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Unfinished business
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In what some might dismiss as yet another book in praise of globalisation, Martin Wolf cites the "enormous literature of complaint" and the "number of excellent works" in its defence, justifying his contribution in terms of providing a "wider context". Indeed, he does call on the great sweep of history, grouping the anti-globalists with the failures of the Soviet and Maoist communists, concluding that: "the problem today is not that there is too much globalisation, but there is far too little".

This highlights a central unresolved issue: if this is such a good idea, why is there far too little globalisation? For Wolf, the chief economics commentator at the Financial Times, the main problem is that there are too few believers, and so the main task is one of conversion. Two-thirds of his *Why Globalisation Works* is a detailed attack on the critics. They are ticked off, one by one, under the headings "Incensed about inequality; Traumatized by trade; Cowed by corporations; Sad about the state; Fearful of finance". Some are easy targets but Wolf does a neat job, drawing on a variety of sources and statistics to support the demolition.

Unfortunately for those who already accept the case for globalisation but who see the international economic order as a far from complete work in progress, Wolf misses the main operational issues — his focus on the "magic" of the market diverts him from the unfinished business.

The theme is simple: the combination of liberal democracy and markets is "incomparably the best way to manage society. Its blessing needs to be spread more widely." The heart of the argument is the power of markets: "a world integrated through the market should be highly beneficial". The argument rarely loses the proselytising tone of the true believer. This is "a work not of academic scholarship, but of persuasion". It is, in effect, a continuation of the old doctrinal arguments between socialism and the market — a bitterly contested front in the wider battle between good and evil: "The critics [of globalisation] represent the latest — and least intellectually impressive — of a long series of assaults on the market economy." While Wolf acknowledges criticisms of the market, whatever deficiencies may be conceded are juxtaposed with the reminder that nothing better is available: the argument is "not that the world is perfect, but that it would be worse if they had their way". Criticism is styled as "throwing away half a century of progress in reconstructing the liberal international economic order".

The central issues, then, are how well markets work, whether there is room to make them work better, and whether border restrictions (in the form of tariffs, import restrictions and capital controls) represent the main barrier to full integration.

For the main part, Wolf relies on the presumption that "free markets" and Adam Smith's "invisible hand" will deliver a good outcome, although he accepts that the text-book world of laissez-faire economics produced unacceptable results in the past, and that governments need to provide additional elements to make the market work. But most readers will see the disconnect between this kind of minimalist market and the ones they experience in reality. Domestic markets are embedded in a complex framework that Douglass North called "institutions" — "humanly devised constraints that structure human interaction". Inside the

borders of one country, economic relationships take place within complex and ubiquitous rules, conventions, standards and practices which make it possible for the parties to transact with confidence that they will get satisfaction. These rules are not provided by the invisible hand, but are man-made and reflect the political structure.

In marked contrast, international transactions have the thinnest of institutional structure and backup. How can it be that the market works well domestically within such a dense environment of rules, yet requires few for international transactions? Viewed in these terms, it seems likely that the international market needs substantially more (just as the domestic market may work better with fewer). So the challenge is not simply to convert the unbelievers to the faith of the market, but to devise and promote international institutions (in the North sense) which will make the market work better by bringing information and a degree of certainty to transactions, with some attempt to get an acceptable sharing of the benefits between the parties.

Wolf's discussion of the 1997 Asian crisis might illustrate the issues, particularly in relation to international capital flows. He acknowledges that markets don't provide a stable trade-off between risk and return, but rather "oscillate between fear and greed". Such an oscillation occurred in 1997, and caused foreign capital flow reversals that required the affected countries to adjust their current accounts by an amount equal to 6 to 10 per cent of GDP, more or less instantaneously. It is hardly surprising that this caused other serious problems, especially in the fragile financial sectors. The key to understanding the globalisation issue here is that there was no shortage of capital inflow before the crisis — quite the opposite. The cause of the sudden reversals can be found in the shortage of information and institutional structure to ensure that the original investment decisions were well-founded. Rather than re-interpret the causes of the crisis so as to leave most of the blame with the policy-makers in these countries, Wolf might do better to follow the example of the International Monetary Fund, where, without acknowledging too much fault on its own part, it has shifted its position significantly to focus on institutions and governance. Having started with a very free-market view (similar to Wolf's), it has modified its strong presumption in favour of free capital flows, has accepted that greater caution may be needed in opening up to international capital, and that some (admittedly partial) form of international bankruptcy would be desirable. As well, the IMF has been on the forefront of the effort to increase greater co-ordination of international financial rules and standards.

The task of building these rules (Thomas Friedman's "golden straitjacket") is challenging, because it is far from clear just what the right degree of regulation is, who should formulate it and who should enforce it when the transactions cross sovereign boundaries. It will not be easy to persuade governments that adopting uniform international rules will often be sensible domestic policy, but it has the same logic as playing soccer with 11 players: if the rest of the world does it, we should too if we want the advantages of being part of the bigger picture. The various interest groups have to be persuaded of the case for greater integration with the outside world, and if there is no acknowledgement of winners and losers in this process, then there seems little likelihood of building the required consensus.

Wolf's book reads like a 300-plus-page opinion piece in the Financial Times or The Economist: broad reach, idea-laden, full of verve and drive, while at the same time point-scoring, opinionated, sometimes over-simplified and ready to gloss over difficulties. For many, however, the debate between socialism and the market is over and won, and the barriers to further international integration are not determined by some vocal demonstrators who disrupt a WTO conference. The issues are more concrete than this. Investors (and even traders) have a strong "home bias", and if they are reluctant to boldly go into the globalised world, it is because they are held back by inadequate rules, standards and practices that would provide the information needed to make their decisions, and the degree of certainty and legal protection needed to commit time and capital. Investors need the sort of institutional

infrastructure that they have in their domestic transactions. This requires devising the proper set of rules, and then getting them widely accepted by sovereign governments. Wolf's book is more a statement of beliefs than a program for improvement: he asserts that this is about as good as things get, and people ought to greet it with more vigour. The cause of globalisation needs more than this.

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