GLOBALIZATION: THE CURRENT DILEMMAS

Hazel Henderson

Hazel Henderson is an independent futurist, syndicated columnist, and consultant on sustainable development. She is the author of several books, including The Politics of the Solar Age, Paradigms in Progress, *and* Building a Win-Win World. *This article is excerpted from her most recent book,* Beyond Globalization: Shaping a Sustainable Global Economy *(Kumarian Press, 1999). She is also a Fellow of the World Business Academy.*

Globalization today involves the increasing interdependence of national economies, financial markets, trade, corporations, production, distribution, and consumer marketing.

This globalization process is driven by two mainsprings. The first is technology, which has accelerated innovation in telematics, computers, fiber optics, satellite, and other communications; their convergence with television, global multimedia, electronic bourses for trading stocks, bonds, currency, commodities, future options, and other derivatives; and the global explosion of e-commerce and the Internet. The second is the fifteen-year wave of deregulation, privatization, liberalization of capital flows, opening of national economies, extension of global trade, and the export-led growth policies that followed the collapse of the Bretton Woods fixed currency-exchange regime in the early 1970s. As the Soviet Union and its state-commanded economy crumbled, the wave of experimentation with deregulating global markets became known as "the Washington Consensus," that is, the dominant Western economic paradigm promoted by the United States, the World Bank, the International Monetary Fund

(IMF), and their dominant schools of academic economists on both sides of the Atlantic.

Real or Unreal

With today's globlization of finance in cyberspace, key cities such as London, New York, Tokyo, Singapore, Hong Kong, Frankfurt, and Sao Paulo have become expressions of this new global, networked information-based economy. Finance, which is supposed to serve the world's real production and exchange processes, has largely de-coupled from the "bricks and mortar" of real economies of local places and communities. Today's globalized economy has led to a sixteen-fold increase in world trade since World War II, worth over US$4 trillion per year (some 15 to 20 percent of measured global GDP). More than forty thousand multinational companies with twenty-five thousand foreign affiliates dominate this two-thirds of global trade. Yet this huge volume of trade accounts for less than 10 percent of the 24-hour global currency trading of $1.5 trillion every *day*.

Finance has largely de-coupled from the "bricks and mortar" of real economies of local places and communities.

This global economy of flows in these market networks is increasingly abstract and divorced from national policy-makers and local affairs, grassroots lives, and livelihoods, as well as the natural ecosystem. This has triggered new risks and new inequalities. These include the further marginalization of social groups, indigenous peoples, and whole countries, such as many in Africa; widening gaps between rich and poor; the new division between "info-rich" and "info-poor"; and an overall increase in global poverty, as documented in successive editions of the UNDP *Human Development Report*.

Real Issues and Real Problems

Today, ever more problems and issues have become global, beyond the reach of national government—from climate change, cross-border pollution, desertification, and loss of bio-diversity to space junk. Proliferating weapons-trafficking, drugs trading, organized crime, nuclear and toxic wastes, and epidemics spread by air travel, not to mention global terrorism, cannot be addressed by any nation acting alone. Overall profits of global crime networks in 1994 were estimated at $750 billion to $1 trillion. Some $500 billion is laundered into the global financial markets.[1] Powerful new biotechnologies such as cloning and genetically modified organisms require international safety testing and standards. Meanwhile, dealing with refugees, migrant populations, displaced people, and the continued growth of mega-cities—while maintaining safety nets—requires massive public investments. Reactions to globalization, and to Western technologies and ideas have

included rising fundamentalism (Christian in the US, Muslim in many countries) and new searches for identity in ethnicity or nationalism—and the conflicts these often engender.

Nations face all these problems at the same time that their tax revenues are eroding—diverted into tax havens or Swiss banks. Powerful special interests lobby in most countries for tax favors, undermining the redistributive role of taxation. The tax bases of municipalities and local governments are also eroding as Internet-based e-commerce outflanks stores on Main Streets. In the US, state governors and city mayors warn President Clinton that his "no taxing of e-commerce" policy is driving local merchants out of business.

All these new problems and issues are driving national governments into pooling or sharing their sovereignty to set up or strengthen international agencies, rule-making bodies, and global standards. The most prominent example of sovereignty-sharing is the European Union. Power-sharing has not come easily, but operates effectively within the principle of subsidiarity: control retained at local or provincial levels where appropriate.

Positive Potentials of Globalization

There is also much good news brought by the globalization of the new networked information economy. Along with today's trashiest television, movies, Internet porn, and video games come distance-learning and college courses for people confined to their homes, prisoners, and semi-skilled employees seeking new careers. The networked society has advanced democracy worldwide, helped tumble dictators, opened up repressive regimes, advanced pluralism and human rights, and sped the end of the Cold War. Most noticeable has been the advance of citizen organizations and movements—now a distinct "third sector" in the world, holding the private and public sectors more accountable. More access to information has helped empower citizens, consumer choice, employees, and socially responsible investors.

The information society has created new winners—and morphed into an "age of truth." Corporations are learning that "green-washing" does not work for long. Politicians find themselves more accountable for shady dealing and dubious contributions to their election campaigns. Grassroots citizens' campaigns can go global such as with Jubilee 2000—now in forty countries—which has changed the thinking of governments, central banks, and economists about the need to cancel unrepayable and illegitimate debts of the poorest countries. A new identity is emerging: the global citizen, even before the arrival of global governance structures.

The information society has created new winners—and morphed into an "age of truth."

Other positive aspects of today's uneven globalization are the rapid proliferation and sharing of concepts of sustainable development, commonly defined as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Innovative ideas for greener technologies, local sustainability, homegrown economies, community-contract organic agriculture, local currencies and barter systems, micro-credit, and new indicators beyond GNP are all transmitted at web-speed. Never has it been easier to share visions of reshaping our societies and global economy on principles of social justice, citizen participation, and ecological awareness.

The Unreal Economy: Our Global Casino

The Asian economic meltdown has led to massive coverage on its causes. Early explanations, from the old paradigm of the Washington Consensus, focused on domestic deficiencies of Asian countries, rather than shortcomings in private markets. The 1999 rebound of these Asian economies (largely via deficit spending) has fueled Western markets—and a new complacency. But the continual shocks and instabilities in today's global financial markets have finally led to some cautious re-thinking by finance ministers and central bankers on the need for a "new financial architecture." Ever since the collapse of the Bretton Woods system in 1971, the global financial system has been characterized by increasing turbulence, mounting debt, and a de-coupling of finance and currency flows from the real-world economies of production, trade, and consumption that money is supposed to facilitate and measure. While free market theory is that investment should be allowed to flow where it can be put to best use, the current set-up does not allow this to happen. A quick return takes priority over longer-term investment. If a country took the same attitude to its investment, it would put no resources into education—clearly not a very secure strategy.

The continual shocks and instabilities in today's global financial markets have finally led to some cautious re-thinking on the need for a "new financial architecture."

International financial operations escaping national regulations are centered in London, New York, Tokyo, Hong Kong, Singapore, and offshore tax havens: Switzerland, the Cayman Islands, the British Virgin Islands, Cyprus, Antigua, Liechtenstein, Panama, the Netherlands Antilles, the Bahamas, Luxembourg, and the Channel Islands. More than twenty thousand corporations are chartered in the Cayman Islands and the deposits in its 575 chartered banks now total some $500 billion. Only 106 of these banks have a physical presence in Cayman and an estimated 1.5 million of such corporations now operate "offshore"

in secrecy—up from 200,000 in the late 1980s. Americans account for some 40 percent of these assets.[2]

Meanwhile, the deflationary effect of the Asian meltdown is still lurking and may yet be felt in the world economy. In the US, while trade deficits are huge (in recent years averaging $20 billion per month), private corporate debt is exploding, corporate bond defaults reached 5 percent, and consumer debt is ballooning, while savings rates are negative.[3] The US and European stock markets are still pumped up with billions in flight capital seeking safer havens, as well as huge increases of borrowing (at 50 percent margins) for stock purchases on Wall Street. Weak banking sectors, especially in Japan, have engaged in megamergers that may not make them stronger. A fast positive feedback loop is created by the "herd behavior" of asset managers who follow asset allocation theory and feel obliged to buy the big indexes: Dow Jones, Standard and Poor's, NASDAQ, and London's FTSE100. This herd behavior effect is reinforced in the US by the "prudent man rule," which prevents asset managers from straying far beyond such blue chip stocks—thereby bidding up the big indexes and better described as "the prudent lemming rule."

Unreal Accounting

The truth is that it is not hard to make such forms of globalization look good if your accounting disenfranchises a significant minority, ignores the running down of natural resources, and discounts future risks.

We measure according to our dominant cultural view of what is valuable.

We measure according to our dominant cultural view of what is valuable. When GNP/GDP accounts were set up in World War II, bombs, bullets, and war production were the goal, while the value of children, a healthy educated citizenry, infrastructure, social safety nets, and the environment were all set at zero. This statistical viewpoint is still perpetrated—not only by bureaucratic inertia but by the sectors, interest groups, and politically powerful forces that benefit from such a system of national accounts. Military budgets remain off-limits while social safety nets, health, education, environment, and even repairs to infrastructure are pushed lower on national budget priority lists. Employment, caring work, parenting, social services, and safety nets have been slowly devalued while finance itself (i.e., paper asset-shuffling) is over-valued. The financial services sectors have grown ninefold—out of all proportion to those real economies of "Main Street" they were designed to track and serve.[4] This same process has also devalued the commodities sector and natu-

ral resources, currently at a twelve-year low. One could simply make more money by holding and trading financial assets.

Good Electronic Commerce

Many critics like myself pointed out over the past twenty-five years that this overblown finance sector was a "bubble" and when it deflated, as on October 19, 1987, that the world's traditional resource and human-capital-based economies of the world would actually benefit.[5] Even though cyber-libertarians, Internet entrepreneurs, and electronic currency traders do not like earthbound constraints, the laws of thermodynamics still operate. One cannot fill a car's gas tank with a "virtual gallon of petrol" or drive across the "flow of services" of a bridge.

Although improvements in communications and materials sciences have since led to a profound de-materializing of OECD economies, today's debates involve the extent to which this process—which futurist Buckminster Fuller called "ephemeralization"—can continue substituting services, recycling, knowledge, and communications for natural resources. The Wuppertal Institute (Germany) and the Rocky Mountain Institute (US) have studied these processes and estimate between four-fold and ten-fold efficiency increases in energy and materials use are possible. Here is where investments in people and social infrastructure are key. Societies cannot continue de-materializing their economies without investing in maintaining such social architecture and capital for further advances in research.[6] Knowledge, human capital, trust, cohesive values, and sound management of the planet's biodiversity and natural resources are now the key factors of production. Yet paradoxically, the current shape of the global information economy and e-commerce starves governments (national and local) of the tax resources needed to invest in human resources and new infrastructure.

Knowledge, human capital, trust, cohesive values, and sound management of the planet's biodiversity and natural resources are now the key factors of production.

Today, globalizing electronic markets offer a "fast-forward" view of what we can expect. Over half of *Business Week*'s one hundred biggest global corporations in 1999 are in information and financial services. They accelerate the dominance of the below-full-cost price system (today's prices do not include social and environmental costs) over diverse traditional values, cultures, and institutions, which form the "cultural DNA codes" of different societies. Thus they promote lower prices as a boon to consumers, while the costs pile up unnoticed or get paid by someone else. Adequate domestic macro-economic policies and investments in public services infrastructure fall victim to volatile unregulated markets and the global financial bubble.

Needed: An Accounting Revolution

Wall Street hype promises that information sector-led productivity and globalization will usher in a promised land of steady GNP growth, low inflation, and unprecedented wealth. In September 1999, *Wired*, the magazine of the Internet sector, foresaw a Dow Jones average at 30,000 in four years, while the staid *Atlantic Monthly*'s lead article seriously argued that the Dow should reach 36,000. A more realistic view is that global capital flight to Wall Street and other factors are driving a classic bubble. Still other scenarios set local, ethnic, community, and nationalistic backlashes against the backdrop of globalization.[7] The reality is that all of these hypotheses stem from different paradigms and interpretations, which will produce conflicting forecasts. The only way forward is to go beyond the limited tools of economic measurement that we are using and develop a more sophisticated approach to understand the global system we are creating.

The only way forward is to go beyond the limited tools of economic measurement that we are using and develop a more sophisticated approach to understand the global system we are creating.

Stabilizing Currency Markets

Among the most immediate actions central banks can take individually is to offer upgraded currency trading systems, such as the Foreign Exchange Transaction Reporting System (FXTRS℠), targeted precisely at making foreign exchange trading more efficient and transparent.[8] Once it is adopted by one or two important central banks in OECD or developing countries, it will probably become a global technological standard as others follow suit. Private market players can adopt interfaces in spite of the very small trading fees—simply because the system provides the information they lack and is more efficient. This can also reduce the money-laundering, tax evasion, and criminality that exist in today's unregulated global casino.

Such systems must handle many currency market functions, and reduce the likelihood, scope, and force of a massive bear raid attack on a weak currency. Such attacks have sometimes played a role in crippling the economy of the target currency. Nevertheless, they are inevitable at some times and to some degree. FXTRS systems will not eliminate them, but will greatly reduce their likelihood and their severity.

Foreign exhange traders, per se, are not the cause of the problem; they do not make the rules. On the contrary, traders provide liquidity, with generally razor-thin bid-offer spreads and very low transaction costs, which are essential to the satisfactory operation of the $1.5-trillion global foreign exchange market. This is possible only because trader activities, including speculation, produce a market of such enormous size that it is

economically possible for both high liquidity and thin margins to coexist. Those who trade are compensated for supplying the at-risk capital that makes this possible. Bear raids on weak currencies are examples of herd behavior and can be viewed as battles. On one side are the central banks, whose task is to help manage their domestic currency and economy. They are the only market players ready, if necessary, to sell low and buy high to protect their national economies. On the other side are all others—individuals, banks, and all other financial institutions. This includes not just speculators and hedge funds, but anyone who is ready to jump into the fray at some point in hopes of buying low and selling high.

When an economy is weak, there is no doubt that to some extent its currency prices should fall. Yet whether a bear raid succeeds does not depend primarily on how over-valued the currency is, but more on how much capital can be brought into the attack and how much capital is fleeing the country. Even sound currencies can succumb to a large enough raid. A bear raid will succeed because of the size of the traders' at-risk war chests. Even groups of central banks in consort cannot defend against today's huge leveraged hoards of cash.

Even groups of central banks in consort cannot defend against today's huge leveraged hoards of cash.

The bear raid forces an excessive measure of so-called "market discipline" onto countries—even those whose "fundamentals" are sound. The combination of attackers selling the capital and the flight capital of nationals can push the currency to irrationally depressed price levels. Bear raids were prevalent prior to the 1929 crash in the US. The collapse of the US market and ensuing depression helped elect Franklin Roosevelt president in 1932. In 1934, investment banker Joseph P. Kennedy, father of the late president John F. Kennedy, was appointed by Roosevelt to head the newly created SEC, which cleaned up the stock market and made it safer for investors. Based on his intimate knowledge of how the US securities markets worked, Kennedy introduced a number of changes in the transaction process itself. One was the "uptick" rule, which prevented a broker from selling "short" if the last sale price of a listed stock was lower than the previous transaction price. This slowed the momentum of bear raids and they largely disappeared.[9] Note that this rule used "ticket tape" action. "Tickers," now electronic, are based on transaction reporting, and are at the heart of FXTRS systems.

Today, with screen-based technology undreamed of in the 1930s, a much smoother process handles the more active global currency markets. Technological designs in the FXTRS will enable the recording of purposes of trades and counter-parties and help the relevant standards body to curb bear raids without im-

pairing the functioning of the market in normal times and without depriving or slowing the execution of any transaction desired by willing buyer and seller at a mutually agreeable price. These systems would fulfill some of the needs cited by central bankers and finance ministers for that "new global financial architecture." The system can be set up to be acceptable both politically and financially to central banks, financial firms and other users, vendor (Reuters, Bloomberg, etc.), foreign exchange brokers and dealers, as well as to national political leaders and the public. The participating central banks can ensure that all transactions will be promptly reported to the system on a "ticker tape." Trade reporting itself in existing markets generally helps stabilize the market. When a market lacks information, participants must pay for extra research and are still sometimes scared or too easily vacillate between over-caution and recklessness, characteristics exhibited by the global currency markets and their recent volatility. Trade reporting will help smooth currency markets, but further stabilizing mechanisms are still needed.

The transaction fees of 0.001 percent are assumed on all trades of US$1 million equivalent, amounting to $10 to the buyer of dollars on a base-line trade (or whatever 0.001 percent equals in a base-line trade for the buyer of another currency). That amount is slight compared to other costs and benefits perceived by both parties to any trade. It is reasonable to assume that a charge this small would not derail trade, or normally even be noticed. However, the basic fee revenue for the system would then be US$10 million per day or about US$3 billion per year if and when all major currency countries were participating. The fuller description of the financial architecture FXTRS is available from the author. Patents for FXTRS are pending at the US Patent office, and will be donated/assigned to the United Nations.

The Impact of Electronic Commerce

As more businesses move their transactions into cyberspace, what are some key and broader implications? Let us start with electronic commerce. Most companies assume that money-based transactions will monopolize cyberspace through better security, encryption systems, credit card handling, and e-cash systems. However, electronic commerce does not *require* money-based transactions, but could use pure information-based transactions (i.e., high-tech barter). The implications of this are clear: Money and information are now equivalent—we are already off the money and gold standard and on the information standard world-

Electronic commerce does not* require *money-based transactions, but could use pure information-based transactions

wide. This new understanding is ushering in a widespread demystification of money itself, as well as credit debt and finance.

Today, billions of dollars of services and goods are bartered each year in the US by corporations and individuals on PC-based electronic networks.

Banks thrive on money-based scarcity and, understandably, are trying to control cyberspace transactions. Yet today, billions of dollars of services and goods are bartered each year in the US by corporations and individuals on PC-based electronic networks. Further shifts to "safe haven," high-tech barter transactions will help to create full employment and clear local markets. Local currencies and PC-based trading systems are flourishing in the US, Canada, Europe, Australia, and New Zealand. Today they are needed in Russia's largely barter economy. On the negative side, tax-evaders are catered to more easily by tax havens, deliberately offering anonymity, dummy corporations, and money-laundering. Internet-based commerce and trading make all of this easier.[10]

Giant global retailers, services chains, and mall developers increasingly displace local merchants, still operating as free riders on tax-supported infrastructures at below-cost energy prices and at the exclusion of many social and environmental costs. This allows them to penetrate local markets with below-cost prices. Then, after locals have been put out of business, they can raise prices without their competition. Development banks, local credit unions, and micro-credit groups should be favored over branches of large national and global banks that are free-riding on the unregulated info-structures of financial cyberspace. These banks, tied into the global casino, accept local deposits and paychecks but these funds tend to be "vacuumed out" of the local branch bank each day onto the global electronic funds transfer systems to be lent out worldwide. At average global interest rates, local communities and businesses can no longer afford these interest rates to borrow back their own deposits.

Perhaps the biggest paradigm shift involves these new information-based electronic markets—an underlying reason for the take-off of Internet-based stocks and IPOs (initial public offerings of their shares). For example, the success of e-Bay.com, a San Francisco-based start-up, is based on LETS barter networks, offering a second-hand auction over the Internet, except that subscribers negotiate in money terms.[11] The implications for stock exchanges and banks are vast. If money-creation and management as well as money-based transactions and credit-availability are not overhauled drastically to serve the new needs of 21st-century consumers, businesses, employees, and investors, they will simply go around banks and money-based transacting. They will continue shifting to pure information-based transactions such as high-tech barter, local scrip currencies, and LETS

systems, while big businesses employ payments unions and expand counter-trade (estimated as some 25 percent of global trade). Banks are busy buying computer and information technology to re-impose scarcity and money-based transactions—particularly on electronic commerce via e-cash, credit and debit cards, virtual banking, and so forth.

However, the new competition from money-free, information-based, high-tech exchange will not go away. Banks and money-based exchange systems are very useful, but they now have competition for their basic functions of intermediation—for which the Internet is ideally suited. For example, a quarter of trading volume on Wall Street now is electronic and bypasses brokers, while floor-based "open outcry" stock exchanges are being replaced weekly. Seats on the New York stock exchange lost half their value in 1998. CSOs can take advantage of this rapid re-structuring of financial markets as it dooms many old elites and entrenched players. For example, women, traditionally shut out of finance's old-boy networks, found their niche in socially responsible "green investing," pioneering this sector as security analysts and asset managers.

Conclusion

Our essential task is learning to live wisely—and within the tolerances of nature. While we empower ourselves and our communities, sharpen our research skills, invent new ways to keep businesses and governments accountable, and perfect the machinery of public participation, democracy, and self-government, we need to expand our awareness and understanding. How do we overcome once-useful survival tools, such as fear of scarcity, the "other," the unfamiliar, and our own death?

In all, our efforts to help oppose injustice, alleviate poverty, and reshape the global economy to serve people, higher standards, human development, and Earth ethics, we are learning that all these efforts begin at home—with our selves. As Pierre Teilhard de Chardin said, "When humans truly discover the power of love, it will prove more important than the harnessing of fire."

---

1. Castells, *The Information Age: Economy, Society and Culture*. Malden, MA and Oxford: Blackwell, 1998, Vol. III, p. 169.

2. R. Morgenthau, "On the Trail of Global Capital." *New York Times*, November 9, 1998, p. 125.

3. "A Time Bomb for Borrowers?" *Business Week*, August 30, 1999, p. 30. Also "The Default Dilemma," *Business Week*, September 6, 1999, p. 72.

4. P. Dembinski and Schoenenberger, "The Safe Landing of the Financial Balloon is Not Possible." *Finance & the Common Good*. Autumn 1998, Geneva.

5. *UTNE Reader*, August 1997.

6. See, for example, D. Lamberton, Ed., *The Economics of Information and Knowledge*. New York: Penguin Books, 1971.

7. See, for example, J. Orstrom Moller, *The Future European Model*. Westport, CT: Praeger/Greenwood, 1995. Also S. Huntington, "Clash of Civilizations," *Foreign Affairs* 72, No. 3 (Summer 1993).

8. Hazel Henderson and Alan F. Kay, "A Foreign Exchange Transaction Reporting System." *Futures*, October 1999, Elsevier Science, UK.

9. H. Henderson and Alan F. Kay, Futures, May 1996.

10. "The Disappearing Taxpayer." *The Economist*, May 31, 1997, p. 15.

11. *Editor's note:* LETS, an acronym for Local Employment and Trading System (originally Local Exchange Trading System), is an alternative currency system in which members trade credits for what they "buy," rather than exchanging money. Each member has an account to which transactions are credited or debited. It is a local system meant to augment, not supplant, national money systems. The system has spread to many cities in many countries.

Hazel Henderson can be reached at P.O. Box 5190, St. Augustine, FL 32085 USA. Phone: 904-829-3140; fax: 904-826-4194. Website: www.hazelhenderson.com.