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# I Wouldn't Trade Places for Anything: Clyde Prestowitz on Globalization

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## ABSTRACT

This essay considers four books by trade expert Clyde V. Prestowitz, Jr. The books are *Trading Places: How We Allowed Japan to Take the Lead* (1988), *Rogue Nation: American Unilateralism and the Failure of Good Intentions* (2003), *Three Billion New Capitalists: The Great Shift of Wealth and Power to the East* (2005), and *The Betrayal of American Prosperity: Free Market Delusions, America's Decline, and How We Must Compete in the Post-Dollar Era* (2010).

## Introduction

Clyde Prestowitz burst onto the world stage in 1988 with the appearance of his jeremiad *Trading Places: How We Allowed Japan to Take the Lead*. His timing was impeccable, for by the late 1980s America's trade deficit with Japan had become what many called "unsustainable," yet efforts to correct it proved futile. Throughout America anger at what was perceived as "unfair trade" was rampant, and fear that America was falling behind in areas it had long prided itself on was growing. Throughout the country, "rust belt" manufacturing such as steel, automobiles and machinery was reeling, in large part due to Japanese dominance, but Prestowitz warned that even in

high tech sectors such as computer chips America was losing badly.

Prestowitz, a former high-level businessman turned trade official in the Reagan Administration, has succeeded in carving out a niche for himself as one of the most insightful commentators on America business and trade. In 1989 he established a Washington, D.C. think tank, the Economic Strategy Institute (ESI). With that as a base, he has been active in writing op-ed articles and analysis for a wide range of publications and frequently appears on television for discussions about America's economic situation. He also gives testimony to the Congress and other organs of the American government. He keeps up to date by traveling the world ceaselessly and meeting with hundreds of people connected with trade, economics, government and the news media.

Born in 1942, Prestowitz grew up in Wilmington, Delaware, the son of a skilled chemist. Prestowitz describes himself as "The product of a middle class, conservative, rock-ribbed Republican, superpatriotic, born again Christian family." (For example, he writes, rather than indulge in illegal pastimes while in college, he founded his school's conservative club, and he is now an elder of the Presbyterian Church.) His father encouraged him to study Japanese because the Japanese "make things." Perhaps this observation helped young Prestowitz focus on the importance of manufacturing for his entire career. Other developments also pushed him in the direction of business. For instance, from the businessman who built Scott Paper into a industry power, he received a grant to attend Swarthmore College covering room, books and tuition. During this period, he also visited Europe as an exchange student. Soon after graduation, he became a Foreign Service officer, acting as vice consul in Rotterdam from 1966-68. This was followed by a shift to the private sector, where he coincidentally

ended up at Scott Paper. This period saw him help establish Scott's European operations, followed by a transfer to Japan, then a stint as a consultant there. This was not Prestowitz's first acquaintance with Japan, for he had taken an ocean liner to Japan in January 1964 to complete the language portion of his graduate degree requirement at the East-West Center at the University of Hawaii. Accompanying him were his wife and infant daughter Ann.<sup>1</sup>

After his work as a consultant, he returned to the United States as head of global marketing for American Can Company. These experiences have allowed him to live in Japan twice, the Netherlands, Belgium and Switzerland, experiences which no doubt helped him in his next job, that of counselor to the U.S. Department of Commerce Secretary, Malcolm Baldrige. As such, he participated in negotiations with Japan over semiconductors, machine tools, telecommunications, and other related industries. After five years at Commerce, he left in 1986 to write his first book.<sup>2</sup>

Prestowitz has written four big books, three of which deal with trade and international business. These business books are *Trading Places: How We Allowed Japan to Take the Lead* (1988), *Three Billion New Capitalists: The Great Shift of Wealth and Power to the East* (2005), and *The Betrayal of American Prosperity: Free Market Delusions, America's Decline, and How We Must Compete in the Post-Dollar Era* (2010). His other book is *Rogue Nation: American Unilateralism and the Failure of Good Intentions* (2003). Because *Rogue Nation* is far different from the three trade books, and because it deals with the wider topics of American identity and world relations, I will discuss it in the final portion of this paper.

As a disclaimer, I must add that during the summer of 1992, I was fortunate enough to be an (aging) intern at Prestowitz's ESI. I was

recommended by Johnson Graduate School of Management (Cornell University) professor Alan McAdams, who a year later was the chair of my M.A. committee. The experience in Washington was a valuable one.

## Trading Places

*Trading Places: How We Allowed Japan to Take the Lead* had a powerful impact on me. I had been living in Japan from 1985 and could see the effects Japan's rise in industry and finance was having on the United States. Prestowitz's book struck me as accurate in its assessment of the situation, and its activist slant appealed to me as well. The book became the basis for my M.A. dissertation at Cornell University in 1993.

Prestowitz was well suited to write this book because he had long been a student of Japanese language and culture and had worked with companies doing business in Japan. His subsequent participation in trade negotiations with Japan allowed him to report personally on what was happening and who the various personalities involved were. As has become his style, he begins his discussion with historical background, sprinkled with personal stories. In the case of *Trading Places*, he briefly recounts the 1945 surrender of Japan to America, the culmination of foreign intrusion which had begun with American warships arriving in Tokyo Bay in 1853. Following Japan's surrender, American forces occupied the country, wrote their new constitution, and brought Japan into the America-dominated trade and security regime of the postwar world.

Through the 1960s-80s, however, Japan began to dominate markets such as textiles, machine tools, and finally semiconductors, a turn of

events that was much noted by the world. Prestowitz writes how in 1987, America “was the leader only in military power, and even there was facing the necessity of reducing commitments. In other areas, the United States, which had played the role first of occupier and then of protector and mentor, had traded places with its former protégé — Japan.”<sup>37</sup> His signal illustration of this reversal deals with the semiconductor industry, again beginning with historical background on the field. An American invention, semiconductors became the heart of the burgeoning computer industry, another area dominated by American firms.

A graph on page 45 shows how starkly the situation had changed. In 1979, for instance, U.S. based firms in memory products held fully 75% of world market share, while their counterparts in Japan held only 25%. Market share was equal in 1983, but by 1986 Japanese firms held 65% while American firms were down to 25%. Prestowitz argues that this was due to Japanese “dumping” of computer chips, i.e., selling them at prices far lower than their cost of production in order to gain market share. Meanwhile, the Japanese home market was kept tightly closed to American chips. This became the norm in any field in which Japanese producers participated or hoped to participate. Prestowitz explains how this was the result of coordination among Japanese industrialists, banks, and most of all the government. In other words, he was describing Japan’s “industrial policy,” a foreign challenge America was to grapple with for decades.

## **Industrial Policy**

In my own words in 1993, I summarized Japan-U.S. relations thus: “While America has been focused for the last 45 years on containing

world communism, Japan has been refining and implementing a style of capitalism which it has relied upon in its drive toward modernization. This catch-up form of capitalism has proved superior to the free-market capitalism favored by Anglo-Americans .... Currently, the majority of observers of Japan misread much of the activity taking place there politically, economically and socially ....” I was in fact describing my understanding of Japan’s industrial policy, an understanding drawn from Prestowitz but also from Chalmers Johnson and his seminal work *MITI and the Japanese Miracle*.<sup>4</sup>

To be precise about the nature of the semiconductor trade conflict, Prestowitz noted that he participated in the negotiations leading to the First Semiconductor Agreement of November 1982, The Second Semiconductor Agreement of November 1983, and the U.S.-Japan Semiconductor Accord of 1986, which included a side-letter the Americans understood to mean that foreign vendors would supply 20% of the Japanese semiconductor market. Frustratingly, throughout all of these negotiations and agreements, U.S. market share remained steady at about 10% every year. Because of this, the U.S. in the spring of 1987 imposed sanctions on the Japanese for failure to live up to the agreement. Even so, without allowing the U.S. to reach anything near 20%, the Japanese were able to escape the effects of the sanctions due to greater political considerations on America’s part.

By 1991 the American side was frustrated enough to negotiate yet another agreement, the Semiconductor Agreement of 1991. In this agreement, the Japanese were more clearly held to their earlier 20% marketshare pledge. Even with this new agreement, however, sales stagnated at 14-15%. Despite genuine efforts by the U.S. industry — aggressive pursuit of new designs, production and sales opportunities in Japan; the opening of sixty new design centers, sales offices and

manufacturing facilities; as well as expanding existing facilities — foreign firms were being shunted off toward niche market chips in which actual commercialization was far from guaranteed and the chances for high-volume production remote. This became a template for other areas described by Prestowitz. Classical Western economics could neither explain nor match Japanese business practices. Prestowitz, however, could through his understanding of Japan's industrial policy.

The results were bleak, at least for America, as he wrote in 1998:

As a result of the hollowing of its industry, the United States no longer makes hundreds of products, ranging from ceramic semiconductor packages to bicycle tires to VCRs. Consequently, even though in 1985 most economists predicted that the trade problem would resolve itself if the dollar fell from 240 yen to 200 yen, the actual fall to 125 yen, by the end of 1987, barely stabilized the deficit with Japan at \$60 billion. It was not possible to buy American at any price.<sup>5</sup>

As for prescriptions for improvements in trade, Prestowitz devoted his closing chapter to potential remedies. Titled “Waking Up,” the chapter warned that America was a “colony-in-the-making.” Adhering to his call for a more rational government-business approach to coordinating business, Prestowitz pointed to the success of Sematech, a consortium of American semiconductor manufacturers hoping to stem the losses to Japan. As always, he stressed the need for coordination among U.S. government agencies, with an explicit understanding of the military, political and economic aspects involved.

Prestowitz's book garnered widespread attention and commentary. In fact, his book was the first one mentioned under principal sources for



fiction writer Michael Crichton, whose 1992 novel *Rising Sun* polemically attacked Japanese industrialists, using the very reasons cited by Prestowitz in *Trading Places*.<sup>6</sup> At the same time, a handful of other Westerners critical of the “Japanese miracle” wrote works that reinforced Prestowitz’s themes. Among these were *Atlantic Monthly* columnist James Fallows, a liberal journalist and former speechwriter for President Jimmy Carter. He began writing on Japan when he and his family moved to that country for an extended assignment. In September of 1986 his article “The Japanese are Different From You and Me” appeared and argued that the Japanese were not becoming more and more like Americans, either in culture or in economic practices. His May 1989 essay, “Containing Japan,” showed the growth in his militant attitude toward what he perceived as an adversarial trade pattern on Japan’s part. Dutch journalist Karel van Wolferen added *The Enigma of Japanese Power*, an in-depth look at the inner workings of the Japanese bureaucracy and its connection to business and the mass media. When the trade rows reached a crescendo, however, and threatened to seriously damage Japan-U.S. relations, a funny thing happened: Japan economically imploded. Or so the story went. That story will be discussed later.

### Three Billion New Capitalists

As we will see later in this essay, Prestowitz went outside his area of expertise to write *Rogue Nation* in 2003. Two years later he returned to his familiar journalistic style in the book *Three Million New Capitalists*. In this book, he has widened his discussion of rising Asian powers from Japan alone to include China and India. As in *Trading Places*, he does not see this as a tale of an expanding pie but, rather, as

the relative rise of Asia paired with the decline of America. Thus the subtitle *The Great Shift of Wealth and Power to the East*. His prologue sets this up, beginning with the epigraph “The United States is on the comfortable road to ruin.” He then surveys headlines from one day in early 2005 to make his point. There we read:

*New York Times*: DOLLAR'S STEEP SLIDE ADDING TO TENSIONS U.S. FACES ABROAD

*Financial Times*: CENTRAL BANKS SHUN U.S. ASSETS

and: DOLLAR AT THE MERCY OF SMALL GROUP OF CENTRAL BANKS

*Wall Street Journal*: CHINA ON PATH TO OVERTAKE U.S. ECONOMY

and: BIG SILICON VALLEY FIRMS THRIVE, BUT JOBS ARE FEW

*Financial Times* again: STRATEGIC DIALOGUE POINTS TO THAW IN BEIJING-NEW DELHI RELATIONS

In essence Prestowitz believes that the real news is “the serious flaw at the heart of the global economy, the uncertainty surrounding the dollar, the loss of U.S. financial sovereignty, the decline of U.S. technological leadership, and the rise of China, India, and the European Union.”<sup>7</sup>

At least as far back as his days as a trade negotiator for the Reagan Administration, Prestowitz has been a sharp critic of classic free trade doctrines and a vocal supporter of government coordination of and intervention in the national economy. Whether labeled indus-

trial policy or economic strategy, Prestowitz is convinced that the use of such government power first by Japan but later by other U.S. trade partners demands that America respond in kind. Instead, as he sees it, U.S. leaders, following classic economic models, assume that American workers and industries displaced by foreign competition will simply leave that lost industry and move up the economic food chain. America has always been a leader in high technology, they reason, so new industries will be born and displaced workers can fill those new, high-paying jobs. Prestowitz, however, stresses that this is not happening because such a worldview is “badly out of touch with reality.” Worryingly, “the United States has a de facto economic strategy, and right now it is to send the country’s most important industries overseas.”<sup>8</sup> Its competitors in Europe and Japan, however, “accept the legitimacy of and the need for an economic strategy. They accept the notion that the structure of the economy has a significant influence on its long-term performance and must therefore be studied and attended in policy terms. In both regions there are officials whose job is to worry about economic structure and how various legislative and regulatory proposals might affect it.”<sup>9</sup>

Prestowitz is very good at describing the process of globalization, but his dream of uniting the world goes much further back in man’s fantasies. For instance, in 1727 English poet Alexander Pope wrote the line *Ye Gods! annihilate but space and time*. American Studies scholar Leo Marx tells us that “No stock phrase in the entire lexicon of progress appears more often than the ‘annihilation of space and time.’”<sup>10</sup> Walt Whitman, for one, wrote of this progress over space and time in his poem *Passage to India*:

Singing my days,  
Singing the great achievements of the present,  
Singing the strong light works of engineers,  
Our modern wonders, (the antique ponderous Seven outvied.)  
In the Old World the east the Suez Canal,  
The New by its mighty railroad spann'd,  
The seas inlaid with eloquent gentle wires ...

I see over my own continent the Pacific railroad surmounting  
every barrier ...

After the seas are all cross'd, (as they seem already cross'd.)  
After the great captains and engineers have accomplish'd their  
work ...

Prestowitz too is enamored of the idea but he also realizes that such shrinkage of time and space poses a serious challenge to Americans. As he writes, “technology in the form of air express and then the Internet was shrinking the globe to a tiny orb by negating distance and time.”<sup>11</sup> In the subsection “The End of Space: Air Express,” Prestowitz celebrates the choreography of commerce achieved by FedEx at its Memphis hub. Each night from around 11:00pm until 3:00am roughly 160 planes from around the world arrive then leave in their quest to fulfill shipping orders.<sup>12</sup> The next section, “The End of Time: The Internet,” is an overview of the birth of the Internet.

It is Chapter 3, however, “The Global Ballet,” that best highlights the consequences of “the annihilation of space and time.” Prestowitz uses the example of his ordering a computer to illustrate the process. First, he orders a customized computer online — Intel Pentium 735 microprocessor, a gigabit of memory, an Intel wireless network connection, etc. — where a subcontractor such as Flextronics (with factories in China, Singapore, Mexico, etc.) assembles the parts. (The Intel

microprocessor, for its part, starts life in Japan as crystallized silicon, heads to Albuquerque, New Mexico to be crafted by Intel, moves through FedEx's Memphis hub and Narita, Japan, on its way to Kuala Lumpur where it will be cut into individual Pentium chips, tested, and packaged. Other components go through a similar global process.) Finally, a FedEx plane will pick up the completed computer in Shanghai and fly it to Memphis, where, a few hours later, it will be sent to Prestowitz's office. This is the upside of globalization.<sup>13</sup>

The downside, at least for American workers, comes with the essential elements of this ballet: outsourcing, offshoring, and contract manufacturing. Prestowitz's wry quip "Look, Mom — No Factory" captures the essence of the process. American companies gain huge profits from eliminating their American factories, downsizing all the expensive workers, and moving to countries that have far cheaper labor and less onerous environment regulations.<sup>14</sup>

Not surprisingly, China is a major focus of the book. Prestowitz notes that in 1980 foreign investment in China was only \$20 billion, rising to ten times that amount in 1990 and, as of 2005, it was "well over \$500 billion. By the same token, exports have climbed from \$18 billion to nearly \$600 billion, and China has a trade surplus that has enabled it to accumulate \$650 billion of foreign exchange reserves, second only to Japan's \$850 billion."<sup>15</sup> An interesting component of those exports involves the American seller Wal-Mart, which in 2003 imported about \$15 billion worth of goods from China, representing roughly 15% of America's trade deficit with that country. "If Wal-Mart were a country," Prestowitz muses, "it would rank ahead of Germany and Britain as an importer from China."<sup>16</sup>

In one of his telling vignettes, Prestowitz presents the career of Richard Chang, born in China in 1949 but forced to flee with his family

to Taiwan when the Chinese Communists took over. He later earned his master's degree in Buffalo, New York, then went to work for Texas Instruments in Dallas. Eventually, he oversaw TI's construction of plants in Singapore, Italy, and Japan. In 1997, he returned to Taiwan to help start the Worldwide Semiconductor Manufacturing Company. Soon after, he ended up founding a new semiconductor factory in China because he was given a sweetheart deal on land, utility rates, etc. Due to the lack of experienced semiconductor engineers, however, Chang assembled a global team: over 500 from Taiwan, 300 from America, 40 Koreans, 15 Japanese, and a smattering from elsewhere. Prestowitz notes that a machinist at the company was six times cheaper than one in Taiwan and twelve times cheaper than one in the developed world. Given the fact that about 1,000 machinists are employed there, the savings are substantial. And the Chinese are doing a good job at producing semiconductors. "China will be able to compete with the best in just about anything," concludes Prestowitz.<sup>17</sup>

Prestowitz again bemoans the refusal of American leaders to embrace the kind of industrial policy that other leading manufacturing nations do. Summarizing examples from *Trading Places*, he notes how in the 1980s U.S. manufacturers lost out to the Japanese. "Motorcycles, machine tools, auto parts, lawn movers. You name it. Anything that was made in a factory was mostly made in Japan, as U.S. companies laid off their workers and closed up shop." In the key sector of semiconductors, America should have been prospering, at least according to classical economics. With the best cutting-edge technology and leading companies like Intel, Texas Instruments and Motorola, American companies made no inroads into the Japanese market and could not match Japanese prices at home. Thus, over three years during the 1980s, the U.S. industry downsized 50,000

workers and lost \$4 billion. How?

In Prestowitz's estimation, it was due to dumping. With a coordinated national policy, a foreign industry can create a sanctuary home market with high costs and therefore high profits. These profits are used to subsidize sales in a target country like America in exchange for market share and even driving competitors out of business. Much to his consternation, Prestowitz time and again found that America economists were unconcerned by this, viewing dumped products as a windfall for consumers.<sup>18</sup> For Prestowitz, the process is far more organic. Dubbing it "the dying tech ecosystem," he emphasizes the *linkages* among processes such as design, prototype fabrication and standard production. Because America is losing so much manufacturing, American strongholds such as design are also being lost. He quotes one expert as believing that the loss of this linkage leaves countless inventions "on the cutting room floor because they cannot be manufactured." In a few more years, the effects could be catastrophic to manufacturing because "mega-billion dollar industries like microelectromechanical systems or nanotechnology" will be impossible to do in America.<sup>19</sup>

Prestowitz also finds the American dollar at risk due to the chronic U.S. trade deficit. Over the past fifty years, it has lost 70% of its value, yet the trade deficit then was minor compared to now. In 2005, Prestowitz predicted, it would be nearly \$700 billion dollars. Of course other factors play a role as well, including America's "misuse of the dollar," its falling savings rate, and the myth of free trade.<sup>20</sup> He also quotes a number of highly informed individuals as saying they fear the crash of the dollar. "If the dollar started to melt down, the results could be really nasty. A 1930s-style global depression is not out of the question."<sup>21</sup>

In any event, the days where Americans with a high school education can live comfortable middle class lives is over. “In the third wave of globalization, neither their children nor particularly their grandchildren will have the same kind of life, even with a much better education.”<sup>22</sup> With three billion new capitalists added to the global labor pool, it is inevitable that it will drive down wages for similar work because capital can and will seek out the lowest labor costs.<sup>23</sup> The relatively small populations of Japan and the Asian tigers kept U.S. wages in affected industries stagnant between 1973 and 1990, so Prestowitz asks us to consider what three billion new participants will do.<sup>24</sup>

Prestowitz's bottom line in *Three Billion New Capitalists* is that “the most important bilateral relationship in the world is that between the United States and China.”<sup>25</sup> He may be right, but he is also agnostic about Japan's importance. In some ways he dismisses Japan as a world power, but, as we will later see, he offers arguments that suggest Japan is still an economic leader in Asia, and therefore the world. In this book, he compares Japan to Switzerland, “small, aging, rich, and a bit insular.”<sup>26</sup> Of Japan, Prestowitz writes:

Today Japan still has the world's second largest economy, but its loss of dynamism and its inward-looking economic policies have greatly diminished its influence. It is not an engine of growth for the rest of Asia, and lingering protectionist policies hinder its ability to respond to or preempt Chinese offers of free trade agreements to Japan's most important Asia-Pacific trading partners. Instead, just as in an earlier era when its growth depended on exports to the U.S. market, Japan has now become heavily dependent on exports to China. Far from being the hub of the Asian economy, Japan is being drawn into China's orbit, despite its own much larger economy. This tendency is likely to increase in the future. Japan has among the worst demographics in the world. Its workforce is



already contracting and its population declining. By 2050, there will be only 100 million Japanese, compared to today's 127 million, and within ten years China will pass it in size of GDP.<sup>27</sup>

Prestowitz closes his book with a chapter of recommendations. Beginning by faulting the leaders of Europe just prior to the outbreak of World War I, he nonetheless now sees the European Union as a usable template for other regions of the world. For America, "Maintaining a unipolar, hegemonic leadership is out of the question."<sup>28</sup> In addition, he continues his call for an American counterpart to some of Asia's powerful steering groups. He asks, "[H]ow about combining the departments of Commerce, Energy, and Transportation, along with NASA, into one Department of International Industry and Commerce. The vice president would chair a president's council on competitiveness that would include the secretary of this new department, along with the secretaries of Treasury, Defense, Justice, and State and the U.S. Trade Representative." At the same time, America must "feed the ecosystem of competitiveness" by supporting linkages among the various constituents of a thriving high-tech economy.<sup>29</sup>

Revealing a bit of ambivalence with respect to whether America should retain its power and independence or whether it should go along with a kind of globalization that would weaken American sovereignty, he makes the surprising suggestion that the North American Free Trade Agreement, NAFTA, "should be turned into an economic and, eventually, a political union along the lines of the EU." To that, he would like to add Japan, which would adopt the dollar as its currency.<sup>30</sup>

Finally, he offers the truism that leadership is key, and for this role he sees the United States as the only viable world leader. Relying on metaphor, he writes, "The fact that we are now riding a new wave of

globalization with 3 billion new surfers presents a unique opportunity for a still powerful America to turn from illusions of empire and exercise the ingenious entrepreneurial leadership that has long characterized it.”<sup>31</sup> As events turned out, however, America was in far less of a position to do so. The leadership of the day opted to pillage the American economy rather than exercise wise stewardship. Americans had been betrayed.

### **The Betrayal of American Prosperity**

*The Betrayal of American Prosperity: Free Market Delusions, America's Decline, and How We Must Compete in the Post-Dollar Era* (2010) is every bit in the mold of the 1988 *Trading Places* and *Three Million New Capitalists*: heavily journalistic, impressionistic and breezy; it is simply updated by five years. While the U.S. fared poorly in the Iraq War and is struggling yet in Afghanistan, it is economic decline that is decisive, in Prestowitz's view. “The consequences of an economic defeat,” he quotes in the epigraph for the book, “are much more difficult to nullify than those of a military defeat.”<sup>32</sup> Prestowitz offers an apt historical analogy to illustrate America's economic loss.

Ancient Rome once abounded with industry, but as empire took over it turned to its provinces and neighbors for products. By day the critical trade road Via Ostia “was crowded with carts and muleteers, carrying to the great city the silks and spices of the East, the marble of Asia Minor, the timber of the Atlas, the grain of Africa and Egypt — and the carts brought nothing out but loads of dung. That was their return cargo.” Similarly, Prestowitz observes, Long Beach in California is the Ostia of our day, and ships from Hong Kong, Shanghai, Osaka, Singapore and Korea offload computers, cars, advanced tele-

communications gear, shoes, shirts, and a thousand other items. When they leave, they carry from America mostly scrap metal and waste paper, “this millennium’s dung, you might say.” In fact, he notes, exports to China of semiconductors; aircraft and parts; and oilseeds and grain each total less than the amount of scrap metal and waste the U.S. exports to China, which together amount to \$7.6 billion.<sup>33</sup> How did this come to be?

Prestowitz offers an answer by exploring the sources of America’s past stellar economic performance and finds that “betrayal” is the reason for today’s decline. For some time now, “our ‘best and brightest’ have been invoking false doctrines that are systematically undermining American prosperity.” Rather than a malevolent conspiracy, though, Prestowitz attributes it to wrong thinking, specifically to the same causes he has been blaming since the 1980s: the economic orthodoxy of market fundamentalism, simplistic pure free trade, and hands-off government in affairs of economic strategies. Also, “our fixation on our geopolitical interests at the expense of our economic interests” has been decisive.<sup>34</sup>

The basic thesis here comes from Paul Kennedy, who in his book *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000* describes the process as “imperial overstretch.”<sup>35</sup> Kennedy stresses in the Introduction that his account of how “the various Great Powers have risen and fallen” must assess states’ power relative to other powers. Further, he draws an unbreakable link with respect to “the *interaction* between economics and strategy.” “The ‘military conflict’ referred to in the book’s subtitle is therefore always examined in the context of ‘economic change.’” Given the repeated economic blows America has received since the 1960s, there may be a direct link then to its military (mis) fortunes as

well. While the collapse of a Great Power generally comes after a military reversal, Kennedy emphasizes something more fundamental: the power status of a state “has also been the consequence of the more or less efficient utilization of the state’s productive economic resources in wartime, and, further in the background, of the way in which that state’s economy had been rising or falling, *relative* to the other leading nations, in the decades preceding the actual conflict” [all emphases in original].<sup>36</sup> Like Rome, Spain, and Great Britain before it, America, Prestowitz believes, is “seriously over-stretched.”

In chapter one, Prestowitz expands on the verdict offered by former Intel CEO Andy Grove, who opined, “America is in danger of going down the tubes, and the worst part is that nobody knows it. They’re all patting themselves on the back as the *Titanic* heads for the icebergs full speed ahead.” As usual, Prestowitz is prepared to offer endless concrete examples of this decline. For instance, he notes that manufacturing, 24 percent of U.S. GDP in 1980, has fallen by half, as 40,000 manufacturing plants have closed their doors. Meanwhile, new plants are generally not opening within U.S. borders. Also, steel weighed in at 91.5 million tons in 2008, down six million tons in nine years. Meanwhile, China went from 124 to 500 million tons over the same nine years. The manufacture of furniture, as another example, also went offshore, as 270 factories closed and “the industry lost 60 percent of its production capacity.” In the critical area of machine tools, “the backbone of any industrial economy and essential to defense production,” America dropped from 30 percent of world production in 1998 to less than 5 percent. In 2008, when 80 major chemical plants were being constructed, none were in the United States.

The same holds true for those areas from which America was supposed to prosper, yet today only two percent of semiconductor

plants being built are in the U.S; China, Taiwan and South Korea together are building 77 percent of them. China and South Korea continue ahead in liquid crystal displays as well. In America, there are no such plants whatsoever. The iceberg is getting closer and closer. Or, to quote an observer with whom Prestowitz talked, “Our kids are going to be fluffing dogs and doing toenails while the Chinese are making leading-edge devices.”<sup>37</sup>

In the chapter “The Real Story of How America Got Rich,” Prestowitz delivers his most developed argument against the economic orthodoxy of Adam Smith, David Ricardo, and their British adherents, and argues convincingly that early America’s economic nationalism and coordination of the economy were responsible for America’s spectacular rise up until World War I. He follows this with the familiar story of how America willingly abandoned this strategy after winning the Second World War. Readers of Prestowitz’s work will be familiar with both the overview of the process and the specific examples, but perhaps one instance will help. In the 1950s, AT&T spent hundreds of millions of dollars developing the solid-state transistor, yet Japan’s Sony was able to acquire a license for this technology for a mere \$25,000.<sup>38</sup> The rest is history. The ample midsection of the book offers a superb description of this two-century history. Readers will also be familiar with the names and themes of the so-called “Japan revisionists” of the late 1980s and early 1990s: Chalmers Johnson, James Fallows, Karel van Wolferen et al. It is the same story Prestowitz has been repeating for three decades: Asia and Europe have economic strategies, while America does not. The former two are winning, while America enters into decline.

## The Conventional Wisdom on Japan's "Lost Decade" of the 1990s

Prestowitz is also of two minds with respect to Japan's performance during the 1990s. In some places in *Three Million New Capitalists* and *The Betrayal*, he accepts conventional wisdom on the Japan of the '90s. In that instance, it is said, a seemingly unstoppable Japanese economy was brought back to earth by the bursting of its bubble from roughly 1991-1993. From there on out, growth came to a halt, real estate depreciated, and banks found themselves with massive loans that could not be served. This economic malaise was exacerbated by two events that rocked Japan in early 1995. First, a powerful earthquake struck the Kobe region early on the morning of January 17th, killing over 4,500 people and injuring nearly 15,000. Just two months after that, the Aum Shinrikyo religious group released deadly sarin gas in an attack on the Tokyo subway, killing twelve and injuring 5,500. To the Japanese and to the world, it appeared that their laboriously constructed social and economic system had developed fatal cracks. Coupled to this was the frenetic growth of the American economy, an unexpected phenomenon that seemed to cast doubt on the utility of Japan's version of capitalism. Finally, 1997 saw the meltdown of certain Asian economies, which became the "Asian Crisis" of that year. Japan also suffered further stock market setbacks. The 1990s, it was said, was a "lost decade." Bolstering this view, in *Rogue Nation* he writes that as of 2003, despite the hustle and bustle of Japan, including endless new construction, "Japan's economy is on the edge of disaster."<sup>39</sup>

In other instances, however, he dismisses this view. For instance, he writes at one point, "Over the past several decades, there has been

much schadenfreude in America over Japan's so-called Lost Decade of growth during the 1990s."<sup>40</sup> Rather than Japan's, it was America's "Washington Consensus" that was found wanting. Many believed that America had discovered the secret to a win-win globalization formula and everyone — presumably including Japan — wanted to imitate it. "Or so, at least, America's elite believed."<sup>41</sup> Elsewhere he drives home the point that it was Japan all along that was prospering. First, during the '90s, Japan nearly equaled America's per capita GDP rate. Second, its worker productivity growth actually outpaced America's. Finally, as most have always admitted, during the 1990s Japanese auto companies continued "to eat Detroit's lunch," computers games were still Japanese, and without Japanese silicon, tools and chemicals, "many American production lines would shut down within weeks if not days."<sup>42</sup>

This contrarian view of Japan's situation in the '90s was paralleled by that of Ivan Hall, who was also unconvinced that Japan was in trouble. In his 2002 book on the topic, *Bamboozled! How America Loses the Intellectual Game with Japan and Its Implications for Our Future in Asia* (New York: M.E. Sharpe, Inc.) he began by mocking conventional wisdom on Asian industrial policy more broadly:

After the broader financial crisis broke out in Southeast Asia in the summer of 1997, too many American commentators were making the fatuous claim that the "Asian," meaning Japanese, economic model was now discredited. The family cronyism, consumer orientation, unbridled speculation, and dependence on foreign capital that drove the debacle in Thailand and Indonesia could not have been further from the tightly run financial self-reliance, alert government guidance, market protectionism, and postponed consumer gratification of the old Northeast Asian model that had propelled Japan, Korea, and Taiwan toward economic stardom.<sup>43</sup>

Realtor and media mogul Mortimer Zuckerman, Hall pointed out, summed up this attitude when he editorialized, “Let us celebrate an American triumph .... The mantra is privatize, deregulate and do not interfere with the market.”<sup>44</sup> Western critics, Hall argued, believed that Japan’s crisis would “finally catalyze genuine enactment of the drastic regulatory, administrative, and political reforms promised but stalled ever since 1993. These, together with the combined pressures of a rapidly aging population and the need to outsource Japanese manufacturing abroad, would combine to erode established patterns of seniority-based lifetime employment, intercorporate *keiretsu* (affiliated group) solidarity, employee loyalty and deference, pursuit of market share over profitability, and the bureaucracy’s leverage over the Japanese economy and parliamentary system.” He concluded this overview of the conventional wisdom on Japan by noting succinctly, “So go our illusions.”<sup>45</sup>

Going further than Prestowitz, Hall actually argued that Japan’s economic stumble was a fraud, a deliberately engineered public relations feat meant to get Washington off Japan’s back, that America was conned into believing that Japan was economically on the ropes. In reality, Hall offered, Japan was steaming along as before, making further market inroads, moving upstream in value added goods, and pulling the wool over the eyes of the Americans who were basking in the passing glow of the rise of the Internet and dot.com bubble. This might explain the inconsistent picture Prestowitz gives of the era. Another Japan observer, Irishman Eamonn Fingleton, had written *Blindside: Why Japan is Still on Track to Overtake the U.S. by the Year 2000*. This book appeared in 1995 and forcefully mirrored Prestowitz’s emphasis on the importance of “hard industries,” or manufacturing. His title pointed to the same myopia or refusal of



American leaders to see the robust position of Japan, lost decade or not. The same failure of vision was not attributable to Asian competitors, however. They had studied both the American model and the Japanese model — and found the Japanese model more enticing.

### **The “Flying Geese” Model**

When from 1992–93 I was working toward my M.A. in Asian Studies at Cornell University, I took advantage of Cornell’s very flexible system for choosing professors and classes from throughout the university. While taking one of my committee chair, Alan McAdams’, classes in the graduate business school, I had as classmates a handful of Japanese students from elite positions in Japan such as the Ministry of Finance, Toyota Motors, and Nippon Steel, among others. A topic arose one day that allowed me to comment that Japan was structuring Asian economies so as to lead the others. This was widely known as the “flying geese” model, with Japan as lead goose.<sup>46</sup> When I referenced this term, I noticed that only my Japanese classmates laughed, as apparently the reference was lost on the other non-Japanese students.

The flying geese model, however, is worth remembering. Prestowitz, Hall, Fingleton and others have and continue to allude to this regional division of labor, research, innovation and finance. Prestowitz does not use the term in his writing, but he provides evidence that it works. Just prior to 2005, for instance, Korea had a trade surplus of \$29 million with China. Japan’s surplus was \$45 billion with China, “along with its traditional surpluses with the United States, Korea and most other countries.”<sup>47</sup> Closer to 2010, Japan’s surplus with China had fallen to \$13.5 billion, but that is still saying a lot when considering America’s vast deficit with China (even Europe had a \$55 billion trade

deficit with China). The point is, all have deficits with Japan.<sup>48</sup> While at ESI in 1992, researcher Kevin Kearns used to sardonically joke that this amounted to Japan's "shell game" with respect to trade, especially with the U.S. To make their own surplus appear smaller, they would export the higher value-added goods such as engines and transmissions to, say, South Korea, which would then put them into Korean cars and export them to the United States. On trade statistics, this would then appear on Korea's side of the ledger, not Japan's.

In any case, Japan was getting rich by following its own model, and others wanted a part of it, as Prestowitz describes:

The reality that the advocates of Globalization 2.0 had continually failed to acknowledge was that most of the rest of the world, and particularly Asia, had not truly bought into the Washington Consensus. As we have seen, not only had Japan decided to pursue the opposite path, but so also had the Asian Tigers, the Chinese Dragon, and the Indian Elephant. *All copied Japan in one fashion or another*, and propelled by export-led growth strategies, all were getting rich during the 1990s and early 2000s at an unprecedented pace (emphasis added).<sup>49</sup>

### **Betrayed by Whom?**

Needless to say, Prestowitz is determined to understand why America's trading partners, particularly Japan, act so predictably in their own interest, while America does the opposite. One reason may be identity. The Japanese at all levels — government, corporations, and larger society — feel they are stakeholders *as Japanese* in economic activity. With respect to this point, Prestowitz writes that we may be sure of two things about modern Japan:

They see themselves as long-term entities and as communities within communities. They are in business more for stakeholders than for shareholders, and they definitely believe the government should have competitiveness policies and they should cooperate with them .... [T]he new countertrend in Japanese business these days is to shift production of high-end products back to Japan from China even as investment in the latter continues. In the Japanese view, the development of products like digital cameras, mobile phones, and flat-display TVs requires continuous collaboration between researchers, engineers, and suppliers. The cost of labor is far less important than getting it right and into the market before anyone else. It is also believed that production in Japan will greatly reduce the risk of loss of intellectual property. This is one reason Japanese companies do far less R&D in China or other overseas locations than U.S. companies.<sup>50</sup>

This draws us to the title in the present 2010 book: *The Betrayal of American Prosperity*, which raises the question, “Betrayed by whom?” As he writes, “[W]e are also watching an unnatural displacement and decline of America.”<sup>51</sup> This displacement is clearly of the American people, not its elites. When considering the question of who is paying for the globalization process under discussion, Prestowitz writes that “the vast bulk of working people (who, of course, are also consumers) lost ground. Between 1980 and 2005, U.S. productivity rose 71 percent. Yet real compensation (including benefits) of nonsupervisory workers (80 percent of all workers) rose only 4 percent. In the tradable manufacturing sector, productivity rose 131 percent while compensation climbed only 7 percent. This was in stark contrast to the period from 1950 to 1975 when worker compensation rose 88 percent while productivity doubled.”<sup>52</sup> He locates the reason for this in the fact that the one industry America has promoted over the past thirty years is finance. “It is so striking that I fear we must call it for what it has

been — a clear industrial policy to target development of the financial services sector.” He then cites figures suggesting why. In the ten years ending in 2008, “the finance industry spent \$1.78 billion on political campaign contributions and another \$3.4 billion on lobbying.” Thus Prestowitz refers to fellow longtime Japan revisionist Pat Choate’s new name for the United States as “Goldman Sachsony.”<sup>53</sup>

Here Prestowitz, perhaps unwittingly, enters controversial territory, for he begins to construct the outlines of a theory that sounds suspiciously like old ones that blamed “outsiders” for the ills laid onto “real” Americans. As he writes, “We need to understand that the interests of Wall Street, and therefore much of Washington, have not been and will not be those of Main Street.”<sup>54</sup> The bulk of this argument is made in chapter four, “Goldilocks and Bubbles: The Faith of Efficient Markets.” A staunch critic of free-trade theory and the Washington consensus, Prestowitz lays the blame for America’s loss of prosperity at the feet of “The Three Apostles: Greenspan, Rubin, and Summers.” He notes how in 1989 and 1993 financial instruments that would play a major role in the meltdown of 2008–9 were exempted from government oversight. Greenspan in particular was passionate about getting the government out of the way. “In fact, Greenspan largely halted the Fed’s active oversight of the banking industry.” Joined by Treasury Secretary Robert Rubin and subsequent Treasury Secretary Lawrence Summers, “the three mounted an aggressive campaign to halt any efforts to regulate trading of new derivative instruments.” Toward this end, Chairwoman of the Commodity Futures Trading Commission Brooksley Born was muscled away from doing her oversight job.

Prestowitz further hints at the possibility that Rubin and Summers were manipulating the 1997 Asian crisis as well. When Tokyo tried to

organize a rescue package, for instance, Prestowitz reported this directly to Summers, yet Summers, then at the International Monetary Fund, would hear nothing of it. The United States “not only stopped this proposal dead in its tracks, but also aggressively pushed the IMF into a harsh rescue effort. As a condition for emergency IMF loans, countries whose financial industries were quite immature were forced to float their currencies with the likelihood of substantial devaluation.” The pain inflicted in Asian was severe. GDP fell 18 percent in Korea, 19 percent in Malaysia, 21 in Thailand, and a whopping 42 percent in Indonesia.

Further crises erupted that involved “the three apostles.” Long-Term Capital Management (LTCM), a hedge fund, faced the prospect of losing \$1 trillion dollars that it had borrowed from the largest American banks. “It threatened to freeze world money markets and precipitate a 1929-style crash and perhaps another depression.”<sup>55</sup> Awkwardly, Greenspan, Rubin, and Summers “were in the process of halting a measure that would have put some constraints on the very kind of risky derivatives trading that was bringing LTCM to its knees.” Meanwhile, they continued to discourage the oversight of Brooksley Born. Summers had even phoned her and sharply criticized her actions. This was followed by Greenspan, Rubin and Arthur Levitt of the Securities and Exchange Commission pressuring Congress to straightjacket Born.<sup>56</sup> This persisted into 2000, as Greenspan continued to insist that Wall Street should be trusted and left to its own devices. “With those assurances, Congress went ahead and stripped the CFTC of responsibility for derivatives, and President Clinton signed the bill into law in December 2000.” Meanwhile, Ms. Born quietly left government service.

Prestowitz shows how both Rubin and Summers, upon leaving the

government, continued to push reckless paradigms. As vice chairman of CitiGroup, Rubin “emphasized to the bank’s leaders that if they wanted to make more money they needed to take on more risk by dealing more heavily in derivatives.” For his part, Summers worked for the D. E. Shaw hedge fund while also teaching at Harvard. More broadly, Prestowitz finds the three apostles were joined by others in making what he views as massively poor decisions. One such was the decision to bring China into the World Trade Organization and granting China “permanent most favored nation status in the U.S. market. This will surely come to rank as one of America’s dumbest deals.” For this, he blames President Clinton, but also trade representatives Mickey Kantor and Charlene Barshefsky.<sup>57</sup>

Again, Prestowitz writes nothing explicit about ethnicity or undue intrigue. Indeed, he finishes his chapter by writing of the above individuals, “I know all these people ... I don’t think any of them would do or say something they did not believe was in the best interests of the United States. But they all recommended and made a bad deal that has reduced American influence and power and constrained its future wealth-creating ability.”<sup>58</sup> Still, in a book about economics, finance and betrayal, one would hope to hear more about the charge made by, for example, *Rolling Stone* journalist Matt Taibbi, who colorfully wrote about Goldman Sachs, “The world’s most powerful investment bank is a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money.”<sup>59</sup> Prestowitz manages a mere two slim comments about the bank. The first mentions the bank’s use of “flash trading” and “trading huddles” to get privileged information, yet he offers no citation in the notes.

In closing the book, Prestowitz again shows that he is an optimist.

Despite the debilitating economic orthodoxies America lives by and the enormous losses of manufacturing, research facilities, etc., he can still write that “the problems are far from irreparable.”<sup>60</sup> Predictably, his most important message is that slavish adherence to the classical economic models of Smith and Ricardo is an economic death sentence. “Laissez-faire globalization is the false god that will be most reluctantly abandoned.”<sup>61</sup> Beyond that, he offers a laundry list of platitudes about how to correct America’s situation. Have a vision, save and invest, normalize the dollar, rebuild the productive base, gain energy independence, align business with America’s interests, save the environment, improve training and education, and enact political reform. At least with respect to the last recommendation, he does insist that America “reduce greatly the role of money in our political process.” Unfortunately, that was one critical area he neglected, despite the nation having gone through the subprime mortgage debacle and economic meltdown of 2007–8. Did he miss a key source of betrayal there?<sup>62</sup>

### Rogue Nation

In his 2003 *Rogue Nation: American Unilateralism and the Failure of Good Intentions*, Prestowitz attempts to transcend the economic boundaries of the bulk of his writing. It is still the fluid, journalistic prose readers are accustomed to, but here he tackles issues of American history and identity, power politics, morality, and the future of the United States. He stumbles badly. Fortunately, much of the book is saved by his skill as a writer and storyteller. For instance, we learn that the Maldiv Islands are one thousand miles due south of India and that a freak wave nearly washed away President Maumoon Abdul

Gayoom and his car. After all, the highest point on the islands is only five feet above sea level. Or we hear about a dinner in Mexico with world leaders, and Prestowitz is there to tell us which ones are jet lagged (Chinese President Jiang Zemin and Japanese Prime Minister Junichiro Koizumi). Meanwhile, President Bush is not only fresh, he left before dinner was served so as to get a good night's sleep before his traditional 6 A.M. jog. As in his other books, Prestowitz seems to be everywhere.

A reader, however, may walk away from the book wondering what Prestowitz's goal was in writing it. Taking him at his word, the question is easy to answer. "My purpose in this book is to try to explain to baffled and hurt Americans why the world seems to be turning against them, and also to show foreigners how they frequently misinterpret America's good intentions."<sup>63</sup> Yet one is left wondering if this is the work of a man who is stunningly (or amusingly) naive, or if the innocence so in evidence in the book is a manipulative device he uses for some unknown reason. How else can one read statements such as these: "While we think of ourselves as the 'good guys,' we are blinded to our own sometimes irritating behavior by the strength of our mythology and the dominance of our culture." "While our intentions are usually honorable ..." Or, with respect to the then upcoming assault on Saddam Hussein and occupation of Iraq, America is "trying to do the right thing." Or "even as nice as Americans are ..."

If this were a book written by an aspiring politician, we would accept such statements as routine, but Prestowitz stakes his reputation on writing frankly about the real world. More to the point, his book is filled with evidence that American intentions are hardly peaceful at all. Chapter 7, for instance, "Peaceful People, Endless War," shows how "from the signing of the Constitution in 1789 until the present,



there has been scarcely a year when the United States was not engaged in some overseas military operation.”<sup>64</sup> Elsewhere, Prestowitz can blame then President Bush for “the solipsistic Manichaeism so palpable” in his rhetoric, (p. 273) but Prestowitz is guilty of the same himself. Further, he tackles what is perhaps the most thorny question in American politics: the issue of the Israel Lobby and its role in influencing America behavior toward the Israel-Palestine problem.

As the old-fashioned conservative patriotic American that he claims to be, his sentiments throughout the book are understandable but do not serve him well as the hard-headed think tank operator that he is. Also, his desire to offer useful background to American history ends up as a simplistic reading that is decidedly at odds with today’s views. Much of the book ends up reading like a high school social studies textbook from the 1950s. We read about Captain John Smith, “Manifest Destiny” (the quotation marks are Prestowitz’s), Andrew Jackson, Frederick Jackson Turner, the Spanish-American War of 1898, right up through to Francis Fukuyama’s “End of History” thesis. Naturally, the obligatory observation from Tocqueville makes an appearance. Yet Prestowitz, for all his insights on the diversity and complexity of the world outside America, seems to miss the powerful growth of diversity and multiculturalism within America’s borders. Throughout the book he talks of “we,” but that “we” has always been a fiction, as Americans are divided by class, race, gender, religion, and many other factors. Prestowitz seems to miss this.

I’m surprised Prestowitz glosses this over, for it was clear even in 1992 when I was an intern at his think tank. At the time, his main mission was to help American manufacturers compete against the Japanese. He did this through press releases and articles, but also through lobbying efforts on Capitol Hill. Yet of the seven other

interns there, all college undergraduates, only one knew upon arriving that the Economic Strategy Institute dealt with Japan. As they learned Prestowitz's position, I heard increasing grumbling that he was "racist" and a "Japan basher." Near the end of the summer, as Prestowitz was fishing for ways to improve the American position, he gathered us to float the idea of pushing economic nationalism to sell his message. Most of the interns were aghast. The fact is, this was the first generation educated under multiculturalism, and they had no love for the white male-dominated America in which Prestowitz was living. These were college students going to Harvard, Cornell, Bates, Colby, Penn, and Middlebury. Ironically, the only conservative student, one open to the nationalism argument, was from Swarthmore, Prestowitz's alma mater.

While I never heard any intern articulate it explicitly, there was a clear sentiment that somehow the American corporations and their workers were somehow unworthy, in a moral, not technological sense. In contrast, the non-white nations such as Japan were worthy in that they were underdogs facing up to European and American neo-colonialism. Not once did I hear any sympathy for the hundreds of thousands of workers losing jobs in the American rust belt, but these wealthy students did display sympathy for the poor around the world. Further, I am convinced that not one of the liberal interns would then have ever *considered* buying a Chrysler product, whose manufacturer was a chief supporter of ESI. Prestowitz seems to have missed this seismic shift in the composition of the American population and more, the *thinking* of younger Americans. Nearly twenty years on, these interns and their classmates likely have positions were they can influence events more than the average working American, but I doubt they are working toward anything Prestowitz would like.

Considering the ferment of the times in which *Rogue Nation: American Unilateralism and the Failure of Good Intentions* was written, it is perhaps understandable that Prestowitz's ideas are less focused than usual. The title of the book, however, is unambiguous, and Prestowitz shows why he thinks America is becoming an "outlier" nation. In essence — and he is far from alone in arguing this — he believes that America is losing its republican heritage and is slipping into the vestments of empire. Foremost among the evidence is then President Bush's explicit announcement that America would exercise a "dramatic new doctrine of supremacy and preemptive attack." In an address at West Point on July 1, 2002, Bush "signaled a change of view that would turn two hundred years of American strategic doctrine upside down."<sup>65</sup> Less than a year later, the United States launched a preemptive attack on Iraq, an attack justified by transparently false claims. Prestowitz laments this.

America is also rogue in that it snubbed the Kyoto Protocol of 1997 that called on nations to reduce global warming (the subject of chapter 5). Americans, represented by "Bubba" who "feels it's his God-given right to drive his pickup truck down the highway at 80 miles an hour with the windows open, the CD player and air-conditioning both on at full blast, and an open can of beer in his lap," consume too much energy (chapter 4). "Twelve yards long, two lanes wide. Sixty-five tons of American pride. Canyonero, Canyonero!" as the humorous epigraph of chapter 4, taken from *The Simpsons*, tells us. Americans are rogue in that they waste too much, far more than others.

Prestowitz leaves the clichés behind when he addresses one more area that he feels America is at odds with the rest of the world. As he writes, the continuing Middle East impasse between Israel and the Palestinians works against America's best interests. Further, Israeli

behavior very much exacerbates the tensions, and Prestowitz blames former Prime Minister Ariel Sharon for some of the problems. Also, he notes that Israel's targeted killings of suspected terrorists inflames passions. Finally, the "security wall" that will essentially imprison many Palestinians also contributes to the deterioration of relations in the area. This overall problem, he avers, "is leaching poison into most important U.S. relationships abroad. It is not too much to say that this single issue is becoming the Weapon of Mass Destruction to U.S. foreign policy."<sup>66</sup> Indeed, he had written early on that "On no issue is the gulf between America and the rest of the world greater than on the Israel-Palestine question."<sup>67</sup> What a risky topic for a Washington insider to broach, especially when one comes across as "even handed" on the subject.

Prestowitz, however, knew what he was getting into. Before addressing that, perhaps a tangent will be illustrative. Rabbi Arthur Hertzberg has long been a doyen of the American Jewish community. Yet even he experienced the trials and tribulations of writing the wrong way about things Jewish. In his case, he had a new book, but "a number of publishers in the United States and in Europe turned this book down, fearing that it would bring the wrath of the Jewish establishment upon them. Obviously, defining the Jewish character is cause for trepidation: it is the breaking of a post-Holocaust taboo."<sup>68</sup>

Prestowitz experienced similar reservations when setting out to write chapter 8, "Wagging the Dog: Two Tales." As he writes: "Because the subjects of this chapter are politically radioactive, I hesitated long before starting to write." While apparently trying to soften the impact by including the Taiwan Lobby alongside the Israel Lobby, he still comes across as outside the mainstream on this contentious issue. "On no subject do the views of the United States and those

of virtually all other countries diverge more than on Israel and its interminable conflict with the Palestinians, and there is no greater source of alienation between ourselves and the others.” He goes on to express opinions more common to the Left than to a conservative like himself. He writes, for example, that the U.S. media are highly sensitive to Israeli criticism of their coverage, while “Israeli attacks on Palestinians get less attention and are easily accepted as legitimate self-defense. Israel’s war is seen as America’s war.”<sup>69</sup>

He also writes critically of the Israeli settler movement and Israel occupation of Palestinian land. After the 1967 Six-Day War, he argues, the Israelis “did much more than hold onto the territories. They annexed East Jerusalem, with its historic holy sites, in 1967 and moved their capital to Jerusalem from Tel Aviv.” To be sure, Prestowitz throws in some disclaimers, such as the idea that exclusion of Israeli Arabs is “a kind of apartheid rule that is inimical to the fundamentals of Judaism.”<sup>70</sup> This is laughable wrong, however, as the fundamentals of Judaism dictate separation.<sup>71</sup> As noted above, he is quite aware of the fact that Israel is building a “security fence” to keep Jews and Palestinians separate.

Prestowitz does write explicitly about the Israel Lobby (though leavens it with statements that fundamentalist Christian groups also exert leverage on behalf of Israel). In 2003 these were still risky positions for an American Gentile to take in public. Soon, however, he was joined by similar voices. Former Ambassador to Saudi Arabia, Chas Freeman, for one, has sounded off:

For the past half decade, Israel has enjoyed *carte blanche* from the United States to experiment with any policy it favored to stabilize its relations with the Palestinians and its other Arab

neighbors, including most recently its efforts to bomb Lebanon into peaceful coexistence with it and to smother Palestinian democracy in its cradle. The suspension of the independent exercise of American judgment about what best serves our interests as well as those of Israelis and Arabs has caused the Arabs to lose confidence in the United States as a peace partner .... left to its own devices, the Israeli establishment will make decisions that harm Israelis, threaten all associated with them, and enrage those who are not.<sup>72</sup>

Later, of course, two eminent scholars wrote a book on the topic, *The Israel Lobby and U.S. Foreign Policy*.<sup>73</sup> Much of the controversy in the new century has centered around the question of the degree of responsibility the Lobby had for America's unilateral invasion of Iraq in 2003. Like many others, Prestowitz accepts that the official reasons were bogus.<sup>74</sup> He is aware of the pressure of one group to foment revolution, including the overthrow of the Hussein regime. "The imperial project of the so-called neoconservatives is not conservatism at all but radicalism, egotism, and adventurism articulated in the stirring rhetoric of traditional patriotism."<sup>75</sup> While recognizing the influence of neoconservatives, however, Prestowitz never candidly addresses the dominant ethnic strain among them, nor their parochial goals.

Prestowitz, as we have seen, dismisses the official reasons for war, such as weapons of mass destruction. Instead, he accepts the claims of one of the chief architects of the war, Deputy Defense Secretary Paul Wolfowitz, that the real objective was "simply to demonstrate American power and the willingness to use it." As with his discussion of the three apostles, Greenspan, Rubin, and Summers, above, Prestowitz only obliquely ties identities and motives together. Thus, only in passing does he mention that "It was also believed that knocking out Saddam would reduce support for Palestinian terrorism against Israel and

thereby lead to peaceful Israel-Palestinian settlement while also removing any threat of the use of WMD against Israel.”<sup>76</sup>

The positions he takes in the book did become political when a year after the book was published, Prestowitz became associated with a leading Democratic candidate for president, Howard Dean. Prestowitz’s views on Israel, however, were a source of friction. For example, he wrote in *Betrayal* that efforts at resolving the Israeli-Palestinian problem “should include making aid to Israel conditional on withdrawal from the West Bank and Gaza, a freeze on all settlement development, and closing of all settlements except those tentatively agreed on at Camp David and Taba.”<sup>77</sup> Because of this, candidate Dean was accused of being “even-handed” toward the Israeli-Palestinian conflict, which many Jews consider “a way of saying that the United States should be less supportive of Israel.” Malcolm Hoenlein, executive vice chairman of the Conference of Presidents of Major American Jewish Organizations, said that Prestowitz’s views “certainly seem to be problematic. It certainly doesn’t send a positive signal.”<sup>78</sup>

Unfortunately, Prestowitz closes his book with a disappointing set of proposals and observations, most of which sound like the words of a college sophomore home for Christmas break:

Meanwhile, carbon dioxide continues to accumulate in the atmosphere; the glaciers and polar ice cap continue to melt; land mines continue to maim hundreds of thousands of women and children each year; trade in small arms is flourishing; the flow of cocaine and heroin into the U.S. remains unabated despite more spraying of South American peasant crops and tougher surveillance of the air and sea lanes; AIDS continues to spread its devastation to Africa and now large parts of Asia; water tables continue to fall as populations rise; and the sale of SUVs in the U.S. auto market is hitting record heights. But,

hey, we got Saddam, the NASDAQ is up over 50 percent from last year, and sales of SUVs are booming. In fact, the bigger they are, the more they sell. Who says this ain't a great country? Don't you know the foreigners are just jealous?<sup>79</sup>

Despite this lackluster ending, one must agree with Prestowitz that American behavior since at least September, 2001, has been unsuited to America. “The United States has given up the moral high ground, belied its own myth of exceptionalism, and made itself just another in a long line of hegemonic powers stretching back to ancient Egypt and Rome.”<sup>80</sup> America had betrayed itself.

## Notes

- <sup>1</sup> Prestowitz's wife is of Chinese extraction, and they have adopted a Japanese son as well as a Filipino son. These close family ties to Asia have only deepened Prestowitz's interest in Asia. *Trading Places: How We Allowed Japan to Take the Lead* (New York: Basic Books, 1988), xiii. (By the time of the 1989 paperback version, the subtitle had changed to *How We Are Giving Our Future to Japan and How to Reclaim It*.)
- <sup>2</sup> For these biographical details, see *Trading Places*, xii, 82, 88; *Rogue Nation: American Unilateralism and the Failure of Good Intentions* (New York: Basic Books, 2003), 5-6, 51, 67-8, 221, 284; *Three Billion New Capitalists: The Great Shift of Wealth and Power to the East* (New York: Basic Books, 2005), 33, 150-51, 195; and *The Betrayal of American Prosperity: Free Market Delusions, America's Decline, and How We Must Compete in the Post-Dollar Era* (New York: Free Press, 2010), 91, 106, 108, 195-6.
- <sup>3</sup> *Trading Places*, 7.
- <sup>4</sup> The quote is from my M.A. thesis in Asian Studies, “Understanding Japan's Frictions with the World, Including Cultural and Psychological Factors” (Cornell University, 1993). See also Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975*, (Stanford University Press, Stanford, CA, 1982); Karel van Wolferen, *The*



*Enigma of Japanese Power: People and Politics in Stateless Nation*, (Macmillan Limited, London, 1989); Eamonn Fingleton, *Blindside: Why Japan is Still on Track to Overtake the U.S. by the Year 2000* (New York: Houghton Mifflin, 1995; Tokyo: Kodansha International LTD., 1997); and two books by Harvard Ph.D. Ivan P. Hall: *Cartels of the Mind* (New York: W. W. Norton & Company, 1998) and *Bamboozled! How America Loses the Intellectual Game with Japan and Its Implications for Our Future in Asia* (New York: M. E. Sharpe, Inc., 2002). Further reading might include Michael Crichton, *Rising Sun* (New York: Knopf, 1992); Eamonn Fingleton: *In Praise of Hard Industries: Why Manufacturing, Not the Information Economy, Is the key to Future Prosperity* (New York: Houghton Mifflin Harcourt, 1999); Fingleton, *In the Jaws of the Dragon: America's Fate in the Coming Era of Chinese Dominance* (New York: Thomas Dunne Books, 2008); and my own essay "Bamboozled! Blindsided!: Rare Western Skepticism Toward Japan's Recession," Hokkai Gakuen University, *Jinbun Ronshu*, No. 23-24 (March 2003).

<sup>5</sup> *Trading Places*, 306.

<sup>6</sup> The 1993 film version of *Rising Sun* was similar, but the trade friction element was diluted by the introduction of racial conflict between blacks and whites in America, and racist attitudes on the part of the Japanese. Wesley Snipes was cast alongside Sean Connery to emphasize the racial angle.

<sup>7</sup> *Three Million*, x.

<sup>8</sup> *Three Million*, xi.

<sup>9</sup> *Three Million*, 217.

<sup>10</sup> Alexander Pope, *Martinus Scriblerus on the Art of Sinking in Poetry*; and Leo Marx, *The Machine in the Garden: Technology and the Pastoral Ideal in America* (Oxford and New York: Oxford University Press, 1964, 2000)

<sup>11</sup> *Three Million*, 25.

<sup>12</sup> A fascinating combination of the annihilation of space and time plus FedEx can be found in the 2000 Tom Hanks film *Cast Away*. See my chapter 8 "Cast Away: The Machine in the Sky" from my 2004 dissertation "Imagery and Symbol of the Airplane in American Film 1950-2004," (University of Hawaii).

<sup>13</sup> *Three Billion*, 43-46. Like so many other non-aviators, Prestowitz makes the egregious error of calling FedEx's MD-11 a "four-engine" airplane. A derivative of the DC-10, the MD-11 famously has only three engines. With respect to views on globalization, many commentators have been far less sanguine about its merits. For example, author and blogger James Howard Kunstler has been an acerbic critic of global complexity and believes events of the last few years dictate a decrease in said complexity. As a sample of his writing on this, consider the following:

Let me tell you exactly what is going on "out there." The so-called developed world is watching two giant forces race each other to put an end to business-as-usual for industrial civilization. These two forces are the catastrophe of debt and predicament of oil supplies. They had been running neck-and-neck for a few years, but now the catastrophe of debt is pulling slightly ahead. But even this is an illusion because these two forces are actually hitched in tandem, with the rickety cart of civilization bouncing perilously behind them, and whatever one of these forces does will affect the other. Bad debt will eventually cripple the global oil industry's ability to perform, and the failures of the oil industry will only amplify the killing force of debt. It's that simple.

And the simple moral of the story is that the only sane thing America can do is simplify itself, de-complexify its dangerously hyper-complex organs of daily life. I've stated them before but, briefly, this means simplifying the way we do farming, commerce, transportation, inhabiting the landscape, schooling, medicine, and banking. Everything we do to add additional layers of complexity to these already tottering systems will guarantee an eventual orgy of blood and material destruction to this land. Everything we do to prop up the unsustainable instead of reconstructing the armatures of everyday life will make American life a nightmare in a very few years ahead.

("In The Headlights," September 6, 2010, <http://kunstler.com/blog/2010/09/in-the-headlights.html>). Kunstler's *The Long Emergency: Surviving the End of Oil, Climate Change, and Other Converging Catastrophes of the Twenty-First Century* (Atlantic Monthly, 2005) expands on the theme.

See also his book *The Geography of Nowhere: The Rise and Decline of America's Man-Made Landscape* (Free Press, 1994) and my recent essay "Whither Japan Should the United States Collapse?" Hokkai Gakuen University, *Studies in Culture*, No. 44 (November 2009). To be fair, Prestowitz spends part of the chapter "Cheap No More" on the oil problem. Finally, to add one more interesting take on the issue of complexity, Prestowitz observes how Chinese factories are "de-inventing manufacturing by removing capital and reintroducing skilled manual labor on the plant floor." It is simply cheaper that way (p. 200).

- <sup>14</sup> One area that Prestowitz has never addressed is that of race in America, particularly race differences. With the growth of affirmative action and the effects of highly activist courts on matters of racial underrepresentation, the potential costs to American business could be large. This was obliquely addressed in Richard Herrnstein and Charles Murray, *The Bell Curve: Intelligence and Class Structure in American Life* (New York: The Free Press, 1994). Some scholars have argued that generally lower IQs of certain segments of the American population are racially or genetically based. See, for instance, J. Philippe Rushton, *Race, Evolution, and Behavior: A Life-History Perspective* (New Brunswick, NJ: Transaction Publishers, 1995); and Michael Levin, *Why Race Matters: Race Differences and What They Mean*, (Westport, CT: Praeger, 1997). It should be noted that some of the authors who study race and IQ have found that East Asian IQ is higher than that of whites. For instance, in *Race Differences in Intelligence: An Evolutionary Analysis* (Augusta, Georgia: Washington Summit Publishers, 2006), Richard Lynn concludes that "The median IQ of the studies is 105 and should be taken as the best estimate of the IQs of indigenous East Asians" (p. 130). Rushton reaches a similar conclusion, including for those Asians raised outside Asia, though he notes the wide variation between verbal and visuospatial IQs (p. 134). Levin is in the same camp (p. 67), as are Herrnstein and Murray. These findings would tend to discredit the argument that Western IQ tests are biased in favor of whites. Prestowitz should have taken these findings into consideration when comparing Chinese workers to those in other places. "While labor is surely inexpensive [in China], that is not the only factor. Labor

is cheaper in Vietnam, Africa, and parts of Latin America. But Chinese labor is well disciplined and largely literate with the ability to learn skills quickly” (p. 75). He also notes that “European secondary school students score near the top of the international assessment table” (p. 145), which may bolster the race and IQ argument. Later, he alludes to the poor environment of some schools. Using his daughter as an example, he notes that she homeschooled her two children. Asked why, she replied that she was concerned about the local school environments, nothing that her own local school had two full-time police on duty. While not mentioning the name of the area, this is often a code-word for heavily minority school (p. 265). In his earlier book, *Rogue Nation*, he makes a similar observation (p. 78): “While many of the countries of East Asia and the Pacific, including most recently China, have dramatically raised their standards of living over the past fifteen years, much of the rest of the developing world has not. Per capita GDP in the Middle East, North Africa, and Latin America has grown at only about 1.5 percent per year. In sub-Saharan Africa, central and eastern Europe, and central Asia, per capita GDP has actually shrunk.” Given the political changes in central and eastern Europe, external factors could be at play, but the bulk of the observation correlates with what Lynn et al. have written.

For further reading, see Richard Lynn, who is a leading scholar on race differences and their global distribution and effect. See *The Global Bell Curve: Race, IQ, and Inequality Worldwide* (Augusta, Georgia: Washington Summit Publishers, 2008); and Tatu Vanhanen, *IQ and Global Inequality* (Augusta, GA: Washington Summit Publishers, 2006); and Tatu Vanhanen, *IQ and the Wealth of Nations* (Westport, CT: Praeger, 2002); *The Science of Human Diversity* (Lanham, MD: University Press of America, 2001); *Eugenics: A Reassessment* (Westport, CT: Praeger, 2001); *Dysgenics: Genetic Deterioration in Modern Populations* (Westport, CT: Praeger, 1996).

Finally, one emerging new perspective has been noted by Kevin MacDonald, who wrote in “Recent Research on Individualism/Collectivism” (<http://www.theoccidentalobserver.net/articles/MacDonald-Individualism-Collectivism.html>) that “In cross-cultural perspective, the

unique thing about European culture is the tendency for individualism. Individualism is the basis for Western modernization — for why the West has dominated the rest of the world. It is intimately linked with a suite of traits, including democratic and republic forms of government, relatively high status for women, relatively low ethnocentrism, moral universalism, and science.” As it pertains to economics, he writes that “because of free trade policies, individualist cultures are prone to exporting jobs to collectivist cultures with a strong sense that economic policy should be designed in the national interest.” This, along with Lynn’s thesis, is intriguing.

<sup>15</sup> *Three Billion*, 27–8.

<sup>16</sup> *Three Billion*, 68.

<sup>17</sup> *Three Billion*, 69–73.

<sup>18</sup> *Three Billion*, 121–23.

<sup>19</sup> *Three Billion*, 130. I note with satisfaction Prestowitz’s inclusion in his recommended reading Eamonn Fingleton’s *Unsustainable: How Economic Dogma is Destroying American Prosperity* (New York: Nation Books, 1993) and *In Praise of Hard Industries: Why Manufacturing, Not the Information Economy, Is the key to Future Prosperity*. For some reason, his *Blindside: Why Japan is Still on Track to Overtake the U.S. by the Year 2000* is not included. Undoubtedly, Prestowitz would have been interested in Fingleton’s *In the Jaws of the Dragon: America’s Fate in the Coming Era of Chinese Hegemony* had it appeared in time for *Three Billion New Capitalists*.

<sup>20</sup> *Three Billion*, 165–69.

<sup>21</sup> *Three Billion*, 192.

<sup>22</sup> *Three Billion*, 198.

<sup>23</sup> *Three Billion*, 185–86.

<sup>24</sup> *Three Billion*, 205.

<sup>25</sup> *Three Billion*, 272.

<sup>26</sup> *Three Billion*, 238.

<sup>27</sup> *Three Billion*, 236.

<sup>28</sup> *Three Billion*, 256.

<sup>29</sup> *Three Billion*, 268.

<sup>30</sup> *Three Billion*, 271.

<sup>31</sup> *Three Billion*, 278.

<sup>32</sup> Attributed to Korekiyo Takahashi, Japanese finance minister, 1936.

<sup>33</sup> *Betrayal*, 1-2.

<sup>34</sup> *Betrayal*, 2.

<sup>35</sup> Paul Kennedy, (New York: Random House, 1987), 515.

<sup>36</sup> Kennedy, xv. Prestowitz discusses Kennedy on p. 44.

<sup>37</sup> *Betrayal*, 26-30.

<sup>38</sup> *Betrayal*, 77.

<sup>39</sup> *Rogue Nation*, 248.

<sup>40</sup> *Betrayal*, 20.

<sup>41</sup> *Betrayal*, 117.

<sup>42</sup> *Betrayal*, 139. See also p. 207 where he argues that after the Japanese bubble burst in 1992, “this vanishing of Japanese competition was actually more apparent than real.” Companies such as Toyota, Nikon, Honda, Matsushita, and Fuji Film “did not falter.”

<sup>43</sup> Hall, *Bamboozled*, 9.

<sup>44</sup> In Hall, *Bamboozled*, 10.

<sup>45</sup> Hall, *Bamboozled*, 11-17.

<sup>46</sup> A typical description is this: “In the flying geese model, the East Asian economies imported capital goods from Japan, as Japanese investment moved into the region, producing manufactured goods which were then exported to the United States and other markets. This system was the foundation of the so-called ‘Asian economic miracle,’ which provided more than 50 percent of the increase in world economic growth in the early 1990s.” Nick Beams, “Report on the world economy in 2006,” <http://www.wsws.org/articles/2006/feb2006/nbp1-f28.shtml>, 28 February 2006.

<sup>47</sup> *Three Billion*, 137-39.

<sup>48</sup> *Three Billion*, 216.

<sup>49</sup> *Betrayal*, 135. In 1988, Prestowitz quoted extensively from the former top man at Japan’s powerful Ministry of International Trade and Industry, Naohiro Amaya. Even in the 2010 *Betrayal*, he uses as an epigraph these words from Amaya: “We did the opposite of what the American econo-

mists advised” (p. 248).

<sup>50</sup> *Betrayal*, 218–19.

<sup>51</sup> *Betrayal*, 250.

<sup>52</sup> *Betrayal*, 217.

<sup>53</sup> *Betrayal*, 269–70.

<sup>54</sup> *Betrayal*, 276.

<sup>55</sup> Prestowitz notes that LTCM faced failure when the Russian government defaulted in October 1998. Interestingly, Summers has been accused of playing a role in the massive defrauding of the Russian people as well. Retired professor James Petras claims that former President Clinton and his economic advisers backed the regimes that allowed the plunder of Russian wealth. Though relegated to an endnote, Petras names Harvard professors Andrei Shleifer and Jeffrey Sachs as those involved. Petras shows that Harvard paid \$26.5 million to settle a suit stemming from various improprieties associated with Harvard professors. (*Rulers and Ruled in the US Empire: Bankers, Zionists and Militants* [Atlanta: Clarity Press, Inc., 2007], 88, 93–4, 250.) The upshot of the scandal was that the “reform” of the Russian economy “turned out to be one of the great larceny sprees in all history, and the Harvard boys weren’t all merely naive theoreticians.” The then 45-year-old Shleifer, though Russian, nonetheless vacationed each year with Summers, which may explain why Shleifer has remained on the Harvard faculty. (Steve Sailer, The real Larry Summers scandal? <http://isteve.blogspot.com/2006/03/real-larry-summers-scandal.html>).

<sup>56</sup> A more explicit account of the pressure brought to bear on Born can be found in psychologist Kevin MacDonald’s blog “Self-Deception and Guruism among Jews,” where he writes how psychoanalysis was “perhaps the greatest intellectual fraud of the 20th century — a set of beliefs that explained everything but had only the most tenuous connection to reality and an ideology that empirical research was for bean counters. The same thought crossed my mind while reading *Thirteen Bankers*, by Simon Johnson and James Kwak. Near the heart of the financial meltdown was the towering self-confidence of Larry Summers, Robert Rubin and Alan Greenspan in opposing any regulation on the derivatives market. Sum-

mers seems to be pivotal. When Brooksley Born, head of the Commodities Futures Trading Commission, proposed that some thought should be given to regulation, Summers reportedly said 'I have thirteen bankers in my office, and they say if you go forward with this you will cause the worst financial crisis since World War II.' As Johnson and Kwak note (p. 9), we don't actually know if there were any bankers in Summers' office; 'more likely he came to his own conclusion.' The point is that Summers had an unshakable faith that what he was saying was correct — a faith that was ominously unrelated to empirical reality. Nevertheless, Ms. Born was successfully pushed aside and ultimately a law was enacted preventing any regulation of the derivatives market." (<http://theocidentalobserver.net/tooblog/?p=3350>).

<sup>57</sup> In an attempt to unravel this, one may turn to the Jewish Women's Archives, which addresses the ethnic nexus that Prestowitz dances around. There they write that "the most visible public invocation of Barshefsky's Jewishness ironically almost seemed to negate it. Before the start of fall classes in 2002, Harvard President Lawrence Summers controversially reflected on what he regarded as the resurgence of antisemitism at his university and around the world. The Jewish Summers — who had himself served as secretary of the Treasury — argued that the rise of anti-Jewish sentiment contrasted with the historically significant lack of concern when Bill Clinton appointed a 'very heavily Jewish' lineup of economic policymakers that included not only Barshefsky but also Treasury secretary Robert Rubin and Federal Reserve chairman Alan Greenspan. In this narrative, the career of Charlene Barshefsky became simply one more sign of the successful assimilation of Jews into the top leadership of the United States." (See <http://jwa.org/encyclopedia/article/barshefsky-charlene>). In the one paragraph that contains Barshefsky's name, Prestowitz writes of the following Jews, in this order: Mickey Kantor, Barshefsky, National Security Adviser Sandy Berger, NSC China expert Ken Lieberthal, finishing up with Rubin and Summers (p. 141).

<sup>58</sup> Psychologist Kevin MacDonald comments on his belief that there is a tendency among Jews to engage in self-deception when it comes to



understanding self motivations. In the above footnote on Self-Deception and Guruism among Jews, he makes such an argument, buttressed later by referring to Karel de Gucht, the EU Trade Commissioner, who made the comment: “Don’t underestimate the opinion ... of the average Jew outside of Israel,” he said. “There is, indeed, a belief, I can hardly describe it differently, among most Jews that they are right. So it is not easy to have a rational discussion with a moderate Jew about what is happening in the Middle East. It is a very emotional issue.” (See “Solzhenitsyn’s Chapter 23 of 200 Years Together,” <http://theoccidentalobserver.net/tooblog/?p=3320>). As for the various links to ethnicity and the financial scandals that involve some of the individuals and institutions discussed by Prestowitz, MacDonald (along with John Graham) reviews eight books on the Bernie Madoff scandal: Erin V. Arvedlund, *Too Good to Be True: The Rise and Fall of Bernie Madoff* (New York, NY: Portfolio/Penguin, 2009); Andrew Kirtzman, *Betrayal: The Life and Lies of Bernie Madoff* (New York, NY: Harper, 2009); Harry Markopolos, *No One Would Listen: A True Financial Thriller* (New York: Wiley, 2010); Jerry Oppenheimer, *Madoff With The Money* (New York: Wiley, 2009); Brian Ross, *The Madoff Chronicles: Inside the Secret World of Bernie and Ruth* (New York, NY: Hyperion, 2009); Deborah and Gerald Strober, *Catastrophe: The Story of Bernard L. Madoff, the Man Who Swindled the World* (Beverly Hills, CA: Phoenix Books, 2009); and Sheryl Weinstein, *Madoff’s Other Secret Love, Money, Bernie, and Me* (New York, NY: St Martin’s Press, 2009). MacDonald writes: “Initially Bernard Madoff’s record-breaking \$65 billion Ponzi scheme was reported in terms of how much harm he had done fellow Jews. Subsequently discussion focused on the ineptitude of the Securities and Exchange Commission in not detecting and shutting down this fraud much earlier. We contend here that the now extensive literature reveals that the Madoff phenomenon was in fact a massive shift of resources from non-Jews to Jews. Prime beneficiaries extended beyond the Madoff family to a number of other members of the Jewish elite. (“Is the Madoff Scandal Paradigmatic?” <http://www.toqonline.com/2010/07/is-the-madoff-scandal-problematic/>).

<sup>59</sup> Matt Taibbi, “The Great American Bubble Machine,” *Rolling Stone*,

[http://www.rollingstone.com/politics/story/28816321/inside\\_the\\_great\\_american\\_bubble\\_machine](http://www.rollingstone.com/politics/story/28816321/inside_the_great_american_bubble_machine).

<sup>60</sup> *Betrayal*, 280.

<sup>61</sup> *Betrayal*, 287.

<sup>62</sup> VDARE.com columnist Steve Sailer has been in the forefront of examining how non-economic factors, particularly race, have played a leading role in the subprime loan disaster. In a series of articles, he traces how political initiatives to equalize home ownership rates for blacks and Hispanics led to laws forcing banks to make loans traditionally deemed far too risky. See “Karl Rove-Architect Of The Minority Mortgage Meltdown,” [http://www.vdare.com/sailer/080928\\_rove.htm](http://www.vdare.com/sailer/080928_rove.htm); “America’s Minority Mortgage Meltdown/Diversity Recession: The Smoking Gun?,” [http://www.vdare.com/sailer/081010\\_meltdown.htm](http://www.vdare.com/sailer/081010_meltdown.htm); “How The Community Reinvestment Act Fits In,” [http://www.vdare.com/sailer/090201\\_meltdown.htm](http://www.vdare.com/sailer/090201_meltdown.htm); “Charting The CRA Crackup,” [http://www.vdare.com/sailer/090215\\_cra.htm](http://www.vdare.com/sailer/090215_cra.htm); “Phil Gramm And The Respectable Right Flinch From Minority Mortgage Meltdown,” [http://www.vdare.com/sailer/090222\\_gramm.htm](http://www.vdare.com/sailer/090222_gramm.htm); “Pay No Attention To That Diversity Mandate Behind the Curtain,” [http://www.vdare.com/sailer/090301\\_mortgage\\_meltdown.htm](http://www.vdare.com/sailer/090301_mortgage_meltdown.htm); “Researching The Minority Mortgage Meltdown: Can The Fed Evade My FOIA Request?,” [http://www.vdare.com/sailer/091101\\_foia.htm](http://www.vdare.com/sailer/091101_foia.htm); and “The Minority Mortgage Meltdown: More Evidence-But Our Elite Doesn’t Want to Know,” [http://www.vdare.com/sailer/100620\\_mortgage\\_meltdown.htm](http://www.vdare.com/sailer/100620_mortgage_meltdown.htm).

Prestowitz elides the obvious racial angle, writing of the subprime loans, “The problem was that never before had lenders made so many loans to people whose incomes and assets would not have qualified them for mortgages under the old standards” (p. 156). These, he tells us, become known as *liar loans* or *ninja loans* (no income, no assets). Amazingly, he believes Robert Rubin was ignorant of what was happening with these loans and to the derivatives tied to them. “The investment bankers selling the derivative instruments often had no idea what they were selling. The epitome of this was Robert Rubin, who told Citibank to sell more of the derivatives, even though, as he later admitted, he had

no idea what was in them” (p. 157). For a seasoned trade expert and Washington pundit, a man who has consistently seen through the smoke-screens of foreign trade partners of America, Prestowitz is far too credulous about the recent meltdown.

<sup>63</sup> *Rogue Nation*, 4.

<sup>64</sup> *Rogue Nation*, 171.

<sup>65</sup> *Rogue Nation*, 22-23. The most profound account of this change in course, however, is provided by another of the Japan Revisionists, retired U.C. professor Chalmers Johnson, whose “Blowback Trilogy” sets the standard for describing and decrying the growth of American Empire. The titles of the three books speak for themselves: *Blowback: The Costs and Consequences of American Empire* (2000); *The Sorrows of Empire: Militarism, Secrecy, and the End of the Republic*, (2004); and *Nemesis: The Last Days of the American Republic* (2007). In one of the many editorials Johnson published as summaries of these books, he wrote in one that “The United States remains, for the moment, the most powerful nation in history, but it faces a violent contradiction between its long republican tradition and its more recent imperial ambitions. The fate of previous democratic empires suggests that such a conflict is unsustainable and will be resolved in one of two ways. Rome attempted to keep its empire and lost its democracy. Britain chose to remain democratic and in the process let go its empire. Intentionally or not, the people of the United States already are well embarked upon the course of non-democratic empire” (“Republic or Empire: A National Intelligence Estimate on the United States,” *Harper’s Magazine*, January 2007, <http://www.harper.org/archive/2007/01/0081346>).

<sup>66</sup> *Rogue Nation*, 296.

<sup>67</sup> *Rogue Nation*, 13.

<sup>68</sup> Arthur Hertzberg and Aron Hirt-Manheimer, *Jews: The Essence and Character of a People* (New York: HarperCollins, 1998), 2.

<sup>69</sup> *Rogue Nation*, 193-94.

<sup>70</sup> *Rogue Nation*, 198-201.

<sup>71</sup> See, for example, Kevin MacDonald, *A People That Shall Dwell Alone: Judaism as a Group Evolutionary Strategy* (Westport, CT: 1994); and

*Separation and Its Discontents: Toward an Evolutionary Theory of Anti-Semitism* (Westport, CT: Praeger, 1998).

<sup>72</sup> Quoted in Jack Tapper, "White House Responds (Kind of) to Chas. Freeman Controversy," <http://blogs.abcnews.com/politicalpunch/2009/03/white-house-res.html>. Such views likely cost Freeman an important government position in 2009, as Freeman accused the Israel Lobby of smearing him. See Mark Mazzetti and Helene Cooper, "Israel Stance Was Undoing of Nominee for Intelligence Post," *New York Times*, March 11, 2009.

<sup>73</sup> John J. Mearsheimer and Stephen M. Walt, *The Israel Lobby and U.S. Foreign Policy* (New York: Farrar, Straus and Giroux, 2007).

<sup>74</sup> See, for example, *Rogue Nation*, 287. Paul Craig Roberts, the former official whom Prestowitz has cited in his works, writes even more strongly in "The True Cost of the War" ([http://vdare.com/roberts/100902\\_cost\\_of\\_war.htm](http://vdare.com/roberts/100902_cost_of_war.htm)): "Yet, as most earthlings, if not Americans, surely know by now, the [Iraq] war was based on a lie and on intentional deception. The American troops died for a lie. As it is impossible for the U.S. government to any longer pretend that the invasion of Iraq was necessary to save America from weapons of mass destruction and al Qaeda terrorists, the U.S. government's justification for its massive war crime has come down to removing Saddam Hussein, who, like the Americans, tortured his opponents. Does anyone on earth, even among the most moronic of the flag-waving American super-patriots, believe that the bankrupt United States government spent three trillion borrowed dollars to remove one man, Saddam Hussein, in order to free Iraq from tyranny? Anyone who believes this is insane."

<sup>75</sup> *Rogue Nation*, 277.

<sup>76</sup> *Rogue Nation*, 288–89. In addition to Mearsheimer and Walt, other respected voices have noted the Jewish makeup of the bulk of the neoconservatives, as well as their elevated interest in the safety of Israel. See also Murray Friedman, *The Neoconservative Revolution: Jewish Intellectuals and the Shaping of Public Policy* (New York: Cambridge University Press, 2005); Stephen Sniegoski, *The Transparent Cabal: The Neoconservative Agenda, War in the Middle East, and the National Interest of Israel*

(Norfolk, VA: IHS Press 2008); Jacob Heilbrunn, *They Knew They Were Right: The Rise of the Neocons* (New York: Doubleday, 2008); and Kevin MacDonald, *Cultural Insurrections: Essays on Western Civilization, Jewish Influence, and Anti-Semitism* (Atlanta: The Occidental Press, 2007), chapter 4, “Neoconservatism as a Jewish Movement.”

<sup>77</sup> *Rogue Nation*, 278.

<sup>78</sup> Matthew E. Berger, “Controversy erupts over e-mails as Dean blames Rove for online attacks,” <http://radioislam.org/islam/english/jewishp/usa/deanjudaism.htm>.

<sup>79</sup> *Rogue Nation*, 298.

<sup>80</sup> *Rogue Nation*, 290.