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Bird's Eye

KARL ZINSMEISTER

No Thanks to Them

"Future historians may well mark the mid-1980s as the time when Japan surpassed the United States to become the world's dominant economic power."

—Harvard professor Ezra Vogel, 1986

"America [is] on the verge of losing its middle class."

—Joint Economic Committee of Congress, 1986

"The task facing American statesmen over the next decades...is a need to manage affairs so that the relative erosion of the United States' position takes place slowly and smoothly."

—Yale professor Paul Kennedy, 1987

"The 1980s and 1990s may be remembered, with bitterness, as a turning point in America's fortunes—a period of transition when we took the British route to second-class economic status."

—former U.S. Commerce Secretary Peter Peterson, 1987

"Our competitive strengths are no longer great enough...to support our living standards at full employment."

—economist John Kenneth Galbraith, 1992

"Most people are working harder for less...others cannot work at all." —Bill Clinton, 1993

"As mass unemployment keeps rising and wages stagnate, it is bizarre to watch governments pursue freer trade, more deregulation, limitations on government, balanced budgets, and privatization, as if a free market would somehow restore high growth and full employment."

—economist Robert Kuttner, 1994

"Japan is still on track to overtake the United States by the year 2000."

—Atlantic Monthly contributor Eamonn Fingleton, 1995

"Chronic federal budget deficits stretch as far as the eye can see, reaching an estimated \$300 billion in 1999, and \$500 billion by 2005."

—Congressional Budget Office, 1995

"American workers are facing an unrelenting angst that is shattering people's notions of work and self and the very promise of tomorrow."

—New York Times, 1996

"Call it 'in-your-face capitalism.'... The '90s is the first time white-collar workers have been slaughtered en masse.... Something is just plain wrong."

—Newsweek, 1996

"There is something terribly wrong, terribly un-American about the fact that the economy's prosperity is bypassing most full-time workers."

—Clinton administration Secretary of Labor Robert Reich, 1996

"We're in a quiet depression...a storm is coming."

—Senator Edward Kennedy, 1996

Now that the American economic fizz which began in 1982 has shattered all existing records, many commentators are making it seem that our present golden position was reached through comfortable consensus. Don't believe it.

As the quotes to the left indicate, huge parts of our political, academic, and media establishments had to be dragged kicking and screaming to get the nation on its current course. And at numerous points over the last two decades we were pushed toward policies that, if adopted, would have grounded today's economic meteor.

Remember the buzz words? In the 1980s there was a big panic that America was "deindustrializing." The solution? More government subsidies and controls that would shelter and force-feed old industries like steel in "government-private partnerships." The role models were the Japanese bureaucrats and European socialists busy shoveling corporate welfare at their companies. Fans of government steering of the economy nearly succeeded in setting up similar white elephants here in America.

As Ronald Reagan and Fed Chairman Paul Volcker went to work to squeeze Jimmy Carter's 14 percent stagflation out of the economy, the resulting unemployment spike inspired another panic. Labor unions and their political hacks began caterwauling about an "infrastructure" crisis. To normal human beings, it was never clear what the promoters of this concept meant by "infrastructure," but Dan Rather and other Chicken Littles in the media gave us lots of close-up camera shots of rusty highway bridges, especially during the presidential campaigns of Walter Mondale and Michael Dukakis, accompanied by scary talk about how collapsing concrete and soon-to-clog sewers made us "uncompetitive." The solution promoted was good old-fashioned government make-work projects on a mucho-billion dollar scale. This antique thinking was sold with shiny new rhetoric about how if we didn't open the federal spending taps to repave a lot of roads and expand some harbors we would end up economic dust under the heels of those wise, public-funds-ladling Japanese, Germans, and Scandinavians.

Later in the '80s and early '90s, as international trade picked up, there was hysteria not only from the usual economic reactionaries of the Left, but also from parts of the Right. The new rage was against "factory closings," and mergers, and the fact that—sakes alive—paternalistic old firms like Woolworth, U.S. Steel, and Unisys were getting their sleepy heads handed to them by new companies, "raider investors," and some uncouth buccaneer capitalists who didn't even own proper headquarters towers in Manhattan—like Wal-Mart (Arkansas!), Nucor (North Carolina), and Dell (Texas). Even more vilified were foreign firms who slyly attacked the U.S. by bringing high quality goods here to "dump" on us at low prices.

Politicians and academic saviors had lots of ideas about what Washington needed to do in response. Ted Kennedy, Bill Clinton, and his Labor Secretary Robert Reich proposed setting up special lower tax rates for "Most Favored Companies"—those "avoiding layoffs designed simply to maximize profits." House Minority Leader Richard Gephardt wanted to categorize corporations as "good" and "bad," and forbid the government from buying anything from the "bad" firms.

This decade-and-a-half of hideous whining and misinformation—most of it counterattacks against the new pro-free-market policies launched by the Reagan administration—

AMERICA PICKED UP THE MEDICINE BOTTLE BRAVELY AND TOOK A HARD SWALLOW.

reached its crescendo in the mid-1990s. For example, there was the seven-part series of articles run by the *New York Times* in March 1996—the longest piece of jour-

nalism they had published since the Pentagon Papers in 1971. At a time when the U.S. unemployment rate was a little over 5 percent, the paper ranted hysterically about economic "trauma" and human "loss of identity" caused by allegedly ruthless corporate restructurings. One of the reporters informed readers that working on the stories had tested his "high threshold for tears."

Hundreds of similar moans were launched heavenward at that time by other reporters and politicians anxious to meddle in the economic reformation then underway in America. (See James Glassman's discussion on page 26 of a particularly egregious *Newsweek* cover story.) In these attempts to stoke class resentments, feed fears of competition, and pick arguments with businesspeople, no rhetoric was considered too misleading or inflammatory by the potboiling activists.

That's where our national economic "consensus" was as recently as just three years ago.

Thank goodness, defenders of economic freedom were able to fight off the many shades of interventionists who attempted over the last two decades to assert control over the American economy. As a result, we're enjoying an economic summer like none ever before experienced—instead of being stuck with a Novocained, state-manipulated economy like the Japanese and Europeans suffer under, where growth is anemic to nonexistent, and workers suffer unemployment rates twice as high and more.

Save for a few months of recession in the early '90s, linked to the savings-and-loan cleanup, we've had 18 years of remarkable prosperity. This has done wondrous things for the nation. It's drawn millions of welfare recipients into the workforce. It has eliminated the federal deficit. Burdens have been lifted and new opportunities opened for millions of everyday Americans.

Eventually we'll have one of the cyclical downturns that any fluid economy occasionally experiences. But we'll never lose the remarkable ground that has been gained over the last 18 years. Thousands of new firms, millions of productive new processes and products, and whole new ways of living and doing things have been invented by our gushingly fertile private economy. Back in 1980, not even the sagest of gurus could have dreamed up these developments—much less stage-directed them. But thanks to millions of independent inventors and business managers they're now here to stay.

Not surprisingly, the *New York Times*, *Newsweek*, CBS, and their political compadres have today fallen strangely quiet on the subject of economic trauma. Their new crusades to save America from itself center around riper targets like disagreeable Christian conservatives and spooky chemicals tainting the food supply. *Not one* alarmist of the America's-sky-is-falling-and-Japan-is-going-to-eat-us school has yet muttered those three magical little words: "I was wrong." Until a few of them do, their credibility as analysts and seers ought to stay right at zero.

If the crew just described were the narrowly thwarted villains of this story, who are the heroes? Well, that's what the rest of this issue of *The American Enterprise* sketches out. Happily, there is credit to share in many places. Eventually, some may even trickle down to the guy who started it all: Ronald Reagan. (Reagan's joke to the White House Correspondents' Association dinner that "It's my job to solve the country's problems, and it's your job to make sure no one finds out about it" was more true-to-life than he might have wished.)

Our current President, Bill Clinton, also deserves some credit. He brought in a solid Treasury Secretary in the person of Robert Rubin, and he allowed Alan Greenspan to do his priestly work unmolested. (See the excellent essays by Kevin Hassett and Bruce Bartlett that begin on page 18.) But as AEI economist John Makin summarizes, "the main contribution of Clintonomics was to do relatively little harm to the favorable economic environment he inherited."

The most important contributors by far to today's rolling economic boom don't live in Washington, though. They are the thousands upon thousands of mostly anonymous problem solvers running America's rippling private businesses. (See pages 26-29.)

Having just ripped the media and liberal technocrats for their quailing response to the economic readjustments of the 1980s and '90s, let me acknowledge that those adjustments *did* inflict some turmoil. The big question then—and now—is: How should society handle such economic transitions?

An army of nursemaids on the left wanted to take control of the process and nose-wipe the victims. A smaller brigade marching up from the right behind leaders like Pat Buchanan likewise concluded that in order to "take care of our people," America's seemingly runaway economic processes would have to be bridled in from D.C.

In the end, though, most Americans decided the government shouldn't much interfere. Still clinging fairly sturdily to concepts like self-reliance, adaptability, and competing to win, we picked up the medicine bottle and took a hard swallow. Economic dead wood was cut out. Thousands of families moved and started afresh.

Between 1983 and 1993, the U.S. corporations represented in the *Fortune* 500 reduced their payrolls by 18 percent. If you were one of the three-million-plus people let go, there was some real hurt involved in that. (Though studies show most job losers eventually rebound into *better* situations.)

Meanwhile, at those same restructuring companies, inflation-adjusted profits increased 57 percent as a result of their tough actions. And contrary to what academic and media pinks would have you believe, those increased earnings didn't go into diamond tiaras and Bentley automobiles. They were plowed into new business investments: computers, factory machines, new plants, research labs, employee training, and so forth. Business investment surged by nearly 50 percent in the '80s, then almost doubled again during the 1990s. (See the graph on page 29.) This blast of business aggression caused output and productivity to pop, and helped American firms pound competitors all around the globe.

Was it a mistake to keep the state out of these hard decisions that led to America's economic revival? Hell no. We should

all get down on our knees and give thanks for the failure of those many proposals that would have had big government (or big mama corporations operating under government fiat) propping up frail U.S. farmers, steelworkers, and phone company managers at their familiar places. The rich benefits we're reaping now result directly from the bravery of everyday Americans in facing up to necessary changes during the 1980s and 1990s.

Leon Trotsky called the United States "the furnace where the future is being forged," and it's easy sometimes, when you're staring into that bubbling cauldron, to see nothing but turmoil. People with a little imagination, and patience, and understanding of history, however, will understand that what's taking place amidst the dirtiness and dangers of the foundry is fresh creation. And sometimes we have to throw an old ingot into the smelter to recycle it into something better. Recall that of all the blue-chip companies included in the original Dow Jones Industrial Average a hundred years ago, only one has survived to today. The rest either went out of business or were merged into some other enterprise. Understanding that this is how economic creation and progress work, we must face business evolutions confidently, and avoid the temptation to try to manage them from a throne chair.

A few years ago, economics writer Robert Samuelson observed that there "is a contemporary consciousness, shared by many journalists, that assumes that people are entitled to life without worries, setbacks, or conflicts—and that anything less is a 'crisis.'" Yet if we allow ourselves to fall into the view that "every personal angst or societal defect merits public sympathy and maybe a governmental solution," Samuelson worried, we will become paralyzed and unfree.

We will also eventually become very poor. When I hear protectionists and enemies of economic competition railing against free-market policies that sometimes result in managers and workers being fired, and even whole firms being dissolved, I think of Herbert Spencer's warning that "the ultimate result of shielding men from the effects of folly is to fill the world with fools."

Our openness to ferocious competition and our willingness to roll with fate's punches has left America in a very healthy position today. We've prospered essentially by inviting all comers to step up and take their best shots at our reigning champions. A fair number of Goliaths have recently tumbled over dead; but our collective economic fighting force has never been so well toned. America has not been a sheltering nation in the past, and will not remain prosperous if we grow timid and try to become one in the future.

The lessons of today's prosperity for future molders of economic policy are clear: When it comes to the specifics of business, *Hands Off!* Government must control the money supply, manage taxing and its own expenditures sensibly, apply fair rules equally, and help American children grow up into educated and productive citizens (a responsibility it's currently fumbling badly). But government must resist the temptation to become involved in enterprising.

There is a joke about a man who comes home and finds his

BIRD'S EYE continued on page 17

IN OUR NEXT ISSUE

IDEAS AND PEOPLE OF THE 2000 ELECTION
ELECTRONIC REPRODUCTION PROHIBITED

Communist Unification Rule Over All is a new and growing Russian religious movement dedicated to the mystical deification of past Communist rulers. Teaching that Christ and Lenin are reincarnated in Russia today, it sees the "class enemy" as "negative energy" and the "class ally" as a healthy lifestyle that emphasizes "purity of the bowels." ☛ Cleveland's school voucher program was recently quashed by a federal judge who claimed it unconstitutionally "established" religion. Meanwhile, students enrolled in the popular program attend schools "more racially integrated than those in the Cleveland public school system...without sacrificing economic or religious diversity," a Buckeye Institute study has found. ... A Harvard institute recently analyzed San Antonio's voucher program and found it "seems to be serving the working poor"—not "creaming" the top students out of the public schools. ☛ Some e-commerce facts from researchers at Intelliquest and Jupiter: Traffic on the Internet doubles every 100 days. ... Over 40 percent of all U.S. adults surf the Net. ... Web traffic to e-commerce sites is growing faster than any other category on the Internet. ... "Hundreds of homeless shelters have installed computer labs in recent years that would be the envy of most high schools," reports the *Los Angeles Times*, which found numerous homeless persons working as e-entrepreneurs. ☛ *Slate* watched all the talking-head news shows the weekend the Senate voted down the nuclear test ban treaty and found that only John McLaughlin's show discussed the actual issue: whether America still needs to test nukes. ☛ Peter Singer, a "bioethicist" famous for justifying infanticide, frequently castigates Westerners for not giving much more money to relieve world poverty. But when the *Washington Post* observed that the proportion

of his income Singer donates is "considerably less than" what he urges on others, he replied, "It's something you work on." ☛ Labor shortages have led Arthur Andersen and other top firms to redouble efforts to approach potential employees as young as college freshmen or even high schoolers. ... Retailers battling to hire extra employees this past holiday season took on new workers up to two months early. ... After one month on the job, employees of Borders are eligible for stock options; merit-pay raises can be had after six months. ☛ Warren Beatty, movie star and presidential non-candidate, "would do more damage to the presidency than an Oval Office full of Lewinskys," one Hollywood producer told *Newsweek*. ... Historic legacy: Polls by CNN/Gallup found that although only 35 percent of adults supported Clinton's impeachment in December 1998, 50 percent did in December 1999.

Presidential candidate John McCain told the Center for Military Readiness he would not change the current White House policy of "Don't Ask, Don't Tell" for homosexuals in the military. He also said that having women in combat

units hasn't harmed readiness and that he would continue the policy of placing women in all combat positions except ground infantry. ☛ "No matter who controls Congress after the 2000 elections, I don't think you'll see any [additional] national controls on the flow and availability of guns," says Robert Spitzer, political scientist and author of *The Politics of Gun Control*. ☛ Almost 25 percent of Silicon Valley firms started since 1980 are run by ethnic Chinese or Indian immigrants, a University of California, Berkeley professor found. ... When the most recent SAT scores of incoming freshmen were released, newspapers bemoaned the "ethnic gap" in achievement between whites and "nonwhites." But media critic Scott Shuger points out that Asian non-whites do not suffer a "gap"; he is particularly shocked the *Los Angeles Times*' story "never mentions the SAT performance of Asians, an omission which is stunning given Southern California's demographics." ... Only 9 percent of U.S.-born Hispanics are most comfortable speaking Spanish, according to Strategy Research of Miami. ☛ The ACLU is attempting to keep professional baseball teams from giving an admission discount to people who bring a church bulletin of any imaginable kind. ... Liberal Harvard law professor Alan Dershowitz says he's "appalled at the intolerance of many who share some of the views I myself hold. And I worry about the impact of politically correct intolerance on the generations of leaders we are currently educating." ☛ "The more hours a young child spends in child care, the less apt mom and child are to be attuned to each other," writes *USA Today* in a report on new research from "the country's premier child-care research project." Earlier reports from the same study were more positive, the paper notes. —SW

