

# One Dollar, One Vote

*No government, the author believes, can escape the thundering hoofbeats of the 'electronic herd.'*

By Josef Joffe

**W**HAT is globalization? Here is one of the best answers. It is the "constant revolutionizing of production" and the "endless disturbance of all social conditions." It is "everlasting uncertainty." Everything "fixed and frozen" is "swept away," and "all that is solid melts into air."

Yes, you have read this before. It is from the Communist Manifesto, by Messrs. Marx and Engels. One hundred and fifty years ago, they marveled at a "constantly expanding market," the "daily destruction of old established industries," the emergence of ever "new wants," the "universal interdependence of nations" and "intercourse in every direction." Substitute 21st-century English for the Marx-speak, and the Manifesto would read as if written by Andy Grove, Bill Gates or John ("Megatrends") Naisbitt.

Indeed, go back 500 years for the real birth of globalization. After a millennium of slow change or none, the explosion of science and technology during the Renaissance, as well as the invention of modern banking, cranked up the Western wealth machine, which is still accelerating. The great discoveries beginning in the 15th century brought the Americas and the far side of Asia into the not-so-global market that was Europe plus the Mediterranean. So what's the big deal?

First, a few things have changed since Vasco da Gama and Karl Marx. It is now a few industrial revolutions later, and with the exception of Africa, the Islamic Middle East and central Asia, the market has become truly global. For the first time in history, it operates like one big domestic market. In the past, trade was complementary and compartmentalized. It was Sheffield steel for Indian silks, and the two worlds never really met. Today, trade is competitive while "center" and "periphery" are one. Bombay and Seattle produce the same high-value-added software that they sell to each other and the rest of the world.

Second, things have revved up. Communication is now virtually in real time, but the more interesting event is the implosion of costs. Already in Marx's day, telegrams crossed oceans and continents, if at prohibitive prices. Real relief came only in the last part of this century. Indeed, the Internet, another word for communication at zero-marginal cost, is still in its toddler age. But the message is plain. If anybody can communicate, any-

body can leapfrog time and space.

These dimensions have shrunk in yet another way. The cost of modern transportation, with jets setting the pace, has dropped precipitously, especially relative to the value of traded goods. Back then, it was grain for pig iron, heavy stuff that was expensive to lug around. Today, it is pricey chips that take pennies to ship — or bytes moving around at no cost whatsoever.

Finally, finance. Indeed, when we ponder globalization, especially since the Asian crash of 1997, we think mainly about that legendary trillion dollars said to circle the planet each day — docking here, escaping there. The reason is the progressive liberalization of capital markets since 1945, taking us back to the borderless world before 1914 — with a twist: there is a lot more gelt glutting the globe, and instead of traveling as letters of credit on ships, the money zooms through glass fiber nets.

But what does it all mean? For the general reader, Thomas L. Friedman, in "The Lexus and the Olive Tree," delivers the best (and most enjoyable) answer yet. A seasoned journalist and a columnist for The New York Times, Friedman knows how to cut through the arcana of high tech and high finance with vivid images and compelling analogies. But his mind is too analytical to churn out the "globaloney" that clutters so much reporting today. His approach, perhaps inspired by his friend and theology teacher Rabbi Tzvi Marx, is a Talmudic one. It is homily plus dialectics. It is a torrent of stories, vignettes and anecdotes, but each with a larger conceptual point attached. And the dialectical habit injects just the right dose of caution. Friedman does not take the obvious for an answer, nor does he hype a historical triumph where there is only a tiny trend; relentlessly inquisitive, he will always sniff out and bring in the countertrend. This adds a fine intellectual edge to a delightfully readable book.

One of my favorite stories (with a powerful moral) concerns the Prime Minister of Thailand, to whom Friedman confesses: "I helped oust your predecessor — and I didn't even know his name. You see, I was sitting home ... watching the Thai baht sink (and watching your predecessor completely mismanage your economy). So I called my broker and told him to get me out of East Asian emerging markets. I could have sold you out myself, via the Internet, but I decided to get my broker's ad-

vice instead. It's one dollar, one vote, Mr. Prime Minister. How does it feel to have Tom Friedman as a constituent?"

Once you join the global economy, it is the "equivalent of turning your country into a public company," the author notes, and whereas in centuries past, the "public" was a few dozen banks, now anybody can play, provided he has a computer and some spare cash. Which leads directly to my other favorite morality tale, this one about the Malaysian autocrat Mahathir Mohamad, a most voluble enemy of the open global system.

Friedman recounts how Mahathir, at the height of the 1997 Asian crisis, kept accusing the Jews and George Soros of deliberately debasing the Malaysian currency. So his advisers finally went to him with a warning that probably sounded something like this: "Look, you said this about Soros on Monday, and the Malaysian ringgit fell to here. You said this about the Jews on Tuesday, and the ringgit fell to here. ... SHUT UP!" The moral? The market rules.

This point is not totally new either. Marx and Engels confidently predicted the "withering away of the state" as ultimate victim of an almighty economic "substructure." Friedman overstates, too, when he claims that "all world leaders" have to think like American state governors now, meaning that their "main job" is keeping investors happy while "constantly living in dread that they will leave."

Has globocracy really emasculated presidents and prime ministers? The Talmud cautions, "'For example' is not proof." Take the seemingly tell-it-all example of Mahathir. Sure, he was punished by the "electronic herd," as Friedman calls the fickle nomadic horde of global investors. But then Malaysia struck back. When it largely unlinked from the global financial system it reaped not devastation but a rising ringgit and stock market. Nor has Mahathir's grip on the country weakened.

Another countertrend is the European Union, now dominated by leftist parties that have hardly capitulated to capitalism. One ambition behind the euro is that the common currency will soften globocracy's knout while tax harmonization within the E.U. will discipline those companies that would wiggle out from under the grasping hand of government by escaping to low-tax member states. Watch also for attempts to slap punitive exit taxes on capital.

So it isn't quite true that globaliza-

tion is like the daily dawn, about which "there isn't much I could do," as Friedman asserts. Nor is it quite true that "your politics shrinks" as "your economy grows." Though globocapitalism severely constrains some political choices, the state is *not* withering away. Indeed, it is flourishing nicely, taking an ever bigger bite out of gross domestic product. In Europe, the state now grabs a bit more than one-half, up from less than one-quarter 50 years ago. If the state is dwindling, how come it spends and regulates so much?

But Friedman is far too perceptive to fall for such fallacies. So elsewhere in the book he calls the state bashers "dead wrong." In fact, because of "globalization and the increasing openness of borders, the quality of your state matters more, not less." Failed states like Russia screw up hopelessly in the global market because there is no oversight, no bankruptcy law, no legitimate power that enforces contracts and protects investors. Crony-capitalist countries in East Asia have learned a similar lesson.

Globalization has been around for 500 years, but right now we are surely witnessing the most tumultuous part of an ancient drama because what we call globalization is driven above all by technology. That force, especially information technology, is transforming itself and the world with extraordinary speed. So Friedman may be right when he predicts, "You ain't seen nothin' yet." In the meantime, he has written a brilliant guide for the here and now. □

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### **THE LEXUS AND THE OLIVE TREE**

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