channels to create a new niche for itself. Bravo to Cato Institute for its efforts to keep that from happening. □

George Leef is the book review editor of Ideas on Liberty.

The Power of Gold: The History of an Obsession

by Peter Bernstein

Wiley & Sons • 2000 • 432 pages • $27.95

Reviewed by Lawrence Parks

When it comes to disparaging gold, Peter Bernstein can't be outdone. Among other traducements, he blames gold for: the institution of slavery; having "torn economies to shreds"; the Great Depression of the 1930s; and many other "horrors."

In Bernstein's view, people who advocated the gold standard were "deluded," "intoxicated," "obsessed," and "haunted." He contends that the gold standard was "primitive" and the result of "cupidity and stupidity." Not only does he believe that gold is not useful for anything save adornment, but that dire political and social consequences result from its use as money.

The book, which is actually quite readable because of its many amusing anecdotes, has the odd benefit of collecting in one place virtually every negative about the gold standard. Among the more obvious and blatant misrepresentations Bernstein makes are: "As we shall see, the gold standard developed all the trappings of a full-fledged religion: shared beliefs, high priests, strict codes of behavior, creed, and faith."

In fact, the gold standard was a market response to the need for a medium of exchange (money) that would minimize the transaction costs of transferring wealth geographically and over time. Money helps facilitate a division of labor, and the better quality the money, the longer the investment time-horizon, the more specialized the division of labor, and the higher the standard of living. Bernstein understands none of that.

Bernstein's misconceived attacks are relentless. "Despite all the gaiety associated with the Roaring Twenties, the fixation on gold during the 1920s and early 1930s makes the period resemble a horror movie," he writes. The real horror was money creation by banks, not a "fixation on gold."

"Over the years," Bernstein writes, "debasement has come to mean any irresponsible, or at least ill-advised, effort to create new money out of nothing—a process at which governments have become increasingly ingenious with the passage of time." But there is no such thing as "responsible" debasement. Debasement is theft, plain and simple. It is telling that those who oppose the gold standard have no trouble staking out the moral low ground. "Financial rectitude, though much admired, has never been a sure road to prosperity," Bernstein says. Financial rectitude is necessary but not sufficient for prosperity, which never emerges in a climate of government financial manipulation.

Bernstein attacks gold for all manner of governmental mayhem. He writes, for example, "After the surge in paper money and bank deposits produced by the enormous financing requirements of the Napoleonic conflict and World War I forced Britain to suspend convertibility of sterling into gold, the obsession with 'superior-quality money' drove the British back to gold at the earliest possible moment. In both cases, drastic deflations followed, with serious social disturbances."

Why blame gold for this? The problem was caused by money creation out of nothing to finance war. Also, why characterize keeping promises, that is, the redeemability of the paper tickets for gold, as an "obsession"? Isn't it essential for society to ensure that promises—contracts—are enforced?

Bernstein looks favorably on paper money: "This newfangled idea [paper money in China in the thirteenth century] appears to have been more of a historical accident than a stroke of financial genius, but the long perspective of history suggests that Hien Tsung's inadvertent innovation should join printing, gunpowder, and the compass among China's most enduring contributions to the civilization of the world." But the only way this "innovation" was accepted was by force. Tsung's paper

money would have been rejected except for draconian penalties—death!—for people who did not accept it.

Lastly, Bernstein glosses over the most important event to befall gold in the twentieth century: for 40 years it was a felony for Americans to own monetary gold in any form, any place in the world. All he has to say about this is: "In 1933, the U.S. government prohibited the ownership of monetary gold by any individual, company, or political entity except the federal government itself." And since he gives short shrift to this fact, he never discusses the reasons that drove the Roosevelt administration to make gold ownership a felony and to pave the way for our current fiat-money regime.

The Power of Gold: The History of an Obsession is a masterpiece of misinformation and disinformation, of conceptual and factual errors about the gold standard, cloaked in a veritable blizzard of trivia. It makes for entertaining reading, but one won't learn why free men chose gold as the glue that holds society's web of promises together. □

Lawrence Parks is the executive director of the Foundation for the Advancement of Monetary Education (www.FAME.org; e-mail: Lparks@FAME.org).

Can Japan Compete?

by Michael E. Porter, Hirotaka Takeuchi, and Mariko Sakakibara

Perseus Publishing • 2000 • 208 pages • $27.50

Reviewed by Victor A. Matheson

What a difference a decade makes. In the late 1980s Japan seemed poised to dominate the world economy. The Japanese had seemingly discovered an improved version of capitalism in which active government intervention in vital export-oriented sectors of the economy, along with protection of domestic firms from foreign competition, led to high growth rates, huge trade surpluses, and a highly equitable distribution of income.

In the '90s the Japanese economy came tumbling back to earth, suffering ten straight years of anemic growth with per capita GDP growth averaging less than 1 percent per year since 1990. Stock-market and real-estate prices have fallen to one-third of their astronomical highs of the late '80s. The unemployment rate in Japan has eclipsed the U.S. rate for the first time in recent memory. The Japanese government's budget deficits dwarf those run by the United States during the '80s and early '90s as a percentage of GDP, and the looming Japanese banking crisis makes the American savings-and-loan debacle appear like a mere bump in the road. What has happened to the Japanese juggernaut of a decade ago?

According to Harvard Business School guru Michael Porter, Japan's stunning success in highly visible fields such as automobiles and consumer electronics long masked a deeply inefficient and uncompetitive society and propped up an otherwise ailing economy. In their new book, *Can Japan Compete?,* a title that would have been unthinkable a decade ago, Porter and coauthors Hirotaka Takeuchi and Mariko Sakakibara make a strong case that the once lauded Japanese model of close government and business cooperation is largely responsible for Japan's current malaise.

It is easy to point out the Japanese success stories. Following the oil crises of 1973 and 1979 the Japanese auto industry came out of nowhere to take the U.S. market by storm. In the 1980s, Americans bought large numbers of inexpensive, high-quality Japanese television sets, VCRs, and audio systems. At the time, much of Japan's success in penetrating U.S. markets was credited to the actions of the Japanese government's all-wise Ministry of International Trade and Industry.

The authors argue that the successful Japanese industries prospered in spite of government assistance rather than because of it. They point out that the government played virtually no active role in the sectors, such as automobiles, in which Japan came to dominate world export markets. Indeed, in the 1950s, the government actually attempted to dissuade Honda, now Japan's most successful car company in terms of return on investment, from entering the automotive market.

On the other hand, Japan is not a major