Editor’s note: Academy Fellow Hazel Henderson notes that the following piece is not one she “enjoyed writing, but felt it was important to keep an eye on this scenario.” She writes of the lack of systems’ thinking among the ideologues of laissez faire globalization, i.e., the global corporations, financiers and their political allies in mature industrial societies. She lists some of the consequences of their limited vision and what the future portends, particularly with the imminent superpower, China. J.S.

Globalization’s Surprises

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Economic and technological globalization was always a project of global corporations, financiers and their political allies in mature industrial societies. The blueprint was the “free” market enthuasims of Ronald Reagan and Margaret Thatcher. This Anglo-Saxon model of capitalism was followed by the “Washington Consensus” policies we still see today.

The World Trade Organization (WTO), NAFTA and the incipient Free Trade Area of the Americas, all follow the same recipe for export-led GNP-growth: open capital markets, convertible currencies, privatization, deregulation, increasing world trade.

Even though a welter of evidence is now in – from the 1997 Asian meltdown, Russia’s default and now that of Argentina, the ideologues who believe in this form of globalization still promote these policies with the familiar cry: TINA (There Is No Alternative). As psychiatrists know, people who cannot conceive of any alternatives to their current behavior are deemed to be suffering from clinical depression. And scientists note that it is illogical to imagine that repeating a similar experiment could lead to dissimilar results.

But we now see an even deeper set of contradictions, all signaling a lack of systems’ thinking among the ideologues of laissez faire globalization. In the West, these interdependencies are recognized as “what goes around – comes around.” In the East, the same phenomena are known as “Karma.”

Let’s examine some of these karmic effects of today’s globalization:

- The USA, globalization’s most fervent promoter, has up to now reaped the greatest benefits, when the dollar became the world’s de facto reserve currency, overvalued today by between 15-25%. This has led to unsustainable US trade deficits, the sucking in of the lion’s share of world exports, and increasing inability of US-based companies to export.

- The USA’s long ride on the overvalued dollar is now coming to an end as its trade deficits continue growing to unsustainable levels (some 4.5% of US GDP). Until recently, countries which export to the USA (China, Taiwan, Japan, Mexico and many others) kept accepting US dollars in payment and buying US Treasury bills for their currency reserves. This system, with the USA absorbing so much of the world’s exports and capital – trying to serve as the world’s “locomotive” – is now bogging down in the weakening dollar (currently below the euro).

- The US Federal Reserve has lowered interest rates to 1.25%, the lowest in 40 years, in order to try to hype the domestic economy – so far with little success. The Japanese “deflation malaise” may be in store for the post-bubble USA as well. Countries holding their towering piles of US dollars in their currency reserves are diversifying into euros (now becoming the world’s alternative reserve currency).
Private holders of US T-bonds and stocks look on with alarm as the dollar continues to weaken and the interest they now earn is close to zero when corrected for inflation. These private investors are worried about the US economy’s fundamentals: historically high levels of corporate and consumer debt; over $1 trillion of unfunded corporate pension liabilities in the auto and other “Old Economy” sectors; the corporate crime wave continuing to undermine confidence in auditor’s reports and stock markets; the Bushies’ foreign strategy of playing global policeman; preemptive strike plans on Iraq; warring worldwide terrorism and evil leading to ever-larger deficits – and the unsupportable US trade deficit. It is only a matter of time before more private investors switch to euros, Swiss francs and other investments – where interest rates are higher and fundamentals are more favorable.

US officials and economists say that productivity is higher in the USA than Europe – advising investors to keep betting on the US economy. However, closer examination reveals the different ways that Europe and the US measure “productivity” (the US method flatters the US – Europe uses a broader measure). When these methods are compared, the difference in productivity is trivial. Add to this, that US capital productivity in the late 1990s was negative – i.e., trillions of dollars were wasted in “investments” in half-baked dot com businesses – during the bubble. Indeed, a recent survey of 300 global fund managers by Merrill Lynch & Co found so some two-thirds considered Wall Street the most overvalued of the world’s top five stock markets.

The global economy was always a power game, and currencies are becoming the weapons of choice. Revulsion against all weapons of mass destruction, as well as land mines and small arms, is producing a global backlash. Bullying by a military superpower – the US – is producing a rise in anti-US opinion in many countries, including allies. Even pro-business advocate Jeffrey Garten, Dean of Yale University business school, in The Politics of Fortune urges US CEOs to criticize Bush’s unilateralist policies for imperiling global stability.

Yet 9/11 showed that the 21st century is the age of “asymmetric” weapons – where computer hackers, money-launderers, assorted terrorist gangs, even currency traders and OPEC now hold a new balance of power. For example, the US, which blocked and then supported China’s entry into the WTO, may regret enforcing “Washington Consensus” policies onto the WTO. China must shortly make its currency, the yuan, convertible and further open its markets.

Today, China is fast becoming the world’s newest superpower – and supplier of many of the world’s goods – producing 50% of cameras, 30% of air conditioners and TVs, 25% of the washing machines, 40% of all microwave ovens sold in Europe, and is fast moving into computers, mobile phones, and DVD players.

China views its low-priced exports as a boon for the world’s poorer consumers – while the US now fears global deflation. Yet lower wages and cheap export platforms used in China and elsewhere by US multinationals were supposed to be the advantage of globalization. These global supply chains were touted as taming inflation and hyping economic growth. Most central bankers still fixate on inflation, not deflation.

Now the US Federal Reserve is bracing for deflation while its main tool of choice, interest rate adjustments, has stripped the gears of monetary policy. Will the Fed fight deflation by “talking down” the dollar? Or – another surprise – when China shifts to a convertible currency (now pegged at 8 yuan to the dollar) will the Chinese yuan (now undervalued) lead to the dollar’s further devaluation?

As sages have said: “Beware of what you ask for – because you may get it.” What will happen to Bush’s “global policeman” ambitions then?