increased the spread between U.S. T-bonds and other corporate and emerging market bonds.

The steep drop in the yield on U.S. Treasury bonds was then the transmission mechanism which crippled more hedge funds and investment banks. Take for instance Long-Term Capital Management, based in Greenwich, Connecticut. LTCM was the Mother of All Hedge Funds. Because so many hedge funds were attracted to the marketplace in the late 1980s, the field became fiercely competitive. Everyone pounced on the same opportunities. In order to make money in such a fiercely competitive world, the hedge funds had to seek ever more exotic bets with ever larger pools of cash. To guide them in placing the right bets, LTCM drew on the work of two Nobel Prize-winning business economists, whose research argued that the basic volatility of stocks and bonds could be estimated from how they reacted in the past. Using computer models, and borrowing heavily from different banks, LTCM put $120 billion at risk betting on the direction that certain key bonds would take in the summer of 1998. It implicitly bet that the value of U.S. T-bonds would go down, and that the value of junk bonds and emerging market bonds would go up. LTCM's computer model, however, never anticipated something like the global contagion that would be set off in August by Russia's collapse, and, as a result, its bets turned out to be exactly wrong. When the whole investment world panicked at once and decided to rush into U.S. T-bonds, their value soared instead of fell, and the value of junk bonds and emerging market bonds collapsed instead of soared. LTCM was like a wishbone that got pulled apart from both ends. It had to be bailed out by its bankers to prevent it from engaging in a fire sale of all its stocks and bonds that could have triggered a worldwide market meltdown.

Now we get to my street. In early August 1998, I happened to invest in my friend's new Internet bank. The shares opened at $14.50 a share and soared to $27. I felt like a genius. But then Russia defaulted and set all these dominoes in motion, and my friend's stock went to $8. Why? Because his bank held a lot of home mortgages, and with the fall of interest rates in America, triggered by the rush to buy T-bills, the markets feared that a lot of people would suddenly pay off their home mortgages early. If a lot of people paid off their home mortgages early, my friend's bank might not have the income stream that it was counting on to pay depositors. The markets were actually wrong about my friend's bank, and its stock bounced back nicely. Indeed, by early 1999 I was feeling like a genius again, as the Amazon.com Internet craze set in and drove my friend's Internet bank stock sky high, as well as other technology shares. But, once again, it wasn't long before the rest of the world crashed the party. Only this time, instead of Russia breaking down the front door, it was Brazil's turn to upset U.S. markets and even dampen (temporarily) the Internet stock boom.

As I watched all this play out, all I could think of was that it took nine months for the events on Asoke Street to affect my street, and it took one week for events on the Brazilian Amazon (Amazon.country) to affect Amazon.com. *USA Today* aptly summed up the global marketplace at the end of 1998: "The trouble spread to one continent after another like a virus," the

paper noted. "U.S. markets reacted instantaneously. . . . People in barbershops actually talked about the Thai baht."

It wasn't long, though, before Amazon.com started to soar again, pulling up all the Internet stocks, which in turn helped pull up the whole U.S. stock market, which in turn created a wealth effect in America, which in turn encouraged Americans to spend beyond their savings, which in turn enabled Brazil, Thailand and other emerging markets to export their way out of their latest troubles by selling to America. Amazon.com, Amazon.country—we were all becoming one river.

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If nothing else, the cycle from Asoke Street to my street, and from Amazon.country to Amazon.com and then back again to Amazon.country, served to educate all of us about the state of the world today. The slow, fixed, divided Cold War system that had dominated international affairs since 1945 had been firmly replaced by a new, very greased, interconnected system called globalization. If we didn't fully understand that in 1989, when the Berlin Wall came down, we sure understood it a decade later. Indeed, on October 11, 1998, at the height of the global economic crisis, Merrill Lynch ran full-page ads in major newspapers throughout America to drive this point home. The ads read:

> ***The World Is 10 Years Old***
>
> It was born when the Wall fell in 1989. It's no surprise that the world's youngest economy—the global economy—is still finding its bearings. The intricate checks and balances that stabilize economies are only incorporated with time. Many world markets are only recently freed, governed for the first time by the emotions of the people rather than the fists of the state. From where we sit, none of this diminishes the promise offered a decade ago by the demise of the walled-off world . . . The spread of free markets and democracy around the world is permitting more people everywhere to turn their aspirations into achievements. And technology, properly harnessed and liberally distributed, has the power to erase not just geographical borders but also human ones. It seems to us that, for a 10-year-old, the world continues to hold great promise. In the meantime, no one ever said growing up was easy.

Actually, the Merrill Lynch ad would have been a little more correct to say that *this* era of globalization is ten years old. Because from the mid-1800s to the late 1920s the world experienced a similar era of globalization. If you compared the volumes of trade and capital flows across borders, relative to GNPs, and the flow of labor across borders, relative to populations, the period of globalization preceding World War I was quite similar to the one we are living through today. Great Britain, which was then the dominant global power, was a huge investor in emerging markets, and fat cats in England, Europe and

America were often buffeted by financial crises, triggered by something that happened in Argentine railroad bonds, Latvian government bonds or German government bonds. There were no currency controls, so no sooner was the transatlantic cable connected in 1866 than banking and financial crises in New York were quickly being transmitted to London or Paris. I was on a panel once with John Monks, the head of the British Trades Union Congress, the AFL-CIO of Britain, who remarked that the agenda for the TUC's first Congress in Manchester, England, in 1868, listed among the items that needed to be discussed: "The need to deal with competition from the Asian colonies" and "The need to match the educational and training standards of the United States and Germany." In those days, people also migrated more than we remember, and, other than in wartime, countries did not require passports for travel before 1914. All those immigrants who flooded America's shores came without visas. When you put all of these factors together, along with the inventions of the steamship, telegraph, railroad and eventually telephone, it is safe to say that this first era of globalization before World War I shrank the world from a size "large" to a size "medium."

This first era of globalization and global finance capitalism was broken apart by the successive hammer blows of World War I, the Russian Revolution and the Great Depression, which combined to fracture the world both physically and ideologically. The formally divided world that emerged after World War II was then frozen in place by the Cold War. The Cold War was also an international system. It lasted roughly from 1945 to 1989, when, with the fall of the Berlin Wall, it was replaced by another system: the new era of globalization we are now in. Call it "Globalization Round II." It turns out that the roughly 75-year period from the start of World War I to the end of the Cold War was just a long time-out between one era of globalization and another.

While there are a lot of similarities in kind between the previous era of globalization and the one we are now in, what is new today is the degree and intensity with which the world is being tied together into a single globalized marketplace and village. What is also new is the sheer number of people and countries able to partake of today's globalized economy and information networks, and to be affected by them. The pre-1914 era of globalization may have been intense, but many developing countries in that era were left out of it. The pre-1914 era may have been large in scale relative to its time, but it was minuscule in absolute terms compared to today. Daily foreign exchange trading in 1900 was measured in the millions of dollars. In 1992, it was $820 billion a day, according to the New York Federal Reserve, and by April 1998 it was up to $1.5 trillion a day, and still rising. Around 1900, private capital flows from developed countries to developing ones could be measured in the hundreds of millions of dollars and relatively few countries were involved. By 2000, it was being measured in the hundreds of billions of dollars, with dozens of countries involved. This new era of globalization, compared to the one before World War I, is turbocharged.

But today's era of globalization is not only different in degree; in some very important ways it is also different in kind—both technologically and politi-