

## **“Will Global Capitalism Fall Again?”**

### **By Jeffrey Frieden**

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At Bruegel’s Annual Meeting in June this year, Professor Jeffrey Frieden of Harvard University gave a lecture under the conference’s theme, “Global Capitalism Under Threat?” His lecture, “**Will Global Capitalism Fall Again?**” looked at the first era of global capitalism, the one that ended with the outbreak of the First World War, comparing it to the process of globalisation the world is currently undergoing, explaining on the way why it was impossible to rebuild the old system of global capitalism after the end of the war. He draws some important lessons for the future of globalisation in our own era.

The period before WWI (from 1850 to 1914) was one of unprecedented economic integration. Capital, goods and people moved more freely than at any other time, and the Gold Standard linked almost every country in the world to a common monetary order. As in our own era, this world also suffered from its own version anti-globalisation movements, with the rise of protests against free trade and immigration. But despite problems and periodic crises, the world economy was perceived to be doing well.

However, there was one big problem that disallowed the reinvention of global capitalism in the 20<sup>th</sup> Century: the fact that any economic shocks were compensated for by rapid downward movements in wages and prices, a price that organised and politicised workers and farmers of the more democratic era that followed WWI were unwilling to pay. In spite of several attempts to rebuild the pre-war systems, political resistance proved too strong and it was only after WWII that a new system based on a very different set of rules emerged, the one of Bretton Woods.

The Bretton Woods system was an excellent compromise for the problems of global capitalism in a more egalitarian world. It acknowledged the legitimacy of governments’ commitments to social insurance and redistributive social policies as well as their commitment to greater economic integration. Global integration now advanced gradually whilst governments continued to spend on a wide variety of social programmes. The world experienced the most rapid and most stable period of sustained economic growth in history. However, it was this success that helped undermine the system itself, when international financial integration, fuelled by the stability of the dollar standard, began to interfere with governments’ abilities to run autonomous macroeconomic policies tailored to their individual state’s needs.

If our current era of globalisation is to be sustained, some lessons must be learned from the previous era of global economic integration. Backlashes against globalisation, if not justified, are at least understandable, and it would be unwise to ignore the costs of globalisation. However, ignoring or failing to promote the potential benefits of globalisation is just as perilous. We must seek a balance between international economic openness and the legitimate concerns of those harmed by the international economy.

*The full paper is available on Bruegel’s website ([www.bruegel.org](http://www.bruegel.org)). Please call Matt Dann for a paper copy of the lecture.*

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