David Stockman, The Great Deformation: The Corruption of Capitalism in America *(Philadelphia: Public Affairs, 2013)*

George Bragues[1]

To those who remember the various political dramas that enveloped the Reagan presidency, David Stockman will immediately come to mind as the person who served as that administration's budget director from 1981 to 1985. Afterwards, Stockman embarked upon a career in high finance that ended when America's prosecutorial state bore down upon him with allegations of civil fraud. Eventually settling the charges, Stockman has gone on to apply his business experience, illumined by a decent grounding in Austrian economics, to explaining the ills of contemporary American political and economic life. He locates the ultimate cause of these in the evolution of the country's financial and monetary system in *The Great Deformation: The Corruption of Capitalism in America*. Stockman could certainly have improved his mode of presentation in this book, but his thesis is basically right that America's commercial republican order has become almost fatally corrupted by the abandonment of a sturdy monetary anchor.

To claim that the politico-economic status quo is corrupt presupposes an ideal state from which the current situation deviates. For Stockman, that ideal reasonably consists in a government that restricts its military forces to the defense of the nation against foreign attacks; that limits the provision of welfare and social insurance to those in demonstrable need; that keeps its spending in line with the revenues it is able to collect via taxes; and that neutrally enforces the rules of the game in a free market based on private property and sound money. Instead, as Stockman details, the U.S. military is regularly summoned to intervene abroad for ostensibly realpolitik and moral purposes. The American welfare state is a gargantuan cash cow fed by high taxes and milked by the less needy. Special interest groups systematically extract legislative and regulatory privileges from the state. Not only that, the government engages in macroeconomic stabilization policies with a combination of ad hoc tax and spending maneuvers and the discretionary management of a fiat money. The result of all this is a progressively debilitated economy ever more prone to boom and bust sequences as well as a government addicted to deficits and saddled with an accelerating debt. Going forward, as Stockman rightly notes, the high debt portends an ominous rise in social discord, as every interest group fights to defend their

1 University of Guelph – Humber. Email: george.bragues@guelphhumber.ca.

perquisites and tries to pass on the costs of debt reduction to others.

How did we arrive at this sorry state? According to Stockman, the key lies in President Richard Nixon's move in 1971 to close the gold window. Keeping this open was a *sine qua non* of the Bretton Woods regime of fixed exchange rates that had prevailed since the end of World War II, a system in which the U.S. committed itself to exchanging gold for dollars at a $35 per ounce rate with central banks around the world. Once the U.S. reneged on this commitment, Bretton Woods was doomed, a system of floating currencies manipulated by governments took over, and politicians became empowered to more effectively pressure central bankers to fund their vote-getting projects with money printed on demand.

So long as money was backed by gold, this could not be so easily accomplished. Politicians had to finance government expenditures by taking on the challenging tasks of convincing voters to pay higher taxes. Granted, there was always the option of issuing government bonds to make up for a shortfall, but the central bank could not be so readily marshaled to monetize the debt. With gold taken out of the money equation, a crucial budgetary restraint on political decision making was removed. Washington became an uninhibited feeding ground for corporate and industry lobbyists, while the Fed acquired the habit of stoking unsustainable booms by frequently maintaining interest rates below market levels, with the financial crisis of 2008, and the associated bailouts, being the latest, and most detrimental, consequence of Nixon's fateful decision.

To Austrian economists, this story definitely has a familiar ring to it. Yet in an intellectual and political milieu dominated by the notion that our problems lie in too little government regulation, it is a story that bears retelling. Inasmuch as Stockman acquired a reputation during his time in the Reagan administration as someone who speaks truth to power, his telling is apt to obtain a receptive audience across the ideological spectrum than an Austrian economist would have difficulty eliciting. More importantly, Stockman enriches the story with an impressive attentiveness to historical and institutional details as well as a solid grasp of the complexities of modern financial markets. This allows readers to follow each step along the path that all the new money created since 1971 has taken – that is, from its original injection by the Fed into the banks of Wall Street, where the funds would be used in carry trades to finance ever more complex investment and speculative positions, and from there eventually reverberating to Main Street, disproportionately benefiting financial elites and the wealthy along the way. Stockman also knows his way around a set of financial statements. He uses this mastery to convincingly demonstrate that there never was any danger that letting AIG fail in 2008 would unleash a contagion that would have brought the entire financial system crashing down. This proof alone that the bailout of Wall Street had no rational basis is worth the price of the book.

All this being said, one wishes that Stockman, or at the very least his editor, would have pruned this large book. There is much repetition here that tests even a sympathetic reader's patience. More than just occasionally, too, Stockman is too acerbic. Finally, Stockman missed the chance to go deeper in his analysis. The question is left hanging as to why the U.S. abandoned gold in the first place. Stockman endeavors to provide an explanation, but it depends too much on the individual proclivities of those who happened to be calling the shots within the Nixon administration at the time. Might the decision to give up on gold been the result instead of larger social forces, perhaps related to the exigencies of democracy?