

David Stockman's "The Great Deformation"
Reviewed by Daniel Akst
Bloomberg News
April 2013

If there's one lesson to be learned from David A. Stockman's massive new book, "The Great Deformation," it's this: Beware the zeal of a convert.

Stockman was Ronald Reagan's budget director in the early 1980s, a time of huge federal deficits, only to criticize the administration after leaving it. During a subsequent career in private equity, at Blackstone Group LP and Heartland Industrial Partners LP, he piled debt onto companies.

And once again Stockman has seen the light. All this debt is terrible, he's discovered, just terrible! And he wants everyone to know how bad.

In "The Great Deformation," a frothing jeremiad not much smaller than a cinder block, Stockman warns that we're on the road to perdition thanks largely to Franklin D. Roosevelt, who gave us the New Deal; Richard M. Nixon, who took us permanently off the gold standard; and spineless central bankers like Alan Greenspan and Ben S. Bernanke, who've recklessly flooded the world with greenbacks.

Now he tells us.

It's easy to mock this repetitive and intemperate screed, whose author helped set in motion the catastrophic train of events he now so bitterly decries.

Embedded in the subtitle, for example ("The Corruption of Capitalism in America"), is the naive notion that capitalism once lived in a tender prelapsarian state of free-market innocence - unsullied by slavery, collusion or generous government handouts.

(Stockman himself agreed to pay the Securities and Exchange Commission \$7.2 million to settle allegations he misled investors at auto-parts maker Collins & Aikman Corp.)

Stockman's passion for the gold standard makes him seem like a crank, moreover, and his recommendation that we eliminate deposit insurance assumes the nation's savers will somehow develop the discernment of bank examiners. (They'll need a lot of other skills, too, as he also wants to eliminate medical insurance and Social Security.)

Stockman has other provocative ideas. In keeping with his notion that cheap money is the root of all evil, he blames the Great Depression on excessively easy monetary policy.

And he's convinced the Federal Reserve and the Treasury should have refrained from intervening during the financial crisis of 2007-08, saying the trouble wouldn't have spread beyond Wall Street.

Yet if you can get past this sort of thing, you'll find some cogent arguments.

Our tax code really is crazy for encouraging debt instead of equity. Excessive defense spending (see, once again, the Reagan years) really has enabled a series of misbegotten military adventures. Wall Street probably does hold far too much sway in the precincts of government.

And given the influence of special interests in Washington, it's hard to disagree that, as Stockman contends, an unholy alliance between business and government - crony capitalism - has subverted free markets and fiscal stability.

Stockman's critique is in keeping with his obsessive focus on easy money, which he blames for the rise of derivatives, the trade deficit, the destruction of thrift and the beggaring of future generations.

Easy money, according to Stockman, transformed the old-line investment banks into thinly disguised hedge funds of monstrous size. Other financial institutions swelled, too.

By the end of 2007, he reports, the top five investment banking houses plus five megabanks "were now 300 percent of the size they had been in 1998, notwithstanding that the real economy had grown by only 29 percent."

Stockman documents an entire society's debt spree with indefatigable horror, confidently predicting the apocalypse if we don't allow the sort of purgative liquidation the Fed has kept at bay with tidal waves of new money.

It remains to be seen whether we'll get the comeuppance the author believes is our just deserts, but he'd make a stronger case if he'd had a stronger editor to help him pare down and focus.

Stockman reserves special scorn for Republican administrations that, under the banner of shrinking government and promoting growth, have slashed taxes without cutting spending, running up far greater deficits than their Democratic counterparts.

Today's GOP, with its love of tax-cutting and Pentagon funding, is descended from Reagan, whose imperial style and belief, in the words of historian John Patrick Diggins, that "we please God by pleasing ourselves," seemed to authorize the heedless borrowing and spending that so exercises the author.

Reagan promised "morning in America," and Stockman was there to ring in the dawn. But now, instead of reveille, he gives us taps.

‘THE GREAT DEFORMATION’

By David Stockman
PublicAffairs, \$35