The flaws evident in that disaster—and in the 1983 Marine barracks explosion in Lebanon, as well as in the "fiasco of uncoordinated brute force" used in the U.S. invasion of Grenada that year—led to the 1986 reform. Sponsored by Senator Barry Goldwater (R.-Ariz.), and Representative Bill Nichols (D.-Ala.), the measure was enacted over opposition from the services. It made the JCS chairman the "principal military adviser" to the president, the National Security Council, and the secretary of defense. The other service chiefs were relegated to secondary roles and put directly under the chairman. The military chain of command now runs from the secretary of defense through the chairman and then out to the commanders in the field, "completely eliminating the other chiefs in the chain."

Admiral William J. Crowe, Jr., the JCS chairman when the office was beefed up, used his new powers to good effect. He "pioneered military-to-military contacts with the Soviet Union, often over the objections of other administration officials." He also designed the 1987 mission in which U.S. vessels reflagged Kuwaiti oil tankers in the Persian Gulf to protect Iraq's supply line from attack during the Iran-Iraq war. Powell, formerly President Ronald Reagan's national security adviser, took over in 1989 and raised the office to "a new and higher level."

As chairman, Campbell writes, Powell "has played a crucial role in reshaping U.S. military commitments to [the North Atlantic Treaty Organization] and in developing fledgling contacts with the reformed national militaries of Eastern Europe." He also was intimately involved in the decision to invade Panama in 1989, and, of course, in overseeing Operation Desert Shield/Storm.

In the past, Campbell writes, the chairmanship usually provided a "quiet end to a distinguished military career." Now, he says, the chairman of the Joint Chiefs must be viewed as one of a president's most important appointments.

ECONOMICS, LABOR & BUSINESS

Disaster Guaranteed

"Understanding the S&L Mess" by John Steele Gordon, in *American Heritage* (Feb.–Mar. 1991), 60 Fifth Ave., New York, N.Y. 10011.

"We do not wish to make the United States government liable for the mistakes and errors of individual banks, and put a premium on unsound banking in the future." So said President Franklin D. Roosevelt in 1933 in explaining his opposition to federal bank deposit insurance. FDR eventually gave in on the issue, and the reform turned out to be among the most significant of the New Deal era. But Gordon, author of *The Scarlet Woman of Wall Street* (1989), contends that the savings-and-loan (S&L) disaster of the 1980s showed that Roosevelt's fears were well founded.

From the banking reforms of the 1930s, Gordon says, there emerged what amounted to "a government-sponsored banking cartel." Commercial banks, savings banks, and S&Ls "carved up the banking business among themselves." Without the protection from competition this arrangement afforded, the S&L industry could not have survived that time of upheaval.

But the "cartel" eventually broke down. Depositors struggling to keep up with soaring inflation in the 1970s began taking their money out of banks' low-paying savings accounts and putting it into Wall Street's high-paying money market funds. The commercial banks could tolerate this, but the savings banks and S&Ls—which held mainly long-term real-estate loans at low, fixed interest rates—could not. They sought government help—and got it.

Washington's main concern, Gordon

contends, was not "the integrity of the American banking system as a whole." Had it been, he says, the weaker savings banks and S&Ls would have been merged with commercial banks, and the stronger ones would have become commercial banks on their own. Instead, the government gave the interest of the bankers themselves priority. "The presidents of the 4,613 S&Ls in business in 1980 wanted to continue being bank presidents," Gordon notes. "The Chevy dealers and shoe-store owners on the boards of those S&Ls wanted to go on being bank directors." The government obliged with quick fixes.

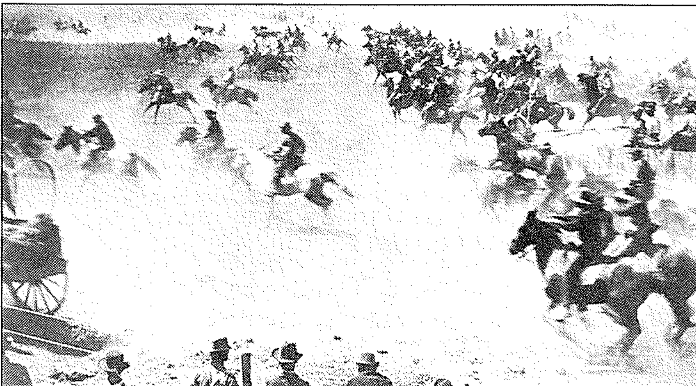
Congress in 1980 not only removed the ceiling on the interest rates that S&Ls could pay, but also raised the federal guarantee on deposits from $40,000 to $100,000. In addition, the government dropped a restriction on Wall Street's so-called brokered deposits in thrift institutions, which allowed "the rich to have as much of their savings under [the federal] guarantee as they wished." S&Ls were thus able to offer "every capitalist's dream: a high-interest, zero-risk investment."

The trouble was that as S&Ls competed among themselves for the new "hot money," they had to offer higher and higher interest rates—and they had no way to earn the money to pay the promised rates. "They were still stuck with their old loan portfolios of low-paying, fixed-interest single-family home mortgages." Still more quick fixes followed. Congress in 1982 permitted S&Ls to make many high-risk commercial real-estate and consumer loans—without being restricted by most of the capital and reserve requirements to which commercial banks were subject. States followed the federal government's lead. California, with the largest system of S&Ls, went even further, letting its thrifts "invest in whatever they pleased, from junk bonds to alternative energy schemes." Those thrifts thus became de facto venture capitalists—with the only difference being that any losses were guaranteed by the government. Disaster was unavoidable.

Growth Factors

"Free Land and Federalism: A Synoptic View of American Economic History" by Peter Temin, in *The Journal of Interdisciplinary History* (Winter 1991), Tufts Univ., 26 Winthrop St., Medford, Mass. 02155.

From the mid-19th century to the mid-20th, U.S. economic growth was among the wonders of the world. The modern business enterprises that emerged here served as a model for other nations. But now, says Temin, an economist at the Massachusetts Institute of Technology, "the special quality of American economic life is fast disappearing."



Congress, opening two million acres of Indian Territory to settlers in 1889, brought on the Oklahoma land rush. The abundance and availability of land was a key factor in U.S. economic growth.

The country's economic experience was shaped by two "uniquely American" factors, he contends. The first was the abundance of rich farmland, located in favorable climates and relatively accessible to overseas markets. The second—an outgrowth of America's federal system of government—was the limitation on large landholders' political power.

When land is abundant and freely available, Temin