The Golden Straitjacket
Friedman, T. (2000). The Golden Straightjacket. In *The Lexus and the Olive Tree* (pp. 101-111). New York, NY. Anchor Books.

"We're still very much in a straitjacket for the next year or two. The new government will have to be quite careful."

> -Umar Juoro, economic adviser to former Indonesian Prime Minister B. J. Habibie, describing to The New York Times how little room to maneuver the Indonesian government has on the economic front, because if it does anything rash it will get hammered by the IMF and the global markets. October 23, 1999.

While I was on that trip monitoring elections in Chinese villages and my interpreter and I were wandering through the village of Heng Dao, we dropped in on a farmer-turned mechanic who had geese and pigs in the front yard, but a stereo and color television inside his brick hut. My interpreter, a Chinese student who was studying in America, noticed something I never would have-that there didn't seem to be any loudspeaker around. During Mao's day the Communist Party installed loudspeakers in the "brigades," as small villages were known, and used them to blare out propaganda and other messages exhorting the workers. We asked our host what happened to it.

"We took it down last year," the villager said of the loudspeaker. "No one wanted to listen to it anymore. We have stereo and TV now." What the villager didn't say was that he didn't need to hear the message from Beijing and the Communist Party anymore, because he knew what it was and it wasn't the teachings of Chairman Mao. The only message coming from them was much simpler: "You're on your own. Get a job. Send money."

A few months earlier I had been in Thailand, watching Thailand's crony capitalist economy going into a tailspin. I had arranged to interview Sirivat Voravetvuthikun, a Thai real estate developer who had gone bankrupt in the Thai economic crash. He and his wife had become the poster children for the Thai crash, because they had decided to go into the sandwich-selling business to make ends meet. This once-wealthy couple rented out some vacant space in downtown Bangkok, set up a sandwich-making operation with many of their former employees and started delivering fresh ham-and-cheese around the streets of Bangkok. Sirivat arrived at our interview carrying a yellow picnic box strapped around his neck like a sandwich vendor at an American baseball game. What I remembered most about our conversation, though, was the absence of bitterness in his voice, and the much more pungent air of resignation. His message was that Thailand had messed up. People knew it. They would now have to tighten their belts and get with the program and there wasn't much else to say. Wasn't he mad? I asked. Didn't he want to burn down some government building in anger at being wiped out?

No, Sirivat explained to me: "Communism fails, socialism fails, so now there is only capitalism. We don't want to go back to the jungle, we all want a better standard of living, so you have to make capitalism work, because you don't have a choice. We have to improve ourselves and follow the world rules ... Only the competitive survive. It will probably require a national unity government, because the burden is so big."

A few months after this I attended a lecture in Washington by Anatoly Chubais, the architect of Russia's failed economic reforms and privatization. Chubais had come to Washington to make a last-ditch appeal to the IMF for more aid to Russia, but at the time the still-communist dominated Russian Duma, or parliament, was resisting the IMF's conditions. The Duma was also regularly denouncing Chubais as a traitor and foreign agent for submitting to IMF demands that Russia radically reform its economy along real free-market lines. I asked Chubais how he answered his critics, and he told me: "'O.K.,' I tell them, 'Chubais is a spy for the CIA and IMF. But what is your substitute? Do you have [any alternative] workable ideas?'" Chubais said he never gets any coherent answer, because the communists have no alternative.

I was in Brazil a few months later, where I interviewed Fabio Feldmann, the former environmental secretary of Sao Paulo and a federal deputy in the Brazilian parliament, who was campaigning for reelection in Sao Paulo. His office was a beehive of campaign workers, awash in posters and other campaign paraphernalia. Feldmann is a liberal, and I asked him about the nature of the political debate in Brazil today. He responded: "The [ideological] left in Brazil have lost their flag. The challenge of the federal government is jobs and employment. You have to generate and distribute income. And what is the program of the left? They don't have proposals to generate income, only to distribute it."

What are these stories telling us? Once the three democratizations came together in the late 1980s and blew away all the walls, they also blew away all the major ideological alternatives to free-market capitalism. People can talk about alternatives to the free market and global integration, they can demand alternatives, they can insist on a "Third Way," but for now none is apparent. This is very different from the first era of globalization. During the nineteenth and early twentieth centuries, when the Industrial Revolution and global finance capitalism roared through Europe and America, many people were shocked by their Darwinian brutality and "dark Satanic mills." They destroyed old orders and hierarchies, produced huge income gaps and put everyone under pressure, but they also produced sharply rising standards of living for those who could make a go of it. This experience triggered a great deal of debate and revolutionary theorizing, as people tried to find ways to cushion workers from the cruelest aspects of free-market capitalism in that day. As Karl Marx and Friedrich Engels described this era in The Communist Manifesto: "Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind."

Eventually, people came along who declared that they could take these destabilizing, brutalizing swings out of the free market, and create a world that would never be dependent on unfettered bourgeois capitalists. They would have the government centrally plan and fund everything, and distribute to each worker according to his needs and expect from each worker a contribution according to his abilities. The names of these revolutionary thinkers were Engels, Marx, Lenin and Mussolini, among others. The centrally planned, non-democratic alternatives they offered - communism, socialism and fascism - helped to abort the first era of globalization as they were tested out on the world stage from 1917 to 1989.

There is only one thing to say about those alternatives: They didn't work. And the people who rendered that judgment were the people who lived under them. So with the collapse of communism in Europe, in the Soviet Union and in China - and all the walls that protected these systems - those people who are unhappy with the Darwinian brutality of free-market capitalism don't have any ready ideological alternative now. When it comes to the question of which system today is the most effective at generating rising standards of living, the historical debate is over. The answer is free-market capitalism. Other systems may be able to distribute and divide income more efficiently and equitably, but none can generate income to distribute as efficiently as free-market capitalism. And more and more people now know that. So, ideologically speaking, there is no more mint chocolate chip, there is no more strawberry swirl and there is no more lemon-lime. Today there is only free-market vanilla and North Korea. There can be different brands of free-market vanilla and you can adjust your society to it by going faster or slower. But, in the end, if you want higher standards of living in a world without walls, the free market is the only ideological alternative left. One road. Different speeds. But one road.

When your country recognizes this fact, when it recognizes the rules of the free market in today's global economy, and decides to abide by them, it puts on what I call the Golden Straitjacket. The Golden Straitjacket is the defining political-economic garment of this globalization era. The Cold War had the Mao suit, the Nehru jacket, the Russian fur. Globalization has only the Golden Straitjacket. If your country has not been fitted for one, it will be soon.

The Golden Straitjacket first began to be stitched together and popularized in 1979 by British Prime Minister Margaret Thatcher - who, as the original seamstress of the Golden Straitjacket, will go down in history as one of the great revolutionaries of the second half of the twentieth century. That Thatcherite coat was soon reinforced by Ronald Reagan in the United States in the 1980s, giving the straitjacket, and its rules, some real critical mass. It became a global fashion with the end of the Cold War, once the three democratizations blew away all the alternative fashions and all the walls that protected them. The Thatcherite-Reaganite revolutions came about because popular majorities in these two major Western economies concluded that the old government-directed economic approaches simply were not providing sufficient levels of growth. Thatcher and Reagan combined to strip huge chunks of economic decision-making power from the state, from the advocates of the Great Society and from traditional Keynesian economics, and hand them over to the free market.

To fit into the Golden Straitjacket a country must either adopt, or be seen as moving toward, the following golden rules: making the private sector the primary engine of its economic growth, maintaining a low rate of inflation and price stability, shrinking the size of its state bureaucracy, maintaining as close to a balanced budget as possible, if not a surplus, eliminating and lowering tariffs on imported goods, removing restrictions on foreign investment, getting rid of quotas and domestic monopolies, increasing exports, privatizing state-owned industries and utilities, deregulating capital markets, making its currency convertible, opening its industries, stock and bond markets to direct foreign ownership and investment, deregulating its economy to promote as much domestic competition as possible, eliminating government corruption, subsidies and kickbacks as much as possible, opening its banking and telecommunications systems to private ownership and competition and allowing its citizens to choose from an array of competing pension options and foreign-run pension and mutual funds. When you stitch all of these pieces together you have the Golden Straitjacket.

Unfortunately, this Golden Straitjacket is pretty much "one size fits all." So it pinches certain groups, squeezes others and keeps a society under pressure to constantly streamline its economic institutions and upgrade its performance. It leaves people behind quicker than ever if they shuck it off, and it helps them catch up quicker than ever if they wear it right. It is not always pretty or gentle or comfortable. But it's here and it's the only model on the rack this historical season.

As your country puts on the Golden Straitjacket, two things tend to happen: your economy grows and your politics shrinks. That is, on the economic front the Golden Straitjacket usually fosters more growth and higher average incomes - through more trade, foreign investment, privatization and more efficient use of resources under the pressure of global competition. But on the political front, the Golden Straitjacket narrows the political and economic policy choices of those in power to relatively tight parameters. That is why it is increasingly difficult these days to find any real differences between ruling and opposition parties in those countries that have put on the Golden Straitjacket. Once your country puts it on, its political choices get reduced to Pepsi or Coke - to slight nuances of taste, slight nuances of policy, slight alterations in design to account for local traditions, some loosening here or there, but never any major deviation from the core golden rules. Governments - be they led by Democrats or Republicans, Conservatives or Labourites, Gaullists or Socialists, Christian Democrats or Social Democrats - that deviate too far from the core rules will see their investors stampede away, interest rates rise and stock market valuations fall. The only way to get more room to maneuver in the Golden Straitjacket is by enlarging it, and the only way to enlarge it is by keeping it on tight. That's its one virtue: the tighter you wear it, the more gold it produces and the more padding you can then put into it for your society.

No wonder so much of the political debate in developed countries today has been reduced to arguments over minor tailoring changes in the Golden Straitjacket, not radical alterations. When it came to economics, how much of a difference was there really between Bill Clinton and Bob Dole in the 1996 American presidential election? On broad economic issues, very little. Clinton essentially said, "We're in this Golden Straitjacket, but I have a way we can put a little more padding in the elbows and enlarge the middle a bit." And Dole said in effect, "No, no, you can't loosen the middle at all. Keep it on tight and we'll put a little less padding in the elbows." But they were really discussing the buttonholes on a jacket neither of them intended to alter very much - and they were hardly alone. In the 1997 British election campaign Tony Blair vowed in essence that if he won, "We'll keep the Golden Straitjacket on as tight as the Tories, but we'll add some padding to the shoulders and the chest,' while his opponent, Conservative John Major, seemed to retort, "Don't you dare touch a thread on that jacket. Margaret Thatcher designed it to be snug and by God that's the way it should stay." No wonder Paddy Ashdown, the leader of Britain's Liberal Party, looked at Tony Blair and John Major during the 1997 British election, listened to their respective platforms and then declared that there was not a whit of difference between them. Ashdown sneered that Blair and Major were engaged in “synchronized swimming.”

With the fall of the Cold War walls, and the rise of the Golden Straitjacket, I see a lot of synchronized swimming when I travel the world these days. Before the 1998 German elections, in which Social Democrat Gerhard Schroeder defeated Christian Democrat Helmut Kohl, the Associated Press quoted Karl-Josef Meiers of the German Society for Foreign Affairs as saying of the two German candidates: "You can forget the labels right and left. They're all sitting in the same boat." Korea's Lee Hong Koo learned firsthand about life in the Golden Straitjacket when he served as his country's Prime Minister in the mid-1990s. "In the old days we used to say, `History dictated this or that,'" Lee remarked to me one day. "Now we say that `market forces' dictate this and you have to live within [those forces]. It took us time to understand what had happened. We didn't realize that the victory of the Cold War was a victory for market forces above politics. The big decisions today are whether you have a democracy or not and whether you have an open economy or not. Those are the big choices. But once you've made those big choices, politics becomes just political engineering to implement decisions in the narrow space allowed you within this system." Lee was raised in Korea's long dominant Grand National Party. But after Korea's economic meltdown in 1997-98, when the country found it had to put on the Golden Straitjacket much more snugly if it was to continue to thrive and attract foreign investment, the Korean public spurned the veteran, old-style Korean politicians and elected longtime liberal human rights advocate Kim Dae Jung as President, from the opposition National Congress for New Politics. But Kim asked Lee to go to Washington to be his ambassador anyway. As Lee told me: "It would have been unthinkable in the past that someone like myself, who was a presidential candidate from my party and former Prime Minister and party chairman, would go to Washington as an ambassador from another party, like President Kim's. But now, with what Korea has to do to get out of this economic crisis, the differences between me and Mr. Kim are insignificant. We don't have a lot of choices." How do you say "same boat" or "synchronized swimming" in Korean?

Manmohan Singh was India's Finance Minister when his country decided in 1991 to abandon decades of statist, quasi-socialist economics and don the Golden Straitjacket. Sitting in his office in the Indian Parliament in the summer of 1998, he spoke to me of the loss of control he felt once India embarked on this route.

"We learned that there were advantages to having access to international capital markets, [but] the government's ability to deliver and control shrank the more it opened to the world. If you are operating in a globalized economy, perceptions of other participants matter much more - whether they are right or wrong. Then you have to take those perceptions and make them an important input into your decision-making ... We have a world where our fates are linked, but [India's specific] concerns and aspirations don't get taken into account. It brings a lot more anxiety. If you are operating an exchange-rate policy, or monetary policy, your policies become an adjunct of what Alan Greenspan does. It reduces your degree of freedom, even in fiscal policies. In a world in which capital is internationally mobile, you cannot adopt rates of taxation that are far from the rates that prevail in other countries and when labor is mobile you also can't be out of line with others' wages. It has reduced the amount of maneuverability ... I have a friend from a neighboring country who also became a finance minister. The day he got his job I called to congratulate him. He said, `Don't congratulate me. I am only half a minister. The other half is in Washington.'"

Not every country puts on the Golden Straitjacket all the way - some just go partway or a little at a time (India, Egypt). Some put it on and take it off (Malaysia, Russia). Some try to tailor it to their specific culture and wear a few of the buttons unfastened (Germany, Japan and France). Some think they can resist its pinch altogether because they have a natural resource such as oil (Iran, Saudi Arabia). And some are so poor and isolated, with a government able to force people to accept being poor, that they can get away with dressing their people not in a Golden Straitjacket, but in a plain old straitjacket (North Korea, Cuba, Sudan, Afghanistan). But over time, this Golden Straitjacket is becoming harder and harder for countries to avoid.

Often, when I make this point to non-Americans, I get some version of the following reaction: "Don't tell us we have to put on a straitjacket and plug into the global markets. We have our own culture, our own values, and we will do it our own way at our own pace. Your thesis is way too deterministic. Why can't we all just get together and agree on a different, less restrictive model?"

To which I answer the following: "I am not saying that you have to put on the straitjacket. And if your culture and social traditions are opposed to the values embodied in that jacket, I certainly sympathize with that. But I am saying this: Today's global market system, the Fast World and the Golden Straitjacket were produced by large historical forces that have fundamentally reshaped how we communicate, how we invest and how we see the world. If you want to resist these changes, that is your business. And it should be your business. But if you think that you can resist these changes without paying an increasingly steep price, without building an increasingly high wall and without falling behind increasingly fast, then you are deluding yourself."

Here's why: The democratizations of finance, technology and information didn't just blow away all the walls protecting alternative systems - from Mao's little red book to The Communist Manifesto to the welfare states of Western Europe to the crony capitalism of Southeast Asia. These three democratizations also gave birth to a new power source in the world - what I call the Electronic Herd.

The Electronic Herd is made up of all the faceless stock, bond and currency traders sitting behind computer screens all over the globe, moving their money around from mutual funds to pension funds to emerging market funds, or trading on the Internet from their basements. And it also consists of the big multinational corporations who now spread their factories around the world, constantly shifting them to the most efficient, low-cost producers. This herd has grown exponentially thanks to the democratizations of finance, technology and information - so much so that today it is beginning to replace governments as the primary source of capital for both companies and countries to grow. Indeed, as countries increasingly have to run balanced budgets to fit into the Golden Strait-jacket, their economies become ever more dependent on the Electronic Herd for growth capital. So to thrive in today's globalization system a country not only has to put on the Golden Straitjacket, it has to join this Electronic Herd. The Electronic Herd loves the Golden Straitjacket, because it embodies all the liberal, free-market rules the herd wants to see in a country. Those countries that put on the Golden Straitjacket and keep it on are rewarded by the herd with investment capital. Those that don't put it on are disciplined by the herd-either by the herd avoiding or withdrawing its money from that country.

Moody's Investors Service, Duff & Phelps Credit Rating Co. and Standard & Poor's are the bloodhounds for the Electronic Herd. These credit-rating agencies prowl the world, constantly sniffing over countries. They are supposed to bark loudly when they see a country slipping out of the Golden Straitjacket (although sometimes Moody's and S&P also lose the scent or get caught up in euphorias, as in Southeast Asia, and don't bark until it's too late).

This interaction among the Electronic Herd, nation-states and the Golden Straitjacket is at the center of today's globalization system. I first realized this in February 1995, on the eve of President Clinton's first visit to Canada. I was covering the White House at the time, and in preparation for the President's trip I was keeping an eye out for articles in the Financial Times and other papers to see what the Canadians might be talking about in advance of their first visit from the "Man from Hope." I was intrigued to find that they weren't talking about the U.S. President at all. Instead, they were talking about the visit that had just been made to Canada by the "Man from Moody's." Canada's Parliament at the time was debating the country's budget. A team from Moody's had just come to Ottawa and read the riot act to the Canadian Finance Ministry and legislators. The Moody's team told them that if they did not get their deficit-to-GDP ratio more in line with international norms and expectations, Moody's would downgrade their triple-A credit rating, and therefore Canada and every Canadian company would have to pay higher interest rates to borrow abroad. To underscore that point Canada's Finance Ministry issued a statement declaring: "The sheer magnitude of Canada's foreign debt in relation to the size of the economy means that Canada has become excessively vulnerable to the volatile sentiments of global financial markets. We have suffered a tangible loss of economic sovereignty." For those Canadians who might not have gotten the point, Finance Minister Paul Martin put it more bluntly: "We are in hock up to our eyeballs.' No, the Canadians were not the least bit interested in the Man from Hope. It was the Man from Moody's, and the Electronic Herd, who had their undivided attention.

Where did this herd come from and how did it become a force so formidable that it could intimidate and enrich nation-states every bit as much as a superpower could?