have been left out in favor of summaries by Overbeek.

The book's virtue is that it clearly presents the arguments of both sides on the free trade debate. One cannot read both with any objectivity without seeing that the free traders have by far the stronger arguments. Interestingly, the reader observes that the brilliant breakthroughs occurred early on and that the principles established have never been overthrown. Particularly crucial are Ricardo's demonstration of the principle of comparative advantage and David Hume's demonstration of how monetary flows through international payments imbalances alter exports and imports to bring equilibrium to those balances and generate a natural distribution of specie. Those arguments destroyed the rationales of the mercantilists for trade barriers.

From then on, the case for free trade evolves only in detail and sophistication. The point of production is consumption, not vice versa, and the point of trading internationally is the imports we can thus obtain more cheaply (literally using fewer domestic resources) than if we produced them ourselves. Exports are simply the way we pay for imports. What is more, international trade has little effect on domestic employment, except to allocate labor from less efficient to more efficient uses.

Just as important as the compelling arguments in favor of free trade, the readings also illuminate the sordid history and motives of the protectionists. They never grasp the truly anti-social nature of their project, which is characterized by blind nationalism, chauvinism, and xenophobia. Even otherwise democratic and "liberal" protectionists must be made uneasy when they see their association with dictators and authoritarians of every stripe, all of whom adhere to the same protectionist doctrines they do.

The book contained many surprises for me. I was amazed at the brilliance of Nicholas Gerard Pierson, arguing for free trade in the late nineteenth century, whose work was unknown to me. On the other hand, I was disappointed to read the unwarranted concessions made to protectionism by such eminent free traders as F. W. Taussig, A. C. Pigou, and Lionel Robbins.

The biggest surprise for me was historical. It is common knowledge that the reaction against classical liberalism that eventually generated the totalitarian states and world wars of the twentieth century began in Germany in the nineteenth century. But without Overbeek's book, I would not have known that Friedrich List, the father of German protectionism, lived in the United States and was heavily influenced by American protectionists such as Alexander Hamilton and Daniel Raymond, by whom he became convinced that protectionism had been vital to American economic development. List returned to Germany and spread that erroneous view with great and catastrophic effect. Hamilton has always been my least favorite among the Founders, and now I see that he and his ilk have even more to answer for than I had previously supposed.

There is far more in this book than can be described in a short review. It is costly to be sure, but you definitely get what you pay for. □

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In Praise of Hard Industries

by Eamonn Fingleton

Houghton-Mifflin • 1999 • 273 pages • $26.00

Reviewed by George C. Leef

Sometimes you *can* judge a book by its cover. The subtitle of this book reads: Why manufacturing, not the information economy, is the key to future prosperity. That tells me that the author thinks himself capable of central economic planning at the macro level, knowing as he does what economic formula will lead to "prosperity." Then a glance at the back cover clinches it—fulsome praise from some of America's most notorious protectionists, including textile magnate Roger Milliken. Judgment based on the cover: Lousy book. But how bad?

Fingleton, an economic journalist and former editor at *Forbes* (exactly what his domain was at *Forbes* is not disclosed), begins with an extended assault on his bête noire, "postindustrialism." By that he means the idea that our economy has advanced beyond the industrial era into a new era based on services and information rather than the production of tangible products. Fingleton is bothered by the fact (if indeed it is a fact, for the book is light on evidence) that manufacturing has gone into retreat in the United States and is being eclipsed by upstarts like software engineering.

So what? In the spontaneous order of a market economy, industries rise and fall with the desires of consumers. Competition to earn profits drives people to commit resources where they will do the most economic good. But Fingleton shows no comprehension of the idea of spontaneous order and indeed often heaps scorn on "laissez-faire zealots." (In one of the silliest passages in the book, he grumbles that the Nobel Prize in economics has so frequently gone to those "laissez-faire zealots" and explains that the Swedish Central Bank, whose members make the choice, are "laissez-faire zealots" themselves. That's why the brilliance of protectionists, socialists, and other meddlers is overlooked.) He sets out to prove that a "postindustrial" economy is undesirable.

One undesirable aspect is that, allegedly, a "postindustrial" economy does not provide jobs for a wide range of people. As proof, he observes that software engineering is a field only for extremely smart people. Manufacturing, on the other hand, provides job opportunities for people of all levels of aptitude. Therefore, unless we want high unemployment, we need to return to manufacturing. Obviously.

That is typical of Fingleton's method of propping up straw-man arguments so he can knock them down throughout the book. Despite some overly enthusiastic statements by "postindustrial" theorists, no one has ever suggested that we should have an economy that is comprised only of "postindustrial" sectors. It would make just as much sense to argue that a "classical music economy" would be undesirable because so many people would be unemployed because of their lack of ability to play Bach. It's easy to fill up pages in beating up on straw men.

The hand-wringing continues with the author's worries that "we" are losing "our" manufacturing base. (The book, not surprisingly, is loaded with nationalistic language. Fingleton evidently thinks it is all right to trade with "foreigners" for raw materials, but as Keynes said, "Let goods be homespun.") Suppose for the sake of argument that there was in fact a pronounced shift away from manufacturing in the United States. Businessmen, whether Americans or those foreigners, would soon discover profitable opportunities to earn high profits by investing in the vacant manufacturing sector. Fingleton, however, never deigns to discuss the dynamics of the marketplace, preferring to continually berate the "postindustrial" enthusiasts who keep leading us, Pied Piper-fashion, into the false utopia of postindustrialism.

In a book arguing that manufacturing has gone into decline, one would expect to read something about the deleterious impact of government policy. Fingleton, however, says nothing about taxes and regulations that hit harder at manufacturing than other sectors. (That's probably because it's mainly economists of the "laissez-faire zealot" variety that have pointed this out.) A good argument can be made, for instance, that environmental regulations are much more damaging to manufacturing enterprises than, say, financial services, or that our collectivist labor laws do more harm to manufacturers than to software companies. But Fingleton doesn't call for changes in or repeal of government interventions. The government isn't his villain.

Guess what kind of "solutions" our author advocates? Almost exclusively, coercive ones. (One exception—he calls for "relaxation" of antitrust laws, but doesn't pursue the point in any detail.) Fingleton wants a law that would allow business managers to be "punished personally for laying off workers." He wants to diminish the attractiveness of careers in the hated "postindustrial" sectors through selective taxation. He wants to boost U.S. savings by imposing high tariffs on foreign goods. It is all dreary stuff, unenlightened by any comprehension of the terrible rent-seeking possibilities that all this new economic intervention would open up.

On second thought, maybe you really can't judge a book by its cover. *In Praise of Hard Industries* turned out to be far worse than I had guessed. ☐

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The Lexus and the Olive Tree: Understanding Globalization

by Thomas L. Friedman

Farrar, Straus and Giroux • 1999 • 394 pages • $27.50

Reviewed by Robert Lawson

Thomas Friedman has written a very surprising book. Surprising not in what he has written, but in that Thomas Friedman wrote it. Friedman is the foreign affairs columnist for the *New York Times*, and is probably known to readers of *Ideas on Liberty* as a moderately "liberal" establishment journalist. He is certainly not known as a defender of economic liberty. Yet this book presents a compelling story about the prospects for global economic liberty.

The interesting title is chosen as a metaphor for the choice Friedman says today's societies face. They can pursue fancy cars like the Lexus by moving toward free trade, sound accounting, transparency, property rights, and the rule of law. Or they can continue to fight over olive trees through tribalism, nationalism, and isolation. As metaphors go, it's not a bad one. Each choice offers benefits and pitfalls, but if you value freedom and prosperity, your society had better go for the Lexus.

Friedman sees globalization as the One Big Idea of the post-Cold War era. But joining the global village is not easy; it requires a nation to put on what Friedman calls the "Golden Straightjacket." That's private property, low inflation, shrinking government, free trade, deregulation, currency convertibility, reduced corruption, open markets, private pensions, and so on. In short, a libertarian dream.

Once you join the global world, you had better wrap the Golden Straightjacket pretty tight because if your country is seen to be at all weak on any part of it, you might get a visit from "The Electronic Herd." That's you and me trading everything from T-bills to Russian bonds. When the herd gets spooked—when we worry about Russian inflation for example—the herd can create a major crisis overnight. Friedman is one of the few journalists to actually understand the nature of the Asian/Russian currency crisis. Sure, people like Malaysia's Prime Minister Dr. Mahathir Mohamad can blame it on George Soros or the Jews, but the real enemy was TIAA-CREF, e*trade.com, and Merrill Lynch.

The Electronic Herd can be unfair, even wrong, but to fight it is useless. You either embrace the Herd, and the discipline it mandates, or you'd better get off the range. In this, Friedman is less an advocate for globalization than the deliverer of the bad (or good depending on your perspective) news. His major point is that globalization is here to stay whether you like it or not.

Friedman loves his metaphors, though they sometimes get on one's nerves. One of the more effective chapters is "DOSCapital 6.0." Friedman describes countries as computers. Communist countries were running on a really bad operating system, DOSCapital 0.0 while others have advanced to DOSCapital 1.0 up to 6.0. The more free market your country, the more advanced your operating system. It is interesting to compare his list of countries with one of the economic-freedom indexes now available. Perhaps Taiwan is too high and Thailand too low on his scale, but basically he got it right.

In another interesting chapter, Friedman notes that "No two countries that both have McDonald's have fought a war against each other since each got its McDonald's." This was true when he wrote it, but unfortunately is not true since the United States attacked Serbia. (Interestingly, the McDonald's in Belgrade ran strong pro-Serb promotions during the attacks.) But the larger point is that globalization is likely to lead to more peace—a point free-market advocates have made for decades.

But Friedman does have some problems with his analysis. In a series of chapters he