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Review

The Power of the Electronic Herd

By Benjamin M. Friedman
The Lexus and the Olive Tree
by Thomas L. Friedman
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1.

In a widely publicized study carried out in the late 1950s and early 1960s, researchers asked citizens of more than a dozen countries around the world whether they were happy with their lives. While the answers indicated a wide range of attitudes within each country, the surprising result—which attracted much comment at the time, and for some years thereafter—was that, on average, the citizens of poor countries were no less satisfied than those of rich countries. Germany's per capita income was four times Yugoslavia's and fourteen times Nigeria's, but Germans and Yugoslavians and Nigerians were all, on average, about equally happy.

A quarter-century later new researchers carried out a similar study. This time the results were dramatically different. Now the Swiss and Norwegians and Canadians were distinctly more satisfied than Germans and Belgians, and they were more satisfied than Italians and Spanish, who in turn were more satisfied than Greeks and Portuguese. The alignment with per capita income was not perfect (the Irish, for example, stood out by being much happier than their comparatively low income level alone would have suggested), but it was very close. Citizens of richer countries, on average, professed to be distinctly happier than those of poorer countries.

The most plausible explanation for this puzzling change is that while people in the pre-television era mostly compared themselves to their fellow countrymen, and felt either satisfied or frustrated depending on whether their own circumstances matched what they saw at close hand, once a new generation grew up watching TV it began to see things differently. Today almost everybody, almost everywhere, is familiar with at least the external appearance of middle-class living standards in the world's advanced postindustrial democracies. And most people want to be part of whatever will give them access to that way of life.

Sharing the same economic space is often uncomfortable, and not just because people start comparing their own lot to what others have (or seem to have). Economic interdependence means having the opportunity to trade, but it also means facing the need to compete. Interdependence also poses the risk of catching other people's economic diseases. Competition has winners but losers, too, and not everybody starts off on an equal footing. Often the reasons for that inequality are outside anyone's control, but in other cases individuals or even entire countries can discard some of the practices and attitudes that slow them down economically. These choices can also be painful, however, since what looks like excess baggage from a competitive perspective is sometimes integral to people's religion, or to the continuity of their cultural traditions, or to their sense of moral values.

It is useful, both intellectually and morally, to remember that not so long ago the United States was a newly developing nation, supplying easy-to-make goods to more advanced economies and competing, as many of today's developing countries now do, on the basis of abundant resources and cheap labor. In the quarter-century before the American Civil War, for example, cheap cotton from the United States undercut parts of England's textile industry, forcing down wages and helping to foster not only widespread urban misery, especially in the country's northern industrial towns, but also labor unrest. (Even the popular literature of the day reflected this competition. One of the "Darkshire" mill owners in Elizabeth Gaskell's

1854-1855 novel North and South laments, "Why, the Americans are getting their yarns so into the general market, that our only chance is producing them at a lower rate. If we can't, we may shut up shop at once, and hands and masters go alike on tramp." Sounds familiar, doesn't it?)

Similarly, back then it was the United States that relied heavily on foreign capital to finance its industrialization and transcontinental expansion. Whenever European financial markets encountered some disruption—as occurred, for example, in 1873, when the speculation in Germany and Austria that followed France's payment of its Franco-Prussian War indemnity collapsed, causing German investors to cut off lending to Jay Cooke's Northern Pacific Railroad—the financing typically dried up and America's economic advance temporarily halted. And if an economic downturn here forced overextended American borrowers to default on their debts, it was often European investors who sustained the major losses. Sometimes the overextended borrowers were US states, which had either issued debt abroad in their own names or guaranteed the debt of private borrowers. In the worst of these episodes, in the late 1830s, Florida and Mississippi formally repudiated their debts and seven other states stopped paying interest.[*]

Today, of course, Americans are on the other side. Now it is cheap labor throughout Asia and Latin America that undercuts the wages of US workers. It is now US lenders, including not only traditional bond market investors but also banks and mutual funds, that lose money when developing country debtors default on their obligations. And now it is economic activity in Korea and Malaysia and Brazil that suffers when investors in the United States and other developed countries become skittish about placing their capital at risk.

The international financial and economic disruptions of the past two years have once again put into sharp relief the negative features of sharing economic space. And as usually happens in such circumstances, participants in markets that are at the front line of these conflicts have begun to question whether there can be too much interdependence. The relative merits of fixed versus floating exchange rates, the absence of an international central bank or even a genuine international lender of last resort, the lack of international machinery for handling bankruptcies, the unevenness of financial disclosure standards, even the once-taboo subject of controls on the free flow of capital, are all—once again—at the center of debate. At a more basic level, many of the fundamental assumptions that have underpinned the discussion of the role of financial markets in economic interde- pendence, for the past decade and more, are also now coming under question.

Moreover, the events of the past two years have brought into the open important political issues that are partly a generic matter of sharing economic space but also partly a consequence of the specific alignment of world power as it currently stands. When the Soviet Union collapsed, everyone knew that for the foreseeable future the United States would be the lone military superpower. Many people also suspected that America's commitment to internationalism would therefore begin to give ground to the country's more traditional isolationism. But at the beginning of the 1990s few people anticipated that Europe would suffer a decade of chronic high unemployment, that Japan would allow the inevitable end of a stock market and real estate boom to turn into unending recession, and that the development of mature economies in China and Brazil would remain always just beyond the horizon—in short, that the United States would be the lone economic superpower too. The consequence has been US dominance to an extent, and in a form, that still comes as something of a surprise, and that presents both opportunities and challenges for America no less than for the countries that now stand, economically and financially, where America stood in an earlier era.

In The Lexus and the Olive Tree, the New York Times columnist Thomas Friedman views these developments from a perspective that emphasizes electronic technology. Mr. Friedman (no relation that I know of) is well aware that economic interdependence is nothing new. He notes, correctly, that the share of world economic production flowing through international trade is no greater today than on the eve of World War I, and that most of the world's labor is less mobile today than it was then. But he argues persuasively that the advent of new electronic technology—especially the Internet—makes today's interdependence qualitatively different. It is, in his view, primarily responsible for what he labels "globalization."

Mr. Friedman sees the electronic revolution underlying the new globalization in two mutually reinforcing ways. First, there is, increasingly, more economic space to be shared. Tradition-ally, international trade meant trade in physical goods: raw materials like wheat and timber and coal and iron ore, finished products like steel and refined petroleum, and manufactured goods like guns and textiles and cars and computers. Even now, physical goods account for 71 percent of US exports and 84 percent of US imports.

But economic activity increasingly consists of providing services, not producing goods, and so world trade will keep up only if services become saleable across national borders. Thanks to electronic communications, more and more are. Mr. Friedman's book is filled with examples of services being provided across national boundaries and even of services and related products being produced multinationally. In one of the more striking examples that he cites, IBM programmers in Beijing work on software and forward it daily by the Internet to other IBM programmers in Seattle, who, after adding refinements, send it on for more adjustments to Latvia, next to India, and finally back around to Beijing. Work on a specific programming task thus proceeds around the clock—just as it is now possible to buy or sell IBM stock at any hour of the day or night simply by executing the trade in Tokyo, or Singapore, or London, when the stock market in New York is closed.

An immediate implication of electronic technology, therefore, which is quite obvious from these examples, is that labor mobility is no longer as important as it once was. Chinese and Latvian and Indian programmers can work not just for but with IBM—in other words, not on a subcontract basis but as part of the same product team—without emigrating to the United States. As a result, while Mr. Friedman recognizes that labor is less mobile than it was a century ago, he has reason to play down this fact.

A further implication of the increasing dominance of services in economic activity is that limitations on natural resources need not constrain a country's prosperity. What matters is the resources inside its people's minds. Moreover, given enough time and the money to pay for teachers, a country can have whatever education system it chooses. As a result, one of Mr. Friedman's most fundamental conclusions is that no country has to be poor.

Prosperity is a matter of choice, he believes, so why not get on board?

The second principal way in which Mr. Friedman sees new electronic technology underlying today's globalization is in its power to enhance the ability of investors everywhere to put their money at work anywhere, or withdraw it, whenever they choose. To be sure, international capital flows are not new either. But Mr. Friedman argues that with modern electronic communications, record-keeping, and trading capacities, the world financial market has now achieved both a critical magnitude and a critical degree of coherence among investors who may remain broadly dispersed physically but have become closely interlinked in ways that are more important. As a result, the "electronic herd" expresses its collective judgment on countries' economies, on their politics, even on their cultures. Being in favor with the herd means receiving inflows of capital on a scale that was unthinkable in an earlier era of economic development. Being out of favor means facing capital outflows instead. Moreover, the herd can, and not infrequently does, change its mind very abruptly.

Many of these ideas are familiar, but Mr. Friedman draws on his extensive travels as the Times's foreign affairs columnist to make them concrete by reporting personal experiences and private conversations with everyone from top business executives and government leaders to, quite literally, men and women in the street. Globalization and democratization are abstract concepts, and the link between them can be even more so. But when Mr. Friedman observes elections for village officials in rural China, and hears directly from the voters that they hope their local window-frame factory will soon start to have export sales, he shows what both the concepts and their interconnection look like in action. Mr. Friedman's occasional brushes with the "kleptocracy" in charge of many former Communist countries likewise give the reader a feel for how petty corruption works.

Mr. Friedman also drives home his ideas about such potentially abstract matters through sharply drawn images. He describes for example how, in the old Roman Empire, the fact that "all roads led to Rome," a marvelous advantage for the imperial rulers, also turned out to be a serious liability once the Visigoths decided to attack; and he uses this analogy to make clear how obtaining capital from the electronic herd can both help an econ-omy develop and also render it vulnerable. (I especially enjoyed his account of how the five different kinds of economies in today's world are exemplified by five different gas stations. At the Communist gas station, the price is only fifty cents per gallon, but there is no gas because the four employees have sold it all at a much higher price on the black market. And only one of the four ever shows up for work; the other three also have full-time jobs in the underground economy.)

Oddly, one of Mr. Friedman's few concrete images that do not work well is the contrast he uses for his title, between the Lexus automobile, emblematic of the high standard of living made possible by today's economic interdependence, and the olive tree, which stands for the attachment of many people to older cultural or tribal traditions. The idea that this contrast captures is important, but it is not central to the book's enthusiastic view of globalization. Moreover, the automobile—the industrial product that has had such a large part in world trade throughout the postwar era—is hardly what Mr. Friedman has in mind in emphasizing how electronic technology is making possible new forms of interdependence among today's postindustrial economies.

But the book's argument depends on more than anecdotes and images. Mr. Friedman believes that the new globalization—that is, rapidly advancing economic interdependence facilitated by electronic technology and financed by the electronic herd of investors and traders—has replaced older systems of international relationships grounded in the constraints and ideologies of the cold war. Economic technology, in his view, has trumped military technology. What matters now are not allies and enemies but partners and competitors. Globalization is creating new opportunities for individuals, companies, and countries, exposing them to new risks, and all the while forcing everyone, everywhere, to adapt to competitive markets.

2.

The important question about all this is not so much whether it is true—for the most part it certainly is—as what to make of it. Mr. Friedman is an unabashed enthusiast. He believes that the net effect of globalization is to "empower" and "enable" individuals, and to impose liberal democratic politics on nations. In his view, there is now no alternative to free-market capitalism. The combination of the personal computer and the Internet has "democratized" not only technology but also finance and investment, all in ways that progressively reinforce one another: "The Electronic Herd is the energy source of the twenty-first century." Even more so than that of Daniel Yergin and Joseph Stanislaw, whose Commanding Heights addressed the same theme but from a perspective that emphasized politics rather than technology, Mr. Friedman's assessment is triumphalist. Nothing we know of can get in the way of this multidimensional tidal wave. Anyone (or any country) that tries will at best be left behind or, at worst, crushed.

In the same vein, the lessons Mr. Friedman draws from the turmoil in Thailand, Indonesia, Malaysia, and Brazil during the past two years are almost wholly positive ones. Those countries faltered because international investors and agencies rejected their economic arrangements based on corruption, lack of transparency, and the general failure of their governments to provide the "rule of law." Especially in East Asia, the problem was not too much capitalism but too little: "crony capitalism" is not capitalism. Many people have argued that part of the fault lay with the banks and bond market investors in the electronic herd, who should have known better than to advance huge amounts of money under such conditions in the first place. But, Mr. Friedman writes, "the good news is that in the wake of the crisis of 1998-1999, the market, without any new regulation or sand in the gears, is brutally disciplining itself." Indeed, "the herd is never stupid for too long."

The most immediate cause for concern about this highly optimistic analysis is its unblinking acceptance of a view that has become conventional wisdom only very recently. As Dani Rodrik of Harvard's Kennedy School has forcefully pointed out, just a few years ago many if not most Western observers (including most members of Mr. Friedman's electronic herd) voiced their admiration for East Asia's approach to economic growth, praising three decades of rapid development in many of these countries and lamenting the failure of Latin America, and even some faltering industrial economies, to follow the "East Asian model." By contrast, today "everybody" sees all too plainly the fundamental flaws in the East Asian economies. It is not that this lesson is wrong—hindsight is always valuable—but that it relies so heavily on just the last few years of economic history. Mr. Friedman, it sometimes seems, wants to be the cheerleader for the Monday-morning quarterbacks who remember only last weekend's game.

Mr. Friedman's assessment of the effectiveness of the electronic herd—whether in its judgments about investment or in correcting its own tendency toward recurring bouts of systematic excess—also strikes me as much too benign. As World Bank economist Joseph Stiglitz and Harvard's Jason Furman have shown, the events of the last two years have squarely contradicted central tenets of the currently fashionable wisdom about how participants in financial markets make decisions and why financial crises occur.

For example, while Thailand made serious economic policy mistakes, which were noticed and remarked on by international investors and institutions well in advance of the August 1997 crisis, Korea, before it suffered a financial crisis, had neither a government budget deficit nor a significant trade deficit. Can we really be so confident that the herd's actions mostly represent responses that serve to curtail the unbalanced macroeconomic policies of misguided borrowing countries?

It is also conventional wisdom (if markets were always rational, it would be mere common sense) that countries are more vulnerable to financial crises if they are deeply in debt. But during the past two years, low-debt countries like Korea and Thailand experienced crises right along with high-debt countries like Russia and Brazil. Even closer to the heart of the new conventional wisdom, countries like Korea and Malaysia, where economic and financial dealings are relatively "transparent"—i.e., financial information is easily available and agreements are enforced—fared no better than countries like Thailand and Indonesia, where such information is often hard to get and cronyism is rampant.

To be sure, it is always possible to point to some shortcoming or other to explain, after the fact, why a particular debt crisis or currency crisis has occurred. But falling back on such ex post facto rationalizing deprives the relationship between financial crises and supposed underlying causes of any substantive content. The question is whether identifiable problems like economic imbalances or high indebtedness or lack of transparency can give reliable signs, in advance, of where a crisis is in the making and where one isn't. As Stiglitz and Furman (among others) have persuasively argued, during the tumultuous events of the past two years the answer was no.

The broader experience of financial markets and the troubles they encounter also belies Mr. Friedman's confidence that the electronic herd has quickly learned from its mistakes in East Asia and will now lend its money more responsibly. A better guess, based on the historical record, is that while lenders may indeed have learned the lesson quickly, they will just as quickly forget it. Just within the United States, and just within the last generation, the major banks have stumbled from the REIT crisis (overvalued real estate investment trusts) to the LDC crisis (financial collapse of the less developed countries, which then meant mostly Mexico and debtor countries in South America) to the HLT crisis ("highly leveraged transactions" in the merger mania of the late 1980s) and now the East Asian crisis.

Few people are sufficiently prescient to know what the next such crisis will be. (I certainly don't.) But it seems evident that competitive pressures within the banking industry systematically drive lenders to take excess risks, and that from time to time this excess risk-taking builds up into a financial crisis in one form or other. I see no reason for the future to be different. Indeed, the electronic technology on which Mr. Friedman's herd now rides may make markets even more prone to such volatility.

3.

The deeper question that many of these events raise is the proper role of government. Mr. Friedman is a cheerleader both for the view that what went wrong in East Asia was not too much capitalism but too little and also for the corollary that any active role played by government in this regard is likely to be harmful. He calls for governments to educate their citizens, open the way for market competition, and promote the "rule of law." Otherwise, he marvels at the electronic herd's ability to play off one government against another and thereby force all to play by the herd's rules. "The most basic truth about globalization," in Mr. Friedman's eyes, is that "no one is in charge." And when something goes wrong, he exults that "there's nobody to call" (italics in original).

But this is precisely what many observers now see as the weakness of today's global financial system. To begin with, there is no international central bank to act as a lender of last resort. The closest substitute we have is the International Monetary Fund, but the IMF's resources are plainly limited (it cannot "print money") and its actions are sharply circumscribed by the political concerns of the most important member governments. It is no surprise that today the IMF is widely regarded as the international enforcement arm of the US Treasury. Numerous idealists, following in the footsteps of John Maynard Keynes during World War II, have proposed a genuine international central bank. Nothing has come of such ideas; nor is anything likely to in the foreseeable future.

Other observers have pointed to the absence of internationally agreed-upon bankruptcy procedures and a mechanism for enforcing them. If TWA gets into trouble because its balance sheet is overextended, nobody suggests that the right solution is to fire half of the pilots and sell half of the planes. Instead, the company and its creditors "restructure" the debt, agreeing that it will be paid only in part, or on a different schedule, and perhaps giving the debt holders a share of the firm's equity. In the recent crisis Korea suffered from no problem for which the right solution was to fire 10 percent of the workforce and slash economic production accordingly, but that is approximately what happened. The effects on the Indonesian economy were far worse. The difference is that TWA and its creditors can meet and work out an agreement under US bankruptcy laws and under the supervision of the US bankruptcy court. Recent proposals for dealing with troubled international debtors range from establishing a full-scale international bankruptcy court to having individual countries coordinate their respective bankruptcy laws, perhaps using a common model to be laid out by the IMF. Unlike the case of proposals for an international central bank, some of these ideas may bear fruit.

It should also be obvious that there is a lack of supervision and regulation of banks and other institutions involved in the world's financial markets. It wasn't the Indonesian government that caused that country's banks to get in so much trouble by borrow-ing in dollars (and other hard currencies), converting them, and then lending the proceeds in rupiah without hedging the resulting risk of a change in the exchange rate. When the rupiah/ dollar rate declined, these banks immediately had losses on those transactions; and their attempt to rescue their positions by buying dollars with rupiah only drove the exchange rate even lower and hence made their losses even larger. Similarly, the Thai government didn't tell Thailand's "finance houses" to borrow in hard currency and then—without hedging the exchange rate risk—relend the borrowed money in baht. These were mistakes made by private institutions, but they ended up imposing large-scale costs on their entire countries. The problem in these and other, similar cases was not governments that made active mistakes but private-sector institutions with no government supervision that might have prevented their reckless behavior.

Under the sponsorship of the G-7 group of industrialized economies, the German Bundesbank president, Hans Tietmeyer, has recently offered proposals for international coordination of bank supervision and regulation. The Basel Committee of central banks of the developed countries is currently working on its own plans for achiev-ing similar results. Others have also offered suggestions for coordinating bank supervision, securities regulation, and disclosure requirements, among other measures. In every one of these matters, the main point is not that markets need to be left on their own but that there is a clear need for government—or rather governments acting in concert—to restrain economic behavior in the private sector. The fact that "nobody is in charge" is exactly the problem.

Even when Mr. Friedman runs up against examples in which there is a clear need for such government action, or in which a problem has been solved by government action, his enthusiasm for the wizardry of the market prevents him from seeing the little man behind the screen. For example, his account of the positive role played by "Brady bonds"—bonds issued by Mexico and other developing countries that carry guarantees from the US Treasury—concludes, "There is nothing new about governments [of developing countries] issuing bonds to foreign holders. That has been around for many years. What is new is the degree to which these bonds are now widely dispersed to individuals, pension funds and mutual funds."

Yes, and the modernization of global financial markets, aided by electronic technology, should get credit for that. But what was also new, although Mr. Friedman takes it for granted, was that a government—in this case that of the United States—stepped in at a time of financial crisis and helped the market by guaranteeing the bonds so that all those investors and pension funds and mutual funds would feel safe in owning them. When Nicholas Brady proposed the bonds that now bear his name, he did so as the US Treasury Secretary, not as the chairman of Dillon Read. Similarly, when Mr. Friedman predicts that the United States will win the cyberspace race just as it won the space race, he seems to forget that NASA was, and still is, a government agency.

At times in The Lexus and the Olive Tree, Mr. Friedman too recognizes the need to regulate markets. But he never resolves the conflict between this need and his mostly unbridled enthusiasm for the market and what it has wrought. In his vision of the new globalization the only role for government is in providing education and the "rule of law," and otherwise promoting a culture conducive to free markets, competition, and entrepreneurship—what Mr. Friedman, not surprisingly, calls "having the right software."

4.

There is an even greater tension between Mr. Friedman's triumphalist view that globalization is both positive and inevitable and his concern over the widening income inequalities that have emerged in many countries, especially the United States, over the past two decades. Many elements of Mr. Friedman's analysis—the emphasis on how competition produces both winners and losers, the importance of technology that leaves some people prepared to compete and others not, the way economic integration fosters "winner-take-all" markets—suggest that widening inequality is not incidental to globalization but a direct consequence of it. And what if that is so? "In the long run," he writes,

these income gaps, if they continue to widen, could turn out to be globalization's Achilles' heels. It seems to me that there is something inherently unstable about a world that is being knit together tighter and tighter by technology, markets and telecommunications, while splitting apart wider and wider socially and economically.

More specifically, he writes, there are "enormous tensions between those who have the skills, ability, resources, and inclination to take advantage of the globalization system and those who do not."

What then is to be done? Mr. Friedman identifies himself as an "integrationist/social-safety-netter." In other words, he favors moving swiftly to integrate world markets and to remove impediments to the free flow of ideas, goods and services, and capital, while at the same time calling for national governments to engage in sufficient redistribution of income to prevent those who fail in this new, more competitive world—because they are unlucky, or untalented, or perhaps just unmotivated—from having to live in such poor conditions that they pose a moral or political dilemma.

While there is nothing internally inconsistent about the "integrationist/ social-safety-netter" position (it is approximately what I favor too), it is inconsistent with much of the argument in The Lexus and the Olive Tree. One of Mr. Friedman's central themes is the irresistible power of globalization. Free-market capitalism, run by the electronic herd, forces countries and their governments into a way of liv-ing and producing and competing that he calls the "golden straitjacket," shorthand for a competitive system encouraging profitable investment. The golden straitjacket leads to prosperity, but it also sharply constrains what behavior and what policies are permissible. When the herd sees policies it does not like, it takes its capital elsewhere. Countries that refuse to adopt the favored policies are doomed to languish in economic stagnation caused by deprivation of capital and of the technology that accompanies capital.

But since when do the investors who make up Mr. Friedman's electronic herd look with favor on either social safety nets or the taxation that it takes to pay for such redistribution? And if investors don't like these programs, what's to prevent the herd from playing one country off against another to the point that competition for capital drives each to reduce its taxation and shred its social safety net? Or to put the question the way Mr. Friedman might, how can a government that's wearing the golden straitjacket reach one arm toward the pocket of its taxpayers and extend the other toward the waiting hand of its needy citizens? (The same point applies to environmental policies as well, although this subject is less central to the book's analysis. After reading Mr. Friedman's account of the golden straitjacket, I also failed to understand his optimism about prospects for protecting the environment.)

The political economist Ethan Kapstein, in a widely cited article in Foreign Affairs (and also in a soon-to-be-published book, Sharing the Wealth), has questioned the inevitability of globalization on just these grounds. Kapstein bases his argument on new studies showing that too much economic inequality is harmful to a country's prospects for economic growth. Hence a government that seeks to increase its citizens' average standard of living needs to prevent the inequalities among them from becoming too extreme. But for reasons identical to those that Mr. Friedman says will force countries to wear the golden straitjacket, Kapstein argues that global competition for capital will render governments unable to finance sufficient social safety nets.

Not surprisingly, Kapstein favors social safety nets just as much as Mr. Friedman (maybe more, because he highlights the evidence linking deep inequalities with reduced growth). Indeed, he calls for far more aggressive labor market policies. But because he sees both redistribution and the labor programs he favors as political choices, which governments around the world may agree on or not, Kapstein likewise sees globalization as a matter of political choice. In his view, it is not inevitable.

Another approach to resolving the same conflict is to use capital controls. Few Western economists have endorsed the rigid restrictions on capital flows recently instituted by

Malaysia's Prime Minister Mahathir. But a growing number, prominently MIT's Paul Krugman and my Harvard colleague Richard Cooper, have argued that under many circumstances some form of impediment to the free flow of capital—for example, along the lines of Chile's system which, in effect, imposes a tax on short-term capital inflows—may be helpful. Here too the idea of such controls, at least in part, is to let governments escape the golden straitjacket by curbing the power of the electronic herd that imposes it.

By contrast, Mr. Friedman sees globalization, and all the benefits it will bring, as inevitable for all but a few hold-out countries that will suffer the economic consequences. But he does not present a consistent view on how to be a social-safety-netter while wearing a golden straitjacket.

John Locke, in his Second Treatise of Government, wrote that "in the beginning all the World was America." Like many of his European contemporaries, Locke thought that in the natives of the newly discovered continents across the ocean they were observing a mirror of their own society at a much earlier stage of development. Europe's past was visible in America's present.

Once Europeans had settled North America, however, and especially once the United States became an independent nation, people began to think of America as pointing the way to the future of Europe and, by extension, the rest of the world as well. In some respects that view has proved correct. The United States was the world's first functioning democratic republic. Now there are dozens. And today American technology, American business practices, American universities, even American clothes and entertainment are all widely imitated.

Thomas Friedman believes that the pattern by which the rest of the world follows America is about to become yet more pronounced. Television has already given the citizens of almost every country an idea of American middle-class life, and most of them desire to share in the material prosperity they have seen. As Mr. Friedman puts it, "With all due respect to revolutionary theorists, the 'wretched of the earth' want to go to Disney World—not the barricades." Now, in addition, the free-market capitalism that the electronic herd is going to impose on all countries that want to participate in the new global economy will be largely an American creation. The kinds of entrepreneurship and initiative that will make that participation successful, as well as the specific financial arrangements behind those investments (Mr. Friedman is especially impressed with the US venture capital industry), are also identifiably American. Even the cultural attitudes that the new globalization fosters are mostly made in America. Mr. Friedman is clear: "Globalization is Americanization."

This too may well be true. If it is, the challenges it presents both for the United States and for other countries are enormous. Being on top always breeds resentment, whether against the most powerful country or the most successful business competitor. It is no surprise that anti-Americanism is on the rise in many parts of today's world. Moreover, as the political scientist Samuel Huntington showed more than three decades ago, in many countries the process he called "modernization" disrupts traditional institutions that provide identity and connection—people move in large numbers from closely knit rural areas to anonymous sprawling cities, family structures atrophy, and so on—faster than new forms of attachment can develop to take their place. As a result, Huntington warned, a country that is modernizing may be vulnerable to severe political instability, as uprooted and alienated citizens direct their energies and often their frustrations into a social environment lacking adequate political institutions to accommodate them.

The inexorable process that Mr. Friedman envisions, in which ever more countries have to accept the golden straitjacket, is in many ways a classic example of what Huntington had in mind. There will be new industries and new forms of economic competition, widening inequalities, winners and losers, and increased exposure to economic forces originating not just abroad but in financial markets that have no identifiable location—what Mr. Friedman calls the "unelected market dictators." Adults will see much of the world in which they have grown up pushed aside. That the straitjacket is so plainly made in America seems bound to turn at least part of their resentment against the United States. "In most societies," Mr. Friedman writes, "people cannot distinguish anymore between American power, American exports, American cultural assaults, American cultural exports and plain vanilla globalization."

And how will America respond? Many observers of US politics believe that since the collapse of the Soviet Union there are at least sixty fewer votes in the House of Representatives for any initiative directed toward economic internationalism. During most of the postwar era, if congressmen had been asked to vote funds to prevent an economic collapse in Indonesia, for example, the foremost issue in the minds of many of them would have been that doing so meant preventing that country, and perhaps its neighbors too, from "going Communist." In 1998, however, when President Clinton made just that request, the foremost issue in many congressmen's minds was why an economic collapse in Indonesia was a legitimate object of concern for the United States. America's leading part in the allied intervention in Kosovo makes clear that isolationism, while perhaps on the rise, is still far from dominant. The question at issue here is which of the many competing perspectives on America's place in world economic affairs will prevail.

Here too Mr. Friedman is an optimist—indeed, infectiously so. His steadfast commitment to the best of American values, his good-hearted confidence in what his fellow citi-zens can and will do, and ultimately his strong belief in his country's fu-ture are immensely attractive. For him, globalization means not only American-style free-market capitalism but also American-style liberal democracy. He describes being pre-sent, on Secretary of State Albright's 1996 visit to Africa, when Mrs. Albright's entourage posed for a group photograph. The local Rwandan citizens who watched this event simply could not understand how so visibly mixed a group—men and women; whites, blacks, and Asians—could be responsible for US foreign policy and for representing America abroad. Mr. Friedman thinks the new globalization will improve the chances of most people for greater economic opportunity, tolerance, and democracy. I hope he is right. But globalization also raises obstacles to each of these goals. The world will do better to face those obstacles squarely, and resolve them where possible, rather than brush them aside.

Notes

[*] A useful exercise for Americans who nowadays decry the moral laxity of borrowers in Indonesia and Thailand is to read the acerbic sonnet "To the Pennsylvanians" by Wordsworth, who apparently lost money investing in that state's bonds on the London market. The poem ends, "All who revere the memory of Penn/Grieve for the land on whose wild woods his name/ Was fondly grafted with a virtuous aim,/ Renounced, abandoned by degenerate Men/For state-dishonour black as ever came/To upper air from Mammon's loathsome den."