Plutomania

by Samuel Francis

"In these days a great capitalist has deeper roots than a sovereign prince, unless he is very legitimate."

—Benjamin Disraeli

Wealth and Democracy: A Political History of the American Rich
by Kevin Phillips
New York: Broadway Books;
474 pp., $29.95

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Appearing just in time for the Enron and WorldCom scandals and the ensuing stock-market plunge, Kevin Phillips' harsh new scrutiny of the trends toward the concentration of wealth and power in the emerging American social and economic order has been greeted with glee in quarters where Phillips, the onetime advisor to Richard Nixon and prophet of the Republican Majority, has seldom been welcome. The reviewer in the leftish *New York Review of Books* called Mr. Phillips "one of our most valuable political and economic thinkers," while the (rather more than leftish) *Nation* recently published an article by him recapitulating some of the major claims of the book. Conservatives have been somewhat more muted, having read Mr. Phillips out their ranks years ago when he failed to boom the new Golden Age of globalization, free trade, universal affluence, and the End of History that has now become the animating vision of the American mainstream right; if they have had anything to say about his latest work, I have managed to miss it, but their silence is hardly surprising. *Wealth and Democracy*, if it accomplishes nothing else, is certain to puncture a good deal of the utopianism that now parades as "conservatism," although it will leave the reader uncertain as to whether its author

Anatol Woolf

is merely a liberal advocate of economic redistribution or still retains some identity as a conservative.

Mr. Phillips' thesis can perhaps best be summarized in some of his concluding sentences:

> As the twenty-first century gets underway, the imbalance of wealth and democracy in the United States is unsustainable, at least by traditional yardsticks. Market theology and unelected leadership have been displacing politics and elections. Either democracy must be renewed, with politics brought back to life, or wealth is likely to cement a new and less democratic regime—plutocracy by some other name.

Most of this book simply expands on and documents these sentences, and while "democracy" and Mr. Phillips' expressions of concern for its survival may be rhetorical concessions to contemporary fashion, most paleoconservatives should have little problem with what he is arguing: The economic trend in the United States today, aided by the political trend of the federal government, is toward the concentration of economic and political power in fewer and fewer hands, while the ideological trend is toward the apotheosis of Economic Man and what Phillips dubs "Market Utopianism," whether masked as the "free market" of the libertarians or the "global democratic capitalism" of the neoconservatives.

Mr. Phillips identifies three periods of what he calls "wealth realignment" in American history, periods in which new economic elites, always closely allied to government and the emerging political forces that controlled it, sprang into being. The first two, at the American Revolution and under the Jeffersonian-Jacksonian takeover from the Federalists, left the American South the economically and politically dominant section of the country. That domination ended with the Northern victory in the Civil War, which "not only expanded but massively re-aligned wealth-holding away from the slave-owning South to Northern financiers and industrialists." The third realignment of wealth and power occurred in the New Deal era of Franklin D. Roosevelt, in which newer kinds of businesses tended to support and profit from the Rooseveltian expansion of the state, especially during World War II.

> Business and financial support for Roosevelt's reelection in 1936 included new increments—in oil, agribusiness, finance, multinational corporations, and technology—that foreshadowed changes visible in the top wealth lists by the 1940s and 1950s.

By contrast, Mr. Phillips argues, the

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Republican political realignment of the 1960's and afterward failed to create a new concentration of wealth in the Sunbelt but merely reflected, along with the Democratic administrations of Lyndon Johnson and Jimmy Carter, a bipartisan, regionally based economic power. Mr. Phillips' periodization of these economic cycles thus mirrors the major political turning points in American history—the consolidation of the national union under the Constitution and the two-party system; the destruction of state and local autonomy and the birth of the federal leviathan state in the Civil War; and the bloodless though revolutionary transition in the New Deal and World War II away from the bourgeois capitalism of the post-Civil War era to the managerial state capitalism of the present age.

Had he also tried to correlate cultural, social, and intellectual changes with them, Mr. Phillips could have used these economic-political "realignments" as the basis of a general reinterpretation of American history, but, throughout the book, he remains focused on economic issues. He tries to distance himself from Charles Beard's view that "economics drove the great realignments of American political parties." "In some cases, yes, in others, no," he writes, "Yet even believers in the greater sway of factors like wars or regionalism, race, and religion must give economics great weight." And so he does, to the extent that the reader has to wonder if Mr. Phillips recognizes any factor aside from economic motivation and any value other than economic reward.

His preoccupation with economics becomes oppressive in his discussion of the possible political responses to the concentration of wealth that he sees—largely correctly—enveloping contemporary and future America. "Between 1979 and 1989 the portion of the nation's wealth held by the top 1 percent nearly doubled, skyrocketing from 22 percent to 39 percent, probably the most rapid escalation in U.S. history"—with the direct assistance of the Reagan and Bush administrations. The ratio of the compensation of corporate CEOs to hourly wages earned by production workers rose from a mere 93 times that of workers' compensation in 1988 to an incredible 419 in 1999.

> While the wages of ordinary workers barely kept up with inflation, the average compensation among the top executives of the larger corporations vaulted 481 percent between 1990 and 1998 to an average of $10.6 million. Corporate profits, by contrast, rose only 108 percent.

The concentration of vast wealth in a constantly shrinking but increasingly luxurious and powerful overclass is reflected in the social and ideological trends of the age as well. Fortified in gated communities, protected by special security services, their children safely deposited in private and only fashionably integrated schools and summer camps, the overclass sports an ethic of prodigality, opulence, and indifference to the vast remaining portions of the population that would have embarrassed Marie Antoinette. "The capsules for the eighties," writes Mr. Phillips,

> seem to be the birthday parties held by gauche wives for financiers like Saul Steinberg and John Gutfreund. The first, titled "An Evening of Seventeenth Century Old Masters in Celebration of Saul's Fiftieth Year," was held in a replica of a Flemish tavern with semiclad live models *en tableau vivant* as figures from Rubens and Van Dyck. Mrs. Gutfreund's transgression was to book two seats on the Concorde to fly the birthday cake to Paris, a mere bagatelle, one would think, next to some of the Texas savings and loans galas.

Like the birthday cake flapping the friendly skies to Paris, the overclass (which is merely the corporate managerial class and its auxiliaries) has itself become transnational in both its interests and its very composition. "By the late 1990s," Mr. Phillips writes,

> many of the *Fortune* 500 companies were one-third, one-half, or two-thirds tied to international sales, earnings, plants, and employees. Some managements hoped to no longer [*sic*] process or manufacture anything in the United States, but merely to import and distribute goods, much like the ill-fated Enron transformation from producing company to financial trader.

As for the transnationalization of the managerial class itself, "many U.S. firms were dependent on foreign nations, mostly Asian, to fill American-based jobs with skilled engineers and programmers unavailable in the U.S. labor pool"—whether such skills are really unavailable in the U.S. is another question; unemployed American software engineers do not think so—and "This reliance extended to the highest levels of management."

> Of the four or five hundred top U.S. Internet, telecom, chip, and networking firms, dozens had Chinese, Indian, or Asian-American chief executives, and Silicon Valley was home to large numbers of Indian, Chinese, and Taiwanese executives and engineers.

Moreover, if the concentration of wealth creates a new plutocracy, what Phillips calls "the rise of the unelected" points to the emergence of a new political oligarchy from which middle-class Americans are excluded.

> In addition to governance of trade and finance being globalized and moved into the hands of the unelected, another such transfer of power involved the escalating judicial and administrative determination of political and social issues once decided by popularly elected legislatures. Here again the United States, with its vivid displays of policy-making by judges, has set the example. Other nations followed suit in the nineties, particularly Europe and the European Union.

And the formation of political oligarchy is paralleled by the emergence of what he calls an "hereditary aristocracy" based on entrenched and inherited wealth insulated from market forces by "skilled financial and legal management."

> Elaborate trusts, well-staffed family offices, and professional financial management had combined into the U.S. equivalent of the entail and primogeniture that kept landed wealth intact and concentrated in eighteenth and nineteenth-century Britain.

Mr. Phillips repeatedly points out that middle-class Americans have managed to maintain anything resembling their traditional level of affluence only by having their wives work outside the home and forcing themselves to work longer hours or at second jobs; the problems he correctly associates with the concentration of wealth and power, however, are economic only in the nature of the burdens he describes. The disengagement of the ruling class from the nation itself as well as its open hatred of the traditional culture and people of the nation may be rooted in economic and technological forces, but the angers and resentments our elites breed are not.

Mr. Phillips' discussion of "Middle American Radicalism," including a sympathetic but critical account of the three Buchanan campaigns of the 1990's, tends to omit or downplay any but economic issues. He does mention the erosion of national sovereignty through such agreements as NAFTA and the World Trade Organization, as well as free trade in general, but cultural, social, and racial energies that complement the economic deluge that Middle Americans are facing never seem to enter into his equations. Issues such as abortion, the social meaning of taxation, schools, immigration, affirmative action, crime, and social and moral decline are simply never mentioned at all as either sources of Middle American anger or motives for Middle American rebellion.

Indeed, Mr. Phillips offers little reason to expect much from any future manifestation of Middle American Radicalism—and he may be right. Both the bonds of ethnic community that helped form and unite Middle Americans in Northern urban concentrations and the manufacturing base that solidified them as an economic and political force are withering under the triumphant forces of enforced ethnic and racial diversity and globalization. Mr. Phillips cites the analysis of left-liberal theorists Joel Rogers and Ruy Teixeira, which identifies white working-class voters as a "forgotten majority" that constitutes some 55 percent of the electorate. Rogers and Teixeira see in these voters the base of a future "progressive" or left-populist coalition, though, as Mr. Phillips notes, such voters have "become frequent participants in the conservative coalition," and "Economics, however, could move them once again." It could, but so could other forces that Mr. Phillips ignores.

It is difficult to say whether Kevin Phillips remains or ever was a "conservative" in any sense, and certainly most of those who adhere to that label do not consider him one. (At a conference of gold-standard nuts some years ago, I heard one barely literate sage characterize Mr. Phillips as a "Marxist," though he is no more a Marxist than Charles Beard, whose economic determinism he seems to favor as a universal explanatory device.) It probably no longer matters, however, whether he (or anyone else) is on the right or left, conservative or liberal, since those terms themselves no longer mean very much. Behind all of Phillips' charts and statistics and sometimes far-fetched historical analogies with great powers of the past; behind all the rhetoric and verbal and ideological swordplay of the right *vs.* left "debate" lies one looming question that rises before Middle Americans today: Do you want to be the hammer of the new century or its anvil, the social and political force that shapes its course or the shapeless lump that more powerful forces will pound into whatever forms they please? Economic forces will, no doubt, help to settle the question, but others, seemingly undreamt of by Kevin Phillips, may be even more important in doing so.

Diminishing Returns

by Jeremy Lott

Economics as Religion: From Samuelson to Chicago and Beyond
by Robert H. Nelson
University Park: Pennsylvania State University Press; 378 pp., $35.00

Most partisan recollections of the economic world that existed before Adam Smith conjure up words from "feudal" to "primitive" to "mercantilistic" to "Catholic"—a dark era ridden by "just price" theory, wanton poverty induced by ridiculous regulation and barriers to international trade, and the divine right of kings. Then (so the story goes), Smith published *The Wealth of Nations*, turning the world on its head. His ideas were adopted by a group of enlightened British colonial rebels who created the world's first nearly *laissez faire* regime, affirming in its "founding document" every person's right to pursue happiness (*i.e.*, the right to become stinking rich) over and against any other ethical considerations. Tariffs fell everywhere, prosperity multiplied, peace reigned, and the lion lay down with the lamb and nuzzled it.

During the middle of the 20th century, Paul Samuelson, author of the widely used college textbook *Economics*, was regarded by many as *the* modern economist. Samuelson claimed to speak authoritatively for *all* of economics, and his vision was at least superficially different from Smith's. A few Neanderthals might wish to "turn the hour hand back toward *laissez faire*," wrote Samuelson in a spasm of chronological snobbery in the first (1948) edition of his book, but Smith's "mystical principle of the 'invisible hand' . . . [has] done almost as much harm as good in the past century and a half." Monopolistic railroads were allowed to soak poor farmers, oil prices were held unnaturally high, the concentration of wealth was heavily skewed toward the rich (one of the few things Samuelson is willing to label "evil"), and rampant stock speculation helped to launch the Great Depression. Better to ditch that old-time religion and adopt the new, centralized scientific methods and solutions. Otherwise, Samuelson warned, the Soviet Union, being the more scientific of the superpowers in its organizational approach to society, could overtake the still backward United States.

Robert Nelson makes a compelling case that Professor Samuelson actually believed this nonsense. Samuelson, like his mentor John Maynard Keynes, wasn't really a communist, Nelson writes in *Economics as Religion: From Samuelson to Chicago and Beyond*, but he did share some basic assumptions with Marx, and these assumptions were only rhetorically "scientific." In fact,

> [I]n terms of ultimate values, Keynesianism was only a modest variation on Marx—on the recent revelation of God's actual plan for the world, that the Christian Bible is apparently mistaken, that God actually works in history through economic forces and is planning a glorious ending to the world based on the workings of rapidly advancing material productivity.

Both ideologies, that is, in a reading strikingly similar to the visions of apocalyptic prophets of the Old Testament, looked to economic tumult and the eventual resulting material progress as the engine of history that would usher in a sort of Heaven-on-Earth. Both, in that sense, were economically deterministic. Samuelson even went so far as to say that the most useful thing he could know about a man was not his religion nor his upbringing but his checkbook balance. Once material demands were satisfied, however, mankind would be free to pursue . . . let us just call it "bliss."

Thus Samuelson, initially at least, disagreed with Marx over the means to the end, not the end itself: overcoming the problems of self-interest to create a materialistic Utopia. The difference, of course, is that Samuelson and his ilk thought the market mechanism a valuable tool in reaching this goal through increasing "efficiency." Markets, however, could only "help" to bring this about—and only if guided by a very visible hand. First, at the advice of entirely dispassionate economists, governments had to tinker with such things as interest rates and money supplies and vigorously enforce anti trust laws to break monopolies. Second, "market failures" occurred, which the government had to fix by providing such things as primary education and unemployment insurance. Third, personal income needed to be redistributed from the rich to the poor through entitlements and a steeply progressive income tax.

Nelson likens this neoclassical school of economics to Roman Catholicism, assuming as it did an abundance of faith in an overriding authoritative institution that would do right by the people. Samuelson and company were the "priests" of the new order, trustworthy to navigate disinterestedly the choppy waters of public opinion. As with the Catholic Church, Nelson says, such unsubstantiated "heroic assumptions" were simply begging for reformation.

Well, they got it, courtesy of the renegade economists of the University of Chicago. Frank Knight, Milton Friedman, George Stigler, Ronald Coase, and others argued relentlessly that the government interveners were just as self-interested as anybody else and that they were, in fact, quite likely to impede, not increase, efficiency. Democratic governments (as the leaders of what would come to be known as the "public-choice school" pointed out) are often held hostage by various interest groups. These economists replaced the static picture Samuelson had drawn of the market mechanism—Nelson calls it "mathematical poetry"—with a more dynamic model, firmly locating rational self-interest at the center of their analysis.

Elevating self-interest to the *sine qua non* of economic analysis was nothing new. In perhaps the most quoted passage of *The Wealth of Nations*, Smith wrote, "It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self-interest." In practice, however, there had always been limits, set by the preferences or squeamishness of the reigning economic "priesthood."

As the Protestants had learned, reformations tend to take on a life and logic of their own. Second- and third-generation Chicago scholars such as Gary Becker and Judge Richard Posner have carried their analyses to new heights—or ridiculous extremes, depending on your point of view. These men have scrutinized everything, from consumption patterns to religious devotion to marriage, with the intent of divining what was in them for rational human agents. Even charity had to be explained in terms of self-interest: Mother Teresa, apparently, derived some measurable benefit from helping the poor expire in peace.

While the Chicago School took issue with what they viewed as a lack of rigor