

Global Capitalism: A Vital Foreign Policy Tool

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Several schools of thought about the principles that should govern America's conduct of foreign affairs currently vie for preeminence.

Liberal internationalism, favored by the Obama administration, pursues global governance by the international community based on international organizations devoted to human rights and international law. Pragmatic realism, characteristic of the George H.W. Bush administration, eschews grand visions in favor of prudent management, in view of America's vital national interests, of the international order. Neoconservatism, associated with the George W. Bush presidency, champions a strong America defending freedom and democracy abroad—by self-confident and sophisticated diplomacy where possible and by military force where necessary. And non-interventionism, associated with Sen. Rand Paul, seeks a significant curtailment of America's role in the world along with imposition of substantial limits on the tactics used by both the Bush and Obama administrations to fight terrorism at home.

From the perspective of Michael Mandelbaum, professor and director of American Foreign Policy at the Johns Hopkins School of Advanced International Studies, all four approaches miss or understate the defining feature of international affairs today. In "The Road to Global Prosperity," Mandelbaum observes that over the last 40 years, "economic issues—above all, the health of the global economy—replaced matters of war and peace as the major focus of national leaders because economic matters came to have greater effects on the countries they led."

This is not to say that war is outdated or that the role of diplomacy has declined. Indeed, contends Mandelbaum, averting war and promoting global prosperity depend critically on politics. If powerful nations play their cards well, he argues, the global economy will continue to grow, people of all regions of the world will continue to become wealthier, and nations will become even less inclined to settle their differences through armed conflict.

To play their cards well, political leaders must understand the rules of the game. The name of that game, according to Mandelbaum, is globalization, or cross-border trade, investment, and immigration on a worldwide scale.

We live, he says, in the third great era of globalization. The first stretched from the middle of the 19th century to the outbreak of World War I. It was driven by the British economy and protected by the British navy. The second era arose in the aftermath of the Great Depression

and World War II and ended with the resolution of the Cold War. Globalization during this period was dominated by the United States, Europe and Japan, but especially by the United States, which energized global growth by means of the world's most productive economy and protected the international economic order with the world's mightiest military.

The third era of globalization is marked by the rise of the BRIC—Brazil, Russia, India, and China—which, particularly over the last 20 years, have adopted free market policies, embraced the global economy, and have come into their own as economic powerhouses. Even in the face of the financial collapse of 2008, they stuck with global capitalism.

In Mandelbaum's sober view, there is no reasonable alternative to free market capitalism and globalization. Yes, capitalism remains subject to harrowing ups and downs. Yes, in emerging economies—and sometimes in developed economies as well—a failure of political regulation too often permits morally degrading and physically dangerous work conditions. Yes, immigration and foreign investment produce backlashes against globalization. And, yes, owing in significant measure to revolutions in information and communications technology, which have especially rewarded those gifted in manipulating numbers, symbols, and language, capitalism has generated destabilizing degrees of inequality between the wealthiest and the poorest and put pressure on the middle class.

But it is an egregious error to assert, as did Harold Myerson in the Washington Post last week, that by its very nature capitalism “enriches the few at the expense of the many.” It's undeniable that the market economy has done more to lift more people out of grinding poverty than any competing economic system. Considering the larger picture and taking into account a wide array of its costs and benefits, Mandelbaum concludes that globalized capitalism “could accurately be described, in the 21st century, as Winston Churchill once characterized democracy: the worst system except for all the others.”

The serious question, which is the question to which Mandelbaum devotes his lucid book, is how to reap the benefits of global capitalism while minimizing the costs. The answer, as so often in politics, puts a premium on prudent judgment and responsible leadership.

First, the United States must continue to serve, as it has since the end of World War II, as the world's sheriff, providing security to protect the sea lanes, air corridors, and communications and transportation infrastructure that are essential to the international economic system. While capitalism has never enjoyed greater legitimacy and while nations are increasingly disinclined to solve their disputes through violence, the smooth functioning of the international system still requires a guarantor of the most fundamental “global public good”—particularly in the Middle East where Iran exports terror and seeks regional hegemony through the acquisition of nuclear weapons, and in East Asia, where North Korea rattles its nuclear-tipped saber and China's sights remain set on Taiwan. For the near and intermediate term, only America will be able to project force quickly and effectively around the globe.

Second, the nations of the world, particularly those with the largest economies, must encourage the freest possible flow of goods, people, and money across borders while mitigating the inevitable costs. Trade, immigration, and foreign investment put physical resources, labor, and capital to their most productive uses. Despite their overall salutary impact on national economies and the international system, however, trade, immigration, and foreign investment generate local resentments. In the short term, they injure discrete populations who see their wages fall and their jobs disappear as others—abroad through trade and offshore outsourcing or at home through immigration and foreign investment—enter the market and perform the same tasks just as well and for lower cost.

Third, the frequency and severity of financial bubbles must be reduced through better political regulation of economic affairs. Given the weaknesses of human nature, financial bubbles will never be eliminated from a free market system. But to lessen the likelihood and consequences of “financial shocks of the sort that devastated the United States and eventually much of the international economic order in 2008,” Western economies will have to muster greater domestic discipline and the nations of the world will need to improve the international coordination of financial policy.

Fourth, each of the BRIC nations will need to “discard, overcome or modify a once beneficial but now dysfunctional political legacy of the recent past.”

Brazil—with its vast expanses of fertile farmland, large deposits of natural resources, and multiple world-class ports—must constrain the lingering effects of runaway populism. This means curbing state regulation—restrictions on imports, subsidies for domestic industries, and overgenerous and unsustainable public pensions—and reducing reliance on the cult of the national leader. Russia, blessed and cursed with huge energy reserves, must diversify its economy and develop the economic and political infrastructure necessary to sustain a steadily rising GDP. Democratic India must reform its corrupt and inefficient government bureaucracy, and ease its lingering hostility to free markets.

And China, the most economically powerful BRIC, whose authoritarian political system harnessed the country’s material resources and people to produce decades of unprecedented economic growth, will have to move beyond agriculture and manufacturing that consists largely of assembling components made elsewhere. The necessary reforms will also include creating incentives to innovate and take risks; expanding the social safety net, thereby increasing domestic consumption; and establishing a free press that will promote greater public accountability and thus, it is to be hoped, greater public pressure to deal with widespread political corruption and enormous pollution.

In short, Mandelbaum counsels that the future of global prosperity depends everywhere on enlarging the sphere of individual liberty while strengthening democracy, a combination that simultaneously makes government more limited and more accountable, and therefore more

responsible. But he does not succumb to the comforting illusion that history guarantees progress. Nor, in the face of the West's many ailments, does he indulge in the smug satisfactions of cultural pessimism.

Our foreign policy elites should take Mandelbaum's counsel to heart and embrace the spirit of his analysis. Liberal internationalists who do so will abandon the conceit that they can disregard or outwit market forces. Instead, they will raise the profile of economic liberty and concentrate on channeling market forces for the benefit of the public interest. Pragmatic realists will appreciate that prudent management, on behalf of America's vital interests, of the international order depends on accurate assessment of the economic vision that underlies it. Neoconservatives will make greater room for the promotion of commerce among nations in their arsenal of tools for enlarging freedom and democracy around the world. Non-interventionists will develop a more discriminating understanding of America's vital national interests abroad, deepening their appreciation that in a globalized economy and highly interconnected world, limited government and prosperity at home depend on the growth of liberty abroad.

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