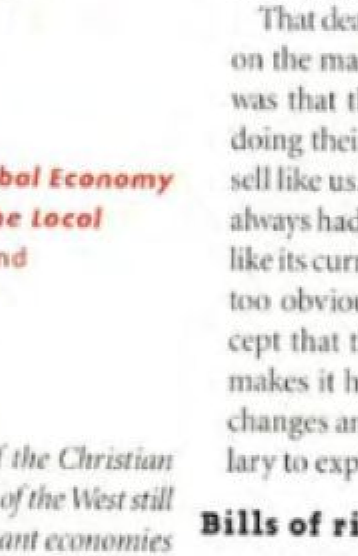
A world of money

Globalization is diminishing national governments' control of their currencies. BY MARK WILLIAMS

One World, Ready or Not: The Manic Logic of Global Capitalism
By William Greider
Simon & Schuster
528 pages, $27.50

The Case Against the Global Economy and for a Turn Toward the Local
Edited by Jerry Mander and Edward Goldsmith
Sierra Club Books
550 pages, $28.00

As the second millennium of the Christian era closed, the nation-states of the West still comprised most of the dominant economies of the earth and the richest portion of humankind. Their currencies were guarded by central banks and financial law. The powerful influence of their institutions had cemented the international market system. Yet great fissures were increasingly apparent in their societies and—though their citizens believed in the continued hegemony of the nation-states as undoubtingly as in an earlier age royalty had held the divine right of kings to be unassailable—it is easy to deduce the reasons for their decline and fall.



Thus some future Gibbon may commence the definitive summary of the nation-state. Of course, most people realize that, although we retain many of the institutions of 30 or 40 years ago, their places in our culture are greatly altered. Globalization is usually understood to be the cause of the changes. But when Americans and Europeans complain about globalization, it often amounts to this: We want to go home to the '50s or '60s, they are saying; we want the deal we had back then.

That deal, however, was always predicated on the market's expansion; always implicit was that those other folks would soon be doing their best to produce, consume, and sell like us. Today's deal is the same one we always had—it's only that many people dislike its current phase. All of which should be too obvious to be worth mentioning, except that this climate of willful ignorance makes it harder to grasp the extent of the changes and to begin creating the vocabulary to explain what's replacing it.

Bills of rights

What's passing away? Nothing less than the global social order that arose from the activities of the Italian Renaissance's merchant bankers and dominated the past five centuries. Few ideas are as simple and yet have been as radically transformative in their effects as money, with the possible exceptions of God, science, and progressive evolution. After the initial invention of coinage nearly three millennia ago, economic historians point to banking and paper bills as money's second revolutionary advance. In Europe, these innovations destroyed feudalism by shifting power from land ownership to bills of exchange, bonds, stocks, and corporations; as power's basis moved from heredity and brought more populations into a single financial system, more complex forms of government emerged. One of their primary responsibilities—and sources of power—became the maintenance of national currencies and banking systems.

What's replacing this? Unlike the imaginary future historian, we don't yet have the analytical tools to deduce the new social forms. We know that the near future will be dominated by global networks of money, goods, services, technology, and data that increasingly bypass state control. In recent decades money severed its last connection with material commodities like gold. Now, of the U.S. currency supply of more than $4 trillion, less than one-tenth—about $400 billion—exists as bills; $2 trillion flows every day in pure electronic transactions. Soon most of the rest of what we used to recognize as money will be translated into the vast cloud of abstracted power moving electronically across the earth's face.

Meanwhile, just as hereditary lords and priests decried money's dissolution of the bonds of feudalism, some of the loudest warnings that the global economy is spinning out of control are voiced by those who've been aristocrats in the passing dispensation: in two recent books, George Soros and Sir James Goldsmith (whose family has been one of the great European banking dynasties for centuries) are depicted as apostates who have renounced the path down which global capitalism is driving us.

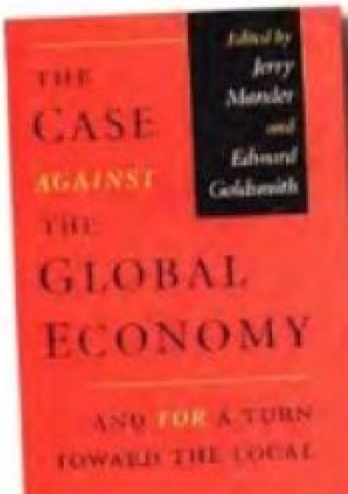
Soros spot

William Greider's *One World, Ready or Not* cites Mr. Soros's dark prognostications: "Political instability and financial instability are going to feed on each other.... We have entered a period of global disintegration." Still, Mr. Greider is decent, accepting that white males aren't entitled to higher standards of living than workers in Kuala Lumpur and that for many, the present is "a rare opening in history, a chance to get out from under."

But though he acknowledges that humanity might be near understanding itself to be a shared enterprise, Mr. Greider fears social and ecological collapse. He insists those who "worship these market principles, like a spiritual code that will resolve all the larger questions for us, social and moral and otherwise, so long as no one interferes" have failed to understand how absolutely the imperatives of global capitalism have cut loose from parochial attachments to individuals, societies, and even multinational corporations.

On this score, alas, Mr. Greider also fails. His book is full of calls to action: Governments "must reclaim the governing obligations of the nation-state from private markets." "Financial reforms can begin with measures like transaction taxes on foreign exchange." "The leading governments, if they had the will, could swiftly cripple" those "offshore banking centers where capital hides from banking and securities laws or from national income taxes."

How could this ever happen? Even given widespread political will, governments are in their current position because they've had to compete in a world in which corporations base themselves where they choose and make it harder to determine where they must pay taxes. Clamp down on those island banks, and others will spring up—and such institutions require no territorial existence, merely a virtual presence on the Net. In commerce, also, the Internet's implications are immense: there's no easy way to tax software downloaded from Djakarta through Vancouver to Kansas (short of indiscriminately taxing all data transfers—a solution that would have appealed to the Soviets). Online commerce moves to regions of the earth where it's unimpeded.



"The old political order talked about these changes endlessly, but did not yet grasp the essential meaning," Mr. Greider writes. He might as well be referring to himself. We aren't going home to the '50s and '60s, and our problems won't be solved by the methods of those decades. Mr. Greider's book, though well meaning, is largely innocent of intellectual tools to deal with our situation.

Arresting development

The Case Against the Global Economy, though, offers some provocative ideas.

Here are more than 40 essayists, collected under the impress of Sierra Club Books, who put forth a range of outlooks that vehemently reject economic globalization. James Goldsmith weighs in against capital's mobility. Ex-World Bank eco-economist Herman E. Daly (whom Mr. Greider cites when he wants intellectual reinforcement) presents his case. Ralph Nader and Lori Wallach inveigh against NAFTA and GATT. Swedish philosopher-activist Helena Norberg-Hodge complains that Western tourists appear so rich, as if descended from another planet, that Tibetan Plateau dwellers have become ashamed of their own culture. ("Underdevelopment" may be no such thing, but privileged Westerners who decide that native populations are better off unexposed to development—and who, however sincere, can usually go home when they get tired—tend to strike this reviewer as, well, swinish.) Other contributors deliver broadsides of strident green-speak against corporate colonialism, biotechnology, Wal-Mart, etc.

More persuasive are the economists Ted Halstead and Clifford Cobb, who argue "The Need for New Measurements of Progress" other than the gross domestic product, and the ecologist Robert Goodland in "Growth Has Reached Its Limit."

Two essays are worth particular attention. Richard Barnet and John Cavanagh's "Electronic Money and the Casino Economy" recognizes that money itself has begun to be transformed. With the global currency market exceeding the annual GDP of all the major economies, and with 24-hour trading, governments receive periodic lessons about how little control they retain—like early 1995's Mexican crash or 1992's Black Wednesday, when Mr. Soros proved more powerful than the British government. "The dilemma facing national political leaders is clear," Mr. Barnet and Mr. Cavanagh write. "Impose regulations, then sit back and watch how quickly financial institutions slip away . . . disappearing into other corporations, or otherwise rearranging their affairs to make life difficult for the regulators." Yet if "regulations are observed, they pose a handicap in international competition." The authors believe the world cannot tolerate for long a situation where global finance could collapse "at the behest of speculators."

To portray speculators as culprits seems as narrowly ideological as to believe that the market always acts rationally. The immense scale and velocity the money

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market has achieved make it resemble some invisible astronomic body, wreaking devastating gravitational effects when its orbit brings it near the earth's surface. Money—as powerful a tool as humanity has ever conceived but never mastered—is attaining new levels of power and abstraction. Once people cease to demonize or idealize it, or attempt to regulate it through government interventions that are increasingly destined to failure, they might start to examine how it could be made to work for them.

LETS make a deal

Money's most obvious pattern is to flow where it maximizes its return. Susan Meeker-Lowry's "Community Money: The Potential of Local Currency" points out that many communities have seen local banks that kept wealth within their regional economies disappear when larger holding companies bought them. One solution is the creation of microcurrencies that cannot flow outside a local economy. Local exchange trading systems (or LETSs) began in the early '80s among unemployed Canadians with skills to offer each other but no cash. Bypassing one-on-one barter—because a mechanic might need a dentist when no dentist needs his car fixed—the exchange expanded to a community of members. The mechanic went to the dentist; the mechanic's LETS account was debited,

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the dentist's credited; when the dentist needed a carpenter, that credit could be applied. Transactions were reported to a coördinator, and credits existed as records on a database. Members received monthly statements, with listings of other members and services they offered. Participating businesses enlarged their customer bases. The original LETS started with 6 members and four years later had 500. Today nearly 200 LETSs exist in Britain, with variations in Canada, Australia, and the United States that use actual paper notes.

The government hasn't demonstrated much interest in suppressing alternative currencies, so long as they don't resemble federal notes; there's precedent like the scrip used during the Depression. On the other hand, the Stamp Payments Act of 1862, signed by Abraham Lincoln, outlawed the alternative currencies proliferating during the Civil War (inflation had led to the hoarding of coins as their metal value outstripped their face value). The constitutionality of the act was immediately questioned. The Supreme Court upheld the act, which is still intact, but also ruled that notes not resembling U.S. currency and likely to circulate in limited areas fall outside the act's scope.

E-money isn't everything

Could the Stamp Payments Act be applied against electronic money? Conceivably. But it's worthwhile to view this in another context: individual credit card holders access thousands of dollars from the future to deploy in today's market. This is itself a kind of virtual currency, circulating at a rate of more than $150 billion a year in the mid-'90s. Commercial institutions like Visa and MasterCard have been distributing new currencies for the last 50 years. Will the federal government close them down?

No, and so far officials seem to be doing everything possible *not* to stifle the new systems of electronic money. In 1862 Lincoln's government did not intervene until perhaps *10,000* currencies were circulating. Today's federal government appears concerned only that online currencies be theft-proof. Companies like DigiCash, First Virtual Holdings, CyberCash, Net1, Mondex International (one of THE HERRING's top 100 companies; see page 82); a firm called NetCash; and familiar players like Citibank, MasterCard, Visa, and Netscape are all developing digital money or smart cards. Besides Internet commerce, they want a slice of the charges on transactions currently involving cash or checks. Although the total sum of the world's money that changes owners through electronic transfer is already around 90 percent, something like 90 percent of all transactions that occur still involve cash, usually in small denominations—$300 billion annually in the United States alone.

National governments won't disappear; they will linger on—often irrelevant, certainly reduced in scope.

As cash gives way to electronic currencies, the successful companies stand to gain more of the interest earned from their customers' money when it is not in play but "stored," and more of those revenues that governments, as the sole creators of currency, had previously monopolized. The Federal Reserve is today required to buy Treasury securities in an amount equal to the value of currency in circulation and turn over the earned interest. This is presently about $20 billion a year and, with the profit the government makes selling money to banks, constitutes modern *seigniorage*—the profit the Crown traditionally made from minting money.

In 20 years the federal government may not face this loss with such equanimity. Already capital has attained global mobility, forcing affluent nations to make personal income taxes their greatest revenue source. As skilled "knowledge workers" are likelier to benefit from globalization than less skilled laborers, the inequitable possibility is that taxation's burden will shift further onto those least paid and least able to evade it.

Yet digital currencies will probably work against this prospect also. Because anyone can create his or her own currencies, communities may emerge that will be descendants of the LETS groups. They will design the rules of their money so as to keep as much of their wealth among their members, reinvesting it locally. Such communities may be based on regional membership like the LETS groups are, but more likely they will be virtual communities formed around a sense of shared identity. Ralph Reed and Louis Farrakhan might be well placed.

Bye-bye, big government

The long-term prognosis isn't good for the nation-states. Globalization has already weakened their control of their currencies. Their tax bases will almost certainly grow more problematic; the welfare state, the foundation of the nation-state's legitimacy in many affluent countries, seems terminally stricken. There is a feeling spreading that national governments are too small to handle global forces but too big to manage people's lives. National governments will not disappear; they will linger on, often irrelevant, certainly reduced in scope—and in the spaces they have been forced to vacate, paradoxically, it may be that many groups will find a renewed sense of the real roots of their national and cultural identities.

We have entered an era of either immense opportunity or potential devastation. This is the beginning of the third revolution of money; we cannot as yet imagine what much of this will mean, but as the two books reviewed here suggest, many assume that the consequences of radically liberated money can only be bad. They shouldn't. Keynes once wrote of how "the difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds." One knows what he means; one sees it in oneself and in all the contributors to *The Case Against the Global Economy*. They would have the human race live for a million years as a dreary planet of subsistence farmers; but even as they write, most cultures have already opted for development.

Mark Williams is a science writer living in Oakland. Write to markred@aol.com.

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