## **The Lexus & the Olive Tree** (1999)

*by Thomas Friedman*

Every few years a book comes along that perfectly expresses the moment's conventional wisdom--that says pretty much what everybody else in the chattering classes is saying, but does it in a way that manages to sound fresh and profound. Notable examples are Paul Kennedy's 1989 *The Rise and Fall of the Great Powers,* with its theme of "imperial overstretch", of a United States declining under the weight of its military commitments; or Lester Thurow's 1992 *Head to Head*, with its vision of a desperate commercial struggle among the advanced industrial nations, and of a United States unable to compete effectively because of its naive faith in free markets. It is already clear that Thomas Friedman's *The Lexus and the Olive Tree*--which tells the story of the new global economy, and of a United States triumphant because it is the nation best suited to capitalize on that global economy--is the latest in the series. The question is whether Friedman's vision will date as quickly as those of his predecessors.

It's possible to summarize what Friedman has to say fairly quickly, mainly because it's what you read in just about every issue of *Business Week*. Information technology, he tells us, has made the world a small place, in which ideas and money can move almost instantly across borders. This smaller world richly rewards countries and societies that meet its needs--which is to say places that have strong property rights, open minds, and a flexible attitude; but it inflicts devastating punishment on those who fail to live up to global standards. Old-fashioned power politics is becoming increasingly obsolete because it conflicts with the imperatives of global capitalism. We are heading for a world that is basically democratic, because you can't keep 'em down on the farm once they have Internet access, and basically peaceful, because George Soros will pull out his money if you rattle your saber.

This story is told via hundreds of anecdotes, most of them involving the author. (Someone once defined an intellectual as a person who can utter more than two consecutive sentences that do not mention himself or anyone he knows. This definition might have been specifically crafted to exclude Friedman; as a reader-reviewer at Amazon.com--hey, the Internet really can be a democratizing force!--puts it, he "uses the first person singular the way most writers use commas.") But these anecdotes, annoying as they may be, do serve a purpose: By personalizing the story, they make it seem more convincing to readers who find analytical abstractions off-putting. Of course, as the history of global visions teaches us, what is convincing is not necessarily true. Has Friedman got it right?

A good place to start is with something that he almost certainly has wrong. If there is one single fact that transformed America's image of its place in the world, that made earlier vintage global visions look so foolish in retrospect, it is the contrast between our own unexpected prosperity and Japan's even more unexpected economic malaise. There isn't really any careful discussion of what went wrong with Japan in this book, but the clear implication of his various parables and metaphors is that Japan is in trouble because it is hidebound and inefficient, and that this makes it unfit for the global economy. Yet, as Friedman himself points out, Japan's export sector remains world-class (In fact, it's sort of bizarre that he names a symbol of Japanese manufacturing prowess, rather than some American specialty like software or entertainment, in the book's title.) What has faltered in Japan is production for the domestic market--and while this production is and always has been inefficient, the immediate problem is not inadequate supply but inadequate demand. Put in a nutshell, the Japanese simply save too much; that is, although Friedman's only reference to Keynes is a disparaging one (he's a "defining economist of the Cold War system"), Japan is in fact suffering the most classically Keynesian crisis since the 1930s. And the United States, for its part, is not doing well because it is spectacularly successful in global markets. Except for the entertainment industry, U.S. producers are still remarkably bad at exporting, and we seem certain to mark the millennium by running the biggest trade deficit ever measured. We have been buoyed by an astonishing surge of consumer spending, which for reasons that probably have only a bit to do with globalization has not led to a corresponding surge in inflation.

This is not a minor quibble. If the role-reversal between the United States and Japan has more to do with old-fashioned macro-economics than with the inexorable new logic of globalization, maybe the rules of the game haven't changed as much as Friedman thinks--and maybe, also, America's winning streak is not forever. Did somebody say "bubble economy"?

If Friedman misses the point about what went wrong in Japan, he is also on shaky ground when it comes to the world's other great recent reversal of fortune: the financial crisis in emerging markets. It takes a while to figure out what he is really saying about the "electronic herd," but I think his bottom line is that, in the end, countries get treated as they deserve: If capital flight devastates your economy, it must have been fundamentally flawed to begin with. Now this is a very debatable proposition: The sheer extent of global contagion has convinced many economists that nations can be subject to "self-fulfilling crises," in which a loss of confidence creates an economic and political collapse that validates investors' pessimism. Was Indonesia simply a disaster waiting to happen? Or was it an imperfect but reasonably well-managed economy, which might well have grown out of its problems if its creditors had not stampeded for the exit? We all know that in the days before the FDIC, a run by depositors could break even a fundamentally sound bank. Why can't it happen to countries?

The point is that Friedman does not give the big question about globalization -- whether it is a force for instability on a scale that will swamp its gains--a hearing. He therefore pre-judges the question of whether the globalizing trend of the last 20 years will continue, or whether today's wide-open world will, like the global economy of the early 20th century--which seemed equally unstoppable to contemporaries--eventually be reined in by financial crisis and political restrictions. I don't know the answer to this question, but neither does he.

Maybe I have just been in this business too long, and have seen too many global visions come and go. In 1979 everyone knew that it was a Malthusian world, that the energy crisis was just the beginning of a global struggle for ever-scarcer resources. In 1989 everyone knew that the big story was the struggle for the key manufacturing sectors, and that the winners would be those countries with coherent top-down industrial policies, whose companies weren't subject to the short-term pressures of financial markets. And in 1999 everybody knows that it's a global knowledge economy, where only those countries that tear down their walls, and open themselves to the winds of electronic commerce, will succeed. I wonder what everybody will know in 2009?

Review by Paul Krugman, professor of economics at MIT, as printed in the Washington Monthly.