linked to performance. Finally, bloated bureaucracies are reduced. In 1988, when Kohlberg Kravis Roberts took RJR Nabisco private in a $25 billion deal, RJR Nabisco's entire 470-person headquarters was replaced by 16 professionals and 44 support personnel at KKR.

During the late 19th century, the creation of railroads and other capital-hungry enterprises spurred the rise of the public corporation.

Jensen says that LBOs make the most sense in mature industries—such as steel, chemicals, broadcasting, and brewing—where little further investment can be justified. Public stock ownership still makes sense in fast-growth sectors where opportunities outstrip company resources, such as computers and pharmaceuticals.

Private ownership of industry helped propel West Germany and Japan to economic success, Jensen believes. And today's corporate revolution in the United States is essential to meet their challenge.

Rich and Stupid

"Problems and Non-Problems in the American Economy" by Herbert Stein, in *The Public Interest* (Fall 1989) 1112 16th St. N.W., Washington, D.C. 20036.

All political discussion in America today seems to begin and end with the "twin deficits"—the U.S. budget and trade deficits. Nobody seems to know exactly why they are bad, observes Stein, an economist at the American Enterprise Institute and chairman of the Council of Economic Advisers under President Ford. "The fact that they are called 'deficits' seems sufficient."

Not to Stein. Our obsession with these two "non-problems," he argues, has led us to overlook larger issues.

He is particularly dismissive of the $95 billion trade deficit. During the early 1980s, people worried that the trade deficit would depress U.S. output and employment. That proved false. Now people worry that foreigners are "buying up" America. But capital is flowing into the United States because of attractive investment opportunities here that exceed U.S. savings. "It is as natural that we should import capital from countries that are good at saving," Stein remarks, "as that we should import coffee from countries that are good at producing coffee."

Some people insist that foreign capital is merely financing the U.S. budget deficit. Wrong again, according to Stein. Even if foreign investors underwrite $60 billion of the $115 billion budget deficit, that only means that $60 billion of U.S. investors' money is freed for productive investments.

Well, some may persist, if foreign investments don't break us today, then paying the interest and dividends on them eventually will. In fact, Stein responds, foreign investments generate the income to pay those bills. And the United States still earns more from its overseas investments than it pays out to foreigners who have invested here.

Finally, some worry that the trade deficit reflects declining U.S. "competitiveness." Strictly speaking, this is not true either. Taiwan's industrial productivity is far lower than ours, yet it has a substantial $10 billion trade surplus with us.

So what is the "real" problem? In Stein's view, it is the growing American taste for consumption rather than saving, which dropped from about 17 percent of GNP in 1980 to 14 percent in 1988. As a result, we are underinvesting in business, in education, in help for the poor, in national defense—in real "competitiveness." Lost in today's dead-end debates is the fact that the current low tax/big budget deficit regime increases consumption and depletes savings. Stein's prescription: Raise taxes.