A SYMPOSIUM OF VIEWS

Is Financial Globalization Beginning a Process Of Reversal?

Is the era of financial globalization over, or at least about to begin a significant reversal? Witness the disagreements over capital adequacy, regulation of derivatives, and the sudden questions from some non-European banks about holding European bank paper. Given that the European banking sector represents 65 percent of global banking, to what extent has the European sovereign debt crisis contributed to any reversal? What effect will Chinese banks have on the future of financial globalization?

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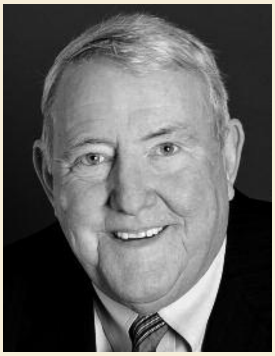
Some of the world's foremost experts offer their perspectives.



No, because internationally oriented corporations will continue to deploy capital globally.

E. GERALD CORRIGAN
Managing Director, Goldman Sachs, and former President, Federal Reserve Bank of New York

To its credit, *The International Economy* has raised for all of us a profoundly important question.

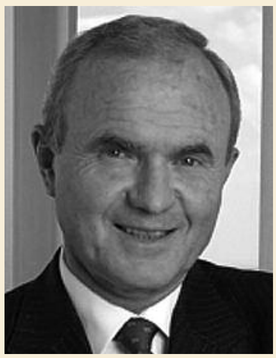
This complex issue can best be addressed in a historical context. Financial globalization—like trade in goods and services—is not new. Indeed, it has been with us for centuries. Financial globalization has, over the very long run, experienced extended intervals of very rapid growth and intervals of sharp contraction. These relatively long cycles have typically been driven by powerful and multiyear economic, technological, political, and financial trends that, for the most part, contributed to economic growth and rising standards of living. However, we have also witnessed events, including infrequent but very costly systemic financial meltdowns, that have impaired the global system of financial intermediation and called into question the benefits and the future of financial globalization.

These infrequent but major systemic financial meltdowns have triggered cumulative declines in economic activity which, in turn, have resulted in contractions in financial intermediation especially on the part of internationally active financial institutions and markets. As we have seen in the recent past, buildups in adverse financial forces having contagion elements tend to amplify the consequences of the initial financial shocks. Not surprisingly, these events also trigger powerful political and public demands for financial and regulatory reform—a phenomenon that is very much in evidence in much of the world today.

Slowly, the necessary reforms are being pieced together, but we will not know for years whether these reforms will yield a more stable and more efficient system of global finance. This uncertainty is one of the factors that is prompting questions as to the future of financial globalization.

While these concerns cannot be dismissed out of hand, I do not believe that anything like a secular decline in financial globalization will occur. I say that in part because I am highly confident that internationally active corporations will continue to internationally deploy capital and other resources with particular emphasis on investment in so-called "growth markets." That being the case, internationally active financial institutions and their clients will remain an important catalyst in mobilizing and deploying global savings and investment, especially in a context in which global capital markets will continue to play major role in financial intermediation. More importantly, even if it were highly likely that a secular decline in financial globalization were to occur, we cannot allow such an outcome to materialize because its adverse consequences for global trade, development, and growth would be unthinkable.

That is why the policy premium on addressing the pressing problems of the day—including financial reform, debt, and deficit problems in many countries, a still-fragile global economic recovery, and a tilt toward risk aversion in the financial intermediation process—must command sustained effort within and across national boundaries. A renewed spirit of multilateralism and strengthened cooperation between the public and private sectors will be necessary parts of this effort. None of this will be easy, but if we fail to preserve the best of economic and financial globalization, while at the same time respecting cultural and societal differences among nations and regions, the costs of that failure will be pervasive and long-lasting.



We have seen the peak of financial globalization.

OTMAR ISSING
President, Center for Financial Studies, Frankfurt University, and Founding Member of the Executive Board, European Central Bank

The discussion of the pros and cons of free capital movement has a long history. The current debate has delivered neither new theoretical arguments nor new empirical evidence. As with other categories of "market failures," it is always possible to create cases in which intelligent controls would deliver better results. However, how likely is it that policymakers would follow this intelligent design?

Nevertheless, it seems likely that we have seen the peak of financial globalization (at least for an extended period) as politics might fail in implementing a global level playing field of adequate regulation and efficient supervision.

Financial globalization cannot be reversed.

SEBASTIAN MALLABY
Director, Maurice R. Greenberg Center for Geoeconomic Studies, Paul A. Volcker Senior Fellow for International Economics, Council on Foreign Relations, and author of **More Money Than God: Hedge Funds and the Making of a New Elite** ***(Penguin Press, 2010).***

Reports of the death of financial globalization are greatly exaggerated. True, it has been hard to reach consensus on cross-border regulation of derivatives trading, supplementary capital requirements for systemically important lenders, and so on. But there is nothing new about regulatory discord, nor about regulatory arbitrage. Equally, foreign lending to Greece, not to mention foreign financing of U.S. real estate, has been exposed as dangerous. But international financial crises have a long history. They have not heralded the end of financial globalization so far.

The most direct threat to financial globalization comes from the new intellectual respectability of capital controls. Reversing its earlier position, the International Monetary Fund has stated that, in some instances, barriers to foreign capital inflows are a legitimate part of the policymaker's tool kit. The attraction of such barriers is obvious. Assuming they work, they can reduce temporary overvaluations of a country's exchange rate caused by hot capital inflows, protecting domestic exporters and firms threatened by cheap foreign imports. Capital controls may also help to limit asset bubbles.

But the question is: do these capital controls work? Experience suggests that they can temporarily change the composition of inflows but not the amount—which is another way of saying that they are not particularly effective. So the IMF's cautious endorsement of them is a mistake. As the norm setter in the global system, the IMF should not be legitimizing a policy tool with a false promise. Perhaps the Fund's new leader, Christine Lagarde, will see this.

Whatever the IMF does, the truth about financial globalization is that it cannot be reversed. Other aspects of the global economy are too integrated; the genie is out of the bottle. Thanks to trade, migration, multinational companies, and global supply chains, money will continue to surge across borders. Bureaucratic attempts to influence the quality or quantity of these flows will mostly be futile.

Different forms of financial globalization may emerge.

JIM O'NEILL
Chairman, Asset Management, Goldman Sachs International

This question demonstrates one of the underlying challenges facing the Western elite. Of course financial globalization is not beginning a process of reversal, but those parties that are at the forefront might be changing.

The biggest structural development of this generation is the rise of China, India, and the BRIC group, along with some other aspiring emerging economies. As part of this rise, trade between the BRIC economies is expanding dramatically. As financial intermediation is simply the mechanism that channels cross-border trade and finance, it is likely to expand dramatically involving these countries. The ICBC 20 percent stake in Standard Bank is a clear example of this, and I would imagine others will follow.

It is also quite likely that different forms of financial globalization may emerge, with players in the fields of internet and mobile telephones playing an active part. There are some early signs of this in Nigeria and also in one or two new creative financial intermediaries from the West. The traditional players from the United States and Europe will need to start thinking outside the box, a process that may be either hindered or furthered by the current obsession with over-regulation as a result of the credit crisis.

For U.S.-based international financial firms, on one level their explosive growth might have been an indirect reflection of the inexorable rise of the U.S. current account deficit and the need to attract global savings to supplement the small domestic base. As the United States rebalances, these firms won't have the same indirect stimulus and will need to become more truly global to thrive.

For European institutions, the current crisis surrounding monetary union won't reverse their role in global financial development. Western policymakers need to be more careful about the regulatory framework in this environment. Some Asian policymakers refer to the financial crisis as the "North Atlantic" crisis, which if policymakers in the United States and parts of Europe are not careful, will remain so. Recently a major U.S. bank CEO publicly asked Federal Reserve Chairman Bernanke whether the Fed had studied the economic consequences of all actual and proposed regulatory measures, to which the answer appeared to be somewhere between "No" and "It is difficult to do." If either of those answers are more than just a wise attempt to discourage Congress and others from going further down that path, then it is likely to hamper some western countries' ability to share in the exciting future of the world economy and globalization. But to conclude that this will result in the end of financial globalization as though it is some kind of comfort would be bad error of judgement.

Financial flows to developing countries will continue financial globalization.

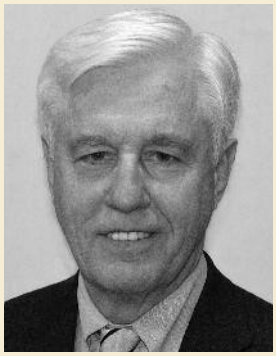
ALLAN H. MELTZER

Allan H. Meltzer Professor of Political Economy, Tepper School of Business, Carnegie Mellon University, and Visiting Scholar, American Enterprise Institute

Financial globalization is the process by which financial resources are transferred from surplus to deficit countries. Like most processes, it does not depend on particular actors. It depends on the profitability of the transfers. Financial regulation in the United States, the Dodd-Frank law, seeks to divert large banks into lending more to consumers, especially low-income consumers, and to convert large banks into quasi-public utilities. If the new law is not circumvented, more international lending will move to banks in Japan, China, and other surplus countries.

The more powerful change is the growth of U.S. exports and gradual reduction in its current account deficit. To service its foreign debt, the United States must increase its exports and reduce imports. Output must shift from consumption to exports. By no longer consuming more than it produces, the United States gives up the role of supporting the export-led growth policies that Asian countries have followed. The Asians will have to increase domestic consumption and inter-Asian trade.

This adjustment is well along. Inflation in China appreciates China's real exchange rate and shifts manufacturing to other countries. Federal Reserve policy depreciates the dollar even against weak currencies like the euro and the yen. I expect these changes to continue. But financial flows to developing countries will continue financial globalization.



There are other forces at work against global finance.

JEFFREY SHAFER

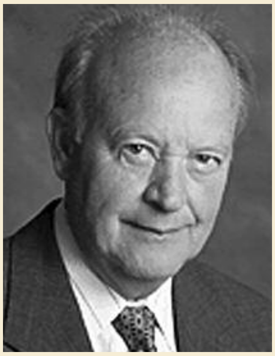
Former Under Secretary of the U.S. Treasury for International Affairs, and former Vice Chairman of Global Banking, Citigroup

We are at risk of recreating national financial silos, a system in which resources are inefficiently allocated and the costs of doing business are artificially high. The current sovereign debt problems of the euro area and the consequent questions about the safety and soundness of a number of European banks are raising the threat of financial compartmentalization. The risks of providing interbank funding across borders or of relying on this as a funding strategy are rising, and the conditions that appeared in late 2007 could return. But there are other forces at work against global finance:

- Concerns about the liquidity and solvency of foreign banks in the wake of the Lehman collapse have led regulators around the world to put in place liquidity requirements on foreign branches and other regulatory requirements that make a global branch system less of a network and not much more than a group of independently funded and risk-managed banks.
- The focus of regulators on size as a risk factor, despite an historical record that provides no support for this, is raising the cost of pursuing a multinational banking strategy rather than operating in one market.
- The disparity in monetary conditions called for in old industrial countries laboring under heavy sovereign and household debt burdens and those needed in dynamic emerging markets has created exchange rate pressures. Authorities are responding to these pressures with capital controls rather than allowing exchange rate movements to shift demand and prices in ways that would contribute to macroeconomic stability.
- Looking ahead, it is likely that the need to place huge stocks of government debt at low cost in the United States, Japan, and parts of Europe will lead governments there to engage in financial repression, which will involve restrictions or disincentives on international financial flows.
- And memories are fading of what it was like to live and do business in the national financial silos of the 1950s,

1960s, and even 1970s. The costs will be much higher now with the great increases in international trade, investment, and movement of people that have taken place since then.

So far, the damage is not great and is reversible. But current trends are likely to continue, given the apparent indifference of financial policymakers to cross-border finance. Voices do need to be raised on behalf of the global financial system when policy measures are proposed nationally or globally that treat barriers to international financial flows as costless. And the Financial Stability Board should focus on how to develop a sounder international financial system, not preside over its compartmentalization.



What may have changed is the desire of emerging markets to enter a globalized financial system.

JOHN WILLIAMSON
Senior Fellow, Peterson Institute for International Economics

The days of go-go capitalism in the financial sector are over. There can be no doubt that bankers and the operators of other financial intermediaries are going to be far more rule-bound in the future than they had become accustomed to in the past ten or twenty years. The return of financial regulation and likely future limits on maturity transformation will ensure that.

But the question of whether this will involve restrictions on international capital movements, and whether it will spell the end of financial globalization, is less obvious. I doubt that financial markets will fragment because of the difficulties of regulators in reaching agreements on subjects such as capital adequacy and derivatives regulation: it is customary to encounter obstacles to reaching international agreements, but they are eventually achieved. (Except, admittedly, when the negotiations were started in Doha.)

I suspect that there are more serious issues at stake. On the one hand, it is persuasively argued that past exits from excessive buildups of sovereign debt have typically involved financial repression, and that a characteristic feature of financial repression has been restrictions on taking capital abroad. On the other hand, neither the United States nor the countries of the European Union (who are treaty-bound to operate a capital control-free regime within the European Union) show any desire to return to international capital restrictions.

The question will probably be settled by whether a modest degree of financial repression proves compatible with continued capital mobility. It is not obvious that there is today a country that can act as a safe and attractive haven for capital owners where they would wish to flee and which doesn't wish to levy a modest inflation tax in order to reduce its debt ratio. In the absence of such a haven, there need be no obstacle to countries all requiring their banks to hold modest proportions of the bonds of their government, and no great net incentive thereby created for the owners of capital to flee. The system as a whole will be capable of generating government revenue from mild financial repression without reversing financial globalization. What may well have changed on a long-term basis is the desire of today's emerging markets to enter a globalized financial system.

Globalization, financial or otherwise, cannot be reversed.

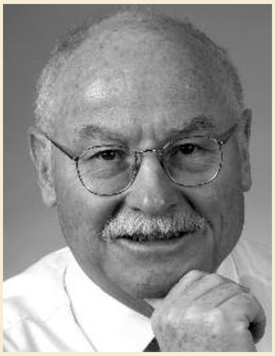
LEO MELAMED
Chairman Emeritus, Chicago Mercantile Exchange, and Chairman, Melamed & Associates

The 2008 financial meltdown exposed fraud and weakness in the global financial system that had been obscured by bubbles and irrational exuberance. In response, the world's financial regulators, minimizing their own contributing failures, set about imposing restrictions on the financial services sector. The timing and nature of the restrictions and their long-range impacts vary depending on local politics. The United States reacted with a massive overhaul of its financial system, which incorporated a wide range of financial fixes, many of which were politically motivated and not responsive to the actual causes of the meltdown.

Other jurisdictions, better attuned to the consequences of regulation on financial service companies, moved more deliberately—gaining a significant competitive advantage over the United States. However, this regulatory disparity does not signal the reversal of financial globalization. Globalization, financial or otherwise, cannot be reversed. Technology has enabled capital flows to ignore national borders. This will not abate. Unfortunately, the disparate government actions will induce jurisdictional and regulatory arbitrage—a serious and troublesome consequence. But there is worse. The real reversal has been to the perception of the legitimacy of financial institutions and the value of derivative instruments in efficiently redistributing risk. The blame for the meltdown has been transferred from government to "Wall Street," and translated into a "failure of the American free market ideal." This misguided notion is roundly applauded by every enemy of liberty on the planet.

In case we forgot, as economist Friedrich Hayek explained, the free market ideal is a social philosophy encompassing ethics, moral values, jurisprudence, ideas, and a way of life. To one degree or another, the free market ideal was adopted by nearly every nation on the planet and changed the course of civilization. It became the decisive driver of progress in science, technology, and economic development. It created a crucible for innovation. It unshackled human energies whether in medicine, agriculture, space, health, markets, or education. It was the locomotive for a vast number of new jobs. The world of today is hugely different than a century ago not simply because of advances in science and technology, but because those very advances were a product of the free market ideal that swept across this planet. Standards of living have broadly improved, life expectancy has greatly expanded, and the quality of life for much of civilization is vastly enriched; not to speak of the desire for individual freedom.

Make no mistake, the internet, Google, Microsoft, Apple, Amazon, and a host of other business enterprises based on amazing innovations for advancing information and knowledge are a primary consequence of the free market ideal. Woe to our civilization if this truth is misdirected. As Milton Friedman warned, "The challenge for my generation was to provide an intellectual defense of liberty. The challenge for your generation is to keep it."



What we are seeing is a temporary pause.

MARTIN HÜFNER

Chief Economist, Assenagon Asset Management, and former Chief Economist, HypoVereinsbank Group

I disagree. In my view currently there is no reversal of the globalization of the financial industry. I am convinced that there won't be one in the foreseeable future. As long as there are so many fantastic economic opportunities and challenges around the globe and especially in the emerging markets, there is need for international financial intermediation. Thus, there is room for a growing global financial industry.

What we are seeing presently is rather a temporary pause in financial globalization. Things had moved too quickly in the last decade. Too many inexperienced players had entered the business. The national political environment did not keep pace with the internationalization of business. The result was the financial crisis of 2007–08. Business is now being deleveraged. A number of players are leaving the market, and rightly so, such as the German Landesbanks. Risk management is being improved. Equity capital is increased. The true international banks will not withdraw from global business. International financial business in future will be more sound and healthy than before and there will probably be fewer players.

The disagreements over capital adequacy and the regulation of derivatives today are not greater than they used to be. Basel II initially was planned as a truly international standard, but ended up by not being enacted in the biggest financial market in the world, the United States. Such disagreements reflect the international search for the best regulation and of course also the different interests of the different countries.

The euro crisis also is not hampering the process of financial globalization. It is true that a number of European institutions currently are preoccupied by European problems. But this is temporary. The euro crisis is not only a European affair. The International Monetary Fund is one of the major lenders to Greece and a participant in the umbrella for the other euro area countries. The Washington-based Institute of International Finance was active in finding a solution for the involvement of private banks in the rescue operations. China and some sovereign wealth funds in the Middle East are investing in the region. The sovereign debt crisis is by the way not confined to Europe. The euro has become an international currency in the past years.

Chinese banks in the future will be active promoters of international globalization. Presently, they are still in the learning phase. In addition, they hold a great number of non-performing loans, which hamper their room for maneuver. But if it is true that the Chinese government wants the renminbi to be an international currency and a contender with the U.S. dollar, which I do not doubt, then the Chinese banks necessarily will have to play a major role in the international financial markets. The huge currency reserves of the Chinese central bank are an indication of the sums that China is willing to lend internationally. In the future, this will need to be done more by private banks than by the central bank.

Large, internationally active banks share deep concerns that financial regulation and supervision will be re-nationalized.

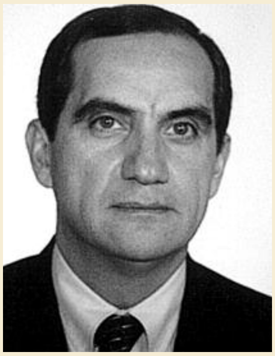
GERHARD HOFMANN
Member of the Board, National Association of German Cooperative Banks

Large internationally active banks share deep concerns that financial regulation and supervision will be re-nationalized as regulators are less willing to cooperate after the near-death experience of the financial crisis.

On a global level, the United States and Europe provide an example. While Europe will be implementing Basel III for all of its 8,400 banks, it seems that the new regime will not be applied in the United States. Europe will even take a quantum leap here as the major part of Basel III will be implemented through a regulation (CRR I) which is immediately binding for all banks without national transposition. National parliaments in London, Paris, Berlin, and elsewhere will no longer discuss these rules, as only national governments will participate in the European legislative process.

In addition, EBA, the newly created European Banking Authority, will issue around forty binding technical standards on Basel III which (again) come into effect throughout Europe, from the largest systemic banking organization to the local bank. Those standards comprise key areas such as definition of capital and deductions, liquidity regimes, consistent application of the financial conglomerates rules, and many more. Indeed, Europe is not at all heading towards re-nationalization, but is moving fast towards a much higher level of integration in banking regulation.

While the rapid convergence of supervisory practices is welcome, the drawbacks are obvious. European institutions are viewed as too bureaucratic and unwilling to differentiate sufficiently in their regulations according to size, systemic importance, risk management capabilites, and so forth. Moreover, the question arises whether the new regulatory process in Europe will still have sufficient democratic legitimacy, as the EBA and the EU Commission will become very powerful. On the subject of regulation, everybody is hoping that European banks will not end up with a competitive disadvantage or a huge additional administrative burden which would change the banking structure.



Is there a long-term reversal in the works? I doubt it.

JAVIER GUZMÁN CALAFELL
Director General, Center for Latin American Monetary Studies

Financial globalization showed an impressive increase in the years that preceded the global crisis. According to the OECD, gross cross-border capital flows rose from around 5 percent of world GDP in the mid-1990s to some 20 percent in 2007, more than doubling international financial openness during that period. Naturally, this process has been severely affected in subsequent years by a combination of factors deriving from the global crisis.

The merits of financial globalization are well known. It improves resource allocation, allows a broader spectrum of choices for protection against risk, fosters financial development, enhances access to global savings, and reduces the cost of external financing, among other benefits. However, financial globalization is also the source of major risks—among them a greater probability of crises—and after several decades of research its net impact continues to be a subject of heated technical and political debate.

A number of analysts believe that the crisis has reinforced arguments in favor of the implementation of policies aimed at reducing global capital flows. Furthermore, there is a risk that financial regulation and supervision implemented in response to the crisis reduce the flow of cross-border capital and become a source of financial protectionism. In this context, it is fair to ask whether recent trends can be interpreted as a long-lasting reversal of financial globalization.

Is this view justified? I doubt it. In addition to low international interest rates and other cyclical factors, financial globalization in recent years has been supported by financial innovation, technological change, a trend towards lower capital controls, the expansion of world trade, better investment opportunities in emerging market economies, and other forces of a structural nature that will continue to be present in coming years. These forces, which are likely to be reinforced by other long-term adjustments such as a closer integration of Chinese banks to the world financial system, are too strong to be offset by periods of uncertainty—even as serious as that currently observed in the eurozone—or by policies of financial regulation and supervision.

Against this background, the central issue is not whether financial globalization is undergoing a process of reversal, but rather how to make sure that efforts at the national and international levels are combined to optimize the possibility that it does not lead to crises and that it has a beneficial impact on global economic growth.

The dollar's universal acceptance has been the single biggest force for globalization. This legacy is under assault.

JEFFREY BELL
Policy Director, American Principles, and Issue Adviser, Reagan campaigns of 1976 and 1980

This year marks the centennial of Ronald Reagan, and it may be useful to review his presidency's contribution to economic globalization in light of the threat to globalization today.

Most obviously, Reagan's peaceful winding down of the Cold War inaugurated the first era in human history in which capitalism became all but universal. The global boom of 1983–2007 lifted hundreds of millions of people in China, India, and elsewhere from subsistence to middle-class living.

Reagan was a strong believer in free trade, and his advocacy in the 1980 campaign of a North American Accord linking the United States to Mexico and Canada led in steps to economic integration of this continent via NAFTA. He solidified the commitment of the Republican Party to free trade, and the 1984 election was the first in American history in which the Democratic presidential campaign was more protectionist than that of the GOP.

Reagan was elected in the wake of the dollar's near-collapse in 1979. His staunch support of Paul Volcker's tightening not only halted inflation, but (in tandem with highly stimulative supply-side tax cuts) triggered such a massive dollar rally that the Plaza Accord was needed in 1985 to bring the dollar back down to Planet Earth. Reagan believed a strong and stable dollar is the keystone of an integrated world economy. The dollar's universal acceptance since the 1940s as the world's final money has in fact been the single biggest force for globalization.

This legacy is now under pervasive assault. The generation-long capitalist boom is over. Global trade talks have little if any traction, while bilateral agreements negotiated with such allies as Colombia and South Korea languish in Congress, unacted on year after year. It would be hard to find a major trading partner that hasn't expressed public dissatisfaction with U.S. monetary policy, particularly in regard to our management of the dollar. Developing countries once committed to free movement of goods and capital are imposing exchange controls and resorting to other, newly fashionable forms of "repression" to shield themselves from a tidal wave of weak dollars.

Is all this a function of policy ineptness? Or are we witnessing the end game of a Fed-centered monetary regime less and less well adapted to the world of the twenty-first century? If he were alive and politically active today, where would Reagan be? My own guess is that Ronald Reagan, never one to demonize a policy debate, would identify the problem as systemic and would be barnstorming for yet another big change in the way the world works.

If globalism reverses, it will have little to do with capital adequacy, deregulation, and sovereign debt.

PAUL CRAIG ROBERTS
***Former Assistant Secretary, U.S. Treasury, and former Associate Editor,* Wall Street Journal**

Globalism is a conspiracy against First World jobs. It is the process by which capital extracts surplus and appropriates the earnings of labor. By moving offshore the production of goods and services for the home market, corporations benefit from labor arbitrage. Because of large excess supplies of labor, corporations can hire employees in China, India, Indonesia, and elsewhere at wages below the value of the marginal product of labor, thus raising the returns to capital.

If globalism reverses, it will have little to do with capital adequacy, deregulation, and sovereign debt. It will have to do with the fact that corporations, by offshoring jobs in pursuit of short-run profits, have undermined domestic First World economies by moving countries'

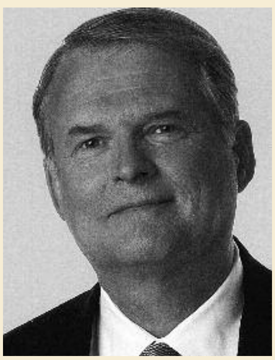
GDP, tax base, consumer incomes, and career opportunities to developing countries.

The extraordinary debt leverage and fraud made possible by financial deregulation produced the financial crisis. The crisis of globalism is the inability of First World economies to produce new jobs other than in domestic non-tradable services.

As Michael Hudson has shown, the response to the debt crisis is to shift the costs of the mistakes made by banks and governments onto the backs of ordinary people. Consequently, we see the large and persistent protests in the streets of Greece and Spain against allegedly "representative" governments for implementing the bankers' policies that reduce the living standards of people in order to protect bankers and their shareholders from losses.

It was ever thus. In his classic history, *The Rise And Fall of the British Empire,* Lawrence James writes that the Anglo-Egyptian War of 1882 was perceived "as having been foisted on the government by a clique of investors. Sir William Gregory, a former Tory MP and governor of Ceylon, argued that, 'We are the only nation which had an honest sympathy with the unfortunate peasants of the Nile Valley, and yet we are forced to be the nigger-drivers, the administrators of the lash to exact the last piastre from these poor wretches for the benefit of bondholders.'"

Today economists are allied with globalists to drive wages to subsistence levels and to privatize for the benefit of the banks and their customers the remaining areas of public domain. To quote Hudson, globalism and financialization (the drive by the financial sector to absorb the entire economic surplus in the form of profit, interest, penalties, and fees) are "economic warfare by non-military means."



Signs of a global reset are around us.

NEAL B. FREEMAN
Chairman, Blackwell Corporation

Regrettably, the signs of a global reset, if not quite a reversal, are all around us. Trade disputes are eliding into trade skirmishes. Regional affinities are hardening into regional resentments. National interests, which only a few years ago seemed to be receding before the promise of pro-growth internationalism, are reasserting themselves in ways that are not only self-serving but crude and corrosive of the trading system. (It's not helpful that the Middle East is in flames from Tripoli to Kabul. When Barack Obama took office in January 2009, gas was at $1.83 a gallon.)

All of this is taking place against a background of failed political leadership. Just as the problems grow larger, incumbent leadership in the developed world shrinks from the looming challenge. Who, one must ask, now speaks reliably for free trade and the open international system? Where is the new leadership to come from?

Sadly, the United States has abdicated its historic role, turning to short-term maneuvering, almost all of it calibrated for domestic political effect. Predictably, it won't be the Japanese, who, in fairness, must be given a pass to wrestle with their indigenous problems. Cyclically, it probably won't be the Chinese, who seem to be attracting a multinational swarm of short sellers. India? Brazil? They are eager and may one day be willing, but they are not yet able to lead a truly global revival.

Do we thus find ourselves in a death spiral, awaiting only the shades of Smoot and Hawley to paddle us across the Styx?

Not necessarily. I detect signs of life, improbably, in Europe. Many of us in the United States have spilled barrels of ink deriding the soft socialism of "Old Europe." We have been dismissive of its openhanded welfarism, its wet-blanket protectionism, its work-until-you-nap ethic. That much, and more, has been the target of fair criticism. But as I write these words, there are hopeful indications that Europe may be coming to grips with its Greek problem and, by extension of policy and political will, with the other sick children in the EU family. If—and it is at this point an epochal if—Europe gets its house in order, the stage would be set for a European-led reversal of the reversal, a reinvigoration of the free market system that has produced the greatest economic benefits for the greatest number of people in human history.

If I had to bet, I would predict that the United States will muddle through after regime change next year, the euro will revive after shaking off some of its weaker members around the continental rim, the Chinese will opt, this time, for cooperation over confrontation, and Angela Merkel will win the Nobel Prize in Economics and the lasting gratitude of the international community. ◆