

## Book reviews

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**Lester C. Thurow, *The Future of Capitalism, How Today's Economic Forces Shape Tomorrow's World*, William Morrow & Co., New York, 1996, 385 pp.**

Keywords: World economic change, demographics, global business, conversion of the communist world to capitalism, new capitalism, man-made brainpower, social investment in knowledge

### 1. The underlying forces which shape the new economic world

In his new book, Thurow argues that capitalism has lost 60% of its momentum in the last two decades. He bases his figures on the growth rate of the world economy which used to be in the 5.0% range in the 1960s but has decreased to 2.0% per year in the 1990s. Whether one studies Europe, Japan or Mexico the same picture emerges. As the enemies of capitalism (fascism, socialism and communism) have vanished, to so-called 'eternal verities of capitalism – growth, full employment, financial stability, rising real wages' are also vanishing. Why is it so?

### 2. Five economic shifts

Thurow identifies five economic 'shifts' (similar to changes which occur to tectonic plates during earthquakes).

In his book, Thurow investigates what "will be the dynamics of the new world into which we are to sail". He finds that almost everywhere, there is surging *inequality*, falling real wages, corporations are being downsized, the economic viability of the family unit is being threatened. In many countries, due to shifts in purchasing power the middle class "is scared and should be scared: It does not have inherited wealth and must depend upon society for economic security", at a time when governments are retreating from previous promises to guarantee it.

#### 2.1. *The end of communism*

*Thurow explains that "one third of humanity" will now be joining the old capitalistic world. He predicts that "digesting this mass of humanity" will "profoundly alter the shape of their economic world".*

In Chapter 3, he uses the earthquake metaphor to illustrate that, with the demise of communism, 1.9 billion people "tumbled into the capitalistic world". As a result, capitalism and democracy now "live in a unique period where effectively they have no viable competitors".

#### 2.2. *A shift dominated by man-made brainpower industries*

*Man-made brainpower industries are "geographically free. The economically dominant will be able to create, mobilize, and organize the brainpower that determines their location".*

Chapter 4 develops the competitive equation. Thurow tackles the issue of skills which have become the only source of long-run sustainable competitive advantage. In the era of electronic interactions, brainpower technologies are transforming the nature of the firm. With the wired village and the global web, "direct democracy is on the way". A new culture concerning our consumption and production activities will prevail.

#### 2.3. *Unusual growth of the world's population*

*"The push of miserable conditions at home and the pull of higher standards of living abroad are leading tens of millions of people to move from poor countries to rich countries just when unskilled labor is not needed in the wealthy industrial world."*

In Chapter 5, Thurow tells us that the world population is growing, moving and growing older. He is emphatic in stating that no society will be able to afford a social welfare system in which such a great percentage of resources need to be devoted to support "ever larger fractions of its population which lives in idleness for ever longer periods of time". He claims

that we should be investing in the young rather than in the old: "Nothing should be more important to the old than economic success of the young".

#### 2.4. *A global economy as national economies fade away*

*"National economies fade away. Countries splinter, regional trading blocs grow, the global economy becomes ever more interconnected."*

In Chapter 6, the author explains how ideologies are just as important as technologies in the development of the global economy. "A global economy now shapes everyone's view of the world and alters how each of us thinks." It is embodied in our mind-sets. Thurow continues the argument of his previous book *Head to Head* in which he predicted that Europe would win the competition to be the leading industrial area of the world in the twenty-first century. In Europe, ideology is pushing economics; in the world, economics is pushing ideology. Cooperative policies are needed to make the global economy work. In turn, cooperation will require the surrender of some part of national sovereignty, a sure sign of less democracy. National parties of the right or the left will soon object to any infringement of national sovereignties. And thus, the world economies will be tottering in a state of flux and unstable equilibrium.

#### 2.5. *An era without dominant economic, political or military power*

*"The twenty-first century will have no dominant power able to design, organize, and enforce the rules of the economic game."*

In Chapter 7, Thurow argues that we live in a multipolar world with no dominant power. After the implosion of the USSR, the US has not been able to assert a dominant role in the new world arena. Its military establishment has been reluctant as much as Congress or taxpayers to commit badly needed resources to battle foreign calamities, to say nothing of wars. Thurow revisits the issue of America's trade deficit and the value of its currency in relation to that of other countries with which it trades. Americans must try to preserve the value of the dollar to retain world economic leadership. If the dollar loses its position as the world's reserve currency, America loses much of its freedom of action. Most governments still live in the erroneous belief that they can control the value of their currency and exercise control of the

international flows of currency. They are sadly mistaken, as has occurred in several cases, the latest of which occurred to Mexico recently. Can we expect a new world trading system with unlimited cooperation by all parties?

Thurow states that in the US, internationalism was sold as anticommunism. Now that the threat of communism has disappeared, there is room for a rise of a new American isolationism, a situation which does not encourage any other country to take the lead of international affairs. How are we to hold the system of social systems together when no obvious leader exists? Previous experiences with similar voids in the 1920s and 1930s do not augur a successful outcome.

### 3. **The forces remaking the economic surface of the earth**

After reviewing the forces that are remaking "the economic surface of the earth", Thurow reviews in Chapter 8 how the distribution of purchasing power has changed in the last twenty-five years. He then predicts that the change in the next twenty-five years will be even more dramatic. The end of communism is offering the old-capitalistic world large supplies of cheap well-educated labor. Migration is also pushing a lot of smart, energetic but unskilled laborers directly in the first world. There is "no economic locomotive (dominant leader) for the world's economic train", and, for the time being, inflation is extinct in most industrialized economies.

### 4. **Major fault lines and economic instability**

Thurow devotes Chapter 10 to discuss the major fault line across world trade and the Pacific rim: Japan. Japanese trade surpluses on one side and American trade deficits on the other create a situation of unstable equilibrium. Would increases in the saving rate in both countries correct the situation? Thurow asks. America could have an excess of investment, over savings and Japan an excess of savings over investment, yet America could run a bilateral trade surplus with Japan, Thurow concludes.

Economic instability is the subject of Chapter 11: The author does not believe that Americans would be ready to stop a run on the dollar in particular if it would involve economic pain. "The fault lines of financial instability are real."

## 5. Economic versus political reality

Thus we arrive at the relationships between economic and political systems. Democracy and capitalism have very different beliefs about the proper distribution of power (Chapter 13). One believes in a completely equal distribution of power while the other believes in survival of the fittest. We have learned to live with inequality. In the absence of any vision that could generate the enormous restructuring efforts and the investment necessary to reduce inequalities, how are we to proceed to redress the obvious inequality that pervades the world? In Chapter 12, the author suggests that the forces of religious fundamentalism or of ethnic separatism threaten countries under economic uncertainty. He calls them 'social volcanoes' ready to explode.

## 6. Capitalism without a competitor

If there is one good reason for writing this book, Thurow states that "history, much like airline accidents, can teach us lessons about building more successful human societies if, like airline accidents, history is carefully analyzed as to what went wrong. To ignore the social aspects of human kind is to design a world for a human species that does not exist". Thurow concludes by a sobering comment on the future of capitalism. "Without a viable competitor, capitalism cannot self-destruct."

## 7. Technology and ideology

This is not to say that capitalism with its inherent instabilities and rising inequalities is without problems. We know that technology and ideology are shaking its foundations. We also are witnessing that these same forces are reshaping it in new forms which gives us reasons for optimism. Thurow invokes 'luck' as an ingredient which may save capitalism from the so-called 'tectonic forces' that threaten its long-term future. We will also need to use the same forces – *technology and ideology* – to build a new vision which will avoid the social extremes and will deliver to the peoples of the world the prosperity that they so desperately are seeking.

## 8. Luck, persistence and willingness to try the unknown

All of Thurow's books are thoughtful treatises which are well documented. The book reviewed here is no exception. The author is strong in description but somewhat lacking in prescription. The reader must be ready to endure a historical account of what has shaped the economic landscape of modern capitalism. While this account is detailed, the author recognizes that he is no miracle-worker or crystal-ball gazer. At the end of his book, and in all modesty, he invokes Columbus as the world's greatest explorer. One moral of the story of how he discovered America (an event which is placed into question, as we speak) is that: "it is important to be smart, but that it is even more important to be lucky". Thurow admires Columbus' luck, persistence and willingness to attempt the unknown and wishes that we resolve to apply the same resolve to solve the economic riddles of the world.

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**Jeremy Rifkin, *The End of Work*, G.P. Putnam's Sons, New York, 1995, 350 pp.**

Keywords: Third Industrial Revolution, post-market era information and communications technologies, decline of the global labor force, layoffs, social dislocations, end of social contract?

### 1. The Third Industrial Revolution

Nothing is so important nowadays as the issues of employment, jobs, downsizing and the future of the labor force in the workplace. Jeremy Rifkin's book chronicles the decline of the global labor force and the dawn of the post-market era. First, the distinguished economist Robert L. Heilbroner provides a fitting introduction. He asks: "What happen(s) to (the workers) whose jobs (are) taken by machines?" After the onset of the Industrial Revolution, technology and mechanization displaced workers from agriculture and

the extractive industries to the manufacturing work force of factories. In the next big phase, automation replaced mechanization and produced a new wave of labor force changes and dislocations. Service employment saved modern economies from “the absolutely devastating unemployment” caused by the automation. In the next phase of technology which most industrialized nations are entering today, the computer is causing the new wave of dislocations and dysfunctions which are at the core of Rifkin’s new book.

Rifkin states that the Information Age “will bring civilization ever closer to a near-workerless world. The wholesale substitution of machines (computers) for workers is going to force every nation to rethink the role of human beings in the social process. *The End of Work* examines the technological innovations and market-directed forces that are moving us to the edge of near-workerless world . . . and address the complex problems that will accompany the transition to the post-market era.”

## 2. Consequences of corporate downsizing

This book arrives at an important time in the history of industrialized nations. Prosperity is coupled with despair. For those who have a skilled job pertaining to the information age, it is a time of prosperity. For those who are unfortunate to lose their job, it is a time of despair. Thirty years ago or less, college-trained managers could easily find one job after another. Professional employment was plentiful and, typically, there were several openings for each applicant. It is true that the ‘blue-collar’ or factory workers were displaced, but this concern did not reach the ‘white-collar’ worker. Nowadays, in increasing numbers, both ‘blue’ and ‘white’ are walking the pavement in search of work. The situation has become widespread in all the countries of the Western world. Europe and the US are showing an alarming trend of massive layoffs during, what are to be considered relatively ‘good’ economic times. If these are the ‘good times’, it is frightful to think what can happen in times of recessions and of deeper economic slowdowns. The ‘byword’ in large corporations is ‘downsizing’. How did this phenomenon occur and what can we do about it, is the subject of Rifkin’s riveting account. Naturally, it is of interest to not only capitalists, presidents, CEO’s, government officials, politicians, but also to all of us who, sooner or later, might become engulfed in the most destructive eco-

nomical and social upheaval of the century. Rifkin emphasizes that this is more than a labor force problem. It is becoming a social and political problem.

## 3. Polarization of the world’s population

“The information and communications technologies and global market forces are fast polarizing the world’s population into two irreconcilable and potentially warring forces – a new cosmopolitan elite of ‘symbolic analysts’ who control the technologies and the forces of production, and the growing number of permanently displaced workers who have little hope and even fewer prospects for meaningful employment in the new high-tech global economy.” (p. xvii)

The repercussions of such a polarization is visible for all of us to see. Both in Europe and in the US, political factions and political candidates successfully play to the fears of those who have been left unemployed or who are afraid of losing their job soon. Tenure or life-time security are gone forever. It is a time when each worker and employee is living in fear of being laid-off or fired. Those with jobs, work harder to prove to their employer that they are worth keeping. They do not only have to work harder, but feel that they have to work overtime, without compensation, to look ‘good’ and be spared the ever potential layoff. Those who lose their jobs cannot find employment. They not only lose their job, but with it, their self-respect and any hope of supporting their family and providing for their retirement.

Rifkin mentions Jacques Attali (*Millennium: Winners and Losers in the Coming World Order*, Random House, New York, 1991) who, while employed by President Mitterrand, proclaimed “the end of the working man and woman” and stated: “Machines (computers) are the new proletariat” (p. 7). Software is substituting for employees and, as a result of re-engineering, it is predicted that at least 40% of the jobs in any one company will be eliminated. It is paradoxical to note that while the number of ‘blue collar’ workers in the US continues to decline, the annual manufacturing productivity indices are soaring (p. 8). We are entering a world without workers.

#### 4. The new realities for capitalistic societies

The new realities pose serious problems for capitalistic societies who promised the combination of high productivity, low costs, increased supply of cheap goods and expanded purchasing power which in turn generated new markets and more jobs. The gospel of mass production and the idea that the workers will benefit and share in the new wealth is evaporating. Rifkin is candidly asking the question: "Retraining for what?" Both the public and the private sectors are retrenching. We were promised 'visions of technoparadise' where the cult of efficiency prevailed. However, we must rethink the operating assumptions behind the endless stream of "production, consumption and work" (p. 56).

"The transition to a near-workless information society" is the third and final stage in economic paradigms which saw the advent of mechanization, automation and finally the information and computer age. It all started with the elimination of farmers through the combination of agri-business, the use of software and the end of outdoor agriculture. Biotechnology and automation of the food industry finished the job which started when farmers became redundant. Then, the automobile industry was automated and global automakers re-engineered their operations through 'lean production' eliminating a large number of workers (p. 130). Rifkin describes how through laborsaving technology and greater technological efficiency, the 'silicon-collar workforce' replaced human labor force in rubber, steel, chemical, appliances, garments and clothing and other manufacturing industries. Fortunately, the industrialized world found the service worker who in the last 40 years prospered and flourished. While not always paid as well as the traditional manufacturing workforce, it provided employment for millions of people. However, in the new age of information technology, the service worker is also waning. All the large US corporations have announced massive layoffs which can only be the result of the cumulative effect of the newly found technologies created by the wonder of computers, networks, cyberspace and the so-called 'high-tech world'.

#### 5. The demise of service workers

Rifkin even infers the demise of "service workers" by having "the machine" (meaning 'computers'), at "the service" of the virtual office in banking, the

wholesale and the retail sectors, the restaurant industry, the entertainment industry, and so on. The author reminds us of the digitizing of the professions, education and art where "the electronic superhighway is changing employment patterns even more radically than did the US highway system when it was constructed in the late 1950s and early 1960s" (p. 158). Rifkin quotes Gordon Moore, the chairman of Intel who points out that "raw computing power is now doubling every eighteen months, setting a blistering pace for technological change" (p. 162).

Rifkin states: "In the future, advanced parallel computing machines, high-tech robotics, and integrated electronic networks spanning the globe are going to subsume more and more of the economic process, leaving less and less room for direct hands-on human participation in making, mowing, selling and servicing" (p. 162).

#### 6. The price of progress

All this is 'the price of progress'. Some 'progress' you may well ask! Once Rifkin has finished describing what happened to the labor market, he proceeds to review the consequences of these developments. He asserts that, "although stockholders have greatly profited from the new technologies and advances in productivity, benefits have not 'trickled down' to the average worker". He warns us about the "true dimensions of the unfolding job crisis". It is not a mere coincidence that an article of my morning paper warns us to be ready for 'workplace turbulence'. The strikes in France at the end of 1995 showed us that a great deal of people are very unhappy at the situation. The same signs are obvious in the US when we listen to the 'sound bites' of the politicians who are running as candidates in the presidential primaries in 1996. One of the most important issues which CEO's and governments must confront in the next decade is how to reduce the legitimate fear of the average worker to lose his/her job. As we well know this phenomenon is not only hitting the low-skill worker but it is decimating managerial ranks as well. And it is more than a question of jobs. Younger workers cannot find entry type positions, while individuals over 40 years of age have no job security and have to work harder to make ends meet. The two career families are commonplace. The so-called 'American dream' seems to have vanished in thin air.

## 7. The vanishing social contract

Where are the days when CEO's were proud of the investment in their workforce education, experience and training? Many claim that in order to be super-efficient they have to proceed to massive layoffs. It has always been difficult to sell the idea of social responsibility to some CEO's obsessed with the 'bottom line' and shareholders value. However, the drastic view that only profits and the stockmarket rule will come back to hound them. If the corporation takes care of the well-being of its personnel, the latter will perform accordingly. If it does not, loyalty and performance will suffer accordingly. The very foundation of the capitalistic system is based on this *quid quo pro*. At its origins, this tacit agreement was based on the belief that a worker would give the corporation his or her very best, and, in exchange, he/she would receive wages to pay for a decent living and a deserved retirement. If these promises are eliminated and the social contract is revoked, so will be the workers' allegiance, devotion and commitment. Faced with an economy in which prospective workers will, in increasing numbers, "be unable to secure work in the automated high-tech global economy, the question of the utilization of idle time is going to loom large over the political landscape" (p. 235). We are certainly facing a period of serious and justified labor and social unrest.

## 8. Can the government help?

Rifkin calls for "the empowering of the third sector", where "the globalization of the market sector and the diminishing role of governmental sector will mean that people will be forced to organize communities of self-interest to secure their own futures". This may well be a solution in countries like the US where many citizens consider the role of government as suspect. However, these are the same people who forget that government is the agent of last resort and that, when everything else fails, we turn to government for sheer survival. In the US, it was in part, government works and government action that brought the country out of the 1930 depression. In all western democracies, government has a role to play to stabilize the economy and to redress imbalances. Rifkin discusses the new role of government and the emergence of "the third sector", an independent sector, which is neither public or private but is made up of volunteers and

previously unemployed workers who band together to forge community alliances. In the last chapter, Rifkin sees "the globalizing of the social economy", where "the independent sector will play an increasingly important role in nations around the world", and where "people are creating new institutions at both the local and national levels to provide for needs that are not being met by either the marketplace or public sector" (p. 275). He warns us "that the threats and opportunities brought on by powerful market forces and new technological realities" will cause unemployment to rise and tempers to flare when "country after country will be caught up in the crossfire to improve production performance at all costs" (p. 287). Rifkin is an optimist but, when asked to provide lasting solutions to this world-wide dilemma, his book ends. We are left to look elsewhere for answers to the stark reality that he portrays. Of course, there are no easy answers. In all probability, the solution lies in reasonable mixtures of government and private actions that will temper the extreme rhetoric of those who either want to revert to a closed economy or to isolationist policies. It is interesting to note that the phenomenon of unemployment or under-employment is widespread. It affects every nation of the world, whether we consider mature economies like France, the US or Germany, or emerging ones like Mexico, Argentina or Brazil.

## 9. Conclusion

Robert Reich, the US Secretary of Labor, has single-handedly mounted a campaign to demonstrate that workers cannot be treated as 'disposable assets'. Perhaps it is well to recall Robert Reich's advice again. In a discussion of the issues presented above, he noted that a country is not only a business, "it is a society". Corporations have the responsibility to give employees security and training. In return, the latter will remain loyal and productive. The corporation is profitable because of its human assets. In return, it should reward its labor force with security and long-term employment. Reich's advice and Rifkin's chronology should be taken seriously.

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