Paul Craig Roberts: America Has Become an Oligarchy of Private Interests

Earlier this year, it looked as if columnist Paul Craig Roberts had hung up his word processor in disgust, having just published his book How the Economy Was Lost (mostly a collection of his best columns of the past decade) and a swansong article “Truth Has Fallen and Taken Liberty With It.” Recently, however, he has returned with a few new columns, e.g., this one — and a revealing interview with the Swiss-based free-market webzine The Daily Bell.

Roberts worked in the Reagan administration. He was Reagan’s Assistant Treasury Secretary, and in that position, he was one of the economists who crafted so-called Reaganomics. As an economist, he has authored or coauthored eight books, published dozens of scholarly articles, and written many columns for leading publications like *The New York Times*, *BusinessWeek*, *Wall Street Journal*, *Washington Times*, and others. For a number of years he wrote a syndicated column for Scripps Howard News Service, then switched to Creators Syndicate.

As the 1990s passed and the 2000s rolled on, Roberts became increasingly critical of Republicans as well as Democrats — including some of the people who had once considered him an associate. In particular, he began to take on the "free trade" dogmas that grip contemporary economics. In 2004, he coauthored “Second Thoughts on Free Trade” with Chuck Schumer (D-N.Y.). That column was attacked by free-marketers of all stripes. Not only did Roberts become *persona non grata* among libertarians, he was also blackballed from mainstream media. (In actuality, what is often called "free trade" is not genuine free trade since it entails not the elimination of government from the international marketplace but the creation of multinational agreements and agencies to manage the trade, from NAFTA to the WTO.)

Undeterred, Roberts continued penning columns for such websites as *Counterpunch.org*, many of which served up blistering criticisms of George W. Bush’s administration and of so-called neoconservatives generally. Many of his insights seemed to lead straight to the globalist banker cabal (although he never pursued this line of thought directly), and he has also attacked the Israeli lobby in Washington and its influence on U.S. foreign policy.

What is Paul Craig Roberts really up to these days? In the column linked to above and in the *Daily Bell* interview, he tells us. Some of his ideas are surprisingly obvious, given that the assumptions Roberts targets have led to some incredibly destructive blunders. Confusing free trade with labor arbitrage is just one example.

Another is that both leftists and rightists (especially right-libertarians), in different ways, have reified the free market — treating it almost as if it were an animate, conscious entity with intelligence or at least a will of its own. The former thus speak of "market failures" when a dangerous product sells or when corporate governance fails. The latter, however, speak of the free market as a quasi super-human repository of virtue. If market outcomes are good, this is attributed to the free market itself; bad outcomes are blamed on government interference.

Both are wrong, because the free market is nothing more — and nothing less — than that vast economic space in which myriad transactions (buying, selling, hiring, etc.) between human beings and organizations take place. Thus it really makes no more sense to speak of a "market failure" when hazardous products sell than it does to speak of a "gravity failure" when someone falls and skins his knee. The problem, as always, is human behavior; human beings sometimes do not behave intelligently or morally.

Now to be sure, there is a basic law governing market transactions, and it is important to understand what this law is. It is the familiar law of supply and demand. Roberts writes:

> A free market is one in which prices are free to respond to supply and demand. Economists of all persuasions understand that to fix a price below the price at which supply and demand equate results in shortages. Economists have learned this from rent control. Fixing a price above the price at which supply and demand equate results in surpluses. Economists have learned this from agricultural subsidies.

However, we need to sort out a confusion of monumental proportions: "A free market does not mean a market in which human behavior is not regulated. A free market is one in which supply and demand are permitted to equate." Regulation, he continues, "regulates human behavior, not the market." Human behavior must be regulated in specific areas "because of human faults, such as greed, fraud, carelessness, not because of market faults. Regulation is necessary because of human failure, not because of market failure."

In other words, perfect freedom is not possible for human beings in civil society, if only because of what Christians call original sin. This, however, applies as much to those entrusted to regulate as to those regulated. "Human flaws do not disappear by moving human action from the economy to government. Most likely the flaws worsen as government decisions are often unaccountable." For example, Roberts credits to Nobel Prize-winning economist George Stigler the observation that "regulators are invariably captured by the industries that they regulate." There are many possible case studies. Think of the relationship between the multibillion dollar pharmaceutical industry — Big Pharma, it is sometimes called — and the FDA, which has allowed dangerous prescription drugs to be sold to consumers (example: Vioxx). Or, consider the sugar industry in America, a prime example of manipulation, as described in a recent column by Walter Williams.

Economists themselves are lured into becoming shills for private interest groups: "In *How the Economy Was Lost*, I accuse economists of shilling for transnational corporations when they falsely describe jobs offshoring as the beneficial workings of free trade," Roberts recalls.

If anything, as Roberts sees matters, the loss of jobs to offshoring is our number one economic problem right now. "The reason that traditional monetary and fiscal policies cannot produce an economic recovery is that so much of the U.S. economy has been moved offshore. As the jobs have departed, there is no work to which low interest rates and massive government spending can recall workers."

An oligarchy of private interests, Roberts calls it, set the stage for this problem, along with the subsidiary problem that the economics profession is all but been bought and paid for. "In recent years," he told *The Daily Bell*,

> there has been a redistribution of power in the U.S. from government to private. The U.S. now resembles an oligarchy of private interests. The most powerful ones are Wall Street, AIPAC, the military/security complex, the oil industry, agri-business, insurance and pharmaceuticals. These private interests control economic and foreign policy, write the legislation that Congress passes and the President signs, and have achieved the monopolization of the U.S. economy by large-scale commercial organizations. As far as I can tell, traditional conservatives scarcely exist in the U.S. today. They have been eliminated by the neoconservatives, essentially militarists committed to U.S. world hegemony.

In other words, in Roberts' view, "privatization" has not meant an increase in liberty except for the very few at the top, and these few understand "liberty" as the freedom to do as they please regardless of how their actions affects millions of others. For Roberts this, as much as anything, explains the growing wage gap and the failures of wages to keep up with the cost of living in America, as well as corporations' addiction to outsourcing. Concentrations of power are dangerous regardless of the location of the concentration in society; under the specific form of corporatism that has evolved over the past few decades, networks of private wealth are powerful, with less accountability than when the concentration was governmental. They can present the offshoring of jobs as "free trade" instead of labor arbitrage.

We could pose this query to Roberts: How much of the dangerous concentration of wealth and power in the oligarchy of private interests he describes could have occurred if our government had remained chained to the few, carefully specified powers in the Constitution and had not become an enabler for this concentration? It is unfortunate that concentrations of wealth and power in the private sector are used as justifications for further empowering government — the ultimate monopoly. But are private interests that can use the power of extra-constitutional government to build wealth and monopolies truly private?

Does Roberts fully grasp the extent to which expansionist, extra-constitutional government has greased the skids for the oligarchy of private interests his recent work ably describes? Moreover, how would he solve the problems he addresses?

One thing Roberts would do that most libertarians would find objectionable is restore Glass-Steagall, which originally established a legal "firewall" between commercial banks and investment banks. The Glass-Steagall Act was originally passed in 1933. After over three decades of loosening in response to banking industry lobbying and maneuvering, Glass-Steagall was repealed as part of the Financial Services Modernization Act of 1999. Nine years later, the nation's financial system nearly collapsed. Irresponsible private banking activities ranging from subprime lending to CDSs were at the center of the meltdown.

Might there be more to the story? We might observe that a number of activities led to the meltdown, many of them tied to the monopolistic power of the Federal Reserve to control money and credit, including the power to create money out of thin air. In addition, the Community Reinvestment Act, originally passed in 1977 but revamped numerous times, required "banks to make loans to low-income borrowers and in what supporters of the Act called 'communities of color' that they might not otherwise make based on purely economic criteria," notes Thomas DiLorenzo.

Peter Wallison, a Senior Fellow at the American Enterprise Institute, points out that Fannie Mae and Freddie Mac were the main drivers in bundling sub prime loans into mortgage backed securities that ended up in the portfolios of Bear Stearns and others, which of course led to the meltdown. Says Wallison: "Why Fannie and Freddie did this is still to be determined. But the leading candidate is certainly HUD's affordable housing regulations, which by 2007 required that 55% of all the loans the agencies acquired had to be made to borrowers at or below the median income, with almost half of these required to be low-income borrowers." Many, if not most of these loans, were misrepresented to investors as prime, when they were really subprime, Wallison continues: "New research by Edward Pinto, a former chief credit officer for Fannie Mae and a housing expert, has found that from the time Fannie and Freddie began buying risky loans as early as 1993, they routinely misrepresented the mortgages they were acquiring, reporting them as prime when they had characteristics that made them clearly subprime or Alt-A." He concludes of the activities of these Government Sponsored Entities (GSEs): "It is easy to see how this misrepresentation was a principal cause of the financial crisis."

The point throughout is that the federal government and the Federal Reserve were the enablers of those activities that led to the worst economy since the Great Depression. Create the conditions for bad behavior in the financial marketplace, and you will see it.

The Daily Bell responded to Roberts thusly:

> Roberts sees his role, obviously, as one of principled realism. He presents his arguments within the context of the world as it is, which we have gaily if not carelessly assumed the prerogatives of perfectionism. We argue, therefore, from the logic of an ideal world and, within this ideal, it is evident to us that trade — free trade — ought to be pursued by individuals in pursuit of individual self-interest.
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> Within this admittedly proscribed perspective, there is no room for tariffs, trade negotiations, managed trade, protectionism, etc. As we see it, if people were free to do business as they pleased, then they would do so in a way that promoted their individual and, therefore, their aggregate self-interest. If counter-parties were trying to take advantage of such trading, it would be immediately evident and obvious. Then trade would diminish and go elsewhere until such behavior was rectified. But this would take place on an informal, ad hoc basis, as business ordinarily does. There would be no great fuss about it, no blasts of windy rhetoric, no legislative or military preemptions.

Moreover:

> While the danger is private, the mechanism used by the power elite is resolutely public. What is evident and obvious is that the elite seeks to control the levers of PUBLIC power in order to operate under color of law for private gain. This process called MERCANTILISM [*sic.*] and has nothing to do with the legitimacy or value of the private sector, which is considerable. The problem may lie with the private sector, but the problem would not exist without the availability of the public one. No government, no problem — within this context at least.

In the last analysis, there are two fundamental problems. One has to do with a government that long ago strayed outside the limits the Founding Fathers set about to establish when the wrote the Constitution. The other, however, involves human nature itself. As Bastiat observed long ago (*The Law*, 1850): “When [human beings] can, they wish to live and prosper at the expense of others…. This fatal desire has its origin in the very nature of man — in that primitive, universal and insuppressible instinct that impels him to satisfy his desires with the least possible pain.”

Thus even in an ideal libertarian world, perhaps the world of the late Robert Nozick’s night-watchman state, some would seek to expand the state to gain advantage. Anarcho-capitalists take this as an argument against minimal-statism or “minarchism.” But if the state could be eliminated completely, a few at the helm of corporations would reinvent it. They would do this because just like politicians, they prefer dominance to free and open competition. Those to whom they contribute monetarily would expand the state and return earlier favors with marketplace dominance.

It is probably illusory to think that those at the helm of large, transnational corporate empires today really wish to inhabit an economic space of free markets, as opposed to markets they can dominate by forming a partnership with government with themselves as the senior partners. Those needing more evidence for this point of view need only turn to John Perkins’ *Confessions of an Economic Hit Man* (2004). This explains why corporations, especially financial ones, are as much involved in building up a world-governmental edifice as any political figures or semi-secret organizations such as the CFR (which has, after all, CEOs within its ranks). They are greatly helped if they can use government to their own ends — because government has ceased to remain within constitutional limits and instead become a panderer that special interests and would-be monopolists can opportunistically exploit. Restoring constitutional government will only happen if “We the People” decide to make it happen at the voting booths by supporting and electing constitutionalists to public office.

Photo: Paul Craig Roberts