<u>CAPITAL PUNISHMENT</u>

BY

RICHMOND PRESCOTT, M.D.

PRESENTED TO THE CHIT CHAT CLUB

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This essay has nothing to do with the death sentence for crimes. "Capital" here refers to investments of all kinds, and "punishment" to both the penalties endured by countries which do not receive such investments, and by those which do!

Capital in this sense has been called "democratic capitalism", or "global capitalism", or sometimes "turbocapitalism" to express the speed with which capital flows around the world. It is difficult to pick up a single copy of the New York Times or of The Economist and not find an analysis of some aspect of global capitalism in some rich or developing country. Your familiarity with this subject matter will greatly enhance the discussion of this essay.

My sources, in addition to newspapers and magazines, are three: Thomas Friedman's *The Lexus and the Olive Tree,* John Gray's *False Dawn,* and Edward Luttwak's *Turbocapitalism: Winners and Losers in the Global Economy.* Friedman is the New York Times' foreign affairs columnist; Gray is Professor of European thought at the London School of Economics; and Luttwak is a Senior Fellow at the Center for Strategic and International Studies in Washington, D.C. These last two agree with the first that global capitalism is a crucial and growing force in world economics; they do not agree with Friedman that this is inevitable and good. Even Friedman voices doubts. In his title The Lexus, that modern supercar from Toyota, represents technology at its finest; it is produced largely by robots. The Olive Tree is the need in all of us to keep our old ways of being and doing, to cultivate our patch of earth, and to resist dislocating change in order to preserve our sense of belonging. Global capitalism is bringing vast dislocating change. The Lexus can uproot the Olive Tree, but the Olive Tree can resist technological change.

What is global capitalism today, and how did it arrive? England's ruling class in the industrial revolution (sometimes called The Great Transformation) invented a quite unfettered capitalism when it encouraged private industries to sell their manufactures around the world, to the enrichment of owners, shareholders, segments of society but not necessarily workers. By World War I regulations to curb the worst abuses of workers had changed this capitalism, and it did not survive the war and the Great Depression. Lord Keynes' teaching that government spending could pull depressed economies back to prosperity received a belated, unavoidable trial during World War II. Taken together with the Marshall Plan, a brilliant investment of capital for rebuilding the destroyed economies of Europe and Japan, government regulation of private industry after the war, and private curbs on competition arrived at by the largest companies, brought prosperity to half the world. The other half was entrenched in an experiment in central economic planning. This limited the spread of capitalism, in part because it could not penetrate the Iron Curtain during the Cold War, and in part because each superpower bid, with foreign aid, for the allegiance of smaller, poorer countries, and required little from them in the way of investment opportunities or modernization. These poorer countries were content to play the superpowers off against one another, while resisting change. The Bretton Woods agreement on fixed exchange rates for currencies controlled speculation in currency fluctuations; it lasted until 1971 when President Nixon decided to end the convertibility of dollars into gold.

Thatcherism in Great Britain in the 1980s was a response to the perception that "the triangular coordination of economic policy by government, employers and trade unions had become an engine of industrial conflict . . . over the distribution of national income rather than an instrument of wealth creation or a guarantor of social cohesion". In reducing trade union power, lowering taxes and privatizing industries, Thatcher gave "modern" capitalism an irreversible boost. President Reagan followed suit, with his tax policies and determined deregulation of business. His lavish spending on defense was not criticized when the Berlin Wall fell and Communism was no more. Global flows of capital increased exponentially over the past twenty years. Competition from Germany and Japan forced American companies to modernize; they had government permission to do so, including favorable tax, labor and trade laws. Washington now has a consensus as to the causes of capitalism's success.

Friedman is an enthusiast for the "American" model of global capitalism. He points out that, other ideologies for economic growth having failed, this model is the only game left in the world's economic casino. Play it globally or decline! The cause of resurgent global capitalism is chiefly the "democratization" of technology, finance and information. Democratization means spread to large numbers of ordinary invididuals at low cost. The technological advance is in telecommunications; the financial advance the creation of myriads of accessible financial instruments in which small investors can invest; and, for information, immediate access, via the Internet, to data of all sorts, including that needed by investors. Investors can now place informed bets instantly, at very low cost, almost anywhere around the globe.

Of course, there are rules and preconditions to the game of global capitalism. You need to appreciate here Friedman's phrase-making imagination:

The "Golden Straightjacket" must be adopted, or sought, by countries which want investment. This means privatization, low inflation, price stability, a shrinking state bureaucracy, avoidance of large budget deficits, low or absent tariffs on imports, few restrictions on foreign investment, elimination of domestic monopolies, increasing exports, convertible currencies, encouragement of competition in goods and services, elimination of corruption, transparency for business dealings, and a sound infrastructure for banking, business law and bankruptcy proceedings. For his Golden Straightjacket, Friedman says that "one size fits all' - deviations are unwelcome, but that it is "the only model on the rack this historical season" - the only model which will lead to significant economic growth.

Friedman calls his investors "The Electronic Herd." They are millions of faceless persons with money to invest who make millions of decisions every moment. They seek profit, hate loss, and do not care about the effects on others of their choices. They report to no one. No one is in charge! The U.S. is as much at their mercy as Thailand. "Short Horn Cattle" invest in financial instruments; "Long Horn Cattle" build plants in foreign lands. The Herd collectively may exhibit rational or irrational behaviour. It can greatly enrich a developing country, or, as we have seen, impoverish it by withdrawing invested capital. What The Electronic Herd is doing, for companies and for countries, is to require what the distinguished economist Joseph Schumpeter called the "creative destruction" of out-of-date practices, industries, policies and products worldwide, and their replacement by more enlightened equivalents. "Creative destruction" makes life hell for CEOs everywhere. They need a high level of fear that their current products will soon pass from favor and a strongly paranoid outlook as they survey their competitors. Constant change is their job. Each new personal computer is said to undergo three modifications each year, before being replaced by something newer. They, and The Electronic Herd, and the countries willing to don the Golden Straightjacket, proceed with the conviction that only their model of global capitalism can produce growth enough to raise the world's ballooning population from poverty.

The extraordinary prosperity of the United States over the past decade and the results in all of the world's large Western democracies seem to show the correctness of this view. All meet the requirements of the Golden Straightjacket, more or less. And the list of smaller economies which have thrived include Taiwan, Singapore, Hong Kong, South Korea, and, more recently, Ireland. Singapore and Hong Kong are hardly open political democracies, but their economic policies are sufficiently open to attract capital investment.

Friedman notes benefits of global capitalism other than increased GDPs: pressure for a freer press, increased mobility of labor, continuing GATT negotiations to reduce remaining barriers to imports, strengthening of necessary legal infrastructures, exposure of "crony-capitalism", and, indeed, more stable democracy as poorer citizens enter the middle class. Even with no one in charge, The Electronic Herd is its own enforcer of its requirements. We have seen what it did to Thailand, Indonesia, Malaysia, Russia and Mexico, because of imprudent policies in these countries. Corruption, cronyism, secretiveness, grossly uneconomic investments, bloated, corrupt bureaucracies, no adequate bankruptcy laws and absent legal enforcement of contracts brought down their currencies. But there is a very important point here. The Electronic Herd did not begin the assault on these currencies; local businessmen did. They knew better than foreign investors what was going on, and when they realized the trend, they were the first to take their money out.

Brazil is a work in progress of economic recovery from threats to its currency. So far, so good, but progress in reducing overstaffed bureaucracies and excessive pension benefits for government workers is politically difficult.

If winners win big, and losers must learn from their mistakes and undertake reforms, what is wrong with global capitalism as a dominant, surviving economic ideology and an all but irresistible force? As world population explodes, economic growth is a necessity. But there are growing pains and difficult questions.

1. Does global capitalism increase employment? Yes. The U.S. experience proves that. The Schumpeter rationale of "creative destruction" of obsolete industries and their replacement by new ones implies that new jobs will outnumber old while paying comparable wages. If General Motors lets go a forty-five year old production line boss, Microsoft can offer him equivalent employment - but will it? This man's skills are inappropriate for Microsoft. He may find himself driving a taxi for lower pay or serving fast food. The growth in service jobs accompanying general prosperity may be large, but these jobs are not equivalent to those lost in manufacturing for workers of average ability. "Creative destruction" may be reducing the middle class in nations which have a middle class, and producing an unemployable underclass which lacks the education and skills to compete for any job. In this sense the new Luddites, the protectionists, have a point. Technology has displaced them.

New Zealand in the late 1970s was a social democratic state almost as entrenched as Sweden. It stood for social equality and cohesion. But its spending was becoming unsustainable. In the 1980s New Zealand embraced the Golden Straightjacket in all its strictness. Government responsibility for overall employment and welfare interventionalism were abandoned in favor of privatization. The result has been an actual increase in unemployment, a new, economically marginalized underclass, which did not exist before, deep divisions between the affluent and the impoverished, and dependence on unregulated capital flows from abroad.

Individuals living in this period of change experience frustrating job insecurity. The frequent announcements of down-sizing chill the self confidence and loyalty of many workers, blue-collared or white. The effects on families, companies and societies are not yet fully described.

2. What happens to incomes under global capitalism? They become spectacularly unequal. In 1967 the bottom 40% of U.S. households received slightly more income than the top 5%. In 1977 the figure was 87% of the top 5%'s income. And in the mid 1990s, it was just over half. And since the shares of both the bottom 40% and the top 5% have been increasing (unequally), the middle class is being squeezed. These trends are ongoing and are reflected in other countries. Friedman credits the global, accessible market with a "winners take all" phenomenon in which talented, energetic professionals and entrepreneurs can cash in enormously, leaving only slightly less qualified competitors in their wake. *The Economist* in 1998 reported 170 U.S. billionaires, up from 13 in 1982. Luttwak asks why the majority who do not reap riches tolerate those who do. His answer is residual Calvinism in U.S. society - admiration of winners, and willingness to blame ourselves for our relative failures. Union members commonly view themselves as members of the middle class. As industries become more efficient through technological advances, and wages do not rise for fear of competition or layoffs, this view may change.

3. Is a welfare state compatible with global capitalism? No. New Zealand got rid of much of its welfare spending precisely to attract investment capital. The Electronic Herd dislikes runaway entitlements and excess deficit spending. These tend to

make countries uncompetitive economically and to undermine their currencies. The extreme model of the welfare state, Communism, could not survive in the modern world, and Sweden is having fresh financial difficulties. The U.S. and Great Britain have cut welfare spending. France and Germany are having to reconsider their very generous benefits for workers which increase the price of their labor. Companies in these countries are offering to relocate to Eastern Europe or the third world to seek lower labor costs. Global capitalism challenges the safety of safety nets everywhere.

4. What is an unemployed member of the underclass to do when welfare provides inadequate assistance? He or she is being pushed down the job ladder by educated persons who need the lower rung jobs previously available to the underclass. Luttwak concludes that the entirely rational underclass decision is to resort to crime, as in less prosperous countries like Brazil. As of 1997 1.8 million Americans were behind bars and another 3.7 million on probation or parole awaiting trial. This is 2.8% of the U.S. adult population - twice the proportion in 1980. Luttwak goes on to say that incarceration may be seen as a deliberate policy of ruling elites, to remove from competition and from possible civic unrest our most disadvantaged citizens. No other country spends as much on prisons, but crime in developed countries is significant.

5. Is New Zealand's example of loss of social cohesion after embracing global capitalism typical? Probably so. Extremes of income inequality and job insecurity have been noted. More specifically, have-nots are not likely to trust their governments to help them, employers to hire or keep them, or their affluent neighbors to care. President Clinton's "poor tour" in July brought his recommendations to urban ghettoes and to Indian reservations - incentives for investment capital from private firms! A New York Times cartoon showed the President saying to a tattered Indian, "Get a

job." Critics of global capitalism note undesirable effects on families. Job mobility disrupts the life of a once extended family. Two wage earners in a family striving to keep up economically pay a price in neglect of children. Those who succeed live in gated communities behind high walls, preferring safe clubs to true communities. These phenomena are not confined to the United States.

6. Are the roles played in global capitalism by international agencies (the World Bank, International Monetary Fund, and the World Trade Organization) benign? On November 30th of this year 5000 delegates from the 135 member countries of the World Trade Organization will meet in Seattle to begin a new round of trade liberalization talks. Environmentalists concerned about global warming, worried union representatives, Ralph Nader's Public Citizen lobby dedicated to curbing the power of multinationals, and oufits such as the Ruckus Society of Berkeley which wishes to abolish the WTO, , are planning massive demonstrations against WTO abuse of its power as an arbiter in trade disputes to undermine various laws promoting health, food safety, environmental protection and better working conditions. These groups hate MAIs, Multilateral Agreements on Investment, in particular. Countries signing such agreements would admit foreign investment, with limited exceptions, and give foreigners legal status equal to that of domestic investors. The protestors want MAIs off the agenda, and President Clinton is said to agree - to contain controversy which could hurt candidate Gore.

Are Nader and his sympathizers crazies? Not entirely. A distinguished Brit, Edward Goldsmith, has written a book entitled *The Case Against the Global Economy: and for a Turn Toward the Local.* He believes that the World Bank, IMF and WTO function in the service of misguided Western powers and their multinational corporations. They abet the destruction of domestic economies in developing countries by imposing upon them removal of barriers to Western imports, cheap exports of raw materials and goods to the West, cheap labor and unregulated foreign investment. He states that this approach is self-defeating and doomed to fail because efficient multinationals do not create enough jobs (small businesses do), and without a domestic economy a country cannot long import Western products. Its unemployment will rise, bringing anger and revolution. Moreover, the resources of our planet are finite, and the eagerness of the American consumer to create a limitless imbalance of payments is suspect. Goldsmith has allies who demand that social and environmental impacts of trade practices be carefully considered, and that liberalization be accompanied by sustainable development policies. The irony for the Naderites is that without the international agencies and liberal trade, the very countries which they wish to protect will remain in the hands of corrupt political elites and crony capitalists.

7. Is global capitalism concerned for the environment? Yes, in a few focused experiments. Conservation International, with financing from Ford, built an ecopark for tourists in the Brazilian Atlantic Rain Forest to help local inhabitants to create enough jobs so that they would give up logging. Multinational corporations seem to be coming under enough scrutiny by environmentalsts and the press to give up their worst, antienvironmental practices. But the same is not true for smaller companies in developing countries engaged in mining, logging and activities which pollute the air and water. Private capital heeds the short-term bottom line. A cautionary speculation wonders what effect half a billion Chinese owners of automobiles would have on greenhouse gases and global warming.

8. Is global capitalism as practiced by rich, developed nations a low risk system?

No. We might have thought that the risk was for countries like Thailand which made foolish use of its access to capital markets and paid the penalty in collapse of the baht. Then came Long Term Capital Management, with its extraordinary leveraging of too generous lending by commercial banks, and its "scientific" faith in a computer model for global investment which did not anticipate the event which happened - Russia's devaluation of the ruble and default on government debt. LTCM lost four billion dollars in a few days! The interesting lesson here is that, in the opinion of the Federal Reserve Bank in New York, and of the banks which had made imprudent loans, LTCM had to be bailed out with a huge infusion of new capital, because unwinding its affairs could have brought down financial systems in the U.S. and elsewhere. Nicholas Leeson and Baring's Bank would have been pleased to receive similar support.

9. Does global capitalism impair the power of nation states to control their own destinies? Yes, and a good thing too say some enthusiasts. If the Golden Straight-jacket must be donned for a country to find prosperity through investment, there is a list of actions which that country cannot take, or cannot do to excess. Incurring large deficits, printing money, protecting infant industries (like Indonesia's automobile manufacturing), taxing capital flows, censoring the press, refusing to reveal economic data - to name a few. Some political issues must yield priority to the need of the country to remain attractive to capital investment. The Electronic Herd is not sympathetic to local concerns when they conflict with the opportunity to make profits. The countries of the European Union are debating policy differences with the European Central Bank, to which they have ceded their control over monetary policy. With The Electronic Herd there is no one with whom to debate! Global capitalism in some ways overrides

democratic policy-making in any one country with special traditions and needs.

10. Isn't global capitalism really American capitalism, and doesn't that mean that the so-called American culture will become dominant in the world? Some people fear so. The image conjured up is of McDonald's restaurants, Hollywood movies, Disney theme parks, rock concerts, outrageous fashions in clothing, and a debased morality. One irony is that adults in other lands who vociferously defend their millenia-old cultures find their children preferring American offerings. There is as yet no yes or no to this question. Culture clashes will play themselves out over decades.

11. Even for the United States, does global capitalism complicate foreign policy? The New York Times thinks so. The 800 pound gorilla may be peacefully concerned with his supply of bananas, but the creatures around him fear and resent him, and are quick to suspect the motives for his every action. Particularly if the gorilla owns the world's most advanced military hardware. Paranoia seizes the lesser creatures, and the U.S. is suspected of Machiavellian tactics to dominate the world, economically and militarily. Some Chinese think the U.S. went into Kosovo to test its new weapons. The job facing American leaders, including private CEOs, is to reassure the world that the U.S. is not imperialist and to demonstrate that its power is benign and that global capitalism is not a zero sum game. But overcoming misperceptions is time consuming and hard.

12. If all the difficult side-effects of global capitalism are appreciated, will enthusiasm for it fade and a new round of regulated capitalism evolve? No one knows the answer to this because global capitalism in its present form has too brief a history, and impediments to its spread remain in many countries of the world. Friedman has a simple answer, that there is a strong groundswell of aspiration for economic and political betterment among the peoples of the world and that they see, dimly, that global

capitalism is a way to meet their needs. Global capitalism is not just a new variant on colonialism, with Americans replacing the British of the raj and Cecil Rhodes in Africa. "The wretched of the earth want to go to Disney World, not to the barricades." They are willing to work hard to get there within an economic and political system which will give them the chance.

Global capitalism is incomplete, meaning that it has not penetrated to all the corners of the earth and that obstacles to its arrival persist. Have all major developed nations abandoned alternative models? Japan has not. Its amazing recovery after World War II was not a variant on Thatcherism or Reaganism. Japan's leaders chose to develop close working relationships among government, banking and industry, mediated by a highly educated, honest, skilled bureaucracy which guided industrial development instead of relying on laws and contracts. The social goal of these relationships was to maintain full employment. Japan's level of unemployment is now at record levels, at 4%! Tariffs, licensing and other indirect means of curbing imports denied Japanese markets to the rest of the world, while export industries, notably motorcycles, cars and electronic products were given the capital they needed to expand. Japanese consumers paid high domestic prices for these policies, but social cohesion was maintained, and Japanese citizens contributed one of the highest savings rates in the world to finance their economy. This complex system did not prevent a bubble in stock prices and real estate which burst in 1991, with recession ever since, but society has remained calm, and suffering is minimal. Japanese continue to save when Americans think they should spend themselves out of recession. The United States is upset that Japan has not stimulated consumer demand enough, through tax cuts, to enable Japan to import generously from the Asian countries damaged in the currency crises of 1997. Signs of recovery from recession are now emerging.

There is a European consensus among economists that increased "flexibility" in labor markets is needed to reduce unemployment, which stands at about 9% in France, Germany and Italy. Flexibility means lower wages, longer hours, shift work and the mobility of labor. So what has happened? Chancellor Schroeder in Germany is in deep political trouble for advocating cuts in taxes, regulations and welfare. France and Italy have mandated 35 hour work weeks, job protection laws continue to make it expensive to fire, or hire, employees, and governments have avoided privatizing state-owned enterprises. German employers wish to reduce expensive employee benefits, and unions resist. Industrial production is moving to plants outside Germany. The Daimler Benz merger with Chrysler was intended to allow Germany's largest industrial firm to share American labor flexibility. These three leading European countries appear to be on a collision course with certain requirements of the Golden Straightjacket. France has a socialist government, and the equation for voting on change is simple. If 88% of workers have protected jobs, they will retain their protections.

And yet! Josef Joffe, a visiting lecturer at Stanford from Germany, amusingly points out that "The Italian economy long ago decoupled from the state," meaning that laws, regulations and tax collectors are ignored, and that other European economies are following suit. Companies strike their own agreements with unions on the shop floor, despite state policies and contract language. Manufacturers are down-sizing. And, again like Italy, the underground economy grows, untaxed and unregulated. "The productive parts of society are learning to take care of themselves, prodded by the stern discipline of the global market. Get out of my way is the message to government."

Countries with oil, like Norway, can defy global capitalism and pay for generous welfare policies. Countries with dictators, like North Korea, Syria and Iraq, use force to maintain political control regardless of economic disaster. Countries with fratricidal chaos, like Afghanistan, cannot take advantage of capital investment in any case. Elsewhere change toward global capitalism proceeds, most measurable in countries with a democratic form of government.

China's Communist government, zealous to protect its power, realizes that only capital investment will produce the jobs it requires as it tries to stop subsidies to money-losing state companies. It is helped by the extensive network of Chinese businessmen who populate the globe and invest in China. China is desperate to join the World Trade Organization, and President Clinton regrets that he backed away from supporting this move last spring. But China requires Western investors to establish partnerships with Chinese firms, which then exploit the Westerners. Corruption and bribery are rampant. China's currency is protected against speculation because it is not freely convertible into other currencies. It does, however, have exchange value in settling trade accounts. The Chinese are hinting that they might devalue their own currency in order to make their exports cheaper and more competitive. This would be most unwelcome news to Japan and other Asian countries which do not want to engage in competitive devaluations which beggar their own domestic consumers.

India talks free trade but retains a social-democratic ideology which, working through stubborn bureaucrats, frustrates capital investment from abroad, yet pockets of entrepreneurial success exist. Madras has become a region which does "back-office" bookkeeping for huge American firms, using computer skills and modern tele-communications while paying employees far less than their American counterparts.

It is enough to say that the more autocratic and bureaucratic the government, the more industry owned by the state, the more traditional the culture, and the more the corruption among officials, the less open a country will be to global capitalism. The spectrum is wide and varied.

Russia is in a class by itself. When Communism fell in 1989, a market economy was begun over the next five years. Luttwak believes that, despite the rumblings of residual Communists in the Duma, there is no going back. Privatizations may have been give-aways to ex-Communist oligarchs, tax collection may have failed, International Monetary Fund investment may have gone largely to Swiss bank accounts, Moscow may have lost control of the vast, distant provinces, Russian credit may have been destroyed when Russia devalued its ruble and defaulted on its debt in August of 1998, the legal and business infrastructure required by a Golden Straightjacket may be absent, but in the past year there has not been hyperinflation, widespread famine or revolution. Now that the impoverished state of the country has protected it from competition from abroad, young Russians have shown amazing creativity in starting small businesses to supply their countrymen's needs. International investment stops and an indigenous domestic economy revives! Luttwak suggests that even the mafia, flourishing in its "protection" rackets, has been a stabilizing force organizing economic life in the absence of legitimate agencies. Democratic capitalism requires a strong government, not a weak one. Russia will walk its own tortuous path over many years.

If global capitalism has dangers as well as benefits, and if not all countries are ready to give it unregulated scope, how might control of this restless tiger be brought about? By international agreement, of course, but agreement on what?

An obvious step would be to have a United Nations central bank with real power, able to be a sort of global "Fed", setting interest rates and requiring countries to limit deficit spending. This won't happen. Look at the problems of leadership by the European Central Bank in relation to the politicians of the European Union. There is, of course, the International Monetary Fund and the World Bank, with their "bail-out" billions and their reform requirements for would-be bailees. The arguments rage about the wisdom of IMF policy (devalue the currency, reduce spending, promote exports, cut imports, raise interest rates), and the willingness of its clients to accept reform. Asian stock markets have recovered in 1999, prematurely; the momentum of reform in their countries has been blunted before significant reform has been institutionalized. In any case, IMF rescues close the barn door after the horse has escaped. The IMF has established a special fund which countries getting into trouble can draw upon before their currencies are savaged by The Electronic Herd and they face bankruptcy. Critics say that this will promote the "moral hazard" of subsidized risk taking and will make any country which draws on the fund an immediate object of scrutiny by the Herd.

In 1978 economist James Tobin proposed a global tax on currency speculation. The Electronic Herd indulges in such "investment" with a turnover of 1.6 trillion dollars a day! The notion of taxing currency transactions, to moderate swings in currency valuation, such as that in the pound which enriched George Soros by one billion dollars, has responsible advocates. It is not clear whether it would work. In an effort to discourage dollar-denominated short term debt, Chile has tried taxing its financiers who borrow from abroad.

Malaysia alone, following the 1997 collapse of the Asian miracle economies, imposed capital controls. These initially checked the rapid decline of the Malaysia currency, but they have been evaded and modified. The consensus seems to be that to the extent controls work to prevent the flight of The Electronic Herd's capital from a country, they inhibit the initial entry of capital into that country. Growth requires capital.

Argentina has pegged its currency to the dollar, backing each peso with dollar reserves. Most other currencies "float" in world financial markets. Some economists yearn for a return to fixed exchange rates generally. The Bretton Woods agreement of 1944 had each country maintaining its currency at a fixed rate relative to the dollar, which was convertible into gold at a fixed rate. Proponents of some similar system argue that only fixed exchange rates can yield sound money and accurate price signals. "So long as developing countries are stuck with boutique currencies that are easily shredded by speculators, . . they will be unable to establish themselves firmly in the international financial community." But Robert Rubin concludes that "The right exchange rate regime is a choice for the individual country."

A year ago President Clinton called for a new international financial architecture to address the worst financial crisis in world history. Robert Rubin left the Secretary of the Treasury's office without creating any such thing. Markets are repairing the damage done since 1997, even in Russia. There are a myriad of recommendations for better practices to avoid repeating recent history. They group themselves into self-regulation of global capitalism deriving from bitter experience, and more compassionate attention to social safety nets for those left behind in the race to riches.

In the former group are promoting accepted accounting standards worldwide, more transparency for business transactions of all kinds, resistance to corruption in all its forms, especially to "crony capitalism," restraint in risky lending by commercial banks, restraint in the use of leverage by hedge funds, the spread to developing countries of reliable systems of law, the serious surveillance of all world economies by the IMF, and the constant exchange of information among lenders, borrowers and investors. The orderly restructuring of debt, as opposed to IMF bail-outs, is a high priority, calling for new provisions in loan agreements.

In the latter group are better technical education required by global capitalism, job training programs in the U.S.and abroad, subsidized venture capital for distressed regions calculated to give poorer citizens a stake in the economy, and renewed attention to the bases of social cohesion - unemployment benefits, social security and welfare support. Professor Gray reminds us that markets are made to serve man, not man the market. He calls for renewed questioning of the utopianism of global capitalism and of the western Enlightenment ideal of a universal civilization in which economic life has been emancipated from social and political control. He even feels that global capitalism resembles that other recent experiment in social engineering, Marxian socialism, and that it too will fail because it will claim too much and go too far.

Friedman cautions that the markets of global capitalism are so big, so diverse and so fast-moving that global financial crisis will be the norm in the coming era. The simpler time when the advice of Polonius to Laertes, "Neither a borrower nor a lender be," made sense is long past. Debts of Americans have never been higher; Americans now spend more than their incomes. Never have more Americans owned stocks and bonds.

The Japanese have ridden out almost a decade of recession with remarkable equanimity and social cohesion. Perhaps the true test of global capitalism will be its performance during the next U.S. recession. Will Americans be able to handle their mountain of debt? Will the forces of protectionism become powerful and resort to tariffs, as they did in 1930? Even today, the infamous banana war and hormone-fed beef dispute with Europe have resulted in retaliatory imposts on European luxury goods. Will the World Trade Organization have teeth to prevent a new wave of protectionism? Will the U.S. government be able to afford Keynesian spending to create jobs? We will not know the answers for a while because the premise that there will be another recession is not much acknowledged. No one is building a computer model of the American economy in a year of 4% decline in GDP.

In the short run, a final question is, "Which political party will be seen as the party which cares most about social cohesion?" The issues of U.S. trade policy (NAFTA and its proposed extensions; selective tariffs and "anti-dumping" complaints to the WTO), the safety net, medical care, prison policy, job training, education, and tax policy are more often discussed in terms of special interests than of the human bonds which we must maintain with each other. They are complex. In global capitalism we Americans are winners, but we are not all winners. The tension between the Lexus and the Olive Tree remains with us, and the saga of this brave new world is far from over.

Richmond Prescott

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