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Globalism: An Unfinished Business
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Stephen Grenville targets John Ralston Saul's nostalgia for the nation state

No good argument is improved by exaggeration," observed J K Galbraith, and John Ralston Saul's article on "The End of **Globalism**" (AFR Review, February 20) illustrates this point twice over. By selectively dredging and filtering the arguments in favour of globalisation, he sets up an overblown parody, and then knocks it down using arguments that are as partial and distorted as those he attacks. This is a pity: globalisation for better or worse is clearly not on its last legs. More to the point, there are still important unresolved issues to be addressed to ensure that the balance of benefits from it is favourable. To pronounce globalisation dead avoids the real debate.

Would it be too boring to stake out the undramatic middle ground, and advocate dull common sense rather than showy rhetoric? While globalisation may not have brought universal prosperity, ended war, abolished the business cycle and cured the common cold, it has altered the way our economies work and interact with each other. These changes are, on balance, beneficial and will not be reversed by a return to autarchy, with each country turning inward to self-sufficiency. Saul should know this by analogy with his own preferred model rule by a powerful and actively interventionist state. While the post-World War II efforts at social improvement through more vigorous government intervention have, over time, resulted in a more modest and realistic view of what governments can and can't fix, this recognition did not lead to an abandonment of social security benefits or curtail the high degree of intervention by governments in running the nation. The demonstrated failure of socialism did not return us to no-holds-barred robber-baron capitalism, red in tooth and claw. We took aboard what was beneficial and practicable, and went forward with a more realistic(if less doctrinally pure and simple) view of what was achievable in an imperfect world. This, now, is the challenge for the globalised world we will continue to live in how to maximise the benefits and minimise the disadvantages.

To clear away some of the hyperbole, we might readily acknowledge that some proponents of globalisation overstated the case. In sorting this issue out, it would have been helpful if Saul had "named names", so that the exaggerated claims for globalisation could be definitively identified and rejected, rather than have the whole argument condemned through guilt by association. So let us set out and dismiss the overstatements of what globalisation might achieve, and see what good grain is left after this chaff has been winnowed away.

First, there were the arguments that suffered from exaggeration: That globalisation would bring about the decline, even disappearance, of the nation state. Certainly this point was made (Thomas Friedman asserted that "as your economy grows, your politics shrinks"), but it was not central to the argument. That it would end wars. Certainly, some thought that it would help countries get along better Friedman overstated the case by saying that countries which had McDonald's restaurants would not go to war against each other. That the "magic of the market" would always produce the best of all possible worlds. But even Adam Smith, inventor of the "invisible hand", knew and acknowledged the prevalence of market imperfections.

Restated in more modest forms, as tendencies rather than certainties, these arguments retain some force. Despite a history of two wars within a space of half a century, it is hard to see France and Germany repeating this given their deeply entrenched economic co-operation.

Other overreaching claims that Saul says globalisation made are harder to source: "All this would discourage irresponsible nationalism, racism and political violence." "That prosperous markets would turn dictatorships into democracies." "Freed markets would quickly establish natural international balances, impervious to the old boom-and-bust cycle." "The rise of global marketplace leadership would force the emergence of debt-free governments." "An economic and social tide would raise all ships."

Maybe these arguments were made somewhere, but they were not the core of the case for globalisation. Ignore the unsourced arguments, and take with a grain of salt the arguments of those, like Friedman, who can't resist over-egging the cake. We are then left with a substantial core of truth: That technology has linked countries together more firmly (between 1930 and 1990, ocean freight costs halved, airfreight costs fell by 75 per cent, and an international telephone call was 1.4 per cent of the price 60 years earlier). That this gives rise to huge efficiency opportunities, not only of the specialisation type identified long ago by Adam Smith (remember his pin-makers?) and David Ricardo (remember swapping wine for textiles?), but in learning-by-doing in the transfer of technology. Admiral Perry's black ships might have opened up Japan for trade, but more importantly, they opened it up for ideas and technology. No one looking at the transformation of Singapore over the past 40 years, or China over the past 20, could doubt the power of international integration. Of course this potential can be wasted or misdirected, squandered in an extravagant lifestyle for the favoured few, or in belligerence towards neighbours. But bigger GDP does give the wherewithal for a better society, if we can seize the chance. These forces of globalisation can be resisted by governments. They can be consciously blocked out (c f North Korea). Or countries can remain so ineptly administered that they remain outside the purview of globalisation. Or, it would have to be said, some countries are so poorly endowed as to be largely bypassed by the forces of globalisation. If a country wants to forgo the benefits of international integration, by and large it can do so. But few have found this an attractive choice. Most countries in this category are there by default, and while they may rail against globalisation as the cause of their poverty, the unpalatable truth is that their poverty is largely a result of their disconnection rather than their connection with the international economy. Individual national culture may be eroding in the face of frictionless linkages between countries, but it seems to be the outcome of people's choices (however misguided these may be in the eyes of the social engineers). Where countries have distinctive and well-supported cultural characteristics, these seem readily defensible in the face of international homogenisation. Scandinavia, after all, has kept its idiosyncratic ways (including high taxation) while exporting Abba and Nokia to the rest of the world.

Instead of turning away from globalisation, what is needed is a clear-eyed analysis of its deficiencies, and a concerted effort to address these (just as the response to the failures of the welfare state was not to abandon it, but to make it work as well as possible). What are the elements? More rules. Just as so-called "free-market" economies are bound together by a ubiquitous and intricate network of domestic rules, institutions, mores and understandings which govern relationships between individuals, so too international relationships need lots of rules more than the present system has produced. Sovereign governments need to be persuaded that there is advantage in a degree of international consistency and co-ordination, just as there are advantages in everyone playing soccer with a team of 11. There is a "democratic deficit" in the rule-making process which needs to be corrected by more widespread participation. Let's not have the rules simply made by (and for the advantage of) the biggest players. There needs to be a recognition that the sharp edges should be rubbed off the operation of the market to cover not only problems within a country (e g transition and restructuring), but between countries. While markets are a powerful mechanism for making the multitude of decisions needed in complex economies, they are not perfect and need restraints, guidance and "speed limits", particularly on the most volatile elements such as capital flows. We also need to recognise (as Adam Smith did) that producers will restrict competition whenever they can, and that globalisation often enhances their opportunities to do this.

It is easy enough to share Saul's reaction to some of the more starry-eyed of the American globalists, whose proselytising took on a quasi-religious fervour. Puffed up by victory in the Cold War, the success of the "free market" shareholder-value paradigm and the high-tech productivity boom, they felt they had seen off the challenge of the Japanese corporatist model, and took quiet pleasure from the torpor of the European statist model. But Saul confuses a process increasing international integration with an ideology: communism may have run its race, but globalisation still has plenty of life in it. We can accept Saul's goal of "a continuing rebalancing of the binding rules for both the public good and self-interest", but do this within the wider global scene with its greater opportunities and possibilities rather than within the narrow confines of the nation state. The challenge for Australia is to turn these benefits to our advantage, get into the rule-making business and, as we have done already, step forward eagerly to embrace the global world.