRILEMMA: SUSTAINABLE GLOBALIZATION

The second step, once the economic alternatives are clear, is to consider how to rebuild globalization so that it will not tear itself apart. Globalization must be feasible in terms of the Mundell constraints, and also sustainable. Sustainable globalization. What an idea! Sustainable in what way? Well, the obvious reference would be ecological—environmentally sustainable globalization, but that's a big order, an important one, but

something that goes well beyond the scope of this book. Environmental sustainability is a project that needs to be addressed at all levels in many ways. In the long run, little else really matters.

But in the short run we need to think about the politics and economics of globalization and find ways to prevent it from blowing up and melting down with such regularity. Rodrik's Trilemma, named for Harvard political economist Dani Rodrik, one of the most original thinkers in the globalization field, gives us a framework for analyzing globalization's *political* sustainability.[6]

Rodrik's Trilemma starts with the premise that there is a contradiction in the conventional wisdom that deep economic integration (what I have called thick or really thick globalization) is inconsistent with the existence of the nation-state as we usually think of it and democratic political accountability. Once you embrace thick globalization, Rodrik says, you have to choose—the nation-state or democracy? You can't have both. Here is the reasoning behind this unexpected conclusion.

Thick globalization, as I have defined it, means that international economic relations involve both relatively free trade and high levels of capital mobility. Once the domestic economy is deeply integrated into the global economy the space available for independent economic policy is limited. The interests of foreign investors in particular must be taken seriously at some point, creating explicit or implicit "golden fetters" that limit domestic policy actions. Even the United States, which has theoretical domestic economic sovereignty in the Mundell framework, cannot afford to ignore the interests of foreign investors completely, especially in the post-Crash world where they finance trillions of dollars of U.S. government debt. At some point the logic of investment dollars trumps the logic of citizen votes. Democratic accountability is sacrificed to the expediencies of global finance.

Rodrik calls this option the "Golden Straightjacket" after a phrase coined by Thomas Friedman in *The Lexus and the Olive Tree.* To get the global gold, states restrain themselves from taking independent economic action. In Rodrik's terms, this is equivalent to sacrificing democratic accountability, since the state is no longer able to respond to voters' demands regarding economic policy. You will recognize this as the option that Argentina adopted in the 1990s.

Rodrik calls the second option "Global Federalism" and it is a vision of the world where governance structures expand to embrace the global markets' domain. The nation-state, too small to regulate global flows and too weak to resist their interests, recedes into the background, assuming a more modest economic role in a multilevel global governance framework.

If you want democratic accountability and thick globalization, then the powerless nation-state just gets in the way. Some system of global governance is needed to assure that citizen concerns are addressed. Global Federalism? This sounds very utopian, but maybe it isn't. "Global federalism would align jurisdictions with markets and remove the 'border effects,'" Rodrik says. "Politics need not, and would not, shrink: it would relocate on the global level. This is the United States model expanded on a global scale."[7]

One way to think about the differences between Rodrik's Global Federalism and Golden Straightjacket versions of thick globalization is to consider the case of the European Union and the single currency, the euro, which most of its members have adopted. The EU has long been committed to thick economic relations among its member states. The single-market program of the 1990s called for member states to adopt four economic freedoms: free trade of goods, free trade in services, free movement of labor, and free movement of capital. And now, for most of the states, one currency and therefore one basic macroeconomic policy, too. If you think of the EU economy as a sort of globalization test project, then this is about as thick as globalization can get. And it has caused many tensions because the EU-wide democratic system is very weak (there is a "democracy deficit"). Voters hold their national governments accountable on economic issues, but those governments have relatively little power to deal with these issues, having ceded this authority to the EU central bank.

The current EU setup is problematic—politically unsustainable in my terminology—because it seeks to have it all: thick globalization, sovereign nation-states, and democratic accountability. Something will have to give. If the EU remains a "Europe of States" the democratic deficit—responsibility without accountability and accountability without power—will remain. It is hard to imagine that this will be tolerated forever. If it becomes "a United States of Europe," with stronger central government

and pan-Europe democratic accountability, the nation-state will wither away or, in the spirit of Global Federalism—evolve to play a more minor, if still very important, role. That's how Rodrik's Trilemma works.

There is, of course, a third option, since everything about a trilemma comes in threes. Thick globalization dictates that either the nation-state (and the diversity of policies and programs that come with it) or democracy must be sacrificed—you must choose! But what if national sovereignty and democratic accountability are privileged above thick globalization? Then a third option appears: thin globalization (free trade, more or less, but regulated international investment flows), with democratic accountability achieved through a system of diverse nation-states. Trading thick globalization for thin restores a measure of political accountability to the nation-state at the sacrifice of deep economic integration.

REVALUING GLOBALIZATION

I am drawn to the puzzle trilemmas pose and the fact that they resist the tendency to boil down complicated questions to simple answers. Trilemmas can be deceptive, however, because they make it seem like the three points of the policy triangle are equally important. Choose any two and you are good to go.

But some things are always more important than other things—values really do matter—and, once you've rotated one choice to the top priority, then a more manageable dilemma appears. The first choice is the key. For some time now the first priority has been given to thick globalization—it has seemed to "trump" everything else. It doesn't seem to have mattered that thick globalization, with its sometimes unstable capital movements, has a poorer risk-return profile than thin globalization's more secure focus on international trade flows.

The most obvious instance of this choice, as I have said, is the European Union where the choice was made early on to have thick internal economic relations, and the struggle ever since has been to make this work politically within a union of weak nation-states and weaker central institutions—an arrangement that is economically feasible but politically unsustainable in its present form.

Things change, however, if you rotate Rodrik's Trilemma to put democratic accountability at the top. This, in my view, is that key to

political sustainability, but I'm not the only person who thinks so (or the first one to point this out). Barry Eichengreen made the case better than I ever could in his book *Globalizing Capital*. Once upon a time, Eichengreen argues, it was possible to put globalization first, but not today. Monarchs and autocratic rulers could sacrifice domestic interests on the altar of globalization because they were insulated by power and position from popular opinion. Even democratically elected governments could put globalization first in the days before Keynes invented his macroeconomic theory, which established government's role in stabilizing the economy. After Keynes, however, it is impossible to put the genie back in the bottle—to tell voters that the government cannot or should not take action to address domestic economic concerns. The government *will be* held accountable now, one way or another.

If you put democracy first, which I argue is the only politically sustainable option, then the choices are nation-state (and the Bretton Woods system) or thick globalization (and Rodrik's global federalism). Hmm. Global federalism is a very attractive idea, but it seems problematic for now because of the lack of both the necessary governance infrastructure and the apparent political will to create it. The European Union is the most advanced example of an attempt to develop the institutions of transnational democracy, and even after more than fifty years of broadening and deepening, it is difficult to declare it a real political success.

Global federalism is unrealistic for now, but the alternative—the contemporary nation-state—is also problematic. Nation-states and economic nationalism go hand in hand; protectionism rooted in short-sighted visions of national interest has always been a stronger barrier to globalization than any theoretical trilemma constraint. And it is pretty clear that nation-states can have their own "democracy deficits." The nation-state is an imperfect way to organize government (and we should try to improve it) in a global age, but it is ours, at least for now.

TWO CHEERS FOR THIN GLOBALIZATION

Connecting the dots, it looks like this argument is leading to thin globalization—more secure globalization based on trade more than finance, in a diverse and accountable nation-state system. I would like to say "Three Cheers for Thin Globalization," but the case isn't that

strong. In a world of trilemmas, three cheers may be too much to ask. Two cheers will have to do.

The Mundell and Rodrik trilemmas outline the constraints for economically feasible and politically sustainable globalizations. As I rotate the trilemma triangles and view the results I am struck by the fact that thick globalization seems incompatible with political and economic stability. Economic instability goes back to my arguments about the nature of global finance and why money isn't really "safe as houses." Political instability comes from the trilemmas themselves, where really thick globalization seems to require the sacrifice of domestic economic sovereignty (Mundell) and democratic accountability (Rodrik). That's a big loss of local control. Absent a realistic "global federalist" solution or effective regulation to tame global financial excess, thick globalization carries a very high price. Too high, as we have seen.

What should we think of this result? If you believe that globalization is an end in itself, as hyper-globalizers and market fundamentalists seem to think, then thin globalization is a terrible thing to suggest. If more globalization is better than less and thick is better than thin, then settling for something akin to the old Bretton Woods system of strong states, capital market restrictions, and free trade seems like a step in the wrong direction, a sort of evolutionary retreat.

But globalization is a means, not an end. People don't trade, invest, or migrate to create a global economy; they do it to take advantage of opportunities they see abroad. These opportunities exist because of global diversity—because everyplace isn't the same as everyplace else. But opportunity is generally accompanied by risk, that's fundamental. Diversity, opportunity, risk, return, globalization—they all come packaged together and the extent of globalization—how thick or thin it is—depends upon how the other factors balance out.

SECURITY AND DIVERSITY

Thin globalization has two big advantages over its thicker alternatives: security and diversity. Thick globalization is high-risk globalization. Driven by sometimes chaotic capital flows and lacking a democratic global governance structure to oversee it and hold it accountable to the citizens, it is the globalization of boom and bust, crash and burn. Thin globalization dials down the risk, giving away some of the potential

upside gain to get a more stable and therefore more governable system of economic relations.

Maybe that's why Keynes and his colleagues at Bretton Woods opted for a thin globalization plan for the postwar era. Global Federalism would have been out of the question then, of course, just as it seems to be a bit unrealistic or premature just now. Thin globalization is sustainable globalization, or potentially sustainable globalization anyway. (The collapse of the Bretton Woods system in the 1970s reveals a gap between theory and practice when it comes to political sustainability.)

Thin globalization, as defined here, is also diverse globalization, the opposite of the Golden Arches, since authority is intentionally located at the national level, encouraging a diverse range of solutions to the problems of managing a thin, but still dynamic, global economy. Dani Rodrik's 2007 book *One Economics, Many Recipes* makes the case for a system that encourages diverse solutions to global economic problems. Using a method he calls "growth diagnostics," Rodrik drills down into the details of local problems, resources, and institutional arrangements, arguing that differences in local conditions require custom-tailored policies. Policies that make sense in advanced industrial countries can have very different—and often negative—effects when applied in different environments.

This obviously contradicts everything that market fundamentalism holds true and I think it is not too strong to view Rodrik's book as an indictment of market fundamentalist policies. Although the principles of economics may be universal—opportunity costs, the power of incentives, and so on—it is important to remember that economics is not a surface phenomenon, like a coat of paint. Economics is embedded deeply in society and shapes itself around the resources and constraints, political and social values, of different nations and cultures. You ignore these differences at your peril.

I learned this lesson from one of my grad students a few years ago when I was teaching in Bologna at the Johns Hopkins School of Advanced International Studies Center there. I was reviewing basic supply-demand analysis with a student from Spain who was struggling with the basics. I drew out a labor market graph and put a minimum wage above the market equilibrium price. With wages "too high"—higher than market wages—an unemployment gap appeared.[8] How to you get rid of unemployment, I asked the student. The correct answer,

as anyone who has read an economics textbook knows, is to cut wages. Lower wages give employers an incentive to hire more workers. That's the answer I was expecting.

"Raise wages," he said. Ouch! Wrong! Wrong according to *my* logic, but possibly right according to his.[9] His logic, the logic of someone who understood pretty well the reality of the labor market condition on the ground in Spain at that time, is that a lot of unemployment existed because of government benefits that gave some people little incentive to work. The problem wasn't a lack of open positions, in my student's view; it was lack of incentive to seek them out. Higher wages would solve this particular kind of unemployment, he told me; lower wages would just make it worse. Economic incentives mattered in both of our analyses (Rodrik's "One Economics"), they just worked in different ways depending upon the characteristics of the social system ("Many Recipes").

Another vision of diverse globalization comes from an unlikely source. Columbia economics professor Frederic Mishkin is a leading authority on finance. Many (most?) of the people who built today's complex system of global finance got their start reading Mishkin's money, banking, and financial markets textbook. At first glance his 2006 book *The Next Great Globalization* looks like his Last Great Mistake, but it is not. Mishkin's argument is that financial globalization has many benefits, especially to less developed countries. Plugging into global capital markets—moving from thin globalization to thick globalization—is, to quote the book's subtitle, "How disadvantaged nations can harness their financial systems to get rich." Looking back from today's perspective, Mishkin's premise—that being part of the global financial system is the key to prosperity—seems wrong-headed. A closer look at his reasoning, however, reveals a different story.

Much of Mishkin's book is devoted to financial crises, their causes and effects. He makes it pretty clear, as I have in this book, that financial markets are not "safe as houses." He puts the benefits of financial markets—and there are many benefits—into the context of the costs and risks. Risk and return—exactly right. One reason less developed countries have failed in the past to profit from global finance, Mishkin argues, is that they have adopted what I might call "Golden Arches Globaloney" policies. They have implemented the same policies as the developed countries, when their financial markets and financial

institutions are much different. One result is that when crises strike the remedies applied, based upon first world orthodoxy, cause third world havoc.

A simple example will help make this clear. Many loans in developed countries are long term with fixed or occasionally adjustable interest rates. An emergency interest rate increase (to attract foreign capital inflows) in this environment has a big effect on incremental loans but a smaller effect on existing loans. Borrowers have locked in their interest costs and are less affected or more slowly affected by changing conditions.

Lending in less developed countries is frequently a different matter. Loans are generally much more short term (loan terms may be months instead of years) and interest rates therefore more sensitive to changing conditions. Loan agents may visit clients each week, collecting payments and rolling over loans as needed. A sharp increase in interest rates in this environment has a much larger impact. New loans become more expensive, but so do existing loans (or existing short-term loans that must be renewed). Result: many more borrowers are hit harder and more quickly by financial changes in less developed countries. The same monetary medicine, to use a medical analogy, is quicker and stronger in LDCs. Sometimes it can even be fatal.

I find a lot to agree with in the details of Mishkin's book. I think his concern over financial crises is wise and his argument that financial policies in different countries need to be tailored to actual local conditions is sound. Solid financial institutions are very valuable and less developed countries would gain if stable banks, insurance companies, and credit agencies were developed to meet local needs while reflecting local conditions. The local institutions are very useful, as the rise of microfinance, micro-banking and micro-insurance surely proves. Connecting these institutions to uncertain global markets is less important overall, especially if instability is imported along with foreign funds.[10]

Mishkin is an optimist—or at least he was in 2006—taking the view that better global financial governance and wise local implementation can make thick globalization work. I'm a pessimist, at least when it comes to the possibility of global financial crises. I'm willing to sacrifice some of the potential benefits of thick globalization to get a more stable foundation for global economic relations. Give me thin globalization any day.

SEMI-GLOBALIZATION

Thin globalization instead of thick—is this a radical proposal? A crazy idea? No . . . and yes. In terms of economic history, thick globalization has always been the exception, not the rule. The grand rhetoric of globalization disguises in some respects how very limited it has been in both time and place. I argued that globalization was oversold in a previous book, *Selling Globalization*, and think it is still true today.

Pankaj Ghemawat, Professor of Global Strategy at the IESE Business School in Barcelona, examined globalization's actual viscosity in his 2007 book, *Redefining Global Strategy*. Ghemawat's basic argument is that most measurable economic activities that can be pursued either globally or locally still show a very strong local bias. Differences between and among countries matter very much, creating both opportunities and constraints. Ghemawat's book is an attempt to convince corporate strategists to "resist a variety of delusions derived from visions of globalization apocalypse: growth fever, the norm of enormity, statelessness, ubiquity and one-size-fits-all."[11] He calls the actual state of the world *semi-globalization*.

What prevents globalization from achieving its presumed universal destiny? In theory, world borders of all sorts melt away in the face of the logic of market integration. In the real world, however, layer upon layer of differences persist, creating a pattern of diversity that is a barrier to global strategies and a world of opportunity to those who appreciate the differences and take advantage of them. Ghemawat breaks down the cross-border differences into four categories: cultural differences, administrative differences, geographic differences, and economic differences.[12] Together they create a kaleidoscope of colors, shapes, and patterns that vary according to country and industry and over time. Leveraging some of these differences, overcoming others, and accepting the rest—these are the keys to success in a semi-global business world. Semi-globalization is a useful concept because it forces us to think about how globalization actually works and it suggests that thin globalization might not be such a foreign concept.

So my proposal for feasible, sustainable globalization via thinner global flows is not radical in one sense. Economic flows are only semi-global now and recognition of the risks inherent in uncontrolled international capital movements is unlikely to alter this fact substan-

tially. In any case, the instability of capital movements would prevent globalization from becoming very much thicker. But I am a radical in a different way because I want to change the way that people think about globalization. Because ideas are what matter in the long run.

TELLING STORIES

Economists tell stories—that's what we do. And for better or for worse, the stories seem to matter. Unfortunately, many of the stories we have been telling about globalization for the past few years have been globaloney.

- Because the textbook models of markets are stable and secure—stable as an apple in a bowl, according to Alfred Marshall—we told stories that convinced ourselves that financial markets must be stable, too. Safe as houses.
- Because you find McDonald's restaurants and other symbols of American consumer culture lots of places we convinced ourselves that globalization is everywhere the same, undercutting the very idea of global diversity and missing the point that McDonald's doesn't create sameness as much as it promotes efficiency.
- Because our stories of globalization are dominated by images of faceless markets and powerful global corporations we convinced ourselves that grassroots movements are a waste of time, that people have no ability to define and shape globalization to suit their needs and desires.

These stories opened the door to the grand experiment in high-risk, finance-driven thick globalization that crashed in 2008. When globalization returns—and it will—it will need a new configuration: thin, secure, diverse globalization, which, I have argued, is both economically feasible and politically sustainable; new regulations and regulators (beyond the scope of this book) and, of course, new stories. Stories about real globalization, not the same old globaloney.

Where will the stories come from? I suggest they will come from people like you who look around and report what they actually see, not what globaloney has conditioned them to see. There will be stories

about the risks of global arrangements, not just their benefits. Stories about the diversity of globalization, not just its semi-global sameness. And stories about empowerment—how people can sometimes seize the power to shape globalization to meet their needs or even use globalization's tools to undermine globalization's negative effects.

This book is a start. The stories I've told here—about fast food, Slow Food, soccer, secondhand clothes, and of course the Crash of 2008—don't *prove* anything about globalization. They are just a few data points in a complex web of human arrangements. But, like Adam Smith with his Newtonian rhetoric, I encourage you to "connect the dots" of your own experience in a different way so that we begin to think differently about what globalization is and what it should be. That would be a start—a good start—to a new kind of globalization, one that achieves a better balance of local and global, risk and return.

So when someone tells you about the benefits of globalization, especially global finance, ask about the risks and tell the story of the Crash of 2008. When someone tells you that globalization is a one-size-fits-all phenomenon, and that size is American XXL, ask them if everything is *really* the same and tell them about David Beckham, the American soccer exception, and the French exception generally. And when someone hints that "there is no alternative" and that globalization imposes its will on people at the grass roots, ask them if nations, groups, and individual are really so powerless and tell them about *salaula* and Slow Food.

I used to think that you could fight stories with facts, but I've wised up. Facts are still important, but they didn't prevent an unsustainable global bubble and the Crash of 2008. Stories are more persuasive than spreadsheets. Learn the facts, then tell the stories that make the facts convincing.

To close this book I want to return to Keynes's famous essay, "The Economic Possibilities of our Grandchildren," which opened chapter 1. Writing in 1930, as the world economy was imploding around him, Keynes talked about the future. In the short run, he said, we face the Economic Problem, the crisis we now call the Great Depression.[13] The Economic Problem will eventually disappear, Keynes wrote. Our

grandchildren—by which I suppose he meant the grandchildren of people in advanced industrial countries—will be wealthy, far wealthier than we are today. Their real needs will be rather easily satisfied, not for all of them or all at once, but eventually. The Economic Problem will disappear, leaving them with a rather more serious concern, which he called the Permanent Problem. The Permanent Problem is how to live a worthwhile, satisfying life. How to create a just and cultured world. In my terms, how to create a feasible and sustainable globalization.

We are the grandchildren Keynes had such high hopes for and we seem to have made rather a mess of things. We are wealthy—much wealthier in fact, those of us in the developed world, than even Keynes imagined. But we can't seem to get past the Economic Problem so that we can begin to address more permanent solutions. I don't know how we will do it, or if we ever will, but rethinking globalization must be part of the process. Globalization that takes better account of financial risks, encourages global diversity and accommodates change from the grass roots up—that would be a move in the right direction.

And that's not globaloney.