The former Packard Automotive Plant in Detroit, 2013JOSHUA LOTT/GETTY IMAGES

Three Big Questions That the American Establishment Got Wrong

Who benefited from the obvious nonsense that became post-Cold War America's trade, foreign, and federal deficit policies?

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MAY 16, 2022 HTTPS://WWW.TABLETMAG.COM/SECTIONS/NEWS/ARTICLES/THREE-BIG-QUESTIONS-AMERICAN-ESTABLISHMENT-GOT-WRONG

In the three decades since the end of the Cold War, there have been three great public policy debates in the United States—one about trade, another about U.S. foreign policy, and a third about the federal deficit. In all three of these debates, the side that made the most plausible arguments lost and the side with the most illogical and factually unsupported arguments won. In all three cases, the misguided establishment position set the flawed and unstable foundations for the world we live in today—producing catastrophic and lasting consequences for Americans and others.

The first of these hugely consequential debates was one in the 1990s about "globalization" or the liberalization of trade and investment following the end of the Cold War. Skeptics raised two concerns about globalization. They warned that treaties like the North American Free Trade Agreement (NAFTA) that effectively merged the U.S. labor market with that of poor countries like Mexico would enable U.S. manufacturing firms to shut down production in the United States and transfer it to take advantage of low wages, sweatshop working conditions, and the lack of environmental laws and regulatory agencies. The skeptics also warned of the consequences of opening America's markets further to mercantilist regimes like Japan, South Korea, Taiwan, and post-Maoist China. Individual firms in a liberal market economy like the United States, they said, could not hope to compete with foreign firms whose governments rigged competition on their behalf through tricks like currency manipulation, nontariff barriers to American imports, low-interest loans, and other tools from the arsenal of economic nationalism.

Not to worry! replied the cheerleaders of globalization in the 1990s, including President Bill Clinton and pundits like Thomas Friedman. If the United States lost industries to trading partners because of low wages or cheating by foreign governments, then good riddance: America would happily specialize in the "knowledge economy" and the "industries of the future," centered in the Silicon Valley universes of software and startups. Laid-off factory workers in the industrial states could move to San Francisco and "learn to code" in return for higher wages and better benefits.

The second controversy involved foreign policy. In the late 1980s and the early 1990s, the direction of post-Cold War U.S. foreign policy was the subject of a vigorous debate. Neoconservatives like Charles Krauthammer and Bill Kristol argued that the United States should take advantage of the weakness of post-Soviet Russia and China and establish a global Pax Americana, whose prospective grandeur some neocons compared to that of the British and Roman empires. At the opposite extreme, the isolationist Patrick Buchanan called for a return to pre-1941 America isolationism. In between, realists like Samuel P. Huntington and Jeane Kirkpatrick rejected messianic ideas about American global empire and isolationist solipsism in favor of the idea of the U.S. as "an ordinary country"—Kirkpatrick's phrase—pursuing traditional balance-of-power politics in a multipolar world.

The third great debate involved the federal deficit. It is easy to forget how central alarmism about the national debt was to American public discourse between the 1980s and the 2010s. As early as 1984, Democratic candidate Walter Mondale made deficit reduction a major theme of his campaign. So did Ross Perot, in his 1992 independent run for the presidency. To the ornithological lexicon of American politics were added two new species: "deficit hawks" and "deficit doves."

Deficit hawks drew public attention to long-term projections of the solvency of Medicare and, in particular, Social Security. Once the Social Security trust fund was exhausted, these projections showed, payroll taxes at present rates would be inadequate to meet Social Security obligations to retirees, beginning in the 2030s or 2040s. The shortfalls would eventually require the federal government to fund Social Security and Medicare by tax increases, benefit cuts, or a combination of both.

Paying for entitlements was a genuine challenge, but hardly an urgent crisis. Why, then, was Washington abuzz with talk of the alleged danger of entitlement shortfalls in the 1990s and 2000s? The deficit hawks claimed that foreign investors would conclude that the United States was a bad credit risk and would stop buying U.S. Treasury bonds, sending interest rates sky high as the United States, like some bankrupt Third World country, desperately sought foreign capital to roll over its national debt. Deficit doves pointed out that the United States would almost certainly continue to be a safe haven for nervous capital. What is more, governments have ways to manage large debts and deficits other than high taxes or painful spending cuts, including "financial repression"—the use of moderate long-term inflation to burn down the national debt, a trick the Untied States used to shrink its World War II debt between the 1940s and the 1970s.

The most interesting participants in this debate were what might be called the "private debt hawks." Richard Koo of the Nomura Research Institute coined the term "balance sheet recession" to describe economic crises caused by excessive buildups of private debt, a subject illuminated in recent years by the finance industry veteran and scholar Richard Vague. Private debt hawks warned that the next disastrous economic crisis was more likely to be caused by the excessive buildup of home mortgage debt and credit card debt in the 2000s than the anticipated shortfall of Social Security revenues in the 2030s. They were right. The deficit hawks were embarrassingly wrong.

If you had a bullshit detector in the 1990s and 2000s and took it to events at Washington's most prestigious think tanks, the alarm was constantly going off.

Having witnessed these debates at close hand in Washington, D.C., in the 1990s and 2000s, I can testify that it was entirely possible to change one's mind on all three questions as real-world evidence piled up. For example, I started off, like most people with backgrounds in the study of foreign policy, sharing the establishment's presumption in favor of free trade—which seemed like a healthy and positive thing to favor. But the well-supported warnings of experts about mass offshoring of U.S. manufacturing to low-wage countries, and the well-documented threat of East Asian mercantilism to U.S. industry, persuaded me over time that the conventional case for free market globalization was wrong. In the case of foreign policy, I found the realists who warned against strategic overextension by post-Cold War America more convincing than either than the messianic imperialism of many neoconservatives or Buchanan-style isolationism, both of which seemed to disregard America's national interests.

When it came to the federal deficit, I had no strong opinions either way. However, after being introduced by my prescient colleague Sherle Schwenninger to the arguments of

Richard Koo and others, I concluded in the early 2000s, by looking at the numbers, that those who warned of the dangers of a private household debt buildup were much more persuasive than the deficit hawks who held that the United States faced an imminent crisis because of the long-term shortfall in Social Security revenues. There was nothing particularly sophisticated about any of these arguments, which required approximately the level of math required to make a household budget or do one's taxes.

It was not the case, then, that well-informed people could disagree about these matters. On the contrary: You had to be willing to deny the obvious facts of East Asian economic nationalism and the ongoing, large-scale transfer by U.S. corporations of jobs to Mexican maquiladoras in order to believe the happy talk about how globalization would create an even larger number of well-paid jobs for factory workers in the "knowledge economy." Similarly, even in the late 1990s, you had to be stubbornly blind to reality to believe that the expansion of NATO into Eastern Europe would not risk provoking direct or indirect war with Russia—or to believe that invading Iraq to topple Saddam Hussein with the goal of "exporting democracy" would not create chaos in the country and the region. Throughout the 1990s and 2000s, the assertion of the deficit hawks that the U.S. would soon have the creditworthiness of Argentina or Zimbabwe because of a minor Social Security shortfall scheduled for sometime in the 2030s was unpersuasive as well. If you had a bullshit detector in the 1990s and 2000s and took it to events at the Council on Foreign Relations, the Aspen Institute, and Washington's most prestigious think tanks, the alarm was constantly going off.

When an obviously misguided policy is adopted, and a more plausible policy is dismissed with a sneer, either the policymakers are remarkably stupid and ill-informed or else the outcome of the debate has been rigged to serve unacknowledged interests. Most adherents of the wrong ideas were intelligent, well-educated, and often well-tailored, so we must look to interests for an explanation.

Cui bono? Who benefited from the toxic nonsense that became the foundation of the post-Cold War American global order?

In the case of globalization, multinationals like Apple, automobile companies, retailers like Walmart, and the investment banks that backed these corporations or bought and sold them, all benefited from "global labor arbitrage"—replacing highly paid, often unionized workers in the United States with poorly paid workers with few or no labor or civil rights in Mexico, China, and other countries. Boosting corporate profit margins by slashing labor costs is much easier than skill-training your workforce and investing in innovative technology in order to increase per-worker productivity: Given a choice, companies tend to take the low road of replacing high-wage American labor with low-wage foreign labor, even if this means the loss of entire industries and supply chains. In 1998 Jack Welch, the CEO of General Electric, said: "Ideally, you'd have every plant you own on a barge to move with currencies and changes in the economy."

In the case of the global hegemony strategy eagerly adopted by both major parties after 9/11, there is no need for conspiracy theories: Ordinary bureaucratic politics explains the result. Involving the United States in foreign civil wars and regional conflicts that have no direct bearing on American national security means bigger budgets for the Pentagon, State Department, CIA, and other agencies; more funding for defense contractors and NGOs with government contracts; more resources for academic security studies programs; more importance for members of Congress on military and foreign affairs committees and subcommittees; more celebrity and more book contracts for foreign affairs correspondents, and so on. Because the general public tends to defer to politicians on national security policy, it is inherently vulnerable to bureaucratic capture, in the same way that agriculture policy and infrastructure policymaking tend to be.

While globalization was championed by multinationals in search of cheap, nonunion labor, and the neoconservative project of quasi-imperial American global hegemony was largely driven by American national security bureaucracies and their contractors and political, journalistic, and academic allies, the deficit-hawk hysteria had a narrower though important constituency: Wall Street. If Americans could be persuaded that, to avert national bankruptcy, Social Security had to be cut and largely replaced by private retirement savings plans, including tax-favored plans like 401(k)s and IRAs, then a flood of money would pour into the pockets of the fee-skimming managers of private mutual funds.

From the perspective of their backers, then, these policies, disastrous though they may have been for American society, made sense—because they were so profitable. While offshoring has scuttled whole industrial sectors in the United States, many CEOs—and shareholders—have bought lovely vacation homes with the proceeds. Hundreds of billions of dollars earmarked to fund social transformation in Afghanistan, Iraq, Syria, and Libya in fact went to paying for McMansions and luxury cars in the D.C. suburbs, along with pricey private school tuitions. George W. Bush's attempt to partly privatize Social Security, and Barack Obama's proposal to use inflation adjustments to cut Social Security benefits, were both defeated by public opposition. But diverting money from Social Security to private accounts would be so profitable for the money management industry that it is probably only a matter of time before the hysterical shriek of the deficit hawk is heard once again in the land.

"It is difficult to get a man to understand something," Upton Sinclair observed, "when his salary depends upon his not understanding it." Between the late 1990s and the 2010s, it was prudent for Americans who wanted a career in public policy, politics, or prestige journalism in Washington and New York to pretend to be persuaded by illogical, unsupported, and often openly preposterous arguments, because those were the arguments of the bipartisan establishment. Sensing, perhaps, how weak their claims about American global hegemony, the globalized knowledge economy of the future, and the alleged looming crisis of Social Security were, the adherents of orthodoxy for the most part refused to debate at all, stigmatizing critics and skeptics as silly ignoramuses, or else as dangerous extremists beyond the pale of serious discourse.

High-handed, sweeping dismissals of those who disagreed with any part of the consensus became the hallmark of the establishment retainer and PR class, a sign of their intellectual and moral nobility and the corresponding unfitness of those who dared to question received wisdom—no matter how shoddy it appeared. If you wondered about the possible downsides of expanding NATO right up to the borders of post-Soviet Russia you were an "isolationist," even if you favored a U.S. global alliance system in other respects. If you pointed out that U.S. trading partners Japan, South Korea, and Taiwan cheated in various ways to help their exporters at the expense of America's, you were a "Buchananite protectionist" who failed to understand that the Smoot-Hawley tariffs passed by the U.S. Congress in 1930 had somehow caused World War II. If you suggested in the 2000s that excessive private debt might cause a global recession in the next few years, the other person might stare at you uncomprehendingly while thinking, *Is this an acceptable opinion? Will it hurt my career?* For two decades, at most of the "high-level" discussions with CEOs, think tankers, prestige journalists, K Street lobbyists, and public officials I attended, no matter the ostensible topic, someone would say gravely, "I'm really worried about getting entitlement spending under control." At that point a shiver of approval would ripple through the hoity-toity crowd. *We think that, too!*

In each of these three cases, the policy adopted by the establishment inevitably collided with reality. It is no defense of Vladimir Putin's tyranny and murderous aggression to point out that realist critics of NATO expansion to Russia's borders like George Kennan, Henry Kissinger, and John Mearsheimer were entirely correct to warn of the danger that it would lead to conflict with Russia. America's post-9/11 war in Afghanistan resulted in complete U.S. humiliation and the triumph of the Taliban, while the unnecessary invasion of Iraq in 2003 and the U.S. wars of regime change that followed have left Bashar Assad in power in Syria, while pulverizing post-Qaddafi Libya into anarchic fragments ruled by warlords and infested by jihadists. Globalization? Mexico is now one of the major auto parts producers of the world, while Detroit is a wasteland, in which some abandoned neighborhoods are literally reverting to wilderness.

Following the fall of communism in Eastern Europe, various countries adopted policies of "lustration," requiring public exposure of former communist officials and sometimes their confessions. No similar process can be expected in the United States, where continuing to defend disastrously wrong decisions appears to be a precondition for keeping one's place at the bipartisan buffet table. Yet the same establishment figures who now lament the disintegration and radicalization of once-mainstream political parties, inveigh against popular mistrust of "experts," and blame America's social woes on "Russian disinformation" in fact need look no further than their own record of being wildly wrong on a series of big, world-shaping questions, to which better answers were available all along.