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Deglobalization Risks Our Economic Future

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In the fall of 2018, *Financial Times* columnist Rana Foroohar sounded a warning when she wrote that (effectively) the global corporate elite had missed the boat and had been “caught utterly unaware by Brexit and by the rise of Donald Trump.”^[1] Then she asked: “So, what is the next big thing the global elite is missing?” In answer she suggested: “Quite possibly *deglobalization*.” Missing the boat—by not fully anticipating the consequences of Brexit, or by not understanding the complexities of a Trump Presidency—is a serious risk, as evidenced by the volume of reporting it has generated.^[2] Equally risky, perhaps even more so, is the sink-the-boat sentiment that gives rise to deglobalization.

Missing the Boat and Sinking the Boat Risks of Deglobalization

In 2005, when Thomas Friedman wrote his landmark interpretation of globalization, *The World is Flat*,^[3] he described globalization as “more people than ever collaborat[ing] and compet[ing] in real-time with more other people on more different kinds of work from more different corners of the planet and on a more equal footing than at any previous time in the history of the world.”^[4] It stands to reason, then, that deglobalization is just the opposite: fewer and fewer people collaborating, with fewer other people, on fewer kinds of work, from fewer corners of the planet, and on a less-equal footing.^[5] ^[6] Missing deglobalization means being caught unprepared.

Sinking the boat economic risk, from the economic parochialization resulting from deglobalization, occurs when actions are taken that degenerate an economy from one of interconnection and trade, where the benefits of comparative advantage^[7] and collaborative international engagement among countries^[8] with varying economic strengths and weaknesses can be generated, to one of warring factions protected by weapons such as tariffs and foreign-company blacklisting. Parochialization is manifest in a nationalist economic agenda; and it comes with a high sink-the-boat risk, as can be seen in Brexit. Rana Foroohar argues that this risk is occurring here in this country as well because “a far-right/far-left consensus is building in the US around a nationalist economic agenda,” and that as a result such nationalists “want American companies to keep more capital, jobs and intellectual property at home.”^[9]

Risks to Our Economic Future

Angered by such setbacks as job losses and outsourcing, local populists have been busy clamoring for actions that can effectively sink the boat, oftentimes without understanding the consequences of their demands. In pushing for short-term actions to stem the consequences of globalization, local populists may be fueling a kind of parochialization by demanding actions such as protectionist tariffs. Economic parochialization refers to people in a local economy turning inward for the production of products and services. However, economic parochialization causes so much resistance in powering the economic boat (with added expenses like tariffs that are extraneous to the costs of production), that the economic “boat” will continue to make headway only with ever-greater difficulty.^[10] And that gives room for rivals to gain an advantage.

The degeneration into rival spheres of influence – the US sphere, the China/Asia sphere, the EU sphere, for example – has the potential to further undermine global cooperation, and to relapse into the institutional confusion that for most of history doomed populations to being “stuck in vicious circles of ignorance, ill health, poverty, and often, violence.” [11] Our economic future depends upon how well we manage to work together to provide “provisions in store for an uncertain future.”[12] The total risk to that future is the combination of both missing-the-boat and sinking-the-boat risk.[13] Thus, there are situations where there is a danger of “waiting” and thereby losing out economically—where lack of preparation is highly costly because opportunity (the boat) is missed. But there also are situations where there is a danger of generating loss by “acting”—where unwise undertakings shrink the economic possibility set. Hence in this essay, in considering risks to our economic future, I am suggesting that presently we are facing risks that in total are composed of *deglobalization-based missing the boat risk* on one hand, and *parochialization-based sinking the boat risk* on the other. And the economic frictions associated with each of these, which operate to remove value from the economy, are not always apparent. Some background on the role of economic frictions in an economy is helpful.

Economic Frictions

In one of the great social conversations of the 20th Century, many leading organization scholars and political leaders explored the core question: Why isn't the world, or even an economy for that matter, organized as one big firm?[14] Economics Nobel Prize winners such as Ronald Coase, Douglass North and Oliver Williamson (and others) participated in this conversation. In fact, I remember learning from university colleagues in Beijing—when I was a visiting professor at Peking University several years ago—that, not surprisingly, China's leadership long has considered this question of “why not one big firm?” In answer to this question, the conventional wisdom is now, after several Nobel Prizes in Economics have addressed various parts of the core question, that the organization of economic transactions under either a firm (hierarchy) or the market[15] is governed by a kind of efficiency: the level of transaction costs, which are the economic-system equivalent of friction in physical systems.[16] These frictions come from three primary sources: informational uncertainty, resource uncertainty, and relational uncertainty.[17] As a result of these uncertainties, our faith in each other is reduced, and the resulting fears generate socioeconomic friction—the equivalent of putting sand in the gears of the economic power train.

Thus it can be said that a big part of what sunk the economic boat for the vast-firm-like organization of the (former) Soviet Union (e.g. GOSPLAN), for example, was inefficiency: the inexorable erosion of the foundations of the giant, but ironically parochial, centrally-planned economy by economic frictions.[18] It is useful, then, to consider as a substantive instance, the rise of China as an economic power. In what might be considered to be a continuation of one-big-firm thinking, "China, Inc." continues to assert itself economically, politically, and militarily. Are the lessons of minimizing economic frictions now being used in the East to continue to globalize and thereby to avoid the sink-the-boat risks of parochialization, while the West deglobalizes and parochializes?

Going Forward

Thus I suggest that to enable us to see more clearly the present risks from deglobalization and parochialization for our economic future, and to raise our united social acuity, we observe how—despite deglobalization, parochialization, and their "missing and sinking-the-boat" consequences—we still can help to lift society by preserving and strengthening its core institutions to lessen risks to our economic future. Cooperation to minimize economic frictions has been shown to increase both welfare economic efficiency, and to diminish risk.[19] [20] We therefore should be wary of the emerging protectionist parochialization of the 21st Century that can result from deglobalization.

Endnotes:

[1] Foroohar, R. 2018. Corporate elites are overlooking deglobalisation. *Financial Times*, October 14.

[2] Zakaria, F. 2018. FAREED ZAKARIA GPS, Aired November 18, 2018 – 10:00 ET.

[3] Friedman, T. L. 2005. *The World is Flat*. New York: Farrar, Straus and Giroux.

[4] 2005, p. 8.

[5] Foroohar, R. 2018

[6] WTO, 2019. Global trade growth loses momentum as trade tensions persist, *World Trade Organization Press Release 837*, 2 April, 2019. https://www.wto.org/english/news_e/pres19_e/pr837_e.htm.

[7] Ricardo, D. 1817. *On the Principles of Political Economy and Taxation*. London UK: John Murray.

[8] Hamilton, N. 2019. *War and Peace: FDR's Final Odyssey, D-Day to Yalta, 1943-1945*. New York: Houghton Mifflin Harcourt.

[9] Foroohar, R. 2018

[10] WTO, 2019.

[11] Ferguson, N. 2013. *The Great Degeneration: How Institutions Decay and Economies Die*. New York: Penguin Press.

[12] Durant W. 1935. *The Story of Civilization*. New York: Simon and Schuster.

[13] Dickson, P. R. and Giglierano, J. J. 1986. Missing the boat and sinking the boat: A conceptual model of entrepreneurial risk. *Journal of Marketing*, 50, 58-70.

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[19] Williamson, O. E. 1985. *The Economic Institutions of Capitalism*. New York: The Free Press.

[20] Williamson, O. E. 1991. Strategizing, economizing, and economic organization. *Strategic Management Journal*, 12(S): 75-94.