

THE
GOLDMAN SCHOOL
OF
POLICE

Robert Reich calls for a church-state separation of business and government.

Regardless of whether the U.S. economy is heading for recession or boom times, there's no question that today's consumers and investors are in many ways far better off than their parents: Just think of the ever-expanding product choices, the ever-widening investment opportunities, the ever-improving consumer technology. Under what Robert B. Reich calls "supercapitalism," Americans have gained tremendous economic power—and, partly as a result, lost their voices as *citizens*. That is, democracy—the process by which citizens join together to set society's rules, including those governing capitalism—seems powerless to stop climate change, reduce inequality, or stem the "crassness and coarseness of much of contemporary culture."

Reich has spent his career at the intersection of business and politics; he served as Bill Clinton's first secretary of labor and has written eleven books, most prominently *The Work of Nations: Preparing Ourselves for 21st Century Capitalism* and *Locked in the Cabinet*. In his new *Supercapitalism: The Trans-*

formation of Business, Democracy, and Everyday Life (Knopf), Reich describes how a corporate-centric perspective has come to dominate American life, and how we fail to understand the connection between our two mindsets: "As consumers and investors we want the great deals. As citizens we don't like many of the social consequences that flow from them." Our free-market focus on economic issues steamrolls any concerns we might have.

His prescription for restoring balance to society begins with asking companies—preferably through legislation—to detach themselves from the political process. It is necessary, he writes, "to separate capitalism from democracy, and guard the border between them."

Formerly at Harvard University's John F. Kennedy School of Government and Brandeis University, Reich, 61, is now a professor of public policy at U.C. Berkeley's Goldman School of Public Policy. He spoke from his Berkeley office with *TCB Review* managing editor Matthew Budman.

Capitalism vs.. America

In *Supercapitalism*, you call the spread of global capitalism "a triumph, by almost anyone's definition." Where's the problem?

Well, certainly the economy has produced great benefits for consumers and investors in the last thirty years: The Dow Jones has gone from 600 in 1975 to 13,000 today; we have countless TV channels; automakers are producing much better cars; we have many more choices for every kind of product, at lower prices. Capitalism has won. There's no longer a contest

between capitalism and communism.

But inequality is wider than at any time in the last eighty years; jobs are far less stable; the median wage is not much higher than it was in 1980, adjusted for inflation; Main Streets are disappearing; and our planet's environment is endangered. There are real tradeoffs to the triumph of capitalism.

Yet you say we shouldn't point the finger at "corporate greed or CEO insensitivity."

It's a cop-out to blame corpora-

tions. Corporations have never been in as intense competition as they are now. Barriers to entry have almost vanished; executives don't have *nearly* the discretion they had thirty years ago. True, CEOs are being paid fortunes—but if they don't perform, they're out on their ears at a much higher rate than ever before. It's illogical to blame companies for not acting in the public interest when consumers and investors are calling the shots.

If we—citizens—want companies to behave differently, we've got to change

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the rules of the game. That's where democracy comes in, and where the *failure* of democracy becomes most evident. Corporations are polluting the political process through lobbying and campaign contributions. It's a political arms race: If Microsoft does it, Google has to do it, in order to preserve its competitive position.

You write: "Corporate executives who sincerely wish to do good can make no better contribution than keeping their company out of politics." How do you make the case to CEOs that they should give up power?

It's not so much power as that they need to give up the arms race. The case is very hard to make to individual companies, because they stand to lose a great deal if their competitors can stay in the race and get subsidies or tax breaks or regulatory systems that benefit them. Everybody's got to be in. That's a big reason why the number of lobbyists has gone from 5,500 in 1980 to 32,000 today and why Washington law firms have become lobbying centers. It's why money is now the name of the game in politics. But like any arms race, every party stands to gain by calling it off.

Is it really conceivable that an industry would unilaterally agree to stop political contributions?

No, not an industry, because industries themselves are competing for customers and investors. The arms race has to be stopped across the board. Genuine campaign-finance reform is not hopeless. Many companies were champions of McCain-Feingold; there are many corporate executives who understand how absurd this arms race continues

to be, and how many resources it's taking up.

Can business, then, end what you call this arms race? Or is it the government's responsibility?

Well, ultimately, it's the public's responsibility to understand what needs to be done and why.

Considering that the Supreme Court keeps weakening McCain-Feingold, is it even possible for the government to impose restrictions?

It would be consistent with the First Amendment to require all candidates to put all contributions into a blind trust; candidates could withdraw any amount of money from that blind trust, but they may not by law know who contributed what. That kind of scheme would protect the First Amendment rights of contributors to give to the candidates they wish, but it would sever the link between the candidate and the contributor in terms of a quid pro quo. The candidate would not confer special influence or access on the contributor because the candidate could not by law know who contributed what.

Would that end the arms race?

It would help a great deal. There also has to be lobbying reform, because campaign contributions are the tip of the iceberg. It's the ongoing influence of lobbyists and lawyers in the political process that has to be contained.

What about sunshine laws mandating corporate disclosure of spending and contributions?

I don't see any reason why shareholders should be financing political activity they don't necessarily believe in. That strikes me as just as bad as

union members having to put their dues toward political activities they don't believe in.

But don't corporations have the right to support candidates they prefer?

The key here is thinking about the rights of citizens rather than the rights of legal fictions called corporations. The public, the media, and the courts must acknowledge that companies are not people. This cuts both ways: We have to give up the notion that companies can and should be held criminally liable, like Arthur Andersen. We have to get rid of the corporate income tax, because there's a notion of no taxation without representation, and it's *people* who pay the corporate income tax. We have to disabuse ourselves of the notion of corporate patriotism—companies are not patriotic and have no license to be. It's absurd to expect or demand that companies be "socially responsible," and it's ridiculous to assume that corporations can be charitable.

Speaking of corporate social responsibility, in *Supercapitalism* you call it "as meaningful as cotton candy." What do you have against CSR?

I have nothing against it! I've argued for it in the past, and at the margins it can do a lot of good. But corporations are in intense competition, and the only reason why they do anything in the public interest is either because of the PR value or because they expect some regulation to come down the pike and they want to be ahead of the curve. Companies are going green not out of a sense of responsibility but because they want the PR value that comes with being known as a green company, and, more importantly, their advisers are telling them that they'd better get ready, because within the next ten years, there are going to be stricter limits on pollution.

I understand your skepticism toward "vivid displays of corporate goodness," but all things being equal, why

shouldn't we pay a little more for fair-trade goods and practice socially responsible investing where we can?

I'm not saying we shouldn't. But the evidence is that we *don't*. Consumers and investors tell pollsters that they shop at or invest in "good companies," but if you examine their actual buying and investing practices, they don't want to sacrifice good deals for themselves and will only buy from or invest in so-called responsible corporations when it doesn't cost them. Plus, at a deeper level, we have no generally accepted definition of what a good corporation is or what social responsibility is. The religious right has some very specific ideas that are not shared by a lot of other Americans. Some environmentalists say that socially responsible investment firms should invest in nuclear energy; other environmentalists radically disagree.

Is CSR counterproductive?

I worry that it's a distraction from the hard work of politics. We have many young people now getting their MBAs and looking toward a life in which they can do well and do good, working for a corporation that is socially responsible. I think they're fooling themselves. I would rather those young people, if they're genuinely concerned about the state of the planet, roll up their sleeves and get involved in either politics or some organization that is going to affect politics. At the end of the day, it's our laws and rules that set the terms of our market economy. No company is going to sacrifice profits for the sake of some vision of social good, and indeed, no company has a right to. Investors are not putting their money into a particular company because the company is going to do charitable things with that money.

We—citizens—have to stop expecting corporations to be socially responsible and blaming them for not being so, and we have to have heightened skepticism about corporate claims to

be acting in the public interest when all that the companies are seeking is a competitive advantage through politics and public policy.

You seem particularly troubled by corporate spin about "the public interest."

It's when lawyers and lobbyists working for companies contend that the reason a particular law or regulation is needed is for some public purpose, when *of course* that's not the motivation. And yet we hear that all the time. I don't think that CEOs ought to be contending that the policies that

they are advocating for are necessarily in the public interest. That's not the role of the CEO—they are for their customers and their investors; they're not there as public figures advocating public policies that are in the general interest of the country. The sooner they give up that pretense, the healthier it is for democracy—and the more consistent it is with treating companies as no more and no less than agents of consumers and shareholders.

On the subject of companies having, as you put it, "little choice but to relentlessly pursue profits," did you



ever expect to spend so much space defending Wal-Mart?

No! I don't approve of many of Wal-Mart's practices, but I don't think the answer lies in criticizing Wal-Mart. The answer lies in laws and rules that require that all companies achieve certain minimum standards. We can debate what those minimum standards ought to be, but that debate is fundamentally about what we as consumers and investors are willing to sacrifice for those minimum standards.

Now, I also believe it would be a good thing if Wal-Mart were unionized. But the public campaign against Wal-Mart is really designed to get the company to the bargaining table, and that's a bit disingenuous. Why shouldn't the union campaign be a campaign about the importance of unionizing Wal-Mart workers, rather than how bad Wal-Mart is as a moral institution? Companies—whether Wal-Mart or Ben & Jerry's or Starbucks—are not moral institutions; they're not doing anything for the sake of being good and virtuous. We shouldn't expect them to. Companies are pieces of paper; they're contracts. When we talk about morality or values or what the standards should be, it's unhelpful for us to make companies into corporate actors.

Doesn't it take too much responsibility off of CEOs and directors to say that they're just following orders from investors and from consumers demanding the lowest possible prices?

Compared to thirty years ago, corporate executives have very little discretion. They have got to attract and keep customers, and they have got to attract and keep investors. They have no choice. They're not entitled or authorized to make moral decisions.

After your defense of Wal-Mart, I shouldn't have been surprised that you characterize CEO pay as "economically reasonable," but I was.

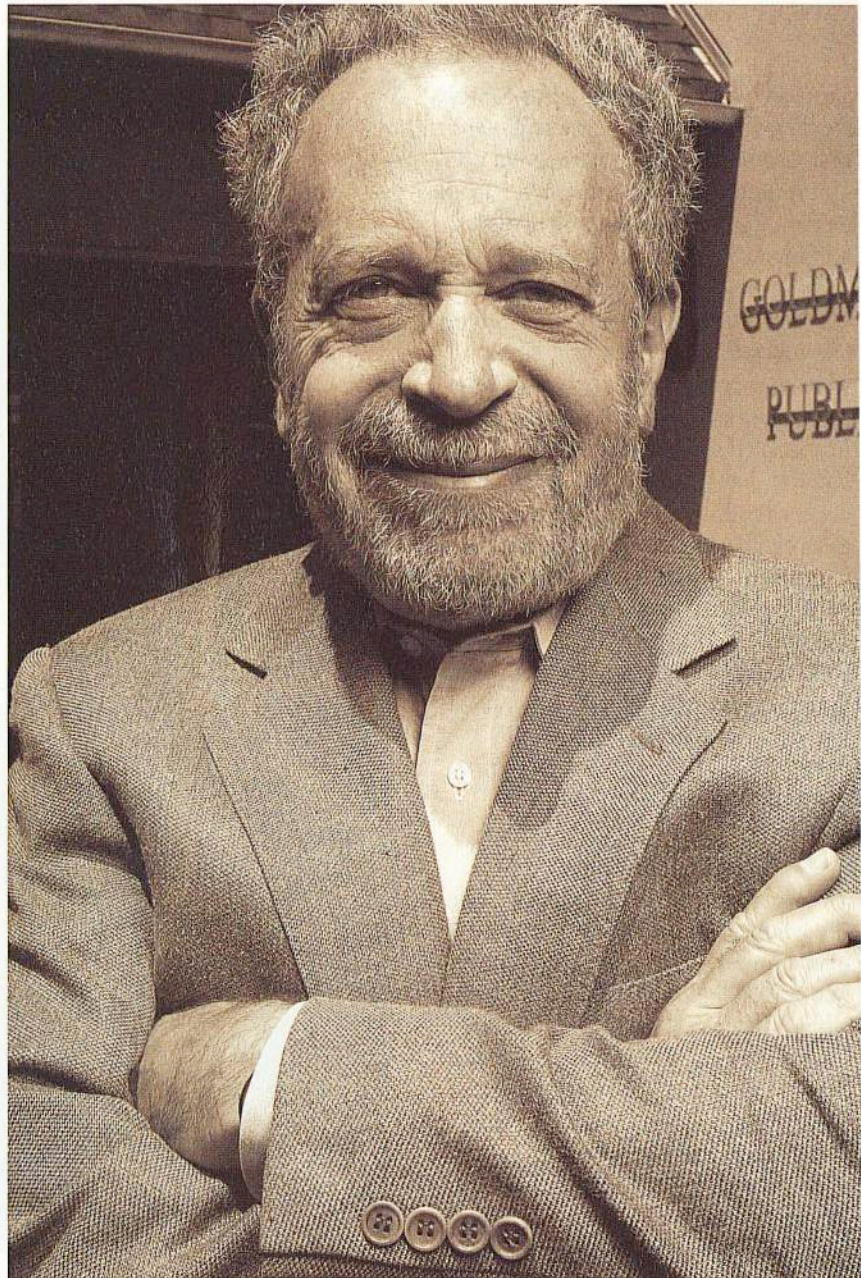
Oh, I don't think it's *justified*. I've *railed* against excessive CEO pay, and I

think that we ought to have a steeper, more progressive income tax. But in economic terms, I can understand it. Boards are under intense pressure to hire people who have good track records for being tough enough and ruthless enough to get costs down and profits up. There aren't that many. So their price is going skyward, just like the price of celebrities and star athletes. That's not to justify CEO pay morally.

A larger question on CEOs: You write that since the mid-'70s, "Corporate statesmen have vanished." Are they

gone forever, or should we pray for their return?

I'm afraid they're gone forever. As long as we're in a system in which competition is as intense as it is and that rewards consumers and investors to the extent that they are being rewarded, we're not going to see corporate executives take the role of statesmen. They can't. They don't have the time; they don't have the authority. It's a little bit like college presidents: Thirty years ago, university presidents were the moral oracles of the country; these days, they are in intense competition



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for contributions and students. They can't be moral oracles when they are courting so many people and so much money. So we can't expect corporate leaders to be statesmen who take positions that are not necessarily in the interest of their shareholders.

Consumers, by contrast, have the option to be better citizens—for instance, to pay a bit extra to support companies and products that help the common good. Why don't they?

Because few are willing to sacrifice as consumers or investors if they can't be guaranteed that other consumers and investors will make the same sacrifice. It becomes a fruitless enterprise. That's why laws and rules are the only guarantee we have that everybody's going to play the same game.

But people seem genuinely concerned that Main Streets are disappearing and that jobs are insecure and that companies aren't following environmental laws. Do they understand the tradeoffs they're making?

I don't think people are cognizant at all. Where do we suppose the great deals come from? They come from companies that are buying abroad, pushing down real wages, fighting unions, rewarding any executive ruthless enough to slash costs, doing all sorts of things to get the best deals for consumers and investors. The citizen side of our brains might continue to rail against companies that are doing all this, without understanding that the companies are doing it *because the consumers and investors in us are demanding that they do so*. The consumer-investor lobe of our brains doesn't really talk much to the citizen lobe. The cognitive dissonance is powerful.

Would strengthening democracy—the power we have as citizens—reduce the power we now have as consumers and investors?

We as consumers and investors are huge beneficiaries of the power we've

gained in this economy, and I don't think we should or need to do anything to reduce those benefits. But it is necessary to acknowledge and address the tradeoffs. The citizen in us is far less powerful than thirty years ago, and if we have a clearer separation between capitalism and democracy, our citizens will have a greater ability to address the tradeoffs. It's not a matter of reducing the power of the consumer and investor in us—it's a matter of allowing us to see the tradeoffs clearly and permit the citizens in us to exercise some judgment.

Let's talk about health care. You call America's program "a crazy system," and most people would agree with you. Presidential candidates are unveiling proposals, but few will likely advocate scrapping employer-based insurance, as you do. What would it take for the country to take such a dramatic step?

People would have to be confident that they'd get a better system in place of the employer-based system. Also, citizens would need to understand how regressive and upside down the current system is. The \$200 billion a year that the Treasury spends on the tax break for employer health care goes disproportionately to high-level, well-paid employees. That's an absurd outcome, and if the public understood that fully, they would be less supportive.

It's not the 43 million uninsured who are going to be the critical ingredient in changing the system. It's the 120 million-plus who are seeing their insurance costs skyrocket because copayments, deductibles, and premiums are being shifted onto them. They can't afford it, and they are demanding that the candidates come up with plans to ease the financial burden.

Here, incidentally, is where I am entirely with the president. George W.

Bush has called for a system that would essentially replace the employer-based health-insurance system. While I don't like all aspects of his plan, Bush is the first major politician with the courage to make that proposal.

What do you see as likely to happen—if anything?

The stars are lined up pretty well for healthcare reform beginning in 2009, because some of our old, big companies that have healthcare legacy costs are also screaming murder. GM can't possibly continue to afford paying employee insurance costs and retiree health costs. The plan that emerges, though, will only happen in incremental steps. The public is cautious about this, as we saw in 1994. The insurance companies are still politically powerful, and candidates are not bucking them directly. Change will happen, beginning in 2009, but it's still going to be slow. No candidate is going for single-payer.

I think you left out Dennis Kucinich.

I think I did.

The early election cycle is giving you even more food for thought and comment—how do you squeeze everything into twenty-four hours a day? Apart from articles, books, radio, TV, and teaching, you now have an active blog and even a video blog. Do you not sleep, or does it just feel increasingly important for you to get your message out?

I don't feel like I'm any busier than in years past! I view myself as a public educator; that's what I do. We can't have a viable democracy unless people know what's going on and are told the truth. I'm not so arrogant as to think I have a lock on the truth, but I'm impatient with the current left-right debate in this country—it just seems to cari-

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cature both sides. So I try my best to provide a more iconoclastic but realer and sharper view of what's happening and what needs to be done.

Tell the truth: Is your video blog just an opportunity to do deadpan comedy bits without interruptions from conservative pundits?

Oh, I don't know. It's still experimental, and I don't even know how many people watch the vlogs, quite frankly. I like comedy—I don't really do it on my written blog, but for the vlogs, I put in a little bit. I've always thought that a spoonful of sugar is necessary in discussing ideas.

I enjoyed hearing you recount your one date with Hillary Rodham forty-something years ago.

I don't know that she remembers our date. It was singularly uneventful in every possible way.

I assume that, with seven months to go before the first presidential primary, you haven't yet made an endorsement—though in one of your vlogs you don't seem all that excited by the prospect of Newt Gingrich entering the race.

Oh, I don't care if he enters the race—the more the merrier. I would *not* be delighted if he were elected, though. I like the man personally; we've appeared together on many occasions; I enjoy debating him. I just don't think he's temperamentally suited to be president.

I actually know most of the candidates or have dealt with them in one way or another. I feel the Democratic field is stronger than I've seen the field in many elections; the Republican field is also fairly strong. I'm surprised John

McCain is fading as quickly as he is; I'm *very* surprised Rudy Giuliani is doing as well as he is, given his history on social issues. I know Mitt Romney; I don't think he's going to get away with the extraordinary flip-flopping he's done on so many issues over the years. The big threat to Democrats is Fred Thompson—if history has shown us anything, it's that a grade-B movie actor with a pleasant disposition and lazy habits has a very good chance at becoming president.

Do you ever miss being inside government?

Sometimes. I loved being secretary of labor; I liked my years at the Federal Trade Commission and greatly enjoyed my years working for Robert Bork as assistant solicitor general way back in the '70s. But I'm not a politician; I'm not a creature of Washington; I'm a much more private person. My home is at a university, and I'm very happy not to be in Washington.

But your home was very nearly the State House in Boston.

That was an interesting interlude, running for governor in 2002. I had never run for office; I didn't know what it was like. I had been involved in many campaigns, but that was the first one in which I put myself on the line. I discovered that I was a pretty good campaigner. In the last week, I was in a dead heat with the front-runner for the Democratic nomination—but wasn't good enough, obviously. I hated raising money—that was the worst of it. I was spending six days a week, four or five hours a day, on the phone dialing for dollars. If there's anything more humiliating than that, I don't know what it is.

Looking back, do you feel there was more you could have done as secretary of labor to address the issues in *Supercapitalism*?

I did as much as I could do. The Republicans took over the House in January 1995, and after that it was very hard to move anything. Getting anything accomplished in Washington is just plain hard work; there's no avoiding that reality. I helped pass the Family and Medical Leave Act and launched a campaign against sweatshops. We raised the minimum wage in 1996. So there were victories, but it was hard going. I didn't accomplish nearly as much as I'd hoped.

Has your thinking shifted in the years since you left Washington?

The new book represents an evolution in my thinking. Sometimes books help me think through the logic of certain positions. I was surprised where I came out on corporate social responsibility; I was surprised at how much I discovered that consumers and investors are running the show. Over the last few years, reading and particularly teaching courses in these areas have made me revisit some of these assumptions.

It seems to me that making the kind of systemic changes you describe in *Supercapitalism* requires a top-down campaign by a political figure. Are any of the candidates so far raising any of these larger issues?

No. But I don't think political campaigns and political leaders are the best vehicles for giving the public a different paradigm, or different lenses to see through. Political leaders by and large have to follow the public, respond to the public, and, at best, enter a dialogue with the public. On the issues I raise in this book, I think change will come gradually. It will seep into media and public consciousness over a period of years; it will eventually come to change the false logic we are employing today. But it's not a top-down process—it's bottom-up. ☺