

Chapter 2 What Liberal Globalization Means

A 'neo' is someone who pretends to be something, someone who is at the same time inside and outside of something; it is an elusive hybrid, a straw man set up without ever identifying a specific value, idea, regime or doctrine. To say 'neoliberal' is the same as saying 'semiliberal' or 'pseudoliberal'. It is pure nonsense. Either one is in favor of liberty or against it, but one cannot be semi-in-favour or pseudo-in-favour of liberty, just as one cannot be 'semipregnant', 'semiliving', or 'semidead'.

Mario Vargas Llosa¹

Globalization is a hideous word of obscure meaning, coined in the 1960s, that came into ever-greater vogue in the 1990s.² For many of its proponents it is an irresistible and desirable force sweeping away frontiers, overturning despotic governments, undermining taxation, liberating individuals and enriching all it touches. For many of its opponents it is a no less irresistible force, but undesirable. With the prefixes 'neo-liberal' or 'corporate', globalization is condemned as a malign force that impoverishes the masses, destroys cultures, undermines democracy, imposes Americanization, lays waste the welfare state, ruins the environment and enthrones greed. Many of these beliefs are wrong. Globalization is, on balance, resistible. But globalization is also, on balance, highly desirable. Precisely how desirable depends on the choices that are made.

Before trying to elucidate these propositions, one must start by defining what we mean by globalization. This is no trivial task. For, as Paul Hirst of Birkbeck College and Grahame Thompson of the Open University note, globalization has become the new grand narrative of the social sciences. We say this less out of any commitment to the sensibilities of postmodernism – we have none – than because we feel the concept offers more than it can deliver.³

The works of third-way theorists, such as Anthony Giddens, adviser to Tony Blair, the British prime minister, fall into this trap. For Professor Giddens, globalization is an irresistible force, transforming all aspects of contemporary society, politics and the economy.⁴ Globalization, thus defined, becomes unmanageably broad. It becomes, as Professors Hirst and Thompson remark, a catchphrase for 'often very different cultural, economic and social processes'.⁵

We can avoid these murky waters, for this book has a narrower focus, in economics. This is not only because the economics of globalization are important in themselves, but because they are the driving force for almost everything else.

Defining liberal globalization

What then might be meant by economic globalization? The simplest of all definitions comes from Anne Krueger, the first deputy managing director of the International Monetary Fund. In the John Bonython lecture, delivered in Australia in 2000, she defined globalization as: 'a phenomenon by which economic agents in any given part of the world are much more affected by events elsewhere in the world' than before.⁶ There is, however, another more technically precise version of this process: the integration of economic activities, across borders, through markets. Thus, David Henderson, former chief economist of the Organization for Economic Co-operation and Development, defines globalization as: free movement of goods, services, labour and capital, thereby creating a single market in inputs and outputs; and full national treatment for foreign investors (and nationals working abroad) so that, economically speaking, there are no foreigners.⁷

A related definition is offered by Brink Lindsey of Washington's Cato Institute, in his book *Against the Dead Hand*. There, Lindsey defines the word:

in three distinct but interrelated senses: first, to describe the economic phenomenon of increasing integration of markets across political boundaries (whether due to political or technological causes); second, to describe the strictly political phenomenon of falling government-imposed barriers to international flows of goods, services, and capital; and, finally, to describe the much broader political phenomenon of the global spread of market-oriented policies in both the domestic and international spheres. Since I contend that globalization in the first sense is due primarily to globalization in the second sense, and that globalization in the second sense is primarily

due to globalization in the third sense, I do not think it unduly confusing to use the same word to mean three different things.⁸

This is a useful definition of the kind of globalization – let us call it ‘liberal globalization’ – the protesters condemn. It clarifies its elements in a relatively precise manner. And it does so by showing that what we are talking about is *movement in the direction of greater integration*, as both natural and man-made barriers to international economic exchange continue to fall. A necessary consequence of such a process of integration is the increased impact of economic changes in one part of the world on what happens in the others.

The process of economic integration discussed here could have two conceivable end points. In one, technology remains roughly as it is today, but there are no policy barriers whatsoever to the movement of goods, services, information, capital or people. For reasons of history, the world would still contain distinct cultures and languages, and different legal systems. These would add to the barriers that distance and difficulties of communication continued to impose. Companies would still tend to be national or multinational, not global. The political preconditions for such a global economy could be either the unilateral abolition of barriers by what remained sovereign states, a structure of restricted national sovereignty, similar to that of today’s EU members, or a global federation. In other words, a globalized economy, so defined, could be combined with a number of different structures for global governance. This form of integration is conceivable, though it is immensely far from where we are today. We are most unlikely to get there this century, let alone the next decade.

A second and much more radical definition of a global economy would be one in which, in addition to the abolition of politically imposed barriers to economic integration, costs of transport and communications were zero. This form of a global economy is conceivable, but practically impossible. In this world distance would no longer matter. It would be the end of geography. There would no longer be services that are intrinsically non-tradable, such as haircuts, hospital operations and looking after children or old people. The world would be like London or New York today, with almost every conceivable culture effectively cheek by jowl. Economically, the world would be reduced to a point, something that cyberspace has come close to achieving; but only for information.

The value of this more extreme thought-experiment lies in forcing us to appreciate the abiding and enormous importance of costs of transport and

communications. While these costs may continue to fall, they will never come close to zero, except for things that can be completely dematerialized – essentially information. If people want to participate fully in Swedish culture, enjoy a wide choice of Swedish schools for their children, have predominantly Swedish neighbours and partake of the full range of benefits offered by the Swedish welfare state, then they have to live in Sweden. Again, most people will continue to work or go to school within a relatively modest radius of where they live. This would remain true even if all policy barriers to movement of goods, services, capital, information and people were eliminated. Indeed, as the share of services in consumption and gross domestic product rises, geography may come to matter more and more, not less and less.

The point is that distance will always matter, because we are physical. Because distance always matters, so does space. Because space always matters, so does territorial control. Because territorial control matters, so do states. For this simple reason, economic processes will not compel the death of states, unless a state is expunged, whether voluntarily (as in a decision to merge with some other state or states) or forcibly (as in conquest). Indeed, the policies and capacities of states remain central to any understanding of how economic globalization works.

Against technological determinism

Some authors write as if technology were decisive for globalization on its own. The most influential author to come close to this line is Thomas Friedman, foreign affairs columnist for the *New York Times*, in his lively and illuminating book *The Lexus and the Olive Tree*.⁹ He defines three democratizations – of technology, information and finance. Behind all three is an unquestioned technological revolution, namely, the immense increase in our capacity to communicate and access information, symbolized by the mobile phone and the Internet. Because of the three democratizations, argues Friedman, traditional top-down organizations – companies and governments – are vulnerable to ‘Microchip Immune Deficiency Syndrome’. This:

is the defining political disease of the globalization era. It can strike any company or country, large or small, East or West, North or South. . . . MIDS is usually contracted by countries and companies that fail to inoculate themselves against changes brought about by the microchip, and the democratizations of technology, finance and information. . . . The only

known cure for countries or companies with MIDS is 'the fourth democratization'. This is the democratization of decision-making and information flows, and the deconcentration of power, in ways that allow more people in a country or company to share knowledge, experiment and innovate faster. ... MIDS can be fatal to those companies and countries that do not get appropriate treatment in time.¹⁰

Technological determinists argue that the only alternatives today are full openness to the world economy or marginalization and poverty. Furthermore, they add, if a country is a little bit open to modern communications, political pressures from a better-informed population will, on their own, force governments to liberalize their economies and democratize their politics. If this were so, liberalization would no longer be an independent policy choice. It would be the necessary consequence of the technological changes of our time. If technology dictated policy, liberalization would be not an option but a destiny.

Technological determinism is not absurd. It is merely exaggerated. The colossal recent falls in the costs of communicating information must have radical effects on economies, by lowering the cost of making transactions and increasing information about available opportunities to transact. The lower the costs of communications, the higher and more ruthlessly enforced policy barriers must be if economies are to remain as closed to flows of information as they used to be. For this reason, technological determinists are right to believe that the innovations of the past one or two decades have made globalization more difficult to prevent.

Yet one must avoid exaggerating what follows. First, it is not the case that complete liberalization must follow the decline in costs of communications. Governments can continue to control movement of physical things if they wish. Indeed, modern technology makes this easier than before. Governments can oversee and regulate the movement of people even more easily; they can impose barriers upon movement of capital, by failing to recognize or enforce contracts with foreigners; and they can limit international flows of services by controlling the convertibility of domestic means of payment into foreign exchange. Whether they will choose to do any of these things is another question.

Second, even if technology did dictate greater liberalization, it would not follow that governments were helpless. This is because even in a liberal world there would remain, as argued above, both costs of transport and communications and cultural obstacles to mobility. The argument that technology dictates liberalization and this, in turn, renders governments helpless before global economic forces is an intellectual swindle used by many left-of-centre

governments to confuse what they choose to do with what they are compelled to do. As Clive Crook of *The Economist* has argued in his survey of globalization, 'when governments claim that globalization ties their hands, because politically it makes their lives easier, they are conning voters and undermining support for economic freedom. Whatever else this may be, it is not good governance.'¹¹

On wider aspects of globalization

The definitions above concern only the economic aspects of globalization. Yet changes in technology and the economy also have complex cultural, social and political effects. Changes in how people are able to earn their living, in what they can buy, in how readily they can move from place to place, in how easily they can transport things, in how they can disseminate and access information and ideas necessarily transform human societies and the individual human beings who live within them.

Some scholars have attempted to define such non-economic aspects of globalization relatively precisely. The sociologist Peter Berger, of Boston University, has argued, for example, that there are four facets of cultural globalization: business values – or the impact of 'Davos man', named after the location of the annual meeting of the World Economic Forum; intellectual values – or the influence of the 'faculty club'; popular commercial culture; and the spread of religious movements – particularly evangelical Protestantism, now thought to embrace some 250 million people world-wide.¹² He argues that '[G]lobalization is, *au fond*, a continuation, albeit in an intensified and accelerated form, of the perduring challenge of modernization. On the cultural level, this has been the great challenge of pluralism: the breakdown of taken-for-granted traditions and the opening up of multiple options for beliefs, values and lifestyles. It is not a distortion to say that this amounts to the great challenge of enhanced freedom for both individuals and collectivities.'¹³

Changes in technology and economic policy do have such political, social and cultural effects. How could they not do so? Today, a regime that wants its people to be fully engaged in the global economy cannot prevent them from gaining access to the extraordinary range of information, including that about their own country. This may make despotic regimes unsustainable. But, important though they are, these changes are not part of the definition of

globalization employed here. They are treated, instead, as consequences or concomitants.

Conclusion

Globalization is defined in what follows as integration of economic activities, via markets. The driving forces are technological and policy changes – falling costs of transport and communications and greater reliance on market forces. The economic globalization discussed here has cultural, social and political consequences (and preconditions). But those consequences and preconditions are neither part of its definition nor a focus of our attention.