

**Globalization:  
Challenges and Opportunities**

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## Editor's Foreword

Gary Madison's paper, "Globalization: Challenges and Opportunities" is the first in a series of working papers to be circulated by McMaster University's new Institute on Globalization and the Human Condition, directed by Dr. William Coleman of McMaster's Department of Political Science. This Institute is a multidisciplinary academic unit, with members from a wide variety of disciplines in both the social sciences and humanities. The Institute focuses not only upon the economic, technological and political changes often thought to be at the core of globalization, but also on the social and cultural changes attendant upon it.

The working papers series will circulate papers by members of the Institute as well as other faculty members and invited graduate students at McMaster University working on the theme of globalization. Scholars invited by the Institute to present lectures at McMaster will also be invited to contribute to the series.

The series has two principal objectives:

- To foster dialogue and awareness of research among scholars at McMaster and elsewhere whose work focuses upon globalization, its impact on economic, social, political and cultural relations, and the response of individuals, groups and societies to these impacts. Given the complexity of the globalization phenomenon and the diverse reactions to it, it is helpful to focus upon these issues from a variety of disciplinary perspectives.
- To assist scholars at McMaster and elsewhere to clarify and refine their research on globalization in preparation for eventual publication.

We are very fortunate that the first paper in this series is one that goes to the heart of the debate about the meaning and impact of globalization. Gary Madison, Emeritus Professor of Philosophy at McMaster University, is more optimistic than many other members of the Institute about the effects of globalization. When he presented it to his colleagues in the Institute in September 1998, Madison's paper proved very controversial. We therefore make available with the paper itself comments by Robert O'Brien and Tony Porter, both members of McMaster's Department of Political Science.

Finally, we would like to thank Geoffrey Rockwell, Assistant to the Dean Humanities (Computing), who has assisted us greatly in making the arrangements to carry the Working Papers Series on our web page: [www.humanities.mcmaster.ca/~global/global.htm](http://www.humanities.mcmaster.ca/~global/global.htm).

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## **Abstract**

Globalization is a multifaceted phenomenon. In this paper I seek to discern some of the challenges it poses, as well as some of the opportunities it offers. To this end, attention is focused on three major aspects of globalization: the economic, the cultural, and the political. Particular consideration is given to the political-economic lessons to be learned from the recent East Asian financial (and economic) crisis; the homogenizing and civilizing ramifications of globalization in the realm of culture; and the relation between economic globalization, the threat it poses to the traditional notion of national sovereignty, and the prospects for the development of civil society, the rule of law, and democratic governance. The paper concludes by arguing that, as a result of the emerging global economy, we are witnessing the emergence of a new form of capitalism, qualitatively different from both 19<sup>th</sup>-century laissez-faire capitalism and 20<sup>th</sup>-century “managed” capitalism.

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## Globalization: Challenges and Opportunities by G. B. Madison

*"We live now - for the first time in human history - in a new era when our planet is enveloped by a single civilization."*

-Václav Havel

### ***Introduction***

One doesn't have to be a Marxist to realize that economic factors play a crucial role in the development of human civilization. The very term civilization has a dual material/spiritual significance, and in the advance of civilization the material and the spiritual are always conjoined. The history of humanity is the history of its progressive liberation from material deprivation, i.e., of economic development, and it is the history as well of the growth of freedom in the realm of the spirit (see Madison 1996). We now have a name for the dynamics at work in the present stage in the development of civilization: **globalization**. In this paper I propose to cast a rapid glance over the multi-faceted phenomenon of globalization in an attempt to discern some of the challenges it poses, as well as some opportunities it offers.

I hasten to add that I speak neither as an advocate nor as a critic of globalization; I neither applaud it nor do I condemn it. What purpose would either of these stances serve? Like it or not, globalization is fact (a fact-in-the-making); it is irrelevant whether one "approves" or "disapproves" of it. As a phenomenologist, I seek only to discern the significance of what historically is, for, like Hegel, I believe that the task of philosophy is not that of "issuing instructions on how the world ought to be"; it is simply that of describing what actually or effectively is—and what, given the logic or dynamics of the processes at work, is likely to be (see Hegel 1991, p. 21, and Madison 1994).<sup>1</sup> Globalization has become the overarching fact with which all the various countries (and cultures) of the world must contend; it is a challenge which none of them can avoid. Like all profound transmutations in history (such as the earlier, and still on-going, phenomenon of modernization), globalization is something that is not a matter of human choosing. We cannot choose the historical situations with which we must contend, but we can do our best to make the best of the opportunities they present us with. Why indeed can we not hope that the emerging global civilization will turn out to be one

imbued, in the words of Václav Havel, with "a new spirituality, a new ethos, and a new ethics, values that should be adopted today by all cultures, all nations, as a condition of their very survival"? (Havel 1998, p. 24)

### *The phenomenon of globalization*

The phenomenon of globalization is itself global, that is to say, all-encompassing. It is of course in the first instance a material or economic phenomenon, but, like all significant civilizational developments, it also has profound cultural or spiritual significance. (Nothing in human affairs is ever merely economic.) I would like to reflect on some of the cultural and political consequences of globalization, but before doing so let me focus on some of its more strictly economic aspects.

Many of the basic features of the new economic reality being brought about by globalization are now a matter of common knowledge or awareness, and, accordingly, I shall not dwell on them. What globalization above all signals is a fundamental transformation in the primary arena of human economic activity, i.e., the "marketplace." Whereas in former times it made sense for economists to take the "national economy" (*Nationalökonomie*) as their chief point of reference, this is no longer the case. Markets (the chief object of economic science in those countries deemed to be "capitalist") are rapidly being "denationalized," as it were. National markets are increasingly mere subsets of a world-wide international or, perhaps better said, transnational marketplace. And this marketplace, though it is multifaceted and varied, is truly global, encompassing as it does markets not only for an unlimited range of goods and services, but also for capital and finance, and even (though to a much lesser degree) labor. Capital, for instance, is no longer restricted to financing projects in domestic markets with poor returns but can be shifted instantaneously to any country that offers more productive investment opportunities (much to the chagrin of illiberal governments, it goes without saying). Financial and currency markets have also become global, with over a trillion dollars moving about the world every day with the speed of electricity (far outstripping the value of trade in goods and services—and subjecting in the process national fiscal and monetary policies to the merciless verdict of the market). Even the manufactured goods that are traded in the global marketplace often no longer "originate" in any one country in particular but are the composite products of "an elaborate international web of suppliers and assemblers."<sup>2</sup>

These are all developments made possible by, which indeed are the *consequences* of,

developments in the material infrastructure of human existence. I am referring in particular to the new electronic technology of information and telecommunications. By greatly increasing the power, scope, and ease of communication while at the same time dramatically lowering its costs, technology has pretty much abolished the natural barriers that hitherto separated national markets.<sup>3</sup> Communication is now global, and the consequences are not only economic, but social and political as well.

From a social point of view, the demands of the global economy are bringing about profound changes in the work habits and lifestyles of people in their own native countries. In order to meet the challenge of global competition, national economies are obliged, if they are not to fall behind, to "retool" themselves, and this often entails widespread social transformation and dislocation, something which is naturally disruptive of established social practices, and is thus often negatively viewed by both citizens and governments. People do have a deep-seated craving for stability, a human susceptibility that socialists know well how to play to. Nevertheless, unlike the static world of blissful contentment projected by socialist utopianism, the world of actually existing "capitalism"—i.e., a world of ever increasing wealth—is one which never achieves, or even aims at, a state of equilibrium (contrary to what mainstream neoclassical economists would have us believe); it is, rather, a world of ever-reoccurring disruption and dislocation.<sup>4</sup> As Joseph Schumpeter famously remarked, the capitalist "order" is one of perpetual "creative destruction" (see Schumpeter 1994).

On the political side, globalization poses a serious challenge to the old idea of "national sovereignty."<sup>5</sup> By reason of its own internal logic, the new global economic order both requires and calls forth the ever increasing liberalization of trade and investment, and multilateral trade agreements (such as those institutionalized in the new WTO) necessarily restrict the ability of national governments to act unilaterally in their own parochial interests when trade disputes arise—which is to say that they have a decidedly "negative" impact on any individual nation's "sovereignty" (a development greatly bemoaned by nationalists and socialists alike).<sup>6</sup> My own view is that the "withering away" of national sovereignty is a positive development which has the possibility of promoting democracy on a global scale, a point to which I shall return. For the moment, I would like to concentrate on one highly noteworthy economic—or, to be more precise, political-economic—consequence of globalization.

### ***The new global economic order***

We often hear it said that the recent economic crisis in Southeast and East Asia that was precipitated by the collapse of the Thai baht in July of 1997 demonstrates the “downside” of globalization. When national economies are increasingly inter-linked and when capital is free to move about, a crisis in one country can rapidly spill over into other countries, creating a kind of global domino effect of an extremely disruptive sort. There can be no denying that that is exactly what happened. But what exactly does the Asian crisis demonstrate? That globalization is inherently destabilizing and something to be resisted? That nations should adhere instead to what Indian nationalists call *swadeshi*, self-reliance? I don’t think so. I suggest that what the Asian crisis really demonstrates is not a failure of global capitalism but rather, as it were, a failure hitherto of capitalism to be truly global. What I mean is that the Asian crisis can be viewed as stemming from the fact that the economies in question were not sufficiently “capitalist,” i.e., free-market oriented, in the first place. Thus, as happened in the aftermath of the Mexican crisis of 1994-95 which had spill-over effects throughout Latin America (“the tequila effect”), there is every reason to hope that the current Asian crisis may actually turn out to have long-term beneficial results, the disruptions and hardships it has produced in the short term notwithstanding. This is to say that analysis of its underlying causes can serve the very useful purpose of improving the workings of the global economic order that is coming into being, that, in other words, it can serve to make this order more free-market oriented and, thus, more efficient—which is also to say, more conducive to the promotion of the general welfare of everyone, everywhere. In any event, it would, in my estimation, amount to a gross error in judgment to view the crisis as being somehow the nefarious result of Western “economic imperialism.” If blame is anywhere to be assigned, it should be placed squarely on the shoulders of the primary political and economic actors of the countries in question, that is to say, it should be attributed to the structural defects of the economic systems for which they themselves were responsible.<sup>7</sup>

The existence of a global economy—specifically, of a free market in currency trading—may have been the proximate cause of the Asian crisis; it was most definitely not, however, its underlying *raison d’être*. It was, for instance, pure self-serving demagoguery designed for a domestic audience when Malaysia’s prime minister, Mahathir Mohamad, blamed the



precipitous drop in value of his country's currency on international Jewish speculators and stated at the 1997 annual meeting of the IMF and World Bank in Hong Kong that unrestricted currency trading was "unnecessary, unproductive and immoral."<sup>8</sup> In point of fact, by divesting themselves of the Malaysian ringgit and other regional currencies, managers of hedge funds and speculators like George Soros were not, contrary to what Mahathir exclaimed, behaving like "highway men of the global economy" but were actually performing a valuable service to the countries in question and were sending them a much needed wake-up call, informing them in effect that the fundamentals of their economies were not in good shape—and, accordingly, that their currencies were not worth what, for reasons of national prestige, they would have liked them to be worth.<sup>9</sup> One thing that the phenomenon of globalization can be said to have brought about in this regard is an altogether appropriate transformation of our understanding of what constitutes the nature and "value" of money.<sup>10</sup> As Georg Simmel pointed out at the beginning of this century, money is not something "objective" or "material"; it is in fact a purely *geistig* entity whose "value" is constituted solely by the (subjective) *evaluations* of acting human beings (see Simmel 1990). In general, the "essence" (value) of money is totally relative and expresses nothing other than the trust and confidence that people feel warranted in placing in the workings of a national economy. When this confidence is, for whatever reason, called into question, it is inevitable (given the existence of free markets) that a country's currency will drop in value.<sup>11</sup> It is precisely this confidence-measuring function that free markets are, as it were, designed to serve. Don't blame the market if the message it sends you is that you're doing something wrong. (Unfortunately, the inclination to kill the messenger bearing bad news seems to be an ineradicable feature of human nature.) Mr. Mahathir notwithstanding, currency trading, whatever its defects may be, most definitely does have economic value.<sup>12</sup>

What in general the Asian crisis has now made us realize is that the much touted Asian "economic miracle" was, to a not altogether insignificant extent, a matter of smoke-and-mirrors (a possible exception being Taiwan).<sup>13</sup> In 1995 a Japanese institute raised the question, "How long with Asia's economic miracle last?" (*Fukykawa* 1995, p. 2) Well, as we now know (and, as in the case of Japan, could even have known several years ago), not very long. Like Hong Kong's wildly overpriced real estate market (a result of official policy<sup>14</sup>), the East Asian economic bubble was, as it were, destined to burst at some point or other. That point

was finally reached in July 1997. This is when the real message of economic globalization began to hit home (the essence of which I will get to in a moment).

What exactly was wrong with the East Asian economies (that the challenges of globalization have now exposed)? Certainly, on the whole, no lack of competitive spirit, a solid work ethic, and entrepreneurial talent. In some countries, the failure can be attributed in part to lack of energetic government support for universal public education (the creation, as Peter Drucker would say, of “knowledge workers” [see, for instance, Drucker 1993a]). But this was certainly not a major factor on the whole.<sup>15</sup> And, in any event, a failure to provide for general public education would signal (as in, for instance, the case of India) a systemic defect of the economy in question; it would not be such as to promote an immediate crisis. If, as it so happened, a serious crisis occurred in short order, it was because investors—the smoke having been blown away and the mirrors shattered—realized that the fundamentals of the economies in question were untrustworthy, even in the short term. A list of the foundational defects in these economies might include the following (this is a general list, the items cited applying much more to some countries than to others):<sup>16</sup> poor regulation of the economy and a woeful lack of transparency in government bookkeeping; a corporate culture that valued neither financial transparency nor stockholder accountability; insider trading; low productivity and an inefficient use of capital and labor; industries run less for the sake of turning a profit than for enhancing the power of their directors; an over-reliance on export in relation to domestic consumer spending; over-guaranteed and under-regulated banks; soft bank lending practices and a dysfunctional relation to capital, even outright fraud on the part of major banks and financial institutions; opaque systems of cross-ownership; an incestuous relation between governments, banks, and highly indebted companies (as in the case of South Korean *chaebols* such as Samsung and Hyundai); nepotism, cronyism, influence-peddling, and general corruption; a reluctance on the part of governments to let large floundering companies go bankrupt, a failure, even, to have properly designed bankruptcy laws; labor market rigidity; a lack of democratic openness and an over-reliance on technocratic élites; a lack of social safety-nets.

This is a very schematic list, but one thing that it indicates is that the structural problems of the Asian economies that have now become apparent were both economic and political in nature. That is to say, they were a matter of *political economy*, having to do with defects in the way the “capitalist” system was politically-economically institutionalized in these countries. “Capitalism,” i.e., free-market economics, is, after all, a more or less recent

arrival in this part of the world, and thus it is not surprising that it should require some time for the logic of this way of organizing human affairs to work itself out and for it to take root in new cultural settings. Advocates of "Asian values" notwithstanding, there is no justification for believing that authoritarian governance is superior to capitalist (or "bourgeois") democracy—the institutionalized respect for individual rights and freedoms—in promoting economic development. More fundamentally, there is no justification for thinking that there is, or could ever be, something like an "Asian" capitalism differing in essential ways from "Western" capitalism. To the degree that there was such a thing as "Asian capitalism," the term was simply a euphemism for corrupt capitalism. Indonesia, for instance, was not so much a free-market, capitalist tiger on the rise, as it was, in the words of one writer, "a vast patronage racket that finally fell apart."<sup>17</sup>

As in the case of other human disciplines, economics is a science, and one of the chief functions of this science (as hermeneutics views the matter at least) is ideal-type analysis, i.e., delineating the essential features of this or that possible type of economic organization of human affairs.<sup>18</sup> The ideal-type "capitalism" or market economics, for instance, possesses certain eidetic or essential features, ones which (in one cultural form or another) are to be found everywhere that this type of economy can be said properly to exist. The laws of economics (e.g., "supply and demand") do not vary in any essential way from one culture to another; they are universal, i.e., transcultural. It was a failure to realize this—an attempt, in the words of Lester Thurow, "to defy economic gravity"—that was the underlying cause of the Asian crisis, and this was the lesson delivered to these nations with stunning swiftness by the global economy.<sup>19</sup> In dramatic contrast to what was commonly proclaimed a decade or so ago, we now know that "Japanese capitalism" was never a logical alternative to the somewhat more orthodox versions of capitalism as practiced in the West, America in particular, and did not pose a threat to them.<sup>20</sup> From the point of view of basic economic theory, what the Asian crisis has demonstrated is that Asia's "managed capitalism" did not constitute a *third category* of political economy—that of "capitalist developmental states" (CDSs)<sup>21</sup>—a kind of "third way" to the socialist command economy, on the one hand, and the free-market, entrepreneurial economy, on the other. The success for a time of the "Japanese model," we are now in a position to see, did not amount to a refutation of the Hayekian argument against economic planning in general, against, that is to say, the very possibility of any such attempt

ever being successful. After decades during which it was thought that the economy could be "steered" –by means either of central planning or some form or other of "Keynesian" macro-management–socialist and "mixed" economies have both run up against what Austrian-school economists call the Knowledge Problem: No government is capable of mustering the *knowledge* that it would be necessary to possess in an explicit form in order effectively to *coordinate* the economy. Only the spontaneous ordering, free-pricing function of the market is capable of achieving this (altogether remarkable) result.<sup>22</sup>

I want to emphasize that these remarks are in no way intended to hold up as a model everywhere to be imitated any particular instantiation of the market economy, such as the American or British. It is the same in economics as it is in politics: There are certain essential features that market economies necessarily all have in common, just as there are certain essential features that all political regimes must possess if they are properly said to be "democratic" ones. But it is equally the case that differing national histories, cultural traditions, and societal values will influence the way universal economic laws and democratic values are "applied" or institutionalized in any particular country, at any particular time.

Thus, for instance, while one essential requirement of democracy is the existence of free, regularly scheduled elections, there are any number of ways in which electoral laws providing for such elections may be drafted (a country may opt for the "Westminster," district-based, first-past-the-post model or for proportional representation or for any convoluted combination of the two).<sup>23</sup> In terms of ideal types, however, there is no more such a thing as "Asian capitalism" than there is such a thing as "African democracy."<sup>24</sup> "Capitalism" –to the degree that it exists–is essentially the same the world over, just as is democracy. Cultural factors will –and, indeed, should–influence the way universal laws, principles, or values are applied in this or that instance and will inevitably produce different mixtures of policies and structures in different countries (there is no universal formula for the implementation of universal values), but this cannot alter the fact that certain normative principles have genuine universal validity. In this regard, the liberal-democratic revolution in world politics ("democratization") and world economics ("liberalization") that the phenomenon of globalization signifies necessarily entails a certain degree of what some social commentators (somewhat misleadingly) refer to as cultural "homogenization." It is, accordingly, to a consideration of some of the cultural consequences of globalization that I

now turn.<sup>25</sup>

### ***Globalization and culture***

As I mentioned at the outset, there is always a dual material/spiritual aspect to developments in human civilization. This is today no more evident than in the realm of culture. Thanks, precisely, to material developments in the technology of communication (as well as transportation, whose effect has been to bring ever increasing numbers of people from all quarters of the globe into direct face-to-face contact),<sup>26</sup> we are currently witnessing the emergence of a global mass culture—indeed, as Havel would say, a single world-wide civilization. This fact may be bemoaned by cultural élites in the West as well as by cultural autarkists in some of the more backward parts of the world, but it is a fact of world history nonetheless, and thus merits hermeneutical scrutiny.

At roughly the same time in the last century when Marx issued his back-handed paean to capitalist dynamism, praising capitalism for having abolished national barriers and created something altogether new, viz., an early form of the global economy,<sup>27</sup> John Stuart Mill, that great spokesperson for liberal individualism and human individuality,<sup>28</sup> publicly bemoaned what he took to be the trend of the times: “[T]he general tendency of things throughout the world is to render mediocrity the ascendant power among mankind. . . Europe. . . is decidedly advancing toward the Chinese ideal of making all people alike.”<sup>29</sup> A present-day Mill who watched television would no doubt have even more reason for saying much the same. Increasing “homogenization” is a worldwide cultural fact—and a direct consequence of globalization. Is “homogenization” such a bad thing, though? The fact of the matter is that the “homogenization” which is coming about is anything but “Chinese.” Even in China, traditionally the land of oppressive social conformity (as Mill well recognized), the cultural ideal of “group-think” (or “groupism,” as the Chinese have now appropriately labeled it) is in full retreat.<sup>30</sup> The stifling, ant-hill-like, socialist uniformity of the Mao era is out, and, in terms of dress, fashion, social mores, and intellectual practices, the Chinese are fast becoming (as are other Asian peoples) indiscernible, from a spectator point of view, from Westerners. All of this thanks to the capitalist reforms initiated by Deng in 1978 and his altogether revolutionary policy (revolutionary, that is, in terms of China’s long history of self-imposed isolation) of “opening up” the country to the outside world, in this case the global economy.

In China, Western-style individualism is on a spectacular rise (a fact which, incidentally, bodes well for the prospects for full-fledged democracy in that country).<sup>31</sup> The situation is much the same in Japan: The age-old cultural value of social conformism (*nakama-ishiki*, group-consciousness) is no longer held in high esteem by increasing numbers of globally-influenced, independently-minded people. The Japanese, who prided themselves on their "difference" from other peoples, are beginning to speak up for their rights and are becoming a bit less "different." Universalism, by which I mean the belief in the universal validity of the notion of human rights, is in today's world the single most important factor serving to promote "individualism," i.e., the rights and liberties of individual human beings.<sup>32</sup>

While individualism is on the rise in China and other non-Western countries, the culturalists are of course right in pointing out that cultural differences *overall* are declining at a rapid rate. While individuality may be on the rise in, say, China, many of the "cultural" features which have hitherto served to account for its "difference" from other countries are fast eroding. Some refer to this as the "McDonaldization" or "Coca-Colazation" of the world and view it as one of the supposedly pernicious effects of global capitalism (an issue to which I shall return). Frankly, I do not consider it such a bad thing if many of the "cultural" factors which have hitherto served in an impressive fashion to constitute the "difference" between non-Western and Western countries were to disappear altogether, even if this disappearance were to result in greater cultural "homogenization."<sup>33</sup> Can anyone seriously maintain, for instance, that primitive cultural practices, often defended by religious fundamentalists, that amount to blatant violations of human rights are aspects of cultural "difference" that ought to be cherished and preserved?

Globalization may have as its effect a certain leveling of cultural differences and, owing to the consumerism it promotes, may make for increasing similarity in lifestyles around the world, but it is difficult to see how this consequence of globalization may not actually have decidedly beneficial effects. If it is anything, globalization is a potent counter-force (the only really effective one?) to the destructive forces unleashed by the end of the Cold War. I am referring to the new tribalism, the ethno-nationalism triggered by the demise of socialism and the end of the balance of terror between hostile superpowers which served to keep conflicts between their client states more or less in check. If there is anything that threatens to turn the emerging new world order into a world *disorder* (see Hoffmann 1992) and to turn the world

itself into the arena for a global “clash of civilizations,”<sup>34</sup> a veritable cultural war of all against all, it is the culturalist obsession with “difference” on the part of both national élites and the spiritually down-trodden, materially-deprived masses in their countries. When people are bereft of economic freedom, i.e., the opportunity, as Adam Smith would say, “to better their condition,” it is natural that they should focus their attention (or, as in the case of the former Yugoslavia, be *made* to focus their attention) on petty ways of aggrandizing their self-esteem (and which, such as in the case of India’s aggressive militarism, work directly against their own material self-interest). It is natural that they should fall prey to what, borrowing an expression from Freud, that outstanding critic of ethnic nationalism, Michael Ignatieff, calls the “narcissism of minor differences” (see Ignatieff 1998).

The logical consequence of ethnocentric nationalism is ethnic rivalry, internecine warfare, and, ultimately, genocide. Global “homogenization” or, perhaps better said, global cosmopolitanism tends to promote an altogether more desirable state of affairs. Economic globalization is, in the 18<sup>th</sup>-century, Enlightenment sense of the term, *civilizing*. One totally unanticipated consequence of, for instance, the “McDonaldization” of the world is a certain increase in *civility* in some of the countries McDonald’s has successfully colonized (and in which it has become a genuinely local cultural institution). Not only has McDonald’s helped to raise overall standards of cleanliness in public rest rooms in a place such as Hong Kong, and not only has it disabused people of their environmentally-unfriendly habit of spitting and throwing garbage on the floor and the street,<sup>35</sup> it has also improved people’s table manners and promoted courtesy and improved public manners in general by encouraging people to speak in lower tones in public places and accustoming unruly crowds to politely wait their turn in line.<sup>36</sup> This is, admittedly, an example of rather limited scope and pertinence, but it does suggest that the spread of multinational corporations throughout the world can have—and in fact does have—some civilizing effects. Writing during an earlier wave of globalization, that great advocate of liberal internationalism, Montesquieu, was undoubtedly right when he said, “Le commerce adoucit les mœurs” (Montesquieu 1949, XX, 2).

Globalization poses immense challenges, but one thing it does not challenge us with is the need to choose between “Jihad” and “McWorld,” to allude to a recent book by Rutgers political scientist Benjamin R. Barber. The choice we are confronted with is not between intercivilizational warfare, on the one hand, and American cultural imperialism, on the other,

i.e., an insipid and spirit-deadening uniformity, a kind of global dumbing in the realm of culture.<sup>37</sup> (The supposed "Americanization" of world culture is, moreover, more a matter of a decline in "particularity" in general and a globalization of culture overall; particularity is increasingly out, eclecticism is increasingly in.) The real challenge of globalization is that of exploiting the undeniable opportunities it offers for increasing the general level of civility throughout the world. Civility—as defended by such outstanding individuals as Václav Havel—is the necessary condition for "spiritual civilization" (as the Chinese call it), as well as being, along with democracy, a necessarily condition for genuine world peace. Global competition produces global cooperation. It is just possible that the new wave of globalization might be such as to enable us finally to realize Kant's cosmopolitan dream of "perpetual peace" (see Kant 1963). Moreover, globalization may actually serve to enhance the prospects for democracy in the world, an issue that I would now like to take up.

### ***Globalization and democracy***

To the degree that it comes about, globalization must necessarily result in a more cosmopolitan world situation. Perhaps the most salient consequence of this from a political point of view—a consequence of what the Japanese call *kokousaika*, "internationalization"—is as I have already noted, a significant erosion of "national sovereignty." Indeed, the very idea of the "nation-state" is fast becoming outmoded. The idea of the nation-state was perhaps the most significant conceptual and practical innovation of modernity, but, in the new postmodern global age, it is becoming increasingly irrelevant.<sup>38</sup> This is not, by any stretch of the imagination, to say that we are about to witness the "demise" of the nation-state. Far from it. A World Government—a kind of glorified UN (with all the corruption, economic and political, that that would entail)—is simply not in the cards. Leading nation-states will continue in the postmodern age to wield great power, but this power will to a large extent consist in the ability they will maintain to wreak havoc on the emerging global economy—by, for instance, reinstating protectionist measures of one sort or another in reaction to popular domestic pressure. Although protectionism, i.e., anti-free-trade, is not in the real self-interest of workers (who are also consumers), it is, given human nature or what earlier liberal writers referred to as "the disposition of mankind," viz., the lamentable tendency of humans to remain oblivious to their real self-interests,<sup>39</sup> a bill of goods that is readily marketable in democratic countries by populist



demagogues such as Pat Buchanan. There is a bit of irony in this situation. While democracy–populist democracy, that is–constitutes, potentially at least, a threat to the on-going march of history, i.e., to globalization, globalization itself, in my estimation, constitutes the greatest force yet witnessed in the history of the world for promoting democracy. Why is this?

The reasons are simple and are generally known. They all center around the fact that globalization, i.e., the spread of free-market economics, is a major force in calling forth the development of *civil society* (witness China). When, thanks to the pressures exerted by the global economy, countries adopt free-market practices, the result, invariably, is the emergence of civil, pluralist societies. The emergence of civil society is, in turn, the necessary, *structural* condition for the creation of democracy (see in this regard Madison 1998a). Democracy that is sustainable can only be built slowly, from the ground up, which is to say, by permitting the autonomous formations of civil society to flourish.

What, thanks to globalization, we have in fact already witnessed in various countries in East and Southeast Asia is a steady erosion of “bureaucratic authoritarianism” and the once very fashionable belief in the efficacy of managed capitalism. As their economies have grown in complexity and as the demands of regional and global competition have increased, governments have, *par la force des choses*, become less *dirigiste* and have relied to an ever greater extent on private initiative and the forces of the market.<sup>40</sup> In doing so, they have been responding to demands on the part of their increasingly middle-class citizens to see economic development translate into an improved quality of life as well as for a greater say in how their country is run, i.e., to the forces of civil society. This general tendency towards market economics is nowhere more striking than in so-called communist China, which, ever since Deng proclaimed “It’s glorious to get rich,” has embraced capitalism with a vengeance: “China’s rulers have overseen the formation of a capitalist society, where wealth is created at the bottom by individual entrepreneurs. A middle class of tens of millions is beginning to emerge, and along with that, personal freedoms have expanded...”<sup>41</sup>

It should come as no surprise if, due to the “rising expectations” called into play by the emergence of civil society in numerous countries, the prospects for democracy have been significantly enhanced—the fall of the Suharto government in May 1998 being but the latest episode in this on-going saga of democracy. In contrast to advocates of “Asian values,” Vincent Siew, prime minister of the Republic of China (Taiwan), has stated: “I know of no

Chinese values that clash with democracy or respect for human rights.” Responding to arguments often heard in mainland China in defense of bureaucratic authoritarianism and to the effect that political democratization can be divorced from economic liberalization, Siew also declared: “Our experience on the other side of the Taiwan Strait is that economic success can be an excellent foundation for democratisation, but that a democratic form of government is essential for sustaining prosperity.”<sup>42</sup> Similarly, Martin Lee, leader of Hong Kong’s Democratic Party, stated, subsequent to Asia’s financial crisis:

Let’s hope that the region’s economic reckoning and Indonesia’s disastrous path will help put to rest the myth of “Asian values”: that democracy and human rights are “Western” concepts inimical both to Asia and to economic growth. Now across Asia, people increasingly see the advantages of having open and accountable government and are beginning to demand it.

The countries that have weathered the Asian financial storm best are democracies—Taiwan, the Philippines and Japan. And those nations that are in the process of recovering, including South Korea and Thailand, have done so only after jettisoning their corrupt former regimes through a democratic process.

The first lesson from the Asian crisis is that a government that is not answerable to its people will not be likely to have open markets or the institutions required to impose discipline to overcome a financial crisis.

A second lesson is that *guanxi*, or connections, are never a substitute for the rule of law....A failure to diagnose the need for democratic and accountable government will bring only more economic misery (Lee 1998, p. wk 17).

It is true that the more countries are tied into the global economy, the more they are vulnerable to financial or economic upsets when their practices turn out to be market unfriendly. However, the more these structural deficiencies are corrected, the more dynamic and prosperous they can expect their economies to become. The disciplining force in this regard is globalization itself: When individual nations submit to the demands of regional or global free-trade agreements (surrendering to that very degree some of their “national sovereignty”), the more stable the global economic order as a whole becomes (and the more the possibility for long-term stable growth in all countries concerned is enhanced). Global free-trade allows people the world over to exploit their own comparative advantages and to concentrate on doing what they do best, helping thereby to raise the overall level of well-being.

Curiously enough, there are those who view the stability brought about by globalization as a threat to democracy. You might think that anything that promotes world peace and prosperity could hardly be a threat to democracy. And yet the objectors do have a point, in a way. What the loss of national sovereignty entailed by globalization means, they say, is that in many instances individual nation-states will no longer have the independence to act in

accordance with the democratically expressed wishes of their citizens; the "will of the people" will inevitably be curtailed, frustrated, by a nation's international commitments and obligations to the world community. That is undeniably true. Multilateral accords and transnational ties—designed to promote international cooperation and stability—reduce the scope for unilateral action and "national self-determination" (in a global world, no nation can "go it alone"). That notwithstanding, this particular objection to globalization, as I see it, misses the mark.

Everything depends, of course, on what one means by "democracy," i.e., "rule of the people." The objection to globalization that I've just alluded to carries weight only if one equates "democracy" with some form or other of direct democracy, i.e., the unfettered expression of the "will of the people." In practice, this means *the unfettered expression of the will of the majority of the people*. However, as Aristotle long ago recognized, democracy so conceived is probably the worst form of government imaginable. The most serious defect of unmitigated, direct democracy is that it provides no built-in safeguard against one of the most insidious forms of tyranny, what James Madison (and, later, J.S. Mill) called the "tyranny of the majority." In a "pure" democracy, i.e., one in which the "will of the people" is not constrained by various constitutional checks and balances (whose express purpose is to set limits to the "general will"), the rights and freedoms of both individuals and minorities would in no way be secure. And, as Montesquieu well knew, without security there can be no real freedom. The only acceptable form of democracy is one based on an entrenched, constitutional respect for *human rights*, i.e., the rights and liberties of individuals. This is what is called *liberal democracy*.<sup>43</sup>

Perhaps the single most important element in liberal democracy is the *rule of law*. As Chiang Ching-kuo, who as president of the Republic of China on Taiwan set his country on the path towards democratization, stated: "the concept of rule by law is the core entity of democratic politics."<sup>44</sup> It is the presence or absence of the rule of law that determines whether a society can be said to be *free* or not. A highly interesting thing to note in this regard is the connection that exists between the rule of law and global free-market economics, i.e., "capitalism." As Martin Lee rightly observes, *guanxi* is no substitute for the rule of law. That is to say, it is in the, so to speak, bottom-line *self-interest* of multi- or transnational corporations to see the rule of law advanced in those countries in which they operate. Not only does the rule of law reduce the operating costs of doing business (by eliminating the need to

pay out bribes or offer kick-backs to corrupt officials), it also greatly enhances the long-term *security* of investment. The private interests of business are not incompatible with the public (democratic) interest; indeed, the situation is just the opposite. As the case of Taiwan demonstrates, "capitalism" works best in countries that are democratic, i.e., ones characterized by the rule of law, openness, and responsible government. Thus, by a kind of "ruse of reason," as Hegel would say, the pursuit of self-interest on the part of business corporations, investors, and entrepreneurs works to promote the common good. In a global economy, what is good for business is good for democracy. As one social commentator remarks: "For those who would promote democracy, the globalization process is, in the long view, the great facilitator" (Means 1996, p. 116). Thus, to the degree that free-market economics is globalized, to that degree it is permissible to hope that democracy will become a universal system of government.

### ***Conclusion***

As everyone knows, the Chinese have a saying for just about every conceivable occasion. One of their sayings making the rounds these days is: "In a crisis lies opportunity." In this paper I have attempted to focus on some the opportunities latent in the current Asian financial and economic crisis. As this crisis has shown, the challenges that globalization poses can be daunting; there can be no doubt that globalization will force people the world over to make far-reaching, sometimes even painful, changes in their accustomed ways of doing things.<sup>45</sup> But if the challenges are great, so also are the opportunities.

The opportunity that globalization affords in the economic realm is the opportunity for achieving a kind of global common prosperity, *gongtong fuyu*, as the Chinese modernizers call it, an opportunity for greatly raising the living standards of untold millions of people around the world when their national economies are "opened-up" to the dynamics of the global economy.<sup>46</sup> These same economic forces also hold out the promise, in the cultural realm, of promoting greater civility, both within and between nations—what Montesquieu called *les mœurs douces*—and thus of providing an unprecedented opportunity for securing a global peace. In the political realm, the dynamics of globalization are such as to encourage the development of the rule of law and the demise of bureaucratic authoritarianism; never before has there existed as great an opportunity for promoting democratic governance.

To be sure, historical opportunities can be missed, chances squandered. Nothing

guarantees that peoples and nations will come out on the "right side of history." Human short-sightedness being what it is, people can readily be persuaded that their self-interest is best served by walling themselves up in their own national cocoons and isolating themselves from the winds of change blowing over the surface of the globe. The sentiments of nationalism and the Cold War mentality are still with us. There are, for instance, those who would have us believe that China's military build-up (which is fully in line with its defense needs) poses a threat to stability in the Asia-Pacific region and that the country therefore needs to be "contained" (see Bernstein and Munro 1997), just as there are those who insist that America must build a protectionist wall around itself if it is to defend its interests (see Buchanan 1998). There is, however, no reason to think that China has replaced the old Soviet Union as a new threat to world peace; having set its sights on membership in the WTO, it has every reason to behave like a "normal" country.<sup>47</sup> More generally, the great opportunity that globalization offers is the opportunity for nations and peoples finally to realize that their own self-interests are best advanced when they respect the self-interests of all others and, accordingly, interact in the global economy in a spirit of mutuality and reciprocity. Economic globalization may just possibly have the effect of forcing nations to be civil in their dealings with one another and may in this way help to forge a global solidarity, for, as the current Asian crisis well demonstrates, in a genuinely global economy the interests of each are inseparably linked with the interests of all.

One last point, this in regard to a basic issue in political economy. As I have indicated, one thing that global economic liberalization signals, along with the demise of socialism, is the end of the legitimacy of the belief in managed, state-directed capitalism. The demise of both socialism and "managed capitalism" should not, however, be taken to mean that we are returning to an earlier, 19<sup>th</sup>-century form of unfettered, amoral, laissez-faire ("Manchester") capitalism. Even though you will find a great many commentators, on both the Right and the Left, saying so, that, in my estimation, would amount to a misreading of the historical dynamics at work at the present time. History never quite repeats itself, or its errors. The form of managed capitalism—a state-controlled and regulated capitalism which was often, for all practical purposes, indiscernible from socialism—that emerged from the Great Depression and persisted until recently was an altogether logical response, at the time, to the perceived shortcomings of laissez-faire capitalism, to, indeed, its failure. The shortcomings and failure of managed capitalism and the idea that the state not only can but should assume ultimate

responsibility for people's lives (state-welfarism) have themselves, in turn, become fully apparent. Managed capitalism is no substitute for laissez-faire capitalism. The great opportunity that globalization provides us with in this regard, some 200 years after Adam Smith's original "capitalist manifesto," is the opportunity to work out yet another form of capitalism, one which would be in conformity with what Hegel would call the "objective spirit" of the age, with, in other words, the demands of a Postmodern global civilization. This new form of capitalism—capitalism<sup>3</sup>, so to speak—might appropriately be termed "responsible capitalism."

Unlike laissez-faire capitalism which was based, philosophically or theoretically speaking, on the notion of the atomistic, asocial individual (the famous "Robinson Crusoes" of mainline neoclassical economics), and unlike managed, state-welfarist capitalism which subordinated the individual to society, responsible capitalism overcomes the traditional dichotomy between the individual and society. Responsible capitalism cannot exist in a governmental vacuum, but the appropriate role of government or the state is not that of defending the "public good" over against "private interest."<sup>48</sup> Not only does this way of viewing the role of the state inevitably give rise to some form or other of bureaucratic élitism (and is thus anything but democratic), it is also based on a false dichotomy. There is no reason for opposing, as socialist ways of thinking always did, the "collectivity" to the "individual." In democratic societies, the "public good" does *not* (except in times of war) take precedence over "private interest" (whenever the "public good" prevails over "private interest" untold numbers of individuals will, as a general rule, be condemned to spend their lives in gulags of one sort or another). What serves the "private" interest of all citizens is, in a liberal, civil society, in the public interest. What we are now in a position to see is that in a free-market economy based on the rule of law and a democratic respect for human rights the public interest is best served when the state limits itself to providing the political-economic framework wherein individuals, secure in their rights, are free and able to pursue their own interests. As even the Chinese communist government has come to realize, this is the only governmental formula that can generate sustained growth and the well-being of all. This is a fact of history, of postmodern global, economic civilization. In a system of responsible capitalism, the good of society and the good of individuals are inseparable and are mutually reinforcing; they work together in a synergetic fashion to bring about genuine solidarity, based on an ethic of mutual recognition of rights. A global economy produces a global division of labor, and, as Emile

Durkheim pointed out, a rational division of labor produces solidarity (a non-“mechanical,” “organic” form of solidarity based not on similarity but on individuality and difference wherein the unique contribution of each contributes to the life of all) (see Durkheim 1960). Moreover, as Durkheim also recognized, whatever serves to promote solidarity is intrinsically moral. The economic order of democratic capitalism is a *social* order infused with *moral* purpose.

In order to function in a stable and productive fashion, the global capitalist order simply has to be “responsible”; individual corporations, for instance, must not only be concerned about making a profit, they must also have an eye to their long-term interests. These interests include, not just making a fast buck, but, above all, servicing the interests of their customers as best they can (merging, when this proves necessary, manufacture with service and thus blurring the traditional distinction between the two [witness in this regard the renaissance of IBM]). If they are to be capitalistically successful, companies must not only be consumer-friendly, they must also provide assurance that the jobs of their qualified workers are valued and protected, as are the interests of their “stakeholders.” This is the formula for good, profitable business in the postmodern, global age. No company which is not consumer-, worker-, and community-friendly will long survive in the age of the global economy.<sup>49</sup>

Because, as I have argued above, the new form of capitalism we see emerging reconciles public and private interest, it is itself fully “moral.” True freedom is not anarchistic or libertarian; freedom entails sociality and responsibility (to will freedom for oneself is, necessarily, to will it for all [see Madison 1998a, p. 74]). The same is true of economic freedom. Just as businesses have come increasingly to realize that it “pays” to avoid unethical business practices, so, more generally, we are coming to realize that there is an ethical element that is intrinsic to market economics. Indeed, it could genuinely be said that the market economy operating under the rule of law (what I call a *civil market economy*) is itself a form of *institutionalized ethics*. This, as Hegel had already realized, is an ethics of reciprocity and mutual respect (see Hegel 1991, #199 and #255). Unlike socialist societies which are supposedly based on altruism and benevolence (but which in reality are animated by envy and resentment), the “capitalist” order is based squarely on the freedom of everyone to pursue their own interests. It would however—and this is a most important point—be a gross error to equate self-interest with greed or selfishness.<sup>50</sup> Indeed, any defense of “capitalism” which equates self-interest with greed is counterproductive and does a great disservice to the cause it

purports to defend. As Peter Drucker has quite correctly noted: "Capitalism is being attacked not because it is inefficient or misgoverned but because it is cynical. And indeed a society based on the assertion that private vices become public benefits cannot endure, no matter how impeccable its logic, no matter how great its benefits" (Drucker 1993b, p. 392).<sup>51</sup>

What is most important to note is that far from being immoral, or even amoral, the pursuit of self-interest in the context of a civil market economy generates a distinct *social ethics* and serves to promote a genuinely "spiritual civilization" (see Madison 1998b and Madison 1996). The reason for this is that a free-market economy possesses built-in mechanisms ("incentives") which call forth civility and socially ethical behavior on the part of individuals. This particular spin-off of the enterprise economy occurs, moreover, in a thoroughly *spontaneous* fashion, in contrast to religious or moral exhortation-*kyoka*, as the Japanese call it-which can only affect economic behavior from the outside and, as it were, coercively. In a market economy operating under the rule of law, it is in people's own interest to respect the interests of others, i.e., to be "good." As the Catholic advocate of democratic capitalism, Michael Novak, has pointed out, not only does a business corporation operating within the context of a civil market economy have moral responsibilities, these responsibilities are "internal to it, which must be met simply for it to be a success in doing what it is founded to do" (Novak 1996, p.138; emphasis mine). Or as Alexander Yakovlev, one-time advisor to Mikhail Gorbachev, succinctly put it: "Morality is an integral part of the culture of the commodity society" (Yakovlev 1988, p. 88).

What the remarkable successes of the Asian dragons and tigers over the last few decades demonstrates is the indisputable superiority of capitalism (the market) over socialism (the state) in combating poverty.<sup>52</sup> What, in turn, the recent Asian set-back demonstrates is the need to develop an even more sophisticated form of capitalism-responsible capitalism. There is every reason to think that the new global order will indeed be one imbued, as Havel would say, with "a new spirituality, a new ethos, and a new ethics, values that should be adopted today by all cultures, all nations, as a condition of their very survival" (Havel 1998, p.24).



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### Notes

- 1.. The mode of description in question is, of course, interpretive, i.e., a matter of hermeneutics.
- 2.. The expression is that of Iain Carson writing in *The Economist* (1998); he states: “[T]oday manufacturing is becoming a genuinely international affair. The fancy work gets done in rich countries by skilled workers, the simpler parts elsewhere in the global supply chain. More and more of the process is handled by multinational companies, quick to see what is best done where. There is nothing to fear in this. Any country that is willing to use the skills it possesses will gain from joining in” (p. 5).
- 3.. Conversely, it has, thanks to these very same technological advances, become increasingly costly, for nations which would like to do so, to keep information out—costly not only in terms of the censorship and jamming involved, but, more importantly, in terms of foregone economic development.
- 4.. For a critique of the core, neoclassical notion of “general equilibrium,” see Madison 1998a, chap. 5.
- 5.. See in this regard Wriston 1992.
- 6.. Witness, in this regard, the moral frenzy provoked among nationalists and socialists of all stripes by the (so-far unsuccessful) attempt on the part of the OECD to work out a Multinational Agreement on Investment (MAI).
- 7.. “South-East Asia’s challenge is not to protect itself from global finance, but to deal with its insolvent banks, shaky domestic markets and over-stimulated economies. The region’s politicians, with their cronyism, corruption and reluctance to take awkward decisions, are far more to blame for the currency-market turmoil and its aftermath than international speculators” (*The Economist*, September 27, 1997, p. 17).
- 8.. See *The Economist*, September 27, 1997, p. 87. Mahathir is quoted as saying: “We are Muslims, and the Jews are not happy to see Muslims progress. The Jews robbed the Palestinians of everything, but in Malaysia they could not do so, hence they do this, depress the ringgit” (see Kristof 1997, p. wk 4).
- 9.. “The IMF estimates that hedge funds can mobilise between \$600 billion and \$1 trillion to use to bet against currencies and other assets—for example, selling a currency forward in the hope that they can buy it back later as a cheaper rate...It is...worth noting that speculators do not attack currencies that are backed by credible economic policies” (*The Economist*, September 27, 1997, p. 87). “As a new study by economists at the International Monetary Fund [IMF 1998] shows, many of the charges laid against [hedge funds] are incorrect. In general, the IMF reports, hedge funds make financial markets more stable, not less so” (*The Economist* June 13, 1998, p. 76).
- 10.. Cf. Stevenson 1997, p. wk 5: “The owners of capital now judge the strength of currencies based on the soundness of the monetary and fiscal policies in the countries that issue them. Money, the experts say, flows readily into currencies that are judged sound by the market, and flows even more rapidly out of currencies seen to be undermined by weak policies...When turmoil hit the Asian financial markets, panicky investors funneled their money not into gold, once their investment of choice during times of crisis, but into American Treasury bonds.”
- 11.. For a detailed discussion of the non-material, intersubjective, and communicative function of money, see Madison 1998, chap. 5.
- 12.. What could be said to constitute the fallacy underlying the self-defensive strategy resorted to by government officials such as Mr. Mahathir is the belief, widely held in many East Asian countries (Japan

being a good case in point), that "government knows best." While judicious government regulation and oversight is absolutely indispensable to the efficient functioning of a market economy, it has now become generally recognized that government can never have better economic sense than does the market itself (the market being nothing other than the aggregate voice of free, wealth-producing citizens). The fascination with "managed capitalism" is now—or ought to be—a thing of the past (see in this regard Yergin and Stanislaw 1998). That is one of the most important political-economic lessons to be learned from the phenomenon of globalization.

In regard to currency trading, it may be noted that there are a number of market-friendly policies governments can adopt to counteract the potentially disruptive effects of a global free-market in currency without having to have recourse to illiberal attempts at controlling capital flows: see in this regard *The Economist* (January 24, 1998), p. 70.

<sup>13.</sup> Two main factors which help to explain Taiwan's relative immunity to the Asian financial flu are that Taiwanese companies were prevented by strict capital controls from taking on cheap foreign-currency loans for speculative purposes, and the absence from that country of giant (and debt-ridden) conglomerates such as Korea's *chaebol* and Japan's *keiretsu*—making it easy for new companies to start up, as well as for older ones to go bankrupt, thereby making the overall economy responsive to the exigencies and opportunities of the international market. See *The Economist* (January 3, 1998), p. 73 and (January 24, 1998), p. 35.

<sup>14.</sup> See *The Economist* (January 6, 1998), p. 70: "The bubble was inflated by an alliance of its British colonial rulers, the Chinese Communists and Hong Kong's cartel of billionaire developers." See also *The Economist*, June 27, 1998.

<sup>15.</sup> Indeed, on the whole, Asian countries, the Chinese ones in particular, often place a greater emphasis on education than do such Western industrialized countries as the United States and Canada. (It is another question as to whether or not the *mode* of education provided by leading Asian countries—Japan being a good example—is the best sort of education for producing citizens who are best enabled to make productive use of their political and economic rights—currently a matter of much debate in Japan.)

<sup>16.</sup> For instance, on its 1997 scale of corruption which lists 52 countries (1 being the least corrupt, 52 the most corrupt), Transparency International (Berlin) lists Indonesia as one of the more corrupt countries of the world (46), while Singapore ranks as one of the least corrupt (9) (Malaysia and Thailand were ranked 32 and 39, respectively).

<sup>17.</sup> Margaret Scott, a former editor of the *Far Eastern Economic Review*; see Scott 1998, p. 46.

<sup>18.</sup> For an outstanding study of this sort (focusing on the socialist mode of economic organization), see the work of the Hungarian economist János Kornai (1992). A former Marxist and believer in the possibility of a "socialist market economy," Kornai demonstrates why a "third way" is not a real possibility.

<sup>19.</sup> Speaking of the Asian crisis, Thurow writes: "[W]hen countries have had a string of boom years megalomania sets in and their governments and large investors come to feel that ordinary economic rules that apply to others do not apply to them" (Thurow 1998, p. 22). As Thurow also observes: "What is clear by now is that crashes are not set off by outside speculators who see the internal weaknesses and attack. The first investors to leave the local market are always the local investors who have the best information...The impressive abilities of international fund managers to move large sums of money across borders vastly accelerate the forces pushing prices down; but contrary to some facile generalizations about "globalization," they are never the triggering mechanism" (p. 23).

<sup>20.</sup> As examples of Decline of the West literature, see Kennedy 1987 and Schlossstein 1989. When at the same time in 1989 Karel van Wolferen, a Dutch journalist, published his no-holds-barred analysis of the corruption endemic to Japan in both the market system and the political system (an over-reliance on bureaucratic planning élites combined with an impotent form of political governance), he was widely accused of "Japan bashing." We now know that his analysis was basically on the mark. As Thurow remarks: "Japan's government has demonstrated its incompetence, and its problems are getting worse" (Thurow 1998, p. 23); Thurow refers to Japan as the "sickest economy in the developed world, the economy with a government that has demonstrated that it cannot deal with shocks" (p. 24).

<sup>21.</sup> The expression is that of Chalmers Johnson (see Johnson 1982).

<sup>22.</sup> Speaking of "the price system as...a mechanism for communicating information," Hayek says: "The marvel is that in a case like that of a scarcity of one raw material, without an order being issued, without more than perhaps a handful of people knowing the cause, tens of thousands of people whose identity could not be ascertained by months of investigation, are made to use the material or its products more sparingly; that is, they move in the right direction" (Hayek 1949, pp. 86-7).

<sup>23.</sup> On this, as well as on the underlying hermeneutical notion of "application," see Madison 1995.

<sup>24.</sup> On the latter point see Madison 1998, Appendix.

<sup>25.</sup> One lesson of globalization is that there are truths or values whose validity is universal. One might be tempted to relate the economic issues discussed in this section to a prominent feature of Japanese *culture*. Karl van Wolferen has observed that "the most crucial factor determining Japan's socio-political reality, a factor bred into Japanese intellectual life over centuries of political oppression" is "the near absence of any idea that there can be truths, rules, principles or morals that always apply, no matter what the circumstances"—the absence of any belief in universal truths (see Wolferen 1989, p. 11). This "ultimate determinant of Japanese public behaviour" may be a factor helping to explain Japan's woeful inability for a number of years now to take the broad-based, structural reforms necessary for dealing with its serious economic down-turn. In contrast with the situation of political grid-lock in Japan, China under the leadership of its new prime minister, Zhu Rongji, has shown great determination in its commitment to taking the bold steps necessary to modernize its economy—and China is a country which very definitely does believe in universal values and truths.

<sup>26.</sup> When, as if it were the most natural thing in the world to do, members of a primitive Amazon Indian tribe (outfitted for the occasion in full native regalia) fly up to New York on a 747 to make a public relations pitch to Wall Street bankers and investors on the ecological threats to the Amazon rain forest, we know that we have definitely entered a age of global civilization.

<sup>27.</sup> See Marx 1946. Marx (and Engels) wrote: "In place of the old local and national seclusion and self sufficiency, we have intercourse in every direction, universal interdependence of all nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property" (pp. 34-5).

<sup>28.</sup> Cf. Mill 1947, p. 63: "Individuality is the same thing with development, and...it is only the cultivation of individuality which produces, or can produce, well-developed human beings."

<sup>29.</sup> See Mill 1947, pp. 65, 73 (chap. 3, lines 340-43, 695-96).

<sup>30.</sup> Since "groupism" is inimical to capitalist, entrepreneurial practices (and thus to the flourishing of a free-market economy), it is natural that the Communist Party of China should have declared it be an

"ism," and thus something to be combated.

<sup>31</sup>.. On the rise of individualism in China, see Pye 1996.

<sup>32</sup>.. For an analysis of Japanese "groupism" which raises the question "Is it being altered as internationalization progresses in an age of information?" see *Human Studies*, no. 6 (1991). In a subsequent issue of this publication, Yuji Fukuda, reporting on a survey conducted in Japan, South Korea, and China, stated that the survey indicated "a strong desire for European and American-style individualism" in these countries and stated as well: "there...undoubtedly is a universal aspect to the individualism fostered in the modern, Western societies. Asians, as I have indicated, have a penchant for such European- and American-style individualism" (*Human Studies*, no. 15 [1995], pp. 9, 11).

<sup>33</sup>.. It should nevertheless be noted that developments in the technology of digital television have now made it possible for a broadcaster in, say, Taiwan to connect directly with Chinese audiences in America or Europe, helping them thereby to preserve in a foreign land some of the unique features of their native culture. The "homogenization" that globalism is bringing about need not be one of insipid "Americanism."

<sup>34</sup>.. See Huntington 1997. Huntington's pessimism regarding universal values (a relic, according to him, of Western imperialism), his gloom over a supposed Decline of the West, his advocacy of a dispirited and relativistic multiculturalism, and his dour prognostics as to the possibility of "a major intercivilizational war" contrast sharply with the earlier, extremely optimistic scenario (the global triumph of liberalism) put forward by Francis Fukuyama (see Fukuyama 1992). Against Huntington, it could be argued that the threat posed by "Islamism" in a country such as Egypt is not so much a result of "culture" as it is of government ineptitude as regards liberalization and democratization (see in this regard Ibrahim 1996).

<sup>35</sup>.. One thing that struck me on my first visit to mainland China (contrasting in this regard with Taiwan, a more economically and politically developed country—but equally Chinese nonetheless) was the apparent near-total absence of public concern for public (i.e., non-private) places, discarded trash of all sorts being strewn about anywhere you cared to look. A phenomenon such as this demonstrates a notable lack of civic spirit (the absence of which is of course understandable in socialist countries which are always hostile to the autonomous forces of civil society and which encourage in their subjects the debilitating belief that government is the only legitimate guardian of public well-being ["Let the municipal garbage collectors take care of the mess."]).

<sup>36</sup>.. See Watson 1998 for a study of McDonald's in five Asian countries: Hong Kong, China, Taiwan, South Korea, and Japan. In regard to the beneficent effects of Coca-Cola, I was once surprised at an international conference of economists to hear a Polish economist heap praise on the "Coca-Colazation" of Poland (by which I gathered he was referring to American-style fast food restaurants in general), two of its more noteworthy effects being a sharp drop in alcohol consumption and, implausible though it might sound, adoption of more healthy dietary habits.

<sup>37</sup>.. See Barber 1995. Barber writes:

The first scenario rooted in race holds out the grim prospect of a retribalization of large swaths of humankind by war and bloodshed: a threatened balkanization of nation-states in which culture is pitted against culture, people against people, tribe against tribe, a Jihad in the name of a hundred narrowly conceived faiths against every kind of interdependence, every kind of artificial social cooperation and mutuality: against technology; against pop culture, and against

integrated markets; against modernity itself as well as the future in which modernity issues. The second paints that future in shimmering pastels, a busy portrait of onrushing economic, technological, and ecological forces that demand integration and uniformity and that mesmerize peoples everywhere with fast music, fast computers, and fast food—MTV, Macintosh, and McDonald's—pressing nations into one homogenous global theme park, one McWorld tied together by communications, information, entertainment, and commerce. Caught between Babel and Disneyland, the planet is falling precipitously apart and coming reluctantly together at the very same moment (p. 4).

Barber's main thesis is that "Jihad and McWorld...conspire to undermine our hard-won (if only half-won) civil liberties and the possibility of a global democratic future" (p. 19).

<sup>38.</sup> On the notion of the nation-state and modernity, see Albrow 1997. Traditionally, one of the most important aspects of "sovereignty" was control over money. That aspect of sovereignty has now vanished.

<sup>39.</sup> For an argument to the effect that self-interest "rightly understood" is one of the major factors in promoting human well-being, both material and moral, see Madison 1998b. For a historical account of the emergence of the idea of self-interest in the Age of the Enlightenment, see Holmes 1995.

<sup>40.</sup> For a historical account of this process, see Yergen and Stanislaw 1998, chap. 6; they state: "All across Southeast Asia, the economic model is changing as governments, to one degree or another, pull back from an interventionist role in the economy...It becomes more difficult to deploy government knowledge and to exert the guiding hand, for the span of economic activity—investment, alliances, trade, market development—extends beyond the borders of national sovereignty, and thus beyond the ability of governments to manage and intervene as they did in earlier and, by comparison, simpler times" (pp. 188-89).

<sup>41.</sup> See Kaplan 1998, p. wk 17. In his article Kaplan contrasts in this regard China's "dictatorship" with Russia's "democracy": "In Russia, parliamentary democracy has led to neo-Communism, in the form of a new oligarchic class with its own media outlets and security apparatuses, as well as crime syndicates that have plundered state assets through cronyism, bribery and intimidation. More so than China's new wealth, Russia's belongs to a corrupt, political elite in a few cities."

<sup>42.</sup> See *The Economist* (January 24, 1998), p.36. In response, as it were (and no doubt was), to authoritarian defenders of "Asian values" such as Singapore's "senior minister," Lee Kuan Yew, the well-known Chinese scholar, Tu Wei-ming, writes: "There is no theoretical reason why Confucian social structures could not coexist perfectly well with democratic political institutions" (Tu Wei-ming 1984, p. 90).

<sup>43.</sup> Not only is the notion of the "will of the people" or the "general will" a potentially dangerous notion from a liberal point of view, it is also, from a basic philosophical point of view, a notion that is largely devoid of meaning. The key role that this notion has played in democratic theory to date notwithstanding, it is for all practical purposes meaningless to speak of "the people" willing this or that, of knowing what in fact it is that they want, and what their own interests are—until, that is, this "will" has been articulated in a communicatively rational way by having passed through the various institutions of *representative* government and the various forums of civil society. See in this regard, Madison 1998a, pp. 79-82; see also Holmes 1995, p. 148: "It is not obvious that "the people" can have anything like a coherent "will" prior to and apart from all constitutional procedures.

<sup>44.</sup> Cited in Nathan and Ho 1997, p. 108.



<sup>45.</sup> At the top of the list of challenges is the challenge to the *environment* posed, thanks to globalization, by rapidly developing countries like China, a point emphasized by President Clinton in his televised address to the students of Peking University, June 29, 1998.

<sup>46.</sup> It is well worth noting in this regard that in China, thanks to Deng's liberalizing reforms and his opening-up of China to the global economy "Per capita income doubled between 1978 and 1987 and doubled again between 1987 and 1996—a rate almost unheard of in modern history. It took Britain sixty years to double its per capita income; the United States, fifty years. In instituting reforms with such effect, Deng did something that no one else in history has ever accomplished—he lifted upward of 200 million people out of poverty in just two decades" (Yergin and Stanislaw 1998, p. 212).

<sup>47.</sup> The responsible way China has handled the Hong Kong take-over suggests that it understands quite well wherein its real self-interests lie.

<sup>48.</sup> This outdated view, typical of socialistic, managed capitalism, animates Barber's critique of global capitalism: "The modern democratic state is legitimated by the priority of the public over the private, where public goods trump private interests and the commonweal takes precedence over individual fortunes" (Barber 1995, p. 31). That, of course, is a recipe not for democracy but for tyranny.

<sup>49.</sup> See in this regard John Paul II 1991, sec. 35, p. 64.

<sup>50.</sup> This is nevertheless how, with a horrendous amount of philosophical naïveté, ABC-TV correspondent John Stossel portrayed "the capitalist system" in his 1998 TV documentary *Greed* (see Stossel 1998). The unfortunate thing about reducing self-interest to selfishness or greed is that it totally obscures the properly *ethical* elements of the market, ones which must be developed even more in the global economy that is now coming into being. While the free-market system is the best one yet devised for enhancing the general welfare, no one in their right mind would ever want to see it appropriated, for their own selfish ends, by "greedy capitalists."

<sup>51.</sup> As Drucker has argued at length, capitalism is not just about making money, it is also about "values, integrity, character, knowledge, vision, responsibility, self-control, social integration, teamwork, community, competence, social responsibility, the quality of life, self-fulfillment, leadership, duty, purpose, dignity, meaning" (see Beatty 1998, p. 176).

<sup>52.</sup> In 1960 per capita income in South Korea was at the same level as in India: by the late 1980s it was ten times that of socialist India (see Yergin and Stanislaw 1998, p. 222).

## **An Inhuman and Inhumane Globalization by Robert O'Brien**

G.B. Madison's paper raises a number of contentious points. Others may wish to take issue with his misreading of the East Asian financial crisis or the Westerncentric linkage of civilization and table manners via McDonald's. I prefer to concentrate upon his depiction of globalization. Although Madison (despite denials in the second paragraph) praises globalization, his interpretation (rather than description) paints the picture of a process both inhuman and inhumane. This short commentary argues that the process is not inhuman and though often inhumane, it need not be so.

In this working paper, globalization is an inhuman process in the sense that it lacks human agency. For Madison, as for many Hegelians, globalization is a steamroller charging through time, following the logic of history. It matters not whether people approve or disapprove. They cannot influence the process, they can only adapt. There is no human agency, no effective politics. At most, we can make ourselves comfortable as we watch the spectacle unfold. This is a profound misunderstanding of the process we see before us. Most of the signs that Madison takes as markers of globalization (capital mobility, transnational production, trade) are the product of human choice, whether it be through corporate strategy, state policy or collective action. While the compression of time and space integral to globalization is facilitated by technology, the conditions under which technology is implemented are subject to debate and political struggle. Thus, globalization need not take a neoliberal form. It could take a social democratic or even fascist face.

The difficulty posed by ignoring the issue of agency and power (private and public) becomes apparent in the paper's conclusion. Madison sees a practice of "responsible capitalism" emerging from the process of globalization. Such a model is only plausible if one can point to mechanisms which would encourage appropriate behaviour. Madison is unable to do so, falling back upon assertions about the relationship between markets, democracy and the path of history. Such an idealistic approach is unconvincing in an environment characterized by weakened states, international organizations with limited legitimacy, and a weak, fragmented global civil society.

The model of globalization presented in this paper is not only inhuman, it is inhumane. The existence of quicksilver capitalism with its rapid and volatile movement of capital is deemed a positive arrangement because it disciplines states and peoples. The destruction of economies, the impoverishment of millions of people, the rise of infant mortality rates and malnutrition is passed over because financial speculation serves the purpose of bringing Asian states back to the true model of capitalism. Such an analysis elevates ends far above means and simply does not resonate with leaders responsible for the welfare of their societies. Thus, what Madison sees as an unequivocal good is challenged not just by Mahathir of Malaysia, but even by some leaders in the Western financial and political elite petrified by fear of systemic economic collapse.

This working paper is a polemic on behalf of the Anglo-Saxon political and economic model (despite the author's denial). The process of globalization is offered as proof of the righteousness of that model. Facts are squeezed into the preexisting ideological mindset to demonstrate the uselessness of following any other path. This leads to some convoluted use of evidence. For example, while the analysis finds fault with the

economic models of East and Southeast Asia, the Chinese economy is worthy of praise because it is turning away from socialist planning. The crucial fact that the Chinese have avoided the worst of the financial crisis *because* they have capital controls is lost on Madison. He cannot integrate this key factor into the analysis because the paper starts from the proposition that neoliberal globalization is beneficial.

Far from being an uncontested process, globalization is the subject of considerable debate and the object of intense struggle. There are struggles to erect and transform international public institutions such as the World Bank and the International Monetary Fund. There are efforts to build security in a post Cold War environment, from protecting minorities to dealing with the prospect of nuclear war. Numerous civic organizations attempt to shape the rules of global governance in fields as diverse as the environment, corporate behavior and economic development. None of these battles has yet been won or lost. History is not yet over. The potentially inhumane nature of globalization is still subject to human agency.

## **Globalization: Contested, Complex, and Sometimes Catastrophic**

**by Tony Porter**

Dr. Madison has done us a service by presenting in a particularly stark manner the conventional wisdom of a few months ago that was evident in *Globe and Mail* (Toronto, Canada) editorials or International Monetary Fund reports. As the global financial crisis has continued to grow this unfettered enthusiasm for globalization has been supplanted by skepticism. Even *Business Week* starts its October 12, 1998 report on "How to Reshape the World Financial System" by commenting wistfully that "it was once comforting to believe that the international financial system was a just and fair god." Nevertheless the perspective expressed by Madison continues to be influential among policymakers and is worth examining. I will make four criticisms.

First, treating globalization as a "fact" is rhetorically effective in making criticisms of it seem futile, but can be challenged empirically by noting, for instance, the high proportion of goods and investment that continues to originate domestically (80 percent in the bigger national economies)<sup>1</sup>, by looking back past the mid-twentieth century heyday of statism to the British-centred world economy of the 19th century which in many respects was more internationalized than today's, and by acknowledging the degree to which *states* deliberately brought about globalization by reworking the rules within which markets operate. As books such as Hirst and Thompson's *Globalization in Question* demonstrate, globalization remains a contested concept.

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<sup>1</sup> See Robert Wade, "Globalization and Its Limits: Reports of the Death of the National Economy are Greatly Exaggerated," in Suzanne Berger and Ronald Dore, eds., *National Diversity and Global Capitalism* (Cornell University Press, 1996).

Second, Madison's argument is reminiscent of old defences of Soviet socialism, but this time in defence of the market: if something is good it is the result of capitalism, and if it is bad it is the result of states. Thus the allegedly positive features of McDonalds are cited, but the environmental degradation associated with direct foreign investment in northern Mexico, the raucous behaviour of commodity traders, or the massive failures of markets to produce and disseminate information in recent financial crises are not. Madison sees the earlier decades of phenomenal growth in East Asian economies as due to their enthusiasm for markets but when these same economies collapse catastrophically during a period when they have opened themselves to intense financial globalization Madison blames their problems on their excessive reliance on states. Madison thereby ignores the lesson of the actual experience of the East Asian economies--that there can be a negative correlation between reduced state control of markets, on the one hand, and economic growth on the other--and substitutes an assessment based on a simple ideological argument: markets are good and states are bad. Where a negative characteristic, such as greed, cannot be completely dissociated from capitalism, Madison dismisses it as a passing defect which will be addressed when true "responsible" capitalism has fully arrived. A more nuanced analysis of actually existing capitalism is needed.

Third, the purported correlation between democracy and markets is overly simplistic. Corporations may offer support to dictatorships rather than civil society, as the mutually beneficial relationship between Shell Oil and the Nigerian government illustrates. Democracy is about much more than the rule of law. Indeed laws can be used oppressively, as for instance in states such as Nazi Germany. As the literature on regulatory capture has demonstrated, even in industrialized democracies powerful firms can use their resources to obtain laws and regulations granting them special privileges that violate the spirit of democracy. Many commentators have argued that the rights granted to investors under the

North American Free Trade Agreement, or to pharmaceutical firms under the World Trade Organization provisions on intellectual property rights, are contemporary examples of this problem. Madison's caricature of the primary alternative to such agreements, the nation-state, as a utopian and dangerous attempt at direct democracy, overlooks the centuries-long process which culminated in institutions of representative democracy. As Held has commented, it is nation-states not markets, that have been the traditional locus of the practice and theory of democracy.<sup>2</sup> The difficult challenge posed to this by globalization cannot be quickly solved by faith in the liberating potential of markets.

Fourth, treating globalization as the solution for ethno-nationalism overlooks the degree to which the former contributes to the latter. The rapid expansion of markets can bring with it severe economic uncertainty, the erosion of existing social institutions, and anxiety about the future, and thereby contribute to the growth of extremism and xenophobia in industrialized and industrializing countries alike. As authors such as Appadurai and Robertson have argued, contemporary nationalism is constituted more as an imagined identity defined in relation to globalization than as an enduring legacy of a primordial sentiment.<sup>3</sup>

Globalization offers certain advantages, but we need a more careful consideration of the relative advantages of markets and states if we are to realize them.

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<sup>2</sup> David Held, *Democracy and the Global Order: From the Modern State to Cosmopolitan Governance*, (Stanford: Stanford University Press, 1995), p. 23.

<sup>3</sup> Arjun Appadurai, "Global Ethnoscapes: Notes and Queries for a Transnational Anthropology," in Richard G. Fox, ed., *Recapturing Anthropology: Working in the Present* (New Mexico: School of American Research Press, 1991), pp. 191-210; Roland Robertson, *Globalization* (London: Sage, 1992).

## **Rebuttal** **by Gary Madison**

I welcome the opportunity to respond to my critics. Having to deal as amicably as one can with diverse and sometimes even hostile views is, after all, what democratic pluralism is all about. I hope I may be able to clear up some misunderstandings or, failing in that, to at least set the record straight on some points. Since the number of words I have been allotted is greatly limited, I shall not be able to do justice to the many points raised by my critics but shall have to restrict myself to a few general issues.

Professor Porter is altogether right in observing how, since the Asian Flu has mutated into the Asian Contagion, enthusiasm for globalization and free markets has been tempered by skepticism in some quarters; irrational exuberance has given way to irrational risk aversion. I nonetheless continue to believe that globalization is the dominant tendency in the world today, and I also believe that globalization will have—indeed, is having—profound limiting effects on the role that nation-states will be able to play in the determination of events. Although I did not focus on them in my paper, I would be the last to want to gloss over the imperfections of “actually existing capitalism.” It is in fact crucial always to keep in mind that the market economy—whose logic reflects the spontaneous and unpredictable nature of human agency itself—is *inherently* imperfect and unstable—as George Soros has commendably pointed out in opposition to dogmatic laissez-fairists.<sup>1</sup> That does not mean that the system cannot be made to work better, and many interesting suggestions on how to improve on its workings (including those of the IMF) are currently being put forward. When it comes to basic economic options, however, I am aware of no alternative to market economics that



holds out greater promise for promoting human well-being. And although Professor Porter is quite right in saying that there is no simple correlation between democracy and the market, I firmly believe that the development of a market economy is one of the surest ways there is of promoting democratization (and I would argue that the empirical evidence bears me out on this).

In response to Robert O'Brien, I shall not attempt to defend my reading of the East Asian financial crisis (nothing I have come across to date inclines me to believe that it was off target), nor shall I go into some of the finer points of hermeneutical theory that he overlooks (how, for instance, all description is in fact interpretation). I will, however, note that had O'Brien read some of my other writings (those listed in my bibliography or *The Logic of Liberty* [1986]), he would not have so profoundly misunderstood my own understanding of "the process we see before us"; he would have seen that I am as committed to the principle of freedom and human agency as he is. To be sure, I do not hold to a naïve, Promethean notion of agency. Humans are constrained to act in risk, uncertainty, and ignorance and in situations which often are not of their own choosing—and their acts often have unforeseen and unintended consequences. Humans make their own history, but not, as Marx rightly observed, out of whole cloth. One can believe in human freedom and still believe that there are objective forces at work in the human lifeworld (in history). It is the task of interpretation to enable us better to understand these forces—so as to be able better to deal with them. If various structural logics or dynamics did not exist, neither would social science.

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<sup>1</sup> See George Soros, "The Capitalist Threat," *The Atlantic Monthly* vol. 279, no. 2 (February 1997) and "Toward a Global Open Society," *The Atlantic Monthly* vol. 281, no. 1 (January 1998).

While O'Brien and I are in substantial agreement on the subject of human agency (despite his unfair portrayal of my position), one area where I fear agreement is less likely is market economics. It is of course possible that at some point down the road O'Brien might come to a better appreciation of the merits of markets and of what Adam Smith long ago referred to as the "system of natural liberty." I sincerely hope so, because I believe that, much as Churchill said of democracy, the market economy is the least bad and the least inhumane of all known economic arrangements.<sup>2</sup> For all its seeming chaos and imperfections, it harbors immense possibilities for bringing about, on an increasingly global scale, greater prosperity and greater democracy. History is indeed not yet over. In fact, it has only just really got going on a truly global scale.

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<sup>2</sup> If O'Brien is worried that I have nothing to say about the "mechanisms" which would encourage responsible capitalism (a prime concern of mine, actually), he would do well to consult Madison 1998a and 1998b.