

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

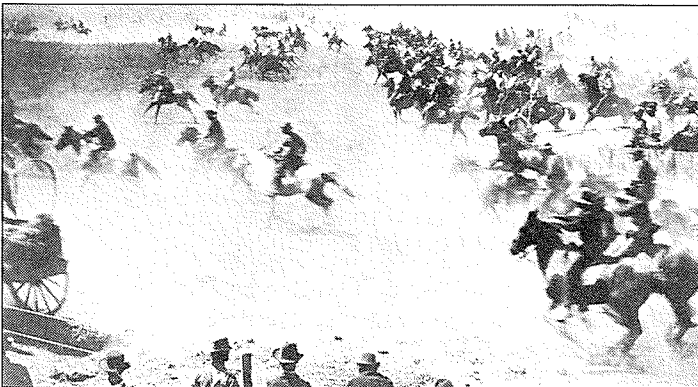
"Free Land and Federalism: A Synoptic View of American Economic History" by Peter Temin, in *The Journal of Interdisciplinary History* (Winter 1991), Tufts Univ., 26 Winthrop St., Medford, Mass. 02155.

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."

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



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.

maintains, a land-owning aristocracy can sustain itself only by turning other people into serfs or slaves. That happened in the American South, but not in the North. There, free land led instead to free labor, which, in turn, led to the rise of manufacturing (and to the development after the mid-19th century of the "American System," a production process based on the use of interchangeable parts).

Thanks to a protective tariff against foreign competition, American industry was able to pay both interest rates high enough to attract investors and wages high enough to draw laborers away from farming. American manufacturing, Temin says, "owed its vigor partly . . . to the structure of the federal government which could support a favorable commercial policy," despite the influence of Southern plantation owners. The different economic paths taken by North and South had led to a divergence of interests. Whereas Northern congressmen favored tariffs to encourage industrial growth, Southern representatives wanted free trade to encourage export of raw cotton.

The showdown between the agricultural and the industrial regions came with the Civil War. The North's victory "showed the dominance of the society based on free labor," Temin notes. It also resulted in a national government "strongly sympathetic to the growth of industry."

The big industrial corporations that emerged as the American System was be-

ing transformed into mass production were "an American phenomenon," Temin says. Large companies in Europe were limited to a much narrower range of industries. The American firms flourished in a favorable legal setting. Court decisions, for instance, blunted the impact of the Sherman Anti-Trust Act of 1890. The Supreme Court in 1895 in effect left much of the antitrust policy to the states, which then were busily competing for the charters of new firms. Federalism thus played a role in gutting the antitrust policy.

Today, however, federalism "is ever more tenuous in its economic effects," Temin writes. With economic problems national, rather than regional, in scope, it is chiefly Washington that now regulates and supports business activities. Other key elements in America's extraordinary economic growth also are much diminished now, he says. Free land, of course, disappeared long ago. "And, although the modern business enterprises that grew from this fertile soil are still dominant economic institutions, there is a suspicion that they are becoming obsolete," with other sorts of organization and management now having the advantage. He believes that the future lies not with hierarchical Big Business but with flexible specialization and "matrix management." The conditions that enabled the industrial behemoths to flourish—and to produce America's unrivaled economic growth—now belong, in Temin's view, to the past.

SOCIETY

Canon Fodder

"The Storm Over the University" by John Searle, in *The New York Review of Books* (Dec. 6, 1990), 250 W. 57th St., New York, N.Y. 10107.

Much ink has been spilled in the debate over the status of the "canon" of the great books of Western civilization. But Searle, a professor of philosophy at the University of California, Berkeley, contends that the underlying issues that divide the members of the "cultural Left" and the defenders of

traditional liberal education are seldom brought out into the open.

Cultural leftists such as Mary Louise Pratt, a comparative literature professor at Stanford, argue that the canon is unrepresentative, inherently elitist, and covertly political. But their underlying objection,