

This paper is one of a series of individual essays written within the conceptual constraints provided by "Forms for a Future." The collection of essays will become the individual episodes of the audio/video podcast.

'... Forums for A Future...'

Part 7: Contemporary Social Issues
Podcast (#21) Economic Globalization: What it Means and Why

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Prelude

I am Ed Renner. Welcome to my Podcast, "Forums for a Future."

Forums for a Future is based on a university honors course I taught at the University of South Florida in 2007-2008. Three textbooks provide background reading for the individual episodes. They are:

- Thomas Friedman's The World is Flat
- Jarred Diamond's Collapse: How Societies Choose to Fail or Succeed
- Gwynne Dyer's Future: Tense. The Coming World Order

The syllabus for the podcast series, text copies of all of the individual podcasts, and directions for subscribing to the series, either directly or through iTunes, are available on my web site at: kerenner.com, that is: www.k-e-r-e-n-n-e-r.com.

The first 16 episodes are in audio format. They provide an academic conceptual foundation for the series. After having taken nearly a one-year break to teach "Forums for the Future," I am now ready to continue the series, but this time in both audio and video formats. As a way to get started on the continuation, I have created a three-part transition. Episodes 17, 18 and 19 provide a brief introduction of the conceptual foundation for those new to the series, and a quick review for the original subscribers. Starting with Podcast #20, the continuation of the podcast is an open-ended series of positive approaches for addressing the many specific contemporary economic, social and political issues that challenge our capacity for making the necessary changes for having a future in the 21st Century.

The Key Concept

The Key Concept in today's podcast, number 21 in the series, is that globalization is not something the person can either be for or against. Globalization, in all of its many reaches, is the reality of life in the Post-modern Era. The issue is how to make globalizations work. The answer

is to be found in relinquishing old beliefs from the Modern Era and in adopting new constructs that can embrace and contain our new realities.

A Descriptive Picture

The focus of today's discussion is economic globalization. I would like to start with a description of the gap that has resulted between the current theory and the actual reality of economic globalization as it has been conceived and practice at the start of the 21st century.

The underlying premise, as is clearly articulated in the textbook by Thomas Friedman, The World Is Flat, is that "friction-free capitalism" will economically lift everyone up in a "race to the top" by the creation of new wealth through expanding economic growth.

The reality has been a catastrophic series of events leading up to the financial meltdown of 2008. Some of the highlights of the collage of events leading up to the current crises are:

- The Enron scandal, which exposed the ways in which corporations have taken advantage of de-regulation to build a financial house of cards, including artificially creating the California energy crisis that caused personal hardship and needlessly cost consumers millions of dollars. Enron's eventual collapse not only caused innocent employees to lose their jobs but also their retirement benefits.

(Clip from the documentary file, "Enron: The Smartest Men in the Room to be inserted here).

- The failure of Bear-Stearns and the sub-prime mortgage crisis which exposed how an unregulated financial system leveraged, packaged and re-sold assets to create fake profits and wealth based on artificial value that eventually collapsed the financial structure of the entire world –and in the US a \$700 billion bailout at tax payer expense.

(Clip from British comedy team of John Bird and John Fortune on the sub-prime crisis)

- This collapse was on the heels of more than a decade of rapidly rising CEO salaries, bonuses and stock options that widened the income inequality in America as wealth was transferred upward. While those at the top defiantly rejected responsibility: When the CEO of Lehman Brothers was asked during a Congressional hearing "Your company is now bankrupt, our economy is now in a state of crisis, but you get to keep \$480-million. I have a very basic question for. Is that fair?" To which Richard Fuld replied: "This is a pain that will stay with me the rest of my life...I feel horrible about what happened."

(Photographs from Congressional hearings, 2008)

- ...and, of course, there are many more examples.

What Is Wrong with This Picture?

The re-examination of the economic consequences of globalization to answer the question “What went wrong?” has taken two forms: The first has been a superficial analysis using concepts such as Wall Street “greed” and other terms the implying individual failures of ethics and personal responsibility. This perspective has resulted in a series of "mechanical" solutions to limit the capacity for others in the future to behave in a similar way. This is largely the application 20th century thinking to a 21st century issue, by trying to remodel old ways rather than recognizing the need to invent a new structures appropriate for a new time.

The second re-examination is one that is substantial – not superficial – but which has received relatively little public attention. This essential re-examination starts from premise that there are fatale conceptual flaws in how our financial institutions currently function, and that significant structural changes are required for the Post-Modern Era.

This is what an historical inflection points are about.

Inflection points are times where civic discussions create a new political context for moving beyond “more of the same thinking” to something fundamentally different. To make this transition requires us to re-examine critical core beliefs and values, and to entertain entirely different alternatives.

New Systemic Thinking

There are several ideas that provide the basis for discarding the dysfunctional beliefs and values and replacing them with ones appropriate for the new era – an era in which the future is discontinuous with the present. There are three big “throw-aways” – ideas that have dominated the end point of the 20th Century.

1. The Delusion of Growth. The belief in unlimited growth is the fundamental assumption on which Thomas Friedman’s (Note 1) call for “friction-free” capitalism is based. However, it is a delusional belief that “...wealth (is) a perpetual progress, an unceasing self-multiplication, (and that) consumption depletes nothing...(its) most salient characteristic is a model of reality that holds nature constant at infinity (Note 2).” As an illustration, the profits of Citigroup “...came from...interest paid by people without the funds to cover purchases at the end of the month” (Note 2). The idea of continuous growth without limits is based on a false article of faith – not science. We now known – unequivocally – that this article of faith is delusional, a lesson that has been popularized with respect to climate change by Al Gore (Note 3). In addition, Jared Diamond has described why this assumption has been historically, and is still today, a prescription for collapse (see Note 1).

2. A Broken View of Government. The foundation for capitalism rests on serving the interests of its stockholders. Capitalism is responsible for creating wealth and is primarily accountable to its stockholders financially. However, the foundation for democracy rests on government serving the interests of its citizens. A democratic government is responsible for the quality of community life and is primarily accountable to its citizens. We have confused these two parallel functions and the need to keep them separate. The core of community life rests on education, health and opportunity – traditional family and civic values. These do not directly

make money for shareholders; they do so only indirectly by providing a stable work and social foundation for commerce. Thus, the quality of civic life has a financial price that is a legitimate production cost. It is not an inefficiency that reduces shareholder profits. The two must be balanced. The role of government is to protect the quality of civic life from being converted into investment wealth. As the "stockholders" of democracy we have capacity to extract a collaborative measure of "citizenship" from capitalism. Otherwise, capitalism will extract the citizenship from democracy, as is currently happening.

3. The Inefficiencies of Disparities of Wealth and Income. It is no accident that government is broken. There has been a marriage between Wall Street and Washington starting in 1968 that popularized the notion that "taxes" and "big" government are bad. This was the beginning of the end of the Modern Era. It ushered in economic globalization through neo-conservative economic policies.

This political agenda "reduced" government regulation of business allowing the expansion of "friction-free" capitalism. The tax cuts and deficit spending "starved" the civic role of government essential for protecting the quality of community life, weakening the counterbalances to the strength of market forces to create greater ever wealth for shareholders. It shifted the tax burden to lower income levels, redirected the role of government toward protecting economic growth rather than the quality of life. It resulted in richest 400 Americans having a collective wealth of \$1.25 trillion (Note 4). That is more the bottom half of Americans combined (150 million people). The upper 1% has over 90% of the wealth. No other industrialized country comes close to matching this imbalance between the rich and the poor, a growing trend that started in 1968. In contrast, in England the upper 1% own about 20% of the wealth (Note 4).

When this level of disparity of wealth occurs it produces inefficiency and promotes non-democratic inequalities by allowing capitalism to be self-serving and extract citizenship from democracy. As a simple example, in Florida for the 2008 election, Republican State Senator Jeff Anderson was able to spend \$2,200,000 to win a \$42,000 part-time job as Senate president. A separate group of real estate, gambling, medical and other major lobbying interest raised an additional \$820,000 for him to use to defray other expenses and help political allies win their races (Note 5).

When wealth and income disparities become too large, the balance between capitalism and democracy, between shareholders and citizens, shifts toward the creation of wealth holding the balance of power (Note 6). The result has been the catastrophic collage of events that has marked the opening decade of the 21st Century.

Positive Thinking for Change

Three new positive ideas are needed to dominate the transition to the new era of the 21st Century. They offer a discontinuous break from the past.

1. Reclaiming Human Progress. All three authors of the recommended readings, Friedman, Diamond and Dyer, have called for a shift in core beliefs and values as necessary for

the entering the Post-Modern Era, in economic, social and political realms respectively (Note 1). I have called this an historical inflection point in the path of human progress. In its basic form this comes down to a struggle between two competing world orders: The old one, left over from the Modern Era, of pursuing economic “wealth,” versus a new one, specific to the 21st Century, of pursuing economic “sustainability.”

These two engines for human progress are based on opposing economic, social and political concepts, and each requires a different psychological frame of mind. Thus, for the first time in human history, human progress is not about the unfolding of external forces to which individuals had to adjust, but over which they had little or no control. Now, it is deeply personal. The youth and adults of today – the Millennials and Boomers – will be collectively the authors of their own fortune, or misfortune. The fate of human progress -- economically, socially, politically and personally -- lies in the willingness, or not, to abandon the accumulation of “stuff” and the never-ending pursuit of creating wealth through greater levels of consumption.

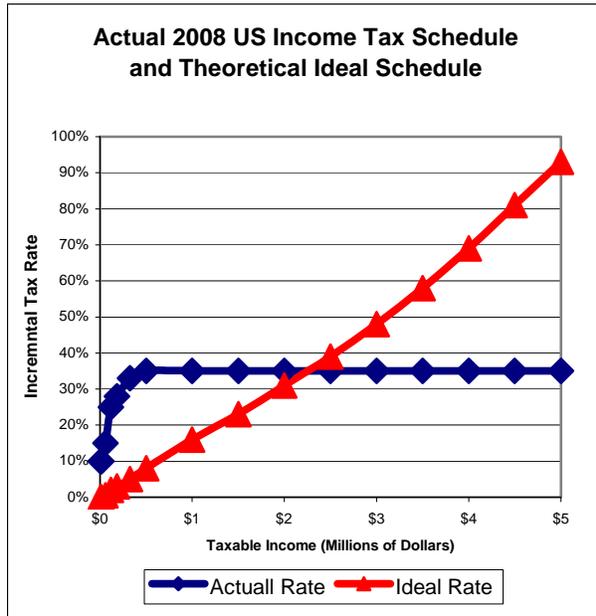
2. Reclaiming the Civic Process. Reclaiming the civic process is up to us, the citizens. There is not some ideal absolute size for government. In a democracy, government will assume the function and size that its citizen shareholders choose, no less than do the stockholders of corporate power. The issue is not the size of government, but the appropriate roles of government. The extreme conservative view has been to limit government to protecting property rights and providing internal and external security, thus “starving” the quality of everyday life. The opposite extreme, of government assuming total control of the quality of life, has the opposite effect of “starving” individual initiative and innovation. The power is in the balance that can be provided by a social democracy.

It is appropriate for citizens to use government as the means to ensure the quality of civic life in terms of access to health, education, opportunity and domestic security against sickness, personal harm, hunger and homelessness. Government is our social insurance, no less than an enabler for science, technology and industry. Both roles are essential for their mutual benefit. The quality of civic life and corporate profits are not and either/or choice nor a zero-sum game. Together they are the elements for human progress. We do not have to sacrifice the benefits of citizenship that are the creative genius of the evolution of a social democracy as a form of government in order to have the benefits that capitalism can provide. We do need, however, the capacity and common sense to limit capitalism from extracting the social – the quality of life – from our democratic form of government.

3. Reclaiming the Financial Engine. Reclaiming civic processes and replacing the delusion of growth with the reality of sustainability are empty appeals to idealism without a financial engine to drive the process. While there are many elements to this complex issue, three are critical to guide the process.

Obviously, the first, which has to be to address is the damaging effects of the 50-year trend in the growth of income and wealth disparities in the US. The simplest and most direct mechanism is the tax structure through a return to the higher maximum marginal tax rate that prevailed from WWII to the end of the Great Society.

The US has a progressive tax system – the more you earn the more tax you pay. However, there are some strange anomalies in the way the principle is applied. We have a negatively accelerated function with a low maximum ceiling. In practice, this means the largest marginal rate increases occur over the lowest income levels, while the smallest marginal rate increases occur over the highest income levels, reaching 0% at \$350,000/year (see Figure 1). A truly progressive tax



system should be a positively accelerated function, with the lowest marginal rate increases at the lower income levels and the highest marginal rate increases at the higher income levels (see Figure 1). This means that everyone would pay very little taxes on the income required to meet basic economic needs of food, shelter, education and health, but a progressively larger tax on the surplus income that provides for discretionary spending and luxurious life styles. As a secondary benefit, a positively accelerated function would discourage the obscene CEO salaries received by those who caused millions of Americans to lose their home equity and retirement security in the financial crisis of 2008, and to walk away with a golden nest egg. When there is little to be gained financially between earning

either 19 or 20 million dollars there is no incentive or capacity to accumulate the large amounts of wealth that create inefficiency and corrupt the quality of life that result from such disparities. We had it right in 1968, before super capitalism undermined the vitality of civic life and the common pursuit of greater racial and economic equality and social justice – not wealth.

The second is to make America ecologically smarter, replacing the consumption of “stuff” by embracing sustainability through a life style that minimizes the use of water, oil, coal and electricity. The electrification, railroads, highways, telephone lines and related infrastructure that enabled the Modern Era have reached the end of their natural cycle of usefulness. The Post-Modern Era is much more than wireless communication and digital devices, it is a commercial, agricultural, educational and industrial matrix powered with renewable energy, and sustained by new form of community life – but unlike the local villages of the past, ones that are global in their reach.

And third, there is the need to end the unnecessary and insanely expensive war in Iraq, waged on a national credit card of debt. If we, as citizens, supported that war, then we had the responsibility to pay for it with a tax increase and a shared national sacrifice – not a debt for our children, a tax cut for the rich that was to trickle down to the majority, windfall profits to oil companies and military contractors, nor leveraged financial dealing to popularize the myth that American growth and prosperity were without any limits. The folly of the initiation and management of this reckless and irresponsible war, as the economic trigger that produced an

economic collapse second only the great depression, needs to be publicly acknowledged, along with the need for economic policies that restores the social entitlements lost to the excess.

This is not to mention the political ramifications that will take decades to repair and heal, which will be the subject matter for the next episode.

Capitalism, Democracy and Globalization

Capitalism and democracy along with globalization are here to stay. One cannot be for or against them because they are our reality. The issue is how to make them work, in conjunction with each other.

Capitalism and democracy are not inherently incompatible. The power of each is to be found in the balance between them, not in their capacity to dominate the other. The creation of wealth alone does not promote the social values that embrace the enhancement of the human condition. Nor are social values regarding the human condition, the engine that drives science and industry. Human progress is the result of their combination.

Globalization is not just economic. Rather, Globalizations, in the plural, are the reality of the 21st-century, which is what sets the Post-Modern Era apart from the Modern Era. Globalizations are political and psychological as well as economic and social.

As a result of these four dimensions of globalizations, it is difficult to harness the symbiotic mutual benefits of democracy and capitalism because globalizations have exceeded the capacity of the individual nation states to control the balance between economic and social/cultural demands. The nation state is no longer the primary facilitating mechanism for human progress. Thus, we must start to shift our focus to reconciling the natural tension between capitalism and democracy from the national to an international stage. Thus, there is a need for building and strengthening world citizenship, not the citizenships of the world.

This political challenge is the focus of the next podcast. It is the challenge of reconciling the need for balancing the contradictions between capitalism and democracy on the scale of the planet. Including the realization that knowledge is the new form of capital, and that it must increasingly be in the public domain if it is to be the “renewable” energy for human progress that does not deplete the planet. Knowledge cannot increasingly become a commodity if it is to drive the transition from the Modern to the Post-Modern Era.

Notes

1. References to Thomas Friedman, Jared Diamond and Gwynne Dyer are to the three textbooks that provide the background reading for the “Forums for a Future” podcast. They are: Thomas Friedman. *The World Is Flat: a Brief History of the 21st Century*. Farrar, Straus and Giroux, 2005; Jared Diamond. *Collapse: How Societies Choose to Fail or Succeed*. Penguin Books, 2005; and, Gwynne Dyer. *Future: Tense. The Coming World Order*. McClellan and Stewart, 2004.

2. Steven Stoll, "The Delusion of Growth on Wall Street," The Chronicle of Higher Education, Oct. 3, 2008.
3. Al Gore, An Inconvenient Truth."
4. America's 400 Richest, see a Special Report in Forbes Magazine, Sept. 2006, available at www.forbes.com. Also for additional statistics see the article by Jackson Thoreau, "Poor Americans Continue to Multiply Under Bush as Republicans Continue to Ignore Trend," <http://houston.indymedia.org/news/2003/09/16063.php>
5. St. Petersburg Times, Sept. 28, 2008, 1B. By Steve Bousquet, Tallahassee Bureau Chief.
6. Robert Reich, Supercapitalism: The Transformation of Business, Democracy, and Everyday Life, Knopf, 2007. Economists measure the degree of income and wealth inequality by a statistic called the "Gini Coefficient," which has increasing over the past 40 years in the US beyond the limits of economic efficiency. The negative impacts of such extreme inequality of wealth and income are discussed in detail in Podcast #13 -- The Power of Balance, Not the Balance of Power.