

Fully updated throughout, this new edition distills the complexities of globalization into an easy-to-grasp commentary. While globalization can be a force for equality it can also be seen as the embodiment of inequality – the rich world's rabid consumption of resources is often at the expense of poor countries, forced to cut costs and corners to compete.

This best-selling *No-Nonsense Guide* examines the debt trap; the acceleration of neoliberalism and the 'free trade' model; competition for energy resources; the links between the 'war on terror', the arms trade and privatization; the emergence of China and India as economic superpowers. Full analysis of the financial crisis that started in 2007 outlines what happens when deregulation, speculation and greed are given full rein. And it explores strategies for redesigning the global economy so that it better serves the public good.

'The *No-Nonsense Guide to Globalization* provides a lucid explanatory map of our current condition. This is a concise and valuable overview of the world system, what has gone wrong with it – and the way ahead.'

Professor John McMurtry, University of Guelph, Canada

'A splendid series of pocketable guides to issue politics... rigorously clear.'

The Guardian, London

www.nononsenseguides.org

New Internationalist

UK: £7.99

US: \$13.95

Not for sale in Canada

ISBN 978-1-906523-47-3

5 1395 >



9 781906 523473



Mixed Sources

Product group from well-managed forests and other controlled sources
www.fsc.org Cert no. TT-COC-002785
© 1996 Forest Stewardship Council

The **NO-NONSENSE GUIDE** to

GLOBALIZATION

NEW EDITION

Wayne Ellwood

TORONTO DISTRICT SCHOOL BOARD



33124 0758 18467

'I strongly recommend you check out the *No-Nonsense Guides*'

Howard Zinn

'Find out how the world really works'

George Monbiot

New Internationalist

Introduction

WHEN THE FIRST edition of this book was published more than a decade ago I described globalization as 'the most talked-about and perhaps the least understood concept of the new millennium'.

Much has happened in the intervening 10 years. The world has changed in quite stunning ways. Globalization was a relatively new word back then. Today, library shelves are groaning with countless texts on the subject. The fallout is everywhere – nowhere more evident than in the devastating collapse of the global economy that began in 2007/08 and whose repercussions continue to be felt today.

But before that came the tragic, criminal attacks of September 11, 2001 – a day that changed the course of world history and underlined, with murderous irony, the increasing contradictions of a globalized world. As national and regional economies become more intertwined, the idea of a global community with shared goals and values appears to be fading. In response to the September 11 attacks, the US and its allies launched a protracted 'war on terror' which flouted both domestic and international law. As a consequence, attempts to address the root causes of terrorism – poverty, political exclusion and growing inequality – have largely been shelved.

Since the autumn of 2008 the wars in Iraq, Afghanistan, Pakistan and the simmering conflict in Israel/Palestine have been fought against a backdrop of global economic collapse.

We are now living through the most serious economic crisis since the Great Depression of the 1930s.

The link to globalization, specifically to the worldwide deregulation of the finance and banking sectors, is visible to all. (The history of this shift to a 'global casino' built on lax government regulation of these industries is outlined in Chapter 5.) Facing catastrophe,

governments stepped into the breach with hundreds of billions in taxpayer funds to bail out the banks and keep the credit system solvent. They also ploughed billions into classic Keynesian stimulus packages to fend off complete economic collapse. Even once-powerful icons of the industrial era like General Motors (GM) came cap-in-hand in search of government handouts. (GM received a total of \$50 billion from Washington. The government got \$2 billion in stock and 61 per cent of the company's privately held common shares in return for the rest of the money.) AIG, the largest insurance company in the US, swallowed more than \$180 billion in public funds. In total the amounts the UK and the US earmarked to support their banks reached nearly 75 per cent of their combined GDP.

The cost in jobs, hunger, poverty and fear has been incalculable – what one US analyst describes as 'a slow-motion social catastrophe... that could stain our culture and weaken our nation for many, many years.'¹

In a recent analysis of the impact of the global crisis the UN Development Programme notes:

- The International Labour Organization projects that over 50 million more people became unemployed in 2009. The ranks of the working poor – people working and living on less than \$2 a day – jumped by over 200 million.
- The Mine Workers Union of Zambia estimates that 10,000 out of a total 23,000 miners will be laid off.
- 200,000 Indonesian nationals previously working in Malaysia returned home in 2008 as a result of the recession, with most of them women from the country's rural areas.
- In China, over 20 million domestic migrant workers were laid off in early 2009.
- In Ghana, the Ministry of Finance estimates that foreign remittances were down by over \$50 million in January 2009 compared with one year before.²

Introduction

Despite the economic and human carnage, the bankers appear to have learned little. They have furiously opposed more stringent regulation at every step. And governments, for the most part, have been reluctant to introduce tough new regulations, or to enforce existing ones. America's first black President, the oratorically gifted Barack Obama, rode to victory in November 2008 on the promise of hope and sweeping change. So far rhetoric has outstripped action – despite promises to rein in 'proprietary trading' (making risky bets on investments for the bank's own profit). Wall Street appears to have cowed even the US President. Executives at US financial firms shamelessly scooped up more than \$20 billion in bonuses in 2009, the same year the companies received trillions in government support.

The recent economic meltdown has left critics more determined than ever to reshape globalization into a force for improving the lives of the majority of the world's people.

Across Latin America the electorate has embraced democracy and rejected a free trade model which has sacked national economies, subverted local cultures and thrown millions into poverty and unemployment. In Greece, in early 2010, protesters reacted with outrage and violence to government moves to slash public spending in the face of a debt crisis brought on by the global economic crisis. The press began referring to the Greek uprising as 'the first credit-crunch riot'.³

At the international level there has been encouraging progress in building institutions that reinforce global citizenship and bolster international law – however imperfect. The UN Ban on Landmines, the International Tribunals on Former Yugoslavia and Rwanda and the International Criminal Court are three such initiatives. Meanwhile, at Copenhagen in December 2009, the world fumbled an opportunity to

replace the Kyoto Protocol on Climate Change with a serious program to combat global warming.

The reality of globalization may have entered public consciousness during the last decade but the concept is as old as capitalism itself – a continuing saga of shifting markets and melding cultures. The world has been shrinking for centuries. Peppers, maize and potatoes, once found only in Latin America, are now common foods in India, Africa and Europe. Spices originally from Indonesia thrive in the Caribbean. The descendants of black Africans, first brought as slaves to work the land of the 'new world', have become Americans, Jamaicans, Canadians, Brazilians and Guyanese.

But the 'old story' of globalization has today developed a new twist sparked by technological change. The micro-electronics revolution of the past 25 years has irrevocably altered the essence of human communication. Digital technology has forged a world of instant communications, creating what some have called the 'third wave' of economic growth.

The computer revolution that has boosted the new global economy has also been used in other, sometimes contradictory, ways. Images of conflict and violence can spread with lightning speed as opponents of globalization use email and mobile phones to share information, strategize across international borders and organize demonstrations. The horrific torture of prisoners by US troops in Abu Ghraib prison; the stark videos of sobbing, frightened hostages in Iraq; the inflammatory Danish cartoons that sparked worldwide protests; the rise of the World Social Forum; the global demonstrations against climate change; the proliferation of grassroots citizens' movements. All are in some way the fruits of globalization.

Just as technology can stoke the fires of dissent and amplify events which once might have remained unknown, so the speed of global travel has turned the whole world into ground zero for lethal new diseases.

Introduction

The deadly SARS epidemic in 2003 reached 31 countries in less than a month. In 2009, the H1N1 influenza virus caromed around the globe after its initial discovery in Mexico, spreading panic and raising fears of a global pandemic. The World Health Organization predicts that the avian flu virus, if it crosses to humans, could kill up to seven million people worldwide. The globalization of trade and the industrialization of animal husbandry are intimately linked to the spread of these new diseases.

This global exchange of people, products, plants, animals, technologies and ideas will continue for the foreseeable future – even if our dependence on fossil fuels decreases. The process of change is unstoppable.

Despite the dangers, this new, more intimate world holds much promise. If we jointly recognize the common thread of humanity that ties us together, how can globalization not be a positive force for change?

The Western tradition is steeped in optimism and the notion of progress. The basic credo is simple: growth is the measure of human development and the vision of a globally unified market is the ultimate goal. The expansion of international trade will lead to a more equal, more peaceful, less parochial world. Eventually, so the argument goes, global integration and cross-cultural understanding will create a borderless world where political parochialisms are put aside in a new pact of shared universal humanity.

This is a compelling vision – we live in a world of enormous wealth and great opportunity. Despite the recent recession, there are now more people living longer, healthier, more productive lives than at any time in human history. And much of that is due to the extraordinary capacity of industrial capitalism to produce the goods.

But this success has been compromised by a corporate-led plan for economic integration which threatens cultural uniqueness, economic independence and

political sovereignty. Instead of helping to build a better world for all, the fundamentalist free-market model is eroding both democracy and equity. The social goals, the cohesive values that make us work as communities, are being ignored in the headlong rush to break down the barriers to trade.

The global economy teeters on the brink, gaps between rich and poor are widening, decision-making power is concentrated in fewer and fewer hands, local cultures are homogenized, biological diversity is destroyed, regional tensions are increasing and the environment is nearing the point of collapse. That is the face of globalization today, an opportunity for human progress whose potential has been denied.

This *No-Nonsense Guide* attempts to sketch an admittedly incomplete picture of that global economic system – its history, its structure, its failings – and the forces in whose interest it works.

By understanding how we got here and what is at stake, we can perhaps find a route out of the current economic crisis and in the process redefine globalization. The solutions are by no means definite. But there is a lively debate. The events of the past few years only bolster the conclusion that radical change is long overdue.

Wayne Ellwood

Toronto, March 2010

¹ 'How a new jobless era will transform America', Don Peck, *The Atlantic*, March 2010. ² UN Development Programme, 'The economic crisis around the world', www.undp.org/economic_crisis/index.shtml ³ Ed Vulliamy and Helena Smith, 'Children of the revolution', *The Observer*, 22 Feb 2010.

'Sub-prime meltdown', 'liquidity crisis', 'recapitalization', and the dreaded 'R-word' recession. The intricacies of international finance have escaped from the business pages to become news headlines. It's easy to feel overwhelmed. Peter Stalker's *Guide* comes to the rescue.

From the minting of the first coins, and the medieval origins of banking, to today's credit crunch, this book clearly maps the world of money, and delves into the dark side of the global financial system. What are hedge funds and investment banks, and how did they get into such a mess? Why are regulatory systems so weak? What can be done about fat-cat bonuses? How come we – and our children – will be lending our hard-earned cash to reckless banks for years to come?

As today's financial architecture crumbles around us, it's time for some new thinking. The book suggests a fresh start that includes doing away with tax havens, putting teeth into regulation, and taxing currency transactions. Suddenly, money becomes interesting... another financial world is possible.

'For anyone who wants a lucid, factual, reliable guide to some of the most important issues of our time, I strongly recommend you check out the *No-Nonsense Guides*.'

Howard Zinn, social activist and author

'A splendid series of pocketable guides to issue politics... rigorously clear.'

The Guardian, London



Published in Canada in association with
New Internationalist Publications Ltd
(www.newint.org) by Between the Lines
720 Bathurst Street, Suite 404, Toronto
Ontario M5S 2R4, Canada
www.onbooks.com

CAN \$16.00

ISBN 978-1-897071-57-1



9 781897 071571 >

The **NO-NONSENSE GUIDE** to **GLOBAL FINANCE**

Peter Stalker

TORONTO DISTRICT SCHOOL BOARD



33124 0757 16240

'An excellent job of
deconstructing finance'
Walden Bello

'Find out how the world
really works'
George Monbiot

Introduction

AT THE END of 2008 an investment banker was discovered to have swindled his clients out of \$50 billion. In any other year, this news would have sent shockwaves around global financial markets. After all Nick Leeson, the 'rogue trader' who in 1996 had single-handedly brought down the investment bank Barings had cost his employers \$1.4 billion and for this he became a global celebrity, played in a movie by Ewan McGregor no less. But 2008 was not an ordinary year. US investment manager Bernard Madoff had provoked losses greater than the annual output of more than 100 countries yet his exploits were greeted merely with tired resignation and a few jokes about his apposite name. A greedy, incompetent or criminal banker siphoning off \$50 billion? Just another financial disaster.

What a turnaround. Until 2007 financiers were the hallowed masters of the universe. In the US, for example, banks in 2006 made more profits than the global retailing, pharmaceutical and automotive sectors combined. Politicians groveled at the financiers' feet, gracing these untouchables with imperceptible regulation that permitted the City of London, for example, to act as an offshore financial center. Even the most nondescript traders, the barrow boys of the securities markets, were able to trouser annual multi-million-dollar bonuses and roar off in their Ferraris.

When the crash came in 2008 it was dramatic. While the details are complex, the ultimate cause was simple. The banks had no idea of whom they were really lending to. Even the employees who had an inkling of the fragility of it all had little incentive to blow any whistles. They were earning more in a month than most of the world's people earn in a lifetime.

We now know that those lavish bonuses derived not from incredible financial acumen but from the

more humdrum reality of a deeply hidden state subsidy. Large-scale banking, while ostensibly the archetypal free-booting capitalist enterprise, was in practice underpinned by state guarantees. Banks were well aware that once they were large enough, and intricately enmeshed with other banks, they could be considered too big to fail. So while they could channel their profits and bonuses strictly into private pockets, when disaster struck they knew they could transfer the losses to the public purse.

How did we get into this mess? Why have we been conned for so long – and been saddled with huge bank bail-outs and a global recession that will throw millions of people out of work? As in many other aspects of modern life, it is because we have chosen to pass responsibility to experts. Sicknes: that's the doctor's job. Unruly children: let the teachers cope. What to do with our savings: hand them over to the banks. But in the case of banks we were delegating not just the task of storing our money, but of managing our risks.

Life is precarious. The slum dwellers of São Paulo, Nairobi or Mumbai know all about this and try to survive through informal systems of mutual support, based on family or other ties. In principle, banks are supposed to help us do something similar. They can mediate between savers and borrowers, building sufficient trust so that one group can benefit the other. For this purpose they do not need to be dealing in large sums. Take the Grameen Bank in Bangladesh. A few decades ago I interviewed its founder, Mohammad Yunus. He explained how he conceived the idea of lending small amounts of money to groups of women – to buy stock for a village grocery stall, perhaps, or invest in seeds for a vegetable garden. At first glance, this seemed to me like an effective small-scale development project that could be run by any non-governmental organization – an NGO. But if you

Introduction

referred to Grameen as an NGO, Yunus would be annoyed. It was, he insisted, a bank.

Over the years, I must confess, I became slightly bored by Grameen (which in Bangla means 'rural' or 'village'). Whenever I sought examples of human development success stories, Grameen Bank would inevitably appear near the top of the list. Then a counter-reaction set in. Some critics pointed out Grameen's clients did not seem to be escaping from poverty, and that its banking operations might be financially unsustainable. Was it still just an NGO masquerading as a bank? As it turned out, Grameen would prove a more solid bank than many other larger and slicker operations. In an era when multibillion dollar financial enterprises across the world have been collapsing shamefully into the arms of the state, Grameen and many other microfinance institutions have pressed on – as have many other mutually owned financial groups from building societies to credit unions.

What these institutions have retained but many larger ones seem to have jettisoned is a close relationship with their clients. Instead, in the pursuit of profits, most modern banks have done all they can to put as much distance between themselves and their customers as possible. Gone are the days when it was a simple matter to talk to your bank manager. At one point, the new improved system at my own bank, Lloyds TSB in the UK, meant that I was no longer permitted even to telephone my local branch. Instead, in the pursuit of greater profits, banks have resorted to higher levels of technology and launched ever more complex and exotic financial vehicles. As a result, borrowers and lenders have been pushed even further apart. Risk has been distributed in weird and opaque ways and ultimately assumed by no-one.

This orphaned risk has ballooned to gigantic proportions and sprawled far beyond national borders. So extensive are the global tentacles of

international finance that a crisis in one country is now almost instantly transmitted to all the others – leaving national governments struggling to take coordinated action – bereft of the necessary international institutions. One body that might have been appropriate, the International Monetary Fund, is now deeply mistrusted in developing countries for its ineptitude and ideological rigidity.

Time to start again, and consider what we really need. While the primary drivers of markets are usually greed and fear, the global financial system is far too critical to rest on such primordial instincts. As the Grameen Bank and other mutual organizations have demonstrated, banking needs to be based on shared risk and shared responsibility – locally, nationally and internationally.

This guide aims to look more closely at the options. You might not consider a book about money or finance a very enticing prospect, but if you have read this far you probably want to know more. I have tried to tell the story as simply as possible, starting from scratch – from the earliest days of barter through to the arcane complexity of 'collateralized debt obligations'. I have used many sources, but am particularly grateful to Satish Mishra of Strategic Asia in Jakarta, who read the first draft of this guide and provided many valuable suggestions. I am however, reluctant to share the credit for any errors, which are entirely of my own making.

Books like this *No-Nonsense Guide to Global Finance* should in principle be easy to read. In practice, they still require a bit of effort. If you do make it to the end I hope you will gain some sense of where we have been going wrong, and why we need to start afresh to build a more stable and equitable system of international finance.

Peter Stalker
Oxford