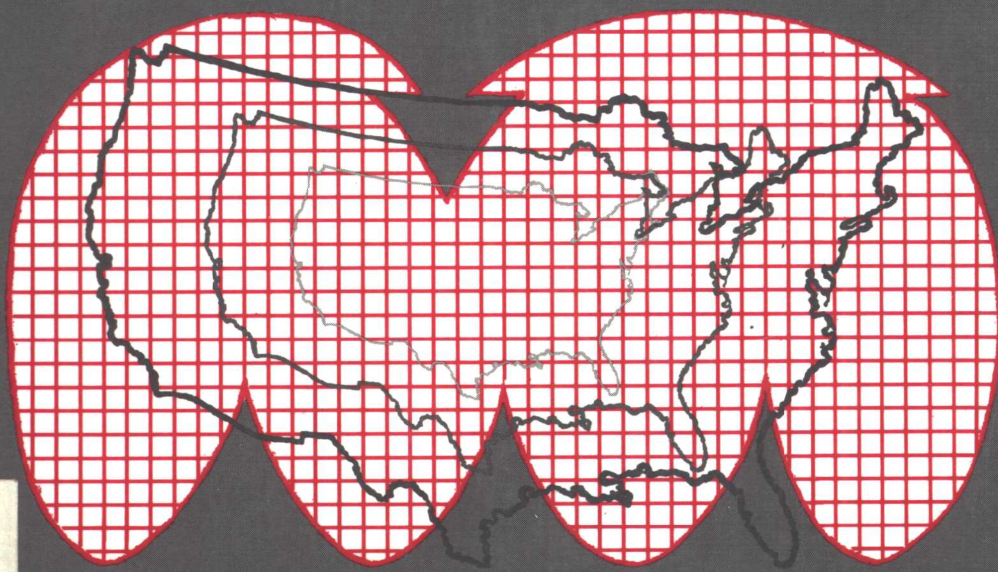
THE LAST QUARTER CENTURY, No. 2
A Guide to the Issues and the Literature

THE UNITED STATES IN THE GLOBAL ECONOMY

Challenges and Policy Choices



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For Mac, Joey, and Mario

Foreword

With distressing regularity we are reminded that the engine that drives our economy malfunctions. John Accordino's treatise explores the factors that help to explain how the emerging global economy affects domestic economic health and defines a number of policy choices available to the United States as it attempts to cope with a rapidly changing world. By placing these debates within the conservative, liberal, and radical frameworks, he shows how the philosophical positions of contending views have shaped definitions of the problems and thus the prescriptions for dealing with them. Does the United States need to concentrate on education or on training its workforce? Is a national industrial policy possible or necessary? How will economic policy decisions play out at the state and local levels? The options chosen by our policymakers will affect us all. This book provides an overview that will help us to understand better the terms and concepts of the ongoing debate about our economic future.

The United States in the Global Economy is the second title in the series The Last Quarter Century. Like the other books in the series, it provides a synthesis of recent scholarship, supported by an annotated bibliography for each chapter, and an appendix that guides subsequent research in the library. Most of the citations in the bibliography are to books and articles published within the last decade. The appendix will help students and other researchers use library sources to update their knowledge of topics covered in the book. Briefly annotated reference tools and journals will guide the reader to sources found in most academic and many public libraries.

John H. Whaley, Jr.
Series Editor

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I also wish to thank my graduate instructors at MIT, especially Joshua Cohen and Michael Piore, whose lectures on political and economic theory inspired me and nurtured my interest in this subject, as well as Michael Lipsky, whose critique of an earlier effort to compare political-economic paradigms haunted me as I wrote this book.

Most of all, I thank my wife, Anne-Marie McCartan, who helped me plan the book, who reviewed each chapter at least twice, and who gave me countless hours of loving support and encouragement as I plodded along.

Introduction

Tremendous changes are shaking the foundations of the U.S. economy and challenging our welfare and way of life. Although many causes and factors contribute to these changes, the single most important one, and the one to which most others are tied, is the global restructuring, or globalization, of production and trade. Global restructuring refers to changes in the division of labor among countries—who makes what goods and services and who buys them. As international trade has evolved over the centuries, restructuring has taken place. But since World War II, revolutions in transportation, communications, and corporate organization have accelerated the pace of restructuring, transforming the economic roles of the United States, Europe, Japan, and several newly industrializing countries. In a few short decades, these revolutions have shrunk the world.

While changes of appreciable magnitude generally bring both threats and opportunities, Americans have some reason to perceive more of the former than of the latter in the globalization of production and trade. For the first decades after World War II, the United States enjoyed a position of virtual economic, political, and military dominance. Americans looked upon the world with a sense of confidence. They shared values, or at least compromise positions, on a broad range of fundamental domestic and international economic issues. They believed that the members of each generation would live better than their parents.

Events in the 1970s and 1980s shook that sense of confidence. The economic revitalization of Europe and Japan, and the development of modern production facilities in the newly industrializing countries—Taiwan, Singapore, South Korea, and others—challenged American supremacy in world markets. As this tremendous increase in world production capacity helped to satisfy demand for consumer durables (autos, refrigerators, and so forth), it caused a slowdown in economic growth in the 1970s. Coupled with the inflationary OPEC (Organization of Petroleum Exporting Countries) oil crises of 1973 and 1979, the slowdown produced a rare malady in the postwar world known as stagflation—persistent inflation plus slow growth and high unemployment.

In the early 1980s, stagflation became economic strangulation for many American communities, as the United States slipped into its worst recession since the Great Depression. The ensuing recovery seemed robust on the surface, but in the new global economy, life is complex. The recovery was purchased, in part, at the price of huge foreign trade deficits. By the early 1990s, the United States had lost its once-dominant position in a number of industries, including automobiles, consumer electronics, semiconductors, machine tools, textiles, shoes, and garments. To satisfy consumer demand for imports and to service a record-breaking and growing public debt, the United States began to borrow money from Japanese and other foreign investors, thus becoming the world's largest net debtor nation. Despite reform efforts, both the foreign trade deficit and the federal budget deficit remain stubbornly high.

The global restructuring of production and trade and its many side effects have undermined our confidence about our place in the world economy as well as our postwar consensus on domestic economic policies. National spending priorities, business-government relations, minimum wages, labor unions, education and training policies, tariffs and trade policy, federal aid to states and localities—these and other policy areas now are the subjects of intense debate. We must, of course, construct a new consensus on domestic and international economic policies, but the task is a difficult one. Global restructuring has transferred economic power from the United States to other countries and increased the economic interdependence of all nations. Hence we no longer can control many cf the forces that vitally affect the success of our efforts. Our domestic and international economic policies must take into account the policies of other nations.

The issues are complex and difficult, especially for those who seek to understand the problems behind the news stories and the assumptions behind the pronouncements of pundits and policymakers. This book is a response to the complexities. Its purpose is to help librarians, students, and other concerned citizens understand policy alternatives that address America's domestic and international economic problems caused by global economic restructuring.

The issues include macroeconomic stabilization policy and international monetary and fiscal policy coordination, the pros and cons of industrial policy and trade policy, education reform and training policy, and state and local government responses to global restructuring. For each topic, the policy alternatives are arranged according to the major schools of thought in which they originate—conservative, liberal, and radical.

Each chapter includes an extensive annotated bibliography of current sources, grouped by issue and school of thought. Numbered endnotes following each chapter contain additional explanatory material as well as citations. The appendix provides information to help the reader use library sources and update the information presented in this book. It contains an extensive list of government documents and other sources of primary economic data as well as a description of the major think tanks that frequently publish economic policy proposals.

The presentation format followed here should provide the reader with a firm foundation of knowledge of the major policy questions facing the United States. In addition it will give the reader an understanding of the sources of disagreement among the proponents of different policy alternatives, which he or she may then apply in studying more specific economic policy issues. Chapter 1 sets the stage for the rest of the book by describing significant events in the development of the domestic and international economies from World War II to the present. Chapter 2 explains the distinguishing features of the three major traditions in political economy—conservative, liberal, and radical. Chapters 3, 4, and 5 discuss domestic and international macroeconomic policy issues, industrial and trade policies, and education and training policies. Chapter 6 discusses the responses of states and localities to global economic restructuring and their implications for the future of American federalism.

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The editor of the series, John H. Whaley, Jr., has a master's degree in library science and a Ph.D. in history. He has been a librarian since 1974 and has had ten years' experience in reference. At present he is Head of Special Collections and Archives at Virginia Commonwealth University in Richmond.

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CHAPTER 1

Symptoms and Magnitudes of Change

The United States emerged from World War II as the strongest economic and military power in the world—a giant towering over the rubble of the Japanese and European economies. Only 45 years later, it finds itself groaning under the weight of record trade and budget deficits, and with a diminished ability to compete in world markets against the Japanese, the Europeans, and the newly industrializing Third World countries, especially Hong Kong, Taiwan, South Korea, Singapore, and Brazil. How is it that a nation so recently the preeminent world power is now losing ground in a dynamic and changing world?

The complete story of declining U.S. economic power cannot be told here, but the major events in that story must be described to set the stage for the survey of economic policy alternatives that follows. For these purposes, postwar American economic history can be divided into two periods. The first period began with the end of the war or shortly thereafter, and ended about 1973. During this time, the United States assumed the role of world leader, stimulating reconstruction of the war-torn industrial economies, fostering the resurgence of world trade, and maintaining world peace. Domestic economic policies, such as demand-side fiscal policy, social welfare spending, workforce education and training policy, and labor relations policy, stabilized the economy and thus bolstered the U.S. role abroad. These policies also helped to spread the wealth that the economy generated, so that, for many Americans, the quarter century following the Second World War was a "golden age."

The reconstruction of the European and Japanese economies by the late 1960s and the rise of the newly industrializing countries undermined the United States' dominant position and ultimately destroyed the postwar international monetary system, leaving economic instability and growing international tension in its place. As U.S. economic performance lagged, the nation questioned the wisdom of its fiscal stabilization and welfare policies, as well as the education, training, and labor relations systems that had seemed to work so well before. During the 1980s, the United States adopted new economic policies, but by decade's end, it was not clear that the country was better off as a result. Thus from 1973 to the present, America has struggled through a period of economic dislocation, attempting to find its way in a changing world order.

The Golden Age in America: 1948–1973

The U.S. Role in a New International Order

In 1946, the United States had over 50 percent of the world's productive capacity.[1] Because of its economic and military might, it played the dominant role in shaping and maintaining the institutions of the postwar international order. The assumption of this role necessitated a change in America's self-conception from that of an isolated nonparticipant in world entanglements to a world leader. Changes in attitude on the part of the other victorious powers, particularly England and France, were also required. Previous conflicts involving the European powers, such as the First World War, had ended in heavy and punitive peace settlements. In the Versailles Peace Treaty of 1919, for example, England and France assessed Germany for such harsh reparations payments that the country's economy was seriously crippled. The resentment engendered by this economic oppression was effectively used by the Nazis in their rise to power. By the end of the Second World War, the leaders of the industrialized world were ready to accept the view that neither isolationism nor harsh economic punishment of any of the belligerents would bring lasting peace. Rather, they would have to find a way to rebuild the world's economies and link them through peaceful trade for mutual advantage. This new attitude made good economic sense. As the great English economist John Maynard Keynes had said in his opposition to the vindictive terms of the Versailles Treaty, international political relations are founded upon economic relations; nations who are at war economically may soon be shooting each other.[2]

Political economists and policymakers seldom have agreed on the best way to achieve the benefits of international economic cooperation while avoiding the conflicts that arise from competition.