Penn National Commission

The Market, the State and the Dynamics of Public Culture

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JUDITH RODIN: To begin that process we pick up approximately where we left off, with efforts to understand the ways in which market forces and values and governmental policies and institutions with which they interact create and sustain the public culture which we have described.

To help us do that, we have with us this morning one of the most astute observers of American political and economic system. Kevin Phillips is well known to many of you as the editor and publisher of the American Political Report, as a columnist for the LA Times and as the author of "The Politics of Rich and Poor: The Emerging Republican Majority," and more recently "Arrogant Capital: Washington, Wall Street and the Frustration of American Politics."

Mr. Phillips notably was the first to describe Nixon's Southern strategy and to forecast the emergence of the South as a dominant conservative influence in

American politics. In his writings, he's analyzed the current dysfunction of American politics, the rise of public frustration and cynicism and the privileged role of special interest and elites in our political system. He's a graduate of Colgate and the University of Edinburgh. Mr. Phillips also earned a JD at Harvard before becoming active in US politics in the mid-1960s. We are very fortunate to have him with us this morning to help us understand the market, the state and the dynamics of public culture. Kevin Phillips.

KEVIN PHILLIPS: It's a pleasure to be here this morning. I can't help but think in coming to Philadelphia and looking around at the buildings that create a memory of such distinguished leaders that the crisis in American leadership really is somewhat uniquely nuanced. Some of you will have read in the recent news magazines about the extraordinary identification procedures that are being taken in preparation for the president's potential confrontation with Paula Jones. The president couldn't have a press conference the other day because he was afraid of questions about the military and, you know, what's a problem for an aspirant for chairman of the Joint Chiefs might just happen to be regarded by some as a problem for the commander in chief? No.

Then you've got the speaker of the House of Representatives, when he was fined—reprimanded and fined, immediately sent a bunch of people to look to see whether he could deduct his fine as a business expense. I mean, I think, frankly what we've got here is the shamelessness twins. And I say that throwing out that market forces are not by any means the only things involved in politics and the role of government. Before turning to all the rest of it, I think that some of what's happening here is the effect of communications and upheavals and the different way in which people are pulled into the spotlight. In pulling into politics, people whose hunger for the spotlight is in some respects matched only by their inability to perform usefully in it. And I won't belabor this, but obviously there are a number of people whose names come to mind.

So what I'll do at this point is turn to the subject matter of what we're talking about. But I put that out as an up-front caveat that I'm not any kind of economic determinist and I don't think that the economic forces rule supreme. But having said that, let me now turn to the question of governments and the marketplace and the way in which they contribute and help to shape the politics and the culture and the frustration, frankly.

Some of you will have certainly seen in Washington of late a small but growing group of analyses and articles and columns on how the United States and the West have entered a golden age. And the golden age involves the end of the Soviet Union, of the rise of market forces and essentially technology as the lubricant of market forces playing a more useful role almost than ever before. Now I don't think that the golden age is real. Another point to make very quickly is it's thought of mostly by people who want to put a great and favorable cast on the events of the last 20 years. The difficulty is that nobody was talking about a golden age in 1993 or '94 and probably not 1995. It's something we saw come up in '96. I don't think it'll last out in '97. I think by '98 and '99 we'll be back in this premillennial hubbub and hurly burly which I'll come back to. I think we're sort of in a version of the eye of the hurricane here in that a lot of the problems that are central to this whole discussion and the context of both society and politics and economics will come hurtling back.

But if we're not in a golden age, then a lot of things that are proclaimed as new because old circumstances have ended, then they won't have ended. And the likelihood of adjustments being fairly ferocious after a long period of things sort of being juggled and suspended may be pretty steep. So I think there are reasons to take quite seriously the likelihood that the next two or three years will be a period that has a lot of upheaval in it and some that we're not ready for, which will have an enormous bearing on what you do.

Let me turn to the politics of too much government being the problem, which was certainly the reality of 20 to 30 years ago—and the politics up until the 1980s—in some cases, it still lingers—and the new politics of a potential problem in catering to the markets having gotten out of hand. I was very much involved 30 years ago in the Republican strategizing to try to start a new conservative era which, in fact, we did do at the national level—20 out of 24 years, from 1968 to '92. It didn't start with a sense that government in a broad way was too big and out of control. Richard Nixon actually enlarged a number of aspects of government. And the conservatives have complained, you know, ever since that he was the last liberal or something like that as opposed to the first conservative. I think the part of government that was leaned on and was corrected or worsened or whatever definition you want to take there was the attempt on the part of the government in the 1960s to move into sociological blueprinting and decision making—something that really had not been done by the Democratic coalition before, was not a logical extension of the New Deal and did not work, or at least doesn't seem to have worked and is now pretty much rejected.

But it wasn't a broad repudiation of government. That came with Ronald Reagan. And this is the point at which I think it's useful to turn to the rhythm of politics in the sense of there are periods in American history in which repudiation of government and adoration of the marketplace gets out of hand. And it is not a philosophic thing. It's a very self-interested thing. But we saw another one start in the 1980s. And this was mentioned—I wrote a book called "The Politics of Rich and Poor" which came out in 1990, and the ironic thing was that the lead quote on the back of the book jacket was from Richard Nixon, who agreed with the book's thesis. And the thesis of the book basically was that Republican periods (unintelligible) in American politics in their later stages go berserk in a `markets can do everything' direction and blow up speculative bubbles.

And this happened in the Gilded Age and it happened in the 1920s. Usually a Republican period, a generation, whatever, will start out with a broader base and will have more middle class nationalism and—this is obviously just a once over—but it takes awhile to go into the market overdrive, but it always happens. And the fascinating parallels between the 1980s and the roaring '20s and the Gilded Age were one of the basic subjects in "The Politics of Rich and Poor." Now since this is a reasonably precise context for some of what we're talking about in the sense of the impact of the change in relations between government doing more and markets less and then markets doing more and governments less—this changeover has pretty much occurred three times, and the '80s were in no sense the first.

So the 10 parallels—and they're pretty good parallels. I'll go through them quickly. Most of you can put more of the history in place, but again, it's not hard to document. The 10 parallels between the '80s, the '20s and the Gilded Age were more or less as follows. First, you had conservatives in power, usually Republicans.

The second thing, you had anti-government psychologies developed; a philosophic belief in less government, whether it would be deregulation or tax cuts or ultimately privatization—all these things.

The third parallel was that pro-business psychologies developed—entrepreneurialism, support for the marketplace. All of this came hand in hand with the sense that government had done too much and ought to do less.

The fourth parallel was that the '80s, like the '20s and the period 100 years earlier—the 1880s and 1890s—was bad for labor. These are always tough times for labor. It's very logical. If business is in fashion, conservatives are in power, government is losing support, labor is going to have a problem.

The fifth parallel was that these have all been eras of mergers, of all kinds of restructuring of business and finance and banking, some very, very elaborate, ranging from the trusts in the late 19th century down to the public utility holding companies in the '20s and all the games in the '80s and '90s. But again, it's quite a parallel. This stuff all sort of happens together.

The sixth parallel is you get tax cuts or tax rate reductions, and that becomes a goal and a politics of some power: cut taxes, cut taxes.

The seventh parallel—these are periods of disinflation. They follow periods not only of big government or bigger government but of inflation. So in these periods you get disinflation.

The eighth parallel is, as you get disinflation in the United States, whether it was in the 1980s or 1920s or 100 years earlier in the populist era—what you get is a geographically divided economy. The interior part of the country, which has the commodities—agriculture, energy, mining, what have you—takes a big hit. The parts of the country that have the service economy and the financial economy and the cutting-edge industry gained during these periods. So you had what was called by the Democrats in the mid-1980s, quite correctly but they didn't know the historical precedence for it, the bicoastal economy. And it's quite right. The mid section of the country was taking a hit while California, Massachusetts, New York were in very high clover in the mid-1980s.

The ninth parallel is you get during these periods a massive increase in the gap between the rich and the poor or the rich and everyone else. The share of the top 1 percent in terms of income jumps from, oh, 8 percent and 9 percent to 14 percent, 15 percent, 16 percent. The share of wealth increases even more. The data's not good for 100 years ago or for the 1920s, so comparison isn't too easy, but the parallel is vivid and just absolutely undeniable.

And the last of the parallels between these periods—they were more than decades the economy is heavy with leveraged debt and speculation. New instruments of every variety, records set on the speculative and debt side, and as I say, the parallel between the 1980s and the 1920s and the gilded age, all of those 10 are very easy to check out and they prove out.

Now obviously this has quite a bit of significance, but one of the things that always happened before is the thesis put out by Joseph Schumpeter on creative destruction of capitalism, that capitalism would go too far in these ways that I just mentioned. The speculative bubble would pop and it would create a cultural, economic and political reaction the other way, and things would change, and then slowly but surely you'd get ready to go through some variety of the same thing again later.

Well, this time no bubble popped. You had some degree of change under Bill Clinton, but not much for not long, and it wasn't done well and—and he basically didn't pull it off. So he had to call in the famous (unintelligible)

Dickie Morris for help on how to do things. So he wound up basically standing for not much of anything by 1995 and not representing the normal corrective force. But you can't blame him really, because the speculative bubble didn't pop.

Now this gets me to another set of interesting questions as part of this false macho of the marketplace. I was on a panel with Al Dunlap formerly of Scott Paper—now whatever the hell it is that he's ripping off. I don't know. And he got started on capitalism and socialism. `Now we've got to stop socialism.' And my point was, `What kind of socialism? How about Wall Street socialism? Why don't we stop some Wall Street socialism?' Because the most fascinating pattern of the last 15 years in terms of how this speculative bubble kept getting bigger and shinier and filmier without popping was that you had this extraordinary socialization of risk and displacement of the marketplace.

Now for all that Al Dunlap may posture about being a sort of Marlboro Man of the boardroom or something—in fact, the whole system has been full of bailouts. It started in the 1970s—Lockheed and Chrysler; by the early 1980s, you had Texas and Chicago banks being bailed out; you could see the S&L mess taking shape in the late '80s; Alan Greenspan bailed out the stock market crash on a giant Hawaiian wave of liquidity; 1988 and '89 and '90, the S&Ls get bailed out; 1990, we see the commercial banks get bailed out, and not just up to the $100,000 insurance. The hot money from everywhere in the world was bailed out up to the full size of the deposit or the CD because to not do so could have caused all kinds of problems.

Yeah, but what happened to the marketplace here? No marketplace, no corrective, no lessons learned. Then we get down to the peso problem, and after NAFTA, it was so attractive to park your money in bonds down in Mexico. A lot of people did it. Great returns. All of a sudden the peso heads south, but let's not have the marketplace here, fellows. Time for a bailout. Time for government to come in, socialize the risk. If you're a little guy that owns a drugstore, you don't get socialized risk. If you're the financial sector, socialized risk is the rule.

So what we have had is this steady buildup of debt finance and speculative bubbles and a kind of stock market and financial markets vigilantism riding herd on every public policy move so that it doesn't do something to disrupt it. Now what I'm suggesting is that, A, this has delayed the corrective that has come in the system before, which is part of the problem; but, B, it's helped promote this—don't know whether you'd call it individualist myth or reality or whatever. Instead of having the cowboy fight it out and lose the gun battle and get buried, here he was taken care of by Alan Greenspan, by Bob Rubin, by everybody who moves and the bullets are blanks. He doesn't go down. So as he doesn't go down, he gets this myth of American capitalism and the tough guys and the entrepreneurs and the strength of all this rugged individualism. But it's ersatz. It hasn't really done that well as individualism. It's done very well as financial market socialism.

But this is the debate that doesn't happen. This debate never gets looked at. You would think that all the number of people involved in progressive politics could stand up and say, `What do you mean you people are individualists? You're not individualists. Every time something goes wrong you've been bailed out.' Well, the whole structure of politics and culture today is artificially based around something that really isn't doing that well. And yet you have all kinds of ennoblement of markets and entrepreneurs and tough guys and business and so forth, and CEOs' salaries can go to incredible levels and everything you know full well. So what I'm suggesting here is that there are some very funny behavior patterns and that this is a period during which you have had an abnormally drawn out ability of this mood and approach to survive.

Now the question, I guess, then becomes, you know, how long? Now let me turn back to politics and to government, because government—obviously in this Wall Street socialism and bailing-out process, government is playing a role. People may not want to say, `Hey, we love the government,' but, boy, they sure as hell love the city in which the government is based because they all want to go there and be lobbyists. And they must want to go there and be lobbyists because there's a role for government. And that role for government is passing stuff to help their clients or whatever they represent.

So I wrote a book in 1993 that came out in 1994 called "Arrogant Capital," and basically what "Arrogant Capital" did was to look at the old historical pattern of great powers as they start to go downhill—very, very strong pattern of the capital cities being overloaded with every type of interest group you can imagine. In the case of Rome had lawyers, but others were more ecumenical. Madrid, as it started to go downhill, was just full of clergy for whom they couldn't find jobs. They even had in Madrid in the early 17th century the first version of a think tank. It was places—hostels, almost, that universities ran where people who had gone to that university and couldn't get jobs could hang their hat for a while. I regard these as the first think tanks because it—same level of—of social achievement, frankly. That probably offends a few people here, but I'm prepared to take it a couple of notches further.

What we see in Washington isn't unique at this point. There are a lot of capital cities in the G-7 countries that are heartily despised by the people. Ottawa, for example, is disliked about as much as Washington. Rome, they tried to divide the country so they could get out from under Rome. Paris is loathed. The Scots and the Welsh don't want to be governed by London. The Japanese are trying to—some want to move their capital. Germans are obviously leaving Bonn to go to Berlin. Capital cities take on this animosity and it's a very real thing beyond ours.

But ours is unique. Now it's only unique in scale. If you go to the states, you can see the same thing. I never forget my first view of Sacramento, California, coming down from the hills. And I'd just been looking at some old gold mining artifacts in California. Ah, it wasn't very impressive. Seen one old mine you've seen them all. And then coming down the hill, there it was, the new gold mine, the Sacramento skyline. They don't do anything there basically but move money around with public policy justifications. And it has a huge number of people involved, and Washington still beats it absolutely hands down—absolutely hands down.

Let me give you some statistics. There was a survey done in early 1990s by a fellow from American University that there were 91,000 people involved in lobbying or supporting lobbying activities. Then it turns out—we tried to figure out how many lawyers there were in Washington, not a statistic that anybody really wants to keep and publish. It's nothing you brag about. We have more lawyers than anybody else, you know? But with a little work, you could start pulling all this together. And the way we finally did it was to get the number of people admitted to the bar of the Federal District Court of the District of Columbia. Well, at the point—whenever this was—in 1993, there were about 63,000 or so. We said, `Hey, how many back in 1950?' Well, they didn't have the numbers. So a woman there told my assistant, `Well, that's all right. I'll add them up for you.' I'm—`You're going to add them up?' Wow, it turns out there are under a thousand. So it's been a hell of a growth industry.

But Washington, DC, has probably anywhere from 40 percent to 50 percent of the tax bar, the telecommunications bar, the trade bar, the patent and copyrights bar and I could go on with lesser sub—trade, if I didn't put it in. Just gang busters. The number of people who are lawyers or actual lobbyists in Washington is probably close to 100,000. If you ever want to make a tour of American frustration, you come from Philadelphia where you see the proud part of American history, the people who made a difference. Go down to K Street in Washington and walk for a half a mile along K Street. Go in and look at the cards, the lists of people who are in the building. Every law firm you can imagine, every trade association—you know, National Association of Indoor Bicycle Operators, National Association of Coin Operated Laundromats, National Association of No Longer Needed Employees, National Association of SEC Violators. You know, they're all there—absolutely all there. Massive numbers.

Then the congressional staff: 22,000. Next largest staff of a major country's legislature is about 1/10th that size. But this includes a whole hoard of people who are lobbyists in training. Think tanks have somewhere between 6,000 and 7,000—15,000 journalists. You know, that's another major contribution to the workings of society—I mean, 15,000 journalists in Washington. Then the international interests there. There's a book called "The Washington Representatives Directory" and they have a section in the back on foreign interests represented in Washington. Back in 1979, there were about 400 listed, now there are about 2,000. There is virtually no major PR firm, consultant firm, law firm or accounting firm that does not have massive representation of foreign interests. What isn't represented very well is the interests of some poor little factory in southern Illinois that might have to close down because they're going to be outgunned from the time they get to town.

But you wonder why people despise the city. They have a lot of reasons to despise the city. It's a city that has entrenched itself. You really can't reach it now. When a politician comes to Washington, he may, out in Chillicothe, attack Washington. When he gets to Washington, it's like iron filings heading for the electromagnet. You saw that with Clinton, you saw it with Gingrich and the Republicans and the Contract. So essentially what people see is stuff gets promised to them. These people go to Washington and they become part of the system.

For the first time in the Congress prior to the Republican one, you had two congressmen actually resigned—they didn't wait—when major lobbying positions opened up. I mean, why stay in the second echelon position when there's a first-rate position opening up where you can actually hand out the money instead of queuing up for it? And if that's seen as an over cynical representation, probably it is but not so far that it's not worth taking seriously. That's sort of what the city's become.

Now beyond that, let me give you a notion of another reason why the public is right to be very, very skeptical of all of this. I've suggested and I think it's plausible that the vital center has been replaced by what we can call the venal center. Now the venal center at first, you could say, just represents the whole crowd I've mentioned in profile. Well, that's largely right. But what I'm suggesting here is that the people who are involved in things like disarmament issues or prayer issues or things that are not economic—they may have lobbies that have large memberships, but they don't have the heavy hitters. The heavy hitters in Washington, the people with a lot of connection that can make amendments happen and tax provisions disappear and all these good things, they're part of what you call a venal center because they're essentially centrists. They're not big screaming conservatives or big screaming liberals. They're big screaming influence peddlers. And that's basically what they do.

And the upshot is that we have a system at this point that in Washington it doesn't matter what legislation is up. They put legislation to extend a Millionaires Foundation provision on the minimum wage bill. The Dakota relief package has stuff for Treasury contacts and the paper industry and business relations with the Ukraine—I forget exactly what they were—reconciliation bills. The budget process now has become another incredible gold mine.

There's one thing Washington can do brilliantly. It's find enormous profit opportunities in anything that exists governmentally or legislatively. So again, the reasons for the public to be enormously doubtful about any of these things, it just screams out. They have ways of doing what they want to do and they'll bury it in something and there it is. But there's never anything buried anonymously in legislation that's for the average person out in Paducah, that's for sure.

So let me now try to look at what's going to change all of this. And you can be a little bit wondrous what really is going to change all of this. Now the difficulty is that our system as before had correctives of a sort. The marketplace has had a corrective, politics has had a corrective, anti-Washington politics has been a corrective—all of these things would change the political eras. But what's going to change them now?

Now Washington at this point seems largely unaffected by what's happening in the other G-7 countries, but I don't know how closely you follow the overseas elections, but conservatives are taking a terrific bath. And Newt Gingrich can talk about how Tony Blair is a Thatcherite all he wants. I find that preposterous, but it doesn't even really matter. The conservatives just got their lowest vote in Britain since 1832. They've got the lowest number of MPs since 1906. The Conservative Party in Canada tanked from a government with 155 MPs to being in fifth place in both the 1993 and 1997 elections. The government in Italy is now olive trees center left. The government in France, we're not sure how socialist it's going to be, but it's center left on paper. In Japan, you now have a coalition of sorts with the Liberal Democrats being not quite what they were. In the United States, you have at least on paper a Democratic president in there committed to ideas different than the Republicans. In some ways, he clearly is.

So the whole G-7 conservative hegemony, which was vivid in the 1980s has collapsed. Is it going to change here? Is something going to make Clinton forthright on behalf of any issues or ideas package? I don't know. He started out very poorly. I think a lot of what went wrong for the Democrats in 1993-94 is his fault. Now he got bailed out by the fact that Gingrich created another Democratic opportunity, but then the Democrats have sort of handed that over, too.

Now let me conclude by looking at what I think is the linchpin of reform of the politics and political economics that I have described. It is very simple the magic of the marketplace—the marketplace that finally cracks the pseudomarketplace. Now what I mean by this is that in American history very, very vividly the bulk of the reform eras have come from a major economic debacle. And if you go through and you look over the last 100 years at the major declines in the stock market, the big ones, you'll find that they were big enough that they took many, many years for the market to get back, but they also produced reform eras and—except the ones during wars—and more often than not, they produced a change in the party holding the White House in the next presidential election.

Just let me give you an example of the magnitude of shift that we're talking about. In 1890, the bear market that followed was 64 percent decline. It took 15 years to get back to the 1890 level; 1906, the bear market was 48 percent, 10 years to get back; 1916, 56 percent, nine years to get back; 1929, 89 percent, 26 years to get back; 1966, 38 percent, seven years to get back; 1973, 45 percent, 10 years to get back.

Now we have got built up in the present system an extraordinary increase in the Dow Jones and the other averages with an enormous participation by people whose savings and everything is going to be at great risk if there is anything resembling the declines that I've just mentioned. The reaction this time, I think, would be more profound on the part of the average person and their involvement and their anger than ever before. And you have to have this golden age, this new era, this end of the business cycle, this something or other to avoid having a bear market. Maybe it won't be 38 or 40, but so far they've managed for about seven years, since 1990, not to have a technical bear market. That's just mind-boggling.

So you have to wonder when something finally comes here after all this delaying and gamesmanship, could it be something bigger than we expect, and could it relate to the magnitude of what I've just suggested? If it has developed that magnitude, then I think what you will see will be a political, economic and reformist upheaval in the United States which will start to change a lot of the psychologies involved here. If there is not such a corrective in the markets and political economy, well, you don't need to listen to me or any other expert because your guess will be as good as anybody else's. It would be an entirely new era in that ball game.

Let me stop here, and I'll be glad to come back to any parts of this or pick up on any further angles. Thank you.