Book Review

The war for wealth: the true story of globalization, or why the flat world is broken

by Gabor Steingart

New York: McGraw-Hill. 2008. Hardcover: ISBN 978 0 07 154596 9, 304 pages.

The War for Wealth: The true story of globalization, or why the flat world is broken, is a fascinating book written by the award-winning journalist, Gabor Steingart. Currently ranked 34 on Amazon's sales category of International Business Economics, the book emphasizes that the United States is not taking China's power seriously and suggests that America has to change its strategies in order to gain the war for wealth. The author engages the reader in the world of globalization, emphasizing the importance of taking actions and avoiding stagnation.

Steingart lucidly describes the American century, where by 1980, the United States had a negative balance of trade and by 1995, 42 percent of U.S. imports originated in Asia and exports continued to drop dramatically. From that point on, economic relations shifted, and even though the United States was still a large economy, its dominance had been broken. Asia is attacking with economic weapons, avoiding cultural, religious or ideological confrontation. According to China's statistics, in 2004 it was the seventh largest economy of the world; however, western intelligence agencies claim that published figures are lower than actual figures. Within a relatively short period of time, 1.5 billion new low wage workers – mostly from Asia- were integrated to the world's labor force. Meanwhile, workers in the West are struggling to be part of the global market. Experts state that the only jobs that leave the U.S. are unskilled jobs; however, the reality is different. Chinese and Indians are getting doctoral diplomas and master's degrees in the West, to get back to their countries, enabling their nations to become the world's new powers.

One of the author's main points is that the U.S. needs a political change, to establish global regulations, in order to win the war for wealth. Steingart argues that one of the key differences between American and Asian labor markets is the social welfare state. On the one hand, products manufactured in China do not include a social surcharge. On the other hand, products manufactured in the U.S. have a surcharge in order to protect the environment and the rights of workers, such as union contracts, as well as minimum wages, all of which contrast with China's reality.

At the end of his book, Steingart explains three possible scenarios. The first one is the shock scenario that is a lose-lose situation, in which neither the U.S. nor China are going to be able to achieve sustainable levels of growth. If nothing happens, and politicians are not able to reduce current tensions in the global economy then China could turn from a growing nation into a warrior one and the U.S. could end up with a severe economic crisis that would put the country into an even more profound recession than currently afflicts it.

Secondly, the author describes the Asia-Above-All scenario, where Asia would continue to grow and the U.S. would lag behind. On the one hand, China is going to be able to transform its rudimentary capitalism into a more modern one, by having more environmentally conscious

policies and a more equitable society. On the other hand, the U.S. would retain its negative trade balance, increasing its debt and reducing its rate of innovation.

The third scenario is the renaissance of America where the United States of the West (U.S. and Europe), become allies because they have common values and interests. This scenario depends on rethinking globalization and encouraging western politicians to take action. Moreover, it is crucial to level the playing field, with the same rules for all countries, establishing a global regulatory framework, to protect workers rights and the environment.

From my own perspective, *the War for Wealth* is a provocative book that can be used as the first step to think about key issues of globalization and I would like to analyze some arguments that are the basis for the author's thesis.

A U.S. balance of trade deficit implies that to maintain full employment U.S. interest rates have fallen to levels below what they would otherwise be. This enhances the benefit cost ratio for business to invest in plant and equipment, for government to invest in infrastructure, and for individuals to invest in education. Thus, investments in all of these three areas have been increased by the trade deficit. These investments raise GDP and the total reward to factors of production, including labor. Unfortunately, the U.S. tax structure shunted an excessive investment into real estate instead of using those resources for more productive assets. Here is where U.S. politicians, elected to protect the best interest for all constituents, should intercede to create the best conditions for the common good for the long-term. In short, the U.S. balance of trade deficit can be thought as aid from foreign governments to the U.S., to facilitate its growth and its development.

Though I concede that China is increasing its number of jobs, I insist that more jobs in China do not mean fewer jobs elsewhere, because there is not a limited world demand for output. China's economic growth increases its demand, and because this demand is not limited, there is no reason to believe that the number of jobs worldwide would shrink.

Furthermore, rather than promote the social welfare state globally, it would be more beneficial to focus on education, health care, reducing taxes on capital formation, shrinking agricultural subsidies, and eliminating protectionist policies, especially those with high cost-benefit ratios, so to improve productivity in the U.S. When these measures are coupled together, there is an increase in human capital which raises the value of the marginal productivity of labor to finally create additional gains from trade, some of which can ultimately be redistributed through a progressive tax structure.

I agree with the author, that it is important to have global environmental regulations. Since we rely so heavily upon the natural environment, it is in our best interest and those of future generations to protect it. Moreover, environmental regulations increase workers health and thus raise human capital. However, it is paradoxical to criticize China for its gas emissions, when the U.S. has been the only country that signed the Kyoto Protocol without ratifying it.

Finally, as Kennedy once stated "Globalization does not benefit everyone to the same degree. It also produces losers." Accordingly, I agree that globalization is not favorable for each individual; however, it is a process that promotes growth worldwide.

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