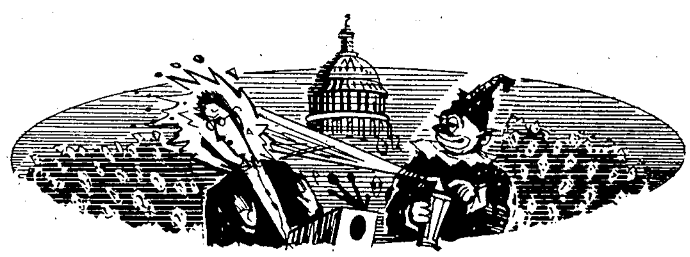
was the occasion for bogus stories by Karen De Young in the *Washington Post* and Stephen Kinzer in the *Boston Globe,* along with Flora Lewis and Anthony Lewis in the *New York Times*. Passed off as an "official document" from American foreign policy experts alarmed by secret Carter administration plans for El Salvador, we now know that the document was a forgery. The duped journalists have yet to find out who hornswoggled them.

Will the hoaxes and biased news stories end now that Janet Cooke has been unhorsed? Not if the Pulitzer Prize Advisory Board can help it; the prize withdrawn from Cooke was given to a *Village Voice* journalist for at least one story that is even trashier than Cooke's and scarcely better substantiated. Based on our lazy journalists' favorite expedient—gossiping unidentified sources—the story alleges that a widely admired civil rights activist was a homosexual who preyed on his disciples, one of whom murdered him. Shoddy journalism like this could render the Archbishop of Canterbury a homosexual, though he is more fit to defend himself.

The latest word on this odoriferous news story is that James Wechsler of the *New York Post* believes he has found fraud. He has filed a complaint with the National News Council. The story's author implied in the piece that she had gained information from an interview with the murderer of the deceased. Now Wechsler had discovered that the interview never took place. Thus it is possible that this year's Pulitzer Prize for feature writing was given to not one but two bogus stories. Is the Pulitzer Prize Advisory Board worried? There is no indication of it. The Pulitzer crowd still gathers to sing and to solemnize and to carry on the noble business of kissing each other on both cheeks. The Board remains journalism's equivalent of the Elks. □

C A P I T O L   I D E A S



THE BLOOMSBURY SAVINGS & LOAN

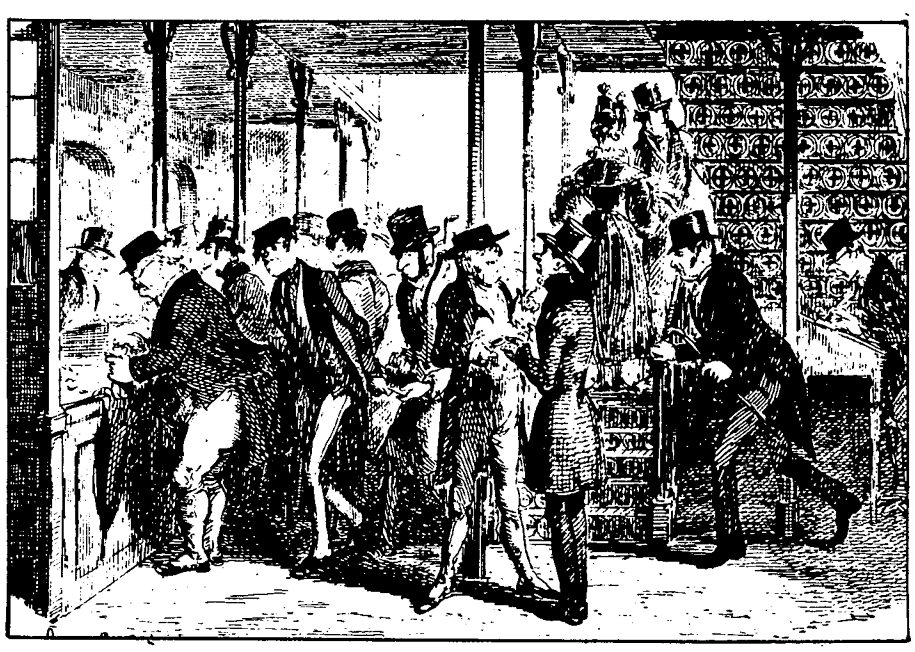
by Tom Bethell

I was listening to the radio a few weeks ago when I realized that a counter-revolution had taken place in one important area of public policy. Representative Jim Jones of Oklahoma was being interviewed by Washington's WRC "all news" radio station. He is the congressman Tom Wicker of the *New York Times* has described approvingly as a conservative; since Tom Wicker has disapproved of all conservatives on principle ever since he forsook the South and joined the Hive of collectivism, one was immediately put on the alert: Jones cannot be a conservative at all—otherwise Tom Wicker wouldn't be praising him. And in fact said Jones has since shown himself to be a rather useless fellow—more interested in impressing the constituency of Great Society true believers than in representing First District Oklahomans.

Still, there he was on the radio saying that the nation needs to increase its savings rate. I wonder if he realized at that point that there is only one way to improve savings, and that is to lessen the tax penalty on upper income groups—something that Great Society true believers and Hive collectivists don't approve of at all. Anyway, his comment was a step in the right direction, and at that point I began to keep a tally. President Reagan has several times commented adversely on our low savings rate. His Secretary of the Treasury Donald Regan believes that saving should be increased. So does Senator Pete Domenici, the chairman of the Senate Budget Committee. And Representative William Green of New York recently had this to say in the *Congressional Record:*

> Mr. Speaker, the United States has the lowest personal saving rate of any major industrial nation—4.7 percent in the third quarter of 1980. The current U.S. rate has dropped by half over the past ten years to a level that is one-fourth the Japanese rate and one-third the German rate . . . When saving is inadequate, something has to give.

The problem is to find anyone who is *against* savings. Oh, I'm sure Alice Rivlin, the left-wing numbers-cranker so supinely retained on the federal payroll by Senator Domenici, still maintains her hostility to the virtuous and prudent practice, but by and large it is rapidly becoming impossible to find anyone in the public policy arena who is opposed to saving.



This I have called a counter-revolution because the original revolution was created by the British economist Lord Maynard Keynes about 50 years ago. Keynes argued, in his utterly weird but nevertheless extremely influential book *The General Theory of Employment, Interest and Money,* that savings wasn't a good thing after all. His argument was quite ludicrous, but had the virtue of simplicity: Money saved was money not spent, resulting in static inventories, idle factories, and workers dismissed. It was here that he reversed cause and effect in economics, arguing that the *demand* for goods (consumption) created the supply of them.

In his *Essays in Persuasion* (1931), written a few years earlier, Keynes put the matter as plainly as he knew how: "The best guess I can make is that when you save five shillings you put a man out of work for a day." Five years later, in the *General Theory,* he knew enough about intellectual fashions to serve this up with suitable algebraic complexity. But the idea was the same. The "paradox

Tom Bethell is *The American Spectator's* Washington editor.

of thrift" found its way into economic textbooks: What was good for the individual was likely to harm the nation. Keynes seems to have been inspired by Bernard Mandeville, an early eighteenth-century writer whose book *The Parable of the Bees* was condemned as a public nuisance by the County of Middlesex in 1723. In this book, Leslie Stephen wrote, "a cynical system of morality was made attractive by ingenious paradoxes." There could be no more succinct explanation of Keynes's own theorizing. Like Keynes, Mandeville argued that if everyone saved their money, consumption would drop off and pretty soon everyone would be unemployed.

Let us look briefly at the Keynesian model of the economy. Without ever being quite conscious of it, Keynes was thinking of a system of hydraulic pipes. Money—the "income stream"—circulated around the economy in pipes, and at the central controls would sit some very important people, called economists, who would be empowered to "fine tune" the flow, either by advancing or retarding fiscal or monetary controls. These controls would merely alter the aggregate quantity of water, or money, in the pipes. Aggregate and average were almighty. There were no marginal effects to worry about. Individuals didn't decide how their money would affect the economy. The government decided for them. (Broadly speaking, in Keynesian economic theory, dominant for the past 45 years, no distinction is made between tax rates and tax revenues precisely because the one was presumed to be proportional to the other.)

Anyway, an aggregate quantity of money flowed around the pipes of the economy, and this was the equivalent of "demand," which in turn elicited "supply." Attached to the pipes were water wheels, or turbines, and these were attached to mills, or factories. (Imagine the old-fashioned water mill.) Inside these mills were workers, worrying whether or not they had jobs. The water would then come along, turn around the water wheel, which operates the machinery inside the mill, and then—oh, joyous day—the workers would have jobs because the machinery was operating. Notice how this reverses the direction of reality. In the real world, the efforts of workers create jobs, which result in things being made, which then pull into existence the money needed to buy these objects.

In the Keynesian universe, savings were visualized as money ("liquidity") which had seeped out of the pipes and come to rest in useless, stagnant pools where they were unable to contribute to demand. Paul Samuelson, in his famous textbook, includes a diagram showing just such a pipe arrangement with a drain leading away from the pipes, marked "savings." The old Bloomsburyite Keynes let on in an unguarded moment that he believed the propensity to save stemmed from "Pride and Avarice." When you came right down to it, he just didn't *like* the idea of people saving money.

Having said all that, however, we must concede that there was one feature of the 1930s that made Keynes's arguments a little more sensible than they otherwise would have been. Curiously enough, Keynes himself (as far as I am aware) barely discusses this point anywhere in his writings. There was deflation. The value of money was increasing every year. It is hard to imagine this today. You have a hundred dollars in the bank today, and a year later it will buy you $90-worth of goods. At the time Keynes wrote *The General Theory,* the $100 would buy you $110 a year later. This, of course, created a strong propensity to save. Leave the money in the bank, because next year it will buy you more.

Equally, of course, deflation created serious problems for investors, or borrowers of money. Savings are normally converted into investment by the mechanism of interest rates. This is the lock, or sluice gate, permitting savings to flow out of the stagnant pond—into what we now call the "supply side" of the economy (which did not exist in the Keynesian model because it was simply taken for granted). Keynes rightly noticed that this mechanism wasn't working correctly in the Depression. Savings piled up and weren't invested even though the interest rate for prime commercial paper was one percent in 1934.

He never seemed to understand why. Keynes seems to have made the signal mistake of believing that interest rates were *low.* But in fact they were very high in real terms because of the aforementioned deflation. (Prices sank 11.2 percent in 1932, for example.) Just as you have to subtract the inflation rate from interest rates today to find the real rate of interest (which is then lowered even further by the tax-deductible nature of interest payments), so you had to add the deflation rate to the nominally low interest rates in the Depression. Thus credit was in reality expensive—"equivalent to nominal rates of 30 percent at today's rate of inflation," according to Alan Reynolds, lately vice president of the First National Bank of Chicago and now with Jude Wanniski's Polyconomics.

Because interest rates can't fall below zero (who would lend money to be repaid a *smaller* sum?) Keynes may have had a point about savings in the peculiar deflationary circumstances of the 1930s. At least one can agree that there would naturally be a very strong tendency to save under such circumstances, and there might even be a need for some government policy to discourage saving. (Actually, of course, what was really needed was better government monetary policy, to end deflation.) But in today's very different circumstances, savings indeed should be encouraged. Inflation itself is quite enough to undermine savings. Why keep money in the bank when it will buy less and less each year?

But, as though that were not enough, U.S. tax policy deliberately defers to the old Keynesian wisdom and further discourages saving, the interest on which is called unearned income and taxed twice; and not only that, but taxed at a higher rate than salaries (above a certain threshold). The entire distinction between earned and unearned income should be abolished immediately. And if our legislators are really serious about encouraging saving then they should also completely abolish the taxation of interest. This of course will not happen, because the truth of the matter is that U.S. public policy—despite all the rhetoric about the country "moving to the right"—is still heavily dominated by left-wing presumptions, the leading one of which is the belief that taxation should first and foremost be an instrument of punishment (of the rich) rather than revenue collection.

In addition, Alice Rivlin's absurd and disgraceful Congressional Budget Office still cranks out numbers demonstrating to unwary legislators that the economy grows faster if the government spends our money than if we do; this in turn derives from the Keynesian premise that savings are bad, and accordingly have a minus sign in front of them when computed in the national income accounts.

Can't tax policy be changed to encourage saving? You would think so. Congressmen and senators are after all practical men. But then of course it was none other than Lord Keynes himself who said, on the very last page of his famous book *The General Theory of Employment, Interest and Money:*

> Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slave of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back.

Too true, Lord Maynard, too true.

William Shawcross

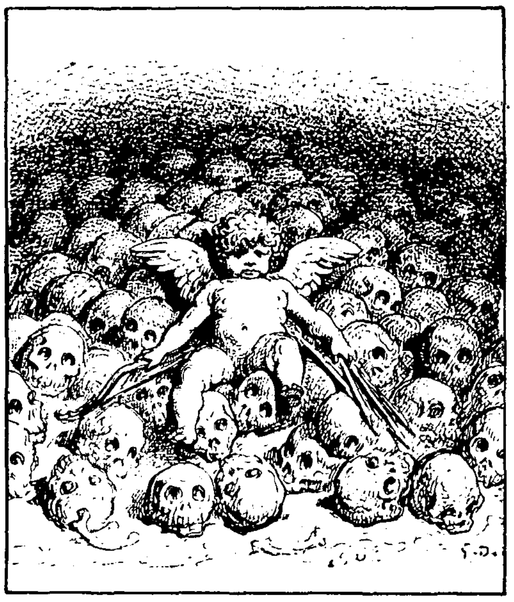
SHAWCROSS SWIPES AGAIN

In hot pursuit of Peter Rodman.

Ladies and Gentlemen, send the young folk to their bed chambers. Keep the faint-hearted from your reading chair. You have in hand an American Spectator *not meant for polite company. The following exchange between Messrs. Shawcross and Rodman is the intellectual equivalent of a particularly bloody bull fight; judge for yourselves which of the combatants is the matador and which the bull; judge the victor and the vanquished.*

The sheer gore of this intellectual dispute, the gore and the weirdness, have reminded me of why I never took a Ph.D. I am simply not by nature violent enough for scholarly debates. Ever since William Shawcross's Sideshow *began thrilling salon revolutionaries with its thesis that the United States was responsible for the slaughter in Cambodia, I was suspicious of it. In fact, I accorded it our "Worst Book of the Year" award for 1979, noting the absurdity of its thesis and apparent dissimulations in its scholarship. When Mr. Shawcross asked me for examples of his bogus scholarship, I contacted Peter Rodman, a former member of the National Security Council fresh from working with Henry Kissinger on his memoirs. I was impressed by Rodman's early dissections of Shawcross and asked him to do a piece illuminating "the Shawcross method of cooking up history." It appeared in our March 1981 issue and in my mind admirably set the record straight on America's alleged culpability for the Cambodian holocaust. It also shed light on "the Shawcross method of cooking up history." In fine, it was a useful addition to the historical debate over American involvement in Southeast Asia. Yet it received scant notice from the journalists and scholars who had earlier trumpeted Shawcross. Of the pundits, only George Will was moved to comment in public, despite our wide dissemination of Rodman's piece. Then there fell an eerie stillness.*

In late April the silence was broken by hisses. From England, Shawcross's native land, the New Statesman *mentioned that Shawcross was readying a reply to this example of "counter-revolutionary character assassination." In early May, Mr. Derek Davies of the* Far Eastern Economic Review, *an admirer of Shawcross, wrote Rodman that he had seen Shawcross's reply to Rodman's* American Spectator *piece and was glad he had not reprinted the latter: ". . . I have seen the detailed refutations of your apologia for Dr. Kissinger by Mr. Shawcross which convincingly casts doubt both on your arguments and on the integrity with which you have propounded them. . . ." The graceful Mr. Davies also called Mr. Rodman "the ventriloquists's doll," a bigot, and a professional polemicist. Shaken by Rodman's complaint over his refusal to reprint Rodman's critique of Shawcross, he repined: "How quickly a reputation for fairness earned over many years can be forfeited in the minds of bigots and professional polemicists!" He also expressed doubt that I would publish Shawcross's reply and rather weirdly suggested that I was less than forthright for asking Rodman to collect his researches, some of which had appeared in a Rodman memo, for an* American Spectator *essay. As I say, these scholars are violent types.*



In early May Mr. Shawcross finally sent us his reply, reiterating the charges that 1) I am a low fellow for asking Rodman to elaborate on his earlier memo and 2) I am under the dark spell of "Dr. Kissinger." Well, there is no arguing with the conspiracy theorist. Perhaps I am another agent of the Kissinger network and perhaps not, but it might be noted that Dr. Kissinger's last book did not get a very genial appraisal in our review section last month and anyone familiar with my chapter on Dr. Kissinger in Public Nuisances *or with a piece I did on him in the October 1978 issue of this magazine will realize that it is unlikely that Henry Kissinger drafted me into his conspiracy. The title of the chapter and of the magazine piece is "Henry Kissinger: Metternich Flummoxed."*

One of our interests here at The American Spectator *is keeping the historical record accurate. Unlike so many of the publications that refused to publish Rodman's responses to articles by Shawcross which had appeared in those journals (for instance, the* London Sunday Times, Harper's, *and the* Far Eastern Economic Review), *I gladly publish Mr. Shawcross's reply to Rodman (despite its length) and a rebuttal from Rodman. Read both and judge for yourself if Shawcross is correct when he says that 1) American bombing of North Vietnamese sanctuaries in Cambodia was responsible for the destabilization and downfall of Cambodia's Prince Sihanouk, 2) subsequent American "aggression" was responsible for the North Vietnamese invasion of Cambodia, and 3) the very presence of America in Southeast Asia and Cambodia in particular transformed the Khmer Rouge into genocidal fanatics.*

Succinctly put, Shawcross is saying,