

The Challenge of Globalization

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The Impact of Globalization

Many people watched the recent protests against globalization in Prague, Melbourne, Washington, and Seattle, and wondered what all the fuss was about. Few would dispute that globalization has become a source of dissension, but fewer can describe the issues, and fewer still know what to do about them. Once an academic topic for policy analysts, globalization is now inciting demonstrations on a scale unseen since the Vietnam War.

Part of the problem is that the world as we know it is changing rapidly, and increasingly no one is in charge. The fall of the Berlin Wall and the apparent triumph of capitalism worldwide, and the spread of communications and information technology bringing the ability to move capital around the world at stroke of a computer key, have fundamentally changed the way the world works. Increasingly such changes are affecting not only Wall Street and Main Street, but even rural villages in the developing world.

What's the Fight About?

Advocates of globalization argue that trade must be the preeminent objective of international agreements, and that other concerns are legitimate only to the extent that they don't inhibit the free movement of goods and financial capital. This view holds that free trade will expand economic opportunities and "lift all boats." Opponents, they argue, are protectionists or Marxists.

Nations that trade, advocates claim, will not go to war with each other. Globalization will spread the Western liberal values of democracy and human rights, and unleash competition that favors excellence. Trade will empower a middle class that will demand greater democracy and ultimately greater protection for the environment. The World Bank, the International Monetary Fund, and (much more recently) the World Trade Organization were founded to advance this agenda. The protesters may not like it, but nearly every country in the world is a WTO member, and none has resigned. Even China now seeks membership.

Opponents of globalization include people and organizations with very diverse concerns, cultures, and goals. They tend to agree, however, that the benefits claimed for globalization are illusory, or accrue only to elites. The WTO, whose meeting in Seattle the protesters disrupted, is seen as threatening hard-won treaties and local laws that protect the environment and human rights.

The existing trade regime, opponents say, is worsening the disparities of wealth between haves and have-nots in the global economy. They challenge not only the

multilateral institutions, but also the very merits of free trade, calling for a relocalization of finance and of decision-making. Preferring local and national self-determination, some demand the elimination of the WTO entirely, and a rolling back of globalization.

Some critics also decry, with farmer/poet Wendell Berry, the homogenization and commoditization of all goods, so that their story is lost and customers can't make responsible decisions about whether to buy them. The meat in Swiss village butcher-shops is labeled with the name of the farm it came from, so good farmers can be rewarded and bad ones penalized in the local marketplace, but this is lost when the meat becomes anonymous on a supermarket shelf. Wrapped in this concern are profound questions about social fabric, appropriate scale, and human purpose.

The WTO has critics within itself, with developing countries claiming that the rich have set the rules to their unfair advantage. Many observers of the Seattle meeting predicted that a stalemate would have occurred even if no protestors had shown up. They point out that WTO member nations do not even accede to the organization's rulings. The protests in Seattle—and the resistance to WTO decisions that compromise member countries' standards of health, safety, and the environment—are evidence that the WTO is failing in its role as a negotiating forum. Its legitimacy is compromised by decisions that coerce member countries into lowering their domestic standards to a lowest common denominator.”

So What's To Be Done?

The changes that the protesters are demanding would have significant consequences, but may not be achievable. It's not clear that anyone, including national governments, could slow globalization even if they wanted to. Of the world's 100 largest economic entities, more than half are no longer countries but companies. While many rightly criticize the effects of this trend, it is folly to deny that financial capital is now instantly transferable around the globe, or that communications technology and the Internet have forever changed the way business is done and decisions made. It is even questionable whether the nation-state as such will endure in a world in which the market is breaking down political and economic borders.

Ironies abound in this situation. The governments encouraging globalization are themselves being weakened if not supplanted by it, their sovereignty under attack. The protesters decrying globalization are able to gather and organize only because of the technologies (and in no small measure the social sense of global interconnectedness) that enable it. The corporations that the protesters accuse of being both the drivers of globalization and its primary beneficiaries are themselves at risk from it: 40 percent of the *Fortune* 500 firms listed in 1985 no longer exist.

The debate over globalization seems intractable. However, three aspects of RMI's work in Natural Capitalism and Economic Renewal can enlarge the terms of the debate, and may make it less thorny.

An Inadequate Ideology

Much of the failure of the multilateral organizations to gain acceptance and resolve disputes stems from the fact that their underlying ideology is incomplete.

Like GNP statistics and most ways of accounting for economic activity, the ideology of globalization ignores the value of human and natural capital. It assumes that increasing trade in the two forms of capital that are mobile—manufactured and financial capital—will, by itself, increase human wellbeing. That might be true if the sole basis for prosperity were the exchange of those two forms of capital. But ignoring the critical role of the other two (much larger and more critical) forms of capital and engines of wealth creation, and behaving as if human and natural capital have no value, will result only in the increased impoverishment of almost everyone. These forms of capital are place-based, being rooted in an environment or a culture, are therefore not enhanced by the physical mobility of trade, and may be harmed by it.

However, as our book *Natural Capitalism* describes, companies can begin to behave in ways that enable them to profit and outcompete their rivals even as they reduce their resource use, eliminate waste, and restore natural capital. This means that it is now strongly in the economic interest of corporations to begin behaving in ways that protect the environment. Over the past decade, many farsighted companies have already discovered remarkable opportunities through adopting the principles of Natural Capitalism. This has profound but previously ignored consequences for the debate over globalization.

Together, the four principles of *Natural Capitalism* (see page 6) form a business strategy that is both essential and profitable. The companies that are furthest down the road in adopting it are finding not only astonishing competitive advantage and profitability, but also ways to eliminate (not just reduce) waste and pollution. They can often employ more people, and improve innovation and morale.

Such companies are taking a leading role in addressing some of society's most profound economic and social problems. They may not think of themselves as environmentalists, only as profit-maximizers. Yet those that practice Natural Capitalism are in the vanguard of environmental restoration, because they are behaving as if natural capital were properly valued. Some are even restoring human community and culture as well by similarly respecting and reinvesting in human capital.

It will be interesting to observe the reaction of the opponents of globalization to such companies. At present, protesters challenge the right of businesses to amass undemocratic power, and are questioning generically the legitimacy of any large company. If the Natural Capitalist thesis is correct, however, we are in the early stages of a new industrial revolution in which competitive advantage will flow to those companies that behave responsibly, not just because they gain legitimacy and brand equity, but because of the

fundamentally superiority of a business model based on radically higher resource productivity, closed loop and non-toxic production, the “Solutions Economy”, and reinvestment in natural capital. Investors and consumers are beginning to scrutinize companies from this perspective, and to reward the transformational ones that are, in the true spirit of capitalism, productively using and reinvesting in all four forms of capital. Those that practice the old industrial model—recognizing only financial and physical capital while ignoring natural and human capital—will suffer and may fail.

The Role of the Private Sector

The second major gap in the current debate over globalization is that neither the protesters nor the parties to the global institutions are paying any attention to the positive, problem-solving role corporations can play.

The protesters believe that the corporate sector is the problem, not the solution, and must be regulated by government into behavior that does not destroy the environment. This prejudice is a hallmark of the efforts to counter the negative effects of globalization. It also limits the possibility of dialogue, and leads many businesspeople to suppose that the environment is a fringe activity of enthusiasts who want to regulate them and drive up their costs. This erroneous view is reinforced by a certain stereotypical type of economic theorist (or environmental activist) who thinks that environmental protection must be costly and painful, or it would already have been done by now.

If, however, it is true that adherence to the principles of Natural Capitalism will be the basis of profitability in the coming decades, then it is in businesses’ own interest not to deplete their natural or human capital. Global corporate power has some serious downsides, no doubt, but the best leaders of the transformative corporate sector are inviting debate over what their role should be and how to make their companies restorative of human and natural capital. They are realizing that corporations that do not steward and reinvest in their most valuable resources will face a grim future.

It may well turn out that the institutions with the greatest interest in promoting environmental or labor agendas are the very companies that the demonstrators are vilifying. If Natural Capitalism drives a re-evaluation of business as we know it, then the current conflict over trade, labor, and the environment may become moot, as the economic interests of the corporations begin to converge with the values of citizens. Already a growing number of businesses are declaring a commitment to operate sustainably—because it’s the right thing to do, or will buy them goodwill, or bring competitive advantage and profit, or some combination of these reasons.

In a perfect world, all corporate executives would follow the lead of Ray Anderson of Interface, Pasquale Pistorio of STMicroelectronics, and Mark Moody-Stuart of Royal Dutch/Shell. These leaders are redefining their responsibilities to extend far beyond enhancing shareholder value and the next quarter’s profits, to embrace stewardship for the

world. Such companies are embodying, clarifying and extending the principles of Natural Capitalism as the new basis of profitability in the decades to come.

Until all companies follow their lead, however, citizens will demand that “government” institutions ensure a level playing field, with fair market mechanisms and basic protections of human rights and the environment, so that all people can increase their prosperity. What institutions can meet this demand? What form of government can emerge to rival the strength of the market? This is at core the debate about globalization—not the details of trade, or even the loss of local institutions and values, but how decisions will be made that affect what people truly value.

Clearly no one knows whether the nation-state will rise to this challenge, or some new form of governance will evolve. Regardless, the influence of the business community should be brought to bear to hasten the transition to commerce based on the principles of Natural Capitalism at every level, from local to national to global

The Role of Government

There remains a vital role for governments and for civil society. It is important to remember that markets have purposes. They also have limitations. Markets make a splendid servant but a bad master and a worse religion. A society that substitutes markets for politics, ethics, or faith is dangerously adrift. Not all value can be monetized; not every priceless thing is priced. Nor is accumulating money the same thing as creating wealth or improving people. Many of the best things in life are not the business of business. And as the Russians are finding under “gangster capitalism,” unless there are democratic ways to establish and maintain a level playing field, only the most ruthless can conduct business.

It is imperative, therefore, that we all take greater responsibility in this debate. My guess is that government will and should trend toward stronger local control, where agencies can understand and deal effectively with most of the problems that face us. For the increasing number of problems that can only be dealt with effectively only at the global level, new forms of governance need to arise, including coalitions of companies, governments, and civil society, that craft responses to such challenges as climate change or hunger.

However, any institutions that seek to satisfy this public demand must ensure that *all four* of the engines of wealth creation are enhanced: they must promote productive use of and reinvestment in human and natural capital as well as in financial and manufactured capital.

Businesses are starting to implement Natural Capitalism because it is profitable. The international agencies that seek to enhance the ability of business to trade should not ignore this trend. Unless they expand their underlying ideology to give due weight to the values of human and natural capital, they will weigh businesses down with the ideology

of the first industrial revolution, which sought to substitute plentiful, cheap natural resources for scarce people. That made sense in the 1700s, but at the turn of the new millennium, continued reliance on it will only trap society in wasteful and economically inefficient behavior. Even such powerful institutions as the multilaterals must learn this if they are to endure.

One of the easiest ways to begin this is for nations and the global institutions to place the various multilateral agreements regarding human rights and the environment on an equal footing with trade priorities. In effect, the WTO and the other boosters of globalization must promote trade only to the extent that it embodies the principles of Natural Capitalism; otherwise they will continue to undermine the very basis of prosperity and of life itself.

Governments, multilaterals, and companies should also embed the Precautionary Principle in every decision-making framework. This principle, already supposedly adopted by the Organization for Economic Cooperation and Development and the European Union, has at its core the idea that action should be taken to prevent harm to the environment and human health, even if scientific evidence is inconclusive. It is already an element in many international treaties, and has its roots in the basic legal doctrine of negligence. It is also sane behavior for any species desiring a lengthy tenure on this planet.

Finally, the multinational organizations must implement transparent and democratic decision-making procedures. Any unaccountable institution is by definition stupid, lacking feedback. Organizations with great influence will receive feedback. It is up to them to choose if they wish this process to be orderly and informative or disorderly and destructive. Any institution with great power will gain and retain legitimacy only if it is fair and accountable. The greater the power, the more the citizenry will insist on accountability. In the Internet Age, that insistence is no longer confined to traditional parliamentary democracies.

While some commentators say that globalization is not a new phenomenon, but dates back to the advent of ocean steamers and the early trading companies, what is sweeping the globe now is bringing both opportunity and threat on an unprecedented scale. That much is inevitable. What remains within our choice is whether we as citizens decide to manage these changes, and use them to enhance life, or whether we will leave those decisions for others.