EXTERNALITIES OF GLOBALIZATION

József Veress
Department of Business and Economic Policy
Budapest University of Technology and Economics
H–1521 Budapest, Hungary
Phone: (36 1) 463-2752, Fax: (36 1) 463-2754
e-mail: veressj@eik.bme.hu
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Abstract

This paper is an integral part of the former studies of the author. (Veress, 1999; 2000; 2001). The conclusions of the papers referred to above may be considered as the inputs of the present study. From among them the most important ones concern globalization’s becoming a totality and the new duties of economic policy.

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There is no doubt that globalization and its effects are one of the most serious and disputed problems of the beginning of this century. Related standpoints are in flat opposition to one another and, at the same time, assumptions are not of the same weight in terms of quality and quantity, either. As to the disputes connected with globalization, agreement may be reached only in one respect, namely that its strength of flow is enormous.

Despite this latter feature globalization seems to be an evolutionary process and its intensity implies irreversibility as well. In other words, the process cannot be stopped without causing catastrophes. (This statement is not intended to be a judgment, it is only aimed at demonstrating the overwhelming force of globalization). Former theories cannot give full-fledged explanations to the new situation. Of course, the analyses of the economic and social consequences of globalization are at an early stage. In the meanwhile and ex post several surveys have been and were made on the effects exerted by globalization on countries, different regions and integration as well as the citizens of the world. However, these analyses cannot be excellent for several reasons. The most important explanation for this is that though the globalization process has become a totality in our world, it cannot be considered finished. In other words: though the process of globalization is already a totality (especially as regards economic processes), globalization itself is not (it exerts influence on the different fields with different weights). Since issues of utmost importance are analyzed, I think that the problems studied in this paper should be outlined relatively exactly, if possible. The survey primarily focuses on the phenomena and effects of globalization.\footnote{The term ‘economic globalization’ is used by Chikán (Chikán, 2001)} Within this special attention will be paid to
the complicated relations among countries, international financial and commercial organizations, economic integration as well as multinational companies, trading chains and financial investors at the top of the hierarchy.

This paper is an integral part of the former studies of the author. (Veress, 1999; 2000; 2001). The conclusions of the papers referred to above may be considered as the inputs of the present study. From among them the most important ones concern globalization’s becoming a totality and the new duties of economic policy.


In the second half of the 90s an aggregate of phenomena or symptoms emerged which is called globalization by the world (Veress, 2001). This fact is represented by four interrelated trends.

1. The world has centralized.
2. The new, quickly spreading achievements of the information society – especially Internet imply an unprecedented communication revolution.
3. The financial economy increasingly dominates over the real economy.
4. The country category as a term used formerly the most frequently for the arrangement and operation of the world is becoming more and more marginal and insignificant.

Based on the experience of the past one–one and a half decade it can be stated that owing to globalization the interpretation opportunities and value ranges of the economic policy have been reducing. However, policy instruments have been completed by new elements.

The duties of national economic policies rely on three very important pillars (Veress, 2000):

- making and following a sound economic policy, reducing weak points to the minimum;
- positioning optimally the economy of the country in the production and service fields under radical transformation, in the technology and innovation field, within the framework of global markets;
- managing, backing and establishing in certain respects industries, profiles and researches which play or may play a leading role in the world and as a result may represent distinctive marks in the positive sense for the country concerned.

It cannot be emphasized often enough that though the significance of national economic policies reduces owing to the consequences of the globalization process, the responsibility of national governments clearly increases.

Even in his own time Smith stated that the aspects of moral, legal and economic rationality were conflicting if decision making was in question. The right and
obligation of policy are to harmonize contradictory starting points. Of course, this argument of Smith supposes autonomous policy in a democracy.

The relationship between the state (government) and the business sphere may be interpreted as if both parties moved on their own paths which overlap each other from time to time. (It is a question of geometric proportions and speed how big the autonomy of the ‘parties’ is.) The lower position is reached by a country in the ranking of nations, the more it depends on the integration levels, different international financial levels as well as investors, especially the top ones. This fact exerts a considerable influence on the relationship between national governments and ‘domestic’ undertakings. Following the former, almost obligatory disunion, there is an increasing demand for mutual rapprochement. The actual parameters of the countries are jointly defined by historical past, the prevailing development level, the traditions of economic policy and the position in hierarchy.

Both old and new elements may be found also in the relationship between multinational companies and national governments. The governments of the countries – competing with one another desperately – offer increasingly favourable conditions for the biggest companies. Prevailing winners and losers are defined by this process as well.

Though the process of the world in our days may be explained by the categories of the market economy, this background of the events does not correspond or frequently does not correspond to the logic of economics. I’ll revert to this question later.

Mention should be made of the main standpoints reflecting the economic development of the world at the beginning of the 21st century.

The editorial article of Financial Times published in the 30th – 31st December, 2000 issue (Nine reasons to be optimistic) is by all probability an authentic document for the demonstration of the clinical picture. The article gives a summary on the nine reasons for which we, the citizens of the world, may be optimistic at the very beginning of the new millennium. The article suggests that following the stock exchange crashes in the 90s – 1998 saw the last one – many were waiting for relief. However – as the paper puts it – all this is not so simple. Let’s see the arguments of the article!

1. Decelerating growth in the USA was inevitable. Following an unprecedented boom a soft landing can be expected. The financial world survived even the 50% drop of the NASDAQ index without any panic.
2. Today the world is more prepared for warding off shocks and jars than it was in the 70s.
3. The world owes much to the United States. This is the first case in history that the leading country of the world prefers development to dominance of power.
4. Following the extraordinary crisis in Russia there is a hope and chance for recovery.
5. Oil producers have no chance to destabilize the world economy.
6. Also Europe is in a better position since – following the ‘low-altitude flying’ – EURO appreciated 8% and new liberal reforms are also successful. What is more, despite difficulties, former socialist countries are slowly acknowledged. (I made maximum use of the euphemism offered by translation since it can be checked that the wording was ‘former USSR’s colonies’. Furthermore, cf. the EU declarations conflicting with the agreement reached after the 2000 ‘Nice Summit’).

7. The latest results of scientific researches are very promising, mainly as a result of the computer technology and telecommunications revolution as well as the one in the field of medical sciences (‘gene map’). New results directly influence economic efficiency, too.

8. In the second half of the 20th century world trade grew to its nineteen-fold. The opponents of globalization are not right since developing countries have also benefited from the advantages.

9. Though the existence of poverty cannot be disputed (1.2 bn people live in extraordinary poverty, having less than 1 dollar a day), but recently the World Bank has cancelled a total of 34 bn dollars owed by 22 countries.

Without any pessimism it can be stated that the processes are more complicated, more complex and imply more risks than reflected by the article of Financial Times. CIA has recently published its forecast on world developments till 2015. This document focuses on the expectable effects of globalization and is more careful – it demonstrates the tendencies rather than gives an exact picture – than the one compiled in 1997 for the period up to 2010, which has eroded in terms of predictions owing to quick changes. The role of globalization and international and commercial organizations has become stronger than expected, the information society has been developing quicker than imagined – just to mention some differences. The analysis mentioned above may face a similar fate but prove to be true as well. However, doubts may be worded as early as today.

ad (1) In the centralized world – of course, this is true only in respect of countries – the special attention paid to the USA is understandable. The landing following the unprecedented success of years will probably be not painful but a version of soft landing may be excluded not so easily either. One of the signs of this is that today the danger of stagflation considered especially threatening in the USA is already a reality and there are more and more who would bear inflation for growth, i.e. they would give privilege to the latter. The New York Stock Exchange has been passing through difficult days.

ad (2) There is no doubt that the world could experience and learn much from former crises. However, this better ability to manage crises has not been tested – and be it not tested! After the LTCM hedge-fund had failed in 1998 an agreement was reached that if a system was at risk – the failure to intervene must have resulted in the collapse of the financial system of the world – all interested parties had to make a financial sacrifice. It is a fact that today the capital and money markets are ‘silent’.
ad (3) The USA, as the leader of the world, has a lot to develop in terms of morality and equal treatment. There are fields where the country manoeuvres with harder means and there are ones where it does so more tolerantly than it should do.

ad (4) The protraction of the Russian crisis cannot be disputed and its outcome – though it shows some promise – implies several unforeseeable factors. At the same time the significance of China in coming years cannot be emphasized often enough.

ad (5) Oil producing countries can exert a considerable influence on the competitiveness of different regions and profiles on the short run.

ad (6) As to Europe, the situation is more than complex. The decision making system of EU is increasingly complicated and it implies more and more compromises, the expansion strategy is unforeseeable. The effects of globalization – which are not positive merely even in developed countries – can be traced back well, especially in Germany and France. The leading countries of EU do their best to maintain their positions, while the rest of them do the same to maintain their status quo, hoping for expansion. It seems that the candidates will be enforced to play off against one another.

ad (7) Researches leading to imposing results, penetrating into the ‘depth’ of human genes imply different dangers.

ad (8) For the time being the growth of world trade leads to developing countries’ share reducing continuously. This, of course, does not mean that the aggregate of under-developed countries does not benefit more as compared to the prevailing starting point, this is only a theoretic rather than practical possibility.

ad (9) The World Bank – partly as a result of the movements started in Seattle – has cancelled a high amount of debts elegantly indeed but the G7 countries have again failed to agree upon such a step not for the first time. These facts highlight that in the case of the decisions afflicting the world as a whole, the significance of international financial and commercial organizations (IMF, World Bank, WTO) is larger than the one of the aggregate of the countries. Since these organizations were formed by national states, despite a possible red-tape decision making mechanism it can be suggested that other decision makers also play a significant role.

In the field of force of today and tomorrow a country as small as Hungary has to be situated increasingly exactly and deeper. In addition to intellectual capacity all this requires that political decision makers make their decisions on the basis of professional debates at parliamentary and other levels and demonstrate their unity to outsiders. I think that one of the risks connected with Hungary is the very fact that for the time being there is no chance for this.
2. Some Externalities of Economic Globalization

The (today already undisputed) fact that in the past decade the power and strength centers of the world were rearranged, has induced far-reaching changes in the economic and political processes as well.

What is the heart of the rearrangement of power centers? First, it is the pressure-group role played by the biggest investment funds, investors capable of moving high amounts of capital, that enables them to exert a considerable influence on the intentions and conduct of national economies, different integration levels and even the most significant international financial organizations. Recent analyses demonstrate that the governments of certain countries can do nothing but try to become good hosts of the strongly concentrated financial capital (Hutton–Giddens, 2000). This fact itself may lead to several very serious consequences.

One of the very important dilemmas may be related to the European Union. Formerly many expected that the operation of EMU and especially that of the Euro-zone might result in considerable tensions owing to the contradictions of the monetary and fiscal policy. As known, monetary policy becomes increasingly supra-national within the EMU and more exactly the Euro-zone, while fiscal policy remains within the boundaries of the national economic policy. Monetary policy cannot counter-balance the inflationary effects of fiscal policy on the long run and this is not in harmony with the very strict and consequent anti-inflationary policy of EU. The experience gained in the first years shows that ‘... though fiscal policy has remained within national boundaries in EMU, it has had no inflationary effects. What is more, the budget deficit has reduced in each EMU member state and some of them produced a surplus in 1999 and 2000. Therefore, there is an unavoidable disciplinary instrument operating in EMU concerning national budgets. Presumably it is an instrument more serious than the Growth and Stability Pact. And this is probably globalization itself. More precisely, the wishes of international capital making use of all the advantages of liberalized capital flow are in question. And these expectations have to be taken into account by each country which wishes to attract capital or at least to retain it.’ (RácZ, 2000:7).

I think that the problem frequently emphasized in recent years, ‘crisis of the welfare state’ is also strongly connected with the developments in globalization. Speaking still of Europe, it is a well-known experience that it is just the most developed states that face the basic problem of ‘social expenses versus balanced macro-economic parameters’. This problem manifests itself on the surface in the reducing ability of the budgets of certain states to cover increasing social costs without jeopardizing the equilibrium. However, nobody questions the competitiveness and efficiency of these developed economies. But it can clearly be traced back that the multinational companies operating in these countries as well are the ones which relocate many business stakes, profiles and factories to the regions of the world where the financial and taxation conditions for the operation of the capital concerned are more favourable. The budgets of ‘left’ countries – ceteris paribus – of course, are hardly hit by outflow. However, the portfolio at the premises does
not have to be changed in every case for the optimizing of taxation regulations for big companies. A concern can state the majority of its profits of a business year at its company, for companies belonging to a country more favourable in this sense. (As known, recently this was the case at the AUDI concern which stated 90% of its annual profits for its facility in Győr.)

The same issues manifest themselves in a specific way in the candidate member states of EU. These countries, the majority of which are post-socialist ones, lag considerably behind even the not so developed states of EU in terms of both their development level and social security standards. There is a huge difference also between incomes in real terms. However, currently the citizens of these countries are not afraid of the possible reduction of a high standard of living or social security, for them a much lower level is traditional. In these countries none of the trustworthy political groupings may neglect the new, threefold requirement concerning economic policy, outlined above. For them there is only one way under the conditions set for growth aimed at equilibrium: they have to be increasingly attractive for international investors. Ironically, the untenableness of the prevailing order of social security is discussed in these countries. The reform of their pension, health care and generally their distribution system is mainly aimed at finding an appropriate way in which these dominant financial investors could finance such on market bases.

The effects of globalization may be found in the relations among the most significant integration levels of the world as well. The relation between the USA (where the effects exerted by globalization on the nation may be traced back relatively weakly just because of the development level of the country and its leading role) and EU has shown specific signs in recent years. As compared to the intentions of the union, the appearance of EURO and the practice related to it to this day have not resulted in the reduction of the difference between the development level and efficiency of the two regions. Moreover, the USA keeps on being a net capital exporter while EU is a traditional net capital importer. Therefore, the basic interest of the latter is to become a net capital exporter while economic globalization becomes increasingly intensive.

Globalized capital flow increasingly influences the changing differences in the development levels in countries and the same processes exert a considerable effect on the power relations between integration levels.

Understandably the disputes connected with the economic role of the state have again revived and it is not by chance at all that all this essentially coincides with the procession of the first experience connected with economic globalization. The relation between the government and the business sphere has passed through several morphologic changes in history. Making simplifications and concentrating mainly on democracies and market economies, let’s examine the pre-globalization phase and the current phase of this relation.

The first phase lasted from the formation of capitalist market economies till the 80s of the previous century. The relation between the state and business reflected some co-ordination in this phase. Both parties could be considered autonomous, the rules of the game were clear and unambiguous, the fairness of competition
was acceptable. Of course, there were distorting factors, it is enough to refer to the colonial system and its consequences. Nearing the end of the phase, i.e. when the effects of globalization were becoming increasingly stronger, different multinational companies, trading chains and financial investors were becoming more and more concentrated, reflecting some pyramid-like hierarchy as regards the operators of business, the co-ordinate relation mentioned above was also splitting up, thus paving the way for the second phase. However, as to the whole of the phase it can be stated that the policy interpreted for national states was independent and ownership in the business field could clearly be identified and checked.

In the second i.e. current phase of the relation between the state and business, sub-ordination is becoming more and more characteristic. Dominant companies, either in the real or the financial economy or in both, are becoming increasingly stronger in many respects as compared to national states. (To some extent the USA is an exception.) Big, non-multinational companies within the countries may also obtain superior strength over the state; as to small domestic companies the quasi co-ordinate relation characterizing the first phase is still in existence. In addition to general tendencies, several other features may be found concerning the second phase. In the Central-East-European countries domestic companies are subordinated to the state. The reason for this lies in scarce resources of undertakings on the one hand and the economic policy excluding points of attack on the other. Moreover, the governments concerned are at the same time the declared and undeclared message forwarders of the higher integration level (i.e. EU).

As to domestic companies the Asian region is characterized by the co-ordinate relation. This connection is, of course, by far not identical with the co-ordinate relation of the first phase. In several important Asian countries (Japan, Singapore, Malaysia, etc.) the governmental and the business spheres are compelled to rely on each other very strongly. Special attention must be paid to China. Outstanding economic results have been reached for long years, the superior position of the government over the business sphere is still in existence and the pillars of democracy are still missing. The Chinese do their best to establish economic and trading blocks in which the interests called by them pan-Chinese can be represented to the best possible extent. One of the most eye-catching means of these efforts is the establishment of the Greater Chinese Economic Area. Mention should be made of the fact that political independence is still in existence in the sense of the national state but it is to be emphasized once more: essentially the country is not a democratic state founded on the rule of law.

For us, of course, the processes in the countries of the European Union are of much more importance. In these countries the governments – though with different intensity – are subordinated to foreign plutocracy and investors. As for the relation between the states and domestic companies (excluding multinational companies with headquarters in the country concerned), it is also of a co-ordinate character. The undoubtedly biggest winners of economic globalization, i.e. the most powerful multinational companies, trading chains and especially the biggest financial investors are striving for lifting of existing restrictions with unstoppable lobbying force. While in certain integration forms – for example in EU, too – mon-
etary regulation is more and more unified, the regulation of money markets is still in the hands of national governments. Big investors are in a bad position since they have to devote huge energy to learning of the regulations of the countries and to the adjustment of their strategies to the rules of the countries. However, all this is favourable as knowing the opportunities they can make quicker and unambiguous decisions on capital investments and do not have to reckon with social consequences in a broader sense. As to recipient countries, the present status quo is advantageous (at least for a considerable part of the countries) since as compared to other countries they may become more attractive for investors due to their domestic regulation conditions. For the countries the situation is disadvantageous because there are tensions within the integration. In the European Union the way in which taxation competition could be avoided has been debated for two-three years. In this case taxation competition means that several countries expecting foreign investments decide to reduce taxes, which, of course, may induce similar and new steps in other countries as well. However, I have already pointed out that ironically it is just the most developed countries which struggle the most with the problem called the crisis of the welfare state. Similar tensions can be found in the leading countries of the European Union too, which intend to exclude taxation competition from the arsenal of economic policy.

Recently the commission trying to unify the national regulations concerning the money market has failed to successfully complete its work. It can be clearly stated that for the time being the member states of the European Union do not want to give up regulating the money markets domestically, perhaps because they want to retain some freedom in managing the accelerated processes of economic globalization.

Based on the processes outlined above we have to come to the conclusion that the totality of globalization has resulted in a paradigm-like change in the world's life. Formerly policy (on the level of national states) could be considered clearly independent and ownership was transparent. Based on clear rules of the game (economic and legal regulations) the owners could be checked at any time. Rules of the game were determined always by the representatives of organizations democratically elected and they were binding for everybody.

In the present phase of economic globalization political independence is split, though to different extents in the countries. However, the tendency is clear: political independence is less and less trustworthy.

Of course, for the most concentrated, strongest operators of business life there are binding rules on the level of both integration and countries. However, there is a reducing number of instruments for the motivation of their conduct. First, we do not know exactly who should be motivated, second there is a narrowing field of instruments which could considerably influence the activities of the leaders of the business world. The lobbying strength of these dominant business operators may be found at different international institutions as well.
3. Economic Globalization and Hungary

Let’s point out once more: the globalization processes themselves are not bad or good but immanent factors for the world economy. However, the smaller, the more open, the less developed a country is, the less autonomous operator in the globalization processes it may be. Globalization has (will have) winners and losers by countries, regions, integration and even by individuals. The Hungarian economy and society cannot be an exception, either.

Hungary’s declared main goal is the earliest possible accession to the European Union. Thus the Hungarian economy has to meet different requirements. It has to follow a sound economic policy which cannot be attacked or can hardly be attacked. We have to be attractive to potential foreign investors. The formal and informal criteria of the accession to the union have to be met even if these criteria are moving targets for us, meaning that the parameters influencing our admission frequently change alongside the time axis.

The expansion scenario of EU is increasingly unclear. The ‘Nice Summit’ failed to come up the expectations concerning a political decision on the expansion. There is no doubt that we were able to get to know a framework within which the expansion itself may find its own place (votes and their shares) but you can do nothing but guess the winners of the first phase of the expansion and its time. Moreover, recently it has become evident that some EU member countries are not satisfied with meeting the criteria by the candidates, who have to fulfill certain political conditions as well.

Let’s focus only on the economic field and economic policy. To illustrate the extent to which we depend on the economic processes in the world in addition to our own performance, let’s look up the 1999 OECD country report on Hungary (about the year of 1998), made by the Danish and English. On page 21 a very interesting part may be found. The text in the box – titled ‘Hungary and the international financial crisis’ – proves that even the authors failed to understand what had caused the serious contraction at the Hungarian stock exchange at that time. (As known, two billion US dollars ‘left’ the country within minutes, of course not independently of the Russian crisis.) The authors point out that some interior factors may have also contributed to the leaving of a part of investors: the state debt/GDP ratio was high (53%), the deficit of the state budget was also relatively high (4.5%) and inflation made 18.3% (this can be accepted). However, as the analysis goes on, Hungarian trends show a clear improvement including the macro-economic parameters, too (the balance of payment is in a 2% red, the primary budget shows a positive balance, foreign exchange reserves are high, export results are excellent, the bank sector is sound and – this is the most important – there is not a single sign referring to the bubble economy). Though I think that the weight the investors devoted to certain parameters is not known, there is no doubt that the international community keeps on being sure about Hungary’s being among the best sites in the region in terms of investments.

It can be stated that more or less the above analysis is right today as well,
and macro-economic parameters in Hungary – as a whole – have improved further since then. It is, however, a fact that the Hungarian stock exchange is exposed to the leading stock exchanges of the world.

This paper is not aimed at enlightening some sources of danger and certain shortcomings of the economic policy of the government which do exist despite the positive trend. However, it is worth analyzing which are the aggregated fields where the most serious problems of economic policy may be found. These are as follows:

- lack of agricultural strategy;
- postponing the updating and modernization of the distribution systems of the state budget;
- failure to take steps to eliminate or terminate the duality of the economy (gap between the prospering sector dominated by foreign investors and the underdeveloped level of the one in domestic ownership, lack of relations);
- aggressive maneuvering through coordination mechanisms (government – employers, government – employees), sometimes ‘policy of force’.

The ‘Széchenyi Plan’ has recently become an integral part of economic policy, which is interpreted by its institutors also as a ‘program of closing up’. The main goal of the Széchenyi Plan is to mitigate the problem of the duality of the economic policy. Its success is subject to the ability of the decision makers of the government representing the state to remain intact when tender resources are channeled. Maximal efficiency and moral purity are natural expectations though these requirements sometimes contradict each other. This duty is not easy to be fulfilled anywhere but in Hungary this is especially difficult. However, we know that the only true criterion of economic policy is success. A stronger and more balanced real economy, the presence of new powerful companies at the Budapest Stock Exchange are the necessary conditions for success, i.e. the success of the Hungarian economy and not of the prevailing government. However, this is only the necessary condition for the accession to the union or the survival in the globalization competition. The sufficient condition is determined by economic globalization processes themselves.

4. Summary

The effects of globalization have been surveyed in this paper in a specific way and on the basis of subjective criteria to some extent. The study has focused on economic globalization and tried to avoid taking sides for and against globalization.

Although I am aware that this reserved approach may deter several potential readers, this way seems to be reasonable since nowadays debates have grown acrimonious among both experts and outsiders. It is enough to refer to the fact that today demonstrations, protests before and during meetings and conferences important for the world economy are almost commonplace. However strange it may sound the protesters represent entirely different values. Leftists and rightists,
conservatives and non-conservatives, protectors of the environment and neglectful people of it may all be found among demonstrators.

Experts also carry on hot debates. A part of them accepting the ‘Washington Consensus’ clearly state that for them only the economic correlation of globalization is important and social effects do not belong to the field of economics. The economists and politicians refusing globalization (there are several ideologists among the latter who represent views in flat opposition to each other) overestimate negative effects and consider globalization as a phantom.

Probably the most important question is – supposing that globalization is irreversible – how a country or integration structure may be established which can adjust itself to current processes on the one hand and make them calculable and regulable on the other. In this sense neither world state is a Utopia any more. However, this in flat opposition to the fact that the European Union is strongly objected to the visional proposal according to which it should push federation.

Future will hold interesting years for us.

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