SAIS Working Paper Series

WP/04/02

Is Globalization in Danger?[1]

by

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[1] This Working Paper is the written text of a speech prepared for a conference in honor of W. Max Corden at the School of Advanced International Studies (SAIS) in Washington D.C., April 19th 2002

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SAIS Working Paper Series
Working Paper No.: WP/04/02
Title: Is Globalization in Danger?
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Date: April 2002

Introduction

In the long run, the trend towards globalization – or international economic integration - is almost certainly irreversible. But in the "short" run – where that run may be a century, or more – it is not. Whether the opportunities of international economic integration are offered and exploited depends on choices that can be made –but also can be unmade. Today, we are living in an age of globalization. To say so has become a cliché. But the same was also true a century ago. Then, as now, most observers assumed that the trend towards integration would prove unbreakable. We, however, know better. The liberal international economy of the late 19th and early 20th centuries foundered. By 1945, it had disappeared. It took half a century to restore. The question I want to address is whether this achievement, too, is endangered and, if so, how and why.

Why globalization is irreversible in the long run

In the long run, globalization is almost certainly irreversible. Human beings are unique among animals in the extent to which they are able to create the world in which they live. Opportunities create the means to exploit them and these, in turn, create further opportunities. No opportunities are more important than those to travel, transport items of value and communicate. As the technologies of travel, transportation and communication have improved, so inevitably have returns to these activities. If the means exist to transmit information, people, goods or services cheaply someone, somewhere will exploit them.

The Chinese possessed the means of trans-oceanic navigation by the early 15th century. Their fleets sailed to Africa. But they decided to beach their ocean-going junks. A Chinese mandarin might have concluded that the scrapping of the Ming dynasty fleet was the end of globalization. He would have been wrong. For the opportunity abandoned by the Chinese was taken up Europeans. Needier and free from central control, the inhabitants of the western promontory of the Eurasian land mass sailed to China, instead. The opportunity was there. Someone was going to exploit it. It was the Europeans who created what remains a largely western-dominated world today.

Technological advance has not halted since the 15th and 16th centuries. On the contrary, declines in the costs of transport and communications have proceeded at a rapid pace. The railway, the steamship, the refrigerator and the telegraph created the opportunities for the integration of the 19th and early 20th centuries. For the first time, not only luxuries, but staple products and even perishables, could be transported in bulk from one corner of the globe to the other. Tens of millions of people could cross the oceans with ease. Financial markets could be linked across the globe.

The 21st century has added to the long list of enabling technologies radio, television, trans-oceanic telephony, the satellite, the computer and the internet; it has also added the container ship, the giant tanker and the airliner. Costs of transport and communications

have, in consequence, continued to plummet.. New opportunities have been created and, again, they have been exploited. They are to be seen in 24-hour financial markets, mass tourism, the global interconnection of production and the trans-national corporations of today.

Between 1920 and 1990, the cost of oceanic freight fell by 70 per cent. Before the Second World War air transport hardly existed. But then between 1930 and 1990, its unit cost fell by more than 80 per cent. Between 1940 and today, the cost of a transatlantic telephone call fell by more than 99 per cent. With the internet, the cost of global communication is close to zero. These are revolutionary changes. People living in 1900 could not have imagined them. In the same way, people living in 1800 could hardly have imagined the railways and steam ships, let alone the telegraph cables that knitted the Victorian world together.

In the long run then the world must become more globalized. Yet this does not mean integration will proceed unchecked. Still less does it mean the death of distance. As Adair Turner has argued in his book, *Just Capital*, many activities are "high-touch" - looking after babies or serving meals, for example.[3] As we become richer and the cost of material things falls, we demand more of these personal services. Distance will always matter, because we are physically located. But our ability to transport goods, services, people and information has increased so vastly over the past two centuries that the opportunities for integration thereby created cannot be suppressed. In the end, even the Soviet Union collapsed under the strain of trying to do so.

Globalization then and now

What is true in the long run need not be true in the short run, with the short run defined here as decades, not mere years. Integration can reverse, as it did between 1914 and 1945. Moreover, integration can increase in some respects, but diminish in others. A comparison of the degree of integration today with that of a century ago is revealing.[4] The picture can only be described as mixed.

Trade

Trade in goods and services is almost certainly more integrated today than ever before. This follows a half-century during which world trade has risen at about double the rate of growth of world gross domestic product. This past half century has also been the most economically successful in human history: over that period, global GDP per head has risen on average almost three times.

Yet, surprisingly, ratios of trade to GDP in many advanced countries are not that much higher than they were in 1913. In the UK, for example, the ratio of trade to GDP, in current prices, was 57 per cent in 1995, against 44 per cent in 1913. In France the ratio

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[3] Adair Turner, *Just Capital: The Liberal Economy* (London: Macmillan, 2001).

[4] The literature on these comparisons is enormous. A particularly nice survey is Michael Mussa, "Factors Driving Global Economic Integration", August 25, 2000, www.imf.org.

was 43 per cent, against 35 per cent. The US stands out among the group of seven leading industrial countries for the big increase in its trade ratio, from 11 per cent in 1913 to 24 percent in 1995. Japan stands out in the opposite direction: its trade ratio was 17 per cent in 1995, against 30 per cent in 1913. These data support the accepted view of the trade policies of these two countries: in the postwar era, the US has become more open than ever before, but Japan less so.

The apparent paradox can be readily resolved. Over the past century, GDP in current prices has become increasingly dominated by services, which remain far less tradable (and traded) than goods. In 1913 about two-thirds of GDP in advanced countries consisted of the production of goods; today services make up the same proportion. The trade intensity of the goods-producing sectors of the economy is far greater than ever before. This can be shown by looking at trade to GDP ratios at constant prices. The economic historian, Angus Maddison, has shown that for the world as a whole the ratio of trade to GDP in constant prices rose from 7.9 per cent in 1913 to 17.2 per cent in 1998. For Western Europe, it rose from 14.1 per cent to 35.8 per cent and for what he calls "western offshoots" – a group of countries in which the US dominates– it has risen from 4.7 per cent to 12.7 per cent. The cause of the divergent trends between trade ratios in current and constant prices is the same as that for the rise in services in GDP in current prices – the fall in the relative prices of goods as a result of sustained increases in productivity in the goods-producing sectors of the economy. Trade has grown most in the sectors of the economy where prices have fallen most.

Capital

While there is little doubt that markets for goods are more integrated than ever before, the same is not true for capital. As a share of gross domestic product the capital outflow from the UK – at an average of 4.6 per cent of GDP between 1870 and 1913 - has no contemporary parallels among the larger economies, even Japan. At its peak, British overseas investment ran at 9 per cent of GDP. The same was true for the capital importers. Argentina, for example, ran a current account deficit averaging 18.7 per cent of GDP between 1870 and 1889 and 6.2 per cent of GDP between 1890 and 1913. More revealing perhaps, the correlation between domestic investment and savings – a measure of self-sufficiency in savings was lower between 1880 and 1910 than in any subsequent period, up to 1990.

The composition of capital flows has also changed. Capital mobility is today much greater for short-term instruments than it was in the earlier period. This is demonstrated by the turnover of the foreign exchange market, at several hundred trillion dollars a year. Moreover, the composition of long-term flows was also somewhat different in the earlier period from today's: investment was more in tangible assets than in intangible ones; by far the greater part of the earlier flows took the form of bonds, while today stocks and bonds are of roughly equal importance; portfolio flows predominated over direct investment in the earlier period, while direct investment has greatly exceeded portfolio investment since the Second World War; and, finally, before 1914 direct investment was largely undertaken by free-standing companies, particularly in mining and transportation,

while today trans-national companies predominate, with a very large proportion of their investment in production of services.

People

As Paul Hirst and Grahame Thompson note:

"the greatest era for recorded voluntary mass migration was the century after 1815. Around 60m people left Europe for the Americas, Oceania, and South and East Africa. An estimated 10m voluntarily migrated from Russia to Central Asia and Siberia. A million went from Southern Europe to North America. About 12m Chinese and 6m Japanese left their homelands and emigrated to east and South Asia. One and a half million left India for South East Asia and South and West Africa."[5]

Similarly, Richard Baldwin and Philippe Martin note that during the 1890s, a high point for population movement, the inflows of people into the US were equal to 9 per cent of the initial population – equivalent to an immigration of 25m today.[6] In Argentina, the comparable figure was 26 per cent; in Australia, it was 17 per cent. In the same decade, the UK's outflow was 5 per cent of the initial population, Spain's was 6 per cent and Sweden's was 7 per cent. In the 1990s, however, the US was the only country in the world with a high immigration rate – equal to about 4 per cent of the initial population over the decade.

Obstacles to migration are the most important difference between today's globalization and that of the late 19th century. They also create the world's biggest economic distortion – the discrepancy in rewards to labour. Today, real wages for an unskilled person in the world's poorest countries are a small fraction of the wage he or she could earn in a rich one. Controls on migration have locked a large part of humanity into failed states and economies, with inevitably adverse consequences for their incomes and so for global inequality.

How globalization collapsed the first time

We know that the liberal international economy of the late 19th and early 20th centuries collapsed. We also know that it has since been restored, but only partially. Why then did it collapse and could this happen again? The fundamental answer to the first of these questions was the rise of anti-liberalism. But that, in turn, was the product of the economic, social and political changes that industrialisation brought to life within advanced countries and relations among them.

[5] Paul Hirst and Grahame Thompson, *Globalization in Question: the International Economy and the Possibilities of Governance*, second edition (Cambridge: Polity Press, 1999) p.23.
[6] Richard Baldwin and Philippe Martin, "Two Waves of Globalization: Superficial Similarities, Fundamntal Differences", National Bureau of Economic Research Working Paper 6904, p.19.

Rise of the mercantilist nation state

As industrialisation spread, the biggest questions in political life became how to accommodate the pressures and harness the energies of the new working class. Among the most successful answers was nationalism. At the same time, political and economic elites saw the economic and military value of a literate population and so created or promoted national systems of education. These, in turn, became vehicles for the propagation of the new nationalist ideology.

Mass literacy and nationalism were closely connected to the new military realities. Power rested increasingly upon citizen armies. Creating such armies became a central task of the state. As all male citizens were mobilised, the need to establish a unifying ideology became ever more important. Nationalism also served this turn. But the literate citizen-soldiers of the 19th century could hardly be denied the vote. The mobilisation of women in the First World War similarly made further extension of the suffrage unavoidable. As the suffrage spread and the need to secure the loyalty of a mobilised people became more pressing, demands also emerged for social protection against the winds of economic change. Welfare states were born, first of all in Bismarck's Germany

In rich societies, citizenship is, for those without significant personal property, the most valuable asset they own. Residence gives access to work in countries with the highest wages. But universal suffrage gave (and gives) people the ability to vote to exclude direct competition from immigrants. It also gives them the right to vote for parties that promise to redistribute wealth from richer members of the rich societies to the less fortunate. The widening suffrage therefore established socialist or at least radical reforming parties in the domestic politics of advanced countries. It made control over immigration inevitable, while the nationalist ideology made such restrictions seem natural. These, after all, were foreigners and, as such, people who could not be trusted to share in the community of values required by citizen armies.

Equally natural then was protection against imports of manufactures intensive in the use of low wage labour. Protection could also be justified for militarily essential products, such as steel. Policy-makers wanted an economy capable of fighting long wars. This led to government involvement in the development of the "national economy" – an abstract entity that belonged to the nation state, collectively, not to its people, individually The German empire, the most powerful and threatening of the new European nation states, was particularly successful in developing its industrial economy. That success shook faith in *laissez faire* elsewhere, including in Britain, where imperial preference, industrial protection and the welfare state became powerful causes in the end of the century. Powerful interests of class and concepts of national survival were also behind the pressure for protection of agriculture once the steam ship and the railway brought grain and beef from the new world, in large quantities. As Harold James argues, protection could also be provided one product at a time. It was (and is) a good way for legislators to provide services retail to their voters.[7]

[7] Harold James, *The End of Globalization: Lessons from the Great Depression* (Cambridge, Mass: Harvard University Press, 2001) chapter 3.

Resistance to *laissez faire*, free trade and unchecked immigration were, in short, natural consequences of the movement towards the universal suffrage, militarily mobilised nation state. Equally natural were privileges for trades unions, greater rigidities in labour markets and the emergence of welfare states. Whether the new constellation of political forces also had to lead to war is an open question. But, given the nature of the polities, this outcome was hardly surprising. The struggle *for* empire became a struggle *among* would-be empire-builders.

First World War and its Aftermath

With the First World War, the pillars of the liberal global system were shaken. The war itself created a vast increase in the power and responsibilities of states. It also produced the first systems of national economic planning, later imitated by Stalin's Russia and the combatants of the Second World War. This new form of planned economy subsequently became the model for the developmental states of the post-colonial developing countries. The First World War also greatly increased the sense of obligation to the citizen soldier. Welfare states were much bigger in the 1920s than they had been before the War, just as they were bigger in the 1950s than before the Second World War.

By the time of the First World War, nationalism was not the only collectivist ideology. Socialism and communism were both well established. More broadly, intellectuals in the free-market orthodoxies of the high Victorian period expressed doubt. Capitalism was increasingly seen as unjust, unstable and inefficient. The new achievements of the state in mobilising resources for war could, it was argued, be just as readily adapted to peacetime. Socialists and communists were not alone in believing this. Many on the right also believed that collectivist solutions, which inevitably meant national solutions, were right for the new time.

The failure to re-establish a stable monetary order in the 1920s, after the massive disruption of the war, further strengthened these doubts. The Great Depression confirmed them. Mass unemployment was unbearable in universal suffrage democracies. *Laissez faire* capitalism was finished. On this almost everybody agreed. The question was whether the market mechanism could be allowed to survive, as Keynes hoped. Those on the left rejected even this. True, there were a few holdouts against the interventionist trend – notably, the Austrians and the Chicago school. But even there doubts were expressed. Joseph Schumpeter's *Capitalism, Socialism and Democracy* is a brilliant declaration of surrender to the victorious forces of socialism.

By the 1930s the combination of collectivist ideas, protectionist interests, universal suffrage, war, monetary disorder and economic depression had destroyed the assumptions, beliefs, policies and practices that had underpinned the liberal order. The final blow was a breakdown in international political relations, as the great powers created economic systems that reinforced their own power and shielded them from the power of their rivals. Multilateralism was replaced by bilateralism, non-discrimination by discrimination, free trade by comprehensive protection, freedom for capital flows by exchange controls and free movement of labour by rigorous restrictions. National socialism, fascism, militarism and communism were seen as the waves of a future, loathed by some and loved by others. This was a new world, if not a brave one.

Yet the catastrophe might not have been as deep if the transition from Britain to the United States as liberal hegemon had not failed. By the end of the First World War, an exhausted and shrunken Britain no longer had the means to stabilise the global order. But the continental colossus proceeded to make almost every conceivable mistake between its entry into the First World War and Pearl Harbour. It imposed an unworkable peace, but refused to enforce it; it exacerbated the reparations crisis by insisting upon payment of the inter-allied war debt; it failed to abide by the monetary rules of the restored gold standard; it then triggered the great depression; it began the collapse into worldwide protectionism with the Smoot-Hawley tariff of 1930; it failed to reverse the worldwide financial collapse; and it did virtually nothing to resist the fascist and Nazi threats. Britain no longer had the means or the morale. The US lacked the will and the wisdom. The disasters of those years would almost certainly have been avoided if the US had understood in 1917 what it had learned by 1941.

Post-war Reconstruction to China's Membership of the WTO

The first and most important condition for a restored global order was an engaged US. A second was the European desire to restore the internal and external commerce on which it had always depended. Yet in moving towards a more liberal international economy, the legacy of the previous half-century could not be ignored. The most important inheritance in the advanced countries was the commitment to domestic economic stabilisation, particularly full employment, and control over immigration. What resulted therefore was a successful process of liberalisation that focused on trade and currency convertibility on current account. Meanwhile, as the empires of the weakened European powers disintegrated over the succeeding three decades, the newly independent countries (along with the depression-scarred commodity exporters of Latin America and communist China) attempted, with few exceptions, the path of inward-looking industrialisation and the planned economy.

The 1970s and 1980s created a crisis for this partial liberalisation in the advanced countries. First, in the advanced countries, perceived conflicts between domestic stabilisation and a fixed exchange rate, above all in the US, led to the breakdown, after 1971, in the Bretton Woods system of fixed, but adjustable exchange rates. The abandonment of the fixed exchange rate then allowed a period of monetary expansion that, coupled with the oil shocks, generated a period of exceptionally high inflation. This led, equally naturally, to the world of floating exchange rates and domestic monetary or, subsequently, inflation control with which we are now familiar, as naïve Keynesian economics were abandoned. Countries that could not tolerate floating rates, notably in Europe, reached the conclusion that there was need for a new exchange rate arrangement based on the principle of Europe-wide stabilisation. Thus was born, also in the early 1970s, the process that led three decades later to currency union.

The move to floating rates and domestic monetary stabilisation made it easier to contemplate the abolition of exchange controls. But this move, which was to become universal among the advanced countries by the early 1990s, was also consistent with the advance of technology and the general move towards reliance on market forces. The high

unemployment, high inflation and lower growth of the 1970s did not only destroy faith in naïve Keynesianism, it also created increased interest in market solutions. With Ronald Reagan and Margaret Thatcher in power, there began what amounted to a market counter-revolution in the advanced economies. But this revolution was also a limited one. It never meant free movement of labour. It also left high levels of public spending. There is no significant advanced country with lower levels of spending as a share of GDP today than two decades ago.

Meanwhile, developing countries also changed course, for not entirely dissimilar reasons to those of the advanced countries. The success of outward-looking trade policies became increasingly recognised in the course of the 1970s, largely as the result of the work of economists, notably I.M.D. Little, Jagdish Bhagwati, Anne Krueger and Bela Balassa..

The debt crisis of the 1980s and chronic inflation brought about a revolution in concepts of macroeconomic policy. The collapse of the Soviet Union destroyed the credibility of the planned economy everywhere. The result was a re-unification of the world of economic policy, as developing countries increasingly adopted policy regimes similar to those of the advanced countries – trade liberalisation, liberalisation of exchange controls, fiscal stability and low inflation. The macro-economic side of the new consensus was explored and explained in a book written by Max Corden, Richard Cooper, Ian Little and Sarath Rajapatirana and published in 1993.[8] Ultimately, as financial crises ensued, developing countries, too, increasingly abandoned fixed exchange rates, adopted inflation targets and liberalised exchange controls. The relatively few exceptions moved towards currency boards or outright use of a major country's currency, usually the dollar, as their own.

Developing countries also increasingly participated in trade negotiations that, with the Uruguay Round and establishment of the World Trade Organisation, became comprehensive in scope and deep in their domestic implications. This year, China, less than three decades ago in the grip of Mao joined the WTO – a symbolic moment in the re-unification of the world economy.

Differences between today's global economy and that of a century ago

The world then has re-integrated. The combination of technology with liberalization is creating an increasingly global economy. How far then is the new structure similar to that of a century ago? And in what important ways does it differ?

[8] I.M.D Little, Richard N. Cooper, W. Max Corden and Sarath Rajapatirana, *Boom, Crisis and Adjustment: The Macroeconomic Experience of Developing Countries* (Oxford and New York: Oxford University Press for the World Bank, 1993).

Controls over migration

The first and, in some ways, most important difference is the continued and strong controls on migration. Professor Peter Lindert and Jeffrey Williamson have concluded that "all of the real wage convergence before World War I was attributable to migration, about two-thirds of the GDP per worker convergence and perhaps one half of the GDP per capita convergence".[9] They conclude that, in contrast, capital mobility had virtually no impact. Today, migration has gone as a mechanism for convergence of wages and living standards.

The decline and fall of world money

The second difference is the loss of the stability and predictability inherent in the move from the gold standard of the 1870-1914 era to the generalized floating of today. The gold standard seems to have been exceptionally successful in encouraging long-term capital flows, particularly bond finance. Moreover, the scale of today's short-term finance is probably a consequence of exchange-rate instability and an important contributory cause. National independence and democracy make a return to the relative stability of the gold standard era impossible. They also tend to make the fiscal and monetary policies of emerging market economies relatively unpredictable. The result has been high risk-premia on international lending and a tendency to panic.

Rise of the multi-national company

The third difference is the dominant role of multi-national companies in organizing today's structure of production and exchange. The rise of the multi-national company in manufacturing and services reflects several important economic changes of the past century. One is the rise of the corporation itself – an organizational form that was still relatively new in the 19th century. Another is the need of all countries for access to the technological know-how and markets controlled by big corporations. Yet another is the ability of corporations to exploit modern communications and production technology to organize the chain of production within the firm, but across frontiers. A well-known by-product has been the universal increase in intra-industry trade. The growth in wage gaps among countries across the last century has also increased the incentive for organizing such chains of production over the past century

Rise of global institutions

A fourth novelty is the rise of global institutions. Just as multi-national companies organize private exchange, so international institutions organize and discipline the international face of national policy. The World Trade Organization, the International Monetary Fund, the World Bank, the European Union, the North American Free Trade Arrangement and so forth underpin habits of co-operation among states and consolidate

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[9] Peter H. Lindert and Jeffrey G. Williamson, "Globalization and Inequality: a Long History", April 2001, paper prepared for the World Bank Annual Conference on Devlopment Economics – Europe, Barcelona, June 25-27 2001.

commitments to liberalize. The 19th century was a world of unilateral policy. The late 20th was, by comparison, a world of multilateral policy.

Rise of the welfare state

The final big difference is the changed role of the state. The rising regulatory and welfare role of the state is probably somewhat hostile to globalization, since it implies an increasingly exclusive concern with the welfare of citizens that has accompanied democracy. Public spending has, on average, quadrupled as a share of GDP in advanced countries, from 12 per cent in 1913 to 46 per cent in the 1990s. At the same time, there has been a relative decline in the importance of the "warfare state", which increases the ability of states, at least democratic ones, to co-operate with one another.

Threats to today's globalization

The international economic integration of the late 19th century disintegrated. Is the present move towards integration likely to suffer the same fate? To answer this question, one needs to take account of the differences and similarities already discussed. The breakdown last time was the consequence of the combined force of the four "I"s – instability, interests, international relations and ideas. How likely is the same combination to return again?

Instability

The decisive event in the collapse of the integrated economy was the series of financial and exchange-rate crises that rolled across the world in the 1930s. In developing countries, financial and exchange rate crises have come with depressing frequency over the past two decades. Japan is still struggling with the aftermath of its "bubble economy". There were substantial financial and exchange-rate crises among the other advanced economies in the 1980s and early 1990s. The US has suffered its bubble in high technology stocks and, today, has an exceptionally large current account deficit.

All these are signs of stress. Yet it is impossible to believe that the outcome will be another 1930s. The move to floating rates has, as Max Corden himself foresaw, significantly reduced the risk of such combined crises. Argentina's present woes must, therefore, be viewed rather as the end of an era rather than as the beginning of a new one. Its crisis has had remarkably little effect on other emerging market economies. Most developing countries now have low inflation and reasonably sustainable fiscal positions. The flood of silly money into the emerging markets that followed the end of the Cold War has become a trickle. Much of the transfer is now taking place in the inherently longer-term and more sustainable form of foreign direct investment. For all these reasons, the likelihood of financial crises in emerging market economies has almost certainly fallen. It is also striking that, despite all these crises, no significant country has

fundamentally reversed the commitment to liberal trade or even to freedom from exchange controls.

Interests

The second force underlying the disintegration of the earlier form of globalization was protectionist interests. But these, too, have been significantly modified and ameliorated by contemporary economic developments.

The rise of the internationally integrated trans-national company has reduced the ability (and willingness) of producers to wrap themselves in national flags. It is no accident that it is in predominantly national industries – such as steel or agriculture – that protectionist interests are strongest. But in most modern industries – including services – companies are not national. They have global interests. The same is true of many of their most valued employees. One consequence is a breakdown in the ability and willingness of companies to collaborate with trades unions in the demand for protection.

Similarly, the increase in service sector employment and the decline in employment in manufacturing has, along with the rise in the portion of the population in retirement, reduced the share of the population whose jobs are directly vulnerable to import competition. Consumers have also become accustomed to foreign products. They may complain, as workers, about imports. But they still like the products.

There has been some concern about the decline in relative wages and employment opportunities of the unskilled. But the political power of this group of people has, with the general decline of the industrial working class, diminished. Moreover, the general consensus of analysts, not much disputed by politicians, is that this decline in opportunities has reflected changes in technology not in trade.

Developing countries, too, have been affected by these trends. Inward FDI and intra-industry trade similarly diffuse traditional protectionist interests. The concept of a purely national business sector has become increasingly irrelevant almost everywhere and, just as in industrial countries, this diffuses protectionist lobbying.

In addition, the existence of multilateral institutions and a web of strong international commitments make it far more difficult for protectionist interests to capture legislatures, as they once did. There is too much at stake for countries to abandon all their international commitments.

International Relations

The third cause of the breakdown in the 1930s was the collapse of harmonious international relations, as rivalries among the great powers and the rise of communism and fascism fragmented the globe. Today, the situation is entirely different, in four fundamental respects.

First, there is a single undisputed hegemon and little chance of a war among great powers in the near future, except perhaps between the US and China. But China is not, at present, powerful enough to be a genuine rival of the US. Second, all the great powers have abandoned the atavistic notion that prosperity derives from territorial gains rather than internal economic development and peaceful exchange. Indeed, the striking feature of today's war against terrorism is that all the world's great powers are on the same side. Third, all the great powers share a commitment to market-led economic development and international economic and political integration. Fourth, the global institutions and the habit of close co-operation reinforce the commitment to co-operation.

Ideas

The final cause of the collapse was the rise of deeply anti-liberal ideas. Again, there are parallels today, particularly in what David Henderson has called "New Millennium Collectivists" – the groups who unite to protest against global capitalism. The intellectual origins of this anti-liberal movement are many and varied. They include environmentalists, development lobbies, populists, socialists, communists and anarchists. `But, for all the sound and fury, they do not signify that much. At the least, they are very different from the anti-liberal forces of a century ago.

They are not rooted in a powerful social force, such as the trades unions. They do not seek power through elections. Indeed, they largely reject organized politics. They offer no alternative way of running an economy, unlike the now discredited socialists and communists. They are split in their objectives– some wanting greater national sovereignty and others less, some wanting development in poor countries and others wanting to halt it. They are, in short, little more than a collection of protest movements: some against modern integrated economies and wish merely to return to an environmentally pure past; some against the modern corporation; some against oppressive states; and some against economic change. The fact of protest is inevitable. Some of what is being said – notably on the hypocrisy of the advanced countries and the plight of the poor – is important. But, in the end, one cannot beat something with nothing. A movement that offers only protest is not going to triumph.

Meanwhile, the ideas of economists remain strongly in favor of integration. True, there are a few who ask how important it really is. But no significant economist argues that closing off the economy makes sense. Doubts are strongest over the management of capital flows. But, as we know, a high level of integration of the real side of the economy is compatible with control over capital movement. So this, too, is a qualification not a denial of the value of integration.

Conclusion – the way forward

My conclusion is one of qualified optimism. The road back to integration has been a long one. It is not complete and, in the case of movement of people at least, never will be. The integrated world economy is not working perfectly either. It is evident, in particular, that there are two huge challenges: development, particularly of the least successful

economies, which contain perhaps a quarter of humanity; and stability in capital markets. We can do better than we have. But the return to a more integrated world economy has been one of the policy triumphs of the past half-century. This was thrown away once. It is unlikely to be thrown away again. It is up to us and those who come afterwards to ensure it is not.