Wave Goodbye to the Invisible Hand

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The Washington Post
August 1, 2008

Not so many years ago, respectable people seemed to agree where the world was headed. Communism had fallen to capitalism, and a particular strain of capitalism -- the entrepreneurial, market-driven capitalism found in the United States and Britain -- had proven itself superior to the more corporate and statist variety practiced in Japan and Western Europe. Free trade and the free flow of capital had lifted billions of people out of poverty, and further globalization seemed not only desirable but also inevitable. Here at home, there was talk of a permanent Republican majority dedicated to smaller government, lower taxes, freer trade and more deregulation.

It's always risky to call turns in history, but my guess is that this consensus is unraveling. Just as the Gilded Age gave way to the Progressive Era and the New Deal gave way to the post-war era of big government, big business and big labor, the current era of free-market capitalism seems to be giving way to something else.

To say that it is ending is not to suggest that it was misguided or illegitimate. It is merely to acknowledge that these eras tend to last a generation but not longer. Like the others, this one achieved what it could before taking things too far.

That is certainly the lesson that should be drawn from the final collapse this week of the latest round of global trade talks in Geneva. The internationalist community is already sputtering contemptuously about the triumph of mindless protectionism, and certainly there was some of that. But the larger truth may be that the social and economic costs of the next increment of globalization probably outweigh the benefits for many people, and that reality has now been reflected in the political marketplace.

For developing countries, there is still plenty more economic gain to be had from more fully exploiting existing trade treaties without having to open up their own uncompetitive industries to destabilizing competition. If anything, these countries have been growing too fast in recent years and need time to consolidate their gains and rebalance their economies.

Here in the United States, consumers have already realized most of the possible gains from importing different and cheaper goods -- any further liberalization won't help them much. But because the government has refused to deal, in any serious way, with the dislocation and economic insecurity that increased trade has spawned, too many lower-skilled workers have concluded, with reason, that they are the inevitable losers from globalization.

Let's be clear: It is not the protectionists of the AFL-CIO or CNN who are primarily to blame for the erosion of public support for trade in the United States, as bone-headed as they may be. The blame lies squarely with a business community that continues to support Republican politicians who refuse to raise the taxes and spend the money necessary to provide the economic safety net for American workers that a free-market economy has not, and will not, provide.

Trade is hardly the only area in which open, unregulated and lightly-taxed markets have failed to deliver economic and social outcomes that Americans consider acceptable.

Despite the fact that the U.S. health-care system is the most privatized and market-driven of any in the industrialized world, it has become one of least efficient and effective, with extraordinarily high costs, mediocre results and a large and growing pool of working families with little or no insurance and inadequate care.

Deregulated energy markets have, for the most part, failed to provide a steady supply of affordable electricity to businesses and households due in large part to imperfect competition that has allowed the industry to manipulate prices and earn above-market returns. These same energy markets failed to anticipate the increased global demand for oil and natural gas and to make the necessary long-term investments in new supply and alternative sources of energy. More recently, they produced a speculative price bubble that has brought the auto and airline industries to their knees.

As market failures go, however, few have been more spectacular than the massive misallocation of credit and mispricing that led to the giant housing and credit bubble of recent years.

These bubbles had their roots in deregulated credit markets that were hailed as models of innovation and market-driven efficiency. Now that the bubbles have burst, it is more than a bit ironic that government has had to step in to rescue the markets from their excesses and prevent a meltdown of the financial system. And it is simply outrageous that in the past few days, free-market apologists have tried to divert attention from the colossal screw-ups by builders, bankers and hedge fund managers by trying to shift the blame to two government-sponsored enterprises, Fannie Mae and Freddie Mac, which had only a minor role in the subprime debacle.

For the past 25 years, the United States has put its faith in open, unregulated and lightly taxed markets, and there's little doubt that, over time, that model has expanded economic output and improved economic efficiency. But what Americans have also come to realize is that the same model is less adept at providing other things that we value highly -- things like safety, fairness, economic security and environmental sustainability. And more often than not, these are "goods" that can be had only by giving up some of that output and some of that efficiency.

Over the next decade, the central challenge of economic policy will be to rebalance those goals and recalibrate those trade-offs. It's too early to say what the new model will be or what the new era will be called. But it's a good bet that the task will fall not to the ideologues of the left and right who continue to deny that no trade-offs are necessary, but to those leaders like Roosevelt and Roosevelt and Reagan who are willing to embrace and articulate the challenge and address it with creativity, tough-mindedness and hope.