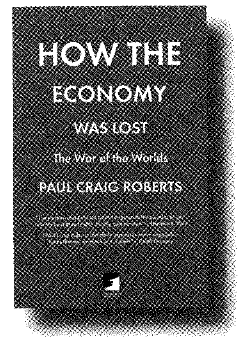

Back to Hamilton

by William J. Quirk

How the Economy Was Lost: The War of the Worlds
by Paul Craig Roberts
Oakland, CA: AK Press
288 pp., $15.95

The credit bubble, which exploded in September 2008, exposed the fact that the U.S. economy has been devastated by globalism. Unemployment numbers—effectively close to 20 percent, about 25 million out of a workforce of 120 million—are near Depression levels. The figures have not moved despite the Bush and Obama administrations' policy of borrowing and printing money to defeat deflation.

The Federal Reserve, led by Ben Bernanke, views the economy in abstract terms. Bernanke entitled his 2002 speech to the National Economists Club "Deflation: Making Sure 'It' Doesn't Happen Here." Deflation, or falling prices, Bernanke found, "can be highly destructive to a modern economy and should be strongly resisted." The cause of deflation, he continued, is not a mystery—it is a collapse of aggregate demand, a drop in spending so severe that producers must cut prices to find buyers. The U.S. price level fell ten percent each year from 1930 to 1933. The two main troubles with deflation, according to Bernanke, are that it discourages borrowing, since the borrower must repay in more valuable dollars than those he borrowed, raising the real interest rate by the amount of deflation; and that existing debtors have to repay their debts in more valuable dollars.

Should the government encourage borrowing and debtor relief? An alternative approach would be to say that a little deflation now and then is necessary to maintain price stability over time. Prices were stable from the American Revolution until President Nixon took the country off its last tie to the gold standard in 1971. Prices have ballooned at least ten times since then—a 75-cent shrimp cocktail costs $10; a $100,000 townhouse costs at least $1 million; a $20,000 house sells today for $200,000; a person earning $16,000 then probably earns $160,000 today, if he has stayed even. Of course, the only reason for creating the Federal Reserve in 1913 was to insulate the control of money from politicians. Politicians, it was reasonably argued, would print money to absorb any bump in the road. (The German inflation of 1923 is a good example.) But the past 40 years make clear that the discipline of the gold standard was more effective than that imposed by the supposedly independent Fed.

Did the United States face a deflationary threat in 2002? Bernanke said it was "remote" and reassured us that a "variety of policy responses are available should deflation appear." What are they? What is Bernanke's game plan?

The Federal Reserve, he said, will first reduce short-term interest rates to zero—punishing saving and encouraging borrowing and spending. If prices keep falling, Bernanke said, the government will just print money. Paper money has value only to the extent that supply is strictly limited. "But the US government has a technology, called a printing press (or today, its electronic equivalent) that allows it to produce as many US dollars as it wishes at essentially no cost." Bernanke concludes,

> Indeed, under a fiat (that is paper) money system, a government (in practice, the central bank in cooperation with other agencies) should always be able to generate increased nominal spending and inflation, even when the short-term nominal interest rate is at zero.

The Federal Reserve has been at it for a year and a half; they have lent two trillion dollars to our major financial institutions at zero or near-zero rates. Unemployment remains very high.

In his fascinating book, *How the Economy Was Lost*, Paul Craig Roberts, an assistant secretary of the Treasury under President Reagan, explains why financial manipulation will not help: There is no economy to revive. Mr. Roberts notes former Fed Chairman Alan Greenspan's unconcern with America's loss of manufacturing; Greenspan said there was a beneficial shift from "old" manufacturing (steel, cars, textiles) to "new" manufacturing (computers and telecommunications). But computer and telecommunications manufacturing was also quickly outsourced. Not only did the old manufacturing jobs—those that provided a decent middle-class living—disappear; so did the engineering and research that supported them. The "new economy" never showed up. America's college graduates today compete for the "new" service jobs—bartending and waitressing. Roberts disputes the "new economy" talk: "Corporations offshore their production, because they can more cheaply produce abroad what they sell to Americans." Shorn of industry, the United States will soon be a Third World country: Outsourcing, he argues, is a greater threat than terrorism.

"Free trade" and "globalization" are "the guises behind which class war is being conducted against the middle class by both political parties." Pat Buchanan "put it well," Roberts writes,

> when he wrote that NAFTA and the various so-called trade agreements were never trade deals, they were enabling acts that enabled U.S. corporations to dump their American workers, avoid Social Security taxes, healthcare, and pensions and move their manufacturer offshore.

Globalism benefits capital at the expense of American workers. The middle-class standard of living has not increased since the 1970's. Median income for males in their prime earning years more than doubled from 1947 to 1973—from $22,606 to $50,553. We have seen a sharp drop since 1998—from $52,727 to $45,540 in 2008.

Since 1970, private-industry wages and salaries as a share of income have dropped from 50 percent to 42.4 percent, the lowest in history. Government benefits over the same period have risen from 10 percent to 17.2 percent, the highest in history.

Disparity of income has greatly increased. Adjusted for inflation, household income for the bottom 60 percent of the population—those earning under $50,000—has not moved since 1967. At the same time, the top five percent have doubled their income from $150,000 to $300,000. America's middle class is fading.

Roberts summarizes our present position in dire terms:

> A country that gives away its productive capability and becomes dependent on foreign creditors to finance its budget and trade deficits is a country that has problems beyond the reach of monetary and fiscal policies. . . . The U.S. has been financing its trade and budget deficits by turning over the ownership of existing U.S. assets and their income streams to foreigners and by foreigners recycling their trade surplus dollars into the purchase of new U.S. Treasury debt. This dependence on foreign creditors now constrains U.S. monetary and fiscal policy.

British imperial policy, which prohibited the colonies from manufacturing, was a major cause of the American Revolution. The British intended to keep the colonies as suppliers of raw material for British manufacturing. Jefferson addressed his *Summary View of the Rights of British America* to George III. Parliament's acts, he pointed out to the king, "prohibit us from manufacturing for our own use the articles we raise on our own lands with our own labor." The American

> is forbidden to make a hat for himself of the fur which he has taken perhaps on his own soil. An instance of despotism to which no parallel can be produced in the most arbitrary ages of British history.

Another act of Parliament forbade the manufacture of iron and "heavy as that article is, and necessary in every branch of husbandry, besides commission and insurance, we are to pay freight for it to Great Britain, and freight for it back again, for the purpose of supporting not men, but machines, in the island of Great Britain." Jefferson admonished the king, "Let not the name of George the third be a blot in the page of the history." The king failed to take Jefferson's advice.

Once we got rid of the king, how could we get the economy going? We had no manufacturing, and the European countries pursued mercantilist policies that would not give U.S. producers a break. Alexander Hamilton came up with the solution: temporary protection for America's manufacturers. He begins his *Report on Manufactures* (1791) by laying out the Jeffersonian arguments against his position. The Jeffersonians objected to using government to encourage manufacturing; it should not interfere with the "natural current of industry." It "can hardly ever be wise in a government to attempt to give a direction to the industry of its citizens." And, of course, tariffs taxed consumers and handed monopoly profits to producers.

Hamilton recognized the power of these arguments, but he disagreed for two reasons: The country could ill afford to be caught shorthanded in arms in case of war, and the "net produce of capital engaged in manufacturing enterprise is greater" than that employed in agriculture.

Hamilton's reasons still hold. We need, for a time, to create an artificial market by use of tariffs and limits on exporting capital. We have to end what Paul Craig Roberts rightly calls the "class war" of capital against the American middle class. A Third World country—with terrible inequalities of income—is not the experiment in self-rule the founders fought for.

Contributing editor William J. Quirk is the author of Courts & Congress. *Janek Kazmierski, a 2010 graduate, and Andrew D'Antoni, a law student, gave invaluable assistance in the preparation of this review.*

Joe Sobran as I Knew Him

I MET JOE SOBRAN in 1973 when I was working as history editor at St. Martin's Press and had begun writing for *National Review*. I don't remember how exactly, but the occasion must have been one of the open-house cocktail parties at the magazine's offices at 150 East 35th Street, held every other Wednesday evening after the current number had been seen off to the printer in Bridgeport, Connecticut. St. Martin's is established in the Flatiron Building at Fifth Avenue and 23rd Street, a short walk across midtown New York to Number One Fifty. However our meeting occurred, it was the beginning of many years of regular lunches and dinners in the company of Joe. We were often joined at these by Timothy Dickinson, an Englishman who had been at Oxford with George Will before coming to New York, where he was then established as a walking, breathing, resident encyclopedia for Lewis Lapham, the editor of *Harper's*.

In those days Joe was living in Ypsilanti, Michigan, with his four children and commuting to Manhattan by plane on alternating weeks. Despite his growing fame he was not rolling in money, and hotels in New York were, then as now, absurdly expensive. On the weeks when he was in town, Joe's bed was the conference table in the library, where he would stretch on his back at night, staring up at the reflected pattern of car lights on East 34th Street passing across the ceiling and fenced in on three sides by the collected works of Whittaker Chambers, Edmund Burke, and James Burnham, among others. He brought a kit bag with him on the plane and set out the contents along the top of a low bookcase: razor, deodorant, toothbrush, and toothpaste. Having knocked off work at St. Martin's, I would arrive at the magazine at a little past five; afterward, Joe and I would walk around the corner to a Mexican restaurant on Third Avenue. He almost invariably ordered *enchiladas suizas*, a dish his nutritionist (had he had one) would certainly not have recommended for him. We would talk and drink until about nine, and then I would walk him round to the office and see him upstairs to say good night. It was between then and two or three in the morning that he composed his brilliant essays for the *Human Life Review*, whose offices were on the top floor of the building. Joe usually had a few words to say concerning the points he wished to make in his contemplated article, but I was not a Catholic (or anything else) in those days, and so these musings were largely lost on me. I can recall remarking on one occasion that sleeping with a woman is like drinking a bottle of wine. Joe, who at the time had lapsed in the practice of his Faith, was so concerned that he insisted on rushing me around to the Fireside Tavern on Lexington Avenue to buy me a drink and set me straight on the principles of Catholic sexual morality.

One evening in November 1975 Joe phoned to say that he had recommended me to Bill Buckley as the replacement for George Will, who had been lured away by *Newsweek* from his job as NR's Washington editor and director of the book-reviews department. Here is how it had happened. John Lukacs, the historian—an acquaintance of Bill Buckley's but at the time unknown to me—had remarked overgenerously, in a phone conversation with Bill, on the quality of the book reviews I had been contributing to the magazine. Bill quoted him in the editorial meeting next day, and Joe put two and two together. *National Review* was in search of a new books editor. Chilton Williamson was a publishing-house editor, and a frequent contributor to the book section. Why not . . . ? The day after Thanksgiving, Bill phoned me at home and offered me the job.

I was given Whittaker Chambers' old office on the third floor, around the corner from the library and down the hall from the office of the editor-in-chief, where I sat facing a long, grimy window and pounding on one of the old Underwood manuals that were general issue at NR at the time. Mostly, I was left to work undisturbed, save by the coming and going of Bill Buckley and his chauffeur toting bulging leather attaché cases along the narrow hall, and the sharp voice of Frances Bronson, Bill's fearsome (though not to the staff) secretary, giving someone thousands of miles away hell from her office around the corner. On magazine week, though, there were interruptions—generally by Joe, who would appear in my door with a sheet of yellow copy paper in his hand, wishing to share with me the deathless draft of the editorial paragraph he had just composed. I would comment, usually enthusiastically, and Joe, smiling broadly, would vanish. In a quarter of an hour he would be back, proudly bearing the second draft and eager to introduce me to the improvements he had made in his small masterpiece. Depending on the length of the paragraph in question, this could go on for quite a long time. Eventually, Bill hired another hand (was it Rick Brookhiser?) and stuck