Geoffrey Garrett, "Global Markets and National Politics: Collision Course or Virtuous Circle," in Katzenstein, Keohane & Krasner, eds., *Exploration and Contestation in the Study of World Politics*

Introduction: The recent talk of globalization reducing the ability of the state to control its macroeconomic policy has been much ado about nothing and nothing new. Garrett focuses on the relationships between trade in goods and services, the multinationalization of production, and financial capital mobility and the macroeconomic policy choices (limited to the advanced industrial countries until the mid-1990's).

Crisis of Embedded Liberalism?
Principle of economic liberalism developed along with the principle of social protection; Bretton Woods supported both of these through international regime of trade openness, fixed exchange rates, capital controls, and the KWS. This is said to be in danger now because the domestic-international compensation compromise is no longer viable with globalization.

Three globalization mechanisms:
(a) trade competitiveness pressures
(b) the multinationalization of production
(c) the integration of financial markets

Two reasons why the actual effects are lower than the rhetoric:
(a) market integration has not only increased the exit options of producers and investors; also heightened sense of economic insecurity among broader segments of society, which has increased incentives for governments to use policy for redistribution
(b) government intervention may have costs (crowding out investment, etc.), but also has benefits for producers and investors, like rule of law, protection of property rights, infrastructure, human capital investment, social stability and support for markets.

The three key questions and Garrett's answers:
(a) Are markets global? Garrett accepts that they have globalized, but not that they are global.
(b) Has this lead to a policy race to the bottom? No, based on empirical evidence.
- The pace of globalization has varied across different markets. Rising trade has not meant rising trade volatility. The 'giant sucking sound' of trade with low-wage economies has been greatly overestimated. Most of the increase in trade competitiveness comes from trade within the OECD. FDI and international portfolio investments have grown much more rapidly than trade. Covered interest rate differentials remain.
- Substantial cross-national differences in market integration endure.

(c) If there has been no policy or market-oriented convergence, does this have a macroeconomic cost? Perhaps after some point, but not yet. The integration of financial markets has been more constraining than trade or multinationalization of production.
- Loss of monetary autonomy: This is true only if you think that market forces make governments peg their currency to an external currency (a stable one to reduce uncertainty. But MNCs now have more sophisticated financial instruments which they can use to hedge against international price movements. It's also really hard to maintain a stable peg now (see Asian crisis); not a good way to maintain credibility.
- No more public sector deficits: It is also argued that globalization means that a large public sector deficit means an interest-rate premium, but the integration of financial markets creates a large pool of potential lenders limiting that effect. *Empirical evidence:* Trend of sustained public sector growth in the OECD, accompanied by an increase in deficits rather than taxes. But there has been no convergence in the size of the public economy, size of the deficit, and the capital tax rate. There has also been no evidence of major K flight. Larger public sector deficits were associated with smaller net outflows of FDI. There may be some cost, possibly through inflation, exchange rate, and then interest rates, but not directly.