One Economy, Ready or Not[1]
Barry Eichengreen

In a period when terms like global glut and commodity-price deflation are on the tip of every tongue, competent economic journalism may be the one commodity that most remains in short supply. All too often, journalists are assigned to the economics desk despite experience writing only about domestic politics or foreign policy. The top journalism schools claim to be turning out graduates literate in economics, but a semester or two of instruction is hardly adequate preparation for the complexity of modern markets. Economists writing for a broad audience, for their part, tend to get bogged down in technicalities and to lose sight of the big picture.

Thomas Friedman is the exception. With a background in foreign affairs and a Pulitzer Prize-winning book on the Middle East under his belt, he redefined the "Foreign Affairs" column at *The New York Times* as covering the intersection of economics and foreign policy. "Sure, I'm honored to be asked to serve as foreign affairs columnist for *The Times*," we can imagine him saying upon being given the beat. "But what exactly am I supposed to write about? For my predecessors, the answer was the Cold War. If it mattered for the Cold War it mattered for their readers, and their task was to explain how and why. Now that the Cold War is history, everything is fair game. What is my technique for finding order in this chaotic world?"

His meta-story, Friedman quickly came to see, was globalization. It may now be obvious that historians will look back on the 1990s as the decade of globalization, but it is worth recalling

[1]Review of Thomas Friedman, *The Lexus and the Olive Tree* (New York: Farrar, Straus, Giroux, 1999). A revised and edited version of this review will appear in *Foreign Affairs* (April/May 1999).

that this was less than apparent, even to "informed opinion," only a few years ago. Friedman's columns have done much to transform this state of affairs. Through strategic use of the anecdote and the medium of the travelogue, he has brought home the sweeping impact of globalization on the most remote corners of the world. If it's Monday, Friedman must be in Albania; if it's Tuesday, he must be in Zambia. One envies him his frequent flyer account and his battery life.

While there is nothing startling about the author's thesis of the impact of global markets on the post-Cold War world, it is hard to think of another book that succeeds so fully in drawing out the implications. There is Francis Fukuyama's *End of History,* which identified liberalism as the foundational ideology of the post-Cold War age and market capitalism as its economic superstructure but failed to imagine the world they would create. There is Daniel Yergin and Joseph Stanislaw's *Commanding Heights,* which emphasized the challenge of global markets for the state but did not anticipate the scope for instability in the transition from government- to market-led economy. There is Samuel Huntington's *Clash of Civilizations,* which saw the end of the Cold War as heralding renewed ethnic and religious conflict but failed to appreciate economic interdependence as a stabilizing counter-force. The book closest to this one may be William Greider's *One World, Ready or Not* — on whose title Friedman should have taken a sublease.[2] But in contrast to Greider, Friedman gets the economics right. His book is a fount of economic common sense that will inoculate its readers against the "globalony" so prevalent in popular

---

[2]Francis Fukuyama, *The End of History and the Last Man*, New York: Free Press (1992). Daniel Yergin and Joseph Stanislaw, *The Commanding Heights: The Battle Between Government and the Marketplace that is Remaking the Modern World*, New York: Simon & Schuster (1998). Samuel P. Huntington, *The Clash of Civilizations and the Remaking of the World Order*, New York: Simon & Schuster (1996). William Greider, *One World, Ready or Not: The Manic Logic of Global Capitalism*, New York: Simon & Schuster, 1997.

discussions of the subject. One can only hope that, despite its ungainly title, *The Lexus and the Olive Tree* attracts the audience it deserves.[3]

Internet Time

For Friedman, globalization is inevitable and irreversible; the forward march of technology makes it so. Governments can no longer control the flow of information now that the cell phone and satellite television have come to the most remote Indonesian village.[4] Day-to-day economic decisions can no longer be decreed from above by corporate CEOs, much less government planning ministers, now that markets mutate with frightening speed. Finance can no longer be dominated by "white-shoe" commercial banks now that anyone can be a day trader. Capital can no longer be bottled up within borders now that billions of dollars can be moved with the flick of a key. And in an age when instantaneous communications allow U.S. software companies to outsource product development to India, participation in global markets affords the world's poorer countries more opportunities than ever before.

None of this, the author warns, implies that the state and the distinctive social values of which it is the vessel are about to wither away. States will continue to respond to globalization in different ways, and how they respond will determine their economic success or failure. Whether they capitalize on the opportunities afforded by globalization will depend on whether they succeed

---

[3]The Lexus, the author's car of choice, symbolizes the drive for prosperity and modernization and the growth of technology and finance that are the vehicles for delivering them, while the olive tree represents the traditional values to which societies remain rooted even in an age of global markets.

[4]There is something delicious about reading of the decline of the traditional print media in a book by a columnist for *The Times.*

in attracting international investors (Friedman's "Electronic Herd"). And whether they attract investors will depend in turn on their willingness to don the "Golden Straitjacket," privatizing enterprise, balancing the budget, lowering tariffs, removing restrictions on foreign investment, and eliminating subsidies for state enterprise. At a deeper level, their success in courting the Herd and capitalizing on globalization will depend on whether they install the institutional prerequisites for reliably-functioning markets -- internationally-recognized auditing and accounting standards, strong financial market regulation, clear shareholder rights, and equitable bankruptcy procedures -- in effect, on whether they succeed in replacing cronyism with a culture of transparency. For all his talk about distinctive national cultures and differing responses, Friedman sees the embrace of globalization as the only route to economic growth.

But what assurance is there that governments and societies will see the light? However distressed are the French by the Burger King on the Champs Elisees, the Taco Bell in the Corniche must be even more disturbing to the average Qatari. Governments believing that the shock is too great may choose to throw closed the doors, regardless of the cost. Friedman warns that the Internet will defeat them by giving individuals other ways of accessing the outside world. (One might say that what is not allowed in through the door will come in through Windows.) Moreover, modern information technology will intensify the pressure to conform to global market standards by rendering it essentially costless for producers to shift activities to competing locations. For the author, the Internet is the agent that renders inevitable a transparent, democratic, decentralized, market-based society.

Open System

This is the brave new world to which Friedman refers as "the dominant international system at the end of the twentieth century." The terminology is revealing: the author sees globalization as a system rather than a trend, a process, or a set of policies, superseding the Cold War system that came before. The constituents of that Cold War system were the rival ideologies of communism and capitalism, the technology of nuclear deterrence, and the alloction mechanisms of the plan and market. So long as both plan and market were viable and developing countries could count on assistance from Moscow or Washington, they could put off rationalizing their economies. But with the collapse of the Soviet Union, those subsidies were withdrawn, removing the only remaining obstacle to the emergence of a post-Cold War international system based on the ideology of laissez faire, the culture of consumerism, and the power of finance.

The stability of that system -- its equilibrium, as an economist would have it -- rests precariously on a fragile balance of power. Most obvious is the balance between states and markets. Mr. Mahathir can rail all he wants against an international conspiracy of currency speculators, but at the end of the day he will be forced to acknowledge that Malaysia cannot keep pace unless it adopts the policies that international financial markets demand as the price of admission. India can deploy nuclear weapons, but doing so will disrupt its foreign economic relations, leading Moody's to downgrade its bonds and discouraging other countries from following suit. While states can adopt whatever policies they choose, they are subject to the discipline of the markets.

At the geopolitical level, meanwhile, there is the balance between the United States, whose singular strength derives from an economic structure uniquely suited to the opportunities afforded by the information revolution, and other countries, which are less agile technologically but can still form a collective counter-weight. And at the domestic level, there is the increasingly even balance between the state and the individual newly empowered by information technology.

Why did the old system to give way to the new? Friedman stops short of an answer. He alludes to the decline of pegged exchange rates and of strict controls on international capital flows as facilitating the emergence of the global financial markets that are integral to the post-Cold War system. While he does not say why governments abandoned capital controls, surely if pressed he would answer "technology." New information and communications technologies made it that much more difficult to stop capital flows at the border. Hence the decline of controls and the rise of capital mobility. They made it that much more costly for a Soviet Union bent on suppressing personal freedoms to keep pace with its American rival. Once this problem was acknowledged, leading Gorbachev to opt for Perestroika rather than to suppress the PC, an economic and social system based on compulsion was doomed. However much it smacks of technological determinism, the implication of Friedman's argument is that everything we need to know about recent history flows from the microchip.

Razor's Edge

Readers convinced that local culture remains a powerful antidote to global markets will object that Friedman overstates the infectious influence of latter. As the metaphor of the Golden Straitjacket implies, he sees every country as having to conform to the same model with little room for national variation. This may reflect his time spent in less-developed countries that have a long way to go in putting in place the institutional prerequisites for a market economy. But does globalization really mean that each country as it develops must embrace an identical set of Internet-driven institutions?

The experience of today's advanced economies suggests not. Different institutional constellations can coexist, it suggests, if their elements complement one another. In the United States, economic activity is shaped by a set of institutions all designed to encourage radical innovation: a university system that churns out scientists, high-powered compensation for CEOs, a market-based financial system that provides venture capital for unproven technologies, and a fluid labor market. These institutions work well because the operation of each is complemented by the operation of the others. In Europe, where the emphasis is on product quality and on continuous, incremental improvements in existing technology, efficiency is served instead by technical education and apprenticeship training, cohesive employers associations that discourage competitors from poaching workers, and bank-delegated monitoring of companies whose investments in product and process innovation are hard for outsiders to assess. Again, each of these institutions works well because its operation is strengthened by the operation of the others.

Friedman would object that such institutional variation was viable once but that the speed of convergence has now been ratcheted up. His vision is a post-Internet world in which only U.S.-style institutions survive. Countries that resist will suffer the fate of France, whose refusal to authorize the free use of U.S. encryption technology led Intel's head of European marketing to use a razor blade to physically excise the country from his map of the world.

Golden Arches

Globalization may be good for the Michael Jordans and Paul Krugmans of the world who can sell their services into a global market courtesy of satellite television and the Internet, but it is not so clearly good for the journeyman basketball player and the academic gypsy. It is corrosive of social cohesion not just because it challenges cultural and religious values but also because the "winner-take-all society" it creates generates historically unprecedented inequalities. Friedman's prescription is additional spending on education to provide each individual the chance to become a knowledge worker. But we can give Bill Wennington all the basketball instruction in the world and he still won't be Michael Jordan. And Friedman's own arguments raise questions about the capacity of governments to fund social programs in a world of high capital mobility and cutthroat competition.

Nor does the author fully develop the implications of globalization for security policy. He advances the Golden Arches theory of international relations, noting that two countries with MacDonald's franchises have never gone to war. He predicts that the 21st century will be the century of civil wars between social forces favoring and opposing globalization. But what this means for U.S. security policy is not clear. He rightly warns that financial globalization renders poorly managed economies dangerously susceptible to economic, financial and political meltdowns. But while Friedman's discussion of contagion and herd behavior in financial markets is a model of clarity, he gives us little sense of the implications for international security were a financial crisis to strike a large country with a nuclear capability and strong trade links to the rest of the world (read China).

Finally, Friedman does not prescribe what the governments of developing countries themselves should do to guard against financial catastrophe, other than adopting some modest institutional reforms. International financial markets, he observes, are like a live wire running into your house: while they can light and heat your home, they can also burn it down. But Friedman says little about the kind of financial surge protectors emerging markets should install to prevent their hardware from being fried. He offers only vague recommendations for IMF reform.

But these are agendas for scholars and policy makers, not for journalists, whose task is to provoke and to highlight problems for academics to analyze and officials to solve. In this Friedman succeeds admirably.

Barry Eichengreen is John L. Simpson Professor of Economics and Political Science at the University of California, Berkeley and author of *Toward a New International Financial Architecture: A Practical Post-Asia Agenda*, published by the Institute for International Economics.