

# We are IntechOpen, the world's leading publisher of Open Access books Built by scientists, for scientists

6,900

Open access books available

186,000

International authors and editors

200M

Downloads

Our authors are among the

154

Countries delivered to

TOP 1%

most cited scientists

12.2%

Contributors from top 500 universities



WEB OF SCIENCE™

Selection of our books indexed in the Book Citation Index  
in Web of Science™ Core Collection (BKCI)

Interested in publishing with us?  
Contact [book.department@intechopen.com](mailto:book.department@intechopen.com)

Numbers displayed above are based on latest data collected.  
For more information visit [www.intechopen.com](http://www.intechopen.com)



## Whose rules? Globalizing governance and the great disruption

Jody Jensen  
Institute of Political Sciences  
Hungarian Academy of Sciences  
Hungary

### Introduction: Impasse Capitalism

*We have reached an impasse. Capitalism as we know it is coming apart at the seams. But as financial institutions stagger and crumble, there is no obvious alternative. Organized resistance is scattered and incoherent. The global justice movement is a shadow of its former self. For the simple reason that it's impossible to maintain perpetual growth on a finite planet, it's possible that in a generation or so capitalism will no longer exist. Faced with this prospect, people's knee-jerk reaction is often fear. They cling to capitalism because they can't imagine a better alternative. (Graber, 2009)*

The period we live in has been characterized as the end of history, empire, the nation state, neo-liberalism, and the end of the world system. Since the 1990s, the contradictions in terms of justice and democracy in contemporary globalization have also given rise to countermovements that attempt to reassert control over economic forces. The questions that are being clearly articulated by these multifarious and increasingly vocal counterforces are: Who is globalization benefiting? What should be the purposes/aims/goals of globalization today?

The period has also been described as "civilizational crisis," "consumer civilization," "business civilization" which underscores the emergence of new perceptions regarding the human condition (and the corresponding rights and responsibilities). Development and "accumulation" have become more knowledge-based, dematerialized and deterritorialized. Some have described the economy as becoming increasingly "weightless," as more and more of it becomes knowledge- and creativity-based.

We do indeed stand at a moment of transformation. But this is not that of an already established, newly globalized world with clear rules. Rather we are located in an age of transition, transition not merely of a few backward countries who need to catch up with the spirit of globalization, but a transition in which the entire capitalist world system will be transformed into something else. (Mittleman, 2000: 262)

Immanuel Wallerstein asserts that we are currently in a period of transition from one world system to another. Once in the lifetime of a world system, he claims, when contradictions,

secular trends, and cyclical rhythms combine in such a way that the system can no longer reproduce itself, a world system ends and is replaced by another. According to world systems theory, the modern world system today is in structural crisis and has entered a chaotic, transitional period which will cause a systemic bifurcation and transition to a new structure. The nature of the new structure has not yet been determined and, furthermore, cannot be predetermined. It is only in crisis, however, that actors have the most freedom of action, because when a system operates smoothly behavior is determined by the nature of the structure. At moments of transition, individual and collective action become more meaningful, and the transition period to a new structure is more “open to human intervention and creativity.” (Wallerstein, 2000: 251–252)

From the International Labor Organization (ILO) to the former chief economist of the World Bank, Joseph Stiglitz, complaints are voiced about the direction of economic globalization, its inherent injustices and lack of transparency, accountability and governing structures. Calls are made for the formulation of an ethical framework for governing global markets and the direction of global processes. In the words of Joseph Stiglitz, we need to bring “choice” back into the global equation, weighing economic efficiency against social costs. (Stiglitz, 2002) Karl Polanyi also reminds us that the economy should be re-embedded in society, rather than having society driven by the economy. (Quoted in Bello, 2004.)

The polarizing discourse of anti-globalization protestors and the heads of IMF and the World Bank have led to the ideological entrenchment of opinions and perspectives. Yet it is the intensity of these globalization battles that has created the environment in which questions about the direction and ethics of globalization have been brought into the public domain for deliberation and debate.

## The Debate on Global Inequalities and Social Justice

In recent decades globalization has been associated with the “mean-spirited neoliberal project which is reinforced by the conditionality programmes of the IMF and the World Bank for developing countries.” (Thorup and Sorensen, 2004) Not surprisingly, developing countries find the double standards in trade rules hypocritical since Western economies developed behind protective barriers that they are now requiring less developed countries and regions to lower. In developing countries economic liberalization often occurs before a social safety net is secured, causing an increase in misery, which I have termed “crucifixenomics,” an abbreviated form of John Ralston Saul’s “crucifixion economics”. Erzsébet Szalai states that new capitalism is the “uncurbed reign of the economic elite over the other spheres of social existence” (Szalai, 2007).

*Soon these servants of the public good had memorized the new vocabulary and were calling citizens clients or stakeholders or taxpayers, using the narrow utilitarian word efficient ... while losing the more relevant concept of whether a law or program was effective. (Saul, 2005: 111–112)*

The discourse that had been pouring out of the West since the early 1970s was embraced by multi-lateral economic organizations (MEIs) and development experts and there was no shortage of Western consultants and academic economists eager to push developing countries into experiments with market purity. Imagine how exciting it was for these

theoreticians to find countries prepared not merely to engage in reforms, but to risk the entire well-being of real people – of entire peoples – in order to act as existential case studies. (Saul, 2005: 113)

It is the publicly expressed consensus of the G8 that globalization should reduce global poverty, but quite the opposite has occurred. A study by Mattias Lundberg and Lyn Squire from the World Bank found that the poor are much more vulnerable to shifts in relative international prices that are magnified by a country's openness to trade. They conclude: "At least in the short term, globalization appears to increase both poverty and inequality." (Bello, 2001: 238)

According to the World Bank, the number of people living in poverty rose in the 1990s in all the areas that came under structural adjustment programs: Eastern Europe, South Asia, Latin America and the Caribbean and sub-Saharan Africa. This has pushed further the global public debate about the future direction and progress of economic globalization to increase equitable distribution of wealth and social justice. Zygmunt Bauman points to the central problem of "glocalization": that rich and poor no longer sit at the same (distributive) table of the national state. (Bauman, 1998)

In response to these debates, we are seeing the emergence of new, hybrid forms of multi-stakeholder (public-private and private-private) governance, i.e., governance without government and the increasing role of civil society.

### **The Emergence of Multi-Stakeholder, Co-regulation of Global Markets**

Besides international and intergovernmental treaties, there are increasing numbers of new *loci* of business regulation. Sources of regulation are varied and range from individual firms, and business associations to NGOs and public agencies. Those that have attracted scholarly interest are particularly global policy networks (Ruggie, 2001; Witte et al., 2000) and private inter-firm regimes (Cutler et al., 1999; Haufler, 2000), but there are many others that have not been sufficiently addressed or analyzed like the growing institutionalization of standard setting between for-profit and not-for-profit actors which needs more scholarly attention. Private actors are beginning to establish, maintain, verify, and monitor their own private regulations and these new rule systems are becoming the constitutive tools of global governance today in economic relations.

Whereas traditional forms of regulation emanated from national governments, and later also from intergovernmental agencies, we now see *hybrid* forms of regulation emerging in public-private and private-private governance structures.<sup>1</sup> These include multi-stakeholder approaches to co-regulation.<sup>2</sup> These relationships are arguably different from the historical alliances of NGOs and the private sector because, in contrast to the past where these different actors met as adversaries, today there is the emergence of shared norms and

---

<sup>1</sup> Structural hybridization can be observed in the political economy, in the interpenetration of modes of production and hybrid economic formations; in space and time, in the coexistence of the premodern, modern and post-modern; and in the transformation of states, business regulation, and in public-private partnerships between business and society. It gives rise to a plurality of new mixed forms of cooperation and competition (Jensen, 2008).

<sup>2</sup> Co-regulation is defined in regulatory arrangements where at least one actor is not a profit-making entity; self-regulation is the arrangement where individual firms set their own norms of conduct.

principles. This new and innovative development emerged in the late 1980s and 1990s. (Pattberg, 2006: 2)

Setting standards (both product and production standards) that are ethical, environmentally sound and socially sensitive are increasingly becoming the area within which hybrid partnerships are emerging. Verification, certification and reporting are also moving from self-regulation to co-regulation.

A variety of transformations set the stage for new multi-stakeholder initiatives and co-regulation in the early 1990s. "These changes include a transformation of the discursive field, a restructuring of the political environment and the correlation of social forces therein as well as a growing criticism against forms of corporate self-regulation" (Pattberg, 2006: 11). Analysts differ in their interpretations of how the "global financial architecture" should be transformed. Some only want "to upgrade the wiring and plumbing. More ambitious reformers want to break down walls and reconstruct the interior of the building. Radicals want to create an altogether new building on different foundations" (Scholte, 2003: 205).

An OECD report has surveyed 246 codes of conduct, defined as "commitments voluntarily made by companies, associations or other entities, which put forth standards and principles for conduct of business activities in the marketplace" (OECD, 2001: 3). These codes cover a range of areas like consumer protection, information disclosure, environmental and labor standards. Most of the codes are issued by the businesses themselves (48%) and business associations (37%), but an increasing number are constructed through a partnership of stakeholders (13%) (OECD, 2001: 5). Verification, certification and reporting are also moving from self-regulation to co-regulation.<sup>3</sup>

Many have designated this new direction as a trend towards private governance, shifting from public to private forms of governance through new institutional modes. This may be part of a cycle of developments that began in the 1960s and 1970s when mandatory regulation was implemented and enforced by states changed to self-regulation in the 1980s and 1990s which corresponded with increasing de-regulation by the state. This has led to cooperative rule making between NGOs and business actors in the late 1990s and 2000s. The current period of global financial instability will certainly show the increased role of the state in the oversight of global financial markets.

In the past, new institutions and initiatives arose from discussions around the New International Economic Order in the mid-1970s, e.g., the UN's Economic and Social Council (ECOSOC), and its Commission on Transnational Corporations, the UN Center on Transnational Corporations (UNTNC), the OECD's Guidelines for Multinational Enterprises, and the ILO's Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy, etc.

Based on voluntary compliance and self-regulation, these initiatives were soon neglected during the period of neo-liberal, Reaganite and Thatcherite economic policies. There was little progress in this area until the catastrophic environmental accidents of the 1990s. The combined processes of globalization and de-regulation strengthened the position of TNCs in relation to states. One of the results was that civil society began to turn its regulatory eyes directly at TNCs and throughout the 1990s increasing pressure was put directly on business. The reformulation of the political field in response to growing public criticism against self-regulation and changes in the discourse in the 1990s prepared the way for new multi-

---

<sup>3</sup> Co-regulation occurs when two or more stakeholders design and implement norms and mechanisms to improve the social and environmental performance of firms.



stakeholder initiatives and co-regulation. The change in sustainable development discourse emerged at this time. The Brundtland Report (1987), *Our Common Future*, brought the critical issues of environmental degradation and the failure of development programs to alleviate world poverty and hunger to the global agenda (The Brundtland Report, 1987). It is now recognized that sustainable development, in the words of the World Commission on Environment and Development, should meet “the needs of the present without compromising the ability of future generations to meet their own needs” and these environmental, social and economic concerns are incorporated within its scope (Pattberg, 2006: 12).

The discourse of corporate social responsibility (CSR) that proclaims ethical corporate behavior enhances profits emerged partly in response to the new claims. The European Commission in 2001 defined CSR as: “a concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis” (CEC, 2001: 6).

Other definitions call for “achieving success in ways that honor ethical values and respect people, communities and the natural environment” (Business for Social Responsibility). The basic notion of CSR is that not only do companies need to perform ethically in the communities where they are located, but that the community is also an important stakeholder in the companies’ activities. The concept of the “triple bottom line” was employed to define profitability not only in economic terms, but in social and environmental terms as well. CSR and environmental responsibility could increase a firm’s competitive advantage and create new markets. This discourse is prominent today from the UN’s Global Compact to Socially Responsible Investment (SRI). According to reports, socially responsible investing has skyrocketed.<sup>4</sup> Besides CorpWatch, there is also the influential Dow Jones Sustainability Index, and EthicalCorp, among many others, that regularly report on corporate behavior.

Companies that “learn” do better, especially since much of contemporary economic exchange is in the area of knowledge-production and transfer. The Commission on Global Governance in 1995 issued a broad statement for the building of partnerships: “networks of institutions and processes that enable global actors to pool information, knowledge, and capacities and to develop joint policies and practices on issues of common concern.” It came to be felt in some business circles that they might profit from partnerships with civil society in terms of receiving expertise, feedback and support (and legitimation) on the ground in new and emerging markets.

### **New Models of Corporate-Civil Innovation**

Countless new networks and networks of networks have emerged partnering business with society. The Social Venture Network, the Schwab Foundation, the Global Challenge are only a few that have taken up the gauntlet of CSR and as a movement it is clearly on the rise. The

---

<sup>4</sup> In the 1990s, the amount of money invested with socially responsible funds rose from USD 40 billion to USD 2.2 trillion between 1985 and 2000 in the US. By 2000, USD 1 in every USD 10 invested in the UK and the US was linked to some kind of social criteria. Since 1999, US investors have been able to track the Dow Sustainable Group Index, and in the UK investory can follow socially responsible companies on the FTSE4good index.

advocacy of such high profile personalities as Anita Roddick of the Body Shop and the multi-millionaire Stephan Schmidheiny, founder of the World Business Council for Sustainable Development, has brought the discourse into the mainstream. It is a concept that is ignored by companies at their own risk. It has become the subject of books, seminars and even university programs and it is on the rise in the North and South.

CEOs and boards are finding that public relations efforts alone are not enough to satisfy the market. Rather, corporate leaders are discovering that by engaging stakeholders, adopting rigorous business strategies, and implementing reputation management systems, they can more effectively establish trust with stakeholders, gain a competitive advantage, mitigate the impact of crises, and preserve a company's most important asset – its reputation (PWC, 2000).

Civil society organizations are also becoming more savvy and less reticent to dialogue and partner with corporations. Environmental campaigners become environmental consultants, for example. It is through practice and the process of such encounters that informs both spheres of their increasing inter-dependence and increases trust. Privatized forms of regulation replace state regulation which many companies see as an advantage. Whereas public/state regulation relies on possible coercion, private authority relies more on persuasion.

Some of the successful strategies employed to regulate corporate behavior are direct action campaigns, i.e., naming and shaming, including boycotts that attract media attention and challenge the reputation and credibility of the corporations involved. There is an increasing correlation between good business practices and profit which is affected by both negative and positive publicity. Public awareness and information campaigns directed at consumers can have positive results when companies realize that lost reputations translate into lost profits. If you look at the recent AIG scandal, it is clear what reputation management or mismanagement can mean. The new CEO admitted that the AIG name (which has come to stand for And It's Gone, Ain't I Greedy, All Investments Gone, Avarice Insolence Greed) is "so thoroughly wounded and disgraced" that they are probably going to have to change it. Roger Cowe writes that for a growing number of companies reputational risk is considered as important as the risk of fire or physical catastrophe (Cowe, 2001:6).

What may finally convince corporations about the validity of CSR are increased profits due to responsible business practices. Companies that have effective programs for corporate social responsibility have a rate of return that is 9.8% higher than companies that do not over a 10 year period (Oliviero & Simmons, 2002: 86-87).

Legal action by civil society organizations has also induced corporate accountability in the social, political and environmental spheres. International law and regulations have allowed for companies to be sued that do not conform to human rights and environmental standards.

Standard setting and monitoring are the areas in which civil society activity has increased the most in recent decades. The Global Reporting Initiative (GRI) was formulated in response to the growing outcry against corporate human rights and environmental rights abuse. The GRI is supported by major corporations throughout the world and is building a consensus for a voluntary standard of corporate reporting requirements that transcends specific industrial sectors or geographic areas.

Civil society has assumed a central role in monitoring the implementation of agreed standards. Global civil society organizations can report on the extent to which companies or

whole industries are enforcing codes and standards. This is especially important in developing countries that often do not have the resources to monitor companies on a regular basis. Lessons are still being learned on the best ways to monitor the variety of corporations and industries in a number of countries and here the flexibility of civil society is an advantage. While civil society is now filling an important gap by monitoring and setting standards, in the future it may be better for this work to be led in partnership with official international agencies or governments.

This increases the potential influence and oversight of locally-based groups to monitor and report on corporate activity in the places they operate. NGOs are changing their attitude towards business and vice versa: from an adversarial relationship of confrontation to one that can be characterized as more cooperative. As much as concepts like CSR and ethical business practices can be seen by companies as simply marketing tools, it can never-the-less be stated that these new partnerships and hybrid constructions of regulation are playing a greater role in determining the behavior of global economic actors.

### **Business as Unusual: The Corporate Citizen Hybrid**

There are over 60,000 active multinational corporations with over 800,000 affiliates worldwide. At least 37 of the top 100 economies of the world are corporations. Some economists have found that the combined sales of the world's top 200 corporations are bigger than the combined economies of all but the 10 richest countries. This represents enormous power. A European survey, however, has shown that most people trust civil society organizations more than either business or government. Amnesty International, the World Wildlife Fund and Greenpeace outranked the leading multinationals and are among the top 15 most trusted organizations (Oliviero & Simmons, 2002). With this kind of legitimacy, global civil society organizations (GCSOs) can wield power in response to the negligence and irresponsible behavior of corporations. The global reach of civil society organizations and networks is emerging equal to the extent of global market penetration of corporations today.

Holding corporate players accountable for their actions in global economies is not a new idea and can be traced back to the late 18th century. Modern campaigns are similar they say in that they rely on a broad coalition of people, media coverage, boycott, resulting in the reform of legislation. The debate on corporate behavior has increased due to:

- (1) the globalization of markets,
- (2) the establishment of the knowledge economy,
- (3) the global communications technology,
- (4) the coalescence of power, and therefore responsibility, in the hands of relatively few international and global corporations,
- (5) the need for new social partnerships between corporations, states and civil society seeking solutions to local and global problems (McIntosh et al., 2003: 15).

Corporate citizenship elicits a wide range of responses from business. Some embed CSR values from the ground up in the company's structure, like Jeffrey Hollender's *7th Generation*, Anita Roddick's *Body Shop*, Ben Cohen's *Ben and Jerry's*, Michael Kieschnick's *Working Assets*, Margot Fraser's *Birkenstock Footprint Sandals*, just to name a few internationally known brands. Many business leaders are coming to appreciate that



corporate social responsibility makes good business sense in terms of employee relations, risk control, and reputation promotion which is increasingly emerging as a necessary competitive advantage in world markets.

The Aspen Institute outlines three types of corporate citizenship. The first includes those businesses that obey the law, operate in a transparent way, and focus on issues directly related to their business, in compliance with existing standards (Aspen Institute, 2001). At this level being a good corporate citizen is related to business and business strategy.

The second type of corporate citizenship includes businesses that move beyond compliance to address social issues and interface with society.

The third type encompasses business leaders who address social and environmental issues that may seem to be counter to their corporate interests. They view profit and profit-making in the long-term and understand that long-term business prospects require the protection of natural resources and the building of local infrastructures that will allow them to operate safely and effectively in the future.

Business leaders can have a substantial impact as unlikely allies when they speak up on issues such as climate change and working conditions. They can shift norms and gradually isolate those who do not participate (Oliviera & Simmons, 2002: 80).

In response to the question: Can the needs of society be met through the wealth creation provided by global capitalism? The Aspen Institute's discussions conclude:

*No, not yet – as the foundation for the alignment between shareholder value and social wealth is almost entirely lacking. The global rules of the game for business are dangerously nascent. We've globalized the private sector, but we have not globalized the values and institutions of global governance. This situation runs the risk of eroding the rules of the game in individual countries, even in developed countries. The framework in fact defines a category of action where corporations cannot and will not work alone to achieve social progress. Yet rather than foreclose business as an actor, this framework illustrates the need and potential for multiple stakeholders – including businesses – to agitate and collaborate for change (Aspen Institute, 2001).*

This multi-stakeholder approach is spreading and is evidenced in a number of regional and global initiatives like the Business Environmental Leadership Council, The Global Reporting Initiative, The Prince of Wales International Business Leaders Forum, The Social Venture Network, Ethos in Brazil and MAALA in Israel, Transparency International, etc. But as the quote above reveals, business alone is not willing or able to address the global challenges and injustices brought about by economic globalization.

It is becoming increasingly clear that civil society is organizing effectively to ensure that companies that pollute and destroy the environment and that operate outside legally established labor codes are having a harder time doing business as usual. More effective partnerships between companies and civil society is also increasing the knowledge and trust between the sectors. This is not to underestimate the legislative and enforcement capacities of states and intergovernmental agencies. This tripartite coalition could form a structure for governing economic globalization by setting universal standards, monitoring corporate behavior globally and enforcing action where necessary. The corporate citizen, as a hybridization of the traditional business player, could help to bridge the gap between markets, states and societies.

## Global Economic Institutions: *Quo Vadis?*

*Globalization is ... a project governed by the world's political and economic elites – the cosmocracy – for the benefit of a minority of humankind. It is this cosmocracy ... centred on the United States, which promotes and organizes globalization principally through the formal institutions and informal elite networks of global governance ... Dominated by powerful vested interest, the institutions of global economic management constitute the core of a wider system of liberal global governance enslaving the world and its people to the dictates of a neo-liberal ideology and global corporate capitalism (Held & McGrew, 2002: 58).*

The goals of global economic institutions have moved from enhancing global stability to serving economic interests and finally the interests of global financing institutions. It is not surprising that the global institutions set up to navigate the global economy have made mistakes and rightly have taken the brunt of the criticism about globalization. The complexities of the processes and challenges today require more than the efforts of global economic institutions, and political and social processes cannot be governed in the same way, by the same rules, as economics. Economic management cannot substitute for political leadership. Social cohesion is an important requirement for economic development and much of the criticism today arises from the kind of economic thinking that pushes all other concerns into the background.

An overview of the contemporary global economic situation and future forecasts reveal that the system generates financial fragility and instability. The growth of US deficits results in the rapid growth of international reserves which lead to financial crashes like the Japanese bubble in the 1980s, the East Asian bubble in the 1990s and financial crises in emerging markets have increased since the 1980s in relation to the post-war period until 1970. In the first months of 2008, we have witnessed market instability and increasing governmental interventions with measures to mediate this instability. The US Federal Reserve cut prime interest rates twice in a few days in the US to try to stabilize the US and global markets.

The system has also not produced higher growth globally. Wealth based on GDP per capita, fell from 2.7% to 1.5% between the 1960–1978 and 1979–2005 periods. The fall that occurred between 1990 and 2004 is particularly revealing since it coincides with the effects (in the 1980s) of the policies of deregulation, privatization, and the liberalization of trade and capital movements. Growth in output (which rose to 2.3% for 2001–2003) may be the consequence of the liberalization that has occurred over the past three decades or is the product of the boom in American consumer debt which draws on Chinese, Japanese and German trade surpluses (Milanovic, 2005).

Much of the world, especially the developing world, has experienced no growth at all, or even negative growth. Sub-saharan Africa's average real income is below the level of the 1980s and 1990s; Latin America is about the same as in the 1980s even though many countries in the region adopted the neo-liberal policies of the World Bank and IMF. Eastern Europe's economic performance has clearly steadily declined and created, as elsewhere, social reaction ranging from apathy to unrest. Only South Asia, beginning from a low base, can be said to have improved, as well as China and India, albeit with periods of instability.

Daniel Altman (2007) estimated that there are roughly 1 billion people in the high-income countries; 3 billion people in countries where growth rates have been substantially faster than in the high-income countries; and 2 billion people – some living in middle-income

countries, others in low-income countries – where growth rates have been lower than in high-income countries.

*The brutal fact is that after decades of self-conscious development and market liberalization, the average income for the South is still only around 15% of that of the North in purchasing-power-parity (PPP) terms, and more like 5% in foreign-exchange-rate terms. Also, growth in the South is typically much more erratic than in a typical developed country, with periods of relatively fast growth followed by deeper and longer recessions.*

He concludes:

*In short, the Matthew effect is (still) operating with vengeance (“To him that hath shall be given, to him that hath not shall not be given”). There is deep irony here, related to the impact of the post-Bretton-Woods architecture on the lives of the poor (Altman, 2007).*

Both the IMF and World Bank are experiencing what has been termed a “crisis of relevance” when faced with the rapid and fundamental changes that have occurred in the market over the past two decades. Their traditional “products” – economic aid packages and policy advice to governments – are increasingly questioned as being outdated, targeted towards an earlier period of global economic development and are now subject to competition from a variety of new actors. These include global private foundations like the Bill and Melinda Gates Foundation and private banks. There has even been discussion to establish a similar institution to support the developing economies of Latin America, for example:

*Finance ministers from seven South American countries met in Rio de Janeiro on 8 October to discuss the future structure, leadership and funding sources for the so-called Banco del Sur (Bank of the South).*

*Already, the idea of an alternative funding source for South American countries has been supported across the region. Once inaugurated, the multilateral financial institution will become an alternative to the World Bank, the Inter-American Development Bank and the International Monetary Fund for South American countries interested in loans for social and economic development – loans that come free of the conditions that South American leaders have associated with the failed neo-liberal economic policies of the 1990s (Logan, 2007).*

“Debtonation” describes the systemic crisis that goes to the heart of the financial model and underpins economic globalization. More and more banks collapse from the pressure of consumers surviving on credit in the developing nations. As early as October 2007, it was reported in the UK that 10% of homeowners, one million people in the UK alone, were paying their mortgages with credit cards. There is no “invisible hand” even for the developing world. Since the demise of the world market as a result of the subprime mortgage crisis, there are more calls for the global economic architecture and a call for a new Bretton Woods. The underlying problem with the current global economic institutions is the problem of governance: who decides what they do and how they do it.

It is the intensity of the globalization debates that has created the environment in which questions about the direction and ethics of economic globalization have been brought into the public domain for deliberation and debate. This has only increased since the collapse of the neo-liberal model and capitalist markets.

### Faith-Based Economics and Heresies: The Great Disruption

*This is the excellent foppery of the world, that, when we are sick in fortune – often the surfeits of our own behavior – we make guilty of our own disasters, the sun, the moon, and the stars. Shakespeare, King Lear*

According to the World Bank, financial crises have become more frequent over the past thirty years. 93 countries experienced an astonishing 112 systemic banking crises between the late 1970s and the year 2000. Responsibility for the current financial crisis is avoided by two distinct processes, one in which individuals are blamed and the other in which the system as a whole is to blame. There is no question in the first case of blaming the system and none in the second of considering which individuals are to be held accountable for "financial crimes against humanity" – although some may be identified as "financial war criminals" or "banksters", who end up with million dollar bonuses at the taxpayers expense. Their behavior has been described at the least as financial extremism and at the worst as financial terrorism.

Just as the markets and a few economists have shown us that we are living beyond our financial means and overdrawing our financial assets, scientists are warning us that we're living beyond our ecological means and overdrawing our natural assets, and as the environmentalists have pointed out: "Mother Nature doesn't do bailouts." The environmental business expert, Paul Gilding named this moment when both Mother Nature and Father Greed have hit the wall at once – "The Great Disruption" (Friedman, 2009).

Climate metaphors and terminology ("financial hurricane," "financial maelstrom," "financial cyclone," "financial tsunami") are being used to frame the financial crisis and the response to it. This is an easy way of framing the crisis as beyond human control and responsibility (Judge, 2008).<sup>5</sup>

It seems that those most aware of the extent and impact of the crises are quite defensive regarding their own role in generating it. An editorial in *The Economist* concluded that:

*Those of us who have supported financial capitalism are open to the charge that the system we championed has merely enabled a few spivs [criminals] to get rich (The Economist, 20 September 2008).*

Its report the following week did not offer any insight on what action needed to be taken either (*The Economist*, 4 October 2008). There was clearly no reason for any form of apology - although an analysis was supplied for why apologies were not needed in the article "Who's sorry now: who should apologise to whom, for what and how?" (*The Economist*, October 2008). The *Financial Times* was equally confident about its own position -- and presumably its inability to learn from a crisis whose dynamics it had sustained (*The Financial Times*, 27

<sup>5</sup> Anthony Judge argues that: "It is apparent that the earlier understanding of a 'climate of change' is now itself being confused with 'climate change'."



September 2008). These could be described as unprofessional failures of institutional learning.

Even in the context of systemic problems it is interesting that the judgement-free term "turbulence" in the market is used to describe the crisis. Such a metaphor frames the crisis as an act of nature or Act of God, clearly beyond human responsibility, whether individual or collective, which should instead be understood as a 50 or 100-year cycle problem, like flooding or hurricanes.

Even Donald Trump is creatively exploiting an Act of God clause. He defaulted in November, arguing he should not have to pay over \$330 million he owes for the construction of his Trump International Hotel and Tower in Chicago because the world economic crisis constitutes a "Force Majeure" -- equating it with war or an act of God. In fact, rather than paying, Mr. Trump thinks the bank should pay him \$3 billion for undermining the project and damaging his reputation.

Thus, one view of the financial crisis, like the discredited view of global warming, is that it is not a consequence of human activity. As with natural disasters, the concern is to minimize irrational panic in response to such crises (*The Financial Times*, 25 September 2008; *The Guardian*, 11 October 2008). You can see this in *The Economist's* effort to relativize the dimensions of the crisis by comparing the cost of current bailouts to past bailouts as a percentage of GDP: USA (1988, 3.7%), Finland (1991 (12.8%), Sweden (1991, 3.6%), Mexico (1994, 19.3%), Japan (1997, 24.0%), S Korea (1997, 31.2%). The current crisis becomes trivial at a mere estimated 5.8%, but absolute amounts are curiously not cited in the comparisons (*The Economist*, 27 September 2008).

This reveals a dysfunctional pattern of thinking and the real challenge is not the particular crisis of the financial system which everyone is talking about. The real challenge lies in the pattern of derivative thinking which sustained the system and denied its problematic nature. Is the subprime crisis, and its consequences for the financial system an indicator of a dysfunctional mode of thought in which we collectively engage today? Does this thinking deny the existence of other systemic challenges and represses consideration of their potential implications in other areas?

A major danger is the current assumption that the only "confidence" that needs to be (re)built is defined by market terminology. Why are "solutions" only being dreamt up after a crisis has struck? (e.g., Hurricane Katrina, the current financial meltdown). What does this imply for other crises whose possibility is authoritatively denied? It is curious the way "faith" is now vigorously encouraged by the most hard-headed economists and businessmen at the focus of the financial crisis. It is seen as central to recovery of the health of the global economy.

Economists, and those with governance responsibility, argue strongly that people should have faith, trust and confidence in the financial system which has abused that confidence. We now see that all along neoliberal capitalism was a form of mythology. That's why the triumphalism was necessary – you could not afford to have anyone challenge the system. Thomas Frank in his book, *One Market Under God* (2001) explains how neoliberalism entrenched its triumphalism into the political system of the US; how it marginalized and delegitimized all challenge and established hegemony in the so-called free world.

How can reliance on hope be distinguished from a false sense of what has happened and what needs to be done? One response can be described as the "creative response of human ingenuity". This is exhibited in many writers like Homer-Dixon who subsequently



recognized the inevitability of collapse of civilization as it is currently known (Homer-Dixon, 2006), and Jared Diamond in his book called *Collapse* (Diamond, 2005). These authors are among others who believe the crisis is a reason to be optimistic.

It is strange, however, that such creative ingenuity has not been employed to anticipate the present or future crises, for example, by extending the global modelling work pioneered in 1972 for the Club of Rome. These efforts to analyze the evolution of the world problematique were undermined. The original study provoked many criticisms which falsely stated its conclusions in order to discredit it (Turner, 2007). Despite the repeated substantiation of its conclusions, including warnings of overshoot and collapse, recommendations of fundamental changes of policy and behaviour for sustainability were never taken up.

If we take an earlier example of just such political-ideological orthodoxy, we need only look at the Karl Polanyi-Hayek debate.<sup>6</sup> Hayek became the founding father of a model of economic management which has brought us to the current crisis; Polanyi, with extraordinary prescience, warned that the crisis would come; he rejected the idea that the market is "self-regulating" and can correct itself. There is no "invisible hand" such as the neoliberals maintain, so there is nothing inevitable or "natural" about the way markets work: they are always shaped by political decisions.

At the time Polanyi was writing, there were many who agreed with him that free-market capitalism was chronically and destructively unstable, with terrible political consequences; but in the 1970s and 1980s, Hayek's neoliberalism took hold in the US and Britain. The mantra was: Keep the state out and let the economy take care of itself. Alan Greenspan wrote enthusiastically in August 2008 that "the past decade has seen mounting global forces (read: Adam Smith's "invisible hand" globalized) quietly displacing government control of economic affairs". He continued that the greatest danger facing the economy was that "some governments, bedevilled by emerging inflationary forces, will endeavour to reassert their grip on economic affairs". Greenspan has since made a gigantic *volte-face* as he pleaded for the nationalization of banks.

Another response to the crisis is connected to "rapture" in the religious sense.<sup>7</sup> "Rapture" is at least as important as creative response and human ingenuity. It is a response of faith-based governance, of the widespread belief in some form of "rapture", or divine "bailout by God". This may have been a factor in the US presidential campaign. It is widely believed that the more fundamental or dramatic the complex of problems faced by humanity, the higher the probability of divine intervention. Therefore, it is extremely ironic that economists call for "faith", "belief" and "trust" in an economic orthodoxy in a state of collapse today (Bunting, 2008). What if "Bailout by Jahweh" becomes "Bailout by Allah" who has a different conception of "Wall Street" and the system to be saved?

It is important here to identify the systemic role of actors (states), instruments (financial mechanisms and authorities), concepts and dynamics, as well as how long and short-term risk is managed in a context both fear and a false notion of what has happened and why, engendered and exploited by fact and rumour. By employing the reasoning tools of finance, and its crisis, can we reframe our understanding of other imminent crises -- for which there is a similar lack of preparedness and similar excuses for such lack?

---

<sup>6</sup> *The Great Transformation*, published in 1944; *The Road to Serfdom*, also published in 1944.

<sup>7</sup> bliss, beatitude; transport, exaltation; the experience, anticipated by some fundamentalist Christians, of meeting Christ midway in the air upon his return to earth.

There are critical views of the financial crisis that can help us to look at what is behind the crisis. Larry Elliott argues that it is neither possible nor desirable to recreate the global financial system as it existed prior to the crisis (*The Guardian*, 3 October 2008). He states that clearly a Global Monetary Authority, equipped with the mindset that engendered the current financial malaise, would not have the observational skills or motivations to detect unfamiliar twitchings in the global system. In making a case for another Bretton Woods system of monetary management, Peter Mandelson recommends that we need to inject confidence by regulating to control excessive risk-taking and heavy leveraging, and to improve the way ratings agencies work; and that certain financial products have become so complex that they are not understood by the very institutions that buy and trade them. This is a regulatory and professional failure of the first order (*The Guardian*, 3 October 2008).

The question is whether more vigilant analysis of the financial crisis as it evolves, and the language used in "saving the system" can be used to develop a framework to analyze emergent crises that have been subject to the same neglect through "derivative thinking" (*The Economist*, 11 October 2008). This is key to a new approach to global modelling.

Borrowing another financial metaphor, Anthony Judge claims that academic disciplines are the "banks" of the global knowledge society, and asks the questions: to what extent is it appropriate to see the array of disciplines as having irresponsibly taken on "excessive risk" in their negligent consideration of problems by which society is faced? Can their degree of ingenious specialization be fruitfully compared with what is now recognized as the problematically opaque nature of the derivatives market? Do these factors offer a useful explanation of why disciplines are so fearful of lending to one another, thereby reducing the "liquidity" of a global knowledge system that is so essential to sustaining creativity in resilient response to crises?

## Conclusion: Appropriately Anticipating the Crises to Come

*This stock collapse is petty when compared to the nature crunch: the financial crisis at least affords us an opportunity to now rethink our catastrophic ecological trajectory.*

*This is nothing. Well, nothing by comparison to what's coming. The financial crisis for which we must now pay so heavily prefigures the real collapse, when humanity bumps against its ecological limits. As we goggle at the fluttering financial figures, a different set of numbers passes us by. On Friday, Pavan Sukhdev, the Deutsche Bank economist leading a European study on ecosystems, reported that we are losing natural capital worth between \$2 trillion and \$5 trillion every year as a result of deforestation alone. The losses incurred so far by the financial sector amount to between \$1 trillion and \$1.5 trillion....*

*The two crises have the same cause. In both cases, those who exploit the resource have demanded impossible rates of return and invoked debts that can never be repaid. In both cases we denied the likely consequences. I used to believe that collective denial was peculiar to climate change. Now I know that it's the first response to every impending dislocation (Monbiot, 14 October 2008).*

What will this crisis mean for us in terms of our daily lives? We are all beginning to sense the possible consequences of the crisis in terms of our own ability to provide for our families in the future. We feel the crisis, but don't know what it means – a bit more than average unemployment and homelessness or will we all be left homeless and jobless? There are countries like Russia and Argentina that we can ask advice from about what happens when economies collapse in this day and age. We no longer trust economists or politicians to give us answers anymore because we see

that no one has any idea about what is going to happen. We further distrust those that think they do have quick and ready solutions. Their serial irresponsibility warns us that new bailout plans may be a ruse for “comforting the comfortable while afflicting the afflicted”.

We are finally feeling, experiencing and learning what countries across the developing world have experienced for over three decades that unstable and inequitable neoliberal economics leads to unacceptable levels of social disruption and hardship that can only be contained by brutal repression.

Just look at the recent events in Greece, Italy, France, Thailand and even Hungary. Many, often contradictory, causes have been put forward: economic (unemployment and neo-liberal economic measures), political (institutionalized corruption and failure of education), cultural or ideological. But the most prominent reaction of commentators has been incomprehension. There is no one political organisation directing these insurrections, no single ideology motivating them, no overwhelming demand put forward. The persistent question, “What do they want?” often leads to the conclusion that the events were not political because they could not be integrated into existing analytical frameworks. What seemed to unite the protesters was simply refusal: “No more, enough is enough.” A stubborn negativity characterised the insurrections. Is this a new type of politics after the decay of democracy? – Insurrection and righteous “indigNation” is a response of those who feel invisible to the political system.

The insurrections can be recognised as events of radical change only retrospectively, if the rules of politics change. This depends on who will uphold the possibility of changing the rules of what counts as political. In a recent interview President Obama reflected that there are certain moments in history when significant change is possible. “It’s not a certainty,” he said, “but it’s possible.” He said he believed that it’s very difficult for any single individual to actually set that kind of “momentum” for change in motion. But when that historical wave is there, he said, “I think you can help guide it.” When asked if we are in one of those moments now, he said, “Yes. I firmly believe that.”

This is the challenge that Athens, Paris, and Budapest pose to Europe. It is no wonder that “Slumdog Millionaire,” which pits a hard-working young man in Mumbai against a corrupt nexus of money and privilege, has become America’s movie of the year. Not just Americans are tired and resentful of people who benefit from a system dominated by insiders with the right connections.

The assertion of “incomprehensibility” is associated with an inability to integrate current events into existing analytical frameworks. Assertions of “incomprehensibility” do not just characterize the current financial crisis, but are also consistently applied to the Middle East and even used to explain the Irish No Vote.

In addition to incomprehensibility and the insurrection that results from invisibility, unregulated capitalism can be charged with creating wealth but not effectively distributing it and that it takes no account of what it cannot commodify, neither the social relationships of family and community nor the environment, which are vital to human wellbeing and survival, and indeed to the functioning of the market itself. Ultimately, neoliberal capitalism is self-destructive.

We can now ask the questions why the critique of the neoliberal model which emerged in the late 1990s was ignored. The anti-globalisation movement argued that neoliberal capitalism was unjust, unstable and destructive to human and environmental wellbeing, but it somehow became associated with the anarchic street violence of radical groups. Broad networks of grassroots social movements were ridiculed, marginalized and ignored. There is no alternative, the politicians intoned.

We were distracted after 9/11 by the war on terrorism and ignored the second ground zero on Wall Street as a gathering storm next to the first ground zero. We are now witnessing the collapse of the economic orthodoxy that has dominated politics for nearly 30 years. For decades, we were told "There is no Alternative". Now we are being warned "There Is No Alternative to the Alternative."

## References

- Altman, D. (2007). Globalization Story Still has a Long Way to Go. <http://www.opendemocracy.net/>.
- Aspen Institute (2001). Aspen ISIB Business Leaders Dialogue. <http://www.aspeninstitute.org/>.
- Bauman, Z. (1998). *Globalization*. Polity.
- Bello, W. (2004). *Deglobalization. Ideas for a New World Economy*. Cox and Wyman.
- Brundtland Report (1987). *Our Common Future*. Oxford University Press.
- Bunting, Madeleine. "Faith, Belief, Trust: This economic orthodoxy was built on superstition." *The Guardian* (6 October 2008).
- CEC (2001). *Promoting a European Framework for Corporate Social Responsibility*. Commission of the European Communities.
- Cowe, R. (2001): *Investing in Social Responsibility: Risks and Opportunities*. Association of British Insurers.
- Cutler, A. C.; Haufler, V. & Porter, T., eds. (1999). *Private Authority and International Affairs*. State University of New York Press.
- Diamond, Jared. (2005). *Collapse: How societies choose to fail or succeed*. New York: Penguin.
- The Economist* (20 September 2008).
- The Economist* (27 September 2008).
- The Economist* (4 October 2008). "Lessons from the Crisis."
- The Economist* (October 2008). "Who's Sorry Now: Who Should Apologise to Whom, for What and How?"
- The Economist* (11 October 2008). A Special Report.
- The Financial Times* (27 September 2008). "In Praise of Free Markets: A Flawed but Precious Mechanism".
- The Financial Times* (25 September 2008). "Need for Action on the Banking Panic."
- Friedman, Thomas L. (7 March 2009). "The Inflection Is Near?" *New York Times*.
- Gill, S. (2000). Globalization, Democratization, and the Politics of Indifference. In: Mittleman, J. H., ed. *Globalization Critical Reflections*. Lynne Rienner Press, 205–229.
- Graber, David. (10 February 2009). "Tactical Briefing." *Adbusters*.
- The Guardian* (11 October 2008). "This Panic is not Irrational, it's Quite Rational".
- The Guardian* (3 October 2008). "In Defence of Globalisation."
- The Guardian* (3 October 2008). "This Primal Scream of Rage is a Call for thorough Overhaul."
- The Guardian* (3 October 2008).
- Held, D.; McGrew, A., eds. (2002). *Governing Globalization: Power, Authority and Global Governance*. Polity.
- Holland, S. (1994). *Towards a New Bretton Woods*. Russell Press Ltd.
- Homer-Dixon, Thomas. (2000). *The Ingenuity Gap: How can we solve the problems of the future?* New York: First Vintage Books.

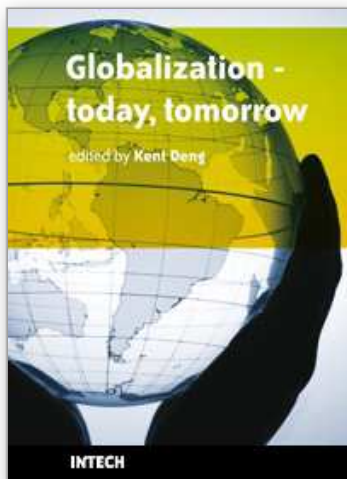


- Homer-Dixon, Thomas. (2006). *The Upside of Down: Catastrophe, creativity, and the renewal of civilization*, Washington, D.C.: Island Press.
- Jensen, Jody P. (2008). *Whose Rules? Governing Globalization in a Multi-Stakeholder World*. Szombathely-Köszeg: Savaria University Press.
- Judge, Anthony. (5 December 2008). "Climate Change as a Metaphor of Social Change." <http://www.laetusinprasens.com>
- Logan, S. (22 October 2007) "The Cautious Birth of a New Latin American Bank." <http://www.mexidata.info/>.
- Love, M. C. (2003). *Beyond Sovereignty. Issues for a Global Agenda*. Thompson.
- Lundberg, M.; Squire, L. (2003). The Simultaneous Evolution of Growth and Inequality. *Economic Journal*, 113 (487): 326–344.
- McIntosh, M.; Thomas, R.; Leipziger, D. & Coleman, G. (2003). *Living Corporate Citizenship: Strategic Routes to Socially Responsible Business*. Prentice Hall.
- Milanovic, B. (2005): *Worlds Apart: Measuring International and Global Inequality*. Princeton University Press.
- Mittleman, J. H. , ed. (2000). *Globalization Critical Reflections*. Lynne Rienner Press.
- Monbiot, George (14 October 2008) *The Guardian*.
- OECD (2001). *Codes of Corporate Conduct: Expanded Review of their Contents*. OECD.
- Oliviero, M. B.; Simmons, A. (2002). Who's Minding the Store? Global Civil Society and Corporate Responsibility. In: Glasius, M. – Kaldor, M. – Anheier, H. (eds): *Global Civil Society 2002*. Oxford University Press, 77–107.
- Pattberg, P. (2006). The Transformation of Global Business Regulation. *Global Governance Working Paper*, No. 18. The Global Governance Project.
- PWC (2000). *Reputation Assurance 2000*. PriceWaterhouseCoopers.
- Ruggie, J. G. (2001). Global-Governance Net: The Global Compact as Learning Network. *Global Governance*, 7(4): 371–378.
- Sakamoto, Y., ed. (1994). *Global Transformation: Challenges to the State System*. United Nations University Press.
- Saul, J. R. (2005). *The Collapse of Globalism*. Atlantic Books.
- Scholte, J. A. (2003). Governing Global Finance. In: Held, D.; McGrew, A., eds. *Governing Globalization*. Polity, 189–208.
- Stiglitz, J. (2002). *Globalization and its Discontents*. Penguin Books.
- Szalai, E. (2007). *Capitalism—and whatever can come after*. Unpublished manuscript.
- Turner, Graham Turner. (2007). *A Comparison of the Limits to Growth with Thirty Years of Reality*, CSIRO.
- Thorup, Mikkel and Mads P. Sorensen. (2004). "Inescapably Side by Side. An Interview with David Held." <http://www.globalpolicy.org/gloabliz/define/2004/04heldinterview.htm>.
- Witte, J. M. – Reinicke, W. H. – Benner, T. (2000). Beyond Multilateralism: Global Public Policy Networks. *Internationale Politik und Gesellschaft*, 2: 176–188.



IntechOpen

IntechOpen



## **Globalization - Today, Tomorrow**

Edited by Kent Deng

ISBN 978-953-307-192-3

Hard cover, 160 pages

**Publisher** Sciyo

**Published online** 05, October, 2010

**Published in print edition** October, 2010

This is a collective volume on present-day globalisation with nine chapters from authors of several academic disciplines. It covers wide aspects, ranging from the nature, impact, challenges and implications of globalisation to responses from a country or community when facing globalisation today or tomorrow. Policy suggestions are also made. This book will hence help the reader to understand the currently debated issues.

### **How to reference**

In order to correctly reference this scholarly work, feel free to copy and paste the following:

Jody Jensen (2010). Whose Rules? Globalizing Governance and the Great Disruption, Globalization - Today, Tomorrow, Kent Deng (Ed.), ISBN: 978-953-307-192-3, InTech, Available from:

<http://www.intechopen.com/books/globalization--today--tomorrow/whose-rules-globalizing-governance-and-the-great-disruption>

**INTECH**  
open science | open minds

### **InTech Europe**

University Campus STeP Ri  
Slavka Krautzeka 83/A  
51000 Rijeka, Croatia  
Phone: +385 (51) 770 447  
Fax: +385 (51) 686 166  
[www.intechopen.com](http://www.intechopen.com)

### **InTech China**

Unit 405, Office Block, Hotel Equatorial Shanghai  
No.65, Yan An Road (West), Shanghai, 200040, China  
中国上海市延安西路65号上海国际贵都大饭店办公楼405单元  
Phone: +86-21-62489820  
Fax: +86-21-62489821

© 2010 The Author(s). Licensee IntechOpen. This chapter is distributed under the terms of the [Creative Commons Attribution-NonCommercial-ShareAlike-3.0 License](https://creativecommons.org/licenses/by-nc-sa/3.0/), which permits use, distribution and reproduction for non-commercial purposes, provided the original is properly cited and derivative works building on this content are distributed under the same license.

IntechOpen

IntechOpen