The dangers of (de)globalization

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Opinion

Between 1870 and 1914 the world lived the high point of the first era of economic globalization. The globe was effectively connected through railways, steamships, and telegraph lines. Money, goods, and people flowed freely across countries. By 1913, the partners at N.M. Rothschild & Sons in London held in their portfolio bonds issued by the governments of Chile, Egypt, Germany, Hungary, Italy, Japan, Norway, and Spain, among others. In the three decades prior to 1914, trade in goods reached almost as large a proportion of global output as in the past thirty years. This was also the era of great migrations, particularly from Europe to the United States. By 1910, more than 14 per cent of the U.S. population was foreign born.

John Maynard Keynes considered this period to be "an extraordinary episode in the economic progress of man." He described the spirit of the times in his book Economic Consequences of the Peace (1919), where he relates, in a quite famous passage, how prior to August 1914 a gentleman in London, "sipping his morning tea in bed, could order by telephone the various products of the whole earth, in such quantity as he might see fit, and reasonably expect their early delivery upon his doorstep." Similarly, our British friend could "secure cheap and comfortable means of transit to any country or climate without passport or other formality … and could then proceed abroad to foreign quarters, without knowledge of their religion, language, or customs, bearing coined wealth upon his person, and would consider himself greatly aggrieved and much surprised at the least interference." Indeed, the bonds of interdependence were so strong that Ivan Bloch and Norman Angell wrote books about the impossibility of war among developed nations.

But, alas, it was not to be; the guns of August 1914 put a rather brutal end to all that. Worldwide economic integration, which had taken a generation to achieve, crumbled within days. According to Harold James, history professor at Princeton, historians have developed three alternative theses to explain this process of economic disintegration. The first one focuses on the alleged instability of the capitalist system. According to this critique, unregulated, volatile capital movements produced radically destabilizing cycles of booms and busts, which eventually led to the destruction of the liberal international economic order through its own contradictions. The second explanation focuses on the social and political responses to globalization. In this account it is fear, and the populist reactions it evokes, such as trade protection, capital restrictions, and migration controls, which trigger the demise of the globalized order. Finally, a third school suggests that globalization inevitably fails because human institutions cannot handle, or adjust rapidly enough, to the psychological consequences of an interconnected world. These institutions come under strains so great as to eventually preclude their effective operation. Of course, these alternatives are not mutually exclusive, but in my opinion, the thesis of social and political backlash is the most convincing. Time and time again we have seen how governments fall for the old siren song of high tariffs, capital hoarding, and xenophobia as the ostensibly simple solutions to often intractable economic problems.

A de-globalized economic system, however, is not necessarily better or more stable. During the 1920s efforts were made to resuscitate the pre-war economic order, to no avail. Thus, by the late 1930s, most nations had imposed severe restrictions on trade, migration, and investment. Some even came close to achieving autarky, the ideal of a de-globalized society. Yet, this state of affairs generated its own set of destabilizing pressures, as countries could not export their surplus goods or their excess population. This closed environment facilitated the convergence of nationalist and socialist ideas, a poisonous witches' brew that was imbibed with most glee in Germany. As we all know, that did not end well either.

It is imperative we remember that history as we face renewed pressures for de-globalization. The World Bank projects that global economic growth will be negative in 2009, the first time that occurs since World War II. The WTO forecasts that world trade will shrink by 9 per cent this year—the largest drop in 62 years—resulting in the loss of thousands of trade-related jobs. While banks and financial institutions are already under intense pressure to retreat from international business and concentrate on domestic markets. Imposing capital controls, increasing trade tariffs, or restricting migratory flows in this environment, when economies are shrinking, unemployment is rising, and international trade and investment are falling, would be highly counterproductive. It would be the equivalent of putting a straitjacket on an asthmatic patient.

The consequences of that course of action could be grave indeed. Sooner or later, the pressures generated by de-globalization will severely destabilize those countries (1) that are dependent on the world economy for their growth and (2) whose domestic political institutions are relatively undeveloped and, thus, unable to absorb the external shock. China, India, Iran, Saudi Arabia, Russia, and Venezuela come to mind in this context. Instability in any of those places could generate all sorts of unforeseen adverse consequences, including large-scale war.

Decisions made in the next six months will affect the global economy for years to come. Unfortunately, in this crumbling colonial backwater we call Puerto Rico, we do not have the policy tools necessary to defend our economic interests internationally, nor do we have a seat at the policymaking table in Washington. We are, thus, at the mercy of forces beyond our control. All we can do is hope the G-20 leaders know their history. And hold on tight, because it looks like it will be a bumpy ride.

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