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David Warsh, Editor

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## *Hjalmar Horace Greeley Schacht and Other Citizens of the Twentieth Century*

The National Bureau of Economic Research held its 21st Annual Conference on Macroeconomics last week in Cambridge. The question of why Europeans work so much less than Americans once again held center-stage. The emphasis this time was on new ways of investigating the interplay between European tax rates and generous social insurance programs.

There are highly interesting questions here, but they are a long way from clarity, much less resolution. Meanwhile, slow growth and high joblessness prevail in most of Europe; while in the United States, the rat-race continues apace.

So instead of going to most of the sessions, I did the European thing. I spent a couple of days reading Jeffrey Frieden's new book, [Global Capitalism: Its Fall and Rise in the Twentieth Century](#).

There are certain history books that just catch on, because of their character. Frederick Lewis Allen's [Only Yesterday: An Informal History of the 1920s](#) was one of these. Paul Johnson's [Modern Times: the World from the Twenties to the Nineties](#) was another. Thirty-three years after it was completed, Daniel Boorstin's trilogy [The Americans](#) remains an exhilarating experience.

Frieden's book has many of the same qualities as those books; I hope that it, too, will attract a wide audience. Many other new books bear directly on the situation that obtains today in Europe. Among them are Tony Judt's [Postwar: A History of Europe since 1945](#), John Lewis Gaddis's [The Cold War: a New History](#) and Michael Burleigh's exploration of the endlessly fascinating "long" nineteenth century [Earthly Powers: The Clash of Religion and Politics from the French Revolution to the Great War](#). Burleigh in particular highlights the chasm that exists between the European and American experiences.

But it's Frieden's book that juxtaposes Belgium's King Leopold

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with Germany's Hjalmar Horace Greeley Schacht, France's Jean Monnet and the United States' Paul Volcker to produce an economic history of the twentieth century that makes the whole thing come alive.

It was, for example, Leopold who in the 1870s began bankrolling explorers of Africa in hopes of establishing a colony for one of Europe's least prepossessing military powers. On the strength of Henry Stanley's expeditions, he persuaded his fellow sovereigns to recognize his claim to the Congo basin, an area as large as Western Europe. (The former Belgian Congo, later known as Zaire, is today the Democratic Republic of Congo. The former French region along the west bank of the river, including Brazzaville, has become the Republic of the Congo.) He then created a rubber-gathering industry that became one of the most brutal exploitation schemes in modern history. The whole horrifying story was told by Adam Hochschild in [King Leopold's Ghost: a Story of Greed, Terror and Heroism in Colonial Africa](#). Frieden describes it as part of an even-handed survey of colonialism: "With the exception of cases of outright Leopoldian looting and privileged settler colonies, colonialism was not usually an insurmountable obstacle to economic development."

Or take Schacht, the practitioner who invented the economics that powered first Germany, then the Soviet Union. He was born in 1877, to parents recently returned to Germany from New York. They named him Hjalmar Horace Greeley after the New York newspaper editor and presidential candidate who had published Karl Marx's dispatches from London. Schacht studied political economy before going to work first for the Dresdner Bank, then the Danatbank. It was he who, in 1923, as commissioner for national currency, proclaimed the Rentenmark, and so ended the great German hyperinflation. Eight years later he backed Adolf Hitler for chancellor and became economic czar when the Nazis came to power.

With the rest of the world mired in depression, Schacht ended unemployment in three years, with no inflation despite large budget deficits (nearly 5 percent of GNP!): "Inflation is a lack of discipline," explained Hitler; "I'll see to it that prices remain stable." (Concentration camps were the key.) Schachtian economics kept as much German money as possible in Germany, and otherwise built a system of satellites with differential exchange rates: Hungary, Romania, Bulgaria, Yugoslavia, Greece and Turkey. By 1937 the Nazis no longer needed him; German rearmament was an accomplished fact. ("Der Führer has fired the Schacht heard round the world," wrote Time magazine.) He participated in several plots against

Hitler, survived Dachau, was one of three original defendants acquitted at Nuremberg, and lived quietly in Munich until 1970.

Jean Monnet, born in 1888, traveled widely as a young man representing his family's cooperative in Cognac, France -- from the Yukon to rural Egypt, developing a first-hand experience of globalization. During the 1920s, he was one of Wall Street's men in Europe (Blair and Co.); he consulted widely around he world throughout the 1930s. World War II found him in Washington, coordinating aid to the French and British. In the years after the war, he created the European Coal and Steel Community, precursor to the Common Market and the European Community. More than any other, Monnet was the architect of European unity.

And Paul Volcker was, of course, the man to whom President Jimmy Carter turned in 1979 to administer a "counter-shock" to a world economy increasingly spinning out of control. Volcker "could not get Cuban troops out of Angola or restore labor peace to Britain," writes Frieden. "But he calmed financial markets by changing the tenor of economic policy in the United States." Within weeks of taking office, he committed the US central bank to doing whatever was necessary to bring inflation under control; within years, oil prices began a spectacular fall; by the 1990s, interest rates were lower than they had been in sixty years. Meanwhile the global economy boomed.

Harvard government professor Frieden moves easily from East to West, from North to South, from the industrial democracies to the many varieties of socialism as he spins the story of a world increasingly knit together by trade: "Markets, not monarchs, were the dominant force." He never stints on the institutions that were necessary to produce the miracle: from the clanking machinery of the gold standard to Bretton Woods, from autarky and import-substituting industrialization to the General Agreement on Tariffs and Trade and the new macroeconomics of currency flows among open economies. And yet his account moves along almost effortlessly, from one set of triumphs and disasters to the next, emphasizing the technological developments that eventually bring the entire world together in a market in which the "three scariest words" are "the China price" -- the cost of manufacturing in a country where wages average \$25 a week.

Frieden ends his book with an account of the surprising demonstrations that erupted when ministers of the World Trade Organization countries gathered in Seattle in 1999 -- thousands of protesters unexpectedly taking to the streets to disrupt the

meetings. Since that "Battle in Seattle," it has become a commonplace that global capitalism is troubled -- that a gap exists between international markets and national politics, and that the very success of the economic enterprise poses a threat to the global climate

He notes, "The international economy has enabled countries to develop, alleviate poverty, improve social conditions, lengthen life spans, and carry out social and political reform. The best hope for the impoverished masses of Asia and Africa is to gain access to the opportunities the world economy has to offer." To his credit, he draws not just one moral but two. Economies work best when they are open to the world. And open economies work even better when their governments address the sources of dissatisfaction with global capitalism -- as politicians in Paris and Washington, to name only the most obvious, are having to find out.

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