

THE GLOBAL ECONOMY

DIVERGENT PERSPECTIVES
ON ECONOMIC CHANGE

edited by

EDWARD W. GONDOLF, IRWIN M. MARCUS,
AND JAMES P. DOUGHERTY



Westview Special Studies
in International Economics and Business

The Global Economy

Divergent Perspectives on Economic Change

**edited by Edward W. Gondolf,
Irwin M. Marcus, and
James P. Dougherty**

Westview Press / Boulder and London

Westview Special Studies in International Economics and Business

This Westview softcover edition was manufactured on our own premises using equipment and methods that allow us to keep even specialized books in stock. It is printed on acid-free paper and bound in softcovers that carry the highest rating of the National Association of State Textbook Administrators, in consultation with the Association of American Publishers and the Book Manufacturers' Institute.

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or any information storage and retrieval system without permission in writing from the publisher.

Copyright © 1986 by Westview Press, Inc.

Published in 1986 in the United States of America by Westview Press, Inc.; Frederick A. Praeger, Publisher; 5500 Central Avenue, Boulder, Colorado 80301

Library of Congress Cataloging-in-Publication Data
The Global economy.

"Essays . . . drawn from a conference on 'Industry and society' at Indiana University of Pennsylvania"—

Acknowledgments.

1. Economic history—1971- —Congresses.
2. Industrial productivity—Congresses. 3. International economic relations—Congresses. 4. Economic policy—Congresses. I. Gondolf, Edward W., 1948-
II. Marcus, Irwin M. III. Dougherty, James P.
IV. Indiana University of Pennsylvania.

HC59.G574 1986 330.9'048 86-9260

ISBN 0-8133-7188-0 (soft: alk. paper)

Composition for this book was created by conversion of the editors' word-processor disks.
This book was produced without formal editing by the publisher.

Printed and bound in the United States of America.



The paper used in this publication meets the requirements of the American National Standard for Permanence of Paper for Printed Library Materials Z39.48-1984.

The Global Economy

About the Book and Editors

This collection of contemporary essays addresses the imposing changes occurring in the global economy and presents thoughtful policy options for managing them. The debate among these experts vividly illustrates the dimensions and consequences of the new global economy for the U.S. population and suggests appropriate policies for mitigating its impact.

Contrasting perspectives on the origin and trends of the current international economic order are offered. Each contributor presents a complex position in nontechnical terms and with helpful examples. The result is a work accessible to readers from a variety of professions.

Edward W. Gondolf is associate professor of sociology at Indiana University of Pennsylvania and a research associate of the IUP Center for Community Affairs. **Irwin M. Marcus** is professor of history at Indiana University of Pennsylvania. **James P. Dougherty** is codirector of the Center for Alternative Studies in Pittsburgh and an instructor of sociology at Indiana University of Pennsylvania.

**Published in cooperation with
Indiana University of Pennsylvania**

Acknowledgments

As editors, we wish to thank the distinguished contributors for making this book possible. Their willingness to forthrightly pose their positions and subject themselves to debate will, no doubt, also be appreciated by the varied readers of their essays in this volume. Together the contributors present a model of exchange that must be continued on many levels, if the United States is to come to terms with the new global economy.

The essays that make up *The Global Economy* are drawn from a conference on "Industry and Society" at Indiana University of Pennsylvania (IUP). IUP is a state university of 13,000 students situated sixty miles northeast of Pittsburgh. The university recently convened a series of three annual conferences, culminating with the theme of the global economy's impact on the development of Western Pennsylvania and the United States in general.

Several individuals at Indiana University of Pennsylvania deserve note for their part in organizing the "IUP Industry and Society" conference on the global economy. Irwin M. Marcus, professor of history, conceived, arranged and directed the conference proceedings with assistance from James P. Dougherty, an instructor of sociology. Annemarie Draham of the History Department and Rick Peduzzi of the Sociology Department worked as part of the conference staff, along with Cynthia Valenta and Michele Sanchez of the IUP Center for Community Affairs.

Also, Marty Morand, director of the IUP Labor Relations Center, and Jack Kadlubowski, chair of the History Department, made their resources available to the conference. We are especially indebted to Oliver Ford, dean of the College of Humanities and Social Sciences; Frank Como, Provost; and John Welty, president of the University; who offered generous financial and administrative support.

Edward W. Gondolf of the IUP Sociology Department was responsible for compiling, organizing and editing the essays and overseeing the publication arrangements. Sharon Richwine, Laurie Brodeur, Nancy McHale, Kim White and Janet May assisted with typing and Maya Chaszar with proofreading. Their work was sponsored in part by the IUP Graduate School.

*Edward W. Gondolf
Irwin M. Marcus
James P. Dougherty*

Preface

The Purpose of This Book

There is little doubt that great economic change is upon us. Some experts talk of a dramatic restructuring in production technology and location that has led to a new international division of labor and a deindustrialization of the United States. Other experts describe the change as a transition in competitive advantage leading to severe trade imbalances and mounting deficits. In either case, the economic change in the global economy has serious implications for our social and political institutions which have yet to adjust to it.

The Global Economy is a collection of essays that discusses these imposing changes in the global economy and policies for addressing them. The format is designed to illustrate the debate among the experts over the expanding dimensions and consequences of the new global economy. The content specifically highlights the social impacts of the global economy on segments of the United States population and presents policies that might mediate those impacts.

The essays are drawn from a series of conferences at Indiana University of Pennsylvania (IUP) on "Industry and Society." They represent the exchange among a diverse group of "expert" academics and policy makers from a diversity of disciplines and perspectives. The range of contributors includes a sociologist, historian, economist, political scientist, anthropologist, corporate executive, labor leader, and university administrator. Some are proponents of the free market; others favor forms of democratic socialism.

The diverse perspectives foster a kind of dialectical education on the issues of the global economy. One expert addressing an aspect of the global economy is coupled with another expert expressing a contrasting point of view. Furthermore, each essay lucidly presents a complex position on the global economy with non-technical terms and helpful examples. The result is a collage of perspectives that should be accessible to readers from a variety of fields and professions.

Part I: Charting the Dimensions

The Introduction by IUP historian Irwin Marcus presents a historical overview of the global economy and a context for the specialized discussion to follow. Beginning in the seventeenth century, Western Europe undertook a process of massive change which produced several centuries of global hegemony. According to Marcus, this unprecedented situation, while it created huge stores of wealth and power, involved the exploitation of non-Western areas of the world and a portion of the industrial capitalist nations as well. In the twentieth century, new forms of economic globalism have emerged: multinational corporations, non-Western nationalism, and revolutionary movements. These have challenged Western dominance and fostered the economic instability besetting our contemporary world.

In the first half of the volume, five pairs of contrasting essays specifically discuss the nature of change in this global economy. They present different interpretations of the origins, trends and implications of the global economy. This is in part the result of divergent perspectives and corresponding differences in methods. Nevertheless, there is some consensus: The global economy has been with us for centuries, but it is currently generating new forms of economic decision-making and production, which have transformed especially the steel industry and brought hardship to the American manufacturing sector in general. It is these conditions that the experts seek to analyze and remedy.

In Chapter 1, Immanuel Wallerstein and David Landes debate the origins of our interconnected global economy. Wallerstein, the renowned sociologist of world-system theory, debunks the prevailing myth that the global economy is the outgrowth of some progressive expansion of international development. He argues that the contemporary economic change is just another cyclical shift of capital that benefits primarily the world's elite.

Landes, an eminent Harvard historian, counters that Wallerstein's view is merely another "myth"—one unsubstantiated by historical facts. According to Landes, the peculiar innovations of European society—from clocks to eyeglasses—enabled European progress and expansion throughout the world. What underdeveloped countries need today is similar "performance" to acquire substantial capital and development.

In Chapter 2, Richard Barnet and Harley Shaiken examine the current trends of global production and the prominent role of the multinational corporation. Barnet, senior researcher of the Institute for Policy Studies and author of *Global Reach*, insists that the practices of multinational corporations have transcended political constraints. Their unbridled

decision-making, based on the profit motive, has led to uneven development throughout the world. Such imbalance, in turn, has set the superpowers into a militaristic frenzy.

Harley Shaiken, author of *Work Transformed: Automation and Labor in the Computer Age*, analyzes the technological inevitability of decentralized global production—that is, various components of a product manufactured in various countries throughout the world. He argues that this trend will increase unemployment, corporate mobility and union decline. Shaiken, like Barnet, suggests that the technological advances in production will warrant a “political response”—that is, citizen participation in the economic decision-making.

In Chapter 3, an assessment of the steel industry serves to illustrate the course of the global economy. Ann Markusen, from the University of California at Berkeley, examines the “new international division of labor” through the relations of the Brazilian and U.S.A. steel industry. According to Markusen’s analysis, U.S. corporations brought the current trade imbalances on themselves. Loan policies to the Third World and oligopolistic practices in the U.S., along with poor management and high wages, have made U.S.A. steel less competitive. As a result, there are deep-seated structural problems in the world economy that must be addressed by broad-scale political mobilization that brings stern industry controls.

Peter Mulloney, Vice President of U.S. Steel, presents a different view of the steel industry. Rather than curb the industry, as Markusen suggests, or check free trade, as some unionists recommend; Mulloney proposes containing trade abuses, like steel dumping, by simply enforcing current GATT policies. This would be sufficient to make U.S. steel competitive again.

In Chapter 4, the implications of the global economy for the structure of the U.S. economy in general are considered. William Branson, noted Princeton economist, makes a case against the Reagan fiscal policy. The Reagan tax cuts and defense spending caused anticipation of a deficit. The resulting speculation, in turn, triggered a chain of economic events that resulted in the U.S. becoming a borrower in the world market and suffering from an increasingly unfavorable balance of trade.

Bennett Harrison, a political economist from MIT and co-author of *The Deindustrialization of America*, interprets Branson’s analysis as too “rosey” a picture and too narrow in scope. He sees continuing severe U.S. unemployment and underemployment caused by capital flight that began in the sixties—not merely with the Reagan administration. There is little hope for a recovery unless controls on private disinvestment, plant closing legislation, and regional economic programs are instituted.

Part II: Facing the Dilemmas

The second half of the volume turns from the dimensions of the global economy to some of its more festering dilemmas and how to address them. The experts specifically discuss the impacts of the global economy on labor and minorities, and policies to mediate the negative impacts. They see American labor facing increased deunionization and decreased wages. Blacks and women are bearing the brunt of the increased unemployment and low wages, offsetting many of the gains of the civil rights and women's movements.

In terms of policy, national and regional programs for mediating or redressing such impacts are outlined, and the prospects for an "industrial policy" are debated. There is agreement that some policy revision is warranted, but the extent of government intervention is highly contested.

In Chapter 5, William Winpisinger, John Russo, and June Nash enumerate the setbacks experienced by American labor. Winpisinger, International President of the International Association of Machinists and Aerospace Workers, blames the multinational corporate "monarchy," the Reagan fiscal policy, and the international banking community for creating a "labor surplus"—a concentration of unemployed and underemployed laborers that lowers wages and the standard of living for the remaining employed laborers. He urges the adoption of a "social clause for corporations" and a "Technology Bill of Rights" to protect labor internationally.

Russo, director of the Labor Studies Program at Youngstown State, exposes how Ford and General Motors are using technology to globalize the auto industry and scuttle labor. Similarly, Nash, an anthropologist at the City University of New York and co-editor of *Women, Men and the International Division of Labor*, observes how the global economy is deunionizing labor and destabilizing community life in a case study of Pittsfield, Massachusetts.

In Chapter 6, the high costs of the global economy on disadvantaged segments of the U.S. is considered. Howard Stanback, of the New School for Social Research, documents how the new global economy has lowered wages and increased unemployment for U.S. blacks. He cites several studies to illustrate that racism and sexism are at the root of the economic differentials between blacks and whites. Ellen Rosen of Nichols College reviews U.S. Department of Labor statistics to demonstrate the losses of women workers in terms of jobs, wages, and status. The tendency is for an increased economic polarization between men and women and "ghettoization" of female labor.

In Chapter 7, three experts present specific policy—each with diminishing amounts of government intervention—to address the social

costs of the global economy to labor and minorities. John Logue, a specialist on Scandinavia from Kent State, reviews the national program of Sweden and its implications for the U.S. Sweden's democratic socialism has managed to establish a coherent national economic policy in response to the global economy. According to Logue, Sweden has been successful in maintaining relatively high employment, and even development, without forsaking high social goals.

Roger Ahlbrandt, associate provost at the University of Pittsburgh, discusses the regional program of Western Pennsylvania as a model for policy innovation in the United States. In the Benjamin Franklin Program the state government is collaborating with universities and local business to promote hi-tech development, which would revitalize the depressed steel region.

Lastly, Stuart Butler of the Heritage Foundation debunks the concept of government intervention through various industrial policies as politically unrealistic in a democracy and economically counterproductive in the free-market. He instead argues for *laissez-faire* policies that would promote competition and risk-taking in general, and thereby reinforce the revolution in small business entrepreneurship.

The Conclusion, by IUP sociologist Edward Gondolf, analyzes the divergent perspectives presented in the essays in terms of two sets of underlying assumptions. There is a "demonic adult" image of the global economy, based on humanistic assumptions about social change, in which the apparatus of the global economy is depicted as deliberately malicious and intractable. In the "restless adolescent" image based on technocratic assumptions, the global economy appears to be going through growing pains that can be relieved with time and proper direction.

In either case, there remain common issues that must be addressed: the uneven development in the Third World, the decline of U.S. manufacturing and mounting trade imbalances, and the mobility and flexibility of corporations. The issues, however, are not merely economic in nature. They have serious social and political implications in terms of standard of living, social unrest, and international conflict.

The Epilogue by James Dougherty, sociologist and activist, offers an alternative: a region-based, self-reliant economy proposed by the Tri-State Conference on Steel in Western Pennsylvania. Dougherty argues that industrial policy, protectionism, or free-trade are merely adjustments to the present globalization of production that do not account for its severe consequences—job loss, international debt, environmental pollution and political oppression. In fact, we may have to pursue an alternative future—one that delinks from the current economy—in order to avoid its destructive impacts.

Implications for Action

As editors, we obviously think that there is a message in this discourse of divergent perspectives: that the scope and impact of the global economy warrant an unprecedented response. We editors come from three different orientations that make us sympathetic to the diversity of the experts represented here. One of us is a labor historian, another a development sociologist and planner, and a third a community activist. At the same time, our first-hand exposure to the steel crisis in Pittsburgh, and research in other depressed areas, leaves us weighing the heavy human costs of the global economy and supporting policies that directly aid the immediate victims of economic change.

In converging on this project, we found ourselves engaged in a dialogue over assumptions and purpose. Our different interests had to be translated into a common language and our assumptions clearly set forth, in order to fully understand one another. In the process, we each gained clarity as well as new insights. This experience confirms our belief that a similar dialogue needs to occur among the experts. This volume (as did our conferences from which the essays are drawn) attempts to further this sort of dialogue among others.

A mere assemblage of perspectives is not sufficient, however. A discussion of the issues with the prompting of the experts confirms that the global economy confronts us with pressing human dilemmas that must be promptly and thoroughly addressed. In fact, a decisive revision of our present course is warranted. Indecision or procrastination could be disastrous for our economy, as well as for others'.

There are, of course, many direct and indirect ways to act. Each of the contributors make wise and humane recommendations in this regard: tighter fiscal policies, capital flight taxes, labor rights bills, trade law enforcement, risk incentives, targeted government investment and subsidies. We believe, in our weighing of the issues, that decisive interventions which account for humanity's broader social and political needs are necessary, if the global economy is to directly serve people, as well as be mastered by them.

The global economy we should want to build is one that promotes a just society and a just world. It is one that minimizes gross inequities and maximizes self-worth. This kind of economy, however, cannot be established simply with new policies, however essential they may be. Proposals for addressing the human dilemmas, intensified by changes in the global economy (like those offered at the end of Part II), will require a massive reorientation of the public.

They will require an increased global consciousness among the citizenry, a decentralization of national governments, regulation by new international bodies. We hear simultaneous appeals for national constraint and for new initiatives—along with global vision and planning. This is of course a tall order, but given the dimensions and dilemmas of the global economy, it is a necessary and perhaps an inevitable one.

Edward W. Gondolf

Contents

<i>Acknowledgments</i>	ix
<i>Preface</i>	xi

Introduction: A Historical Overview of the Global Economy, Irwin M. Marcus	1
---	---

PART I: CHARTING THE DIMENSIONS

1	Origins of the Global Economy	15
	1.A The World-System: Myths and Historical Shifts, <i>Immanuel Wallerstein</i>	15
	1.B European Expansion: The History of Innovation and Performance, <i>David Landes</i>	25
2	Current Trends in Global Production	43
	2.A Multinational Corporations: Profits at What Cost? <i>Richard Barnett</i>	43
	2.B Decentralized Production: A Technological Revolution with Political Issues, <i>Harley Shaiken</i>	58
3	A Case Study of the Steel Industry	67
	3.A The New International Division of Labor: The Changing Relationship of Brazilian and American Steel, <i>Ann Markusen</i>	67
	3.B Unfair Trade and Foreign Subsidies: Steel "Chaos" in the United States, <i>Peter Mulloney</i>	78

4	Implications for the U.S. Economy	87
4.A	Trade Deficits: The Evidence Against the Reagan Fiscal Policy, <i>William Branson</i>	87
4.B	Deindustrialization: The Case Against Capital Flight, <i>Bennett Harrison</i>	96

**PART II:
FACING THE DILEMMAS**

5	The Impact on Labor	111
5.A	Surplus Labor: An Appeal for an International Trade Program, <i>William Winpisinger</i>	111
5.B	Technological Displacement: Strategies of the Global Auto Industry, <i>John Russo</i>	122
5.C	Deunionization: Economic Dislocation in an American Community, <i>June Nash</i>	132
6	The Social Costs for Women and Blacks	143
6.A	Women: Disproportionate Losers in Jobs and Status, <i>Ellen Rosen</i>	143
6.B	Blacks: Paying the Costs of Economic Change, <i>Howard Stanback</i>	152
7	Proposals for Revitalization	161
7.A	The Welfare State: The Implications of Sweden's Democratic Socialism, <i>John Logue</i>	161
7.B	State-Sponsored Partnership: Building a Hi-Tech Center for Western Pennsylvania, <i>Roger Ahlbrandt, Jr.</i>	172
7.C	Free-Market Entrepreneurship: Political Realism Within American Democracy, <i>Stuart Butler</i>	182
	Conclusion: A Sociological Assessment of Divergent Perspectives, <i>Edward W. Gondolf</i>	191
	Epilogue: Seeking an Alternative to the Global Economy, <i>James P. Dougherty</i>	199

<i>About the Contributors</i>	209
-------------------------------------	------------