

THE NEW GLOBAL ECONOMY: EMERGING FORMS OF (INTER)DEPENDENCE

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Few months ago the world was convinced of entering into the golden age of the New Economy. In early 2001, due to the financial shake-out of the dot.com the most enthusiastic prophets and promising children of the New Economy things are less clear. For the sake of this argument, I prefer to see the New Economy as one out of many aspects of globalisation rather than a reality of its own. Despite the fact that it is impossible to identify the precise moment the world enters a new era, be it that of post-industrial society, of New Economy or of globalisation, it is important to acknowledge how deeply the economy has changed during the last quarter of the century.

The present contribution does not bring fundamental new evidence, but only attempts at organising pieces of knowledge and of perception into a coherent framework in order to derive from it some indications about the new forms of dependence and interdependence that are emerging in the process.

The first part is descriptive and captures the most important aspects of globalisation. Namely, we start by briefly analysing three main drivers of globalisation: technological progress; supremacy of the ethos of efficiency; 'open society' and free market ideology leading to the unlimited expansion of economic activity. In the second part we look at the most visible consequences of globalisation: growth of finance; growth of services; emergence of intangibles (as assets and as factors of production), new forms of organisation – between markets and hierarchies. The concluding remarks concern the governance issues, the place left to man by the process of globalisation and the limit of anthropological adaptation.

1. THREE DRIVERS OF GLOBALISATION

Globalisation is a complex phenomenon that should not – and most probably cannot – be reduced to a single process. On the contrary, the phenomenon of globalisation is a combined outcome of at least three entangled processes. The most visible of them concerns the technological progress that fundamentally modifies the relationship between man and his physical as well as social environment. The second is intellectual as it relates to the changes in socially accepted and adopted values and their hierarchies. Finally, the third is political and concerns the dominant role that economic activity has gained in polity.

1.1 *Information Technology – the Instrument*

Speed of transmission of information has always been a key issue not only for successful warfare but also for efficient administration and policy-making. Through history many devices were developed to make information circulate faster than its material support. Until the early 19th century, only seldom did such systems proved to be efficient. For instance, transmission of smoke, fire or mirror signals is feasible only in very specific atmospheric conditions and in an adequate physical environment. In consequence, until 150 years ago, information travelled faster than matter only when in the reach of human voice or sight whereas over longer distances, the speed of its transmission equalled what was required for the delivery of the physical envelope in which information was encapsulated, i.e.: (sheets of) paper, messengers, or pigeons. The breakthrough came during the first half of the 19th century, when information began to be encoded in variations of electric current. In 1833, Samuel Morse first demonstrated the device by sending signals over wires. The convergence of a vector available for transmission and of an encoding key enabled the invention of the telegraph, which is the starting point of a long chain of improvements ending up with the present day telecommunication technologies.

The very fact that information was allowed to travel independently of matter, at the speed of light, gave the possibility to establish long distance feedback loops. Because of these feedback possibilities, local processes lost their autonomy while distant decision makers started to interfere in the local state of affairs, like a plane flying to a given destination changes its route because of orders received from the air-controller, a distant decision-maker. The same chain of events are to be found behind any modern con-

trol procedure: information flows bring grounds for decisions which in turn introduce changes in real processes that are again synthesised and used as a basis for new decisions are to be found behind any modern control procedure. This is true in air, train or car traffic management, in real-time missile guidance, or simply when you place orders on a distant stock market.

Any human action is controlled by the feedback loop running between the brain and the leg or arm, telegraph and its successors simply allowed for the brain and the leg or arm to be miles, even thousands of miles, away from one another. By annihilating distance, information technologies also brought about a kind of 'prism effect' by which a number of information flows originating in different places can converge to one single point where they are integrated into a unique decision process which in turn affects each and everyone of the real but local processes. Air traffic control is probably the best example here: the tower is at the centre of the prism, it sees and knows more than any other actor on the scene, its decisions are immediately implemented by individual pilots. As this example suggests, there is no limit to the magnitude of the 'prism effect', the feedback loops can – in theory – grow more and more complex. Here the bottleneck is not only technological; it involves proper handling of information flows and their integration into relevant decision making feedback loops.

With the growth of the prism effect and the underlying complexity of feedback loops and decision processes, information starts to play an additional role. In a rudimentary feedback loop, such as a simple thermostat for instance, information on the surrounding temperature is only a flow. Each single bit (basic unit of information) loses all its relevance at the very moment it has been used in a specific decision to adapt, or not, the heating intensity. In more sophisticated thermostats, information about past temperatures is continuously stored and used jointly with current information in the steering process. In such cases, information is both flow and stock. In consequence, the problem is not only how to channel and exploit current information (transmission and circulation problem) but also how to store and retrieve, how to compress and structure information about the past. Today technology moves forward along these two complementary avenues: transmission on one side and utilisation and storage of information on the other.

Fifty years ago, rough information barely existed because of the limited capacities to store it, and in most cases it was almost useless because of the difficulties in handling and using it. At that time, information was ephemeral, it either vanished all together or was instantly sublimated to develop personal knowledge. Knowledge build upon personal experience,

through accumulated and thoroughly understood direct information was essential. Today things have changed, technology has opened up infinite possibilities for storing information. Consequently, information can be stockpiled and accumulated at permanently diminishing costs as an anonymous and transferable good or asset. In many cases, structured information is used as the sole input to automated decision processes. In this situation, knowledge isn't so much a substitute for information – as it traditionally was – as it is a complement to information, a key that structures and organises it, giving sense to and combining its isolated bytes. Despite many attempts at making knowledge less personal, unlike bare information, true knowledge does not exist outside of human brains.

How did information technologies drive to globalisation?

In at least two ways: First, information and communication technologies bridge distances and allow for real-time processes to take place between distant actors. On these premises two different types of feedback loops can emerge. On one side structured and permanent feedback loops that are integrated into specific institutions or mechanisms. Such carefully designed and engineered loops serve as management tools in complex organisations. On the other side, technology also allows for a more or less focused dissemination of information outside any structured feedback loops. Such disseminated information may bring about the emergence of spontaneous or unstructured feedback loops. This happens when people change their behaviour as a consequence to receiving an information. For example, when after hearing the weather forecast, you leave your umbrella at home, when you buy a product after seeing a TV add, or when you get off the highway after the radio reported a major traffic jam further on.

Second, information technologies foster globalisation by providing grounds to the development of ad hoc economic activities centred on the management, maintenance and extension of feedback loops. These activities build up an important part of the present day service sector.

1.2 *Ethos of Efficiency – the Spirit*

Late 18th and early 19th centuries have been times of progressive emergence of a new social ethos, with its own ethical code. Today this ethos is universally recognised, and in some aspects has also become a social norm.¹ The main feature of this new social ethos – and of the political phi-

¹ Dembinski, 1998.

losophy that mirrors it – is the fact that it considers the individual as its centre. By doing so it draws on two other important intellectual traditions, namely the protestant view of human salvation and the utilitarianist philosophy that derives its ‘scientific validity’ from the achievements of the contemporary ‘mainstream economic theory’.

In this contribution we are not in a position to discuss in depth the intricacies of the process that led to the emergence of the ethos efficiency. However, because this ethos is one of the most important drivers of globalisation, it has to be briefly addressed. Werner Sombart was one of the most acute observers of the sociological changes that took place in 19th century Europe. In ‘Der Bürger’ he speaks about the emergence of the ‘capitalist spirit’, which according to him has two components: entrepreneurship on one hand and ‘esprit bourgeois’ on the other. Further on Sombart says that entrepreneurship is in itself a complex phenomena made out of passion for money, spirit of adventure and of innovation. ‘Esprit bourgeois’ in turn is a mixture of ‘la prudence réfléchie, la circonspection qui calcule, la pondération raisonnable, l’esprit d’ordre et d’économie’.²

Protestantism and utilitarianism give theological and philosophical arguments a blessing as to why adhere to the spirit of capitalism, why consider the monetary outcome of any decision as the most important moral criterion. According to Sombart, the fundamental change that took place concerns the ultimate finality of economic activity ‘L’homme a cessé d’être ce qu’il a été jusqu’à la fin des premières phases du capitalisme, c’est-à-dire la mesure de toutes choses. Le sujet économique ne pense qu’à deux choses: gagner le plus possible, faire prospérer ses affaires le plus possible’.³ This is where foreseeability and calculation enter the picture. In line with the consequentialist approach, decisions have to be taken on the basis of their expected consequences, which means these should be compared. In economic life, comparisons are easy to make because almost all outcomes have a value dimension, which can easily be expressed in monetary terms. This peculiarity of economic life makes it especially prone to the consequentialist method, which has progressively emerged as the dominant ethical paradigm of modern business life.

According to the terminology of modern ‘mainstream economics’, a ‘rational behaviour’ means a fully consequentialist decision maximising the positive value of the outcome, either measured in terms of money or in

² See Enciso, 2000, Sombart, p 25.

³ Sombart, p 163.

terms of satisfaction. It is in the early 20th century that Pareto, and then most of economic theory, gave to consequentialism scientific credentials, and, by doing so, helped turn it into a social norm.

Today the ethos of efficiency is one of the most important drivers of globalisation. Its success can be explained by two factors. First, it has progressively become the rule governing most of economic activity. Hence, those not willing to adopt this ethos are at risk of being wiped out.⁴ Second, ethos of efficiency applies only to the professional dimension of life and does not pretend to govern its others domains. This makes it at least partially compatible with most of contemporary cultures.⁵ Last but not least, ethos of efficiency requires the wide use of quantification and numeracy. These seem to belong to the original features of Western cultures. Quantification and numeracy were able to spread around the world by penetrating the other cultures and entering in a symbiotic relationship with them. 'Les savoirs-compter est une sorte de cheval de Troie, car une fois acceptées, les institutions qu'il véhicule tendent à devenir dominantes dans tous les domaines ... Il est difficile (aux autres cultures – PHD)... de se défendre contre des institutions numériques supérieures à celles qu'elles possèdent déjà, dès lors qu'elles sonnent à la porte'.⁶

The ethos of efficiency brings to the fore a certain number of elements, which if shared by a number of actors and players make the system foreseeable in itself. Ethos of efficiency stands on the following principles:

⁴ Soros, 1998, writes p 75 'A transactional society undermines social values and loosens moral constraints. Social values express concern for others. They imply that individual belongs to a community, be it family a tribe a nation or humankind, whose interests must precede over individual's self-interest. But transactional market economy is anything but a community. Everybody must look out for his or her own interests and moral scruples can become an encumbrance in a dog-eat-dog world. In a purely transactional society, people who are not weighted down by any consideration for others can move around more easily and are likely to come out ahead... purely transactional society could never exist, yet we are closer to it than at any time in history'.

⁵ This point deserves further analysis. First, the argument holds as long as economic life is only marginal in overall existence. But the argument falls into pieces and the ethos of efficiency enters into open conflict with other moral traditions when economic life penetrates everyday more deeply other spheres of social and personal life. How far away are we today from such a point?

Second: the apparent compatibility is possible only when we acknowledge that a person can live with two different ethical standards, one applied only to professional activities, the other to extra-professional life. A great number of recent works and testimonies suggest that such a co-existence has its anthropological limits, at least for Western culture.

⁶ Crump, 1995.

only the consequences for the decision-taker are taken into account; the general principle according to which 'more' has to be preferred to 'less'; only events that can be expressed in value terms, those that generate value added and therefore enter GDP, are taken into account. The rest of social life, the events that do not leave an economic imprint simply *do not exist*.

The shift in values that has brought about and allowed for the progressive emergence of the ethos of efficiency, has also deeply impacted the field of political philosophy and, consequently, of social institutions. This third driver of globalisation will be briefly discussed in the next section.

1.3 *Creed of the 'Open Society' – the Enabling Factor*

History has convincingly demonstrated that unbridled passions left alone may put any social order at risk. According to A. Hirschman,⁷ much of the political thinking during the late 17th and 18th centuries was articulated around the question of how to keep passions in check so as to achieve social harmony. In previous centuries, methods of repressing passions either by education, institutions or external constraint have shown their limits.

In this context a double intellectual break-through took place during the last two centuries. On one side, social philosophers came up with the idea that rather than fighting passions, social order should be built in such a way as to use them as countervailing forces and direct one against another. In achieving this, passions would be held in check and if not a harmonious, at least a peaceful society would follow. The second break-through, still according to Hirschman, complemented the first and originates in Adam Smith's writings where he sees man actuated entirely by the desire of bettering his condition. By doing so Smith, and his followers, reduce human nature to a simple mechanism driven by a unique set of goals. This view greatly simplifies the question of political order in the sense that interests, specially the economic ones, are much easier to steer and to monitor than passions.

On the basis of this overtly simplistic view of human nature, the terms of reference for a harmonious society were easy to draft. In order to bring harmony into society it suffices to leave enough freedom to its members and allow them to pursue their economic interests. In consequence, harmony would be achieved not through the manipulation of passions – which have always an irrational dimension – but by allowing each mem-

⁷ Hirschman, 1977.

ber of the society to devote all his energies to the achievement of his economic well-being.

By bringing economic interests to the fore and by identifying them as possible stabilisers of social life, 18th century philosophers were de facto opening doors for the emancipation of the economic activity from the domination of religion and politics. More and more, public policy was viewed as having one important mission: setting the framework that would allow nationals to maximise their interests whenever possible. In consequence, governments were expected to prepare grounds and to facilitate the expansion of economic activities.

History did not always follow the path laid down by thinkers and philosophers. The 1930's deep economic crisis triggered national reflexes and allowed politics to gain pre-eminence over economic interests. The most extreme experience was the one of real socialism where, almost by definition, the State took direct responsibility for any economic activity, de facto depriving other actors of pursuing – or even of having – economic interests. Second WW and its horrors and destructions are often seen as the best example of what can happen when national politics take over the 'daily trade' of economic interests, when the efforts of members of a society cannot concentrate on the bettering of their conditions and when underlying passions takeover.

The lessons of the 1930's and early 1940's have laid the foundation of the international economic architecture as it emerged from the San Francisco and Bretton Wood conferences. These institutions have been designed so as to enhance the rapid expansion of international economic activities. The then new architecture rested on three main pillars: in the field of trade, commitment to free-trade and to reciprocity; in the field of international money and payments, commitment to convertibility, to free flows of current payments (not of capital) and to fixed exchange rates backed by central bank interventions. In the field of development, the architecture extended later on to integrate some portion of concessionary lending. It took about three decades for this architecture to become fully operational before collapsing in its monetary dimension in the early 1970's.

The institutional framework of the world economy that emerged after the war mirrored a general consensus among the 'free world' countries that free market economy was the best and only road to prosperity, development and internal and international peace. Even if each country handled in its own way the relationships between political power and economic freedom, overall the differences concerned secondary aspects. The general principle of human rights, of personal freedom, of private property, of free enterprise

and free market were – in theory – universally accepted and in some places put into practice as may be illustrated by the process of the European unification. Particularly before 1989, the popperian term of ‘open society’ is the best synthesis of the ideal of Western societies. The working of open society in the 20th century was based on the prevalence and the integrating force of economic interests and the relevant exchanges.

1.4 *Globalisation and Capitalism: only coincidence or organic unity?*

Contemporary globalisation is a complex phenomenon that cannot be reduced to a one-dimensional change in the relationship between man and geography. It is, above all, a fundamental reconfiguration of interdependencies among persons, enterprises, political entities, capital and space.⁸

Globalisation has to be looked at in systemic terms. In such perspective it appears to be a further step in the development of the modern economic systems that originated in early 19th century, called alternatively ‘capitalism’ or ‘free market economy’. In previous sections it has been shown that the goals of economic actors derive from the ethos of efficiency, that technological progress has given these actors unprecedented means, and that the ideal of free market and open society has become the systemic organising principle. All these elements combined progressively into a new ‘system’ which is in itself highly dynamic and permanently increasing its internal coherence and external efficiency. The past two centuries have been the golden age of economic performance and progress, culminating in the last fifty years of unprecedented growth and expansion.

Driven by three independent processes, globalisation results in a constant increase of the density and complexity in the fabric of interdependencies among actors of social and economic life. Among various types of possible interdependencies, economic ones are the most important today because modern economic actors are, by definition, highly specialised, i.e. specially sensitive and reactive to signals they receive from outside.

2. NEW (INTER)DEPENDENCES

What are the most visible manifestations of globalisation? Where are the new forms of (inter)dependence most clearly visible? In this brief and,

⁸ among many contributions to this debate, see.

by definition incomplete, contribution five cases of interdependence will be presented and analysed.

2.1 Financiarisation and the Real Economy

Information technologies have played a central role in the development of international financial flows, players and markets. Financial information was the first set of professional data to take full advantage of falling prices on international calls and data transfers.⁹ The invention, in early 1960's of the 'eurodollar' can be seen as a milestone in the process of emergence of a truly globalised financial system. The collapse of the fixed-exchange rate system in 1971, and the glut of petrodollars after the first oil shock of 1973/74 gave a further boost to the globalisation of international financial activity. This resulted in the tightening of interactions and interdependencies between financial centres, between markets and asset prices. The development of world finance went in two complementary directions: on one side the extension of range and types of financial assets, and multiplication of trades and transactions on the other. After 1971, national currencies became full-fledged financial assets traded among private operators.

In a modern economy, the financial system has two key roles to play. First, it has to make sure that savings are collected, channelled and used to finance investment projects. The quality in the allocation of savings' flow, and indirectly the overall performance, depends on how efficiently the financial system carries out this function. The efficient matching of demand and supply of liquidity between the actors having investment projects on one hand and those holding idle liquidity on the other requires the use of extensive information about the risks and returns inherent to each investment project. As a result, some projects can simply be deprived of access to finance and thus condemned as such. From this perspective, one could argue that 'finance rules the world', and dependence prevails because decisions on availability of financial resources and on their pricing determine the set of real (investment) projects that will be implemented.

The second role the financial system plays in a modern market environment can be seen as an extension of the first one. It involves the permanent assessment of the returns and risks associated with projects that have been

⁹ Cairncross, 1997, according to World Bank estimates, quoted by Cairncross, the price of a 3 minute transatlantic call has been divided – in real terms – by a factor of about 200 between 1960 and 1990.

previously financed. This activity is based on the processing of every available information related to specific projects (i.e. financial assets, enterprises or governments) that have previously been financed, on their continuous monitoring and on their pricing. Unlike the matching of savings with investment projects that concerns the flow of 'new savings', the evaluation function of financial markets concerns 'stock' of previously created assets that are already in circulation. Most of such assets are either incomplete property rights, claims or contracts that may either have social organisations as their counterparts or have a direct bearing on them. A change in price of any asset will, in consequence, be interpreted by the involved organisation (enterprise, government) as a signal and will compel or induce a change in its behaviour. In this way variations in prices of assets influence real decisions but the reverse is also true as financial markets use all the available information, including the behaviour of the social organisation and its performance, for the process of price setting and updating. The result is a feedback loop of interdependence between financial pricing decisions and the behaviour of real actors, persons, governments or enterprises.

What is new in the present situation? One could easily argue, that feedback loops like those described existed also in the past, and that more generally the role of asset prices – including the exchange rates of national currencies – is to express the changing level of confidence attached to the underlying social projects. However, the contemporary situation is different in two main respects. First, the depth of financialisation of Western economies is without precedent, which means that financial assets underpin almost every dimension of the economic life. Hence, the variation of assets' prices affects the current behaviour of agents on a much wider scale than before. Second, the width of information used in the price setting process is extending continuously in parallel with the progress of information technologies. It means that the price of a given asset integrates information that extends well beyond what is directly relevant to the underlying social project. The more global are the markets, the more completely are they integrated, the higher the chances are that they will price the assets representing and encompassing a local and partial reality of a social project by putting it in the perspective of an artificial and illusory 'totality'. Thus by reacting to change in price for its shares, an enterprise will de facto indirectly react to events which are not related to its activity and on which it has no bearing but of which it has been made dependent only by the integrative action of financial markets.

Social actors, enterprises or governments, can only influence by their decisions a limited set of realities but through the integrative power of

financial markets, they are exposed and have to react to a much wider spectrum of information and realities. In this respect one can argue that widening scope of information taken into account by the financial markets increases the asymmetry in the feedback loop between financial markets and the underlying elements of real economy. For medium sized enterprises, for smaller countries the asymmetry between the width of global information used to assess prices of assets they represent and the effective reach or influence of the underlying economic actor is particularly strong. As a result, especially for the smaller economic players, interdependence turns into their dependence on the verdict of the financial markets. What technicians used to call with pride 'integration of financial markets' in sake of a greater allocative efficiency, can also be seen as the progressive withering away of any remains of subsidiarity in the field of money and finance. In consequence, any group or individual financial asset, or any good used as such, can become without warning the scapegoat of all. Recent financial and monetary crises such as Asia, Mexico and Russia as well as the dot.com crash in 2000 are only illustrations of such dependency. Only very big players are protected by their sheer economic weight from being high-jacked.

By setting asset prices on basis of expectations, conjectures, fears and hopes one can wonder whether financial markets 'reveal the truth' about the real economy, as many orthodox economists would argue, or simply create prophecies that the real economy has no other choice but bring into being.

2.2 Emancipation of Very Big Enterprises

Enterprises, especially the Very Big Enterprises (VEBs hereafter) have been the main vectors through which the three drivers of globalisation, sketched in the first section, have shaped the face of the contemporary world. During the last quarter or century, VEBs have undoubtedly played a major role in speeding the structural changes of the world economy. In this complex process, enterprises' behaviour has been in constant interaction with each of the three drivers of globalisation, and played a major role in boosting its overall speed.

Enterprises were among the first that took full advantage of the potentialities offered by the development of Information Technology. On one side, by integrating this technology into their products, they proved able to propose new products and new services based on the principle of controlling feedback loops. On the other side, enterprises also rapidly learned how

to make the best use of Information Technology in organising and running their own operations.

International business started well before the free trade came into focus of policy makers. Closer to us, in the aftermath of WWII, American VEBs were in excellent position to establish themselves as world leaders. Thus most of American VEBs consolidated their multinational character by taking firm roots on European and Asian markets. In the following decades they had to face a growing competition, including on their home market, from their Japanese and European counterparts. The VEBs golden age began in the 1980's when political context and technological potential coincided to make the management of truly global enterprises possible. In parallel, VEBs became a worldwide pressure group having a major influence on the agendas of governments but also of international organisations.

Ethos of efficiency became universal providing a supra-cultural basis on which professional and technical knowledge began to be shared among people from different cultural origins, but inspired by the same ambitions and the same ethos of efficiency. Falling on this fertile ground, the ethos of efficiency was then further spread by a growing number of business schools and inoculated to a new generation of young men eager to have their share in the economic success of international business. By doing so, business schools developed a whole range of new fields of professional knowledge rooted and inspired by the ethos of efficiency. Today this knowledge has, at least partially, achieved the scientific status.

Enterprises are, by definition, social organisations capable of rapid adaptation to changing conditions and therefore are often seen as organisational innovators.¹⁰ Undoubtedly, VEBs have played this role and, in this way, have contributed to the acceleration of globalisation. Three main lines of organisational innovation – in the broad sense – deserve to be mentioned here. Each of them has fundamentally affected the modes of interaction between the VEBs and their social and economic environment, and in consequence has contributed to redesign the set of corresponding interdependencies.

2.3 Shift from Goods to Services: VEBs as Access Providers

The limits of mass production of durables were first seen in the late 1920s US. At that time, Ford was losing to General Motors the dominant position it had acquired during the previous 20 years. As to why it hap-

¹⁰ North, 1990.

pened, Tedlow's diagnosis is crystal clear: 'In the early 1900s, Henry Ford's vision of the needs of consumers for an inexpensive, reliable transportation vehicle matched reality, but during the 1920s, automobile marketing came to involve more than providing customers with an appliance to take them from place to place. By then, however, Ford had come to believe that he was in the business of building Model Ts. In fact, like every other businessperson, he was in the business of satisfying consumers. *He mistook the product for the service it provided.*¹¹

In fact it became apparent already in 1920s that in order to sell on markets every day closer to saturation, enterprises have to concentrate not only on producing, but also and maybe above all, on preparing the markets (the customers) to absorb their production. In the case of durables, preparing the markets means also removing or discarding previous generations of the same goods. This lesson was quickly learned by the VEBs. In consequence the internal status and resources devoted to marketing activities progressively became at least as important as those used for production. In doing so, the VEBs were contradicting two centuries of 'Say's law' according to which any supply generates automatically the corresponding demand.

The developments of media (press, radio, TV) but above all of information technologies allowed the VEBs to gather more and more data about their customers, to imagine specialised products for more and more carefully segmented groups of clients, to send appropriate messages that would pave the ground for new generations of products and to tighten producer's control over product's durability. By doing so enterprises achieved two things. First they became indispensable to customers and, in that way, secured their receipts for years to come; second they gained the customers' confidence and loyalty by permanently increasing their satisfaction as measured in terms of GNP per head. However behind these two visible consequences of enterprises' efforts to mastermind customers, a third consequence remains more discrete.

Many of the new products and techniques – like cars, computers or telephones – have deep and irreversible structuring effects on the society as a whole and on the everyday life of each of its members. Today telephone, TV sets or the use of air transport have lost their status of luxury goods and are indispensable devices in the everyday life of tens of millions. This means consolidation of corresponding markets. However, the increase of consumers' satisfaction has a counterpart, which is the progressive erosion of

¹¹ Tedlow, 1990.

their autonomy as persons in respect to the economic activity. In order to keep up with the growing requirements of a 'decent' or 'normal' life they have to achieve an ever-higher level of income. This level of consumption, 'compulsory' in social terms affects decisions concerning the way people live, the way they share their time between for market and not for market activities. In this process, consciously or not, society as well as individual persons are driven to surrender ever-higher levels of their energy (i.e. their autonomy) to the search of economic results and efficiency.

For this reason, the apparent freedom granted by new tools – transportation, communication, leisure – has for counterpart an ever deeper dependency on products and services designed by the VEBs, and a permanent consent to an ever deeper enslavement to economic activity in general.¹² Thus, through their permanent search for new ways to emulate a buying decision, the VEBs bring material progress and increase welfare, as well as contribute to increase the proportion of social relations and of private life that is directly or indirectly governed by *market* relations.

Today the trend turning the enterprises into permanent partners in societies' everyday life is further exacerbated by the growing share of services in economic activity. Selling a good is an isolated event, whereas providing a service creates a lasting relationship with the client. Selling a good ends up in a unique payment where service contract is open ended and may lead to a number of payments and invoices. The growth of services has been pushed by the development of information technologies, by the growing complexity of Western societies but it would have been impossible without the strengthening of specialised (public) institutions in charge of contract enforcement. The VEBs were among the first to acknowledge how much they had to gain in switching from goods to services, from ephemeral and stochastic interactions with clients on a marketplace to lasting and structured personal ties. In fact, the VEBs are rewriting the rules of the economic game by tidying and deepening the almost personal relationship in which they tend to lock up each of their customers. In the process, autonomy that the ownership of goods was supposed to grant is being scarified for the sake of performance in a controlled environment.

Jeremy Rifkin is among the most acute observers of the above-described change. He even speaks, in a slightly sensationalist tone, of the

¹² Following example shows that VEBs do not hide their ambitions to become ever-present. In a recent annual report, Coca-cola announces that a human being needs 9 intakes of liquid during the day, according to sales figures of Coca-Cola, the company provides humanity with one intake per day. Conclusion: reach for the remaining almost 90% of the 'market'.

emergence of a 'new era'. 'In the new era, – says Rifkin – markets are making way to networks, and ownership is steadily being replaced by access... Property continues to exist but is far less likely to be exchanged in markets. Instead, suppliers hold on to property in the new economy and lease, rent or charge admission fee, subscription, or membership due for its short-term use ... Markets remain but play an increasingly diminished role in human affairs'.¹³

How did VEBs manage to shape the framework of the emerging 'age of access'? In fact various processes and techniques used in a more or less conscious way by the enterprises converge to the result. Among them, effort to develop customer loyalty is the most classical one.

The purpose of each seller or producer is to develop a privileged relationship with the client. In such a way the probability that at each new buying occasion, the client will choose the same product or brand will increase. In consequence, production volumes and product lines will be better adjusted to the demand, and the overall profitability will grow. How far such strategies can lead is illustrated by a case from the automotive industry. According to the specialised press, the main reason why Mercedes in the last few years has decided to put on the market small cars was not the search for a younger client base for its own sake. What really mattered to Mercedes was to use this as a marketing tool, as a way to prepare tomorrow clients for more expensive Mercedes cars. Indeed, it seems that capturing and seducing young customers today is the most cost-efficient way to secure tomorrow's market. This example shows what every company knows: the acquisition costs of a new client are much higher than the production of corresponding goods. This also explains why amounts that can reach tenths of percent of sales are spent to keep alive and to develop in minds of effective and potential clients brand names and trademarks through advertisements and publicity. These efforts are then integrated into end user prices and paid for by the customer. Not only are customers masterminded, they are also complacent with it and even pay for it!!!

Another way of establishing a privileged relationship with the customer is to develop a continuous flow of transactions with him. This is easier to achieve with services than with goods. Recent developments in information technologies allow enterprises, but specially the VEBs, to redesign their activities in such a way as to increase the service component. Rather than selling a product, producers prefer to provide the client with a specific per-

¹³ Rifkin, 2000.

formance embedded in a service contract.¹⁴ Most of such contracts, like telephone, software or repair subscriptions, have a fixed fee component and a variable one linked to the use the client makes of the proposed service. Another example is the leasing service provided in many cases by the producer of leased goods. Today, for many producers of durables, namely for automobile or even aircraft producers, leasing services are much more profitable than the actual production of goods. Such service contracts create a contractual long-term relationship with the customer and de facto open the door for the service providers to permanently update their services, increase their scope and possibly their price.

Modern marketing techniques called CRM (Customer Relationship Management) are developed by the VEBs with the objective to gather enough information about each and every one of the targeted customers in order to be able to propose, out of hand, a package that they are most likely to buy. The development of such techniques helps the seller to propose to each customer not a general 'market price' but a price calculated in perspective of his willingness to pay, and in line with the potential that such a client represents for the whole range of products and services of the company. A direct consequence of CRM techniques is the exclusion of 'not interesting customers' from access to specific services or goods. The business language speaks then about 'focus' on a specific market segment. Financial services are the clearer example of such a selective behaviour of service providers.

The VEBs see rightly in CRM a potential for creating a privileged – and almost personal – relationship with each client. Such strive for privacy for transactions that previously were carried out by the market, leads to a loss of transparency and in consequence is a major hindrance to the proper functioning of the market mechanism. Gathering important amounts of customer information gives the sellers of goods and service providers a unique basis for designing an ad hoc contract that takes into account all the known dimensions of clients' wishes and tastes. By doing this, the seller takes advantage of the available information to build into the price all the elements that this customers values, but that could have been given for free. In technical words, this leads to internalisation of all externalities that may have been positive to the client and would have made up what the economic theory calls, the 'customer surplus'. This situation, where every 'byt'

¹⁴ The so-called 'terminator' seeds developed and abandoned by Monsanto are the best examples of such strategies.

of customer satisfaction is paid for, is extremely attractive from the service providers' perspective. 'One to one marketing' – the *nec plus ultra* among modern marketing techniques – aims at achieving it.

Converging efforts to make the customer enjoy his own enslavement rise two questions. The first is about interdependence. Each VEBs depends on the behaviour of its clients taken as a group, but the reverse is true when each of the client is taken individually. In other words, if the VEBs succeeds in breaking the unity of the market into a myriad of individual relationships, its position is much stronger, but that of each customer much weaker. The VEBs use all the methods discussed above to make customer dependant on their products and services.¹⁵ Whether they succeed in achieving it is another question. In most situations and markets, customers have the possibility to migrate to other providers of similar services or goods. However this may also have a cost (in the sense of transaction cost) to the customer. The second question is about the efficiency of allocation achieved on a macro scale in an economy where VEBs are in a quasi monopolistic situation over millions of parallel micro-markets, each involving a single customer.

In conclusion, the VEBs structure our environment and become the only interfaces capable of running the complexity that imprisons contemporary societies. In this sense our social dependence on providers and managers of technical system has greatly increased. The VEBs as a group also keep each of us in a dependency relationship, although this is not necessarily true for every bilateral relation because of the competition between suppliers. To prevent this from happening, the VEBs compete fiercely to achieve strongholds in terms of market position, which simply means reducing the probabilities of customers migrating to a competitor.

2.4 *New Forms of Capital*

Nolens volens, the VEBs have become the major actors, and also the most prominent drivers of globalisation. In order to keep pace with the competition and deliver what their shareholders expect them to deliver, the VEBs have been adapting permanently their methods of operation looking for new ways to assess their competitive advantage.

When moving from goods to services, from transactions to relationships, it has become clear that the sources of the economic performance of

¹⁵ The addiction inducing components is also used by certain industries, such as cigarettes or beverages.

a company do not necessarily depend on the value of fixed assets such as buildings and production plants the enterprises own, not even on the size of its balance sheet. The growing importance of marketing in the process of value added creation has brought to the fore unconventional sources of performance called 'market assets'. 'Market assets are those which are derived from a company's beneficial relationship with its markets and customers. They comprise the brands, reputation, repeat business, distribution channels, favourable licensing and other types of contracts, which give a company competitive advantage. Market assets are often the reason a company is acquired for a sum greater than its book value'.¹⁶ In fact, the so called market assets belong to a larger family of 'intangible assets' that encompass intellectual capital of a company, its R&D activities, other elements protected legally such as patents, licenses or copyrights.¹⁷

Like production facilities, machines or buildings can, by analogy, be seen as the hardware of our societies, intangible assets make their software. In the computer world hardware and software are complements. The same is true in economic life where tangibles and intangibles jointly contribute to the emergence of value added. The difference between the two is the same as between goods and services. Goods and tangibles have an existence of their own even if they are useless. Services and intangibles are relations and rights that determine specific patterns of human and organisational behaviours. Because they cannot be separated from people that permanently manipulate and update them, intangible assets are in most cases invisible on their own. Intangibles emerge and develop on the basis of a complex relationship between persons and organisations. This interdependence makes the question of the sustainability of intangible assets and of their ownership very complex.

The still growing importance of intangibles deeply affects the rules of the game inside the VEBs. The building up and maintenance of intangible assets in general, but market assets and R&D in particular, absorb a growing proportion of the VEBs' current expenses. Publicity expenses, remuneration of R&D personnel, training and knowledge dissemination cost and others belong, according to the accounting logic, to current as opposed to capital expenses. However, in purely economic terms, these expenses contribute to the extensions of the company asset base. The two logics are in conflict on this crucial point: intangibles give value to a company but at the

¹⁶ Brooking, 1996.

¹⁷ Badaracco, 1991.

same time most of the related expenses have to be financed from the profit and loss account. In consequence, intangibles are not recognized as capital, they cannot be depreciated nor can they pretend to proper remuneration. One of the reasons is the very fact that intangibles are jointly controlled by the corporation and the people that operate them. This situation has one major consequence: namely that companies depend on their 'knowledge workers' much more than it was the case when most of the knowledge was incorporated in easy to run machines. Of course, companies retaliate by putting in place sophisticated methods of knowledge management that aim at 'extracting' from each of its employees as much knowledge as possible and make it accessible and reusable within the company.

Knowledge of clients, knowledge of products, mastering of technology are vital sources of competitive advantage for contemporary VEBs. By mastering technology, i.e. the speed of innovation, the VEBs strive at becoming masters of social time. When a VEB is in a sufficiently strong position on its market to choose the moment of bringing on the market a new generation of products or services, it is able to gain enough time to squeeze customers and maximise financial results. But in order to achieve this, the same VEBs needs to have his 'knowledge workers' on its side. Only generous remuneration packages can prevent key people from migrating to competitors. The strong dependency of VEBs on their key collaborators deepens the divide between interchangeable and non-interchangeable workers. The first become global citizens, moved around the world by companies in luxury conditions, the second locked in their native areas are at the mercy of local labour markets.

Analysing the changing meaning of ownership, Jacques Attali uses the concept of 'fertile goods'.¹⁸ By this wording he tries to identify what were the tools that, at different moments in human history, opened the doors to might and wealth. According to Attali, at first came women as guarantors of demographic growth, then land and its capacity to produce food; now we live in times where capital plays the role of fertile good. The term of capital means anything that is entitled to financial returns. Without any doubts, knowledge and more generally intangibles are about to become the new form of capital. Its economic fertility will depend however on the capacity of the VEBs to make knowledge proprietary, and to control any access to it. In other words, to make the rest of society dependent on proprietary knowledge. This is the reason why, when it comes to knowledge and intangibles,

¹⁸ Attali, 1988.

economic fertility may well lead to social sterility. The economics of genome research already confirm these fears.

2.5 VEBs as Process Organisers

Previous discussion has underlined the multiple roles VEBs play in globalisation. In fact they emerge as artisans and as key strategic players of this process, which in final analysis, is tantamount to increasing worldwide the sheer importance of economic activities within the social realm. Like their ancestors, the colonial trade companies, modern VEBs are extremely smart at taking advantage of distant markets, resources and investment opportunities and at coupling them with operations in home countries. General liberalisation of trade and financial flows coupled with the breakthroughs in telecommunications and information technologies opened up new horizons that VEBs rushed to exploit.

It is only in the 1980's that some of the VEBs started to turn themselves into truly global companies. A global corporation is a polycentric conglomerate capable of integrating on a world scale both production and distribution without maintaining with any country a sentimental privileged relationship. In order to make the definition of global enterprises more operational, the *Investment Report* establishes a 'transnationality index' by averaging three ratios: foreign sales/total turnover; foreign labour/total labour; foreign assets/total assets.¹⁹ According to this methodology (far from perfect), enterprises like Seagram, Nestlé, Electrolux or Unilever and ABB are on the top of the list with a transnationality index above 90%. Globalisation of enterprises is still under way as suggested by the fact that for the most transnational of the VEBs active in industries such as petroleum, motor vehicles, electronics, pharmaceuticals, chemicals and food/beverages, the level of the index has increased by more than ten percentage points between 1990 and 1998.

Transnationalisation of VEBs has deeply affected the way they operate but more specifically their relations with territories where their subsidiaries are active. Out of many elements that could be mentioned in this respect, three seem of primary importance.

The first concerns the growing role of trade between subsidiaries of the same firm in overall international trade. According to an estimate by the World Bank, internal trade of 300 biggest VEBs represents about one third

¹⁹ UNCTAD, 2000.

of world merchandise trade, where another third is made up by trade among these 300 VEBs. In other words, VEBs have almost entirely absorbed the world trade. By doing so they have probably also absorbed, i.e. internalised, what used to be called 'world prices' which can easily be used for transfer pricing.²⁰ In consequence, the dimension of VEBs' internal strategies should be more fully integrated into the debates about the patterns of merchandise trade between North and South.

VEBs are prominent sources and vectors of international direct investment. As important investors VEBs prospect, compare and choose the sites where their investment projects will be localised. In doing so they interact with public authorities (national and local) of host countries. Looked at from a local perspective, an investment project of a VEB in the area means jobs, training, possibly transfer of technology, spill over effects. For all these reasons local authorities strive for hosting VEBs' investment projects and use all means to become more attractive. Overbidding is normal. Today enterprises are much more mobile than they used to be, hence dramatically increasing their negotiating power in respect to local authorities. Sometimes companies invite local authorities from a region to tender. Put in direct competition, in some cases local authorities, even in developing countries, may offer cash-payments and tax brackets up to 100'000 USD per job created.²¹ In some cases, enterprises have more than 30% of their investment cost provided by the host. More and more mobile VEBs choose, invest but do not reinvest and often leave when tax brackets come to an end. Shorter investment cycles, generous local support and greater enterprise mobility lower barriers to exit, thus strengthening the VEBs' position, which may well turn interdependence into dependence.

Most of the VEBs have redefined what their core business is during the last ten years. It seems that most of contemporary VEBs build their strength and their future by concentrating their core activities on three axes. The first is 'Mastery of Markets' which implies global branding, marketing techniques and the resulting direct control of the client base. The second is 'Command of Technology' meaning keeping the innovative capacity, development of techniques and mastering of the service/product interface. The third axis belonging to the core business of VEBs, may be called 'Access to Finance', more precisely keeping in touch with global capital markets where capital abounds, and where the cost of raising it is the best possible.

²⁰ Bartesman and Beetsma, 2000.

²¹ First hand testimony.

By concentrating their core activities on these three sources of competitive advantage, VEBs tend, for many of their normal operations, to seek co-operations and partnerships with local and medium sized enterprises. Outsourcing has been the buzzword for most of corporate restructuring during the last decade. What does this mean? Does this trend mean that VEBs move important chunks of their activities from inside the hierarchy directly to the market?²² Evidence clearly shows that in order to outsource in total safety, VEBs have developed a large variety of cooperation patterns, with small and medium sized enterprises that are between hierarchy and markets. Of course the new possibilities granted by IT have been instrumental in reducing transaction costs linked to outsourcing when at the same time keeping the sub-contractor in some kind of dependency.

In consequence, the VEBs have developed unique skills in organising, managing and controlling extremely complex flows of information and of goods exchanged among a growing number of partners. The key challenge is to remain in the driving seat despite the possibly small direct contribution to the chain value. Many VEBs succeed in this game by concentrating their resources on keeping control over Markets, Technology and Finance and by commanding the key assets involved in the overall value adding process. The example of Nike is illustrative. The company generates directly about 25% of the value added of its products mostly through organisation, advertisements and trademark revenues. Upstream about another 25% percent come from the producers and raw materials used, downstream about 50% come from the distribution network.²³ The same picture can be drawn for Dell, Benetton, Hilton. These examples suggest that VEBs are specialising in developing and testing new 'business models' which are ways of combining and organising activities of myriads of partners and subcontractors. In consequence, a specific pattern of dependence between small and big firms emerges worldwide. Only niches too small to be of interest to VEBs are left to independent small enterprises.

3. TENTATIVE CONCLUSIONS

1/ Globalisation is a much more complex process than it may seem to economists. In order to understand properly its potential consequences, the analysis has to include the political, ethical and anthropological dimensions.

²² Williamson, 1975.

²³ Figures taken from *Alternatives Economiques*, February 2001, p 53.

2/ Paradoxically, the emerging dependencies threaten the proper functioning of the market mechanism, and by doing so put in question the quality of allocation of resources realised worldwide under the auspices of globalisation.²⁴ In consequence the creed of efficiency that underpins the economic reading of the idea of 'Open Society' would be in question, as well as the essence of what is called 'the received economic theory'.

3/ Some fields of human activity are more prone to globalisation than others. It seems that less globalised activities are to bear the whole burden of adjustment to changes imposed by the wholly globalised layers of human activity. Therefore, the apparent interdependencies between activities of differing level of globalisation tend to turn into asymmetrical relations whereby less globalised become dependent on more globalised activities. This is true among enterprises, where the competitive advantage of the global VEBs increases the strength of their position in respect to their smaller and more local partners and suppliers. There is an analogy, but not a complete identity, between this conclusion and the reading of globalisation in terms of 'centre vs. periphery' paradigm.

4/ The transformation of interdependencies into genuine dependency relationships brings the question of power to the forefront. Hence the question of power is an integral part of the globalisation and has to be explicitly addressed. This necessity is barely acknowledged today and transformations that have been discussed in this contribution take place in a political vacuum, where regulations either do not exist or are purely functional. In this sense there is a growing and urgent need to fill the vacuum with appropriate governance solutions. These solutions should care for limiting the weight of purely economic considerations in social life and aim at preventing whole societies from becoming consenting slaves of a holistic design having his clear ideological and anthropological roots that could be called 'économisme integral'. Globalisation is only one dimension of this design, one step on the road to a fully market – or to use G. Soros words – a purely transactional civilisation.²⁵

5/ The challenge of governance has to be addressed from two extremes: one is institutional design, the second is acknowledgement by growing circles of persons and organisations that we all have a responsibility in working for the common good which – at least in the Christian view – extends far beyond the purely economic dimension.²⁶

²⁴ Cochy, 1999.

²⁵ Dembinski, 2000.

²⁶ Zieba, 1998.

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