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Dollars Without Borders

Review by MICHAEL HIRSH
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Globalization Books by Jeffry A. Frieden and Jeff Faux

GLOBAL capitalism is an ailing system. The main question is whether the illness is curable or terminal. What has become especially worrisome in recent years is the increasingly unequal relationship between labor and capital. These two old rivals have long been at odds, of course, often violently. But there have also been extended periods of peace.

As Jeffry Frieden writes in his magisterial history, "Global Capitalism," during the high-growth decades after World War II labor and capital existed in an uneasy but prosperous equilibrium. And during the earlier golden age of globalization before World War I, he reports, labor and capital "worked beautifully" together on a worldwide scale. As free trade supplanted mercantilism in the mid- to late 19th century, barriers to trade and immigration fell at roughly the same time. "Unproductive Polish or Portuguese peasants who could not compete with Canadian and Argentine grain farmers," Frieden says, "became productive urban workers in Warsaw and Lisbon or emigrated to become productive factory workers in Toronto or farmworkers on the pampas." Streams of investment followed.

In the last quarter-century or so, however, capital has left labor behind to choke in the dust of those pampas. Or so Jeff Faux argues in "The Global Class War," a much darker book that characterizes the present era as a struggle between a "global governing class" and everybody else. Faux is clearly correct that the balance of power between labor and capital has shifted dramatically. Today, investment capital moves at blinding speed, while labor still must go by boat, train and plane — and that's if it's lucky. With much tougher immigration restrictions than existed a century ago, labor is more often confined to its home markets, waiting anxiously to see if globe-hopping capital deigns to come its way.

The growing power of capital explains many of the economic stories of our day: why Wall Street has the whip hand over corporate performance; why the gap between executive and worker pay has widened to record levels; why even incompetent executives enjoy golden parachutes while high-performing employees can be laid off without apology. It also explains why the American labor movement is a pitiful shadow of its former self, the victim of a "China price" set half a world away by a seemingly limitless supply of cheap labor. Most disturbing of all, Faux argues, this imbalance is largely America's own doing. And if we don't change, he says, it could well be our undoing.

How did things go wrong? Well, they didn't entirely, as Faux himself concedes. The post-cold-war period has also been one of significant global growth. The problems arose in the 1980's when neoliberals in Washington, inspired by the ideas of Friedrich Hayek and Milton Friedman, began promoting free markets over Keynesian "statist" thinking. In the new era of globalization, the prevailing ideology became, once again, the laissez-faire absolutism of the gold-standard era.

Yet crucially, Faux argues, this thinking was applied only abroad. "Friedman and Hayek failed to overturn Keynes on the question of how to run a national economy," he writes. Not only did Democrats and Republicans alike continue to practice Keynesianism at home, they exceeded its prescriptions. Even Ronald Reagan, the enemy of big government, ran record deficits in order to support Franklin Roosevelt's welfare state, and George W. Bush has followed suit. Overseas, meanwhile, the free marketeers wrote the rules of the World Trade Organization. The result was an ominous combination: an American economy made less competitive by mounting deficits at home, but cast into a brutal, Social Darwinist environment abroad.

Faux's descriptions are often sound, but his criticisms are frequently shrill and overdrawn. The founder of the Economic Policy Institute, a labor-oriented research group in Washington, he unfortunately tends to see everything — even the Iraq war — through the bleak prism of a global class war. He exaggerates the impact of globalization on the domestic economy, ascribing many of American labor's ills to the 1993 North American Free Trade Agreement, although most economists agree that Nafta has had mixed results. Faux also never quite succeeds in identifying who the baleful "governing class" is. And his neoprotectionist solutions, like a North American alliance of "non-elite majorities," often seem fairly quixotic: the interests of labor in countries as different as the United States and Mexico, with their vastly divergent living standards, clash far more than do the interests of cross-border investors.

It is left to Frieden, a Harvard political economist who specializes in international finance, to put the current economic situation in perspective. Is global capitalism fated to fail this time as it did previously? Not necessarily, Frieden says. Globalization will collapse only if it stops delivering growth, and so far that hasn't happened. Indeed, one reason Faux's global class war hasn't emerged would seem to be that most major economies continue to thrive (the American unemployment rate has hovered around 5 percent for years).

Frieden's 500-plus-page book can be ponderous to read, but it is one of the most comprehensive histories of modern capitalism yet written. He provides a clear, detailed account of the rise and fall of the gold-standard era, especially its peak years from 1896 to 1914, and of the post-World War II Bretton Woods agreements, which gave national economies some control over short-term capital flows. Bretton Woods showed that "modern industrial societies could be committed simultaneously to generous social policies, market capitalism and global economic integration."

Frieden also argues that for all the strains created by today's global capitalism, it is still the least worst system out there. After painstakingly detailing little-known episodes like the effort of Hjalmar Schacht, the Nazi Reichsbank president, to impose economic nationalism in the 1930's, as well as the ups and downs of import substitution schemes in many developing countries during the 20th century, he concludes that "the great alternatives to economic integration failed." But Frieden warns that the success of globalization is hardly inevitable. In earlier periods of globalization, he demonstrates, the stabilizing leadership of the dominant global power of the day — the British Empire during the gold-standard era, the United States after World War II — was critical.

One legitimate question today is whether the United States is abdicating this leadership role. Frieden doesn't address the issue directly, but Faux emphatically does. Egged on by feckless Washington policy makers, he says, Americans are living in a dream world of rampant consumerism subsidized by foreigners' willingness to invest in an overvalued dollar. Faux argues that the United States cannot go on being the world's dominant power when its unprotected, relatively less-educated labor force can no longer produce export surpluses in any sector, even high-tech. Instead, in a power shift brokered by a class of multinational investors loyal only to themselves, we are handing off our wealth, and our superpowerhood, to China and other nations. At some point the vast financial and trade imbalances between America and Asia will reach a crisis, Faux warns, with the dollar collapsing, prices spiking and American living standards falling. Ultimately Americans will ask: "Why should we pay to defend people who are richer than we are?" And then there goes the American-led world order.

Michael Hirsh, a senior editor in Newsweek's Washington bureau, is the author of "At War With Ourselves: Why America Is Squandering Its Chance to Build a Better World."