

## **Social Capital, Confidence and Trust: The disillusionment from globalization and the Search for Sustainable and Inclusive Development**

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### **Background: Globalization and its Discontents**

Many waves of globalization have crossed the world in the past. What was new with globalization as we have known it in the more recent years is that it gave mainstream economics a chance to become a universal practice of free trade, unrestrained competition and market liberalization. Social infrastructure was neglected and often denied, as a form of disguised government intervention, or, more subtly, as an expression of corporatism and special interests. Intermediate bodies, including trade unions and even political parties, were often denied legitimacy and were slowly weakened or disappeared. Economists contributed to support policies that lowered labor standards and weakened the bargaining power of workers. The welfare state became a cause for concern, in terms both of sustainability and freedom. As a consequence, no attention was paid to the need to develop effective policies to share prosperity or to compensate the losers of the new global economic game. Comparative advantage was effectively seen as part of the natural order, and any attempt at endogenizing it was waved aside as an improper interference in a market mechanism.

Slowly, but surely, these characteristics conjured up a globalized society that by recklessly pursuing an ideal of market absolute freedom ended up by undermining the very principles on which this pursuit was predicated. The new type of economic recklessness took many forms. First, by aggressively asserting the superiority of the free market system in securing sustained growth, it opened itself to dramatic disapproval and disappointments against the hard facts of the recurrent economic crises and declining well being. Far from generating enthusiasm and innovation, it appeared to worsen social injustice and further instability and income inequality. Second, by invoking a supposed convergence of economic efficiency with social justice, it let narrow economic targets dominate government policies and concern, thus exposing itself to major market failures led by a combination of financial bubbles and monetary and fiscal repression. Third, globalization favored an unorderly reallocation of the industrial base. Together with the illusion of the power of austerity and minimal government, this led to a massive re-structuring of the value chains, with specialization shifting from the production of final goods to intermediates. De-industrialization in developed countries followed suit with broad dis-enfranchisement of the working middle class. Fourth, the “new” labor policies, austerity and minimal government, combined with the inability to tackle economic crises, were all instrumental in determining an environment dominated by job insecurity, youth unemployment, and fraught with economic and political risks. Fifth, in the process, local social capital from civil society and intermediate bodies was all but dissolved by the new institutions, cultural trends and economic and social policies, without being replaced by any equivalent “global” infrastructure.

The upshot of all these features of an increasingly alienating environment is a general process of disillusionment and breakage of trust, which goes to the very root of civil society, and is threatening to destroy the fabric of social capital. The disappearance of intermediate bodies, wiped away by the

disintermediation operated through the globalized media, has been especially effective in depriving local communities from their network of mutual obligations based on reciprocity and trust. This process has started long time ago, with the crisis of the traditional political parties, and the demise of locally based cultural and religious groups. The surge of internet and social media, with their instant promise of virtual community building have also been instrumental in accelerating the demise of local communities as we knew them.

In his celebrated book *Bowling Alone* (2000), Robert Putman, who is also well known for his analysis of the social roots of Italian economic dualism, has documented the erosion of social capital in the American cities, through the decline of civil engagement over the last 30 years. It is interesting to consider the interview that he gave in 1995, five years before the publication of his book, because it sounds not only right, but prophetic. *“For many years, I’ve been worried . . . as a citizen . . . about things like the collapse of trust in public authorities. When I was growing up in the 1950s and 1960s, 75 percent of Americans said that they trusted their government to do the right thing. Last year, same survey, same question, it was 19 percent. As I was finishing my book on Italy, it occurred to me that what I was finding out as a scholar of Italian politics was connected to what worried me as an American citizen — namely, the sense that our national experiment in democratic self- government is faltering. So I started digging around about trends in civic engagement in America... I frankly was astonished”* (AHEE interview 1995).

And, in another interview, 5 years later, again with seemingly prophetic tones : *“We are not talking here simply about nostalgia for the 1950s. School performance, public health, crime rates, clinical depression, tax compliance, philanthropy, race relations, community development, census returns, teen suicide, economic productivity, campaign finance, even simple human happiness — all are demonstrably affected by how (and whether) we connect with our family and friends and neighbors and co-workers. And most Americans instinctively recognize that we need to reconnect with one another. Figuring out how to reconcile the competing obligations of work and family and community is the ultimate “kitchen table” issue. As practical solutions to the problem become clearer — a radical expansion of the Family and Medical Leave Act is my current favorite — the latent public support for addressing the underlying issue will become an irresistible “market” for ambitious political candidates”* (Atlantic Unbound interview 2000).

George Stiglitz (2002) authoritatively argued that the pursuit of the neoliberal policies implied by the so called *Washington consensus* were too blame for a host of unsound policy prescriptions, for all countries , but especially for developing ones. His analysis blossomed into an expanding narrative of growing discontent with neo-liberal policies, market failures from information, the main culprit in causing dysfunctions and distortions in resource allocations, are propagated by global markets and ultimately result in global distortions. Moreover, since free trade is a substitute for factor movement, huge differences in wages across countries translate into huge movements of low skill intensive goods, with massive displacements of low skilled jobs in developed countries. This movement has caused disenfranchisement and divestiture not only of the working class, but also of an emerging middle class, whose belief in neo-liberism had led the way for a progressive dismantlement of the traditional social protecting network, based on family and local community ties. But also the welfare state, somewhat paradoxically, has been weakened by a parallel critique of the public role in the economy, based again on the neo-liberist illusion on a sort of ultimate and essential benevolence of the market economy. People do not feel better off from globalization, in other words, and, more than that, they are increasingly disillusioned and discontent. The losers are disappointed and in pain, but even the winners are not experiencing a long term serenity from their accomplishment, in an environment that is so obviously deteriorating to yield confidence in the future.

For D. Rodrick (2014), globalization is internally contradictory, since it proposes a way to organize society, where economic rule is international, while political rule remains national, or, even worse, national democracy is foregone in favor of an international, and unaccountable bureaucracy, as in the case of the European Union. The main thrust of Rodrick's argument against globalization, however, is on the distributive consequences of free (or freer) trade. Compared with the classical "gains from trade", in fact, the redistributive consequences of removing tariff and non tariff barriers are huge and even though in principle winners may compensate the losers, the sheer size of the gains and the losses, in addition to the practical difficulties and costs entailed by redistributive measures, prevents this from happening. An additional argument is that the gains from trade themselves are conditioned by the existence of externalities, and trade restrictions in fact may be beneficial if they help reduce negative external effects or to produce positive ones.

The three arguments put forward by Putnam, Stiglitz and Rodrick, even though essentially focused on some undesirable effects of modernization (in the Putnam's case), and of worldwide adoption of seemingly superior neoliberal standards (in the Stiglitz and Rodrick's case), all have to do with globalization. In the remainder of this paper, I will argue that in essence they are all concerned with one intrinsic characteristic of hyper-globality with profound social and economic consequences: the accelerated replacement of a society based on local ties and communities with one based on hyper-connectivity and global networks.

### **Globalization and connectivity**

Globalization is a complex process that promotes, as in many instances it has occurred in the past, a progressive integration of world social structure across a number of interacting dimensions: economic, political, in communications, in the technology and in culture. The central element of the present globalization process, however, is a new feature, which is as an extreme acceleration of changes in 'connectivity'. (Tomlinson, 1999, Scandizzo and Imperiali, 2014). This means that the networks of interconnections and interdependencies of modern society are rapidly changing in ways never experienced in the past. These interconnections concern the increasing flows across international boundaries of economic resources, goods and services, financial services, technologies, but also, perhaps more importantly, knowledge, customs, beliefs, behavioral patterns, aims and aspirations and, ultimately, confidence and trust.

Beyond its more obvious characteristics, modern globalization can thus be distinguished from many similar world integration movements in the past, as a form of cultural universalism led by a powerful and pervasive process of networking. This process is neither uniform in time or equally spread across countries, social groups and individuals, however. Developing countries, for example, are involved in ways that are very different, both in strength and reach than developed countries. In fact, one of the main problems of globalization is that it creates divides based on different degrees and forms of achievement in connectivity, a new basis for inequality because not everyone can be equally globalized. This process of inequality creation is also a process of creative destruction since the new connections tend to destroy and substitute in density, number and location, old ones and this process can completely subvert the order of life of pre-existing societies.

One is tempted to interpret the process of networking that is intrinsic to the modern form of globalization, as a typology of trade, where transactions are highly immaterial and concern a vast array of services, which are increasingly user based. There are, however, important differences with trade and trade connections, since networking appears to follow a much more cumulative and increasing pattern, with

pervasive connectivity, and a tendency to create highly polarized hub and spoke structures, governed by power laws (Barabassi, 2009).

In order to understand the power of connectivity in globalization, consider that in all societies hierarchical position and network location facilitate the access to embedded resources such as wealth, status and power of social ties. In traditional societies communities are the main facilitators even in the presence of centralized power and concentrated wealth, because local connections reflect the class structure and social engagement, with transactions and information flows constrained by locality and communication speed. Loyalty filters are also critical to determine transaction costs, and “animal spirits” are mostly moved by synergies provided by neighbors and members of one’s class. As in Putnam’s counterfactual vision, social engagement is mostly determined by a network of professional and institutional connections, with rich local branching, even when institutions receive their legitimacy at higher levels. In the traditional societies, power is obtained by following “national” procedures, whereas authority is obtained through a process of legitimation which is rooted locally.

All this changes in a globalized environment, where networks grow because they are embraced in force of the adoption of a common standard by both close and distant parties. In this environment, hierarchical clustering appears to be the basis of power and authority from social networks, organized according to two distinct strategies: 1) agglomerative clustering and 2) divisive clustering. The agglomerative model provides for a series of fusions of individuals into groups. It is the result of a “bottom up” approach, where each individual, group or institution (each “node”) starts or finds in its own cluster and then pairs of clusters are merged as one moves up the hierarchy. This is the process that governs for example the adoption of a language, of consumer brands, and global quality standards for science and technology. Divisive methods, on the other hand, separate existing groupings and correspond to a “top down approach”, where all nodes start in one cluster and then splits are performed as one by one they move down the hierarchy. These are less frequent but by no means less important in globalized networks, where lower level “clubs” of network members develop around some special characteristics, or are partially evicted from the higher status groups because they are considered both within, but somewhat below standards. An example is the country clusters within a trade network, such as, for example, the EU.

The importance of clusters for economic theory arises from Coase’s approach to the theory of the firm. According to Coase (1988), in fact, the existence of the firm is the attempt to reorganize contracts of exchange in alternative to the market, by economizing on transaction costs. The value of the firm thus derives from a peculiar configuration of “rights”. This depends on its “dedicated hierarchical nature”, that is, its specialized cluster structure, which is the consequence of both agglomerative and divisive clustering, and the assignment of different “rights” to its various stakeholders, with ownership and control embedded into residual “rights” of shareholders. Because most economic activities can be interpreted as “enterprises”, *i.e.* as business ventures of a sort, the Coasian approach implies that the cluster paradigm (the enterprise as a cluster of contracts) may be applied to a wide variety of situations and, in particular, to the configuration of different actors presented by the modern globalized society. The concept of the enterprise as a cluster of contracts and of the parties involved as stakeholders has forced economists to face the issue of the plurality and heterogeneity of economic agents, especially in the new forms of “user based” enterprises. Thus, for example, the Euro Group can be interpreted as a cluster formed to economize on transaction costs by adopting a single currency, facing a tradeoff between the network economies created by adopting a common monetary standard and the costs generated by the heterogeneity of the monetary policies that would be needed the union’s members (Alesina and Barro, 2002).

Beyond the mere power of market integration and free trade, globalization acts by reorganizing rights and obligations according to new and dynamic clustering processes. Two basic models rule these dynamics: growth and preferential attachment. Growth implies that new nodes are continually created, in response to the attractiveness of the network as a provider of global public goods, and as a cost-reducing coordination cluster. Preferential attachment means that new nodes tend to connect with existing nodes that

already have a large number of connections. Both phenomena together determine an inequality generating mechanism (a power law) whereby the distribution of links tends to become more and more concentrated into few rich nodes. This means that networks are intrinsically divisive forms of unequal partnerships, with a few highly-connected and hegemonic hubs with an extraordinary large number of links, which keep networks together. If we interpret globalization as a process of network creation, therefore, we should expect a much more fluid and unpredictable process than the traditional international trade development, with a growing multiplicity of points of departure and destinations of diverse transactions and, at the same time, a growing concentration of influential nodes that polarize connections. A massive restructuring of economic and social relations has followed from these processes. Value chains, for example, have reorganized themselves across countries, according to networks of spokes producing similar goods served by hierarchical clusters of inputs dominated by a few hubs of exchange. As a consequence, most countries produce the same products, and trade mainly consists of intermediate goods. Social networks have also cropped up, letting people gather across borders, de-materializing encounters and interactions, wiping out the traditional networks based on neighborhoods and local communities.

The so called “small world property” is the most important network property in this respect. It was discovered by Milgram (1967), who proposed an experiment, where randomly selected people in Nebraska would be asked to send letters to a distant individual in Boston, identified only by name, occupation and rough location, so that the letter could only be sent to someone presumably closer to him. Milgram was tracking the letters and found a surprising result. The average number of links needed to find the targeted person was found to be only six. This result is called “the six degrees of separation” and is the consequence of the fact that two individuals who don’t know each other may nevertheless be linked by a common acquaintance.

The small world property is important because it reveals properties of the performance of a given action that depend on the underlying structure rather than on any special procedure of optimization. It also shows that local information may be conducive to global success and that social networks, regardless of their size and complexity, exhibit two key characteristics: 1) a plurality of short path lengths and, 2) a structure that enables individuals to find short path lengths even in absence of a global knowledge of the network. These aspects bear consequences for a variety of influential networks and ultimately for social systems. They are visible for example in the World Wide Web, the traffic way-finding in a city, the transport of information packets on the Internet and the diffusion of signaling molecules in biological cells. The small world property also suggests that whereas complexity may make more difficult to comprehend the properties of a network, it carries with itself an increase in connectivity that makes easier to cover seeming longer distances with relatively short paths. This property is the basis, in particular, of the so-called principle of the strength of weak ties. This principle, put forward by Granovetter (1973) asserts that “Our acquaintances (weak ties) are less likely to be socially involved with one another than are our close friends (strong ties). Thus, the set of people made up of any individual and his or her acquaintances comprises a low-density network (one in which many of the possible relational lines are absent), whereas the set consisting of the same individual and his or her close friends will be densely knit (many of the possible lines are present)”. Complex networks can thus be conceived as sets of simpler closely connected networks of strong ties (such as cliques) loosely connected by weak ties. The small world property is the result of this local-global structure, whereby weak ties are the means to bridge the gaps between two or more densely connected “strongly tied” networks. Greater connectivity, however, also implies that weak ties tend to become increasingly dominant, as growth and preferential attachment will increasingly favor local networks that are more highly connected globally. This means greater concentrations of economic and social power of the more successful cliques, and the weakening and the disappearance of local clusters that do not connect well globally, such as the labor unions, the civic associations, and the like. Putnam’s process of social disengagement at local level may thus be matched, though not substituted, by a different form of engagement in social networks, without the

traditional intermediate social bodies, dominated by solitary involvement and weak ties. Global networks also tend to disenfranchise the leading elites in local communities, and in general the middle class, by substituting locally based loyalty and identity values (strong ties) with the practical advantages given by the adoption of a common carrier (weak ties) by a vast plurality of network members.

It is important to understand the different premises on which the new networks are based as compared to the traditional ones. The main difference lies in the principle of coordination that rules the globalized networks on the basis of a common standard. Whereas clusters relying on strong ties are held together by several common features, such as local experience, mutual acquaintance and identity, weak ties networks are generally defined by a much smaller set of common practices, which may reduce in the limit to a single common standard. Clear examples of this type of networks are languages, and English as the emergent global language in particular, which may define huge networks of weak ties based on one linguistic convention as a single standard. Global networks also possess a key economic characteristic as they can be defined as “anti-rival goods” (Weber, 2004), that is goods that not only can be shared, but whose value depends on how many users share them.

One further characteristic of the weak ties forming the global networks is that, even though they are more effective in carrying information over long distances, they are not necessarily more reliable, and may in fact be quite misleading as both collectors and transmitters of social information. The reasons for this unreliability reside in part in the “length” of the ties, which extend over long distances and make verification difficult to carry out without significant costs. This makes them open to many sorts of participants’ misbehavior, from “fake news” to hacking and enlarge significantly the probability of informational “booms and busts”, whereby waves of confidence are followed by delusion and mistrust. Because social ties typically take the form of principal- agent transactions, whereby one party commits to another party on the basis of a fiduciary relationship, they are “trust goods”, in the sense that they depend on the mutual trust across each pair of the actors engaged in the exchange. Weak ties are also at the base of the institutional failure of globalization, and of the fact that spontaneous global network creation is not matched either by spontaneous or by planned creation of global institutions.

Under these circumstances, it is not surprising that trust does appear to be eroding under globalization. As Tim Cummins, founder of IACCM, reports,["Loss Of Trust Carries A Heavy Price – But How Heavy?" Commitment Matters, 16 December 2010] this happens mostly because long chains of transactions among people unknown to each other are being substituted for the traditional ties among familiar partners. Cummins writes: "...According to a report for the World Economic Forum, levels of trust have fallen by 44% in the last 10 years. Whether or not we can rely on the precise statistic, the underlying message is important for anyone engaged in the world of contracting and relationship management. Trust is commonly understood to be fundamental to the health and sustainability of relationships. Its erosion therefore has significant consequences, many of which are in fact already evident in our daily work. Globalization has been the key factor in the decline of trust."

The trust element of communication is especially important to support and create social narratives, beliefs and, ultimately, trust in the social system, in one’s identity, destiny and scope in life. Narratives created in small social circles may also be quite distortionary, of course, and local beliefs may tend to reflect provincialism and bigotry. The fact that they are based on strong ties, bred within small circles of family members and friends, however, makes trust almost a necessary byproduct of social transactions and stabilizes its treatment by local communities in ways that tend to prevent surprises and especially delusionary ones. Local narratives of inclusive growth and other benevolent developments are also more numerous and diverse. While they may not accord with reality in many cases and they may even fail most of the time, it is unlikely that they fail all the time. Globalized narratives, on the other hand, have different trust features. Because of their extended reach and lack of fundamentals in terms of fiduciary ties, they are subject to sudden raise and falls of confidence from the public, according to a model of “boom and bust” that is all too familiar from the financial markets. Not only they are based on de-materialized transactions which at one moment can become viral and in the next one disappear, but they are also de-personalized, in the sense that

no one can really claim personal responsibility in initiating or propagating them. Furthermore, if globalized narratives fail, they do it in a spectacular way, so that the fall in trust tends to be equally spectacular and pervasive. As the major narratives of globalization appeared to have failed to maintain their promises of shared prosperity, they are being followed by equally spectacular tales of doom and despair. Both the fall in trust and the expectations of doom generate a deep structure of discontent and an undercurrent of resentment with a persistent loss of trust and confidence in the future.

The most spectacular failure of globalized narratives concerns globalization itself. As a form of humanistic universalism, worldwide integration of economies and cultures is an utopia that characterizes, in one form or another, most of human history. It is based on the idea that the best of human development can be obtained by eliminating communication barriers and building on the largest possible commons, the entire world. This idea has been continually proposed and challenged throughout history. In its ecumenic dimension, it has proven successful only when it has generated global networks within a common institutional framework, where, as in Coase's penetrating analysis, coordinated hierarchies have been built to build mutual trust and allow commitments with minimal transaction costs. The present form of hyper-globalization, based as it is on weak ties and the absence of global institutions, however, has not faced this problem and remains prone to allocative failures, fragmentation and disillusionment.

Connectivity is also the base of another important reason of the fall of trust in a globalized society: the increasing confluence of risk and uncertainty. The difference between these two conditions has traditionally been debated by economists, and Frank Knight's definition of risk as measurable uncertainty has generally been taken as the definitive answer. There is, however, an additional difference between risk and uncertainty that may even be more important than measurability, "diffusion". In general, as a form of lack of basic information, uncertainty has a high level of diffusion, since it is a condition shared by many, and in several cases, by all people contemplating a phenomenon that cannot be predicted with accuracy and defies cognition. Risk, on the other hand, tends to be concentrated in risk taking agents, as it depends on the loss that one can suffer or the gain that one can extract from an uncertain situation by taking a specific set of (risky) actions. Depending on one's risk aversion, this distinction allows agents to engage in smart actions, taking advantage, at a risk, of unpredictable events. Increased connectivity, however, leads to a progressive inability to contain risk within the circle of a specific risk takers. Risk tends to become as diffused as uncertainty because connectivity propagates its effects as a form of negative spill over on the rest of society. When this diffusion process extends risk to all segments of an industry or a market, it becomes "systemic risk", and its practical consequences may be devastating, as demonstrated by the last financial crisis.

As Beck (1992) has persuasively argued, the new technologies and the world-wide drive for their adoption carry more risks and make them widespread. This depends on some intrinsic dangers in the commoditization of knowledge and on the diffusion process induced by hyper-connectivity. But it also relates to the new economic instability of the middle income class, disenfranchised and endangered by failure to adapt to new technologies and international factor movements. "(Modernization risks) possess an *inherent tendency towards globalization*. A universalization of hazards accompanies industrial production, independent of the place where they are produced: food chains connect practically everyone on earth to everyone else. They dip under borders" (Beck 1992: 39). The promise of technological progress, therefore, goes hand in hand with a de-stabilizing trend, which propagates and multiplies risks to all aspects of social living, from employment to social status, natural and health hazards to war and terrorism. We thus live in a risk society, where no one is safe. "The basic insight lying behind all this is as simple as possible: everything which threatens life on this Earth also threatens the property and commercial interests of those who live *from* the commodification of life and its requisites. In this way a genuine and systematically intensifying *contradiction* arises between the profit and property interests that advance the industrialization process and its frequently threatening consequences, which endanger and expropriate possessions and profits (not to mention the possession and profit of life)" (Beck 1992: 39).

## **The Loss of trust and the New Nationalism**

Loss of trust and globalized risk have many implications for everyday life and the very sorts of modern societies. As a cultural good that cannot be obtained at will, but can only flourish under propitious circumstances, trust is at the same time, the foundation of civilized living and an essential ingredient for economic growth. Its decline manifests itself in several ways, from a fall of confidence in political leadership to anxiety and despair for the future. Loss of trust implies also an increasing incapacity for planning and foresight and a gloomy vision of reality which threatens to become a self-fulfilling prophecy of doom and failure. Retrenchment from globalized trends and regression to selfish nationalism or localism are also a byproduct of this seemingly perverse involution of political and social reality, still under the spell of the latest financial and economic crisis, with the “animal spirits” that seem all but disappeared.

In this context of disillusionment and insecurity, the failure of the globalized dream is contrasted today from several quarters with the proposal of a "new" responsible nationalism. This is an alternative program to globalization, even though it may recognize some inevitable and already accomplished globalizing trends. One of the most persuasive advocates of this new line, D. Rodrick (2013, 200-201) points to a “Political Trilemma of the World Economy,” arguing that we cannot have hyper-globalization, national sovereignty, and democratic politics all at once, but only two out of three. Since democracy cannot be compromised, we must reject deep economic integration and return to the national state as the only game in town. L. Summers (2016) takes a similar view, with somewhat different nuances: “What is needed is a responsible nationalism - an approach where it is understood that countries are expected to pursue their citizens' economic welfare as a primary objective but where their ability to harm the interests of citizens elsewhere is circumscribed. International agreements would be judged not by how much is harmonized or by how many barriers are torn down but whether citizens are empowered”. In politics, this line has emerged as the winning narrative in several countries, as, for example in the decision of the UK to exit the EU (the so called Brexit), but has been more dramatically professed during his successful electoral campaign by Donald Trump.

This form of revival of the national state is not at all new, but represents a simple return to the secular idealism that has characterized Western society since Hegel's times. Popular nationalism is at the center of this philosophical theory, whereby the state and the people are one and constitute the highest expression of ethics. Since the state consists of only one people, Hegel and its epigones cannot have higher entities than the state, nor supranational bodies. Paradoxically, given the respective roles that Germany and the United States now seem to be playing, multilateral coordination and international law exist only as bilateral communication attempts between the states. International treaties are therefore statements of intent, which always concern bilateral transactions, which states are free to sign, as well as to break. This, in fact, is Trump's doctrine, which indeed aims to eliminate the ambiguities inherent in multilateral treaties and pretensions of sovereignty, rebuilding an international order based solely on bilateral agreements between sovereign states.

This return Hegelism is somewhat paradoxical since it bypasses altogether the experience of connectivity in the name of an underlying force (the “spirit”) which is itself a global unifying principle for the entire world. This seemingly irrational paradigm counters the sense of irrelevance and betrayal of an increasingly disenfranchised middle class by suggesting a grand narrative of revolt and renewal. As such, it was already quite successful in the past with ensuing radical changes in the political and institutional scene. Hegel believed that these changes could take place through the vesting of ordinary men by the spirit.

According to Hegel, most leaders have a function of internal conservation of the ethical state, but the great transformations occur because "the cunning of history" drives some outstanding leaders to realize the radical changes that are necessary for the progress of people, without, however, to have conscience and thinking of following exclusively their own passions and ambitions. The great leaders are therefore also great destabilizers of public ethics and, say, of "politically correctness", and are therefore destined to be disdained, hindered, and ultimately to perish, even infamously. Nevertheless, Hegel argued, the changes they generate are inevitably in the direction that the realization of history requires and which implements the progress of the spirit.

The breakdown of the globalization narrative of liberal progress under rational rules, and the associated trust and security crises are epitomized by Brexit, the rise of popular nationalism and by the emergence of a new political leadership. They are phenomena that seem to indicate that we have entered a transition era with dramatic changes to come, but also, in a sense, with the return of the past. History that is radically changed by the leader, as an unconscious agent of the spirit, is in fact a romantic narrative that has animated past centuries and which is the basis of countless big and small events of destruction and renewal. Of course, not every major leader can be considered a hero, or a legitimate representative of history, but the narrative of "creative destruction", so attractive to economic theory, has its charm. The combination of populism and nationalism, also not a new fact, adds further attraction to a world disintegrated by a globalization seemingly without a soul.

In this tale of creative destruction by rebuilding trust and security in a national state, the European Union appears more and more like the designated victim. On the one hand, it is in fact the last bastion of over-nationalism, in unfinished form and therefore more vulnerable. On the other hand, the leading nation, Germany, as the heir to the last great national-popular destruction, is the country that has most dramatically embraced the supranational, multiethnic and multicultural pattern. Although history does not repeat itself, there seems to be a leitmotif in this contrast between globalism and nationalism, elite governments and people's governments and regional clashes between the two sides of the Atlantic, with Germany and the USA in apparently inverted positions after long years of Pax Americana following the last conflict. Even though it is a romantic element in the dream of European federalism, the project of united Europe has been conceived as a rational construction, which seems crippled by the global disappointments and the romantic thrust of new nationalism.

## **Trust and the G7 Agenda**

The theme of the Italian G7 presidency in 2017 is 'Building the foundations of renewed trust', which, according to official sources, should be based on three pillars: (i) citizen safety, (ii) economic, environmental and social sustainability and reduction of inequalities, (iii) innovation, skills and labor in the age of the next production revolution. In the official site (<http://www.g7italy.it/en/priorities>) these pillars are given a summary illustration in terms of principles and some general ideas, but without going much beyond a statement of intention on the targets to be pursued. The policy instruments to be used and the overall strategy of attack, however, must recognize that the three pillars correspond to three critical failures of globalization as we have seen it so far both in its general effects and in the deployment of national and multinational policies.

The first pillar, “citizen safety” evokes the demand for security on the part of the citizens, in a society increasingly dominated by systemic risk and destabilizing trends, where most certainties of the past, from job security to social nets have been waning or disappearing altogether. As I have argued above, this is the consequence of an increasingly connected world where spontaneous global networks are not matched by institutions capable to deal with local and global failures. The lack of these institutions has multiple consequences, both in the proactive and reactive sense, and is one of the reasons why many people want to return to a larger role of the sovereign state. However, there is a major disproportion between real and present dangers and local countervailing capabilities, where global risks can only be confronted with actions coordinated and deployed on the same global scale. A clear example of this disproportion is the treatment of the immigration emergency on the part of the EU and its members, but other areas, such as defense and terrorism, that also concern security, appear singularly unequipped to deal with global threats.

The second pillar is said to focus the UN Agenda 2030 for Sustainable Development, but much more thinking should be given to both policy targets and instruments within this broadly acceptable framework. The key question in this respect is that sustainability, inclusion and shared prosperity appear to be challenged, and in many cases threatened by globalized trends. They cannot be taken as pure external policy variables, and must themselves be linked to the provision of trust, security and social justice endangered by the spreading of globalization. As national welfare systems prove to be less sustainable and incapable of providing sufficient social insurance, they should be the object of a major effort in international cooperation. The race to the bottom in labor standards and other forms of international arbitrages aimed to gain competitive advantages by eschewing social responsibilities through global networks should also be countered with proactive and multilateral labor policies. Promoting and helping to establish global networks that correspond to these needs, by offering opportunities for education and upgrading of labor skills seems to be the most appropriate answer, and the only one capable to provide an alternative to the evoking of fragmented national interests.

The third pillar is perhaps the most difficult to tackle, even though it is based on the important idea that trust needs to be reestablished not only by tackling the causes of its decline, but also by providing new reasons for confidence in the world and in its future. Determining and implementing actions to establish international cooperation and foster innovative ways to promote inclusive growth is the main challenge. While programs like Industry 4.0 and the Juncker plan may be helpful, they are not quite up to the task. An adequate answer would have to consist of a much broader set of international policies to re-launch innovation and global growth. This again calls for institutional building at a global scale and underlines the interdependence of structure and agency for the success of modern society. In the words of Edmund Phelps (2016), “I personally hold that the classical spirit of challenge and self-discovery is a fundamental human trait. By showing how the risk-taking activity of individuals contributes to social benefits, economics helps societies to accommodate what Augustine called our “restlessness of heart.” This is the better part of our human nature. Societies that suppress this restlessness stagnate and die. The issue of morality in economics is neither the fairness of income distribution nor the stability of financial systems. It is how human institutions can be shaped to correspond to human nature—to man’s nature as an innovator.”

## **Conclusions**

In its contemporary form, globalization is a phenomenon of progressive economic integration, driven by economic growth and technological development. Its recent acceleration is mostly due to hyper-connectivity, a typology of technical change linked to ICT and the spread of networks. At the root of the globalizing drive lies the search of scale economies through mutual coordination and common standards. Even though hailed by neoliberal thought as one of the main accomplishments of free international markets and freedom from invasive government activities, globalization is not necessarily friendlier to markets than to planning and governments. On the contrary, as in Coase’s celebrated tale, it may be considered a form of

self-organized structure, complementary to the markets, raising to provide global public goods that expedite transactions through large and accessible hierarchical clusters. In many respects, therefore, globalization is a good thing, since it is an engine of provision of a widening range of global public goods. As such, within the intrinsic rival structure of our private market economy, it is introducing alternative forms of sharing based on the provision of non-rival or even “anti-rival” goods and services.

These positive changes, however, are not for free, and tend to be associated with two main social costs. First, hyper-connective globalization is a new powerful engine of economic and social inequality. Second, even though they propose themselves as anti-rival global public goods, globalization networks, based on multiple weak ties, tend to replace older, strong-tied, community networks. The impact on inequality is complex, since globalized network tends to follow a power law, that is, progressive concentration of network power in a few hegemonic hubs. The consequence is not only more income inequality, but also more inequality in controlling the public goods provided by the network to an expanding number of users. Paradoxically, therefore, we may have growth that is at the same time more inclusive and more unequal. The rivalry between the new global networks and the older local ones have also negative implications for social inequality, since they tend to transfer income and power from local elites to the hegemonic hubs controlling the new networks. Moreover, they may accentuate this loss by reducing the amount of trust and identity provided by local strong ties and contribute to the liquidation of valuable cultural traits of local or national communities.

While not a zero-sum game, globalization nevertheless generates an uneven distribution of gains and losses, and is not equipped to compensate the losers, because there is apparently no self-organizing drive for global compensatory mechanisms and welfare policies and compensation schemes do not show any intrinsic tendency to become globalized. The losses generated by the transfer of power from local to global elites, furthermore, cannot be cured with the classical instruments of the welfare state, since these are mainly designed to rescue the unemployed and the other vulnerable groups of national societies, whereas globalization causes processes of disenfranchisement and loss of identity and power especially concentrated in the middle class. In part, the inability to tackle the compensation issues may be caused by the fact that politics is the only realm of social life that remains persistently local. It may be the unintended consequence of the greater influence of neoliberal policies on multilateral institutions and agreements. This is also causing a paradox, since people are increasingly disillusioned by both globalization and national policies, and part of the populist rise appears to be generated by a widespread loss of confidence in both global and local political elites. New welfare instruments and policies should thus be designed to address the social ills of a redistribution process driven by the new type of wealth and poverty caused by globalized networks. Simple unemployment schemes do not work unless, as Rodrik (2011) suggests, labor movements across national borders are freed and multilateral schemes of assistance are developed to protect the freedom and the security of these movements. On the other hand, engagement in society is waning with an increasing number of people who are not looking actively for a job (Eberstadt, 2017), and this may be itself a result of the national welfare policies as well as of a society where the less educated and the disadvantaged find themselves increasingly cut out from the mainstream.

Hyper-connectivity not only implies that global public goods can be provided and shared, but also that public “bads” are easily transmitted over both short and long distances. The booming of worldwide risks caused by growing exposure to remote actions is aggravated by the inadequacy of domestic apparatuses and policies, and the lack of international coordination. Globalized networks create further uncertainties by destabilizing the traditional mechanisms of assignments of rights and access to authority and power, including job security, social hierarchies and industrial relations. Terrorism, crimes, epidemic diseases, political conflicts and wars are also propagated through networks as real menaces as well as threatening narratives. The ensuing loss of confidence in the future is thus magnified by the loss of traditional certainties and the creation of new and larger uncertainties, where governments and political elites are held responsible for their failure to respond to the increasing demand for security of ordinary citizens. As Goldin and Mariathasan (2015) put it in their recent book on systemic risk :“... the complexity of the world that we

have built may well have escaped our models and cognitive abilities. We are overloading the global networks; we are stretching their capacity beyond what prudence recommends, and too often we neglect the accumulation of a large variety of risks and the geographical concentration of activities in a small number of pivotal nodes”.

How do we build more confidence in the future? The nature of the challenge is indeed global and return to nationalism, however responsible, does not seem an adequate answer. Rather, real multilateral cooperation and institution building appears to be necessary, and to an extent that is both practically effective, but also commands an image of vigor and reach, capable to overturn the current expectations of the disgruntled and disillusioned citizens. Rather than turning away from it, the world needs an extension of multilateralism from the narrow financial and economic space where it has been confined by the Bretton Woods partial vision, to a broader array of institutions with a clear mandate and a genuine commitment to improve the global practice of societal values to yield inclusiveness, security, innovation and trust.

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