Overall, I don't see much point in living in California unless you reside in the mellow coastal climate zone that runs from the beach to the first range of tall mountains. The Central Valley is dreary, and California's deserts are strangely unattractive compared to inland states without the hassles of California's budget disaster. This makes competition for the relatively small amount of level land along the ocean ferocious, which is one reason that Californians' reactions to the enormous influx of illegal aliens in recent decades has been more negative than Texans'.

If immigration into the Los Angeles basin means that if you want a spouse and kids you will have to leave the wonderful Mediterranean climate zone of L.A. and move over the 10,000-foot tall San Gabriel Mountains into the searing hot winds of the Palmdale exurb, well, you might feel bitter, too.

In comparison to California, the immense eastern half of Texas is all about equally mediocre. Unlike the western half of Texas, it has enough water and the climate is survivable with air conditioning, but that's about all you can say for it (other than that there is some pleasant hill country around Austin, which, not surprisingly, is the scenic blue dot in the middle of the broad red plains of Texas). If too many illegal aliens drive you from a suburb of Dallas or Houston to an exurb, well, no big loss. The terrain is all flat and hot.

As recently as 1990, non-Hispanic white women in California had higher fertility rates than did their counterparts in Texas, averaging 1.93 babies compared to Texas's 1.85. Over the next dozen years, though, California's white fertility rate dropped 14.4 percent to 1.65 babies. Not surprisingly, the continuing affordability of a house with a yard in Texas helped the fertility rate there grow 4.3 percent to 1.93 in 2002.

All this suggests the GOP should search out new pro-marriage and pro-babies strategies for growing more Republican voters. For example:

- Deep-six Bush's open-borders plan. Driving land prices up and wages down by flooding the country with foreigners would mean that more potential Republican voters couldn't afford to get married and start families.
- Appeal to Hispanics as family-values voters, not as an aggrieved ethnic bloc to be bought off with more immigration and more quotas.
- Oppose the Democrats' NIMBY environmentalism with a Theodore Roosevelt-descended pro-family conservationism that makes it more attractive for Americans to get out and camp in our great outdoors. (Having a family can seem more affordable when people expect to vacation in tents as well as hotels.)
- Figure out faster ways for young people to get educated so they can marry and start families sooner. Most jobs don't take endless academic dithering. My wife, for example, became a computer programmer after a seven-month course.
- Make the ultra-Republican Great Basin and Great Plains more habitable. They may need water piped in, at vast public expense, from the Canadian Rockies. Or how about a 120 mph speed limit so their residents can conveniently speed off to a sinful big blue city for a fun weekend now and then?
- Finally, because Democrats win when Americans don't marry and don't have children, publicly label them as what they are: the party that thrives on loneliness. ■

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*Steve Sailer is* TAC*'s film critic. He also writes for VDARE.com and iSteve.com.*

# Dollar Drain

## Can we remain a superpower with a collapsing currency?

**By Paul Craig Roberts**

FEW AMERICANS REALIZE that their country's superpower status rests heavily on the dollar's role as the world's reserve currency. Shorn of its reserve currency role, the United States—with its massive trade and budget deficits, high indebtedness, declining currency, hollowed out manufacturing capability, and diplomatic isolation—would cut a poor figure in the world.

The dollar's role as reserve currency is jeopardized by the record growth of the U.S. trade deficit since 1990. Economists have not paid sufficient attention to this widening trade deficit, perhaps because they believe they have heard it all before. The 1980s were replete with doom and gloom about the "Reagan deficits." The Reagan economy continued on its merry way, however, and after rising for a few years, American trade deficits declined to insignificance.

Since 1990, however, our trade deficits have grown continuously, reaching \$500 billion in 2003 and \$600 billion in 2004. The excess of U.S. imports over exports between 1990 and 2004 has conveyed \$3.3 trillion of U.S. equities (including entire companies), real estate, and government and corporate bonds



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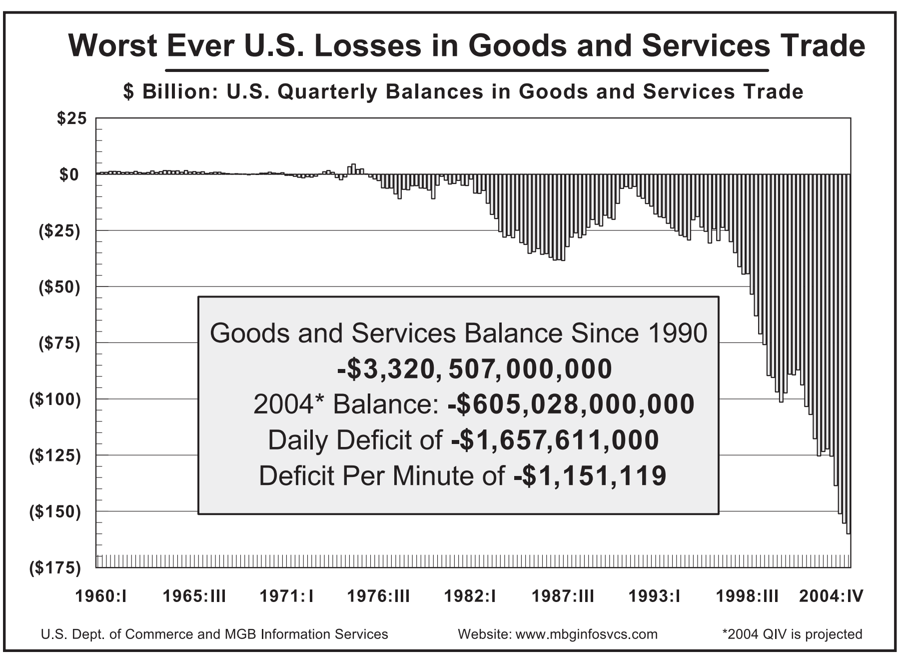
into foreign ownership. Consequently, the income from these assets accrues to foreigners. As trade deficits mount, the share of American income paid to foreigners grows. Large and sustained trade deficits thus cause an explosive growth in our indebtedness to foreigners.

The outpouring of dollars resulting from U.S. imports, payments to foreigners from their American investments, and funds sent by immigrants to relatives in their homelands creates an enormous supply of dollars in foreign hands. Any other currency would have collapsed from oversupply. Being the reserve currency, however, the dollar is guaranteed a high level of demand. Foreign central banks keep their reserves in dollars, and oil-producing states bill their customers in dollars, which requires other countries to exchange their currencies for dollars in order to pay for their oil imports.

The problem arises when foreigners perceive foreign claims on U.S. income to be rising faster than our gross domestic product. As the chart below shows, the U.S. trade deficit has been growing rapidly. During the past year, our cumulative trade deficit increased by $600 billion, or 22 percent. In 2003, the cumulative deficit increased by $500 billion, or by 23 percent. These obligations, which imply payouts, are growing more than five times faster than the U.S. economy. Foreign owners, like some American multinationals, are able to use accounting methods to understate their U.S. earnings for tax purposes, but the unsustainable growth in obligations is apparent from the chart.

The prospect of building up more claims to U.S. income than can be met results in a growing reluctance to hold more dollar assets. The depreciation of the dollar against gold, the euro, the Japanese yen, and the British pound reflects investors' efforts to protect their wealth from dollar decline. The past two years have seen reduced willingness by private investors to accumulate U.S. government bonds. It is foreign central banks, primarily in Japan and China, that are supporting the dollar by purchasing U.S. government bonds.




The question is how much longer Japan and China will add to their depreciating portfolios of U.S. government-issued bonds. Both countries support the dollar—China by pegging its currency to the dollar and Japan by exchange market intervention—in order to continue to gain American market share in goods and services. By keeping the dollar overvalued with respect to their own currencies, Japan and China have taken many jobs and much industry from America.

Japan and China's combined holdings of dollar investments are $1.5 trillion and rising. The dollar's decline of 70 percent against gold and 53 percent against the euro means that Japan and China are paying a high cost for their dollar holdings. At what point does this cost exceed the benefit of gaining or maintaining market share?

On Dec. 4, 2004, the *New York Times* reported that this question is worrying Masatsugu Asakawa, a top official in the Japanese Ministry of Finance who is responsible for managing Japan's $720 billion portfolio of U.S. government bonds. The Princeton-educated Asakawa says he has been losing sleep over the dollar's fall. A 10 percent fall in the dollar reduces his portfolio's real value by $72 billion. Asakawa sleeps with a currency monitor by his bedside that beeps him awake every time the dollar falls. Lately, that has been often.

Soaring U.S. borrowing from abroad also concerns the Chinese government. In a short period of time, China has acquired a stockpile of $600 billion. Recently, Chinese Prime Minister Wen Jiabao asked, "Shouldn't the relevant authorities be doing something about this [depreciating dollar]?" Japan and China's trade surpluses with the U.S. have become a two-edged sword for them. They delight in their share of U.S. markets but fear that the dollar's decline will eat up the value of their dollar holdings.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A popular explanation for Japan and China's willingness to accumulate dollars is that both countries are so deeply into dollars that they cannot afford to dump them. But the dollar is declining regardless. How long before a smaller Asian country decides it has had enough and sells off its dollar portfolio, or OPEC decides to bill oil in euros? Either action could start a run on the dollar that would be catastrophic for U.S. incomes and power.

To avert a crisis, the U.S. would have to increase its exports relative to imports by selling more abroad and buying less from other countries. Another piece of a confidence-building strategy would be to reduce the budget deficit, thus reducing the supply of new government bonds. Can we accomplish these essentials? Not in our present state of hubris and delusion. A country that sees itself as a superpower that can impose its will is unlikely to be aware of its peril.

U.S. imports are currently about 1.5 times higher than exports. Moreover, American producers are losing, not gaining, market share. Every time a U.S.-based company outsources goods and services, it turns domestic production into imports. Half of our trade deficit with China represents U.S. offshore production. Seventy percent of the goods on Wal-Mart's shelves are made in China. U.S. consumers are dependent on imported products. As imports rise with consumption, reducing imports means Americans must consume less.

Reducing the trade deficit by exporting more is also problematic. The U.S. has lost entire industries and technologies and is unable to close its trade deficit by increasing its share of world exports. Despite the jubilation over productivity growth, there has been no increase in America's share of world exports.

Having foolishly given away our education, agriculture, industry, and technology, we have no prospect of closing our massive trade deficit without a fall in incomes, whether absolute or relative to the rest of the world. The adjustment will come as a result of more dollar devaluation, rising import prices, and falling U.S. incomes due to the dollar's decline and job losses. The longer China is able to maintain its artificial currency peg to the dollar, the harder America's fall will be.

The dollar's value would strengthen if the federal government balanced its budget and if Americans consumed a smaller percentage of their incomes and saved more. But can the U.S. government restore budget balance while fighting wars, cutting taxes, and expanding spending? Unlikely. Can Americans save more when they are loaded up with debt service and experiencing stagnant or falling real incomes? Unlikely.

Foreigners will not continue to lend to us at the current interest rates. Interest rates will have to rise on U.S. government bonds in order to compensate for the declining dollar, and when interest rates rise, what happens to construction, real-estate prices, and the indebted households holding variable-rate mortgages that have spent their home equity?

The dollar's sharp decline over the past year is evidence that the world realizes that U.S. trade deficits are unsustainable. The dollar's decline would have been even more dramatic if there had been an alternative in the wings to serve as reserve currency. The Japanese economy is large, but the Japanese government has made it clear it does not want the reserve currency role. The euro has come on the scene, but it is a political currency and unproven. The Chinese have pegged to the dollar in order to gain world market share. By irresponsibly wrecking the dollar, the U.S. is leading the international financial system toward crisis.

Aware of the dollar's plight and the interest-rate implications, why have markets not moved U.S. interest rates higher? Low short-term rates can be explained by investors moving away from long-term bonds into money-market funds and short-term debt instruments in order to protect against capital losses from rising interest rates. Such a move should raise long-term interest rates. During President Bush's first year in office, however, the Treasury stopped issuing 30-year bonds. The reduction in supply offset reduced demand, leaving interest rates low.

It is harder to explain why lenders are accepting such low interest rates on 30-year mortgages. Perhaps the explanation is credit abundance from a Federal Reserve disarmed by low prices and minimal inflation resulting from offshore production. With near-zero interest rates in short-term markets, mortgages offer investors at least some income, but the risk of capital loss is high.

The overabundant supply of dollars has increased the risk of dollar-denominated investments, for both currency and interest-rate reasons. The real-estate market, bond market, and stock market are all vulnerable.

This vulnerability of wealth comes on top of the vulnerability of income. American jobs in tradable goods and services are being sent abroad, and job growth is

**SEVENTY PERCENT OF THE GOODS** AT WAL-MART ARE **MADE IN CHINA.** U.S. CONSUMERS ARE **DEPENDENT ON IMPORTED PRODUCTS**. AS IMPORTS RISE WITH CONSUMPTION, REDUCING IMPORTS MEANS **AMERICANS MUST CONSUME LESS**.



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confined to domestic services that pay less than the jobs that are outsourced. The ladders of upward mobility are being dismantled and the middle class is threatened. When the crisis comes, it will be political as well as economic.

The superficiality of American news reporting masks the threat to U.S. jobs. Seldom do reports delve beyond the aggregate new jobs figure released each month by the Bureau of Labor Statistics. The Jan. 7 announcement of December's 157,000 new jobs, although a lower figure than expected, sounds reassuring. But the real news is in the composition of the jobs figure: the jobs being created are concentrated in state and local education, food services and bars, health care and social assistance, construction, administrative and waste services (mainly temporary help), and wholesale and retail trade.

Charles McMillion of MBG Information Services in Washington, D.C. has tabulated job growth and losses from January 2001 through December 2004. During President Bush's first term, the aggregate record is a net loss of 1,010,000 private-sector jobs—this over one year of recession followed by three years of "recovery." But the job losses in the tradable-goods sector are astounding. The manufacturing sector has lost 2,693,000 jobs. Employment in primary metals and fabricated metal products has declined by 23.6 percent and 14.2 percent respectively. Machinery production has lost 19.8 percent of its work force. Employment in computer and peripheral equipment, communications equipment, semiconductors and electronic components, and electrical equipment and appliances has fallen 29.3, 37.9, 36.7, and 23.4 percent respectively. Employment has declined 36.7 percent in textile mills and 41.9 percent in apparel.

These losses are extraordinary for a four-year period. They represent devastating reductions in skills and industrial capacity, and while feel-good armchair economists may attribute these job cuts to higher productivity, most reflect plant closings caused by offshore production and foreign competition.

The information and high-tech knowledge sectors that economists promised would take the place of the manufacturing sector in the "new economy" have failed to perform their assigned role. Since January 2001, the information sector has lost 547,000 jobs, with telecommunications being especially hard hit, and 102,000 jobs have left professional and business services. These losses are net losses from existing levels. They do not include jobs lost to Americans when U.S. firms outsourced new jobs abroad.

DURING PRESIDENT BUSH'S FIRST TERM, **EMPLOYMENT HAS DECLINED** 36.7 PERCENT IN **TEXTILE MILLS** AND 41.9 PERCENT IN **APPAREL**.

Interest groups and their spokesmen, who cloak themselves in free-trade rhetoric, cannot reconcile the dollar's collapse with their claim that the U.S. benefits from outsourcing and an open economy. If America benefits from globalism, shouldn't the dollar's strength reflect it? If there are mutual gains from free trade, why can't the U.S. economy create jobs in traded goods and services?

Outsourcing, offshore production for home markets, and rigged currency values are not included in the case for free trade. The free-trade case is based on the principle of comparative advantage, which carries two conditions: (1) the immobility of capital across national borders relative to traded goods, and (2) different internal cost ratios of producing different goods in different countries.

Neither of these conditions holds in today's world. Capital and technology are as internationally mobile as traded goods. Modern production functions are based on acquired knowledge and result in identical cost ratios regardless of location. Consequently, outsourcing and offshore production are based on absolute advantage, not on comparative advantage, and trade based on absolute advantage is not mutually beneficial to the well-being of the countries involved. Instead of mutual gains, there are winners and losers.

Economists cannot understand the present because they are lost in the past. The latest work in trade theory by Ralph E. Gomory and William J. Baumol demonstrates that there are inherent conflicts in international trade. Productivity gains always benefit the country experiencing them but do not always benefit that country's trading partners. Developed countries can experience a decline in their well-being by transferring their capital and technology to less developed countries. Yet most economists continue to assume, mistakenly, that the U.S. benefits from transferring capital and technology to China and other parts of Asia.

Economists are secure in their delusion that America benefits from moving its economic capabilities offshore, just as neoconservatives are secure in their delusion of America's permanent superpower grandeur. Deluded people are incapable of dealing with crises. ■

*Paul Craig Roberts received his economic education at Georgia Tech, the University of Virginia, the University of California at Berkeley, and Oxford University, where he was a member of Merton College. He served as Assistant Secretary of the Treasury during President Reagan's first term.*


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# I Witness

My life with Whittaker Chambers during the Hiss trial and after

**By Ralph de Toledano**

AT ONE OF THOSE DEADLY rubber-chicken dinners, Clare Boothe Luce said to me, "When I meet a great man, a little bell inside of me goes ding! ding! ding!" She was not amused when I asked if the bell had dinged for Whittaker Chambers, and she huffily replied that she was referring to Winston Churchill. She was not putting Whittaker down. But like many in her social stratum, she would have preferred if he were not quite so paunchy and rumpled. Take 40 pounds off, put him in a Brooks Brothers suit, and she would more likely have considered his greatness. Alger Hiss may have been a traitor, but he was slim, debonair, and his snap-brim hat always snapped.

The time was well past the sweltering August day when Whittaker Chambers, one of *Time/Life*'s ranking editors, testified before the House Un-American Activities Committee, naming a round dozen members of a high-level Communist cell in the federal government and firing a shot that echoed for years. That list included Alger Hiss, once a rising star in the State Department as director of the Office of Special Political Affairs, secretary-general of the San Francisco conference that launched the United Nations, adviser to FDR at Yalta, and then president of the prestigious Carnegie Endowment for International Peace.

Two days later, at his own request, an urbane and condescending Alger Hiss testified before HUAC. He not only denied that he had been a member of a Communist cell, but also that he had ever met "a man named Whittaker Chambers." Only Richard Nixon, a freshman member of HUAC, pushed a panicked committee to continue its investigation, arguing that details of Hiss's private life being provided by Chambers could only come from someone with an intimate knowledge of him.

Pressed to the wall, Hiss finally admitted that he had known Chambers as George Crosley, a "deadbeat" writer, though he insisted for a time that he could not make a positive identification until he knew the name of Whittaker's dentist. Stripped of his defense, Hiss challenged Chambers to repeat his charges where they were not privileged so he could take libel action. Chambers did so on "Meet the Press," and Hiss sued. In taking Whittaker's deposition, Hiss's lawyers demanded proof that Hiss was a member of a Communist cell. Chambers produced a stack of classified State Department documents copied on Hiss's Woodstock typewriter and four memos in his handwriting. It was now a case of espionage, and since the statute of limitations under the Espionage Act had run out, Hiss was indicted for perjury.

As a *Newsweek* National Affairs editor, I had from the start been writing the stories on the Hiss-Chambers case, and they caught the attention of a publisher who signed me to do a book. I then set out to dig deeper. First step: talk to the protagonists. But Hiss's lawyers said nay ("We can't expose him to a Red-baiter"), and Chambers was talking to no one. A mutual friend interceded for me. "Talk to Toledano," he said. "You can trust him." Chambers called me, and I invited him to dinner. He arrived at 7 p.m., rumpled, out of breath, looking slightly apprehensive.

"*Está en su casa*," I said, and at those Spanish words of welcome Whittaker relaxed. He did not leave until well after 1 a.m. In that time, he fleshed out much that was missing from the news accounts of his recruitment and activities in the *apparat*. At the start, he warned me that he would "fuzz up" some names and details so as not to involve those not relevant to the case. When he mentioned a prominent literary agent who had been in the underground party and I said, "Maxim Lieber," he gave me a sharp look. When he referred to the house in Greenwich Village where the microfilm had been processed, I said, "17 Gay Street" and named the owner. Again, he looked at me sharply. For a time, he suspected that I too had been in the underground. When we became friends, he realized that I had learned much as an investigative reporter on the "subversive beat."

What he spoke of that night went far beyond the police aspect of the case and to its greater significance. It was a microcosm of the conflict between the God-based West and the secularist Marxist-Leninist East, a struggle for the soul of man. The freedoms under attack by what Hiss represented were a political reading of the Bible. Without God, all political and moral license was permissible. As I listened and learned, the little bell began to ring.

In the weeks before the trial, he was summoned to New York for the unremitting probe of what for years he had tried



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