# 1

## THINKING ABOUT MONEY AND GLOBALIZATION

The word *globalization* has a manifold paternity, but its modern coinage has been popularly ascribed to former *Harvard Business Review* editor Ted Levitt, who in a 1983 *Review* article argued that new technology had "proletarianized" global communication, transportation, and travel.[1] On a more visceral level, its popular tableau is captured in Rory Stewart's travelogue of his walk across Afghanistan, one of the least globalized parts of the globe, immediately following the fall of the Taliban, in which he observes men in Herat unloading Chinese tablecloths and Iranian flip-flops marked "Nike by Ralph Lauren."[2]

The *idea* of globalization, however, the notion that commerce and technology were bringing powerful foreign influences to bear on established ways of life, for good or for ill, goes back centuries, in a form fully recognizable even in the Internet age. "When has the entire earth ever been so closely joined together, by so few threads?" asked the German philosopher Johann Gottfried von Herder in 1774. "Who has ever had more power and more machines, such that with a single impulse, with a single movement of a finger, entire nations are shaken?"[3] And this was seventy years before the first public use of the telegraph.

Ideas about the idea of globalization also go back centuries, and they parallel remarkably the views passionately expressed on both sides of the divide today. For every Adam Smith and Baron de Montesquieu embracing a commerce-driven cosmopolitanism, there was an Adam Müller or a Jean-Jacques Rousseau condemning it with equal fervor and eloquence.

Both sides recognized technology as a powerful force impelling industrial and social change, and both sides saw politics as critical to determining whether society evolved well or badly in technology's slipstream.

Contemporary critics of globalization argue that money and markets are today operating outside timeless norms relating to the sovereign powers of governments. Their condemnations of trade and capital flows go well beyond allegations of negative economic effects, extending to questions of political legitimacy.

The question of effects is a perpetual moving target, as anti-market arguments have been for centuries. The success of pro-globalization policies in China and India has, for example, merely shifted the allegations of anti-globalizers from increasing poverty to increasing inequality to *perceptions* of increasing inequality.[4] But charges that financial markets and institutions, such as the International Monetary Fund (IMF), are violating fundamental rights of states remain largely unchallenged and have a natural and growing appeal to organized interests who are only too willing to harness the powers of state organs in the name of reclaiming lost sovereignty.

Our discussion in chapter 2 of the history of Western law and its relation to both states and private commerce is intended to address these challenges to globalization's legitimacy directly. To the extent that we are correct in arguing, as we do in chapter 3, that the most prominent negative critiques of globalization are fundamentally reprisings of history's most prominent arguments against markets generally, the potential consequences of state organs arrogating more powers to confront economic liberalism in the cause of reasserting sovereignty are considerable. The vastly divergent political and economic fortunes of nations that have embraced liberalism and those where it has been suffocated in the name of cultural preservation, or fairness to one or another social, ethnic, or religious group, suggest real dangers in political leaders successfully tarring globalization with charges of sovereign usurpation.

Why should a book on globalization which aims to be of practical relevance spend so much ink discussing the history of political and legal thought? In the words of Bertrand Russell, "To understand an age or a nation, we must understand its philosophy."[5] The remarkably rapid (by historical standards) progress of science since the mid-nineteenth century has conditioned Westerners to think of history in linear terms, as a forward march of progress. But the history of philosophy is not like this. The new circumstances in which each generation finds itself stimulate the emergence of philosophical ideas appropriate to them. Thus Greek ethical thought down through Aristotle focused on the life lived as a *citizen* of a small city-state. The "good life" was one lived in a context that was in the deepest sense political. But once the Greeks, from the late fourth century BC onward, became subject first to Macedonian and then to Roman authority, such ideas lost all practical meaning. The Hellenistic philosophies which emerged—bracingly cosmopolitan in comparison to their Hellenic precursors[6]—were appropriate to the new world in which their adherents had no role in government[7] but vastly greater contact with foreigners. Very similar ideas, we argue, are in ascendance today, in a context in which dramatic declines in communication and transportation costs are enabling unprecedented global interaction among people, wholly outside any formal political context over which they have meaningful influence.

Critics of globalization do not generally object to such interaction, provided it does not involve commerce. But this is like approving of marriage while objecting to childbearing. The former is certainly possible without the latter (and vice versa), but most pursue the former because of their intention to pursue the latter. Likewise, most of the people with whom we come into contact outside our small local circle of family and friends are commercial acquaintances, or at least purely so at first. When we travel, we do not generally expect to be fed and sheltered by grace of the kindness of strangers. We take it for granted that, to the extent that we have money to exchange, others whom we have never before met will more or less cheerfully provide us with what we want. Globalization, like travel outside our network of immediate friends and family, is a fundamentally commercially driven experience, and only *facilitated* by technologies like air transport and the Internet.

Few of the pro- and anti-globalizers discussed in this book are philosophers. They come from many disciplines, and only a minority are academics. But, to paraphrase Keynes, they, like us, are in considerable part intellectual slaves of defunct academic scribblers. We are all firsthand witnesses to powerful new social and technological phenomena, but we process their meaning through secondhand thought. And in the words of Istvan Hont, author of a book on the politics of trade in the eighteenth century, "The history of political thought is at its most helpful when it unmasks and eliminates repetitive patterns of controversy."[8]

To the extent that pro-globalizers acknowledge an intellectual lens, it is eighteenth-century cosmopolitan liberalism. This, however, we will argue, is itself a revival of thought two millennia older; specifically, Stoic political thought of the Hellenistic world emerging in the late fourth century BC. Stoic thought sought to situate men in some natural relation with all other men, absent any assumption of common ends. It owed at least as much to Alexander's armies as to Mediterranean thinkers, in the sense that the destruction of boundaries between Greek and barbarian necessitated a new philosophy of human coexistence.[9] The early liberalism of England and Holland was also founded on such a need, brought to the fore by the horrendous religious wars that tore Europe apart in the sixteenth century. The notion that "all men are created equal," enshrined in the American Declaration of Independence, is eminently Stoic in its individualism, cosmopolitanism, and underpinning of "natural law," or law which was held to be valid by "Right Reason" rather than by virtue of emanation from some well-armed authority. Its conspicuous popular revival in our age is driven, yet again, by the emergent need for a philosophy of coexistence, this time in an environment in which a well-cultivated twentieth-century mythology of unlimited state sovereignty confronts the daily reality of a wired world oblivious to geographic jurisdictions.

What is so striking about contemporary anti-globalist thought, whether from political philosophers like John Gray or media messiahs like Lou Dobbs, is its rank lack of originality, given that it aims to diagnose and treat ills proprietary to our age. It calls for a bold new public policy agenda that will return us to a past in which commerce and finance were fairer and less culturally disruptive. But this past never existed. Going back hundreds of years, each successive generation has produced a cadre of reactionary intellectuals who have held forth on the unprecedented economic evils of their age and called for the intervention of enlightened rulers to restore the tranquility of yesteryear. The moral foundation of their program has always been distinctly national, even if they frequently maintain that foreigners would also benefit by our refusal to buy and borrow from them, or sell and lend to them.

Anti-globalizers generally reject classical liberalism on both practical and idealistic grounds. Practically, what seems not just to anti-globalizers but even to many classical liberals as a compelling indictment of globalization is the proliferation of devastating national currency crises since the 1980s. We devote much space to confronting the argument that private capital flows, rather than governments defending "sovereignty," are to blame. Idealistically, the alternative world visions of anti-globalizers harken back to the Romantic reaction to liberalism, best represented by Rousseau and Hegel. Romantics were contemptuous of commerce and finance (even private property), suspicious of science, and ardent in their nationalism—nations having, in their view, a collective soul. Bertrand Russell characterized the political aspects of such thought as "the doctrine of State worship, which assigns to the State the position that Catholicism gave to the Church, or even, sometimes, to God."[10] Extreme twentieth-century manifestations of such thought produced the catastrophes of fascism and communism. Whereas only the reactionary fringes of today's anti-globalism express the slightest sympathy with such ideologies, they all demand new, and often very robust, assertions of state sovereignty, which they defend as mere *re*assertions of a sovereignty lost to anthropomorphicized "markets." They tend to paint liberalism as a version of radical individualism. Historically, however, this is wholly inconsistent with the belief in the fundamental harmony of public and private interests which is characteristic of liberalism. Liberalism as a doctrine is a conscious attempt to escape the cycle of political oscillation between tyranny and anarchy, the latter fostered by truly radical individualist religious ideologies of the distant past.[11]

Whereas anti-globalizers typically paint classical liberals as being utopian, or "fundamentalist," in their faith in market forces, failing to acknowledge inherent corruption and shortsightedness guiding the pursuit of wealth, they tend to see no such evils at work in the state sector. Like Plato, they see government and moneymaking as radically different, and indeed incompatible, enterprises. Not only is identification of the common good unproblematic, in their view, but its practical pursuit through government is as well. Stoic thinking differed radically. The third and most illustrious head of the school, Chrysippus, saw politics pragmatically as one mode among many of earning a living. Chrysippus was, however, neither cynical (in the modern rather than Greek sense) about public service nor materialistic. He saw humans as by nature social animals, and saw natural law—objective, derivable from human nature, and discovered rather than created—as the only moral basis for governing interaction among people.[12]

This concept of natural law, which came to form the foundation of Roman cosmopolitan jurisprudence, has been fundamental to the development of commercial culture in the Western world over two millennia. The hugely important medieval *Lex Mercatoria*, the international "laws merchant," which developed spontaneously and laid the legal foundation for Europe's commercial fairs and sea trade over eight centuries ago, lives on today as true law, governing the conduct of business both within and across national borders. The thread connecting Roman law to the modern-day globalist commercial mindset is eloquently captured by historian Jerry Muller:

> There was no room—or little room—for commerce and the pursuit of gain in the portrait of the good society conveyed by the traditions of classical Greece and of Christianity, traditions that continued to influence intellectual life through the eighteenth century and beyond. Yet when discussion turned from outlining an ideal society to regulating real men and women through law, accommodating commerce and the pursuit of gain inevitably played a larger role. Roman civil law, with its origins in the empire and its emphasis on the protection of property, served as a reservoir of more favorable attitudes toward the safeguarding and accumulation of wealth. The hot and cold wars of religion that marked the early modern period were a turning point in the relations between these traditions. For as men judged the cost of imposing a unified vision of the common good too high, they increasingly took their bearings from the Roman civil tradition, which focused upon giving each his own, without subordinating all to some vision of the common good they no longer shared.[13]

Law and commerce were indelibly linked in the thought of David Hume, who argued that it is *commerce itself* that gives rise to notions of justice between people and peoples. Although commerce is today typically seen as something which is proactively enabled by law, it is much more accurate historically to see law as something which emerges because of its vital importance in commerce—and particularly commerce involving foreigners. Within the Roman Empire, it was the *ius gentium*, the "law of nations," derived from custom rather than legislation, and applying specifically to noncitizens, that governed most types of commercial transactions.[14]

The modern notion that law is inseparable from the will of a ruler or ruling body, antithetical to the idea of a universal natural law or a ius gentium, has, in parts of the world and during epochs where it has actually been applied, been devastating to economic development. The Soviet Union was only the most conspicuous example of the economic consequences of the state arrogating legal powers from the private sphere. "With us," in contrast to the West, Lenin declared in 1921, "what pertains to the economy is a matter of public law, not private law."[15] Today, economic "sovereignty" has become the rallying cry of the anti-globalization movement. Commerce, contracting, and investment across borders are increasingly subjected to a sovereign legitimacy test which they are held to fail not because they are illegal but rather because they are "alegal"—not enabled by a state body that has determined their desirability in advance.

Of course, commerce and politics have rarely operated in isolation anywhere. International trade and national politics have been locked in a volatile and often highly destructive embrace since the Renaissance period, when European governments first began to see themselves in a struggle for survival against others for commercial success in trade. As national self-defense came to be seen as the highest calling of the state, trade, as a means of financing wars, became a component of the doctrine of "reason of state," first popularized in a 1589 book *Ragione de Stato* by Italian political theorist and statesman Giovanni Botero, who drew heavily on Machiavelli. It took on its greatest political importance in the seventeenth century, when the rise of the two maritime powers, England and Holland, drew the large continental monarchies, France in particular, into an increasingly intense rivalry for European trade supremacy. "Commerce," wrote Louis XIV's economic minister, Jean-Baptiste Colbert, in a memorandum to the king, "is a perpetual and peaceable war of wit and energy among all nations."[16] What made trade warlike was the image of states as sellers in an increasingly desperate search for markets and profits. To be sure, thinkers such as Montesquieu and Voltaire argued strenuously against the use of commerce as a tool of Machiavellian international politics, stressing that it was bound to lead to ruinous real war. Adam Smith railed against the influence of merchants over the politics of trade, stressing their baleful effects and urging that the interests of consumers instead be paramount in pursuit of "reason of state." But mercantilist politics and international commerce have never since been successfully disentangled, even as innovations in sovereignty such as the European Union have diluted the toxicity of the mix considerably.

The most potent threat to globalization is not the backlash against trade, however. Multilateral trade liberalization agreements may indeed be harder to fashion in the future, but this is largely a measure of how far trade liberalization has come in the past fifty years. The remaining hot-button issues, like intellectual property protection and removal of the last vestiges of agricultural trade barriers and distortions, were always bound to be political landmines. But even as the World Trade Organization stalls, robust global trade growth continues. Anti-globalizers have not shut down the ports, nor have governments brazenly abrogated existing multilateral commitments.

If anything is likely to throw globalization into reverse, it is not trade itself, but the money that facilitates it. National monies and global markets simply do not mix; together they make a deadly brew of currency crises and geopolitical tension and create ready pretexts for damaging protectionism. Political leaders in both poor and rich countries are fashioning new policy agendas grounded in this growing, if as yet inchoate, realization. But most of these are addressing symptoms rather than causes, and are doing so in a manner that will only add to, rather than reduce, global economic and political tensions.

As we discuss in chapter 3, virtually every major argument leveled against globalization has been made against markets generally for hundreds of (and in some cases over 2,000) years, and can be demonstrated to be misconceived. But the argument against capital flows is fundamentally different. It is highly compelling, so much so that even globalization's most eminent intellectual supporters treat it as an exception, a matter to be intellectually quarantined until effective crisis inoculations can be developed.

Since the early 1980s, dozens of developing countries—even the most successful among them, such as South Korea—have been buffeted by severe currency crises. The economic and social damage wrought by the rapid and massive selling of developing country currencies has been enormous. And the economics profession lacks anything approaching a coherent and compelling response. IMF staff have endorsed all manner of national exchange rate and monetary policy regime that has subsequently collapsed in failure. They have fingered numerous and disparate culprits, from loose fiscal policy to poor bank regulation to bad industrial policy to official and private corruption. We have for ten years now been in the midst of a roaring bull market in academic financial crisis literature.

From a historical policy perspective, our current age of globalization is highly unusual. Typically, trade protectionism and monetary nationalism have coincided, as have free trade and a universal monetary standard. Since the 1970s, however, the world has moved robustly toward liberalization of both trade and capital flows while governments have asserted a historically unprecedented sovereign right, and indeed responsibility, to control the supply and price of national money unfettered by any external standard against which people measure value across borders—whether that be a precious metal, like gold, or another currency, like the U.S. dollar. That the result has been significant growth in living standards across those countries that have integrated into the global marketplace, side by side with devastating national currency crises that have periodically wiped out much of such progress, should not be surprising. Monetary nationalism dramatically alters the way capital flows operate. During the previous great period of globalization, in the late nineteenth and early twentieth centuries, capital flows were enormous, even by contemporary standards. Yet currency crises were brief and shallow, and capital flows were a *stabilizing* factor, wholly unlike today. The difference is in the change in the nature of money. Back then, global trade and capital flows went hand in hand with global money. "When the scope of trading expands," wrote the eminent German sociologist and philosopher Georg Simmel in 1900, "the currency also has to be made acceptable and tempting to foreigners and to trading partners."[17] Today, however, trade and capital flows go hand in hand with national monies that are, with few exceptions, not in the least bit acceptable or tempting to foreigners.

Throughout most of the world and most of human history, money was gold or silver or another intrinsically valued commodity, or a claim on such a commodity. It is only during the most recent three decades that monies flowing around the globe have been claims on—well, nothing at all. All of these monies are conjured by governments as pure manifestations of sovereignty. And the vast majority of such monies are unwanted. People are unwilling to hold them as wealth, something which will buy in the future at least what it did in the present. Governments are able to oblige their citizens to hold national money by requiring its use in domestic transactions, but foreigners exempt from such compulsion choose not to do so. And as we will document at length in the second half of this book, in a world in which people choose to accept only dollars and a handful of other monies from foreigners in lieu of gold or other intrinsically valuable commodities, the mythology tying money to sovereignty is a costly and sometimes dangerous one. Monetary sovereignty is incompatible with globalization, understood as integration into the global marketplace for goods and capital. It has always been thus, but it has become blindingly apparent only over the past three decades of human history.

Our diagnosis will doubtlessly be bracing to many, but we must emphasize that economists of the 1930s and 1940s would by and large have considered it rather obvious. And this would not have been a matter of ideology. Writers with vastly different views of global capitalism, such as Friedrich Hayek and Karl Polanyi, took it as given that globalization required gold, or something accepted as money by all. The remarkably foresighted Simmel did anticipate the emergence of an international fiat money—one not tied to anything of intrinsic value—but stressed that it would be the *result* of an organic process of global economic and social integration, and not something that any authority could engineer. The marked recent rise in global angst over whether fiat dollars conjured by the U.S. government can continue playing that role highlights the need to view globalization in the context of a long history in which money and sovereignty have aligned and misaligned in ways that have deeply affected the lives of people around the world.