



Intro to globalization

- *The Reckoning – From Midwest to M.T.A., Pain From Global Gamble*
- Duhigg & Dougherty, Nov. 1, 2008
- <http://www.nytimes.com/2008/11/02/business/02global.html?ei=5070>

The Reckoning

- In 2006, the school board in Whitefish Bay, Wisconsin needed to figure out a way to fix the teachers' retirement plan
- ‡ Financial planner suggested borrowing overseas in a complex plan with "guaranteed" returns
 - ‡ C.D.O – collateralized debt organization

The Reckoning

- ‡ The school board & 4 others invested \$200 million
 - ♦ \$35 million of their own money
 - ♦ The rest borrowed from an Irish bank (Depfa)
 - ♦ Invested in bonds managed by the Royal Bank of Canada

The Reckoning

- ‡ The planner didn't really explain the CDO process right
 - Schools' money actually used as insurance on **\$20 Billion** in corporate bonds
 - Registered in the Cayman Islands, & managed by Royal Bank of Canada, ACA in New York, & UBS in Switzerland

The Reckoning

- ‡ If just 6 percent of the debts went bad, the Wisconsin schools would lose all of their money
- ‡ If none defaulted, the schools would receive about \$1.8 million a year

The Reckoning

- ‡ Depfa started out in 1922 as a little German bank
 - ◆ In 2002 moved to Dublin to take advantage of low corporate taxes
 - ◆ Became immensely profitable global bank with executives earning about \$33 million a year in 2006
 - ◆ Fueled by an arrogant CEO, Depfa and other European banks went for riskier deals

The Reckoning

- ‡ The New York Metropolitan Transportation Authority (MTA)
 - ◆ At the same time the Wisconsin schools were borrowing money from Depfa, New York Subway officials were encouraged to essentially take out variable rate loans
 - ‡ Borrowed money at interest rates that changed every day

The Reckoning

- ‡ The New York Metropolitan Transportation Authority (MTA)
 - ◆ Traditionally the MTA raised money by issuing simple bonds with fixed interest rates
 - ‡ Bankers suggested the adjustable-rate loans
 - ‡ **But they would only be issued if a bank like Depfa would have to sign on as a "buyer of last resort"**

The Reckoning

- ‡ Worldwide, Depfa was the largest buyer of last resort in 2006
 - ◆ As Depfa continued to grow, it needed more short-term loans to keep profitable
 - ◆ Even so, CEO able to sell Depfa to the German owned Hypo Real Estate for \$7.8 Billion
 - ‡ His cut was \$150 Million

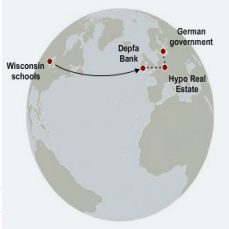
The Reckoning

The investment started going bad in 2008

- ◆ Wisconsin School Districts' investments were declining
 - ‡ Would likely lose the full \$200 million
- ◆ The schools would not be able to repay Depfa
 - ‡ Crisis at the bank
 - ◆ Defaulting on these loans
 - ◆ Billions Depfa was borrowing to cover its own loans
 - ‡ Depfa had a debt of \$81 Billion

The Reckoning


- ‡ Sept. 2008, US bank **Lehman Brothers** went bankrupt
 - ◆ **Short-term lending stopped**
- ‡ Depfa in big trouble
 - ◆ Hypo Real Estate received a \$64 billion bailout from Germany



The Reckoning

Back to the MTA

- ◆ Had \$3.75 Billion in debt
- ◆ Depfa problems = downgraded
- ◆ Investors dumped the MTA bonds
 - ‡ Depfa had to buy \$150 million worth



The Reckoning

- ‡ But if Depfa bought bonds, the cities had to pay a higher interest rate!
 - ◆ The MTA alone suddenly had a debt that could balloon by about \$12 million a year
 - ◆ This wouldn't be a big problem if the economy was stable...
 - ‡ But tax receipts are down with foreclosures, etc.
 - ◆ MTA now faces a \$900 million budget shortfall

The Reckoning

Currently

- ◆ The MTA is exploring options to reduce debt
 - ‡ Oct. 2011 debt was \$32 mil.
- ◆ Other states and cities are facing similar problems
 - ‡ California, Connecticut, Illinois, and South Dakota directly related to Depfa
 - ‡ Florida, Massachusetts and Montana have had to cut budgets because of CDOs and similar risky investments
- ◆ Hypo Real Estate
 - ‡ Now nationalized by Germany
- ◆ Wisconsin School Districts
 - ‡ Suing the Royal Bank of Canada and Stifel Nicolaus investment firm for misrepresentation

So What is Globalization?

Main concepts

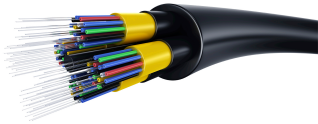
- ◆ Deterritorialization
- ◆ Interconnectedness
- ◆ Speed of society
- ◆ Inevitable (?)



Deterritorialization

National boundaries & distances are seen as increasingly irrelevant to economics and communication

- ◆ *The Internet was crucial for such a globalized world to exist*



Interconnectedness

- ‡ Almost cliché to announce that geography is dead & we no longer need nations...
- ‡ We are connected to what happens in the world



Speed of society

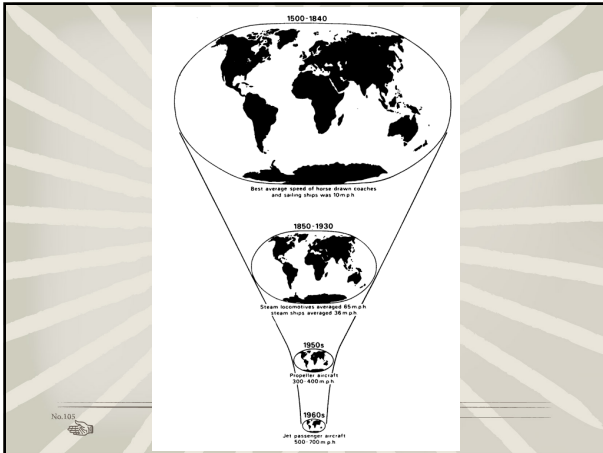
The speed at which we communicate & interact is a necessary component to globalization

- ◆ We are increasing the pace of life and overcoming spatial barriers

Speed of society

The result is **“time-space compression”**

- ◆ As time required to connect two places is reduced, space is “compressed” or “annihilated”
- ◆ This alters our everyday experiences and makes us more connected to the world



Dependence

- ‡ Flights cancelled from *Eyjafjallajokull* eruption
- ‡ <http://flowingdata.com/2010/04/26/air-traffic-rebooted-in-northern-europe/>

Inevitability

- ‡ *The natural outcome of capitalism?*
- ‡ *Removing government barriers to allow free markets to flourish?*

McDonaldsization?

- ‡ **Globalization** does *not* mean that we live in a **homogeneous** world of chain stores
- ◆ *Globalization is a social force, but it should not be confused with creating a placeless society*


New Means of Production

Fordism → Post-Fordism



Fordism

- ‡ 1920s - 1970s
- ‡ Multinational manufacturing corporations
 - ◆ Headquarters in the country of origin
 - ◆ Used plants that **they owned** in other parts of the world



Post-Fordism

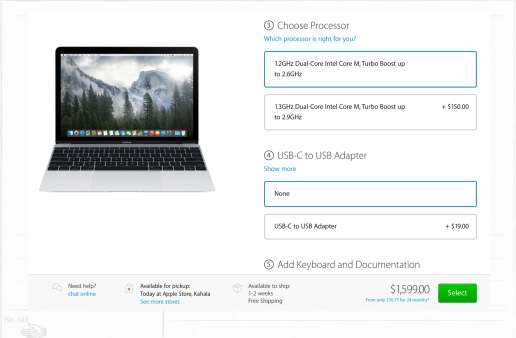
Just-in-time inventory

Not maintaining an extensive inventory of raw materials or components

- ‡ *Saves on warehouse costs, improves employee productivity*



Post-Fordism



Post-Fordism


Outsourcing

- ◆ Rather than own manufacturing capabilities, contract with other factories
- ◆ Multiple factories supply the same parts

Post-Fordism Examples

Nike

- ◆ Does not own a single manufacturing plant
- ◆ Contracts with 900 factories & 660,000 workers in more than 50 countries
- ◆ legal/ideological alibi for dangerous labor conditions, low wages, & anti-union practice?

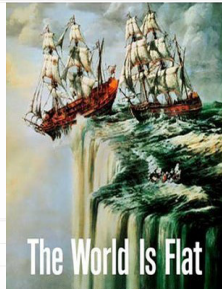




The World is Flat

Thomas Friedman's 2005 book

- ◆ Level playing field
- ◆ Technology advances = national boundaries aren't as important to economic success
- ◆ Flattening refers to the increasingly connected supply chains



The World is Flat

Friedman is a supporter of globalization and thinks it's a positive step

- ◆ Many people see such leveling as being "the apex of democracy"
- ◆ The US needs to accept globalization rather than grumble about it.

The World is Spiky

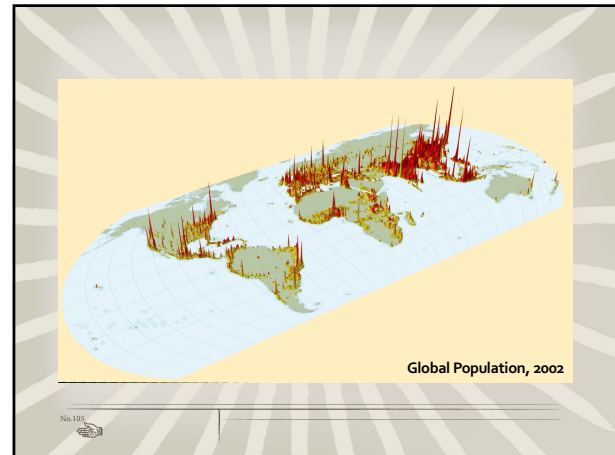
Richard Florida

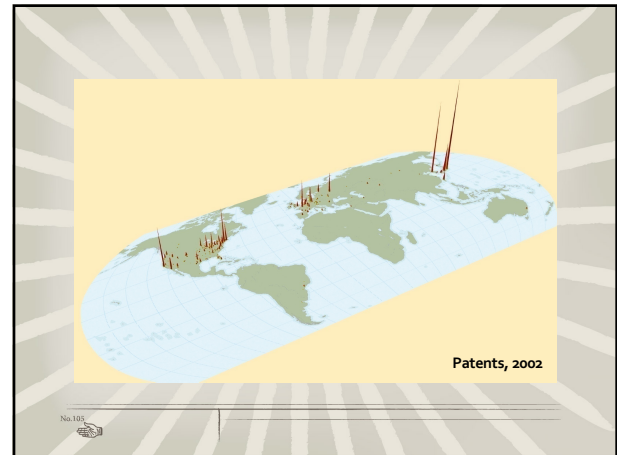
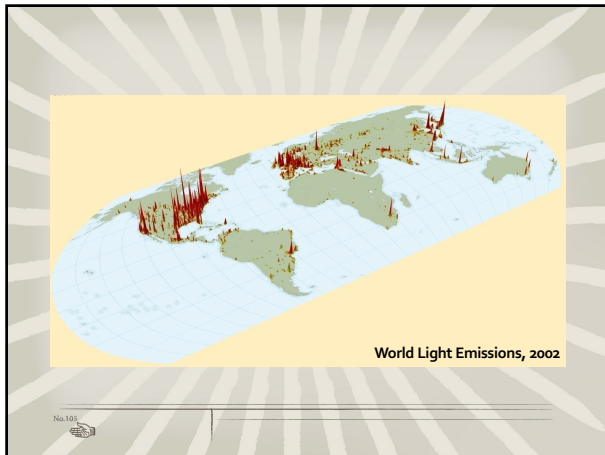
- ◆ Physical location is still very important
 - ‡ Yes, globalization means Indian workers can handle US phone support
 - ‡ But 'the second, less obvious side to globalization is the tendency for higher-level economic activities such as innovation, design, finance, and media to cluster in a relatively small number of locations.' (Who's Your City, p. 19)

The World is Spiky

So it does matter where you live

- ◆ Major cities in the world are still the place of innovation and economic development





The Power of Place

“Earth may be a planet of shrinking functional distances, but it remains a world of staggering situational differences.”

HARM DE BLIJ
AUTHOR OF *THE GEOGRAPHIC IMAGINATION*

THE POWER OF PLACE
GEOGRAPHY, DESTINY, AND GLOBALIZATION'S ROUGH LANDSCAPE

The Power of Place

1980-2000

- ◆ Texas reported **64 cases** of dengue fever.
- ◆ 3 Mexican states bordering Texas reported **62,514 cases**
 - ‡ Window screens & air conditioning rare on the Mexican side, making it easier for mosquitoes to spread the disease.
 - ‡ Availability of medical services too

Greek Crisis

Greece's debt bigger than GDP

- ◆ Credit rating lowered – struggles to pay bills with higher interest rates

Greece debt in world banks

Bank holdings of Greek sovereign debt by country – \$ billions

Country	Percentage	Amount (\$ billions)
France	32%	75.7
Germany	19%	42.2
U.S.	15.6%	15.6
U.K.	8%	8.0
Netherlands	8%	8.0
Other	31%	78.4
Total		236

Source: Bank for International Settlements. REUTERS

Greek Crisis

Contagion Effect


- ◆ Spreads to rest of EU?
- ‡ Portugal, Spain, Italy & Ireland



Greek Crisis

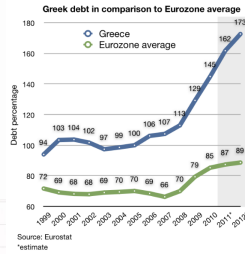
Loans

- ◆ April, 2010 – Germany, IMF



Greek Crisis

‡ Collaborative effort to cut Greek debt by over 50%



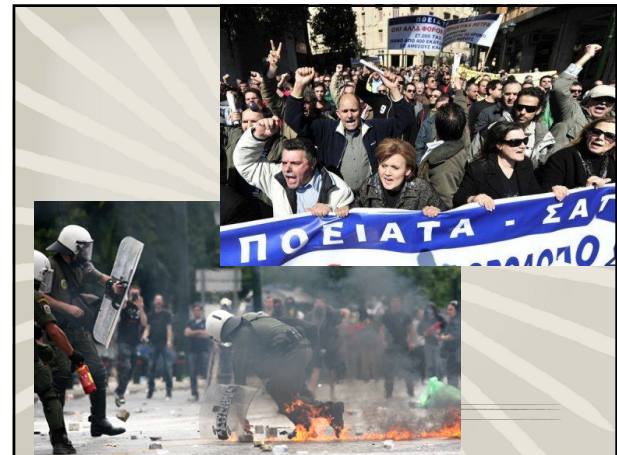
Year	Greece (%)	Eurozone average (%)
1999	94	72
2000	103	69
2001	104	68
2002	100	68
2003	97	68
2004	99	69
2005	100	70
2006	106	69
2007	107	66
2008	111	70
2009	125	79
2010	149	85
2011	160	87
2012	173	89

Source: Eurostat
*estimate

Greek Crisis

2010-2011 Austerity measures

- ◆ Reduce deficit by more than €10 billion (\$13.7 billion).
- ◆ Raised taxes on fuel, tobacco and alcohol
- ◆ Raised the retirement age by two years
- ◆ Public sector pay cuts
- ◆ New tax evasion regulations.






Getting Tense

Prime Minister Alexis Tsipras

- ♦ Germany should pay reparations to Greece for the crimes of Nazis.
- ♦ Will seize German assets in Greece



*Germany suggested
Greece pays for Alexander
the Great*