Globalization in Question

The world is now divided into 'fast' and 'slow'

Book Review by Ted Wheelwright

The author, an award winning journalist with the *New York Times*, tells us that his book is an effort to explain the new era of globalization which has replaced the Cold War system. The first part shows how the system works; the second explains how nation states, communities, individuals and the environment interact with the system; the third examines the back lash against globalization; and the fourth discusses the unique role the U.S. plays in maintaining stability.

At the end of the book he thanks a whole string of academics, bankers, and public servants who helped him, including Michael Mandelbaum, Yaron Ezra, Stephen Cohen, Robert Rubin, Jacob Frenkel, Jim Wolfensohn, and his teacher Rabbi Izvi Marx. The "blurb" at the back of the book tells us that the author "traveled to the four comers of the globe, interviewing everyone from Brazilian peasants to new entrepreneurs in Indonesia, to Islamic students, to the financial wizards on Wall Street and in Silicon Valley."

The Lexus and the Olive Tree
by Thomas Friedman
London: HarperCollins and Farrar, Straus and Giroux, USA
394 pages, price $27.50

Two outside sources are stressed. *The Economist*, which the author considers to be far ahead of any other news organization in understanding globalization; and advertisements from Madison Avenue, whose copywriters, he thinks, have "tremendous insight" into the subject.

The title is unfortunate, and the author has to take several pages explaining it: "Globalization is what is new...world affairs today can only be explained as the interaction between what is new as an Internet Web site, and what is old as a gnarled olive tree on the banks of the river Jordan."(p.25) The author had just visited the Japanese Lexus luxury car factory south of Tokyo, which made 300 Lexus sedans every day, using 66 human beings and 310 robots.

Returning on the train, he read an article about people in Beirut and Jerusalem who were fighting over who owned which olive tree. He thought then that the Lexus and the olive tree were pretty good symbols of the post-Cold War era: half the world intent on building a better Lexus — streamlining and modernizing their economies in order to thrive, and the other half still caught up in the fight over who owns which tree.

Olive trees represent everything that "anchors us, identifies and locates us in the world." The Lexus represents an equally fundamental drive but "for sustenance, improvement, prosperity and modernization"; it represents all the burgeoning global markets, financial institutions and computer technologies with which we pursue higher living standards today. (p.28)

The biggest threat today to the olive tree comes from "the anonymous, transnational, homogenizing, standardizing market forces and technology that make up today's globalizing system." (p.29) The challenge of globalization is "to find a healthy balance between preserving a sense of identity, home and community, and doing what it takes to survive within the globalization system." (p.35)

Today, he tells us, there is no more a first or third world — there is just the Fast World and the Slow World. This happened because of the "democratization of technology and finance. All sorts of countries can now assemble the necessary technologies, raw materials, and funding, to be producers or sub-contractors of highly complex finished products or services. This is true, but most of it is done within the precincts of branches of multi-national corporations, most of which are owned and controlled by developed countries. There is very little

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about it which is democratic.

Similarly with what is regarded as the second major factor driving globalization the so-called democratization of finance. This began, we are told, in the late 1960s, with the emergence of a commercial paper market — bonds that corporations issue directly to the public. This removed the monopoly of banks, but things really "exploded" in the 1980s, when Michael Milken, the corrupt bond king, pioneered the junk bond or high yield industry. He securitized the international debt market through the secretary to the U.S. Treasury, Nicholas Brady. Banks were given US government guarantees to extend new loans to Latin America on condition that the countries made economic reforms.

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Information came to be democratized through the globalization of television; cable television could carry more channels than could be broadcast. The main driving force was the falling cost of launching satellites. Hence a huge new audience was created, which transformed financial markets as investors could buy and sell stocks from all over the world on the Internet.

In chapter 6 the intriguing concept of the "Electronic Herd" is introduced. This is said to consist of "often anonymous stock, bond, currency and multi-national investors connected by screens and networks." This Herd feeds in 180 countries, but is not infallible; it makes mistakes, it overreaches, overshoots; it is "not too stupid for too long". Democracies, he tells us, vote about government policies once every two to four years, but the Electronic Herd votes "every minute of every hour every day."

Countries cannot survive today, the author tells us, without plugging into the Electronic Herd and learning how to get the best out of it. It consists of two groups; those who move money around on a short term basis, such as currency traders, whom he calls "short-horn cattle", and those who are involved in direct investment or long term deals, such as multinationals. These he calls "long-horn cattle."

Most countries maintained capital controls until the 1970s, hence governments could maintain their own monetary policy, but with the gradual lifting of capital controls a global market developed. By the end of 1997, 25 Supermarkets (multi-nationals) controlled 83% of the world's equities under institutional management, and accounted for about half of global market capitalization.

This Electronic Herd in these Supermarkets, we are told, are now able to shape the behavior of nation states in many areas. Its increasing power is just beginning to be understood by many traditional leaders, and many countries now depend on foreign investment for growth. The Internet came in the last stage of this "democratization of technology, finance and information", and has contributed to this new era of globalization, the author tells us, but as the Internet proliferates it will become "the turbo-charged engine that drives globalization forward." But the ability of the electronic herd to transmit instability from one country to another has greatly increased, we are told. The domino theory today belong to the world of finance, the author tells us, not politics.

He also warns of the conflicting effect globalization has on democratization:

> *The Electronic Herd and the Supermarkets are fast becoming two of the most intimidating, coercive, intrusive forces in the worm today... They leave many people feeling that whatever democracy they have at home, whatever choices they think they are exercising...are all just illusions...because it is actually larger, distant face-less markets and herds that are dictating their political lives*. (p.142)

There is also a danger that globalization could wipe out the ecological and cultural diversity that took millions of years of human and biological evolution to produce. Hence countries need to develop strong cultural and environmental filters that will not be overwhelmed.

Globalization also expand inequalities, both within and between countries; these inequalities are becoming one of the most disturbing social products of the system, the author notes.

The author sees a backlash — increasing crime, as people grab what they need and try to create their own safety nets. In some countries the strongest backlash is coming not from the poorest, but from those in middle and lower classes, who found security in the previous "protected" system. The strength of the backlash depends on the weakness of the economy.

Some are asking for the process of globalization to be slowed down, but the author feels that the process cannot be slowed down, indeed, with the rapid diffusion of the Internet, it is speeding up. So far the backlash has not achieved enough critical mass anywhere to disrupt the system; hence the author concludes that the wretched of the earth want to go to Disneyland, not the barricades!

Chapter 15, delightfully entitled "Rational Exuberance," is a eulogy for the U.S.A., where capital markets today are said to be more efficient and transparent than elsewhere. But the author considers that the country should use this golden moment to deal with its problems, such as crime ridden inner cities, lack of gun control, widening income gaps, unfunded public schools, a culture of litigation, its underfunded social security system, and a political system increasingly perverted and corrupted by lax campaign finance laws.

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However, whereas the Europeans and the Japanese believe in the state exercising power over people and markets, the US believes in empowering people and free markets. This is the model that the rest of the world is being asked to emulate. Americans are said to be better at "riding" globalization because it has a distinct American face. But outside America most people cannot distinguish between U.S. power, U.S. exports, U.S. cultural assaults, U.S. cultural exports and "plain vanilla globalization."

Hence the rising resentment of the U.S. as the globalization system becomes so heavily influenced by U.S. icons, U.S. markets, and U.S. military might. This accounts for the sobriquet of America as "the capital of global arrogance."

In the remaining chapters five ways are outlined in which globalization could sow the seeds of its own destruction. First, it may be too hard for some countries to develop the right software and operating systems. Second, too much connection can be destabilizing. Third, the electronic herd promotes total transparency in financial dealings. Fourth, the system could be too unfair for too many people, and fifth, the results could be just too dehumanizing, too standardizing, and would reduce the quality of life.

The author warns that the amounts of money which can now be lent to hedge funds are so enormous, and the system is so integrated, that when big risk takers like Long Term Capital Fund Management make mistakes, *they can destabilize everyone*. The impact of the global lending crises of the late 1990s has been increasing. But the banking industry in the U.S. has one of the most powerful lobbies in Washington, and would strongly resist any curb on lending limits.

Consequently, he concludes that a restraining effect is all you can hope for: "Today's markets are so big, so diverse and...becoming so fast that they can never be made immune from crisis. *Global financial crisis will be the norm in this coming era*" (p.371, emphasis added). TSC