THE ‘BUSINESS COMMUNITY’

DOUG HENWOOD

The US may be populated by nearly 300 million isolated monads, but do we ever love the word ‘community’. On the left, it’s never ‘blacks’ or ‘Jews’, it’s ‘the black community’ and ‘the Jewish community’. Presumably there’s something abrupt and almost impolite about simple monosyllabic nouns, so the addition of a few Latinate syllables softens the blow. But there’s a way in which the use of the word reads like a wish fulfillment, a hope that a community that doesn’t really exist in any for–itself sense can be created in the act of naming it.

But, beyond the left, it’s also a popular formulation in mainstream American speech. Examples I’ve collected over the years include the reality TV community, the military community, the air–hijacking community, the mortgage community, the Alzheimer’s community, the cybernerd community, the Phish community, and the copyright community. Of particular interest to readers of this volume might be one of the more ubiquitous examples: ‘the business community’.

Just what is the business community? The media can use it to mean anything from Main Street store–owners to Fortune 500 CEOs – and even the global worthies who gather every January at the World Economic Forum in Davos. But whatever the slipperiness of the signifier, or the internal divisions within the signified, the business community – which I take as a euphemism for capital and capitalists – shows a lot more coherence and power than many of the other notional communities I listed.

Raymond Williams said that a community is created through communication. There are few social formations with richer networks of communication than the big owners and top managers of large corporations. They congregate in ‘peak associations’ like the Business Roundtable and the World Economic Forum, and in the myriad trade associations and lobbying groups that populate Washington. Some actively support think tanks, from relatively centrist ones like The Brookings Institution to aggressively ideological ones like the Club for Growth. Business has its own media – daily newspapers, weekly magazines, entire cable TV channels – produced mainly by loyal hired hands
paid far less regally than the CEOs they write about. The business community articulates productively with the state, frequently exchanging personnel, pushing political agendas. The cybernerd community rarely does.

As with all communities, there is variation among its members. On its left, by generous definition, are the ‘enlightened’ entities that like to give the appearance of doing well by doing good, as the socially responsible sorts like to say. An example of this can be found on the website of the Pew Center on Climate Change, an elite environmental organization based ultimately on an oil fortune. It reports on the efforts of the ‘business community’ to do something about global warming. Reading below the headline, we learn that these green-minded businesses are those belonging to its Business Environmental Leadership Council, which include BP, DuPont, Royal Dutch/Shell, Toyota, and Weyerhaeuser. It is very difficult to imagine any of them leading us to a more sustainable form of economic life; they operate under the sternest disciplines to ruin more than they regenerate. But Pew’s use of the term ‘business community’ invokes a warm feeling of high-minded corporate citizens transcending their base economic interests in the name of the higher good. This is advertising, not politics.

At the right end of the spectrum, Milton Friedman spies a ‘suicidal impulse’ among the business community. Supporting the public schools (rather than their privatization), encouraging antitrust prosecution of Microsoft (rather than letting the market take its course), and contributing to environmental organizations may all sound good, but runs the severe risk of inviting government regulation. (In truth, this behaviour is not so common. Wal-Mart, for instance, has been aggressive in funding school privatization efforts.) Friedman mulls over several reasons for this odd impulse. He dismisses Schumpeter’s theory that corporations breed a socialist – bureaucratic culture. He considers the possibility that businesspeople are simply amateurs at politics, who don’t really understand what they’re up to. In the end, he confesses that he has no good explanation, but urges the Cato community to figure it out. It doesn’t seem to occur to Friedman that the business community is nowhere near as enamoured of Manchester liberalism as he is. Capitalists operating in the real world want the state to do their bidding.

Friedman’s blind spot about the corporate urge to do good, or at least appear to do good, demonstrates the historical amnesia and social isolation characteristic of academic economists. If we turn to a book like Roland Marchand’s Creating the Corporate Soul, we can learn a lot about the origins of these impulses in the need to fight the labour unrest and political threats of the early 20th century as the modern large corporation was in formation. AT&T, terrified of the example of public ownership of telephone compa-
nies in Europe and suffering from a miserable public image, embarked on one of the first image-making campaigns in the history of public relations. Over the course of decades, it advertised aggressively not just to sell its services, but to sell the very idea of private monopoly in telephony, and, ambitiously, even to make the company ‘loveable’. In an early instance of the fraudulent deployment of a very loaded word, Ma Bell, as AT&T would later be known, tried to position the telephone not merely as an engineering marvel, but as a device enabling the transformation of the vast area of the United States into a single ‘community’ or ‘neighbourhood’. Commenting on this, Claude Fischer noted that AT&T was manipulating ‘these value-laden terms in ways that evaded their basic meanings’.

But it mostly worked. AT&T successfully staved off the threat of nationalization, and managed to survive the scrutiny of trustbusters until it was finally broken up in 1984. And there are probably a few people who are still nostalgic for the days of the old Phone Company more than twenty years after its breakup.

Corporate PR is, of course, pervasive, even though the old threats – unionization, trustbusting, nationalization – have largely disappeared. It’s so much part of our mindscape these days that many people don’t even notice it, or dismiss it all as slick bullshit, but the endless onslaught of image advertising, logos, and invocations of corporate personality almost certainly helps keep the threats at bay. Even if you can’t measure the effects of a single ad, or even a single ad campaign, the endless cascade of brand-building doubtless has a cumulative effect. Early image advertisers loved to illustrate the size of the corporation – Pillsbury the world’s largest flour mill, AT&T its continental network, Metropolitan Life its pioneering skyscraper – but today the ubiquity of image-making evokes something of a capitalist sublime, which inspires deferential awe.

But the material reality has changed enormously. Creating the soulful corporation meant hiding the centrality of profit-making and foregrounding instead an ethic of service, when memories of the robber barons’ arrogance – like Vanderbilt’s ‘the public be damned’ – were still fresh. We still see traces of that today, for sure; Hewlett-Packard would love for us all to believe that it exists to make its engineers happy and its customers more productive. But Milton Friedman’s once-revolutionary idea that the only responsibility of a corporation was to make a profit has become common wisdom among a lot of Americans. (Efforts to spread this gospel beyond the borders of the United States have yet to be fully successful.) Executives say things openly today that they probably wouldn’t have in the 1930s or 1960s. Despite tight oil markets and the highest prices in decades, the oil industry has been reluctant to spend more money on exploration. Why? A very succinct answer came from ExxonMobil president Rex Tillerson, who told the Wall Street Journal,
'You give me a choice of producing more barrels, or making more money, I am going to make more money every time'.

Early corporate soul-creators were big on corporate paternalism – recreational outings, employee housing, and the like – as long as it didn’t threaten work discipline or the bottom line. Not now; today’s corporations are frankly making no such efforts, and talk openly about the need to maximize shareholder value. Yet miraculously, there’s been no return of the old threats from labour or the state that first motivated the PR offensive a century ago.

Even more remarkable, the bear market of 2000-2002 and the corporate scandals that were its accompaniment, resulted in almost no measurable backlash against corporate power. The bull market of the 1990s was fuelled by lots of expensive hype: propaganda from the dot.coms, cheerleading by Wall Street analysts whose banking colleagues were underwriting the shares they were shaking their pom-poms for, and great energy thrown into the manufacture of brand identities. It became fashionable during the late 1990s boom to speak of brands as a ‘new religion’, a source of ‘meaning’, with ‘spiritual dimensions’; prominent among them, according to the ad agency Young & Rubicam, are Calvin Klein, MTV, and Gatorade. Star accounting theorist Baruch Lev made great advances in attempting to put a dollar value on brands (and other intangibles, like ‘ways of doing business’) so they could appear on New Age balance sheets. It’s notable that the star radical economics book of the 1990s was Naomi Klein’s No Logo: even critiques of corporate power make their first engagement at the level of brand identity.

But corporations aren’t really about catchy graphic design and the propagation of spiritual meaning. They’re ultimately institutions of class power (the populist critique made in the film The Corporation evades this point by fetishizing the legal form of the institution). Profits ultimately redound to people, not legal fictions.

How does that work exactly? In the 1983 edition of Who Rules America, William Domhoff argued that the upper class WASPs listed in the Social Register (no relation to this publication) were the core of the American ruling class, meritocratically augmented with the cream of the corporate crop. This peak status was earned through ownership of corporate stock and exercised through their domination of elite think tanks (through board connections) and the political process (through campaign contributions). Certainly there’s a lot about this that’s still true: politicians would be lost without the professionals who think for them, and broke without a continuing stream of cheques from the various personifications of capital.

But that WASP ruling class now looks dissipated. Its fortune has been sliced into too many parts over the generations to be meaningful in a US stock market now capitalized at nearly $12 trillion. The Social Register is a
shell of its former self; it’s now published by a fairly nouveau outfit, Forbes. Aside from libraries, it’s available only to listees, for $125. The 2005 edition lists just 25,000 families – down from 30,000 in the mid-1990s – with a quaint geographical distribution: 27 per cent from the New York area, 11 per cent, in Pennsylvania, 10 per cent in Massachusetts, and just 8 per cent in California. According to Forbes Media’s advertising tip sheet, half attended Ivy League universities, 77 per cent own multiple homes (25 per cent own three or more) but only 400 own yachts. (There’s a yacht index for the readers who see the world that way. There are also indexes of descendants of passengers on the Mayflower, of signers of the Declaration of Independence, and of members of the Sky Castle French Hounds, a Pennsylvania hunt club.). An ad page goes for $11,500, and promises access to the ‘top echelon of power and wealth in America’, and an ‘opportunity to align with one of America’s most prestigious luxury brands’. It does look like Domhoff’s core of the ruling class has degenerated into a niche market – a well-appointed niche for sure, but not what it once was.

Other institutional expressions of Domhoff’s ruling class are in much better shape. The Council on Foreign Relations, for example, is thriving; with an imposing headquarters on Manhattan’s Park Avenue, it has $205 million in assets (and just $9 million in liabilities). But its deliberative style is out of fashion in the Bush years. It has, to be sure, brought some right-wingers into its orbit: Max Boot – enthusiastic celebrant of the American imperial role, signatory to the Project for a New American Century manifesto, and Weekly Standard contributing editor, is a national security fellow. Despite such adaptations, however, it’s no longer at the centre of foreign-policy-making. It could reclaim that role someday, especially should the occupation of Iraq turn out to be an incurable disaster.

The WASP elite used to find political expression in the pre-Reagan Republican party, the party of Taft and Rockefeller; now all that’s left of that are pathetic remnants like Sen. Lincoln Chafee. Writers on the left often like to focus on the rightward move of the Democrats, but the transformation of the Republican party is far more profound. As Jeffrey M. Stonecash shows in Class and Party in American Politics, in the 1950s and 1960s the two parties were surprisingly similar, with liberal and conservative wings, and a lot in between. Among northern electoral districts, party allegiance was less correlated with income than it is today. An exception was the South, where poorer districts were heavily Democratic, but in a special way for a special reason: blacks couldn’t vote and many poor whites didn’t register, meaning that the party’s regional base was among conservative, better-off whites. Over time, white Southern Democrats evolved into Republicans, reducing the weight of the right in the Democratic party while increasing it in the
Republicans. Yes, the Democrats have moved to the right in some ways, but no Democrat today would filibuster a civil rights bill. By contrast, as a black friend once told me, most African-Americans look at a Republican and see a Klansman’s bedsheet.

But since the early post-World War II decades, the Republican party has transformed itself into one of the most right-wing mainstream parties in the world, with a base now in the South and West. This reflected the revival of the right, beginning in the mid-1950s, after the losses of the 1930s and 1940s. Of course, some business interests, especially smaller ones, never accepted the New Deal, but Wall Street and the Fortune 500 had largely made peace with it.

The rebellion against this compromise was initially confined to a very marginalized right, consisting of a subset of the petite bourgeoisie and a new crop of conservative intellectuals gathered around William Buckley’s *National Review* (founded in 1955). In Buckley’s famous formulation, the agenda of the magazine and the movement was to stand athwart the tracks of history and yell ‘Stop!’ The movement gathered strength with Barry Goldwater’s 1964 presidential campaign, which was an electoral disaster, but a symbol of the rising strength of the right within the Republican party. I can speak from personal experience, as a member of the Party of the Right at Yale in 1971-72, that it was still extremely odd to be a serious conservative in elite circles. There was an air of fatalism about the movement; we all took inspiration from Whittaker Chambers’ remark that ‘[i]t is idle to talk of preventing the wreck of Western Civilization, it is already a wreck from within’. Creeping socialism would continue its course until the final expropriator had been expropriated, though we wouldn’t have put it quite that way.

As the 1970s progressed, however, it got progressively less weird to be on the right in elite circles. As Thomas Ferguson and Joel Rogers demonstrate in *Right Turn*, while the public had moved right on some issues, like crime and welfare, there was certainly no mandate for the sort of ruling class offensive ultimately mounted by Ronald Reagan when he took office in 1981. The driving force was the rightward move within the corporate elite, which was distressed by the collapse in corporate profitability from the Golden Age highs into the 1970s doldrums, and a general erosion of bourgeois authority that took economic form as rising inflation and bear markets in stocks and bonds, and political form in wildcat strikes, sabotage on the line, and Third World demands for a new, redistributionist global economic order.

An important part of the class war was conducted by the Republican party and Reagan, an old corporate tool of General Electric and a posse of Southern California businessmen. (Interestingly, though, the deregulation of crucial sectors like transport and communications began under Jimmy Carter,
Reagan’s Democratic predecessor, with some of the intellectual energy for the movement coming out of the office of liberal stalwart Sen. Ted Kennedy.) The Reagan Democrats who voted Republican in 1980 – as some kind of phantasmic assertion of race privilege and masculine toughness – didn’t expect the deep recession of 1981-82 and the union-busting agenda initiated by the mass firing of striking air traffic controllers, but they got it anyway. That agenda was greatly aided by the high-interest rate policies instituted by Paul Volcker, when he took over at the Federal Reserve in 1979 with the announcement that the American standard of living had to decline. Volcker was appointed by Carter, deepening the bipartisan roots of the late 1970s/early 1980s crackdown, but it’s highly unlikely that a Democratic president would have broken a union, lowered taxes on the rich so deeply, or cut domestic spending as harshly as Reagan.

Volcker’s interest-rate squeeze was broadly supported by the ‘business community’, and not just by financial interests, as populists sometimes claim. Central banking is one of the means by which business interests can run state policy to their advantage, largely immune to democratic accountability or even full public understanding. But there were many changes in the financial markets in the 1980s that greatly transformed class relations.

As with transport deregulation, the financial transformation had its roots in the 1970s. A milestone was Wall Street’s Mayday – the May 1 1975 deregulation of commissions. That formal change helped usher in a new regime on Wall Street: the relationship gave way to the transaction. The pre-Mayday Wall Street was dominated by connections: industrial firms always dealt with the same banker, and bankers were recruited on the basis of prep school and other social connections. Fixed commissions stabilized those arrangements, as price competition was kept in check. The demise of fixed commissions, however, introduced competition into Wall Street’s previously clubby world. Competition, ever the revolutionary principle of capitalism, transformed the business community.

One way to think about what’s happened with the business branch of the ruling class is to extend to a social structure the formula that’s often applied to the transformation of Wall Street over the last three decades (a transformation that began with the abolition of fixed commissions): the transaction has replaced the relationship. And the old model that John Kenneth Galbraith described in *The New Industrial State* – of a largely vestigial shareholding class passively assenting while professional mangers ran large businesses while aspiring mainly to a regime of secure mediocrity – has given way to a far more intense and demanding regime of profit maximization.

In the classic version of managerial capitalism first outlined by Adolph Berle and Gardiner Means in their 1932 classic, *The Modern Corporation and*
Private Property, shareholders had become largely incapable of influencing corporate management. Their complaints were truly heart-rending: managers could waste resources on high pay, generous staffing levels, and excessive product quality, thereby cheating shareholders out of their money. Even though share ownership was highly concentrated among the very rich, there were still too many shareholders to speak with one voice. Thirty years later, Galbraith developed this model, pronouncing profit maximization a thing of the past. Corporations were no longer run by capitalists, but by a technocratic structure of professional managers and engineers. In a preface to the 1967 reissue of The Modern Corporation, Berle described the new system as one of ‘collective capitalism’ – not socialism, by any means, but neither was it private enterprise as it was once understood. Keynes’s goal, the euthanasia of the rentier, had been largely achieved.

No doubt this was an exaggeration; the PR that created the ‘soulful corporation’ had won over the liberal bourgeoisie and its intellectuals. Still, there was something to it; Wall Street was relatively quiet, and the ‘business community’ was dominated by the senior executives of the industrial giants.

All that came apart in the 1970s. Profit rates plummeted, inflation rose, and both the First World working class and the commodity exporters of the Third World openly resisted prevailing lines of authority. Alarmed, by the end of the decade, the vestigial stockholders of liberal mythmaking were up in arms, having lost all patience with their managers’ complacent mediocrity. With the 1980s came the unleashing of the leveraging mania and the declaration of a new era of shareholder rights. For much of the decade, what Alan Greenspan once called ‘unaffiliated corporate restructurers’ launched attacks on established corporations that were deemed insufficiently profitable. Using billions in borrowed money, individuals like Carl Icahn and partnerships like Kohlberg Kravis Roberts either bought stakes in firms with sagging stock prices or took entire companies private.16 Faced with outside pressure from purely financial interests to maximize profits, firms cut costs by downsizing and outsourcing, sold or shut unprofitable divisions, and in general smashing the old Galbraith paradigm. The manoeuvres typically involved lots of debt, which promoters described as a great incentive to slash spending and sell off assets, but it left corporate America in a weakened state when the boom ended in 1989.

Wall Street continued to shake up what it calls the real sector in the 1990s by switching from debt to shareholder activism, led by public pension funds like the California Public Employees Retirement System (CALPERS), which made up hit-lists of faltering corporations and pressed them to get their act together. Though the approach was different from that of the 1980s, the expectations were the same: cut costs, raise profits, and get the stock
price up. To press the point, top managers were increasingly paid in stock options rather than direct salaries, in order to get them to think and act like shareholders.

It all worked, in a way. Stockholder rebellion was a major reason for the intensification of economic life from the early 1980s onwards, and the increased pressure on the world’s working classes. Though it began with Wall Street attacks on managerial privilege, it ended with both branches of the capitalist family, financiers and managers, in agreement about the need to keep costs low and profits high. After a steep decline in corporate profitability between 1997 and 2001, managers were able to squeeze costs and restore profits, mainly by keeping wages and employment down. As of mid-2005, total employment in the US was about 10 million below where it would have been had the recovery/expansion followed historical averages. From the recession trough through the first quarter of 2005, corporate profits rose over five times as much as employee compensation; in previous cycles, the average ratio was less than two to one.

As the bust of the early 2000s revealed, managers still had plenty of stubborn resourcefulness in them: to get profits and stock prices up, they frequently lied, and sometimes massively. They got away with it for a few years because Wall Street often believes what it wants to be true; stock buyers had every incentive to believe inflated profit reports. But, remarkably, the reforms after the bust were minimal; their legislative centerpiece was the Sarbanes-Oxley Act, which essentially required managers to swear that the financial statements are true. Complaints about onerous and expensive compliance requirements of the Act filled the business press in 2004 and 2005. In May 2005, Bush essentially fired Securities and Exchange Commission head William Donaldson for excessive zeal in policing the financial markets, and replaced him with a right-wing Republican Congressman, Christopher Cox. Donaldson was one of the founders of elite investment bank Donaldson Lufkin Jenrette, and a member of Bush’s famed Yale secret society Skull and Bones; despite that establishment pedigree, he had made enemies by tightening up on mutual and hedge funds. Cox was the author a 1995 bill (passed over Clinton’s veto) that made it much harder for lawyers and shareholders to sue corporations – a gift especially to high-tech companies, at the expense of entrepreneurial attorneys and activist pension funds.

What does this say about the inner workings of the business community? Though the Cox-for-Donaldson trade looks like a tilt towards management and away from Wall Street, even Wall Street wasn’t fond of Donaldson’s oversight, and there hasn’t been much complaint about his departure. Wall Street is mostly back to believing what it wants to believe. An index of ‘earnings quality’ compiled by Merrill Lynch, which compares managers’ versions of
corporate profits with underlying economic reality, is at the low end of its historical range – and, as of June 2005, getting worse – exceeded by only the worst two years of the bubble. There’s comity in the business community, and little overt worry about the fiscal stability or the international standing of the United States.

With the WASP elite having faded since the 1970s, what has been taking its place? Certainly, as has long been pointed out, the old northeastern WASP elite has been supplemented by forces from the South and West, who are, at least on the surface, sometimes hostile to their class elders. George W. Bush, from high-end Yankee stock, nonetheless keeps his distance from Yale to boost his Texas credentials. His father’s handlers made it known that the president loved to snack on pork rinds, an incredible piece of public relations designed to convince voters he was a man of the people. His son, who pronounces ‘insurance’ with the accent on the first syllable, and ‘vehicle’ with the accent on the second, seems to need no such PR, though it’s hard to believe he learned these habits at Andover, Yale, or Harvard.

But it’s not just symbolism; there were real interests behind his rise from Texas to the national scene. In Texas, his prominent early supporters included some oilmen, who knew him from his failed attempts to make a living exploring for hydrocarbons in the 1980s, and Richard Rainwater, the former investment manager for the Bass brothers, the Fort Worth-based billionaires. Though Bush showed little aptitude for much beyond drinking at the time, his backers were charmed by his being the son of the vice president, and by the mid-1990s they were ready to support his bid for governor. While governor, Bush did several favours for Rainwater and his business interests. Rainwater was a founder of Columbia/HCA, a for-profit hospital chain; in 1995, Bush vetoed a Patient Protection Act that was fervently opposed by the firm. In 1997, Bush proposed privatizing Texas’s state mental hospitals, while Rainwater was busy building a for-profit mental health care enterprise. Among his other crucial business supporters were Thomas Hicks, chair of Hicks, Muse, Tate, and Furst, a prominent leveraged-buyout firm, and top executives of Enron.

Now that George W. Bush is president, extractive and military industries seem to have a special place in the administration’s heart. The oil connection is obvious; the reason that Cheney wants to keep the names of his energy advisors secret is that they all come from the industry. The oil connection is obvious; the reason that Cheney wants to keep the names of his energy advisors secret is that they all come from the industry.

Curiously, though, it doesn’t seem that the oil industry was hot to start a war with Iraq. But the spike in oil prices that the war contributed to has done wonders for energy sector profits. And the administration’s relentless efforts to lift environmental regulation have deeply pleased not only oil industry executives and shareholders, but also other rapacious industries like mining and logging. Bush has also continued to promote private medical-
industrial complex interests, with the pharmaceutical industry playing an important role. Though a Kerry administration would never have proposed some kind of national health insurance scheme, Democrats are generally more likely to try to control the prices of prescription drugs, and to allow the importation of cheaper drugs from Canada, two things that drive Big Pharma crazy. Before becoming Secretary of Defense, Donald Rumsfeld was CEO of the giant drugmaker Searle.

Bush has also made lots of friends on Wall Street. Surprisingly, investment bankers have historically been an important Democratic business constituency. No longer. Wall Street swung heavily into the Republican column in 2004. Goldman Sachs, which produced former Clinton Treasury Secretary Robert Rubin as well as Jon Corzine, the New Jersey Democrat who is one of the Senate’s most liberal members, is now run by a Republican, Hank Paulsen. The major reason seems to be Bush’s finance-friendly tax cuts. By contrast, Kerry had much thinner support from the business community. His big-money support came mostly from lawyers, who hate the Republicans for trying to make it harder for citizens to sue businesses for damages; from lobbyists with historic ties to Democratic administrations; and from Hollywood, which hates the Republicans for their puritanism. It looks like the business community’s interest in the 2004 election was driven less by matters of macro policy and more by specific sectoral and personal interests.

Under Bush, there’s been one major victory in a long-standing struggle by business interests: a major ‘reform’ of the US bankruptcy code. For most of its history, the US has been a debtor-friendly regime. With the explosion of consumer credit in the 1980s and 1990s, the number of Americans filing for bankruptcy rose dramatically – from around 300,000 a year in the early 1980s to over a million by 1996. The credit industry grew ever-more agitated by the insolvency boom. Instead of reflecting on the contribution of their aggressive marketing and usurious interest rates to the situation, they blamed an indulgent legal system and an erosion in morals, and began an intense lobbying campaign to tighten the law. Although a reform bill got through Congress in 2000, Clinton vetoed it in the last weeks of his term. But in 2004 a substantially similar bill – which, for the first time, applied an income test to those seeking to have their debts wiped away – was signed by Bush.

The finance sector hasn’t done so well with another of its long-term obsessions: privatization of the Social Security system. Though it looked for a while like it might be smooth sailing for privatization in the first year of Bush’s second term, the scheme attracted surprising popular opposition. As privatization became more politically radioactive, a number of brokerage houses dropped out of the lobbying effort. It’s reassuring to see that business interests can’t shove just anything down the public’s throat.
When looked at from some angles, you’d think that Wall Street might have problems with part of the Bush program. Fiscal policy has been disastrous. According to Congressional Budget Office estimates, Washington went from a structural surplus of 1.6 per cent of GDP (i.e. adjusted for the stage of the of the business cycle) to a deficit of 3.0 per cent of GDP in 2004, a shift of 4.6 percentage points, far bigger than the shift during the Reagan years (though that deterioration was from small deficits becoming very large ones). There’s little hope of improving the fiscal position – and it could get worse, if the administration and Congress indulge their desires for more tax cuts.

You might think that a serious bourgeoisie would be alarmed at this accumulation of debt. You might even think that the investors who own over $4 trillion in outstanding US Treasury obligations might be nervously annoyed to hear the President dismiss the Treasury bonds held by the Social Security trust fund as mere pieces of paper – it almost makes you wonder if the unilaterals in the administration would deal with any serious dollar crisis by defaulting. But that hasn’t happened. You might also think that US multinationals might be disturbed that Bush’s foreign policy is doing some collateral economic damage (something that’s has been covered assiduously in London’s Financial Times, but hardly at all in the American papers). Harassment of foreign students is discouraging them from studying at US universities, even though they’re normally good both for university incomes and for intellectual life. Visa restrictions are hurting the import of skilled workers, and several Chinese firms pulled out of the annual Consumer Electronics Show in Las Vegas because Washington wouldn’t give them visas. That came a month after a third of Chinese applicants for visas to attend an economics conference in Seattle were denied entry. None of this can be helpful for commerce in conventional terms, and it doesn’t sound good for the culture either.

And US multinationals also seem to be suffering from the US’s declining image in the world, especially in Old Europe. American names like Coca-Cola, McDonald’s, GM, Disney, Wal-Mart, and The Gap all reported declines in European sales as 2004 progressed – and among the hardest-hit was that iconic product intimately associated with the lone cowboy, Marlboro. The companies prefer to attribute this to ‘nonpolitical’ factors, like unemployment, taxes, and regulation (as if those were nonpolitical), but the breadth of the declines looks like more than coincidence. Keith Reinhard, chair of advertising giant DDB Worldwide, told the Financial Times that his sense is ‘we are seeing a transfer of anger and resentment from foreign policies to things American’. Pollster John Zogby detects ‘growing hostility towards American products’.

Bush’s focus on military and political power, and his relative lack of interest in global economics, has also allowed substantial bits of Latin America
to wander off the neoliberal path. Argentina successfully cut payments to its private bondholders with no retribution. In Venezuela, Hugo Chavez survives US efforts to undermine him, and the Organization of American States has resisted Washington’s attempts to isolate his regime. Uprisings in Ecuador and Bolivia have toppled neoliberal governments. Nothing like the Clinton administration’s tireless campaign to open foreign financial and product markets has been mounted by Bush. His economic appointments have all been somewhere between mediocre and terrible.

The American bourgeoisie, or at least its business class, doesn’t seem to have a problem with any of this. It was solidly behind Bush’s re-election campaign. Questioned at an October 2004 election-themed event at the Council on Foreign Relations, JP Morgan Chase chief economist John Lipsky said he wasn’t worried about the deficit because he thought a second Bush administration could make the necessary spending cuts to solve the problem. That’s delusional; it would be politically impossible – and almost mathematically impossible – for that to happen, and it’s a bit shocking to hear someone of Lipsky’s presumed sophistication say something so nonsensical. There’s just not enough civilian discretionary spending in the federal budget to cut. But, as of mid-2005, Wall Street was remarkably sanguine about the US fiscal deficit (and the current account deficit as well, but that’s another story).

Why? Shouldn’t Wall Street be worried about Bush’s fiscal recklessness? In the short to medium term, finance houses have an interest in an expanding quantity of US Treasury paper; it gives them more inventory to trade and repackage creatively. But over the longer term, adherents to almost any school of economics, except maybe the dreamier post-Keynesian ones, view chronic deficits as dangerous to an economy’s health (and even its political stability).

A provisional answer might be that the distinction between the ‘business community’ and the ruling class has largely disappeared, and that policy is now made through a Wall Street lens of maximizing profits over the next few quarters, and the long term can take care of itself. I say provisional because things could change, and because socialists should be careful about thinking they could offer capitalists better strategies for running capitalism. It must be admitted that the capitalists have longevity and success on their side. But nothing, and no one, is perfect, and it’s worth thinking about this.

Let’s take a look at Alan Greenspan’s Federal Reserve, an institution that is supposed to be an executive committee of the bourgeoisie par excellence. Greenspan’s reputation is that of a candidate for sainthood on Wall Street. No wonder; his tenure has been one of relentless indulgence of bank mergers and speculative manias, and the rapid mounting of a bailout when things go wrong. His aggressive support after the 1987 stock market crash, under-
standable in itself, gave the green light to the last two years of the leveraging mania of the 1980s – massive and pointless hostile takeovers, balance sheet ‘restructurings’ that fed cash to shareholders financed by large servings of fresh debt, the final jouissance of the savings and loans. When that mania went off the rails, leading to the long recession of the early 1990s and the first ‘jobless recovery’, Greenspan lowered interest rates dramatically and kept them there. While that too was understandable, it laid the foundation for the long speculative mania of the late 1990s. Greenspan did worry publicly about ‘irrational exuberance’ in December 1996 – burying the phrase in the midst of a tedious speech on central banking with the phrase itself buried in a tortured question – and after taking loads of heat, he didn’t speak publicly again about the market for months. When he did resume talking about the market, it was mainly to dismiss worries about a bubble and celebrate the productivity miracle of a New Economy.26

Anyone who was awake during the bubble years remembers well the ‘Greenspan put’ – the widespread belief that the Fed would put a floor under stock prices.27 And when that mania went off the rails, Greenspan again lowered interest rates hard and long. Low rates helped keep the economy from imploding, but the bubble’s hangover (excessive investment, especially in high-tech equipment; ravaged balance sheets; and badly bruised animal spirits) were a heavy drag on recovery. But even as the supply side of the economy was stagnating, with the second-worst GDP growth performance and the worst rate of job growth of ten post-World War II expansions, low rates ignited another mania: speculation in residential property. House prices in hot metropolitan areas exploded, and US consumers borrowed $2.2 trillion against rising home equity between 2000 and 2004.28 Any decline in house prices or serious rise in interest rates could put millions of households in financial hot water – but, once again, Greenspan has denied that there’s a housing bubble.

You could argue that Greenspan had little choice but indulgence after the panics of 1987, 1990, and 2000, but as Hyman Minsky used to say, stability is destabilizing. Every bailout emboldens speculators during the next upswing. In his seventeen-year tenure, Greenspan has done little to dampen speculation, through either policy or speech (or even, it seems, through private suasion). Such indulgence is totally out of character for a central banker. In the 1960s, then-Fed chair William McChesney Martin – famous for remarking that his job was to remove the punchbowl just as the party was getting going – held that widespread talk of New Eras was a sign that speculation was getting dangerously out of control. Greenspan cheers on New Eras. They’re lots of fun if you’re one of the winners. But something has changed when a central banker considers it his job to spike the punchbowl, and administer
hair of the dog if revellers wake up the next morning feeling a little rocky.

This isn’t an endorsement of the traditional sado-monetarism of central bankers, an approach that lives on at the European Central Bank, which maintains its anti-inflation vigilance with half the continent’s economies in or near recession. But it does suggest that the distinction between the American ruling class and its business community – with the ruling class presumably operating on a time scale of decades rather than quarters – has largely collapsed.

Another piece of evidence supporting this hypothesis is the reaction to Bush’s tax cuts. In the late 1990s, a union economist recounted a conversation he’d had with two Fortune 500 CEOs. After reminding them that profitability was the highest it had been since the 1960s, the stock market in the midst of a seemingly endless bull run, and the political environment exceedingly friendly towards corporate interests, he asked them why they hated Clinton so much. Their answer was simple: ‘He raised our taxes’. And he had. According to Congressional Budget Office estimates, the average effective tax rate on the top 1 per cent of the income distribution rose from 25.5 per cent in 1986 to 36.0 per cent in 1996 – an increase of roughly $100,000. Bush’s cuts knocked their tax rates back to nearly 1986 levels (26.7 per cent in 2004). Tax cuts for those at less elite levels, those with incomes in the low- to mid-six figures, were less dramatic, but still not insignificant: almost $7,700 for the top quintile, those with average incomes of $183,000. This helps explain both Bush’s strong support from the ‘business community’ and his increased electoral support among affluent households: he carried voters with household incomes above $100,000 by 11 percentage points in 2000 – and 17 points in 2004.

Tax cuts and deregulation have been like psychotropic drugs for the American business class and the households who live on returns to capital. But the economic model has an unsustainable look about it. US net foreign debt was 34 per cent of GDP in the first quarter of 2005; it was just 18 per cent in 2000, 10 per cent in 1990, roughly 0 per cent in 1980 – a sharp contrast with the surplus of 3 per cent in 1969. It cannot keep running huge fiscal and current account deficits forever. That’s not to say the US is headed for some sort of major smashup, as many leftists (and Hayekians) argue. But it does mean a retrenchment – some sort of homegrown structural adjustment program – that the present business community and its political system seem incapable of conceiving, much less imposing. The reaction to Social Security privatization suggests that smooth political sailing is hardly guaranteed. Maybe the historical task of Hillary Clinton – former corporate lawyer, former Wal-Mart director – will be to calm the waters as the austerity program is launched.
NOTES

1. This is almost entirely about the US business community. That’s embarrassingly provincial, but writing about something more global would be too ambitious. While it’s true that the upper reaches of the American bourgeoisie have substantially internationalized, their political engagement is heavily domestic.


5. Quoted in Ibid., p. 74.


10. The Social Register rate card is at www.forbesmedia.com/pdf/socregistertoolkitsheet.pdf

11. A personal anecdote: my mother-in-law, who is from an upper-class WASP family in Baltimore, says her mother took the Social Register very seriously, and urged her daughter to fill out the information card that would assure her listing. She refused, thinking the whole thing a cross between a relic and a joke.

12. Council on Foreign Relations, 2004 Annual Report, p. 74. The operating budget for Foreign Affairs alone in 2004 was $5.2 million – but the magazine is impressively profitable, since revenue was $6.6 million on a
circulation of 134,000. By contrast, The Weekly Standard, the magazine that thinks for the Bush administration, survives only on subsidies from its owner, Rupert Murdoch.

13 Narratives of the Democrats’ rightward move often play down the role of business interests in the party. In Right Turn, Ferguson and Rogers emphasize the importance of capital-intensive internationalizing business interests in the New Deal; opposition to Roosevelt came heavily from low-wage, low-margin businesses, who hated unions and minimum wage laws. The Kennedy and Johnson administrations were richly involved with the business community; names like Harriman and Dillon are shared by investment banks and 1960s Democratic cabinet members.


15 The full quote is wonderfully over the top: ‘It is idle to talk of preventing the wreck of Western Civilization, it is already a wreck from within. That is why we can do little more now than snatch a fingernail of a saint from the wrack, or a handful of ashes from the fagots, and bury them secretly in a flower pot against that day, ages hence, when a few men begin again to dare to believe that there once was something else, that something else is thinkable, and need some evidence of what it was, and the fortifying knowledge that there were those who, at the great nightfall, took loving thought to preserve the tokens of hope and truth’. As a measure of the change in the ideological atmosphere, the quote now appears on the website of Rep. John Linder, a Georgia Republican, http://linder.house.gov.

16 Early in the decade, large investors shunned the leverage artists, considering them dangerous and unseemly. But as the decade progressed, public pension funds and insurance companies happily invested in buyout and restructuring funds.

17 This somewhat shocking deficiency of 10 million jobs is based on comparing recent history (from November 2001 through May 2005) to an average of nine earlier post–World War II recovery/expansion cycles. Average employment gain 42 months after a trough (which is what May 2005 was) +9.8 per cent, compared with just 1.9 per cent through May 2005. Translated into numbers, that gap amounts to 10.3 million.

18 Litigators and public pension fund managers lean Democratic, so Cox’s bill and Clinton’s veto were part of a partisan war.


20 Background on Bush’s Texas supporters comes from Center for Public


22 Though one can never know for sure, the oil spike is probably the result of a combination of factors: anxiety about the war; generalized political anxieties about the region; strong demand growth from China, India, and the US; and tight supplies, thanks in part to low exploration budgets (kept low under pressure from Wall Street to pass the cash along to shareholders instead).

23 Though this is a rather sensitive area, a lot of Democratic support on Wall Street came from Jews, who feel an affinity with the party’s cultural liberalism, and who historically felt snubbed by the old, heavily Republican, WASP elite.

24 This observation occurred during the question and answer session following the regular presentation. While a transcript of the regular session is available on the CFR website http://cfr.org/pub7466/daniel_k_tarullo_john_p_lipsky_stephen_roach_peter_hooper/world_economic_update.php, the Q&A isn’t. I was there and heard the remark.

25 Christopher Rude, formerly an economist at the Federal Reserve Bank of New York, once told me that within the Fed it’s thought that politicians and bankers come and go, but central bankers are supposed to do the long-term thinking for the class.


27 A ‘put’ is an option to sell a stock or other security at a given price for a given time. For example, an IBM April 70 put would give you the right to sell shares of IBM at $70 a share between now and next April. The simplest use of a put is to buy one to offset the risk of a decline in a security’s price; much more complex uses are possible.


29 Average income in the top 1 per cent was $1,050,000 in 2001.

30 These estimates come from the Federal Reserve’s flow of funds accounts
www.federalreserve.gov/releases/z1/, table L.1. Adding net holdings in foreign direct investment and foreign equities reduces the depth of the red ink somewhat, but doesn’t reduce the trend of substantial deterioration.