

NOTEBOOK

By the Rivers of Babylon *By Lewis H. Lapham*

The Puritan ethic of hard work and saving still matters. I just hate the *idea* that such an ethic is more alive today in China than in America. . . . We need to get back to collaborating the old-fashioned way. That is, *people* making decisions based on business judgment, experience, prudence, clarity of communications and thinking about how—not just how much.

—Thomas Friedman, New York Times, October 15, 2008

don't know what country Friedman thinks he's been living in for the past thirty years, or in which New England gift shops he searches out the treasures of the American past. I can understand why he might wish for a happy return to an imaginary state of grace, but to explain last fall's melee in the world's financial markets as a falling away from the Puritan work ethic is to misread America's economic and political history and to mistake the message encoded in the DNA of the American dream. Given any kind of choice in the matter, who among the faithful ever has preferred hard work to the fast shuffle and the artful dodge, the bird in the hand to the five in the bush? When has the thinking about the how ever been preferred to the projecting of the how much? Ask any American what money means, and the respondent is an odds-on favorite to say that it's the soul of freedom and the proof of wisdom, that if only he or she had

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more of it the upgraded combination of numbers must open the vault of Paradise. Add to the account the long-standing American romance with crime—the outlaw and the confidence man forever shining like the fixed stars in the Hollywood sky—and although the desire for wealth might be seen as a character trait that doesn't get along well with others, the statement "Yes, but I did it for the money" serves to explain, if not always to justify, any and all forms of conduct (tax evasion, mail fraud, a second marriage or a third divorce, the war in Iraq) that otherwise might be regarded as insensitive, stupid, self-defeating, or unjust.

The looting of the U.S. Treasury is never an easy trick, but to carry off more than \$1 trillion in broad daylight while the members of Congress stand around applauding the exit strategy as one certain to guarantee the health and happiness of the American people is a wonder of entrepreneurial enterprise that surely deserves some sort of tip of the hat. When the James gang robbed the Kansas City Fair in the fall of 1872, the local paper acknowledged the achievement as "so diabolically daring and so utterly in contempt of fear that we are bound to admire it and revere its perpetrators," and I would have thought that our own easily awestruck news media might have found a few words of respect and esteem for the perps who knocked over the Wall Street fairgrounds last year. How not at least revere the scale of the undertaking—nine banks emptied of more than \$500 billion in

capital, as much as \$8 trillion withdrawn from the Dow Jones Industrial Average, \$2 trillion from the country's pension and retirement accounts. How not admire the collaborating the old-fashioned way, stock-market touts working together with the Federal Reserve, investment bankers with credit-rating agencies, hedge-fund managers with committees of Congress, all doing their part to gin up the numbers and shear the sheep? For the financial operatives booming the sale of worthless paper, the bonus money last year came up to the sum of \$39 billion. How not at least commend so vivid a revival of the frontier American spirit and so eloquent a testimony to the powers of the unfettered free market?

Why then the sermons and no joy in Deadwood? Friedman and his associate clergy in the pulpits at Newsweek and the Wall Street Journal apparently require more edifying precedents than those to be found in Mark Twain's Nevada mining camps or in Charles and Henry Adams's Chapters of Erie. If they worry about straying too far from the sacred Massachusetts shore, they might wish to consult Robert Patton's Patriot Pirates, a history of the Revolutionary War at sea published in a timely fashion last spring soon after the prize crew from JPMorgan Chase swarmed aboard the wreck of Bear Stearns. Patton suggests, and offers a good deal of evidence to demonstrate, that our war of independence was won by the stout-

hearted greed of New England ship captains licensed by the Continental Congress in the autumn of 1775 to plunder, burn, or sell at auction British vessels bringing munitions and military stores to the king's regiments quartered on the merchants of Boston. The colonists at the time had few other means of acquiring weapons with which to give voice to their rebellion, and General George Washington understood that his ill-equipped and untried troops were not likely "to do much in a land way" against the superior force of the British Army. It occurred to the general to admit the servants of Mammon to the kingdom of Heaven with the thought that a squadron of privateers steered on the compass bearings of murderous self-interest might inflict enough damage on Britain's overseas trade to persuade the British Parliament that war with its North American colonies was a losing proposition.

Opponents of the policy thought it unworthy of Christian gentlemen, one likely to encourage practices both vicious and depraved, tending to "the destruction of the morals of the people." Friedman not being present, the objections were overruled by the advocates of piracy as public service, among them John Adams, who informed his fellow representatives in Philadelphia that the innovative investment strategy securitized the criminal collateral. "It is prudent," he said, "not to put virtue to too serious a test. I would use American virtue as sparingly as possible lest we wear it out."

The voyages were rigged as venture-capital deals, the richest share of the spoils reserved to the managing partners who advanced the money to build and provision the ships, lesser amounts distributed to the officers, the subcontractors, the accomplice politicians, and the crews. The work was not without its difficulties. Great Britain in the 1770s was the world's superpower, its navy equivalent to America's twenty-first-century Air Force, and for any privateer coming within range of the broadside from a British frigate the end was as certain as foreclosure on a California mortgage

armed with a subprime loan from Countrywide Financial. But for captains able to avoid unlucky shifts in the wind, the rewards were of a match with those achieved in the Civil War gold rooms, the 1920s Wall Street rise, and the Internet boom of the late 1990s—many times the cost of setting sail from Plymouth or Newburyport—and during the course of the Revolutionary War the winnowing of what came to be known as "the golden harvest" at sea developed into a big business. If in the autumn of 1775 as few as ten or twenty small schooners were cruising the Atlantic coast, by 1783 as many as 4,000 investment vehicles had been licensed to practice the art of piracy as far offshore as the West Indies and the Mediterranean.

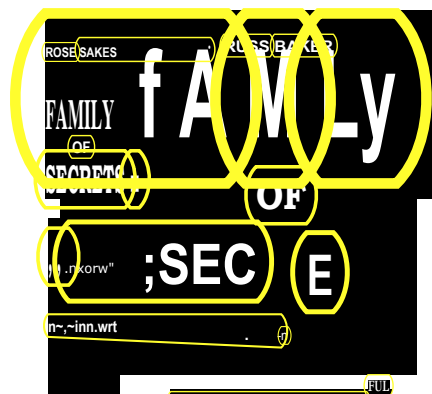
Better yet, the costs often were defrayed by the semblance of a government in Philadelphia, the profits taken by the speculators in Boston, Providence, and Marblehead. The contracts specified a transfer of the proceeds to the Colonial war effort, but the agreements tended to go AWOL when it came time to offload the boodle, preferably gunpowder but also African slaves, tobacco, sugar, table linen, Spanish wine, and anything else the traffic happened to be bearing.

Which isn't to say that the sparing use of virtue didn't prove to be "the pivot," as Adams had foreseen and Washington had said, "on which everything else turned." The putting of country second instead of first brought with it change believed in by electorates both domestic and foreign. By 1776 the British were losing cargoes valued in the millions of dollars; by 1782 the destructive presence of American privateers in the English Channel had dismasted the British public's enthusiasm for what was no longer a splendid little war. More importantly for the American love of liberty and pursuit of happiness, the lessons learned in the oceangoing counting houses of the Revolutionary War furnished the new republic with risk-management models that over the course of the next century settled the trans-Mississippi American West, built the steel mills and the railroads, fi-

nanced numerous richly rewarding stock-market schemes, and by 1899, the year that Thorstein Veblen published his *Theory of the Leisure Class*, advanced the country's market society to a stage in which vendible capital had replaced vendible labor as the product that turned the wheels of fortune. The pirates no longer went down to the sea in ships, but neither did they go about the getting of an honest living. Reconfigured as predatory financiers embodying the ethic of what Veblen called "the higher barbarian culture," they lived off the work of the lower industrial orders, concerning themselves only with the pleasantries of how much, never, God forbid, with the indignity of how.

Even more touching than Thomas Friedman's laying of a wreath on the grave of Cotton Mather was the sight of Alan Greenspan sitting down by the rivers of Babylon, his harp hung upon the willows, silent in a strange land. During his tenure as chairman of the Federal Reserve (1987–2006) Greenspan had believed it his duty to irrigate the fruited plain of the American economy with the flow of easy money, his policy to supply the banks with the abundant credit, at low cost and presumably risk-free, that enabled the floating of both the Internet bubble (1995–2000) and the housing bubble (2003–2006). For his efforts he was accorded the title of "maestro," his word on the country's finances trading at parity with the word of God. When it was suggested (as long ago as 1994) that the newborn market in derivatives demanded some sort of government supervision, Greenspan discounted the suggestion as insulting to the integrity of the public-spirited Wall Street gentlemen laboring on behalf of the common good; when on October 23 of last year he appeared before the House Committee on Oversight and Government Reform to explain what had gone wrong with the making of something out of nothing, his tongue cleaved to the roof of his mouth. "Those of us who have looked to the self-interest of

THE BUSH DYNASTY IS OUT OF OFFICE ... BUT NOT OUT OF POWER



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INFLUENCE MEANS FOR AMERICA

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MEMBER, NATIONAL SECURITY COUNCIL;
AUTHOR OF *RICHARD MILHOUS NIXON AND PARTNERS IN POWER*

"(Russ) Baker's work stands out for its fierce independence, fact-based reporting, and concern for what matters most to our democracy ... A lot of us look to Russ to tell us what we didn't know."

—BILL MOYERS, AUTHOR AND HOST,
BILL MOYERS JOURNAL (PBS)

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lending institutions to protect shareholder's equity, myself included, are in a state of shocked disbelief."

To think that the Wall Street financial institutions seek to protect the equity of their customers in preference to their own is to think that at the Las Vegas poker tables the dealers seek to protect the chips stacked in front of the sweet old lady in the blue baseball cap playing a system drawn from the book of Revelation. But if Chairman Greenspan put virtue to too serious a test, so do the cupbearers of civic conscience who complain of the lack of "leadership" on the part of the government in Washington. Throughout the months of September and October the Dow was gaining or losing as many as 700 points a day (thereby enriching the speculators taking a cut of the action on both the black and the red), and from the choir lofts of the national media the news went forth that what had gone missing from both the Congress and the Bush Administration was the prudence and the clarity of communication. Avarice and incompetence at both ends of Pennsylvania Avenue, "nihilists" in the House of Representatives, corporate bagmen in the Senate, everywhere a falling away of sober business practice and the habit of self-denial—where, O Lord, was the wisdom in the shining city on the hill, where the watchers on the ramparts of freedom looking out for the safety and well-being of the American taxpayer?

Xs with the misreadings of the spirit of American commercial enterprise, the misinterpretings of the purpose of American government substitute the theory for the practice. Just as the stock-market speculations do what they're intended to do, which is to reward the promoters and fleece the marks, the government does what it's supposed to do, which is to enrich the creditors and plunder the debtors. The eighteenth-century New England privateers flew the American flag as a flag of convenience, not as a declaration of their allegiance to a cause but as a license to seize the wealth stored in the hulls of wooden ships. Their twenty-first-century heirs and assigns employ

the semblance of a government in Washington as an investment vehicle permitting them to seize the wealth stored in the labor of the American people. The Republican and Democratic parties compete for the brokerage business, between them putting up \$2.4 billion for last year's presidential campaigns—i.e., for the speculative ventures that bundle junk slogans into collateralized-debt obligations, which, when it comes time to off-load the boodle, transform the upside into private property, the downside into the good news that poverty replenishes the soul.

When Treasury Secretary Henry M. Paulson distributes more than \$1 trillion to the country's financial overlords (\$700 billion to the commercial and investment banks; \$150 billion to AIG, \$100 billion each to Fannie Mae and Freddie Mac, etc.), he proceeds in the time-honored manner of the governments in Washington that during the four decades after the Civil War presented the railroads with 183 million acres of sub-prime desert on which to set up the derivatives market in pioneer homesteads that were sold as gardens of Eden on fertile prairies "ready for the plow and spade." When the land holdings turned into fairy-tale castles of debt rising from the mists of boundless credulity, it was the farmers wondering where was the rain in western Nebraska, not the silk-hatted gentlemen rounding up the oysters in William K. Vanderbilt's palm court, who paid for the burials of the mules and the American dream. Bait-and-switch is the name of the national pastime. President Grover Cleveland confirmed the principle in 1887, explaining his veto of a bill passed by Congress to provide financial aid to the poor. "The lesson should be constantly enforced," he said, "that though the people support the government, the government should not support the people." Such has been the policy of the Bush Administration for the past eight years; so also is it the policy "alive today in China," Thomas Friedman's far-off happy land where the cheap labor relies on the Puritan work ethic to lay up its treasure in Heaven. ■