Globalization: A Modern-Day Janus

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Table of Contents

What is globalization? Were you to Google globalization, you would find many various definitions; however, nearly every single definition would contain some form of the words “integration” and “economies.” In its simplest form, globalization is the integration of economies on a global scale. However, globalization is much more complicated than that, and it involves more than just economic variables. **Globalization** is a process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology.

According to Pulitzer Prize-winning journalist Thomas Friedman, globalization has persisted through three stages: Globalization 1.0, 2.0, and 3.0. During Globalization 1.0 (1492–1800), the New World was discovered and states competed to accumulate power using the wealth of those colonies. This era of globalization was driven by both horsepower and steam power. During Globalization 2.0 (1800–2000), the economic power of the state, *per se*, weakened, and multinational companies became more powerful. The first half of this era was driven by advances in transportation (e.g. the steam engine and the railroad); the second half, by cheap telecommunications (e.g. computers and satellites). Driven by the fusion of personal computers, fiber optics, broadband internet, and advanced software, the Globalization 3.0 era (2000–present) has commenced, and it places the nexus of power closer to the individual and farther from the monolithic state. This fusion allows individuals to create, send, and share data all over the globe. Never before have individuals been so connected on a global scale (Friedman 2006).

How Globalization Came About

Trade and Transportation

Trade is the exchange of goods and services. Globalization is driven by international trade or trade among the states. Even before the Roman Empire states have been participating in trade. Ancient empires used trade routes to transport not only incense, textiles, and spices, but also gold, ivory, and pearls. These were specialized goods that were unique to their territories and were coveted by the aristocrats of the ancient empires. They were luxury items that were traded for other luxury items.

However, because the world was so incredibly large, merchants could not trade such territorial-based commodities without transportation. The Indian spices had to meet the European gold before trade could occur. As such, trade is driven by transportation.

> Even if international trade has taken place centuries before the modern era, as ancient trade routes such as the Silk Road can testify, trade occurred at an ever

> increasing scale over the last 600 years to play an even more active part in the economic life of nations and regions. This process has been facilitated by significant technical changes in the transport sector. (Rodrigue, Comtois, and Slack 2006)

In general, lower transportation costs lower the overall cost of a good. If one orders a shirt from a catalog for $15.00, and pays $5.00 for shipping. Then the total cost of that shirt is $20.00. The same formulation is true in international trade. If the price of a kilo of cardamom in Mumbai is Rs 410, the price for that same cardamom will be higher in Paris due to the cost of transporting it from India to France. Lowering the cost of transportation will lower the final cost to the consumer.

Industrial Revolution

Globalization 2.0, according to Friedman, began in 1800. Friedman makes particular reference to that year, because it marks the beginning of the Industrial Revolution.[1] In the late 18th century, James Watt improved upon Thomas Newcomen's steam engine design and spurred the Industrial Revolution. The steam engine not only took place of man power, particularly in mining, but also gave way to cheaper, more efficient means of transportation (Hobsbawm 1997). In 1829, George Stephenson built the first mainline steam-powered locomotive; in 1838, the *SS Great Western* was the first steamship built to cross the Atlantic Ocean; and by 1870, new inventions in maritime travel, such as the screw propeller and triple expansion engine, had made trans-Atlantic travel a cheaper and quicker mode of travel than ever before (Hobsbawm and Wrigley 1999). As Hobson wrote in 1904, "The opening up of world markets by modern facilities of transport has […] transformed the character of international commerce" (Hobson 1904: 53).

With the Industrial Revolution came **specialization**, the division of labor in which parties focus on doing one task within the whole, rather on creating the whole. Think of specialization in terms of Henry Ford's assembly line. Before specialization, there might be one or two people responsible for assembling an entire car. Each person would be skilled in every aspect of the car to assemble it properly. Now with the assembly line, each person is only responsible for one part of that same car. Now each person only has only to be skilled in one area. One person puts on the doors; one person installs the engine; and so on. One benefit of specialization is that a single person is better able to be an expert on one aspect of automobile creation than on the entire process. Thus, both higher-quality goods and a greater number of goods are created—two things consumers want.

On the international stage, states often behave as individuals. Thus, specialization allows one state to focus on mining iron ore, one state to focus on refining the ore, and

[1] Friedman used 1800 as the starting year of the Industrial Revolution. The reality is that there is no agreed-upon start date. Some, like Thomas Ashton, hold that is began as early as the 1760s, while others, like Eric Hobsbawn, hold that it began the 1780s. There is also the historical theory that there were at least two separate Industrial Revolutions, each based on a different advancement (steam engine and steamship, respectively). Regardless, for Friedman's thesis, the actual start date for the Industrial Revolution is immaterial.

one state to manufacture the automobile. This allows each state to focus on what they can do best, which increases the quality and decreases the final cost of the product. Of course, this result is predicated on the appropriate specialization of states and the low cost of transportation.

Why Globalization Has Sustained

The Industrial Revolution jump-started the world economy, and the lowered costs and higher speeds of transportation helped it grow throughout the first half of Globalization 2.0; however, the second half of Globalization 2.0 saw a tsunami of technological advancements that helped it grow exponentially. The age of the computer, the satellite, and telecommunications (e.g. the Internet and fiber optic cables) has catapulted the world economy.

Personal Computer

The first personal computer was released by IBM in 1981, and the ever-popular Windows 3.0 equipped computers were released in 1990 (Friedman 2006). Both releases helped increase inter-connectedness for Americans and much of the industrialized world. In fact, while in 1990 only 16% of US households had personal computers, by 2001 that number had jumped to 56% (Hojjati and Battles 2005). As Friedman notes, "the rise of the Windows-enabled PC […] eliminated […] the limit on the amount of information that a single individual could amass, author, manipulate, and diffuse" (Friedman 2006: 55).

Telecommunications and the Web

Now that people had a new, more-efficient way of authoring material, they needed a new, more-efficient way to connect with other people and share their materials. These connections were made possible by advances in telecommunications.

The word **telecommunications** derives from the Greek prefix 'tele-', meaning 'far away' and the word communications. At its most general, smoke signals and Morse code are both forms of telecommunications. However, the word connotes more than merely communicating at a distance. It has come to mean transferring of data, whether pictures, voice, or text, over great distances using conduit. For globalization, telecommunications has done in recent years what the Industrial Revolution did in the 18th and 19th centuries.

One aspect of telecommunications is the World Wide Web. The World Wide Web is perhaps the greatest driver of globalization.[2] The year 1989 marked its creation, when Tim Berners-Lee wrote the first server, browser, and editor for the World Wide Web. In 1996, after several revisions of his software and the creation of competing software, Berners-Lee founded the W3C Consortium with the sole purpose of promulgating standards to help the World Wide Web grow (Okin 2005). These standards marked the

[2] There is a fundamental difference between the Internet and the World Wide Web. The Internet is a collection of connected computer networks. The World Wide Web consists of the information stored on the Internet.

beginning of a new era in information technology and data transfer. Now, more than ever, people could author their own material and share it with others.

At first, the Internet was originally designed for scientists to share research, mainly by email; but, as the functionality of the Internet grew exponentially, so too did the perceived 'need' of the Internet. To meet this need, telecommunications companies spent billions of dollars to improve the Internet. Specifically, those companies laid fiber optics cables, a new technology that allowed for transfer of much more information much faster than copper wire. During the five-year period before the collapse of the "dot-com bubble," 1996–2001, telecommunications companies invested approximately US$1 trillion in an effort to spread fiber optics all around the world (Friedman 2006).

This increase in information technology produced job outsourcing, particularly in the realm of information technology. This is why the perfect example of the effect of telecommunications is India.

In 1991, India's finance minister Manmohan Singh opened India's economy (Friedman 2006). In 1995, India's **gross domestic product** (GDP), the total value of the goods and services produced in a country, was US$327.4 billion—fifteenth in the world (IMD 1996: 348). Fiftieth out of more than 200 is not bad, but when you are the second most-populous state in the world, that result is not good. However, with a greater number of multinational companies moving and investing in India, its GDP has risen drastically. In 2003 India's GDP was US$574.4 billion, and its GDP per capita was US$522 (IMD 2004: 250). Two years later, in 2005, India's GDP was US$726.5 billion, and its GDP per

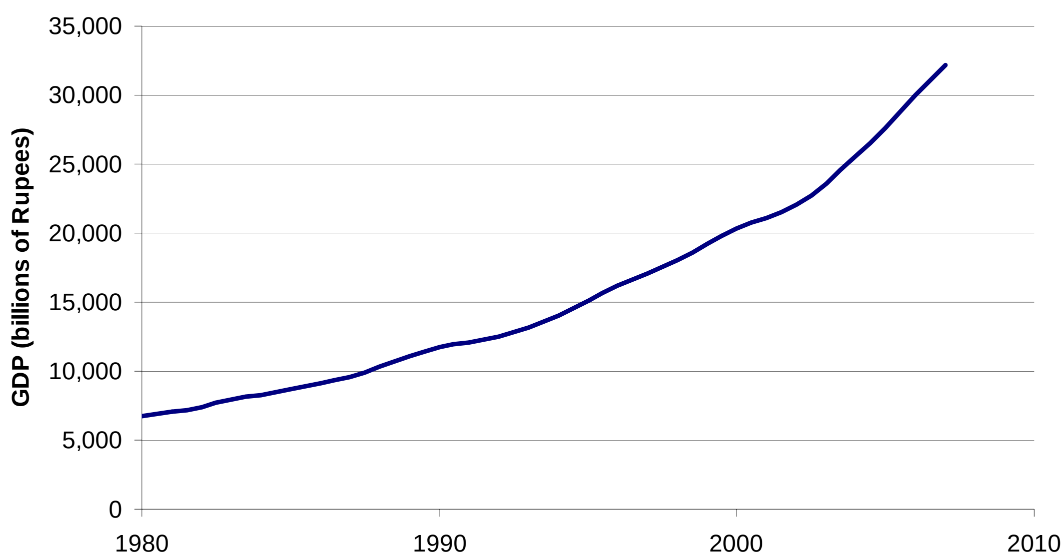

Figure 1: Gross Domestic Product for India from 1980 through 2006. According to these figures, India has an average 5.5% growth in GDP from 1980 until 1990, a 6.1% growth rate from 1991 through 2000, and a 7.3% growth rate from 2001 through 2006.
Data Source: International Monetary Fund

capita was US$656 (IMD 2006: 162). From 1996–2005, India's GDP rose 122%. As shown in Figure 1, during the 1980s, the average annual growth rate of India's GDP was 5.5%. That increased to 6.1% during the 1990s and to 7.3% in the seven years *following* the dot-com bust.

An even better example of globalization in India is American income tax returns. In 2004, approximately 112,500 income tax returns were outsourced to India, increasing to an estimated 400,000 tax returns in 2005 (Boomer 2004: 48). Accountants upload their clients' previous returns, excluding personal information, onto a server in California, and a trained accountant in India does the number crunching—at a much lower cost.

International Institutions

Are there any governing bodies to help control and support globalization? In a fashion, the answer is yes. While globalization appears to be a natural result of a world capitalist system, there are a few intergovernmental institutions that help states deal with the harsher realities of globalization. They all find their births in the Second World War.

Chaos filled the period immediately following the war. To help eliminate this chaos and to help create a stable financial system that could fight the growing sense of despair, over 700 delegates from all 45 allied nations—including the Soviet Union—met at Bretton Woods, New Hampshire, to regulate the international economic system. Their creation was the Bretton Woods International Economic System.

The Bretton Woods System

Bretton Woods was home to the largest international economic conference in history. Seeking to rebuild the international economic system after World War II, this institution established the rules of commercial and financial relations among the world's leaders in industrial states. Bretton Woods was responsible for setting fixed exchange rates in terms of gold for the major currencies.

Bretton Woods also developed a mechanism for multilateral trade and nations would negotiate tariff reductions to all nations thus eliminating discrimination among countries and lowering tariffs on manufactured products among industrial countries. With the agreement to open markets for trade, Bretton Woods also provided external financing, which allowed countries more adjustment time for trade imbalances (Nau 2007). Though multilateral in formal design, the Bretton Woods system quickly became synonymous with a hegemonic monetary regime centered on the dollar in practice. For *gold exchange standard*, many said, read *dollar exchange standard*. Bretton Woods provided the key role of power in shaping the design and evolution of international regimes, giving rise to so-called hegemonic stability theory (Cohen 2002). Additionally, Bretton Woods created two institutions designed to stabilize international trade and to assist developing states transition to the new economic order: the **International Monetary Fund** (IMF) and the

International Bank for Reconstruction and Development (IBRD). The latter is now known as the **World Bank**.[3]

Bretton Woods governed currencies and currency exchange until early 1970s, when a floating exchange rate system was implemented. Before the breakdown of this monetary system, Bretton Woods worked in maintaining order and achieving common objectives among the states involved.

International Monetary Fund

There are three major banking institutions in globalization that provide governance for the world economy: the International Monetary Fund (IMF), the World Bank (WB), and the **World Trade Organization** (WTO). The principle of the IMF is to encourage sound domestic economic policies to support global growth and economy stability (Nau 2007: 249).

The International Monetary Fund was created by the Bretton Woods Institutions, and it was meant to monitor the exchange rates between countries. It slightly changed the original "gold standard" discussed earlier and allowed for external loans from country to country (Nau 2007: 199). It also made it exchangeability possible—any member currency could be exchanged for another member currency. The initial *raison d'être* for the IMF was to eliminate problems a country might have exchanging money in trade. After eliminating such trade difficulties, free trade becomes actually free, and no reason would exist for countries to have trouble trading with another—at least from an economic standpoint.

The World Bank

The World Bank is the main global institution to promote development and alleviate poverty. Like the International Monetary Fund, the World Bank was created to provide assistance in reconstructing war-torn countries (Nau 2007: 199). Additionally, the World Bank would also lend countries money in their time of great need to further their advancement. This is a positive aspect of globalization to keep in mind because it pushes for all countries to have the opportunity to succeed along with the rest of the world. It recognizes that there needs to be some level of cooperation and unity among all the countries so that globalization can function and remain stable.

GATT and the World Trade Organization

The third institution resulting from Bretton Woods was the **General Agreement on Tariffs and Trade** (GATT), which was succeeded by the World Trade Organization (WTO) in 1995. It meets to review trade policy and to settle trade disputes between member states.

[3] Technically, the IBRD and the World Bank are not the same thing. Today, the World Bank consists of five institutions, one of which is the IBRD. The other four are the International Finance Corporation (IFC), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

Established in 1947, GATT was meant to "ensure the maintenance of an open, nondiscriminatory market" (Haus 1991: 163). In other words, its purpose was to reduce barriers to international trade by standardizing expectations, reducing tariffs, eliminating imports quotas, and reducing export subsidies. According to proponents of a free market, these three items reduce the efficiency of the market. As a result, tariffs, quotas, and subsidies end up costing the consumer and creating inefficiencies in the system.

Three phases of negotiations between 1947 and 1993 extended GATT to include goods, services, agriculture, capital, and intellectual property. GATT 1994 solidified the obligations of the signatories and created the World Trade Organization (WTO), the institutional body charged with upholding the agreements signed under the various phases of GATT.

State Policies and Globalization

With the dawn of the twenty-first century came the latest incarnation of globalization—Globalization 3.0. Innovations and ideas became the impetus for advancing the world economy. Globalization 3.0 is considered the new technology of information systems and the Internet, which is now reducing and shaping the size of the world smaller than ever. This new age is more about brains and less about strength. Globalization 3.0 is the intensification of everything that was invented in Globalization 2.0—the bandwidths, the fiber-optics, the PCs, and the software capabilities that connected them—but intensified all of them to such a degree that it became a difference in kind, not just degree (Friedman 2005).

Through open markets, many nations began to adopt the US policies. The United States in the 1980s used macroeconomics to drive up the interest rates, and the dollar, boosting the economy causing other countries to follow suit.

Economic Policy

There are two basic fields of economics: macroeconomics and microeconomics. **Macroeconomics** examines the behavior of the economy as a whole. The two primary policies that are termed macroeconomic are fiscal and monetary.

Fiscal policy deals with the national budget, specifically the levels of public expenditure and how that expenditure is funded. According to Milton Friedman, a proponent of monetarism, if the budget is in deficit, public spending will be higher than what the government takes in through taxes or revenues. This imbalance increases and stimulates the economy by increasing the amount of money available. If, however, the budget is in surplus, there is less public money available to support the economy—the government effectively is holding money (Friedman and Schwartz 1971).

Monetary policy is the process by which the central bank of the states controls the supply of money in circulation. This can be done either explicitly or implicitly. A government who prints less money or who reduces its debt by purchasing outstanding treasury bonds explicitly reduces the amount of money in the system. A government that increases interest rates implicitly reduces the monetary supply by making loans more expensive and, thus, less frequent.

Fiscal and monetary policies interact with one another and with the world economy (Nau 2007:245). The government can borrow money from domestic public savings that come from government savings, or from private savings that come from industries—this fiscal policy is stimulating the economy by increasing the amount of money available for investment. If the government assumes all available private savings for the fiscal deficit, additional savings must come from other countries. If the government is tightening the monetary policy it will try to absorb its local currency and interest rates will climb making foreign capital more attractive for foreign countries. When governments are trying to revive the economy, they will loosen the monetary policy, which reduces the cost of the goods with respect to foreign currencies. This makes domestic goods much less expensive than foreign goods, thus driving production. The combination of fiscal and monetary policies tends to create higher public and private spending and more available cheap money.

This combination of domestic macroeconomic policies, however, often generates inflation (Nau 2007: 245). When inflation increases, domestic money becomes more expensive vis-à-vis foreign money. Thus, imports become more attractive and exports become less competitive.

Microeconomics examines how individuals, including households and businesses, make decisions regarding limited resources. A government's microeconomic policies deal with the flexibility of capitals and markets. The principal microeconomic policies are regulations, subsidies, price controls, competition or antitrust policies, and labor laws (Nau 2007). Microeconomics differs from macroeconomics because they do not apply to the economy as a whole; however, they do have much to do with a government's flexibility of capital and labor markets (Nau 2007).

Regulations apply to traded products and establish health, safety, environmental, and labor standards for all domestic products and services (Nau 2007: 246). Subsides are grants and loans at below-market interest rates, while price controls keep prices down and price supports keep them up. Competition policies sanction monopolies such as when United States authorities deregulated AT&T in 1984, and when anti-trust policies broke up Rockefeller Standard Oil Empire. Additionally, through microeconomics, the labor laws set minimum wage and better working conditions for factory workers (Nau 2007).

Exchange Rate Policy

The value of money is constantly changing. Governments adopt varieties of methods of supplying and regulating the value of their currency. One strategy, for example, is to allow a currency to float. By "float" we mean that the **exchange rate** fluctuates in response to supply and demand for that money (Bueno de Mesquita 2006: 464). The exchange rate policy affects the price of one country's currency in relation to another country’s currency. To change the exchange rate of a country would be to change the relative price for everything that moves across its borders.

For example, if the exchange rate for a Chinese Yuan is \$1 = ¥8, and the shirt costs ¥16, you would pay \$2.00. However, if the exchange rate changes to \$1 = ¥4, you would need to pay \$4.00 for that same shirt. Exchange rate policy is extremely important to the world economy because it has the ability to create stability. However, it also has the ability to be misused. If the central bank of a state consciously keeps its currency undervalued, trade imbalances are created.

Trade Policy

Trade policy affects pricing on goods and services crossing the border by taxing them or by restricting the quantity imported. Taxes, called **tariffs**, are applied to the price of an import. Additional fees called custom fees and duties can also be added to the imported price of goods. An export tax may be applied to keep supplies in short demand within the home country. Trade policy will also limit imports and exports that determine quotas for supply and demand. If a country places an **embargo** on another country, this will stop all imports from entering that country, such as the Arabs did with oil (Nau 2007).

Immigration Policy

When people move about freely, wages are the principle economic factor driving the flow of people. This is virtually a new feature of globalization causing immigration disparities, and the flows of people have become as common as the flow of goods. With today’s technology, and the Internet, people do not have to move about because the jobs come to them. For example, people in India do customer service calls for companies located in the United States (Nau 2007).

Advantages and Disadvantages of Globalization

Advantages

Although there are many world-wide benefits that arise from globalization, such as increased trade, investment, and many other aspects all leading to economic growth, there are other, less universal advantages, that come with globalization, like interdependence, co-operation, and the spread of culture.

El-Algraa noted, “Over the past three decades or so, the world has experienced a growing interdependence of its economies” (El-Algraa 1989: 1). As countries increase trade and as funding in developing countries increases, states become more dependent on each other. Globalization, thus, drives state interdependence, and with interdependence comes co-operation. The more that states rely on each other, the more likely they are to co-operate. And, the more states co-operate, the less likely they are to go to war with the other.

With multinational corporations (McDonald’s, Pizza Hut, Radio Shack, Starbucks, etc.), particularly American multinationals, there is an inevitably a spread of culture. There are McDonald’s in more than 119 countries on all six inhabited continents (Love

1995). McDonald’s is true-blue Americana, and the success of McDonald’s worldwide is an indicator of the acceptance of American culture. This is one of the best advantages of globalization. Not because it is primarily American culture that is being spread, but because once other countries are as advanced as is the United States, they will be able to spread their own culture worldwide. The more we know about each other and what we have in common, the more likely we are to co-operate. This is borne out by the Golden Arches thesis—if two countries contain a McDonald’s, they will not war with each other. In 1967, the first non-domestic McDonald’s opened (Love 1995), and it was not until 1999 that two McDonald’s-containing countries went to war (Ritzer 2004).[4]

Disadvantages

However, as with most things in life, nothing is purely good, there is a bad side to globalization. While interdependence does lead to co-operation, constant interaction and interdependence also leads to friction between the states. A mundane example would be: one has a cousin that he/she just cannot get along with, but they have to see each other every birthday, Easter, Thanksgiving, and Christmas. The more time they spend around each having to pretend, for everyone’s sake, that they like each other, the more likely they are to battle.

Additionally, increased prospects of trade wars happen with increased interaction. Several deadly conflicts began with trade wars. The Cod Wars (Þorskastríðin in Icelandic) of the 1950s, 1960s, and 1970s began with Iceland’s attempt to protect its fish industry in the face of British and German encroachment. It ended with the Icelandic Coast Guard (Landhelgisgæslan), the British Navy, and fishing trawlers from both countries ramming each other.

Globalization does put states, companies, and individuals on an even keel, but so far we have looked at the facts through an assumption that the technological advances of this century will only be used for good. Perhaps the least advantageous aspect of globalization is that any advancement can be used for good or for evil. As Friedman notes, “My personal dread derived from the obvious fact that…[globalization] draws in and superempowers a whole new group of angry, frustrated, and humiliated men and women” (Friedman 2006).

Conclusion

In closing, countries have been trading goods since before the Roman Empire. Globalization, however, did not start until the new world was discovered, and the European countries had colonized America. At that point, trade became truly global. Better transportation helped countries cross the Atlantic quicker and more efficiently, the steam engine spurred the Industrial Revolution, and specialization made international trade almost a necessity. The advent of the personal computer and the advancement of

[4] Yugoslavia had a McDonald’s, as did all NATO countries. When NATO bombed Yugoslavia during the Yugoslav conflicts in the 1990s, the Golden Arches thesis failed.

telecommunications have brought a new facet to globalization, a development that seems to have an unlimited potential to shrink the world.

There is much to be gained from globalization, both economic and social, but the economics will work itself out. The social gains, though, are immeasurable and as technology brings us closer, the spread and acceptance of culture will ultimately bond us, and one day, for better or worse, there will be a global society.

Glossary

Bretton Woods:

International agreement which created the International Monetary Fund, the International Bank for Reconstruction and Development, and the General Agreement on Trade and Tariffs; designed to create a fixed exchange system to stabilize the post-War world

Embargo:

Governmental order to stop all trade with the specified state

Exchange Rate:

The value of one currency with respect to another

General Agreement on Trade and Tariffs (GATT):

International institution that regulated trade agreements between states; predecessor to today's WTO

Globalization:

A process of interaction and integration among the people, companies, and governments of different nations, a process driven by international trade and investment and aided by information technology

Gross Domestic Product (GDP):

The amount of goods and services produced in a country

International Monetary Fund (IMF):

An international institution charged with making loans to states to stabilize their currencies and bring about a more stable international exchange system

Macroeconomics:

The study of the economy as a whole, including the effects of state actions

Microeconomics:

The study of the economy in terms of the behaviors of individuals

Specialization:

The division of labor in which parties specialize to make common or different products

Tariffs:

A tax levied on imported goods

Telecommunications:

Communicating information, including data, text, pictures, voice and video over long distance

Trade:

The exchanging of goods and services

World Bank:

The international institution charged with lending money to developing states to assist them in developing their infrastructure and increasing their stability

World Trade Organization (WTO):

Successor institution to GATT; also charged with reducing trade barriers between member states

Thought Questions

1. What do you think is the most important aspect of globalization? Why?
2. What will be the next technological breakthrough to further shrink the world?
3. Does globalization help prevent wars/conflicts, or does it encourage them?
4. Will globalization eventually lead to a global society with a global government?
5. Does globalization benefit the entire global community?
6. What institution started the economic changes so that globalization could continue successfully? What were the economic changes?
7. How does globalization effect today's world? How does it affect your life?
8. Why is globalization so important in today's world?
9. If some countries, like the Democratic Republic of the Congo, are very wealthy in terms of natural resources, then why are they usually behind in the world economy?
10. What are some challenges that are faced within the global community?

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