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China's Unwilling Consumers
Global Risk Everywhere*

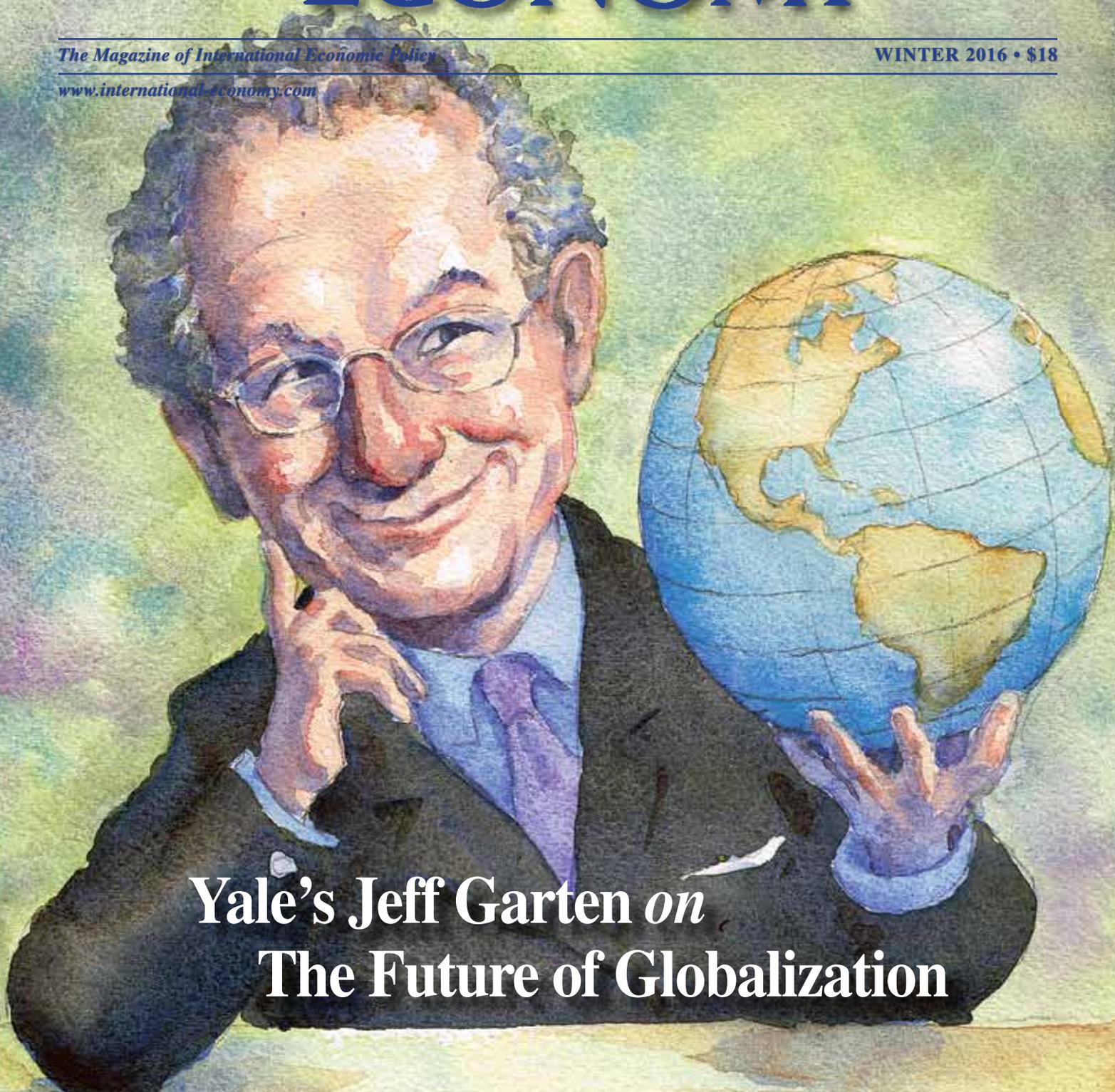
**KLAUS ENGELEN AND THE
LEAN OR CLEAN DEBATE**

THE INTERNATIONAL ECONOMY

The Magazine of International Economic Policy

WINTER 2016 • \$18

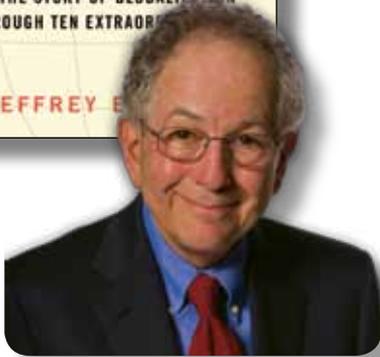
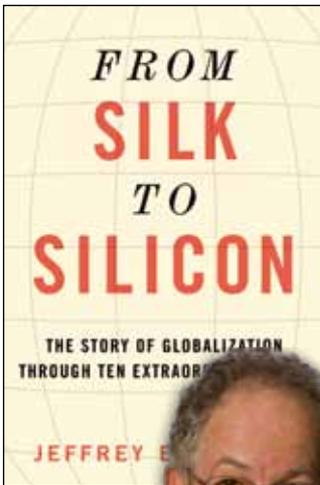
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**Yale's Jeff Garten *on*
The Future of Globalization**



The Future of



Jeffrey Garten, author of the remarkable new book

From Silk to Silicon: The Story of Globalization

Through Ten Extraordinary Lives, recently met with

TIE founder and editor David Smick to discuss

innovation, capitalism, and the future of globalization.

Smick: Your book tells an amazing story of the history of globalization. You tell the story through the lives of ten transformative leaders who opened the doors to progress and changed the paradigm of how society was organized. The figures are Genghis Khan, Prince Henry, Robert Clive, Mayer Amschel Rothschild, Cyrus Field, John D. Rockefeller, Jean Monnet, Margaret Thatcher, Andy Grove, and lastly Deng Xiaoping. All had one thing in common—they made something of global significance happen. Tell us more about how you arrived at these particular individuals. You say your subjects were not just thinkers, but doers.

Garten: I wanted to write a history of globalization. I thought I could do something relatively fresh by looking at people as opposed to abstract trends or just big ideas. I began by reading several tomes about world history, and first, I selected a number of people who impressed me as not just thinkers, but doers. They rolled up their sleeves and they made something very significant happen. They had an idea and they were also able to execute it. These figures were as close to first movers as possible. So great were their accomplishments that they basically ushered in a whole era. Finally, they were people who did something that was of such significance that what they did continues to reverberate today.

I wanted to describe these people not only in terms of their era, but why what they did is a way to look at the world today. The obvious example is Jean Monnet, the founding father of European integration, because you can't really

Globalization

think about what's happening in Europe without knowing how it all started and what Monnet's vision was. There's Andy Grove of Intel, who may have reached his greatest period in the 1990s, but his accomplishments really ushered in what I would call the third industrial revolution. Go way back to Genghis Khan. The links his Mongol empire forged between east and west are exactly the same kinds of links that we are hoping for again against the same kind of odds—the cultural and national differentiation, and the relationship between political domination and economic infrastructure. Listen to what the current Chinese leadership is aspiring to when they create an infrastructure bank or talk about the New Silk Road. The accomplishments of all the people I wrote about have real resonance today.

Smick: You say, in essence, globalization can be defined as a reduction of borders. One of the things I found interesting was your explanation of serendipity as a kind of guiding light for a world of accidental globalists. Can you discuss to what degree your characters stumbled into their roles? Was there any planning going on? There was with Jean Monnet, but others seemed to be in the sway of the forces of serendipity.

Garten: I would put it this way. I wrote the book by describing the life and times of these ten people, and only after I finished did I draw back and ask what they had in common. The answer is that, although they were all responsible for unleashing the forces of globalization, not a single one had that as an objective. Each was basically solving a problem that they faced, one step at the time.

So why were their changes transformational? I came to the conclusion that this was a serendipitous synchronization

between historical forces and the right person at the right time. By serendipity, I mean that each was able to take advantage of a very *sui generis* set of circumstances.

*We are headed for a period
of enormous disorder.*

Somebody else at the time might have done what they did, except that these people were probably a little smarter and faster, and a little luckier.

In the case of Genghis Khan, he had already conquered a good part of China. When he looked west to the Islamic world, he decided he didn't want to conquer those nations because it would be too complicated and ultimately just too difficult. So he decided to send a trade mission, but the governor of one of the Islamic territories thought the mission was a group of spies and killed them all. This so enraged Genghis Khan that he decided to send another group just to see whether that was an accident, and the governor killed the second group. That was the beginning of Genghis Khan's move westward. What would have happened if that governor had had a different attitude and proposed a trade treaty? The world could have looked enormously different.

Here's another example of serendipity. Deng Xiaoping was a young student in Paris. The French police were after these young students because they were afraid of the communist infiltration, especially after the Russian revolution.

They had identified Deng as one of the troublemakers and they were out to arrest him, and it was only serendipity that he had left a day or two before for Russia and ultimately China. What would the world have looked like if the French police had captured him?

In the case of Jean Monnet, he had the same idea all his life of unifying Europe. It took the decimation of two world wars before policymakers became interested in acting on his idea. Monnet couldn't have planned the horrors of World War II. It was, in effect, a kind of serendipity—a coming together of circumstances, the man, and the idea of European union.

In every one of these cases, there was some set of circumstances that never could have been foreseen, but these people were able to take advantage and that's what made them particularly special.

Smick: Looking to the present, this a very confusing time. The gale winds of globalization have created a host of problems, and the existing answers seem inadequate. We went from a period when Intel's Andy Grove embodied the zeitgeist of the twentieth century—Thatcherism, free markets, the rise of China, and the burst of technology. Now all those answers seem not without complication. Can Thatcherism and the Washington consensus be revived? The 2008 financial crisis seemed to be an indictment of the Anglo-Saxon view of the markets. If Monnet were alive today, he'd say that given today's big threats, we need a supranational authority. And yet, to a certain extent, the central banks have been the supranational authority. And look at how that turned out. If the figures in your book were all in a room looking at what's going on today, what would they say? A bump in the road? Or a globalized world economy in serious trouble?

Garten: Well, I can tell you what I would say based on having written about them. First, continued globalization is inevitable. When people talk about deglobalization, or the backlash against globalization, even if they are correct, that has to be seen as a very temporary condition. I wrote about the last eight hundred years, but globalization goes back tens of thousands of years. It's an inexorable force. People come closer together, and they connect more and more. Given the technological revolution we're in now, nothing's going to stop it. You can have a war, or a setback, but in the sweep of history these are very temporary phenomena. So while the factors you mention are very real, you can't equate them with the end of globalization.

The second thing I'd point out is that a massive amount of the interconnections that have been made were really not made by governments. They were made by people outside of the governmental structure. Of all the people that I wrote

about, there were really only two that were government people. One was Margaret Thatcher, but she came in really as a challenge to the government structure. The other was Deng Xiaoping, who basically reversed everything that China's government had done. For the most part, my subjects were outside of the structure and flourished in times of chaos.

A great example is financier Mayer Rothschild. Without the French Revolution and the concurrent wars in Europe, we would never have heard about Rothschild. But he and his family were incredible smugglers. Their ability to organize a large-scale multinational smuggling opera-

*It's always after some cataclysmic event
that the pieces get rearranged.*

tion translated into their ability to organize the international bond market. At the heart of both was exquisite communication. The Rothschilds knew the value of information. They were incredibly resilient. They understood coordination. They understood the importance of having a very granular knowledge of the countries in which they operated. And they understood different cultures. It was a small step from that to basically organizing global finance, and creating their phenomenal multinational bank.

If in fact we are headed for a period of enormous disorder, it is exactly in that situation that we're going to see more people like the ones I wrote about. They were very unlikely to come out in the 1980s and 1990s because things were going pretty well. But if we actually enter a period of widespread government dysfunction, of more destabilization because of terrorism, of destructive cyber activities, an even bigger breakdown in the Middle East, of a China that goes into reverse gear, and a United States that is growing very slowly, then the whole framework that we thought was viable begins to disintegrate. That could be the opportunity for unleashing forces that simply would not have been unleashed before. And in the middle of all that, a number of transformational leaders are likely to emerge, especially outside of governments.

Smick: I worry about whether finance will continue to be the soft underbelly of globalization. It is difficult to identify and measure the role of liquidity in a global economy because liquidity is so tied to the confidence of billions of people, or at least hundreds of thousands of unique decision makers. Also, since the financial crisis, the role of

money, and how we define money, is coming into serious question. The central banks have thrown so much “money” at the economic and financial problem, yet this wall of “money” hasn’t had nearly the effect many predicted. Is the role of “money” being redefined before our eyes?

Garten: Finance has played a crucial role for so much of civilization. There’s not much new in finance when you actually strip it down. So while we might be in for a period of enormous instability in the financial arena, I’d still put it in the category of something that in historical terms is relatively limited in time. The reason is that we’re very inventive. The financial system may have to collapse before it’s rebuilt, but it is going to be rebuilt on a much different technological base. A lot of human decision-making is going to be supplanted by technological systems that are much more durable and less susceptible to volatility. You see the U.S. Federal Reserve and the Bank of England looking at the blockchain technology behind Bitcoin. It’s very possible that the course of finance will be a kind of renationalization for a while, followed by another burst of activity.

Smick: Is that because of China’s troubles, and the disinflationary effect from emerging markets in general that is complicating the jobs of the global policy elite?

Garten: Yes. We may have seen the high mark of globalization of finance. Look at how many banks have withdrawn from international activities. For all the talk about the internationalization of China’s currency, I think we’re going to go through a period where China’s financial liberalization will be cut back. We’re trying to regulate foreign subsidiaries as though they’re U.S. firms, which means that for all but a few they’re going to have to leave because it’ll be too expensive.

Smick: My worry is that the world is experiencing a dollar shortage that’s particularly problematic for China. But that’s not all. The television news show “60 Minutes” recently aired a blistering account of China’s global technology theft. The report described the whole Chinese economy as being based on technology stolen from the West. For a publicly traded company in the West, isn’t the whole game now changing? Wouldn’t exposing one’s company to such risk be reckless? And what does that mean for China’s future?

Garten: It means a period of backing off, then a period of creating more viable national foundations, and then there has to be some kind of big event that we can’t foresee that will require the governments to come together. It’s always after some cataclysmic event that the pieces get rearranged. But it’s not going to happen in a period of relative peace.

One thing that’s going to be different about technology now than in the past is that it’s not going to reach a plateau.

It’s going to feed on itself.

Smick: Your book is compelling in the way it describes how information technology became linked to globalization. Today, the explosive nature of information technology is such that a lot of analysts think that in coming decades, the marginal cost of goods and services is going to dramatically drop. There’s already a certain logic to this thinking. Look at the cost of a flat-screen television ten years ago versus today. And we’re only at the start of the process. At some point, they argue, we’re going to face a scenario in many cases of a sharing economy. Here’s the issue. At some point in the future, will capitalism itself have to undergo a redefinition? With an information economy that wreaks havoc on prices, how will central banks effectively operate?

Garten: You’re right—many services can now be done in a very low-cost area of the world. Having written this book, I often associate different people with subjects that are in the forefront today. For this subject, I go back to Cyrus Field, the person most responsible for the transatlantic cable.

That cable was far more disruptive than the internet, because before that cable there was no such thing as real-time communications between Europe and North America. It meant American and British investors could invest in each other’s countries in ways and with speeds never before possible. Before, when they made an investment, they wouldn’t hear about pertinent developments for two or three weeks. Then on the day the cable was activated, news about investments started being received in real time.

The feeling was that the world was totally disrupted forever, that governments would never be able to catchup, and that the disorientation would have a psychological impact. But in the past we’ve always been able to adapt to radically new technologies. There’s no evidence that we can’t do so today. Taking your example, it’s true the costs of a lot of things are going to go way down, but there’ll be a lot of new things. There are physical things that we haven’t

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even dreamed of. We probably won't own or drive cars, for example. But we'll be using them. There's a whole new industry involved in making that work.

Having said that, you're absolutely right that we're rapidly sailing towards certain challenges of globalization for which no one is prepared. It is at least a plausible scenario that the nature of working full time will change. You'll be able to accomplish what you do in fewer hours if you have a job and there'll be many people who don't. Are we headed towards a social explosion of a magnitude that no one has ever seen before?

Smick: Won't people feel a lack of self-worth, or will we redefine self-worth? Will there be a new nobility to the part-time employee? The once fully employed individual who now works half a dozen hours a week from home as a consultant?

Garten: All of these possibilities are on the horizon. You have to put yourself in one of two categories here. Either you're a pessimist or an optimist, and in either case you have no hard evidence, just educated intuition. I myself lean towards optimism.

Smick: Do today's technological advances really measure up compared to the transformative breakthroughs of the nineteenth century, such as steam and electricity, or antibiotics in the twentieth century, that your book talks about? The financier of Facebook, Peter Thiel, argues that there is now an innovation gap. That's why productivity growth in recent decades is on the decline. Others scoff and suggest we are mis-measuring productivity growth. When the electric motor was invented, they argue, it took two decades for the improvements in the workplace to appear in the productivity statistics. They argue that the world could already be having huge productivity gains in health care and other areas that the system is having trouble accurately measuring. You touch on this argument in your book. Any thoughts?

Garten: The real issue is we've been mesmerized by the development of technology as technology. For a long time, we've talked about the miracle of three-dimensional printing or the implications of robots with artificial intelligence. The real change in productivity will come when these are actually diffused into a wide swath of the economy. It's not just about the technology, but how that technology is applied.

Take artificial intelligence. Once it begins to spread, once there are robots that actually can learn or that have some intuition, it's inconceivable to me that this will not amount to a transformational technological change of the

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kind that people referred to in the twentieth century. The potential exists, for example, for robots to take care of older people. So far it's happened only as a prototype, but once it reaches a global scale, we'll look back and say this is equivalent to the airplane. The same with three-dimensional printers if we have them in our homes. Or the use of sensors in our own bodies—we could communicate with the doctor in ways you never imagined without even knowing that you're communicating.

It's understandable that we're really impatient. We don't see the gains yet, and it's possible the gains haven't yet happened. Within the next decade, we will totally re-evaluate this theory that the latest technology hasn't translated into productivity. The implications of what all that productivity is going to do socially are vast. We may have much higher levels of productivity and much higher levels of unemployment and underemployment, and we may rue that day. We may prefer a time when most people could find something to do.

Smick: If you look at rapid technological advancement during the period from the 1820s to World War I, what was impressive were less the splashy headline breakthroughs but rather the commercial applications of new technologies by average folk to a broad cross-section of goods and services. These advancements were diffused throughout society in thousands of different ways. For average working families, life was transformed. How do policymakers ensure that the innovation revolution is not limited to Silicon Valley and a half-dozen other centers of

technology? A media worker in high tech earns more than twice as much as a worker in the non-tech sector.

Garten: The prerequisite for the diffusion is a society that is very resilient. One thing that's going to be different about technology now than in the past is that it's not going to reach a plateau. It's going to feed on itself. When you combine robots and big data, or sensors and nanotechnology, you get something new and different.

Besides a resilient society, you also need a different kind of education system. The notion that education is finished by a person's mid-twenties is outdated. Education will need to be a life-long process for everybody. The current education gap is vast and that will lead to a period of challenging social problems, with a few ahead of the curve and many behind. Can the transition be made in a shorter period? Two generations would be a disaster. Can it be done in less than one generation?

Smick: In the economy of the future, is it possible that students who major in the classics and humanities will gain new importance in the workplace? In a world of big data, the creative work may turn out to be the one task that a computer can't accomplish. If the marginal cost of analytical functions becomes so low because the software is so sophisticated, the challenge would be to come up with the creative element—the thing that captures the imagination of the consumer. Put another way, could someday the chairman of General Motors be a fine arts major?

Garten: Maybe this is overly romantic, but I think leadership is going to require the ability to come to grips with values and ethics. Education will need a strong dose of liberal arts. How will we think about privacy or genetic

experimentation? These are areas where there's no international framework at all. In fact, there's barely a national framework. China has embarked on large-scale genetic engineering in certain animals. Where is that going? What should be the legal and ethical principles on which such activity should be based? And who has the wherewithal to even establish the right principles? How do you balance technological progress with this sense of humanity? You're not going to get that if you went to MIT and all you did was study nuclear physics. This is the supreme irony. The more technological we get, the more we need people who have a much broader framework. You'll be able to hire the technologist to make the systems work, but in terms of the goals, that takes a different kind of leader.

Smick: Your book concludes with a sense of optimism. The best is yet to come. Why do you feel that way?

Garten: Given my criteria that the people I wrote about had to be doers such that we're still living with the results of their achievements, I notice that my subjects came from a really small group of countries—Europe, the United States, and China. Now, given the way knowledge and technology has spread and the fact there's so much money available, I think we're going to see enormously creative things being done in many more parts of the world. If I were writing this book twenty-five years from now, I bet my subjects would come from places such as São Paulo, Lagos, Jakarta, Bangalore. In the next generation or two, we'll also see many more women involved, too. I'm very optimistic because the history of transformational leaders is there for everyone to see, and conditions are ripe for many more to emerge. I see a burst of possibilities here for people who will change the world. ♦

THE INTERNATIONAL
ECONOMY

THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY

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